Papers

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CRM in the context of new consumer marketing

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Abstract

This paper describes the characteristics of the IT-enabled post-modern consumer and goes on to suggest that, as an organisational response to this, CRM can only be viable in a very limited space, where perceived market granularity is high and where the value proposition is highly flexible.

This paper draws on the work of two research groups currently running at Cranfield School of Management: the New Marketing Research Group (www.new-marketing.org) and the Cranfield CRM Research Forum (www.cranfield-crm.org).

Introduction

The marketing landscape is changing: we have moved from a production-driven to a consumption-led economy. Consumers are more demanding and sophisticated, and the competitive environment is more erratic and less predictable. Marketers now operate in an interactive market-place where brands are seen as being co-created. This paper describes the characteristics of the post-modern condition that elevates the differences among consumers to levels of critical discourse. The organisational response to these trends has been to pursue CRM strategies, with limited success. The high failure rates of these approaches are well documented, and this paper argues that this is the result of a lack of clarity about what CRM is and how it should best be implemented.

A recent empirical study¹ suggests that there are a number of preconditions that need to be satisfied prior to commencing with a CRM strategy. These focus on having a clearly defined marketing strategy in place; IT systems which are aligned to the goals of the marketing strategy; and an organisational culture which ably supports the implementation of CRM. This study then goes on to argue that the viability of a CRM strategy is dependent on the degree of flexibility of the value proposition and the perceived level of heterogeneity in the market-place. If the existence of the post-modern condition is accepted, then a corollary of this research is that CRM can only be viable in a very limited space, where market granularity is high and where the value proposition is highly flexible.

Finally, the question is posed whether this knowledge can be used to resuscitate the reputation of CRM by moving, effectively, from a state of 'early model still improving' (known in the computer industry as Release 1.0) to 'market-tested, supposedly perfect' (or Release 2.0).

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The new consumer marketing landscape

Post-modern consumers

Definitions of the post-modern condition are based, largely, on observations of high levels of heterogeneous behaviour among consumers. The consumer marketing landscape is changing fast as the result of a shift in the macro-marketing environment from a production-driven to a consumption-led economy.² Signs of this are that the UK's manufacturing base is declining, the proportion of the country's workforce employed in the sector is falling and the number of engineers qualifying is sinking. In contrast, marketing costs are rising, the proportion of people employed in servicing the consumption-led economy has increased and the number of students graduating in business, arts and law degrees has simply exploded.

Obviously, consumption cannot take place without production, but commentators³ now argue that the focus of marketing should be seen as a process of demand and not supply-chain management. The consumer becomes the point of departure for the organisation, not the final destination, as the nature of the exchange has changed.

A number of marketing theorists adopt a post-modernist interpretation of events and in doing so reflect on deeper transformations in buying behaviour. Post-modernism in marketing has forced academics and students not only to seek to understand what a post-modernist view has to offer but also to reflect on what a modernist approach is. 'Modernity... heralded the dawn of a new age that is known for its scientific and technological developments...'⁴ Managers were provided with the means of implementation through the work of Henry Ford and Frederick Taylor, whose names are most closely associated with reductionist approaches to business.

In contrast, a post-modernist approach can be summarised as an attempt to 'restore aesthetic approaches in human discourse giving prominence to the linguistic and symbolic aspects of human life, elevate visibility and spectacle to levels of critical discourse, recognise subjective experiences as a meaningful part of human practices, and redefine the human subject as both a cognitive and an aesthetic subject'.⁵ The hallmark of post-modernity is the development of sub-cultural, intellectual and personal differences among consumers, and the extent to which such heterogeneity is recognised and reflected in the variety of unique offerings available to their consumption experiences.⁶

The fragmentation of markets is one of three main forces identified as driving the emergence of a new style of marketing, one that focuses on meeting the challenge of this post-modern consumer. Brown⁷ describes consumers as 'shopping on speed' as they hunt for something worth reading, wearing or buying. Also contributing to this sense of fragmentation are the unceasing proliferation of products; the endless stream of advertising; consumers' disconnected lifestyles; and the apparent way in which consumers display multiple personalities.

Another powerful driver of this shift to a new style of marketing can best be described as the desire to consume 'an experience'.⁸ Consumers may seek out an Irish pub experience one evening, followed by an

From a production-driven to a consumption-led economy

From supply chain to demand chain

Post-modern consumers have high levels of fragmentation ...

... desire to consume an experience ...

**... high levels of
marketing literacy**

Australian *Sheila's Bar* the next and an American *Cheers* experience after that. But they are not real experiences. They are formulaic and themed. Reality becomes blurred with hyper-reality. The fake becomes more real than the real.

And finally, consumers are becoming more marketing literate. They are no longer passive absorbers of marketing messages but are quite capable of deconstructing marketing strategies. As Mitchell⁹ so pertinently writes, 'the observed has started playing games with the observer'. This has led to the emergence of a new polarity, with people at one end who understand the rules of the marketing game and are happy to play along, stretching to those at the other end who choose to use their insights to express political opinions, as with the consumer boycott of GM-based products or the damage and disruption caused in Genoa.

**Consumers as
hybrids**

The interactive market-place

These post-modern consumers are not, however, confined to a static market-place. New routes to market emerge all the time and consumers can pick and choose what they purchase offline or online, according to personal preference, mode, mood and occasion. The challenge for marketers is to understand and connect with this enigma that is the new consumer, one who alternates between being a cyber-consumer at times and a traditional buyer at others. Wind *et al.*¹⁰ describe this new consumer as a 'centaur', while others use labels such as active, organised¹¹ or knowledgeable.¹²

**Moving towards IT
integration**

Underpinning all of these changes in the way consumers live their lives are developments in IT and the subsequent creation of the interactive market-place. It was not so long ago that IT was used mainly to transfer information, but today we can interact with organisations via the Web to have groceries delivered, sort our finances, listen to music, read the news, follow sport, organise travel, purchase works of art or browse for reference information. There is scarcely an area of life that remains untouched by IT. Tomorrow we are promised it will all be totally integrated — our potatoes will come with bar codes that will automatically let the microwave know for how long they need baking and they will simultaneously register with the supermarket that potatoes need adding to the list for the next available home delivery.

**Importance of
co-creation with
consumers**

For the customer, controlling the relationship in this interactive market-place could ultimately extend to controlling the product. The Web can easily support build-to-order manufacturing, where customers specify the colour, size or configuration of a product they want, and it is built or assembled to match — as long as the manufacturing operation can support it too. Clothes and computers have been among the early adopters of build to order, as the example of Dell illustrates. Dell, one of Fortune's top ten 'most admired' companies, designs, manufactures and customises computing products and services to customer requirements. Using the online 'configure and buy' facility, customers can create the system they want that best meets their needs by a process of selecting from drop-down menus. As they do so, the total price changes at the bottom of their

screen. The computer they specify is then configured in the Dell factory within 90 minutes.

However, despite all the hype, the retail research firm Verdict¹³ found that online purchases in the UK accounted for only two-thirds of 1 per cent of total retail sales in 2000. These new channels may well be used at other stages of the buying process — for example in America it is estimated that only 1 per cent of new cars are purchased online but half of car buyers get information from the Internet. For other products, the ‘buy:browse’ ratio is much higher. In practice most consumers make multichannel choices and think nothing of it: we may buy groceries in the supermarket, insurance by telephone and clothes by mail-order catalogue; or we may buy the same kind of goods via different channels depending on our mood, location or the time available — browsing in a bookshop for recreation, or clicking on to Amazon.com for a last-minute gift idea.

While the use of new channels for making purchases is lagging the hype, there has been an exponential growth in the use of these channels for communications purposes. Projections for IT penetration among adult users in the UK from research firm Gartner¹⁴ support the view that IT products will become more familiar tools of communication to consumers:

- mobile phone projected: 28 million adult users in 2001, rising to 40.5 million in 2005
- personal computer (Internet) projected: 16.4 million adult users in 2001, rising to 24.8 million in 2005
- interactive TV projected: 6.7 million adult users in 2001, rising to 19.6 million in 2005.

Information on the move is the current phase of IT development. The shift to mobile — or ‘m’ — commerce is being driven by cellphone ownership which, unlike the landline system, links people rather than locations. The fundamental appeal of this device is that it extends a basic human quality — the ability to communicate — and in the last two years the number of mobile phone users has doubled to more than 1 billion worldwide.

This exponential growth in mobile phone ownership took business by surprise and marketers have yet to demonstrate they really understand the drivers of this growth and how this channel can be most effectively integrated into the communications mix. This is because the communications process itself is also undergoing a shift, moving away from the stimulus-response model of the mechanistic age of marketing and typified by the work of theorists such as Schramm¹⁵ towards a process that has connectivity as its focus, exemplified by the work of Schultz,¹⁶ among others.

Changing beliefs about brands

The repercussions of these broad changes in consumption and consumer society are escalating at a faster rate than ever before and permeate most aspects of political, economic, social and cultural life across the globe

Importance of online ‘buy:browse’ ratios

IT penetration set to rise further

From stimulus-response models to connectivity

From brands as ‘fried eggs’ ...

today. It is not surprising that this changing marketing landscape has brought forth new thinking about brands and their meaning for consumers. Brands emerged as a simple means of identifying the manufacturer of a product: initially they were symbols of quality assurance. Over time the concept became more complex and the notion of a brand as a kind of extended product — usually depicted as some sort of ‘fried egg’ with a functional core surrounded by layers of less tangible elements such as reputation, pack design, advertising, guarantees, etc — dominated much of 20th-century brand thinking. This is, however, a somewhat passive view of brands, based on an underlying notion of the mechanistic metaphor which was in keeping with the prevailing reductionist approach of the times; we can look back on the 1950s and 1960s as a time when brands were seen as ‘lifeless, manipulable artefacts’.¹⁷

... to brands as living entities

Hanby’s¹⁸ analysis describes the move to an organic metaphor where brands nowadays are thought of as ‘living entities’; brands take on a life of their own inside consumers’ heads.¹⁹ With the shift to a relationship marketing perspective, the emphasis in branding is now centred on the nature of the links between the consumer and the brand. It is the implicative relations between both players that have become the object of research, rather than the nature of the players themselves. In other words, it is what the brand does for consumers that has become important, and reciprocity emerges as organisations show a desire to understand what consumers, in turn, can do for the brand.

Importance of ‘touchpoints’

In short, a brand becomes a representation of an individual’s collection of experiences, gathered at each of the ‘touchpoints’ at which the organisation wittingly or unwittingly engages the consumer. Brands therefore become living things co-created by consumers together with organisations, with consumers having the opportunity to take the dominant role. And consequently, this view of the consumer-brand relationship implies a different approach to the process of communications.

Role of CRM in building brands

As Baker and Cooper²⁰ point out, the role of CRM in positioning and brand building therefore becomes clearer: CRM has the potential to become the main conduit of brand activity by providing a means of coordinating the flow of messages carried through the touchpoints emanating from the organisation. All communication channels will be carried in one information cable, capturing and diagnosing consumer data and needs. Channels will be interactive and capable of real-time, one-to-one communication. For marketers, dialogue and synergy across channels to communicate consistent messages will therefore become a reality. Organisations that master these new technologies will be able to talk and listen to consumers directly.

The organisational response

Many authors have argued that as markets have matured, it is no longer sufficient to base marketing strategy on chasing market share. Instead, it is quality of share that becomes key and consolidating relationships is seen as fundamental to this process. Gronroos,²¹ Gummesson,²² and Sheth

and Parvatiyar,²³ among others, point out that the focus of marketing has moved from managing transactions and acquiring new customers towards managing relationships and retaining customers. The aim is to achieve one-to-one interactions of a more subjective nature,²⁴ such that consumers are recognised as individuals and their previous history is remembered. We can interpret this as an attempt — probably more unconscious than conscious — on the part of the organisational players to meet the needs of the post-modern consumer, whose condition is characterised by high levels of heterogeneity.

CRM is a facilitator

In many organisations developments in IT and computational technology have been applied to the business of developing a relationship marketing strategy. In proficient organisations customer relationship management (CRM) is an integrated business process where the software is merely a facilitator. Effective CRM integrates individual customer data from multiple sources to create a mutually valuable proposition. Too often, however, CRM is confused with the IT system that enables it, resulting in ineffective strategy making, and those who have invested heavily in CRM have found little succour in their smart new computer programs. Estimates of failure rates vary, ranging from Kendrick and Fletcher,²⁵ who quote one estimate that 60–80 per cent of CRM projects are deemed unsuccessful and another that more than half such current projects will be viewed as failures by 2006, to McKeown,²⁶ who stated that 97 per cent of CRM installations fail to deliver the anticipated benefits.

The main reason for this failure is that CRM is an ill-defined concept that is therefore difficult to manage, and is being applied where it is not appropriate to do so. These issues are discussed next.

What is a CRM strategy?

CRM is not well-defined

This simple question yields a plethora of responses, and it is this that lies at the heart of the high failure rates in CRM implementation. A review of the literature reveals the difficulties inherent in exploring this subject. There are numerous definitions to choose from, and without clarity here then research into CRM risks overlapping with other areas and failing to provide the knowledge needed to improve management practice. One example is Curley,²⁷ who states that: '[CRM is] a sales and service business strategy where the organisation wraps itself around the customer, so that whenever there is interaction, the message exchanged is appropriate for that customer; this means knowing all about that customer and what the profitability of that customer is going to be.'

This definition would appear to be limited to marketing communications, excluding opportunities for mass customisation and remaining unclear on more traditional, non-CRM forms of marketing activity. Others take a very broad approach, leading to a position where CRM and marketing itself are almost interchangeable, as with Hobby:²⁸ '[CRM is] a management approach that enables organisations to identify, attract and increase retention of profitable customers by managing relationships with them.' Yet a third discernible trend is to focus on the

role of technology: '[CRM is] a combination of business process and technology that seeks to understand a company's customers from the perspective of who they are, what they do, and what they're like.'²⁹

In summary, the hallmarks of CRM would appear to be:

- the use of individual (rather than sample or consolidated) customer information
- the gathering and integration of customer data across many contact points or 'touchpoints', aiming for a single customer view
- the creation or adaptation of a differentiated value proposition at an individual level
- the direction of that value proposition towards the achievement of organisational goals
- the use of information and telecommunications technology as an enabling technology
- selective resource allocation.³⁰

No agreed model of CRM implementation

CRM starts out, therefore, as an ill-defined concept and installation becomes more problematic in the absence of an agreed model of implementation. Many frameworks have been promulgated by consultants, one of the most widely used being that emanating from the Peppers and Rogers Group which is based on four steps: identify the customer individually; differentiate customers by value, then needs; interact; and then customise. Others appear to be less linear and more comprehensive, for example Payne³¹ and McDonald *et al.*³² Payne, as a case in point, identifies five steps to 'CRM heaven', breaking them down into the following sub-processes: the strategic development process; the value creation process; the multichannel integration process; the information management process; and the performance assessment process.

Importance of satisfying certain preconditions

The empirically based work of Clark *et al.*³³ argues that, regardless of which model is selected, there are a number of preconditions which need to be satisfied prior to commencing with a CRM strategy. These focus on having a clearly defined marketing strategy in place; IT systems which are aligned to the goals of the marketing strategy; and an organisational culture which ably supports the implementation of CRM. Clark *et al.*³⁴ define this as the 'CRM space'. Their work then goes on to argue that the viability of a CRM strategy is dependent on the degree of flexibility of the value proposition and the perceived level of heterogeneity in the marketplace. They present this as a conceptual model, the operationalisation of which is in progress.

Proposition flexibility

- Proposition flexibility. This is the degree to which the firm is able to tailor the value proposition to the needs of the identified market, segment or customer. In some cases there may be little room for manoeuvre — the core product may be fixed with the option of tailoring only a small number of component parts, while at the other extreme the firm may be able to offer a highly tailored product. The degree of tailoring will depend on a combination of flexibility in the

Market granularity

core product or service and the ability of the firm to adapt to changing demands.

- Market granularity. This is the degree to which the organisation perceives that customer motivations differ within a defined market, in other words the perceived level of heterogeneity in the market. This could range from near homogeneity, where the majority of customers share similar motivations, to states of heterogeneity.

CRM is only viable in a bounded zone

These two dimensions are used to create a positioning map (see Figure 1). Once the viability of a CRM process has been plotted on to this, a number of management options become clear as three distinct areas emerge. To the left of the CRM zone is an area in which proposition flexibility is greater than the perceived market granularity, and CRM processes are possible but unlikely to generate feasible returns. This is because the needs and wants of consumers would not be different enough to drive purchasing behaviour sufficiently strongly to justify the investment in CRM. To the right of the CRM zone is an area where perceived market granularity is greater than proposition flexibility, and certain consumer needs and wants remain unsatisfied as making the proposition flexible enough to meet them may be beyond the capability of the organisation. Where both value proposition flexibility and perceived market granularity are approximately equal, Clark *et al.*³⁵ describe what they term as the zone of CRM viability.

Discussion

If one synthesises the three arguments made in this paper — the existence of the post-modern condition; the necessity for certain preconditions (relating to marketing and IT strategies and the cultural fit of the

Figure 1: CRM in the context of NCM (new consumer marketing)
Source: Adapted from Clark *et al.* 2002

Is CRM appropriately operationalised?

CRM: From 'Release 1.0' to 'Release 2.0'?

organisation) to be met before embarking on a CRM strategy; and the view that the viability of a CRM strategy is dependent on the degree of flexibility of the value proposition together with the perceived level of heterogeneity in the market-place — then the corollary of this is that CRM can indeed only be viable in a very limited space, where perceived market granularity is high and where the value proposition is highly flexible. This is illustrated in Figure 1 by the bounded area in the top right-hand corner.

In essence, this interpretation would suggest that there are few opportunities for the successful development of a CRM strategy; success is dependent on operating within the bounded area alone. This would perhaps go some way towards explaining the high failure rates of CRM installations — too many of them are inappropriately operationalised. Equally, granularity is usually arrived at through a process of segmentation based on cluster analysis techniques, and research undertaken by Nairn and Bottomly³⁶ demonstrates that unless marketers have the abilities to challenge the basis of cluster-based segments they 'run the danger of seeking out relationships not with real groups of people but with meaningless computations of data' — *caveat emptor*.

This paper has uncovered the stepping stones in both streams of literature, post-modern marketing and CRM, and has arrived at the point of confluence. Further debate and research are now required to understand the practical applicability of its concluding remarks that CRM can only be viable in a highly delimited space. It is pertinent to ask whether we can use this knowledge to resuscitate the reputation of CRM by moving, effectively, to a better-informed stage of development. It is clear that CRM as it has been embraced by the majority of businesses should be looked upon as 'Release 1.0' (this is the term the computer industry uses to describe an early model still improving). 'Release 2.0' (the industry's term for a market-tested, supposedly perfect product) cannot happen until there is widespread adoption of the learning discussed here.

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