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# IT alignment strategies for customer relationship management

Arun Sen [a,*], Atish P. Sinha [b,1]

[a] Department of Information and Operations Management, Mays Business School, Texas A&M University, College Station, TX 77843, United States
[b] Sheldon B. Lubar School of Business, University of Wisconsin-Milwaukee, Milwaukee, WI 53201–0742, United States

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ABSTRACT

Customer relationship management (CRM) is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. A CRM strategy involves the entire enterprise and is employed on an ongoing basis. Despite the fact that CRM projects incur huge expenditures, a large percentage fails to achieve the stated objectives. Failure in CRM initiatives could be avoided if a firm's CRM strategies are intelligently linked with its employees, customers, channels, and IT infrastructure. In this paper, we focus on those linkages, particularly on the linkages between an organization's CRM strategies and its IT infrastructure. Even though the relationships between IT and business strategies have been extensively explored in the IT alignment literature, prior research has not addressed how a firm's CRM strategies are aligned with its IT infrastructure. In this paper, we investigate the issues relating to CRM-IT alignment based on an in-depth case study of a large, well-known Internet travel agency.



## 1. Introduction

The forces arising from globalization, deregulation, increasing competition, maturing markets, demanding customers, and industry convergence [7] are compelling businesses to treat customers as a critical source of profitability and sustainable growth. Relationship marketing [2,3,37], also called *customer relationship management* (CRM), has been proposed to address the issues arising due to these changes. Relationship marketing focuses on attracting, maintaining, and enhancing customer relationships [2]. The goal of CRM is to develop long-term and mutually beneficial relationships in which the buyer and the seller focus on generating more satisfying exchanges [38]. This can be achieved by increasing communication with the right customer with the right offer, through the right channel, at the right time [40].

Interest in CRM has grown rapidly due to high customer expectations, increased interest in one-stop shopping, attention to one-to-one relationships, churn in customer pool, customers' knowledge about competitors, advent of new software infrastructure, compressed marketing cycles, and increased cost of marketing. CRM is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction [23]. A CRM strategy should involve the entire enterprise, rather than only the marketing department, and should be employed on an ongoing basis [30].

Even with worldwide expenditures on CRM projects rapidly approaching the $100 billion mark, 60 to 80% of CRM projects fail to achieve their objectives [21]. Reasons for such failures include: i) wrongly assuming that CRM simply is a technology initiative, ii) losing vision of customer-centricity, iii) inadequate support of top management toward CRM initiatives, iv) underestimating the importance of change management, and v) misunderstanding customer lifetime value [21]. Even though CRM technology is important, the main focus should be on managing customer relationships. A firm should not lose its vision of customer-centricity, which empowers it to have an in-depth understanding of its customer base across all functions, divisions, and communication channels. There must be adequate support of top management for CRM initiatives to be successful.

Companies should not underestimate the importance of change management that is inherent in any CRM project. CRM initiatives often ignore the fact that it is the people within the organization who make them successful [21]. These people need to have the right customer service skills and knowledge of the purpose and functions of CRM. Also, they must be prepared for the technological changes that would affect the way they work. CRM strategies should recognize that not all customer relationships are equally profitable. The focus of CRM should be on serving those customers who have the potential of delivering the highest lifetime value to the firm [39].

Failures in CRM can be avoided if a firm's CRM strategies are intelligently linked with its employees, customers, channels, and IT infrastructure [5,7,40]. In this paper we concentrate on those linkages, particularly on the linkages between an organization's CRM strategies and its IT infrastructure. Even though the IT alignment literature

* Corresponding author. Tel.: +1 979 845 8370.
*E-mail addresses:* asen@mays.tamu.edu (A. Sen), sinha@uwm.edu (A.P. Sinha).
[1] Tel.: +1 414 229 3301.

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[16,18,33,34,36] has explored the linkages between IT and business strategies extensively, prior research has not addressed how CRM strategies are linked with the IT infrastructure. In this paper, our objective is to investigate this linkage (CRM -IT alignment). The paper is organized as follows. In Section 2, we discuss why IT alignment is important for CRM. In Section 3, we review the extant literature in IT alignment. In Section 4, we present a case study and in Section 5, we analyze the case to understand IT alignment issues in CRM. Section 6 summarizes and concludes the paper.

## 2. Motivation

CRM is an enterprise approach that integrates channel, product, and infrastructure strategies to understand and influence customer behavior through meaningful communications [7,40]. The goal is to improve customer acquisition, retention, and profitability. The objective of customer acquisition is to get the right customers to drive growth and increase margins. The objective of customer retention is to retain loyal and profitable customers, and to expand CRM into new channels. The objective of customer profitability is to help the firm increase individual customer margins while offering the right products at the right time. A good customer relationship program creates customer loyalty, which in turn increases customer lifetime value [23]. In the customer acquisition phase, loyalty is measured in terms of transactions and products. In the customer retention phase, loyalty is measured in terms of changes in relationship orientation, such as the *share of wallet* — the proportion of potential spending by the customer [7]. Finally, in the customer profitability phase, loyalty measurement focuses on the *share of life* (also called *customer lifetime value*) — the amount that the customer will buy in his or her lifetime.

Several researchers have developed process frameworks for CRM strategy. While some of these frameworks are implicit and need to be inferred (e.g., [20,35]), others are more explicit (e.g., [29,34,39,47]). While developing customer lifetime value expressions, Ryals [35] includes tasks such as selective customer acquisition, selective customer retention, relationship pricing, service strategy, product strategy, and selective customer divestiture. This approach appears to follow a life cycle process [45]. While studying the relational information process, Jayachandran et al. [20] include tasks such as customer relationship orientation, customer-centric management, CRM technology use, and CRM performance measurement. These types of tasks indirectly form a CRM strategy process framework.

An explicit CRM strategy framework describes the CRM process clearly in terms of stages and activities. Sue and Morin [39] have proposed a process-based framework for CRM that is linear and is based on the life cycle process [45]. The framework describes the linkages between different CRM initiatives and desired outcomes. It shows, at a high level, how CRM can contribute to increased revenues, decreased costs, and ultimately increased profits. The tasks in this framework include knowing the customers, divesting unprofitable customers, increasing value addition, capturing increased value, interacting with customers, managing customer base, and measuring benefits. The framework suggests that customer knowledge is the necessary starting point for any CRM strategy. Unprofitable customers do not increase shareholder value, so discouraging or declining business from unprofitable customers is a requirement. A CRM strategy must support the addition of value to the customers in terms of relationship management, loyalty programs, good product development, etc. Multiple channels to the targeted customer segments are also needed to provide increased value in terms of convenience and reduced customer costs. Finally, the customer base needs to be managed to capture the highest profit.

In Winer's framework [47], the CRM strategy includes seven steps: create a database for customer activity, analyze the data stored in the database, select customers, target customers, engage in relationship marketing, manage privacy issues, and measure the benefits using CRM metrics. This framework also is life cycle based and linear [45]. The <initiation, maintenance, and termination> model espoused by Reinartz et al. [34] includes the following components: customer evaluation, customer acquisition, recovery management, retention, up-selling, cross-selling, referral management, and exit management.

Payne and Frow [29] developed a much more explicit process-based approach to CRM strategy development and management. Their process framework is based on interaction research methodology [14]. They interacted with a panel of 34 experienced executives and interviewed 20 executives working in CRM, marketing, and IT to determine generic CRM strategy processes. The generic processes that they found are *strategy development, value creation, multi-channel integration, information management,* and *performance assessment.*

The strategy development process focuses on the development of business and customer strategies. Business strategy includes conventional business strategies and newer ideas like co-opetition [6], networks, etc. Customer strategy includes creating customer segments, deciding on the granularity of the segments, exploiting e-commerce opportunities, etc. The value creation process consists of determining what value the firm can provide to the customers, what value the firm is going to receive from the customers, and how to successfully manage the exchange [29]. The multi-channel integration process focuses on decisions about the use of appropriate combinations of channels, promotion of highly positive customer experiences within those channels, and presentation of a single unified view of the customer [29]. The information management process, on the other hand, dwells on the collection, collation, and use of customer data and information from all customer touch points to generate customer insights. Finally, the performance assessment process ensures that the organization's strategic aims in terms of CRM are effectively achieved [29]. Performance measures include shareholder value and internal metrics used by the firm.

In these CRM process studies, even though researchers acknowledge the need for IT infrastructure in a CRM framework, very little is known on how CRM technology and CRM strategies influence each other. Payne and Frow [29] voice this concern by stating the need for IT planning in CRM: "to ensure that technology solutions support CRM, it is important to conduct IT planning from a perspective of providing a seamless customer service rather than planning for functional or product-centered departments and activities" (p. 173).

In CRM, information technology is used to manage a multitude of customer interaction data over multiple channels (sales force, web sites, emails, telephony, direct marketing, etc.). The data sets include customer preferences, sales information, customer life events, service calls, complaints, etc. Customer interactions tend to answer a variety of questions relating to customer acquisition, customer retention, and customer profitability. CRM technologies supporting such data sets are of two types: *operational CRM* and *analytical CRM.* Operational CRM supports the "front office" business processes, which include all customer contacts (sales, marketing, and service). Examples of operational CRM include *sales force automation, field service automation,* and *call center support.* Operational CRM uses online transaction processing (OLTP) databases to support these functionalities. Analytical CRM, on the other hand, is a set of analytical applications that help measure, predict, and optimize customer relationships. It includes an analytical infrastructure, which supports acquiring data from multiple data sources and storing the data in a robust data warehouse, along with data analytics and reporting, to provide a 360-degree view of the firm's customers. In contrast to operational CRM, which follows the traditional OLTP protocol, analytical CRM follows a relatively new type of IT protocol called online analytical processing (OLAP). This kind of dual IT infrastructure is increasingly becoming prevalent in the CRM arena.

Currently, there is a gap in the literature on how such a CRM-IT alignment can be achieved. The gap exists because of the failure to