Scepticism and disappointment have replaced initial enthusiasm about customer relationship management (CRM). The disappointing results of CRM projects are often related to difficulties that managers encounter in embedding CRM in their strategy and organisation structure. Fred Langerak and Peter C Verhoef believe that distinguishing between strategic and tactical CRM might lead to more effective understanding and implementation of CRM.

One of the major developments within today’s business practice is the increasing interest in customer relationship management (CRM). Instead of a focus on the acquisition of new customers, marketers are moving their attention to retention of customers and the maximisation of the customer lifetime value. Many marketers have been seduced into investing huge amounts of money in CRM projects to achieve the promised higher customer loyalty and resulting higher profits.

However, the rate of success of CRM projects varies between 30 and 70 per cent. Not surprisingly, many managers are dissatisfied about their CRM performance. In the academic literature a number of authors have expressed their doubts about some of the key premises of CRM. These include claims that CRM programmes should not be expected to result in significant changes in customer purchasing patterns in fast-moving consumer good markets and that in consumer markets the promised positive relationship between customer loyalty and profitability is often absent.

The reality is that most managers are unaware of the fact that CRM does not always have a positive impact on customer performance, which is why, not surprisingly, they are often disappointed about the implementation results of CRM programmes.

The disappointing results of many CRM projects can also be blamed on difficulties that managers encounter in embedding CRM in their strategy and organisation. Unfortunately, research into CRM has tended to ignore these strategic implementation issues. The purpose of this article is to fill part of the gap in our knowledge of CRM. We provide and discuss a classification scheme on how CRM can be strategically embedded in organisations. The practical applicability of this scheme is illustrated with the results of three CRM implementation case studies. Based on these case studies and interviews we discuss important issues that managers should consider before implementing CRM.

Most managers are unaware of the fact that CRM does not always have a positive impact on customer performance
**Customer relationship management**

The thinking reflected in CRM is based on three aspects of marketing management: customer orientation; relationship marketing; and database marketing. These aspects come together in CRM due to developments in information and communication technology (ICT).

Academics have distinguished between two types of CRM practices: programmes that aim to build intimate relationships with customers; and practices that use data-mining techniques to improve targeting, cross-selling and market research.

The first of these focuses on satisfying customers and fulfilling their needs in the expectation that the resulting increase in customer loyalty will enhance profits. The second focuses on a more efficient and effective use of marketing tools and is sometimes referred to as “cost reduction management”. An example is more efficient targeting of direct mailings, which can lead to substantial reductions in marketing costs. The distinction between the two can be very useful in explaining the success or failure of CRM projects. However, for a better understanding of the implementation of CRM one also needs to consider how CRM is strategically embedded within an organisation.

**Strategic embedding of CRM**

Our observations show that CRM implementations differ with respect to the extent they are embedded in business strategy and organisational structure. We distinguish – between strategically embedded and tactical CRM implementations. Strategic embedding of CRM means that the business strategy determines what type of CRM programme is implemented, how it is implemented and what the intended outcomes are.

CRM can be strategically embedded in the value disciplines: product leadership; operational excellence; and customer intimacy.

Firms striving for product leadership focus on the development of innovative and excellent products. If operational excellence is practised, firms aim to have lean and mean processes. The result delivers value to customers as low prices and convenience. Firms applying customer intimacy focus on knowing their customers and building close relationships with them.

CRM is often related solely with the customer intimacy value discipline. Our observations reveal, however, that firms that strategically embed CRM either strive after a strategy of customer intimacy or operational excellence. Their CRM approaches are different, though. If CRM is embedded in a customer intimacy strategy, CRM is relationship oriented. Firms embedding CRM in an operational excellence strategy focus on process improvements and cost reductions. Our findings also reveal that tactical CRM implementations are not embedded in business strategy. Observations, in practice, such as that: “CRM is no more than the application of a new statistical software package”, refer to this type of CRM implementation.

The above reasoning results in the classification scheme of CRM strategies displayed in Figure 1. For a better understanding of the resulting CRM implementations, we present the findings of three case studies on CRM implementations in an insurance provider, a private investment banker and a holiday resort provider. The insurance provider and the private banker have strategically embedded CRM within their respective strategies of operational excellence and customer intimacy. The holiday resort provider uses a tactical CRM approach. All three firms are satisfied with their CRM implementation.

**Case 1: Operational excellence and CRM**

The insurance provider has evolved from a regional agricultural co-operative insurance provider to a national player with top brand awareness in the Netherlands. Traditionally, this firm is a direct writer. Hence, it already had experience with direct customer contacts and direct marketing principles. Given this background and its position in the market, the firm has chosen a strategy of operational excellence by which it aims to outperform competitors on a combination of convenience, speed and price.
This strategy affects all processes and activities within the organisation and therefore has important implications for the application of CRM. According to one marketing executive, “the application of CRM should be in line with and support the operational excellence strategy. Therefore, CRM should reduce marketing costs, which can subsequently be used to improve the firm’s value proposition in the market. At the same time CRM should improve the interaction process with the customer in such a way that the customer’s convenience is enhanced and customer loyalty is created”. From these objectives it becomes clear that the insurance provider chose to combine the data mining and the relationship-oriented approaches of CRM.

The company developed a CRM infrastructure based on the link between a strategy of operational excellence and CRM. This infrastructure is shown in Figure 2. Its CRM efforts were driven by a customer database, which has a number of functions.

First, information from the database, such as customer profitability and sales levels, are used as input for the management information system (MIS). Second, data-mining tools are used to improve the targeting of direct marketing actions such as telemarketing, direct mailings and so on. Third, analytical CRM is used to develop business rules, which are subsequently used to fine tune customer interaction management.

Analytical CRM mainly concerns customer segmentations based on behavioural characteristics rather than customer needs. Specific marketing strategies have been formulated for each segment. For example, for a segment with limited growth potential the provider formulated a cost-reduction strategy.

Finally, the database is used to personalise communication in the case of direct contacts with the customer. For example, the company webpage is directly linked to the customer database, which also has a facilitating role in the call centre.

One crucial decision in the simultaneous application of the relationship-oriented and data-mining approaches of CRM was the extent of customisation versus standardisation. This choice involves a trade-off between the costs and expected revenues. For the moment, the insurance provider uses a web site for personalisation because it is relatively inexpensive. However, the firm did not choose to personalise the service delivery process because the costs of customisation were too high. For example, it decided not to reduce waiting times for high-equity customers because this would add to complexity and raise costs.

Another issue that the management faced was whether the behavioural-based segmentation should impact the organisation structure. CRM suggests that marketing should be organised around customer segments.

However, the insurance provider had a product management organisation. A major disadvantage of this is the absence of co-ordination between product managers, which led to customer irritation. For example, customers received several mailings for different products in the same week.

To resolve these problems the management considered changing from a product-management towards a customer-management structure. This option was not chosen for several reasons, however.

First, insurance is a relatively complex product for which product specialists are needed. Second, organising around customers would add to complexity and raise costs, which was not in line with the operational excellence strategy. Instead the management opted for a structure in which the database-marketing department co-ordinates all communications (direct mailings, web site) with the customer, while the content is developed in consultation with the relevant product managers. In other words, the database-marketing department became the linking pin between the customer and the product managers. The organisation structure is shown in Figure 3.

Another issue management encountered was the consideration of the efficiency and effectiveness of CRM instruments. As already noted, the insurance provider uses direct mailings. It also has a loyalty programme and a relationship.
The loyalty programme concerns a usage reward system in which members receive price reductions based on the number of insurance products purchased and the relationship duration. In the magazine short articles are published on financial, health and lifestyle topics.

The company monitors the performance of both and there is an ongoing debate on their contribution to the strategy of operational excellence.

An often-ignored aspect of CRM is the role of the human factor. The management of the insurance provider acknowledged the crucial role of employees in implementing CRM and encouraged employees to follow several training programmes. According to a marketing executive, however, “the required changes have not been achieved yet”.

One problem that the management encountered was that employees felt that they have fewer opportunities to seek creative solutions due to the focus on standardisation in the CRM process to achieve consistency with the strategy of operational excellence. To date, the insurance provider has not resolved this issue.

Case 2: Customer intimacy and CRM

This private investment banker is one of the largest in Europe. Two decades ago other financial service providers started entering the market and competition intensified. As a result the banker’s market share decreased substantially. As a result the bank began to reconsider its position. It faced the following important challenges:

- The bank was product oriented and functionally organised
- All customers were treated in the same way
- The information available in the customer database was not used
- Much attention was given to new customers but less to current and defecting customers
- The assortment of investment products did not match customer needs
- The profitability of the marketing department was too low.

In response the bank initiated a transformation programme to substantially change the execution of marketing activities, the structure of the organisation and the organisation’s culture.

The management started with a reconsideration of the firm’s strategy and its positioning in the market. Strategy was traditionally focused on product leadership. Customers did not receive much personal advice. As a result they perceived the firm as “selling high-quality products but offering little personal service and attention”. A repositioning was needed.

The transformation process started with an extensive study of customers and customers’ needs through expert interviews, focus group discussions and large quantitative surveys. Based on the results the management decided to develop and implement a segmentation policy based on customer needs.

Three segments (self-made man, strategy maker and security seeker) were distinguished, which differed with respect to customers’ attitudes towards investment banking. These attitudes were matched with information in the customer database to identify multiple observable measures indicative of the customer’s attitude towards private banking. For example, if a customer invested money originating from a heritage (information retrieved from the database) it turned out that his/her attitude towards investing was less risk averse
A client team was formed for each segment. Each team developed a customer strategy based on customer needs, received its own budget and was made accountable for the resulting profit. The management was aware that it also needed to emphasise attracting new customers and formed a separate team that focused on customer acquisition for all three segments. As well as these four teams the management decided to form two specialist departments: marketing and business support. These departments were responsible for policies that went beyond the four teams, such as branding and the IT-infrastructure. The resulting organisation structure is given in Figure 5.

To win employee support for the relationship-oriented CRM-approach they were continuously involved in the change process. Management also assessed whether an individual employee’s attitude, capabilities and interests fitted with the new strategy and determined to which client team each employee could best be assigned. Prior to the transformation process employees experienced no shared responsibility, relatively high internal rivalry and an internal focus. Within the client teams a shared interest in the customer was essential and the team leader became the personal coach of each employee within their team to achieve a customer care focus.

**Case 3: Tactical CRM**

The third case concerns a large European holiday resort provider. This company follows a product-leadership strategy on the basis that customers will favour resorts that offer quality and performance. Hence, it has invested heavily in resorts, which provide many high-quality facilities. As a consequence, customers perceive
the quality of the resorts as excellent and they are usually eager to return.

Outside the summer season, however, the provider was confronted with resorts that were not fully occupied. To raise the rate of occupancy the management provided potential customers with last-minute offerings through direct mailings. These mailing were untargeted and resulted in huge waste. To improve the efficiency and effectiveness of the direct mailings the management decided to set up a CRM department.

This focused on: developing and applying data-mining techniques; maintaining the customer database; and integrating the database with the customer contact centre. Effectively the company was using a tactical approach of CRM. Not surprisingly, the holiday resort provider structured its CRM activities around its customer database. This is shown in Figure 6.

Employees in the customer contact centre use the customer database operationally. Analytically, the database is used for data-mining activities. These data-mining activities focus on response optimisation of the direct mailings sent to customers to raise occupancy levels. The CRM department uses a standard statistical software package and has hired a prior employee of a statistical software provider to apply the program. In the first year of its tactical CRM implementation the company achieved a substantial reduction in marketing costs through improved targeting and reduced waste associated with direct mailing. More importantly, it resulted in higher rates of occupancy.

However, at the same time it was also applying an expensive loyalty programme without considering its effectiveness. Such a loyalty programme was not in line with the main CRM objective, which focused on selling efficiency.

The company evaluated the loyalty programme using the customer equity framework. It found that the programme did not affect customers’ decisions to return to the holiday resort. Customers’ retention decision was predominantly based on their experiences during their stay in a resort. Moreover, the majority of the loyal customers were not aware of the loyalty programme. Not surprisingly this resulted in a debate about the continuation of this programme.

**Looking at CRM strategies**

These three case studies, additional interviews with managers and prior literature on CRM allow us to complete our classification scheme on the embedding of CRM in organisations. Figure 7 presents the full characteristics of the strategic and tactical embedding of CRM. These characteristics relate to aspects such as the strategic orientation, organisation structure and culture, CRM focus, CRM tools and the role of IT in CRM implementations.

CRM with a strategy of operational excellence has an orientation focusing on business processes. The organisation is relatively process driven and the organisation culture is market oriented. At the customer level there is a focus on repeated transactions. Important CRM metrics are customer perceived value (price/quality) and customer profitability. Note that there is less interest in the lifetime value of customers. Instead there is a focus on the optimisation of current customer profitability. As CRM is strategically embedded, IT is a facilitator of the CRM strategy. Still, due to large investment in IT systems firms can fall into the trap of giving too much attention to IT.

The strategic orientation of CRM links to a strategy of customer intimacy centres on the customer. This orientation should lead to a customer-driven organisation structure and culture. The aim of CRM is to develop customer relationships. At the individual customer level, the extent of customer relationship development activities depends on the expected lifetime value of customers. Important metrics are customer commitment and customer lifetime value. Important CRM tools are affinity programmes (such as relationship magazines) and individual contact with customers. Through the use of segmentation driven by customer need, these contacts are, to a large extent, personalised. Similar to operational excellent CRM, IT also has a facilitating role in customer intimate CRM. Also note that for operational and customer intimate CRM alike, top management commitment is high.
When CRM is applied strategically, implementation should be in line with the chosen business strategy. The case studies clearly show that the type of CRM application chosen depends on the chosen strategy. In the case of the insurance provider CRM was meant to improve cost effectiveness and convenience to reinforce the operational excellence positioning. In the case of the private investment banker the CRM implementation clearly focused on relationship development, which was in line with the formulated strategy of customer intimacy. Each case is an excellent example of how strategy directs CRM implementation.

Firms should consider how and whether they embed CRM in their business strategy. It may be argued that CRM systems are only successful when they are strategically embedded. Our position is that in some cases firms should only use CRM at a tactical level. Firms can realise cost reductions with a relatively straightforward CRM application. This is clearly shown by the CRM implementation at the holiday resort provider. However, all firms should make a cost-benefit analysis before implementing CRM. This can prevent them from making substantial

**CRM implementation issues**

Based on our research we have formulated eight issues that are essential for successful CRM implementation:

Tactical CRM approaches are not embedded in business strategy and organisation. These approaches are applied in more transaction-oriented organisations and top management support is low. The focus of tactical CRM is on efficient selling of products and services.

Important CRM tools are direct mailings and telemarketing. Data mining is very important in this CRM application. Not surprisingly, IT is often the driving force behind tactical CRM.

### Figure 7 Classification scheme of CRM implementation strategies

<table>
<thead>
<tr>
<th>Characteristics:</th>
<th>Operational excellent CRM:</th>
<th>Customer intimate CRM:</th>
<th>Tactical CRM:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value discipline:</td>
<td>Operational excellence</td>
<td>Customer intimacy</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Strategic orientation:</td>
<td>Process</td>
<td>Customer</td>
<td>Product / sales</td>
</tr>
<tr>
<td>Organisation structure:</td>
<td>Process teams</td>
<td>Customer teams</td>
<td>Functional</td>
</tr>
<tr>
<td>Organisation culture:</td>
<td>Market oriented</td>
<td>Customer oriented</td>
<td>Transaction oriented</td>
</tr>
<tr>
<td>Top management commitment:</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>CRM level:</td>
<td>Strategic</td>
<td>Strategic</td>
<td>Tactical</td>
</tr>
<tr>
<td>CRM approach:</td>
<td>Relationship oriented and data mining approach</td>
<td>Relationship oriented</td>
<td>Data mining</td>
</tr>
<tr>
<td>CRM focus:</td>
<td>Repeated transactions</td>
<td>Relationships</td>
<td>Selling</td>
</tr>
<tr>
<td>CRM objectives:</td>
<td>Cost reduction and loyalty</td>
<td>Customer equity</td>
<td>Marketing efficiency and selling</td>
</tr>
<tr>
<td>Customer segmentation:</td>
<td>Behaviour (profit) based</td>
<td>Need behaviour (profit)</td>
<td>Response based</td>
</tr>
<tr>
<td>CRM tools:</td>
<td>Direct mail, reward programmes, Internet</td>
<td>Affinity programmes, customer contacts</td>
<td>Direct mail, telemarketing</td>
</tr>
<tr>
<td>CRM metrics:</td>
<td>Customer perceived value, customer profitability</td>
<td>Commitment, customer share</td>
<td>Direct mail response (incl profit)</td>
</tr>
<tr>
<td>Emphasis data-mining:</td>
<td>Moderate / high</td>
<td>customer life-time value</td>
<td>High</td>
</tr>
<tr>
<td>Role of IT:</td>
<td>Facilitating</td>
<td>Low / moderate</td>
<td>Driving</td>
</tr>
<tr>
<td>Time horizon:</td>
<td>Mid-term</td>
<td>Facilitating</td>
<td>Short-term</td>
</tr>
</tbody>
</table>

Operational excellent CRM:
- Operational excellence
- Process
- Process teams
- Market oriented
- High
- Strategic
- Relationship oriented and data mining approach
- Repeated transactions
- Cost reduction and loyalty
- Behaviour (profit) based
- Direct mail, reward programmes, Internet
- Customer perceived value, customer profitability
- Moderate / high
- Facilitating
- Mid-term

Customer intimate CRM:
- Customer intimacy
- Customer
- Customer teams
- Customer oriented
- High
- Strategic
- Relationship oriented
- Relationships
- Customer equity
- Need behaviour (profit)
- Affinity programmes, customer contacts
- Commitment, customer share
- customer life-time value
- Low / moderate
- Facilitating
- Long-term

Tactical CRM:
- Not applicable
- Product / sales
- Functional
- Transaction oriented
- Low
- Tactical
- Data mining
- Selling
- Marketing efficiency and selling
- Response based
- Direct mail, telemarketing
- Direct mail response (incl profit)
- High
- Driving
- Short-term
investments in CRM that in the end do not pay off. Moreover, implementation should be consistent with the chosen strategy and business objectives. For example, despite the focus on cost-reductions, the holiday-resort provider also applied a loyalty scheme that was far from effective.

- CRM has important implications for organisation structure. All three cases reveal that the adoption of CRM resulted in a new organisation structure. However, the structure depends on the CRM approach. In the case of the insurance provider the change in the organisation structure was focused on improving process efficiency and reducing customer irritation. As a consequence, management chose not to organise around customer segments. This in contrast to the structure of the private investment banker, which was around customer groups. This structure should result in higher satisfaction levels, loyalty and customer lifetime value. The holiday service provider sufficed with setting up an independent CRM department to carry out straightforward tactical CRM activities. Thus, although CRM-implementations should consider the organisation structure, the nature of change depends on the CRM approach.

- Implementation of strategic CRM approaches not only requires a change in organisation structure but also in culture. This is illustrated by the statements of some managers that the human factor is one of the most important determinants of CRM performance. In the case of the private investment banker a customer-oriented culture was needed to facilitate the implementation of a relationship-oriented CRM approach. In the insurance provider case a cost-oriented culture was needed to enable employees to work more efficiently and more customer-oriented.

- Implementation of a strategically embedded CRM approach is more time-consuming than implementing a tactical CRM approach. The insurance provider and private banker needed approximately 18 months to develop and implement their CRM strategy. However, both firms are still learning and fine-tuning their strategy and implementation. The long time horizon of CRM implementations can also explain why managers are dissatisfied about their CRM performance. Strategic CRM implementations do not pay-off immediately. A long-term perspective is needed to develop and implement a strategically embedded CRM approach. Tactical CRM approaches are much easier to implement and produce positive results in a short time.

- Top management support is essential for strategically embedded CRM. Top management support not only helps to transform the organisation structure and culture but also ensures that CRM projects that experience unforeseen temporary setbacks continue.

- Firms should have realistic expectations on the consequences of CRM. These expectations should be based on analytical models that show how managerial action impacts the marketing cost structure and customer revenues.

- Finally, firms often consider CRM software the key to success in CRM implementation. Although a substantial part of the CRM budget is allocated to software, managers should not fall into the trap of a myopic focus on software. Especially in customer-intimate CRM, software facilitates customer relationship development. For operational excellent CRM, software should improve the customer interaction process and lead to cost reductions. When tactical CRM is applied, CRM software should primarily result in cost reductions.

If a CRM implementation programme can survive the scrutiny of these issues then we believe it will be successful.

Resources


Fred Langerak (f.langerak@fbk.eur.nl) and Peter C. Verhoef (verhoef@few.eur.nl) are faculty members of the Rotterdam School of Management and the Rotterdam School of Economics respectively.