# Strategic components in relation to CRM amongst SMTEs of the Eastern Cape, South Africa

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#### **Abstract**

Universally, SMTEs play a dominant role in the tourism industry. These businesses are often vulnerable to external economic forces and find it increasingly difficult to transform their strategic management to face the challenges placed upon them. This study focused on SMTEs in the EC province, which is economically the poorest province of SA. Strategic factors have become of pivotal importance to many organisations as businesses strive for competitive advantages through building relationships with their customers. The multivariate technique of exploratory factor analysis was used to assess the discriminant validity of the measuring instrument. Five factors with a positive impact on CRM were identified from the exploratory factor analysis of the data. The factors were business strategy; customer strategy; touch points; competencies, skills and technology; and perceived business performance. Cronbach's alpha coefficients were calculated to establish whether the factor scores were reliable with acceptable internal consistency. The results elucidate an overall statistically significant association between CRM readiness and business strategy; customer strategy; touch points and competencies, skills and technology. Overall, the findings of this study have made a contribution toward a largely under-researched area concerning CRM in SMTEs. It is recommended that future researchers conduct a longitudinal study and investigate other factors which impact CRM.

Key words: Customer relationship management, Tourism, Strategic.



Source:http://liseinsouthafrica.blogspot.com/2010\_08\_01\_archive.html

#### Introduction

This paper explores the strategic components in using CRM as a growth tool in small to medium tourism enterprises (SMTEs) in the Eastern Cape (EC) of South Africa (SA). The role of strategic components is well recognised and acknowledged as a significant contributor to business growth and sustainability. Universally, SMTEs play a dominant role in the tourism industry. These businesses are often vulnerable to external economic forces and find it increasingly difficult to transform their strategic management in confronting the challenges placed upon them (Vallabh, 2014). This study focused on SMTEs in the EC province, which is economically the poorest province of SA. This paper highlights challenges facing SMTEs in the EC in an attempt to identify future strategies that are most likely to support the SMTE sector into a growth engine, ideally suited to address key development issues, namely, poverty, income inequality and unemployment which hampers prospective overall economic growth in the EC (Tustin, 2015).

Strategic factors such as business strategy, customer strategy and value creation have become of pivotal importance to many organisations as businesses strive for competitive advantages through building relationships with their customers, improve customer services, enhance customer retention and ultimately improve business performance. Small businesses often need assistance in making them effective and efficient in dealing with complexities. Therefore, building sound relationships with customers is fundamental to a business. Successful CRM requires strategic management support and commitment of resources such as time, money, training and technology. As such, the importance of a strategic approach is emphasised. An important goal in strategy development of CRM is the alignment of business strategy with customer strategy (Vallabh, 2014). business strategy are underpinned by the business vision, the competitive environment and by organisational resources (Payne, 2006). CRM involves business process change and the introduction of new technology, consequently effective leadership is important. Leadership plays an important role as they need to monitor the external environment of an organisation. Leaders are therefore best placed to set the vision or strategic direction for CRM (Bull, 2003).

CRM seeks to provide a strategic bridge between IT and marketing strategies aimed at building long-term relationships and profitability. Strategies are therefore needed to develop information about customers. This will enable the organisation to understand customers and implement improved relationship marketing strategies (Ryals and Payne, 2001). CRM has been defined as a management approach that enables organisations to identify, attract and increase retention of profitable customers by managing relationships with them. CRM also involves using existing customer information in order to improve the organisations profitability and customer service (Ryals and Payne, 2001). This article reports on exploring strategic components in using CRM as a growth tool in SMTEs in the Eastern Cape of South Africa and their success in growing small businesses. The paper is structured as follows. First, some relevant literature dealing with the small business sector and its context, strategic factors, namely, business strategy, customer strategy, touch points and competencies, skills and technology. Second, the research design and methodology are discussed. An analysis and interpretation of results are elucidated. Third, the results and conclusion is presented. Finally, the relevance of CRM to Tourism businesses is discussed.

#### Literature review

# The small business sector and its challenges: the Eastern Cape

The diverse use of the small, medium and micro-enterprise (SMMEs), small and medium enterprises (SMEs) and small medium tourism enterprises (SMTEs) have caused immense challenges regarding reliable and comprehensive knowledge for this segment of the South

African economy. The small business sector is well recognised and acknowledged as vital and significant in contributing to economic development, employment, and the general health and welfare of both national and international economies (Tassiopoulos, 2011; Tustin 2015). The tourism industry is becoming more professional with increasing emphasis on quality management, customer care and greater responsiveness to discerning customer expectations (Tassiopoulos, 2011). The challenges facing SMTEs according to (Vallabh 2014; Tassiopoulos, 2011) are: political, economic, environmental, social, technology, innovation and distribution channels. However, despite the challenges mentioned, entrepreneurs create new businesses, and new businesses create jobs, provide people with a variety of products and services, intensify competition, increased productivity through technological change and positively impact individual lives on multiple levels (Tustin, 2015).

Seemingly, while much attention has been devoted to business skills, demographic factors and the challenges faced by small businesses (Vallabh & Mhlanga, 2015), little attention has been paid to strategic components, namely, business strategy, customer strategy and value creation. The high failure rate of small businesses in South Africa makes it necessary to examine whether using strategic components in the development of CRM as a growth tool impact business performance. The focus of this study is the Eastern Cape Province, economically the poorest province in South Africa.

# A strategic perspective of CRM

CRM is one specific example adopted to create and manage relationships with customers through analysing of customer data using various information (Ko, Kim, Kim and Woo, 2007). Improved customer relationships can lead to greater customer loyalty, retention and profitability. Therefore CRM can also be defined as the strategic use of information processes, technology and people to manage the customer's relationship with the organisation across the whole customer life cycle. Further CRM helps boost profits, improve customer relationships, increase instances of customer repurchase and develop a customer database (Ko, et al 2008).

The rapid changes in the competitive environment have forced businesses to fundamentally rethink the way they conduct business (Ozgener and Iraz, 2006). Globalisation of business, deregulation, information technology advances and competition are factors which have led to the emergence of the relationship paradigm for creating long-term relationships among customers and suppliers. Thus, the last decade has seen greater attention devoted to the subject of relationship management which became a powerful tool for developing long-term relationships with clients, suppliers and distributors (Osarenkhoe and Bennani, 2007). Ozgener and Iraz (2006) contend that CRM is the key competitive strategy businesses need to stay focused on their customers and to integrate all customer-facing activities throughout the organisation by using information and communication technology in order to get closer to the customers and create long-term relationships. Since dissatisfied customers can cause market damage, CRM which is greatly strategic in character, is considered an effective option for businesses. Cognisance should be taken of the fact that the focus of the study is on strategic components in the development of CRM among small businesses. The next section deals with important strategic components that are required in CRM.

### Strategic components of CRM

Payne and Frow (2005) noted that an important goal in strategy development of CRM is the alignment of business strategy with customer strategy. Decisions on business strategy are informed by the business vision, the competitive environment and by organisational resources. CRM is a core customer centric business strategy that aims to win and maintain profitable customers by integrating people, processes and technology (Chen & Popovich,

2003, Ozgener & Iraz, 2006, Josiassen, Assaf, & Cvelbar, 2014). Consequently, the discussion on strategic factors should also include decisions on customer strategy.

Chalmeta (2006) proposes that the starting point of a business strategy ought to be the analysis of the organisation's objectives (mission, vision and strategy) together with the analysis of its culture (policy and values). The fact that an organisation is already in operation and shows satisfactory financial results does not mean it is efficient, nor does it mean that its objectives and responsibilities have been clearly defined. In light of this thinking, it is fundamental to understand and to spell out the business strategy in detail. It would follow that it becomes essential to define where the organisation is, where it wants to go and where it is actually going before initiating CRM. According to Payne and Frow (2005) business strategy evolves over time and precedes customer strategy development. In terms of CRM, the business strategy commences with a review of an organisation's vision which is followed by a review of the industry and the environment in which it competes. These business processes are now briefly discussed.

Payne (2006) contends that a business vision ought to reflect the shared value systems which are held by the organisation. The vision provides a necessary framework to enable the diverse staff employed by an organisation to work together in a coordinated with the purpose of achieving of the overall objectives and philosophy of the business. It also enables organisations to develop a distinctive culture and customer focus among employees. Trust and commitment are key elements in CRM. According to Roberts-Lombard, Strachan and Du Plessis (2013) if organisations desire a good relationship with customers, they must ensure that their management and staff are trustworthy and show a strong commitment to service. Developing a strong business vision represents an important first stage in establishing a successful business strategy. It seems logical that an alignment between a sound business vision and a CRM vision is essential for the success of CRM.

Tie (2003) argues that in the case of SMTEs, a clear CRM vision ought to clarify the reasons the organisation would benefit from CRM, how CRM enables and supports the organisation's strategies such as the overall costs, leadership, differentiation and focus as well as serve as a guideline to an SMTE by following the process of CRM planning. In short, the clearer the vision and the more uniform the understanding of the CRM throughout the organisation, the smoother the CRM planning process will be.

Having developed the business vision, a further step in business strategy formulation, would be to undertake a review of the business and the environment in which the business operates including assessing both external and potential competition. Doing so will clarify the organisation's current position. It is important that an early review should be undertaken of the opportunities and threats posited by the environment since an awareness of significant changes and their implications will inform the development of the organisation's business and customer strategies (Vallabh, 2014). Payne (2006) emphasises that the rise in digital technology has enabled organisations to capture, store and utilise information in ways that were inconceivable prior to 2000. In the past, the focus was on transactional marketing whereby the goal of marketing programmes aimed to make customers buy, regardless of whether they were existing or new customers (Berndt & Tait, 2015).

Through the use of technology, the volume and speed at which information is transmitted between organisations and customers enables individualised dialogue with a customer allowing the organisations an opportunity to adapt to the particular needs of its customers and to their profiles. It follows that to achieve such speedy interactivity, the organisation would need to be technologically empowered to information provided by customers. Thus, if an organisation can capture information, learn from it and adapt to change faster than its competitors, it stands a better chance of achieving and maintaining superiority over competitors with respect to its ability to meet its chosen customers' needs (Payne, 2006). Koh and Maguire (2004) concur that organisations ought to be equipped with efficient technology to provide a better and more competitive service to its customers. In his study

based in Singapore, Kiat (2008) found that competitiveness of the environment may not necessarily positively impact SMTEs intentions to adopt CRM technology. However, Kaplan (2003) and Ogirri (2007) note that effective CRM activities enabled organisations to better compete in the business environment.

Parvatiyar and Sheth (2001) stress that the alignment and integration of business and customer strategy ought to be viewed as a high priority. Reviewing the business strategy assists the organisation to review its customer strategy. Customer strategy involves examining the existing and potential customer base and pinpointing the most appropriate segmentation options. Having a clear customer strategy is critical, as it will help determine which customers the organisation plans to attract retain and cultivate (McKim & Hughes, 2000). In this process, the organisation has to meticulously determine its choice of customers, their characteristics and group them into segments (Chalmeta, 2006).

Figure 1 highlights the dual focus of the organisation's business and customer strategies aimed at mutual value creation, the third strategic consideration. Value creation is an interactive process between the customer and the organisation (Payne and Frow, 2006). Payne and Frow (2005) hold that the value creation process consists of three elements:

- Determining what value the organisation can provide to its customers;
- Determining the value the organisation receives from its customers;
- Managing the value exchange, maximising on the life-time value of desirable customer segments. Increasing customer life-time value is an important aim of CRM (Dutu & Halmajan, 2011).

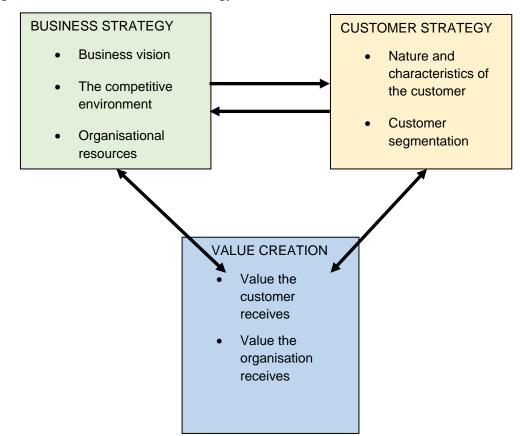


Figure 1; Business and customer strategy interface

Source: Adapted from Payne (2006)

Many business markets today are organised into networks, within which organisations reciprocally create value through relationships by partnering and through alliances. The value the customer receives from the supplier organisation is the total package of benefits or added values that enhance the core product. Thus customer value is the bundle of benefits customers perceive from a given relationship in both economic and psychological terms (Park & Kim, 2003). For example, a frequent buyer programme offers economic value such as membership discount or bonus points for repeat purchasing.

The value received by the seller or the organisation is closely linked to the service provided to customers. Tracker has been South Africa's leading vehicle-tracking company and serves as a case in point. Tracker strives to create value for a broad range of people and industries, who are their customers. Tracker filters and processes different strings of vehicle data and provides meaningful information that can be utilised to improve the lives of motorists, the general South African public and a plethora of organisations in the insurance, vehicle manufacturers, fleet and other intermediary markets. The creation of value is critical to everything that Tracker strives to achieve (Berndt & Tait, 2015). Loyalty results from customer satisfaction. Satisfied customers are more likely to repurchase the product or services and spread positive word-of-mouth messages. Creating customer value thus seems as a key source of competitive advantage (Izquierdo, Cillien & Gutierrez, 2005).

Based on the preceding points, it becomes evident that successful CRM requires a sound business strategy, customer strategy and value creation which will enhance the growth of small organisation. However, Racherla and Hu (2008) emphasised an alignment between people, business processes and information management as essential dimensions in CRM strategy development. This includes a multi-channel integration process which is one of the most important processes in CRM strategy development (Payne & Frow, 2005; Rodgers & Howlett, 2000). Multi-channel integration involves all the contacts and interfaces between the customer and the organisation (Richard & Jones, 2008). These activities include pre-sales communications, sales and also service situations (Pavne, 2006). The multi-channel integration process attempts to ensure a consistent and superlative experience for the customer across the different communication and transaction channels (Payne & Frow, 2005; Harrigan, Ramsey & Ibbotson, 2009). The multi-channel integration process focuses on decisions about the use of the most appropriate combination of channels, that is, how to ensure that the customer experiences positive interactions within those channels; and how to create and present a single view of the customer, regardless of their interactions across the different channels. There are a growing number of channels or touch points by which an organisation can interact with its customers. These include the sales force, telephone, direct marketing, electronic-commerce and mobile commerce.

Since the year 2000, a number of technologically advanced cell phones, such and Blackberry and iPhone, have emerged to suit the needs of customers and sellers. A rising customer demand for new mobile phones and an increased penetration of the tablet and smart phones in the market are expected to positively impact upon CRM in organisations (Liyakasa, 2012). Smart phones have opened up new ways of managing customer relationships. To add, the use of social media, for example, Facebook and Twitter has positively impacted on networking opportunities and communication strategies for both organisations and customers (Vallabh, 2014). To optimally benefit from these opportunities, effective information management of processes involved in the collection, accumulation and analysis of customer information resulting from customer interfaces (Payne and Frow, 2005) has to be ensured. Competencies, skills and technology relate to the collection, accumulation and analysis of customer information from customer interfaces. In the current study questions relating to technical infrastructure, technical resources, front and back office operations, as well as staff skills elicited information from the respondents on this factor. However, it must be pointed out that there was some overlap between Touch Points and Competencies, Skills and Technology as both deal with technology aspects.

## Methodology

This study followed a descriptive design and a quantitative approach to testing the relationships illustrated in Figure 1.

### **Data collection**

The Eastern Cape Province was chosen, given its challenges facing economic growth, poverty and unemployment. Primary data was collected from managers and owners of SMTEs based in the EC using an on-line survey, face-to-face survey and a telephone survey. In total, 332 respondents were selected from the database of the 2012 Eastern Cape Parks and Tourism database. The target population included bed and breakfasts (B&Bs), restaurants, transport services, coffee shops, travel agencies and guest houses. However, it must be noted that there was a predominance of accommodation establishments on the database, which made the majority of respondents to be owners of B&Bs and guest houses. Since the population was segregated into mutually exclusive sub-populations, or strata, it was possible to use systematic random sampling. A response rate of 93.3% (310 useable questionnaires) was attained.

# **Data analysis**

Both descriptive and inferential statistics were used in the study. First, the data were analysed using SPSS software (Version 20) to produce frequency distributions, measures of central tendency, and dispersion related to the organisations' and respondent managers' general characteristics. Data was subjected to exploratory factor analysis to extract factors and to assess the discriminant validity of the research instrument. The reliability (internal consistency) of the research instrument was assessed by means of Cronbach's alpha reliability coefficients (Leedy & Ormrod, 2013). Measures of variability were used, for example, the interquartile range, appropriate for data on ordinal, interval and ratio scales (Leedy & Ormrod, 2013).

### **Analysis and interpretation of findings**

Exploratory Factor Analysis (EFA) was performed in the current study to reduce the data into a smaller number of factors, specifically to identify CRM dimensions (Refer to Annexures 1 and 2). Four factors resulted from the EFA of the data. These factors were termed Business Strategy; Customer Strategy; Touch Points (points of interaction with customers) and Competencies, Skills and Technology. Principal components analysis was used as the extraction method and the oblique technique as the rotation strategy. The factorability of the dataset of interest was first assessed. Since Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (Kaiser, 1970) was 0.932 (substantially greater than the 0.70 threshold value) and Bartlett's test of sphericity (Bartlett, 1954) was significant (p<0.001), the suitability of the dataset for the factor analysis was justified. To establish whether the factor scores were reliable with acceptable internal consistency, Cronbach's alpha coefficients were calculated (Pallant, 2013). The results are depicted in Table 1.

Table 1: Cronbach's alpha coefficients for the factors

Factors	Cronbach's alphas
1 Business Strategy	0.88
2 Customer Strategy	0.85
3 Touch Points	0.87
4 Competencies, Skills and Technology	0.81

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All the factors obtained Cronbach's alpha coefficients greater than the threshold value of 0.70 for adequate internal consistency (Pallant, 2013). It can thus be concluded that all the observed factor scores were reliable.

# **Summary statistics for the factors**

Table 2 depicts descriptive statistics for the scores for the factor.

Table 2: Descriptive statistics: scores for factors (n = 310)

Fa	ctor	Mean	Std. dev.	Min.	Quartile 1	Median	Quartile 3	Max
1	Business Strategy	4.12	0.68	1.00	3.78	4.11	4.67	5.00
2	Customer Strategy	4.16	0.68	1.21	3.79	4.21	4.69	5.00
3	Touch Points	3.78	0.95	1.00	3.50	4.00	4.50	5.00
4	Competencies, Skills and Technology	4.17	0.67	1.14	3.86	4.14	4.71	5.00

The mean scores of the factors all exceeded 3.4 on the five-point scale indicating a positive response on average towards the statements measuring these factors. It follows from Table 2 that respondents mostly agreed with the statements that sought to determine the presence of these factors in their business. They were most positive about Competencies, Skills and Technology, and least positive about Touch Points being present in the business. It thus seems that as far as SMTEs in the sample are concerned the said factors are in place to a fairly large extent.

### Results and conclusion

The research results showed an overall statistically significant association between CRM readiness and business strategy; customer strategy; touch points and competencies, skills and technology. Further, the results revealed that strategic factors were of significance to the businesses that were investigated.

# Relevance to industry

This research has made a meaningful contribution toward a largely under-researched area concerning CRM in SMTEs. Successful CRM requires management support and commitment of resources such as time, money, training and technology and therefore research into CRM should engage the management of SMTEs. A strategic vision with a strong customer-centric focus is suggested, whereby, an integrated CRM approach is adopted to manage customer relationships. Changing customer needs and preferences require organisations to define more focused customer segments. Customers vary in their needs, preferences and buying behaviour. Therefore, by understanding customers, organisations can better tailor their offerings to maximise the overall value of their customer portfolio. In addition, a better understanding of how CRM creates value can help a business align its CRM strategy with its overall marketing strategy.

It is recommended that future researchers conduct a longitudinal study and investigate other factors which impact CRM.

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