Customers' Significance and Strategies within a CRM Context

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Abstract

CRM systems have been increasingly adopted by progressive companies over the past decade. Moreover, a lot of research has been conducted worldwide in this area. Nevertheless, a number of issues related to CRM have not been adequately researched. Such an issue refers to the strategic dimensions of CRM and more particularly to aspects of CRM related to customers' significance, customers' value and marketing strategies which could be directed towards customers. Hence, the objective of this paper is to classify customers on the basis of their significance as well as to investigate whether some proposed customer strategies are implemented by companies using CRM systems. In order to accomplish the objective of the paper, first, studies referring to aspects of CRM strategy, customer lifetime value (CLV) and customer portfolios have been discussed and analyzed; and secondly, a survey was conducted in Greece directed to companies employing CRM systems. The findings of the survey indicated that the high volume customers are not assessed as the most strategically significant category of customers. Further, there was shown a strong positive relationship between the significance of high volume customers and the cost of applying CRM and a moderate positive relationship between the significance of high future CLV customers and the amount of application time of CRM. Finally, the hypotheses of the study related to the implementation rates of the proposed customer strategies were confirmed.

Keywords: *customer relationship management, customer lifetime value, CRM strategy.*

1. Introduction

The term CRM emerged in the information technology area in the mid 1990s and it is mainly used to describe technology-based computer solutions, such as a database for Sales Force Automation (SFA). According to Zablah *et al.* (2003) a further exploration of the term CRM is needed. It is a fact that CRM is often equated incorrectly with CRM technology (Reinhartz *et al.*, 2004). CRM could be defined from three perspectives (Payne and Frow, 2005): a very narrow technology-oriented one, a broader customer-oriented with emphasis on technology, and a strategically-oriented one. Thus, i) CRM is about the implementation of a specific technology solution project, ii) CRM is the implementation of an integrated series of customer-

oriented technology solutions, and iii) CRM is a holistic approach to managing customer relationships to create shareholder value. According to the third perspective, which is adopted in this article, CRM is related to the corporate understanding of the customer value in a multi-channel environment.

It is also true, that customer value varies across different customers and customer segments. Customer Lifetime Value (CLV) is an established concept in CRM theory and particularly in calculating customer value (Berger and Nasr, 1998; Gupta *et al.*, 2004). A customer's CLV can be defined as the present-day value of all net margins earned in a relationship with a customer. Historical net margins are compounded up to today's value, whilst future net margins are discounted back to today's value.

This paper aims at a further investigation of the strategic perspective of CRM systems. The main objectives are: 1) the assessment of customers according to their significance for a company applying a CRM system, 2) the investigation of the relationships between the strategically significant categories of customers and the application cost – time of CRM systems, and 3) the development of business strategies concerning the above categories of customers and following that, the assessment of their implementation rate in Greece. These issues are examined by taking into account the perceptions of executives of companies which have adopted and implement CRM systems. In the framework of accomplishing our objectives a survey was conducted from July to December 2005, in Greece.

The rest of the paper is organized as follows: Section 2 describes and comments on the theoretical models found to be related to the objectives defined in our study. Various customer classification matrices are examined in Section 3, while our research hypotheses and the methodology are presented in Section 4. The findings of the empirical research are analyzed in Section 5, and finally the article is completed, in Section 6, with the conclusions, propositions for further research and the practical implications of the current research.

2. Strategic Dimensions of CRM

In CRM literature the strategic dimensions or perspectives of CRM have been underestimated. More specifically, the number of relevant studies is insufficient and the existing research body actually makes up a fragmentary address of the issue. However, in the context of strategic dimensions there are a few studies either underlining the importance of studying CRM strategy or raising and examining specific or more general strategy topics. Such a study was made by Zablach *et al* (2004) pointing out that, in order to assess and prioritize customer relationships, CRM should be viewed as a holistic approach. A key implication of the study is that the first step for achieving CRM success is formulating a customer relationship management strategy. "Strategic pain points" of CRM are presented and analyzed by Rigby and Ledingham (2004), while in another study by Srinivasan and Moorman (2005) it is indicated that companies with moderate bricks-and-mortar experience (considered a key strategic commitment) are in a better position to leverage CRM for superior customer satisfaction compared to companies with either low or high bricks-and-mortar experience. In a research study by Ernst and Young (2001), referring to organizational issues related to CRM, it was found that the two biggest challenges in implementing CRM strategies were internal organizational issues (53% of

respondents), followed by the ability to access all relevant information (40% of respondents). Some other studies incorporating and stressing aspects of CRM strategy is one by Zineldin (2005) focusing on competitive positioning in a CRM context; and by Lane and Piercy (2004) maintaining that there are three major issues which could enhance the role of strategic customer management and more particularly integration of all processes needed to offer superior value, a better management of the interfaces between sales and the other company functions and new ways of leveraging of intelligence.

In addition to the above, there are a small number of studies presenting CRM management frameworks, where strategic issues are explored to a degree (Swift, 2000). Such a work is by Winer (2001) proposing a model which contains a set of seven components: 1) a customer database, 2) analyses of the database, 3) decisions about which customers to target, 4) tools for targeting the customers, 5) how to build relationships with the targeted customers, 6) privacy issues, and 7) metrics for measuring the success of the CRM project. Payne and Frow (2005) developed a process-based conceptual framework for strategic CRM and identified five (5) key generic processes in CRM: 1) the strategy development process (it involves a detailed assessment of business strategy and the development of an appropriate customer strategy), 2) the value creation process (by determining what value the company can provide to its customers and receive from them), 3) the multi-channel integration process (decisions about the most appropriate combinations of channels by which a company can interact with its customers), 4) the information management process (it is concerned with the collection and use of information from all customer contact points), and 5) the performance assessment process (by ensuring that the organization's strategic aims in terms of CRM are being delivered to an appropriate and acceptable standard). Sarmaniotis and Stefanou (2005) propose a framework of CRM development phases identifying as well determinants of CRM success in each phase. The suggested phases are the be-or-not-to be phase, the planning, the implementation and the integration phase. Among the determinants are some strategically oriented, such as the necessity of setting measurable business and CRM objectives and the formulation of marketing and customer retention strategies. Another proposed managerial model of CRM is that by Jain (2005), where a fifth P is suggested in addition to the four traditional marketing mix Ps, which is, profiling the customer.

Customer strategy is a crucial component of CRM, since it involves examining the existing and potential customer base and identifying which forms of segmentation are most appropriate. The need of embedding customer retention strategies in a broader CRM strategy is pinpointed, among others, by Verhoef and Donkers (2001), Bose (2002), Ingram *et al.* (2002) and Scullin *et al.* (2004). The development of methods for forecasting customer value is of increasing importance. Until recently research has emphasized customer equality, but nowadays calculating CLV of different customers enables organizations to focus on the most profitable market segments. According to Lewis (2005) customers should be treated as economic assets. Firms should identify their most profitable customers and then customize marketing on the basis of customer asset value. One of the fundamental propositions of CRM is that not all customers should be managed in the same way. Instead, firms should focus on the "economically valuable" customers, while keeping away and eliminating the economically invaluable ones (Romano, 2000; Verhoef and Donkers,

2001). Some customers, which could be considered important assets for the organization, might be offered customized product and face-to-face management, whilst others might be offered standardized product and lower level services. Questions that need to be answered in CRM strategy development are: 1. Which customers offer the greatest potential for the future? 2. Which business policy is more suitable for each customer or customer group?
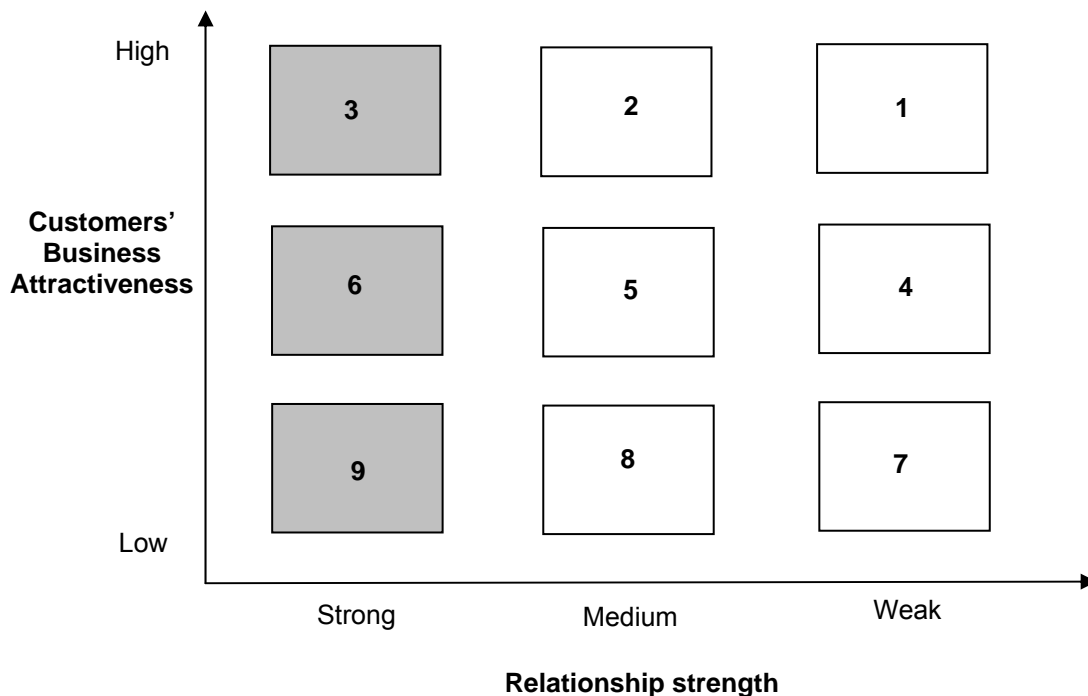
3. Customer Classification Matrices

Since the early 1980s a number of methods have been specifically designed for assessing customer portfolios. Most of them have a clear focus on the B2B context. Cunningham and Homse (1982) were among the first to develop the concept of a customer portfolio, attempting to ensure that relationships with key customers were managed more effectively. They proposed that sales volume should not be the only criterion that companies assess their customers. Fiocca (1982) advanced customer portfolio theory by developing a two-step customer portfolio model. As illustrated in Figure 1, at the first step customers are classified according to: i) the strategic importance of the customer, and ii) the difficulty of managing the relationship with the customer.
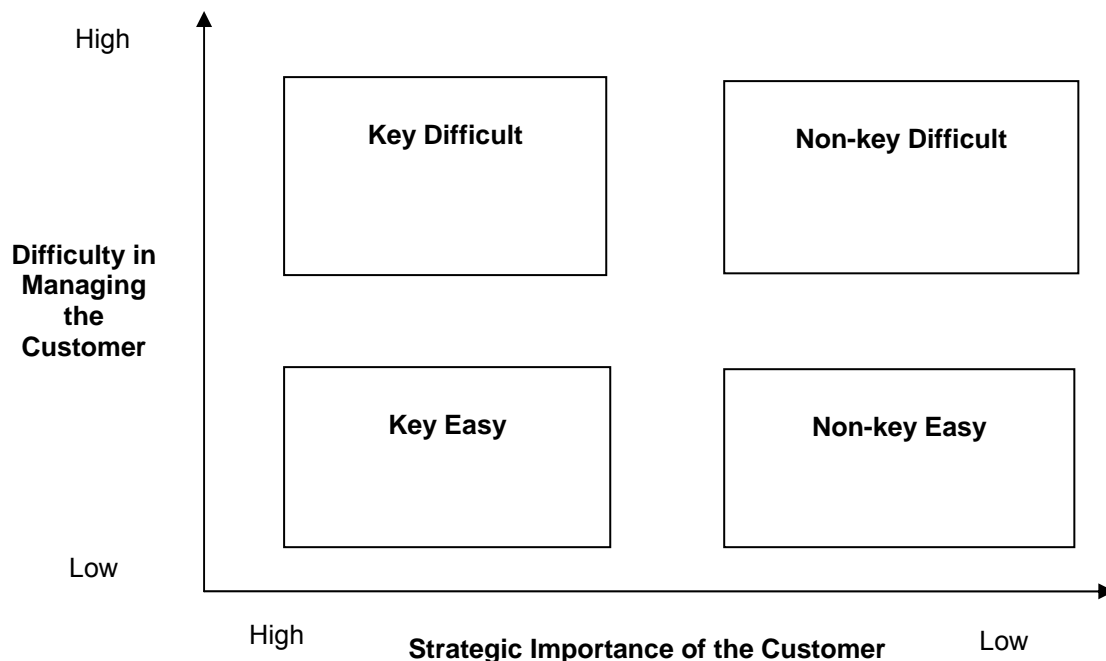
Figure 1. Customer Classification (Fiocca's Model First Step)

The strategic importance is determined by factors, such as the value of the customer's purchases, the potential of the customer, customer market leadership and the possibility for the company to have access to new markets, based on its relationship with the customer. The difficulty of managing the customer relationship comprises the features of the product (for instance its complexity or the required level of quality), customer's requirements and buying behavior, customer's preference to have many suppliers, and of course data for the competition, such as

the number of competitors, the strengths and weaknesses of competitors etc. At the second step Fiocca proposed further classification of the key customers (left-hand cells of Figure 1), according to i) the customer's attractiveness, and ii) the relative strength of the buyer / seller relationship. The customer's attractiveness criteria in their turn are classified into: a) market factors (e.g. customer's growth rate), b) competition in the customer's market (e.g. customer's position and strength), c) financial and economic factors (e.g. barriers to customer's entry), d) technological factors (e.g. customer's ability to cope with change), and finally e) sociopolitical factors (e.g. customer's ability to adapt). The relative strength of the relationship is determined by the importance of the customer (meaning the percentage of supplier's sales which corresponds to a specific customer), personal friendships, similarities or differences in corporate culture, language, manners and customs etc. Based on the two classification criteria of the second step, the key customers are placed into a nine-cell matrix, as shown in Figure 2.
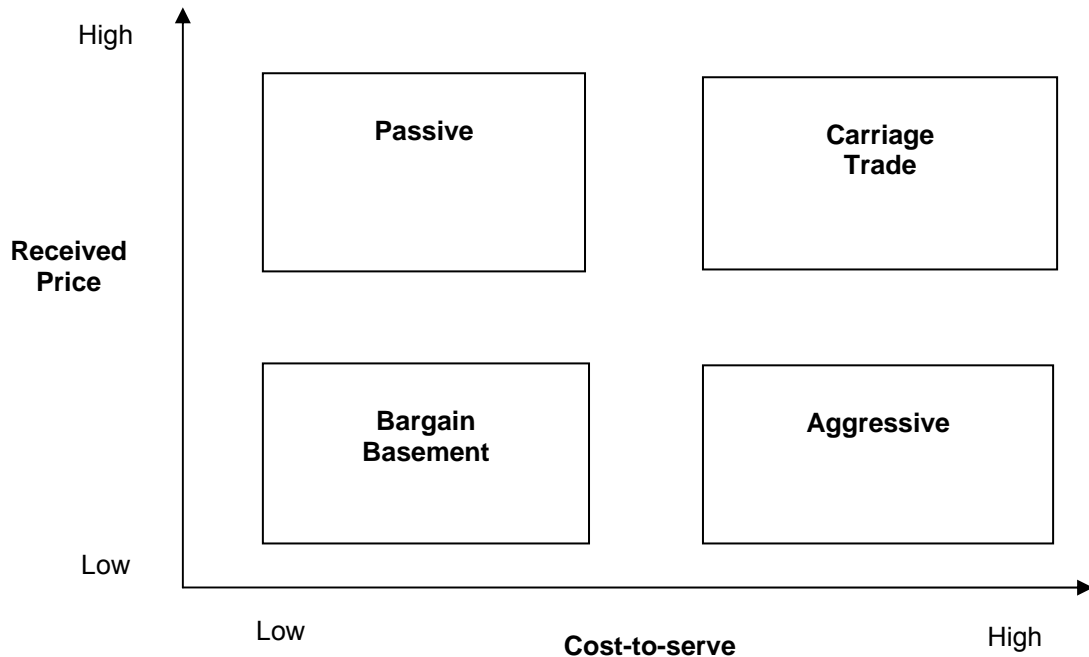

Figure 2. Key Customer Classification (Fiocca's Model Second Step)

The three main customer strategies suggested by Fiocca are summarized below:

1) Hold the relationship as it is (cells 3, 6 and 9).

2) Improve the relationship (cells 1, 2, 4 and 5).

3) Withdraw (cells 7 and 8).

Fiocca's contribution to customer strategy development is very important, but a serious weakness of this model is its failure to consider customer profitability (Buttle, 2004a). Shapiro *et al.* (1987) presented another customer classification matrix, in which the concept of cost-to-serve was incorporated into the evaluation of customer profitability (Figure 3).

Figure 3. Customer Classification Matrix (Shapiro *et al.*)

Customers are classified according to the price they pay and the cost of the company to serve them. Following this classification, four customer groups are identified: i) passive customers, ii) carriage trade (often newly acquired customers who pay a high price but they are costly to serve), iii) bargain-basement customers, and iv) aggressive customers. In that way, non-profitable customers (high cost – low price) can be treated differently from the rest of the customers (a company's withdrawal is possible). Noteworthy is also the approach of Turnbull and Zolkiewski (1997), who added a third dimension to those of Shapiro's model (received price and cost-to-serve), i.e. the relationship value. Major issues referred to relationship value are: a) the difficulty of replacing the customer in the case that the customer prefers another supplier, b) the percentage of supplier's sales corresponding to the customer, and c) the degree that goods or services are critical to the customer.

4. Research Hypotheses - Methodology

Apart from identifying customer classification matrices and developing customer strategies, emphasis has been particularly given to the customers having a strategic significance for the organization. Buttle (2004b) suggests the following categories of strategically significant customers:

- High volume customers: they contribute to economies of scale even though they don't generate much profit.

- High future CLV customers: it is expected that these customers will contribute significantly to the company's profitability in the future.

- Benchmark customers: these are the individuals and/or organizations that other customers follow.

- Door openers: they allow the company to gain access to a new market.

- Technology partners: they formally co-operate with the company to improve the performance of the company's technology.

- Inspirations: these customers help the company to improve its business, as for instance by identifying new applications for a company's product.

In the context of our research, technology partners and inspirations are considered as one category entitled "customers-partners", since both contribute to improving the overall business performance of the supplier, whether this co-operation is formal or not.

Based on what has been mentioned in Sections 2 and 3 (where it was suggested that theorists and researchers argue that sales volume should not be the main criterion of customer's significance) and bearing in mind the characteristics of the aforementioned customer categories, the research hypotheses H_1 and H_2 are formulated as follows:

H_1 *High volume customers are not any more the most strategically significant category of customers.*

H_2 *The significance of high volume customers relates positively to the cost of applying a CRM system - the significance of high future CLV customers relates also positively to the amount of application time of the CRM system.*

It is also reminded that Fiocca has proposed a customer classification matrix and three main customer strategies, i.e. to hold the relationship, improve it or withdraw. In this study the concept of "key customer" is retained as precisely determined by Fiocca. However, instead of examining or adopting other factors, such as the difficulty in managing the customer (as Fiocca did), we used the concept of Customer Lifetime Value. In that way, the future customer profitability is incorporated in relationship management, which was a significant omission of Fiocca's model. Based on the two parameters (key customer and CLV), the following customer strategies are proposed by the authors:

- Key customers with a high CLV: hold the relationship

- Key customers with a medium CLV: increase sales turnover or reduce costs

- Key customers with a low CLV: increase sales turnover or reduce costs

- Non-key customers with a high CLV: improve the relationship

- Non-key customers with a medium CLV: withdraw

- Non-key customers with a low CLV: withdraw.

Therefore, the third research hypothesis is given below:

H_3 *Our proposed customer strategies are nowadays implemented at a particularly high rate.*

Based on the above hypotheses, a survey was carried out from July through December of the last year, amongst 105 companies in Greece that have implemented and use selected CRM systems. These companies are located in various regions of Greece and were chosen from many industry sectors in order to come up with a representative sample as possible.

The survey was based on a structured questionnaire and apart from asking general data from the companies surveyed, it also included questions on the benefits and problems due to the CRM system, on customer satisfaction with the CRM system, on customer significance and customer strategies and finally on performance and cost of the CRM system. This article is mainly focused on customer significance and strategies. In order to collect the required data, IT managers of the surveyed companies were personally interviewed. Sixty two (62) managers were willing to participate in the interviews, giving a, satisfactory, response rate of 59%.

A variety of industries are represented in the sample. Figure 4 illustrates what kind of companies have invested on CRM systems.
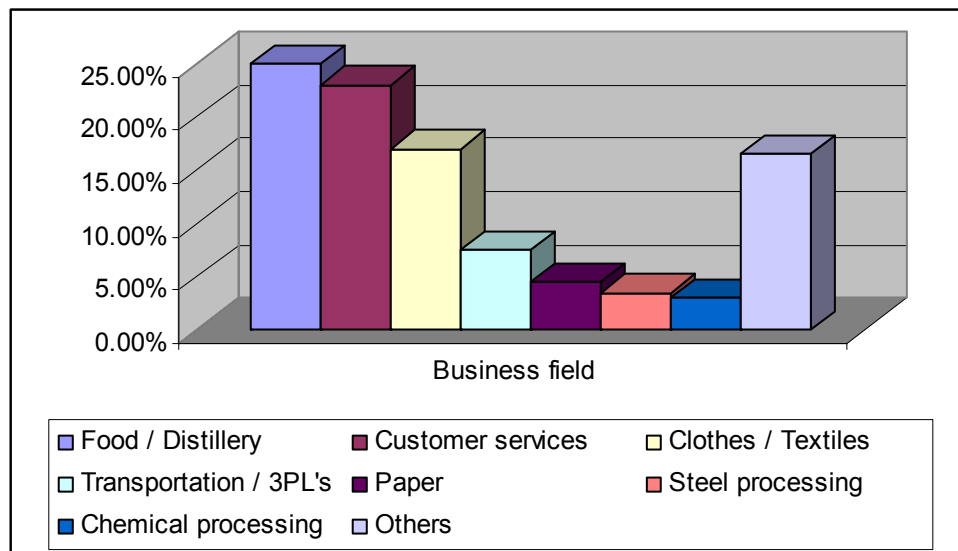
Figure 4. Activity / Business Sector of the Sampled Companies

The majority of the respondent companies are food / distillery (25%), service providers (23%) and clothing / textile companies (17%). With a percentage of 7.5% there were the transportation / 3PL's companies. Moreover, there were companies in the fields of paper industry (4.5%), and steel and chemical processes (3.5% and 3% respectively). The remaining 16.5 percent refers to construction, financial and wooden timber processing companies.

Furthermore, according to Figure 5, the findings show that the majority of the companies that responded to our survey are large companies with strong position in their business domain, since more than 80% of them have more than 10 million euros turnover.
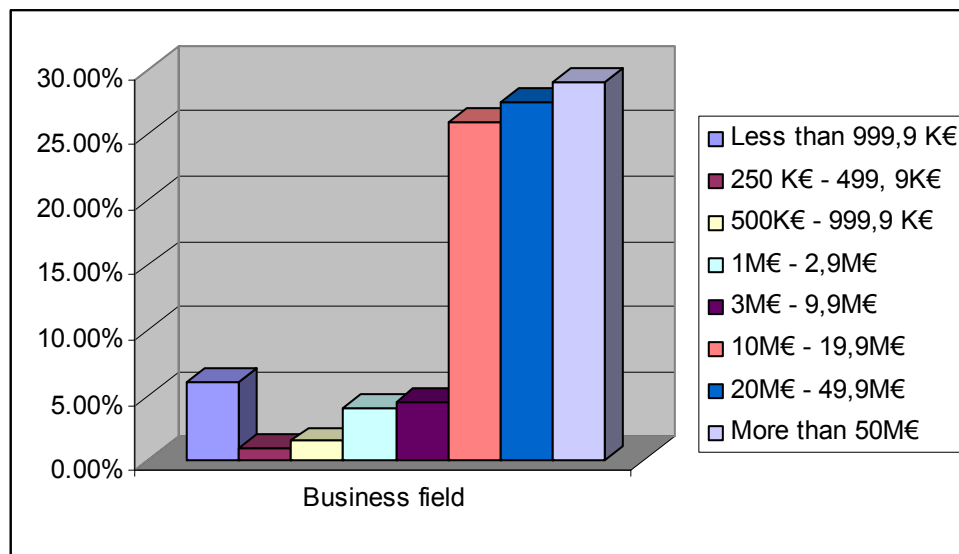

Figure 5. Turnovers of the Sampled Companies

5. Research Findings and Analysis

According to the first hypothesis, the managers were asked to assess the significance of the following customer categories: high volume customers, high future CLV customers, benchmark customers, door openers, and customers-partners. The results are presented below in Figure 6 (frequencies and percentages are given analytically in Table 1 in the Appendix). The hypothesis H_1 is in agreement with the findings of this research, meaning that high volume customers are not the most strategically significant category of customers. The given categories received the following percentages (cumulatively as "very important" and "quite important" categories) in a descending ranking order: 1) high future CLV customers (74.2 percent), 2) benchmark customers (71 percent), 3) high volume customers (62.9 percent), 4) customers-partners (58.1 percent), and finally 5) door openers (58 percent). It is worthy pointing out that the customers who are expected to contribute to the company's profitability in the future were assessed as the most significant customer category.
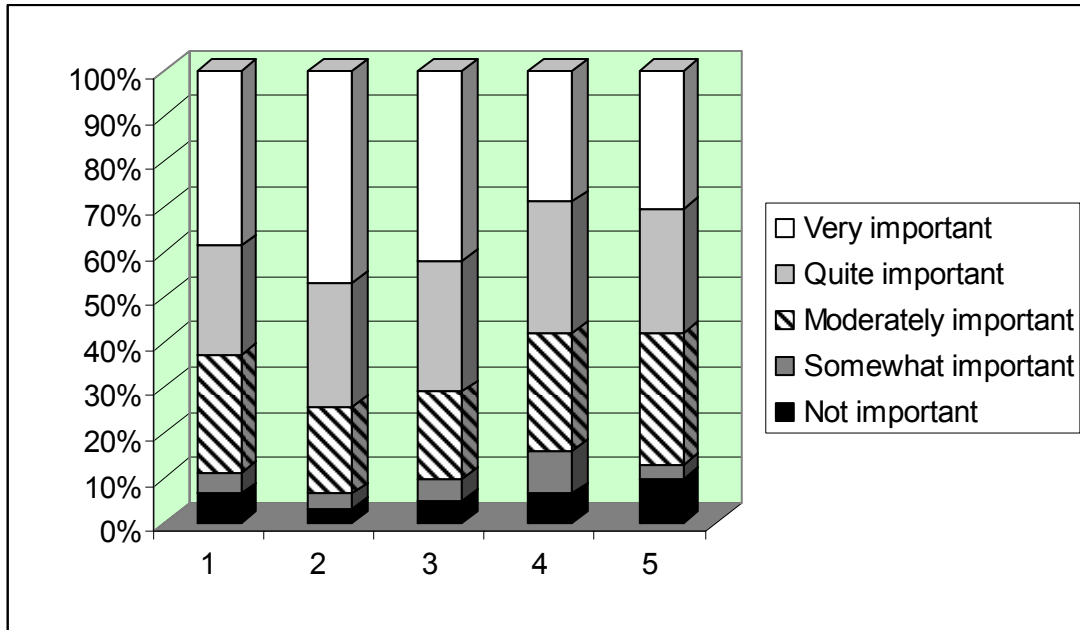
**Figure 6.** Assessment of Strategically Significant Customers

Where:
1   High Volume Customers
2   High Future CLV Customers
3   Benchmark Customers
4   Door Openers
5   Customers-Partners

The second hypothesis examines the relationships, 1) between the significance of high volume customers and the cost of applying a CRM system, and 2) between the significance of high future CLV customers and the amount of application time of the CRM system. The hypothesis is tested through bivariate correlation analysis. The significance of the two customer categories was assessed in a scale from "very important" to "not important" (qualitative ordinal variable). The cost and the time of applying a CRM system are measured with scale variables. Therefore, since one variable is ordinal and the other one is scaled, Spearman correlation was used. A level of statistical significance a=0.05 is accepted. The results of hypothesis testing are summarized below:

1) There seems to be a strong positive relation between the significance of high volume customers and the application cost of CRM systems (Spearman=0.653, p=0.032 < a=0.05)

2) The significance of high future CLV customers seems to have a medium positive relation to the amount of the application time of CRM systems (Spearman=0.427, p=0.006 < a=0.05).

It is reminded that the third hypothesis refers to the implementation rate of our proposed customer strategies. The results are depicted in Figure 7 (frequencies and percentages are given analytically in Table 2). All the possible strategies are implemented at a particularly high rate, leading to the confirmation of the tested

hypothesis. More specifically, the implementation rate of strategies 1 and 2 received percentages over eighty percent (as "implemented at the highest possible rate"), while the respective rates of strategies 3 and 4 were also very high (over seventy five percent). On the other hand, strategies 5 and 6 (where the proposition is withdrawal) had much lower percentages (about fifty five percent), demonstrating that Greek companies are not particularly used to withdrawing from a customer relationship. It should be noted, however, that the managers assessed each strategy separately, since the respective assessment of a whole strategy could be possibly misinterpreted.
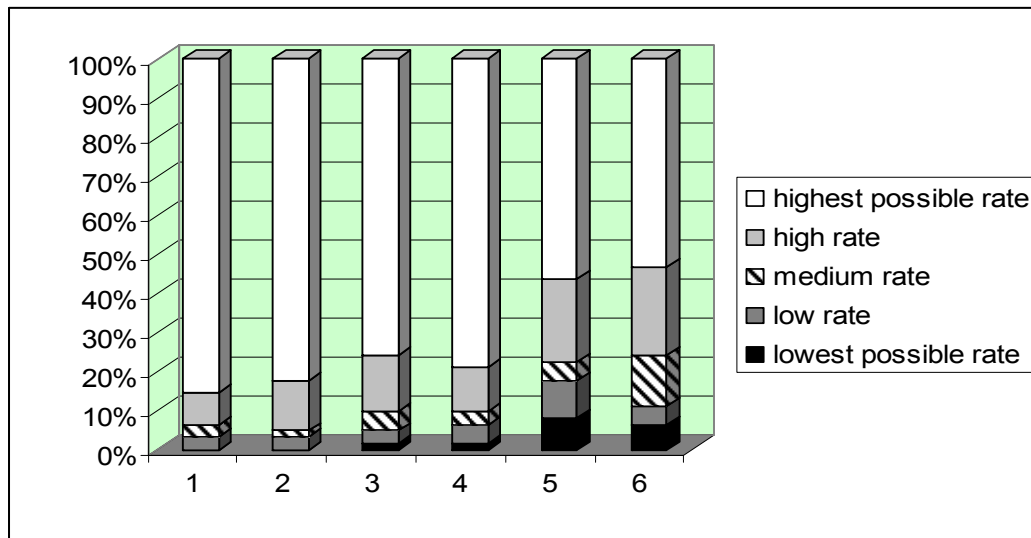
Figure 7. Assessment of the Implementation Rate of Proposed Customer Strategies

Where:
1   Key Customers with a High CLV: Hold the Relationship.
2   Key Customers with a Medium CLV: Increase Sales Turnover or Reduce Costs.
3   Key Customers with a Low CLV: Increase Sales Turnover or Reduce Costs
4   Non-Key Customers with a High CLV: Improve the Relationship.
5   Non-Key Customers with a Medium CLV: Withdraw.
6   Non-Key Customers with a Low CLV: Withdraw.

6. Conclusions and Propositions

In the past the buyers who made a lot of purchases were undoubtedly considered the most strategically important customers. This perspective has been nowadays altered. The companies should focus their promotional activities mostly on the customers who are expected to contribute to the company's profitability in the future. This was one of the key findings of our empirical research, which was conducted among companies in Greece with a great experience in CRM systems. Another point that should be emphasized is that, as the application cost of the CRM system increases, high volume buyers are assessed as more important customers. On the other hand, as the amount of application time of the CRM system increases, the significance of high future CLV customers also increases. This research finding might suggest that the more experienced companies in using CRM applications prefer the higher value customers. This is obviously a long-term strategic choice,

since the decrease of operating costs, due to high volume customers, is rather a short-term policy.

Furthermore, this study proposes four customer strategies, based on the possible combinations of two examined parameters, the concept of "key customer" and the Customer Lifetime Value. These strategies are: 1) hold the relationship with the customer, 2) increase sales turnover or reduce costs, 3) improve the relationship (by developing personal friendships, co-operating in new products, extending the length of the relationship etc.), and 4) withdraw, in the case of a non-key customer with a medium or low CLV. It was found that these strategies are implemented by the sampled companies at a high rate. This is a noteworthy conclusion, since there has been the belief so far that Greek companies are not generally used to withdrawing from the customer.

It is believed that Greek companies slowly differentiate their perceptions about the significance of their customers. Our findings could help at this point. The companies should invest on developing strong relationships with high future CLV customers, and not restricting their investing efforts on high volume customers. The current research could also significantly contribute to the development of a strategic perception of CRM systems, by leading to the ascertainment that CRM is more than a technology solution. Finally, it should be noted that more research is needed in CRM strategy aspects and development. The rationale of this study could be focused on B2B and B2C CRM separately.

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Appendix

Table 1. Frequencies and Percentages of Strategically Significant Customers

	High volume customers	High future CLV customers	Benchmark customers	Door openers	Customers-partners
Very important	24	29	26	18	19
	38.7%	46.8%	42.0%	29.0%	30.7%
Quite important	15	17	18	18	17
	24.2%	27.4%	29.0%	29.0%	27.4%
Moderately important	16	12	12	16	18
	25.8%	19.4%	19.4%	25.8%	29.0%
Somewhat important	3	2	3	6	2
	4.8%	3.2%	4.8%	9.7%	3.2%
Not important	4	2	3	4	6
	6.5%	3.2%	4.8%	6.5%	9.7%
Total	62	62	62	62	62
	100%	100%	100%	100%	100%

Table 2. Frequencies and Percentages of the Implementation Rate of Proposed Customer Strategies

	Key customers with a high CLV: hold the relationship	Key customers with a medium CLV: increase sales turnover or reduce costs	Key customers with a low CLV: increase sales turnover or reduce costs	Non-key customers with a high CLV: improve the relationship	Non-key customers with a medium CLV: withdraw	Non-key customers with a low CLV: withdraw
Implemented at the highest possible rate	53	51	47	49	35	33
	85.5%	82.3%	75.8%	79.1%	56.4%	53.2%
Implemented at a high rate	5	8	9	7	13	14
	8.1%	12.9%	14.6%	11.3%	21.0%	22.6%
Implemented at a medium rate	2	1	3	2	3	8
	3.2%	1.6%	4.8%	3.2%	4.8%	12.9%
Implemented at a low rate	2	2	2	3	6	3
	3.2%	3.2%	3.2%	4.8%	9.7%	4.8%
Implemented at the lowest possible rate	0	0	1	1	5	4
	0%	0%	1.6%	1.6%	8.1%	6.5%
Total	62	62	62	62	62	62
	100%	100%	100%	100%	100%	100%