CHAPTER-2
CONCEPTUAL FOUNDATION

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2.1 Introduction

The field of Customer Relationship Management (CRM) is becoming popular with both the practitioners and scholars alike. With more and more companies adopting customer-centric strategies, programmes, tools, and technology for efficient and effective customer relationship management, the need for. They are realizing the need for in-depth and integrated customer knowledge in order to build close cooperative and partnering relationships with their customers.

The emergence of new channels and technologies is significantly altering how companies interface with their customers, a development bringing about a greater degree of integration between marketing, sales, and customer service functions in organizations. For practitioners, CRM represents an enterprise approach to developing full-knowledge about customer behavior and preferences and to developing programmes and strategies that encourage customers to continually enhance their business relationship with the company.

Marketing scholars are studying the nature and scope of CRM and are developing
conceptualizations regarding the value and process of cooperative and collaborative relationships between buyers and sellers.

Many scholars with interests in several sub-disciplines of marketing, such as channels, services marketing, business-to-business marketing, advertising, and so forth, are actively engaged in studying and exploring the conceptual foundations of managing relationships with customers. They are interested in strategies and processes for customer classification and selectivity; one-to-one relationships with individual customers; key account management and customer business development processes; frequency marketing, loyalty programmes, cross-selling and up-selling opportunities; and various forms of partnering with customers including co-branding, joint-marketing, co-development, and other forms of strategic alliances.

This chapter of the thesis focuses on defining what CRM is and what it promises to offer, identifying the forces impacting on the marketing environment in recent years that have led to the rapid development of CRM strategies, tools, and technologies. A typology of CRM programmes is presented to provide a parsimonious view of the various terms and terminologies that are used to refer to different activities. A process model of CRM to better delineate the challenges of customer relationship formation, its governance, its performance evaluation, and its evolution is also presented here. Finally, the research issues related to CRM are examined.

2.2 The field of Marketing:

Marketing, more than any other business function, deals with customers. Building customer relationships based on customer value and satisfaction is at the very heart of modern marketing. The simplest definition of marketing is: “Marketing is managing profitable customer relationships”. The twofold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.

2.2.1 Definitions of Marketing

What does the term marketing mean? Many people think of marketing only as selling and advertising. And no wonder every day we are bombarded with television commercials, newspaper ads, direct-mail offers, sales calls, and Internet pitches. However, selling and advertising are only the tip of the marketing iceberg. Although they are important, they are only
two of many marketing functions and are often not the most important ones.

Today, marketing must be understood not in the old sense of making a sale—“telling and selling” but in the new sense of satisfying customer needs. If the marketer does a good job of understanding consumer needs, develops products that provide superior value and prices, distributes, and promotes them effectively, these products will sell very easily. Thus, selling and advertising are only part of a larger “marketing mix”—a set of marketing tools that work together to affect the marketplace.

Marketing is defined as “A social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others”\(^2\).

The American Marketing Association (AMA) defines marketing as “the process of planning and executing the conception, pricing, promotion and distributing of ideas, goods and services to create exchanges that satisfy individual and organizational objectives”\(^3\).

2.3 Evolution of Marketing

In the last five decades the field of marketing has seen a transition from being ‘product focused’ to ‘customer centric’ approach. This transition is in the form of an evolution that can be traced by exploring the recent history of marketing.

2.3.1 Product Marketing or Mass Marketing

In the 1960s, the practice of motivational research sought to understand what made people tick. The hope was that company researchers could discover how to better market their products. The scope of these efforts remained unwavering in its product focus. In fact, product marketing became a study unto itself, its students testing the waters with a variety of gimmicks and promotional ideas. Part research, part guessing game, and part leap of faith, the practice of product marketing evolved into a formalized organization in most companies, and the process, as shown in Figure 2-1, was predictable. Product marketing campaigns were designed to reach as many people as possible. Mass marketing campaigns not only treated all customers as if they had the same needs and wants, but also focused on the product being pitched, not on its potential buyer. Mass marketing a product means stocking the same shelves across all stores with the same product and alerting potential customers in the same way.
The underlying assumption was that the availability and choice of products a company offered consumers was the principal determinant of its success\textsuperscript{4}.

2.3.2 Direct Marketing

The 1960s introduced the phenomenon of "direct marketing." Direct marketing involved communicating with large numbers of consumers-usually through promotional mailings or magazine advertisements-and inviting them to respond to the promotion by ordering the product through the mail. Based on the principles of mass marketing, direct marketing usually focused on selling a mass-produced product to as many consumers as possible\textsuperscript{5}.

2.3.3 Target Marketing
As consumers began purchasing and using products, more data became available about them. Data analysts began associating products to the customers who were buying them. And it was through these analysis activities as well as rising temperatures in the competitive climate and a few timely magazine articles that companies began to understand that their customer data could be as valuable as the product data they were busy probing. Thus evolved the term "target marketing," the practice of promoting a product or service to a subset of customers and prospects.

Technically, the size of a target market can range from the sum of all customers to a single individual, but during the early days of target marketing when companies began using information technologies in creative new ways, market. Segmentation was the most widely adopted approach⁶.

2.3.4 Relationship Marketing and One-to-One

Relationship marketing or One-to-One marketing was embraced as a way for marketing departments to get to know their customers more intimately by understanding their preferences and thus increasing the odds of retaining them⁷. Target marketing, cross-selling, and customer loyalty programmes evolved from one-off pilot projects and became formalized as part of core marketing and sales processes.

The end of the mass marketing tactic of relying on economies of scale to churn out huge quantities of standardized products had come. Therefore, the need to focus less on products and more on customer relationships was felt. That is companies will not be trying to sell a single product to as many customers as possible. Instead, they will be trying to sell a single customer as many products as possible over a long period of time, and across different product lines. To do this, you will need to concentrate on building unique relationships with individual customers, on a 1:1 basis⁸. Marketing’s evolution from mass-marketing standard products to segmenting customers to true relationship marketing, or one-to-one marketing is depicted in the figure-2.2. as stages and their differences.
## Fig. 2.2 Evolution of Relationship Marketing

<table>
<thead>
<tr>
<th>MASS MARKETING</th>
<th>MARKET SEGMENTATION</th>
<th>RELATIONSHIP MARKETING</th>
</tr>
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<tbody>
<tr>
<td>![Image of group focused marketing]</td>
<td>![Image of group focused targetting]</td>
<td>![Image of individual focused marketing]</td>
</tr>
<tr>
<td>- Product focused</td>
<td>- Group focused</td>
<td>- Customer focused</td>
</tr>
<tr>
<td>- Anonymous</td>
<td>- General category profiles</td>
<td>- Targeted to individuals</td>
</tr>
<tr>
<td>- Few campaigns</td>
<td>- More campaigns</td>
<td>- Many campaigns</td>
</tr>
<tr>
<td>- Wide reach</td>
<td>- Smaller reach</td>
<td>- Discrete reach</td>
</tr>
<tr>
<td>- Little or no research</td>
<td>- Based on segment analysis of demographics</td>
<td>- Based on detailed customer behavior and profiles</td>
</tr>
<tr>
<td>- Short term</td>
<td>- Short term</td>
<td>- Long term</td>
</tr>
</tbody>
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One-to-one means not only communicating with customers as individuals but also developing custom products and tailored messages based on customers' unspoken needs. It relies on a two-way dialog between a company and its customers to foster a true relationship and allow customers to truly express the desires the company can help fulfill. It relies as heavily on the customer's experience of the company as it does on the specific marketing messages he receives.

The concept of “permission marketing” goes hand-in-hand with one-to-one: customers not only need to be communicated with as individuals, they themselves should be able to stipulate how and when. After all one can't build a one-to-one relationship with a customer unless the customer explicitly agrees to the process. Permission marketing implies that the customer will decide when and for what reason she will accept to be interrupted with a marketing message. Most of the time, it's when the customer perceives there is value to her in such an interruption.

### 2.4 Customer Relationship Management (CRM)

The vision of one-to-one and permission marketing relies even more heavily on information technology to track individual customers, understand their differences, and
acknowledge their interaction preferences. The purveyors of these visions often stop short of discussing how exactly a company can not only differentiate each discrete customer, but also put the business processes and organizational structures and technologies in place to treat them differently as is evident in the following text. Fortunately, companies had begun analyzing customer data even before the advent of relationship marketing or customer relationship marketing and thus the possibility of managing individual customer interactions based on the requirements of those individuals is becoming ever more realistic. The trouble has been that they’ve underestimated the extent of the work necessary to realize the promise.

2.4.1 Definitions of Customer Relationship Management (CRM)

Before the conceptual foundations of CRM are examined, defining what CRM is would be useful. In the marketing literature the terms customer relationship management and relationship marketing are used interchangeably. These terms have been used to reflect a variety of themes and perspectives. Some of these themes offer a narrow functional marketing perspective while others offer a perspective that is broad and somewhat paradigmatic in approach and orientation. A narrow perspective of customer relationship management is database marketing emphasizing the promotional aspects of marketing linked to database efforts.

Another narrow, yet relevant, viewpoint is to consider CRM only as seeking customer retention by using a variety of after marketing tactics that lead to customer bonding or staying in touch with the customer after a sale is made. A more popular approach with the recent application of information technology is to focus on individual or one-to-one relationships with customers that integrate database knowledge with a long term customer retention and growth strategy. Thus, CRM is defined as “an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value added contacts over a long period of time.” The individual account concept in industrial markets to suggest CRM to mean, “Marketing oriented toward strong, lasting relationships with individual accounts” can be applied. A more strategic view can be professed by putting the customer first and shifting the role of marketing from manipulating the customer (telling and selling) to genuine involvement.
with the customer (communicating and sharing knowledge)\textsuperscript{15}. From a strategic viewpoint of\nCRM, attracting new customers should be viewed only as an intermediate step in the marketing\nprocess and that developing closer relationship with these customers and turning them into loyal\none should be equally important aspects of marketing. Thus, relationship marketing be seen as\n“attracting, maintaining, and (in multi-service organizations) enhancing customer relationships”\n\textsuperscript{16}.

“Marketing is to establish, maintain, and enhance relationships with customers and other\npartners, at a profit, so that the objectives of the parties involved are met. This is achieved by a\nmutual exchange and fulfillment of promises”\textsuperscript{17}. The implication of this definition is that forming\nrelationships with customers is the "raison de être" of the firm and marketing should be devoted\nto building and enhancing such relationships. Similarly, distinguishing between transactional\nexchanges and relational exchanges it can be suggested that relationship marketing “refers to all\nmarketing activities directed toward establishing, developing, and maintaining successful\nrelationships”\textsuperscript{18}.

The core theme of all CRM perspectives is its focus on a cooperative and collaborative\nrelationship between the firm and its customers, and/or other marketing actors. Such cooperative\nrelationships are characterized as being interdependent and long-term orientated rather than\nbeing concerned with short-term discrete transactions. The long-term orientation is often\nemphasized because it is believed that marketing actors will not engage in opportunistic behavior\nif they have a long-term orientation and that such relationships will be anchored in mutual gains\nand cooperation\textsuperscript{19}.

Another important facet of CRM is “customer selectivity.” As several research studies\nhave shown, not all customers are equally profitable for an individual company. The company\ntherefore must be selective in tailoring its programme and marketing efforts by segmenting and\nselecting appropriate customers for individual marketing programmes. In some cases, the\n“outsourcing of some customers” could be called for so that a company allocates its resources to\nthose customers it can serve the best in order to create mutual value. However, the objective of a\ncompany is not really to prune its customer base but to identify the programmes and methods
that would be the most profitable as it creates value for the firm and the customer. Hence, CRM can be defined as “Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value”

As is implicit in the above definition, the purpose of CRM is to improve marketing productivity. Marketing productivity is achieved by increasing marketing efficiency and by enhancing marketing effectiveness. In CRM, marketing efficiency is achieved because cooperative and collaborative processes help in reducing transaction costs and overall development costs for the company. Two important processes of CRM include proactive customer business development and building partnering relationships with the most important customers. These lead to superior mutual value creation.

2.4.2 Types of CRM

The different types of CRM can be broadly understood by looking at the two different ways of categorization. These two different ways of categorization are as follows:

a) Proactive versus Reactive CRM or
b) Operational, Collaborative and Analytical CRM

In the first type of categorization, the practice of a company to anticipate and respond to the customer needs with suitable offerings is contrasted with practice of simply responding to the customer stimulus that come in through suggestions or complaints.

In an increasingly dynamic business world, companies with progressive outlook are those who not only understand and translate their customer value proposition through their entire offering but also attempt to accommodate the future needs of their customers. Needless to say, companies attempting Proactive CRM are generally those which are increasing the level of personalization and are practicing one of the marketing as shown in the figure- 2.3
Another type of CRM which is often referred to is the second one which attempts to distinguish and delineate the scope of Operational, Collaborative and Analytical CRM.

**Operational CRM**

Operational CRM is also known as front office CRM, it involves the areas where direct customer contact occurs (Dyche 2002). These interactions are referred to as customer touchpoints.

The customer touchpoints are classified into:

- **Face to face touchpoints**
  Sales/Service/Channel/Events/Stores/Promotions

- **Database driven touch points**
  Telephones/Email-Mail/SMS/Fax/Loyalty Cards/ATMs

- **Mass Media touch points**
  Advertising/Public Relations/Website/Sale, Payment, Return of sale, Information transaction, Complaint, Suggestions etc. can take place.

Operational CRM enables and streamlines communication to and from the customer. But this does not necessarily mean optimizing services. Here ‘optimization’ means letting marketers
plan and prioritize all inbound and outbound customer communications in order to maximize effectiveness while balancing the organisation’s capacity to deliver and the likelihood that customers will respond.

Collaborative CRM

Collaborative CRM can be defined as a specific functionality that enables a two way dialogue between a company and its customers through a variety of channels to facilitate and improve the quality customer interaction.

The mandate of Collaborative CRM is to manage various partners of the company be it business partners, agents, brokers, OEMs, intermediaries like distributors, dealers, resellers, and retailers. By managing all these partners, it tries to in turn facilitate the integration of various activities like Marketing, Sales, Service/Support and quality.

Analytical CRM

Also known as back-office or strategic CRM, it involves understanding the customer activities that occurred in the front office. (Dyche 2002). It involves analyzing large amounts of cross-sectional data using data mining and other methods and feeding the result (knowledge gained) back to operational CRM. It also studies consumer behaviour patterns that help to know what products to position for cross-selling/up-selling and the level and kind of service to deliver to meet customer demand.

Analytical CRM requires technology (to compile and process the mountains of customer data to facilitate analysis) and new business processes (to refine customer facing practices in order to increase customer loyalty and raise profitability).

The inter-relationship between the three is illustrated in figure-2.4
2.4.3 The Emergence of CRM Practice

Developing customer relationships has historical antecedents going back into the pre-industrial era. Much of it was due to direct interaction between producers of agricultural products and their consumers. Similarly, artisans often developed customized products for each customer. Such direct interaction led to relational bonding between the producer and the consumer. It was only after the advent of mass production in the industrial era and the advent of middlemen that interaction between producers and consumers became less frequent leading to transaction oriented marketing. In other words, the production and consumption functions became separated leading to the marketing functions being performed by middlemen, and middlemen, in general, are oriented towards economic aspects of buying since the largest cost is often the cost of the
goods sold. In recent years however, several factors have contributed to the rapid development and evolution of CRM. These include the growing de-intermediation process in many industries due to the advent of sophisticated computer and telecommunication technologies that allow producers to directly interact with end-customers. For example, in many industries such as the airline, banking, insurance, computer software, or household appliances industries and even consumables, the de-intermediation process is fast changing the nature of marketing and consequently making relationship marketing more popular. Databases and direct marketing tools give these industries the means to individualize their marketing efforts. As a result, producers do not need the functions formerly performed by middlemen. Even consumers are willing to undertake some of the responsibilities of direct ordering, personal merchandising, and product use related services with little help from the producers. The recent success of on-line banking, Charles Schwab and Merryl Lynch’s on-line investment programmes, direct selling of books, automobiles, insurance, etc., on the Internet all attest to the growing consumer interest in maintaining a direct relationship with marketers. The de-intermediation process and consequent prevalence of CRM is also due to the growth of the service economy. Since services are typically produced and delivered at the same institution, it minimizes the role of middlemen. Between the service provider and the service user an emotional bond also develops creating the need for maintaining and enhancing the relationship. It is therefore not difficult to see that CRM is important for scholars and practitioners of services marketing.

Another force driving the adoption of CRM has been the total quality movement. When companies embraced the Total Quality Management (TQM) philosophy to improve quality and reduce costs, it became necessary to involve suppliers and customers in implementing the programme at all levels of the value chain. This created the need for closer working relationships with customers, suppliers, and other members of the marketing infrastructure. Thus, several companies, such as Motorola, IBM, General Motors, Xerox, Ford, and Toyota, formed partnering relationships with suppliers and customers to practice TQM. Other programmes such as "just-in-time" (JIT) supply and "materials-resource planning" (MRP) have also made use of interdependent relationships between suppliers and customers.

With the advent of digital technology and complex products, the systems selling
approach has become common. This approach has emphasized the integration of parts, supplies, and the sale of services along with the individual capital equipment. Customers have liked the idea of systems integration and sellers have been able to sell augmented products and services to customers. Then, the popularity of system integration began to extend to consumer packaged goods as well as to services. At the same time some companies started to insist upon new purchasing approaches, such as national contracts and master purchasing agreements, forcing major vendors to develop key account management programmes. These measures created intimacy and cooperation in the buyer-seller relationship. Instead of purchasing a product or service, customers were more interested in buying a relationship with managers and account teams that assess the customer’s needs and then husband the selling company’s resources for the customer’s benefit. Such programmes have led to the establishment of strategic partnering within the overall domain of customer relationship management 25.

Similarly, in the current era of hyper-competition, marketers are forced to be more retaining customers perhaps offers a more sustainable competitive advantage than acquiring new ones. What marketers are realizing is that it costs less to retain customers than to compete for new ones 26.

In addition, several marketers are concerned with keeping customers for life rather than with only making a one-time sale. There is greater opportunity for cross-selling and up-selling to a customer who is loyal and committed to the firm and its offerings 27. Also, customer expectations have been changing rapidly over the last two decades. Fueled by new technology and the growing availability of advanced product features and services, customer expectations are changing almost on a daily basis. Consumers are less willing to make compromises or trade-offs in product and service quality. In a world of ever changing customer expectations, building cooperative and collaborative relationships with customers seems to be the most prudent way to keep track of their changing expectations and appropriately influencing them 28.

Finally, many large internationally oriented companies are today trying to become global by integrating their worldwide operations. To achieve this they are seeking cooperative and collaborative solutions for global operations from their vendors instead of merely engaging in transactional activities with them. Such customers’ needs make it imperative for marketers interested in the business of companies that are global to adopt CRM programmes, particularly
global account management programmes. Global account management (GAM) is conceptually similar to national account management programmes except that they have to be global in scope and thus more complex. Managing customer relationships around the world calls for external and internal partnering activities, including partnering across a firm’s worldwide organization.  

2.4.4 CRM Process Framework

Several scholars studying buyer-seller relationships have proposed relationship development process models. Based on these works a four-stage CRM process framework comprising of the following four sub-processes can be built: a customer relationship formation process; a relationship management and governance process; a relational performance evaluation process, and a CRM evolution or enhancement process. Figure-2.5 depicts the important components of the process model.

**Fig. 2.5: The CRM Process Framework**

The CRM Formation Process

The formation process of CRM refers to the decisions regarding initiation of relational activities for a firm with respect to a specific group of customers or to an individual customer with whom the company wishes to engage in a cooperative or collaborative relationship. Hence,
it is important that a company be able to identify and differentiate individual customers. In the formation process, there are three important decision areas: defining the purpose (or objectives) of engaging in CRM; selecting parties (or customer partners) for appropriate CRM programmes; and developing programmes (or relational activity schemes) for relationship engagement with the customer.

The Purpose of CRM and Its Operational Goals:

The overall purpose of CRM is to improve marketing productivity and to enhance mutual value for the parties involved in the relationship. Improving marketing productivity and creating mutual values can be achieved by increasing marketing efficiencies and/or enhancing marketing effectiveness. By seeking and achieving such operational goals as lower distribution costs, streamlining order processing and inventory management, reducing the burden of excessive customer acquisition costs and by considering the economics of customer retention, firms can achieve greater marketing efficiencies. They can also enhance marketing effectiveness by carefully selecting customers for their various programmes, by individualizing and personalizing their market offerings to anticipate and serve the emerging needs of individual customers, by building customer loyalty and commitment; by partnering to enter new markets and develop new products, and by redefining the competitive playing field for their company. Thus, stating the objectives and defining the purpose of CRM in a company helps clarify the nature of the CRM programmes and activities that ought to be performed by the partners. Defining the purpose also makes identifying the relationship partners with the necessary expectations and capabilities to fulfill mutual goals an easier task. Furthermore, it helps in the evaluation of the CRM performance. The results achieved can be compared to the objectives. These objectives can be specified as financial goals, marketing goals, strategic goals, operational goals, and organizational goals.

Similarly, in the mass-market context, consumers expect to fulfill their goals related to efficiencies and effectiveness in their purchase and consumption behavior. Consumers are motivated to engage in relational behavior because of the psychological and sociological benefits associated with reduction in choice decisions. In addition, to their natural inclination to reduce choices, consumers are motivated to seek the rewards and associated benefits offered by CRM programmes.
Relational Parties and Partners:

Customer partner selection (or parties with whom to engage in cooperative or collaborative relationships) is another important decision in the relationship formation stage. Even though a company may serve all customer types, few have the necessary resources and commitment to establish CRM programmes for all. Therefore, in the initial phase, companies have to decide on which customer types and specific customers or customer groups to focus their CRM efforts on. Subsequently, when a company gains experience and achieves successful results, the scope of CRM activities can be expanded to include other customers in the programme or to include additional programmes. Although partner selection is an important decision in achieving CRM goals, not all companies have a formalized process of selecting customer partners. Some select customer partners by following the intuitive judgments of their senior managers and select other partners from those customers who demand to be selected. On the other hand, other companies do have formalized processes of selecting relational partners through the use of extensive research and the evaluation of chosen criteria. The criteria for partner selection vary according to company goals and policies. They can range from a single criterion such as the revenue potential of the customer to multiple criteria that include variables such as customer commitment, resourcefulness, management values, technological and market leadership, national and global presence, strategic value, and complementary business processes. When several criteria are applied and a complex model developed, it is necessary to test its validity based on strategic fit and the distinctive competitive advantage to the firm.

CRM Programmes and Strategies:

A careful review of the literature and the observation of corporate practices suggest that there are several types of CRM programmes. Broadly specified, they fall into the following three categories: continuity marketing, one-to-one marketing, and partnering programmes. Each one of these can take different forms depending on whether they are meant for end-consumers, distributor customers, or business-to-business customers. Obviously, marketing practitioners in search of new creative ideas are able to develop many variations and combinations of CRM programmes to build mutually beneficial relationships with their customers. However, the essence of CRM programmes is customer selectivity. It has now become common knowledge
that the value of all customers is not equal. The 80/20 rule prevails whereby we have learned that 20 percent of customers generate more than 80 percent of revenues for most companies, and it is not uncommon to find that an even lower percentage of customers can generate more than 80 to 90 percent of the revenues. Under such circumstances, it is not prudent for a company to allocate equal resources to all customers. Customer segmentation and programme differentiation is needed in order to match revenue potential with service offerings. Those with higher revenue potential deserve a greater allocation of costs and service.

Otherwise, competitors will seize the opportunity by offering better service and a greater allocation of resources for the high-end customers. At the lower-end, attempts should be made to achieve cost savings through the reallocation of efforts based on less-expensive resources. Figure 2.6 depicts the customer revenue-cost re-allocation opportunity zone. It suggests that in most companies instead of the average cost per customer being proportionate to the average revenue per customer, one consider a flat cost curve that is not sensitive to the revenue produced by the customer. Such a situation opens up an opportunity for competitors to increase their offerings by allocating expensive resources to the high-end customers.

**Fig. 2.6: Cost Revenue & Cost Relationship**
Thus, as shown in Figure 2.7, a hierarchy of CRM programmes could be opportunity for customer business development.

Fig. 2.7: Customer Segmentation & CRM Programmes

The CRM Governance Process

Once a CRM programme is developed and rolled out, the programme as well as the individual relationships must be managed and governed. For mass-market customers, the degree to which there is symmetry or asymmetry in the primary responsibility for whether the customer or the programme sponsoring company will be managing the relationship varies with the size of the market. However, for programmes directed at distributors and business customers the management of the relationship would require the involvement of both parties. The degree to which these governance responsibilities are shared or managed independently will depend on the perception of the norms of the governance processes among the relational partners given the nature of their CRM programme and the purpose of engaging in the relationship. Not all relationships are or should be managed alike. In fact, several studies suggest appropriate governance norms for different hybrid relationships.

Whether management and governance responsibilities are independently or jointly undertaken by relational partners, several issues must be addressed. These include decisions regarding role specification, communication, common bonds, the planning process, process alignment, employee motivation, and monitoring procedures. Role specification relates to
determining the role of the partners in fulfilling the CRM tasks as well as the role of specific individuals or teams in managing the relationships and related activities. The greater the scope of the CRM programme and the associated tasks and the more complex the composition of the relationship management team, the more critical is the role specification decision for the partnering firms. Role specification also helps in clarifying the nature of the resources and empowerment needed by the individuals or teams charged with the responsibility of managing the relationship with the customers. Communication with customer partners is a necessary process of relationship marketing. It helps in relationship development, fosters trust, and provides the information and knowledge needed to undertake the cooperative and collaborative activities of relationship marketing. In many ways it is the lifeblood of relationship marketing. By establishing proper communication channels for sharing information with customers a company can enhance their relationship with them. In addition to communicating with customers, it is also essential to establish intra-company communication, particularly among all concerned individuals and corporate functions that directly play a role in managing the relationship with a specific customer or customer group. Although communication with customer partners helps to foster relationship bonds, conscious efforts to create common bonds will have a more sustaining impact on the relationship. In business-to-business relationships, social bonds are created through interactions; however, with mass-market customers frequent face-to-face interactions will be uneconomical. Thus marketers should create common bonds through symbolic relationships, endorsements, affinity groups, and membership benefits or by creating on-line communities. Whatever the chosen mode, institutionalizing relationships with customers is accomplished by creating value bonding, reputation bonding, and structural bonding. Another important aspect of relationship governance is the process of planning and determining the degree to which customers need to be involved in the planning process. Involving customers in the planning process would ensure their support in plan implementation and in the achievement of planned goals. However, not all customers are willing to participate in the planning process nor is it possible to involve all of them in relationship marketing programmes for the mass market. Yet, the involvement of major customers in the planning process is desirable and sometimes necessary for managing a cooperative and collaborative relationship. Executives are sometimes unaware, or they choose to initially ignore the nature of misalignment in operating processes between their company and customer partners leading to problems in relationship
marketing implementation. Several aspects of the operating processes need to be aligned depending on the nature and scope of the relationship. For example, operating alignment will be needed in order processing, accounting and budgeting processes, information systems, merchandising processes, and so forth. Several human resources decisions are also important in creating the right organization and climate for managing relationship marketing. Training employees to interact with customers, to work in teams, and manage relationship expectations is important. So is the issue of creating the right motivation through incentives, rewards, and compensation systems towards building stronger relationship bonds and customer commitment. Although institutionalizing the relationship is desirable for the long-term benefit of the company, personal relationships are nevertheless formed and have an impact on the institutional relationship. Thus needed is proper training and motivation of employees to professionally handle customer relationships.

Finally, proper monitoring processes are needed to safeguard against failure and manage conflicts in relationships. Monitoring processes include periodic evaluation of goals and results, initiating changes in the relationship structure, design, or the governance process if needed, and creating a system for discussing problems and resolving conflicts. Good monitoring procedures help avoid relationship destabilization and the creation of power asymmetries. They also help keep CRM programmes on track given proper alignment of goals, results, and resources.

Overall, the governance process helps in the maintenance, development, and execution aspects of CRM. It also helps in strengthening the relationship among relational partners, and if the process is satisfactorily implemented, it ensures the continuation and enhancement of the relationship. Relationship satisfaction for involved parties would include governance process satisfaction in addition to satisfaction from the results achieved in the relationship.

**CRM Performance Metrics**

Periodic assessment of results in CRM is needed to evaluate if the programmes are meeting expectations and if they are sustainable in the long run. Performance evaluation also helps in taking corrective action in terms of relationship governance or in modifying relationship marketing objectives and programme features. Without proper performance metrics to evaluate CRM efforts, it would be hard to make objective decisions regarding continuation, modification,
or termination of CRM programmes. Developing performance metrics is always a challenging activity as most firms are inclined to use existing marketing measures to evaluate CRM. However, many existing marketing measures, such as market share and total volume of sales may not be appropriate in the context of CRM. Even when more CRM oriented measures are selected, they cannot be applied uniformly across all CRM programmes, particularly when the purpose of each programme is different. For example, if the purpose of a particular CRM effort is to enhance distribution efficiencies by reducing overall distribution cost, measuring the programme's impact on revenue growth and the customer’s share of the business may not be appropriate. In this case, the programme must be evaluated based on its impact on reducing distribution costs and on other metrics that are aligned with those objectives. By harmonizing the objectives and performance measures one would expect to see more goal directed managerial action by those involved in managing the relationship. For measuring CRM performance, a balanced scorecard that combines a variety of measures based on the defined purpose of each programme (or each cooperative/collaborative relationship) is recommended\(^\text{31}\). In other words, the performance evaluation metrics for each relationship or CRM programme should mirror the set of defined objectives for the programme. However, certain global measures of the impact of a CRM effort by a company are also possible\(^\text{32}\).

If the cooperative and collaborative relationship with customers is treated as an intangible asset of the firm, its economic value-add can be assessed using discounted future cash flow estimates. In some ways, the value of relationships is similar to the concept of the brand equity of the firm and hence many scholars have alluded to the term relationship equity\(^\text{33}\).

Although a well-accepted model for measuring relationship equity is not available in the literature as yet, companies are trying to estimate its value, particularly in measuring the intangible assets of the firm. Another global measure used by firms to monitor CRM performance is the measurement of relationship satisfaction. Similar to the measurement of customer satisfaction, which is now widely applied in many companies, relationship satisfaction measurement would help in finding out to what extent relational partners are satisfied with their current cooperative and collaborative relationships. Unlike customer satisfaction measures that are applied to measure satisfaction on one side of the dyad, relationship satisfaction measures
could be applied on both sides of the dyad. Since both the customer and the marketing firm have to perform in order to produce the results in a cooperative relationship, each party’s relationship satisfaction should be measured. By measuring relationship satisfaction, one could estimate the propensity of either party to continue or terminate the relationship. Such a propensity could also be indirectly measured by measuring customer loyalty\textsuperscript{34}. When relationship satisfaction or loyalty measurement scales are designed based on the antecedents, they can provide rich information on their determinants and thereby help companies identify those managerial actions that are likely to improve relationship satisfaction and/or loyalty.

The CRM Evolution Process

Individual customer relationships and CRM programmes are likely to undergo evolution as they mature. Some evolution paths may be pre-planned while others evolve naturally. In any case, several decisions have to be made by the partners involved about the evolution of the CRM programmes. These include decisions regarding the continuation, termination, enhancement, and modification of the relationship engagement. Several factors could hasten any of these decisions. Amongst them relationship performance and relationship satisfaction (including relationship process satisfaction) are likely to have the greatest impact on the evolution of the CRM programmes. When performance is satisfactory, partners would be motivated to continue or enhance their CRM programme. When performance does not meet expectations, partners may consider terminating or modifying the relationship. However, extraneous factors could also impact on these decisions. For example, when companies are acquired, merged, or divested, many relationships programmes undergo changes. Also, when senior corporate executives and senior leaders in the company move, CRM programmes undergo changes. Yet, there are many collaborative relationships that are terminated because they had planned endings. For companies that can chart out their relationship evolution cycle and state the contingencies for making evolutionary decisions, CRM programmes can be more systematic.

2.4.5 CRM Implementation Issues

One of the most interesting aspects of CRM development is the multitude of customer interfaces that a company has to manage in today’s world. Until recently, a company’s direct interface with customers, if any, was primarily through sales people or service agents. In today’s
business environment, most companies interface with their customers through a variety of channels including sales people, service personnel, call centers, Internet websites, marketing departments, fulfillment houses, market and business development agents, and so forth. For large customers, it also includes cross-functional teams that may include personnel from various functional departments. Although each of these units could operate independently, they still need to share information about individual customers and their interactions with the company on a real-time basis. For example, a customer who just placed an order on the Internet and subsequently calls the call center for order verification expects the call center staff to know the details of his or her order history. Similarly, a customer approached by a sales person unaware of the fact that the customer had recently complained about dissatisfaction customer service is not likely to be treated kindly by the customer. On the other hand, if the salesperson was aware of the problem encountered by the customer, the complaint, and the action already initiated to resolve the complaint, the salesperson would be in a relatively good position to handle the situation well. Therefore, effective CRM implementation requires a front-line information system that shares relevant customer information across all interface units. Relational databases, data warehousing, and data mining tools are thus very valuable for CRM systems and solutions.

The challenge is to develop an integrated CRM platform that collects relevant data input at each customer interface and simultaneously provides knowledge output about the strategy and tactics suitable to win customer business and loyalty. For example, if call center personnel cannot identify and differentiate a high value customer and do not know what to up-sell or cross-sell to this customer, it could mean a tremendous opportunity lost. Although most CRM software solutions based on relational databases are helping share customer information, they still do not provide knowledge output to the front-line personnel. As shown in figure 2.8, the CRM solutions platform needs to be based on interactive technology and processes. It should assist the company in developing and enhancing customer interactions and one-to-one marketing through the application of suitable intelligent agents that help develop the front-line relationship with customers. Such a system would identify appropriate data inputs at each customer interaction site and use analytical platforms to generate appropriate knowledge output for front-line staff during customer interactions. In addition, implementation tools to support interactive solutions for customer profitability analysis, customer segmentation, demand generation, account planning, opportunity management, contact management, integrated marketing communications, customer
care strategies, customer problem solving, virtual team management of large global accounts, and measuring CRM performance would be the next level of solutions sought by most enterprises. Unfortunately, in their enthusiasm to implement CRM solutions, some companies seem to be overlooking the basic considerations that would make such initiatives successful. Since CRM implementation comprises a significant information technology (IT) component, these companies have often handed over the responsibility of CRM implementation to IT Departments. In this way, they become focused on simply installing CRM software solutions without developing a CRM strategy or programme. This leads to creating an operational tool within the company, but the usability and effectiveness in producing desirable results from such tools can be limited. CRM tools are valuable when they are used to identify and differentiate individual customers and to generate individualized offers and fulfill customized solutions. The lack of a CRM strategy or CRM programmes would leave the front-line people without any knowledge of what they should be doing with the additional customer information that they now have access to.

Fig. 2.8: Data Model / Information Platform for CRM

Those applying themselves and developing improvised solutions could find that their ad hoc solutions backfire and cause unintended deterioration in customer relationships. Hence, it is
important to consider the CRM process framework in its totality. CRM tools are meant to supplement a company’s strategy for building effective customer relationships. Appropriate strategy and excellent implementation are both needed for obtaining successful results. In the future more research on the barriers to implementing successful CRM strategies as well as empirical research on the impact of CRM on company performance is expected\textsuperscript{35}.

2.4.6 CRM as a Potential Discipline

Customer relationship management with a focus on customer retention, customer commitment, and share of the customer’s business instead of market share have generated enormous research interest. Hundreds of papers have been presented at dozens of conferences. Several papers have been published in top journals and many books have been written on this topic.

Journey from Domain to Discipline:

Will CRM create a paradigm shift? Will a discipline arise out of a domain? Nobody knows for sure. In order for a domain to become a discipline, it needs to go beyond description and into explanation of phenomenon by providing hypotheses and theory, and at the same time, it needs to go beyond observation and become a science by utilizing methodological rigor as shown in Figure 2.9. Therefore, the paradigms that guide disciplined inquiry need to be considered. They can be characterized by the way their proponents respond to the \textit{ontological} (nature of reality), \textit{epistemological} (nature, sources and limits of knowledge), and \textit{methodological} (the process of conducting inquiry) questions. These form the starting points or givens that determine what inquiry is and how it is to be practiced. For a paradigm to be adopted as a discipline it must adequately summarize knowledge of related entities, laws, and mechanisms in the form of time- and context-free generalizations. Values and other biasing or confounding factors must be excluded from influencing the outcomes; and questions and/or hypotheses should be empirically tested through rigorous methodology\textsuperscript{36}. 

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In the past three decades, there have been at least three successes and three failures in the journey from domain to discipline. The three successes are consumer behavior, marketing strategy, and services marketing. The three that have failed to become distinct disciplines even though domain knowledge exists are international marketing, social marketing, and business marketing (Sheth & Parvatiyar, 2001). By analyzing and understanding why they failed or succeeded in becoming disciplines of marketing, one can arrive at the conclusion that customer relationship management is well set to become a distinct discipline in marketing.

2.5 Conclusion

The domain of customer relationship management extends into many areas of marketing and strategic decisions. Its recent prominence is facilitated by the convergence of several other paradigms of marketing and by corporate initiatives that have developed around the theme of cooperation and the collaboration of organizational units and their stakeholders, including customers. CRM refers to a conceptually broad phenomenon of business activity, and if the phenomenon of cooperation and collaboration with customers becomes the dominant paradigm of marketing practice and research, CRM has the potential to emerge as the predominant perspective of marketing. From the corporate implementation point of view, CRM should not be misunderstood to simply mean a software solution implementation project. Building relationships with customers is a fundamental business of every enterprise, and it requires a holistic strategy and process to make it successful.
From an academic standpoint an important question is whether CRM or relationship marketing will become a well-respected, freestanding, and distinct discipline in marketing. Certainly it has the potential and marketing will benefit enormously from it. The lessons learned from previous efforts, both successful and unsuccessful, of various marketing domains that have tried to become disciplines provide a good road map of how to develop CRM into a distinct discipline.\(^{38}\)
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