Abstract

It seems that for most companies no matter how much they invest in Customer Relationship Management (CRM), neither the quality of their customer relationships nor the profitability of their business have increased commensurately. Of course, it was not supposed to turn out this way; relationship marketing was a “new paradigm” that would herald a golden age of marketing – more loyal and satisfied customers, and much more profit for companies.

We argue that it is neither the quality of the CRM solutions nor their implementation that is to blame. Simply, companies have failed to prepare the ground adequately in advance of major CRM investments. Without developing the right capabilities, new technology fails to improve marketing practice. As a consequence, customer relationships are neither better nor more profitable. Our research reveals how operational managers can develop relationship marketing capabilities commensurate with the implementation of CRM to help make better investment decisions and exploit the opportunities profitably.

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The Missing Link of CRM Profitability: Building New Marketing Capabilities

Introduction

During this millennium, many marketers seem to have bet the family silver on Customer Relationship Management (CRM) investments with little show for it, and are now attempting to justify further investment in order to achieve their original goals. To suggest that they have arrived at this uncomfortable place because they are regarded as unaccountable and financially innumerate\(^1\), or that CRM technologies are immature and consumers simply won’t engage with such new technology, is too simplistic. The problem is more fundamental: management has an unbalanced approach to managing marketing investments and this is particularly evident in the case of CRM. Management focuses on the key resources in which they invest capital, such as technology, location and advertising, but ignore the commensurate investment of time, energy and talent to develop the capabilities required to leverage those investments. Of course, this approach to marketing investment is risky: it generates excessive investment before the organization is capable of leveraging it profitably.

All this is a far cry from CRM’s original promise. Do you remember how new forms of consumer relationships were going to revolutionize marketing, rewriting its rules and calling into question decades of scholarship and practice\(^2\)? Buying behavior would change as consumers used the information-rich environment to secure better terms of trade, personalize service and join online communities to co-create solutions with suppliers.\(^3\) Marketers, armed with perfect information about consumers, would optimize every marketing cent they spent generating a step-change in marketing effectiveness.

Companies bought heavily into this “new paradigm” thinking: between 2000 and 2005, organizations spent $220 billion implementing CRM solutions\(^4\) creating a market worth almost $50 billion per annum, growing in excess of 16% prior to the credit crunch. Yet despite these enormous investments, publicly available data consistently shows that 55% to 75% of companies fail to meet their expected ROI on their CRM investments.\(^5\) So, have organizations collectively wasted $150 billion on CRM during this period?

Our research (see Appendix 1 for an overview) suggests that the problem is relatively straightforward: companies have bought sophisticated new relationship management resources, such as call centers, databases, software and web sites, but continued running their businesses as they always had done and assumed that customers would value the results of their investments. Business leaders have also assumed that the marketing capabilities needed to interact with consumers in new ways to build more enduring and loyal relationships, would develop as a natural consequence of investing in CRM resources.
Our research suggests that successful CRM investment begins by developing the new capabilities necessary to improve customer relationships and then backfilling with capital investment, as needed, to sustain and embed the capability development. We illustrate this through two companies considering fresh investment in CRM: BMW Great Britain (GB) and Flutter.com (now a division of Betfair, a world leader in the online betting market). In the case of Flutter, a program of identifying its true marketing capabilities led it to invest in a less expensive and different aspect of CRM than it had first intended, whereas BMW GB decided to delay its investment pending further capability development in relationship management. Both companies aligned their investment strategy to the development of their marketing capabilities resulting in reduced capital outlay and improved performance in the case of Flutter. So what is the inter-relationship between a firm’s resources and its capabilities?

**How Do Marketing Resources Generate Profit?**

The most popular view of strategy argues that a firm’s unique resources, such as brands, loyal customers, patents, supply chains and distribution partnerships, generate sustainable competitive advantage, which, in turn, delivers exceptional performance. Not any resource will suffice. It must generate superior value for customers and competitors cannot acquire an equivalent resource at the same cost. For example, who would not wish to have Nike’s brand appeal, Apple’s famously-devoted customers or Coke’s ubiquitous distribution network? But, are these invaluable resources obtained by luck, clever acquisitions or hard work and intelligence? As management scholars, we believe that firms make their own luck through intelligent hard work that delivers sustainable advantage through organic growth, as we know that most acquisitions fail in this regard.

Thus, successive generations feel “cooler” in their Nikes than almost any other brand, even though competitors invest heavily in their own advertising and promotion. We have no doubt that other firms hire Nike marketers hoping to learn the magic formula. Yet, Nike stays ahead of all challengers and continues to nourish the most valuable brand in this market. This capability runs deep in Nike; consider how it has rejuvenated acquired brands such as Converse.

Why are Apple’s devices more attractive and intuitive to use? Do competitors think consumers enjoy unimaginatively designed, complex products that are difficult to fathom? Of course not, it is just that Apple has superior design capabilities that are appreciated by its devoted users. This customer base recruits new devotees allowing Apple to maintain superior profit margins and an ever-receptive market for innovations.
The Elusive Capabilities for Developing Customer Relationships

Loyal customers are developed through conscious, goal-directed managerial activity and not merely buying companies, mailing lists or CRM technology. The firm must have the capabilities necessary to integrate its customer relationships with its other resources, such as brands, distribution networks and supply chains, whilst continually renewing and enhancing these relationships if they are to be a source of long term competitive advantage and profit. Capabilities do not develop automatically from investments in CRM resources; they require sustained management development in conjunction with those resources.

Unfortunately, most managers do not seem to hold to this holistic view: the need to have both resources and capabilities. Generally, managers can be characterized as either resource-pickers or resource-builders. Resource-pickers identify resources that can be bought for less than their value to the firm whilst resource-builders generate internally the brands, customer relationships and distribution networks that create sustained competitive advantage. In reality, this is a false dichotomy. For example, it is hard to conceive of a firm with loyal, committed customers that lacks the capabilities needed to engender that loyalty. We posit that during the recent period of massive CRM investment, managers have lacked a suitable framework for assessing and developing their marketing capabilities and, consequently, have tended to default to a “resource-picking” approach.

Why is this so?

Perhaps managers do not fully understand the nature of these capabilities; how can they be developed and made to work with CRM resources to generate competitive advantage? Capabilities are difficult to observe, let alone understand and manage, because they arise from the tacit knowledge of managers and employees: unstated how-we-do-things-around-here routines that are second nature to people within the firm. By definition, these routines and tacit knowledge are hard to document and transfer even within a firm.

The problem is compounded by our observation that it is unclear exactly who is responsible for ensuring the development of these new relationship marketing capabilities. Research suggests that such process-led change programs are directed mostly by the IT function. Those in charge of CRM technology implementation view the development of a relationship marketing capability as training marketers to use the new technology and implement new business processes rather than helping marketers carry out new and different activities that glean knowledge about customers and change consumers’ attitudes and behaviors. The HR function focuses on skills development of individual marketers rather than addressing how the organization develops new marketing capabilities. Software training is necessary but not sufficient; marketing capabilities originate within organizations through collaboration; they are not merely the sum of the individuals’ knowledge.

Arguably, it is relatively “easy” for senior executives to acquire CRM resources; it merely requires money to buy software, people and systems integrators. Resource acquisition is also time-bound; indeed, a leading software firm once
advertised “Global CRM in 90 days”. It is far harder to build capabilities to manage customers better; the time frame is uncertain, it requires organizational learning and the will to change what you do as a result of what customers tell you they want. Companies that try to improve their marketing capabilities, such as their customers’ service experience to help build greater loyalty, often take years to see improvements. The question then becomes: how do managers ensure that resource acquisition and the management capabilities needed to deliver appropriate returns on such resources go hand in hand?

**How to Identify and then Manage CRM Capabilities**

From our research we have constructed a framework and process for identifying and managing marketing capabilities that enable executives to develop their CRM resources and capabilities concurrently. This framework is built on four principle marketing capabilities:

- **Demand management** – generating revenue for goods and services.
- **Creating marketing knowledge** – generating and disseminating – throughout the firm - insight about consumers, markets, competitors, alliance partners, online communities, etc.
- **Building brands** – creating and managing brands for products, services and the organization.
- **Customer relationship management (CRM)** – developing how the firm relates to consumers.

However, little is known of the fundamental skill-sets that underpin each of these capabilities. Our research suggests that the evolution of these capabilities is time-based and usually coalesce around three types of marketing relationships between companies and consumers: transactions, one-to-one relationships and networks. During the 1970s, marketing was described as a series of transactions, commercial exchanges, between the firm and its consumers. The 1980s and 1990s saw the emergence of marketing defined as long-term relationships between the firm and its consumers: the one-to-one or relationship marketing paradigm. More recently, scholars have identified a new network-marketing paradigm flowing from online networks of the firm, its supply chain and the consumers themselves.

From this analysis, we built a marketing capabilities framework in the form of a matrix (Figure 1) defined by two axes: the four capabilities cited above and the three forms of marketing relationships. Based on our research, each of these capabilities was deconstructed into a series of workshop tools to help managers understand, and then position, each of their organization’s four capabilities on a marketing relationship continuum (from transactional to network).
<table>
<thead>
<tr>
<th>Demand management</th>
<th>Transactional relationship</th>
<th>One-to-one relationship</th>
<th>Networked relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profitable transactions, product/service innovation and channel partnerships</td>
<td>Maximize lifetime value of consumers across all channels</td>
<td>Co-creating value with a network of consumers</td>
</tr>
<tr>
<td>Creating marketing knowledge</td>
<td>Market trends, segmentation and competitive offers</td>
<td>Individual consumers (or segments): needs, purchasing styles, profitability</td>
<td>Key network participants and shapers</td>
</tr>
<tr>
<td>Building brands</td>
<td>Product and service brand management</td>
<td>Company brand management</td>
<td>Encouraging consumers to access a network’s capabilities through your company offer</td>
</tr>
<tr>
<td>Customer relationship management (CRM)</td>
<td>Standardized offer</td>
<td>Customized and / or negotiated offer</td>
<td>Self-managed offer (consumer networks co-create the offer)</td>
</tr>
</tbody>
</table>

**Figure 1** Marketing capabilities framework

In facilitated workshops, managers identify how their capabilities must be developed in order to execute their desired CRM strategy. This establishes a dynamic process of reflection, action, gathering new data, evaluation and further action (see figure 2). Our research indicates that multiple cycles of this process should occur over a period of several months. In our experience, after a three to six month period managers become confident of their direction and understand the resources they need to continue building their CRM capabilities.

This approach is based upon *action research*, a process by which those seeking change form a ‘community of practice’ to determine both the means of improving their managerial practice and the objectives of that improvement. We contrast this method of progressive learning through individual and peer-level reflection with traditional, top-down imposition of major new initiatives such as we observe with CRM. Action research was originated by Sociologist Kurt Lewin and has been widely deployed in management research, but in particular, to help researchers observe that which is tacit, poorly conceptualised by the participants and difficult to observe. The nature of dynamic capabilities makes action research a particularly powerful approach. Through cycles of reflecting upon action, the community of practice becomes aware of, and socially constructs, their marketing capabilities. We were able to observe the evolution of the capabilities only by observing and participating with the community of practice.

While there may be other valid approaches that could generate the same type of learning cycles in an organization, what is important however is the process of learning is eventually owned and led by those responsible for improving customer relationships and implementing the CRM strategy. It is through continual reflection on their CRM practice that new capabilities are developed and CRM investment strategy is guided appropriately such that resources fit to the capabilities available to the firm. CRM capabilities cannot be purchased in the open market.
Figure 2: CRM Capability Development

Building Marketing Capabilities

At the time of our engagement, both Flutter and BMW were strong brands in their respective markets, established through a traditional marketing mix based upon strong product differentiation, powerful emotional benefits and excellent service. Nonetheless, both faced challenges for which increased reliance on product-based marketing was not proving sufficient. Changing competitive conditions meant there was a clear need to manage customer relationships differently. This required investments behind a CRM strategy. Neither team of managers was confident that “best practice” in CRM would be relevant to their particular circumstances, nor did they feel confident about investing large sums of money behind what for them was a new form of consumer relationship.

Flutter: The online betting shop

Flutter offered a web-based means for consumers to negotiate bets (and set odds) directly with other consumers and disintermediate traditional betting shops. Flutter hoped that the social interaction would create a unique community, “locking in” groups of consumers. When it was launched in the UK with a traditional mass marketing mix of advertising and promotion, it attracted the largest number of online betters in the market. At the same time, a UK-based competitor, Betfair, also entered the market. Instead of encouraging betters to find one-to-one matches for their bets, Betfair created an anonymous betting exchange whereby individuals’ bets (back or lay\textsuperscript{20}) were aggregated and resolved through the exchange without individuals having to parcel bets for individual takers or even communicating with
takers of their bets. Betfair’s exchange betting appealed to the serious gambler more than Flutter’s one-to-one betting. Despite having more consumers, Flutter had only 4% of the online betting market\textsuperscript{21} by the end of its launch year against Belfair’s 50%. Flutter’s low market share was a major concern because market share is vital for survival in this business. Betting sites must be sufficiently large to accommodate bets quickly: serious betters will not waste time on small sites but opt for the biggest or most liquid immediately. Flutter needed to build liquidity quickly. It had already decided to abandon its social networking strategy in favor of a Betfair style betting exchange and was poised to reinforce its traditional mass marketing strategy in order to promote this in the marketplace.

When Flutter’s managers first reflected on their marketing capabilities, they were sure that the firm’s capabilities were a mix of transactional and one-to-one marketing. Its demand management strategy at launch was to use mass advertising and promotion to attract the largest number of consumers. Marketing activities focused upon promoting individual product offers such as betting on horses, greyhounds and football. There was no formal program of individual consumer development. Only recently had it begun to identify and monitor the activities of its largest betters. Flutter was contemplating further, expensive investments in transactional marketing to address share erosion.

However, when the same managers started to look at the detail of their capabilities, a very different picture emerged. They discovered that they had been compensating effectively for Flutter’s lack of liquidity versus the leading competitor by managing the overall betting community on its site to keep it in equilibrium between backers and layers, winners and losers. Managers realized that they had developed a unique ability to identify the impact that its large, professional betters had on the overall site and address the implications for liquidity.

As a result of these realizations, managers identified market-making pundits who had personal followings of other betters. Increased activity from such renowned figures correlated with increased activity from their following. This led managers to an important conclusion: betting markets grow in step changes led by the market-makers’ activities rather than developing in a smooth line of increased numbers of transactions. The Commercial Director realized that: “\textit{If you can get 20 key customers [into a new product], then they drive the liquidity and that drives the market. Identifying and getting those people are critical. They are almost stakeholders in the business. We can’t stimulate that; we need them to stimulate that [new business].}”

Flutter’s accumulated customer insight into the behavior and liquidity management issues surrounding market-makers was more advanced than competitors; this was verified through a series of experiments. Flutter’s CRM strategy would be built on this insight.

With a clear picture of both Flutter’s current and future marketing resources needed to deliver the strategy, managers determined the future marketing capabilities required. This process generated specific actions arising from using the framework across each of the four capabilities requiring limited investment, such as, plans for collaborating with key market-makers, a new customer services program,
reinstating a consumer E-bulletin board and a new working relationship with product development.

The managers’ efforts, coupled with the changes to their offer, improved performance dramatically, and Flutter’s market share increased over sevenfold to 30%. It was at this juncture that Betfair and Flutter merged to create the world’s largest online betting company at the time.

BMW GB

BMW GB is the exclusive UK importer and distributor of BMW cars (including the Mini) and motorcycles and is fully owned by BMW AG in Munich. Under European Union (EU) legislation at the time (known as the European Block Exemption), no other company could import BMWs to the UK, nor could BMW GB sell cars directly to consumers; all cars were sold through a tied network of dealers.

The EU was reviewing Block Exemption and BMW managers accepted that car distribution would be liberalized but were unsure to what extent and its likely impact. Some felt that liberalization would create more dealerships and new, innovative types of distribution channels, all of which would drive down BMW’s profit margins. In addition to potential changes in distribution, managers were considering the internet’s impact on consumer purchasing behavior. Would changes in consumer buying behavior render BMW’s dealer network obsolete?

BMW AG was considering a large, global CRM investment, yet BMW GB was already three years into its own program which was neither developed fully nor used to maximum effect. GB Managers were wary of further investment but the division faced a dilemma: should BMW GB make its current program work before embarking on this new and even more ambitious project or should it abandon its current program in order to participate fully in the new global initiative?

Aligned to these concerns was the realization among BMW management that they knew very little about their UK consumers, apart from the data on the original sales contract and warranty information. Virtually all consumer contact was channeled through the dealer network. However, consumer information held by dealers was not systematically shared nor mined centrally at the time. Whilst the UK marketing department conducted regular surveys on satisfaction, brand image and service experience, this generated aggregate consumer data mostly and failed to provide a truly rich understanding of an individual consumer’s motivation and behavior. Hence, managers felt vulnerable should the distribution environment change dramatically. Equally, managers worried that they did not have the relationship marketing capabilities required to manage consumers directly across multiple channels to market. CRM was seen as a means of mitigating those risks, reinforcing consumer loyalty and improving repurchase rate.
BMW managers’ exploration of marketing capabilities generated two scenarios, each with dramatically different implications for its CRM capabilities and hence CRM investment posture:

Within the conservative scenario, the dealer network remains the dominant channel to market and BMW would need merely to develop some elements of one-to-one capabilities to support limited online presence commensurate with their view of BMW consumers’ expectations for direct access to the company.

Under the managers’ radical scenario, online relationships change consumer behavior, European legislation liberalizes automotive distribution substantially and there is sufficient margin in distribution to attract additional investment. Lower cost, more interactive new channels promote a very radical move from transactional marketing in each of the four capabilities. However, creating marketing knowledge about individual consumers was seen as the lynchpin marketing capability upon which all the others relied. Managers could not begin to understand how they could develop BMW’s capabilities for demand management, branding or customer management further without detailed knowledge of individual drivers’ motivations, purchasing behaviors and even the networks of influencers who may impact on their decision making. Even when they imagined that they could identify and relate to high value consumers, managers found it difficult to conceive of how they would use that knowledge to influence consumer behavior and increase sales.

BMW managers had reached a critical juncture in their deliberations and there remained a fundamental disagreement about the practical application of consumer insight that would be generated through any future one-to-one or network marketing capability. The emerging view was that once they got beyond the generic promise of CRM, they could not yet conceive of how it would add value to BMW or the BMW driver. Without a more advanced level of one-to-one or network marketing capabilities with which to make this judgment, BMW managers could not even conceive of, let alone implement, a sensible CRM investment program.

The impasse reached by BMW managers about investing in new marketing capabilities and resources had profound consequences for its CRM investment. Instead of an immediate, large-scale investment in new technology, a series of small investments were agreed that would develop the UK company’s existing CRM resources and capabilities to a point where it could decide upon the merits of further investment.
**Implications for CRM investment and marketing capabilities**

From our research, four key insights emerge for managers responsible for their firms’ CRM investment decisions:

**Capabilities are the precursor of CRM Investment and not vice versa.**

The findings from our research are clear – if appropriate marketing capabilities are not developed, little or no return will be generated from investments made in CRM. The evidence from Flutter and BMW suggests that the starting point for profitable CRM investment lies in developing marketing capabilities in advance of major capital investments in resources.

Flutter achieved commercial success by moving quickly from transactional to one-to-one relationships and finally to network marketing, in advance of relatively small investments in CRM systems. Mostly, it added a new managerial perspective to the deployment of their existing resources to get much more out of them. This suited Flutter as it was a start-up dot.com that did not want to “burn” more of its precious cash on CRM solutions.

BMW started from the opposite position. Globally it had decided to ask its national operating companies to make large CRM capital investments. The UK Company could not conceive how it would generate sufficient return on such investment and was unwilling to hope that the answer would come from as yet unknown benefits of a CRM system. Any business case would have been arbitrary and theoretical. For BMW GB, the CRM investment case would be more of an evolving view based upon ever expanding understanding about how its consumers react to new direct relationship initiatives.

As CRM capabilities evolve through managers’ learning from real-world experience in their markets, the business case and the exact specification of CRM resources become more evident. Moreover, the learning process underpinning this capability development means that once the firm does acquire significant new CRM resources, it will have in place a team of skilled and knowledgeable people ready to make best use of them. We suggest that firms invest enough behind a new CRM strategy to get to the next stage of learning, development or trial at which point they reassess. At some point, when the business case is clearly proven (or not) and the CRM team’s marketing capabilities are evident, substantial money can then be invested behind a proven idea and team to scale-up the program.

**The rate at which capabilities’ development varies between firms**

The rate of organizational learning, rather than the size of the firm’s CRM budget, determines how rapidly firms can change the way they relate to a consumer which, in turn, is linked to the length of the consumer purchasing cycle. Flutter moved through the entire capability continuum within one year whilst BMW had made its first formal CRM investment three years previously and decided to move forward
slowly in the future. The serious betters targeted by Flutter were on the site several times a day, every day. Flutter managers could experiment with customer service initiatives, partner web site deals etc. and measure the impact on their site’s liquidity and turnover quickly. A small team was able to engage in rapid cycles of learning and doing. In contrast, changes in the marketing capabilities at BMW are likely to happen slowly given their typical three-year repurchase cycle. Hence, the impact of changes to marketing activities will only reveal themselves over an extended time period.

Managers should be realistic, both about the level of return and the time it will take to develop new capabilities. It is our experience that CRM programs are all too often designed to meet a short-term horizon of a business case removing time from those in charge of implementing CRM to engage in cycles of learning and reflection; instead there is a tendency to develop future cash flows which indicate some immediate payback. In such circumstances, CRM becomes little more than technology-enabled, sales promotion.

**CRM cannot always be driven top-down**

Preceding any discussion of CRM investment, top management must, of course, arrive at an understanding that managing different customer segments through different relationships is the right strategy for them. However, the understanding of CRM capabilities and their ability to develop them are emergent rather than immediately obvious, thus it is not always possible to move through a traditional, linear strategy sequence of analysis-strategy setting-investment case and new resource acquisition-implementation-evaluation.

In the case of Flutter, developing CRM capabilities was the result of managers’ learning, cycles of doing and analysis. Initially, it is hard for managers to see where such cycles will lead: they do not know what has yet to be learnt. Over time, Flutter’s managers became better and quicker at learning about consumers and were able to move along the capability continuum quickly. BMW had yet to engage in that learning process and hence could not agree upon a profitable CRM investment program. Top management can provide the money, software and authority to create a CRM program but such investment would not be informed by cycles of learning from consumer insight.

If CRM investment strategy is to be capability-led, then it follows that those managers with direct responsibility for consumer insight and relations will lead both the learning and subsequent specification of the resources needed for CRM investment. Top management should encourage teams of consumer relationship managers to experiment with and then monitor the extent to which each team is making progress. These teams can then come back to top management as and when they need further investment or organizational changes that are required to support further learning and development of their CRM programs. Firms should invest large sums in CRM only as the risk diminishes.
Top management must ensure that the organization is capable of supporting such an evolutionary approach to CRM investment decision making. We speculate that well-structured, command and control style companies that demand a full-blown, evidence-based business case too early in the CRM development process, will inhibit the cycles of learning and action that permit operational managers to guide CRM investments intelligently through experimentation and evaluation. Thus rather than seeking a particular organizational structure that will promote CRM, we believe that an organizational culture that tolerates experimentation will be more successful at building new CRM capabilities.

**Hard work and commitment are what it takes to develop marketing capabilities**

Perhaps the most encouraging finding from our research is that the marketing capabilities linked to CRM are far from being a black box and can be developed through conscious, goal-directed learning by those responsible for CRM.

Flutter’s marketing management was directly involved in the detail of customer relationship management by understanding individual betters’ behavior, identifying key market-makers and their networks of followers. They maintained a constant vigilance on site liquidity, adjusting the site’s inflow of visitors as much as possible to ensure a balance of backing and laying, winning and losing and this across different betting products. They did not merely know about consumer behavior - they knew their consumers. BMW traditionally relied upon survey data to know about consumers, rather than knowing their consumers. BMW realized that in order to develop its one-to-one marketing capabilities, it would first need to take consumer relationships and their interaction in-house in order to start “talking” to individual consumers and to learn from the experience.

**Leading Radical Change – with Patience**

So, why is it that so many large, well-managed and well-resourced firms fail to see adequate return for their CRM investments? We argue that it is precisely because these leading firms are usually so well endowed with resources that they rush too quickly into large scale, IT-based CRM investments – seduced by “best practice” and management fashion. Somehow, the capabilities needed to support these resource investments get forgotten. The top-team needs patience and the courage to eschew ‘neat’ global solutions, consultants’ best practice models and their own preference for immediate results by allowing marketing capabilities to develop and lead CRM investments.
Appendix 1 – Our Research Method

The authors’ research into marketing capabilities in relation to CRM investments spans a number of work streams over the past eight years. Given the difficulties of observing CRM capabilities, the authors decided upon a collaborative research method (Action Research) with managers facing difficult CRM decisions. This ensured that they would have the motivation to surface their tacit knowledge about CRM capabilities over time in a problem solving context.

We deployed an explicit Action Research process by which the authors and managers were both co-researchers and co-subjects, reflecting together upon the data generated, developing ever more profound insights through further cycles of action and reflection. Workshops and meetings were recorded and reviewed by the authors shortly after each session; an established method of review was followed. Reflections from each encounter formed the basis of preparation for subsequent sessions. Conclusions were reached through a process that was facilitated by the tools developed as part of the research process. At the end of the process, the authors met with team members individually and using a semi-structured interview protocol, probed to ensure that the process was democratic, the team’s conclusions were accepted as valid and that they were committed to the agreed outcomes and actions. These are all key criteria of validity for Action Research.

BMW and Flutter, the two companies presented in this paper, were chosen for this research because they represented extremes of the CRM phenomenon. BMW is a well-established manufacturer with a strong product brand. It had no direct consumer contact; its business is totally intermediated by dealers. On the other hand, Flutter was a dot.com start up offering a pure service. It had direct consumer relationships and sufficient data to differentiate its customer management by segment or by individuals. Such “purposeful” sampling is a well-established method for theory building.\(^2^3\)

In addition to BMW and Flutter, the authors have worked with managers in a range of organizations across different industries. Summaries of some of those experiences and cases can be found in: S. Knox, S. Maklan, A. Payne, J. Peppard and L. Ryals, *Customer Relationship Management: Perspectives from the Marketplace*, Butterworth Heinemann, Oxford, 2003.

Endnotes

1 Marketing is indeed hard on itself perhaps more so than any other function in business and particularly on the issue of marketing accountability: see M. McDonald, “Marketing: Priority Case for a Reality Check,” *Marketing Review* 3, no. 3 (2003): 253-271. Despite such harsh self-critique, there is a growing body of high-quality research linking marketing activities to business performance and market capitalisation. A very recent exemplar of this research is S. Srinivasan, K. Pauwels, J. Silva-Risso and D. Hanssens, “New Products, Sales


5 Zablah et al provide a meta review of CRM’s very mixed results. In their article they refer to a study by Gartner Group from where we cite our failure rate and this study is claimed to be the most authoritative. See A. Zablah, D. Bellenger and W Johnston, ‘Customer Relationship Management Implementation Gaps,” Journal of Personal Selling & Sales Management 24, no. 4 (2004): 279-295.

6 Most strategy scholars will agree that the Resource Based View of the firm (RBV) is the dominant theory being researched today. A meta review of the RBV supports this contention and our position that modern RBV scholarship considers both the strategic assets of the firm (e.g. brands, customers) as well as the dynamic capabilities needed to develop and deploy those assets effectively (e.g. branding, customer relationship management). See S. Newbert, “Empirical Research on the Resource-Based View of the Firm: An Assessment and Suggestions for Future Research,” Strategic Management Journal 28, no.2 (2007): 121-146.

7 Barney is often credited with notion that firm-specific resources generate sustained competitive advantage, in turn superior profitability. An asset generates sustained advantage if it meets four criteria identified by the initials VRIN: valuable to customers, rare, inimitable and non-substitutable. Whist there is a rich literature discussing these in more details and identifying qualifiers, we believe that it is sufficient to say that if a resource creates customer value and competitors cannot generate an equivalent resource of equal perceived quality and at equal cost, then the resource creates sustainable advantage. The most obvious examples of marketing resources are famous brands that are protected by trademark, reputation and use: Nike, Apple, Coke and Channel. Loyal and committed customers are equally sources of sustainable advantage. Consider the advantage that accrues to Apple, IBM, Mercedes,
Neiman-Marcus or a popular restaurant by having a base of loyal customers that not only buy, but recruit other customers.


11 Tacit knowledge is a foundational concept in the resource-based view of the firm. Competitive advantage is derived from the combination of firm-specific assets developed in step with dynamic capabilities to create inimitable resources. The dynamic capabilities result from organisational routines, how we do things around here that distinguish one firm from its competitors and are based in employees’ tacit knowledge. It is because this knowledge is tacit, competitors cannot acquire it – if they could, the resource would no longer be inimitable. This sets up one of the great challenges for management; how does one manage and leverage that which is tacit in order to develop competitive advantage. A means of addressing this challenge is presented by the authors in this paper; the importance of which his widely discussed in the literature. See:


12 CSC, pioneers in Re-engineering, found that overwhelming, IT-process led re-engineering was led by the IT function. In none of the companies it surveyed,

13 The strategy literature makes a clear distinction between individuals’ skills and abilities and the concept of the organization’s capabilities; see the references for Teece et al and Zollo and Winter above. For a knowledge-based perspective on this issue, see R. Grant, “Toward a Knowledge-Based Theory of the Firm,” Strategic Management Journal 17, Special Issue – Winter (1996): 109-122.


19 Our methodology is based upon action research, a process by which those seeking change form a ‘community of practice’ to determine both the means of improving their managerial practice and the objectives of that improvement. We contrast this method of progressive learning through individual and peer-level reflection with traditional, top-down imposition of major new initiatives such as CRM. Action research was originated by Sociologist Kurt Lewin and has been widely deployed in management research, but in particular, to help researchers observe that which is tacit, poorly conceptualised by the participants and difficult to observe. We feel that the nature of dynamic capabilities makes action research a particularly powerful methodology. Through cycles of reflection upon action, the community of practice becomes aware of, and socially constructs, their marketing capabilities. We were able to observe the evolution of the capabilities only by observing and participating with the community of practice. For further reading see: M. Heron and P. Reason, “The Practice of Co-Operative Inquiry: Research "With" People Rather than "On" People", in “The Handbook of Action Research” ed. H. Bradbury and P. Reason (London, Sage, 1999): 179-188. Gummesson presents an excellent discussion of Action Research in Marketing, see: E. Gummesson, “Qualitative Methods in Management Research,” (Thousand Oaks, Sage, 2000).
To “back”, for example the New York Yankees to win the World Series, one would bet that they will win. To “lay” that bet one would bet that they do not. Traditional book makers laid bets whilst the ordinary betters backed. Online exchanges allowed private betters to lay for the first time.

