Cross-Functional Problems in the Customer Relationship Management Implementation of Relationship Marketing

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Abstract

The way businesses are structured has significantly changed as they transition from customer-based to product-based structures. The development of Customer Relationship Management, which is supported by the convergence of information systems and the creation of auxiliary software, is a major force behind this transition. It promises to dramatically enhance the application of relationship marketing principles. The three key issues that can help (or hurt) the growth of customer relationship management in the service industry are examined in this paper. These issues are organisational culture and communication, management metrics, and cross-functional integration, particularly between marketing and information technology.
Masalah Lintas Fungsional dalam Implementasi Manajemen Hubungan Pelanggan dalam Pemasaran Hubungan

Abstrak

Cara bisnis terstruktur telah berubah secara signifikan seiring dengan peralihan dari struktur berbasis pelanggan ke struktur berbasis produk. Pengembangan Manajemen Hubungan Pelanggan, yang didukung oleh konvergensi sistem informasi dan penciptaan perangkat lunak tambahan, merupakan kekuatan utama di balik transisi ini. Hal ini menjanjikan untuk secara dramatis meningkatkan penerapan prinsip-prinsip pemasaran hubungan. Tiga isu utama yang dapat membantu (atau menghambat) pertumbuhan manajemen hubungan pelanggan dalam industri jasa akan dibahas dalam makalah ini. Isu-isu tersebut adalah budaya dan komunikasi organisasi, metrik manajemen, dan integrasi lintas fungsi, khususnya antara pemasaran dan teknologi informasi.

Kata Kunci: Manajemen Hubungan Pelanggan, Integrasi Lintas Fungsi, Teknologi Informasi Pemasaran Hubungan.

JEL Classification: Makalah Penelitian
INTRODUCTION

Relationship marketing is the foundation of CRM. In marketing, CRM (Customer Relationship Management) is an approach and strategy used by companies to manage and improve relationships with their customers (Christopher et al, 2013; Bruhn, 2013). In marketing, the main goals of CRM are to understand customer needs and preferences, establish good relationships, and increase customer loyalty (Wu & Lu, 2012).

One of the important benefits of using CRM (Customer Relationship Management) in marketing strategy is customer loyalty or retention (Swift, 2001; Payne & Frow, 2016; Croteau & Li, 2003). Zineldin (2006) says that CRM is a powerful tool to improve customer retention by strengthening relationships, providing better service, and responding quickly to customer needs and wants. Thus, companies can retain existing customers and reduce the rate of customer switching, which in turn can increase revenue and profits (Chen & Hitt, 2002; Liu et al, 2011).

Research conducted by Bain & Co. on customer retention or loyalty shows that an average customer lifetime value increase of between 35 and 95 per cent results from a 5% increase in customer retention (Reichheld, p. 36) (Figure 1).

Reichheld (1996) concluded that there are six main reasons for greater profits for retained customers:

- Customer acquisition costs may be high, so customers will not benefit unless they are retained for a year or more.
- There will be a profit stream from the customer every year after the acquisition cost is covered.
- Customers buy more over time, resulting in increased revenue.
- The company lowered costs due to the learning curve in the relationship.
- Retained and satisfied customers can refer other potential customers.
- This relationship has value to the customer, so retained customers tend to be less price-sensitive.

Relationship marketing aims to increase profits in the long term by moving away from transaction-based marketing (Palmatier et al, 2006), which focuses on acquiring new customers and retaining customers through effective customer relationship control (Christopher et al, 1991), besides building customer loyalty, extending customer stay, and increasing customer satisfaction are the main objectives of relationship marketing (Sheth & Parvatiyar, 2002).
Many businesses integrate relationship marketing strategies into their marketing plans to build stronger and sustainable relationships with their customers because satisfied and loyal customers tend to spend more, avoid competitors, and become customers who recommend businesses to others.

While relationship marketing theory continues to evolve, the main question for practitioners is, how can this shift in management focus be applied in real life?

This paper aims to discuss issues related to the implementation of relationship marketing through the application of Customer Relationship Management (CRM) and related technologies.

**CUSTOMER RELATIONSHIP MANAGEMENT**

The relationship marketing perspective is complemented by CRM. Couldwell (1998) defines CRM as "...a combination of business processes and technologies that seek to understand a company's customers from the standpoint of who they are, what they do, and what they are like." Much like relationship marketing, CRM focuses on customer retention and relationship development (Lockard, 1998; Deighton, 1998). According to Kutner and Cripps (1997), four key relationship principles make up CRM:

- Customers should be treated as important assets.
- Customer profitability varies; not all customers are equally desirable.
- Customers have different needs, preferences, purchasing behaviour and price sensitivity.
- Companies can tailor their offerings to maximise the overall value of their customer portfolio by understanding customer drivers and customer profitability.

According to Anton (1996), CRM is an approach that incorporates relationship management. Critically, however, relationship management is based on higher value through better service recovery and competitive bidding positions (Figure 2).

Others emphasise a technological rather than a relational viewpoint on CRM; Peppers and Rogers (1995) state that "...future markets are undergoing a technology-driven metamorphosis", summarised as "data-driven marketing" by Kutner and Cripps (1997).

Despite this technological viewpoint, the philosophical core of CRM is relationship orientation, customer retention, and superior customer value generated through process management (Raab et al, 2016). All of this is connected through IT, which is the "glue" that allows marketing and IT to work together to maximise the benefits of customer data. This will almost certainly require a significant degree of reorganisation among the various functions (Ebert, 2014).

CRM is a very important tool in managing customer relationships, building customer loyalty, and improving business results (Payne, 2012; Lindgreen et al, 2006). By using
the right data and analysis, companies can understand customer needs, provide better services, and create stronger and more sustainable relationships with their customers (Anshari et al, 2019).

In summary, the main characteristics of CRM are (Xu et al, 2002):
- A customer relationship perspective aimed at the long-term retention of specific customers.
- Collection and integration of information about customers.
- The use of specialised software to analyse this information, often in real-time.
- Segmentation based on the expected lifetime value of the customer.
- Micro-market segmentation based on customer needs and wants.
- Value development through process management (Hammer and Champy, 1993; Hamel and Prahalad, 1994).

- Delivery of customer value through micro-segment customised services, facilitated by a complete customer profile.
- The shift in focus from product portfolio management to customer portfolio management requires changes to working practices.

Essentially, CRM enables management to apply relationship marketing across the enterprise (Gebert et al, 2003). However, all these activities must be managed simultaneously for CRM to be successful. Recent advances in enterprise software make this possible. Sun Microsystems defines three levels of customer information technology. At the most basic level, reporting tools connect sales employees with the rest of the business. Online analytical programming (OLAP) then analyses the data as it comes in. This allows users to "drill down" to various levels.

Gambar 2. Manajemen Hubungan Pelanggan Sebagai Serangkaian Serangkaian Hubungan
data to identify trends and anomalies and check for exceptions to buying patterns. Data mining, the third level, is more advanced and allows the discovery of correlations that are not obvious. For example, baby food may increase sales if placed near the beer shelf in a supermarket! (Sunday Times, 1999).

**CRM ADOPTION BY THE INDUSTRIAL SECTOR**

Despite the enthusiasm of many commentators, CRM is not universally accepted. Woods and Remondi (1996) found that many high-tech companies continued to use conventional marketing approaches even though they realised the potential benefits of CRM to marketing success and sales effectiveness in the long term.

The adoption of CRM (Customer Relationship Management) has become increasingly important across various industry sectors due to its benefits in strengthening customer relationships, improving operational efficiency, and enhancing business results.

To give an organisation a competitive advantage, classic marketing skills and the principles of quality, cost and convenience are more important than "expensive IT and neural networks" (Hagel et al., 1996). Indeed, there is anecdotal evidence that the financial sector is trying to catch up when using sophisticated IT/marketing practices before understanding the basic principles of customer orientation. Banks often give nothing to loyal customers, far from rewarding them (Consumers' Association, 1999).

Economic necessity and competition are already driving change in the financial sector. In the individual banking sector, the Cruikshank report recognised that there was no need for action as banks were experiencing strong competition from new competitors who could offer better services to their customers without leaving a legacy of banks perceived as inefficient, poor service, and poor sales (Mitchell, 1997; Ratcliff, 1998).

Abram Hawkes and Market Shape report that in other industry sectors, there is clear evidence of an increased focus on customer retention, satisfaction, lifetime value, profitability and fulfilment. Successful companies manage relationships with customers based on their profitability potential. They found that ninety per cent of organisations recognised the value of customer retention; sixty-five per cent said that there was a correlation between customer loyalty and the duration of the customer relationship; and forty-five per cent said that loyal marketing generated a greater return on investment than spending on advertising (Reed, 1997).

In all these industry sectors, the adoption of CRM has helped companies improve customer interactions, optimise business processes, and increase customer retention. Companies that successfully implement CRM tend to be more competitive and can provide a better experience to their customers.
If businesses want to survive, they must adapt. This means major changes in their organisational structure (e.g. Webster, 1992; McDonald et al., 2001). One of the key issues that companies face when making this transition is integrating effective CRM initiatives into the larger customer relationship building.

COMMITTING TO CRM: ORGANISATIONAL ISSUES

A major transformation is taking place. Companies organised around their customers are expected to increase from the current level of about 20 to 50 per cent by 2002. Compared to less than 30 per cent in 1998, the proportion of companies operating data warehouses is expected to increase even more.

To be successful in adopting and running a CRM (Customer Relationship Management) system, companies must be fully committed to CRM-related strategies and practices.

For decades, management academics have avoided customer orientation. However, the practice is still product-focused (Levitt 1960, 1986; Drucker, 1973). However, widespread changes in business processes, the growth of the service sector, and the availability of cheap software solutions to address the problem of "mass-customisation" are some of the factors that now require and enable companies to reorganise around their customers. While these elements help shift the focus from product management to a customer focus, this change will be difficult to achieve. The necessary changes will impact the way businesses see and treat their customers, organise themselves, and measure and reward success.

In a company's attempt to re-orient itself on the customer, all workers must agree to changes in cultural standards, organisational structure, and the way performance is measured and rewarded. The commitment shown by Martiny (1998) and Braganza and Myers (1996) suggests that it is critical to the success of senior management. The META Group report (1998) confirms this, stating that "Investing in CRM technology without a customer-orientated cultural mindset - inherited hierarchically from the CEO throughout the company - is like throwing money into a black hole."

By using a data management system, a company can reorganise the entire business to focus on its customers. However, companies that consider customer information management a task of the marketing department and leave it to marketing planners and product managers in the hope of getting short-term results will miss the point. To implement a customer-oriented strategy, an organisation's culture must become flexible and responsive to change. Good communication is an important part of the change effort. Failure can occur if the change plan and its effects on employees are not communicated well. An effective internal communication strategy is needed to provide "buy-in" to the plan, led by the top management team. But, according to Jennings (1997), methods of measuring and rewarding success
must be changed before cultural change can occur.

Committing to CRM is a key step to improving customer relationships, increasing business efficiency, and achieving competitive advantage. When companies truly invest in CRM strategies and systems, they can experience significant long-term benefits.

**CRM ADOPTION & MANAGEMENT METRICS**

CRM adoption and management metrics are indicators used to measure the extent to which a company has successfully adopted and effectively managed a CRM (Customer Relationship Management) system. These metrics help companies to monitor CRM implementation performance and identify areas for improvement.

Spitler (1997) supports Jenning's opinion by saying that many industries are unable to adopt proper metrics: "If there is one current shortcoming in the [banking] industry's migration to a customer relationship model of business, it is the lack of adequate and insightful customer MIS (Marketing Information System) and customer performance metrics."

CRM utilisation rates can be calculated using metrics. This metric measures how many team members in the organisation are actively using the CRM system. A high usage rate indicates good adoption, while a low usage rate may indicate problems in system acceptance.

Another key metric measures how many customers remain loyal and do not switch to competitors after CRM implementation. A high retention rate indicates that CRM helps retain customers.

Through customer surveys or feedback, companies can measure the extent to which customers are satisfied with the services provided through CRM. This is an important indicator of whether CRM helps improve customer experience.

The shortcomings of current performance measurement have also been brought to the attention of many commentators, such as Return on Investment (ROI) that:
- Does not include off-balance sheet assets, especially intangible assets that increasingly affect business performance.
- Does not encourage management to invest in assets that do not affect short-term performance, thus not positioning the organisation strategically for the future.
- Can be subject to accounting manipulation and other elements that distort reported company performance.

(Adapted from Lusch & Harvey, 1994)

One of the first important attempts to provide company-wide metrics was the Balanced Scorecard approach developed by Kaplan and Norton (1992). Edvinsson founded the Intellectual Capital Movement, which emphasises how important metrics are for addressing "knowledge ownership, applied experience, organisational
technology, customer relationships, and professional skills that give knowledge-based companies a competitive advantage in the marketplace". Providing metrics within a company has some very important benefits. Metrics are tools used to measure performance, understand results, and make better decisions.

Long-term success depends on the quality of an organisation's customer information and the organisation's ability to manage customer relationships. Although technology, processes, organisation and customer orientation are all very important in this regard, individual employees are an important part of building customer relationships. Therefore, the measurement system must support customer orientation and reward it. It is increasingly important for employees to address organisational challenges such as technological skills, customer orientation and marketing. To maintain a competitive advantage, continuous training is required to improve existing procedures and implement new programmes (McDonald, 1993).

Dell Computer Corporation is an example of good practice, where technicians are educated to master customer relationship skills necessary for telephone support and problem guidance, and to focus directly on customer needs without using technical jargon. To provide better service to the overnight guests belonging to the Ritz-Carlton hotel chain, employee training and information systems are used by the Ritz-Carlton hotel group. Any preferences obtained from conversations or observations are recorded in a "guest preference notebook" given to employees. Staff can immediately know the needs of any guest staying at a Ritz-Carlton anywhere in the world thanks to global data that is entered daily. Employee training and motivation are crucial in both situations. Accurate and consistent recording of information and the ability of employees to multitask beyond functional boundaries are essential (Ryals et al., 2000).

It is important to select metrics that match the company's business objectives and strategy. In addition, metrics should be monitored regularly and used as a tool to improve business performance on an ongoing basis.

**CRM CONVERGENCE & CROSS-FUNCTIONAL INTEGRATION**

In relationship marketing, the key principles involved are collecting, organising, and analysing accurate data about customers; developing relationship-tailored marketing strategies; and focusing on higher-value customers to maximise value for the organisation. This requires a lot of collaboration between functions.

CRM (Customer Relationship Management) convergence and cross-functionality is an approach that integrates and brings together different information, processes and business functions within an organisation with the aim of improving customer experience and operational efficiency. It requires collaboration between different departments, such as sales,
marketing, customer service, and other departments, to create a more comprehensive view of customers and their relationship with the company.

For example, all departments that work with customers, such as accounts, shipping, sales, customer service, and even distributors and agents, usually have customer data. To organise the entire business around its customers, these different information systems must integrate. This will speed up the process and make it easier to share information "across customers".

This is the main role of CRM: CRM eases the relationship between the company, customers, business suppliers and employees. It integrates marketing, sales, and service functions through business process automation, technology solutions, and information resources to maximise every contact with customers (Galbreath, 1998). Convergence of business functions helps lower costs, increase efficiency, and improve productivity (Elliott, 1997). Moreover, it should be an integral part of the corporate culture.

However, Hall (1997) found that performance integration does not always occur even though organisations integrate technology. Many businesses and individuals regard customer handling as part of sales or marketing, and assume that if their data is transferred to other departments, they lose power. More and more software developers are recognising this problem. The post-ERP wave of systems will face "the cultural and organisational shifts required to align IT and business management objectives once and for all" after learning the difficulties of early Enterprise Resource Planning (ERP) system implementations.

Although the role of key account managers plays an important role in customer relationships, the capabilities of key account managers can be limited by functional boundaries. As a result, to eliminate the functional adverse effects that may interfere with the successful implementation of CRM, an integrated approach with marketing, operations, information technology, and financial accounting is required (Morris, 1994). However, the ultimate goal of integration may be segment-one, where products and services are customised specifically for individuals; however, this is not achievable in most companies. To realign to serve the "segment-few", the cohesion between business units must be much greater than currently exists (Larson, 1996).

Hall (1997) states that an important interface between marketing and CRM technology. To achieve cross-functional integration, an understanding of these two areas is required:

The application of CRM convergence and cross-functionality allows companies to better focus on customers and improve their overall business performance. This is an important approach in an era of increasingly connected and customer-orientated businesses.

**Marketing Perspective**

With CRM, marketing can provide better customer service and improve
marketing effectiveness through better focus (McDonald and Wilson, 1999; Bessen, 1993). Information technology can improve customer service in many ways, such as communication, efficiency, and reliability, as well as quality control and service monitoring (Berkley and Gupta, 1994).

Operational improvements (Stein and Caldwell, 1998), the ability to collect and analyse information on buying behaviour - often in real time (Hagel and Sacconaghi, 1996) and long-term success are linked to closer and intimate relationships with customers through CRM systems (Beckett-Camarata et al., 1998). Detailed customer profiles help match marketing offers with prospects easily (Harrison, 1993), and can be used to track how effective marketing programmes are (Mann, 1990), and provide a basis for future planning (Shani and Chalasani, 1993). When service or product offerings are customised for individuals or micro-segments, it also benefits customers as it can increase loyalty (Mitchell, 1998). One-to-one marketing is becoming more common due to a combination of consumer demand and new technologies, according to Schultz (1996).

Conversely, organisations can identify customers who do not want to be served through analysis and profiling of customer data. According to Pareto's rule, twenty per cent of customers generate seventy per cent of profits, but there are situations where customer profitability can differ considerably. 'Some commercial banks have found that ten per cent of their current account customers are responsible for more than 100 per cent of their profits (in other words, the other 90 per cent are, on average, losers)' (Stone et al., 1998). By now, marketing practitioners know that cross-functional IT must be integrated. This is despite the fact that CRM progress was often rapid and disorganised in the past. As a result, the integration of sales systems with other businesses is paramount to sales and marketing investment (McDonald and Wilson, 1999; Ferguson and Shaw, 1996). Nonetheless, according to a recent survey by Simpson Carpenter Research of 100 companies worldwide, CRM budgets appear to be gradually allocated across business functions, with less than 25% of companies having a centralised CRM budget (Business Internet, 2001). Figure 3 shows that CRM budgeting is done by the IT department.

**IT Perspective**

Ever-increasing customer demands and enabling technological advances are driving changes in CRM practices, according to Schultz (1993). IT managers, however, do not always see customer progress as part of the business problem; some are even unwilling to share customer data with other departments because this data is the source of their power. Often, it is not technological issues that stand in the way of progress, but cross-functional integration issues (Domegan, 1996; Stone et al., 1993; Elliott, 1997).

Senior managers who do not understand the importance of basic CRM technology are responsible for this lack of cross-functional integration.
According to Hewson (1999), board-level support for large IT projects is rare, but can be very beneficial. Rees-Mogg (1997) says that this is due to board members' poor understanding of IT, coupled with their inability to make decisions about their needs. This in turn causes IT managers to face difficulties in determining CRM projects with changing organisational goals. The directors may realise that the cost of IT projects is often much greater and the results are often much lower than expected.

One of the major concerns for IT practitioners who are considering major investments in CRM technology is the high failure rate in IT projects. According to a series of studies cited by Leverick et al. (1998), only 11% of companies in the UK and Ireland said that their installations were successful. According to another study, between thirty and forty per cent of IT projects did not deliver significant benefits. According to a third study, three quarters of IT projects are either not completed or not used. But from the perspective of IT managers, the main problem is management rather than IT failure. This management faces several problems, including non-strong sponsorship, inadequate supporting budgets, and poor customer management (Stone et al., 1998). The British Computer Society’s Technical Council agrees that many project failures are caused by business needs not being incorporated into the IT strategy. Because of this, the British Computer Society recently approved the creation of a new Specialist Group for people who deal with IT and business users. The aim of the group is to improve the relationship between IT and business departments and create a new career path for IT people who currently feel unappreciated or disrespected. This is a remarkable achievement for this work. However, according to a recent survey supported by the Institute of Directors, around half of directors in the UK have
never been briefed on their company's technology and never intend to be so briefed (Kavanagh, 2000).

**MANAGERIAL IMPLICATIONS**

Information Technology can change relationship marketing by knowing the market, helping groups make decisions, and facilitating transactions. Due to IT-based transactions and the wealth of information about individual customers, the financial services industry early implemented CRM (Codiumton and Wilson, 1994). However, the use of technology alone is not enough. Although most financial services firms today have at least one type of customer marketing database, they often fail to support customer development (Naval, 1998; Anon, 1993). IT developments must be combined with a relationship marketing philosophy, which demands that the firm be re-organised around its customers. Reorganising the company around the customer has several immediate consequences for managers:

- A cultural change that recognises that the customer is more than the product. Therefore, marketing strategies should prioritise enduring customer relationships over short-term campaigns.
- Changes in business measurement and incentives reflect this new culture. This could mean for marketing setting targets for customer retention and new customer acquisition; for IT, it could mean measuring the success of CRM technology projects in terms of building customer relationships rather than architecture and features.
- Changes in working practices so that information is shared between departments to describe the company's relationship with customers as a whole. This may also require a change in organisational structure, moving from traditional functional silos to cross-functional teams.

Two very important technology issues are as follows: a strategic perspective on well-managed IT investments; and an enterprise-wide approach to the use and integration of IT systems (McDonald and Wilson, 1999; Haapani, 1996; Tavinen, 1995). Technology is essential for implementing CRM so that the issues of strategic investment in IT and integrated IT systems can be addressed directly:

- A clearer view of the business case for CRM investments that should be focussed on the long-term impact of such investments on the company’s relationship with its customers rather than short-term tactical gains.
- Acceptance that decisions about CRM technology investments should be made by the whole company, signalling an end to small-scale projects that fail when they succeed in one business unit, leading to poor judgement and losses.
- Support for board decisions to invest in CRM, with board-level representation for the project, and top management support should be visible.
- Commitment to providing customer information to "frontline" staff who interact with customers and address
ownership issues regarding customer information.

In summary, successful use of CRM will require more effective management of functional dependencies through process teams, as well as changes in employee performance measurement and assessment methods (Parsons et al., 1996). Senior management and the board of directors must be highly committed and supportive of this drastic change in behaviour and expectations towards CRM (Fletcher and Wright, 1996; Perrien et al., 1993).

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