Transforming strategic goals of CRM into process goals and activities

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Abstract

Purpose – The purpose of this paper is to address two questions: what is the difference between relationship processes and purely product-oriented processes? And to answer this question we should bear in mind what we mean by relationship, and why a customer is willing to establish and maintain a relationship at all.

Design/methodology/approach – An empirical analysis subjected the motives of customers and factors for the establishment and expansion of customers’ relationships. In this context the relationship motives and factors can act as base to derive strategic goals of CRM and relationship processes in a further step.

Findings – Based on strategic relationship goals the paper will give answers to a systematic identification and engineering of relationship activities and processes. Thereby relationship-oriented activities complement present product-oriented processes. In contrast to this we derive purely relationship-oriented processes as well, such as the customer recovery process. Such processes do not target product sales any more than rather the sustainability of relationship (in particular to valuable customers).

Originality/value – The benefit of the paper is an integrated and goal-oriented derivation and design of relationship processes and activities. An example in financial services illustrates the approach and shows its application in parts.

Keywords Customer relations, Process planning, Banking

Paper type Research paper

Introduction

Since new theoretical approaches of designing business connections as well as new economic impulses are expected, CRM is one of the most frequently discussed topics in research and practice (Berry, 1983, 2002; Kotler et al., 2001; Grabner-Kräuter and Mödritscher, 2002). What can, however, be understood by a relationship orientation in contrast to traditional, product or transaction orientation (“to make a sale”)? And which new activities and processes must companies identify and then systematically design? The second question especially deals with the problem complex of goal-oriented process modelling in this special issue. The paper discusses an approach to map and transform strategic goals of CRM, like building trust, for example, to process goals and activities. Because of the complexity of this task, we do the mapping with a separate methodology.

Both questions, which lack sufficient discussion in literature so far, are not only of theoretical but practical relevance as well (Firth and Swanson, 2003). At least 70 per cent of all CRM projects do not achieve their goals, namely a higher customer loyalty or a bigger share of wallet (Nelson, 2002; Neilson et al., 2002). According to
Nelson (2002), this is not based on poor CRM-software or CRM-servers, but rather on the fact that IT resources have not been skillfully associated with business goals and processes to improve relationships.

We found a similar problem at a Swiss bank. The bank management decided to introduce a CRM system for storing customer data. The decision based on the information from science and consultancy that a CRM system does help in establishing and maintaining valuable long-term relationships. The aim was to improve the advisory services and the attractiveness of their own products. Yet the success was modest. On the one hand, first analysis showed that the integration between designed CRM activities and existing processes was too small. The bank employees were not able to use (or partly did not want to use) the offered CRM functionalities. On the other hand, which is more surprising, the success in cases of successful integration was likewise not significant. The bank management found out that the customer migration rate or complaint rate has not been fallen, for example. Therefore, the question arises whether the customers actually appreciated the improved advisory services, or if other reasons existed to intensify the relationship.

In the next chapter we briefly discuss the concept of customer relationship based on a literature review. This should clarify the relationship concept used in the paper. Accordingly, the reasons why customers are ready to establish and intensify their relationships need to be analysed. For this, we carried out an empirical study, which pointed out customer motives and relationship values (e.g. trust). Again, the creation of the relationship values can act as business goals (e.g. maintaining trust to sustain relationships). These goals are starting points for a conceptual derivation and design of relationship activities and processes. Since each interaction between the company and its customers may be used for pursuing these business goals, we suggest relationship specific activities to complete the traditional sales process. However this is not sufficient. Besides selling products it is also important to search for new relationship specific processes. Here we analysed the life-cycle of a relationship to find these processes. The example of the Swiss bank illustrates the entire approach. In the last chapter the author discusses the strengths and weaknesses of the presented approach as well as future research activities within a critical reflection.

Related work
Academics and practitioners claimed in the last years that companies must aim for customer orientation in order to survive and be successful in saturated markets (Kotler et al., 2001). Since the absolute growth rates stagnate in saturated markets, the resulting pressure of competition mainly leads to a struggle for valuable customers. The resource-dependence-approach, for example, (Pfeffer and Salancik, 1978), which examines the dependence of a company from externally provided resources discusses this theoretically. Accordingly, a severe competitive environment demands a specific marketing management of the customer as a tight or critical resource (Morgan and Hunt, 1999). Therefore, establishing, maintaining and enhancing customer relationships through satisfaction, loyalty and retention has been intensively preached for some years by the term relationship marketing (Alexander and Colgate, 2000; Berry, 1983, 2002; Dwyer et al., 1987; Grönroos, 1994). But what does customer relationship mean compared to or in addition of a transaction- or product-oriented view? And which basis do we need to derive and design relationship specific processes?
Literature shows numerous definitions of the customer relationship concept. Many authors understand a sequence of reciprocally connected, not coincidentally realised transactions as a relationship (Grönroos, 1999; Morgan and Hunt, 1999; Plinke, 1997). Therefore, it is rather a holistic, continuous interaction with so-called episodes than unambiguously and clearly separated single purchases. But what is the essence and nature of that internal connection between transactions in order to speak about a relationship?

A great deal of partially differing opinions exists. Eriksson points out, for example, that “a series of transactions gradually transforms into a relationship as a result of the social exchange between buyer and seller. A relationship becomes thus much more than a series of transactions, containing dimensions of power, cooperation, commitment and trust, to name but a few” (Eriksson and Fjeldstad, 2001). Other authors emphasise the long-term, economic objectives of the partners as well as the character of investments (Diller, 1996). If the customer terminates the relationship, the investments become sunk costs. Again, other papers name also barriers of exit in the sense of costs, like search costs and learning costs or risk factors as being characteristic for a relationship (Storbacka et al., 1999).

Similar to the brief discussion above a number of further sources point out criteria, in which a relationship could or does exist, respectively, does not exist (Palmer, 1996). To that extent O’Malley and Tynan summarise: “Despite more than ten years of academic and practitioner interest in this area, understanding of the nature of business to consumer relationships has advanced little. [...] Given the diversity in operational approaches employed, and the lack of accepted definitions, it has become impossible to delimit the domain. The boundaries are completely permeable and elastic” (O’Malley and Tynan, 2000).

Based on the divergent and partially vague description of the term relationship it is hardly surprising, that we did not find a structured derivation and design of relationship specific processes in literature too. Many authors analyses processes, which only focus on restructuring traditional forms of distribution and sales (Hettich et al., 2000; Schmid, 2001; Schulze, 2000; for discussion see also Alexander and Colgate, 2000). This, however, does not cope with the (new) ideas of CRM. Such processes often consider all customer contacts and are thus all processes in marketing, sales and services. The approach of Schulze centres activities in CRM to a relatively anonymous market (Schulze, 2000). If the market participant and the company have established the contact, the anonymous participant becomes a sales prospect. If they have settled a transaction, the sales prospect becomes a customer. After contribution of the service the customer can engage the after sales services of the company. Once more it is hardly surprising that the central idea of CRM, i.e. the focus on sustainable and intensive customer relationships does not become evident.

In contrast to this, a few authors discuss processes, which address the establishing and maintaining of customer relationships anyway, like, e.g. to reactivate or recover a customer (Hoffman et al., 2003; Rapp, 2000; Swift, 2001; Zhu and Sivakumar, 2001). The derivation and design, however, take place selectively, without an (exact) definition of a relationship and without stating to what extent the processes satisfy the relationship motives of the customer. Rapp (2000), for example describes in his five-phase model a common way from strategic goals to relationship processes. However neither a goal-oriented, effective derivation or design of the processes nor
an explicit modelling takes place. It is remarkable that selected processes are looked upon as elementary for maintaining relationships, without dealing with their derivation from business objectives. Recapitulating we affirm that this category of approaches in fact deals with customer loyalty emphasizing its importance. The modelling of relationship processes is, however, done only selectively. Therefore, and for other reasons too, we would like to contribute to the above described questions.

**Specification of relationships from a customer’s point of view**

In saturated markets companies cannot (autonomously) decide, with which customers they would like to establish a business connection. The customer, in particular the valuable customer himself selects the business connection(s). To that extent it is necessary to analyse, in which cases it is necessary to speak about a relationship-oriented instead of a purely transaction-oriented interaction (Bardakci and Whitelock, 2003). In the following we discuss our specification of a relationship.

A customer, depending on his preferences, likes to purchase only one product or service (single, isolated transaction). From the purchase and utilization of the offered product results a gross utility value and total costs. If different suppliers offer the requested product, a customer would prefer the offer of that supplier, with the highest net utility value (gross utility value minus total costs). Therefore, the net utility value always results from satisfying customer needs and considering the costs (Kotler et al., 2001).

In literature this one-transaction-calculus is extended by repeated transactions, which are completely independent from each other (by definition). A few authors set here the either-or-premise, which means that the customer settles either all or no transaction with a provider (Plinke, 1997). At least in private consumer markets, like financial services, this premise might be of course simplifying, yet it is in no case realistic. For bank customers see in this context (Daniel, 2001). Therefore, we do not set the either-or-premise, which means that depending on the particular realisable net utility value, the customer chooses the best possible offer for each transaction (maybe also from different providers).

So what happens if utility values and costs exist, which are not assigned in its positive or negative effect to a single transaction, but rather to several transactions? Such effects we call system effects in this paper. System effects result from the direct or indirect contact between customer and provider. The impact of system effects is transaction-spanning, such as an internet access portal. A banking customer configures this portal for his or her individual needs (intuitive use, etc.) once and use it several times in further transactions. This reduces costs of the business connection. We simply differentiate system effects as follows:

- One type of system effects should have a constant utility impact on a business connection. An example is recommendations of a well-known customer for a provider to reduce the inherent risk of another customer (due to a potential opportunistic behaviour of the provider). Other examples are fixed bonus percentage or fidelity rebates for a number of subsequent transactions in the future.

- A second type of system effects should have a utility impact which changes continuously with the intensity or length of the business connection. An increasing bonus percentage for a bigger share of wallet is an example. The same is with the possibility to customise services due to gradually collected customer data during previous transaction activities.
The brief discussion shows that the so-called system effects do not focus on or aim to improve a single transaction in relation to a competition offer. In the first place these effects “honour” a more intensive or sustainable business connection. Thus we define the relationship construct as follows (for a detailed and formal representation see Heinrich (2002); Helfert and Heinrich (2003)):

A relationship becomes established as part of the interaction between a customer and a company (from the customer’s point of view) due to an execution of at least two use-donating transactions or contacts, whereby a subsequent transaction results in particular by the existence and relevance (not necessarily dominance) of system effects.

The relevance of system effects exists especially in case that an inferior single offer is nevertheless chosen by the customer because the system effects overcompensate the lower net utility value. Here the system effects constitute the relationship character of the interaction. If the net utility of isolated transactions determines the interaction, we characterize the entire interaction as transaction-oriented and not as relationship-oriented.

In summary, we suggest that the common business goal of CRM is the creation of significant system effects. But, how can companies create these system effects for its customers? To answer this question we carried out an empirical study in the German and Swiss banking industry. The survey based on a standardised questionnaire with 13 questions and 22 variables, which analyse the existing customer motives for establishing, maintaining and enhancing relationships. We studied the customers as well as the relationship measures of 21 banks (no assurance companies). Market leaders of Germany and Switzerland were among them like United Banks of Switzerland AG (UBS), Credit Suisse AG, Dresdner Bank AG or HypoVereinsbank AG. The main hypothesis was, that the banks address different customer (types), which have only a few and particular motives to maintain and enhance their relationships. Thus we had to identify the most important customer motives. The response rate has overall exceeded the 62 per cent. The preparation of the study participants through telephone may cause this high response rate. For further details about the analysis see (Heinrich, 2002).

Figure 1 shows ten identified motive categories of bank customers. These categories vary from communication media-oriented motives, which primarily focus on the sales channel to gratitude-oriented motives. On that base we concluded monetary and non-monetary values so-called relationship values by means of theoretical founding.

The work led to the following relationship values: commitment, involvement and trust as socio-psychological constructs as well as monetary premium & sanctioning, specific investment and contractual incentive & control mechanisms as economic constructs. Figure 1 shows which relationship motives correspond to which monetary or non-monetary values.

The Swiss bank case can act as example to illustrate the application of the results. Because using of customer data led to little success so far (see introductory chapter), the bank management wanted to know which relationship values affect an intensive and sustainable relationship. Based on the first study a second survey focussing only the customers of one Swiss bank was applied. The author found following results (in detail Heinrich, 2002):
Figure 1.
Mapping between relationship motives and values
- Of a total of ten relationship motives only six could be classified as significantly related to the customers of the Swiss bank.
- By means of a cluster analysis we found two different combinations of relationship motives, which represent approx. Seventy per cent of the total number of customers. For these, the bank defined two customer types, the discerning type as well as the partnership type.
- Again, the identified relationship values act as business goals in order to derive relationship activities and processes (see below).

If the bank knows by now which values are necessary to maintain a relationship, the question remains how a systematical creation of these values is possible and effective. At this point a structured derivation and design of relationship activities and processes is necessary.

**Deriving and designing relationship activities and processes**

The aim of relationship specific activities and processes is to manage the discussed relationship values (e.g. trust). To manage means, primarily, to create, preserve, use or destroy (in order to end the connection intentionally) relationship values within interaction. Now, two basic reasons can motivate customer interaction. One is the satisfaction of customer needs by products or services. Thus traditional sales processes provide an important opportunity to consider relationship management activities (see next section). Besides the product-oriented reason like selling, it is important to have a closer look at the relationship concept. We defined a relationship as period-oriented construct. A customer and a company establish, intensify, terminate, etc. their connection over time. This relationship life-cycle can provide new starting points and possibilities for customer interaction. Processes like customer recovery are amongst these relationship specific processes, which are discussed afterwards.

**Relationship specific activities in traditional sales processes**

A more common and easier way to manage relationship values is to create, preserve, use, etc. them in traditional sales processes. This is because customers initiate the interaction in most instances. Figure 2 shows typical phases of a sales process (Kotler et al., 2001), which are similar to buying cycles:

For designing and considering relationship specific activities we suggest to examine each phase of the sales process. What does this mean in concrete terms? That is the subject of the following, taking up the relationship value trust, for example.

The first step is to identify opportunities and activities for trust creation. Many papers describe such activities in a common way (Kalusch and Grabner-Kräuter, 2003; Plötzner, 1996; Prithwij and Avinandan, 2003). Here the authors state the principle of learning and transfer of experiences in a wide consensus. This means, primarily, that very good experiences of a customer within the business connection have wide implications on reliability and credibility of the provider. To that extent Plötzner demands the controlling of future expectations of customers in order to prevent potential

![Figure 2. Typical phases of a sales process](image)
disappointment and dissatisfaction (Plötner, 1996). Therefore, open and honest communication between the partner is necessary (Kaluscha and Grabner-Kräuter, 2003; Prithwiraj and Avinandan, 2003). Transparency of advisory suggestions and services can obtain this in the banking context, for example. The reason is that non-transparent suggestions and decisions will not essentially lead to an increase in customers trust. Even if the result is satisfying, because it could have been produced by coincidence.

Another usual aspect to create trust is broadcasting or publishing references and recommendations of other customers (Plötner, 1996). Providers often publish lasting cooperation’s with third companies of excellent reputation to create and preserve trust (Kaluscha and Grabner-Kräuter, 2003). Furthermore Plötner considers the initiation of reciprocities a trust-building element, too (Plötner, 1996). In this context Prithwiraj refers to the interdependence between the strength of the “showed trust” on the provider’s side with that on customer’s side (Prithwiraj and Avinandan, 2003). The same applies to analogies between customer and provider, i.e. similar lifestyle, status or appearance of customer and bank employees. The Swiss bank, for example, has account executives, which belong to the same academic ambience as the primarily addressed clientele. A last point stresses the importance of showing self-confidence by bank employees, in order to receive trust from customers (Plötner, 1996). A customer draws conclusions on the personal abilities of the provider’s employees, if they lack of self-confidence. To that extent self-confidence of employees is a necessary pre-condition for the creation of customer trust. Table I shows the discussed trust-building activities.

As shown for trust-building activities, we suggest specifying activities to create, use, destroy, etc. for each of the other relationship values in the same way. Afterwards one has to match the traditional sales activities with the derived relationship activities, which is not prime subject of this paper (Heinrich, 2002).

Complexity is still larger, like the example of the Swiss bank shows. As described above, the empirical analysis determines the discerning customer type. Not only trust, but also premium and sanctioning and specific investment can influence this customer type to establish and maintain a sustainable relationship. The bank have derived different relationship specific activities for each relationship value and then integrated them within the traditional sales processes. At front office, bank employees must consider interdependencies between activities of different values in order to enhance the impact on the relationship.

**Relationship specific processes and life-cycle-concept**

Besides traditional sales processes we analysed whether additional important opportunities exist to manage relationship values. A relationship is not a date-oriented but a period-oriented construct, which customers establish, maintain for a time and terminate. Many authors discuss such events, situations and phases of relationships within a life-cycle-concept (Diller, 1995; Dwyer et al., 1987; Stauss, 2000).

<table>
<thead>
<tr>
<th>Relationship value</th>
<th>Activities to generate the relationship value</th>
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<tr>
<td>Trust</td>
<td>Controlling of customer expectations</td>
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<tr>
<td></td>
<td>Publishing references and recommendations</td>
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<td></td>
<td>Initiating of reciprocities and analogies</td>
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<td></td>
<td>Showing of self-confidence</td>
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Table I. Relationship specific trust-building activities
Figure 3 shows such a life-cycle as ideal type. The life-cycle-concept differentiates between phases like meet, start, penetration and maturity, and crisis and dissolution (distance). Furthermore it considers particular situations (relationship acquisition, intensification, reactivation and recovery) in each phase in which the provider becomes active. But, what does the provider becomes active mean, e.g. within a relationship situation like customer recovery?

Homburg and Schäfer (1999) points out that a systematic controlling of relationship values improves the prospects of a successful customer reactivation or recovery. The reason is that a still existing customer goodwill, which possibly resulting from the past business connection is essential for recovery. Thus we suggest specifying trust-building activities differently in case of relationship acquisition compared to a recovery situation. A new customer is completely unknown to the provider whereas most customers and histories of business connections are well-known in a recovery situation.

This means the life-cycle-concept act as base to derive and design new relationship processes, apart from relationship specific activities within sales processes. In order to derive the processes, we have to identify important relationship situations. A product-oriented world often completely ignores such situations like customer reactivation. For the designing of the processes, it is necessary to consider the “right” relationship values. The reason is that each customer (type) has its own relationship motives and values. The recovery process must satisfy these motives and create the values (see discussion above), since recovery is otherwise ineffective or might fail. This is what we mean by goal-oriented derivation and design of relationship processes.

Once more we assume the exemplified case of the Swiss bank and its discerning customer type as well as a relationship recovery situation. Among other things the monetary motives characterize the discerning customer type. So premium and sanctioning as well as specific investment can attract and influence this customer type. For an integrated representation of the processes regarding a particular customer type it would be necessary to consider its values over all phases. To avoid complexity the example just focuses on the recovery situation and the activities for premium and sanctioning. The business goal of this process is to generate system effects by providing monetary values to the customer. This should cause a relationship-promoting behaviour. In the following we describe the most important characteristics of the process.

The bank differ two kinds of customers (not types) in a relationship recovery situation: customers who have already inwardly quitted and are going to terminate...
formally. And customers who already terminated the relationship formally and migrated to other suppliers. Figure 4 shows the reaction of the bank to this situation.

In a first step it is necessary to identify those customers, who have already migrated, respectively, are willing to terminate the relationship. On the base of existing cancellations an identification of the migrated customers is possible. To detect the customers who are willing to end the relationship is rather difficult. The majority of them will not signal their intention by complaining. Hence, the bank defined criteria on the basis of experiences and data mining in order to detect potential migration candidates. Accordingly, the bank has to evaluate the customer attractiveness and potential in order to rate the efficiency of a reactivation or recovery. Now, the responsible front office employee contact the customers identified as attractive to recover. Since the bank knows that the potential migration candidate belongs to the discerning customer type, it generates system effects with the help of the relationship value premium (in terms of goal-orientation).

To describe the behaviour of persons on premium or sanctioning we use the theory of instrumental conditioning (based on the approach of Skinner (1938)). The financial services provider reacted accordingly. If the customer takes the premium he or she should feel constrained to settle transactions in the future. In this case it is important that the premium may not affect a single transaction, but rather cause a transaction-spanning system effects. Thus the bank can recover the relationship. Possible premium categories are revenue-dependent like, for example bonuses, discounts and points or revenue-independent, like gifts and invitations.

We define the real incentives on the base of these possibilities. If the offered premium of the incentive system satisfies the customer, he or she should be loyal and maintain the relationship (for a while). Otherwise the provider may try to adapt the premium in order to generate higher system effects. After a successful customer recovery the supplier has to take care of the customer and try to maintain the relationship values in the future. If the recovery process fails the customer will terminate the relationship. Figure 3 shows the premium creation process in a customer recovery situation for the discerning customer type (activity diagram – UML Notation 1.4).

Conclusions and implications for future research
The paper suggests an approach for a systematical derivation and design of relationship activities and processes. The main statements are:

- If an internal connection between transactions is characteristic for customer relationships, then we suggest representing (formally) this connection with the so-called transaction-spanning system effects.

- Monetary and non-monetary relationship values like trust can generate system effects. It depends on the particular customer type and its relationship motives whether a value can intensify a business connection or not. We identify six values by an empirical study in the banking industry. Both together, i.e. system effects and relationship values, represent a concrete basis for designing processes, which cannot be found in literature so far.

- The main objective of relationship activities and processes is to manage customer relationships. Values like trust or premium and sanctioning establish and intensify these relationships. Therefore, relationship activities have to
Figure 4. Premium creation in a relationship recovery-situation.
create, preserve, use, etc. the “right” and effective values for each customer type as strategic goals.

- On one hand the proposed approach directly derives relationship activities from the values illustrated by trust-building activities, for example. Traditional sales processes integrate such activities in order to sustain and intensify relationships. Beside this there exist relationship specific processes like customer recovery, which we derive from, and design according to relationship life-cycle and values. Such processes do not focus product sales, but rather to establish and maintain a relationship. This holistic, goal-oriented approach, i.e. starting from system effects and values as well as relationship situations to design practical processes, cannot be found in literature so far too.

The present work already addresses some critical points as well as future research:

The case study showed that a total implementation of each required relationship value is critically important. The characteristic of a customer (type) determine the significant values as well as the relationship activities and processes. But a deduction in the sense of a complete specification of all possible activities becomes extremely difficult. In this context the author does not aspire a completely formalized deduction, since this is considered less unpractical. Nevertheless, we have to develop advanced techniques in the future.

Another aspect is quality assurance of process models (Becker et al., 2000; Moody et al., 2002; Sedera et al., 2002) and processes (Daneva et al., 1996; Smith, 2003). We have to answer questions like, how can we derive and design a good and efficient relationship process. Furthermore, the measurement of process success factors like customer satisfaction or loyalty demands benchmarking approaches. In case of process models it is necessary to consider quality factors like correctness or clarity (Becker et al., 2000).

Again, the development of a general methodology, which can be used for other strategic goals too, is an important task. The idea is to formalise the strategic goals as well as the mapping-technique, but not the deduction-technique of activities. In further publications we want to analyse whether this kind of mapping leads to a general methodology for any organisational goals or, more realistic, for types of organisational goals. Here, the other papers of this special issue might give relevant input to derive the methodology and to examine it in different case studies.

The Swiss bank finalised the necessary long-term verification not yet. But, some characteristic key figures (the customer migration rate in particular) of the discerning customer type have been improved so far. Now, it is the task of the bank management (with our support) to validate, analyse and control further results and work in CRM.

Apart from these results, and problems, the following questions seem to be of special interest for future research:

- Based on which criteria can we identify the relationship phase in which real customers are situated? How can we measure the strength of the relationship values and how can methods of data mining be helpful in this context?
- How can user (e.g. banks) of CRM systems adapt and extend meaningfully present IT functionality in order to improve their suitability for companies?
Finally, the represented approach shows first steps not only to identify relationship processes at all, but also to improve their goal-oriented design. Both tasks seem to be reasonable for the present discussion in research and practice. Otherwise the relationship idea is likely to fail as a pure product-oriented restructuring of sales and marketing activities.

References


