Customer Relationship Management and E-Business: More Than a Software Solution

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Internet business-to-business sales will reach $1.3 trillion by 2003 and, by 2004, business-to-consumer sales will reach $100 billion. E-businesses today have reached a point where they are trying to move beyond a cursory view of their customers to engaging in rich customer relationships. Strategic customer relationship management and its relationship to e-business is the focus of this paper.

Introduction

Internet business-to-business sales will reach $1.3 trillion by 2003 and, by 2004, business-to-consumer sales will reach $100 billion [14]. By 2005, U.S. companies will spend $63 billion annually on online advertising, promotions and Email Marketing [9]. The Gartner Group estimates that 75 percent of all e-business ventures will fail due to lack of technological understanding and poor business planning [14]. Despite the risks, the Internet challenge is intriguing. Successful e-businesses today have moved beyond an arm's length transactional view of their customers to forging rich customer relationships [15].

Effective e-business strategy requires that an organization provide customer value that is superior to that of the competition. To offer superior delivered value, marketing should directly influence three core business processes: *product development management (PDM), supply chain management (SCM) and customer relationship management (CRM)* [19]. The goal of the PDM process is to create solutions that customers need and want. SCM processes comprise the acquisition of physical and informational inputs and the efficiency and effectiveness of transforming these inputs into customer solutions. The objectives of the CRM process are to shape customers' perceptions of the organization and its products through identifying customers, creating customer knowledge and building committed customer relationships. In essence, CRM "is a business strategy that attempts to ensure every customer interaction (whether for sales or service) is appropriate, relevant, and consistent — regardless of the communication channel" [11:1]. CRM is a core business strategy for managing and optimizing all customer interactions across an organization's traditional and electronic interfaces [18]. An effective web site, for example, can help build relationships between an organization and its stakeholders [20]. Without a doubt, customers are the primary stakeholders of any organization. CRM can be used to gain clearer insight and more intimate understanding of customers' buying behaviors, thus helping to build an effective competitive advantage. Strategic CRM and its relationship to e-business is the focus of this paper.

The CRM/E-Business Connection

The Web promised customers personalization and customization; it promised marketers deeper insights into the habits, feelings, likes and dislikes of customers. But has it lived up to these promises? According to Don Peppers and Martha Rogers, authors of *The One to One Future,* among the "new rules of engagement governing business competition" were "initiating, maintaining, and improving dialogs with individual consumers, abandoning the old-fashioned advertising monologs of mass media" [1:1]. Weiss [20] argues that CRM drives relationships and purchases (both online and off) and drives brand loyalty by fostering trust. Sowalskie [18] suggests that CRM is driven by three factors: 1) consumers empowered by information, technologies, choice, globalization and deregulation; 2) increased competition; and 3) the Internet and e-business, which facilitate the emergence of new distribution channels and enhance sales and marketing as well as service effectiveness and efficiency. Blue-chip companies are investing millions in software products from CRM leaders like Epiphany Kana Communications and Siebel [9].

Different customer wants and expectations may require different customer information and contact strategies.

Strategically effective CRM requires the intelligent application of technology. It must be remembered that effective CRM is more than a software solution; it is about how customer information is used to create an ongoing relationship with the customer. To help achieve that outcome, different relationship approaches, and perhaps even different CRM software, might be needed for the different types of customer relationships found in the business-to-business (B2B), business-to-consumer (B2C) or business-to-business-to-consumer (B2B2C) markets [13].

As noted earlier, the B2B market accounts for the great majority of Internet commerce. Relationships in this market are usually long-term — offering multiple marketing opportunities coupled with longer multi-stage sales cycles. Obviously, business customers want products and services that help them to perform their value added functions. Close supplier-vendor relationships built on performance, history and trust are of the utmost importance. Information needed about the business customer includes profiles of key decision makers and influencers in the buying center and their evaluative criteria. Business customers can be contacted directly by sales representatives, with the Web or call centers used for straight rebuys or information gathering. Service after the sale is often critically important.

Compared to the B2B market, the small but growing interactive B2C market may require different types of relationships, information and contact approaches. The B2C relationship is typically shorter term with shorter sales cycles. Interactions may be transaction-driven. The B2C consumer may be seeking a mix of convenience, price and product capabilities. Information gathered about the consumer typically includes demographics, past and current purchase behavior, preferences and psychographics. The contact strategy for the B2C market includes using past purchase patterns to anticipate new needs and wants that can be targeted with new offers. Two-way communication on the Internet offers more immediate and direct consumer feedback.

The B2B2C market includes businesses that sell and service the business consumer — who, in turn, serves the end consumer. The middleman wants products that are easy to sell and service, and that will meet the requirements of the end customer. The producer needs information on its customers' territory, business model, product preferences and end customer characteristics. The contact strategy centers on facilitating end sales including product and competitive information, training and tools to quickly monitor product and order status.

As described above, different markets and customer types often require different kinds of relationships. Different customer wants and expectations may require different customer information and customer contact strategies. CRM software and analytics — the ability to use multiple data sources to anticipate customer preferences, needs and buyer behavior — can be useful in any market environment. However, it can be especially helpful in the B2C market as a means of relationship building and for improving Internet B2C profitability. Here, the organization has the closest contact with customers via Web site transactions, call centers and suggestion lines [16]. Information from these personalized contact points can be linked to statistical and reporting software tools when these data are captured, ideally in real time.

Exhibit 1, the CRM Industry-Benefit Grid, presents a range of industries and companies that have successfully used a variety

EXHIBIT 1. THE CRM INDUSTRY — BENEFIT GRID

INDUSTRY CATEGORY	COMPANY/ MARKET	CRM ANALYTICS USED	APPLICATION	BENEFIT
E-Commerce	eMachines, Inc. **B2B**	Alorica Inc. (Helix)	Analyze customer problems, comments & call center actions	Predict customer behavior. Identify buying trends.
Accommodations & Food Services	Hilton Hotels **B2B** **B2C**	E.piphany	Analyze data generated by reservation and property management systems and loyalty programs	Create direct mail campaigns and plan for seasonal activity
Consumer Products/Food Processing	Pillsbury **B2C** **B2B2C**	Insightful, Inc (S-Plus) CAS Systems' (CPSS)	Analyze data from calls received on toll-free comment lines	To react quickly to customer wants. Improve effectiveness of assortment, pricing and shelving decisions.
Retail Trade	Fingerhut Companies **B2C**	Quadstone SAS SPSS	Produce models that can be used for predictive purposes. Assist non statisticians with making marketing decisions	Create subcategories based on customer age; create graphical score cards which show value of each Web page.
Finance & Insurance	People's Bank **B2C**	HNC Software Inc. (Profit Manager)	Improve cross selling and customer service practices	Determine which customers are the most profitable and which are the most costly.

of CRM software from different vendors and analytics to help them establish and sustain mutually beneficially relationships with their customers. As indicated by the Pillsbury and Fingerhut companies, it should be noted that it's sometimes necessary to use more than one type of CRM software for different purposes within the same company.

In computer manufacturing, eMachines, Inc. has built a database of customer problems and comments to supplement its call center actions in the B2B market. Helix by Alorica, Inc. CRM application software aggregates the information and can produce reports that might, for example, reveal a defective part on a certain model. eMachines is using the software to learn more about its call center operation and to quickly identify potential trouble-areas so that they can be promptly solved for the customer. Helix by Alorica, Inc. offers a Web based, fully integrated outsourced CRM support service that transforms data into analytic business intelligence.

In the accommodations market, Hilton Hotels has used E.piphany CRM software at its headquarters to quickly analyze data generated by its reservation and property management systems. The company can also analyze demographic information from its Hilton Honors program database of customers most likely to use Hilton Hotels. These data and behavioral patterns are used to help create targeted direct mail campaigns and to help local hotel managers plan for seasonal activity by wholesale customers (B2B) and business travelers (B2C). The E.piphany software comprises a suite of CRM products that merge analytical and operational CRM capabilities. Benefits include a single view of the customer by integrating data from existing systems, real-time analytics and multi-channel capability.

Pillsbury Co., a consumer products food processor, uses two different CRM software packages to help manage its relationships with the consumer market and the B2B2C market. To react quickly to what consumers want, Pillsbury built a system around Insightful Corporation's S-Plus analytics tool and its StatServer, enabling Web users to perform analyses of S-Plus data. These analytics use data gleaned from the company's toll-free customer comment line to provide intelligent information for decision makers.

In the B2B2C market, Pillsbury uses a CAS Systems Consumer Products Sales Suite (CPSS) to provide a CRM solution for its national retail sales organization of some 400 Pillsbury sales representatives and more than 100 retail managers and administrators. The objective of the system is to help the sales representatives to be better managers by improving their decisions on assortments, pricing and shelving. The Pillsbury example suggests that organizations wishing to enhance their customer relationships need to recognize the different kinds of relationships required with different types of customers.

In an initiative to conduct timelier mail-order promotions, Fingerhut Companies, Inc. is in the process of linking its data warehouse with information the company is getting from its Web site. Fingerhut needed to determine how much time customers spend on a Web page and which pages were more likely to lead customers to make a purchase. Although the B2C Company has been very successful with its traditional direct mail catalog business, it has to re-invent itself as it moves into e-commerce. To help in this endeavor, Fingerhut has supplemented its SAS and SPSS statistical software with Quadstone's CRM analytics software. The Quadstone package offers consumer behavior modeling across online and direct mail operations. In addition, it incorporates built-in intelligence that can create categories based on customer age and can create a graphical scorecard to help assess the value of each Web page.

Fingerhut has made a substantial financial investment in its CRM analytics. The potential benefit of their combining data from multiple sources is that the company will know when, why, how and through which channels customers contact them. Personalized messages, loyalty programs and special offerings can be prepared and delivered through the most appropriate channel. In addition, third party sources of demographic and socioeconomic data can be incorporated with the company's existing database, thus enabling profiles of the most profitable customers to be developed.

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In the financial industry, People's Bank in Bridgeport, CN is one example of a B2C retail bank that is using analytical software to help implement its CRM strategy. This bank is using HNC Software Inc.'s Profit Manager software to determine the profitability of customers, products, business units and relationships by pulling data from accounting, CRM and core banking systems. People's Bank intends to use these data to improve cross-selling and customer service practices.

How a Market Driven Orientation Should Influence the CRM Process

CRM requires that an organization view customer relationships as means to learn about customers' needs and wants and how best to create, satisfy and sustain them while concomitantly helping the organization to meet its objectives. To tailor solutions that enhance customer functionality and to determine new customer functionalities, customer intimacy and partnering are required. Networks of customer relationships involving channel members, end users, advertising agencies, research firms, etc. are created and require management.

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Weiss notes the lack of adequate guidance in the literature about how to build these relationships [20]. He suggests that personalization and online interactivity can be used to help build emotional connections with stakeholders in ways that no other medium can. Forrest and Mizerski maintain that the highest use of the Internet among businesses has been as a "listening" medium [9].

The World Wide Web has evolved into a medium with various generic relationship-building attributes [20]. The higher the quality of the information a company can capture about its customers, and the more complete the information is, the better the company will be able to use decision analysis to predict customer behavior [4]. More targeted and customized relationship strategies can result from better predictions of customer needs. Online CRM can enhance the value of the relationship for both customers and the e-business. Customers can receive more products and communications that are better suited to their needs and lifestyles, and the e-business can benefit from a group of high-value repeat customers.

However, Butler argues that there are two significant CRM challenges faced by multi-channel businesses [4]. First, the consistency of response from different customer points of contact with the company must be addressed. Online customers, for example, can receive immediate feedback to their applications, questions and suggestions — but the same may not be true for customers who contact the company through a different channel such as telephone or a traditional retail outlet.

A second challenge is the need to view CRM holistically — as part of all of the organization's processes — from marketing to collections. The tendency may be to view CRM narrowly as a tactical series of transactions, but effective strategic implementation of CRM requires information from all relevant departments for the purpose of using customer information intelligently to create relationships or partnerships with customers.

Importance of CRM as a Core Business Process

Intimate customer relationships offer the marketer several advantages. First, the relationship can create a committed customer. More than simply a repeat purchaser, the committed customer has an emotional attachment to the seller [6,12]. These emotions can include trust, liking and believing in the firm's ability to respond effectively and promptly to a customer problem [8]. Committed customers can be viewed as company assets who are likely to be a source of favorable word-of-mouth referrals and are more resistant to competitors' offers.

Second, CRM relationships provide a point of leverage to realize economies of scope. Committed customers are often more receptive to line extensions [2]. Leveraging the customer base can facilitate cross-selling complementary products as well as "selling up" to higher quality substitutes.

Third, in recent years, CRM's potential to contain and reduce costs has been explored. CRM, in concert with other processes, can help reduce churn or turnover in a company's customer base. Better customer management can result in lower sales and service costs, higher buyer retention and, thus, lower customer replacement expenditures [17].

CRM in the E-business Environment

Emerging technologies offer companies the potential to improve their ability to attract and retain customers, capture more information through the online channel than through any other customer contact point, and practice effective CRM [4]. Davids [5] suggests that the appeal of CRM remains largely out of reach for a large number of businesses. According to Keefe [10], some CRM experts argue that there is little consensus about what CRM actually is, or how to best execute or measure it. In her article, Keefe reports on an interview with Heidi Wisbach, manager of CRM Analytics in the New York office of Cap Gemini Ernst & Young, who specialize in CRM initiatives in the manufacturing, hospitality, financial services and telecommunications industries. Wisbach is one of the creators of the CRM Index, which can be used by a company to measure the extent to which they use actual CRM techniques and to compare their standing against competitors. According to Wisbach, a company's CRM readiness is a function of having: 1) a way to track customer information; 2) metrics — a means of evaluating customer performance; and 3) the ability to impact change. The industries that tend to be more CRM-ready are those which are aware of distinct contact with the customer and those which are really competitive, thus requiring individual companies to differentiate themselves significantly. Examples include, but are not limited to, the airline, manufacturing, hospitality, financial services, telecommunications, publishing and tobacco industries.

Capital One Financial Corporation, the credit card issuer, went from startup to superstar status in only five years. This was due largely to a massive CRM program that "allows the company to nurture its customers and to deliver the right product (credit or add-ons, including insurance, longdistance service, and catalog clubs) to the right customer just when he/she needs it — even if he didn't know beforehand that he did" [5:22].

Other companies are becoming effective at CRM, including American Airlines, with its personalized Web pages, and Hertz Rent-A-Car, with its unique service for preferred customers. Other examples include Golden Books, which used online sampling to develop its new series of print/web research guides, and R.J. Reynolds, which builds customer appreciation and brand loyalty by sending birthday cards and a quarterly newsletter to Doral smokers [9].

Many firms, however, have been lax in implementing CRM. Lord states that the key word in CRM is still "relationship" [14:42]. Quality products, twenty-four hour accessibility, easy ordering, removal of geographic boundaries, on-time delivery and responsive service are what customers want today. According to Internet research firm Jupiter Communications, up to 42% of top ranked Web sites took longer than five days to respond to a customer inquiry, did not accept e-mail or never responded at all [14].

Davids [5] discusses the common mistakes companies make when trying to implement CRM. Using initiatives that really don't benefit customers is one common error. One solution is to form a customer advisory council where key customers periodically meet with company executives to identify gaps between the organization's offerings and customer requirements. A council can also provide the customer's point of view regarding the quality of the organization's interactions with customers.

Another mistake is failing to consider the "lifetime value" of a customer. Companies must be willing to treat different customers differently. For example, American Airlines offers different priority upgrades for its platinum and gold customers. Many companies just have not been tracking their customers. Still others have either taken too long to start up their CRM programs or have been discouraged by overestimating what is needed to begin one. Davids recommends "scoring early, quick hits" [5:25] and indicates that Western Union's database of 26 million customers was built in only five months. In addition, he suggests using whatever data and information technology capabilities the organization already possesses to begin the CRM process.

The Future Internet and CRM

Achieving the one-to-one future is possible for e-businesses [1]. It first requires developing and perfecting profiles of customers. The analogy is provided of the friendly shopkeeper, who, before mass marketing, knew his customers by their habits and lifestyles — not just their demographics. Customers must feel that they can trust a company. Companies can build trust by offering higher standards of privacy. Customers want full disclosure, full consent and confidentiality. According to Bayers, at one time or another, 94% of consumers have refused to provide personal information when asked for it, and 40% have lied about the data provided on a Web form [1]. Without customer trust, bad information can create problems.

The Internet's one-to-one promise still appears to lie in the future, but what will this future be like? Duboff and Spaeth [7] suggest that the online population will more closely mirror the general population in age and income demographics in the U.S., Germany, the United Kingdom and Scandinavia. Businesses should ask themselves about the cost of entry into this business, the necessary (product) ingredients, the relevant differentiators and the unmet needs of potential customers. While these factors will vary by product category and consumer segment, businesses can gain insight by studying today's lead online consumers and successful online businesses. Therefore, continuous market research is necessary in order to understand the characteristics and dynamics of the online marketplace.

Not every business can sell online, but every business must bond with its most profitable customers. Thus, an on-going dialog between marketers and their customers is mandatory. In fact, an ongoing dialog can enable small businesses to effectively compete against larger ones. Techniques which can foster on-going dialog between marketers and their customers include CRM software which integrates data from call centers and suggestions lines and develops customer profiles (see Exhibit 1), personalized messages, loyalty programs, special offerings, personalized web pages, quarterly newsletters and the formation of customer advisory councils. Other techniques might include chat-based online focus groups, Internet-based conferences, E-mail or Web-based customer surveys and online customer panels.

As businesses rush to develop e-businesses and CRM strategies, pitfalls must be avoided. Butler [4] offers several cautions about the use of online channels:

Online channels are expensive. Thus, an organization-wide commitment of resources is required. CRM is a business strategy; not a suite of software, and employees may find it difficult to adopt a CRM orientation. Therefore, it is recommended that the company establish pilot CRM tests to demonstrate the financial benefits of improved relationships [3]. CRM should be integrated into all of the functions of a business — from marketing to collections.

An online channel may be just one of two or more SCM channels used to manage customer relationships. CRM can impede the growth of other channels. Enabling firms to offer products that best meet the needs and lifestyles of a customer and help the organization achieve its objectives is what CRM is all about. The best way to do so may be through a traditional marketing channel.

Finally, businesses must realize that an online channel is more than just a communications tool. Marketing oriented CRM can supply useful information to the product development management (PDM) and supply chain management (SCM) processes, thereby delivering more value to the firm and to the customer.

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