

## **CUSTOMER ORIENTATION BY COMBINED CRM AND ENTREPRENEURIAL MARKETING AT SMEs**

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### **Abstract**

The following investigation tries to develop a guide to customer orientation for new companies. This customer orientation is often supported by customer relationship management systems in established companies. At the same time, customer orientation is also important for entrepreneurs in order to form a marketable architecture of a company. Establishing both measures in the same time seems difficult, but it proves to be cost-effective and feasible. The study is based on a specialist literature review on traditional measures aimed at customer orientation in customer relationship management and customer loyalty phases in the entrepreneurial marketing. Finding solution to serve both measures it requires a development of opportunities combined which reflect all relevant components of a Customer Relationship Management and the special characteristic challenges of a small and medium-sized enterprise in the start-up phase related to Entrepreneurial Marketing.

### **Keywords**

Entrepreneurship, Customer orientation, Customer Relationship Management, Small and medium-sized enterprise, Entrepreneurial Marketing

### **JEL Classification**

M13, M30, M31

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### **Introduction**

In order to implement the developed entrepreneurial ideas and to satisfy assumed market needs, a young Small and medium-sized enterprise must promote its market entry by entrepreneurial marketing, marketing of services and management as well as reaction to customer and market needs, by using a Customer Relationship Management system in order to better satisfy customer needs and for obtaining the customer loyalty. Global markets are dominated by many suppliers of the same product and in this case we cannot provide a clear differentiation of innovation in services by the client. By a strong substitutability of providers, beneficiaries must have the feeling that they are able to obtain an additional benefit rather than just the actual required original service from the business

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relationship (Brendel, 2002). The providers are therefore forced to identify faster the potential customers and to reach them (Brendel, 2003).

In this paper will be presented some concepts in the form of abbreviation, therefore we consider necessary their explanation: CRM - Customer Relationship Management, EM - Entrepreneurial Marketing, EU - European Union, GDP - Gross domestic product, SME - Small and medium-sized enterprise, OECD - Organisation for Economic Cooperation and Development.

### **1. Why is an orientation for Small and medium-sized enterprises useful?**

Small and medium-sized enterprises shape the economic structure of both industrialized and developing countries. Given their numbers, they constitute more than 99% of the total number of companies in the EU. If someone examines their number in the OECD countries, it is obvious that about 95% of all economic operators are Small and medium-sized enterprises. In Germany, they generated about 55% of GDP in 2013 and represented even 60% of the total number of jobs in 2014 (Federal Ministry, May 2014), and therefore represent a significant factor for economic and social stability. At the same time, they form a strong counterpoint for influential, globally interconnected large enterprises (OECD, 2002 a), and are a major driver of innovation.

Although they differ considerably, there exist general similarities in their foundation, regardless of their industries and markets served. Networking market players and the greater direct influence of the economic situation of a country, force Small and medium-sized enterprises to increasingly address to global markets. The resulting complexity within global markets brings great challenges. To cope with these challenges, verification and proper selection of marketing tools necessary for market entry are critical for communication and retaining potential customers (Ehret, 2008). Small and medium-sized enterprises have the advantage of a shorter reaction time, however, start-up companies in general usually lack a separate department which exclusively deals with marketing work and analysis.

### **2. Research methodology**

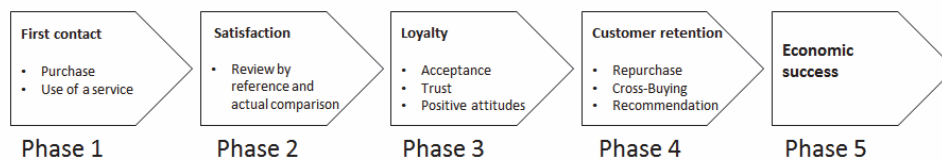
The approach in this study is based on a literature review of statistics and literature which are related to the subject areas Entrepreneurial Marketing in Small and medium-sized enterprises, customer orientation and customer relationship management. Furthermore, this work provides answers to the following four questions:

- Which kinds of challenges have young companies?
- What benefit offers a Customer Relationship Management system?
- What is the meaning of Entrepreneurial Marketing?
- How can young companies have nearly the same benefits experienced as a Customer Relationship Management system by using Entrepreneurial Marketing?

This paper is based on the research paper *-Aufbau von CRM im Rahmen des EntrepreneurialMarketing-* (Wiesener, 2011).

### 3. Research results regarding the influence on customer attitudes and customer behaviour

A direct influence on customer attitudes and thus behaviour requires customer loyalty strategies which have to be distinguished between hard and soft retention (Bliemel and Eggert, 1998; Bruhn, 2009). Hard retentions are characterized by a subjectively negative perception of the retention from the part of the customer. They result from a legal, technological or situational form of dependency. Although this means more planning security for the provider, it however reduces with the customer's motivation in terms of re-election after expiry of the hard retention in case of possible negative experience and at the same time recommendation by the customer (Bliemel and Eggert, 1998). Soft customer retention, however, can only be achieved by the positive result of a comparison made by customer between its performance expectations and its subjectively perceived service fulfilment. They can usually help to persuade customers to buy on a voluntary basis and so are more promising in terms of profit (Bliemel and Eggert, 1998). The perception of the customer within this retention process represents the chain reaction of customer loyalty according to Bruhn and Homburg as follows.

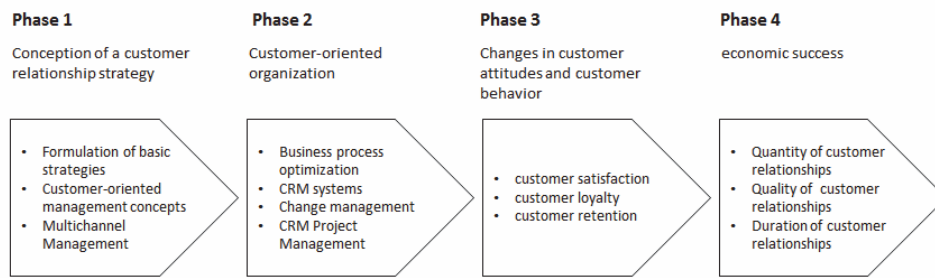


**Fig. no. 1 Chain reaction of customer retention**

*Source: Bruhn and Homburg, 2003, pp. 9 ff.*

#### 3.1 Research results regarding the customer orientation by CRM in the framework of entrepreneurial marketing

An entrepreneur pursues the objective to position its SME on the market by customer orientation and to establish it on a lasting basis. The entrepreneur uses a relevant CRM system to achieve this customer orientation using knowledge about the customer needs. The knowledge about the customer's needs provides the future concepts of the young company required for customer orientation, which are used to clearly define an orientation guideline for the internal and external organisation of the SME. Then, the objective is to view the current and potential service user, i.e. the customer, according to their current and potential value in the future. This is done both in terms of monetary as well as non-monetary benefits. The monetary benefit is measured by current and future transactions, the non-monetary benefits reflect the value of the customer relationship, which result from a possible recommendation behaviour and the provision of market information etc. (Günter and Helm, 2006). This market information represents an additional benefit for the continuous architecture of the SME aside from direct recommendations. The structure of a CRM process is represented by the 4 phases of the CRM chain of effects according to Wilde.



**Fig. no. 2 CRM chain of effects**

Source: Hippner, H., 2007, p.22

### 3.2. Research results regarding the possibilities on the specific use of CRM in entrepreneurial marketing

SMEs and entrepreneurs can identify and focus on potentially strong customers in their markets, based on market segmentation using a CRM system.

In the following there will be presented the 4 phases of the customer relationship management.

#### CRM Phase 1: Design of a customer relationship strategy

Early identification of market needs can help an SME to identify niches even during its start-up phase and correspondingly align itself. The strategic direction can be established by identifying and satisfying latent market needs or satisfying market needs by external restructuring e.g. new EU directives and regulations, infrastructure events etc. (Kollmann and Kuckertz, 2008). If the entrepreneur selects a niche orientation, for example, by a high degree of innovation and a focus on new customer needs, barriers to market entry usually do not represent an insurmountable obstacle (Benkenstein and Stenglin, 2008). Early internal orientation towards market needs across all hierarchical levels of the young company facilitates efficient market orientation (Claas, 2006). The focus of the entrepreneur during the foundation phase is the market strategic orientation of the company.

Such market orientation is often, however, a major difficulty for entrepreneurs due to limited resources (Kollmann and Kuckertz, 2008). Furthermore, the resources for intensive market research are very limited (Adler and Klein, 2008). In addition, the founder often experiences an information overload due to an increasing range of information and a lack of data evaluation (Herrmann and Homburg, 2000).

#### CRM Phase 2: Customer-oriented organisation

Entrepreneurs in the SME sector have the advantage that they can set up a customer-oriented business policy due to their flexibility and a more flexible internal structure from the outset in order to establish or improve a business relationship. The young management is flexible at this stage, independent and free with regards to its decisions (Gruber, 2004). This allows for quick and easy adjustment of the services offered to meet the customer's needs (Brinkmann, 2008). However, an SME cannot base only on a customer and innovation-oriented business policy. Internal organisation of the operating structure is just a

crucial for successful market development and establishment. They can indeed focus more strongly on the profitable parts of the company due to their size and need to spend less time dealing with unprofitable administrative activities (Bergmann, 2008); similarly, young SMEs must also aim for the consolidation of such a structure with the advantages of a flexible corporate structure that can be adaptable to the customer.

Young SMEs often pursue the wrong path, as they are usually represented by one or a few persons in their management who are influenced by their own ideas, and who lose focus on a realistic and effective implementation. They are therefore limited with regards to the objectification of the decision-making processes. The information systems required for the objective, strategic architecture of the management and the organisation therefore represent an essential function in the young SME (Hinterhuber and Matzler, 2009).

### **CRM Phase 3: Impact on customer attitudes and customer behaviour**

An entrepreneur can create customer loyalty via a customised range of services and the unique selling point that results (Brinkmann, 2008). This can be done both by a high degree of innovation as well as by build-up product and additional services (Rode, 2004). If continuous interaction with the customer takes place in the course of the customisation of the range of services, the positive effects set off an emotional bond because the customer feels valued. The corporate philosophy and strategy formation result from an often high level of innovation orientation of a young SME. The communication of this special orientation by marketing activities is aligned with performance differentiation (Brinkmann, 2008). Suggestions for improvement from the customer and market indications concerning the services offered may be instrumental to the architecture of the entrepreneur. These suggestions, obtained by the informal interaction between supplier and consumer, can be quickly checked using short communication channels of the SMEs. The essential flexibility obtained represents a great competitive advantage for young SMEs over large companies.

In the course of EM, entrepreneurs can often only use emotional and technological loyalty by customer proximity and orientation as well as innovative thinking. This innovative way of thinking must be communicated internally and externally. Also, framework conditions must be congruent with the objectives and feasible, and should be met the required expertise of the provider. The positive purchasing experience of the customer, resulting from a target congruency, and associated soft and thus voluntary bond must be placed centre stage (Brinkmann, 2008). Hard retention strategies should be avoided as there is still no basis of trust with the customer and thus uncertainty is generated (Laker, Pohl and Dalhoff., 2000). A soft retention automatically leads to voluntary service communication on the part of the customer. Their influence in private networks is a decisive marketing factor for entrepreneurs. However, these can then develop into a dependency on the customer as an opinion leader, as well as their enthusiasm and their communication intentions. Opinion leaders can influence people at the second stage with their decision-making. The entrepreneur must continue to be innovative with regards to any recommendations made by customer and possess positive features in order to keep or to be able to improve its market position (Schwarz, Krajger and Dummer, 2008). The lack of experience and limited resources among entrepreneurs harbour an increased risk of failure due to information leakage during the exchange of information on innovation (Brinkmann, 2008).

#### **CRM Phase 4: Economic success**

Young SMEs are closer to customers due to intensive interaction, can faster absorb and process suggestions and derive the measures that can be learned from them. An initial, subjectively perceived over fulfilment of the services offered in terms of customer expectations can be used by the provider. This subjectively perceived extra benefit may influence the customers in terms of higher interaction usage. . This builds trust and a soft customer loyalty arises in the long-term. At the same time, young SMEs can achieve a positive public representation due to a high degree of personal interaction with the customer (Winkelmann, 2010). In the design process of the young SME, the strong interaction can lead to optimal coordination of the business to meet the requirements of the customer without having to undergo a major restructuring process, as, for example, large competitors would have to go by (Brinkmann, 2008). This way the entrepreneur gets ahead of its competitors and strengthens its position. Furthermore, a customer bond can be considered as an economic success due to the so-called "Lock-in Effect." Here, the customer is rigidly bound to the seller by the economically feasible orientation of the business (Plinke, 1997). As long as this bond is the result of a high level of expertise, this can be perceived as non-contractual, voluntary and thus a soft retention.

Profound economic measurements both by monetary and non-monetary successes are mostly designed for extended periods of time and are generally not available with young entrepreneurs at the beginning. Alongside the sales figures, the important assessment criteria that result from the activities of the customer which cultivate closer relationships must also be determined by the SMEs at an early stage. Also, it is recommended to systematically break down the customer value according to performance indicators, to measure **transaction potentials**, which include base volumes, growth and a potential cost reduction, which young entrepreneurs are definitely capable of, as well as **relational potentials** needed to expand their success; i.e. reference, information and a potential cooperation. The relational potentials, however, let young SMEs easily reach their capacity limits due to the high efforts of interaction.

The economic value of change barriers by hard retention should be less important; rather soft retention should be strengthened. In case of hard retention, the supplier may achieve a certain economic planning security, but in this way must be quickly replaced in competition. In contrast, soft retention should be strengthened as soon as possible, although the staffing costs associated with this can often cause a problem (Winkelmann, 2010).

A proper assessment of the customer relationship to design possible measures to prevention customer migration is risky due to technical shortcomings of assessed powers and an often subjective perception, and it may have a negative effect (Koch, J., 2004).

#### **Conclusions**

In EM, entrepreneurs face big problems in designing a customer-oriented enterprise architecture due to limited resources, compared to large established companies. However, by a high level of interaction and thus efficient customer orientation, they can serve the concepts of a CRM system. EM provides the tools for a strategic approach to the potential beneficiary and an adapted orientation of their corporate communication at the customer touch point. The market-specific attainment of information occurs by the interaction of people in a company. This gathering of information by an exchange of information with customers and EM enable the efficient architecture of the entrepreneur even in the foundation phase. Young SME can dispense on classical expensive CRM software if the

loading of the actors is higher, through with a reducing of the financial investment. Success and long-term growth are thus significantly dependent on the actor's ability to interact and communicate and not on the CRM software. A cost-intensive IT solution in the traditional sense is not essential for a framework for action in the foundation phase of an enterprise.

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