Guru's view

Exploding some myths about customer relationship management

Lawrence A. Crosby

The author

Lawrence A. Crosby is the Chief Executive Officer of Symmetrics Marketing Corporation, Scottsdale, Arizona, USA.

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Abstract

How can popular misconceptions about the nature of customer relationship marketing/management limit the effectiveness of this approach? How are companies misled by an over-reliance on technology, lack of strategic perspective, use of faulty metrics, inadequate segmentation, neglect of brand considerations, blind faith in data, and confusion regarding leadership roles? This article challenges the misconceptions and provides guidance on how to successfully execute a customer relationship strategy.

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While there appears to be no specific date, book or article marking the introduction of the "customer relationship" concept into business and academic thinking, relationship marketing/management was already a hot topic in services by the mid 1980s. Scholars such as Len Berry, Evert Gummesson, Ted Levitt, Robert Dwyer, Christian Grönroos, John Czepiel, and others were writing about and conducting research on this topic by that time. In financial services, the idea of relationship banking was receiving considerable attention as a means of acquiring, retaining, and improving the profitability of customers. While the relationship concept has maintained an avid following over the last 20 years, only recently has the concept achieved widespread traction in business practice under the rubric of "1-to-1 marketing" and "CRM". Some of the factors behind this renewed interest in customer relationships include advances in information technology and data warehouses, the increasing sophistication of customers, a high level of market dynamism, intense competition, and disintermediation.

As companies, consultants, and authors jump on the relationship bandwagon, a number of misconceptions have emerged about the nature of this approach with customers. The purpose of this article is to expose some of these "myths" based on my three decades of experience as a researcher and advisor to business on issues relating to customer strategy.

- *Myth 1.* CRM is about information technology.
- *Reality.* Customer relationship marketing/management is a comprehensive business strategy.

While companies are spending billions of dollars on CRM technologies, many of these hardware/software implementations have failed to meet management's expectations for return on investment. Part of the problem is that companies are applying this technology in the absence of a holistic and coherent business strategy focused on the customer. For many, CRM is about "customer relationships" in name only. Judging from the metrics that some firms use to gauge CRM success, it appears their primary objective is to reduce costs through the automation of sales/service processes and by putting more responsibility on the customer for self-service.

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In other corporations, the purpose of CRM is to gain short-term revenue "lift" through targeted offers and cross-sell attempts. While improving efficiency and increasing short-term revenue are certainly valid business goals, these aims are not exactly synonymous with building lasting relationships. Furthermore, given the size of the investment that CRM often requires, it is unclear that these implementations can be economically justified based solely on productivity and short-term revenue improvements.

Customer relationship strategy is really about cementing long-term, collaborative relationships with customers based on mutual trust. For many companies, the strategy makes good profit sense given the lifetime value of a loyal customer and the role of the customer "apostle" in helping to market the firm. Cost efficiency and short-term revenue lift are not the primary goals, but certainly welcome by-products of an effective relationship strategy. It is the case that long-time customers are less costly to serve and that smooth-running relationships are less resource intensive. Companies with a strong reputation among customers may also experience lower cost of capital. And, as far as revenue is concerned, customers are much more inclined to accept offers from firms they trust.

Viewed from the standpoint of customer relationship strategy, CRM technology is basically an enabler. Along with people and process, information technology needs to be aligned with the business goals of building, maintaining and enhancing customer relationships. It is important to understand how technology interacts with these other factors in determining relationship outcomes. For example, there are many instances when employees are the last ones to be consulted about the possible uses, features, and benefits of CRM. Then, when the systems are installed, employees react by underutilizing or improperly utilizing the system capabilities.

Ultimately, for a customer relationship strategy to be effective, there needs to be synergism among the component elements. It is very much the case that the component elements span the organization and are not confined to the IT or marketing departments. Operations, finance, human resources, etc. must also be integrated around the purpose of establishing enduring customer relationships. It is this longer-term and cross-functional perspective that makes customer relationship marketing/management truly a business strategy.

- *Myth 2*. In an age of "1-to-1 marketing", market segmentation is no longer meaningful.
- *Reality*. Customer relationship strategy begins with segmentation and ends with the individual customer.

It is quite possible to attend a CRM conference these days and never hear the term segmentation mentioned by a single speaker. It is as though the concept is anathema to these modern day marketers. Perhaps this is just a "knee-jerk reaction" to marketing approaches of the past that viewed customers as members of large, homogeneous groups and gave scant attention to individual customization. The validity of that criticism notwithstanding, it is very difficult for any company to approach its markets as an open playing field with no inherent structure. If that were true, then the means of satisfying market needs would be as limitless as the universe of potential customers. In order to give focus to the organization and coherence to its offers, firms need to start with a segmented view of the marketplace. While no two customers are alike, none is entirely unique either. Those common threads enable the company to select a market position *vis-à-vis* the competition and to select/deliver/communicate segmented value propositions effectively and efficiently. Once attracted to the firm, the company has an opportunity to customize relationships with individual customers.

In the context of a customer relationship strategy, the managerial questions about segmentation take on a special flavor. For example:

- Can customers be meaningfully segmented in terms of the drivers of their attraction and loyalty to a firm?
- Are some customers more interested in having a close relationship with the company and, hence, more likely to respond favorably to 1-to-1 marketing efforts?
- What level of relationship is appropriate for which customers?
- How do customers want to be communicated with? Where do they go for certain types of information?

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Depending on the answers to these and other questions, it is possible to conceive of different relationship segments. In our work with a large bank, for example, we found four natural benefit segments based on latent class modeling. Three wanted a close relationship with the bank but each had its own service needs. The three relationship segments also differed according to life cycle stages. The forth segment revealed little interest in having a close relationship with the bank, but would remain loyal provided banking transactions were conducted in a convenient, no-hassle, and reliable manner. In other words, they wanted service quality but not a relationship.

- *Myth 3.* Customer satisfaction, perceived quality, perceived value, and loyalty are interchangeable measures of relationship.
- *Reality.* The measures differ in the level of relationship commitment they imply, and none is a bona fide indicator of relationship strength.

To address this myth, let us start with a little history lesson. In the 1960s and early 1970s, academics began to write about and companies began to measure and create improvement programs around customer satisfaction. This was in response to the consumerism movement and the introduction of the marketing concept. Leading this charge were telephone, power and gas utilities that needed evidence to take to public service commissions to justify their monopoly positions. In highly competitive industries like automotive, the fear of customer defections and share erosion propelled companies to better understand customer satisfaction and its root causes. We have since learned that high dissatisfaction almost assures defection, while high satisfaction does not necessarily predict retention. The reason is that satisfaction has mainly to do with meeting customers' minimum requirements and, in many industries, that is simply not enough. Let us be candid; getting high satisfaction scores from existing customers is just not that difficult.

With the advent of the total quality movement in the 1980s and the solidification of the services marketing/management field, focus shifted to the concept of perceived quality. To be perceived as providing "excellent" quality, it is necessary to exceed customer expectations and that is a much higher bar to clear. Customers are less likely to give a company high marks on perceived quality than to say they are satisfied. Around 1990, the paradigm shifted again to customer perceived value, which suggests that customers are looking for the right level of quality in relation to the price they have to pay. It can be said that quality and value are more indicative of a firm's growth opportunities than is the case for satisfaction. Both are properly assessed by looking at the relative perceptions of the entire market, including customers and non-customers.

In the mid 1990s, thought leaders began to question the whole logic of just targeting customers' attitudes, be that satisfaction, perceived quality, or perceived value. What is more important, they said, is how customers behave. This took us to the notion of customer loyalty. Loyalty refers to a strong emotional attachment to the firm that is manifest in customer behaviors like staying with the company, recommending it, buying additional products/services, and so forth. In the absence of feelings of attachment, retention is nothing more than repeat purchase and this can occur for a variety of reasons (e.g. limited choice, being trapped, low purchase involvement, habituation, etc.). In contrast, customers who are truly loyal tend to behave favorably toward the company in a variety of ways because they are emotionally "committed".

Now it might be concluded that customer loyalty/commitment is the best measure of relationship. But is this really the case? Consider again that the goal of a customer relationship strategy is to build long-term, collaborative, trust-based relationships. It is unclear that loyalty captures the true depth and breadth of this desired outcome. Loyalty may be part of the equation, but it is not isomorphic with relationship. If the firm is pursuing a customer relationship strategy, then it needs a metric that corresponds with the strategy and reveals the firm's success at creating relationships.

So what are some of the indicators of a relationship? Relationships are, by their very nature, two-way interactive and personalized (not to be confused with person-to-person). They imply closeness, interdependence, reciprocity, equity, a spirit of cooperation, and trust. These and other characteristics can be assessed and incorporated into a relationship strength index. Companies following a customer relationship strategy are

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beginning to experiment with such measures. They are investigating how the measures are impacted by touch-point and communication activities, and how they link to customer behavior and financial performance. This appears to be the next wave in the measurement of customer centricity.

- *Myth 4.* Customer relationship management and brand strategy have different objectives and can be approached independently.
- *Reality.* These decision areas are intimately connected and serve a common purpose.

Once the firm has elected to pursue customer relationships as its focus, brand strategy plays a critical role in communicating this fact to the marketplace. The brand promise relays to the target segments the types of relationships that are possible with the company and the levels of personalization, customization, closeness, etc. that can be expected. It defines the customer experience in relational terms. The brand also conveys the attractiveness of the firm as a relationship partner in terms of its image, personality, values, and what it would "feel like" to interact with the firm, its employees and other customers. In part, then, the brand strategy addresses the selective nature of relationships and attempts to draw-in customers who will be a good long-term match for the company.

Even for customers who are already in the fold, the brand strategy is key when it comes to activating their feelings and emotional attachment to the firm. The aim is to have customers who identify with the brand, internalize its values, and feel it is socially acceptable to be a customer. While there is no single recipe for success here, companies have been known to stress their quality, people mindedness, prestige, innovativeness, community involvement, orientation toward fun, environmental stewardship, and a variety of other levers that resonate with their desired customer base.

Another way that brand strategy dovetails with customer relationship strategy is in terms of its effect on employees. This is particularly important in companies that compete on the basis of service. The brand conveys organizational values that can motivate employees to become more committed to the company and to go "above and beyond" for the customers. The brand also communicates norms that can help guide employee behavior. For example, an electric power company has found that customers who perceive the company as highly involved in the community feel more attached to the organization. In fact, the firm is highly involved in the community and has received national awards for its community involvement and a high degree of employee volunteerism. The role of employees as volunteers and community leaders is stressed in company advertising and goes a long way toward defining the character of the brand to customers. Simultaneously, employees are given a reason to be proud of their association with the company and to maintain or increase their own volunteerism efforts.

- *Myth 5.* Putting a lot of customer data in the hands of employees will automatically make them good relationship managers.
- *Reality.* Employees are easily overwhelmed and may be misled by the data and need help turning the data into true customer insight.

There is no question that today's data capture and warehousing systems have the capacity to amass large quantities of data about individual customers and segments. These data can include:

- interaction histories;
- customer profiles;
- credit ratings;
- financial transactions;
- product/service usage;
- market research survey responses; and
- a host of other bits and bytes.

Beyond simply capturing and storing the data, the trend is to make the data readily accessible to employees through on-line retrieval systems. We call this the "democratization of data". The user might be a top-level executive developing customer strategy, a mid-level manager responsible for implementing customer programs, or a front-line employee in direct contact with customers. While the democratization trend would seem to be a positive development, we are hearing from a growing chorus of employees that they are drowning in customer data but starved for information.

To be fair, there is progress being made to help front-line employees sort through data, in real-time, as they interact with customers. Desktop CRM systems use data mining tools that build "rules" for optimizing customer

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interactions. Employees are provided guidelines and in some cases scripts for dealing with, giving advice, and making recommendations to customers. Still, firms have been slow to verify that the introduction of these systems contributes to stronger customer relationships. To do so requires sophisticated experimental and quasi-experimental designs and, as noted above, the right set of outcome metrics. We have encountered instances of employees avoiding CRM because they find it too confusing, lack confidence in the direction it provides, or fail to see its relevance.

Part of the problem is that front-line employees often do not understand their roles as relationship managers. They have heard it is important to be polite to customers, to listen to them, and to be empathetic. But nobody has said "you are a relationship manager and this is what it entails". Furthermore, they are mainly incentivized to reduce average handling time (AHT) and to turn every customer interaction into a cross-sell or an up-sell. So it is probably not surprising that they would view much of the customer data provided through CRM as irrelevant to their jobs and just a bunch of clutter.

It may well be the executives/managers of the company who face the greatest challenge, and need the most help, in sorting through the veritable sea of customer data in which they find themselves. In some cases, the executives/managers act as their own worst enemies by demanding access to data they are incapable of processing effectively. A prime example concerns the dissemination of marketing research results. In conjunction with the trend toward on-line interviewing, marketing research data are now being provided to a large internal audience via real-time reporting (RTR) systems. At any point in a study, a user may examine up-to-the-minute results and compute univariate and cross-tabulation statistics for various cuts of the data.

Unfortunately, most executives/managers have limited experience and training in survey data analysis and may not be aware of potential pitfalls. For example, they may fail to note that interim datasets can be unrepresentative of the study population due to uneven sampling rates over the course of a study. They may neglect to employ data weighting, compute statistics on the wrong bases, confuse correlation with causation, cut the data too thinly to be reliable, utilize naïve prioritization rules, and perform other data manipulations the lead to erroneous conclusions. These problems can be further accentuated by a lack of objectivity on the part of the executives/managers doing the analysis. Far too often they are searching for results to support a decision they have already made. And, given enough data, it is possible to build a case for just about anything.

Given the above, companies need to recognize the wide gulf between customer data and customer knowledge and take steps to close that gap. One idea is to create and communicate within the organization models/frameworks of the customer relationship that depict how the various pieces of customer data fit together in a system of cause-and-effect. This can help all employees make more sense out of the information. Another idea is to create a communications plan that limits access (via permissions) to various types of customer data based on the user's qualifications to make proper interpretations. The information systems can also be imbued with safeguards and controls to prevent users from heading down the wrong pathways. Safeguards can include limiting the data views, using static reports that have already been vetted, programming-in navigational aids, and providing an increased amount of user training and communications including on-line tutorials, FAQ libraries, e-mail Q&A, and chat. In general, the more strategic the customer information the more these methods need to be used.

- *Myth 6.* Once the leadership team decides to pursue a customer relationship strategy, the responsibility for implementation can be delegated to others in the organization.
- *Reality.* The success of a customer relationship strategy hinges on the leadership team taking ownership of the strategy and building the organizational competencies necessary to compete on this basis.

There are many avenues of competition available to a company other than a focus on customer relationships. Most firms, and the people within them, have greater familiarity with other approaches like:

- operational efficiency;
- total quality;

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- innovation;
- growth through acquisition;
- industry consolidation;
- diversification;
- global expansion; and
- vertical integration, etc.

The implication is that a customer relationship strategy involves both high potential return (by creating competitive advantage) but also high risk (due to the challenges of execution). Therefore, strong leadership will be required to enroll managers and employees in this pursuit and to change how the organization goes about setting priorities and conducting daily business.

Part of the leadership team's responsibility is to define and build the organizational competencies that will allow the customer relationship strategy to take root. This means taking steps to ensure the organization has the knowledge, skills, resources, measures, tools, management processes and systems to make customer relationships a reality. Perhaps the most important first step is for the leadership team to become customer experts themselves. Armed with this knowledge, the group will be in a better position to identify and close critical competency gaps that could become barriers to success.

As a case example, the top executives of a financial services firm are committed to a customer relationship strategy. The company's most important relationships are with mutual funds brokers who provide advice to consumers and represent their interests. The company has traditionally marketed under brand A, which is a "tried and true" brand that has been available in the country for years. After being acquired, the company decided to also market brand B mutual funds from its foreign parent with the thought that brand B would eventually displace brand A. Unfortunately, the brokers failed to embrace brand B, thereby limiting its success in the marketplace and doing nothing to build relationships. To gain better perspective on the problem, the executives commissioned a customer loyalty study among brokers that included a detailed examination of brand commitment. Through this research, they discovered that brokers had low emotional attachment to brand B because it failed to activate their feelings of security and confidence. Brand A, however, possessed these characteristics partly because it played to its national origins. Based on these insights about customer behavior, the executives recognized a need for deeper competencies in brand management to support the relationship strategy. The firm is now pursuing a dual brand strategy until such time as the brokers generalize their positive feelings about brand A to brand B.

Another key responsibility of the leadership team is to create strategy integration around the core concept of building customer relationships. If this is not done, there is a real danger that customer relationship strategy will become diffused and watered-down by all the other initiatives under way within the company. To avoid being seen as "just another passing fancy of the CEO", all significant strategy-level efforts need to be aligned with the customer relationship goal.

An example is the way one services firm has changed its whole approach to innovation. After embarking on a customer relationship strategy, the company decided to adopt a formal stage-and-gate process for new services development. Initially, efforts focused on identifying a portfolio of fee-based services to augment the core offering and increase the revenue stream. To the surprise of the company's executives, the market reacted to these new services with a high degree of apathy. Penetration rates were quite low. These results caused the executives to rethink the question "what are customers really looking for in a relationship?" They concluded that customers do indeed want innovation, but it is more around the delivery of basic services relating to support, billing, communications, etc. In each of these areas, the company is now looking for breakthroughs to improve service quality and establish trust in the relationship.

Building competencies and integrating strategy are just two of the ways that the leadership team needs to be involved in the execution of the customer relationship strategy. Other activities include participating in the formulation of superior value propositions, aligning the organization to deliver against those value propositions, and integrating customer information into management processes. As a check on the latter activity, the leadership team should take stock of the nature and content of its own meetings with questions such as:

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- How much time is spent discussing and making decisions about the customer relationship strategy?
- How frequently is customer data reviewed?
- Who else is invited to these meetings and what is their role *vis-à-vis* the strategy?
- What measures of success are being reviewed by the team?

In summary

These six myths are but a handful of the misconceptions that pervade this topic of customer relationship marketing/management. Their net impact has been to marginalize and departmentalize the strategy in some companies, thus severely limiting its effectiveness. We observe other companies going through motions they call "customer relationship management", when it is obvious they have no idea what a relationship even is. In other instances, customer relationship strategy is viewed as a panacea or quick-fix solution without giving due consideration to the pitfalls and challenges of making it work. All of these circumstances can lead to the same result, i.e. failure of the customer relationship strategy to live up to expectations. To avoid this outcome, and to make "customer relationships" more than just a nice sounding phrase, management needs a clear picture of what the strategy entails and the success requirements. Hopefully, this short article has helped to dispel a few of the myths that prevent companies from realizing the full potential of the approach.