Fad or trend? CRM and the new digital marketing

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ABSTRACT

The recent surge in Customer Relationship Management (CRM) across businesses in various sectors has prompted a reassessment of the marketing concept based on the rules that seem to define what has been termed "the new economy," aiming to evaluate to what extent these rules have shifted. This article seeks to conduct a conceptual and terminological review of marketing linked to innovative initiatives such as CRM, as well as to develop a normative view of it in its different phases. The findings suggest that tools like CRM are associated with a new vision, a client-centric economy concept that opposes the usual product-centrism and transcends the marketing area. However, a secondary interpretation asserts that these are not generally new concepts but rather a recreation of old ones in light of the possibilities offered by the development of new technologies.

Keywords: marketing, CRM, personalization, Internet, new economy

JEL classification: M30, M31, O33

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1. INTRODUCTION

Around half of North American companies in the year 2000 claimed to be engaged in the implementation of tools related to Customer Relationship Management (CRM). The market for such products grew by over 70% during 1999, and it is predicted to represent about twelve billion dollars in 2004, with an annual growth rate of about 30% (Wardley and Shiang, 2000). What has caused such significant growth? Are we once again facing one of those "fads" in Information Systems, one of those buzzwords that everyone must use and then suddenly fall into oblivion? The landscape of Information Systems today is full of acronyms: if now it is CRM, before there were BPR, ERP, SCM... not to mention the well-known letters with a number 2 in the middle, B2B, B2C, P2P... Should we think of CRM as "the latest craze," or perhaps does it encompass something more?

Undoubtedly, CRM remains a relatively obscure concept to the layperson. In Spain, in the year 2001, efforts by certain technology providers to contribute to the dissemination of the term have met with impressive responses in number and level of attendees on repeated occasions (Dans, 2001). The commercial strategies followed by the mentioned technology providers also contribute to the confusion of concepts: Siebel, a company founded in 1993 with the goal of "responding to the growing need for companies to acquire, retain and better serve customers," does not use the term CRM, instead using the generalist "e-Business". Oracle, for its part, with a proverbial dedication to the CRM world stemming from the advantage of its traditional focus on databases, does use the term CRM but, paradoxically, applied to a generalist product intended to support the management of an e-business. It is clear that while the term has spread quickly, few seem to understand its scope, implications, and the "comprehensive amendment" it could represent, which could even go much further than marketing and refer to the overall management of the company.

This work aims to offer a review of the CRM concept and its various associated terminologies, as well as to provide a clear idea of the immediate and future implications of this concept in the management of today's companies. The rest of the work is structured around the following sections: the first, section 2, conducts a review of the existing literature. Subsequently, the main concepts appearing in the previous section are listed and discussed. Later, in section 4, the character of CRM as an innovation with respect to traditional marketing is discussed. Finally, section 5 presents the conclusions of the article.

2. LITERATURE REVIEW

The first mentions of concepts related to CRM appeared in 1993, in “The One-to-One Future”, a book by Don Peppers and Martha Rogers. While the term CRM is not used, and it is developed at a time many would define as before the Internet explosion, the book clarifies concepts that would later be used to define marketing trends in the digital era: the basis should no longer be market share, but customer share. It seeks to contrast the so-called One-to-One marketing against traditional mass marketing, in a way that while the latter develops products and subsequently looks for customers for them, One-to-One marketing develops customers and looks for products for them. According to the authors, this represents a reversal of the value chain, consistent with the notion of an inverted value chain developed later in the e-business literature (Kalakota and Robinson, 1999): where previously companies could afford the luxury of initiating the production process by examining their internal capabilities, seeing what they knew how to do, designing processes and infrastructures to do it, looking for suitable channels and reaching customers, now the process changes entirely. Now it is necessary to focus not on what the company knows how to do, but on what the customer needs. Once these customer needs are examined, it is necessary to look for channels that adapt, but not to the product, but to that customer. If the customer wants mobility, they must be given mobility, remote access, from home, from the computer, from the mobile phone… a whole universe of options. Finally, that product defined by the customer must be manufactured using flexible processes and infrastructures, in contrast to the previous rigidities stemming from being based on the company's own capabilities, and must be supported by internal capabilities that the company either possesses or has to find externally through outsourcing processes and strategic alliances. A whole universe of implications for a seemingly simple concept.

In response to the innovation promoted by One-to-One marketing, the concept of CRM, Customer Relationship Management, originally emerged in the technological world. The reasoning is clear: to provide a response through technology to the requirements of One-to-One marketing techniques, for which a new set of tools is needed to enable this new type of interaction with the customer, of constant learning, of adaptation. These technologies include massive databases, which began to become popular supported by a progressive decrease in storage costs, but also the appropriate tools to give them meaning: data mining and the whole range of pre-existing statistical technologies, but now aimed at this purpose. Similarly, technologies such as computerized standardization

and modular manufacturing appear, allowing a company to disaggregate its products and re-aggregate them individually, making possible so-called mass customization. Finally, interactive technologies emerge, fundamentally from the runaway growth of the Web, and integrate with existing technologies such as call centers.

The generic definition of CRM is,

> *"a customer-centered strategy, seeking profit growth through providing greater value to the customer"*
>
> Mark Rieger, 1996

This definition, which clarifies both the purpose and the means, requires however greater precision in terms of how to carry out such a strategy. Another possible definition refers to

> *"a business strategy that seeks to proactively build a bias or preference for an organization with its employees, channels, and customers, resulting in higher retention and superior economic performance"*
>
> Carlson Marketing Group, 1997

Compared to the former, this definition better specifies both the purpose and the means, and gives an idea of the actors involved. It provides an understanding that the customer of a strategy is not necessarily the end customer, the one who pays for the product or service, but often an internal customer, another department, certain company personnel, etc., who are asked to modify certain behavior patterns and incorporate tasks such as feeding a database with the information obtained from the customer.

Following these two concepts, a series of terms have been incorporated, such as permission marketing (Seth Godin). This term adds an interesting nuance by incorporating a connotation of complicity or an implicit contract between the company and its

customers, something that is very important in an environment like Europe's, which is much more restrictive with the handling of personal information than the American environment. This contract, which some American researchers have called RMTR (Relationship of Mutual Trust and Respect), implies a tacit authorization to capture, store, and manage the customer's personal information as long as it is used to improve the company's value proposition to that customer.

Other commonly used terms include Customer Intimacy, Real-Time Marketing, Continuous Relationship Management (McKinsey&Co), Technology-Enabled Marketing (Gartner Group), or Enterprise Relationship Management. They basically imply the same idea and, according to Peppers himself, are more about "cereal boxes with consultancy names (and prices)" than truly novel ideas.

CRM, therefore, is articulated as a concept that emerged in light of technological evolution, consisting of a business and process redesign around customer needs and desires. It combines a set of methodologies, software, and mediums such as the Internet or telephone with this customer-centric vision, seeking to optimize revenue and profit per customer, as well as their satisfaction. The idea is to ensure that, thanks to this greater attention and sensitivity towards the desires of the customer, they become better customers, more loyal, with a positive bias that makes them prefer our brand over another and, ultimately, provide a higher profit margin (Firth, 2000).

Although the definition of CRM is, in essence, conceptually simple and easy to understand – which has undoubtedly resulted in an initial wave of high popularity – its implementation requires a high degree of introspection on the part of the company. This involves carefully analyzing the relationship with its customers in both directions: who these customers are, how they are seen by the company, and how the company is seen and valued by its customers. This task, much more complex than it seems, distances CRM from the concept of a "packaged solution", where it is enough to break the seal, take it out of the box, and install it to work. Becoming customer-centric is much more than purchasing a license for this or that software package, much more than installing it throughout the company. It is a change in vision, orientation, philosophy, which is possibly responsible for many organizations still being reticent about CRM and many others failing in its implementation[2].

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[2] Some 65% of all Sales Force Automation projects are said to not meet customer expectations (Insight Technology Group). AFV, or Sales Force Automation, projects are one of the key elements in a CRM system.

3. CRM: THE COMPLEX ARTICULATION OF A RELATIVELY SIMPLE CONCEPT

The application of CRM ideas to a standard marketing process can essentially be articulated in four steps:

1. **Identification**: This involves moving from a set of anonymous or partially anonymous customers to an identified set whose elements are known. The identification phase relies on technologies that allow us to recognize a customer when they approach us to request our products or services, and to do so regardless of the channel the customer decides to use. Identification methods should enable us to interact with a customer in a known context, even if they have traditionally contacted us in a physical store and today do so via the telephone or the web. In this phase, technologies such as cookies come into play, allowing an http session on the Internet to persist after the connection is interrupted by recording a small file on the user's computer, or systems for registering and characterizing incoming calls in call centers, or generally, systems that make the value proposition we offer to the customer sufficient for them to be interested in identifying themselves voluntarily.

2. **Classification**: In this second phase, the aim is to build and feed a database with information from each of the customers identified in the previous step. By integrating the information we have about the customer, we try to create a profile that allows us to estimate the value of that customer to us. Through the use of a series of defined metrics, customers are classified according to the value they bring to the company. While there are customers who buy very often and, possibly, a large quantity of products on each visit, others come less frequently and buy, for example, only when a product is on promotion, effectively generating a negative margin. Other customers demand excessive attention for the purchases they make, others do not pay, etc. This classification aims to characterize customers and separate those we are truly interested in retaining, the 20% who, following Pareto's principle, provides us with 80% of our revenue. Any CRM strategy aimed at retaining and developing our customers must necessarily start from this select group that constitutes our best customers, because in the other group there will be many who are not responsive to these types of arguments.

3. **Interaction**: In this phase, the company engages with those best customers previously identified and classified, and proposes a series of possible ways to interact with them. It is, possibly, the phase in which the distinction between traditional marketing – especially what is known as “database marketing” – and CRM becomes most evident. This phase involves considering the relationships that the customer allows us to maintain with them, which of these relationships they perceive as value-added versus those that simply annoy them. If we make excessive use of interaction, for example, by indiscriminately sending mailings to our customer base, they will become annoyed and ask us to remove them from our database. We must ask questions in such a way that a customer perceives that answering us adds value or is necessary[3], and remember what we have learned so that they do not have to repeat it. Likewise, there will be things we do not need to ask because we can deduce them more or less directly. This is the phase of so-called data mining, statistical techniques[4], and the management of interactivity to ask, learn, and remember the characteristics of our key customers.

4. **Adaptation**: This is the last phase, but also, undoubtedly, the most complicated. It involves giving those key customers we have already identified, classified, and interacted with exactly what they desire. It is the time to check if our operational capabilities match the promises we have made to our customers. In this phase, systems such as Supply Chain Management (SCM), flexible manufacturing, modularization, etc., come into play, which should allow us, in a more or less effective way, to adapt to what our customers are asking for.

This step-by-step conception requires, in order to be carried out, a series of defined metrics that allow us to analyze its evolution. One of them, specifically the one that has gained the most popularity, is called Customer Lifetime Value (LTV). It involves estimating the value to the company of the relationship with a particular customer, represented by the

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[3] The customer who buys from us online, for example, will understand that they must give us their address so that the product arrives at their home. However, he may not accept us asking his income level in that same interaction. In the same way, a client traveling by plane will understand that we ask about their dietary preferences, etc.

[4] There are several statistical techniques used, mainly classification, regression, time series analysis, cluster analysis, associations, analysis of sequences or events and, as a recent trend to analyze complex variables, multivariate statistics (structural equation models) and machine learning techniques.

estimation of the number of transactions they will carry out multiplied by the average value of these transactions. To this number, it is necessary to add other concepts, such as the value of the operational savings we obtain by knowing that customer, the premium price they might be willing to pay, or the value of the customers they bring to us (referrals or references, the effect traditionally known as word-of-mouth). Finally, it is necessary to deduct from the total the so-called acquisition costs of that customer, primarily investment in marketing. Once approximations to these values are obtained, we discount the flows with an appropriate rate. The fundamental merit of this metric is to recognize that customers can be much more valuable than what they spend in a given period (in some cases, much more valuable). A good CRM strategy can increase the LTV through three main avenues: higher customer retention, higher spending per customer, and a greater impact of positive referrals to other customers. More specifically, the LTV would respond to the following formula:

$$LTV = \sum_{t=1}^{n} \frac{P_t(Q_t \pi_t)}{d^t} - \sum_{t=1}^{n} \frac{(D_t + R_t)}{d^t} - A$$

Where:

P_t	Probability of purchase in period t
Q_t	Quantity purchased in period t
π_t	Margin obtained for purchases in Period t
d^t	Discount rate, where d = [1 + (interest rate x risk factor)]
D_t	Cost of developing the relationship in period t
R_t	Retention costs for the customer in period t
A	Initial acquisition cost
N	Number of periods

Conceptually opposed to LTV is the Share of Customer, a measure of how much of a customer's potential business we manage to capture. It involves comparing the previous metric, LTV, with its maximum potential value. Thus, if a customer has the potential to generate 100 and spends 30 in our company, we would have a 30% share of that customer. Another set of emerging metrics calculates, for example, the acquisition cost (the amount that needs to be invested to attract a customer), the retention rate (the percentage of customers who remain as such over a given period), the churn rate (the rate of customers we lose per period), the duration (the average time a customer remains as such), etc. Undoubtedly, an orientation towards a customer-centric strategy requires customer-centric measures, since it is difficult to manage what cannot be measured.

The components of a CRM system give an idea of its global scope. Firstly, there is a clear need for consolidation of corporate databases into a single, centralized database, commonly called a Data Mart or Data Warehouse. This centralized large database is intended to contain all customer information, which in previous models used to be scattered across different departments and applications. The savings obtained from this process are also significant, although its implementation usually generates significant resistance.

Another layer of the system manages the points of interaction with the customer. This includes communication management applications via email, call centers, the web, etc. Applications capable of analyzing the so-called clickstream to obtain information from web visitors, programs capable of storing a record of all interactions with a given customer regardless of the channel used, and sales, service, and marketing systems via telephony and electronic support. But also, logically, the entry points to the Data Mart generated by traditional activity, such as stores, fax orders, through the sales force, etc. Every interaction with the customer must be immediately reflected in this unique and centralized database, the true nerve center of the company's activity.

Between these two layers, there are numerous applications designed for managing the multiple elements involved. This set includes analytical data mining modules, campaign management and tracking applications, all sales intelligence, knowledge management applications, incident management, workflow, and more. And we must not forget the integration of the entire so-called back-office, a fundamental step towards the system's global functionality: billing, order management, distribution, logistics, manufacturing, purchasing, accounting, finance, human resources, and the world of legacy systems, programs based on generally customized applications that automate a significant part of the activity in certain companies. All these series of applications also have to operate under the unique and unequivocal perspective of customer-centricity, extract and return information to the same database, and be interoperable and updatable from any part of the system.

4. CRM AS A VISION FOR THE FUTURE

One of the main attractions of CRM projects is the impact they aim to have on the competitive advantage of the company. The transition from a product-centric to a customer-centric economy proposes an advantage based on knowledge of customers, on information, as an advantage that no competitor lacking such information can replicate. Indeed, gathering information about customers in the context of a relationship that allows it, and offering those customers a superior value proposition based on that knowledge we have of them represents a difficult advantage to surpass. However, as we have seen, the approach to the concept of customer-centricity is difficult to implement and often encounters entrenched resistance within the company.

The first of these often arises in the marketing department itself. The explanation of the CRM concept is usually perceived by marketing professionals as intentionally simplistic. The notion of an inverted value chain implies an accusation that the marketing department has been ignoring customer needs, not caring about their desires. In reality, the marketing department has long used techniques such as surveys or focus groups to try to reduce the uncertainty of customer needs. In some companies, even the concept of data mining is already entrenched, and there is a centralized customer database used to obtain valuable information about which customers may need which products. While these assertions are true, they fail because they are fundamentally reactive: surveys, focus groups, and early data mining activities indeed try to understand the will and needs of the customer, but after the fact. That is, these are techniques used to, once we have a product or service, try to locate a subset of customers who may be interested in purchasing it. It's about seeking "victims," although this time, instead of targeting them with a generalist cannon, it is done with an efficient sniper. This is not, although it appears similar in its elements, the customer-centric conception that is sought.

Another expected resistance comes from telemarketing. Developed to truly oppressive extremes in the United States, Latin culture has meant that it has not reached the same levels of popularity in our environment. Even so, there are numerous companies that try to sell us the most varied products or services by phone using techniques similar to pursuit, harassment, and takedown. This intrusion by means of an unsolicited offer made by operators equipped with a script that collects all the potential negative responses from the customer is, in philosophy, contrary to any initiative in a CRM environment. Does this mean that we must completely give up on campaigns of this type? To a certain extent, yes,

although not categorically. In most cases, a poor choice of medium causes a good value proposition to be completely discredited. We should opt for less intrusive media, more controllable by the user, and use the phone only when we are fully sure that the customer will appreciate our call. However, this does not mean the end of call centers but simply modifies the concept of inbound-outbound. We must transform this structure into a means for the customer to interact with the company, but, in most cases, initiated by them. Our company must be able to receive calls, emails, faxes, or visits and respond to them efficiently regardless of their origin. This requires a structure like the traditional call center, though more oriented towards receiving calls than making them. The sizing is different, and the type of personnel, possibly also.

In other cases, resistances come from the operations department. After a decade of obsession with operations, achieving high levels of flexibility based on techniques such as modular manufacturing, just-in-time, or Supply Chain Management (SCM), CRM asserts that we need to be not only flexible but also capable of offering each customer what they demand. And that all these operational excellence techniques are nothing more than crude simplifications of reality, which for many companies will mean an attempt to "fit" their products into customers in some way. In reality, according to CRM principles, adaptation must go much further, must recognize that no company holds the magic key to offer everything to its customers, and be the beginning of creating alliances and disaggregated systems to approach that concept. The new economy no longer responds to a scheme of linear chains but to complicated matrix networks where processes transcend the company and interweave among participants, to provide flexibility capable of truly meeting customer needs.

4. CONCLUSIONS

This article has sought to succinctly touch upon most elements of Customer Relationship Management (CRM) and structure them progressively in relation to traditional marketing. One of the main takeaways, however, is that CRM, although closely related to marketing in that this department has traditionally interacted with the customer, is much more than that. It transcends the marketing department and becomes a strategy affecting the entire

company's operations, from operations to finance. In this sense, limited views of CRM can only lead to failure.

Another important point of the article focuses on demonstrating that CRM is in no way related to the so-called "Internet fever"; it is not one of those "dot.com things." The Internet may have played a triggering role in terms of improving the possibilities for interaction with the customer (via web or email), but nothing more. In fact, we can see that while so-called dot.coms continue to fall, the importance and popularity of CRM continues to rise. Companies continue to increasingly emphasize the transition from mass production to customization, customer expectations continue to rise, and the complexity of customer relationships, essential for business development, also increases. In such an environment, it seems that the significance of CRM surpasses the conceptions of a trendy acronym and represents a fully-fledged trend.

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