

# Different views and potential pitfalls in the implementation of CRM

## Article Info:

Management Information Systems,  
Vol. 6 (2011), No. 1,  
pp. 008-015

Received 20 October 2010  
Accepted 29 December 2010

UDC 005.346

## Summary

There are few phenomena analysed among the expert community to such a great extent as CRM. Over the past twenty years, CRM has progressed down the road from a panacean tool that can cure all ills to the least desirable instrument used by managers, but has recently become indispensable in every company, regardless of its size or the industry it operates in. On the other hand, the response of the expert community through a large number of articles dealing with this phenomenon, i.e. the benefits of its application, preconditions required for its implementation and the failure analysis of the systems that implemented it, has contributed to a more precise comprehension. The aim of this paper is to present the possible views of CRM, and demonstrate the possible ways of CRM system implementation on a practical example of a company. The final section of this paper is dedicated to the most frequent reasons why these systems failed to produce the desired outcome.

## Key words

CRM, analytical CRM, operative CRM, collaborative CRM

## 1. Introduction

Despite being a young science, marketing has progressed a long way from its emergence to what it represents today. The rise of marketing can be related to Theodore Levitt and his belief that a company's goal should be to create value for its customers rather than to sell products (Levitt, 1960). The key idea of this approach is that companies should shift their focus from products and sales to consumers. This is where one of the definitions of marketing stems from, placing profit-targeted customer needs satisfaction in the centre of attention. This approach was in the centre of research attention up to mid-1980s, when it was succeeded by the approach known as relationship marketing. According to this approach, it was much more profitable for companies to create long-term customer relationship than to constantly attract new ones. Some of the research (Kotler, Wong, Saunders, & Armstrong, 2006) has shown that, if a supermarket located in the US manages to persuade a single customer to buy products in the observed supermarket throughout his/her lifetime, it can derive a profit of about a million US dollars only on him/her. Another example refers to automotive industry, where the assessed value of a single General Motors customer amounts to USD 276,000 (Buttle, 2004). The problem with this approach is that satisfying consumers' needs does not automatically mean their loyalty, so that this orientation places focus on the possible ways of creating long-term customer relationships.

However, the basic shortcoming of relationship marketing is that it insufficiently takes into account the costs of establishing customer relationships, so that costs frequently exceeded the revenue derived from the created relationship. In effect, not all customers are equally profitable, so that it does not pay to establish long-term relationships with all customers. How erroneous was this idea is also illustrated by the fact that, in certain situations, it is reasonable to „dispose of” certain customers (Mittal, Sarkees, & Murshed, 2008). Due to all these shortcomings, a new approach, known as Customer Relationship Management (CRM), started to develop in the 1990s, aiming to substitute all the above mentioned weaknesses of the previous approach.

The emergence of CRM occurred owing to the advances in information technology, which proved to be condition sine qua non of its development. Namely, the 1990s brought about the implementation of software systems enabling insight into a large amount of data on all customers for the first time. These software solution provided insight into complete consumer behaviour (who buys what, where, when and how), even in cases when products are offered to millions of different individuals. Until then, this information was only available to companies appearing on B2B market solely, due to a significantly smaller number of customers. Even this data, however, was not immediately used the right way. They were initially used for defining the profitability of each individual product, after which unprofitable products were

eliminated from the production process. Such behaviour lead to the so-called “company death spiral” (Rust, Zeithaml, & Lemon, 2000) There are several reasons for retaining unprofitable products in the product range. The first one is that the eliminated products’ fixed costs would have to be transferred to other products from the production programme. Secondly, if some of the products are eliminated from the production programme, it does not mean that subsequent analysis will point to the appearance of new unprofitable products. Finally, bearing in mind that customers tend to buy several products, narrowing down the product portfolio may lead to customer attrition. Due to the lack of eliminated products, the customers would be forced to seek them with other suppliers. This could result in making a decision to turn to a new supplier and purchase the products previously bought from the observed company.

The above mentioned mistakes have contributed to using the gathered data for creating marketing strategy, primarily for measuring each customer’s profitability, and their profitability-based customer classification. Such a classification provides answers to questions such as which customers are worth or not creating long-term relationships, which prospects should be targeted so as to raise the business operations to a higher level, which existing customers should be offered products that they have not used so far, as well as many others. In addition, it is essential to emphasise that technological advances enable the personalisation of the company’s offer, in terms of individualising pricing, products, distribution and communication channels.

It can be concluded from the above that companies have shifted their interest from the product portfolio to the customer portfolio (Johnson & Selnes, 2004), i.e. from product management to customer management (Sheth, 2005), and that two prerequisites are necessary for implementing CRM logic: customer focus (Srinivasan & Moorman, 2005), and the possibility to gather a large amount of data (Jayachandran, Sharma, Kaufman, & Raman, 2005).

## 2. Different views of CRM

A relatively short development path of the CRM resulted in disagreement within the expert community regarding the definition of CRM. The information that literature includes 45 different definitions of CRM (Zablah, Bellenger, & Johnston, 2004), both by researchers and large software companies like Oracle, Siebel and SAS,

demonstrates to which extent the term itself is in the centre of the researchers’ attention. In order to overcome these problems, CRM approach can be viewed from three levels: strategic, operative and analytical (Buttle, 2004):

### Strategic CRM

The focus of strategic CRM is the customer, i.e. customer-centric business culture. This approach implies that all the available resources are aimed at creating customer value. Despite the fact that a large number of companies claim to behave in compliance with this logic, a very small number of these companies can really be classified in the mentioned group. The problem with this approach is that it is difficult to distinguish between the classical marketing logic and strategic CRM, so that it remains unclear how this approach contributes to improving a company’s business performances.

### Operative CRM

Operative CRM focuses on the automation of certain activities presenting a problem for the company. Various software solutions can be designed so as to automate individual parts of the business system, with the aim of boosting the efficiency of marketing and sales staff. However, these software solutions can also be used for other purposes. One of the examples is Brother International, which produces and sells printers, fax machines, sewing machines and similar products. This company realised that there was a problem with a large amount of products returned by the customers after the purchase. A careful analysis established that customers had problems because products had become more sophisticated, and thus more difficult to use. After purchasing a product, many customers would decide to seek the services of company’s call centre; however, the call centre staff were able to answer successfully only 46% of the enquiries. Striving to find a solution to this problem, the company introduced the CRM system, enabling the call centre staff before answering the call to have insight into the users’ names, the products they bought, and the most frequent problems occurring when these products are used, together with the possible responses to the given problems. Moreover, the users’ names were recorded after every conversation, thereby creating a new statistical database. At the same time, the problems were automatically forwarded to the production and new product development departments, to prevent further occurrences of these problems. The company is estimated to have

saved 635,000 dollars in 2001 owing to this system, whereas the number of customer returns was reduced from 5% to 3.4%. In addition, the efficiency of call centre operators was increased, and waiting time was reduced to less than 5 minutes. There are some authors (Rigby & Ledingham, 2004) who argue that such an application of CRM is the optimum for a company, as this way does not change the complete production process, but rather, only its problematic part.

One of the companies developing operative CRM is M&I. The example of this company demonstrates that operative CRM refers to operative marketing activities, which are, in this case, grouped into four activities, namely:

- direct marketing;
- telemarketing;
- campaign management; and
- marketing programme management.

Direct marketing refers to marketing activity creating and using direct relationships with potential or actual customers/users as individuals, where (unlike ordinary advertising) they are required to take action: ask for a catalogue or demonstration, visit a trade show etc. The fundamental goal of direct marketing is to single out potential or actual customers/users as individuals and build continuous relationships to mutual benefit. In addition, direct marketing enables measuring the campaign's value and effectiveness.

The term "telemarketing" denotes a new marketing discipline using telecommunication technologies in a well-planned, organised and well-managed marketing programme, characterised by personalised sale of products or services to individuals without direct contact.

Campaign management. The fundamental advantage of using CRM is reflected in the possibility of choosing appropriate media for communication with consumers. The choice of media depends on the defined goals, on what is the desired message is, and how complex the set goal is. Achieving the desired effect, in most cases, requires a combination of well chosen media, i.e. a mix of media. In this, it is essential to point out that, by incorporating direct marketing into the overall goal and focussing on the individual rather than on the mass, the choice of one of the communication sequences produces the best effects.

Marketing programme management. Project management software tools were initially centred on their application in complex individual projects. Over the past few years, it has become quite obvious that most project management tool users are usually involved in managing multiple simultaneous, interconnected projects, i.e. programme management.

Programme management or multi-project management refers to coordinated management of a large set of simultaneous projects aimed at achieving business targets. This produced the need for developing software tools suitable for managing a multitude of simultaneous projects.

### Analytical CRM

Analytical CRM implies that managers will use gathered data to create value not only for customers, but for the company as well. Data can be gathered from various sources: from sales, finance, marketing campaigns etc. Internal data can also be substituted by certain external data, such as geo-demographic data and data on the customers' lifestyle. Their purpose is to serve managers in providing replies to the following questions: which customers are the most profitable for the companies, which buyers show a high tendency to switch to competitors, which customers are likely to respond to some of the company's offers, as well as many others. The idea of analytical CRM is to enable creating a customer-centred corporate strategy which, owing to the large amount of data, could better respond to their needs and create value more efficiently and effectively in relation to its competitors.

M&I's analytical CRM is divided into three large entities – market potential, customer analysis and competition monitoring. Through the market potential option, it is possible to perform sale analysis, market segmentation and pricing analytics.

Sales analytics enables analysing its results by several criteria: product groups or categories, regions, sale channels, segments, time, quantity, sales value etc. Also, the analysis can combine several of these criteria, e.g. sales volume across various regions and product groups.

The second criterion defining market potential refers to its segmentation. In other words, the observed CRM application enables an overview of each segment's size, growth rate, profit generated on this market segment, the size of competition and the segment's technological requirements.

The pricing analytics segment enables the overview of the planned and real cost price,

planned and real selling price as well as the competitor's selling prices. When determining the planned cost price, already incurred direct production costs, indirect production costs, marketing costs and overall business costs are taken into account, whereas the real cost price is determined based on accounting records. Taking into consideration the real market prices, the planned cost price is multiplied by the projected profit coefficient. The real selling price is the price achieved on a specific market in the competitive struggle. The competitors' selling prices are gathered by sampling on specific markets.

In addition to sales analytics, market segmentation and pricing analytics, the above mentioned analytical CRM also enables forecasting sales and profitability analysis.

Defining key accounts, defining their needs and creating value for them is one of the main tasks of the marketing department. M&I's CRM system enables its users to define which accounts yield the highest proportion of profit for the company, and what their characteristics are (such as the client's geographic location, amount of purchased products, possible complaints etc.). Also, this system enables monitoring in which lifetime stage each of the accounts is. Focussing on key accounts is one of the main advantages of CRM system. Bearing in mind that marketing practice shows that not all accounts are equally profitable, and that, in some situations, 20% most profitable accounts yield sometimes over 100% of the company's profit, whereas the least profitable account group contributes to generating higher expenditure than revenue.

Within competition analysis, CRM provides the users with the opportunity to monitor activities related to competition, to view their strengths and weakness, which segments they target, etc. These data represent a significant indicator in which direction the company's activity should move.

In addition to the above listed ways of applying CRM, the practice as well the theory mentions another aspect of CRM, known as collaborative CRM. It is well-known that, in the contemporary business system, competition does not occur between companies, but between networks. So, for instance, when SAAB declared bankruptcy in 2009, this jeopardised not only this company's employees and management, but also all of their suppliers, intermediaries and other service companies involved with the observed company. Therefore, meeting customer needs requires cooperation with other companies and linking the marketing

department with other parts of the enterprise. Collaborative CRM enables monitoring all meetings conducted between the mentioned subjects with the aim defining what is whose task, when the meetings were held, who the participants were, what the aims and agendas of the meetings were, which problems were listed and which conclusions were drawn from the meetings. This way, it is possible to exactly define individual tasks, and responsibility cannot be shifted from one subject to another.

An alternative to the above approach was offered by Zablah et al. (2004), who argue that CRM can be viewed in five different ways: CRM as a process, CRM as a strategy, CRM as a philosophy, CRM as capability and CRM as a technological tool.

### **CRM as a process**

The concept of process implies gathering tasks and capabilities which, in conjunction, bring about the desired business outcome (Davenport & Short, 1990). In other words, a business process implies a company's activities aimed at converting inputs into planned outputs. Among the authors viewing CRM this way, the opinion prevails that CRM is a phase in evaluating the seller-customer relationship. This approach, however, has a significant shortcoming: it is hard to define which inputs and which outputs the company should take into account.

### **CRM as a strategy**

The strategic view of CRM emphasises that fact that companies should use their resources to maximise customer lifetime value. Namely, this approach is based on the position that not all customers are equally profitable, and that a company should aim to attract only the "right" customers, i.e. those with high customer lifetime value. The long-term perspective of this approach means that selecting customers does not take into account only their current characteristics, but also their potential, i.e. forecasts of their future behaviour. Bearing in mind that customer lifetime value is measured over a long period of time, its shortcoming is the fact that it is very hard to predict how a customer will behave in two, three, or even more years.

### **CRM as a philosophy**

This approach is based on research claiming that the duration of customer relationship makes a

positive impact on the company's total financial results. So, for instance, in the opinion of the advocates of this approach, rather than focussing on individual transactions, it is far better for companies to view customers in the context of creating a long-term relationship.

### CRM as capability

Capability refers to the ability of a group of resources to perform a task or activity (Grant, 1991). This term is often identified with the term resources, although there is a certain difference between them. Capabilities are, first of all, knowledge-based, and unlike resources, they are very difficult to imitate. This approach to CRM focuses on the fact that it is necessary to manage a combination of various resources (physical, human and organisational) in order to create and build customer relationships, all with the aim of maximising company performance.

### CRM as a technological tool

Implementation of CRM also implies inclusion of a certain technology. Many authors (if not all) argue, however, that CRM is much more than technology. As the subsequent section of the paper will demonstrate, reliance only on technology, without prior changes and preparations for implementing CRM, can lead not only to failure in its implementation, but also a decline in the company's performance.

## 3. Problems in the implementation of CRM

In the late 1990s and early in this century, companies initiated massive investment in CRM systems. Many managers believed that these systems would enable them to enhance business processes and thus improve business performance. Things, however, did not develop in the desired direction. According to Gartner company, 55% of the implemented CRM systems failed to yield expected results (Rigby, Reichheld, & Schefter, 2002). The above mentioned problems resulted in a sudden fall in the popularity of CRM systems, so that managers assessed these systems as one of the least popular tools applied in companies (CRM systems took up the 23rd place on the list of the offered popular tools). Likewise, in the same questionnaire, one out five managers stated that CRM systems not only failed to produce benefits, but caused damage to creating customer relationships. Although a 28% growth in the

demand for CRM systems was recorded in 2000, these problems led to a fall in demand over the subsequent three years – by 5% in 2001, then by 25% in 2002, and finally by 17% in 2003 (Rigby & Ledingham, 2004).

Despite the existence of ways to improve business performance using CRM systems, in most cases their application did not progress in the manner that managers desired.

There were several pitfalls preventing the high-quality implementation of these systems (Rigby et al., 2002):

1. implementing CRM systems before creating a customer strategy;
2. implementing CRM systems before organisational changes;
3. assuming that more technology-intensive CRM systems are better; and
4. stalking rather than encouraging customers.

Implementing CRM systems before creating a customer strategy. Many managers believed that, after the implementation of CRM, there would be a substantial turnaround in business, and that these systems would enable the substitution of customers purchasing low-margin products with customers purchasing high-margin products. CRM systems are capable of enabling something like this, but on one condition – that they are implemented after adopting a traditional marketing strategy. In other words, in order for CRM system implementation to succeed, it is necessary to create a customer-centred strategy first, and only then invest funds in certain software systems with the aim of realising this strategy. That is, putting customers first represents the only way to achieve long-term success in a company's business (Roger, 2010). Creating a customer strategy is no more than the good-old-fashioned customer segmentation. It is well-known that customers have various needs and expectations, as well as purchasing power. As already stated above, it is important to classify customers into different brackets, after which it is reasonable to create a different strategy for each one. Nevertheless, many companies not only failed to create a strategy before implementing CRM systems, but also adapted the complete company strategy to new software solutions. To make matters worse, creating customer strategies was left to IT staff only, as they were believed to be best versed in the new systems. The latest research has shown that, in 41% cases, CRM systems are managed by the company's IT staff, in 31% cases this task is performed by sales personnel within the

company, whereas CRM systems are looked after by marketing staff only in 9% cases (Rust, Moorman, & Bhalla, 2010).

Implementing CRM systems before organisational changes. Another essential factor affecting the implementation of CRM systems is the company's organisational culture. If the company wishes to focus its attention on the customers, it is necessary to reconsider all the key processes, such as organisational structure, ways of measuring staff performance, ways of rewarding the sales force, production programme etc. Many believe that opening a marketing department meant taking a good step towards achieving this goal. However, for a company to be customer-centred, it is necessary for everyone, from the top management down to the sales staff, to place consumer needs in the centre of attention. Only after this logic has been adopted is it possible to implement CRM systems that produce results. This task, of course is anything but easy. Sometimes a change in the staff's thinking patterns requires a lot of time. Moreover, in the absence of support from the top management bodies, CRM system implementation is bound to fail. All of the above is confirmed by research conducted on companies that had problems with the implementation of these systems. Namely, as much as 87% of failure resulted from inadequate change management within the company, whereas in only 4% of cases the cause of failure was software-based (Rigby et al., 2002).

Assuming that more technology-intensive CRM systems are better. Many companies deem that the key to the success of CRM lies in the technological intensity of these systems. This does not have to be the case. Managing customer relationships can be conducted in various ways, and complex software systems are only one of them. Thus, for instance, it is possible to create long-term customer relationships by way of personnel, i.e. by changing the sales personnel remuneration policy. Reliance on contemporary technology only and imposing the rule that more complex CRM are intrinsically better can be a costly error. Practice has shown that successful CRM system implementation is possible not only with high or medium-level, but also low-level impact of new technologies.

Stalking rather than encouraging customers. If customers were aware that a company wishes to invest a certain amount of funds in creating relationships, where would they prefer these resources to be channelled? Is it opening new points of sale, or an increase in the number of tills

at the old points of sale? The reply to this and similar questions depends on the type of company and the type of relationships that a company wants to build. However, managers very often do not ask themselves such questions, which may result in making wrong business decisions. So, for instance, a company sometimes attempts to build relationships with unprofitable customers, or to build relationships with the right customers, but in a wrong manner.

**Table 1** Problems and useful tips for the implementation of CRM according to various authors

Rigby et al. (2002)	<ul style="list-style-type: none"> <li>▪ implementing CRM before creating a customer strategy,</li> <li>▪ rolling out CRM before changing your organization to match,</li> <li>▪ assuming that more CRM technology is better,</li> <li>▪ stalking, not wooing, customers.</li> </ul>
Goldenberg, B. (2003)	<ul style="list-style-type: none"> <li>▪ lack of sales, marketing and customer service strategy,</li> <li>▪ lack of corporate commitment,</li> <li>▪ in-company politics,</li> <li>▪ lack of proper training,</li> <li>▪ lack of know-how,</li> <li>▪ resistance by system users.</li> </ul>
Kale, S. H. (2004)	<ul style="list-style-type: none"> <li>▪ viewing CRM initiative as a technology initiative,</li> <li>▪ lack of customer-centric vision,</li> <li>▪ insufficient appreciation of customer lifetime value,</li> <li>▪ inadequate support from top management,</li> <li>▪ underestimating, the importance of change management,</li> <li>▪ failing to re-engineer business processes,</li> <li>▪ underestimating the difficulties,</li> <li>▪ involved in data mining and data integration.</li> </ul>
Mello, A. (2002)	<ul style="list-style-type: none"> <li>▪ adopt a customer-centric strategy,</li> <li>▪ engage line staff,</li> <li>▪ be willing to change the organization,</li> <li>▪ set measurable goals.</li> </ul>
Mochal, T (2002)	<ul style="list-style-type: none"> <li>▪ start with strong business sponsorship,</li> <li>▪ train everyone,</li> <li>▪ provide follow-up support,</li> <li>▪ communicate often and proactively in many media,</li> <li>▪ define roles and responsibilities,</li> <li>▪ address process and technology aspects.</li> </ul>
Beasty (2005)	<ul style="list-style-type: none"> <li>▪ get executive buy-in,</li> <li>▪ align departmental strategies,</li> <li>▪ strategy first, technology second,</li> <li>▪ minimize financial risks,</li> <li>▪ look for quick wins,</li> <li>▪ consider migration paths,</li> <li>▪ scrub the data,</li> <li>▪ plan for disruptions,</li> <li>▪ don't leave training till the end,</li> <li>▪ choose a champion of change,</li> <li>▪ ask the expert.</li> </ul>

Managers have to understand that creating customer relationships is a two-way street. Each of

the managers will want to create relationships with profitable customers, but the question is whether these customers want the same. Failure to create relationships who want it results in the loss of business opportunities, whereas insistence on creating relationships with disinterested customers may contribute not only to losing them, but also to spreading the company's bad reputation. If managers have the opportunity to contact their customers in an easy and cost-effective way, this does not necessarily mean that they should do it. This decision must be in accordance with the company's strategy rather than with the availability of data offered to them by CRM system.

Apart from the above listed approaches, many other authors have stated their view of problems related to CRM system implementation. These problems are listed in Table 1.

Generally speaking, the greatest problem in CRM implementation lies in inadequate commitment and belief that this system will start solving problems occurring in a company all by itself, and that it will automatically create customer relationships. As a matter of fact, it is often forgotten that a CRM system is till only a software offering certain opportunities, but to make it successful, it is essential to create the right corporate strategy, which is primarily focussed on creating and delivering customer value.

#### 4. Conclusion

Despite a great interest in CRM systems, in most cases the implementation of these tools proved to be a great failure. Despite the fact that there are several ways that can possibly enhance business performance, most companies simply misunderstood the purpose of these systems. Successful implementation of CRM in companies requires, first of all, a strong support from the company's top management, but also a change in the mindset of all the company staff, especially in case of analytical CRM systems. This paper presents the options offered by the CRM system of M&I company. The given example demonstrates that CRM is not only a new technological tools, but also that the implementation of these systems requires changes in the business process across all the segments of the company.

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