# Customer relationship management in sports and leisure industry marketing essay

Roger Martin in his Harvard Business Review article “ The Age of Customer Capitalism” states that we are currently experiencing the third shift in management practices. The first one, according to him, started in 1932 and is called managerial capitalism, that is when companies started being run by professional managers, the second one (from approximately 1976) was when companies focused on shareholder value. Martin states that we are experiencing the third one, the consumer-driven capitalism that means when consumer is placed above the shareholder (Martin, 2010). His classification will only be accepted in due course but there are shifts in business that reflect these observations. Peter Drucker stated that the company’s first responsibility is to serve its customers (Drucker, 1954). Marketing is also changing from being focused on transactions only to building relationships with customers in hopes for more profitability (Gronroos, 1994).

Customer Relationship Management (CRM) might be the system that helps organizations to change their perspective for these shifts in practice. Gartner research director Adam Sarner referred to CRM as a tool to treat different customers differently. CRM done right puts a customer at the centre of the organization. Employees at Procter & Gamble are most likely ask themselves “ Would She buy it?” when introducing a new product (women account for four fifths of P&G customers according to the Economist, 2007). CRM is a tool that helps businesses to create knowledge about regular customers to cater to them better, it allows companies to look at consumers from Business-to-Consumer (B2C) perspective as they were Business-to-Business (B2B) partners. Businesses have more knowledge about their consumers and can make the relationship better for both providing more targeted choices of products or services which would ideally lead to more satisfied buyers and more loyalty to the company.

Keynote market research report estimates that in 2005-2008 CRM market grew on average 12. 5% a year to the market value of US$8Bn worldwide. Exemplary CRM works to provide a company a unifying view of a customer and helps to manage all communication touch points from a company to the customer. It also integrates front-desk to back-office operations that sales, marketing and other customer communications would work seamlessly. Peter Drucker stated that knowledge is going to be the most important resource of the 21st century (Drucker, 1999). As we are entering the second decade of the century we can see how transformative information and communication technologies (ICT) have been to businesses.

An ideally working CRM system would help an organization to rank their customers by value and differentiate them by their needs. The whole organization would be aligned to serve the customer. Workers would know when and how consumers want to receive communications from the company making the dialogue meaningful. The message would have to be customized and coordinated across the organization to be in line with the customer strategy. The employees should have to be knowledgeable, skillful and motivated to serve customers as best as they can. Moreover they would have to be able to access all the relevant data across the organization. (Lindgreen, et al., 2006).

However, rresearch that deals with CRM failures of little return on investment after implementation find that unsuccessful implementation stems from problems of the headquarters of a business as well as branches without which these systems would be useless (Jayachandran, 2005). Research often deals with company-wide implementation of CRM and its successes or failures but rarely looks at how branches of businesses utilize CRM in their day-to-day activities (Mendoza, et al., 2007).

There are a number of industries that use CRM very well. Companies with high switching costs have it easier while dealing with customers because they are reluctant to search for other businesses. Most private sports and leisure clubs require their new customers to sign contracts to become members for the minimum duration of 12 months (Virgin Active, David Lloyd, etc.). Moreover sports and leisure centres know a lot of information about their potential customers. According to a Keynote market research report (2009) 69% of the members live within 3 miles of the club (therefore direct marketing is used extensively). 72% of the members are under 45 years old and 46% are under 35. 20-24 year olds are peak users of gyms and more likely to be in the ABC1 social grades. However, average period of membership of each member is 18 months, according to Fitness Industry Association. Members who stay beyond first year are likely to renew regularly. Moreover membership fees account for 75%-85% of the clubs income. These statistics suggests that retention of existing members should be a more pressing issue for the leisure centres rather than attracting new ones. Furthermore diversifying the club's income is also very important both of those issues are interrelated. Customers think in terms of sets businesses think in terms of products/services (Piccoli, 2009), therefore understanding them better may lead to more cross and up-selling.

Business-to-Consumer transactions in service industries, benefits should come from local branches and they should be understood better. This paper will try to investigate how CRM changes the way managers of branches run the business in sports and leisure centres. What actual benefits do companies get while implementing CRM into their microenvironments, if implementing them at all? Dev and Olsen (2000) found, that in the Hotel industry there is a significant amount of customer information collected but it is rarely used to advance further business objectives. This paper will try to investigate if this is similar in sports and leisure industry in UK and why that is the case. Furthermore it should be known what the data that is collected and converted into information is used for and how or whether it improves customer experience. To sum up, this paper will look at the benefits of implementing Customer Relationship Management initiatives from the local manager's point of view and the customer's point of view, what actual tangible benefits are gained, what encouragements are given from the headquarters, how CRM is perceived in the branch, and what other systems are used instead of CRM.

Literature review:

Theoretical framework for Knowledge Management deals with coding, storing, and transmitting knowledge in an organization (Alavi, Leidner, 2001). Customer Relationship Management (CRM) is a part of Knowledge Management that deals with everything about a customer in a company. Richard and Jones (2008) defined CRM as a set of business activities, supported by both technology and processes, which are directed by strategy and are designed to improve business performance in an area of customer management. There is a debate whether CRM is a strategy or a process (Richard, Jones 2008). This paper accepts the definition that CRM is a set of activities enabled by Information Technology to enact organizational strategies that deal with customers.

Customer relationship management software can be classified into three different groups: collaborative, operational and analytical (Toggler, 2008). Collaborative CRM helps businesses to make communication and storage of customer information more efficient (Schellong, Mans 2004), i. e. address management. Operational CRM deals with all the touch points a person has with an organization. Operational Customer Relationship Management supports sales and other departments, for example service desks or call centres. Operational CRM includes supporting front-office activities. The third type of the Customer Relationship Management software is analytical. That part of the CRM helps the back-office operations. Although Toggler (2008) states that the aim for analytical CRM is to support sales, this subgroup should be viewed more broadly. Analytical CRM dissects information about the customer and helps to tailor better products or services to them. Part of an analytical CRM is data mining. According to Ling and Yen (2001) data mining is a discovery and consistent use of profitable knowledge from organizational data. Data mining generates information by building models from data (Carrier & Povel, 2003) using techniques as: association, classification, clustering, forecasting, regression, sequence discovery, visualization. Data mining can be helpful for the organization in all aspects while dealing with a customer identification, customer attraction, customer retention and customer development (Ngai, et al., 2009).

CRM can bring benefits and losses to the organization. According to a research by Gartner more than 50% of the CRM projects fail (Everett, 2002) although this particular study showed that only 5-10% of CRM initiatives actually failed and were stopped, 55% of the interviewed companies stated that the implementation failed to meet their set expectations, 40% of the respondents indicated that it met expectations and was somewhat successful. CRM may negatively influence cost efficiency because the wish to understand customers comes at an extra cost. According to Krasnikov, et al. (2009) CRM decreased cost efficiency by 5. 4% on average in their researched organizations, although it increased profit efficiency by 27. 5%. Other possible advantages of successful implementation of CRM include tangible benefits as increased revenues and profits (Morgan, et al., 2009; Mithas, et al., 2005), reduced internal costs, quicker turnaround costs, higher customer loyalty, and possible intangible benefits such as increased customer satisfaction, better word-of-mouth, improved customer service, streamlined business processes, fuller understanding of customers and their requirements (Chen, Chen, 2004).

A number of factors contribute to the failure of CRM initiatives. Those could be split to the problems for the Headquarters and problems in the branch of the business. Problems stemming from the headquarters include lack of top management support or no designated CRM champion (Ryals, Knox, 2001, King, et. al., 2007), weak customer orientation (Darrel, 2002, King, et. al., 2007). Headquarters fail to plan well for the implementation of the strategy, they do not communicate the change well or do not provide adequate training (Shoemaker, 2001, King, et. al., 2007). Sometimes there is no proper financial commitment or no reward system for employees (Kim, et. al., 2009, Ryals and Payne, 2001). There might not be performance measures while implementing CRM (Ryals and Knox, 2001) or no focus on change management in the organization (King, et al, 2007, Yu., 2001). These failures might cause little commitment for the technology to be used at the branches of an organization. Companies find that the data quality is poor (Ryals and Payne, 2001, Missi, et al., 2005) or that staff is reluctant to share information across departments or with the headquarters (King, et al, 2007, Wilson, Daniel, and Mcdonald, 2002). The lack of training causes little understanding of the benefits of the system (Ryals and Payne, 2001). Failed CRM implementation may lead to severe customer dissatisfaction (Schall, 2003) and harm to the company because good customers of the company hold a grudge longer to the organization and it takes longer to them to sooth as well (Grégoire, et. al., 2009).

However, these failures are only part of the problem, the research should also focus not only on collecting information but also on using it and reintegrating it back to the organization successfully. Emphasis should also be put on the information flow and constant change in the organization even after the implementation of the initial system is over. There should be a focus on information that is relevant to the business and helps to better serve the customer and get a healthy return on investment for the project. Successful integration of the information might help to segment customers better. Better served customers are more satisfied and more satisfaction leads to more loyalty. (Souitaris, et al., 2007, hallowel, 1996).

Some organizations have poor knowledge management capabilities (King, et al, 2007). Members of organizations are reluctant to record relevant data of convey certain messages to customers because sometimes they get conflicting orders (to deal with the customer quickly and to use the CRM system) (Kim, et al. 2009). Moreover sharing of the organizational data is sometimes also an issue. Some members of the company are protective of their most valuable customer data because they do not see the need for Headquarters to have it (Kim, et al, 2009). There are two types of knowledge management that are important in the CRM processes. Externalization of data from tacit to explicit (from implied to articulated and codified knowledge) for example preferences of a customer, and combination of explicit knowledge, for example connecting information about a marketing campaign that directly leads to sales. Figure 1 (Nonaka, 1994) shows the interaction between tacit and explicit knowledge. On the other small or medium size organizations are not likely to invest in systems that does not convert tacit knowledge into explicit because they keep the knowledge implicit in their employees. The size of the organization lets them do that as long as there are some sharing mechanisms (informal discussions such as gossip or storytelling) (Sigala, 2004).

Customer Relationship Management deals mostly with explicit knowledge about a customer but also provides mechanisms to convert tacit knowledge. The more knowledge an organization have the better systems it should employ to prevent information overload. As price computational power continues to decrease according to Moore’s law (1965) businesses will feel increased pressure to deal with information better. Therefore some researchers deal with causal factors of successful integration of information using CRM. (Mendoza, et al., 2007, Kim, et al., 2009).

Kim, et., al, 2009 created a CRM scorecard where they drew a graph of how successful implementation of CRM across the organization should look like (Figure 2). Implementation is split into three parts: infrastructure, process, customer that would all lead to better organizational performance. Infrastructure mostly deals with the headquarters of an organization and the initiation of the system. Mendoza et al., (2007) researched critical success factors of implementing a CRM software and extracted 13 different antecedents with metrics of how to measure their effectiveness, these factors overlap with the CRM scorecard in Figure 2. Seven factors could be put in the infrastructure part of the figure, these are: commitment of senior executives (management attitude), creation of interrelated teams throughout the organization to implement the CRM, aligning different areas of the company to use them (organizational alignment), defining objectives (goals), guaranteeing commitment of the staff (employee satisfaction and behavior) and integration of information systems (information technology). Difference between the scorecard and success factors are market orientation and partnership with other companies, these scorecard factors are important but more peripheral than central to the implementation of CRM. These seven factors deal with the implementation from the headquarters point of view, however the new system will only be valuable if the branches of the company use it, therefore the next 7 factors deal with the use of the software in the branches of the business. Two of the factors are transitional from the headquarters to the branch (IT and staff commitment). CRM used at the branch is in the process table. The factors spelled out by Mendoza et al., (2007) are pre and post-sale services and sales automation (customer acquisition), marketing activities automation (customer acquisition and retention), operations management support (customer retention and expansion), developing good channels of communication with customers (customer retention, satisfaction and expansion) and handling key information about a customer (customer value). The successful implementation of the system is supposed to lead to greater customer loyalty and better organizational performance in terms of return on investment in the system, return on assets and bigger shareholder value.

In order for this diagram to be useful in the branch of an organization it should be changed a little. The information garnered for Customer Relationship Management software should make the organization change constantly to adapt to evolving customer needs. Customer satisfaction should be an external check on whether the system is working. Moreover people who deal with the process(customer acquisition, retention, and expansion) should be able to influence decisions about the architecture of the software in the headquarters, because ultimately they are the user and the software has to be tailored to their needs. Furthermore data quality is not addressed in this chart (Missi, 2005) ant it should be implemented as a check when data flows from one part of an organization to another.

Figure 2

The adapted model should be tested by primary research to validate its viability.

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