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Tamilla Curtis
Embry-Riddle Aeronautical University, curtist@erau.edu

Donald Barrere
Nova Southeastern University

Tom Griffin
Nova Southeastern University

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CUSTOMER RELATIONSHIP MANAGEMENT: A THEORETICAL OVERVIEW AND THE HIGH COST OF FAILURE (A CASE STUDY)

Tamilla Curtis, Nova Southeastern University
Donald Barrere, Nova Southeastern University
Tom Griffin, Nova Southeastern University

Despite the significant benefits offered by the customer relationship management (CRM) strategy together with advanced technology, there is still a high rate of companies who fail to see results promised by CRM in order to achieve a competitive advantage. A review of the empirical literature together with the case study of the CRM implementation within a midsize financial firm will result in deeper understanding of current CRM practices that could contribute to better planning, selection, and implementation of customer relationship management programs.

INTRODUCTION

Customer Relationship Management (CRM) is a strategy used by companies to increase their customer base by new customer acquisition and existing customer retention. Parvatiyar and Sheth (2001) define CRM as "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." (pp. 5) Wagner and Zubey (2007) stated that the main goal of CRM is to improve the relationship between consumers and organization that results in the repurchase of products or services and, therefore, a creation of customer's loyalty. By applying CRM strategic approach, companies are able to generate a detailed view of each of consumer that permits discrete customer differentiation. For practitioners, CRM represents an enterprise approach to developing full knowledge about customer behavior and preferences to continually enhance business relationships.

Theoretical Overview

Why does almost every industry try to use customer information to manage its relationship with consumers? Morgan and Hunt (1994) stated, "Relationship marketing refers to all marketing activities directed toward establishing, developing and maintaining successful relational exchanges. The need for relationship marketing stems from the changing dynamics of the global marketplace and the changing requirements for competitive success." (pp. 20).

While relationship marketing dates to 1983 (Berry, 2002), CRM as a business strategy in a customer-centric rather than a product-centric environment dates to the 1990s through a joint project of IBM and Siebel. According to Newell (2003), the idea of CRM meets fundamental business needs such as "understanding customer's buying behavior for better targeting; spreading customer information across the enterprise to allow customer-facing personnel to be more efficient; and creating greater operational efficiency to reduce expense." (pp. 15) Zineldin (2006) noted that, in many organizations, the question "what can we do to increase loyalty?" is frequent topic at the board level. The variable of interest most associated with the CRM approach is a companies' return on investment (ROI) on implemented CRM programs. Swift (2001) indicated that ROI can be linked to an increase in customer retention or an increase in customer net present value (NPV), which could be also an indicator of lifetime value (LTV). Firm's profitability could be achieved from the maintaining loyal consumer bases and maintaining good relationships with customers who bring more business. The sample of CRM measured variables include the total number of customers within the company, the average annual revenue per customer, the acquisition cost, and average churn or attrition rate, the customer gross margin, or the customer lifetime.

Major areas of CRM implementation include general CRM systems, sales management, finance and insurance, and enterprise marketing management. To assist companies with their CRM strategies, a number of CRM software packages are available on the market. CRM technology can be offered by consulting groups or directly by software companies such as Microsoft or Oracle. Wailgum (2006) indicated that in the late 1990s, software vendors including Oracle, PeopleSoft and Siebel sold the single-customer view as "CRM's holy grail."

Currently, customer relationship management is used mostly by private for-profit industries. However, a new approach has reinforced the importance of CRM application in private not-for-profit and public entities. Dato-on, Joyce, and Manolis (2006) stated that, in the past, a large number of not-for-profit companies have begun utilizing private for-profit sector business strategies. The researchers indicated that using for-profit business approaches provide non-profit companies with the foundation for efficient and effective delivery of products and services, and better fundraising capabilities. Pollard, Young and Gregg (2006) addressed the recent trend towards e-government, which has made CRM strategies a significant consideration in the public sector. CRM programs offer customized technology, such as self-service web sites, which provide customers with ability to access information and services electronically.

Despite the rapid development of CRM strategies, Newell (2003) proposed different approach to the management of relationship with consumers. The researcher stated that instead of organizations managing the relationship, consumers should be empowered. Customer management of relationship (CMR) will provide the consumer with the power to tell companies what he or she is interested in and not interested in. The control to manage relationship should be turned over to consumers instead of companies.

Major Current Issue

Customer Relationship Management has been widely studied with much of the research relating to financial services being done in Europe, Canada, and Australia. While a number of companies spend millions of dollars on CRM software development, implementation, and commit resources for a number of years, the main issue remains the same: Why do not all companies see the improvements promised by CRM? "In a 2005 Forrester survey of 22 Fortune 1000 companies in North America, Europe and Asia, business and IT leaders voiced widespread disillusionment with their CRM implementations. Only 14% strongly agreed that their CRM applications had improved end user productivity, and a mere 10% strongly agreed that they had achieved the business results they were expecting. CRM implementations always seemed under promised and under delivered." (Wailgum, 2006, pp.2) Apparently, the implementation of CRM strategies including technological aspect is not as simple as it seems. Overby (2006) indicated that some managers expected to flip a switch, and everything will be done. In reality, CRM should not be a "hands off" practice.

Many researchers including Newell (2003) analyzed common causes for the CRM failure. The most critical areas include commitment of management, poor planning, technology implementation, lack of skills, and unrealistic expectations. The product customization and upgrades could be expensive and time consuming. Security of data is another issue. Companies with sensitive data, such as financial institutions or health care providers, do not want their data to be hosted and controlled by the third party. Managers should be aware of the possible obstacles before committing their resources to the CRM implementation.

High Cost of Failure (Case Study)

This study examines the CRM system implementation in a midsize asset management group, which consists of three related companies: a mutual fund company, an asset management company, and a parent financial services company. These three enterprises shared a common client database and technologies. During the early 1990s, the asset management group was using basic software applications that had primarily operational functionality. Applications consisted of four independent systems: a first system used to store names, telephone numbers, and notes of salespeople; a second system to update daily sales data, client's database, and shipping records; a third system to track sales; and a fourth system for a client service call center to track client's incoming calls. While these technologies had been adequate when sales volume and the number of clients was small, with the growth of the financial firm, management felt that it was time to implement a comprehensive CRM strategy with integrated technology specific to the mutual fund industry.

Three companies within the umbrella of the asset management group shared the same goals for their new CRM strategy: (1) Better identification of key clients, (2) Greater retention of key clients, and (3) An increase in wallet share of their clients. The desired outcome of the new strategic approach planned to provide a reduction of duplicating efforts, better reporting and analytical capabilities, and the ability to manipulate data when needed. The internal reorganization of the use of resources within those three companies was expected to result in an increase in productivity through the faster access to the comprehensive client's records, an ability to respond faster to customer needs, an increase in sales volumes, and a better retention of current clients.

In order to implement the appropriate software within the allocated budget, a taskforce was formed consisting of managerial level employees, and an outside CRM consultant was hired. While large firms have the resources to implement the latest and the best technological advances, smaller firms are sometimes forced to use low cost, off the shelf products, to modify already developed products, or to build it in-house. After months of comparing CRM programs that could be adapted to the unique needs of a financial company, the company selected one that had already been developed for a similar firm and was successfully in use, and the licenses were purchased.

Despite the careful planning from the managerial perspective, the outcome of the CRM implementation was completely the opposite of what management have been visioning. While the integrated CRM application specific to the mutual fund industry was implemented, it was not being utilized by financial advisors and salespeople. The end users prefer to use old technologies and juggled between different applications instead of using the newly installed, comprehensive system. Thousands of dollars were spent on the planning, hiring the outside consultant, implementation, and education of users. The end results were wasted money, lost time, employees' confusion and a lack of motivation. What went wrong?

First of all, the asset management group faced major challenges during the implementation process that included transferring data from different systems. Tens of thousands of client files with 10 years of contact notes and client profile data were transferred with the notes and data in each file delivered in no particular order. The chronology of the development of the customer relationship with the firm was lost, causing users to have to scroll through years of notes to locate recent entries and replace them near the top of the file in order to render them useable. User efficiencies in a less than optimal system declined further. The files most affected were those of long-time clients who had done business with the firm for 10 or more years; as a result, lengthy files were made cumbersome and difficult to navigate with the data. Training was another issue. The asset management group provided minimal training of sales personnel in the new system, which was mostly conducted online. As employees left and new ones replaced them, that minimal training deteriorated to an associate spending a few minutes demonstrating the system to the new employee, and he or she was left to figure it out. In addition, the actual cost of the new CRM system quickly become substantially greater than it was budgeted.

Lessons Learned

This case study offers four lessons. First, the CRM failure can be attributed to the overall poor management of the planning and the implementation process. The management of financial companies, together with end users' input, should have determined whether or not they had a real need for an integrated CRM system. Wagner and Zubey (2007) proposed that, in order to reduce the risk in implementing new technologies, the implementation should be conducted in phases, running the old system parallel with it. A prototype of the product first could be implemented with the use of a pilot strategy where single departments or divisions try the new systems. This could help the asset management group quickly identify the improper transfer of historical records of its clients. The end-user satisfaction survey also needs to be conducted, and their comments need to be addressed before starting the implementation on a full scale.

Secondly, insufficient participation of users in the system's development process contributed to the failure. The CRM taskforce was formed without any end-users' involvement. It also appears that employees using the system were not given consideration prior to the conversation. Management failed to get a support from financial advisors and sale personnel by explaining the benefits of a new CRM product. It is human nature to be conservative about changes unless the benefits are communicated and demonstrated. The actual users need to understand how the new product will help them in their daily activities and operations, and in the long run. Employees might feel that this is just another new trend from the upper management which will go away like the Total Quality Management momentum in the 1980s.

Third, there were issues with user's training. Poor end user training with the high level of complexity of new technologies affected the successful implementation of the CRM. The training was not addressed properly within the company. It should have been done on the front end rather than after the fact. If the new technology is not user-friendly, more emphasis should be placed on training. The online training, which was done for most parts in this financial firm, was not sufficient. A help line for users needed to be established. The question how to make online learning more effective should have been investigated more. In addition to technical training, a training of employees to handle the change in general, including a change of organizational culture, should have been addressed and taken into account.

Fourth, management should have measured the results on a regular basis in order to recognize problem early and immediately taken corrective actions before it was too late. Employees needed to be held accountable for the implementation of new processes. The company could have established a reward or punishments system to encourage users to utilize the new program.

Conclusion

The CRM strategy could be a very useful tool for managers. Wagner and Zubey (2007) stated that the goal of CRM is to facilitate an enterprise to find, acquire, and retain customers. However, the CRM implementation does not necessarily guarantee a successful outcome. "Unfortunately, many people see CRM as a technology issue, when in fact it is about economics - profits and business effectiveness" (Swift, 2006, p.1). The issues that asset management group companies faced are not unique to the financial services industry. Rather, they represent typical Customer Relationship Management examples. There is currently sufficient empirical research to design and implement a successful CRM system that will avoid pitfalls. The causes of the high failure rate of CRM implementations can be isolated and effectively managed. Early problem recognition together with proper planning and control are vital factors to successful implementation of the CRM strategy.

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Tamilla Curtis is a senior strategic planning analyst, and an adjunct professor at Embry-Riddle Aeronautical University. She is currently enrolled in a doctoral program in marketing at Nova Southeastern University. Her research interests include relationship marketing, brand loyalty, and customer satisfaction.

Donald Barrere is an investment professional with 15 years experience in the financial services industry. He is presently a doctoral student at Nova Southeastern University in international business and finance. His research interests include equity home bias in global managed portfolios and international entrepreneurship.

Tom Griffin is a professor of decision sciences at Nova Southeastern University. He received his DBA from the Nova Southeastern University.