

## Customer Relationship Management - Competitiveness Improvement Tool\*

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**ABSTRACT:** *On the global market competitiveness of Serbian companies is at a very low level. According to Global Competitiveness Report 2007-2008 Serbia was ranked 91. Leading country is USA, whereas the UK had lost the second and fell to ninth position. The criteria on which Global Competitiveness Report ranks 131 world countries are creation of business strategies and a quality of business environment<sup>1</sup>. Competitiveness increase of local companies' should be assessed through holistic concept which targets on core micro and macro environment indicators improvement, as well as by adopting a new business philosophy - strategic management and innovation. Development of CRM (Customer Relationship Management) concept is one of the tools which significantly influence raise of competitiveness and more effective creation of business strategies.*

### Introduction

In modern market economies, along with development of information technology, internet and data base software, the priority of business activities is becoming a two-way communication between companies and product/service consumers. *Customer Relationship Management* is one relatively new concept which, as a result of change in management, strategic business planning and personalised customer service, is being constantly developed.

Development of new information technologies shifts business operations from "push" product strategy to "pull" customer strategy. This change will result in change of customer position in the value chain. Customers as the company main asset are becoming more sophisticated and demanding in their buying behavior. For that reason it is important to analyze main factors of CRM, as they can significantly increase company competitiveness:

- Customer selection
- Customer acquisition
- Customer retention
- Customer growth

Transaction marketing is based on pushing customer so as to make transactions faster and easier. Unlike that, the new marketing and management relationship concept insists on establishing communication with every single customer even when the transaction is completed. Use of the CRM concept helps the company in gaining on competitive advantage.

According to research made in EU during 2006, companies without CRM concept:

- in average lose 50% of their customers in five years
- have 65% of lost customers leaving because of unsatisfactory service and communication

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<sup>1</sup> World Economic Forum

- have the cost of acquiring a new customer five times higher than the cost of retaining the old one

Companies that have a developed CRM concept:

- Grow almost 60% faster than their competitors without CRM
- Increase their market share by 6% yearly
- Charge their product 10% higher
- Have ROI (return on investment) at the level of 12%
- By 5% increase of customer loyalty grow profits by 25%-85%.

## CRM Concept

**Customer relationship management (CRM)** is a new management strategy which focuses on long-term relationship with customers. This concept has some similarities to relationship marketing concept, but with significant differences. Unlike relationship marketing CRM analyzes more in depth the relationship with customers. It covers all activities starting with creation of organizational structure and other development tools (business culture, etc) up to specific programs for set-up of long term relationship. In relationship marketing focus is more on finalization and specific programs of setting long term relationship (communication channels, offer adapting, loyalty programs, etc).

CRM concept defines capability, methodology and technology which can enable company adopt the process of improving customer relationship. The purpose of CRM is to enable more effective and efficient fulfillment of company goals, through more analytical review of customer real needs.

CRM is focused on creating and retaining long term relationship with customers. Even though market offers some commercial CRM program packages supporting CRM strategy, it is not technology on its own. CRM is rather a strategic change in the organization philosophy towards emphasis on customer. These program packages include software and hardware that will help automate CRM system. In such a system output of CRM is not only information, but it is rather complete support for decision making and market analysis. Successful CRM strategy cannot be installed in a company overnight and integrated with other software packages. The changes are necessary at all levels, including company policy, employees training, marketing systems, information management etc. This means that all company activities must comply with principles of CRM.

The efficiency of CRM process, which has to be integrated through marketing, sale and relationship with customers assumes:

- identifying factors which contribute successful relationship with customers,
- development of customer relationship policies,
- development of a process which satisfies customers,
- defining key factors that in most adequate way help solve potential customer problems,
- suggesting solutions for customer complaints about product/service,
- sales follow-up and customer support.

In establishing CRM concept in a company, it is very important to precisely analyze: key aspects of business operations; information we offer to customers; customer financial background; effects of CRM segments. Important task is also to gain detailed information about company's

prime (loyal) customers. Nevertheless very important aspect in CRM system implementation is identifying and eliminating unnecessary information. In such a concept, we can define CRM as a business strategy aiming to balance income and profit on the one side with customer satisfaction and value added on the other side, where some tasks need to be measured: customer behavior, processes and technologies.

Basic structure of CRM comprises three segments:

- Operational – core business processes (marketing, sales, services)
- Analytical – support for customer satisfaction analysis and implementing business policies and technologies
- Cooperative – keep contact with customers using phone, fax, internet, mail, direct, etc.

For successful development of customer relationship company has to combine certain tasks:

- Knowledge (understanding markets and customers)
- Targeting (direction and adaptation of product/service)
- Sales (gaining customers)
- Service (maintaining customers)

Planning and development of strategy, organization, implementation and control of CRM process is very important. For that reason we can review CRM concept as:

- Strategy development
- Information analysis
- Identifying needs (understanding customers, their needs and wants)
- Defining change (corporate revolution – from reactive to proactive approach)
- Future building (creating of business and technical company structure which
- will deliver expected value to customers)
- Measuring results and upgrade of CRM system.

**Customer Relationship Management** combines business strategy and technique in order to identify and gain customers, and retain long term relationship with them – by creation of added value, which comes as a result of interaction between company and customers. It also includes knowledge of strategic management and Internet technologies. The purpose of this concept is to identify opportunities for creation and retaining of profitable relationship with customers.

The CRM as a strategic set of activities begins with a detailed analysis of company organizational strategy, and it ends with measuring of shareholders value. Competitive advantage is a key success factor of CRM, which at the same time generates value both for customer and for the company. Competitive advantage is generated by using CRM principles of creation, development and retention of relationship with precisely targeted groups of customers. Once set, this relationship has been optimized for customers, corporate profitability and stakeholders' value. All these make CRM highly positioned on the priority list of today's corporate agenda and it is closely linked with use of IT that are needed for implementation of strategic marketing relationship with customers.

## **Objectives and Methods of CRM Concept Implementation**

The acronym CRM is often regarded as Customer Relationship Marketing, since in both cases the emphasis is made on relationship between the company and customers. The CRM con-

cept is among most important segments of strategic planning, which has to be regarded as marketing and promotional mix, but it has to include integrated marketing communication. In case of marketing, the experts very often use only 4P concept (Product, Place, Price, Promotion), and diminish the role of the strategy which has to help general manager lead the company in strategic and functional manner using CRM concept.<sup>2</sup>

The success of synergy effect of CRM concept in a company depends on fulfillment of 2 criteria:

1. Conceptual – company strategy is based on e-business and customization, and it has individual approach to every customer
2. Technical – use of ICT, standardization, marketing automation, data management, company management and analysis

The CRM method assumes combination of:

- o Strategic vision
- o Corporate understanding of customer values using multichannel environment
- o Use of appropriate managerial information and CRM software
- o High level of operations, high level of expectation fulfillment and the effect of satisfaction<sup>3</sup>

When introducing CRM concept, company goals are: manage customer life cycle, increase of income and profit, as well as satisfaction of customer needs, hence achieving highest level of loyalty. The analysis of gathered information in every single transaction and interaction (purchase, support and other activities) by using this multidimensional vertical and horizontal approach enable company to gather widespread information about the customer, out of which the company will create a database for future Customer strategy and individual approach. Nevertheless we cannot regard CRM from technology aspect as IT solution which will help us created unique customer database and develop it. The technology influences communication and communication influences relationship with customers. Knowing the goals, which are not only to satisfy customers, but as well the stakeholders, we can view the CRM as the Integrator of Marketing Communication (especially in PR).

E-commerce, e-trade and e-government are the fields of electronic business application. They use resources from economic science about fundamental knowledge from different areas of marketing and sales management, whereas Internet economics has significant influence on change in Internet marketing environment. Transition from traditional to electronic business bears certain level of risk in market adaptation.

## **E-Business and CRM Strategic Approach**

E-business includes online communication and business transactions, e-trade, financial and other services over internet, as well as all other activities in business that require computer network. E-business is exchange of information over electronic media in the market. Prefix E became a communication channel.

Throughout the Web there are tens of millions of potential customers that companies can reach (in Serbia, potential number of customers is tens of thousands of customers, since development of IT is slower, and there is significant resistance for new technologies). Those companies

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<sup>2</sup> Salls (2003), p. 156.

<sup>3</sup> Payne (2004), p.56.

using the Web are more powerful, competitive and profitable than the ones not using advantages of the Web. In all areas of e-business new services are to be offered, among which are the software packages, created for customer relationship management – E-CRM. To make successful relationship with customers, companies need databases which collect, connect and integrate information about the customers, and make two way communications with them. Such a database enables a company to create specific set of marketing activities for targeted customer.

Reason why a company needs to understand a customer is to have the ability to meet their needs. To know what their preferences are, we need to establish two way communications with them. We have to understand all their specific wants regarding the product/service quality, design, color, shape and other preferences, so as to be able adapt our offer to those preferences. All information about the customer are integrated into database which facilitate individual approach to customers. Database offers data about every customer which are the basis for marketing planning and direct marketing - Database Marketing.<sup>4</sup>

Introduction of CRM software in a company creates competitive advantage, wins over competition and opens foreign markets. This is not all what CRM may offer. Today we have to anticipate what is necessary to change and apply in a company, in order to become a system which “walks together” with the needs of more demanding global market. The key step is to persuade all stakeholders in the company to accept CRM and regard it as investment into future.

Strategic framework of CRM is interaction of 4 related and functionally connected business processes:

1. Formulate company strategy
2. Create value/offer – percept your customer and understand values
3. Integrate by multichannel – sales force, PR, phone, direct marketing, e-commerce, mobile sales etc.
4. Evaluate campaign success – results analysis

Integrated CRM processes have the synergy effect – global success is greater than the sum of single processes effects. It is important to view CRM as integrated set of activities which enables improvement of company operations through:

- identifying, understanding and successful communication with customers
- targeted sales of product/service to new and existing customers
- development of new attractive offers, price discounts and marketing programs created for customers
- retention and share of value with most profitable customers, since satisfied customer becomes a loyal customer

Customer satisfaction is not easy to measure by “yes” or “no”. We have to offer customers scale from 1-10. The ones which rate you average (5-6) are not loyal, and your competition may attract them. But the ones which rate you 10, are not only satisfied customers, they will recommend you to others, if you ask them so. Different levels of relationship intensity between company and customer may be shown like:<sup>5</sup>

- *Suspect – latent buyer* is the person who may be your potential buyer (we have only his/her name or cookie left on internet site)
- *Prospect – potential buyer* is the person you have registered as someone who may need

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<sup>4</sup> Filipović and Kostić (1999), p. 112.

<sup>5</sup> Cottle (2000), p. 98.

your product/service, and who is able to pay for it (unfortunately, not everyone who needs you may afford you)

- *Customer – Buyer* is the weakest on relationship scale. Registered user is a buyer, since he/she has used some of your services, like free downloads, but is still not regular buyer. On satisfaction scale is 5-6, and is actively searching for replacement. Loyalty is very low, close to zero
- *Client* – is normal on relationship scale. **Clients** use your service and according to it they give feedback, looking for advice and help. **Clients** have the buying habit. Their satisfaction is 7-8 on scale. This means that you may afford to lose contact or not to satisfy them once, and they will give you another chance. Even though relationship with **client** depends on marketing activities of competitors
- *Cheerleaders – advocates* are highest on relationship scale. They will not only help you, they will sell for you. They will talk about you to their friends and business partners and send you're their clients if you ask them so.

We have identified four types of strategically significant customers (SSC)<sup>6</sup>:

- High life-time value customer,
- Benchmarks - the other customers copy him/her,
- Inspirations – buyers that cause changes in the company, find new usages,
- Come with new ideas
- Cost magnets – the customers who absorb disproportional high level of fix cost and in that way enable other customers to be more profitable for the company

The best buyers deserve the best treatment. If you treat your best customers the same way like all others, they will soon behave the same way, which is not good business manner. The task for marketers is to identify significant customers and to retain continuous individual communication with them. In order to get appropriate and measurable response marketing manager has to be trained to create “customer knowledge” out of hundreds of non-related data collected from different company divisions.

## Conclusion

The CRM solutions are designed in that way as to offer knowledge needed for development and implementation of “smart” customer profit maximization strategies, and at the same time to create company competitive advantage. By analyzing CRM technologies we can understand our clients in order not to react when the problem appears, but to proactively find hidden opportunities for growing customer wants.

The key success factor of CRM concept is for the company to anticipate customer expectations. To reach that goal, the platform for communication with customers, gathering and analysis of data has to be made. Within web-sites, specialized statistical software packages enable overview and storage of data collected from answers on many different questions. In that way, company may keep track on customer behavior and their specific interest fields.

Company goal is to persuade potential customers to buy, prepay, register, answer the questionnaires and generate recommendations, which all together create competitive position for the company. Potential customers, more like the company, have their goals – needs satisfaction and

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<sup>6</sup> Maričić (2002), s. 212.



understanding, as well as the strategies of reaching those goals. Company ability to persuade potential customers to realize planned action is the result of effectiveness of CRM strategy. The process in which customer becomes and remains real buyer, who improves company operations by his/her loyalty, is based on assured principles which include analysis, art of communication, CRM concept and fundamental knowledge of economics.

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