The Alignment of Customer Relationship Management (CRM) Strategies with Overall Organizational Forces and Strategies

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Declaration

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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Abstract

Customer Relationship Management (CRM) systems are increasingly becoming strategic business imperatives to organizations. This thesis states that many companies do fail to get the intended returns from CRM infrastructures simply because they see CRM as merely technological solutions to attracting and retaining customers while failing to see it as a business strategy and integrated into the business model or concept.

In the first chapter, the review of literature about CRM, the aims, specific objectives, and methodology used to finalize this paper, problems and challenges surrounding CRM systems are discussed.

The second chapter consists of the definition of CRM systems from various multi-disciplinary perspectives as taken from different authors. Besides, the nature, potential benefits and costs to both customers and organizations, and the different types of CRM programs are discussed in detail.

In chapter three, the need to integrate CRM strategies into organizational corporate strategy and competitive strategies of various functions of an organization are discussed. Besides, the customer segmentation strategies and market segmentation strategies are explained.

In chapter four, the relationships between CRM strategies and the various organizational forces such as organizational culture, structure, business processes, and measuring process re-engineering are discussed.

In chapter five, the alignment of support technologies with CRM strategies is discussed in detail. The sections in the chapter include the role of ICTs in CRM systems, the use of Customer Knowledge Management (CKM) in CRM strategies, Customer data analysis, the role of data marts in CRM projects, computer system architecture and data storage management, data sources for CRM purposes, the role of database management systems in CRM systems, the role of customer contact points in CRM systems, database structures for CRM infrastructure, and the use of data mining for data analysis and information delivery.

In Chapter six, the need to establish value-adding processes and the creation of value in CRM systems to both customers and organizations are mentioned as the main requirements in CRM strategies. Such sub-topics in this chapter include the customer value proposition, determination of acquisition and retention strategies and customer net value, customer service excellence, the relationship between value-adding services and personalized treatment of customers, and loyalty programs.

In Chapter seven, the reasons for customer defection and the mechanisms to prevent the defection possibilities are discussed. Then, the thesis is summarized and concluded.

Opsomming

Klanteverhoudingsbestuurstelsels – hierna verwys as CRM-stelsels – word toenemend belangrik vir die strategiese besigheidsbelang van organisasies. Hierdie tesis sal poog om te toon dat baie maatskapye CRM bloot as 'n tegnologiese oplossing beskou en derhalwe nie daarin slaag om met hul CRM-infrastruktuur beoogde organisasie doelwitte te behaal nie. CRM word meesal beskou as 'n tegnologiese hulpmiddel om kliënte te bekom en te behou, en nie as 'n besigheidstrategie wat in die besigheidsmodel en -konsep geintergreer behoort te word nie.

Die eerste hoofstuk, dek 'n literatuur-oorsig oor CRM, stel sekere spesifieke doelwitte met die studie, bespreek die metodologie wat vir die studie hieroor gebruik is en stel die probleme en uitdagings rondom CRM stelselimplementering.

Die tweede hoofstuk handel oor die definisies van CRM-stelsels gesien vanuit die perspektiewe van verskillende outeurs. Verder word die aard, potensiële voordele en koste vir beide kliënte en organisasies tov die implementering van CRM, asook die verskillende tipes CRM programme wat beskikbaar is, bespreek.

In hoofstuk drie, word die belangrikheid om CRM strategieë met die van die organisasie se kooperatiewe en mededingende strategie te intergreer en te belyn, beklemtoon. Verder word verskeie mark-segmentasie strategieë bespreek.

In hoofstuk vier gaan die bespreking oor die verband tussen CRM strategieë en die verskillende organisasie faktore soos organisasiekultuur, organisasiestruktuur, besigheidsprosesse. Die meting en beheer van die interverwantskappe van hierdie faktore word op grond van besigheidsprosesheringeneurings- (BPR) beginsels bespreek.

In hoofstuk vyf word die inlynstelling/belyning van ondersteuningstegnologieë met CRM strategieë deeglik bespreek. Die afdelings van hierdie hoofstuk behels die bespreking van die rol van Inligtings Kommunikasie Tegnologie (ICTs) in CRM stelsels, die gebruik van Kliente Kennisbestuur (CKB) in CRM strategieë, klient-data analisering, die rol van data-marts in CRM projekte, rekenaarstelsel argitektuur en databergingsbestuur, data bronne vir CRM doeleindes, die rol van databasis-bestuurstelsels (DBMS) in CRM, die rol van klient kontak punte, databasis-strukture vir CRM-infrastruktuur, en die gebruik van datadelwings- (data-mining) tegnieke vir data analisering en inligtingsontdekking.

Hoofstuk ses bespreek die behoefte om waardetoevoegende prosesse te implementeer, en om die skepping van waarde uit CRM stelsels vir beide die klient en die organisasie as die vernaamste doelwit/vereiste vir 'n CRM stategie te vestig.
Verder behels die onderwerpe in hierdie hoofstuk, die klient waarde-aanbod/proposisie, die bepaling van klientwerwing en -behoud strategieë, die bepaling van klient se netto-waarde, die vestiging van 'n klientediens uitnemendheidsprogram, die verband tussen waardetoevoegende dienste, die verpersoonlike hantering van kliente, en laastens die vestiging van lojaliteitsprogramme.

In die finale hoofstuk word die redes vir klientedros/defeksie en die meganisme om dit moontlikheid daarvan te verhoed bespreek. Daarna volg 'n opsomming en word sekere gevolgtrekkings gemaak.

Dedication

This thesis is primarily dedicated to all Eritrean Martyrs who passed away for the cause of Eritrean Independence.

It is also dedicated to my beloved family and friends, who have shown their love and dedication towards my success of this life-long education.

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Table of Contents

List of Figures

CHAPTER ONE

1.1. Introduction and Background

The information- and Knowledge-based economy is characterized by the emerging organizational logic. This logic or trend is characterized by the move from mass production to flexible production system whereby industries are forced to cope to meet the needs of customers (Castells, 1996:154-5). The need to customize and differentiate one's products has arisen from the competitive tendency in the global economy and the empowerment of the bargaining power of customers, among many others. Hence, companies are urged to identify, understand, analyze and evaluate the behavior of their customers so that to deal with them appropriately.

Laudon and Laudon (2002: 52) suggest that businesses, if they are to provide value and services to customers at lower cost, they have to improve their business processes for interacting with customers and for producing and delivering products and services. The same authors (2002: 52), Kalakota and Robinson (2001: 169), and Caisse (2002) stress that customers can easily switch from company to company by continually raising the bar for customer service to a higher level than it used to be. As Kalakota and Robinson (2001: 170) also assert, even organizations with long-standing customer bases often have difficulties in meeting customer expectations because of lack of information and data enabling them to make good service decisions.

Thus, Customer Relationship Management (CRM) strategies are increasingly becoming a top priority in different business organizations.

1.2. Review of Literature

Laudon and Laudon (2002: 53) as well as Kalakota and Robinson (2001: 172) assert that CRM is both business and technology disciplines that uses information systems to co-ordinate all of the business processes surrounding the firm's interactions with its customers in sales, marketing and services. However, many companies still see CRM as merely application technology and ignore to align it with other organizational factors such as organizational culture, structure, and business processes. The alignment of CRM strategies with organizational forces are further explained in chapter 4.

The popularity of CRM grew in 1990s and unlike many other terms from that decade, it is still around (National Computing Centre – NCC, 2003). NCC further notes that CRM applications came about as a result of business pressure to get the most out of the customer data combined with the development of data warehouse technologies. The data warehouse technologies and their role in CRM are further explained in chapter 5.

Kalakota and Robinson (2001: 171) suggest that effective management of CR systems has become a top priority due to competitiveness in markets and the subsequent customer choices. Thus, companies are, according to Kalakota and Robinson (2001: 173), urged to increase revenue by preparing a comprehensive view of the customer to maximize his/her relationship with the company. The same authors also suggest that companies are integrating information and introducing consistent and replicable channel processes to encourage customers to repeat transactions and improve process and procedural consistency in accounting, management, and selling.

Many companies assume that the provision of service at the front-desk is an end of the relationship with the customer. However, the term *relationship management* usually refers to the idea that a major objective of a business enterprise is to engage in long-term interactions with customers (Zikmund et al, 2003: 2; Stanley, 2000; 25; Robert-Phelps, 2001: 28-29, 52; Laudon & Laudon, 2002: 53). Thus, creating a relationship with customers is not the end of the interaction process, but rather the start and the continued process of the organizational relationship with a customer (Zikmund et al, 2003: 2). As customers' trust on the supplier increases, it means an increase in long-term sales prospects and reduction of marketing costs (Zikmund et al, 2003: 2; Robert-Phelps, 2001: 12) such as reducing acquisition and retention costs and gaining more cost-free referrals.

This can be done when the marketers use the resources of the entire organization to create, interpret, and maintain the relationship with a particular customer and sets of customers.

Kalakota and Robinson (2001: 171) suggest that effective management of CR systems is the source of competitive differentiation which enables companies to continually create new value propositions for customers. The value propositions for customers are further discussed in chapter 2.

Thus, the goals of CRM can be summarized as follows as put by Kalakota and Robinson (2001: 173):

- Increase revenue by preparing a comprehensive view of the customer to maximize his/her relationship with the company through different ways of selling activities.
- By integrating information, customers save time and organizations are saved from repeating the same information in various departments and units.
- By introducing consistent, replicable channel processes and procedures, many companies improve process and procedural consistency in accounting, management, and selling.

The same authors (2001: 173) further assert that CR means not only a technology aspect but also means redesigning functional roles, reengineering work processes, motivating people in the company to support the new approach and thus implement CRM technology.

Therefore, this thesis is intended to provide a detailed analysis and discussion on how CRM strategies can be aligned to overall organizational strategies and IT infrastructure in order that successful CRM projects could be implemented.

1.3. Problem Discussion and Problem Statement

One of the problems in implementing CRM strategies is that companies fail to focus on customers due to past business models which did not favor a customer-centric approach. This happens due to organizational resistance to changing business models and concepts (Kalakota and Robinson, 2001: 172).

Another problem is that enterprises misconstrue that they would get applications that will universally and always speak to each other and work perfectly. This happens, according to Media Vue. Net (2002), due to lack of the need to realize the customization of CRM to their structure and take realistic view of what they expect out of the CRM software solution.

Some others totally assume that their CRM projects were failures without realizing that there is a better solution that may result from a newer business concept or model. Those failures are usually attributed to IT departments for jumping on the CRM bandwagon without checking the *integration* with the rest of the company (Kidman, 2003) and alignment to software packages (Clark, 2002). However, many agree that the problems usually arise due to the integration process itself for they are usually based on technology (for example, enterprise application integration platforms, adapters etc) versus the systems integrators.

On the other hand, Patton (2001) quotes Siebel Systems (one of the biggest companies that offer CRM solutions) as attributing the failure of CRM projects to the sales and marketing departments for they are not used to the automated systems.

More problems also arise due to customers' unrealistic expectation from automated systems. They want a *personal, effective, and efficient service* response equally from interacting with live agents on the one hand, and automated systems, on the other hand (Caisse, 2002).

Finally, Patton (2001) quotes Gartner Consulting (a group of technology consultants to business executives and IT professionals) as arguing that no vendor covers all of the areas typical Fortune 500 companies would need in a full-scale CRM initiative. On the other hand, the same author in the same publication mentions that Siebel Systems and other giants argue that they offer full-fledged technology solutions.

In brief, based on the abovementioned discussion, *the problem with CRM strategies is that many companies expect profitable returns from CRM projects by considering CRM systems as merely technological solutions to acquiring, enhancing and retaining customers. The question is that - should firms consider CRM systems merely as a technology showcase?* This thesis is intended to answer this question in the subsequent chapters.

1.4. Research Objectives

The major and generic objectives of this study are, therefore, to: -

- Discuss the extant literature on the relationship between the technological and strategic business aspects of CRM Systems.
- Discuss how the organizational factors such as the organizational culture, structure, and business processes and routines can contribute to implementing CRM systems.
- Discuss the integration or alignment of CRM strategies with overall organizational strategy.
- Discuss the value-adding and value-creating business processes that are incorporated in a successful CRM project.
- Discuss the reasons behind customer defection and the mechanisms to deter the defection possibilities.

1.5. Research Questions

Based on the objectives listed above, it has become mandatory to answer the following questions:

Are the new Information and Communication Technologies (ICTs) the only elements that guarantee the implementation of successful CRM systems? In other words, can the CRM systems development be relegated only to IT function and ignore the other organizational functions?

Can the implementation of CRM systems be seen as separate entities of an organization and thus ignore the dynamics of organizational factors such as organizational culture, structure, and business processes and routines?

What are the value-adding and value-creating business processes that can be created through CRM systems in order to create loyal and potentially profitable customers?

What are the customer differentiation or segmentation strategies that help to identify or classify good customers from bad customers?

What are the reasons for customer defection and the prevention mechanisms to deter defection possibilities?

Those are the generic questions that this thesis is intended to discuss.

1.6. Methodology and Approach

One of the qualitative field studies is using historical research. Historical research is meant, according to Welman and Kruger (1999: 186), to locate existing sources such as documents, books, newspapers, articles, and journals etc, which are preserved from the past. As much as the traditional forms of publishing that are mentioned in the preceding sentence (such as books and journals) has positive features; they also entail negative features (Mouton, 2001: 35). According to the author, the positive side of these traditional forms of publishing is that they have developed a culture of extensive and detailed forms of codifying knowledge. On the other hand, the author stresses that they involve the inevitable time lag between the creation of a new idea and its dissemination. Therefore, the author of this thesis has used Internet or electronic publishing. The reason is that, as Mouton suggests in the same publication (35), the Internet has cast the time lag between the generation of an idea and its publication or dissemination.

Yet, the Internet, as the same author suggests, is not seen as a substitute for *traditional forms of literature reviews.* In other words, the Internet or electronic publishing is used as supplementary source of data and information in this thesis.

In this thesis, the various set of elements that are considered as ontological aspects of CRM systems are dug out from various literatures. Hence, those various set of elements have contributed to finding a reference model or concept in the implementation of successful CRM projects. A reference model or concept, according to Botha and Fouche (2002:282) provides *a logically consistent description and representation of the interrelationships between the essential elements of a high-level or composite concept such as a process or other entity.* Furthermore, the authors state that a reference model tends to *become the de facto* standard *until it is displaced by a new construct as a result of new technologies or conceptual developments in the field.*

Therefore, the contribution with this thesis is to discover some sets of elements that are ontological and contributory to the implementation of CRM systems. On the basis of the aforementioned, as Mouton (2001: 87) implies, the importance of reviewing the existing scholarship is to *provide clues and suggestions about what avenues to follow.* Under this topic, the researcher is cognizant of the internal criticisms. This meant, according to Welman and Kruger (1999:187), that the researcher maintains the accuracy or credibility of the contents. Reading extensive literatures from both the technological and strategic business perspectives does ensure the accuracy and credibility of those contents in this thesis.

CHAPTER TWO

General overview of CRM systems

2.1. Definition of CRM

More formally, CRM is a business strategy that uses information technology to provide an enterprise with a *comprehensive* as well as reliable and integrated view of its customer base (Stanley, 2000: 15-17; Russell-Jones, 2002: 7-8; Zikmund et al, 2003: 3).

Comprehensiveness of the customer base refers to using a wide range of techniques such as marketing, research, communication, service tailoring and pricing to understand who the customer is, segment the best customers, create stretched relationships, manage those relationships to mutual advantage and seek more customers (Russell-Jones, 2002: 7-8). This means that all processes and customer interactions help to maintain and expand mutually beneficial relationships (Russell-Jones, 2002: 15-17; Robert-Phelps, 2001: 21-22; 42-43; Zikmund et al, 2003: 3).

A reliable and integrated view of the customer base implies that the information that is used to determine one's customer base must depend on full-fledged customer data in order to qualify for and make sound strategic decisions.

Hence, CRM requires an enterprise-wide approach to customer care whereby it will achieve the integration of end-to-end and front office to back office systems (Stanley, 2000: 4, 20, 23, and 37).

The abovementioned definition implies that CRM systems need system developers who invite enterprise-wide involvement in order to have full-fledged techniques, which assist to produce a full-fledged customer data. This happens in the intention of fulfilling the needs of various end users of the CRM systems. The end users can be various consumers such as system developers, managers, and others that turn the data that is found in the CRM system into valuable information. Hence, according to Stanley (2000: 8), CRM is intended to serve to understand, anticipate, and manage the needs of an organization's current and potential customers and other various end-users. Furthermore, it is the process of acquiring, enhancing, and retaining profitable customers by continuously processing up-to-date customer data to specifically retain the value-adding customers.

Handen as quoted by Stanley (2000: 7) stresses that organizations can no longer expect results from broad advertising and marketing campaigns aimed at the broad mass of customers. The reason could be that the basic tenet of CRM strategy is to improve revenues through customer satisfaction and retention by understanding of customer segments (Stanley 2000, 2000: 17; Zikmund et al, 2003: 15; Russell-Jones, 2002: 27-29) and their needs aligned with the products and services. This means that the underlying importance of CRM projects involves the strategic segmentation of customers according to their various characteristics in order to tailor organizational solutions that will add pecuniary and non-pecuniary values both to customers and to the organization.

Hence, as Stanley (2000: 7, 34) and Russell-Jones (2002: 10-11) suggest, organizations are increasingly using more select methods to reach those vowed customer segments.

Besides, CRM incorporates as many channels as possible in order to reach as many segmented customers as possible through the medium they want to communicate or transact (Stanley, 2000:7, 34; Russell-Jones, 2002, 9-10, 16; Robert-Phelps, 2001:28). In other words, the best CRM projects see ICTs such as the Internet as but one of the media channels rather than the only one that could radically change the complete architecture of CRM systems. According to Kalakota and Robinson (2001: 56-57), this concept is now known as *multi-channel service integration*.

According to the same authors, multi-channeling means the explosion and availability of access alternatives and capabilities such as the web, direct dial-up, and interactive voice response (IVR), and wireless services so that these services supplement the traditional channels such as the brick-and-mortar office and the telephone. The same authors explain that service integration means the provision of standardized high-quality customer service across the entire firm's service channel media. Russell-Jones (2002: 156-157) subscribes to the preceding statement by suggesting that data must be scrupulously recorded by staff, so that the database is up-to-date and that all organizational touch points have access to the same data. This means according to Kalakota and Robinson (2001: 56-57) and Russell-Jones (2002: 156-157) that, given customers can now access organizations through many channels relatively easily, their expectations are that they will receive the same level of service across them all. For example, Mr. A walks into ABSA bank, deposits R10, 000 into his account, goes to any ABSA Automatic Telling Machine (ATM) to withdraw some money. The expectation of this person is that he must not get a message that his account has insufficient funds. In other words, the physical branch and the electronic machine, that is, the ATM must be combined so that there is an integrated and consistent service across all the channels.

However, it is required of firms to avoid the availability of channel conflicts. According to Laudon & Laudon (2002: 130 -131), channel conflicts means the competition between two or more different distribution chains used to sell the products or services of the same company. According to the authors, channel conflict is especially problematic in business-to-business electronic commerce, where customers buy directly from manufacturers via the Web instead of through distributors or sales representatives. The authors suggest that using alternative channels created by the Internet requires a careful planning and management.

CRM strategies also involve *customizing* and *personalizing* products and services to fulfill the dire needs of an individual customer or sets of customers as well as an individual firm (Stanley 2000: 12; Zikmund et al, 2003: 3, 9; Russell-Jones, 2002:16; Roberts-Phelps, 2001: 27-28).

Customization refers *the modification of a software package to meet an organization's unique requirements without destroying the package software's integrity* (Laudon and Laudon, 2002: 323-324; Kalakota and Robinson, 2001:44-45). This means according to the authors that many companies do not have to write their own software applications to build their information systems because there are many applications that are common to all business organizations. However, an organization may have unique requirements that the package does not address. Hence, many software packages include capabilities for customization.

Personalization is when firms form lasting relationships with customers by providing individualized content, information, and services (Laudon and Laudon, 2002:112-114). According to the authors, firms can create unique personalized web sites that display content or advertisements for products or services of special interest to each user, improving the customer's experience and creating additional value. Kalakota and Robinson (2001: 41-42) also suggest that online retailers triumph over brick-and-mortar companies in one way - consumers have a broad chance for product selection while physical stores are capital intensive to build or expand and have limited shelf space and inventory constraints. In addition, the authors suggest that e-business companies induce customers to leave profile data and firms will use the data to personalize each shopper's experience, such as through e-mail alerts for new personalized merchandize.

In order to customize and personalize solutions, CRM systems must describe customer relationships in sufficient detail or give a complete record of the customer's company interactions so that the service representative can tailor the response accordingly (Zikmund et al, 2003: 3-4; 30-32; Robert-Phelps, 2001:45; Mentz, 2003: 26). Those complete records are acquired through different kinds of contacts, that is, from point of sale to remote business interactions.

Thus, CRM systems use the IT platform of the organization to align with new business strategies to enhance customer service, improve customer satisfaction, and ensure customer retention. In other words, ICTs are increasingly personalizing and customizing business solutions to satisfy the needs of individual customers or sets of customer segments.

However, Botha and Fouche (2002: 283) quote Hellriegel and Slocum (1978: 485-488) that an organization can only determine its direction and status if it realizes the interrelatedness of existing internal and external forces. According to them, the interrelated forces include *organizational culture* (attitudes, values, behaviors and interpersonal relationships between employees), *structure* (formal, cross-cutting permanent or temporary, and informal structures), and *tasks* (business processes, procedures, methods and routines followed by employees), and *technology* (the role of ICTs). Hence, the implementation of CRM technology cannot be realized without giving due attention to these interrelated forces mentioned above.

CRM also aims at a value that one places on your business and its relationship with its customers (Roberts-Phelps, 2001: 2, 28-31; Zikmund et al, 2003:10; Russell-Jones, 2002: 21, 32-33). It is a way of creating and evolving your organization in the marketplace and in the mind of each individual customer (Robert-Phelps, 2001: 2). Thus, it is an endless process of creating and recreating your business to place a differentiated and unique value of one's products and services over those of other competitors. However, the positioning of the uniqueness of the *value proposition* must be that which is perceived by the customer.

According to Russell-Jones (2002: 21), *value proposition* refers to customer's choice of a product or service of a company over its competitor's products or services because it offers an advantage in terms of both benefits and price resulting the greatest value. This means, according to the author, that a company is said to have a value proposition if it equalizes the trade offs between price and benefits. In this case, a customer is not expected to pay more for less benefit or lower value. Thus, the author suggests that organizations are expected to differentiate their solutions from that of the competitor in terms of both the products or services features and benefits. Hence, companies are urged to continuously work on product innovation to differentiate their solutions from that of the competitors and provide new experiences to their customers.

Customer lifetime value is promoted by having customer loyalty programmes and creating an emotional link to the customer with your organization, employees, and brands (Zikmund et al, 2003: 22, 25; Russell-Jones, 2002: 16-19; Robert-Phelps, 2001: 3, 28-29). This means that the alignment of your business towards a CR format are retention, identification of potential customers (turning the infrequent casual customer into an higher spending and more frequent one); and deselection of customers, that is, putting more emphasis on customers with the greater potential (Robert-Phelps, 2001: 2-4, 28-29; Stanley, 2000: 12; Zikmund et al, 2003: 6-7, 23-24).

2.2. Types of CRM Programs

According to Stanley (2000:12-14), Kalakota & Robinson (2001: 170-173), Zikmund et al (2003: 23), and Robert-Phelps (2001: 6; 28-29), there are four main types of CRM programs. They are the following:

- CRM programs enable the company to win back customers, that is, retaining those who are observed discontinuing service or convincing defected customers to rejoin. This is done by taking quick action to win back the defected or will-be defected customers and through filtering prospects for contact to exclude customers who have frequently switched.
- CRM is to win first-time customers through segmentation of profitable (valuable) customers.
- In CRM systems, it is loyalty that prevents customers from leaving due to three essential elements. The first is that organizations use value-based segmentation, which is, investing in retaining a customer's loyalty if the customer is deemed valuable. Then, after the customer had passed value-based segmentation, the organization uses needs-based segmentation so that to offer a customized loyalty program. Finally, the development of a predictive *churn model* is used to build a successful loyalty program by using demographic data and usage history of existing customer base.

- Finally, CRM creates the potential for *Cross-selling* and *Up-selling*. This is usually referred as increasing *wallet share*, that is, the amount the customer spends on the organization's products and services. While cross-selling refers to identifying complementary offerings to a customer, up-selling refers to offering an enhanced one. For instance, in cross selling, a customer for tea may be advised for complementary product such as coffee. In Up-selling, the customer may be advised to replace an Intel laptop of Pentium I with Pentium IV.

Basically, the above mentioned types of CRM programs can be combined into the following three processes or phases of CRM suggested by Kalakota and Robinson (2001: 175-177).

- **Acquiring new customers** – this means that a firm acquires new customers by promoting its product and service leadership by demonstrating how that firm redefines the industry's performance boundaries with respect to *convenience* and *innovation*. In this case, the authors suggest that the value proposition to the customer is the offer of a superior product backed by excellent service. According to the authors, an intricate, well-planned, and finely tuned strategy of sales and service integration gives an instantaneous response to a customer. Hence, the acquisition of new customers becomes relatively easier.

- **Enhancing the profitability of existing customers** – this means enhancing the relationship by encouraging excellence in cross-selling and up-selling, thereby deepening and broadening the relationship. According to the authors, the value proposition to the customer is the offer of a superior product backed by excellent service. The authors suggest that companies prove their commitment on a daily basis when they take time to hear a customer's concerns and by developing a service focus. This can be done by using technology (CRM applications) to access and to use customer information more effectively so that superior and differentiated service from that of competitors is the end result.

- **Retaining Profitable Customers for Life** – this happens when the retention strategy focuses on service adaptability such as delivering not what the market wants but what customers want. According to the authors, the value proposition to the customer is an offer of a proactive relationship that works in his or her best interest. For example, the authors suggest that some firms seek lifetime relationships through company's pricing policy rewards for customers who continue their coverage with the firm; some others give higher commissions to those agents who retain existing customers by involving the agents in decisions affecting themselves and their customers. The authors assert that customer retention is increasingly the strategy for companies operating in competitive environments and is likely to become a core strategy for companies everywhere as customer buying options increase and the cost of switching vendors lowers.

2.3. Potential Benefits and Costs of CRM systems to Organizations and Customers

There are costs involved in CRM implementation, as there are potential benefits. This section deals with the potential benefits of CRM systems to organizations and then the costs involved in acquiring the benefits. Furthermore, it deals with the potential benefits of CRM systems to customers and the costs involved in acquiring those benefits.

2.3.1. Potential Benefits to Organizations

The potential benefits of CRM systems to organizations include *building long-term profitable relationships, assisting senior management to have a clear vision on IT alignment to business processes, and urging organizations to develop a customer-centric approach.*

The basis for building effective CRM systems and strategies is to *build a long term profitable relationship* that mutually satisfies the customer and the organization that offers required products or services (Zikmund et al, 2003: 5; Laudon & Laudon, 2002: 53). The profitable relationship with the customers is one way of creating the opportunity to generate and enhance revenues for a particular organization. Hence, successful organizations define characteristics of the best customers in order to determine and estimate the lifetime value of such customers (Zikmund et al, 2003: 6). The definition of the characteristics of the different customers help organizations to determine the level of benefits they will provide, revenue they will acquire and the cost associated in the activities. This then helps organizations to determine the advantages and disadvantages of their CRM systems as compared and contrasted to other similar organizations (Zikmund et al, 2003: 6).

With regard to IT and CRM systems, while it is true that IT has led to vast improvements in CRM systems, it is a mistake to think about CRM systems merely in technological terms. Indeed, it is wise to invest in IT with relevant plan for applications and aligned with the strategic business plans and processes (Zikmund et al, 2003: 5; Russell-Jones, 2002:32; Laudon & Laudon, 2002: 53; Kalakota & Robinson, 2001: 172-173; Kidman, 2003).

The implication of IT alignment with the strategic business plans and processes is that the people in various management functions that are involved in planning, organizing, and controlling are involved in the CRM systems development. The alignment of IT to the corporate strategy means the top management, which determines the overall strategy, can have a *clear vision of the CRM project* and its impact on the organization.

An effective CRM system occurs when an organization develops *a customer focus* such as retention of loyal customers and greater share of profitable customers (Zikmund et al, 2003: 6-7; Russell-Jones, 2002: 13, 24, 30-31; Curry & Curry, 2000: 103). This means that the organization views the purchasing process from the customer's point of view and analyzes the customer's information with great care.

Higher customer retention rates generally increase revenue while reducing costs in many cases.

2.3.2. *Potential Costs to the Organization*

The potential costs of CRM projects to the organization include a huge *investment in IT infrastructure*, on *a process change*, in CRM systems that provide *various contact points*, and in *conducting research* in order to have a higher level of analysis and understanding of customer data.

An organization *invests in IT infrastructure* if it is to send the right messages about its products to its best customers at the right time (Zikmund et al, 2003: 8, 30, 35; Stanley, 2000: 23, 36; Russell-Jones, 2002:9; Robert-Phelps, 2001:6). In order to have a 24/7-customer-service, an organization thus needs to also invest in UPS support and failsafe back-up systems so that to avoid power outages that frustrates customers (Zikmund et al, 2003: 8).

An organization also *invests on a process change* – the cost of altering traditional thought patterns and implementing new systems (Zikmund et al, 2003: 8). In this case, the implementation of new CRM projects requires investing on integrating or aligning organizational culture, structure, and processes. There needs to be an effective *organizational communication strategy* that helps to create a flexible organizational culture. For example, a questionnaire could be e-mailed to targeted employees to have their input on new CRM projects. This could serve as a phased and proactive method of introducing the required system and a way of embedding it into the organizational culture, structure, and business processes. The creation of flexible organizational culture implies a high level of organizational communication that in turn indicates a flatter organizational structure. Higher level of communication and a flatter organizational structure, in turn, imply quicker, efficient and effective business processes to help provide good services to customers. Therefore, a process-change means a change in organizational culture, structure, and the business processes per se. This interrelationship is supported by Botha and Fouche (2002: 283) who assert *a change in any one force usually results in a change in one or more of the others.*

The other cost is that in order to maintain continuity, many organizations *invest* in effective CRM systems that provide *various contact points* (telephone, e-mail, snail mail etc.) (Zikmund et al, 2003: 9, 36, 122; Robert-Phelps, 2001: 19). Customers have the opportunity to target their suitable contact points while the organization has to tailor the products according to each customer's requirements.

The other cost goes to conducting a research. Firms require a high level of analysis of customer needs in order to determine what information is needed to which customer that implies a higher *investment in research*. CRM application technology is helping customers to get the offerings they need. This is due to the ability of IT to personalize services and increased customization of goods. Personalization implies that the organization knows the customer by name, knows the customer's normal purchasing routine, and can forecast the customer's need for variety as well (Zikmund et al, 2003: 9; Stanley, 2000:12; Russell-Jones, 2002: 16; Roberts-Phelps, 2001: 27-28).

2.3.3. Potential Benefits and Costs of CRM systems to Customers

The potential benefits and costs of CRM systems to customers have causal relationships rather than they are separate entities. The first one is that while the *personalizing* of goods and services are benefits to customers, they may cause the *loss of customers*. The second one is that while the frequent visit to a single organization by a certain customer might mean a reduction in certain costs, the customer may develop *a sole-source relationship*. The aforementioned two points are elaborated below.

First, CRM systems may inevitably cause the loss of customers (Zikmund et al, 2003: 9; Robert-Phelps, 2001:29-31) because organizations are now able to track related purchases and every personal detail of a customer. Thus, while CRM systems are meant as customer acquisition and retention strategies, the possible violation of privacy of customers is one of the challenges that firms face.

Secondly, CRM is the next step in improving lifetime value for organizations and customers within the system. The lifetime value of the relationship occurs when a customer is so pleased with the value of the product and service that repeat sales are assured (Zikmund et al, 2003: 10; Stanley, 2000:25; Roberts-Phelps, 2001: 27-29). This makes a customer a frequent buyer from a single organization (Zikmund et al, 2003: 9). Thus, the customer develops a sole-source relationship and ignores to get other offers from competitive forces. The opportunity cost, that is, the search to find a better price for the same features or find to meet the organizational need is lessoned due to the habit formed by an organization (Zikmund et al, 2003: 10; Robert-Phelps, 2001: 18; Russell-Jones, 2002: 21).

Even though customers are expected to stick to a certain brand and organization, they may also switch due to many reasons. Zikmund et al (2003: 112) mentions that many organizations urge a customer to switch from one brand to another and from one business organization to another. According to the authors, many organizations have strategies that obliterate competitors' barriers to exit so that to acquire new customers. For instance, the authors mention, promotional offers for customers who switch from competitive firms typically ease the transfer task for the customer and take a customer-centric focus on barriers. Some organizations also cover the switching costs to obliterate the barriers from the side of competitors. Other firms use product sampling, that is, free trial of services to stimulate brand awareness and allow customers to gain first-hand experience with the product. Some others, the authors mention in the same publication, have a money-back guarantee strategy. The concepts of stickiness and switching costs are further implied in Chapter 7.

Based on the above mentioned discussions this thesis is further structured into the following chapters.

The next chapter discusses the *Integration of CRM strategies into organizational strategy;* Chapter four discusses *the relationships between CRM strategies and various organizational forces*; Chapter five discusses *the alignment of support technologies with CRM strategies*; Chapter six discusses *the establishment of value adding CRM systems to both customers and organizations*; and Chapter Seven discusses *the reasons for customer defection and the mechanisms to prevent the defection possibilities.*

CHAPTER THREE

Integrating CRM strategies into organizational Strategy

This chapter discusses the interrelationship between CRM strategies and organizational strategy.

3.1. Strategy

What is a *strategy*? A *strategy* according to Russell-Jones (2002:40) takes the vision of an organization and develops it into a framework and subsequently translates it into a set of actions, i.e. steps for achieving the vision. Thus, it is all about setting long-term objectives; driving actions; giving resources allocation priorities; defining the competency domain of the organization; leading to core competency development through competitive strategies and functional policies (Russell-Jones, 2002: 40, 155).

Some of the main aspects of strategy such as vision and sense of direction, the presence of competitive strategies, the time factor, and the availability of functional policies are briefly discussed below.

Some organizations do not have a clearly defined vision and strategy with regard to CRM systems development, that is, they seem to lack direction and do not achieve the intended result (Russell-Jones, 2002: 39). It is important that CRM supports whatever strategy the organization has but it is necessary to *re-visit the strategy* subtly in order to clarify the objectives and goals (Russell-Jones, 2002: 39; Stanley, 2000: 22, 15-17; Russell-Jones, 2002: 39-43; Zikmund et al, 2003: 18-23, 44; Mentz, 2003: 47).

This implies that the setting up of strategies requires a visionary leadership, which has the sense of commitment and clear sense of direction. With regard to CRM projects, the re-visiting of strategy means that there is a support and buy in from the side of a senior management that delegates the middle and line management level to ensure that the projects operate smoothly. Hence, the responsibility and accountability that is intended to realize the success of any CRM project permeates all functional departments and units of an organization.

Strategy deals with the organization at the macro level but it often takes into consideration other several *competitive strategies* – as developed for each segment, which are built into corporate strategies (Russell-Jones, 2002: 41, 153). The Corporate strategy sets out the general direction for an organization as a whole (but not for the whole organization) whereas competitive strategy is based on around markets, services and products (Russell-Jones, 2002:41). Thus, one can infer from the abovementioned that CRM fits within the competitive strategy aspects in order to provide personalized solutions to each customer or sets of customers. Yet, the competitive strategy is subtly aligned to and incorporated within the corporate strategy.

One important factor in strategy is time. It is a determining factor in any strategy of an organization. This means that different aspects of the whole process relate to different time frames: Corporate strategy looks at five to ten years whereas competitive strategies and functional policies look at three to five years (Russell-Jones, 2002:42-43). The implication is that CRM development strategies must have a time frame so that they can be evaluated accordingly. Time frame also determines efficiency and effectiveness of the project over a certain stipulated period of time. It is one of the measurement tapes that assist to evaluate the success or failure of CRM projects over a certain agreed period of time. From the management perspective, the consideration of time frame is part of a control function whereby the plan, organization and leadership in the implementation of a certain CRM project is evaluated by.

Moreover, it is important that the functional aspects of an organization (HR, IT etc) produce *functional policies* that support the strategy moving forward (Russell-Jones, 2002:43). Thus, the general trend in CRM is that it seeks to mend broken channel of communication among various functions and ensure that a holistic and integrated view is taken, rather than fragmented approach based on branch divisions.

Therefore, it is mandatory to align CRM strategies to overall corporate strategies as well as competitive strategies but this alignment needs a sound leadership roles.

From the management perspective, the co-ordination and alignment of CRM strategies to all other competitive and functional strategies is a must. This means that all employees of the firm whether they are central or peripheral to the CRM project are required to strive for the success of the project from their respective departments and units. Eventually, the management is tasked with measuring the implementation of the CRM strategies in alignment with IT infrastructure and overall corporate strategy.

3.2. Developing CRM Strategy

During the development of CRM strategy, the determination of three important elements – *segmenting, channeling, and pricing strategies* – are worth mentioning (Stanley, 2000: 15-17).

3.2.1. Segmentation Strategies

The first element to realizing the successful implementation of CRM programs is *segmenting* the customers by behavior patters and values, that is, the existing buying pattern and behavior compared to historical behavior of the customer plus contrasted to future target of an ideal/loyal customer (Robert-Phelps, 2001: 4; Stanley, 2000: 15-17; Zikmund et al, 2003: 18-23; Russell-Jones, 2003: 30-31).

3.2.1.1. Customer Segmentation Strategies

During the industrial era, economists usually have used unsegmented or mass marketing approach and give the impression that all consumers are alike (Zikmund et al, 2003: 16; Stanley, 2000: 7). The same author suggests in the same publication that the danger with the unsegmented or mass marketing approach may mean appealing to everyone but appealing to no one or missing key opportunities to attract an important segment of the market.

On the other hand, with custom or one-to-one marketing, each individual customer receives personalized treatment (Zikmund et al, 2003: 17; Stanley, 7, 34; Robert-Phelps, 2001: 27; Russell-Jones, 2002: 10-11; 29). However, marketing costs can be high when introducing and practicing marketing initiatives towards the achievement of personalized treatment.

The crucial challenge and focus is then to find the right level of aggregation – to categorize customers in groups that are neither too big nor too small (Zikmund et al, 2003: 17). Thus, CRM technology is to define segments that are large enough to approach with a unique market mix. Hence, organizations must develop the right set of formulas for modeling the behavior of customers and use multi-disciplined approach such as basing the segmentation on behavioral traits, historical patterns and demographics (Stanley, 2000: 15-17). For instance, a restaurant owner may segment her customers as frequent and infrequent ones, their details (children, old... average spend, meal preferences etc).

The abovementioned segmentation helps an organization to attribute the target behavior to each *segment* or individual so that to *budget* for each of the behaviors (Robert-Phelps, 2001: 6; Stanley, 2000: 15-17, 22; Zikmund et al, 2003: 18-23, 44; Russell-Jones, 2002: 39-43).

The strategy of segmenting customers also imply that customers with similar needs are treated as unique who frequently look for a differentiated solution. The uniqueness of a customer or sets of customers in turn encourage an organization to position itself in a competitive and profitable market niche.

3.2.1.2. Market Segmentation Strategies

Market segmentation refers to dividing a heterogeneous market into a number of smaller and more homogeneous subgroups (Zikmund et al, 2003: 18, 23; Russell-Jones, 2002: 27; Stanley, 2002: 15-17). The rationale behind segmentations is that not all buyers are alike. Subgroups with similar values/behaviors may be identified and marketing that targets unique needs of smaller groups of similar customers should be more effective than marketing that aim to satisfy diverse needs of a large group of heterogeneous customers (Zikmund et al, 2003: 18).

The most commonly used market segmentation strategies include:

- **Geographic variables**: this refers to the broad distinction between domestic and foreign markets in order to recognize different tastes, needs, and behaviors of people. The decision is as to how to incorporate geographic information into the CRM system varies by its intended use. For example, people and households in the same postal code area are often demographically similar. Thus, geographic Information systems (GIS) use software to result in maps of a specific location that can pinpoint the characteristics of customers and potential customer's ties to product or service purchasing patterns (Zikmund et al, 2003: 19).

- **Demographic variables**: these variables include gender, income, age, marital status, race, and ethnicity that are often related to customer purchasing behavior (Zikmund et al, 2003: 20; Stanley, 2000: 14-17; Roberts-Phelps, 2001: 6; Kalakota & Robinson, 2001: 170). Income is a factor that may influence willingness and ability to purchase; Gender differences may influence variations in preferences for clothing, scents, or jewelry; Age-based segments refers to differences of purchasing behaviors such as infants, young children, adults, senior citizens etc (Zikmund et al, 2003: 21).

- **Psychological factors**: Individuals also have different lifestyles and psychographics [quantitative measures of lifestyles], which imply differences in how an individual spends his/her time and money (Robert-Phelps, 2001: 17; Zikmund et al, 2003: 21).

- **Behavior patterns**: This also determines the market segmentation. Some prefer to travel miles to buy; some others search the web for prices and delivery options etc (Zikmund et al, 2003: 22). Thus, the consumption channel preferences point out to a firm on how to target markets. With regard to behavior patterns, organizations need to collect information on the preferable features desired by customers, that is, while some buy the lowest priced one; others may go for the highest prestige.

Another marketing segmentation strategy is to investigate on customer's degree of loyalty with the organization, brand, or products and services. True loyalty involves an emotional bonding, trust, and a commitment that a customer maintains with an organization for a long-term relationship (Zikmund et al, 2003: 22, 25; Russell-Jones, 2002: 16-19; Robert-Phelps, 2001: 3, 28-29).

Yet another marketing segmentation strategy is that of analytically derived segments, which the data-driven are created by the analysis of customer data (Zikmund et al, 2003: 23, 39-40, 44). For instance, Online Analytical Processing (OLAP), data-mining and advanced statistical techniques are used to analyze data to help describe customer segments.

The abovementioned elements indicate that it is crucial for organizations to define clearly their internal and external environments, and the geographical boundaries in which they exist. Besides, they are required to identify and define emerging local, national, regional and international trends affecting their targeted customers as individuals and part of a homogeneous set of customers. Lastly, business organizations will increasingly need to diversify their channels to reach all their customer segments using presumably appropriate and rich media.

3.2.2. Channel Management Strategies

Strategy is also cognizant of *multi-channel* contacts and be able to handle these contacts to access up-to-date data by all organizational touch points on the basis of the levels of services (Russell-Jones, 2002: 156). For instance, transactional focus, that is, every transaction and service contact, is viewed as an investment in the customer relationship, which is, turning every contact into a marketing event

This strategic channel management allows the customer to use his or her preferred channels to reach the company - whether by phone, Internet, mail, store or other channel (Stanley, 2000: 34). For instance, a sales clerk in some clothing shops can order unavailable items through a phone by contacting with the catalogue centre. Thus, this process motivates personnel to use the most effective channel to serve customers and even eliminate conflict between channels (Stanley, 2000: 35). Hence, the processes of creating synergy among channels assist organizations to create seamless, efficient and effective organizational communication. In fact, many companies are offering customers some incentives for using the most cost-effective channels. For instance, some Airline companies award customers a certain amount of bonuses such as frequent flier miles for ordering tickets on the Internet rather than other ways (Stanley, 2000: 36). In this regard, channel management strategies are aligned to pricing strategies.

3.2.3. Pricing Strategies

According to Russell-Jones (2002: 53), price is one of the four generally accepted marketing mix - in which the others include product, promotion, and place - that has been assumed as a good strategy to acquiring and retaining customers. According to the same author (54), price *has a major influence on the volume of sales that you are likely to achieve, and thus influences both sales revenue and profit.* He mentions in the same publication that pricing can be market-based, cost-based, and by reference to competitor's pricing.

However, many authors believe that price is a minor issue in developing loyalty and retaining customers (Robert-Phelps, 2001: 17-18, 43; Zikmund et al, 2003: 10,22; Kalakota & Robinson, 2001, 171; Laudon & Laudon, 2002: 52). Price accounts for more than 15% as the reason for switching suppliers or business (Roberts-Phelps, 2001: 17). Russell-Jones (2002: 55) also stress that price is not necessarily a measure of inherent value received. Rather, he asserts that price is often used by customers as a benchmark and is the only one that brings in income, while all the other variables involve costs.

At the bottom line, the pricing of a certain item must be benchmarked against the benefits or solutions that customers receive from those products and services, while competitiveness and uniqueness of those products or services is also another important variable.

CHAPTER FOUR

The Relationships between CRM strategies and Various Organizational Forces

Botha and Fouche (2002: 283) quote Hellriegel and Slocum (1978: 485 – 488) that organizations are composed of *task, structure, people,* and *technology.* According to the same authors, *a change in any one of the force usually results in a change in one or more of the others.*

Moreover, the same authors quote Hellriegel and Slocum (1978) as pointing out that *the success of any change* management exercise *depends on the establishment of appropriate measures* ... of all the abovementioned forces or factors.

Hence, CRM strategy is considered as a change agent that affects and is affected by the other organizational forces such as the abovementioned ones.

This chapter discusses the relationship between CRM strategy and the various organizational forces, namely the organizational culture, structure, business processes, technologies and the measuring of these interrelationships. The next chapter deals with the alignment of support technologies to CRM strategies.

4.1. Organizational Structure and Culture

One of the components that are usually overlooked in implementation is *organizational structure* (Stanley, 2000: 15-17; Kidman, 2003; Media Vue. Net, 2002; Mentz, 2003: 47). With regard to structure, Stanley (2000: 15-17) suggests for the creation of cross-discipline segment teams in which each team works in turn through the four categories of campaigns - win back, prospecting, loyalty, and cross-selling/ up selling.

The changes in organizational structure involve delegation of responsibility down to relationship managers for some decisions, changes to reporting lines depending on the current positive, and de-layering to move responsible staff and decision makers closer to customers (Russell-Jones, 2002: 80).

Therefore, the delegation responsibilities include putting the right skills at the right place. This means that organizations must ensure the availability of the right people with the right skills in the right place who can easily adapt to new business processes so that to acquire new customers while retaining loyal customers in order to maximize premiums (Russell-Jones, 2002: 34). Like wise, Brendler (2001) as quoted by Mentz (2003: 29) assert that the *changes in what goes on inside the people, the ones who use all that technology - their perceptions, feelings, and ability to adapt and accept external changes – is of great importance.*

Hence, another important component is ensuring an effective *organizational culture*, that is, to ensure continuous learning and feedback from the internal and external environment of the organization. Organizational culture refers to the history of an organization, ownership (family, PLC etc), operating environment (global, regional, local etc), its mission and goals, and type of people or mix who work there (Russell-Jones, 2002: 171,183). This implies, according to the same author (171), that organizations need to move from customer-aware with fragmented cultures to more team-oriented and customer-intimate cultures and finally customer-centric cultures, where behavior is based on building customer loyalty.

In a practical world, the presence of smooth and fluid organizational structure as well as diverse and flexible organizational culture means that the front personnel need full attention from the management. Zikmund et al (2003: 158) suggests that frontline personnel are internal customers, who need to be motivated and encouraged to deliver the quality service to external customers. They are the ones who see the customers of their organization on frequent basis and they are the ones who frequently feed the right customer information to the back office personnel, i.e., from the line to middle and top management. This implies an informed decision-making that involves enterprise-wide involvement, which in turn assists to set appropriate CRM strategies aligned to corporate and competitive strategies that promote customer-centric approach.

Besides, the organizational structure and culture of a company must support the enterprise-wide sharing of information and knowledge about customers in particular and the overall environment in general. The end result of CRM programs is to identify the appropriate target market and find a profitable niche in that particular market in order to create a loyal customer. Failure to keep up with market demands means to give your competitors an opportunity to steal your market share and customers (Russell-Jones, 2002: 36). In order to have a successful implementation of CRM systems, then, it is required of managers to constantly keep themselves and the other employees abreast of new changes in the market [with regard to customers] that will help to achieve organizational objectives. In other words, senior management is the main trigger to championing of good CRM strategy, and acts as an institutional support to foster the assimilation of new information and knowledge needed to implement successful CRM projects (Zikmund et al, 2003:165; Russell-Jones, 2002: 170). To this end, it is required of senior management to push for the presence of customer-focused management perspective.

According to Roberts-Phelps (2001:81), a customer-focused manager is led and empowered by a vision based on quality as well as quantity and results. As a result, Stanley (2000:20, 37) and Robert-Phelps (2001:81) mention that the customer-focused manager seeks to promote enterprise-wide involvement to draw opinions, thoughts, ideas, and feedback from all levels of the organization. At the bottom line, the customer-focused manager rewards and recognizes people based on their ability to enhance the customer-base and deliver excellence. On the other hand, the traditional manager is preoccupied with internally focused objectives such as sales, budget, profit, market share and so on and is therefore too reactive.

Leading-edge companies that take an enterprise-wide focus look across the organization to share and leverage the information and processes they have so that to position themselves for long term profitability (Stanley, 2000:20). The goal is, according to the same author, to transform themselves into *market-intelligent* *enterprises* which have an organizational structure that is connected, responsive and fluid.

Hence, the smoothness and fluidity of organizational communication that meets the needs of customers and assists to create potentially profitable organizations depends upon the well-grounded organizational culture and suitably aligned organizational structure.

4.2. Business Processes and Measuring Process Re-engineering

Botha and Fouché (2002:286) quote Choo (1998) asserting that an organization is unable to tap into the real value of its information resources and information technologies without a clear understanding of the organizational and human processes. The preceding sentence implies that CRM application technology is not independent of business processes as it is not independent of organizational culture and structure.

The two main goals of processing are efficiency – what needs to be done as accurately and as fast as possible; and effectiveness – what is done delivers value to the customer and the organization (Russell-Jones, 2002: 32; Van der Walt, 1997:39). Hence, it is not cost-effective carrying out a process efficiently if it is of no value.

However, most processes are focused within functions and thus contributed to fragmented nature of operations (Russell-Jones, 2002: 79). This was exacerbated by computerization that generally tended to focus on mechanizing existing activities resulting in extra, non-value adding steps. This kind of duplication adds non-value activities implying unnecessary costs to both organizations and customers.

Therefore, changes in processes must have a strategic value and be customer-driven that consider value-added activities, appropriate delivery systems, trained human skills, and generally clearly defined inputs, changes, and outputs.

With regard to IT-enabled business processes, technology support has only mechanized existing processes, rather than change them to improve effectiveness and introduce real automation (Russell-Jones, 2002: 32; Stanley, 2000: 34; Kalakota & Robinson, 2001: 173; Kidman, 2003). In other words, IT-enabled business processes add efficiency and effectiveness to CRM systems if well-connected organizational structures, open communication, appropriate media, and flexible organizational culture support it. Botha and Fouché (2002: 286) support this idea by asserting, *organizational processes are not independent of structure and culture.*

Another important step in CRM application technology is the availability of measurement mechanisms. With regard to this, Botha and Fouché (2002:288) assert *the existence of formal measurement procedures and systems are the key indicators of the readiness of an organization to successfully implement a knowledge-based enterprise strategy.* As it is indicated in the introduction of this thesis (Chapter One), CRM is an emerging organizational logic of the information- and knowledge-based economy. This suggests that the *measurement of the effectiveness of process re-engineering* (Robert-Phelps, 2001: 6; Stanley, 2000: 15-17; and Russell-Jones, 2002: 33) assists to gain organizational buy-in and implement supporting technology (Stanley, 2000: 15-17).

During this stage, Robert-Phelps (2001: 6) and Curry & Curry (2000: 83 – 92) suggest that it is recommended if the programme is carefully tested on a small part of each segment of the customer base before being rolled out. With regard to measuring the success of CRM, Mentz (2003: 22) and Ligthelm (2002: 11-13) assert the need to measure not only the financial performance but also the customer behavior and the activities within the company that have a link with delivering a product or service to the customer. From the management perspective, the measurement implies the control function whereby the process is evaluated and re-evaluated to test its outcome. From the leadership perspective, measuring implies a clear vision and sense of direction on how to phase out and implement the knowledge-based CRM strategy.

At the bottom line, the implementation of measurement mechanisms means organizations do ensure that their CRM projects are cost-effective and profitable rather than merely a technological showcase. Besides, by testing the CRM project on some segments of the customer base, organizations are able to streamline their tasks and manage unforeseen developments before they indulge in unnecessary costs.

CHAPTER FIVE

Aligning support technologies with CRM strategies

In this chapter, the alignment of support technologies with CRM strategies is discussed in detail. The sections in this chapter include the role of ICTs in CRM systems, the role of Customer Knowledge Management (CKM) in CRM strategies, the role of data mining for data analysis and information delivery, Customer data analysis, data sources for CRM purposes, the role of data marts in CRM projects, computer system architecture and data storage management, the role of database management systems in CRM systems, the role of customer contact points in CRM systems, database structures for CRM infrastructure.

5.1. The Role of ICTs in CRM systems

Organizations are increasingly leveraging ICTs to disperse data quickly throughout their organizational various functions. According to Van der Walt (1997), ICTs have flattened organizational structures, empowered employees, streamlined production processes, reduced manufacturing defects, helped to shatter mass markets into micro segments, and personalized promotional strategies.

With regard to CRM projects, developers believed that ICTs such as the Internet would transform the CRM systems. However, the Internet is just one channel in many and any CRM programme, which concentrates only on the Internet, will ultimately fail (Russell-Jones, 2002: 16, 32; Kidman, 2003; Kalakota & Robinson, 2001: 173). The reason is that CRM is about gathering information from your customers through *all channels* and use it to provide valuable services to them through the channels of their preference. Thus, it is wise to focus on business and customer aspects and see IT as one of the channels to communicate and transact with customers.

The implication from the abovementioned is that the Internet technology is one of the channels that can be used within the framework of multi-channeling practices and must be aligned to business processes. Besides, Botha and Fouché (2002:287) subscribe to the preceding sentence by quoting Zack and McKenney (2000) and Murray (2000) who assert that the productivity benefit from IT is limited if it is not integrated with overall organizational structure, processes and culture. Most importantly, the availability of multi-channel application integration enabled firms to gain knowledge about their customers and knowledge possessed by customers. As Botha (2000) suggests knowledge is recognized as a company's most valuable asset and strategic resource in the creation of a competitive advantage. With the need to acquire knowledge about customers and knowledge possessed by customers in mind, the concept of customer knowledge management (CKM) has become imperative in CRM strategies. The concept of CKM is discussed in the subsequent section.

5.2. The role of CKM in CRM strategies

According to (Gibbert, Leibold and Probst, 2002) CKM is the strategic process by which companies emancipate their customers from passive recipients of products and services to empowerment as knowledge partners having the objective of gaining, sharing, and expanding the knowledge residing in customers, to both customer and corporate profit. The authors further state that CKM triggers innovation and growth through the utilization of knowledge about customers and knowledge possessed by customers. The implication from gaining these knowledge is, according to Campbell (2003), to come up with innovative ideas of how to differentiate products and services so that to create value-added products and services.

Those innovative ideas imply turning new products and services to link them more closely to their customers and cement existing customer relationships. In other words, as Stanley (2000: 113) suggests new product development is a critical part of CRM and it involves providing customers with products and services they want and making them available and easy to use. According to the same author, new products and services include modifications of existing products and product line extensions as well as entirely new areas. These new ideas are found by tapping into all available internal and external sources, which are discussed below in this chapter. For instance, the corporate engineers of a company may be more aware of technological advances that may encourage for the new ideas to be more cost-effective or provide new opportunities for development. Managers and call center associates, in addition to external sources such as suppliers and distributors may have suggestions and information that could be turned into knowledge and be utilized to produce new products and services. In this case, Laudon & Laudon (2002: 42) suggest for the presence of knowledge work systems (KWS). According to the author, KWS are information systems that aid knowledge workers (engineers, doctors, scientists and so on) in the creation and integration of new knowledge in the organization.

Thus, the new ideas acquired from both internal and external sources must be assessed to determine their effective implementation. This means according to Stanley (2000: 117), the idea-screening process considers the strategic fit such as corporate strategy, competitive advantages and core markets, branding issues and synergies with existing products and services, and the customer base.

Yet, it is required of firms to ensure that the new product development based on new ideas must be customer-centric rather than they are product-centric.

5.3. The role of Data mining for Data Analysis and Information Delivery

With regard to data analysis and information delivery, there are many techniques of which one of them is the use of data mining. Data mining describes how the user extracts previously unknown information from the large reservoir of the data warehouse (Zikmund et al, 2003: 41; Rowley & Farrow, 2000: 35-42) The two basic techniques involved for conducting data mining include *the verification mode* and *the discovery mode* (Zikmund et al, 2003: 42).

The *verification mode* is, when the user has reason to believe that the warehouse contains data in certain forms or patterns and conducts repetitive queries to support this hypothesis. In this instance, it is important to mention the concept of *shopping basket analysis*. Albion Research Ltd. (2005), a data mining software development company, defines *shopping Basket Analysis* as a modeling technique based upon the theory that if you buy a certain group of items at a certain time, you are more or less likely to buy another group of items at the same time. For instance, an organization uses its dedicated software for shopping basket analysis to learn that a man buying meats at a certain time simultaneously buys a six-pack of beer and not a six-pack of coke. According to Albion Research Ltd, the algorithms for performing *shopping basket analysis* are fairly straightforward. The complexities mainly arise in dealing with the large amounts of transaction data that may be available and avoiding combinational explosions such as in supermarkets which may stock thousands of items. In such many-items situation, the customer is expected to find a needle in a haystack. Therefore, Albion Research Ltd suggests for a solution known as *differential shopping basket analysis.* In this kind of analysis, the results between different stores, between customers in different demographic groups, between different days of the week, different seasons of the year and other relevant factors are compared. Besides, it is important to consider some external factors which may result from unexpected situations that affect consumers.

The same company suggests that s*hopping basket analysis* can also be applied to other areas such as credit card purchases, analysis of telephone calling patterns, analysis of telecom service purchases etc.

The other technique for conducting data mining, that is, the *discovery mode* reveals something completely new to the user as the user lets the system determine the path to follow in conducting the analysis (Zikmund et al, 2003: 42). Therefore, the abovementioned data mining technique help an organization to differentiate between already existing data and completely new ones. This means, in turn, the decision-making differs according to those data.

At the bottom line, the data gathered and analyzed are transformed into information and knowledge to help managers revise existing CRM strategies and overall corporate and competitive strategies.

It is also worth mentioning on what basis information is delivered. Zikmund et al (2003: 142) mentions that CRM systems are intended to be used by a wide range of users such as novices (people with no special computer training), analysts (skilled users of statistical tools to transform data to be used by managers and other end-users), and power users (sophisticated users who perform advanced operations). The implication is that the CRM project developers must consider the end-users of whatever data and information should be available in the system.

5.4. Customer Data Analysis

Organizations have long recognized the importance of gathering detailed data for the purpose of analyzing, synthesizing, and producing information and knowledge that enables them to develop marketing strategies,

To this end, data mining from the reservoir of the data warehouse has become as an important aspect in CRM systems. Data warehouses provide an audit trail of everything the firm has done with its subsets that can exist in the form of *data marts* and helps to perform a management and control function (Zikmund et al, 2003: 32; Stanley, 2000: 36; National Computing Centre – NCC -, 2003). But, the most important aspect of data mining is finding and extracting knowledge buried in corporate data warehouses, or information that visitors have dropped on a website. The data that has been deposited in data warehouse has to be translated into something meaningful about existing or potential customers (Davenport, Thomas & Harris, 2001).

An example of a customer data warehouse can be the CRM project undertaken by ABN AMRO Bank, which is headquartered in Amsterdam, the Netherlands, and is the largest foreign bank in North America with 550 individual clients and assets of $155 billion. This example is extracted from Laudon & Laudon

(2002: 224). ABN AMRO has multiple divisions and subsidiaries, each of which operates in multiple locations and maintains its own separate banking relationships with customers. A customer might have accounts with several different ABN AMRO subsidiaries. The challenge was on how to manage these complex customer relationships, information and knowledge? The Bank has taken an important step – it installed a customer data warehouse.

The ultimate objective was the integration of customer data from the Bank's many branches and subsidiaries for enterprise-wide reporting and analysis. Using such a data warehouse, managers found they could bring the data together so as to better understand the firm's total relationship with each customer. Managers are now able to see what products its customers are using. They can identify which bank branches the customer is working with and the total amount of capital absorbed by each banking relationship. Management is even able to see reports on all customer contacts with individual companies regardless of the bank location or customer organizational unit.

Thus, the bank is able to take a more relationship-oriented approach to its customers. This means management is able to monitor general customer patterns and trends, regardless of how widespread the customer's organization is. Managers can easily compare the customer's current activities with its past activities and thereby spot any emerging trends, whether positive or negative. The management has also been able to judge the risk exposure of the overall customer as well as the profitability of that customer's business with the bank. The Corporate Relationship Information System Platform (CRISP) – as nicknamed by the Bank – also enabled management to monitor its own performance – its profitability and its revenue by product line.

The employees at ABN AMRO assured that the project has enabled them to make faster decisions, improve productivity and thereby develop new customers and strengthening existing customer relations.

Thus, the presence of warehouses subdivided into data marts imply that organizations are increasingly accessing as many, complete, and relatively accurate customer records as possible. At the bottom line, it is the integration of that customer information, which assist the senior management to set appropriate strategies of what kinds of products to turn out or service to offer, which market to penetrate and customer to target, on what basis to segment, how to deliver those products and services, and the mechanism to access feedback so that to re-align competitive and corporate strategies.

The integration of customer information requires determining the existing customer profiles and considering external contingency.

Customer profiling is based on the current geographic, demographic, activity, psychographic, and behavioral data (Zikmund, 2003: 54-55) According to the author, geographic data describes where the customer is physically located or where the customer-related transaction or activity occurs. Demographic data consists of those customer characteristics that are either permanent or slow to change such as gender, birth date, ethnic origin, religion, education level, family income and others. Activity data traces the activities of customers as they interact with the organization by making purchases, returning items, making inquires seeking service, and so on. Psychographic data consists of psychological and sociological characteristics that influence customer behavior. Behavioral data captures the unique shopping behavior patterns and consumption habits of individual consumers.

External contingency means when a firm's expectations are affected by external forces such as economic, social, environmental and political changes of the firm's general environment. Stoner et al (1995: 48) suggest that the determination of predictable relationships between situations, actions, and outcomes may not be always applicable. Hence, the authors suggest that managers are urged to be aware of the *contingency approach*, whereby they are urged to identify which technique will, in a particular situation, under particular circumstances, and at a particular time, best contribute to the attainment of corporate strategies. Therefore, the consideration of external contingency in customer information integration implies the laying of foundations for crisis management plan aligned with CRM strategies and overall corporate strategy.

5.5. The Role of data marts in CRM projects

A data mart is a subset of the data warehouse that contains data relating to a portion of the firm's transactions (Zikmund et al, 2003: 32). Data marts retained their prominence as organizations failed to see successful results from non-phased CRM projects. Zikmund et al (2003:163) and Laudon & Laudon (2002:21) suggest that one of the key elements that help to incorporate a phased development is by dividing a data warehouse into sets of modules called data marts. Data marts, states Zikmund et al (163), can be both top-down approach, i.e., implementing a data warehouse and then subdividing it into data marts or bottom-up approach – first developing the data marts and then integrating them to form the data warehouse. In any case, organizations are required to choose either approach depending on which one is appropriate to their business activities.

With regard to CRM projects, a dedicated database or data mart can be utilized for the purpose of extracting information and knowledge about customers, and information and knowledge possessed by customers.

5.6. Data Sources for CRM purposes

The two main categories of data sources are internal and external. The data that is gathered from internal sources is most likely already in a computer-readable format and is entered into the data warehouse as activities in the business units are performed (Zikmund et al, 2003: 31). On the other hand, data gathered from external sources is converted to a computer format as transactions are performed, as customers and other external sources also provide data in a computer format by interfacing with the firm's web site (Zikmund et al: 2003: 31).

The inference is that both the internal and external sources must be identified and collated to create an integrated source of customer information, knowledge about customers and knowledge possessed by customers. Thus, the product and service innovation is to be based on those integrated information and knowledge if new values are to be created.

5.7. The Role of Customer Contact Points in CRM systems

A customer *contact point*, or *touch point*, is any transaction or customer interaction with the organization such as filling out and returning a warranty card, sending an e-mail, or standing at the customer desk are all contact points (Zikmund et al, 2003: 36; Robert-Phelps, 2001: 19; Zikmund et al, 2003: 36). The implication of having multiple contact points is that it provides the opportunity to learn more about the customer's behavior, background, and needs. New data can be entered during each contact point and this activity is an ongoing process and must be managed well. Thus, it is critically important to integrate or align and create awareness of all customer contact to all involved employees at all times.

The best way to collect customer contact data is by using point of sale (POS) terminals or electronic data interchange (EDI) (Zikmund et al, 2003: 36). POS terminals can scan product data from the bar codes and customer data from credit cards and identification cards, which associates the customer's address, phone number, and e-mail address with the purchase made in the store (Zikmund et al, 2003: 36). This implies that the organization can personalize the offering of solutions [products and services] based on personal details of a customer. Organizations engaged in business-to-business activities can transmit customer sales order data using EDI, that is, the buying firm transmits purchase order data from its computer system to that of the selling firm.

Therefore, customer contact points can serve as the source of up-to-date information and knowledge about customers and information and knowledge possessed by customers. This, in turn, implies the extension and creation of new value to products and services based on those information and knowledge.

5.8. Computer System Architecture and Data Storage Management

In client/server, the stored data and the functions that are performed on the data are allocated to the central server and to the user, called the client (Zikmund et al, 2003: 35). The layers of technology are called tiers, with the clients being on the lower tier and one or more servers being on the upper tiers (Zikmund et al, 2003: 35). There is not just a single pattern for distributing the network data and functions among the clients and the servers. The distribution can vary from one organization to another with essentially three commodities that are distributed (Zikmund et al, 2003: 35): (a) control over the user interface, that is, how the information is displayed on the user's screen; (b) the location of the software that performs the user's functions, and (c) the location of the data (Zikmund et al, 2003: 35). According to the author, when all or most of these commodities reside at the client level, the architecture is called a fat client while the architecture whereby the commodities reside in the server is called a thin client.

With regard to server usage for the purposes of CRM projects, dedicated server can be used to host the CRM application. This kind of server is dedicated to one type of application and it does not share the server's resources with any other site or application (IT Dimensions, 2005). This helps to increase control over what software will be installed on the machine where the CRM application technology is set to reside. According to Thelix.net (2004), an IT company in Canada, dedicated server provides advanced size, security and application needs, and simultaneously creates scalability, flexibility and increased traffic of websites.

Some organizations are creating storage area network (SAN) that allows business units throughout the organization to store data on different server rather than assigning direct access storage (DAS) employed by using magnetic disk and other integrated chip (Zikmund et al, 2003: 37). SANs provide a solution for companies with the need to share information across applications and computing platforms (Laudon & Laudon, 2002:150). According to the same authors, SAN creates a large central pool of storage that can be shared by multiple severs so that users can rapidly share data across the SAN. For CRM purposes, therefore, if companies use SAN, they can avoid the fear for the security of data that could be stored off-site. Besides, companies can avoid the fear of outsourcing – in which the Storage Service Providers (SSPs) staff serves many masters who do not take ownership of the data as seriously as their internal staffs do. SSPs are explained in the subsequent paragraph.

Another storage strategy is the use of storage resource management (SRM) software to overlook the firm's storage network and allocate the storage in the most efficient way – locating unused storage and allocating it where it can best be used (Zikmund et al, 2003: 37). The problem is that data storage and the management of stored data is growing more complex leading to a rapidly growing shortage of technical experts in data storage (Laudon & Laudon: 2002: 152). For this purpose, SSPs can be the best choice for special storage needs. SSP, according to the same authors, is a third-party provider that rents out storage space to subscribers over the Web, allowing customers to store and access their data without having to purchase and maintain their own storage technology. For CRM purposes, dedicated storage service rented out from SSPs can be used instead of for companies creating their own storage servers. According to the same authors, SSPs can save companies from own storage that is expensive and difficult to manage. However, the authors suggest that many companies fear for the security of data and assume that the SSP staff may not be as serious as the internal staff. Thus, it is crucial for companies who need to outsource storage needs to develop mutual trust and good relationship with SSPs so that the SSP staff can develop the sense of ownership and become as serious as the internal staff of the client companies.

At the bottom line, the storage of customer data must be aligned with the CRM strategy, IT infrastructure and overall organizational strategy.

5.9. The Role of Database Management Systems in CRM systems

With regard to data management, hardware and software vendors developed special database software to manage the data once it was in storage so that to add, delete, and change records as needed (Zikmund et al, 2003: 32). The software that maintains the data and makes it available for use is called a database management system (DBMS) (Zikmund et al, 2003: 32). Hence, DBMS imply amongst other the cleaning up of databases so that to filter the valuable data from less valuable or even discard those totally that is an unimportant.

By doing so, organizations can use their storage systems properly implying efficient and effective business activities and, thereof, customer service. Besides, managing the data will save an organization from having duplications of data.

The problem is however during the data input - users often cannot anticipate their needs when the system is being developed (Zikmund et al, 2003: 36). The strategy for warehouse design is to gather every piece of data that describes the firm's operations that affect the customer both directly and indirectly to meet new or an unanticipated user needs.

5.10. Database Structures for CRM infrastructure

With regard to database structures, the relational structure is becoming more popular because it makes use of data elements already in the data tables to integrate contents of multiple tables (Zikmund et al, 2003: 37). Relational database structures function well for certain data warehouses and data marts, but they were not specifically designed to handle data views that involve a large number of dimensions (Zikmund et al, 2003: 38; Green, 2000; and Dias, 2001: 269-287). Thus, it is important to consider multi-dimensional databases to handle data that involve a large number of dimensions. Typical analyses of business data involve only one, two, or three dimensions (Zikmund et al, 2003: 38). For example a graph that shows the monthly fluctuation of sales is a one dimension analysis (that is sales). A customer sales report that shows sales of each product for each year is an example of a three dimensional analysis (customer, product, time) (Zikmund et al, 2003: 39). As the number of dimensions increases, the relational database structures become less effective but can be overcome with software of database management systems for multi-dimensional databases (MDDB) (Zikmund et al, 2003: 39).

With regard to CRM systems, the choice of database structures must be aligned with CRM strategies, IT infrastructure, and overall organizational strategy. In this case, the various field names in the customer database have to be the source of necessary information and knowledge about customers and information and knowledge possessed by customers.

In sum, the explanations detailed in the above indicate that the implementation of CRM systems are the integration of customer data from both internal and external data sources; the next step is how to turn it into meaningful information and knowledge source; and the final step is how to develop the corporate and competitive strategies based on those meaningful information and knowledge. These meaningful information and knowledge aim at customer-centric product and service innovations that enables a firm to have an advantage over its competitors.

CHAPTER SIX

The Creation of Value adding CRM Systems to Both Customers and Organizations

The key steps to improve processes are to ascertaining the *value-added* quality of activities. This means to ensure that the information systems help to facilitate to get the right data at the right time; get rid of the non-value added activities; and streamline the processes to reduce wasted effort (Russell-Jones, 2002: 33). The abovementioned will bring about faster throughput, better quality solutions, focused marketing efforts, increased profits, and improved customer satisfaction and long-term loyalty. This comes down to process improvement, that is, value adding business activities. However, the most important aspect in CRM strategy is to create new value, that is, to focus more on process innovation. Kalakota and Robinson (2001: 29) state that *continued innovation in processes is one of the best tools a corporation has for adding value to its web of suppliers and customers*. According to the authors, process innovation has to be coupled with infrastructure innovation. Hence, it is required of CRM infrastructures to be aligned with process innovation.

This implies, according to Robert-Phelps (2001:179) that it is advisable for an organization to define its job in terms of adding and creating value to customers, that is, sell benefits not things as well as exposing them to new experiences. Zikmund et al (2003:110) and Van der Walt (1997: 18) also assert that the organization with more benefits over costs from the customer's perspective will be said to have achieved a unique selling proposition or differential advantage over competitors.

At the bottom line, the unique *solution* that a customer seeks to acquire from a business organization's goods and services has to be the outcome of CRM systems. However, the business organization also has to get a value-added premium [for instance, both efficiency and effectiveness in its business processes, employee job satisfaction etc] out of the CRM systems.

In this chapter, there are six Value-adding elements [sometimes overlapping with value-creating elements] that are identified. These include the Customer Value Proposition (CVP), Determination of Acquisition costs and Customer net value, Determination of Retention Strategy, Customer Service Excellence, Value-adding CRM systems by personalizing solutions, and the Creation of loyal customers through value-added solutions,

6.1. Customer Value Proposition (CVP)

CVP refers to customer's choice of a product or service over its competitor's products or services because it offers an advantage in terms of both benefits and price resulting the greatest value (Russell-Jones, 2002: 21, 32, 45; Roberts-Phelps, 2001: 18,20,27-31; Zikmund et al, 2003:23-25; Laudon & Laudon, 2002: 52; Kalakota & Robinson, 2001:171; Curry & Curry, 2000: 100 -101). Therefore, an organization must ask the customers what actually is the value they seek rather than being prejudiced by guesses. Organizations must note that the customer will not pay more for less. This, however, is also to the benefit of the organization to ensure if it equalizes the trade offs between the products and services that an organization offers must be differentiated from that of the competitor in terms of both the products and services features and mainly its benefits (Russell-Jones, 2002: 22, 50; Castells, 1996: 154-5).

In brief, during the development processes of CRM systems, the CVP must be incorporated into the competitive strategies of an organization in order to determine value-adding activities during daily business operations

6.2. Determination of Acquisition costs and Customer Net Value

Acquisition costs were understated by most organizations and that the high cost of acquiring new customers caused many customer relationships to be unprofitable. Many businesses spend about 75% of their marketing budget in a search for more new customers and this budgeting is considered, according to Robert-Phelps (2001:24) as a mistake. The reason is that it costs substantially more to win a new customer than it does to keep a current customer.

This means, in other words, according to Roberts-Phelps (2001, 24):

$$\text{Cost of replacing one customer} = \frac{\text{sum of all marketing and sales costs}}{\text{No. of New customers attracted}}$$

For instance, the total marketing costs are R 55,000 (including salaries and other variable costs) to produce 200 new customers; and using the above formula, the replacing cost for each customer is R275.

Therefore, it is advisable to calculate customer lifetime value, that is, the net present value (NPV) of the future profits (margin contribution) to be received from a given number of newly acquired or existing customers during a specified period of years (Zikmund et al, 2003: 23; Van der Walt, 1997:59).

When considering customer lifetime value, the profit margin is equal to the annual revenue that customers generate minus the cost a company spends in giving services. Retention rate is then the percentage of total customers expected to repeat purchase and time – the expected duration of the relationship is to be considered (Zikmund et al: 2003: 24).

Thus, in CRM terms, "life time" means the number of years the company retains a customer's business and not the number of years the customer lives. For example, if a subscriber to a satellite TV service pays R30 per month for 12 months in a year and is expected to remain a customer for 5 years, the life time revenue equals R30 x 12 x 5 = R1800. Intangible benefits such as customer referrals, suggestions for product or service improvements or innovations and other costs are mostly estimated within customer value (Zikmund et al, 2003: 24).

The lifetime cost of a relationship with a customer includes the direct costs of providing products and services plus indirect costs, overhead, which is allocated (Zikmund et al, 2003: 24) such as costs on IT, process re-engineering, using contact channels such as telephone, fax, and so on (Stanley, 2000: 23, 36; Russell-Jones, 2002: 9; Robert-Phelps, 2001: 6, 19).

Firms, therefore, should not target or spend money on unprofitable customers because these segments have a poor purchase history and low expectations of any purchases (Zikmund et al, 2003: 25; Robert-Phelps, 2001: 4; Stanley, 2000: 12). In contrast, premium customers exhibit a good purchase history and a high probability of continued loyalty to the firm (Zikmund et al, 2003: 6, 15, 25; Russell-Jones, 2002: 7-8). Prospect customers exhibit a high potential for value in the future and should be cultivated even if the firm loses money in the short run (Zikmund et al, 2003: 25: Robert-Phelps, 2001: 4; Stanley, 2000: 12).

The implication is then that firms are urged to incorporate the determination of customer lifetime value within their CRM strategies in alignment with corporate and competitive strategies, especially into their marketing initiatives and requisitions. Integrated information on customer lifetime value definitely enables business firms to determine on how they approach customers towards acquisition and retention strategies. In other words, firms are saved from futile costly attempts to pursuing potentially defecting customers.

Another implication is that firms will be able to frequently pursue their clearly defined lifetime customers so that they can determine their strategies on how to cross-sell and up-sell their new solutions. The reason is that the determination of clearly defined lifetime customers enables the firms to have the complete and accurate information of the short-to-long-term-customers and the factors and variables that affect the continuation or defection of those customers. This, in turn, encourages employees to keep themselves abreast of new trends so that they can seek for innovation of unique products and services.

6.3. Determination of Retention strategy

One of the best ways to implement retention strategy is to combine a computer technology facilities and the customer assistants programmes [allocation of sales, customer service and other staff as assistants] so that to yield a reduction in the drop-out rate of customers (Robert-Phelps, 2001: 34-35). This implies that the combination of human and technology capabilities assists CRM developers to implement good CRM projects.

Another mechanism to revisit retention programmes is by using exit questionnaires to check out if the reasons for dropping out are controllable or uncontrollable [example, death, illness, loss of income etc] (Robert-Phelps, 2001: 36). In ensuring the return of questionnaires or encouraging people to respond, it is advisable to reward customers with free gifts attached to the survey or other rewards such as free prize draw (Robert-Phelps, 2001: 37). This enables an organization to put a control function in place to determine the future acquisition and retention strategies.

At the bottom line, it is required of the management and leadership of a company to align retention strategies with value-adding and value-creating product and service development strategies. In other words, the efficiency and effectiveness of processes, that is, the addition and creation of value to products and services must be incorporated into retention strategies.

6.4. Customer Service Excellence as a Value-adding activity

With regard to customer service excellence, the first model to follow is that customers either need a solution to a problem or want to feel in some way *special* (Robert-Phelps, 2001: 41). In other words, the preceding sentence implies that customers contact an organization to find the physical or psychological solution of their real or imagined problem.

The second element of customer service satisfaction model, according to the same author (2001:42-43) is that each customer has to feel in some way unique [special] through the following most important elements – speed and time; personal interaction; courtesy and competence; updated information; attitude and customer liaison; and long-term relationships. These elements are discussed below.

Speed and time can actually allow a company to gain competitive advantage and offer higher satisfaction, and may even demand a price premium for that convenience. The reason is that it involves costs for every single contact with a customer [answering telephone, replying to letters etc] (Robert-Phelps, 2001: 43). An example mentioned by the same author is the increasing importance of speed of an elevator. A simple device that elevator manufacturers have used for years to actually make the elevator appear to move faster is to put mirrors inside of the elevator so that the mind does not notice the extra few seconds a low powered elevator may be taking (Robert-Phelps, 2001: 44-45).

Personal interaction with a customer can also give a competitive advantage for companies while they maintain good relationship with existing customers. The interaction includes remembering a customer's name, a tone of voice and remembering details about that customer (Robert-Phelps, 2001: 45). From the researcher's personal experience, there is a shop called *The Orient* located around the heart of Cape Town whereby the owner addresses customers by the name, and knows what customers frequently order and even how much sugar they need in their coffee. Identifying such personal details makes the customers their personal choices are dignified and are encouraged for a repeat of purchases. At the bottom line, the customer care and procedure is more or less the same whether it is in a small, medium, or large business organization.

Statistics show that customers seem to be happier being served by an enthusiastic amateur rather than an indifferent expert (Robert-Phelps, 2001: 50). The preceding sentence implies that no matter how competent an organization's employees are, if they do not have respect for customers, the organization is doomed to failure. For instance, it is important to consider people from different cultural and national backgrounds so that to tailor your services accordingly. The combination of competency and courtesy are one of the ways to succeed in developing a good CRM project. This means that both competency and courtesy add value to business processes.

Another element of customer service excellence is to keep customers informed. If for instance, there is an expectation that the product your organization delivered is to be broken or damaged, then let them know before they get frustrated.

For instance, from the researcher's personal experience, a Dentist in Stellenbosch [South Africa] keeps his customers informed through telephone if there are postponements on appointments so that they cannot end up being disgruntled when they reach the surgery. Under this circumstance, it is important to use diverse channels but use those channels according to the customer's choice of how they would be contacted.

The other important element that must be built into customer service excellence is the positive and lively attitude that the customer assistant shows on customers. Customer assistants must think that each and every single customer is as a million dollar customer, somebody who has access to large revenue, either through their direct spending or indirectly through referrals and repeat business (Robert-Phelps, 2001: 52).

The last but most important element of customer service excellence is that it must aim at a long-term relationship. This means that the customer will feel special if the organization that they have dealt with will actually reward, recognize and encourage their loyalty. For example, some Airlines have customer loyalty schemes in co-operation with some other tourism sectors such as hotels. Millennium & Copthorne Hotels Plc (M&C), the London-listed international hotel arm of the Hong Leong Group Singapore, owns and operates 88 hotels in 16 countries (Millennium Hotels and Resorts, 2005). M&C is a dynamic hotel group, which operates a global community of hotels for modern business and leisure travelers in major gateway cities. According to the company website, M&C has some loyalty schemes for British Airways Executive Club mileage to all guests staying on a qualifying rate.

Another example is Thistle Hotels. Thistle Hotels offers guests the chance to earn and redeem travel rewards with a range of partners including some of the world's major airlines (Thistle Hotels, 2005). For instance, Thistle Hotels has some offers for British Air Ways Executive Club. Three BA Miles are awarded for every £1 spent. To earn BA miles, members must present their membership card at check-out. According to Thistle's website, the eligibility for miles BA Executive Club members is to spend £150 or more on their stay at London hotels.

6.5. Value-adding CRM Systems by Personalizing Solutions

In a Business to Consumer (B2C) marketing strategy, characteristics and behavior of an individual consumer is taken into consideration (Zikmund et al, 2003: 25; Roberts-Phelps, 2001:27). But, in Business-to-Business (B2B) marketing strategy, CRM approaches use characteristics and behaviors of people within a particular organization (Zikmund et al, 2003: 25). This means, in other words, the identification and understanding of the corporate culture of an organization is crucial in order to have a sound B2B marketing strategy.

The implication to the firms with regard to B2C is to understand, analyze, and synthesize the data on the psychological trend of an individual consumer, sociological set up, that is, where the consumer dwells, as well as geographic, and demographic variables, among many others.

With regard to B2B, it is required of firms to determine the organizational culture, structure, business processes, and the general environment in which the business organization operates.

Thus, it is very important for organizations to know to whom they are selling their solutions so that to have an appropriate marketing initiatives, competitive intelligence, and therefore informed decision making.

6.6. The Creation of Loyal Customers through Value-added Solutions

CRM is about creating loyal customers. Loyalty is about the conscious decision of your customers to repeat transactions with your organizations' brand (Russell-Jones, 2002: 17; Stanley, 2000:13; Zikmund et al, 2003: 22; Robert-Phelps, 2001: 28-29; Van der Walt, 1997:34). The implication of having loyal customers is that organizations can reduce operating costs; get extra business from referrals (have lower customer-acquisition costs); increased product penetration; high profit due to initial absorption of costs and premium pricing opportunities.

Many business people may argue that lowering prices is the panacea to customer defection. Thus, they tend to advocate high discounts to attract customers. However, it can be argued that the panacea to acquire, satisfy, retain, and end up making customers loyal is to assure them high quality solutions [based on their solution-needs from the products and services]. [For more clarity on prices, refer back 3.2.3. – pricing strategies].

Thus, high quality accompanied by high satisfaction is the panacea to delight customers, encourage them to transact, be satisfied and loyal to your products and services (Russell-Jones, 2002: 18-19; Robert-Phelps, 2001: 18-19, 28; Stanley, 2000:29). It is then that business firms can increase profits and have a greater *share of customers' wallets.*

The objective of customer relationship is to move customers rapidly up through from awareness through trust or transaction to satisfaction or loyalty and ultimately to advocacy (Russell-Jones, 2002: 19). Hence, the acquisition and retention strategies of CRM programmes must be to make customers transcend mere purchasing, that is, turn them into profitable referrals.

However, customer loyalty programmes may have the opposite bad effect if the focus is put on short-term rewards rather than longer-term benefits; or due to lack of understanding of customer's needs; wrong segmentation that leads to generalization; and customers could be increasingly cynical about such programmes (Robert-Phelps, 2001: 11).

The customer's relationship with brand is very important to reduce costs and achieve more profitable sales. Indeed, many authors suggest that it costs five times more to attract a new customer than it does to keep an old one (Robert-Phelps, 2001: 12; Zikmund et al, 2003: 23; Stanley, 2000:13). Hence, the successful alignment of brands to company's offerings implies higher customer retention rate and successful customer loyalty programmes.

CHAPTER SEVEN

Understanding Customer Defection and the mechanisms in preventing the defection possibilities

Thus far in the thesis, the acquisition and retention of customers as well as the creation of loyal customers have been discussed. However, as business organizations acquire and retain customers, they also lose customers. Hence, this chapter discusses the reasons for the defection of customers and the mechanisms to prevent the defection possibilities.

7.1. Reasons for the defection of customers

The possible reasons for the defection of customers may be due to price differences [refer back 3.2.3 above], changes in lifestyles, the complex decisions of customers, globalization and competitiveness, differences in values of products and services, and lack of attention and complacency of business organizations towards customers.

Customers are also now sophisticated (due to social changes in lifestyles, travel, education, access to more information etc) and thus demand more (Roberts-Phelps, 2001: 17; Zikmund et al, 2003:21) Thus, if the leadership of an organization such as the senior, middle, and even line management is not up-to-date with emerging and new customer trends and lifestyles, the business organization may end up with increasing customer defection.

Indeed, the buying of products and services has become a complex decision-making process for a customer due to blurring of differences between brands, products, and companies (Roberts-Phelps, 2001: 18). Thus, the challenges for business organizations are on how to provide new solutions that target and appeal to a certain segment of market and customers.

Besides, competition has increased dramatically due to globalization, advanced manufacturing, technology, high quality-competitiveness, and price-competitiveness (Roberts-Phelps, 2001: 18). Hence, customers are now sensitive and can easily switch to other competitors if they don't find their previous supplier's solutions meeting their individual needs.

Cost, that is, the importance of getting greater value for money when purchasing and choosing suppliers determines the continuation or defection of a customer (Roberts-Phelps, 2001: 18, 28-31; Russell-Jones, 2002: 32-33, 45; Laudon & Laudon, 2002: 52; Kalakota & Robinson, 2001: 171; Zikmund et al, 2003: 10, 23-25). The implication of the abovementioned is then that companies are forced to exceed the value of the solution offered as perceived by the customer.

More importantly, successful organizations are now discovering that not only competition but complacency towards their customers, too little contact, too little individual attention, poor quality attention, and generally poor service levels and standards are reasons for customer to switch and/or defect (Robert-Phelps, 2001: 17, 19-20). Thus, the implication is that the improvement of the above will reduce the amount of customer 'churn' or erosion. For instance, General Electric was the market leader in value-based products during the 1960s and 1970s but it has been rejecting diversifying into new transistor and chip-based developments (Roberts-Phelps, 2001: 20). Such complacency to innovation and subsequently differentiation could result in customer defection.

7.2. Mechanisms to prevent Customer Defection

The following are the main elements that help to deliver solid customer relationships.

The first is that the reality of today's service-based economy puts customer service at the top of management concerns (Roberts-Phelps, 2001: 21). This means that the support from the top management is a strategic imperative when building sound CRM systems. The implication is that the implementation of good CRM systems demands a visionary leadership with a sense of direction.

The second is that customer-centric (in contrast to product-led organizations) is the method of service whereby customer-driven measures and standards, and maintaining goodwill and positive relationships are the top priority (Roberts-Phelps, 2001: 21-22; Stanley, 2000: 22; Kalakota & Robinson, 2001: 170). The implication is that companies must increasingly invest more on researching the tendencies, demands, and other relevant factors of their customer segments in order to determine what solutions they can offer. By doing so, the varying requirements of different customers are fully understood, analyzed, and acted upon to deliver a personalized service or solution.

The third is that it is better to spend time and energy preventing problems and complaints rather than solving them after they had happened (Roberts-Phelps, 2001: 22, 28). Thus, proactive measures and appropriate mechanisms of dealing with reactive measures must be attached to each and every product and service that an organization offers to its target customers. Developing different methods of analysis such as scenario analysis and other forecasting analysis methods can mitigate problems and complaints. Another way of preventing problems and complaints is by conducting a competitor's analysis [as part of competitive intelligence] so that to forecast possible pitfalls by benchmarking one's solutions against the competitors. In deed, the exercises of preventing problems and complaints can be incorporated within the contingency management strategies.

Figure 6.1 was developed based on the discussion of all the chapters. The intention of the figure is to give a brief but comprehensive picture of the CRM strategies, which were discussed in this thesis. In the figure, the various ontological elements of CRM strategies - the inputs - are mentioned. Besides, the results – the outputs that business organizations can acquire from successful CRM strategies in alignment with the various ontological elements – are discussed in the figure. The inputs include the integration or alignment of CRM strategies with corporate strategies, the alignment of support technologies to CRM strategies, the creation of value-added processes, the alignment of CRM strategies to organizational factors such as culture, structure, and processes and the measuring of the interrelationships between those processes, and the use of various marketing strategies such as segmentation, channeling, and pricing strategies. The outputs, which result from those inputs, include flexible organizational culture and fluid organizational structure, acquisition of information and knowledge about customers and information and knowledge possessed by customers, innovation of new products and services, improved products and services, higher share of customers and market niche, higher customer acquisition and retention, higher customer loyalty and long term relationships, lower product acquisition costs to customers, lower customer acquisition costs to organizations, and thus higher premium to organizations and higher benefits to customers amongst many others.

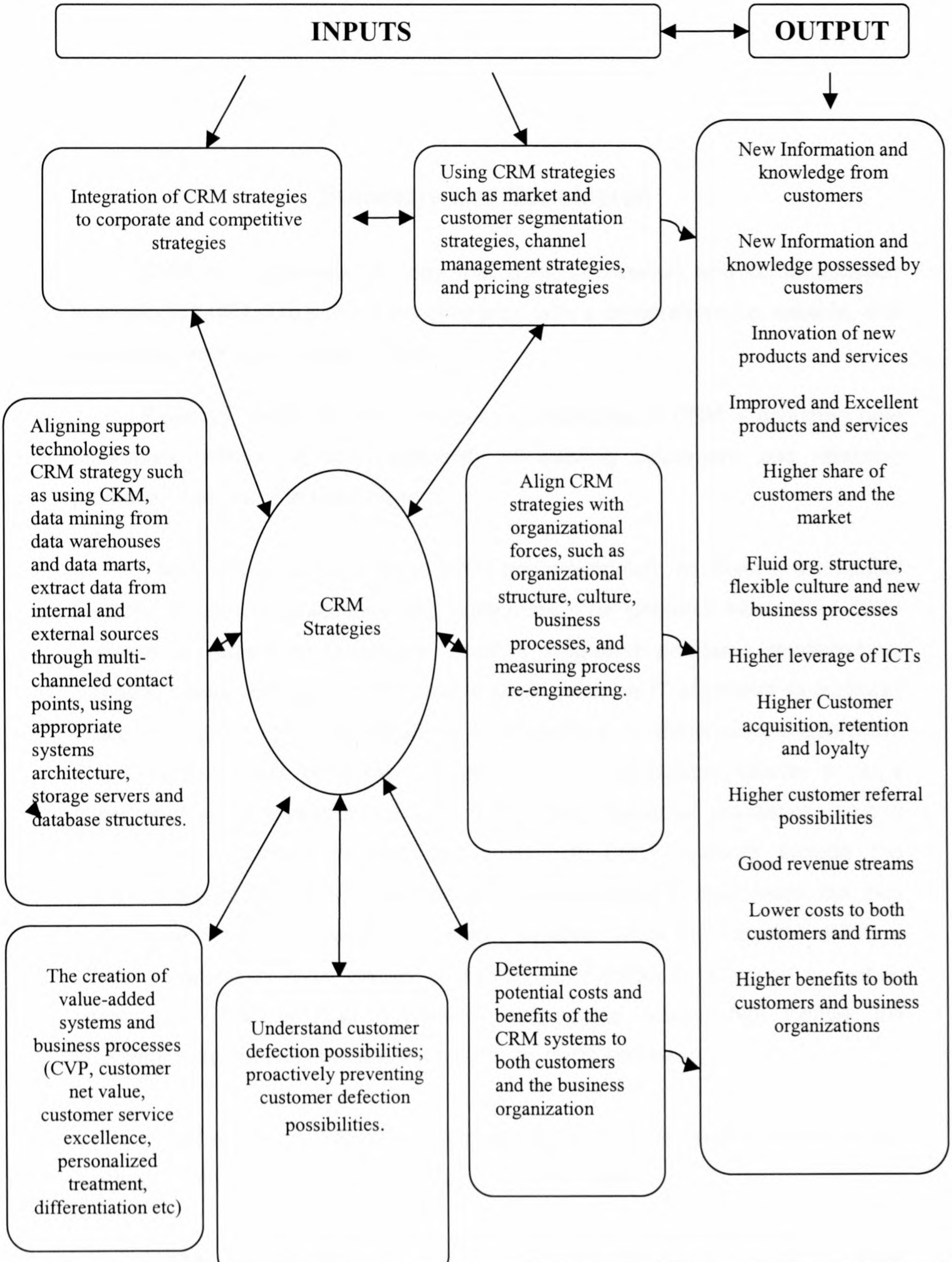

Figure 6.1: CRM strategies and its various ontological elements [inputs] and their end results [outputs]

Summary and Conclusion

CRM is a business strategy that uses information and communication technologies (ICTs) to provide an enterprise with a comprehensive, reliable, and integrated view of its customer base.

Basically, there are three phases or processes of CRM – acquiring new customers, enhancing the profitability of existing customers and retaining profitable customers in the long-term.

There are costs involved in CRM implementation, as there are potential benefits to both organizations and customers. The potential benefits of CRM systems to organizations include *building long-term profitable relationships, assisting senior management to have a clear vision on IT alignment to business processes, and urging organizations to develop a customer-centric approach.* The potential costs of CRM projects to the organization include a huge *investment in IT infrastructure* and in changing business processes, among others. The potential benefits and costs of CRM systems include the *personalizing* of goods and services which are benefits to customers, but they may cause the *loss of customer privacy.* Besides, while the frequent visit to a single organization by a certain customer might mean a reduction in certain costs, the customer may develop *a sole-source relationship*. Hence, the customer may not seek other competitors' products and services.

CRM supports the corporate strategy but it is necessary to re-visit the strategy subtly in order to re-align objectives and goals.

During the development of CRM strategy, the determination of three important elements – *segmentation strategies, channel management strategies, and pricing strategies* – are crucial.

Segmentation strategies consist of customer segmentation strategies and market segmentation strategies.

Customer segmentation strategies mean defining segments that are large enough to approach with a unique market mix. This helps an organization to attribute the targeted behavior to each *segment* or individual in order to *budget* for each of the behaviors.

Market segmentation strategies refer to dividing a heterogeneous market into a number of smaller and more homogeneous subgroups. The most commonly used market segmentation strategies include geographic variables, demographic variables, psychological factors and behavior patterns of customers in a particular market niche.

Another market segmentation strategy is to investigate customer's degree of loyalty with the organization, brand, or products and services.

Furthermore, analytically derived segments - which are data-driven and created by the analysis of customer data - can serve as a market segmentation strategy.

The rationale behind market segmentation strategy is that business organizations will increasingly need to diversify their channels to reach all their customer segments using presumably appropriate and rich media. In other words, the multi-channel integration of services is crucial in CRM systems in order to reach as many individuals and sets of customer segments as possible through the medium they choose to communicate or transact. In this way, channel management strategies – one of the elements of CRM strategies - are cognizant of *multi-channel* contacts and should be able to handle these contacts to access up-to-date data by all organizational touch points on the basis of the levels of services.

The other element of CRM strategy, that is, pricing strategies, imply that pricing of a certain item must be benchmarked against the benefits or solutions that customers receive from those products and services.

Furthermore, CRM strategies underpin the alignment of ICTs with other critical organizational factors such as organizational culture, structure, and business processes. In this case, the leadership ensures the alignment among the different organizational factors while the management measures the success of the different organizational factors in alignment with CRM strategies. The implication of these factors for the organization is to invest on a process change – the cost of altering traditional thought patterns and implementing new systems in order to have a flatter organization structure and flexible organizational culture, which assist all organizational stakeholders to communicate effectively and regularly.

Another crucial element in CRM application technology is the alignment of support technologies with CRM strategies. At the bottom line, the productivity benefit from IT is limited if it is not integrated with overall organizational structure, processes and culture.

Most importantly, some applications such as data warehouses and data marts (the subsets of data warehouses) must be used as the source of information and knowledge about customers and information and knowledge possessed by customers. In this case, the concept of customer knowledge management (CKM) has become imperative in CRM strategies. CKM is the strategic process by which companies empower their customers as information and knowledge partners having the objective of gaining, sharing, and expanding the information and knowledge residing in customers for the benefit of both customers and business organizations. The implication from gaining this information and knowledge is to come up with innovative ideas of how to differentiate products and services so that to create value-added offerings.

Finally, the integration of customer information and knowledge are crucial for senior management in order to redesign competitive and corporate strategies in alignment with CRM strategies. In order to have reliable customer information and knowledge, it is important to consider internal and external sources. The inference is that both the internal and external sources must be identified and collated to create an integrated source of customer information, knowledge about customers and knowledge possessed by customers. A customer *contact point*, or *touch point*, is also crucial to serve as the source of up-to-date information and knowledge about customers and information and knowledge possessed by customers. This, in turn, implies the extension and creation of new value to products and services based on this information and knowledge.

The integration of customer information requires determining the existing customer profiles and considering external contingency. Customer profiling is based on the current geographic, demographic, activity, psychographic, and behavioral data. External contingency means when a firm's expectations are affected by unforeseen external forces such as economic, social, environmental and political changes of the firm's general environment.

With regard to storage needs, a dedicated server can be used to host the CRM application. For this purpose, Storage Service Providers (SSPs) could be the best choice for CRM application. SSP, according to the same authors, is a third-party provider that rents out storage space to subscribers over the Web, allowing customers to store and access their data without having to purchase and maintain their own storage technology. SSPs could economize on the company's own storage resources.

With regard to data management, hardware and software vendors developed special database software to manage the data once it was in storage so that to add, delete, and change records as needed. Managing the data will prevent organizations from having data redundancy.

With regard to the choice of database structures, it is advisable to align the structures with CRM strategies, IT infrastructure, and overall organizational strategy.

For data analysis and information delivery, there are many techniques that could be used one of them being the use of *data mining*. The two basic techniques involved for conducting data mining include *the verification mode* and *the discovery mode.* The *verification mode* is, when the user has reason to believe that the warehouse contains data in certain forms or patterns and conducts repetitive queries to support this hypothesis. In this instance, it is important to mention the concept of *shopping basket analysis* - a modeling technique based upon the theory that if you buy a certain group of items during a one-stop shopping experience, you are likely to buy another group of items at the same time. The other technique for conducting data mining, namely, the *discovery mode* reveals something completely new to the user as the user lets the system determine the path to follow in conducting the analysis.

CRM also aims at a value that one places on your business and its relationship with its customers. In this case, during the development processes of CRM systems, the Customer Value Proposition (CVP) must be incorporated into the corporate and competitive strategies in order to determine value-adding and value-creating business processes. This means, CRM strategies must ensure that CVP aims at efficiency (process improvement) and effectiveness (process innovation).

By doing so, successful organizations define characteristics of the best customers in order to determine and estimate the lifetime value of such customers as well as improving lifetime value for those organizations.

It is advisable to calculate customer lifetime value, that is, the net present value (NPV) of the future profits (margin contribution) to be received from a given number of newly acquired or existing customers during a specified period of time.

Each customer has to feel in some way unique through the following value adding elements – speed and time; personal interaction; courtesy and competence; updated information; attitude and customer liaison; and long-term relationships.

Finally the reasons for the defection of customers and the mechanisms to prevent the defection possibilities are discussed.

The possible reasons for the defection of customers may be due to price differences, changes in lifestyles, the complex decisions of customers, globalization and competitiveness, differences in values of products and services, and lack of attention and complacency of business organizations towards customers.

Such defection possibilities can be prevented by putting customer service at the top of management concerns, becoming customer-centric (in contrast to product-led organizations), having proactive contingency management plans such as spending time and energy preventing problems and complaints rather than solving them after they had happened, shifting from mass-based to individual needs-based producing of goods and services, concentrating on the heavy user market segment but with cautious measures in case of intense competition, and blending traditional approaches of marketing with new ICT enabled capabilities.

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