

# A Model of Value Chain Management Based on Customer Relationship Management

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**Abstract** Many companies pay much attention to the Value Chain Management (VCM) nowadays. The VCM can give the strategic direction of enterprise development, which can create the value gained by the customer. The Customer Relationship Management (CRM) can build the communication channel of value delivery between the enterprise and customer. Through analyzing the secondary data of the related literatures, the article builds a model of Value Chain Management based on the Customer Relationship Management.

**Key words** Value chain management (VCM); Customer relationship management (CRM); Strategy; Marketing

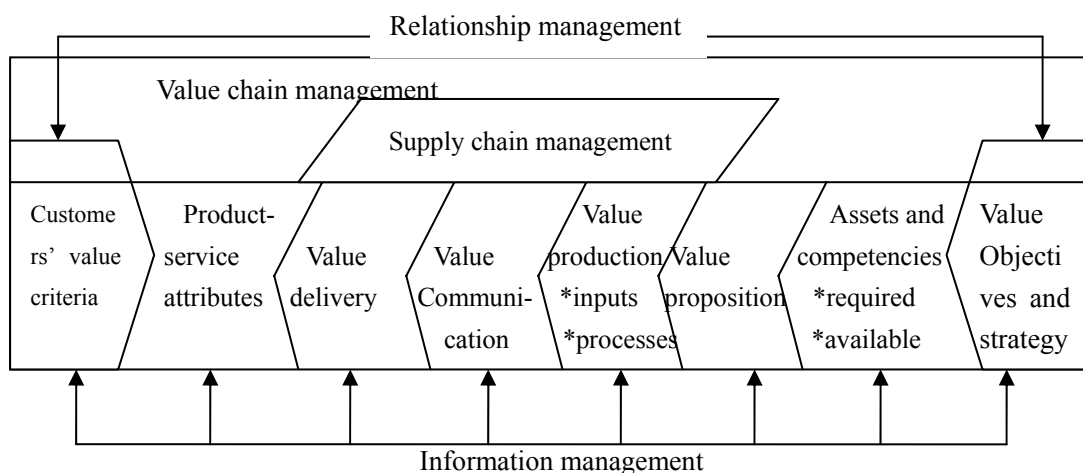
## 1 Introduction

The notion of value chains probably has its origins with Michael Porter, almost 20 years ago (Porter, 1985). Simplistically, Porter proposed the value chain concept as a means of identifying each of the business actions or stages that transformed inputs into outputs. The traditional view has been that at the end of the chain is the customer and that the better the chain is at servicing this customer the more value will be created. At its simplest then, understanding what each link does and how well it fills its role in the chain provides a vehicle for understanding each process or link, its strengths and weaknesses and how the chain might best be recast to maximize competitive positioning and therefore value<sup>[1]</sup>.

Interest in CRM began to grow in 1990s (Ling and Yen, 2001; Xu et al., 2002). Regardless of the size of an organization, businesses are still motivated to adopt CRM to create and manage the relationships with their customers more effectively. An enhanced relationship with one's customers can ultimately lead to greater customer loyalty and retention and, also, profitability. In addition, the rapid growth of the internet and its associated technologies has greatly increased the opportunities for marketing and has transformed the way relationships between companies and their customers are managed (Bauer et al., 2002)<sup>[2]</sup>.

The VCM can give the strategic direction of customer value development. The CRM can build the communication channel of value delivery between the enterprise and customer. It is necessary to study the relationships among the VCM and CRM. The purpose of this article is to build a model of VCM based on the CRM.

## 2 The Value Chain Process



**Figure 1 The Value Chain Process**

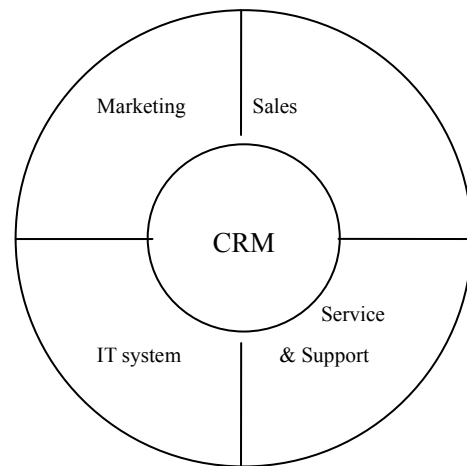
Brown (1997) has offered a succinct definition of the value chain: the value chain is a tool to disaggregate a business into strategically relevant activities. This enables identification of the source of competitive advantage by performing these activities more cheaply or better than its competitors. Its value chain is part of a larger stream of activities carried out by other members of the channel-suppliers, distributors and customers<sup>[3]</sup>.

A typical view of value chain structure and process is illustrated by Figure 1, the external influences have been omitted to simplify the diagram. It is intuitively obvious, simply by observation, that expansion is unlikely to occur without expansion of assets and core competencies. Consequently, this is a means by which the relationship and information management activities may become more effective by identifying value chain constraints and the activities needed (typically by first review key success factors) to ensure competitive advantage characteristics necessary for strategic success<sup>[4]</sup>.

### 3 Classification Framework for CRM

According to Kincaid (2003)<sup>[5]</sup>, West (2001)<sup>[6]</sup> and Xu et al. (2002)<sup>[7]</sup>, CRM comprises three major functional areas : ( 1) Marketing ;( 2) Sales; (3) Services and Support.

These three components may be seen as the life cycle of a customer relationship that moves from marketing, to sales, to service and support (West, 2001)<sup>[6]</sup>. Indeed, IT and IS are the other crucial components in supporting and maintaining these three functional areas as well as the whole CRM process (Kincaid, 2003)<sup>[2]</sup>.



**Figure 2 Classification Framework for CRM**

Thus, the classification framework proposed and shown in Figure 2 is based on these four areas (Marketing, Sales, Services and Support, and IT and IS), plus a fifth covering CRM as a general category as explained below:

(1) CRM. This is the core part of the classification framework that includes general discussion, concept, and managerial aspects of CRM.

(2) Marketing. Marketing is the function most often associated with CRM (Kincaid, 2003)<sup>[5]</sup>. CRM is founded in marketing (Russell-Jones, 2002)<sup>[8]</sup> and relationship marketing (Ryals and Knox, 2001)<sup>[9]</sup>. Ling and Yen (2001)<sup>[10]</sup> have described the evolution of CRM from direct sales to mass marketing, target marketing, and then to customer relationship marketing thus emphasizing that marketing and CRM are inseparable.

(3) Sales. The sales function is direct interaction with customers, which makes up CRM (Kincaid, 2003)<sup>[5]</sup>. It is important to develop sales strategies at the customer level to build and maintain relationships with customers to achieve revenue goals (Ingram et al., 2002)<sup>[11]</sup>. With technologies emerging for the sales function, it is possible to make the sales process more efficient and automated to increase sales.

(4) Service and support. High quality customer service and support is the key to improving customer retention rates and maintaining a good relationship with customers (Yelkur, 2000)<sup>[12]</sup>. In today's highly competitive environment, companies must pay attention to fulfilling the needs of each

customer quickly and accurately. Customer satisfaction is hard to win and easy to lose. If customers are not satisfied, they will simply move on to other companies.

(5) IT and IS. IT and IS play a key role in the development of CRM (Kincaid, 2003; Ling and Yen, 2001) [5], [10]. They can be used to automate and enable some or all CRM processes. Appropriate CRM strategies can be adopted through the assistance of technology, which can manage the data required to understand customers.

Moreover, the use of IT and IS can enable the collection of the necessary data to determine the economics of customer acquisition, retention, and life-time value. Advanced technology involves the use of databases, data warehouses, and data mining to help organizations increase customer retention rates and their own profitability [2].

#### 4 A Model of VCM Based on The CRM

CRM comprises four major functional areas: (1) Marketing ;(2) Sales; (3) Services and Support ;( 4) IT system. [2]A typical view of value chain structure and process is illustrated by Figure 4, the external influences have been omitted to simplify the diagram [4].

Different CRM function contributes to the different activity of VCM in Figure 1. The function of marketing can contribute to the customers' value criteria, Value Objectives and strategy, Value communication and Value proposition. Service & support can contribute to Product service attributes and Assets and competencies. Sale can contribute to Value delivery. We combine the model of Figure 1 and Figure 2, we can get the model of VCM Based on the CRM in the Figure 3.

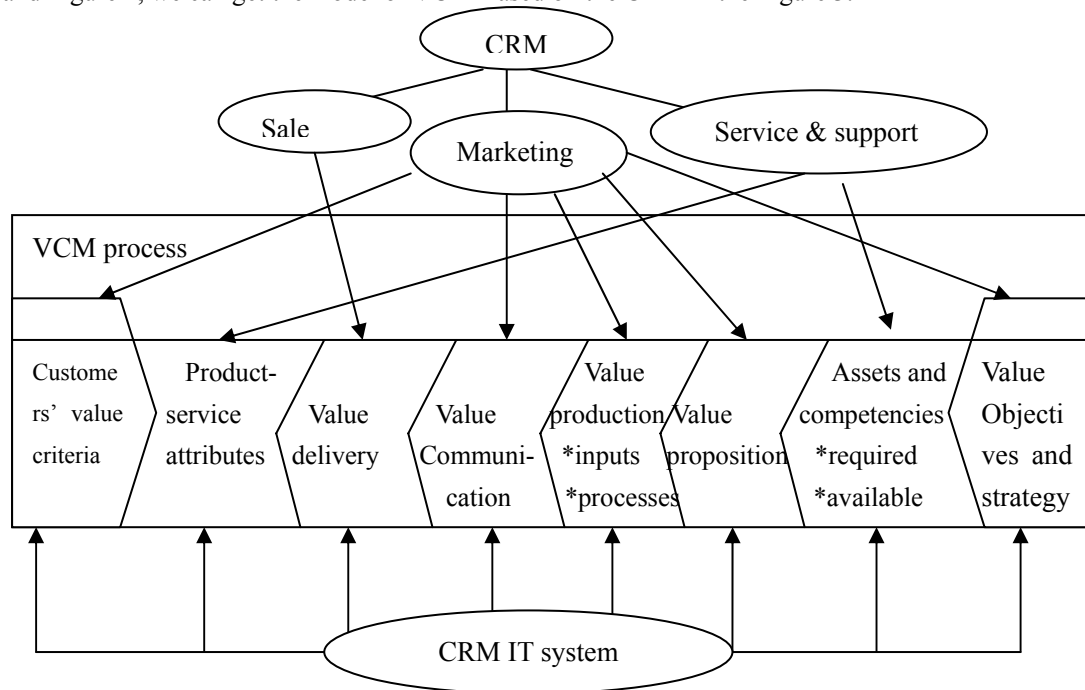


Figure 3 A Model of VCM Based on CRM

#### 5 Conclusions

Value chain management is a coordinating management process in which all of the activities involved in delivering customer value satisfaction are integrated such that customer satisfaction is maximized and the objectives of the stakeholders involved (the suppliers of activities, processes, facilitating services, etc.) are optimized such that no preferable solution may be found. Successful value chain management requires an identification of customer value criteria and an understanding of the key success factors which are necessary for creating both competitive advantage and resultant success. The value proposition becomes the means by which the customer understands the value offer (typically made explicit as a series of product/service attributes) and by which the value chain enterprise components formulate, evaluate and decide on their value-adding contributions [4].

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From figure3, two parts manage the value chain: CRM (Marketing, Sales, Services and Support) and CRM IT system. CRM determine the effective organizational structure of the value chain and its efficient operational management.

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