



Customer Relationship Management and Privacy

Zhiwei Sun

Department of Information Science and Technology

Tianjin University of Finance & Economics

Tianjin 300222, China

E-mail: sunzhiwei_0@163.com

Abstract

This report introduces concepts of CRM and privacy. Now companies have realized importance of customers to business development. They begin to use CRM to aid themselves and provide best services for customers.

The fundamental action within CRM is to gather customer data that causes the privacy issues and, thereby to some extents, limit the data collection. As a result it has negative effects on quality of customer services and also reduce company profits.

In order to better the situation, this report also illustrates what should be done to leverage between data collection from customers and privacy concerns.

Keywords: CRM, Privacy, Loyalty

1. Introduction

In the modern business world, for increasing competition, companies collect and analyze customer information with the help of effective CRM. In this way, companies can get comprehensive view about customers and provide suitable services for them.

However, when information is gathered, problem of privacy appears.

This report will describe relative theories and current situation in CRM and privacy issues. Meanwhile, some proposed solutions for privacy concerns also could be discussed.

2. Description of CRM

2.1 Motivation of CRM

In the changing business world, the competition becomes fiercer. Customers have more choices for their purchasing and won't be loyal to one brand product. As WhitePaper (2000) described customers like giving business to companies that best meet their requirements.

In order to maintain customer loyalty and obtain profits, companies should make a shift from previous product-driven business strategies to customer-driven business strategies (WhitePaper, 2000). So companies should pay attention to how to measure profitable customers and how to create value for those customers.

In the shifting, customer relationship becomes important obviously. Companies have recognized that keeping a good customer-company relationship is a vital factor for success. Consequently, they need effective methods to aid them to manage customer relationship. In response to the needs, the term of CRM was born around 1997 (Bergeron, B., 2002. p.2).

2.2 Definition of CRM

Different from previous CRM means, such as direct mailing, this CRM is a means of managing customer-company relationship with computer-based tools.

Although CRM has become a hot topic increasingly, especially with the advent of E-commerce, it still hasn't had an unambiguous definition (Tan, X et al, 2002). Different people define the concept with different perspective.

Here we use the official definition on CRMGurn.com: "CRM is a business strategy to select and manage customers to optimize long-term value. CRM requires a customer centric business philosophy and culture to support effective marketing, sales, and service processes. CRM applications can enable effective Customer Relationship Management, provided that an enterprise has the right leadership strategy, and culture."

From above definition, we can know CRM is a business strategy instead of only being a technology. As for technologies,

they provide informational and operational systems for CRM (Ling, R. et al. 2001, p. 83).

As Bergeron, B. (2002) stated that CRM is concerned with the dynamics of existing customer company relationship. The main aim of CRM isn't to attract new customers but to retain existing customers.

2.3 Benefits of CRM

Companies make efforts to implement CRM effectively, because there are mutual benefits within CRM. The case of National Australia Bank is a typical sample. After implementing CRM, their profits have increased 28.7 percent during 6 months (Villanueva, J et al, 2002. p. 25).

After getting so attractive benefit, companies have more understanding about the opinion that customer-centric focus is the essential foundation of the CRM strategy (Ling, R. et al, 2001, p.83). In order to maximize benefits, they adopt information technology for gathering and processing customer data.

Generally, there are three key technology areas in CRM: Internet, customer call center and data warehouse (Shacklett, M., 2001). And Regalski, S. et al (2003, www.dmreview.com) pointed out, in order to get comprehensive learning about customers, companies integrate and standardize customer information using extract/transform/load (ETL) tools, enterprise application integration (EAI) tools.

With these means, companies can get useful customer information and make analysis. As a result they can manage customer relationship better.

3. Importance of information

No matter what technologies are adopted, the first task of CRM is to capture customer data from several channels. Only after that, can companies analyze data and extract valuable knowledge.

Firstly, by analyzing customer data, such as customer transaction records, companies can identify which customers are profitable to them or not. Then companies can only pay attention on profitable customers.

Secondly, companies can learn customer behaviors and make decisions for future development trend. Consequently, companies can get expected return on investment and retain customers.

In order to make these, companies need to know much about customers as possible. Indeed, obtaining enough customer data can provide help for companies. If the company only record one customer transaction data, they may look him as a non-profitable customer because of his limited profits for the company. So the company may dissuade continual business exchange. However, if the company has more information about him, they may learn the customer will graduate from law school, it's probably in the company's interest to keep the customer happy.

The sample proves sufficient customer information has great benefits for companies. Especially with the appearing of Web and E-commerce, the competition increases rapidly, companies have to provide personalized services. In order to exactly group customers into clusters, there are higher needs for data gathering.

However when companies gather customer information actively, especially within the e-transaction ear, the privacy issues have to be put forward.

4. Privacy issues

4.1 Overview

Privacy issues aren't new. Villanueva, J et al (2002) stated that customer attitudes towards privacy always are emotionally charged. They worry about what and how information is collected, used and shared.

Especially with the appearing of web, online transaction becomes more popular. Internet provides a rich means for businesses to obtain customer information. Consequently customers have more worries. In a recent survey of online consumers, over 65 percent were very or extremely concerned about maintaining their privacy after giving information over the Internet (Nykamp, M. et al, 2002, www.dreview.com).

4.2 Reasons for privacy concerns

It is reasonable for customers to have the concerns. Many facts prove that customers' normal life is interrupted because private information is known by others.

Before the advent of Web, people still can control this situation by refusing to provide personal information.

However, nowadays customers must provide some their information if they want to use the easy and fast purchasing channel--Internet.

Once information is given out, it will be recorded. After that, customers will be disturbed by endless e-mail or promotion magazines, even phone calling. When a people registers on a website for regular subscribe books, he usually has to provide one e-mail address and charge card number. Later, his e-mail box will be filled with spam, from unknown

organizations.

What's more serious, sometimes companies can know how many people in the family and where they go usually, and even where their children study. All of these make customer feel in danger.

The situation disturbs many customers. They don't want to waste time on those non-useful callings or letters. They also want to secure physical safe and to avoid embarrass. So they claim they want to protect their privacy.

4.3 Effects of privacy issues

Although customers strongly oppose the abusing of their information, they can't do anything to prevent companies. The only way is not to buy, especially to avoid online transaction despite with lower price, because comparing with providing information to an unknown website, customers prefer to let a people know it.

The situation has negative effects on good CRM. With fewer transactions, companies don't have enough opportunities to communicate and know customers. Especially decreasing online transaction, the channel of Internet can't make its function effectively. As a result, companies can't learn customers exactly and provide suitable services. This must affect companies' profits, too.

4.4 Necessity of alleviating privacy concerns

Unlike some years ago, companies should recognize privacy protection isn't an optional activity. The electronic technology has provided enough opportunities and effective ways to know and meet customers' requirements. Meanwhile it also has expanded rates of information abusing. Customers also have more awareness about privacy protection. Girard, D. (2000) once pointed that while Internet provides direct communications opportunities for companies, it also makes privacy a main concern in the customer's mind.

The following two points are main reasons for solving the problem.

(1). The dilemma situation

Nowadays many business companies fall into a dilemma situation. On the one hand, as Mckenzie, R (2002) stated Internet-powered customers request personalized services based on obtaining large amount of information. If they can't get satisfied services, they won't keep loyalty. A strong and visible customer privacy program can lead to customer loyalty.(Barney Beal, News Editor,02 Mar 2005).

On the other hand, with the responsibility of privacy protection, companies don't dare to take radical actions on information collection. Otherwise they will face the risk of invading privacy. One result is that customers distrust them any longer and give businesses to others. They must loss their competition in the market, too.

(2). Living on customer information

With rapid development of e-commerce, business companies have more dependence on customer information.

With collected information, companies can analyze customer behaviors and preferences. Then they can design characterized services for different customers. Only when they meet customers' requirements best and make customers happy, can they get more repeat customers.

And in e-commerce era, some websites make profits by providing products with collected customer related information. www.DoubleClick.com is a typical example. It collects and analyzes customer information in order to know what customers often do and what they prefer. With the information, it can develop tools for marketers to plan and analyze marketing programs so that marketers can make their marketing campaigns successfully. It is the reason why DoubleClick keeps the leading place of helping marketers reach customers in the highly competitive era.

So enough information is more vital for such websites. However with privacy concerns, these website can't be in normal operation at all because of lack of abundant information.

Facing these threats, companies should develop solutions for privacy concerns immediately. But what's more important, solutions must be effective.

4.5 Solutions for privacy issues

(1). Current solutions

In fact, many companies have fully realized customers are greatest assets. And effective protection of information is a key factor to keep assets with them and increase customer trust (Nykamp, M. et al, 2002, www.dreview.com). In this way company profitability can also be increased in the long run.

So many companies regulate privacy policies that ensure customer information can be protected without abusing. In website, all kinds of privacy statements are also published in order to get customer trust. However many of them aren't so effective as expected with following reasons:

✧ Changeable policies

Although many policies are regulated and also can make customers ease when providing personal information, these policies only can be kept in short period.

After some time, policies may be changed. The problem is more serious for online companies. For instance, AOL recently changed its privacy policy to allow to sell customer information (Bergeron, B. 2002. p.24).

Consequently, many online customers feel they can't verify their identity and purchasing records aren't sold to others.

✧ Ineffective statements

Currently when customers are asked to provide non-public information, they will receive certain privacy statements. These statements usually present personal information can be protected.

Actually, these statements don't imply that personal information can be treated as privacy (Loshin, D. 2002 www.dmreview.com). Contrarily, they only inform customers that their personal information can't be kept private. Usually the statements can list some organization names that can share the customer information.

With these statements, keeping information open seems correct and reasonable. As for customers, they don't have any options about it. They would think such statements they get is just like an inform letter for broadcasting their information.

(2).Proposed solutions

With so poor solutions, customers can't feel comfortable and safe at all. On the contrary, they will have more dissatisfaction. For companies, they also can be affected negatively. So they must treat the problem seriously and take effective actions.

Before companies adopt new and useful methods, they should keep clear ideas in their mind.

First of all, they should know resolving privacy problem isn't a form of words. Whiting, R. (2002) addressed that companies have the responsibility to make privacy work by adopting information technology and human training.

In additional, companies should have the awareness of investing capitals on improving privacy policies. Although the cost for privacy is hard to predict and count, usually the among is very large, they also should make the necessary investment. Wise company leaders should know which is more valuable between certain amount cost and achieving long term customer trust.

Only with these ideas, can following proposed solutions help companies with their privacy problem.

✧ Visualizing collected information

When companies want to collect information from customers, they should inform customers in advance and want they know their information may be shared. Then customers can decide whether they want to give out personal information.

Even if customers have provided information, companies also need to let them know what the information is collected and how it will be used and who will share the information. And customers should control the use of information.

✧ Promoting understanding about privacy police

After privacy policies are regulated, the company should let customers understand and believe them. It is a valuable opportunity to build trust with customers. Companies can make this by website, e-mail or sales calls. The message must be simple and let customers know companies' understanding about privacy concerns.

✧ Increasing customer trust about the third party

Usually a business company has interaction with third party and information may be shared between them. And less confidence of customers with the third party also affects their trust with the company correspondingly.

So the company has the responsibility to provide enough confidence for customers and let them believe the third party is also obligated to protect the privacy.

Using information technology

In order to improve privacy protection, some technologies should be adopted. Especially in the web era, there are more risks of abusing information during online transactions.

Companies should adopt security system to prevent competitors invading their customer database. And when customer type their personal information over Internet, some technologies also should be used to allow customers choose whether they want information shared or whether they need these services.

✧ Government interference

Privacy isn't only business but also policy issue. So government should regulate legal policies to constrain privacy

protection.

In fact, some countries, such as U.S. and Canada, have published registration for privacy protection and get positive impacts. The PIPEDA of Canada effectively protects customer privacy and also provides a standard for business companies.

5. Conclusion

It is obvious that more companies have realized that customer is king and they have to provide excellent customer services for keeping a good customer-company relationship.

In order to make it, all business companies try their best to gather customer information and analyze them. However the privacy issues make the data gathering difficult.

Companies should know if privacy concerns aren't stated openly, customer trust could be diminished or eradicated. So they should make efforts to resolve for getting trust.

References

- ASAS WhitePaper: Implementing the Customer Relationship Management Foundation-Analytical CRM. (2000).
- Bergeron, B. (2002). Essentials of CRM: A guide to customer relationship management. John Wiley & Sons, Inc., New York.
- Girard, D. (2000, September). CRM in the privacy era. *Target Marketing*. 23,9.
- Ling, R. and Yen, D. C. (2001, spring) Customer Relationship Management: An analysis framework and implementation strategies. *The Journal of Computer Information System*. 41, 3. pp.82-97.
- Loshin, D. (2002, September). Business Intelligence and the Myth of Privacy. *DM Review*. Retrieved August 28, 2003 from the World Wide Web: <http://www.dmreview.com>.
- Mckenzie, R (2002, July 5) CRM poses global pitfalls. *Computing Canada*.
- Nykamp, M. and McEachern, C. (2001, February). Customer Relationship Report: Privacy, CRM and ROI. *DM Review*. Retrieved August 28, 2003 from the World Wide Web: <http://www.dmreview.com>.
- Regalski, S and Fisher, D. (2003, March). Business Intelligence: 360?Insight: Integrated view of customer: Enabling Customer Insight. *DM Review*. Retrieved August 28, 2003 from the World Wide Web: <http://www.dmreview.com>.
- Shacklett, M. (2001, February) How Important is customer relationship management? *Unisys World*. 22, 2.
- Tan, X., Yen, D.C. & Fang, X. (2002, spring). Internet Integrated Customer Relationship Management: A key success factor for companies in E-commerce arena. *The Journal of Computer Information Systems*. 42, 3. pp. 77-86.
- Villanueva, J., Angeles, L. & Du, R. (2002). Customer Relationship Management: Customer Behavior, Organizational Challenges, and Econometric Models. *University of California and Duke University*.
- Whiting, R (2002, August). Making [privacy] work. *International Week*. P.30.
- Barney Beal, News Editor (02 Mar 2005). SearchCRM.com http://searchcrm.techtargt.com/news/article/0,289142,sid11_gci1063750,00.html
- Olswang, Published (13 October 2004). <http://www.silicon.com/research/specialreports/enterprise/0,3800003425,39124925,00.htm?r=1>
- CRMguru.com. "What is CRM?" <http://www.crmguru.com/content/answers/whatiscrm.html>
- <http://www.dmreview.com>
- <http://www.DoubleClick.com>