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Customer Relationship Management: Beyond A Commodity Process

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ABSTRACT

The paper reported and conceptualized the strategic planning process and rationale behind the introduction of a customer relationship management (CRM) project. Based on the differentiation between core competencies and commodity processes, a case study, focusing on the setting up and management of a customer services call center, is conducted to examine how managers evaluate options available to them. Our findings show that a strategic intent serves as a great source of influence in managers’ decisions in evaluating and deciding potential options. Also, our findings suggest that the strategic intent needs to be closely aligned with the way managers perceive their CRM efforts based on the differentiation between core competencies commodity processes.

Keywords

Customer relationship management, commodity process, call center, strategic planning.

INTRODUCTION

One of the significant changes resulting from the emergence of the information economy is the increasing opportunity for firms to improve the interaction and communication with their customers. The growing popularity of customer relationship management (CRM) is reflected not only in the continuous advancement and sophistication of technology, such as CRM systems offered by Siebel and Oracle, but also in the beliefs of firms that maximizing benefits from relationships with existing customers is far more cost efficient than acquiring new customers (Winer, 2001). Through selecting and establishing channels, i.e. call centers, e-mails and loyalty schemes, firms are able to tailor their communication needs more specifically by taking into account the level of reach and the degree of customization, interactivity and bandwidth in their messages (Evans and Wurster, 1997). Other advantages enabled by CRM include the ability to improve cross-selling and up-selling, dialogue with customers and customers’, responses to marketing campaigns (Rayport and Jaworski, 2001; Verhoef, 2003)

Even though previous studies have generated useful insights by conceptualizing what benefits CRM can achieve and how such benefits can be managed and maximized (e.g. Jarrar and Neely, 2002; Seybold, 2001), our understanding of issues related to the strategic planning of a CRM initiative remains limited. According to Winer (2001), firms aiming to develop a CRM program can follow a 7-step model, including “create a database”, “analysis”, “customer selection”, “customer targeting”, “relationship marketing”, “privacy issues” and “metrics”. While the framework proposed by Winer provides a constructive guideline for implementation, it does not address issues and decisions that need to be considered before a CRM program is initiated. For instance, what communication channels and what kind of combination of the channels can be deployed? How should the communication channel(s) and the process of CRM be managed, when more than one option is available?

To understand the strategic issues that need to be considered prior to the implementation of CRM, a case study of one of the largest UK retailers was conducted. Emphasis of our study has been placed upon the strategic planning behind setting up a call center, one of the channels that the case company aimed to introduce as a means of managing its customer relationship. Our findings suggest that the strategic intents shaped by the management behind a CRM project largely influenced how different options available to the case company were perceived and evaluated. In contrast with some prior studies, results derived from the study indicate that ambiguities between different available options are often ignored or underestimated. It is
also evident from the case that added value can be created when some innovation was introduced to a standard CRM process, in this case call handling processes.

The rest of the paper is organized as follows. Section Two outlines debates and perspectives related to three main areas, notably call center management, business processes and strategic IS planning. Section Three highlights the methodological issues and concerns considered in this study. Section Four reports the findings by illustrating the evidence collected, as well as through comparing these with findings generated by other studies. The final section concludes the paper by addressing the contributions and implications of this study.

CURRENT DEBATES AND PERSPECTIVES

The need to better understand customers’ needs as a means of modifying a firm’s market offering has increasingly forced firms to pay more attention to collecting, analyzing and utilizing data from their customers. CRM is believed to be a powerful concept that allows firms to generate competitiveness through building and capitalizing effective relationships with their customers (O’Halloran and Wagner, 2001; Rigby et al., 2002). As a result, firms are claiming to be more customer-centric than before and provide added value and extraordinary services rather than merely selling standard products. Despite the fact that the goals of CRM and potential solutions available to firms seem to be clear, results derived from different firms’ CRM efforts vary drastically. To rationalize the differences, some studies emphasized the differences between communication channels deployed (e.g. Rayport and Jaworski, 2001), while others suggested the need to take into account firms’ abilities in overcoming potential pitfalls related to CRM (e.g. Davids, 1999). In this study, we propose an alternative approach based on the differentiation between core competencies and commodity processes. In other words, we take into account the way in which a CRM project is perceived and planned to make sense of the results that it generates.

Core competencies represent a firm’s unique abilities and characteristics in developing, coordinating and integrating available resources to create a source for differentiation (Prahalad and Hamel, 1990). By contrast, commodity processes symbolize a set of activities performed by firms that offer limited scope to generate differentiation or make this uneconomical (Poulson, 2002). Distinguishing core competencies from commodity processes offers a convenient classification for managers prescribing appropriate actions in relation to each. Thus, as Bowman and Faulkner (1997) suggest, firms engaged in competition are providing ‘hygiene value’ capable of satisfying the basic needs of customers. These ‘hygiene value’ activities are identical to other competitors. However, to acquire and retain customers, firms need to generate and promote ‘motivator value’ as a source of attraction. In other words, the ‘motivator value’ is the source of differentiation that influences customers’ decisions. The distinction between hygiene and motivator values is crucial for the following two reasons. First, it offers an explanation as to why it is important to distinguish between core competencies and commodity processes. Second, it suggests that a commodity process to one firm might not necessarily mean the same thing to another. For instance, the process of producing and assembling PCs is perceived by IBM as a commodity process which is carried out through an OEM arrangement. By contrast, the same function of assembling PCs for Dell is a core competence (Eisenhardt and Brown, 1999). Following such a distinction, it seems clear that firms which aim to create motivator value for its customers are more likely to develop CRM as its core competence. On the other hand, if firms only aim to achieve hygiene value for its customers, it seems that CRM is merely a set of commodity processes.

Differentiating core competencies from commodity processes can be a tricky task. The ambiguity and difficulty of differentiating core competencies from commodity processes surfaces the question of whether, in practice, this differentiation has created unnecessary limitations on the selections and choices which managers perceive? In other words, could firms generate added value, if a so-called commodity process were transformed or performed differently? As an illustration, Gilmore and Pine (2002) consider the example of a wakeup call in the hospitality industry. They demonstrate how traditionally there has been little difference between hotels in the way this service is delivered. However, they also identify how some hotels have focused on delivering even such a commodity service in a ‘magical’ way so that guests cannot help but talk about it after. Their study provides examples of hotels, like the MGM Hotel and Casino in Las Vegas and resort hotels at Walt Disney World, which take a more innovative approach by waking up their guests with recorded voices from celebrities or the Disney characters. By so doing, these hotels are able to upgrade this routine service into an unforgettable experience. Their study not only provides interesting examples of how commoditization can result in no or little differentiation across an industry, but also suggests the possibility of transforming a commodity process into a value added core competence.

Call centers are becoming increasingly popular as an alternative channel to streamline the customer interface (Silvestro and Silvestro, 2003) and have been incorporated into part of firms’ CRM practice. While there is little consensus about how to manage call centers, it is clear that call centers, or more specifically call handling, is perceived and conceptualized as a commodity process. Given this context, in order to explore the possibility of revitalizing a commodity process, the focus of this study is on the strategic planning behind the setup of a call center – a service that is typically seen as a commodity process.
service that is often outsourced. The commoditization of call centers is reflected in various practices that are frequently documented and reported in the literature. For instance, the emphasis is typically on deskillng the call center workforce, justified by the need to overcome the high turnover rate (Batt, 2002). The issue of underinvestment and mismanagement in call centers has called for a new approach that can potentially turn a call center workforce into idea hunters (Arussy, 2002). Moreover, based on the above idea that it is possible to turn a commodity process into a core competence, it seems vital to examine the fundamental beliefs that determine how a call center, as part of the CRM program, is planned and managed. In particular, it is vital to take into account issues, such as how the value proposition of a firm can be reproduced in any new communication channels (Rayport and Jaworski, 2001), in this case a call center. And how ‘motivator value’ (Bowman and Faulkner, 1997) can be built into the operation of call centers.

**METHODOLOGY**

The research illustrated here is characterized as an interpretive case study (Walsham, 1993), and formed part of a larger and ongoing research project investigating the strategic planning and management of call centers in UK retailing starting in 1997. The strengths of the interpretivist approach in IS research have been documented in a number of studies, notably Klein and Myers (1999) and Walsham (1993). In particular, the interpretivist approach assumes that meanings, as something fluid, ambiguous and context dependent, are defined and redefined by actors through the social construction and reconstruction of information systems (Mohrman and Lawler, 1984).

Four sources of evidence were collected from 20 semi-structured face-to-face interviews, informal dialogues with the researched, on-site observation, and examining documentation. The latter included all written information that could be freely accessed by one of the researchers who is employed by the case organization. Typically, interviews lasted more than 90 minutes and were tape-recorded, with the prior permission of the interviewee. The rationale behind adopting multiple data collection methods was not merely for the process of triangulation (Denzin, 1988), but also for the purposes of enhancing the richness of findings through the process of reflexivity (Alvesson and Sköldberg, 2000). Data collected from the various sources were analyzed based on the coding techniques proposed by Miles and Huberman (1994) and Strauss and Corbin (1990).

**CASE DISCUSSION**

BeingWell is one of the best known and trusted brands in the UK. BeingWell’s primary business is retailing, manufacturing and marketing healthcare, beauty and leisure products. More than 80,000 employees and over 1400 stores in the UK and Ireland Republic have generated approximately £5.3 billion turnover for the year ending 31st March 2002. The provision of friendly and caring services has long been perceived by the customers as well as the company as the major strength that differentiates BeingWell from its competitors. Currently, the Customer Service (CS) function is processing approximately 1,000 phone calls and 500 letters, faxes and emails daily to address a wide range of enquiries and complaints. Enquiries can be as general as store opening hours and product availability to as specific as the use of hair colorants and skin preparations. Complaints can range from the quality of purchased products and services received to issues, such as nudity in television adverts and the grammar used in literature.

A strategic and systematic effort to reach the current state of capability and capacity in providing customer service started in 1996 when several reviews relating to BeingWell’s existing CS were carried out. Many factors were found to trigger the initiation and formalization of the CS function. First, an internal review indicated that, compared to other major competitors who had invested heavily in CS, the methods, processes and systems did not support BeingWell’s strategic intent. Second, there was a perceived need to enhance BeingWell’s personal service and after sales service as a means of creating differentiation. Third, there was a recognized inconsistency in dealing with customers’ enquiries and complaints, due to the decentralized approach then adopted and the inadequacy of staffing. At this time it was noted that staff operating CS units were not necessarily selected for their customer service skills, and their approach was characterized as “anything for a quiet life”. For instance, when a customer called the head office to complain about being trapped in an elevator in a store, the call would thoughtlessly be put through to an engineer. As stated in the ‘Customer Service Complaint Handling Review’ (Interim Report, August 1996), the strategic intent for the Customer Service function is: “to maximize customer relationship opportunities thereby driving customer loyalty and increasing sales and profit”. To actualize this goal, two distinctive yet related phases were set:

- Effective management of customer complaint handling within BeingWell, and
- The development and execution of a customer relationship strategy to include care lines, expert help lines and BeingWell store card customer contact handling.
Specifically, this customer relationship strategy aimed to promptly and effectively resolve complaints; ensure consistency in performance and communication; generate feedback that could help to increase sales and profit; and protect and enhance BeingWell’s reputation. The need to invest in the CS function is reflected in the following statements. From the CS manager, customer service is perceived as

“A necessity, you have to recognize that customers want to contact you.”

For the corporate Telecommunication Client manager:

“CS was born out of a need to gather together in one place the complaints that were received via the switchboard, which was inconvenient for them and the caller. We also lost lots of information. Switchboards are about ‘speed’ and ‘volume’ and passing on the call as speedily as possible. It is not necessarily about chatting with the customer. The principle of taking a call live and dealing with it at the first attempt, then that’s the most productive way of dealing with any complaint or problem.”

In April 1997, the CS Department was formed from the disparate ‘Complaint Handling’ units run by various business centers or product units. A CS call center was established. A system called ‘Customer Q®’ was installed that included computer telephony integration software and applications for customer relationship management, email response management, Web and e-commerce integration. It captures, stores and retrieves critical information instantly through an interface and accesses information from multiple knowledge bases. All calls are logged to ensure quality and consistency. Also, to make sure that customers’ enquires and complaints are handled as carefully and professionally as possible, the CS Department’s aim is that “it matches the experience you get in a BeingWell store.”

To reproduce the experience of ‘visiting a BeingWell store’ in the call center environment, some thoughts that were incorporated during its planning were outlined as follows:

First, they determined the approach to setting up the call center. Issues addressed at this stage included its structure and how to obtain or acquire the required capability that can best leveraged BeingWell’s brand equity. In terms of its structure, the final decision was to centralize the call center to ensure that consistency in service quality across different parts of the business could be achieved. Despite the fact that there were numerous service providers who could provide the capacity in handling customers’ phone calls, the decision was to have the CS function in-house, simply because it was believed by the managers that only staff of BeingWell would know how to deliver the service in a ‘BeingWell way’.

Second, they thought about the selection of personnel. Considerable emphasis was placed upon the importance of the BeingWell brand during the selection of call center personnel. In addition, to evaluate how candidates would respond to calls, various tests, such as an in-tray exercise, a personality test, interpersonal and problem solving skills, were used. Many staff recruited to work in the call center had many years’ experience working in stores. In addition to the product knowledge they possessed, their experience in dealing with customers was a vital source to recreate the ‘in store experience’ that the call center aimed to achieve. As the call center manager noted:

“‘The advisors are the voice of BeingWell, and customers look upon us as custodians of the nation’s morals. We need to ensure that the ‘music on hold’ is sensible; that we adopt a semi-formal style; that correspondence is free of grammatical errors; and that adverts are free of naked ladies.’”

Third, they had to devise the approach to managing the call center after it was established. Issues, such as establishing service level agreements (SLA’s) like those used in stores, linking SLA to performance, continuously developing call center staff and leveraging sales through the information gathered from the call center, were taken into account and various actions were taken. Based on the principle of ‘making people feel valued’, the commitment from the top management was to ensure that members of staff who worked for the CS function in general and the call center specifically were continuously motivated. An open plan office was selected not only to create a mutually supportive environment during the peak hours, but also to lessen the boredom when call rates and energy level were low. Maximizing the relationship with customers was reflected in the belief that the call center was established to do more than just handle the issues raised by the customer. Rather, the call was to be treated as an opportunity to understand more about the customer. For instance, customer’s personal information is now considered useful in gauging effectiveness of advertising, understanding if special interest groups are adequately catered for, and building an even stronger relationship between the customer and BeingWell.

ANALYSIS AND FINDINGS

The initial stage of analysis aimed to unravel the activities performed by the call center. Five sequential steps were identified that characterize all activities performed. The five steps are to ‘receive inbound calls’, ‘identify customer and information’,

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‘handle the complaint or enquiry’, ‘initiate other processes’ and ‘close the call’. The stage ‘initiate other processes’ occurs when the complaint cannot be resolved to the customer’s satisfaction or the severity requires a more experienced advisor to be consulted. This suggests that activities performed by BeingWell’s call center are very similar or virtually identical to those outlined by other studies (e.g. Aksin and Harker, 2003).

Referring to the process of the call center, it seems clear that handling a customer’s complaint or enquiry efficiently is essential for creating the hygiene value that satisfies the basic requirement of the customer (Bowman and Faulkner, 1997). The question then becomes whether a successfully handled complaint or enquiry only means a seamless hygiene satisfying operation, or whether it can have some added ‘magic’ so that customers cannot stop talking about it with their family or friends (as in Gilmore and Pine’s (2002) study). In other words, the question is whether this commodity process can be operated differently by building in ‘motivator value’ (Bowman and Faulkner, 1997).

Guided by the above question, our second stage of analysis looked for elements that contribute to the creation of the motivator value in BeingWell’s call center. Our findings suggest that to recreate the in-store experience in a call center environment was a crucial starting point that influenced other decisions subsequently made. The results indicated that the need to recreate such experience was considered by many stakeholders involved in the strategic planning as more important than the concern about cost. Various issues that were prioritized during the planning stage indicated that ‘prompt and effective resolution of complaints’, ‘consistency of delivery in performance and communication’, ‘opportunity for information feedback contributing to increased sales and profit’, ‘protection and enhancement of BeingWell’s reputation’ and ‘maximizing customer relationship opportunities’ were far more important than cost. The decision to have an in-house call center with very experienced members of staff was seen by those involved as a sensible way to deliver the level of service that BeingWell’s customers would expect. The intention, then, was to build a stronger customer relationship through leveraging the existing brand equity (Keller, 1999).

The centralized approach adopted by BeingWell was argued by the CS managers to be more effective in ensuring the consistency of service performance and quality than the approaches deployed before. However, the case analysis also suggested that to effectively manage the call center, in particular with the intention of maximizing relationship building with customers, relied on more than just putting control mechanisms in place. Rather, the success of the operation was seen to depend heavily on recruiting a dedicated workforce who had crucial understanding and experience in the services and products offered by BeingWell, as well as the ‘life skills’ to yield trust from any irate callers. The intensive effort to select the call center personnel from a pool of very experienced staff was thus considered by the interviewees to be crucial. Compared to the recruitment approach commonly outlined in the call center literature (i.e. deskilling), the approach taken by BeingWell was clearly very different. The call center staff were treated as one of the most crucial frontiers of BeingWell and they were motivated with various rewards. Furthermore, BeingWell’s approach to capitalizing on the information gathered reflects Arussy’s (2002) notion that a call center can be more than just an organizational setting where complaints and enquiries are dealt with. Rather, it can be developed into an idea hunting ground as evident in the case of BeingWell’s call center.

CONCLUSION

Our findings illustrate the notion that the difference between a commodity process and a core competence can be very ambiguous and misleading. Even though the operation of BeingWell’s call center characterizes a commodity process, in the sense that many retailing organizations operating in this arena have adopted such a center, it clearly shows that such a commodity process can be turned around and made into a core competence. Instead of seeing a call center as merely a channel to streamline communication with customers, evidence yielded from the case indicates that a call center can be a place where added value can be generated. As argued by Prahalad and Hamel (1990), firms often fail to identify their core competence and worsen the situation by under-investing it. Our findings reinforce their argument and highlight the requirement for a clear strategic intent and adequate decisions and planning that can help to actualize it. In particular, our findings provide some crucial insights in showing the importance of achieving consistency and alignment between a firm’s strategic intent expected from its CRM and how the concept of CRM is actually practiced.

Being a customer-centric firm requires more than just sophisticated technologies and mechanisms which can be used to capture and manage customers’ data. More importantly, managers involved in the strategic planning of CRM would need to take into account whether a strategic initiative like CRM should be perceived as a core competence or a commodity process. As pointed out earlier, the differentiation can be rather subjective and ambiguous. Nevertheless, it is a strategic decision that needs to be considered. If a CRM program is perceived as a core competence for long-term development, sufficient resources and innovation will be required. Further research is needed not only to explore how customer relationships can be leveraged through call centers, but also to examine the nature of commodity processes in more detail.
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