Management of Customer Relationship in Business Media (MCR-BM)

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INTRODUCTION

We consider an economy based on the digitization of information and the respective information and communication infrastructure as a Digital Economy. This new type of economy implies not only technological, but also and especially process-related and structural challenges and potentials. The way in which economic values are created will change fundamentally in the Digital Economy and thus transform the general structure of economies and societies. The utilization of new information and communication technologies (ICT) is changing the way we communicate, organize work and companies, or do business and create values in general. This quite clearly will also have a major impact on how business partners, e.g., suppliers and customers, will interact with each other.

MOTIVATION FOR A NEW APPROACH FOR THE ‘MANAGEMENT OF CUSTOMER RELATIONSHIP IN BUSINESS MEDIA’

Without any doubt, focusing business activities on the customer is one of the main marketing issues nowadays as it has been in recent years. Since the emergence of the World Wide Web and with it a broad range of e-commerce applications the topic of customer-focused business activities is attracting even more attention. Concepts from traditional marketing are applied to e-commerce applications. In this context ‘Customer Relationship Management’ (CRM) attracts a lot of attention from researchers, consultants, IT suppliers, and others (see, e.g., Andersen Consulting 1999; CRM Forum 1999; Grönroos 1994). In the following we will analyse why a special emphasis is put on the relationship between suppliers and customers.

Relationships are among the foundations of every community. In the context of this paper we focus on the relationships between suppliers and their (potential and/or existing) customers within a business community. Undeniably these relationships are changing over time and today are changing due to three major trends. First, customer behavior is changing, second the utilization of ICT is offering new possibilities to manage the relationship and having an impact on the economy and business in general, and third – the upcoming new Business Models. These developments will be discussed briefly in the following.

Changed Customer Behaviour

Customers are changing their behaviour in many respects. In brief, we

Abstract

The developments of the Digital Economy will have a fundamental impact on the structures and processes of economic systems. Within this new economy the importance of the creation and maintenance of a relationship between a customer and a supplier is increasing, but the way to handle this relationship is changing. Therefore, we focus on the upcoming challenges to relationships between suppliers and customers. Viewing this focus in more detail we will develop the outline of a new, holistic approach to the management of customer relationship in Business Media. In order to manage the relationship between suppliers and customers in a successful way, a model for the Management of Customer Relationship will be presented. This model includes several building blocks, which should be considered when designing and maintaining the relationship in an online environment. This model should, therefore, serve as a framework to combine the various instruments of the Management of Customer Relationship.

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distinguish changing customer needs from decreasing loyalty in general. These are two of the major issues companies have to cope with today. The general trends in customer service are well known; they comprise, for example, the demand for an ubiquitous availability of information and services at any time, self-service for ‘commodity’ products, individualization of more sophisticated products and services corresponding to individual needs, and alternative high quality communication channels. In summary, customers actively and increasingly formulate their individual problems and demands for sophisticated solutions in a way that is comfortable for them. Compared to the traditional supplier-driven markets these customer-driven markets describe a ‘shift of power’ towards the customer (Grönroos 1994). This itself makes it very apparent that the relationship between suppliers and their customers is reaching a new qualitative level.

Apart from this, a trend towards a readiness to change an existing relationship can be observed in many spheres of life. For example, nowadays even retail banking customers act more opportunistically and, as a result, maintain multiple relationships with banks and do no longer rely on their traditional ‘house bank’. This general development is of course supported by ICT means as outlined above, for example, due to the increased market transparency. In Germany, for instance, some 17% of the retail customers changed their primary banking relationship in the period of 1993 to 1997, in Switzerland as much as 5 to 10% of the customers change their banking relationship per annum (Widmer 1998). Thus keeping your customers is not as easy as it was in former times and since these relationships are one of the major issues of a company, it is of crucial importance to manage the customer relationship in a successful way.

Utilizing Information and Communication Technology

Suppliers are utilizing ICT in order to create and offer new channels supporting the basic business goals and thus affecting all kinds of relationships of the respective suppliers. Typical examples are e-commerce applications like new communication and sales channels. We can summarize this as ‘channel enhancement’ based on only very moderately changed business models.

Future Business Models

A third point to illustrate the necessity of a new approach to the management of customer relationship is the emergence of new business models. In future, retail customers will be able to access all relevant data and services around the world from their home or office. They either browse the Internet, e.g., in order to retrieve latest market information or to sell, buy or trade goods, or even access the supplier’s information- or ERP-system through proprietary channels. This will lead to two major developments.

On one hand the customers will have more ‘power’ because they will be able to access sources, which previously were not accessible to them, on their own. This leads to a deconstruction of the established value chains, e.g., as described in Evans and Wurster (1999). Customers will obviously be burdened by the huge amount of data and information which will be available and which has to be analysed and applied to the customer’s needs. Therefore, new kinds of intermediaries will offer their services to assist customers in designing the appropriate bundle of services according to their respective needs. These new intermediaries will be the interface of a value web (Selz 1998) to the customer and therefore they will become a crucial factor for business communities. Necessary key competencies for the intermediary in this context are, among others:

· the ability to gain detailed knowledge about the customer;
· the ability to appropriate customer interaction (technologically and organizationally);
· the availability of suppliers able to produce and deliver products and services on request;
· the ability to manage a network of suppliers; and
· the ability to bundle different modules provided by different suppliers in order to compose a service package for individual customers based on their needs.

Apart from this role, the product/service factory focusing only on the production of goods and the platform provider to provide a technical platform enabling business transactions, must be mentioned as other roles, needed to generate economic values.

All the above outlined developments and the resulting new business models have a clear impact on the relationship between customers and suppliers. To face these challenges we have to introduce new strategies and new ways of managing the relationships. This is necessary in order to maintain and develop the valuable relationships with customers.

To sum it up, considering only the ICT perspective we can conclude that on one hand, ICT has a clear impact on business models and on the economic system as a whole. Logically the relationships between business partners and especially between suppliers and customers are changing as well and therefore new concepts for the management of customer relationships have to be developed. On the other hand ICT creates a huge potential to manage the respective relationships (see Figure 1).

MANAGEMENT OF CUSTOMER RELATIONSHIP IN BUSINESS MEDIA (MCR-BM)

Based on the outlined developments we propose a new viewpoint of the management of the customer relation-
ship: The ‘Management of Customer Relationship in Business Media’ (MCR-BM) approach. In our understanding Business Media (BM) are considered spheres providing the means for the creation and exchange of values like goods and services between independent agents, namely channels, a logical space, and organizational structures. Typical Business Media are Electronic Markets (EM) in the sense of open platforms, for example based on the Internet (Klose and Lechner 1999). This multidimensional approach focuses on the customer being an equal member within a certain (business) community rather than being the end-node of a value chain. The Business Media concept therefore offers a basic framework for the design of new business models.

**Definition of the MCR-BM – Approach**

We propose the following working definition of the MCR-BM approach: ‘The Management of Customer Relationship in Business Media comprises the design, development and application of holistic concepts in order to manage relationships to economically valuable current or future customers.’

A major focus is put on the holistic aspect as an essential value added compared to existing tools and concepts. The holistic view takes into account, on one hand, the technological potentials of tools to interact with customers, but covers current development in business on the other.

We distinguish the following aspects, which characterize the MCR-BM approach as a holistic one:

- Consideration of all communication-oriented relationships of a company in its entirety. This includes external communication as well as internal communication activities. As for external communication we observe an integration of traditionally clearly separated communication channels like corporate and product communication.
- Integration of different technical communication channels, e.g., Web, telephone, mobile phones, fax, email, video-conferencing. Current call-centre solutions are often not integrated with other channels like email.
- Consideration of all phases of a business relationship. The typical phases of a business transaction are knowledge, intention, negotiation, settlement and after sales. Current relationship management tools or concepts address only one or two phases. In this context, the status of the customer life cycle has to be considered too (Kotler and Bliemel 1999).
- Most concepts and tools within this topic address only single aspects, like the design of the interface to the customer or trying to answer the question, how customer data could be analysed. To our mind it is of crucial importance to consider also other aspects like creating trust, manufacturing individual goods or the possibility of creating a virtual community in order to keep the customers.
- Only if the management of customer relationship is fully integrated into the organization of a company – and not merely an add-on to the sales department – customers’ demands can be satisfied in an adequate way, e.g., regarding time and quality of a reply.
- Integration of tools supporting the management of customer relationship into the exiting IT infrastructure of a company in order to enable organizational integration.

In summary the term ‘holistic’ shall emphasize the fact that in order to manage the customer relationship the customer’s needs are at the centre of all activities (customer-needs oriented) and not the distinct channels (channel-oriented). The current discussion about customer value and e-commerce often emphasizes distinct sales- or communication channels (Andersen Consulting 1999; Holz 1997; Diller 1996).

The term ‘Management of Customer Relationship in Business Media’ shall deliberately differentiate itself from the commonly used marketing term ‘Customer Relationship Management’ (CRM) as it is understood today.

**Management of Customer Relationships in BM – Model**

This model should serve as a framework to show the different possibilities of how to create and maintain a relationship between a customer and a supplier in the new media. The degree and the intensity of the implementation of the mentioned measures can differ depending upon the requirements of the respective companies. Nevertheless, it is crucial for the successful establishment and maintenance...
of a customer relationship to consider each measure block. For example, what is the benefit of an excellent interaction with the customer, if the delivery is three weeks late? The measures, shown in Figure 2, are divided into seven different categories, which we now describe.

The measures are interrelated with each other. To show the connection between the different building blocks, the following example should help: while creating a customer profile within the building block ‘Customer profiling’ the interaction with the customer (‘Customer interaction’) could serve as source for the necessary information. The relevant information helps to sharpen the profile of the customer. Using the improved profile is a requirement for a more individualized offer (‘Added value for the customer’). Additionally the information gained from the discussions in the ‘Virtual communities’ could also develop the profile in order to make better offers. This could lead to an increasing trust, because the needs of the customers are better fulfilled. Each trans- and interaction with the customer is supporting the cycle of the interconnected building blocks. The two measure blocks ‘Processes’ and ‘Controlling’ are inherent in all other blocks and thus are represented as accompanying blocks. For example, within the block ‘Virtual communities’ processes have to be defined and an appropriate controlling has to be established. These two measures cover cross-sectional tasks for the other measures. However, they also fulfil further functions, which are described in the following. All the other individual possibilities are also described in more detail in the following, while they cannot be treated in much detail due to the width of the approach.

**Customer Interaction**

The interaction with the customer can be divided into: a) the content of communication; and b) the offered communication channels. Content of the communication refers to possibilities for the customization of this content. The goal is to create added value for the customer by offering non-standard information. If the customer is satisfied with the information provided, that might be a source of competitive advantage. There are two different ways of providing information: pull or push mechanisms. The kind of measures where the customers themselves select and retrieve the information in which they are interested, can be described as pull measures. Users retrieve information according to their own interests. Furthermore, customers decide when to use their individualized information supply, like a personalized Web Page, for the acquisition of information.

In contrast push measures are to be understood in such a way that companies send user-specific information, e.g. as email, utilizing mailing lists. Here the direction of the interest turns around. The provider informs existing customers of new updates or other information relevant for that customer. Offering value-added information for the customer is also a way of increasing customer loyalty. In addition, potential customers can be informed about a new product, since the new product may now cover the needs of the prospective customer. To that extent a prospective customer can become a customer.

Provisioning information to Frequently Asked Questions (FAQs) represents a further possibility for the provision of content of communication. With the responses to FAQs it is possible to achieve mainly two advantages. First, the company offers the customers or prospective customers at each time and at each place responses to most of its questions. Second, the service department is relieved from routine inquiries. Thus the company offers better customer service at lower costs (Iacobucci 1997).

Besides the content of communication, the block ‘Customer interaction’ also covers the selection and organization of the offered communication channels. It is crucial that customers can interact with the enterprise through the channel of their choice. The company has to guarantee that apart from classical communication channels (letter, fax and telephone) further possibilities are also offered. The trend in this area clearly goes towards the integration of different channels in a Communication Centre (Booz et al. 1998). The Communication Centre therefore is a technological and organizational advancement on the well-known Call Centre. To get in contact with this Communication Centre some companies already offer a ‘Call-me-button’ on their website. By pressing this button either a direct contact via voice over-IP can be established or the user can specify the time when he would prefer to be called. It is conceivable to set up chat rooms, in order to make a substantial contribution towards the formation of a Virtual Community. It remains a basic point that the type of communication and the interaction constitutes a substantial proportion of the organization of the customer relationship. As a result of different technical developments an enormous potential arises, in particular the imperative
of increasing the interactivity between providers and customers.

**Added Value for the Customer**

This block is divided into two parts. Since there is a relevant link between customer satisfaction and customer loyalty, the quality of the product or service offered has a major impact on the customer relationship. In order to convince the customer to stay with the company for a long time, it is absolutely essential that the customer finds a solution that fits exactly his or her needs. Concepts such as Mass Customization for example are therefore also a substantial element of the MCR approach (Firat and Shultz 1997; Foley 1997; Pine 1993). These new concepts match the customer’s demand for individualization. Additionally, integrating the customer into the value-creation process could be helpful toward identifying his or her needs and to bring the customer’s expectations onto a realistic level relevant to the solution.

The second point describes economic incentives, which should help to arrange the relationship with the customer successfully. The major goal is to offer a convincing price–performance ratio. This can be achieved, for example, by an attractive bundling of different products, added value by relevant information, discount systems and loyalty programmes. The bundling of different performance for example could increase the attractiveness of a company due to the fact that the customer is getting a personalized solution. The effort to negotiate with a multiplicity of different suppliers is arranged by only one company and removed from the customer. This concept is called ‘one-face-to-the-customer’ (Kotler and Bliemel 1999). Companies following this concept have higher chances of keeping the customer. Likewise, discount systems also offer a good possibility to increase customer loyalty, since repeated references for a performance reduce the price for the good. ‘Frequent Flyer Programmes’ are to be mentioned as an example.

**Customer Profiling**

Measures for the collection and analysis of customer data and the development of appropriate activities are summarized under the block ‘Customer profiling’. The goal of these measures is to offer the right product to the right customer at the right time with the right arguments. The first step towards reaching that goal is the collection of customer data, e.g., by asking the users to answer specific questions provided through a registration form. This is subject to certain restrictions, since customers are only willing to surrender their data if they receive an adequate value for it. It is, therefore, crucial to communicate that the customer receives a benefit from providing his data. A further opportunity to gain customer data is playing games, as was demonstrated by the firm FreePC. Through participation in the game and providing data about themselves, the participants had the chance to win a personal computer. Apart from this collection of data with an active involvement of the customer, they can also be collected passively, partly without the knowledge of the customer. The technical use of cookies and website tracking has to be mentioned in this context. The Privacy policy is thus of crucial importance. Therefore, this point is addressed in an extra block ‘Trust’. The next step within ‘Customer profiling’ is the analysis of the data in order to create customer profiles. The more transactions occur, the better the customer profile is going to be. Peppers et al. (1999) are writing on this context of ‘Customer Learning Relationship’. There are several methods of creating these profiles within the larger topic of data mining. The last step in this block is the development of appropriate activities in order to offer the customer the best fitting services. This could be also of importance with regard to cross-selling opportunities. Finally the customer profile and also customer ownership is of great value especially in new Business Media, because this can not be easily copied by one’s competitors. In addition to this, the service that fits best to the customer’s demands is another step towards increased customer loyalty and thus increasing profit.

**Trust**

‘Trust’ is an important topic within e-commerce. If a company wants to set up and maintain a relationship with customers, a trust base has become indispensable. For a customer each purchase situation is connected with uncertainty (Rayport and Sviokla 1994). This uncertainty can be reduced, if the provider creates a trustworthy environment. Therefore this block covers three different possibilities of creating trust.

Confidence can be built with the creation and the maintenance of a strong brand and the association of this brand with positive characteristics (e.g., high quality). In new Business Media – as well as in the traditional business environment – confidence in the business partner is a crucial prerequisite for doing business transactions. Brands are able to create this confidence (Aaker 1996).

As addressed above, the privacy policy is also of crucial importance. Every time data is to be collected from customers and analysed, the supplier must proceed sensitively. To that extent it is absolutely necessary to clearly communicate, for example on the Web page, for what purpose the data is collected. In addition, it is important to clearly emphasize that the customer also gains an added value through better customer profiles based on collected data.

A third aspect in order to enhance customer confidence is the technical arrangement of security precautions. In the financial industry, as well as in other industries where
Sensitive business transactions are executed, secure handling of business transactions is a crucial criterion for trust (Bartmann and Kreuzer 1996). Accepted security standards (e.g. SET for credit card based payment transactions) have to be implemented. In this case too, security standards should be clearly communicated in order to increase the trust-creating effect.

**Virtual Communities**

The set up and maintenance of a community is regarded as another block for the Management of Customer Relationship. In this paper a community is understood as a community with common interests. Apart from the technical and editorial effort, communities possibly offer a multiplicity of advantages for customers as well as for suppliers (Hagel and Armstrong 1997). Before the purchase itself, potential customers have the possibility to gain valuable information on the product from existing customers by joining the appropriate community. Prospective customers can obtain a much better picture of the true characteristics of the desired product from the community without having to trust only the salesperson.

A further advantage for customers or users lies in the exchange of information concerning their common sphere of interest. Hints and suggestions can be exchanged, so a majority of the community can profit. Companies can build a certain feeling of loyalty towards the company and the accompanying products (Aaker 1996) or even establish an emotional relationship. Moreover the company can create a good impression by intensively following the contributions and comments within the community, how its products are judged by the market and which possibilities for improvement exist. Also during the development phase of new products the community can play an important role in the evaluation of market acceptance (Rayport and Sviokla 1994). Traditional market research can be thus supplemented or even partly replaced by the set up and the maintenance of a community.

**Processes**

The development of appropriate processes is relevant for all blocks in order to make them operational. However there are also processes that need to be emphasized in the context of the Management of Customer Relationship as a whole. The processes can be divided into internal and external processes. Internal processes refer to the handling of the processes within the company, whereas external processes describe interactions between suppliers and customers.

Internal processes mean those that are connected, in the broadest sense, with the satisfaction of the customer’s request. For example, it is absolutely necessary that the interface between the back office and the communication centre, the processes of internal order processing, organization of the service processes, and the process for the handling of complaints are well organized and integrated. The satisfaction of a customer and his will to choose that particular company again will strongly depend on how his need is met. Good possibilities to optimize the process are reference processes. These reference processes could serve as a benchmark, against which the companies could model these processes.

How quickly the customer finds the desired product in the supply of the provider can be described as ‘Ease of use’, and falls here under the organization of the external processes. If the process is complicated and time-consuming for the order of a commodity for example, the customer is likely to contact another provider, where the actual process occurs fast and without complications. So a main feature must be easy navigation and contact access. It is particularly challenging to arrange these interactions with the customer in an optimal manner due to low switching costs for the customer to choose another supplier. Therefore Web-design also plays an important role within the Management of Customer Relationship.

**Controlling**

Two relevant aspects emerge regarding the management of the customer relationship. On one hand, for the measures described above, measurement figures have to be defined and monitored in order to take the necessary steps if the selected measures do not perform as planned. On the other hand, the controlling aspect must refer to the overall value of the customer. As already mentioned in the above definition, the relationship has to be set up and maintained with attractive customers. The answer to the question, which customer is attractive, can be found by different means of the customer lifetime value calculation. The determination of value is frequently neglected, although it is substantial when one is selecting suitable measures.

This block shows again the cross section function, which is our subject here. Just like the block ‘processes’, controlling activities are involved in all other blocks.

The following brief example illustrates the relation between the different building blocks. In order to create a customer profile within the building block ‘Customer profiling’ the interaction with the customer (‘Customer interaction’) serves as a source for the necessary information. The relevant information details the profile of the customer. Using the improved profile is a requirement for a more individualized offer (‘Added value for the customer’) and an individualized interaction (‘Customer interaction’). Additionally the information gained from the discussions in related virtual communities also further develops the profile. This could lead to an increasing trust, because the moods and needs of the customers are better understood. Each trans- and interaction with the customer
is supporting the cycle of the interconnected building blocks.

It has to be noted in recapitulation that there are many factors involved in arranging successful relationships with customers. Due to the number of measures in this new approach, the focus of this paper has been on the concept, in order to clarify the width of the new approach. Therefore individual measures have been described only briefly. Moreover, it has to be mentioned that the measures presented are complementary among themselves both horizontally (between the measure blocks) and vertically (within the measure blocks). Likewise the demonstrated measures do not exclude the measures from conventional markets. Quite the opposite, a mutual meaningful complementation is the goal, in order to obtain a connection between online and offline activities.

CONCLUSION

In the previous sections we have shown, that the management of the relationship between customers and suppliers is one of the essential topics in the emerging Digital Economy. Therefore the management of this kind of relationship is crucial for the success of the whole company. The proposed approach Management of Customer Relationship in Business Media (MCR-BM) offers seven different measure blocks, which help to manage the relationship successfully. Thereby a major focus is put on the holistic aspect as an essential value added compared to existing tools and concepts.

In further research the introduced building blocks have to be elaborated in further detail and to be validated in cooperation with business partners.

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References


