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How to date your clients in the 21st century: Challenges in managing customer relationships in today's world

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Abstract Since its first entry into the literature discussion in the 1980s, customer relationship management (CRM) has found its way into nearly every company. Concepts like personalization, loyalty programs, and customer valuation are used regularly to interact with and prioritize customers. Unsurprisingly, this more widespread use has changed our understanding of CRM substantially and as a consequence, the field has seen a remarkable transformation in the past 3 decades. Yet, the CRM strategies implemented by many firms today are frequently still fundamentally based on an understanding of CRM from the early days. The purpose of this article is to outline the origins of CRM and to present the main wisdoms that firms believed to be true about customers 3 decades ago. I then discuss the key insights that academics and managers have obtained in recent years that increasingly challenge those wisdoms. The article ends with an outlook of CRM in years to come and presents some of the major challenges practitioners and researchers will have to deal with in the near future.

1. Swipe left, swipe left, swipe right—It's a match!

Dating, as everyone knows, is never easy. Finding the right person and summoning the courage to invite them for a movie or dinner, all with the Damoclean sword of potential rejection hanging over one's head, is stressful just to think about, let alone put into action. Fundamentally, this has not changed since the time when our grandparents met. What has changed, however, is that in today's world technology plays an as important a role as red roses and 'Will you go out with me?' notes played 2 or 3 decades ago. Now, mobile applications like Tinder allow you to choose dating profiles from a catalogue of nearby options and websites like OKCupid use sophisticated algorithms to find your perfect match (see Kirkegaard & Bjerrekær, 2016).

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Companies who own these sites, like the U.S.-based Match Group, generate billions of dollars in revenue by taking the distress out of dating.

Interestingly, the same changes that have revolutionized the way we date have also influenced the manner in which firms and their customers form and maintain relationships. What academics and managers believed to be true about customer relationship management (CRM) in the 1980s and 1990s is, to a large extent, not sufficient for success in today's world. This in and of itself is not very surprising—how can it be sufficient with all the advances that have been made since then? What is surprising, however, is that many firms still rely on these outdated rules in their day-to-day CRM efforts. They may be hidden away in the depths of CRM software, buried in automation tools, and embedded in analysis algorithms, but they constantly influence decisions from the shadows nevertheless. This leads to outcomes wherein firms manage customers like they did 30 years ago without even realizing it. Try to date today using strategies employed by your grandparents and you get an idea of what implications this might have.

2. Once upon a time: The good old world of yesteryear's CRM

In order to better understand what is different today, we first need to look back at how simple we believed the world to be in the past. To do so, let's focus on the three main pillars that most CRM strategies have been built on and that many companies still believe to be true today (see Figure 1). Like all good fairytales, there is some wisdom in all of these tenets, but they rarely can be taken as literal truth.

2.1. The magic porridge pot: Customer relationships are stand-alone investments that increase in revenue and profit over time

In the 1970s, increasing pressure on marketing budgets and a strong focus on marketing return-on-investment (ROI) resulted in the rise of product line profitability analysis as a tool for marketing management (Beik & Buzby, 1973; Kirpalani & Shapiro, 1973). Firms invested millions of dollars in projects that meticulously allocated costs to products and subsequently focused their efforts on those products (and services) with above-average contribution margin. While successful at first, these strategies frequently resulted in what later was named the 'profitable product death spiral' (Rust, Zeithaml, & Lemon, 2000). Many firms neglected to realize that discarding products with negative margins in order to boost profits changes the overall cost structure of the firm. This, in turn, makes other products that used to be profitable now unprofitable, requiring further product eliminations. Sequentially applying this strategy, therefore, leads to fewer and fewer products offered, which ultimately results in single-product firms and potential bankruptcy.

This realization of the risks of product line profitability analysis gave rise to a paradigm shift in marketing in the 1980s and 1990s (Jackson, 1985; Webster, 1992). More effort was put on building long-term customer relationships fueled by studies that showed that such relationships grow in revenue and profit over time (Reichheld & Sasser, 1990). In this new world, companies started to treat customers as investments similar to building a new manufacturing plant. The logic was that acquiring a new customer requires cost (like building a factory would), but this

Figure 1. The three pillars of CRM