

Customer Relationship Management: A Strategic Perspective

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Abstract Over the last decade and a half Customer Relationship Management (CRM) has developed into an area of major significance. However, there is considerable confusion in the academic and managerial literature about what is meant by CRM and how it differs from relationship marketing. Further, despite heavy investment by organizations in CRM, there is extensive reporting of CRM's failure to achieve anticipated results in the literature.

This article reviews the conceptual differences between CRM and relationship marketing and defines these terms. It argues that, in many organizations, CRM failures have occurred through a lack of strategic focus. Key strategic issues are identified. A CRM Strategy Matrix is presented which considers the strategic context of companies and the implications for the development of their CRM strategies. Four alternative approaches towards building customer relationships are identified and migration paths between them are reviewed. Implications for implementing CRM strategy and future research are discussed.

Keywords relationships · customer relationship management · relationship marketing · customer management · CRM strategy

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Introduction

The *Relationship Marketing Summit* held in Buenos Aires in December 2007 represented a key milestone in the history of Relationship Marketing and Customer Relationship Management (CRM). This event was the first joint conference of the American Marketing Association (AMA) Relationship Marketing Special Interest Group, which evolved from the Conference Series in Relationship Marketing held at Emory University in Atlanta, and the International Colloquium on Relationship Management (ICRM) held at Monash University in Melbourne, both established in 1993. With the origins of academic conferences in this area now extending over 15 years, it is appropriate that this special issue reflects on developments in the relationship domain.

The aim of this paper is to: consider the origins, development and scope of CRM; propose adoption of definitions of *CRM*, *relationship marketing* and *customer management* that better clarify the distinctions between them; and address the importance of viewing CRM from a strategic perspective. Many observers have highlighted the lack of strategic focus in organizations. For example, Reinartz, Krafft, and Hoyer (2004) highlight a severe lack of CRM research that takes a broader, strategic focus. Coltman and Devinney (2007) note the wider literature on CRM programs is noticeably silent on the issue of strategic orientation. Thakur, Summey and Balasubramanian (2006) conclude the absence of a strategic orientation is the chief reason for CRM failures and that many operationalizations of CRM continue to reflect a tactical, as opposed to a strategic character.

This article is based on a detailed review of the CRM literature and insights drawn from an ongoing longitudinal study of CRM based on 'interaction research' methodology (Gummesson 2002a). The interaction research utilized a range of sources and included: a panel of 34 experienced executives specializing in the CRM and IT sectors; interviews with 20 executives working in CRM, marketing and IT roles; interviews with six executives from large CRM vendors and with five executives from three CRM and strategy consultancies; and workshop-based activities and individual interviews, with 18 CRM vendors, analysts and their clients. This work has highlighted the poor definition of CRM and the importance of adopting a strategic focus to a CRM initiative. In this current paper, we build upon these findings and suggest adopting a CRM strategy that is appropriate to the specific context of an organization.

This article is structured as follows: first, we discuss the evolutionary development of relationship marketing and CRM, grounding each concept in the literature as well as relating them to managerial practice. This review sets the context for clarifying the distinctions between three relational concepts: relationship marketing; CRM; and, customer management. Definitions are proposed for these three terms. Second, we comment on relevant research on CRM initiatives and outline why it is critical to explore CRM from a strategic perspective, given the wide incidence of failure in CRM initiatives. Third, we highlight how the key strategic issues confronting different organizations vary substantially and discuss how this impacts on the choice of their CRM strategy. We outline a CRM strategy matrix that illustrates how organizations can develop CRM strategies that are appropriate to their industry context, degree of competitive intensity and stage of CRM sophistication. Finally, we discuss some implications for CRM implementation and outline related future research opportunities.

CRM and Relationship Marketing

Relationship marketing (RM) and customer relationship management (CRM) are often poorly defined and used interchangeably, both in the academic literature and in managerial practice. We begin by redefining these concepts and then providing theoretical and managerial justification for our choice.

Defining Relationship Marketing

Kotler (1992) has outlined the importance of adopting a relationship approach to stakeholders: "The consensus in ... business is growing: if ... companies are to compete successfully in domestic and global markets, they must engineer stronger bonds with their stakeholders, including customers, distributors, suppliers, employees, unions, governments and other critical players in the environment."

Although there are alternative perspectives on relationship marketing (Coote 1994), we argue that this multiple stakeholder view of relationship marketing is the most relevant one and that it clearly distinguishes the concept from CRM, which is principally concerned with the strategic relationship between a company and its customers. This broader multiple stakeholder perspective is now increasingly supported in the relationship marketing literature (e.g. Christopher et al. 1991, Doyle 1995, Gummesson 1995).

Figure 1 presents an overview the distinction between the concepts of relationship marketing, customer relationship management and the term 'customer management' based on Ryals and Payne's (2001) and Gummesson's (2002b) views of relationship marketing as a broader, more overriding concept. Each of these three concepts addresses the domain of managing relationships, but is different in scope.

We propose adoption of the following definition of relationship marketing:

Relationship marketing is the strategic management of relationships with all relevant stakeholders in order to achieve long term shareholder value. Critical tasks include the identification of relevant relational forms for different stakeholders and the segments and sub-groups within them and the optimal management of interactions within these stakeholder networks.

This definition identifies the overall aim, the scope and the primary activities involved in RM. Relationship marketing may be a highly explicit strategy or may be more implicit and emergent (e. g., Mintzberg 1994), yet all organizations practice aspects of RM. An organization may not necessarily wish to strategically manage all stakeholder relationships but will focus on those relationships that are the most relevant at a specific point in time. The context of the organization will help determine the strategic relevance of a stakeholder group and the emphasis necessary for managing each stakeholder relationship.

Our recent understanding of relationship marketing stems from work in the 1980s in industrial markets (e. g., Jackson 1985), studies of interaction, relationships and networks by the IMP Group (e. g., Håkansson and Snehota 2000) and research in services marketing (e. g., Berry 1983). The modern use of the term relationship marketing can

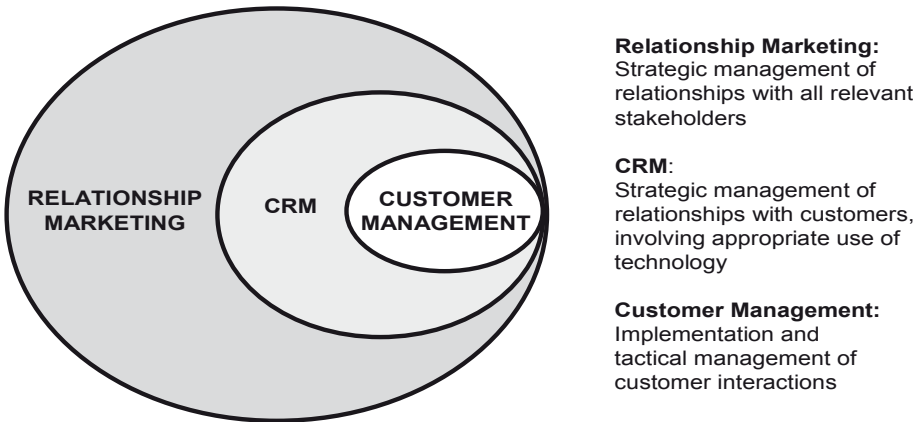


Figure 1 Relationship Marketing, CRM and Customer Management

be traced to a paper by Berry (1983) who defined relationship marketing as attracting, maintaining, and enhancing customer relationships. However, the origins of relationship marketing extend to the early stages of commerce. Grönroos (1994) provides examples of ancient Chinese and Middle Eastern society that demonstrate relational approaches. Others authors (e.g., Sheth and Parvatiyar 1995) draw attention to early pre-industrial examples that emphasize the need to focus on relationships with existing customers.

Over the last two decades, relationship marketing has become a topic of substantial interest to both academics and practitioners. Relationships and relationship marketing have been increasingly emphasized by scholars over this period (e.g. Christopher, Payne, and Ballantyne 1991, Grönroos 1994, Sheth and Parvatiyar 2001, Gummesson 2002b). By the mid 1990s, several alternative perspectives on relationship marketing had developed. At the 1994 Emory Research Conference on Relationship Marketing, Coote (1994) identified three broad approaches to relationship marketing, each of which developed different emphases and scope. He termed these: the “Anglo-Australian” (e.g., Christopher, Payne, and Ballantyne 1991); the “Nordic” approach (e.g., Grönroos 1994, Gummesson 1995); and the “North American” approach (e.g., Berry 1983, Sheth and Parvatiyar 1995) and sought to identify the foundational theories and concepts associated with each of these research streams. Whilst Coote’s typology is not fully developed, his classification is useful as it illustrates alternative approaches to relationship marketing that have developed. Our chosen definition of RM draws together these three perspectives, identifying RM as a broad, strategic approach to managing stakeholder relationships.

Defining CRM and Customer Management

Although CRM is a more recent development than RM, its origins are less clear. Recently authors have pointed to an increased clarity in the definition of CRM. In a recent review

of CRM, in a landmark Special Issue on CRM in the *Journal of Marketing*, Boulding, Staelin, Ehret, and Johnston (2005) argue that the field of CRM has now begun to converge on a common definition. We propose the following definition, drawing on Boulding et al. (2005) and Payne and Frow (2005):

CRM is a cross-functional strategic approach concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. It typically involves identifying appropriate business and customer strategies, the acquisition and diffusion of customer knowledge, deciding appropriate segment granularity, managing the co-creation of customer value, developing integrated channel strategies and the intelligent use of data and technology solutions to create superior customer experiences.

This definition highlights CRM's emphasis on integration of processes across different functions and how it is distinctive from the definition of relationship marketing proposed above. We also propose definition of an associated term, customer management, as follows:

Customer management is concerned with tactical aspects of CRM implementation that relate to the management of customer interactions, including the use of tools such as campaign management, sales force automation, web-enabled personalization and call centre management.

Zablah, Bellenger, and Johnston (2003) have noted that the academic and managerial literatures have failed to produce a consensus definition for CRM and that the huge number of CRM definitions have caused confusion. CRM technology is frequently and inappropriately equated with CRM (Reinartz, Krafft, and Hoyer 2004) and a key reason for CRM failure is viewing CRM as a technology initiative (Kale 2004). Adopting an appropriate definition of CRM is important and, as Sheth and Parvatiyar (2001) have argued, is needed in order to focus understanding and on growth of knowledge in the discipline.

There are a number of reviews of CRM definitions. For example, Zablah, Bellenger and Johnston (2004) identify 45 definitions of CRM and characterize them into five perspectives based on: process; strategy; philosophy; capability; and technological tool. Payne and Frow (2005) review over 30 definitions and list twelve representative ones. They categorize them into three broad perspectives: narrowly and tactical as a particular technology solution; wide-ranging technology; and strategic. They propose that CRM, in any organization, should be positioned in the latter strategic, customer-centric context.

The term 'emerged' in the 1990s although the first use of the term CRM is not identified or discussed in the extant literature. One of the earliest uses of the term appears to be in an article by Stone, Woodcock and Wilson (1996). However, although CRM appeared in this article's title, the focus of the article was on relationship marketing rather than CRM. Dowling (2002) suggests the origins of the term CRM lie in two places: first, in the US, in connection with customer-based technology solutions; and second,

in Scandinavia and Northern Europe in connection with the IMP (Industrial Marketing and Purchasing) Group. Throughout the 1990s there was a singular lack of discussion on the nature of CRM, its underpinnings and how the concept differed from relationship marketing.

In both the academic and business communities, the terms relationship marketing and CRM are often used interchangeably (Parvatiyar and Sheth 2001). As Nevin (1995) points out, these two terms are used to reflect a range of themes and perspectives. Some of these themes offer a narrow functional marketing perspective related to database marketing while others offer a perspective that is broad and more paradigmatic in approach and orientation (Parvatiyar and Sheth 2001). Zablah, Bellenger, and Johnston (2003) suggest that CRM is “a philosophically-related offspring to relationship marketing which is for the most part neglected in the literature. The use of the term CRM is further complicated with some organizations, such as the consulting firm Accenture, adopting the term *customer management* in place of CRM in a response to many companies’ (incorrect) association of CRM with technology solutions.

CRM has developed into an area of undeniable significance in less than two decades. Estimates of the size of the CRM market depend on how it is defined. Gartner Research identified the global market for CRM was US\$ 15.5 billion in 2008. This market comprises: total CRM software revenues of US\$ 8.3 billion; and, consulting US\$ 6.2 billion. It is estimated this total will rise to US\$ 19 billion in 2011 (Gartner Research 2008). The huge scale and scope of the inter- and intra-organizational changes involved in CRM led Kotorov (2003) to assert that CRM was the third most significant revolution in the organization of business after the invention of the factory in 1718 and the introduction of the assembly line into the factory production process in 1913.

Given CRM lacked early conceptual underpinnings, it is not surprising that the term “has come to mean many things to many people” (Grabner-Kraeuter and Moedritscher 2002). A study by Payne and Frow (2005) found a wide range of views about what CRM means amongst practitioners: “To some, it meant direct mail, a loyalty card scheme, or a database, whereas others envisioned it as a help desk or a call centre. Some said that it was about populating a data warehouse or undertaking data mining; others considered CRM an e-commerce solution, such as the use of a personalization engine on the Internet or a relational database for SFA (sales force automation)”. They concluded that the lack of a widely accepted and appropriate definition of CRM can contribute to the failure of a CRM project when an organization views CRM from a limited technology perspective or addresses CRM in a fragmented manner.

Given the scale and importance of CRM and the widely diverse and often restricted views of CRM, the lack of a clear definition has impacted negatively on its successful implementation. Sheth and Parvatiyar (2001) point out that, for an emerging management discipline, it is important to develop an acceptable definition that encompasses all facets so as to allow focused understanding and growth of knowledge in the discipline. We concur with Zablah, Bellenger and Johnston’s (2004) contention that relationship marketing and CRM are different phenomena that warrant a clear distinction in the literature.

Gummesson (2002b) is one of the few authors, to date, to distinguish between relationship marketing and CRM. He defines these terms as follows: “Relationship marketing is a form of marketing based on interaction within networks of relationships”, whilst: “CRM

is the values and strategies of relationship marketing – with particular emphasis on customer relationships – turned into practical application.”

Research by Ryals and Payne (2001) on practitioner views in the financial services vertical market, the most developed sector within the CRM market (Datamonitor, 2000), confirmed that whilst there were no firm distinctions made between the terms CRM, relationship marketing and customer management, certain common patterns existed in the way the terms were used in this sector. Their interviews with senior executives in this sector confirmed that relationship marketing was, for the most part, associated with high-level strategic thinking about relationships with all key stakeholders – a perspective supported by Gummeson’s (2002b) views on relationship marketing as a “broader, overriding concept”. The terms CRM and customer management were used by these managers more in connection with the management of *relationships with customers*, as opposed to a broader range of stakeholders. When describing CRM, these executives used phrases reflecting the development of marketing strategies over the customer lifetime such as understanding the customer base in total, understanding needs, attitudes, life-stage, profitability and lifetime value. By contrast, the term customer management was seen by the many respondents as being more concerned with the tactical implementation of CRM, in particular using specific tools such as direct mail programs, and campaign management and call centre activities, hence our definition stated above. Our ongoing, longitudinal, field-based research with managers supported these distinctions.

The definitions of relationship marketing, CRM and customer management proposed in this paper are developed from both the academic literature and field-base research with executives. Adoption of the definitions proposed here will help clarify the distinction between these terms and should help academic research in the relationship domain develop in a more focused and coherent manner. Following out field-based research and an extensive literature review, we conclude that the adoption of a *strategic definition of CRM* (including distinguishing it from its incorrect association as a CRM technology solution) is a priority for both practitioner and academic communities.

The Strategic Context of CRM

We consider that there is a compelling argument for companies’ strategic context to be given greater emphasis in their approach to CRM because of high incidence of CRM failure reported in the literature. Failure, or restricted success, in CRM may occur for customer-based reasons or firm-based reasons. In terms of customer-based reasons, customers can react negatively to a firm’s use of CRM. For example, as Palmatier et al. (2008) report, some customers do not seek or wish for deep relationships and, for them, the costs associated with building and continuing a relationship can exceed the perceived benefits. These authors point to various studies which suggest that, in certain circumstances, CRM can undermine customer relationships (e.g., Colgate and Danaher 2000, Dowling and Uncles 1997). Here it is important that customers’ relationship goals are first considered (Palmatier et al. 2008).

However, CRM can fail even if customers are seeking what CRM solutions can help the firm deliver to its customers. In a recent survey of reasons for CRM success and

failure, Newell and Godin (2003) suggest “CRM failure broadly stems from the fact that most firms were still product focused, not customer focused.” A company wishing to adopt a sophisticated CRM approach requires a culture focused on individual customer needs. Repeatedly, researchers have found that an appropriate cultural foundation is required for successful CRM (e.g., Bentum and Stone 2005).

Much recent evidence suggests repeated failure in the adoption and implementation of CRM programs, and in connection with their technology solutions (e.g., Patton 2001, Yu 2001, Ebner et al. 2002). Thakur, Summey and Balasubramanian (2006) note that the absence of a strategic orientation is the chief reason for CRM failure, something that many firms have yet to realize: “If the failure of a CRM project stems from poor management and leadership skills, lack of coordination among various departments, absence of motivation, or weak or inappropriate project staff, it is likely that CRM implementation was driven by a tactical, rather than strategic orientation”. A study by Accenture found CRM projects often focused on mechanics, specific tools, and technologies to the detriment of the strategic goal (Freeland, Eisenfeld, and Greshman 2002).

Addressing CRM primarily in technological terms without having a clear strategy, a perspective evident in many definitions of CRM, appears to be a common mistake. CRM has the greatest potential for success when the organization’s orientation to CRM is a strategic one and it is concerned with “putting strategy before software” (Seland and Pockard 2003). Whilst the logic of adopting a strategic approach might appear obvious, evidence suggests otherwise.

Boulding et al. (2005) agree that strategy lies at the heart of successful CRM. Before embarking on CRM, an organization should analyze the growth opportunities available within the business environment and make decisions about the nature of customer relationships that are appropriate for chosen customer segments. Here the primacy of the customer has to be recognized and signaled throughout the firm. The customer should be viewed as an important stakeholder critical to the firm’s success in the future, and not just regarded as a ‘target market’. For success in CRM, it is clear that organizations need to consider their current position within their industry and the future role they can realistically play within it. However, the primacy of the customer must remain amid other strategic considerations.

The business strategy is determined by a situation analysis, setting out how the industry and competitive environment is changing, identifying opportunities for growth and determining realistic financial objectives for the business. This analysis ensures that an organization invests appropriately, balancing developing new opportunities, retaining existing business and exiting unprofitable ones. Ebner et al. (2002) suggest that an organization needs to set out clear business objectives before embarking on CRM. In order to set such objectives, an organization needs to identify the key strategic issues that relate to its proposed CRM initiatives.

Based on the interviews conducted as part of our interaction field-based research we identified a range of strategic issues, shown in Figure 2, that were considered important by companies. These include the nature of customer relationships, issues relating to the industry, the nature of the competitive environment, channels to market, and the technology requirements need to achieve the business objectives.

Customer segments: Who are the existing and potential customers? Which forms of segmentation are most appropriate, rather than easiest to undertake? What are the major segments? What are the opportunities for micro-segmentation, one-to-one marketing and mass customization?

Customer relationships: What kinds of relationship does the company have or want to have with customers? How retainable are the customers? How do we 'remember' customers? Is customer communication fed back into the business so it can relate to customers on a one-to-one basis?

Product/service involvement and complexity of customer purchasing behavior: Who constitutes the customer decision-making unit? How are products/services purchased? How important are they to customers?

Company's profile: Where does the company fit within the industry structure? What is their strategic intent? What are the organization's resources and competences?

Stage of industry evolution: What are the current state and likely future changes in industry structure?

Competitors: What is the nature of competitors? How do they compete? How will new competitors evolve in the future? Are there new entrants on the horizon that are not hindered by the same legacy architecture? Are there new strategic alliances that may disrupt the market?

Channels of distribution: What is the current and future role of different distribution channels? What are different opportunities that exist for disintermediation or reintermediation? What opportunities exist for new forms of electronic distribution and delivery?

Information technology platform: What is the appropriate information technology platform and software to serve present and future customer and corporate needs?

Figure 2 CRM Strategic Issues to Consider

A consideration of these strategic issues will help the organization determine its business objectives, review its future growth potential and determine the form of CRM that is appropriate to achieving this goal. In particular, the organization needs to assess the amount and quality of customer information required to build successful customer relationships.

CRM Strategy Matrix

Researchers investigating reasons for success and failure of CRM identify that frequently a company has insufficient and inaccurate customer information on which to build a robust CRM platform (e.g., Abbott, Stone, and Buttle 2001). A fundamental decision for a company when considering a CRM strategy, is determining the type of relationship that is appropriate and possible for different customers, both from the customer and the organization's perspectives. A customer strategy should address well defined segments, each evaluated in terms of current and future profit potential (Roberts, Liu, and Hazard 2005). Decisions can then be taken on the extent to which a technological solution is suited to develop these desired relationships. As Thakur, Summey and Balasubramanian (2006) observe: "There are many technological components to CRM, but thinking about CRM in primarily technological terms without having a strategy for it would be a mistake. It is more useful to characterize CRM as a complex process that integrates information about

customers, sales, market awareness, and market trends. Working from that perspective, a strategic orientation to CRM that helps a businesses leverage technology and human resources to gain insight into customer behaviors is more likely to occur.”

Deck (2001) points out that for CRM strategy to be truly effective, the firm must decide what kind of customer information it is looking for and what it intends to do with that information. Figure 3, outlines a CRM strategy matrix which considers the appropriateness of different types of customer relationships, now and in the future based on the completeness of customer information and the degree of customer relationship individualization that is possible. This framework identifies four different types of customer relationship¹. The vertical axis of the framework in this figure shows *completeness of customer information*. This dimension includes determining how much information is held on customers and the level of sophistication in the analysis of that information. The horizontal axis shows the *degree of customer individualization* – the extent to which the organization can use whatever information it has on customers to give them individualized or customized service. The matrix shows four broad strategic positions and forms of CRM which may be appropriate for an organization. Adoption of a given form of CRM will depend on the strategic issues identified above and the organization’s specific circumstances.

The matrix identifies four alternative strategic approaches towards customer relationships. Some organizations may consider that an optimal customer strategy involves immediately migrating customer relationships towards greater customer individualization using more complete customer information. However, consideration of this step should be undertaken with caution. A decision about the migration strategy should only be taken after careful assessment of the trade-off of cost and benefits of developing these individualized relationships. Relationships that are tailored to a specific customer require significant knowledge about all aspects of customer buying behavior. Acquiring and maintaining accurate and complete data on a customer is time consuming and expensive and is only appropriate when customers or customer segments have sufficient profit potential. Equally important, is an assessment of the extent to which a customer wishes to engage in an individualized relationship with an organization, which usually includes intensive two-way interactions and dialogue (Ballantyne and Varey 2006).

The four strategic approaches in Figure 1 represent different forms of CRM, ranging from the less sophisticated *product-based selling* through to the more sophisticated *individualized CRM*. As such, each form of CRM is nested within the broader concept of relationship marketing. Regardless of which form of CRM is adopted by a company, its executives will also need to consider the company’s relationships with *other stakeholders* as part of their overall relationship marketing strategy.

Different industry sectors are moving at varying rates towards individualized customer relationships. Some sectors that are suited to on-line channels have advanced very quickly and they have taken advantage of cost efficient data collection and data mining opportunities. For example, Amazon.com has developed a business model around individualized customer relationships, quickly realizing that using knowledge willingly supplied by customers helps provide a level of customization that set them apart from other book sellers. Other industries that have been slower to adopt on-line channels face a greater challenge

¹⁾ Some parts of this discussion are based on Payne (2004).

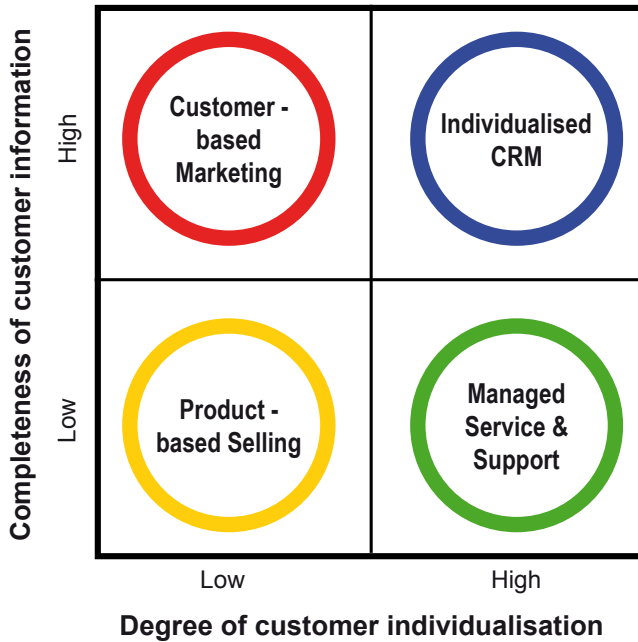


Figure 3 CRM Strategy Matrix

in acquiring and maintaining robust customer data. For example, the financial services industry has struggled with legacy systems, inaccurate customer data and product-focused processes, forming a significant barrier for developing individualized customer relationships. An organization can use the CRM strategy matrix to help determine an appropriate strategy. Four strategy options suggested by the matrix are now examined.

Product-based Selling

Where there is little collection and use of customer information and a low level of customization to the specific requirements of an individual customer, then marketing efforts tend to focus on products. In such cases data analysis involves understanding profitability by product and channel, with little attention given to understanding the characteristics of customer segments. Often there is insufficient data to analyze individual customer buying behavior. *Product-based selling*, represented on the lower left quadrant of the CRM Strategy framework, dominates much of the fast moving consumer goods (FMCG) industry. Only recently have more sophisticated FMCG companies started gathering data on individual consumers. Typically, companies in this sector have organized themselves around products and brands, measuring brand performance and relying on intermediaries to develop relationships with customers. However, in recent years, there has been renewed attention on engaging consumers. For example, Procter & Gamble encourages consumers to communicate with them in an effort to enhance the acquisition of knowledge

about individual customers and their characteristics. Packages display a telephone help line number and customers are invited to call with their comments. This information helps the company to identify the needs of specific customers and their buying behavior. Such information helps to provide a platform for developing closer relationships with specific end customer segments, rather than relying on information mainly supplied by intermediaries.

Even with a relatively unsophisticated data base, overlaying data from external sources can improve the depth of market analysis. For example, operational data can be combined with purchased mailing lists to give a more detailed picture of customers. Customer profiling tools such as Mosaic, a geo-demographic analytical tool, can be used in this way. Product-based selling may be entirely appropriate to certain industries and organizations. For example, a small retailer may have excellent information about the sales and profitability for specific products, but may have little information that links individual purchases to a customer. Customers make frequent purchases in such stores and the personal contact between store owner and customer maintains a strong relationship. However, larger retailers and supermarkets recognize the value of developing detailed profiles of their customers and have used methods such as loyalty cards to gather vast amounts of data on their customers. Using this data, they can develop customized approaches and enhance customer loyalty.

Managed Service and Support

On the lower right-hand position of the CRM strategy matrix is *managed service and support*. This quadrant represents business situations where there is limited amount of customer data but relatively high levels of customer individualization. From our interviews, we identified that most companies tend to move from product-based selling to managed service and support as the first development of their CRM capabilities, often by setting up call centers and help desks. An in-bound call centre may provide excellent customer service and assistance as a means of retaining and building customer relationships, yet collection and use of customer data is not extensive. This form of CRM often utilizes a limited amount of customer information as the interaction is typically between a customer and the customer service staff who respond directly to customer queries. In some cases, relevant information is captured. When such data is available and readily accessible to customer service staff, customer relationships can become more individualized. Personalized customer service is important as a source of differentiation and keeping customers loyal in industrial markets (Bennion 1987).

Technology can be very useful in managing customer service with this form of CRM. For example, a sales force automation system can link a salesperson in the field to their office base via a modem or mobile phone. The system allows rapid order processing and order status enquiring which is beneficial during the sales process. This form of CRM has led to substantial improvements in the productivity of field-based sales forces. The incorporation of forecasting and reporting tools ensures that customer information is accurate and up-to-date, which enhances sales forecasting.

Utilities, such as companies providing electricity, gas and water are good examples of organizations adopting the managed service and support form of CRM. Here much

of the communication with customers is through a call centre where a customer may be channeled into broad segments such as 'business' and 'residential'. The services provided are product focused with individual customer service tailored only through the person-to-person dialogue. Customer data is used primarily for product management, for example to enhance sales forecasting and is used only to a limited extent to enhance the customer relationship by organizations adopting this form of CRM.

Customer-based Marketing

In the top left-hand quadrant of the framework is *customer-based marketing*. Organizations adopting this form of CRM focus more on the customer and move away from just tracking individual product sales. In this form of CRM, the customers become the number one focus of a CRM strategy (Thakur, Summey, and Balasubramanian 2006). Here the organization seeks to gain a detailed understanding of customers and uses this knowledge to tailor relationships with them. An organization may use data to understand aspects of customer behavior including profitability, competitor responses, churn management, customer loyalty, risk management and causes of defection. Data from individual customers is grouped into customer segments, profiling those with similar characteristics that require similar types of relationships with their supplier. For example, the amount a supplier may choose to invest in developing relationships with a group of customers may be calculated by the profit potential and propensity to churn of that segment. Storbacka (1997) suggests that although there are many possible ways of segmenting customers, a key attribute is the distribution of profitability within the customer base. He proposes using an index to grade the customer base according to profitability so appropriate strategies can be adopted to manage the customer relationships. Based on such an approach, an organization can determine the appropriate investment for customizing the relationship with each segment. The segment characteristics may determine the offer made to these customers and the opportunities to maximize customer profitability by individual cross-selling and up-selling activities. Although companies adopting customer-based CRM have a more customized approach to relationships with their customers than those adopting a product focus, they still do not provide highly individualized customer service.

Tesco, the highly successful UK supermarket chain has focused on customer-based marketing. The company owes much of its success to the intelligent use of customer data. Tesco has gathered vast amounts of data on individual customers, largely through the Tesco Club Card. This loyalty card, which accumulates transaction data on customer purchases, allows the supermarket to refine aspects of the store layout, product positioning and presentation to enhance the customer buying experience. Tesco uses customer information to alter the mix of products carried by a store based on demographic profiling and customer profitability analysis. The retailer has developed 'own label' products that exactly match the needs and aspirations of customer segments with high net life-time values. Based on detailed knowledge of segment, Tesco develops new products and promotes them more effectively to carefully selected customer segments. In the grocery industry, data ownership has caused a shift in the balance of power, so companies like Tesco are able to sell customer data to manufacturers. These suppliers

are increasingly dependent upon Tesco as they require the customer data to help refine their offer. Tesco has now moved towards more individualized interactions with their customers.

Individualized CRM

The fourth form of CRM, *individualized CRM*, is characterized by full customer data with technology used to provide high degree of customization. Success is dependent upon accurate and complete customer data with technology used to assemble, store and mine this source of customer knowledge (e.g., Reid and Catterall 2005). Data platform and applications are used to intelligently exploit data. For example, these applications may include advanced computer telephony integration (CTI) which allows a call centre operator to interrogate customer data and respond with individualized service to the customer. Channels may be closely integrated with data assembled, analyzed and accessed across channels allowing individualized customer relationships.

Individualized CRM is particularly relevant to companies using multiple channels (Wilson, Street, and Bruce 2008). Here, integrating customer data across channels is especially important when delivering a consistent customer experience. Sophisticated systems allow customer information to instantly feed back into the main operational systems so that it is readily accessible regardless of channel.

Tesco's huge resource of customer data has allowed the supermarket to recently move from customized CRM, in the form of customer-based marketing, towards individualized CRM. Tesco's Internet shopping is highly successful and now provides this company with a rich source of individualized customer data, which can be integrated with in-store purchasing data collected by the *Club Card*. Tesco On-Line is able to use information to provide individualized customization, including specific product offers and a personalized magazine. Personal customer profiles are stored on-line, so a customer can access a list of previous purchases and there is a prompt at the end of an on-line order, to remind a customer about items that may have been forgotten.

Individualized CRM operates through any channel and does not necessarily involve face-to-face contact. A considerable challenge for companies adopting this form of CRM is integrating, within their organization, the distinct internal sub-cultures associated with different channels. For example, there may be resistance between direct sales channels and on-line channels, resulting in a reluctance to share information (Bentum and Stone 2005). Salespeople may see their power eroded if valuable customer data is passed to central operating systems. One of our interviews in a large multinational company highlighted this as a key problem – one that had taken huge efforts to overcome.

Sophisticated CRM applications require integration of different channels, including e-commerce systems, with a customer-orientated data warehouse that is able to use customer intelligence from the Internet. An essential feature of this approach is the enterprise data warehouse which captures data and is the memory for the system, enabling the customer to be given a totally individualized and coordinated service across all CRM interfaces. Several components are needed. These include a specially designed web front-end for interacting with the customer, sophisticated application software for the capture, navigation, processing and matching of customers to products and services, a link to other

customer systems such as the call centre and field sales support systems and links to the main operational systems.

CRM Strategy: Migration Paths

The CRM strategy framework outlined above also provides a migration path for companies to follow in the further development of their CRM activities. A product-based selling approach is appropriate in the very early stages of CRM, where there is little use of data to develop individual customer relationships. Despite massive investment in CRM systems, remarkably few companies appear to have achieved successful individualized CRM. Increasingly companies have successfully implemented managed service and support or customer-based marketing, but have not made the further transition to individualized CRM. Many companies are still product-focused and restricted by a culture and processes that form a barrier for them becoming more customer-focused. Before embarking on an attempt to develop a more advanced form of CRM a company needs to assess the benefits of the required financial and organizational investment. Once a decision is made to migrate towards more sophisticated relationship with customers, then an appropriate transition can be mapped out. Various possible migration paths, shown in Figure 4, are now briefly discussed.

A company wishing to move from product-based selling has two usual choices of migration path. Such a decision should be based on an analysis of the factors discussed earlier, which identifies how the industry is changing and the competitive positioning of the company now and in the future. Path 1 identifies migration to managed service and support, when a call centre, help desk and person-to-person customer service may be used to increase customer intimacy. Alternatively, Path 2 may involve acquiring and analyzing additional customer data to refine an approach to segmenting customers. Migrating to an individualized CRM approach will not be desirable for many organizations. There are several reasons that may restrict achieving this most sophisticated form of CRM.

First, customers in a particular industry may not wish to have individualized customer relationships. This situation is typical with transactional purchases in industry sectors such as commodities and utilities. Second, the investment costs may outweigh the benefits of individualized CRM. The investment in technology can be large, but this is only a starting point to the massive resources required in implementing CRM. In our interviews, conducted as part of our field-based research, we identified several companies that had unsuccessfully sought to implement expensive CRM technology solutions aimed at more individualized CRM. Each of them had discontinued the use of the CRM software and reverted back to less developed forms of CRM. Often a change in the culture of the company is required, to move an organization from a product focus to a customer focus and this can involve heavy investment in systems, processes and employee engagement (e. g., Berndt, Herbst, and Roux 2005). A company may be focused more on selling an existing product than understanding customers needs; or functionally the organization may be structured around individual product lines with little sharing of information between product managers or functions. Third, some companies do not have direct interaction with customers and sell through an intermediary in the supply chain. In these instances, a

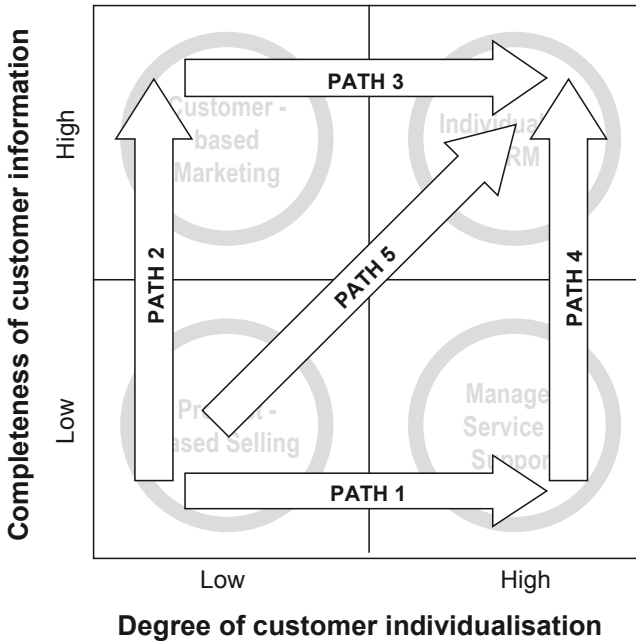


Figure 4 Transition Paths for CRM

company must weigh up the advantages of reconfiguring the supply chain and developing relationships directly with customers. The auto manufacturing industry is an example of where brands such as Mercedes-Benz are attempting to by-pass their dealer network and develop closer relationships with their customers. Manufacturers recognize that gathering and intelligently using customer data allows them a closer control of their brands and the customer experience.

Migration to individualized CRM can involve migration Path 3 – from customer-based marketing, Path 4 – from managed service and support, or Path 5 – directly from product-based selling. This latter migration path is the most difficult to achieve, as it requires a change in culture as well as building sophisticated data systems and processes. Migration Path 3 is probably the most common transition route, where an organization is culturally orientated to the customer and yet requires additional sophistication in collecting, storing and using data to develop individualized relationships. A number of our interviews with companies illustrated such approaches. For example, TNT, the express delivery service is an example of a company following Migration Path 3. The company is orientated culturally towards the customer and is now moving towards increased use of technology to individualize customer relationships. Sophisticated tracking systems allow operators to check immediately on the location of a customer's package. Enhanced data capture allows the customer service operators to know instantly many important details about the individual customer, allowing them to provide a customized service. Migration Path 4 is more difficult to achieve as the organization may still be culturally product-focused,

even though they may provide responsive customer service. RS Components, a leading European distributor of electronic and mechanical products, is an example of a company adopting this migration route with the adoption of its 'PurchasingManager' solution. Individualized CRM developed successfully when the internet channel was integrated into traditional face-to-face and direct marketing channels. Path 5, which involves moving directly from product-based selling to individualized CRM, is the most problematic migration path. Companies may achieve this route more easily when there is not an entrenched culture and where legacy systems do not block the development of an integrated technology platform. Start-up and smaller companies are more likely to find this route possible, whilst more established and complex organizations may encounter significant problems.

Highly Differentiated Segments and Intermediated Markets

Businesses which deal directly with a relatively homogeneous set of final customers are likely to adopt, or consider migration from, one of the four strategy quadrants shown in Figure 3. However, for companies dealing with substantially different market segments, there needs to be a deeper consideration of the appropriate strategy. In some instances, as noted above, a company may have little information that links individual purchases to a customer – or, the required financial and organizational investment does not justify a different or more sophisticated strategy being adopted. In a case such as this, the same strategy approach will usually be adopted for these different segments. In other cases, a different strategy may be adopted for different customer segments. For example, a utilities company may have markedly different segments to serve, including large business customers and residential household consumers. Here, it may be appropriate to adopt a *product-based selling* approach for individual consumers and *customer-based marketing* or *individualized CRM* approach for large corporate customers.

The route to market also needs to be considered. For a manufacturer selling directly to final customers, as is the case with many business-to-business organizations, choice of one of the four strategic approaches shown in Figure 3 and 4 will be based upon the considerations outlined in the previous discussion. However, for organizations operating in an intermediated market the approach relevant for the direct customers of a manufacturer (e. g., distributors) and the approach relevant for final customers both need to be considered. In some instances the same approach as that adopted for the end-user may be relevant for the direct customer. Alternatively, a different approach may be appropriate for a distributor. A firm operating in an intermediated market will need to consider their own specific circumstances in order to arrive at the appropriate strategy for the reseller and the final customer.

Discussion

In this paper, we trace the development of two related but distinct concepts, relationship marketing and CRM. We find a lack of consensus in the definition of these terms and highly confusing and interchangeable use of them. We concur with Sheth and Parvatiyar's (2001) view that an appropriate definition of such terms is essential in order to focus on understanding and growth of knowledge in the relationship discipline and we develop

formal definitions for relationship marketing, CRM and a further term, customer management. We advocate that relationship marketing should consider the wider context of relationships with key stakeholders, whilst CRM should be focused on building knowledge-based relationships with customers. The term customer management should be applied to tactical activities within CRM, such as campaign management. Having clarified distinctions in relationship-based terms, the strategic context of CRM is explored.

Our literature and field-based research identifies a compelling need for companies' strategic context to be given greater emphasis in their approaches to CRM. CRM has enjoyed very mixed fortunes as a means of organizations achieving their business goals. Despite heavy investment in CRM technology in recent years, many companies have wasted valuable resources as they sought to develop closer relationships with customers without sufficient consideration being given to their strategic context. We conclude that although the logic of adopting a strategic approach to CRM might appear obvious, evidence suggests otherwise. A substantial amount of literature now points to the absence of a strategic orientation as the chief reason for CRM failures.

Although the literature cites various reasons for the failure of CRM we conclude that, critically, a company requires a clear evaluation of the type of customer relationships that are appropriate and possible within the context of its specific business and industry setting. The process of CRM development needs to involve a detailed understanding of the strategic context of the organization. This paper identifies key strategic issues that need to be considered in this context and proposes a CRM strategy matrix which allows an organization to evaluate the appropriate approach to their customers in terms of the level of relationship sophistication. Four broad strategic options are identified. The choice of the CRM option will involve a number of factors which include the completeness of customer information and the extent to which the company can and wishes to use this information to provide customized service.

Depending on the industry and competitive issues, each organization needs to consider the CRM strategy that is appropriate to them now and in the future. Although individualized relationships with customers may seem to be the most desirable, we conclude that this may not be realistic or appropriate to the specific circumstances of an organization. A company may identify a relevant current position based on one strategic option. However, this position may not be static. Various CRM migration paths are identified which enable an organization to consider a greater level of sophistication in terms of customer relationships. However, these migration paths are only possible if significant barriers are overcome including, critically, the cultural orientation of the organization.

Future Research

CRM is an emerging discipline that requires significant research to help companies with insights on how to successfully implement their CRM strategies. We identify several areas that require additional research relating specifically to the strategic context of CRM.

First, there is a poor understanding of the factors that impact on CRM strategy in different sectors. Studies such as that by McKinsey & Co. demonstrate that the success of CRM is related to a clear alignment between the CRM strategy and the goals of a business (Ebner et al. 2002), but the literature is notably silent on implications for different indus-

try contexts. CRM requires more exhaustive study regarding the issues that are significant in developing CRM strategy in industry settings such business-to-business markets, inter-mediated markets, the public sector and FMCG,

Second, this paper identifies that the level of sophistication of customer data capture and analysis is important when determining an appropriate approach to customer relationships. Although there are a considerable number of studies relating to implementation of CRM technology projects, most studies do not focus sufficiently on the information dimensions of CRM. More information-rich studies of CRM implementation would help identify the underlying factors important to the success of CRM strategies.

Third, the CRM strategy framework identifies migratory paths that are possible for organizations wishing to develop more sophisticated relationships with their customers. Each migratory path requires further investigation as there are substantial challenges in moving to individualized customer relationships. In particular, development of a validated CRM assessment tool would help companies identify how they need to change if they are to achieve more sophisticated relationships with their customers. Some developments have been undertaken in this area but further work remains to be done.

Finally, a systematic review of the literature on CRM success and failure is called for. We commented earlier on the substantial literature on CRM failure. However, these studies vary greatly and are inconsistent along a number of dimensions including: how the studies define CRM; the criteria for success and failure; the industry contexts; the sampling frame; and the methodology adopted. A number of the studies do not explain the methodology fully, may suffer from bias because of the authors' affiliations with consulting companies or CRM vendor firms, and are unclear regarding how CRM outcome was appraised (Kros and Molis 2004). In reviewing these divergent extant studies it is difficult to be deterministic and assess causality. To address this complex issue, we suggest two approaches will be useful means of reviewing this diverse literature: the 'systematic review' methodology (e.g. Transfield, Denyer and Smart 2003); and the 'correlates of success' methodology, developed by Urban and Hauser (1993) in the field of new product development.

In the longer-term there is the need to develop more extensive databases for CRM research. Sheth and Parvatiyar (2001) highlight the benefits of such databases as the PIMS database, used in research in marketing strategy, and A. C. Nielsen scanner database, used in research on brand equity. Ultimately CRM researchers need to build or access organizational data of similar scale and quality in order to undertake more comprehensive CRM research and to generate more reliable and robust findings.

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