

The Role of Customer Relationship Management in strengthening Marketing Channels

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Abstract

This study aims to determine the impact of Customer Relationship Management (CRM) on Marketing Channels. We observe the challenges of channel management in the context of CRM implementation. We point out current multichannel issues that firms are nowadays facing and provide insights into the management of the respective challenges. Thus we start by presenting the role of channels in creating and maintaining customer relationships. We discuss emerging trends with regard to traditional and electronic channels and shed light on related chances and challenges for the implementation and maintenance of CRM. The study concluded with regard to CRM, choosing the right channel is a fundamental means for creating customer loyalty, which increases the value of customers to a firm and thus long-term profitability. Channel types can be divided basically, into indirect and direct ones. Both types offer various advantages and disadvantages for the firm with respect to implementation and maintenance costs, the need to develop channel-specific skills, the guarantee of service and information quality, and the level of control over the intended CRM activities.

Introduction

CRM is a 'core business strategy' that aims to 'create and deliver value to targeted customers at a profit'. This clearly denotes that CRM is not just about IT. CRM 'integrates internal process and functions'. That is, it allows departments within businesses to dissolve the silo walls that separate them. Access to 'customer-related data' allows selling, marketing and service functions to be aware of each other's interactions with customers. Furthermore, back office functions such as operations and finance can learn from and contribute customer-related data. Customer-related data allow suppliers and members of their 'external network', for example distributors, value-added resellers and agents, to align their efforts with those of the focal company. Underpinning this core business strategy in the majority of cases is IT –

software applications and hardware

Customer relationship management (CRM) is a process in which a business or other organization administers its interactions with customers, typically using data analysis to study large amounts of information. CRM systems compile data from a range of different communication channels, including a company's website, telephone, email, live chat, marketing materials and more recently, social media. They allow businesses to learn more about their target audiences and how to best cater for their needs, thus retaining customers and driving sales growth. CRM may be used with past, present or potential customers. The concepts, procedures, and rules that a corporation follows when communicating with its consumers are referred to as CRM. This complete connection covers direct contact with customers, such as sales and service-related operations, forecasting, and the analysis of consumer patterns and behaviors, from the perspective of the company. Marketing channels move goods and services from firms to consumers and other businesses. From a customer management point of view, firms also use channels to interact with customers. These different channels vary not only in their cost structures but also in their ability to attract, bind, and serve customers. Each customer has distinct preferences for distribution or contact channels. To meet the needs of various customers, businesses must provide the right blend of direct (websites, e-commerce, stores, call centers, and enterprise sales representatives) and indirect (distributors, retailers, solution providers, and online resellers) channels. In other words, companies should adopt a multichannel strategy. From the consumer's perspective, multichannel offers and communication imply greater choice and more convenient access to products and services. From the retailer's perspective, a multichannel system poses new implementation challenges, from delivering consistent experiences across all channels to fully exploiting the strengths of each channel. Multichannel marketing also poses challenges for customer relationship management (CRM). Because focal firms interact with the end user through channel intermediaries, such as retailers, it is difficult for the firm to build and nurture an effective customer relationship program directed at the end customer that will lead to a good working relationship and ultimately create loyalty. Loyal customers have greater value to the firm; they contribute to the firm's profits for a long time, whereas non-loyal customers merely generate short-term profits. The firm thus needs to ensure that its CRM messages and offerings reach its target consumers without dilution or digression. But such reach is especially difficult when the channel intermediaries have conflicting CRM programs in place, which often means that the focal firm only has indirect control over CRM

implementation. Also, multichannel marketing establishes the challenge of eliciting customer information from multiple channels for central processing.

CRM and Marketing Channels

The effectiveness of CRM depends to a considerable extent on firms' channel strategies. Because marketing interactions with customers occur primarily through channels, conventionally, customer relationships are created and sustained through marketing channels. Thus, marketing channels are the primary vehicle of relationship building. In the following section we explain the basic channel terminology we use throughout this chapter, and then outline the role of channels with regard to CRM and multichannel trends that firms currently face

What Are Channels?

A channel is basically a «format» for accessing a customer base. Each format (or route) combines a package of different service outputs, i.e., functions that reduce the end user's search, waiting time, storage, and other costs. An Internet channel thus is a spatially convenient way to purchase from a connected home at any time. However, the time required to receive the product is greater than it would be if the purchase occurred in a store channel, which itself offers minimal spatial convenience but also minimizes waiting time, in that the product may be taken home immediately. The term «channel» then can be used mainly in two ways. First, a channel refers to the flow of the organization's offerings (e.g., physical goods, information) to ultimate end users (e.g., end customers), as well as of sales proceeds from the customer back to the focal firm. Marketing or distribution channels then indicate all entities (e.g., distributors, wholesalers, retailers, broker, agents) that perform functions for the marketing firm, such as stocking inventory, conducting sales transactions, conducting payments, providing point-of-purchase information, or offering upfront liquidity to the manufacturers. Second, a channel refers to the mode of communication between a firm and its customers. These communication or contact channels convey information to customers to raise their awareness about the firm's products and services and persuade them to make purchases. Furthermore, a distribution channel often encompasses several organizations in a single term, whereas a contact channel typically includes only two parties. For example, the distribution channel of the sportswear manufacturer Adidas includes two distinct types of channels: wholesalers and retailers. By the implementation and the specific catering of these two intermediaries, the group can respond better to

the needs of multiple types of customers and become more responsive to market developments. The contact channels between Adidas and its end customers refer to the modes of communication, such as Internet, direct mail, and SMS or wireless text messaging. Of course, different skill sets are required to manage distinctive channels effectively. Although distribution channels and contact channels are not always cleanly separated (remember that information exchange is a core task of distribution channels), we differentiate the terms here because the management of contact channels is a very important aspect of CRM. In addition, the term «channel management» often refers only to contact channels, even if this may not be technically precise. Conventionally, in a given geographical market, firms set up a single distribution channel that performs all channel functions except advertising. For example, the German car manufacturer BMW uses its network of licensed dealers to sell cars to the market while also engaging in direct-to-consumer communication (beyond dealer communications) through mass and direct advertising. Before the advent of the Internet, a direct sales channel between the marketing firm and the customer was often too costly and/or arduous to implement. Direct interaction was limited mainly to trade fairs and test marketing; third-party agencies usually performed the various channel functions. Thus, the customer interacted with the marketing firm indirectly through the channels, which mediated their communication. Only in the case of B2B marketing did manufacturers typically get to know the end users and interact directly with them.

The Role of Channels in Customer Relationships Management

Channels are basically gatekeepers between the manufacturer and the end user, any channel must be managed and coordinated carefully to guarantee the effective reach and the attractiveness of the manufacturer's products (Various channel settings in any market likely include a diverse grouping of involved intermediaries and channel types. However, customer relationships can be created and maintained through various channel systems—as long as those channels are deployed and managed appropriately. This paper explain the role of various channel types in the process of managing customer relationships and reveals the advantages and disadvantages of these different channel settings for CRM.

a) Managing Customer Relationships through Indirect Channels

Indirect customer relationship management requires the use of an intermediary to manage the end-customer relationship indirectly. For example, selling own products through supermarkets, the consumer goods manufacturer Henkel uses indirect channels intensively and is therefore confronted with the task of

managing customer relationships indirectly. Because different skill sets are required to manage different channels and customer segments, firms benefit from distribution efforts that pass through specialized intermediaries. Furthermore, setting up a new direct channel demands profound investments, which can be avoided by the use of intermediaries' existing channel structures. In this setting, the CRM process also involves (indirect) gathering and processing of customer and sales or transaction information, whether by the channel member or the focal firm. Accordingly, the goals and interests of all involved channel members must be coordinated. The indirect customer contact scenario means the focal firm lacks control over the intermediary's CRM activities. Thus, the focus of customer relationship management in an indirect channel structure is typically on

- (1) building a good working relationship with the channel member and
- (2) providing incentives for building strong relationships with end customers.

For example, incentives might encourage the channel member to gather and process sales and customer information and share this information with the marketing firm. Large consumer, nondurable marketing firms, such as Henkel or Procter & Gamble (P&G), traditionally had significant power over their distribution channels and could thus control the channels' activities to such an extent that the channels conformed absolutely to their customer relationship agenda. However, the arrival of private-label products on supermarket shelves and the increasing power of retail giants has meant that P&G's ability to control retail CRM activities has greatly decreased. The decision to deploy an indirect channel also involves the concrete choice of which channel type to use, such as selling the products through an intermediary's store or using an indirect web portal like Amazon

b) Managing Customer Relationships through Direct Channels

Traditionally, a direct channel between the firm and the consumer took the form of a communication or contact channel. Firms communicated product information directly to consumers through television and print, to persuade the consumer to find the most readily accessible sales or distribution channel. Point-of-purchase advertising and promotions at the intermediary's outlet (e.g., retail store) further persuaded the consumer to purchase. However, consumer information moved indirectly to the firm through sales data. The advent of new, direct, electronic channels and the increasing trend toward opening dedicated shops make two-way direct communication increasingly possible, such that firms can collect customer data

through direct channels, too. In 2006 the international cosmetics brand Nivea opened its first company-owned store in Hamburg, Germany, to get direct access to customer data and benefit from direct interactions with its end customers. Although the implementation of a direct channel requires channel-specific investments and the development of channel-specific skills, the direct contact with the customer enables the firm to establish and maintain valuable customer relationships, based on first-hand knowledge. The direct customer contact also reduces the need for excessive intrachannel coordination efforts and grants the firm comprehensive control over its planned CRM activities. Combining all mentioned aspects, we derive the key advantages and disadvantages of managing customer relationships through direct channels. Finally, the decision to deploy a direct channel involves a second step: which specific channel type to use, such as a firm-specific store or website.

Multichannel Trends and CRM

Trend 1: The Proliferation of Direct Channels

The ubiquitous presence of the Internet, and especially of new electronic channels in business and daily life has had a tremendous impact on firms' channel options. Whether through a website, a mobile device, or sophisticated voice response systems, consumers take advantage of this great variety to seek information and transact directly with the firm. Computers, travel, books, music—the list of products that customers are familiar with and even prefer to purchase electronically is getting longer. Firms thus have direct access to end customers and also can recognize, in every interaction, whether the customer has bought from them before. When the interaction occurs through a technology-enabled channel, the firm can record and store all relevant information about this customer, without having to negotiate with, provide incentives to, or train a third-party channel member, such as a retailer.

Trend 2: Multichannel as the Norm

Recent times have witnessed a virtual explosion in the number of media channels that seek consumers' attention; multichannel strategies become more and more attractive, because they can be adapted individually to fit customers, the firm's products, and its overall CRM strategy perfectly. Firms adopt more and more channels due to two effects: First, firms are actually pushed (push effect) toward a multichannel strategy by customers and competitors. Consumers continuously expand their experiences beyond traditional channels and thus are willing to use any given channel if it meets their service output

demands. The growing number of channels also increases the possible combinations of service outputs. When he or she feels comfortable with these routes, the consumer expects all companies to be present in the preferred channels. The resulting push effect demands that firms comply with their customers' preferences, to keep up with their competitors (Rosenbloom, 2007). Second, a continuous pull effect arises because a multichannel system provides potential improvements in terms of customer loyalty, sales growth, and efficiency. Channels differ in their attributes and thus the portfolio of service outputs (i.e., functions that reduce the end user's search, waiting time, storage, or other costs) they provide .

Trend 3: Multichannel Shoppers

In response to the continuing increases in existing media and distribution channels and the implementation of multichannel systems, modern customers tend to change their habit, i.e., to use one specific channel for purchase, as they derive differing benefits from different channels. Depending on the desired product and the time available for the purchase, a consumer will choose the most convenient distribution channel. Thus many customers buy music online, because haptics do not provide any additional benefit for purchasing. The same consumers may prefer to purchase a sweatshirt in a store though, to be able to touch the material and try on the item before buying it.

Trend 4: Research Shoppers

With the proliferation of direct channels, multichannel systems become more and more attractive for consumers, who can easily pick the most convenient channel for purchase or to find information. In an emerging phenomenon, half of all consumers research the product in one channel (e.g., Internet), but purchase it in another channel (e.g., store). Such «research shopping» constitutes a massive challenge for the firm, namely, not losing the customer in the course of his or her shopping process (Nunes & Cespedes, 2003). Each channel seeks to attract different consumers and obtains only limited attention from the firm's overall customer base. The emergence of new channels leads consumers to change their channel habits though, to derive the new and differing benefits across the different stages of their buying processes. For example, one consumer might search the Web for the best price quotes to be better informed about prices and negotiate a better deal. But for various reasons (e.g., uncertainty about the security and privacy of web transactions, perceived risk regarding the quality of web-based offers), the same consumer might plan

eventually to purchase from a local retailer. In the vacation industry for example, 30% of consumers use one channel for search and a different channel for purchase (Verhoef et al., 2007).

In this context, a firm must provide sufficient information on the web but also ensure it hosts a corresponding outlet close by, to secure the deal. The emergence of more and more direct channels (trend 1), implemented by firms to achieve a multichannel system (trend 2), combined with the customers' willingness to use these offers (trend 3 and 4), thus open a vast new range of opportunities for CRM activities.

Opportunities Due to Multichannel Trends

- **Widening Coverage of the Consumer Population**

The most immediate impact of distribution channel and contact channel proliferation is the increase in coverage of the population of potential consumers by firms' extensive channel networks. If people have more choice among different communication and transaction channels, they will choose those channels that best fit their preferences and habits. Potential customers who previously did not buy because they lacked access to the firm's products through traditional channels now may consider buying. Thus the firm's potential customer base grows and for example includes busy executives who are hard pressed for time, who once would travel only to the nearest outlet to shop but now can use the Internet or mobile offers to obtain products from anywhere.

- **Improved Availability of Customer Information for the Firm**

Multiple channels open the floodgates to multiple sources of consumer and demand information. Companies now have essentially unlimited access to multiple sources of the same information, which allows them to verify and cross-validate the reliability of longitudinal information. More important, they increasingly can turn to direct channels to reach customers. Through direct channels, firms acquire unfiltered information about individual customers' preferences and needs, independent of any mediating dealer. The need to exchange customer information across channels also makes central customer databases imperative at the firm level, which means the firm gains additional leverage effects from interacting directly with end customers. Smart firms will leverage this information to produce detailed customer databases across channels and multiple shopping instances. Such databases improve forecasting ability and understanding of the behavior and needs of individual customers. Moreover, customer identification

in each channel makes it possible to customize marketing mixes (including products and services) for each customer and opens up opportunities to sell complementary products—opportunities that competing firms may fail to recognize or be unable to offer.

- **Less Dependence on Channel Partners**

Channel proliferation also increases the firm's power vis-à-vis its channel partners. Channel exclusivity no longer exists, and channel partners grow more dependent on the firm to ensure the cross-channel coordination of customer information, marketing communications, and physical distribution. Different channels owned by different agencies may compete for sales volume and margins, but they still must be coordinated to address customers who keep switching between them. Therefore firms' CRM strategies cannot be overly channel-specific; rather, they should ensure uniform customer satisfaction across shopping instances and channels. That is, channel coordination is an essential ingredient of a multichannel strategy. Along with these opportunities, new challenges arise. Recent technological developments may promise a more effective CRM strategy, but they also add to the complexity of the task, as explained in the following.

Challenges Due to Multichannel Trends

- **Media Planning Is Increasingly Difficult**

As noted previously, the proliferation of channels changes customer behavior, including how customers obtain information. The great expansion of channels creates strong competition for customers' attention, and a communication strategy that relies on fewer channels becomes a rather limiting choice. Companies face the challenge of integrating inbound and outbound approaches for communicating with customers, all of which is even more difficult in the face of shrinking budgets, and an explosion of new technologies which enable new ways of customer interaction. In their media planning, firms must realize that different contact channels are proficient for different channel functions. Selecting a channel that is appropriate for performing a particular marketing function entails recognizing not only the customer's contact channel preference and the amount of exposure to the customer, but also to the ability of the channel to deliver the service output that supports the particular marketing purpose. For example, though product demonstrations at the International Consumer Electronics Show contribute significantly to product

awareness and understanding, actual transactions may rather be achieved through the Internet or retail outlets.

- **Channel Conflict and Differentiation**

Companies can not only communicate through e-mail, the web, wireless, mobile devices, sales forces, customer contact centers, and enterprise portals but also transact business with more consumers through these various routes. Consumers in turn have started deriving different benefits from channels, which then adds to the complexity and difficulty of effective CRM. Conflicts of interest may arise among different members of a distribution channel, which invariably attenuates the marketing efforts of the focal firm. Interchannel competition for share of wallet from the same customer increases the challenge of ensuring a seamless interchange of information across channels, without harming channel members' interests. The firm walks a tightrope, between meeting the conflicting interests of different channel partners and fulfilling its own objective to address the customer's needs, all while maintaining equity. But channel competition might not become as fierce as these dire predictions suggest. As channels grow more specialized, the implementation of CRM has become less vulnerable to channel conflict. For example, the Internet seems proficient in prospecting for and attracting new customers, rather than transacting. People may learn about the firm's offers through the Internet and make purchase decisions based on this information, and many consumers still prefer to visit a local departmental store or showroom for the final transaction. By actively managing a portfolio of specialized channels (e.g., website for prospecting, showroom for harvesting), the firm can nurture its relationship with the customer while also rendering issues such as channel conflict less contentious than what they would have been without channel specification

Conclusion

In this paper, we have outlined the role of channels in creating and maintaining customer relationships. We also have discussed the role of channels as gatekeepers for communication and interaction with the customer, which offers the possibility of working on the relationship to increase loyalty and customer value to the firm. The channel further functions as a route to market for products and services. With regard to CRM, choosing the right channel is a fundamental means for creating customer loyalty, which increases the value of customers to a firm and thus long-term profitability. Channel types can be divided basically, into indirect and direct ones. Both types offer various advantages and disadvantages for the firm with

respect to implementation and maintenance costs, the need to develop channel-specific skills, the guarantee of service and information quality, and the level of control over the intended CRM activities. These factors should be evaluated carefully when choosing channels for a firm's distribution system.

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