

Effectiveness of Customer Relationship Management Programs

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Summary:

Customer relationship management (CRM) has been among the most widely debated topics in the field of marketing during the last decade. Regardless of the significant interest the subject matter has witnessed, the extant empirical studies in the field in Bulgaria are somewhat incidental and limited in scope. The article focuses on CRM programs as a technique for structuring customer relationship management activities within organizations. The paper presents and analyzes evaluation practices of CRM program effectiveness in companies specializing in providing marketing services to the B2B market in Bulgaria.

Key words: CRM, CRM program effectiveness

JEL: D40, L11, Q51.

Since the late 1990s CRM has been among the fastest growing industries and actively debated themes¹. Regardless of the widespread entry of CRM systems

into business and the overall support for the CRM concept, a considerable part of CRM projects are unsuccessful. The data on the percentage of CRM projects, which fail to achieve the desired positive results, varies between 30% and 80%^{2,3}. Among the major causes of the above failure are: the wrong interpretation of the scope of CRM and violation of the logic of implementing CRM projects. The wrong interpretation of the scope is brought to identifying CRM with a common software solution, whose task is solely to improve existing business processes. The flawed logic of introducing CRM projects is associated with the purchase of software applications prior to the development of a customer strategy. As a result of the latter, the scope and the content of software solutions are inconsistent with the customer strategy.

Other reasons for CRM projects failure include, but are not limited to: allocation of insufficient funds for design, development and implementation of CRM systems; conflict and inconsistency between currently operating and newly employed systems; lack of adequate procedures and

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¹ Foss, B., Stone, M., Ekinci, Y. (2008). What Makes For CRM System Success – or Failure? Database Marketing & Customer Strategy Management, Vol. 15, 2, p. 68.

² Kinikin, E. (2000). Top 10 CRM Success Factors: Doing It Right. Idea Byte, August.

³ Nelson, S. (2002). CRM: From "Nice to Have" to Necessity. Gartner Group, August.

metrics for project monitoring; disparity between aims and functionality of CRM systems, and others.

Elimination of the indicated reasons for registering unsatisfactory results of the introduction and implementation of CRM projects may be achieved on condition that CRM is perceived as "an overall strategy and process of attracting, retaining and collaborating with preselected customers, whose aim is the creation of added value both for the company and for the customers"³. The CRM strategy represents "the execution of a customer-oriented process"⁴, during which by means of suitable structuralization of various management and marketing activities there is generated value both for the sellers and for the customers.

Essentially, CRM is associated with particular activities of businesses, which normally require reorganization of key business processes so that customer-oriented service can be offered. Structuring of different managerial and marketing activities should be carried out taking into account the "service quality" measure. Managers of various companies often opt for reorganization of those procedures which require the least time and monetary resources. Such an action limits the results desired to be generated by the CRM system. It is also necessary to highlight that the CRM strategy shall be profiled according to clients and segments, focusing on profitable and / or prospective customers. Doing business with the latter makes it possible to generate

value in such volumes, which allow balancing the interests of marketers and customers at different stages of the company-client working cycle (identification, attraction, retention, development, and reactivation).

The particular formats in which the activities of identifying, attracting, retaining and reactivating customers are organized are CRM programs. The latter not only structuralize the activities related to customer relationship management, but also allow us to assess their efficiency.

The principal aim of the present article is to present and analyse the practices of developing, implementing and assessing the efficiency of customer relationship management programs in companies specializing in offering marketing services on the B2B market in Bulgaria.

1. Customer Relationship Management Programs

Often CRM is erroneously identified with specific loyalty programs. In practice CRM has a much wider scope and is a complete, customer-oriented process, which has definite logic and is bound to the marketing results of companies. The success of CRM projects depends on a number of factors, which are elements of the so-called "CRM diamond"⁶. Structurally within the CRM diamond the following components are differentiated: vision, base and activities. The present paper follows the logical scheme of the CRM diamond with an emphasis on the CRM activities of companies.

⁴ Parvatiyar A., J. Sheth. (2001). Conceptual Framework of Customer Relationship Management; in Sheth, J., Parvatiyar, A. and G. Shainesh. CRM – Emerging Concepts, Tools and Applications, eds. New Delhi: Tata/McGraw-Hill, India, pp. 3-25.

⁵ <http://www.destinationcrm.com/articles/default.asp?> – last accessed: 03 Mar 2013.

⁶ Mack, O., Mayo, M., Khare.A. (2005) A Strategic Approach for Successful CRM: A European Perspective. Problems and Perspectives in Management, 2, p. 100.

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The authors of the "CRM diamond" model consider the following activities:

- *Study of customers* - the management of the process of customer study includes all activities related to the preparation, collection, analysis, circulation and storage of information on customers. The information provided by customer allows the development of user profiles and models and presents the opportunity for a more precise (and hence more efficient) communication of the message.
- *Management of the sales channels* - with customer relationship management the attention is focused on the interaction and dialogue at each phase of the purchase process. The analysis encompasses each of the following areas: integrated management of customer contact points; modelling the customer-oriented processes; management of claims.
- *Management of products/service* - this element covers the activities, connected with the design and on-going improvement of products in order to better satisfy the needs of the customers. The activities of managing the products and the service include: product design oriented towards the needs of the customers; mass customization.
- *Customer life-cycle management* – depending on the stage of the life cycle of individual customers, companies must apply some of the following programs with respect to the latter: customer recruitment programs; customer retention programs; customer recovery programs.

1.1. Methodology

In order to obtain a more comprehensive picture of the efficiency of the practices of marketing companies on the Bulgarian market, CRM activities, considered in this article, have been enriched in terms of content and the number of aspects of the survey has been reduced to 5. In the survey questionnaire an operationalization of each CRM activity was initially made, then in a separate block there have been set apart questions concerning the practices of the companies under study in assessing the effectiveness of CRM programs. For each of the indicated 5 aspects of the survey there has been allocated an individual set of questions, which means that the different CRM activities are multidimensional and a multiattribute approach for their precise evaluation is used.

In this particular context each of the aspects is assessed by means of a varying number of statements (on a scale of 1 to 5: from 1 - "the statement does not describe our environment at all", to 5 - "the statement fully describes our environment") within a standardized questionnaire:

- *Set 1. Application of programs for interaction with the customers.* This is a generalized measure of the CRM programs used. The assessment is accomplished by means of the following question: "The company develops and applies flexible programs for interaction with customers, taking into consideration the degree of the development of customer relationships".
- *Set 2. Segmentation of the customer base.* This set of the survey corresponds with the element "Study of the customers"

in the CRM diamond model. It should be noted that the segmentation procedure represents the next step, which is based on the accumulated information on customers. The assessment of the activities of companies in connection with the segmentation of customers is achieved by asking 6 questions: "The company groups customers in segments on the basis of similarities between them", "The company groups its customers based on their preferences, interests, perceptions, opinions", "The company groups its customers by some geographical characteristic (according to how far away they are from the location where the product is offered)", "The company groups its customers according to their profitability", "The company distinguishes between its customers according to the different spheres of business they belong to" and "The company groups its customers according to their preferred method of contact (personal contact, e-mail , etc.)".

- *Set 3. Flexibility of the company in the management of the process of providing services.* This set of the questionnaire is assessed by means of 5 questions: "It is the practice of the company to change its offer in order to satisfy the specific requirements of its strategic customers", "The company can change the characteristics of the service being offered in order to respond to the requirements of strategic customers", "The company can change the price in order to respond to the requirements of strategic customers", "The company can change the method

of communication in order to respond to the requirements of strategic customers" and "The company can change the way of offering its services in order to respond to the requirements of strategic customers".

- *Set 4. Management of programs connected with the stages of the relationships with the customers.* In order to assess the process of management of the customer life-cycle the following 4 questions are used: "The company organizes and implements programs, aimed at attracting, retaining and developing customers", "The company develops and implements programs for attracting potential customers", "The company develops and implements programs for retaining and developing its actual customers" and "The company develops and implements programs for reattracting lost customers".
- *Set 5. Assessment of the effectiveness of CRM programs.* There are 4 questions used for the assessment: "The company has developed standards, by which it judges the effectiveness of the implemented programs", "The company measures the percentage of attracted customers out of the total number of targeted customers by individual campaign", "The company measures the percentage of lost customers by year" and "The company assesses the results by other key indicators".

The survey is carried out in the form of a direct personal poll addressed to the managers of companies specialized in offering marketing business services (surveys, consultancy, advertising , etc.). The choice of respondents at top management level is prompted by the fact that the latter

Table 1 Assessment of CRM programs (average estimates by question set)

Sets of questions	CRM programs	Average estimate	Standard deviation	Variation coefficient (%)
Set 1	The company develops and applies flexible programs for interaction with customers, taking into consideration the degree of the development of customer relationships	4.1	1.04	25.4
Set 2	Segmentation of the customer base	3.6	1.18	32.8
Set 3	Flexibility of the company in the management of the process of providing services	4.4	0.82	18.6
Set 4	Management of programs on the stages of the relationships with customers	4.2	0.85	20.2
Set 5	Assessment of the effectiveness of CRM programs	3.5	1.45	41.4

are those who formulate, or are aware of the goals and the strategic intentions of the companies they run.

2. Results of the study of CRM programs

Each of the assessed aspects of CRM programs (presented in the individual sets of questions) is a multiattribute construct, which requires testing for reliability using the Cronbach's alpha criterion. The tests show that the reliability of each of the aspects under study exceeds the adopted critical value of 0.6 - segmentation of the customer base ($\alpha = 0.7258$), flexibility of the company in the management of the process of providing services ($\alpha = 0.6541$), management of programs connected with the stages of the relationships with the customers ($\alpha = 0.6886$) and assessment of the effectiveness of CRM programs ($\alpha = 0.8052$).

The replies of the respondents on the practices of companies in the development and implementation of CRM programs

permit the formation of average estimates for each of the aspects included in this study (Table 1).

Based on the data in Table 1 it can be seen that companies largely develop and implement flexible programs for the interaction with customers (average estimate 4.1). 77% of the managers included in the survey point out that their company strives to show flexibility by adopting a personal approach to individual customers. The most positive estimate (4.4) is formed in respect of the flexibility of companies in the process of providing services. The reason for this positive result is that 89% of the managers position their answers in the positive section of the scale.

The "Assessment of the effectiveness of CRM programs" and "Segmentation of the customer base" aspects are of the highest standard deviation and feature the lowest average estimates respectively. It is possible to explain these results provided that the actions of companies connected with the study of customers are traced. The activities of companies related to studying their

customers are not the object of this study, but data on these activities have been collected and can be used to explain the low estimates in connection with the segmentation and the effectiveness of CRM programs. The activities on the study of customers are assessed by means of 8 variables. Within this set of questions the highest values of standard deviations are observed, which indicates high dispersion and lack of homogeneity in the opinions of individual managers. With respect to the statement "The company studies its customers" a comparatively low average estimate is formed (3.8). 36% of the companies do not carry out systematic studies of their customers. On the other hand, it is important to point out that companies identify priorities in the choice of accurately determined indicators for the observation of customers. The indicators which managers consider reasonable for observation are: the levels of consumer satisfaction and loyalty. At the same time the indicators, which have a direct bearing on the behaviour of customers

and demonstrate the relative importance of the individual customers are underrated to a certain degree.

Despite the fact that the highest average estimates are formed on the basis of the flexibility of the companies in the process of providing services, that is not the principal measure which shapes the overall perception of the flexibility of CRM programs. With the help of multiple regression analysis (Sig. = 0.000) it is found that featuring the strongest influence on the shaping of a sense of the flexibility of CRM programs are the efforts of companies aimed at customer relationship management by stage of their life cycle, as well as the activities on the segmentation of the market.

The presented average estimates at the level "individual aspects" (sets) in Table 1 do not permit the identification of the practices of companies on the implementation and assessment of the effectiveness of CRM programs. This requires that each of the four general variables should be presented in spread out form at the "operationalizing

Table 2 Average estimates of the segmentation of the customer base

Components and subcomponents	Average estimate	Standard deviation	Variation coefficient
Set 2. Segmentation of the customer base	3.6		
The company groups its customers based on their preferences, interests, perceptions, opinions	3.8	1.12	29.5%
The company groups its customers by some geographical characteristic	3.4	1.20	35.3%
The company groups its customers according to their profitability	3.3	1.30	39.4%
The company groups its customers according to their preferred method of contact	3.5	1.45	41.4%
The company groups its customers according to their preferred method of contact	3.0	1.46	48.7%

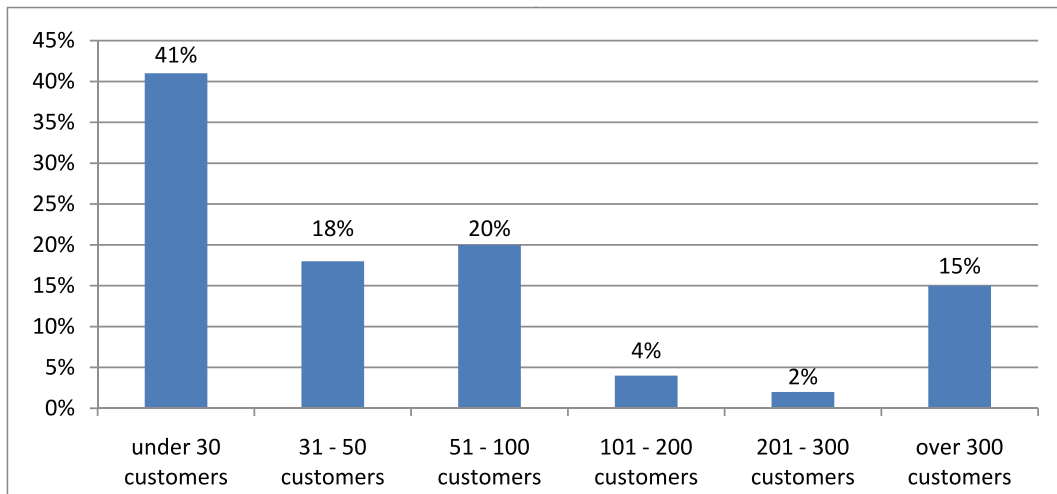


Fig. 1. Distribution of the surveyed companies providing marketing services according to the number of business customers served

variable" level (Table 2, Table 3 and Table 4).

With respect to the practices of companies to segment their customer base there are ratings, which possess values that are around the neutral estimate (3.0). Of a comparatively highest estimate and weakest parallel dispersion of opinions is the practice of grouping customers together, based on criteria such as: preferences, interests, perceptions and opinions. This is determined by the direct projection of the indicated criteria on the behaviour of business customers. In support of the conclusion drawn here the opinion of a number of specialists should be pointed out: that behavioural criteria are used more and more in the segmentation of customers, regardless of the fact that here the survey shows a certain underestimation of exactly these criteria.

The additionally operationalizing variables within Set 2 have been regressed to the generalized segmentation variable. The values of the standardized β -coefficients

show that of the highest level of significance in the segmentation are the geographical and behavioural criteria (Sig. = 0.000), which substantiates the conclusion that has already been drawn. The deduction of the geographical symptom as a significant segmentation variable is logical in view of the existence of a great number of small business customers, who turn to companies providing marketing services within a definite territory (Fig. 1).

Figure 1 shows that the survey covers mainly companies, which serve fewer than 30 business customers (41% of all those who offer business services in the survey), followed by companies providing services to between 51 and 100 customers (20%), and those providing services to between 31 and 50 customers (18%), etc.

Within Set 3 "Flexibility of the company in the management of the process of providing services" (Table 3) there is no average estimate, whose value is lower than 4.1. It can be found that in the individual indicators

within Set 3, in the process of providing services between 76% and 94% of companies are capable of making adjustments to the characteristics of the offered business service, in price levels, in the way of communication and the way of offering the services. The most flexible tool of the marketing mix turns out to be the communication tool, because it forms an average estimate of (4.6), which is close to the maximum.

Although the average estimate of the price component is the lowest, it is

of B2B markets and particularly for companies which share the CRM concept is that the product is viewed as a result of the interaction between the customer and the company and can be unique, consistent with the specific needs of the customer. What this means is that the product varies according to the individual preferences of the customer – hence its cost price also varies widely. The customer himself can determine the specific characteristics of the product, the method and time for providing

Table 3. Average estimates of the flexibility of the company in the management of the process of providing services

Components and subcomponents	Average estimate	Standard deviation	Variation coefficient
Set 3. Flexibility of the company in the management of the process of providing services	4.4		
The company can change the characteristics of the offered service, in order to respond to the requirements of strategic customers	4.4	0.71	16.1%
The company can change the price, in order to respond to the requirements of strategic customers	4.1	1.24	30.2%
The company can change the way of communication, in order to respond to the requirements of strategic customers	4.6	0.61	13.3%
The company can change the way of offering its services in order to respond to the requirements of strategic customers	4.3	0.91	21.2%

the element of the marketing mix with the highest degree of significance. This conclusion has been drawn on the basis of the values of β -coefficients, formed by way of the multiple regression analysis (Sig. = 0.011). Therefore the companies can be positioned as flexible on condition that they make an effort to provide the capability for changes in prices depending on the possibilities and the demand demonstrated on the part of the customers. The demand on the part of the customer can model the price, because a fundamental characteristic

the services, while paying for each of the indicated elements a specified price.

The formed average estimates within Set 4 - "Management of programs by stage of the relationships with the customers" (Table 4), allows us to draw the conclusion that managers direct their efforts as a priority towards attracting prospective customers (87% of the companies) and retaining and developing customers that are profitable for the companies (also 87% of the companies).

The programs for reattracting (reactivation of) lost customers are of the lowest average

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Table 4. Average estimates of the management of programs by stage of the relationships with customers

Components and subcomponents	Average estimate	Standard deviation	Variation coefficient
Set 4. Management of programs by stage of the relationships with customers	4.2		
The company develops and implements programs for attracting potential customers	4.3	0.89	20.7%
The company develops and implements programs for retaining and developing actual customers	4.4	0.77	17.5%
The company develops and implements programs for reattracting lost customers	3.2	1.31	40.9%

estimate and the highest variance of the answers of managers – only 38% of the companies make such efforts. Their unwillingness to reactivate customers that have already been lost has a clear economic logic. Customers who have turned towards alternative suppliers have probably formed negative attitudes about their previous supplier of a business service. Even if there is no such attitude, the reorientation is probably connected with the will to optimize the parameters of the offer. This means that reattracting a lost customer is a costly undertaking since it requires the formation of an offer, which features better parameters for the customer in comparison with the current offer. Additionally, there arises the need to compensate the cost of communicating the

new offer, as well as the cost of switching over from one supplier to the other.

The multiple regression analysis that has been carried out shows the activities towards which the managers should direct their efforts by stage of the life cycle of the customers. Of the highest level of significance are the programs for retaining and developing the actual customers, followed by the development and implementation of programs for attracting potential customers (Sig. = 0.000). The programs for attracting customers have a priority that is two times as low as that of the programs for retaining and developing profitable customers.

In Set 5 "Assessment of the effectiveness of CRM programs" (Table 5) average

Table 5. Average estimates of the practices of companies on assessing the effectiveness of CRM programs

Components and subcomponents	Average estimate	Standard deviation	Variation coefficient
Set 5. Assessment of the effectiveness of CRM programs	3.5		
The company measures the % of attracted customers of all targeted customers in individual campaigns	3.4	1.28	37.6%
The company measures the % of the lost customers by year	3.1	1.34	43.2%
The company assesses the results by other key indicators	3.5	1.15	32.8%

estimates are formed, whose values are around the neutral (3.0).

The reason for this is the high percentage of companies, which do not have the practice of tracking the effectiveness of their actions with respect to customers. Between 36% and 55% of companies do not take any measurement of the effectiveness of the actions they have undertaken in connection with customer relationship management.

The conducted multiple regression analysis lets us conclude that companies should focus their efforts on measuring the relative share of attracted customers of all targeted customers in individual campaigns (Sig. = 0.000). This conclusion corresponds with the established priorities of companies with respect to the development and implementation of CRM programs, aimed at the different phases of the relationships with the companies offering marketing services.

3. Conclusion

In order to achieve the aim stated in the article a tool for evaluating the actions of marketing services companies on developing, implementing and assessing the effectiveness of CRM programs, consistent with the established relationships with customers has been designed and tested. Analysis shows that, on the whole, companies seek to develop and implement flexible programs for interaction with customers. The survey, however, shows that the analytical actions of companies remain in the background - i.e. the activities related to studying the customers, the segmentation of the customer base and assessing the effectiveness of CRM programs are underestimated. In the future these actions of the managers may cause

problems as to the correct identification, differentiation and interaction with customers, as well as not let companies determine which part of the invested funds (broken down by customer and by campaign) feature the desired return. Tracing the effectiveness of CRM programs can help managers figure out whether the activities undertaken by them are right or not and is a starting point for the identification, correction or elimination of practices, which do not correspond with the strategy on customers. That is why, in future surveys, information concerning the practices of companies on tracking the execution of their strategies on customers, as well as on the presence (or lack) of a mechanism for adjusting the strategy upon ascertaining a problem can be gathered.

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