

BALANCED SCORECARD MODIFICATION WHILE APPLYING CRM STRATEGY

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Individualized one-to-one marketing and applying of CRM (Customer Relationship Management) calls for changing approaches to company performance evaluation. When evaluating a company performance it is not sufficient to evaluate only a company financial performance but it is necessary to use a far more elaborated and balanced system of market (customer) performance indicators together with performance indicators in terms of company staff innovation potential increase, performance indicators of internal company processes co-creating value for individual customers and financial performance of individual customers. The paper outlines a strategic system concept of company performance measuring and evaluating Balanced Scorecard, which is modified for evaluating a course and results of differentiated CRM strategy.

Key words: CRM, CRM strategy, Balanced Scorecard.

Introduction

If companies want to succeed in demanding competitive environment they were made to perceive and respect many more differences of a shopping and consuming customers' behavior and a number of enterprises in all market types started to apply an individualized marketing and CRM strategy (Best, R.J., 2005). CRM marketing strategy strives to create a higher value for customers by means of each customer individual care and uses personified communication, special services, adapted products and special price offers (Peppers, D., Rogers, M., 2004). CRM requires a higher degree of a marketing effort and marketing expenses. It is important that this extraordinary marketing effort leads to higher company efficiency. If increasing the value for customers via applying CRM strategy increases the value of customers for a company, the individualized relationship management marketing is justified (Kordupleski, R., Simpson, J., 2003).

1. Three types of CRM Strategy and Their Application

CRM marketing strategy focuses primarily on what happens after a customer enjoying mutually beneficial relationship both for them and a company is gained. The merit is to build long-term relationships with customers who will increase a company profit in a long-term perspective.

In last fifteen years three types of CRM strategy have been arising, first a mass personalization strategy, then a mass customization strategy and then a differentiated customization (Best, R.J., 2005):

- Mass Personalization,
- Mass Customisation,
- Differentiated Customisation.

Mass Personalization. The first degree of relationship management marketing is a strategy of a mass personalization when an individual customer is recognized according to their names and addresses, or as the case may be a previous shopping behavior. This information is then used for creating a system of personalized marketing communication with the target customers, so the customer then thinks they are individually taken care of, though they are offered standard products. To assure this a certain level of database marketing is necessary.

Mass Customisation. This strategy is based on recognition that certain customers are willing to pay more for extra benefits. The central point of this strategy means to let customers "co-produce a product" according to their individual needs and price sensitivity, however chosen from a standard product assortment. This strategy has been accomplished by the Dell company that creates a specific PC configuration for a customer according to their needs. However a PC consists of standard components and is built as a modular system. A problem of this strategy rests in the fact that it issues only from segmenting the market in terms of needs. It means that a company when applying a mass customization strategy tries to satisfy every single customer individually, though the degree of care for all the clients is basically the same.

Differentiated Customisation. Differentiated customization (differentiated CRM) respects varied needs of customers and tailor-makes products, services, ways of distribution and communication, simply the whole marketing mix according to individual customers. An active co-creation of a unique value for a customer based on a close co-operation with them should be most typical. The value for a customer does

not anymore rest in products and services provided to them in one-way direction by firms but this value is co-created by a customer and a company together (Prahalad, C. K., Ramaswamy, V., 2005).

The development of CRM strategy concepts has reached the phase when it is useful to apply all the three CRM strategies at a time in one entrepreneurial branch/business. The degree of adaptation to individual customers should be different according to current and potential benefit of customers for the company. It means that in case of potentially significant customers the individualization and intensity of market work is far deeper than with medium or little known customers. A strategy of differentiated customization is suitable for significant customers, a strategy of mass customization is suitable for medium significant customers and a mass personalization strategy is appropriate for less significant customers. This combined CRM strategy will be provisionally referred to as differentiated CRM strategy. When applying differentiated CRM strategy not only various needs, requirements and shopping and consuming behaviors of individual customers are respected for realizing marketing strategy and tactical operative marketing programs but also their current and strategic value for a company. (Lošťáková, H., 2005, 2006).

Segmenting the market according to current and strategic customer values ease the decision about how much to devote to particular target markets (Fig. 1.).

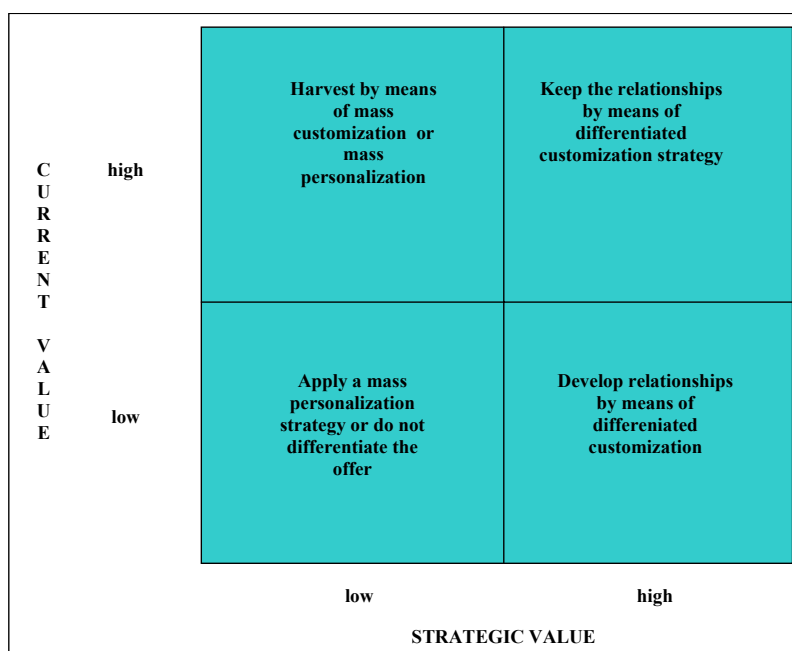


Fig. 1. The intensity of a market care in relation to a current and strategic customer value

If we distinguish customers according to their current value for a company and their strategic value for the whole period of a future co-operation with them, we get four value segments of customers:

- The most valuable customers of a high current and strategic value for whom the strategy of a differentiated customization is appropriate.
- The customers of the highest growth potential with a lower current, yet a high strategic value (it is the highest challenge for marketing), for whom the differentiated customization strategy is also appropriate.
- The value customer segment of a particular current marketing profitability that shall be used, but has a lower strategic value. Here a mass customization strategy or a mass personalification strategy seems to be suitable.
- Segment of customers of a low current and strategic value for whom a mass personalization strategy or not differentiated targeting are appropriate.

It is obvious that an extraordinary attention should be paid to the strategically most valuable customers. An extraordinary value offer for potentially significant customers (key account customers) creates conditions for long-term effective relationships development, which implies increase in company

share of their expenses, in marketing profits increase (MPI), and cash flow coming from these customers. This way raises their strategic value for a company, which leads to increasing company prosperity again.

2. Performance Evaluation while applying the CRM strategy

A question arises whether in transfer from market segment target marketing to differentiated CRM strategy it is ever appropriate to evaluate company efficiency only in terms of traditional internal indicators of financial efficiency as we often see in company practice.

2.1. Traditional Company Performance Evaluation and its Mistakes

Company efficiency evaluation options by using of traditional indicators of company financial efficiency

Company efficiency is traditionally evaluated by a financial analysis via a number of indicators:

- *Indicators of profitability (return)*, that measure how much profitable enterprising is by means of Return on Equity (ROE), Return on Assets (ROA) and Return on Sales (ROS).
- *Indicators of activity*, measuring how able a company is to use its assets and their particular parts to achieve turnover by means of assets turnover, inventory turnover and requisition turnover, or as the case may be by assets turnover time, requisition turnover time and inventory turnover time etc.
- *Indicators of liquidity* that measure how able a company is to pay its due liabilities by means of indicators Current Ratio (CR), Quick Ratio (QR) and Net Working Capital (NWC).
- *Indicators of solvency/insolvency*, that measure how able a company is to settle all its liabilities towards third parties at a potential wind-up. Commonly an indicator is used that characterizes a structure of a loan capital in relation to all the company capital (rate of indebtedness). Often a ratio between a company capital and a loan capital is used, which is referred to as capital ratio (rate of financial independence). From the point of view of creditors it is, however, also important to find out about the ability of a company to pay for a loan capital, it means to pay interests, or as the case may be to pay off the debt etc. The most common is to find out how many times paid debts are “covered” by a profit before deducting interests and taxes (interest coverage).

The disadvantage of these traditional ways of measuring company efficiency is that only overall financial company results are considered and the way a company managed serving particular target markets and customers is not evident. Another even more important problem is that these indicators do not clearly display how successful a company will be in the market, how successful it will be within a competitive environment and what development perspectives a company has. They do not enable a company to approach strategic decisions, neither the CRM strategy, but also other company functions strategies i.e. the way particular activities participating in “a value for a customer” creation should be managed and how to manage a management and knowledge company staff potential to assure a company better performance at serving markets than its competitors, i.e. it achieves a higher competitiveness.

These insufficiencies of company performance evaluation only in terms of financial efficiency can be fictitiously exemplified by the following. Let’s suppose a particular company reached the following results in the past five years (Table 1).

Table 1. Financial performance of a chosen company within 5 years time

Indicator (mil. CZK)	Initial year	1	2	3	4	5
Revenue from sales	254	293	318	387	431	454
Costs of raw material and external services	183	210	230	283	314	331
Value added	71	83	88	104	117	123
Marketing and sales costs	18	23	24	26	27	28
Other expenses	37	38	38	41	46	48
Pre-tax profit	16	22	26	37	44	47
Return on sales (%)	6.3	7.5	8.2	9.6	10.3	10.4
Assets	141	162	167	194	205	206
Assets profitability (%)	11.3	13.6	15.6	19.1	21.4	22.8

If we take traditional indicators of company financial efficiency as a basis for evaluation and management of company and SBU performances, a conclusion that the analyzed company enjoyed a successful history can be drawn. All the criteria used for evaluation are internal indicators of financial performance (revenue from sales, pre-tax profit, return on sales, and profitability of assets). Is the company performance really that excellent? No. The company could have achieved far better results in reality.

The problem is that only financial points of view do not provide external or a market oriented view of a company performance. Consequently we do not know how competitive the company is compared to the overall market demand and abilities of other competitors. We do not know how much its labour performance grows in terms of innovation; abilities of creative and flexible use of market opportunities, how successful the company is when managing internal processes for creating a special value for customers (see the example of the discussed company).

Though external company performance indicators do not display the elegance of financial indicators, they provide another, a more strategic view of a company performance, as it is obvious from the values of the market oriented analysed company indicators within last 5 years. From the Table 2 it proves evident that the company did not reach satisfactory results in the market as it had seemed at the first sight of the company financial performance indicators analysis.

Table 2. External performance of a chosen company X within 5 years time

Performance indicator	Initial year	1	2	3	4	5
Market increase year-on-year (%)	7.3	7.5	7.8	8.3	9.1	11.4
Company sales increase year-on-year (%)	9.6	8.4	8.1	7.6	6.3	3.8
Market share (%)	20.3	18.3	17.5	16.2	14.4	13.0
Rate of customer retention (%)	88.2	87.1	85.0	82.2	80.9	80.0
New customers (%)	11.7	12.9	14.9	22.5	24.1	29.2
Dissatisfied customers (%)	13,6	14.3	16.1	17.3	18.9	19.6
Relative quality of products*	120	120	119	117	109	107
Relative quality of service*	100	100	95	93	89	87
Relative sales of new products*	108	108	103	99	95	93

¹ Relative index, where 100 equals competitors performance, more than 100 – the company is better than competitors, less than 100 – the company is worse than competitors.

First, company sales, though they grew noticeably, nevertheless grew at a lower pace than the market, which issued in company losing its market share during the five last years. Alike the sales of new, or as the case may be modified products, products quality and services quality fell short of the competitors. The fall of relative product and service quality compared to the one of competitors' does not necessarily mean a product and service quality deterioration. In many case it only means that competitors raised the quality of products and services perceived by customers more than the company was able to. This decreased the company competitiveness in the market. When the relative product and service quality was decreasing parallelly to the fall in new and modified products sales compared to competitors, it was very difficult to retain the customers and the share of dissatisfied customers grew. As a result the company market oriented performance fell, customers were lost and the market share shrank. This analysis makes obvious that the company has not succeed in making the best of opportunities that arose in the market and from this point of view its financial results do not seem to be satisfactory. In case the company had at least kept its market performance at the same level, its financial results would have been much better than the company reached in reality.

2.2. Company Performance Evaluation by means of “Balanced Scorecard”

If we are to recognize not only the previous and current company results, but also explore its chances for a future development and gain its ground in the market, it is necessary, besides the internal financial performance indicators to primarily define and follow a number of externally oriented performance indicators. It is due to create a balanced strategic system of measuring and evaluating company performance „Balanced Scorecard“, set up of four mutually interconnected performance views – customer (market), innovative (growth), value-creating internal processes and financial (Kaplan, R. S., Norton, D. P., 2000)

The need to create a strategic company performance evaluation system Balanced scorecard issued from the fact that the age of information calls for new abilities to achieve success in the market (Kaplan, R. S., Norton, D. P., 2000):

- A company should create such relationships with customers that increase current customers loyalty and enable effective service providing to new markets;
- launch innovative products and services in the market, that are required by the target segments of the market – customers;
- produce customer oriented products and services of a high quality for low prices with a short time realization;
- mobilize abilities and motivation of staff for the sake of constant process, quality and time of response improving;
- implement information technologies, databases and systems.

The primary thing in this strategic performance evaluation process is a market performance (customer), however this is not conceivable without an innovative performance (staff ability to learn and develop skills) and managing internal value-creating processes starting from the identification of customer's needs to their needs satisfaction. The degree of success in these aspects is reflected in its financial performance as a consequence of mastering the previous performance views.

2.3. Modification of Balanced Scorecard while Applying the CRM Strategy

However it turns out the strategic system of company performance evaluation Balanced Scorecard the way it is being described in literature is to be still developed for the purpose of a company performance evaluation while applying the CRM strategy. It means to develop primarily market performance evaluation system in particular target markets, i.e. with particular customers. It holds true also for other company performance views.

While applying the CRM strategy the core does not rest in measuring and evaluating average performance during serving the whole market, but it is crucial to introduce a company performance evaluation on an individual basis, i.e. how a company manages an individual customer service in terms of market performance, innovation, value-creating processes and financial performance. Only such a system of company performance evaluation can be used for deciding about offer alterations and individual customers care system.

An overview of company performance indicators that are in my opinion appropriate for company performance consideration while applying a differentiated strategy of the CRM is depicted in Figure 2.



Fig. 2. **Strategic company performance indicators system while applying the CRM strategy**

Among the system of company performance indicators it is possible to distinguish performance indicators characterizing processes of creating a special value for customers and indicators focused on final market operation results. Both are important, however performance indicators focused on processes are especially important as their level predetermines the final market and financial company performance.

Process oriented company performance indicators while applying the CRM strategy Process oriented company performance indicators are indicators of staff learning and market service innovation capabilities, indicators of competitive performance in terms of creating a value for a customer and indicators of customer performance as an ability to empathize into customer needs and behaviors, a product and service quality, an offer value, a way of caring for the market compared to competitors from the point of view of customers, general knowledge of a product, customers preferences, a customer willingness to try a product out, customer satisfaction or dissatisfaction etc.

Their positive or negative changes generally imply real changes in shopping behavior of customers. Consequently there is a need get always informed about what their real level and development are. It is so; they are important leading indicators of future customer shopping behavior and thus a subsequent company performance in terms of final company results.

As an example let's consider that yet a customer is rather satisfied so far, they perceive the value arising from a product for them (compared to competition) sharply decreases. In principle a company does not have to do anything to provoke customer's dissatisfaction as, simply competitors offered a customer better combination of uses compared to the costs they had to expend. It results in customer's feeling the competitors' offer is more valuable for them and their complete satisfaction with the company product ceases. This change in customer perceiving opens a door to competitors' products and a customer tends to buy them.

If a company got a signal for timed warning, it can correct its behavior before a customer passes over to competition. If management and a company staff do not follow and analyze process oriented indicators of performance/efficiency, the company problems may not be revealed and solved until market and financial performance final indicators drop and imply something got wrong, which is too late.

Company performance indicators focused on final results while applying the CRM strategy. Company performance indicators focused on final result are sales volume, company sales increase pace compared to customer demand increase pace, company share of customers expenses, customers marketing profitability and customers retention and loyalty. These indicators express market operation results, as the outcomes are at dispose at the end of the period.

Let's suppose that e.g. sales revenues with a particular customer grow that they surpass the forecast and other financial result are also higher than we expected. Most managers would feel very satisfied at seeing the results. Market indicators expressing final results, however, show that the company share of customer's expenses shrinks as demand grows faster than company sales and that a dropping customer retention rate has been disguised by a growing number of new customers. Only this information signal something is not in order.

Without indicators showing continuous and final company performance results a company has only a limited insight into internal perspective of the market and into final financial results.

Conclusion

Development of communication and information technologies and sharpening competition resulted in necessity to consistently individualize work and markets and to apply the CRM strategy differentiated not only according to needs, requirements and shopping and consuming customer behaviors, but also according to their current and potential benefits for a company. It calls for a need to measure and manage these processes. That is why it is necessary to develop a company performance evaluation system based on a concept of strategic company performance measuring system Balanced Scorecard. This system, however, must be modified and enriched with new indicators when opting for a differentiated CRM strategy.

Primary intention of setting, following and meeting this way modified set of company performance indicators is to retain and constantly improve a company market position, market value increase and company wealth. Especially following company process performance indicators is crucial as they tell what market and financial enterprise results can be expected in future. Process market performance indicators ease a flexible response to customers needs, creating a lead in front of and deciding about marketing strategy changes for individual target markets and customers to improve future results.

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