CRM practice in an emerging market: The case of China mobile

Lin Shengdong and Ke Xue

1Department of Advertising, Journalism and Communication School, Xiamen University, People’s Republic of China. 
2Business School, Sun Yat-sen University, Guangzhou, People’s Republic of China.

Accepted 16 May, 2011

This study uses the case of China mobile communications corporation to explore CRM practice in an emerging economy. While still in its infancy and with many deficiencies, China mobile adapted its CRM practice to China market successfully. It does focus on key customers, but never gives up unprofitable customers. In fact, China mobile has done a lot to cultivate the low-end market and is being rewarded now. China mobile also has targeted influential work units to develop a big group clients market and run its CRM marketing like B2B industries successfully. Due to poor data quality and fast market change, it relies on both technology and intuition to organize around CRM and manage knowledge. It is suggested that organizations in emerging economies should adopt a middle way and a developmental vision in CRM practice to keep a balance between the global and local, the present and future.

Key words: CRM, emerging economy, group client, individual user, technology, intuition.

INTRODUCTION

Currently, customer relationship management (CRM) is a hot topic in the fields of marketing and information systems. As a business strategy, CRM provides the enterprise with a complete, dependable and integrated view of its customer base, by using technology to bridge lots of pieces of information regarding customers, sales, market trends, marketing effectiveness and responsiveness. Generally speaking, the goals of CRM are to find ways to win new customers, nurture and retain those the company already has, attract former customers back into the fold, and cut the costs of marketing and customer service. Therefore, CRM helps companies increase customer satisfaction and retention through individualization and finally improves their long-term profitability and viability (Zikmund et al., 2003).

Theoretically, CRM seems quite simple. However, as with all such management theories, CRM is hard to put into practice properly as saying. Dickie (2009) surveyed over 1,700 companies worldwide, and found that only 16.1% of the CRM practice companies reported increased revenues as a result of CRM system usage while the majority of firms or 83.9% did not efficiently utilize the CRM tools they have in place. Furthermore, widespread application of CRM programs has not increased customer retention rates (Thomas et al., 2004). Companies have spent millions of dollars on CRM system, software and structure, but not enough has seemed to return. Given the undesirable facts and diversity of CRM theories, it is really necessary to study the successes and failures of CRM practices all over the world, then to construct an integrated theory regarding CRM.

It must be borne in mind that there are some macro imperatives, including political, economic and technological factors, for CRM practice. These imperatives differ in terms of levels of economic development for different economies. As we know, developed economies (such as the USA and Canada) have high political stability, their citizens are highly educated, and they are also characterized by high levels of innovation and entrepreneurship as well as high levels of both industrial and information technology. Whereas developing or emerging markets
Since CRM in China currently is in its developmental phase, no wonder it faces many challenges. The frequent and dynamic changes of Chinese life make it difficult to get clean and accurate data. Because data is of primary concern, data quality becomes the greatest challenge of CRM practice (Lin et al., 2010). Also, China is a big market with diverse and dispersed segments. Different levels of wealth, customer maturity, infrastructure, culture, languages and regional customs all make on-target segmentation another challenge in China (Lee, 2006). For many Chinese business people, CRM is nothing more than software and call center. The belief is too solid for simple education to change. However, CRM implementation takes time and often requires a corresponding change in the organizational culture and structure. There is a significant perspective gap between the managerial and operational toward the CRM practice (Limsarun and Anurit, 2010). Organization in emerging markets should focus more on the communication within organization to spread the clear and concise information and listen to each individual's requirement.

Because CRM theory is imported from USA, and American vendors control CRM software industry (Lee, 2006), CRM practice in emerging markets is deeply affected by American practice. Berndt et al. (2005) found that the implementation of CRM strategy in South Africa did not differ from the way in which it would be implemented among customers in developed economies. Financial service firms in South Africa follow the same four steps to implement a CRM strategy: (i) The identification of customers (ii) the differentiation of service (iii) interaction with customers and (iv) customization of products, services, and communication. In the initial stage of CRM practice, Chinese organizations also try to dance to American pipes (Li, 2005).

Organizations within emerging markets design their CRM implementations according to their market environments in later stages of CRM practice. Wu (2007) examined the implementation of CRM at Legend group, a leading PC vendor in China, and suggested that people, technology, and business processes were all critical success factors for implementing a CRM project in China context. By comparisons of critical success factors for activating a CRM system in both U.S. and Chinese markets, Shiah (2005) identified some unique factors in China, including Guanxi management inside organization, partnership for package localization, total cost for the whole CRM system, software back-up, system security, and critical resource management. Guanxi is a cultural phenomenon, which involves “relationships between or among individuals creating obligations for the continued exchange of favors” (Dunfee and Warren, 2001). Lin et al. (2010) found that those personalized and humanistic CRM practices, which are also characterized by guanxi, often run outside the IT system, especially in the Chinese B2B market.

Previous studies often use American standards to
evaluate CRM practice in emerging markets without considering the differences between two market systems. In this paper, however, we explore how China Mobile has developed CRM practice purely from its own perspective. It is probably not because it can’t follow American style, but because it has to adapt to China market.

RESEARCH METHODOLOGY

In order to understand CRM practice in emerging markets, case study method was adopted. Case study is an in-depth study of one phenomenon usually within a limited time schedule (Li, 2005). By using case study research, one can study all kinds of practices in their natural setting and generate insightful theories from practices and at the same time understand the nature and complexity of the process taking place (Benbasat et al., 1987).

China Mobile is selected for this research based on purposive and convenient sampling which is useful and accessible for understanding issues related to the research questions. Eisenhardt (1991) suggested that case selection was very important for theory building and extending. Chinese telecommunication companies are pioneers in adopting CRM in China. They have enough practice and experience. Also, China’s telecommunication corporations appear to be in a saturated market, CRM may provide an ideal tool for their sustainable growth. They have motivation to use CRM well. Finally, authors taught CRM course in 2010 fall semester for a part-time MBA class, in which all students (18 males and 4 females) were employees of China Mobile Telecommunication Company, Quanzhou Branch. It provides an opportunity for us to explore China Mobile’s CRM practice in details.

Both the primary and secondary data were collected. The primary data were collected in a group discussion among the MBAs. One of the researchers, also the course lecturer, used Zikmund et al. (2003) CRM textbook and HBS (Harvard Business School) CRM cases, which were all from the U.S. and reflect American CRM practice, for course instruction. China Mobile provided its data (the sample has 367 customers) for course practice. MBAs were instructed to do immediate comparisons of CRM practice between China Mobile and American enterprises right after each class. The study spanned the whole fall semester with various phases of group discussion over time.

There have been a total of 8 sessions for group discussion among these MBAs, and each lasted 1 to 2 h. The discussion details were recorded and subsequently summarized. Given the MBAs were selected from several departments closely related to CRM (including MIS, marketing, sale and customer service), researchers believed all of them were knowledgeable, highly experienced. As a result, group discussion was considered to be useful and suitable for empirical study. We also accessed the secondary data from recent reports, journals, online resources and others. As is known to all, these resources are very useful in informing primary data collection, and can be also used to interrogate findings. The data once collected was analyzed by identifying themes related to four specific ongoing activities in CRM implementations: (i) focusing on key customers (ii) organizing around CRM (ii) managing knowledge and (iv) incorporating CRM-based technology (Yim et al., 2004). Our group discussion went around the four activities as above. Nevertheless, the finding and analysis section does not provide a complete description of CRM practice by China Mobile, but mainly presents an outline of the part that is different from USA.

The case-study data was theorized by looking for evidence of similarity and difference between China and USA that can be rationalized as the influence of market environment in different economies on CRM thinking and practice. Background information of China Mobile is provided further.

FINDINGS AND DISCUSSION

Company profile

As the leading mobile services provider in China, China Mobile has the world’s largest mobile network and has been recognized as the world’s largest mobile customer base. In 2009, the company was continuously ranked as one of the “FT Global 500” by Financial Times and “The World’s 2000 Biggest Public Companies” by Forbes magazine. As of 31 December 2009, the China Mobile Group captured a market share of around 70.6% in Mainland China and had a total staff of 145,954 and a customer base of 522,283 million. Its GSM global roaming services and GPRS roaming services covered 237 and 182 countries and regions respectively (China Mobile website).

Among the four specific activities in CRM practice, “focusing on key customers” is the first of all and has direct impact on later activities. It also arouses the most disputes and the strongest disagreement among the MBAs. We will further put more emphasis on this theme. Yet the MBAs told that technology was not a serious problem for China Mobile, “incorporating CRM-based technology” will be discussed further.

Target at serving key customers, but do not give up unprofitable customers

As is well known, it costs 5 to 10 times more money to acquire a new customer than to retain an existing one, and a 5% increase in customer retention could boost the value of your average customer by 25 to 100%. Further, the famous 20-80-30 rule also tells us that 20% of your customers generate 80% of your company’s profits, half of which are lost serving the bottom 30% of unprofitable customers (Kotler, 2003). Accordingly, American advisors will tell you to focus on key customers and replace or remove those unprofitable customers. It is a sound and prudent strategy. Thus, the company-wide CRM focus is first to identify key customers by “lifetime value computations,” then to strengthen customer relationships through personalized interactions, and finally to make the seller organization indispensable to its most profitable customers.

China Mobile also provides good services to key customers. For example, GSM China Mobile VIP Club is designed for holders of Diamond, Gold and Silver VIP cards worldwide. Through this platform, key customers can enjoy a set of high-quality services, including having memberships of Golf club, Phoenix forum, and bank financial forum, special health services, waiting in VIP rooms at airports, discounts at partner merchants, using dedicated customer service desks, free internet service, recharging mobile phones, and other services. China Mobile has introduced three brands to meet market
needs: (i) GoTone for high value customers (ii) MZone for fun-love-youth group and (iii) Easyown for low value customers. It does provide better services to higher value customers. However, VIP customers’ services are becoming routine as good marketing tactics are always replicated quickly by its competitors.

The MBAs said that individual subscribers, regardless of high or low value, were not their “concern” today. China Mobile now focuses on winning group subscribers. One primary reason for this is that Western nations in North America and Europe are usually characterized by having an individualistic orientation and individuals feel they themselves are autonomous and independent; by contrast, non-western nations such as India and China are described as having collectivistic cultural values and individuals living in these countries view they themselves as relational and interdependent (Markus and Kitayama, 1991). Accordingly, the influence of a work unit (entitled danwei in China) on the life of an individual is substantial and people should be approved by work units to undertake everyday events such as travel, marriage, or having children. Though the increasing liberalization of China’s economy has changed the role of danwei to some extent, its influence is still very powerful. So the three major operators in China’s telecommunication industry, China Mobile, China Telecom, and China Unicom, all built up group client departments targeting danwei or group clients. In 2009, the customer base of group clients in China mobile reached 185 million, and occupied 35.4% of its total customers (China Mobile website). As well, emerging markets are mainly distributed in collectivistic cultures, including India, China, and number of countries in Africa and Latin America. Within those markets, some B2C industries such as telecommunication can also run their CRM like B2B industries by targeting influential units.

MBAs argued against the idea to ignore or simply give up unprofitable customers. Two vivid examples were given to support their viewpoints. One is from China Mobile itself. At the beginning of 1998, China Telecom introduced the personal handyphone system (PHS), an old and cheap technology to China, commonly called Little Smart (xiaolintong in Chinese) in some small cities. It is a quasi-mobile telephone system which also uses the fixed line network. Compared with China Mobile’s GSM and China Unicom’s CDMA, it has many technical deficiencies (for example it is sometimes very noisy). However, little smart makes mobile phone services more affordable to most customers. In Fujian province, China Mobile developed a local brand, ba ming tong, much cheaper than its other brands, to compete with China Telecom. It was easy for ba ming tong, to defeat Little Smart that time. But the group leaders of China Mobile, who were just trained in business school and accepted 20/80 rule, said no to promoting ba ming tong. As a result, China Telecom had more than 4 million Little Smart users in over 100 cities and localities in 28 provinces at the end of 2001, and 18.35 million users in 2003 (China’s Telecommunication Industry). It created a lot of competitive pressure on China Mobile because China telecom attracted a large number of existing and potential consumers from the mobile phone service market. The bitter lesson learnt from this case is “Do not pass unprofitable customers to your competitors and give them chances to grow up.” Another case is from China Mobile’s competitor, China Unicom. In 2001, after China Unicom determined to launch CDMA business, a famous European management consulting firm delivered an analysis paper on Chinese mobile communication operation market to China Unicom. It suggested that given CDMA’s technological advantage, China Unicom should target at the high-end subscriber market. However, it failed. As the MBAs said, the idea was good, but neglect of the low-end market made China Unicom fell short of great demand in China. They repeatedly said that we should see customers in the light of their development, and that today’s unprofitable customers might become tomorrow’s profitable customers.

MBAs provided many reasons to keep the unprofitable customers. At the beginning, they mistakenly used long tail theory to explain it. According to long tail theory, millions of small niche markets with lower demand may match or exceed the success of a few best-sellers through cost-efficient digital channels (Anderson, 2006). However, the low-end market in China hardly seems in the same league as Anderson’s long tail. Then they adapted the concept of cross subsidization (the practice of charging higher prices to one group of consumers in order to subsidize lower prices for another group) to Chinese bind sale, which means for one customer/household, the losses incurred in one product/service are offset by income earned in other profitable binding products/services. And this idea is against the so-called “cream-skimming” or “cherry-picking” theory. The theory suggests that, to make profits, telecommunications suppliers in a developed and competitive environment, should focus on serving dense urban areas (the “profitable cream” of telecommunications customers) rather than rural areas or low usage households, and therefore should charge high price in rural areas (Benjamin et al., 2001). However, it seems quite necessary for China Mobile to adapt cross subsidization and there should be several reasons for this. According to a report by China Daily in 2006, “connecting every village program” (cun cun tong) covered more than 50,000 villages by late 2005 via using the existing network of China Mobile and other key players. Futhermore, around 100 million farmers in China have left their inland villages to get jobs in east coast cities due to regional economic imbalances (Wang and Foo, 2008). For them, mobile communication plays an essential role in maintaining family contact. Cun cun tong obviously wins a high reputation for China Mobile and further promotes the growth of China Mobile’s revenue.
Table 1. ARPU, disposable income per inhabitant and subscribers of China Mobile in the period of 1997 to 2009.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU per month– China Mobile (yuan)</td>
<td>431</td>
<td>366</td>
<td>299</td>
<td>213</td>
<td>141</td>
<td>115</td>
<td>99</td>
<td>92</td>
<td>90</td>
<td>90</td>
<td>89</td>
<td>83</td>
<td>77</td>
</tr>
<tr>
<td>Disposable income per month - rural residents (yuan)</td>
<td>174</td>
<td>180</td>
<td>184</td>
<td>188</td>
<td>197</td>
<td>206</td>
<td>219</td>
<td>245</td>
<td>271</td>
<td>299</td>
<td>345</td>
<td>397</td>
<td>429</td>
</tr>
<tr>
<td>Disposable income per month - urban residents (yuan)</td>
<td>430</td>
<td>452</td>
<td>488</td>
<td>523</td>
<td>572</td>
<td>642</td>
<td>706</td>
<td>785</td>
<td>874</td>
<td>980</td>
<td>1149</td>
<td>1315</td>
<td>1431</td>
</tr>
<tr>
<td>Subscribers –China Mobile (million people)</td>
<td>13</td>
<td>24</td>
<td>38</td>
<td>66</td>
<td>104</td>
<td>118</td>
<td>142</td>
<td>204</td>
<td>246</td>
<td>301</td>
<td>369</td>
<td>457</td>
<td>522</td>
</tr>
</tbody>
</table>

Source: National Bureau of Statistics of China, China Mobile reports, Author’s calculation.

stream. According to its interim report in 2007, the rural market had accounted for over 50% of new subscribers. Finally, continuous increase in disposable income per inhabitant and continuous decrease in ARPU (average revenue per user) of using mobile phone also drive today’s unprofitable customers to be tomorrow’s profitable customers (Table 1). In 1997, ARPU of China Mobile was so high (431 yuan per month) and income was so low (174 yuan for rural residents, 430 yuan for urban residents) that most Chinese could not pay for using the mobile phone service. Nevertheless, in 2009, ARPU only accounted for a small part of disposable income. The significant increase in subscriber numbers also indicates that the mobile phone market in China has evolved into a huge market. Due to the differences in economic development as well as cultural differences, we should scrutinize the traveling theories originating in the West with care before applying them to practice. Knowledge generated by analyzing CRM activities taking place in Western post-affluent economies may not be applicable to developing economies — and may never be. Wang (2008) speculates that “anyone who overlooks the gaps in disposable income between developing countries and post-affluent societies will forever chase after mirror images of Euro-America in Shanghai and fail to crack the ‘China puz-consumers’ points of view.” The sheer the wisdom of Prahalad, a famous corporate management guru who believes that inspiring the mass numbers of Chinese low-end customers even create a sales miracle that Coca-Cola and Procter and Gamble are counting on. Clay Chandler, a senior writer for Fortune, comments that China Mobile’s strategy “reflects poor can be rewarding.” China Mobile’s profits have not adversely been affected by the huge addition of the rural population with low ARPU and the rural population has in fact become an important source for profit growth (Wang and Foo, 2008).

Organize around CRM and manage knowledge by technology and intuition

Most Western CRM experts assume that technology may contribute to make scientific decisions. Our case study finds that technology and intuition, seemingly playing reverse effects, are combined together in China Mobile’s CRM practice. With a strong focus on serving group clients, the company builds a special department to cultivate valuable customer relationships and personal guanxi. The department offers highly flexible programs and responds quickly in coordinating cross-functional teams to generate client-centric values. As Lin et al. (2010) found, guanxi is operated intuitively, interpersonally and often runs outside the IT system in Chinese B2B contexts. For individual customers, China Mobile relies more on technology to provide a stream of value-rich actions continuously. However, poor data quality and fast market change lead to poor data mining, which makes intuitive decision making still very indispensable.

Western experts believe that successful CRM practice could be predicated by effectively transforming customer information to customer knowledge. Specifically, to enhance customer satisfaction and retention, customer information should be collected through every customer contact points in the firm. A 360° customer view should be established, maintained, and continually updated. Customer knowledge thereby generated is delivered throughout the organization. Equipped with it, salespeople can adjust marketing offers to satisfy customers’ idiosyncratic needs (Yim et al., 2004). However, in emerging China, changes often run faster than plans. The changes of Chinese people may be very frequent and dynamic in terms of their economical status, geographical characteristics or demographical characteristics. Half your data can be expected to go obsolete within 12 months. Continual update will cost a lot. Thus, intuition also plays an important role in generating knowledge.

Notably, intuition does not mean irrationality or
emotionality. China Mobile also segments its customers based upon profitability. It allows it to better identify who are profitable customers. However, it seems wise to retain the unprofitable customer segment and build them into a profitable stream gradually. Through intuitive insights and market research, China Mobile often develops offerings welcomed by low-income customers. For example, China Mobile has customized many services, like building up the village service platform, to assist farmers improve their livelihood. Besides providing dynamic market information, the platform also updates the latest information regarding agricultural modernization, health care and education. As well, in consideration of the low literacy level among farmers, China Mobile has gone as far as establishing special contact centers where farmers can call in to submit or update their agricultural products’ information, which is then transmitted to buyers. Furthermore, China Mobile cooperates with terminal manufacturers to provide them with low-priced or cost-free customized mobile phones. Actually, China Mobile’s perfect strategy has successfully attracted a number of farmers to use its mobile phone service. Following the idea of serving low-income customers in China may even create additional opportunities.

For another example, China Mobile launched M-Zone brand in 2001 and specialized in providing youth-oriented services. It targets at severing a group of consumers with youthful vitality, intrinsic optimism as well as a medium disposable income. However, they have the largest consumption potential in China because they are both trend setters and the readily acceptant of using new telecom services, and China has about 300 million people under 30 years old. Actually their contribution to China Mobile’s profit growth is demonstrably large (Wang and Foo, 2008).

Our course discussion concerning the data provided by China Mobile also illustrates a big gap in CRM practice between developing economies and developed economies. Organizations within developing markets have faced the essence of collectivistic cultures, China Mobile has adapted its CRM practice to China market successfully. It seems that China Mobile has used Chinese dialectical thinking to combine global CRM theory with local practice. It does serve key profitable customers, but never give up unprofitable customers. By fully understanding the relevance of collectivistic cultures, China Mobile has targeted influential work units to develop a big group clients market and run its CRM marketing like B2B industries successfully. As well, China Mobile has done a lot to cultivate the low-end market and is being rewarded now. Due to poor data quality and fast market change, it relies on both technology and intuition to organize around CRM and manages knowledge in a creative manner.

There is another kind of rationality (very different from Western instrumental rationality) that adopts a middle way and a developmental vision to keep a balance between the global and local, the present and future.

This study makes several contributions. Theoretically, this study presents evidence that the formal framework of CRM implementation suggested by Yim and others for developed markets does not apply to developing markets. Practically, this study provides an insight into CRM practice in an emerging market and proposes a middle way and a developmental vision to do CRM marketing locally.

However, the limitation of this study should be acknowledged. As with other case studies, the use of one company or one industry limits the capacity to generalize the findings to other companies or industries. Future studies should further explore the CRM practice in emerging markets with more case studies and large sample surveys.

CONCLUSION

In summary, China Mobile has taken great advantage of technology innovations to build databases and use them to develop and improve its relationship with customers, including group clients and individual users. Through still in its infancy and with many deficiencies, China Mobile has adapted its CRM practice to China market successfully. It seems that China Mobile has used Chinese dialectical thinking to combine global CRM theory with local practice. It does serve key profitable customers, but never give up unprofitable customers. By fully understanding the nature of collectivistic cultures, China Mobile has targeted influential work units to develop a big group clients market and run its CRM marketing like B2B industries successfully. As well, China Mobile has done a lot to cultivate the low-end market and is being rewarded now. Due to poor data quality and fast market change, it relies on both technology and intuition to organize around CRM and manages knowledge in a creative manner.

There is another kind of rationality (very different from Western instrumental rationality) that adopts a middle way and a developmental vision to keep a balance between the global and local, the present and future.

This study makes several contributions. Theoretically, this study presents evidence that the formal framework of CRM implementation suggested by Yim and others for developed markets does not apply to developing markets. Practically, this study provides an insight into CRM practice in an emerging market and proposes a middle way and a developmental vision to do CRM marketing locally.

However, the limitation of this study should be acknowledged. As with other case studies, the use of one company or one industry limits the capacity to generalize the findings to other companies or industries. Future studies should further explore the CRM practice in emerging markets with more case studies and large sample surveys.

REFERENCES


