



Chapter X

A Theoretical Framework for Measuring the Success of Customer Relationship Management Outsourcing

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ABSTRACT

Dramatic growth of e-commerce has increased the bargaining power of customers requiring changes in strategies for Customer Relationship Management (CRM) development and implementation on the part of firms. Success of CRM implementations is thus critical for firms to survive in the 21st century. Because of the complex technologies involved in CRM, companies are choosing to outsource to vendors that specialize in CRM. In this study, we propose a theoretical framework that examines the CRM outsourcing success. Based on prior literature, we propose that CRM outsourcing success is influenced by degree of CRM outsourcing, partnership quality between the outsourcing firm and the vendor, organizational factors of the outsourcing firm, and the service quality of the vendor.

INTRODUCTION

Explosive growth of e-commerce is changing the nature of competition among companies and customer service is emerging as a key differentiator among competitors. With firms increasing their Web operations, customers now have the ability to contact the organizations they do business with through various interactive and non-interactive means (such as email, fax, call centers, FAQs, online chats, newsletters, "snail mail," retail stores and Web-based forms). This has changed the customer-related business requirements for all types of companies, and has led companies to consider Customer Relationship Management (CRM) as an important part of their competitive strategy. As the focus is shifting to retention of the most valuable customers, rather than acquisition (Winer, 2001), companies are looking for ways to engage customers. To build a long-term, sustained relationship with customers, and create long-term value for the firm, CRM tactics are used to deliver customized information in an interactive and responsive manner to each valuable customer.

CRM generally is stated as a strategy that companies use to identify, manage, and improve relationships with their customers. Thompson (2001) defines CRM as a company's activities related to developing and retaining customers through increased satisfaction and loyalty. eCRM is a term generally used when a company's customer service operations are on the Web. According to Cahners In-Stat Group (2001), worldwide revenues from CRM software application will increase from \$9.4 billion in 2001 to approximately \$30.6 billion in 2005. According to Tom Kaneshige of *CIO Enterprise Magazine*, CRM investments are expected to exceed \$90 billion by 2003 (Kos, 2001).

CRM initiatives have high costs of implementation, (typically \$1 million), as well as high failure rates, estimated to be between 55 percent to 75 percent (Ericson, 2001). For large-scale CRM implementations at very large businesses, reported spending on CRM software, hardware, services, internal labor, and training have been as high as \$30-90 million (Young, 2001).

For effective CRM, companies generally must adopt a customer-centric philosophy to achieve goals, such as increase in sales, customer loyalty, customer service and support, and better and effective distribution of products. CRM can produce additional profits for firms through cross-selling, up-selling, reduced product marginal costs and lower customer acquisition costs (Winer, 2001). CRM applications must be designed to integrate all the customer communication points across various functional areas of a company.

CRM products generally are classified into three categories (Karimi, Somers and Gupta, 2001). These are:

1. *Operational* – for improving sales, marketing and customer service efficiency through marketing campaign management, service request management and automation that integrate with existing processes and infrastructure.

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