Customer Relationship Management
A Global Perspective

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Chapter 1

Customer Relationship Management: Global and Local Dimensions

Chapter Objectives:

▪ Understand the global significance of Customer Relationship Management (CRM).
▪ Identify the primary sustainable competitive advantages.
▪ Discuss the pros and cons of international strategic theories.
▪ Elaborate on the primary components of international strategy.
▪ Discuss the three pillars of Customer Relationship Management (CRM).
▪ Elaborate on the advantages and objectives of Customer Relationship Management (CRM).

Global Perspective on Customer Relationship Management

As global markets become increasingly integrated, all firms from the largest multinational to the smallest entrepreneur must be able to find a market niche which enables the firm to survive in highly competitive markets, and to prosper by finding the best ways to meet the needs and desires of the target consumers. This introductory section of the book will discuss current international strategies for success, and the tradeoffs that companies face with each strategic alternative selected.

History is littered with examples of situations where an appropriate strategy was not selected, to the downfall of the decision-makers or firms who failed to plan appropriately. An example of strategic error happened long ago during the reign of Genghis Khan. His empire was one of the largest in the history of the world, and spread from Mongolia through modern day Russia, and into Poland. The dynasty was short lived primarily due to the lack of adequate feedback between the leadership, which was centralized at the top, and the common villagers, who were spread over the vast terrain. Without a strong communication mechanism, the empire was doomed to a short lifespan. The same could be said for the modern corporation. Effective feedback is required for any entity or business, and in today’s global economy the successful corporation will be the one that formulates a management structure conducive to timely feedback as it regards the wants and desires of the customers.

A comprehensive framework for achieving success is today a fundamental requirement, and this is where Customer Relationship Management (CRM) figures into
the global economic landscape. In order for a firm to create and sustain international competitive advantages, there must be strong competency in understanding which customers provide the best long-term opportunities for profitable relationships. In the pages that follow, we will discuss how CRM can be utilized in order to increase the level of customer orientation, product quality, customer satisfaction, and customer retention in a global context. Successful CRM programs allow firms large and small to achieve efficiencies which would not be possible in an environment that does not include an accurate, timely, and sustained feedback mechanism necessary to anticipate the future needs and desires of the customer. At the multinational level, global efficiencies can be achieved via economies of scale and scope, and by catering to the specific desires of a firm’s most profitable customers. As Genghis Khan found out long ago, you cannot be everything to everyone. His example proves that knowing your customer, and knowing what you represent as an organization, are key components to the success of any modern corporation. This is also essential for a successful CRM implementation.

Sustainable Competitive Advantages in a Global Economy

International businesses have the ability to exploit three sources of competitive advantage. All three of these advantages are enhanced or made possible via the implementation of CRM practices.

The first competitive advantage is global efficiency. By expanding internationally rather than remaining in its country of origin, a firm can lower its costs and improve the bottom line performance via location advantages. CRM is very important in this context, as a firm must fully understand the customer profile that is most likely to provide them with a profitable, long-term relationship.

A second competitive advantage is multi-market flexibility. Large multinational firms must respond to changes in numerous markets that are all inter-related. Successfully understanding the differences in markets worldwide will provide for a competitive advantage over the long-term. Small business enterprises are now realizing that the failure to understand market differences could make them vulnerable to foreign competition. Since at the core of CRM is the need to understand the
customer, this strength can be utilized in achieving first-mover advantages against the competition.

A third competitive advantage is achieving **worldwide learning** in the modern corporation. The need for understanding the customer in various markets is essential, but so is the need for listening to the internal customer as well. As W. Edwards Deming, one of the doyens of the Total Quality Management movement has stated, if something cannot be measured then it cannot be improved. Thus, having measurable goals of determining best practices in numerous operating environments is of paramount importance. As many executives in today’s business world can attest, a company with too much centralized control loses its ability to innovate as well as to adapt and respond locally to the needs of its customers. In the United States, there is a movement in the banking industry toward decentralizing the loan approval authority at the local level, rather than utilizing centralized lending departments. The goal is local responsiveness as well as collecting as much market knowledge as possible throughout the entire geographic region where the firm conducts its business. As will be discussed in later chapters, data collection strategies as achieved via CRM can aid a firm in retaining customers in a profitable fashion.

**Overview of International Strategic Theory**

Before we discuss the CRM perspective in detail, it will be helpful to briefly discuss the commonly accepted international strategic directions from which most corporations have to choose. At the heart of all of these strategies is the trade-off between the pressures for responsiveness to local tastes and preferences on the one hand, and the pressures for efficiency in an effort to reduce total cost on the other hand. As will be made evident throughout the course of this book, CRM is an example of a managerial philosophy that helps firms find the appropriate level of balance between these two pressure points via elucidating which customers are the most important for a given firm, and what is the most efficient way to satisfy the needs of this customer base.

One common strategy for internationally active firms is an attempt to replicate how business is conducted in the domestic market in all international markets where a firm competes. **Home replication strategy** is typically the default international strategy for firms that believe that their customers’ tastes and preferences are consistent throughout the world. Firms engaging in this strategic alternative believe that the core competencies exhibited in their home markets should be reproduced in other markets. In some cases, markets can be highly similar, and home replication strategy can be a successful strategy for firms that compete in international markets that are very similar to the home market. More often than not, however, taking what you do exceptionally well at home and attempting to duplicate it in a foreign market may require at least some alterations, or a competitor would probably have already penetrated the market! In terms of the balancing act of local responsiveness and corporate efficiency, this strategy is short on the former, but long on the latter.

Another of the commonly accepted forms of international strategy is called **multi-domestic or multinational strategy**. Executives at firms that opt for this strategic alternative often view themselves as a collection of relatively independent
operating subsidiaries, each of which focuses on a specific domestic market. The strategy is akin to a decentralized atmosphere, with the advantage of being highly customized to the markets in which the firm competes. As is often the case in a decentralized management framework, best practices from the alternative sites may not be communicated, and the firm loses valuable data collection ability from the lack of communication. Thus, this strategy is strong on local responsiveness, but is more than likely lacking in terms of corporate efficiency.

A third international strategic alternative is a global strategy. Under this scenario, the corporate leaders view the world as a single marketplace, with the primary goal of creating standardized goods and services that will meet the needs of customers worldwide. Coca-Cola is typically held up as an example of a corporation that is conducting its business via this alternative. Global strategy is the direct opposite of multi-domestic strategy, as the ‘one size fits all’ mentality is in opposition to the desire for customization for each market. The difference between this strategy and that of home replication is the need for determining an overall company focus that would best suit all of the markets where a firm competes, rather than simply replicating the home strategy in all markets. This strategic option requires diffusion of market-specific knowledge in order for the overarching strategy to be realized. This strategy attempts to capitalize on economics of scale and scope, and is thus typically strong in terms of corporate efficiency. The success of this strategy in terms of local responsiveness is directly related to the success of data collection in terms of understanding the tastes and preferences of the target customer, as well as the effectiveness of communicating these differences when deciding upon the global strategy.

A final selection available to corporate managers is transnational strategy. This strategic alternative is considered to be the ‘Holy Grail’ of corporate strategies at the international level. The firm attempts to combine the benefits of global scale efficiencies with the benefits of local responsiveness. This strategic alternative involves compromising with complexity, and trying to balance multinational and global concerns. This is typically done via assigning tasks and responsibilities to areas best able to achieve the desired balance between efficiency and flexibility. As we have seen over the last decade globally, firms have chosen to outsource many tasks offshore rather than simply opting for a centralized or a decentralized management platform. More often than not, CRM as a management alternative has been brought into practice via companies that are attempting to conduct business under this strategic direction than in any of the other alternatives. In today’s global economy, those firms that can reduce cost while at the same time realizing and anticipating the needs and desires of their target customers will be most successful.

Components of Synergy and Strategy for Cross-border Operations

Now that we have discussed the most common forms of international strategy, another important topic deals with the components of a successful strategy. These components are a series of questions that a firm’s leadership team should resolve in order to determine the strategic vision of the company over the long term.
One component of international strategy is determining the **distinctive competence**. This deals with an area, or areas, where a firm excels in relation to its competition. This could be due to a cutting-edge technological application, an efficient distribution network, a well-respected brand name, or other such advantages. In terms of CRM, answering this question is not an exercise conducted simply by a firm’s leadership team. The customers must also be consulted in this process, as will be discussed in subsequent chapters of the book.

Another component of international strategy is the **scale or scope of operations**. This is certainly related to CRM, as the focus of this component concerns where a firm plans on conducting its business, as well as with whom. Scope may be defined in terms of geography, or it may be concerned with deciding on the appropriate product or service niche in which to compete. Strategic goals in this area must be measurable, feasible, and time-limited in order to be successful. Strategic goals that are not measurable, or have an excessively long gestation period, may prove to be unattainable.

A third component of international strategy deals with **resource deployment**. Once the determination has been made concerning what makes a firm successful, as well as where and how it desires to compete, the next phase in the strategic process is to decide on how resources can be allocated. Depending on which of the four international strategic alternatives have been chosen, resource deployment can be determined from a centralized platform with the intent on global efficiency, or in a more decentralized environment.

A last component of international strategy that we will cover is **synergy**. Firms that are engaged in a CRM environment often ask probing questions concerning how best to maximize profitability via cross-selling to its existing customer base. This is the essence of synergy. If a firm is able to identify which customers are of paramount importance, as well as how best to meet and exceed their expectations, the firm will benefit via increased profitability. As will be discussed in subsequent chapters, it is more expensive to attract new customers, than it is to sell complementary products and services to those customers who already are within the existing customer base of the firm.

**The McNeely Principle**

To conclude with this introductory section on international strategy, it is important to understand that strategic alternatives are not made in a vacuum. When deciding on how to compete in a given market, firms must be careful in understanding what distinctive competencies are at play by their competitors, so as to not get caught competing with a bigger, stronger firm in the same way. Even a perfectly envisioned strategy can wind up as a disaster if a firm decides to compete for the same business, in the same form or fashion, as a larger, more financially secure competitor. This may remind readers of the case of the professional boxer ‘Hurricane’ Peter McNeely. During the middle 1990s, Mr. McNeely was a young contending heavyweight boxer from Massachusetts, who received the chance of a lifetime. He was the first opponent of Mike Tyson, during his comeback campaign after serving time in prison. Since even the most casual boxing fan was aware of Tyson’s strengths (raw power and
speed), McNeely shocked the fans by announcing that he was going to match Tyson in both categories, in effect competing directly with an opponent who was more talented, and was planning on using the same strategy when they met in the ring. The result was a first round knockout loss for Mr. McNeely, along with relegation back to the world of obscurity. Managers may find this analogy useful when considering strategic alternatives, and when remembering the importance of selecting a distinctive competence that will produce a long-run success, rather than a short-run disaster of the ‘hurricane’ variety.

The Concept and Relevance of Customer Relationship Management

The rise and appeal of CRM has come from a heightening of competition, which has been felt by companies in all fields and of all sizes. Add to that an increasingly sated market, replaceable products with ever shorter product cycles, constantly changing and ever higher customer standards and expectations as to quality, price, reliable service, as well as expectations regarding market transparency via improved access to relevant information, and CRM has come to the forefront of today’s successful companies.

To keep the lead ahead of the competition, and in order to secure competitive advantages for the future, customer expectations are more and more becoming the center of attention in entrepreneurial activities. The insight that having regular clientele is one of the most important factors of success, and that botched customer relationships are an enormous cost factor, has led to CRM being placed right at the top of the agenda in the boardroom. It is not a new insight, but one that has nevertheless often been unrecognized in the past years. Meanwhile, from an economic point of view, the consideration of customer relationship has for many managers become a decisive target.

‘Know your customer and you know what they buy’, could be the motto of CRM. CRM characterizes a management philosophy that is a complete orientation of the company toward existing and potential customer relationships. The customer is at the center of all company considerations. The goal is the management of durable and profitable customer relationships.
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- **Durable** means building up customer trust, aiming at high customer regularity, and cultivating life-long relationships.
- **Relationship** indicates that the company should orient itself more around the customer.
- **Profitable** means during the course of the customer relationship, each customer’s contribution to the company profit will be maximized.
- **Management** describes the capacity to coordinate and further develop, across all organizational borders, all interactions with current and potential customers.

In this day and age, companies should be in the position to fulfill the wants of the customer with the right offer at the right time. They are forced to develop a high degree of flexibility, in order to react to customer wishes with considerable speed, and to offer people ever more individualistic products and services. The whole chain of contact is important; from the first contact with the customer to the establishment of the next contact. A company that knows that a customer served today, can tomorrow become a regular, trusted customer, bears the first fruit of CRM philosophy. The supplier that wants to claim its market position for tomorrow needs to be ready to efficiently and effectively organize its business relationships.

**The Three Pillars of Integral Customer Relationship Management**

Many activities of companies have the objective of steering the sales markets through exact knowledge of customer potential, sales channels, and sales motives, and to guide the expectations and wants of customers via diverse features and motives. These measures have technical support through the employment of modern information technologies and company-spanning software systems, which offer the opportunity to coordinate the worldwide activities of a company in a customer-oriented manner.

However, having efficient dealings with the customer, which is crucial to a firm’s survival, requires more than just a technical infrastructure. The introduction of integrated data banks which save collected customer information, and make this available to all levels of the company, are, without additional measures, only a basic element which does not promise success. A study by Accenture, formally Andersen Consulting, reports that less than half of the intended effect of a CRM project depends on the technology: In the study, technology’s share was 40 percent (Göbbel, 2001, p. 27).

Only an integral assessment seems meaningful, one that combines the technical and human perspectives, which carries out an expansion to include the central aspects of the organizational structure. Only when CRM is internalized by the top management, is understood by the employees, and is anchored into the structure of the company can this venture be of use. The best technology would be useless without the people who work with it. Often the sale of the product or service is decided right at the point of sale. This underlines the saying of Hilmar Kopper, Chairman of the supervisory board of Deutsche Bank, ‘We could improve sales by
25 percent if the employees would get used to greeting every customer they see in a friendly way.

As an integrated, overall concept, CRM is therefore a deciding factor with regard to bolstering a company’s success. As Figure 1.1 implies, the three pillars of CRM are a company’s personnel, a firm’s technology, as well as the structure of the organization itself. Each of the phases of the process of CRM, which will be discussed in later chapters, is part of an integrated whole. Better knowledge of people’s wishes yields the possibility of a long-term, sustained increasing of the level of their satisfaction, and of strengthening the customer’s loyalty, or rather their willingness to commit, to the company. This has, direct consequences on the costs and profits of the firm. Rising cost awareness increasingly requires that companies plan their marketing activities with great precision in order to engage the target group, without wasteful spending to achieve a good cost to benefit ratio. In the end the concept of CRM—like all other company activities—has the economic goal of raising profit.

**Advantages and Objective of Customer Relationship Management**

Many considerations justify investment in the setting up and realizing of CRM (Ederer, Seiwert & Küstenmacher, 2000, p. 84).

- Every satisfied customer brings in at least three more customers.
- An unhappy customer communicates his negative experience to ten more potential customers.
- The rate of repeat sales climbs with increased reliance and satisfaction with the performance of their suppliers.
- Regular customers exhibit less price sensitivity than new customers.
Customer-oriented companies can even charge higher prices than the competition. Marketing and sales costs for maintaining customer relationships drop. Reducing the level of customers leaving the firm by five percent can raise profit by as much as 85 percent (Töpfér, 1996, p. 92).

It is becoming clear what an immense increase in effectiveness the implementation of CRM can provide. A large number of leading companies have already recognized the success potential of CRM and are using it to their long-term competitive advantage.

For example, airlines, through engaging frequent flyer programs, established the first steps of CRM years ago. Indeed, SAS, British Airways and Lufthansa have determinedly established almost identical bonus programs and are thus able to achieve a competitive advantage (www.bbdo.de). German BA (British Airways) analyzed just how important the ‘miles and more’ program and customer cards are for the various airlines: 12 percent of frequent flyers buy their tickets because of a customer commitment program. For the German charter airline Condor, this is true for 20 percent of their sales (Kowalski and Kroker, 2000, p. 338).

Business enterprises are also strongly dedicating themselves to customer commitment. The British retailer Tesco achieved a ‘first mover advantage’ through the introduction of customer cards. In just a few years, the company became one of the leading and most profitable companies in its industry.

In the automobile industry, there are also many examples. General Motors has powerfully strengthened CRM to secure prices. Renault is utilizing integrated loyalty programs to find out which brands will have a positive image. Daimler Chrysler ran an integrated CRM project via a European call center, which involved a unified sales canvassing and loyalty program. In the automobile industry alone it can be seen that CRM is the decisive instrument in the battle against the competition. Failure to provide an automobile that caters to the needs and desires of the customer can lead to

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**Figure 1.2: The design of integrated Customer Relationship Management**
In recent times, companies have increased investment in CRM solutions. American Express was able to improve its customer profitability. Barclays Bank is a similar case. A study concerning credit cards showed that a five percent rise in customer loyalty results in a 25 to 30 percent rise in profit (www.bbdo.de). These examples are impressive demonstrations of CRM’s success. The following survey from CSC Ploenzke AG makes clear what significance qualified customer management will have for management challenges to come.

Below, by way of summary, are the individual steps in the CRM chain of effects:

- **Customer Orientation**
  The entirety of a company’s thought and action should be focused on the customer’s current and potential needs, wishes, and problems. To that end, it is important to have exact knowledge of markets, products, competition, and of course the customer.

- **Quality of Product and Service Performance**
  An important factor in the success of a company comes from the quality of its products and services in relation to the competition. It is advantageous to incorporate the wants of the customer into the product in the design stage. Instead of finding customers for the product, the idea is to find products for the customer. The cost to benefit ratio is here definitely a factor to take into consideration.
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- **Customer Satisfaction**
  After the consuming or use of a product, the customers will ask themselves if they were happy with the product. If the answer is yes they will tend to choose the product when they shop again, to recommend it to others, and to perhaps become a regular customer.

- **Customer Retention**
  The key to building up a regular clientele is obtaining satisfied customers. Companies that succeed in precisely adapting their spectrum of performance to the ideas and expectations of their customers, or who even manage to surpass them, generate satisfaction and thus create a basis for future business.

- **Customer Value and Company Success**
  There is a close relationship between customer commitment and profit level. The profit per customer increases with the growing duration of a customer’s relationship to a company.

In the following chapters, the individual stages of CRM will be explained in greater detail and by way of examples. The goal is to give the reader an integrated view, as well as to provide help in delivering customer-oriented management. Readers should note the benefits and complications of pursuing a global CRM strategy in the pages that follow. In this chapter, we have set the stage for the consideration of a new, dynamic, distinctive competence, that of global CRM.

A table follows which summarizes the differences of strategic focus and resource capabilities for three of the most viable international strategies discussed in this chapter.

![Process and stages of Customer Relationship Management](image)

**Figure 1.4: Process and stages of Customer Relationship Management**
Questions for Discussion

1. Discuss the four primary international strategic theories and how each of them compares with respect to achieving local responsiveness and corporate efficiency.

2. Consider a multinational firm that you believe is following each of the international strategic theories discussed in the chapter. Then discuss the benefits that might be achieved by implementing CRM at each company.

3. How might the implementation of CRM help to achieve each of the components of international strategy?

4. Elaborate as to why the three pillars of CRM must be integrated, and why the process is a continuing journey of improvement.

5. Briefly discuss the four steps in the CRM chain of effects. Then relate these concepts to your organization or university.