

**MSc in e-Marketing  
Module number: P58202**

**E-Customer Relationship Management**

**Individual Assignment:**

**‘The history, development and practice of e-CRM in today’s business environment’.**



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## **Executive Summary**

This article reveals the history, development and practice of Electronic Customer Relationship Management (e-CRM). It discusses the paradigm shift in theory from transactional marketing to relationship marketing, and charts how the practice of mass marketing has given way to that of 'mass customisation', enabled by e-CRM.

In doing so it discusses how database, direct and loyalty marketing failed to 'operationalise' relationship marketing and how CRM evolved and was adopted because it has managed to do this. The weaknesses and strengths of CRM and e-CRM are debated, and the differing views of various writers on the theory and practice of relationship marketing are compared and contrasted.

It supports the view that e-CRM enables brands and organisations to build and develop relationships with their customers, and to profit by them, and ends with a look at how e-CRM will evolve to capitalise on the future changes in the marketplace.

# **The history, development and practice of e-CRM in today's business environment**

## **1. The changing marketplace**

Marketers and academics agree that the era of mass marketing is over and that successful marketing is about creating and maintaining successful relationships. However, the age of the internet has meant that marketers have had to radically re-think how to build and maintain these relationships and consider that marketing's role may have changed – to that of helping buyers buy (Mitchell, 2000). It is within this context that this article seeks to explain the concept of Electronic Customer Relationship Management (e-CRM), its history, evolution, and its use and impact in today's marketplace.

## **2. The Origins of e-CRM in Marketing Theory**

In order to explain e-CRM, it is necessary to go back and explore some of the history of marketing theory. Egan (2004) describes the period between 1950-70 as the 'golden age' of marketing when 'public appetite for goods and services was insatiable'. This was the era of mass marketing, with high trust of brands by the consumer. In the 1960s, Borden produced the 12 element marketing mix, (Borden, 1964). These were then reduced down to the classic 4Ps of Price, Promotion, Product, Place by McCarthy (1978). It was at this stage that 'Transactional Marketing rapidly became the overwhelmingly dominant marketing paradigm' (Dixon and Blois, 1983, Kent 1986, cited in Harker and Egan, 2006).

However in the 1960s, markets became saturated and brands multiplied, and consumers looked for price deals. Marketers looked to industrial marketing for insights, specifically the work of the Industrial Marketing and Purchasing Group (IMP). They noticed that sales between firms depended as much if not more on the business relationships as the contracts that underwrote them (Egan, 2004). Berry

advocated a move from a transactional outlook to a relational outlook of marketing, with the primary objective being the retention of existing customers (Berry, 1983, cited in Harker and Egan, 2006). He was the first to introduce the term 'relational marketing'.

Relationship marketing (RM) implied a partnership rather than confrontation (Grönroos, 1996). The rise of a service-based economy from the late 80s further undermined the whole transactional model since the existing models such as the BCG matrix and the Product Life Cycle didn't really fit (Egan, 2004). One view was that the 'marketing mix would always be needed but that it had become peripheral in comparison to relationships' (Gummesson, 1994, cited in Egan, 2004).

The talk then and now was of a 'paradigm shift' from transactional to relationship marketing. Put simply, 'the focus of transactional marketing is on increasing market share, whereas the focus of relationship marketing is on improving customer retention' (Wang et al. 2000). Figure 2.1 shows the changing focus of marketing thinking from the 1950s.

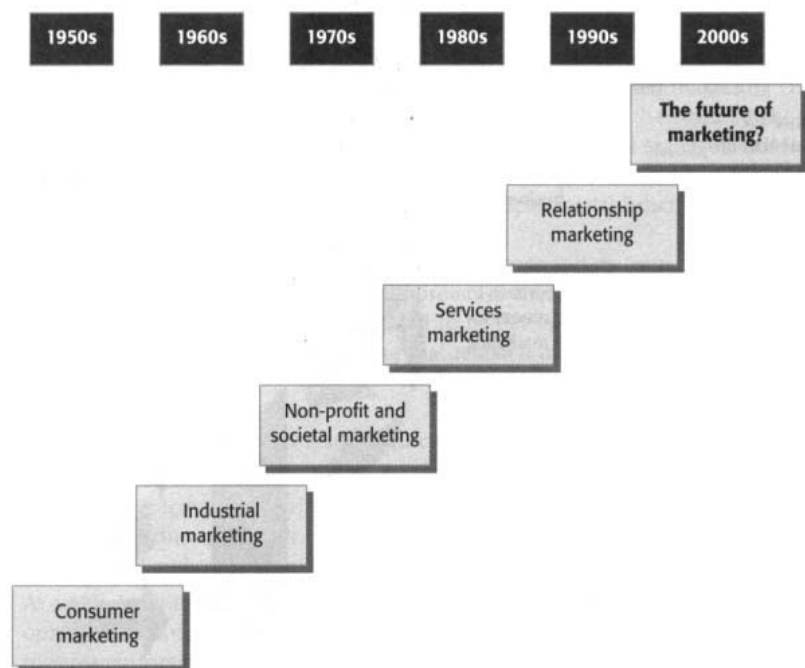


Figure 2.1

(Source: Adapted from Christopher et al., 1991)

### **3.1. Understanding Relationship Marketing**

Harwood et al. (2008) state that there are at least 26 definitions of RM. Wang et al. (2000) consider that 'RM focuses on relationship building with customers, where customer retention is the primary focus, as opposed to market share in traditional transactional marketing'. However Cram (1994) considers RM as the:

consistent application of up to date knowledge of individual customers to product and service design which is communicated interactively in order to develop a continuous and long term relationship which is mutually beneficial.

It is generally accepted that RM is about maintaining and improving relationships, although the term still covers what Egan (2004) calls a 'broad church' of views. These views shape the differing concepts on RM, of which there are three categories and which are discussed in [Appendix I](#). But whatever the concept of RM, the benefits are the same. Chaffey et al. (2009) give these as no acquisition costs, limited need to incentivise, less price-sensitivity of customers, more referrals and increased spend per relationship.

### **3.2. Relationship Marketing in the 1990s**

By the end of the 1990s, there was still no agreed new marketing model, merely an acknowledgement that transactional marketing had given way to relationship marketing. During this decade however direct marketing and database marketing were major forces and both were strongly interdependent on the other. Database marketing concerns the storage and use of data to analyse customer data to aid strategy development and targeting, and the 1990s was *the* decade of direct mail and the database. But there was 'no clear disciplinary background... or methodologies... nor... theory of markets' (Möller and Halinen, 2000) and they were 'more transactional than relational' in nature (Egan, 2004).

Another description of relational marketing also evolved at this stage, namely one-to-one marketing (Peppers et al. 1999). But as Mitchell (2000) states, this term has become a cliché for any form of marketing to mass customised audiences.

There was one other marketing practice that came of age in the 1990s – loyalty marketing. There was a rapid growth of loyalty card schemes in many market, most notably supermarkets. The loyalty card does not in itself establish a relationship (Harker and Egan, 2006) and they suggest that for supermarkets, whilst long term customers do increase supermarket visits, they do not as a whole increase their spending (Passingham, 1998, cited in Harker and Egan, 2006).

Loyalty marketing is largely seen as a failure to ‘operationalise RM’. According to Harker and Egan (2006) it failed because managers failed to realise the depth of change of strategy required to switch from a transactional to a relational culture and consequently change management was not implemented within the organisation. But despite the failure of loyalty, since the benefits of relationships are clear, the challenge remains – how can the marketer manage these relationships, and just as important, profit by them? The answer, it is suggested, is via CRM.

### **3.3. Introducing CRM**

Just as for RM, there is a lack of consensus on CRM’s definition. Chaffey et al. (2009) define CRM as ‘...a marketing-led approach to building and sustaining long-term business with customers.’ However Gamble et al. (2006) define it as:

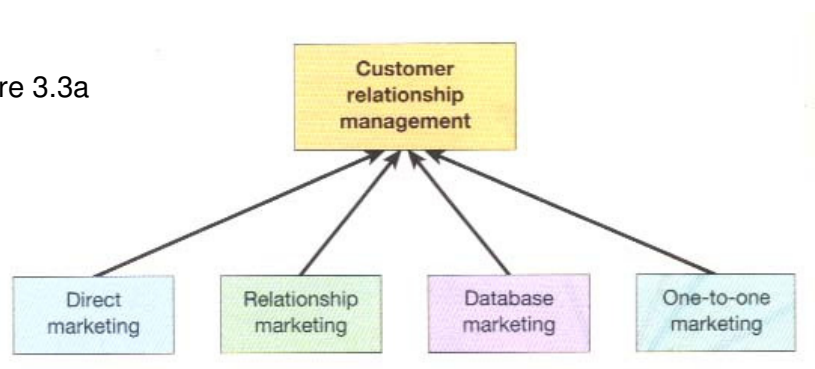
...an enterprise-wide commitment to identify your named, individual customers and create a relationship between your company and these customers so long as that relationship is mutually beneficial.

It could be argued that only Chaffey et al. consider acquisition. But if RM is all about relationships and CRM is about identifying customers and building long term business via maximising the lifetime value of the customers, how do the two fit together? The best answer is to consider CRM as a *system* rather than a concept or practice, which is what Foss et al. (2008) do. They define a CRM system as:

A technology-based business management tool for developing and leveraging customer knowledge to nurture, maintain, and strengthen profitable relationships with customers.

So the question begs: concerning RM and CRM, how are they related? Chaffey *et al.* are in no doubt as Figure 3.3a shows.

Figure 3.3a



However other academics take a different view. Egan (2004) states that CRM's definition is 'as hazy as the rest' and by managing the relationship through the lifetime of the customer using IT is more tactical than strategic. Its distinction from database and direct marketing is 'elusive'. But the consensus is probably broad agreement with (Möller and Halinen, 2000) who state that RM is too 'theory based' and not 'concerned... with practical and measurable relationship management'. To this end, CRM is the latest relational concept to receive 'top billing' (Egan, 2004).

### 3.4. Evolution of CRM

Kumar (2006) details three distinct phases of CRM as it evolved from its inception as a concept in the mid-1990s. It started as a 'Functional approach' whereby sales forces and customer service operations were assisted by early systems integrations. Put simply they were able to do their jobs faster and more efficiently. The second, 'Customer-facing' phase saw the marketing function linked with the CRM system. However CRM technology lagged behind customer expectations of service, inhibited as much as anything by an internet in its early stages of growth. By 2002 the internet technology and penetration had improved enough to enable full integration of 'front end' (sales force) with 'back end' (service support) functions. This phase is called the 'Strategic' phase.

### **3.5. Failure and Success of CRM**

Spending on CRM infrastructure and processes has soared in recent years, with Gartner estimating that the CRM software market exceeded £3.6bn in 2007, up 14% from 2006 (Barker, C. 2007, cited in Foss et al. 2008). But despite the enormous growth in use of CRM systems, there is evidence of a high failure rate. CSO Insights has estimated that only 25% of companies reported notable increases in performance, and the reasons for success are that companies that have implemented change management programmes in concert with new CRM systems have thrived (Foss et al. (2008). This has startling similarities with the early failures of 'operationalising RM'.

Kelly (2000) saw failures in CRM systems as caused by failures in understanding customer behaviour and responses – basically caused by firms not having an 'analytical CRM' system working in conjunction with the 'operational CRM' system (call centre and sales force technology, for example). Payne and Frow (2005) suggest that CRM system success depends on four critical factors: CRM readiness assessment, CRM change management, CRM project management, and Employee engagement.

Although the 21<sup>st</sup> century has seen mixed success in CRM, spending is set to increase and grow to \$10.9bn by 2010 (Band, W., 2007, cited in Foss et al. 2008). This growth has been fuelled by that of the internet, which has in turn been responsible for the growth and development of e-CRM.

### **4.1. Key aspects of e-CRM**

Chaffey et al. (2009) remind us that the dot.com crash in the early 2000s was caused largely by the failure of the firms to build relationships and thus gain repeat business. The solution for the many e-businesses to avoid this, they suggest, is e-CRM. They define it as 'Using digital communications technologies to maximise sales to existing

customers and encourage continued usage of online services'. They state that all the means to develop relationships online – whether with customers, suppliers or stakeholders – lie in databases, the web and email, and that ultimately e-CRM cannot be separated from CRM, at least as a relational concept. However, the e-environment offers greater opportunities to engage with the customer and so the concept of 'customer engagement' has been defined (Forrester, 2007, cited in Chaffey et al. 2009). The theory is that because of media fragmentation, the customer must now be engaged via the many channels, on- and offline, that are available. Only in this way can brands build relationships and maximise profits. A criticism of this definition is that acquisition is not considered, and given that the internet has massively reduced 'switching costs' for the end user, brands must use the online medium to attract new customers, not just to grow, but also to replace those lost to competitors. Pan and Lee (2003), whilst acknowledging the closeness of e-CRM with CRM, do identify key differences between the models (see Appendix II). Kalakota and Robinson (2001) suggest that:

e-CRM involves three stages, all of which are designed to manage the customer life cycle and maximise customer lifetime value: acquiring new customers, enhancing the profitability of existing customers and retaining profitable customers for life. (Kalakota and Robinson, 2001, cited in Kennedy, 2006)

This is echoed by Chaffey *et al.* (2009) in their customer lifecycle management model (See Appendix III). The benefits of e-CRM are much enhanced over its 'offline' version and include more cost-effective targeting, lower communications costs, 'mass customisation' e.g. via email broadcast, and a radical improvement in the nature of the relationship (Chaffey *et al.*, 2009). Kumar and Reinartz (2006), in their databased approach include many more, such as the ability to instantly react to a changing market environment and to automatically generate new sales leads. And Godin (1999) states that with e-marketing, testing is 100 times faster, response rates are 15 times higher – and printing is free!

## **4.2. Implementing an e-CRM system into the organisation**

In 1999, a small San Francisco B2B company called Salesforce.com was born. By 2008/9 it had revenues of over \$1bn, over 63,000 customers and was ranked the no.2 fastest-growing technology company behind Google by Forbes. It now claims to be the 'leader in customer relationship management (CRM) & cloud computing' (Salesforce.com, 2009). It is now an all web-based solution for businesses to manage customer relationships. But as well as the internet and email as customer engagement points, it can also employ other e-technologies such as mobile telephony, customer contact centres and voice response systems (Kennedy, 2006).

Integrating an e-CRM system such as Salesforce into a company can present problems. Pan and Lee (2003) suggest that whilst many companies understand the potential of e-CRM, because of time and financial pressures, a typical response is to buy an off-the-shelf application, link it with a database derived from web traffic and online purchase information, and launch an 'e-CRM initiative'. They argue that a more considered approach is to go through five set management steps for e-CRM, the process of which is detailed in Appendix IV.

## **4.3. e-CRM in practice in the business environment**

There are many examples of different forms of e-CRM in practice and the advantages it brings. Perhaps the most famous is that of Amazon.com – each customer gets personal recommendations and Wish Lists for books based on Amazon's personalisation technology. Amazon will even recognise the user via cookie technology negating the need to log in until purchase is made, and once this happens a confirmatory email is sent to the purchaser. Amazon is a good example of how a brand has achieved 'lock in' via e-CRM – customers just don't want to switch.

In Holland, KPN Mobile N.V., a leader in Europe of mobile telephony with over 15m customers, had high churn and low sales in a saturated market so it launched a CRM

Implementation for Very Important Customers (CIVIC) programme. These customers received top priority when calling the helpline and were routed immediately to a special CIVIC team member. Customer satisfaction ratings reached 90% and success was measured using the key performance indicators (KPIs) of churn and lifetime value (Kennedy, 2006).

In the area of email marketing, Monster UK developed the 'M word' e-newsletter in 2007 as a new, branded communication to be sent to its jobseekers on its database, which was segmented according to recency of login. Jobseekers receive an email on either a weekly, monthly or quarterly basis with the latest and relevant news of the job market, and articles and functions such as job search buttons all link back to Monster.co.uk. Open rates achieved are up to 30% for active jobseekers, and KPIs such as active searches are up, justifying Monster's investment in e-CRM. This is a very good example of 'Permission marketing', defined as 'anticipated, personal, relevant' communications (Godin, 1999).

It is worth noting why brands such as these work so hard to maintain a relationship with the customer – by increasing retention rates by just 5%, e-companies can increase profits by 25-95%. The same research shows that acquiring online customers is 20-30% more expensive than for 'traditional' (offline) companies (Reichheld and Scheffer, 2000).

#### **4.4. When e-CRM doesn't work – and what to do about it**

E-CRM adoption does not always work. Johns (2009), recorded, "As the head of Honda once said, 'I used to have 25 databases until I decided to consolidate them all into one. Now I have 26'."

But it is not always the technology or the failure to integrate it that is the cause. Reinartz and Kumar (2002) suggest that the relationship between loyalty and profit is much weaker than is realised and challenge three existing claims about loyalty:

Claim 1): that it costs less to serve a loyal customer – they argue that their research shows that in some industries at least, the reverse is true.

Claim 2): that loyal customers pay higher prices for the same product or goods. They suggest a loyal customer is more price-sensitive.

Claim 3): they challenge the claim that loyal customers are good referrers, arguing that propensity to market by word-of-mouth is not strong. When these conditions appear, it is usually time to shed customers.

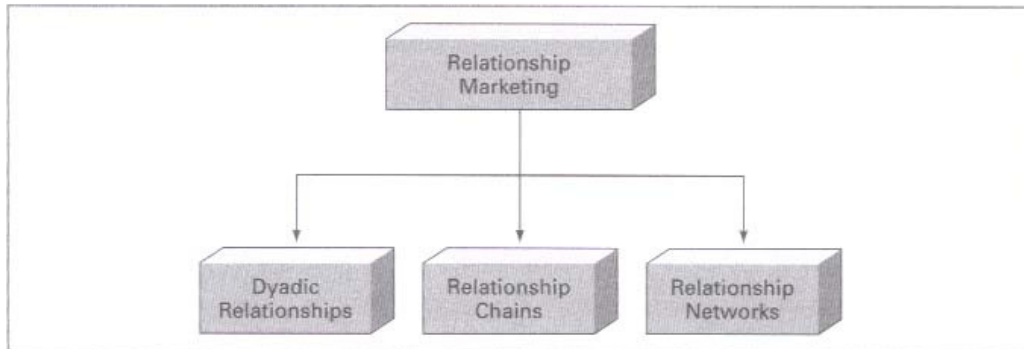
### **The past, present and future of e-CRM**

E-CRM evolved from the marketing theory based on the 4Ps and 'transactional' marketing. This was a 'paradigm' shift but marketers' attempts to 'operationalise' RM, in the form of direct and loyalty marketing, failed. A new concept of CRM was defined but 'operational' CRM also failed until it was combined with 'analytical' CRM. This at last enabled organisations to build and operate CRM systems. But the fragmentation of media and growth of the internet means that brands must interact with the customer across many different channels in order to foster relationships.

It is fairly easy to see how e-CRM will evolve for the end user. Increasingly they are able to interact with brands via handheld devices. We will also see increasing personalisation when users interact with organisations online. For the organisation, firstly, this means it will have to adapt its e-CRM systems and processes to cater for the growth in mobile internet. Secondly, it will have to follow the trend towards the truly 'single view' of the customer where information is synchronised across all channels and touchpoints (Kumar and Reinartz, 2006). Lastly, the need for better analytics will cause the organisation to continue to 'micro-segment' its database as it pursues an ever deeper relationship with the customer.

**Appendix I: The Three Categories of Relationships of Relationship Marketing (Hollensen, 2003, cited in Harwood et al. 2008).**

*Figure A1a: The three categories of relationships within RM.*



*Figure A1b: Dyadic relationships are the most simplistic model of relationships and what we can most easily relate to. There are two parties – a buyer and seller.*

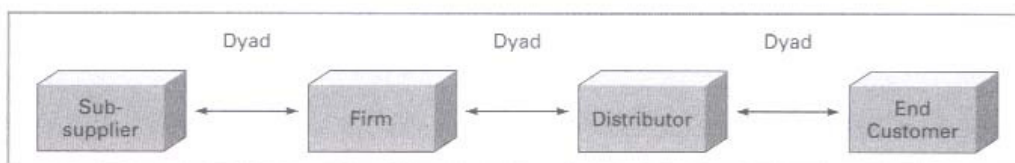
**Dyadic relationships**

The relationship is primarily between two parties who are usually the seller and the buyer



*Figure A1c: Chain relationships are a series of parties linked, such as a vertical supply chain in a manufacture of a product.*

**A chain of relationships**



The first two, dyadic and chain relationships, are straightforward concepts but the third is more complicated. Network relationships, are where dyads (groups of two)

interact with three or more other parties. An example of a network is a brand (company) which has competitors, agencies, customers, industry associations and stakeholders within its network. The Network concept has generated various models such as the Six markets model (Christopher et al. 1994), the Partnerships model (Morgan & Hunt, 1994) and Gummesson's 30 Relationships model (Gummesson, 1999).

Figure A1d: The Six Markets Model

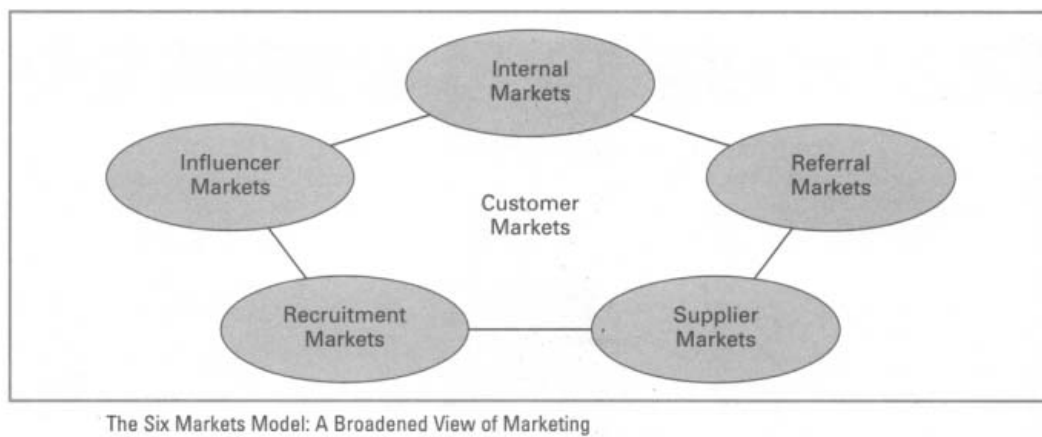
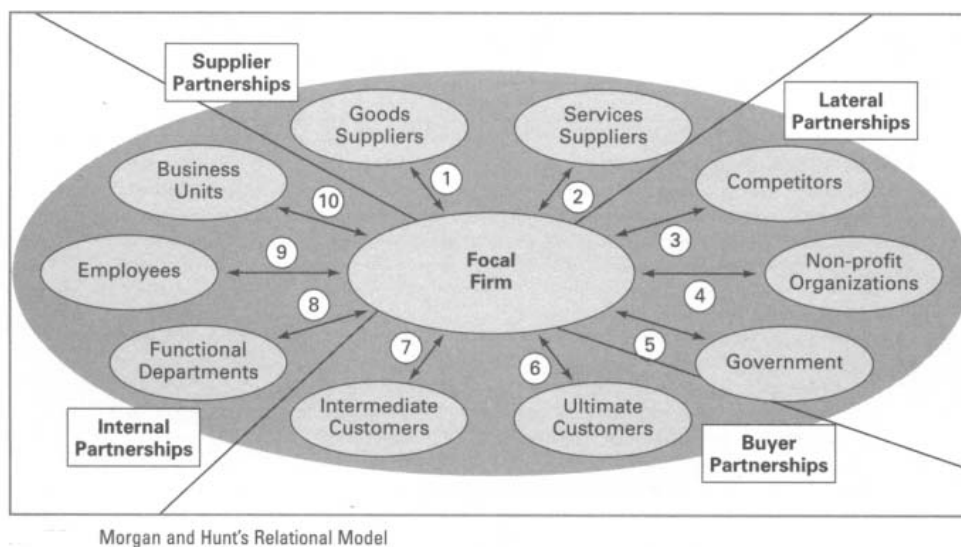


Figure A1e: The Partnerships Model



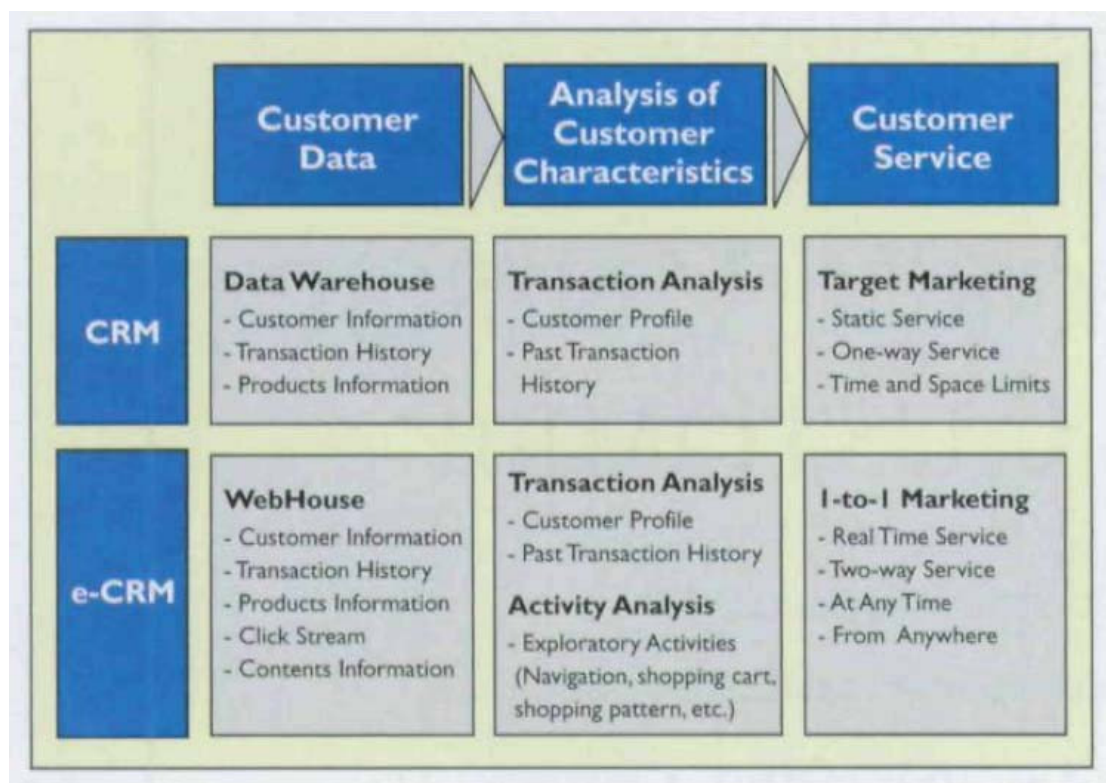
Gummesson (1999) produced a highly complex model called the 30Rs model which had 30 types of relationships in four different levels: Classic, Special, Mega, and Nano relationships.

**Appendix II: Key differences between CRM and e-CRM (Figure A2a).**

Pan, S. and Lee, J-N. (2003) consider that traditional CRM delivers ‘only a fraction’ of what e-CRM can deliver in three key areas:

1. Customer data
2. Analysis of customer characteristics
3. Customer service

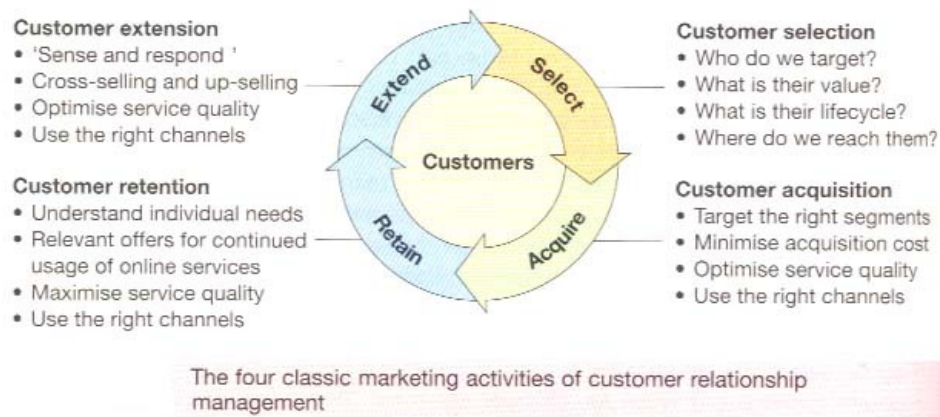
*Figure A2a: The key differences*



## Appendix III: Customer Lifecycle Management

Chaffey et al. (2009), in their customer lifecycle management model, defined four classic marketing activities of CRM/e-CRM (Figure A3a):

Figure A3a



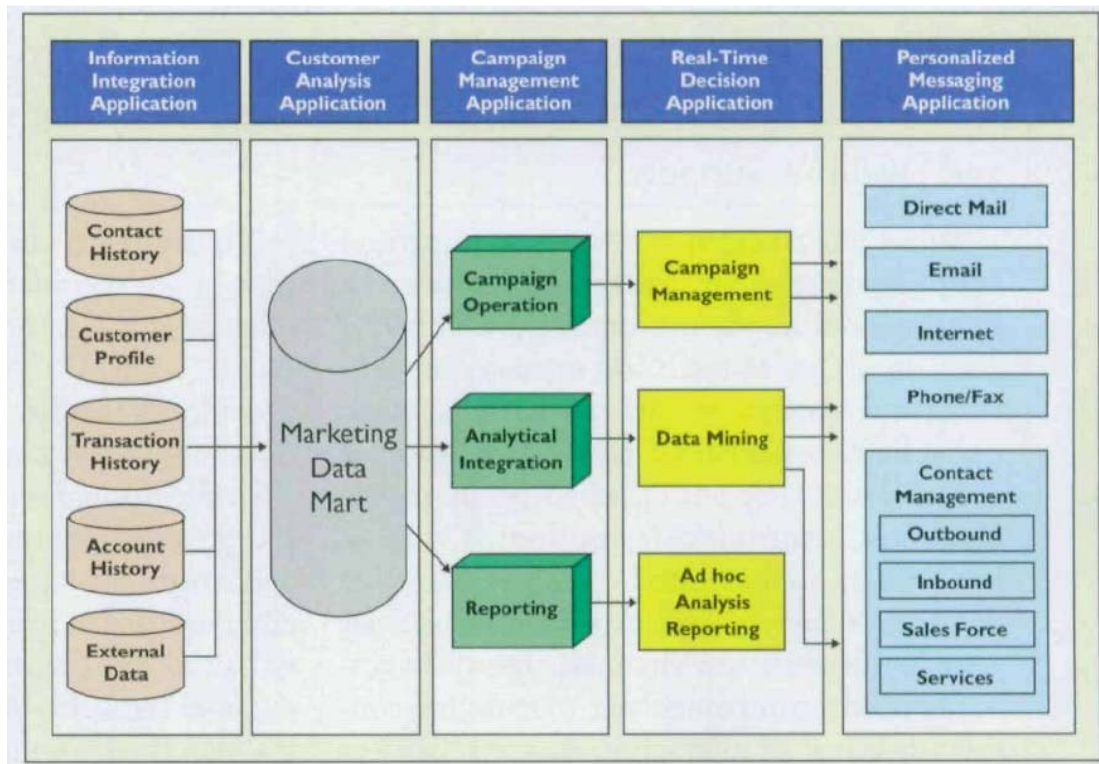
### Leveraging eCRM as a source of Competitive Advantage

'When executed correctly e-CRM implementations are designed as a digital loyalty cycle that continuously improves to create lasting competitive advantage'. (Kennedy, A, 2006).



The resultant e-CRM system design could look like figure A4b, which is a comprehensive software platform of the five key applications that together enable the e-CRM business process. They argue that enabled with such a system, companies can 'continually create significant customer value, automating the "who, what, when, where, and how" of sales and marketing'.

Figure A4b: The complete e-CRM system



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