Chapter VI

Building Effective Online Relationships

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ABSTRACT

The application of relationship management strategies to the online environment has been met with great enthusiasm. However, research indicates that many of the traditional drivers of effective relationships may need to be re-interpreted when applied in Cyberspace. This chapter proposes an enhanced model for the management of customer relationships (CRM) in an online context. It builds on the traditional strengths of CRM, namely processual efficiency and profitability, to ensure that a greater emphasis is given to the interpersonal nature of relationship development.

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INTRODUCTION

To succeed in business, it is imperative that firms identify the threats and opportunities that exist, and meet these with appropriate competitive methods (Olsen, 1996). Daly (2001) asserts that in the online arena to date, competitive advantage has been derived mainly through aggressive customer acquisition strategies with little attention placed on building long and loyal customer relationships. Mackey (2001) adds that “an appreciation of customer loyalty will represent the next frontier in e-business” (p. 1). The impact of this new outlook will present new challenges for managers, as they manage the emerging technologies to draw closer to their customers. Successful firms will be those that can identify what drives their customers to value their service, and ultimately, to become loyal in the face of growing competition.

However, knowing what needs to be done and knowing how best to go about achieving it are very different things. Recent research has revealed that online loyalty is very low. A study by Digital Idea (Mackey, 2001) indicated that less than 15% of online consumers exhibit any real commitment to a nominated e-business. Another study by Georgidis, Singer, Harding and Lane (2000) has also found that while firms are managing to attract eyeballs and turn the occasional online transaction, they have a hard time getting people to come back. They add that this situation is further complicated by the finding that most firms spend more on customer acquisition than they are likely to make in profit during the buying life of a typical customer.

De Kare-Silver (2000) states that achieving loyalty gains is hard, and requires extraordinary effort, motivation and commitment. He adds that in order to develop lasting and satisfying customer relationships, e-businesses need to develop a better understanding of what drives customer loyalty. Payne (1995) argues that most firms do not realize that customer retention and customer loyalty are not the same. He asserts that being able to achieve and measure customer retention is only the first step in the loyalty creation process.

This situation is further complicated by the increased interest in the use of customer relationship management (CRM) tools that use sophisticated profiling as a means of identifying the characteristics of profitable customers, while seemingly ignoring the attitudinal factors that impact so heavily on the creation of customer loyalty. Wong and Sohal (2001) contend that while loyalty is the product of effective relationship marketing, it is only achieved when customers purchase repeatedly and hold a favourable attitude towards the exchange. It is this recognition of the importance of the interpersonal nature of relationships that will enable practitioners to achieve the espoused benefits of a CRM.
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