CRM: Helpful or full of hype?

Received: 13th May, 2002

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Abstract Everyone is still talking about customer relationship management (CRM) but business cases demonstrating the tangible benefits which it brings to a firm remain scarce. This paper addresses the question of whether CRM really is a helpful management concept or whether it is just another fad. Evidence on both sides of the debate are presented. The conclusion reached is that before firms truly reap rewards from CRM investment new research into the marketing/sales/information/human resource interfaces must be conducted.

This paper presents a reflection on one specific, current question: is customer relationship management (CRM) helpful or full of hype? Evidence on both sides is examined, a conclusion drawn, and suggestions made for future research.

Judging by the commentary emanating from industry analysts, CRM is certainly not just hype and is much more than simply *helpful* — it is an *essential* part of doing business in the 21st century. For example, The Data Warehousing InstituteTM commissioned a team of academic researchers to conduct a global survey among 1,670 CRM users from a range of industries and sizes of company and concluded that: 'Most companies are now adopting CRM as a mission-critical business strategy'.¹ The firms in their survey at least believe CRM to be a crucial and integral part of the long-term business planning process. The findings of work by AMR Research Inc., an international industry and market analysis research agency, concur with these findings. From an analysis of the data

produced by their most recent survey they claim that, 'CRM is no longer a question of if, it's a question of when'.² Between them, the two organisations named above produce a large percentage of the survey data on CRM usage around the world, so one might expect their views to be both objective and representative. Thus perhaps the question posed in this paper has been answered straight away — if firms using CRM claim, in two quite independent surveys, that it is indispensable as a strategic tool then surely this must be the case?

But then a cynic might disagree. If it were to be demonstrated that CRM were nothing but hype then the decision makers in these firms would be shown to have made a very large investment in vain. This would enhance neither corporate image nor the career prospects of these individuals. And a cynic might add that it is, of course, in the interests of agencies researching the phenomenon to propagate the CRM gospel too, for absence with issue coincides of absence

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of survey material. So perhaps industry opinion is not the best place to start in the quest to ascertain whether CRM is helpful or full of hype.

Perhaps acronyms would be a more fruitful avenue to pursue. New management trends tend to be expressed by acronyms. Remember BPR and ERP? One sure way of detecting hype is to analyse the evolution of an acronym and to monitor the occurrence of 'straying acronym syndrome' (or SAS!) This is when commentators begin to concentrate on the definition, redefinition and further redefinition of an acronym instead of turning their thinking to application issues. This is normally a sign that there is nothing substantial to write about behind the alluring letters. CRM originally stood for customer relationship marketing, changing subtly but importantly to customer relationship management in about 1998. This one definitional change is probably excusable. It is now possible, however, to read about CRM as 'Conversation relationship management':³ quite a departure. And since 1999 the very letters of the acronym have begun to vary: PRM, or partnership relationship management, is now in evidence.⁴

PriceWaterhouseCoopers advocate extending the application of the CRM concept from customers to other partners in the supply chain. Doubtless a sound idea, but is it necessary to invent a new acronym to address the issue? And, of course, the letter E is never far from any discussion of a business concept in the new millennium so that the new acronym ERM has been proposed by several commentators — with at least three definitions of 'E' in use. The Data Warehousing InstituteTM talk of e-business relationship management to emphasise the role of the internet in maintaining good relationships with valuable customers.⁵ The Knowledge

Capital Group talk of enterprise relationship management to emphasise the fact that customer relationships should be the central focus of the whole organisation not just the marketing department.⁶ And The Marketing and Communications Agency propose that the same acronym stands for employee relationship management to highlight the role which staff play in any customer relationship.⁷ There is even VRM⁸ which does not stand (as might be suppose in this wireless era) for virtual relationship management but for visual relationship management. If CRM was a truly useful management tool surely there would be no need for this interpretation, reinterpretation and general semantic game playing with the term? Surely analysts would be concentrating on finding best practice cases for others to learn from? So perhaps we can conclude that CRM is just full of hype.

Before giving up on the idea, however, there is another point of departure in addressing the question of whether CRM is helpful or full of hype. Looking beyond semantics and acronyms it is possible instead to conduct an investigation into the genealogy of the concept itself and to take a current definition of CRM and trace its pedigree. American Airlines are sophisticated CRM users — as evidenced by an invitation issued to them to address the 2001 Academy of Marketing Science Conference⁹ on their current practice. The definition given by American Airlines in this forum was the following: 'CRM is a long-term business philosophy that focuses on: collecting, understanding and utilizing customer information intelligently; treating different customers differently and providing a higher level of service for our best customers; and using these two together to increase customer loyalty and profitability.' American Airlines know

exactly who their profitable customers are and act on this to create mutually beneficial relationships. If, for example, the flight of a valuable customer should be delayed, a personalised text message will be dispatched so that the customer may delay his/her own departure for the airport. This sort of treatment will encourage customer loyalty and a virtuous circle will be created. According to the definition of this leading practitioner, CRM has three strands: first, understand the range of customer needs and wants; second, create homogeneous customer groups from this heterogeneous mass; third, concentrate marketing effort on the group which the organisation can serve most profitably. Put like this, CRM seems sensible, pragmatic and eminently helpful.

There is plenty of market-place evidence to support the idea that profitability can be improved through the increased retention and loyalty that is engendered by sound customer intelligence. In one study, the Gartner Group¹⁰ found that profits could be raised 100 per cent by retaining another 5 per cent of customers. The Royal Bank of Scotland found that 20 per cent of their customer base made 80 per cent of their monthly contribution.¹¹ And there have been myriad examples of how it can cost between four and seven times more to attract a customer than to retain one. Collecting, understanding and utilising customer information intelligently brings profit in a number of ways. Rich data permit greater opportunities to cross sell and up-sell. For example, if a television manufacturer knows that a family has only one television set and that there are teenage children in the house they know that the family is much more likely to be in the market for a second set than a little old lady in a one-bedroomed flat who already has a television in her living

room and bedroom. A mailshot to the family has a far higher profit potential than one sent at random to everyone on the database or one to pensions with two televisions. Firms selling computers online capture all the necessary data on prospective customers at the customer's convenience on the Internet before calling them — a call to which the customer is not hostile — in order that they can sell a more profitable service contract. The call will have a very much higher profit potential than a cold call to a list of computer users. Finding groups of customers and cultivating the profitable ones allows a better use of scarce resources and higher identifiable customer profitability. No-one would dispute the business case for this idea.

So, to return to tracing the lineage of CRM — which is a sound business idea based on treating different groups of customers differently — bells of recognition must surely be ringing inside the head of any database marketer. For the ancestry of CRM can be traced precisely to 1956 and, more specifically, to the July issue of the 21st volume of the *Journal of Marketing*. This is where a seminal word in the marketing dictionary was coined — 'segmentation'. 'Market segmentation is based upon developments on the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer and user requirements'.¹² Segmentation was proposed as an alternative to the product differentiation strategy. Segmentation comprises understanding the differing needs of discrete groups of customers and forming relationships with them accordingly. The underlying philosophy of CRM is surely no different from this. Yet there has been little suggestion since 1956 that segmentation is just hype. Indeed over 1,600 articles have been written on the subject¹³ and an entire

Figure 1 Technology timeline.

chapter is devoted to the subject in the millennium edition of marketing guru Philip Kotler's perennial tome 'Marketing Management'.¹⁴

If CRM is an extension of the very old and established idea of segmentation, then why is there suddenly a flurry of interest and why are analysts dancing nervously around the issue with a proliferation of acronyms? Why is there a feeling that CRM is just hype?

The fact is that although segmentation has achieved almost universal acceptance by the marketing community for five decades the idea has not actually been widely adopted in practice. According to an EIU survey, a mere 18 per cent of firms in 2000 organised their business around customer types.¹⁵ And yet, importantly, in the same survey 50 per cent of businesses claimed that they would organise around customer type by 2002. If the idea has been around and accepted since the 1950s but people have only begun to implement it in earnest in the past few years a strong catalyst must

surely have emerged. That catalyst is technology. The technology timeline shown in Figure 1 shows the successive development of technologies since the mid-1980s that have forged a chain, each link facilitating the process of collecting, analysing and acting on customer information to identify and communicate with the most profitable customers.

The first link in the chain has to be the database, starting with packages such as Dbase and Foxpro in the 1980s. Without the relational database it is impossible to keep accurate records of even basic customer information. Systems such as geodemographics allow richness to be added to this information to qualify prospects and to identify profitable geographical areas. Software which links front office and back office allows customer data to be collected and compared across a number of contact points. Advances in chip manufacturing have allowed large amounts of customer data to be manipulated by smaller and smaller hardware while a competitive

industry environment had reduced the price of increasingly powerful hardware so that even very small companies are able to and can afford to carry out sophisticated manipulations of huge amounts of customer data. Electronic point of sale (EPOS) data allow companies to collect transaction data enabling the tracking of expenditure patterns. Mobile technology has been harnessed by sales force automation systems to allow real-time transfer of remote data collection. The Internet allows a mass of data to be collected directly from customers at their convenience. The data warehouse allows centralisation of customer data from all points and data mining tools can be used to spot patterns in the data. And so on. Since the mid-1990s technological tools for gathering and using customer data have burgeoned at a great rate. Help-desk tracking allows companies to keep customers up to date with the progress of shipments and orders. Document imaging allows signatories to be located. Interactive Voice Recording (IVR) allows different groups of customers to be directed to different members of staff and monitoring systems are now in place on. This pace of development is unlikely to slow down.

The accumulative effect of these technological developments has been to enable the implementation (at last) of a very sound, very old business idea. For the first time since the mid-1950s companies can really implement segmentation. So where is the problem? Why does straying acronym syndrome exist? Why is there not simply a stream of successful case studies?

The answer is this. Technology is not a driver that exists in a vacuum. It has been harnessed by an industry that was worth US\$2bn in 1998 and is estimated to be heading for a value of US\$16.8bn by 2003.¹⁶ The real driver then is the activity

of the massive vendor industry in whose interest it is to make CRM a must-have for client organisations and the activity of the consultancies, ready to assist with implementation issues. The vendor market, while large, is still fragmented with market share a volatile statistic. When vendors fight, hype is inevitable. Evidence from a variety of sources has shown that from 1998 satisfaction with from CRM systems has remained consistently low. In 1998 the Meta Group found that while 80 per cent of large American companies had data warehouse facilities — (costing an average of US\$2m) only 50 per cent were satisfied with performance.¹⁷ In 2000, The Data Warehousing Institute's survey showed that only 58 per cent of companies were satisfied with their CRM system — an improved but still poor.¹⁸ More recent research by AMR Research Inc. has found similar sentiments and has concluded that vendors typically overestimate their application's role in CRM strategy.¹⁹ They note that one leading vendor advertised that companies implementing their applications had collectively enjoyed a 21 per cent improvement in customer satisfaction, an 18 per cent improvement in productivity, and a 17 per cent growth in revenue while the companies which AMR surveyed had had a very different experience

So if vendors tempered their claims and thus lowered expectations, would client organisations be more satisfied with CRM systems? Probably yes. It is dangerous to leave it at that however. First of all, blaming vendors is to run the risk of throwing out baby with the bath water. Vendors have enabled the widespread implementation of a key marketing principle. Secondly, corporations must concentrate not on the acquisition of software, but on retention and exploitation of the capability it

engenders. Attention should really be turned to assessing the organisational changes required to get the best out of CRM. There is an increasingly popular view that the real challenge lies within the remit of human resource (HR) directors and experts in organisational design. For CRM requires cross-functional cooperation. IT experts within an organisation are specifying and commissioning systems that are used by marketing and sales. Unless the IT experts fully understand the needs and working habits of these functional areas, then the IT systems are unlikely to meet their needs. And unless marketing, finance and sales fully understand the technical capability and limitations of CRM systems then they will never get the best out of them.

The problem is well summed up by Mike Muhny from the University of Illinois: 'Sales people are from Venus and IT is not even from the same galaxy'.²⁰ His point is that communications between the emotions-driven sales force and the clinical binary-driven IT expert will always be difficult unless intelligently managed, for their personalities are fundamentally different. And those working in marketing probably are probably from a third planet. An exercise carried out at a leading UK university asked management students from undergraduate to MBA level to think of the typical sales, IT and marketing person; to give them a name; to imagine what they drank and what they wore. The results were remarkably consistent. The IT person was called Giles, drank coke and wore jeans. Marketing people were clad in designer outfits, drank champagne and were probably called Juliette. Sales people wore shiny suits, drank vodka red bull and were called Kevin. Crass stereotypes: but they highlight the perceptions of the different persona that tend to be attracted by different functional

areas. Creating a forum for constructive cooperation between Kevin, Juliette and Giles is an area which should be addressed as a priority. Muhny suggests the recruitment and development of 'hybrid managers' — dedicated individuals appointed within an organisation to 'referee' between IT and sales and marketing.²¹ These would be individuals with expertise in all three functional areas. This is an attractive idea. Finding such an individual with lineage from three different planets may, however, be problematic. A better solution may be for cross-functional teams to be involved in the specification, development and implementation of CRM systems. This is a training, development and organisational design issue and database marketers should now be clamouring at the doors of HR for ways of improving cross-functional communication.

A second issue which deserves attention if CRM is to achieve its potential is compensation. American Airlines defined CRM as a 'long-term business philosophy'.²² To attain the highest profit potential customers must be retained, which means that the reward systems must be designed to encourage retention activities rather than acquisition activities. This may require a fundamental rethink in the compensation system for sales staff in particular. This in turn may require innovative ways of designing sales force structure. The issue is succinctly put by Ian Gordon: 'Most sales people are compensated on the hunt-and-kill phenomenon, but now you're asking them to act like farmers and tend the field'.²³ In addition to reviewing the compensation scheme, the organisation also has to decide whether it can deploy the same personnel 'killing' one day and 'tending' the next, or whether there should be two separate sets of sales staff. On the one hand, the latter makes sense as different types of

people are attracted by the two different roles. When a customer loses continuity of contact with their first contact sales representative, however, what effect does this have on the customer relationship? And what implications does this have for the mix of bonus and salary which is offered to individuals?

To return to the question posed in the title of this reflective paper: is CRM helpful or full of hype? CRM is essentially the technical ability to carry out a very sound management idea that has a long, strong pedigree. It is very much more than hype. Current satisfaction with CRM is not as high as it should be given the opportunity that it presents. Part of this dissatisfaction can be attributed to the vendor industry participants who are fighting for a share of a very lucrative market. Part of the dissatisfaction, however, can also be attributed to the lack of realisation within organisations that to combine technology with a management philosophy requires a rethinking in cross-functional workings and a re-evaluation of compensations systems. Thus a number of areas for further research are suggested:

- continuation of surveys to track satisfaction with CRM
- more research on exact reasons for dissatisfaction: over-expectation or implementation failure
- a study to establish the extent and nature of communication breakdowns between functional areas within CRM active organisations
- experiments with different methods of enhancing communications between employees with different mindsets
- study of the effects of different compensation systems on effective CRM implementation

The time has come for IT, marketing,

sales and HR researchers to get together to make the very most of the CRM revolution before it is dismissed as hype.

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