14 Revenue Management and Customer Relationship Management

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Learning outcomes

After reading this chapter, you should be able to:

- Understand the impacts of revenue management on customer relationship management.
- Critique the concept of customer relationship management and appreciate the contextual background to the notion of the relational approach to customers.
- Understand the differences between business-to-consumer and business-to-business relationships in order to appreciate the effect revenue management has on customer relationship management in the hotel industry.

Introduction

Revenue management (RM) may have been one of the most examined subjects in hospitality and tourism research but its effect on Customer Relationship Management (CRM) and on organisations' marketing strategies remains a largely overlooked area. The value of customers and customer relationships are widely acknowledged in the field of marketing, which shows that acquiring customers is usually much more expensive than retaining them (Anton, 1996, p.11; Stone, Woodcock & Machtynger, 2000), and a well-developed relationship with customers, especially those strategically important business-to-business key accounts, offers critical benefits and opportunities for profit enhancement to both selling and buying companies (McDonald & Rogers, 1998). However, if the concept of RM is primarily driven by desire for short-term revenue maximisation, the sustainability of the revenue growth is questionable for two reasons. First, current RM practice is revenue-oriented, which emphasises the revenue yield maximisation from relative capacity such as airline seats, hotel rooms and conference spaces rather than profit yield from all possible yielding sources (e.g. customers). Second, to date, RM has been practiced mainly to accommodate the needs of selling organisations to increase their revenue and has taken limited consideration of the relationship needs of their buyers, namely the customers. Hence, if the short-term revenue growth takes place at the cost of customer relationship, the organisations' future financial success will be at risk. On the other hand, RM and CRM could and should complement each other if both practices are focused on the same goal. An integrated approach to RM and CRM could offer greater opportunities for companies to better understand customers' behaviour and their relationship needs. Revenue managers could therefore take proactive, rather than their previously reactive, actions to work with identified preferred customers or customer groups to co-create mutual benefits in a competitive market.

Understanding customer relationship management

Customer relationship management (CRM), as an extended partition of relationship marketing, has been studied extensively in the generic management and marketing fields. It is rooted in the relationship marketing theory that has evolved from the short-term transactional-based marketing philosophy to a long term relationship focused marketing paradigm (Hakansson, 1982; Gronroos, 1990). Although relationship marketing and CRM both stress the importance of two-way communication and focus on customer retention (Lockard, 1998), their management priority is found to differ. Relationship marketing emphasises overall customer retention as well as internal relationships with employees, external suppliers and other stakeholders (Berry, 1983; Gronroos, 1996; Gummesson, 1999), whereas CRM focuses on external customers and draws attention to identifying and retaining the profitable customers (Anton, 1996; Buttle, 2004), and improving the profitability of less profitable customers or segments (Ryals, Knox & Maklan, 2000).

Similar to attempting to define RM, it is difficult to make generalisations about the term 'customer relationship management' since the concept is composed of divergent aspects, each of which can be viewed from a different perspective. This is epitomised by the study carried out by Zablah, Bellenger and Johnston (2004, p.476), in which they reviewed more than forty distinct CRM definitions and suggest that there are five dominant perspectives of CRM – process, strategy, philosophy, capability and/or technological tool. Thus, it is necessary to clarify that in the context of this chapter CRM is seen as a theoretical concept, which Hasan (2003, p.16) defines as 'a business philosophy aimed at achieving customer centricity for the company'. More specifically it is about identifying, satisfying, retaining, and maximising the value of a company's best customers (Rigby, Reichheld & Schefter, 2002).

The word 'customer' also requires rigorous explanation as it can refer to very different groups of people – consumers, clients or other stakeholders (Johnston & Clark, 2001). The term 'customer' in the marketing literature generally refers to customers from both a business-to-consumer (B2C) context and a business-to-business (B2B) context (Buttle, 2004). In the B2B cases, the term 'accounts' is often used interchangeably with 'customers' (e.g. key accounts management – KAM, or strategic account management – SAM) to reflect the relational approach to valuable customers that considers the customer as a long-term investment made by the supplier in its own future (McDonald & Rogers, 1998). It is an investment of time and effort, in many cases requiring 'a short-term sacrifice for prospective long-term gains' (Cheverton, 1999, p.8). It is noteworthy, however, that in benefiting from the rapid technological advancement, relationships initiated by existing and prospective customers that are enabled or facilitated by online websites and various social media sites should also draw the attention of CRM; these include consumer-to-business (C2B) and consumer-to-consumer (C2C) relationships. Figure 14.1 below depicts the links between relationship marketing and CRM as well as the four main relationship domains.

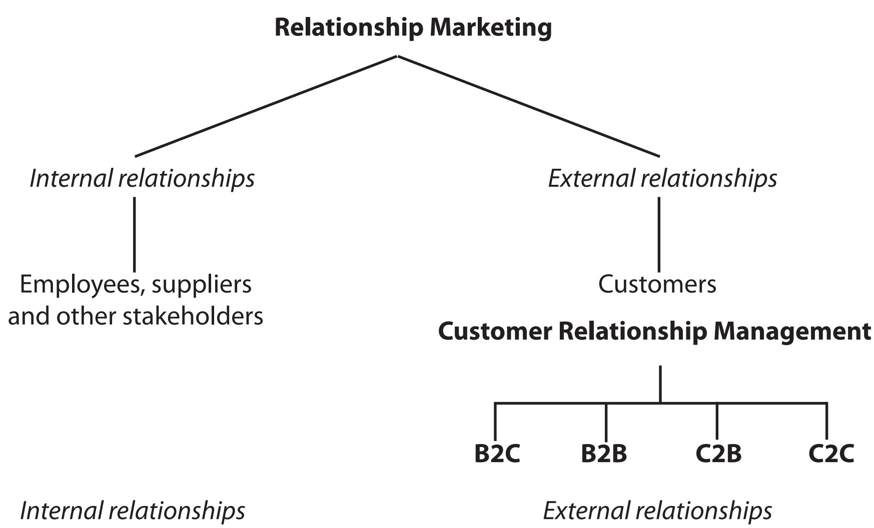

Figure 14.1: The links between relationship marketing, CRM and four relationship domains