Chapter I
Managing the Customer Relationship: A Framework for E–CRM Analysis

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ABSTRACT

Proponents of Customer Relationship Management (CRM) suggest that a firm can develop a value creation relationship, such that an increase in customer value, leads to an increase in firm value (Mithas et al., 2005). The value for the customers comes from the provision of goods and services that match their needs. However, the research to date on using e-CRM systems to both foster and monitor this value creation process is somewhat mixed. This chapter proposes to cross-functionally integrate organizational assets with customers’ interests via technology. The resulting framework can assist managers in improving services, through the use of e-CRM, to understand what is important to the customer.

INTRODUCTION

In the first half of the twentieth century, the owner of a neighborhood general store was able to anticipate the demands of his customers. His product offerings would be based on intimate knowledge of his customers, their families, lifestyles, and preferences. These insights were
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gathered through a series of personal interactions with his customer-base. The value of the relationship was clear to both the store owner and the customer in terms of appropriate inventory levels and availability of products.

However, changes in the retail marketplace (e.g. the growth of mass market retailing) and changes in the shopping experience itself (e.g. purchasing goods over the Internet) have fostered customer anonymity and paved the way for a growing disconnect between firms and their customers. Evidence of this disconnect can be found in a recent survey of 362 “leading companies,” which showed that while 80% of the firms believed they were delivering superior service to the customer, the reality is that only 8% of their customers concurred (Allen, et al., 2005). To correct this situation, a growing number of firms are adopting ‘customer relationship management’ tools to forge a stronger link to their customers.

CRM LITERATURE REVIEW

Customer relationship management (CRM) has its roots in relationship marketing which supports the proposition that a firm can boost its profitability by establishing long term relationships with its customers (Boulding, et al., 2005). Proponents of CRM suggest that a firm can develop a value creation relationship such that an increase in customer value leads to an increase in firm value (Mithas et al., 2005). The value for the customers comes from the provision of goods and services that match their needs. The firm derives its value in the form of cost savings since it is less expensive to retain existing customers than to expend time and energy on constantly acquiring new customers. For example, Gupta et al. (2004) found that a 1% improvement in customer retention can increase firm value by 5%.

Despite the potential for this value creation proposition, widespread adoption of CRM languished until it was bolstered by new information technology systems and widespread use of the Internet (Greenberg, 2002) – thus being renamed e-CRM. Elements of e-CRM include email, chat rooms, interactive websites, and e-forums (Lee-Kelley et al., 2003). Today, e-CRM is considered a strategic imperative for firms looking to improve customer retention and an engine for “improved shareholder value” (Payne and Frow, 2005).

An examination of the research evaluating the effectiveness of e-CRM would show the results are quite mixed. The commercial market research studies suggest a lack of performance. In a Forrester Research survey of 260 business and technology executives, Band (2008) noted that a ‘significant’ number reported poor results on 11 different capabilities (e.g. customer service, customer data management, etc.) provided by e-CRM. Earlier, a Gartner Group study (Hagemeier and Nelson, 2003) found 70% of the firms adopting e-CRM saw a decline or no improvement. This 70% figure matched the CRM project failure rates found by Tafti (2002) in an academic study.

However, there have been CRM studies with positive results. In a (2005) Journal of Marketing edition dedicated solely to CRM, Boulding et al. (2005) noted that eight different authors reported that CRM processes can improve firm performance. One of the eight authors, Ryals (2005), cited a case study where a business unit increased its profits by almost 300% by using specific CRM tools. Mithas et al. (2005) found that, for a cross-section of U.S. firms, the use of CRM applications is positively associated with improved customer satisfaction.

What is the reason for the mixed results? Reinartz et al. (2004) noted the overall lack of studies that examine CRM across a range of firms and that extant studies may have had mediating variables (e.g. industry, level of economic development) that were not examined. Others failed to consider differences in types of CRM adopted, level of implementation, or firm strategy (Reinartz et al., 2004). Payne and Frow (2005) noted these variances and identified 12 different
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