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Excerpt
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Part I

Introduction

1 Strategic customer management

The strategic management of customer relationships is a critical activity for all enterprises. The means of effectively managing relationships with customers are typically addressed under the headings of relationship marketing and customer relationship management (CRM), to name but two terms used to describe the management of customer relationships. Resources applied to such relationship management initiatives are substantial and growing. For example, global expenditure just on CRM activity has been estimated to exceed US $100 billion when CRM-related implementation services are considered.

Since the early 1980s, relationship marketing has become the topic of great interest to both marketing scholars and marketing practitioners. In the increasingly mature and complex markets of the twenty-first century, organisations have learned that building relationships and sustaining them is usually more important than activities focusing on customer acquisition. Much of the recent interest in relationship marketing has evolved from the work undertaken in industrial marketing and services marketing in this period, although antecedents of relationship marketing can be traced back to ancient times. The importance of the topic of relationships in marketing is now undisputed.

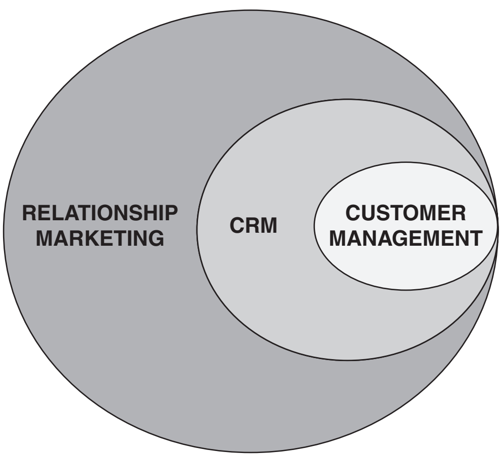
In the early 2000s, in conjunction with the rapid rise in the use of information technology by enterprises, CRM made a high-profile entry into the corporate world as businesses saw the potential of implementing relationship marketing strategies through IT. Companies started to recognise how CRM could provide enhanced opportunities to use data and information to better understand customers and to implement relationship-based strategies. CRM built on the philosophy of relationship marketing with the objective of utilising information technology to develop a closer fit between the needs and characteristics of customers and the organisation's product and service offering.

In this chapter, we outline the development of the marketing discipline to place the concepts of relationship marketing and CRM in context. We explain the transition from transaction marketing to relationship marketing. We define both relationship marketing and CRM and explain the similarities and differences between them. Finally, we provide an overview of the structure of the book.

The domain of strategic customer management

Over the past three decades relationship marketing, CRM and other approaches for systematically managing relationships such as one-to-one marketing have developed significantly. However, there is considerable confusion in the academic and managerial literatures about how they differ and what the implications might be of using each approach for effective customer management. The terms relationship marketing and CRM have been used interchangeably[1] despite the fact that many, including us, agree with Zablah, Bellenger and Johnston,[2] who argue that relationship marketing and CRM are different phenomena and a clear distinction should be made between them.

In a recent review of the conceptual differences between the terms *CRM* and *relationship marketing* and *customer management* we define these terms and highlight key differences between them, as shown in Figure 1.1.[3] These brief definitions, developed from the academic literature and field-based research with executives, help clarify the distinction between these terms. In Chapters 2 and 6 we explore the implications of these definitions further.



Relationship Marketing:
Strategic management of relationships with all relevant stakeholders

CRM:
Strategic management of relationships with customers, involving appropriate use of technology

Customer Management:
Implementation and tactical management of customer interactions

Figure 1.1 The domain of strategic customer management

Relationship marketing involves the strategic management of relationships with multiple stakeholders. This is a view increasingly supported within the relationship marketing literature (e.g., Christopher, Payne and Ballantyne;[4] Doyle[5] and Gummesson[6]).

Srivastava, Shervani and Fahey define CRM as an activity that addresses all aspects of identifying customers, developing customer insight and building customer relationships.[7] Boulding and his colleagues develop a similar definition emphasising the integration of processes across the many areas of the firm.[8] Thus, *CRM involves the strategic management of relationships utilising, where appropriate, technological tools*.

We also introduce a third term, *customer management, which represents that part of CRM which involves the more tactical management of customer interactions and transactions*.

These three activities *relationship marketing*, *CRM* and the more tactical activity of *customer management* collectively represent the domain of *strategic customer management*. We consider that the lack of clear definitions and understanding of these different, but closely related, activities has negatively impacted the successful implementation of relationship marketing and its more technological cousin CRM. In the following chapters we elaborate on these short descriptions in much more detail. As the title of this book suggests, we focus primarily on strategic aspects that relate to relationship marketing and CRM and we do not address the tactical management of customer transactions (i.e., 'customer management') in detail.

To set the development of relationship marketing and CRM in context, we now review the development of the marketing discipline.

The development of the discipline of marketing

Although marketing has its origins in the earliest forms of commerce, the widespread acceptance of the marketing concept by enterprises is relatively recent. The modern adoption of the marketing concept can be traced to the substantial period of growth following the Second World War. The adoption of marketing was especially prevalent in large US companies over this period. Little marketing literature was published prior to the 1950s.

Since the 1950s the formal study of marketing has focused on an evolving range of marketing sectors and foci, as shown in Figure 1.2. The emergence and development of these sectors do not coincide exactly with the decades show in Figure 1.2. However, these decades broadly represent the starting point of substantive research and the appearance of academic and practitioner publications relating to these sectors.

In the 1950s marketing interest was primarily focused on consumer goods, following the rise in consumer demand at the conclusion of the Second World War. The emerging consumer goods companies quickly became recognised as sophisticated marketers and were the first companies to develop formal marketing plans. Most of the academic literature on marketing around this period focused on consumer goods businesses and especially fast moving consumer goods.

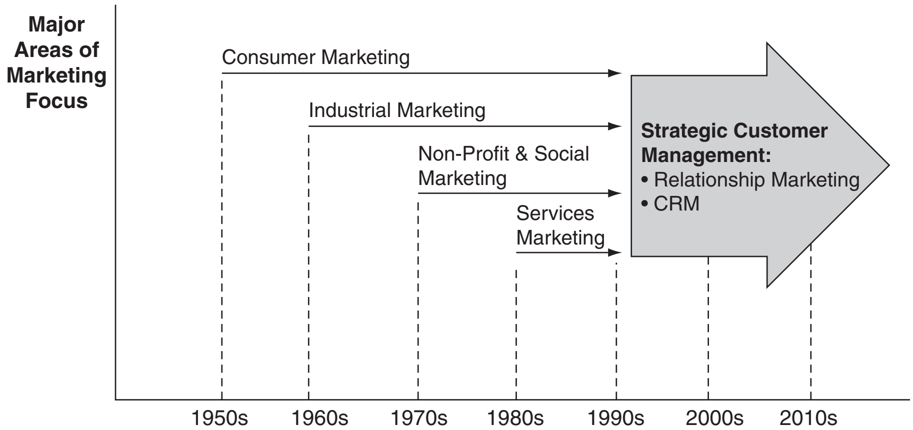


Figure 1.2 The development of the marketing discipline

In the 1960s increased attention started to be directed towards industrial markets. Books and articles on industrial marketing started to appear and make distinctions between consumer marketing and industrial marketing. Specialised marketing textbooks and journals addressing industrial markets started to appear. Much of this work focused especially on selling to business customers and later led to substantive work in the area of key account management.

In the 1970s considerable academic effort was placed on the area of non-profit or societal marketing. This required marketers operating in the not-for-profit sector to revise their thinking as such organisations did not have commercial enterprises' motive of profit. Further, they typically had more than one 'market' to serve. For example, a museum or charity had to undertake marketing activities directed at the attraction of funds from donors as well as undertaking marketing activities directed at customers.

In the 1980s attention started to be directed at the services sector, an area of marketing that had received remarkably little consideration despite its importance to the overall economy of most developed countries at that point in time. Since then, in North America and Western Europe in particular, there has been a steady and unrelenting decline in traditional manufacturing industries. Their place has been taken by numerous service-based enterprises that have been quick to spot the opportunities created by organisational needs, increased personal affluence and raised lifestyle expectations of the population.

By the 1990s a new marketing area, relationship marketing, became the subject of much attention. Relationship marketing, as a term, appears first to have been introduced in the academic literature in 1983 at an American Marketing Association conference by Leonard Berry. He described relationship marketing as 'attracting, maintaining and . . . embracing customer relationships'.[9] Shortly afterwards, two further articles addressing customer relationships were published by Theodore Levitt[10] and Barbara Bund Jackson.[11] These articles were influential in emphasising the need to understand different types of relationships and the extent to which relationship or transaction-oriented approaches are appropriate. However, it was not until the 1990s that the first book on relationship marketing appeared, published by one of the current authors and his colleagues.[12] From this period, a substantive flow of academic and practitioner articles started to appear.

In the early 2000s the term CRM or customer relationship management emerged. We use the term 'emerged', as a review of the literature on CRM does not disclose where the term was first used in a publication. CRM is increasingly found at the top of corporate agendas today. Companies large and small across a variety of sectors are embracing CRM as a major element of corporate strategy for two important reasons: new technologies now enable companies to target chosen market segments, micro-segments or individual customers more precisely, and new marketing thinking has recognised the limitations of traditional marketing and the potential of more customer-focused, process-based strategies. CRM is a business approach that seeks to create, develop and enhance relationships with carefully targeted customers in order to improve customer value and corporate profitability and thereby maximise shareholder value. CRM is often associated with utilising information technology to implement relationship marketing strategies. As such, CRM unites the potential of new technologies and new marketing thinking to deliver profitable, long-term relationships.

From the mid-2000s we have seen the rise of a new relationship-focused phenomenon – social media. Social media is a dynamic phenomenon. The rapid acceptance of social media platforms such as Facebook and Twitter – which are largely consumer-oriented platforms – and LinkedIn – which is primarily a business-oriented platform – is unparalleled in the history of marketing. Social media has important implications for strategic customer management which we consider at various points throughout this book. It is also a highly turbulent sector as characterised by the rise and fall of Myspace, which is discussed in a case study at the end of Chapter 2.

Social media has already had an important impact on relationship marketing and CRM and this will increase substantially in the next decade. However, social media, in our view, does not represent one of the major areas of marketing focus illustrated in Figure 1.2. Rather its use has significant implications for the development of relationship marketing strategies and the implementation of CRM initiatives. Collectively, relationship marketing and CRM – together with the appropriate use of social influence marketing strategies – constitute the area of strategic customer management.

The growth of the service economy

The rise of the service sector has had an important and continuing influence on both relationship marketing and CRM. As noted above, there has been a steady decline in traditional manufacturing industries over a long period. This transition is such that today more than 70 per cent of most Western economies are now in the service sector, whether measured in terms of income or numbers employed. Figure 1.3 shows estimates of the size of the service sector as a percentage of gross national product (GNP) for different countries. These statistics, published by the US Central Intelligence Agency,[13] show the dramatic transformation of the global service landscape. Hong Kong leads the world with 92 per cent of its economy in the service sector. China's economy a few decades ago was principally an agricultural economy. The service sector in China has grown by 191 per cent over the last 25 years. Today, services represent over 44 per cent of China's GNP.

Some observers refer to this shift to a services economy as the 'second industrial revolution'. As individuals spend greater proportions of their income on services including travel, entertainment and leisure, postal and communication services, restaurants, personal health and grooming and the like, the service sector responds by creating businesses and jobs. This growth in services has obvious and important implications for relationship marketing where customer relationships and service employees are especially critical.

Further, the distinction between services and manufactured products has become increasingly blurred as many manufacturing companies have seen the opportunity to

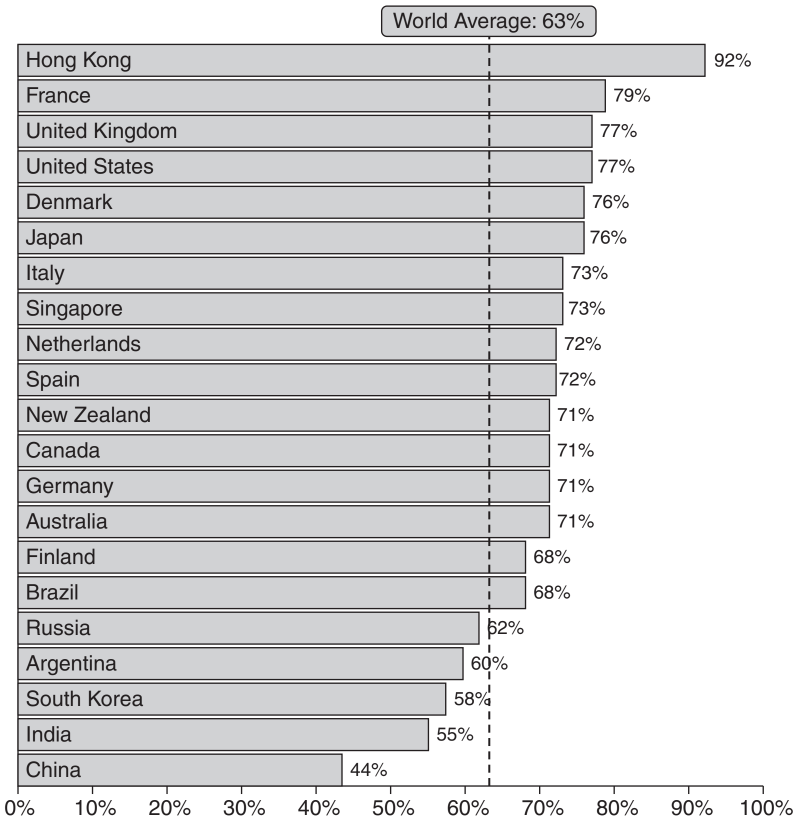


Figure 1.3 Size of the service sector as percentage of GNP for different countries

add services to their portfolios.[14] Many manufacturing organisations now have substantial service businesses with companies such as Rolls-Royce and IBM standing out as two exemplar organisations that have embraced services. Both these organisations have achieved huge growth in the services component of their businesses.

Rolls-Royce, the jet engine manufacturer, introduced their ‘power by the hour’ initiative which provides airline operators with a service which involves a fixed engine maintenance cost over an extended period of time. Rolls-Royce retains ownership of the engines and airline operators are assured of an accurate cost projection by buying ‘power by the hour’ with guaranteed performance standards. They also avoid the costs associated with unexpected engine breakdowns. Service revenue accounts for over 53 per cent of Rolls-Royce’s annual revenues and it is now the world’s second largest manufacturer of aircraft engines, behind General Electric.

IBM, a company once primarily involved in manufacturing large mainframe computers and later personal computers has significantly increased the share of its business derived from services. IBM has shifted its focus from commoditised hardware to higher-margin services and software. This is being achieved by both organic growth and purchase of service businesses like the consulting division of PricewaterhouseCoopers. IBM's Global Services organisation is the world's largest business and technology services provider. It is the fastest growing part of IBM, with over 190,000 workers serving customers in more than 160 countries.

Theodore Levitt, who was recognised as one of the world's leading marketing experts, commented that 'everybody is in service'. He pointed out that all industries are in services, although some have a greater or lesser service component than other industries.[15] Services scholar Evert Gummesson makes a similar point when he points out that: 'The former special case of the service sector has now become the universal case.'[16] It follows that to consider service as being confined only to service industries is no longer appropriate.

The service-dominant logic of marketing

Peter Drucker, the management guru, once said that the greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic. Since the 1980s, the dominant logic of marketing has been increasingly challenged by newer perspectives including relationship marketing, quality management, market orientation, services marketing and brand relationships. These more recent frames of reference have challenged marketing and identified limitations in the traditional 'goods-dominant logic' of marketing. A common theme in this work is that the dominant logic of marketing is shifting from the exchange of tangible goods to the exchange of intangibles such as skills, knowledge and processes.

This view has been increasingly recognised since the publication of Stephen Vargo and Robert Lusch's award-winning research on service-dominant (S-D) logic.[17] This research provides a new perspective on service. Vargo and Lusch argue that services are more prevalent than goods and that goods need to be considered as a 'medium' for a firm's service. They consider all enterprises are in the business of providing service. Service-dominant logic makes an important distinction between 'service' (singular) and 'services' (plural). In the service-dominant logic literature, 'service' involves a process, while the plural term 'services' indicates intangible units of output.

Enterprises that produce goods only, such as an automobile manufacturer, are in fact creating a service for their customers – in this case a 'service' that enables customers to go from 'point A' to 'point B'. Many of the issues addressed by Vargo and Lusch have appeared previously within the services and relationship marketing literatures. However, what they present in their research is an important integration of many of the concepts and principles relevant to relationship marketing. They identify ten foundational premises, shown in Figure 1.4.[18]

These foundational premises are not a set of 'rules'; instead they represent a developing and collaborative effort to create a better marketing-grounded understanding of value and exchange. Central to this work is the recognition of the need for a shift from a firm perspective to a customer perspective. S-D logic emphasises that companies need to

	Foundational Premise	Explanation & Comment
FP1	Service is the fundamental basis of exchange.	The application of operant resources (knowledge and skills), 'service', as defined in S-D logic, is the basis for all exchange. Service is exchanged for service.
FP2	Indirect exchange masks the fundamental basis of exchange.	Because service is provided through complex combinations of goods, money, and institutions, the service basis of exchange is not always apparent.
FP3	Goods are a distribution mechanism for service provision.	Goods (both durable and non-durable) derive their value through use – the service they provide.
FP4	Operant resources are the fundamental source of competitive advantage.	The comparative ability to cause desired change drives competition.
FP5	All economies are service economies.	Service (singular) is only now becoming more apparent with increased specialisation and outsourcing.
FP6	The customer is always a co-creator of value.	Implies value creation is interactional.
FP7	The enterprise cannot deliver value, but only offer value propositions.	Enterprises can offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but cannot create and/or deliver value independently.
FP8	A service-centred view is inherently customer oriented and relational	Because service is defined in terms of customer-determined benefit and co-created it is inherently customer oriented and relational.
FP9	All social and economic actors are resource integrators.	Implies the context of value creation is networks of networks (resource integrators).
FP10	Value is always uniquely and phenomenologically determined by the beneficiary	Value is idiosyncratic, experiential, contextual, and meaning laden.

Figure 1.4 Service-dominant logic – key foundational premises

become continuous learning organisations working more closely with their customers and that communication with customers should be characterised by conversation and dialogue. By adopting this perspective the customer shifts from being a passive audience to an active player who is engaged more deeply in joint value creation. This idea of marketing as a facilitator and structurer of mutual creation of value with customers is gaining increased credence.

From a goods-dominant logic perspective, enterprises produce products and customers buy them.

With a service-dominant logic, customers engage in dialogue and interaction with their suppliers during product design, production, delivery and consumption. The terms co-creation or co-production are increasingly used to describe this dialogue and interaction. Service-dominant logic suggests that value starts with the supplier understanding customer value-creating processes and learning how it can support customers to co-create value.

The foundational premises of service-dominant logic have important implications for relationship marketing and CRM. In the next section we discuss the transition from transaction marketing to relationship marketing that is captured within several of these