Role of Knowledge Management in Success of Customer Relationship Management

Abstract:
CRM is a strategy that integrates the concepts of Knowledge Management, Data Mining, and Data Warehousing in order to support the organization’s decision-making process to retain long-term and profitable relationships with its customers. Knowledge has been increasingly recognized as a key strategic resource in every firm’s success. This paper gives the reader an overview of different contribution in literature associated with the process about knowledge management and Customer Relationship Management, the benefit of using CRM and KM by integrating both approaches in together that can be reduced the risk of failure. As well, it illustrates an explanation of Knowledge Flows in CRM Processes and the significant applications of KM to CRM in all three of its manifestations: Customer-interaction management (CIM) - Customer-experience management (CEM) - Customer-success management (CSM). In this regard, managing relationships requires managing customer knowledge –knowledge about as well as from and for customers. Finally, it is concerned with describing the role of KM in achieving CRM objectives. The integration of KM and CRM will help a firm to use customer knowledge within the firm, share the useful knowledge among the different departments and provide personal knowledge services for the users.

Keywords: Knowledge Management, Customer relationship management, Customer-success management, Customer-experience management

1. Introduction:
Businesses today are facing new economic and competitive challenges that are forcing them to rethink the traditional tradeoff between quality, customer experience, and price. This is not a new phenomenon, of course, but it has intensified in recent years. (Microsoft Dynamics CRM, 2010)
Customer-driven companies need to harness their capabilities to manage the knowledge of those who buy their products (Baker, 2000; Michael, 2003). The concepts of customer relationship management (CRM) and knowledge management (KM) both focus on allocating resources to supportive business activities in order to gain competitive advantages. CRM focuses on managing the relationship between a company and its current and prospective customer base as a key to success, while KM recognizes the knowledge available to a company as a major success factor. From a business process manager’s perspective both the CRM and KM approaches promise a positive impact on cost structures and revenue streams in return for the allocation of resources. However, investments in CRM and KM projects are not without risk, as demonstrated by many failed projects. (Hemming, 2004) Knowledge has become strategic resource of organization as the basis of competitive advantage in the organization. KM is not something new; it is going to be something tangible and, in other words, there is a type of revolution on this topic today. Therefore, KM can be useful for the success of Customer Relationship Management (CRM) activity. As a concept, KM is one of the important factors for achievement of customer knowledge acquisition in a long term. Study the KM process important of the organization to validate the objective. Therefore, CRM process can be considered as knowledge-oriented process with the characteristics of knowledge intensity and process complexity. (Lin et al., 2006)
2. Theoretical Background:

2.1. Knowledge Management Terms and Concepts:

One of the hottest areas in industry right now is that of Knowledge Management. Driven by tremendous pressures for service quality, speed to market, and innovation, and by the availability of a new generation of exciting information management tools, companies are employing new technologies to leverage the intellectual assets of knowledge workers. (Lorinda, 2004) Knowledge is now seen as a factor of production not only on par with land, labor, and capital, but surpassing them in importance. Knowledge management is, first and foremost, a way of thinking. It is a way of thinking for managers: It draws attention to aspects which previously have often been neglected. In another sense, it is also a way of thinking for all employees: A knowledge-friendly culture increasingly determines the success of the company as a whole. (Herwig, 2008)

There is no universally accepted definition of knowledge management. But there are numerous definitions proffered by experts. (Rasooli, 2005& Filemon, 2008, Eizi, et al., 2013, Jahanshahi, et al., 2011a) Knowledge Management has been considered the most important asset of an organization. Furthermore, organizations are now realizing its importance due to its success factors like reuse of past knowledge, experiences and innovations. KM can be defined as the process of sharing, distributing, organizing, creating, storing and understanding of knowledge about organization policies, processes and products. (Dingsoyr, et al. 2002 & Arshad, et al. 2008) KM in general is a process to ensure that the intellectual capabilities of an organization are shared, maintained and institutionalized. (Eriksson, 2008)

Knowledge Management looks at how an organization adapts to changing conditions in order to survive in the same way that animal and plant species change over time to adapt to changing conditions, or like unsuccessful firms, they die off or are swallowed up by more successful competitors (Burn, et al 2002). KM is concerned with the exploitation and development of the knowledge assets of an organization with a view to furthering the organization’s objectives. (Sanchez, 2001; Abell, 2001 and Berglund, 2003)

Nowadays, Companies and organizations proactively pursuing more environmentally sustainable products and production processes are employing innovative technical and social knowledge management processes to enable their progress.

2.2. Concepts of Customer Relationship Management:

The origins of CRM can be traced back to the management concept of Relationship Marketing (RM) (Levitt, 1983). Relationship Marketing is an integrated effort to identify, build up and maintain a network with individual customers for the mutual benefit of both sides. RM is of largely strategic character and lacks a holistic view on business processes, although they are regarded as important. (Parvatiyar, 2000 & Adrian, 2004, Jahanshahi et al., 2010) Acquiring new customers can cost five times more than it costs to retain current customers (Massey et al.2001). Furthermore, repeat customers can generate more than twice as much gross income as new customers (Winer, 2001). Companies have realized that instead of treating all customers equally, it is more effective to invest in customers that are valuable or potentially valuable, while limiting their investments in non-valuable customers. As a result of these types of findings as well as the fact that customers want to be served according to their individual and unique needs, companies need to develop and manage their relationships with their customers such that the relationships are long-term and profitable. Therefore, companies are turning to CRM techniques and CRM-supported technologies. (Cunningham et al, 2006) Since the inception of CRM, the balance of power has shifted dramatically between buyers and sellers, with the rate of change accelerating in the past five years. Today, companies must offer extremely cost-efficient, differentiable customer experiences to acquire and retain profitable customer relationships. In our highly globalize economy, CRM is critical to enable businesses of every shape and size to fulfill the needs and expectations of their customers. (Sage CRM Solutions, 2008) Relationship management helps firms focus on the lifetime value of customers to enhance their relationships with profitable customers. (Jagdish, 2008, Nawaser et al., 2011, Jahanshahi, et al., 2011b) In recent years many organizations have identified the need to become more customers facing with increased global competition. As a consequence, CRM has risen to the agenda of many organizational strategies. (Bull, 2003) CRM is a highly fragmented environment and has come to mean different things to different people (McKie, 2000, Moezzi et al., 2012). CRM is both a business strategy and a set of discrete software tools and technologies, with the goal of reducing costs, increasing revenue, identifying new opportunities and channels for expansion, and improving customer value, satisfaction, profitability, and
retention. (Gary et al., 2002) CRM as a process encompasses the entire spectrum of activities starting from segmentation of customer data to acquisition and profitable retention. Each of these activities demand a very strong operational process effectively integrated with business intelligence. The diagram in figure 1 below represents the Key processes that are involved in managing effective customer relationships.

![CRM Life Cycle Diagram](image)

**Figure 1: CRM Life Cycle**

It has been suggested that CRM implementation will succeed only after the organization and its processes - job descriptions, performance measures, compensation systems, and training programs have been restructured in order to better meet customer’s needs (Rigby, et al., 2002). Furthermore, in order to “motivate” users to accept the introduction of CRM, top management support (Croteau and Li 2003) and commitment to change have been mentioned as success factors. According to Chen and Popovich (2003) “management must ensure that job evaluations, compensation programs, and reward systems are modified on a basis that facilitate and reward customer orientation. After all, how people are measured will determine their behavior”. Corner and Hinton (2002) maintain that the user in her own right is a risk for CRM success: “salespersons are more difficult to manage as system users” (Corner and Hinton, 2002 & Wikstrom, 2008). Initial CRM implementations should be based on adequate information and perspective about customers and the firm’s demand environment. Once implemented, CRM should allow organizations to see beyond the boundaries of the internal enterprise, and collect, analyze, and leverage such insight. It should include following issues:

- Understanding markets and customers (gathering market information, selecting target markets),
- Ability of dealing with different customers in different ways,
- Focusing on one-to-one relations by satisfying needs of individual customers,
- Developing an offer (selecting products, positioning, differentiating),
- Providing customer care (delivery process, service process, support, loyalty programs). (Urbanowicz, 2008)

2.3. Knowledge Flows in CRM Processes:

It’s been proved that knowledge management is one of the critical factors for success of CRM in a long-term. According to Newell (2000) the real value to a company lies in the value they create for their customers and in the value the customers deliver back to the company. Accordingly, it is important to mark that the value does not lie in more information and in more advanced technology. The value lies in the customer knowledge and in how the company uses that knowledge to manage their customer relationships. Knowledge is the sole of CRM. (Rasooli, 2005, Jahanshahi, et al., 2011c) The CRM discipline’s relationship with KM approaches and technologies has widely been recognized as a relevant field of research (Romano et al., 2003; Fahey, 2001; Winer, 2001; Massey et al., 2001). KM can be useful for the success of CRM activity. As a concept, KM process is one of the important factors for achievement of CRM in the long term. (Alhawari, 2010, Khaksar, et al., 2011b)

Organizations need to focus on three sorts of knowledge in CRM processes.
Firstly, they need to understand the requirements of customers in order to address them. This is referred to as knowledge about customers.

Secondly, the information needs of the customers in their interaction with the enterprise require knowledge for customers.

Thirdly, customers possess knowledge about the products and services they use as well as about how they perceive the offerings they purchased. This knowledge from customers is valuable as it feeds into measures to improve products and services. Efforts need to be made to channel this knowledge back into the organizations. (Bueren et al, 2005)

The model by Dous et al (2005) present knowledge flows in CRM processes can be classified into three categories: They need to understand the requirements of customers in order to address them. This is referred to as knowledge about customers. Customer needs must be matched with the services and products available. All knowledge required here fore can be summarized under the term knowledge for customers. Finally customers gain many experiences and insights when utilizing a product or service. This knowledge is valuable as it can be used for service and product enhancements. This knowledge from customers must be channeled back into an enterprise. (Alhawari et al, 2010, Sdeghi et al., 2013)

As a further concretization of this notion, we distinguish three kinds of knowledge flows that play a vital role in the interaction between an organization and its customers: knowledge for, from and about customers.

Firstly, in order to support customers in their buying cycle, a continuous knowledge flow directed from the company to its customers (i.e. knowledge for customers) is a prerequisite. Knowledge for customers comprises information about products, markets and suppliers (Garcia et al, 2002 & Salojarvi, 2009, Hashemzadeh, et al., 2011) and is primarily addressed by CRM service processes. This knowledge dimension also impacts the customer’s perception of the service quality - which has been identified as an important determinant of satisfactory financial performance (Wang and Lo, 2004)

Secondly, knowledge from customers is knowledge of customers about products, suppliers and markets. Within interactions with customers this knowledge can be gathered to feed continuous improvement. (Gebert et al 2002; Kristensson, et al 2004 and Alhawari et al, 2010)

Thirdly, knowledge about customers is accumulated to understand motivations of customers and to address them in a personalized way. This includes customer histories, connections, requirements, expectations, and purchasing activity. Knowledge about customers is collected in CRM service and support processes and analyzed in CRM analysis processes.

3. Role of Knowledge Management in Success of CRM:

The concepts of customer relationship management (CRM) and knowledge management (KM) have been recently gaining wide attention in business and academia. Both approaches focus on allocating resources to supportive business activities in order to gain competitive advantages. CRM focus on managing the relationship between a company an it’s current and prospective customer base as a key to success. A good relationship with the customer leads to higher customer satisfaction. Content customers are loyal and therefore more valuable customers. This directly affects the revenue stream. KM sees the knowledge available to a company as a major success factor. Through superior knowledge companies can accomplish their results faster, cheaper and with higher quality than their competition. Knowledge about customers, markets and other relevant factors of influence allows faster utilization of opportunities and more flexible reaction to threats. (Gebert, 2002)

KM is important for CRM because it can help the organizations get better service, enhance quality of product; faster respond to their customers. Organizations are becoming increasingly more reliant on leveraging their information and knowledge to increase competitive advantage. Consequently, the creation, storage, dissemination of information, knowledge about customers, products and services, are particularly essential. Therefore, KM is one of the critical factors for success of CRM strategy with the aim of increasing service quality and decreasing service costs, and new product and services delivered to the customer, few companies are transferring the information to customer knowledge. (Shanks, et al., 2001, Khaksar, et al., 2011a)

Also, give a description of CRM as Customer Satisfaction management aims at high customer satisfaction by offering customers a high quality of service and proximity. These objectives are often maintained by KM systems to get better service quality and accelerate processes and problem solutions. (Malte, 2005)

From a KM perspective, CRM has an inherent need for many KM processes and applications.

- CRM generates volumes of digitized information and content — KM offers an approach to intelligently manage this information glut
- CRM links the business to its customers and partners — KM is an approach to linking knowledge "seekers" with knowledge "providers". KM focuses on capturing what people know into explicit form, linking experts to each other, enabling collaboration, and applying organizational learning and best practices to future problems or opportunities. These processes all are heavily used in successful CRM. (Harris, 2003) Unfortunately, few companies are transforming the information to customer knowledge and therefore they miss the opportunity to provide value to their customer. However, applied in the right way, CRM is the tool that contributes to profit. If companies are transforming the customer data into knowledge and then uses that knowledge to build relationships it will create loyalty, followed by profits (Newell, 2000). It’s been proved that knowledge management is one of the critical factors for success of CRM in a long-term. (Rasooli, 2005)

KM has significant applications to CRM in all three of its manifestations:
1. Customer-interaction management (CIM)
2. Customer-experience management (CEM)
3. Customer-success management (CSM)

3.1. Knowledge Management in Customer Interaction Management:

Interaction management is the analysis and selection of media-based communication channels, e.g. interactive voice response (IVR) or the world-wide-web, to achieve the optimal channel mix. The objective is to increase the quality and value of interactions while at the same time decreasing the cost of interactions by shifting customers to less costly channels, e.g. web-self-service. (Senger, 2002) The knowledge that firms require for their CIM initiatives addresses what it will take to make sales, marketing and customer service more effective and efficient which are the dominant aims of CIM. This means training and enabling all contact persons and systems to access and use knowledge about customers’ reasons for seeking particular goods and services, criteria for selecting which brands and providers to buy from, which channels to seek or accept information from. Emphasis is on knowledge about customers in general, and in segments based on differential responses to CIM appeals and interactions. How all these affect customer awareness, interest and conversion to purchase behavior is the chief type of knowledge needed in knowledge management for CIM. When KM is well applied to CIM, a firm can ensure it ‘gets the right information to the right customer at the right time and in the right form’, hence improving both the effectiveness and efficiency of sales, marketing and customer service functions. Unfortunately, since management often stresses short-term cost savings over long-term revenue growth, CIM all too frequently focuses more on efficiency, and risks diminishing or even destroying, the customer relationships it is supposed to enhance. (MacStravic, 2004, Jahanshahi, et al., 2012)

3.2. Knowledge Management in Customer Experience Management:

Customer experience management (CEM) is "the process of strategically managing a customer's entire experience with a product or a company. (Thompson, 2009) What is needed first for CEM is a more complete understanding of what customer segments and individual customers expect and will welcome, versus what will promote their dissatisfaction and defection when facing transaction experiences. The second requirement is a thorough understanding of the relative value individuals and segments represent to the firm both actually and potentially. This requires separating valued customers who are profitable for the firm, from marginal who deliver sufficient revenue to cover the variable costs of serving them plus some fixed costs but are not profitable, and from 'losers' who drain the firm's resources. Such knowledge can be used to customize transaction experiences to individual or segment preferences, and promote retention and repetition of purchases. It is also used to increase the frequency of customer purchase, and to cross- and up-sell additional items to increase their customer-lifestyle value to the firm. Knowledge of their likes and dislikes, their actual and probable interest in other goods and services the firm offers is essential to both applications of knowledge management in CEM. (MacStravic, 2004)

3.3. Knowledge Management in Customer Success Management:
Unlike both CIM and CEM, which focus on brief encounters between customers and the firm and their impacts on the firm, CSM focuses on continuing relationships and the impacts on customers, as well as the firm. It considers and seeks to manage (with the active participation of customers themselves in most cases) how relationships and transaction experiences affect customers, and how effects can be managed and marketed to mutual advantage.

Were there any knowledge to manage in CSM, it would strive for intimate understanding of and insight into the enduring motivations of customers: what kinds of impacts they would like to enjoy from their relationships with firms; what would cause them to select one firm over another for such relationships; and what would make them commit to these relationships. It would begin with learning what impacts current interaction and transaction experiences are already having on customers (the impact on the firm is already the focus of CIM and CEM), as well as the extent to which customers are aware of and appreciate this impact, and attribute some portion of it to their contact with the firm. Since few firms however, conduct the necessary research and monitoring to obtain the knowledge required for CSM, there is little effort being made to exploit its potential and for either customers or firms to gain from a success-focused relationship. Few firms are thinking about, much less measuring, even much less managing the impact they are having on customers, given their CIM and CEM obsessions with managing the impact customers have on the firms. (MacStravic, 2004)

4. Conclusion:

Better KM/CRM integration can help companies navigate complex support problems more easily. Although more than two thirds of successful CRM programs will have integrated advanced knowledge management (KM) practices in their CRM processes by 2009, but there is still confusion about what KM is and what it can do for CRM. CRM requires far more sophisticated forms of KM, such as collaboration, active knowledge sharing among CRM professionals, engaging customers in communities, and using e-learning as a customer value-added service. However, there is substantial progress toward KM in sales and marketing, in marketing, sophisticated business intelligence and other knowledge-intensive processes are fundamental requirements in campaign creation and support.

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