CHAPTER 2. LITERATURE REVIEW

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2.1. REVIEW OF LITERATURE ON CRM

2.1.1 The Evolution of Relationship Marketing:

Due to the limitations of micro-economic marketing within the new market environment, relationship marketing has emerged as a new marketing concept. The micro-economic paradigm brought order to the marketing business during the chaos following the Second World War. Since then, micro-economic marketing has become a traditionally accepted marketing program in modern society. The micro-economic paradigm can be seen as an outcome of the Second World War. Military facilities developed during the Second World War were utilized for commercial purposes, and the logistic system was incorporated into the distribution of commercial products. The classic component of such a system is the mass-production system, producing a single kind of standard product, repetitively and at a constant rate. The most prevalent organization form was the large, bureaucratic, and centralized, which can be characterized by multiple layers of management, functional specialization, vertically integrated operations, and clear distinctions between lines & staff responsibilities (Miles & Snow, 1984).

The centrally and vertically integrated system began to change in the 1980s as the market became globalized and more competitive and changed faster than before. The market had become more diverse, knowledgeable, and turbulent. In this situation of external uncertainty, the vertical integrated operation became less efficient. The vertical control system was too rigid and the bureaucratic hierarchy too unwieldy to respond effectively and effectively to the rapidly changing market demand. As the market changed, companies slashed middle management layers to spread communications and achieve more responsive customer service and faster product development. Market organization changed in the form from ownership to strategic alliances, from vertical integration to vertical disaggregation, and from volume orientation to demand customization. This new marketing system was given by many different names, such as “domesticated marketing” (Arndt, 1979), “Internal marketing” (Gummesson, 1987), “Value-added partnership” (Johnston & Lawrence, 1988), “network paradigm” (Thorelli, 1986), or “relationship marketing” (Berry, 1983).
2.1.2 The Evolution of Relationship Marketing Theory

While transaction-orientated marketing focuses on costs and benefits, relationship marketing emphasizes the relationships between or among persons and organizations. Although the marketing community is just now beginning to emphasize relationship in marketing, the history of relationship marketing might be as long as the history of human society. Published articles on relationship marketing go back to the mid-1800s. Many historical records illustrate that the long-term business relationship prevailed even several centuries ago (Keep, Hollander, & Dickinson, 1998), suggesting that marketing relationships certainly have a longer history than we might imagine.

The concept of relationship marketing is deeply based on a human-oriented notion that emphasizes the importance of relationships between persons (Alderson, 1957). Initially Anderson (1948) seemed to be tied to a perspective rooted in the transaction oriented perspective, but he subsequently discarded this view. By moving beyond the transaction oriented concept, Alderson (1957) provided a conceptual scheme of relationship marketing with an emphasis on non-economic variables, such as utilization of resources to meet the requirements of society through the provision of goods & services. His main point centered on human efforts; he argued that the majority of goods & services require the application of human efforts, which typically requires interaction between two or more persons.

The importance of relationships in business has also been emphasized by many other scholars. Berry (1983), for instance, presented a definition of the purpose of the business and organizations not only to attract new customers but also to keep and improve relationships with the existing customers and emphasized the importance of retaining the customers. Marketing consultant Regis McKenna (1991) emphatically pointed to the need of building relationships. He valued relationships as more important than low prices, flashy promotion, or even advanced technology and suggests that developing strategic relationship with other key companies and people in the market.

Relationship marketing has even emerged in the retail sector, long considered the most difficult arena in which to build a long term relationship with consumers because consumers just come and go. Ever since Berry (1986) coined the motto, “retail businesses are service business,” retail businesses have started to adopt relationship marketing, which has invigorated relationship marketing. Relationship marketing employed in the industrial relationship has traditionally
remained at the level of interpersonal relationships. However, relationships in retail businesses are formed in various ways; consumers may interact with the provider’s employees, with equipment, or with physical resources, such as the physical surroundings and written material. Interactions may occur without the intellectual or physical involvement of the other party.

Customer Relationship Management (CRM) is the talk of the millennium. As per *Chen and Popovich* (2003), the concept of CRM is now new but it has gained prominence due to recent growth and development in IT and business software technology. CRM has its roots in relationship marketing, which aims at improvement in the profitability of customers, in the long term. CRM is relationship centered and not product centered.

According to Bose (2002) CRM was invented as there is difference in customers’ taste, choices and buying habits. Had this difference among customers not there, CRM will not exist. Due to understanding of these basic differences between customers’ choices, the organizations can customize their products and offers to gain maximum profitability. (*Chen and Popovich*). Because today’s marketing environment is highly saturated and very competitive, CRM is currently receiving attention across businesses (*Chou et al*, 2002). According to *Greenberg* (2004), CRM focuses not on one department but each and every department of an organization. He elaborates further that, not only CRM must include customer service department but all departments like production, product testing, assembling, purchasing and invoicing, and HRM, marketing & sales and engineering. According to *Chen and Popovich* (2003) the data is collected, stored and retrieved. The data is collected from all customer touch points where the customer might have interacted at. Therefore the CRM is a complex application where it mines customer data, and this helps a firms in having full knowledge of customers. By doing so firms are able to know their right customers and their buying trends, thus firms can predict customer demand. CRM can also be described as a approach which helps integration of functions like customer care, sales & marketing, after sales support services that affects customers (*Chou et al*, 2002). They further explained that CRM is all about keeping profitable customers with the firm by reducing the cost, increasing the value, thus making high profits.
There is a great influence of Total quality management (TQM) (Gummesson) & new technology on (Zineldin, 2000) on customer relationship management. Though almost all definitions revolve around the basic concepts like, customer relationships, customer management, marketing strategy, customer retention, personalization yet here is a perceived lack of clarity in the definition of customer relationship management. (Zineldin 2000).

Academicians still debate about the correct subtitles of definitions of Customer Relationship Management. On the other hand the practitioners have come out with papers on its applications and implementation. They have also tried to find out the challenges and opportunities in implementing CRM (Bacuvier et al. 2001). Some firms consider CRM as a technology solution, comprising of individual databases and sales force automation tools and sales and marketing functions aimed at improving customer targeting efforts. According to Peppers and Rogers (1999) firms have designed the CRM that it is being used as tool to capture one-to-one customer communications. Therefore, essentially it becomes a function of sales, call centers or the marketing departments. Similarly, Frow and Payne (2004) also said that CRM lays emphasis on two-way communication between the customer and supplier to build the customer over a period of time. Recent advances in technology especially Internet has greatly enhanced this two way communication between firm - customer or firm - supplier.

If we talk in relation to information technology (IT), then CRM becomes a tool used to integrate systems and technologies, across functions. As per Kotler (2000) CRM uses IT as data collection instrument, which in lieu leads to development of information to enable a more aware customer interaction. In the longer run, CRM leads to development of a method of continuous analysis and reinforcement thereby enhancing the customers’ lifetime value with organizations.

According to Goldenberg(2000), CRM is not just application of technology for sales, marketing and service but when it is rightly implemented firms can maximize relationships.CRM helps firm to have a strategy focused across functions, customers and integrated technology. All these help in forging relationship. Chin et all (2003) mentioned that with abundance of CRM automation technological solutions available, it is often construed that CRM is also a technology. Of late many companies have started considering CRM as a business value – efforts as against
technology – centric effort. This has happened after they realized the strategic importance of CRM. In CRM, information technology is a facilitator. The main drivers of customer profitability are advancement in technology, innovation, intense marketing competitiveness and of course internet. These drivers affect the allocation of organization’s resources to various functions thus affecting the customer relationship. It means more resource allocation keeping in view the customer relationship will lead to focus on customer resulting into better customer relationship. (Chou et al., 2003).

Whatever the interaction channels used; CRM can be customized and made simple and convenient to facilitate a transaction for the customers. (Gulati and Garino, 2000). Lots of businesses nowadays have realized the significance of CRM in achieving a competitive advantage and sustaining it for a longer period of time (Peppard, 2000). This viewpoint got reinforced by Bose (2002) who said that due to the changes happening in global business scenario companies cannot rely on minor competitive advantages which is prone to being copied. Hence, he stressed on implementation of CRM to go beyond minor advantages and concentrate on forging relationships with the customer. Those of the firms who are capable of delivering what customers want will eventually emerge leaders in future.

According to Chen and Popovich (2003), as against the old technology network, CRM application is able to provide huge customer database at a very low cost to the companies. Across organization, Customer information can be collected, stored, maintained and disseminated by CRM systems. Peppard (2000) stated MIS is important in CRM, as this information can be used for product design, new ways to serve a customer, overall view of customers and customer lifetime value.

CRM systems help companies to understand and find out customer loyalty and profitability based on re-purchases, the amount of purchase and duration of purchase. Bull (2003) states that with CRM one can find out who are the unprofitable customers that have been left out by the other companies. This stand of Bull (2003) has been supported by Galbreth and Rogers (1999). As per Galbreth and Rogers (1999) CRM helps a business firm to understand and categorize
customers. The categories could be customers to acquire, to keep, the ones who have great potential, strategic, who are important, profitable and who should be left away.

Greenberg underlined that lifetime value of the customer can be improved by CRM thus leading to increase in true economic value of the business. He further stated that CRM strategies help a customer in being loyal, buying more and communicating effectively with the firm. Further, right allocation of people, right scheduling and sending of right people, with right parts and at right time can lead to customer satisfaction. This entire activity is nothing but CRM (Chou et al., 2002).

According to Swift (2001), CRM implementation can be very beneficial for companies in many ways. These benefits can be in the form of:

i) Reduced cost of acquiring Customers

ii) Selection of right customers to ensure consistent volume of business

iii) Less cost of sales

iv) Increased Customer Profitability

v) Customer retention & Loyalty

vi) Evaluation of customers’ Profitability

As per Curry and Kkolou (2004) there are many benefits of implementing CRM in an organization. Similarly there are many reasons too to adopt CRM. Customers prefer a simplified, customer focused organization rather than an organization with complex processes and systems. By way of CRM organization is more organized, the quantum of work is less, unimportant and non productive information is left out leading to increased number of satisfied customer and finally more profits for the organization. Thus the company becomes more compact and focused

Some companies adopt CRM only because they try to follow other companies who have it. For them it is no more that a technology and its use is never really harnessed. For them is is more important to match the competitor than actually use CRM (Chou et al, 2002). Given below are some data which brings out startling outcomes:
a) As per Pareto’s principle, it is assumed that 20% of a firm’s customers contribute to 80% profits.

b) In Business to Business sales, to acquire a new customer a salesperson need to physically call on a prospective customer 8 to 10 times, whereas to sell to an existing B2B customer it takes 2 to 3 calls.

c) Acquiring a new customer is 5 to 10 times more costly than obtaining a repeat business from an existing customer.

d) 8-10 is the number of people to whom a typically dissatisfied customer tells his experience from a product/service/company. So, knowing a customer proactively and continuously can result into offering and selling more products and services. This can also lead to retention and loyalty of customers towards the firm for a longer period of time. This is possibly by way of data mining and being customer-centric. Peppers and Rogers (1999) call it maximizing “lifetime customer share”.

It is not that CRM does not have drawbacks. CRM faces many challenges. Value creation and continuity of profits is what organizations look at while they implement CRM. CRM is considered a function of only marketing and IT department. This is being short sighted on the part of the organization. For a complete awakening of the corporate, responsibility to adopt CRM must lie at the level of CEO. Strategy should drive CRM therefore the commitment from the top management is important. CRM should focus on what customers want from the relationship. So to the CEO the takeaway is that CRM is a tool for cultural integration in the firm. Conclusively, CRM tries to give a fillip to the relationship not just with customer but beyond.

As per Tom Davenport, Professor at Boston University and Director Andersen consulting’s Institute for Strategic Change, CRM has gained prominence due to two things. First, due to increase in global competition, product differentiation has become difficult for the companies.
Therefore companies have started moving from being product focused to customer focused. Secondly the technology has matured and it has become possible to collate customer information from all across the organization in a single system. Davenport states that till now they did not have the ability to manage the complex customer information as information were stored in 20 different systems. But with CRM it has become possible to due to rapid development in the field of Internet and network technology. To understand customers’ need and wants many firms are turning to CRM for better understanding and relationship with customers. Software applications like data warehousing, E commerce, BPO along with CRM applications enable companies to have reach to customer information like, buying patterns, nee, want, preferences, complaints etc. This helps companies to forecast and anticipate customer demand. Finally with CRM these companies can instill a sense of loyalty in customers.

2.1.3 Conceptual Clarity on various terms used in Research

Peter Drucker said, “The purpose of a business is to create customers.” Implied in his words and his work is the importance of keeping those same customers and of growing the depth of their relationship. After all, as research by Frederick Reichhold and Earl Sasser of the Harvard Business School shows, most customers are only profitable in the second year that they do business. Initially, new customers cost money—money spent on advertising and marketing. To a manager, CRM can be the single most important tool towards making & retaining customer loyalty. CRM is stronger than (people) employees in making & retaining customer loyalty. Great employees are, and always will be, the backbone of any business. But employee performance can be enhanced or hampered by the strategy set and by the tools given to employees to get the job done. Done right, CRM is both a strategy and a tool. The ultimate advantage of CRM is customer intelligence: data > information > customer-satisfying action. Debating on implementing CRM is futile in today’s business environment. CRM is essential for internal or external customers and is required to record all interactions whether it is electronic or face to face.
Table 2.1 (Dr. CK Prahalad and Venkatram Ramaswamy, Harvard Business Review), have presented the following details on evolution and transformation of Customers.

<table>
<thead>
<tr>
<th>Customer as a passive audience</th>
<th>Customer as Active players</th>
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</thead>
<tbody>
<tr>
<td>Persuading predetermined group of buyers</td>
<td>Transacting with individual buyers</td>
</tr>
<tr>
<td><strong>Time Frame</strong></td>
<td><strong>Nature of business exchange &amp; role of customers</strong></td>
</tr>
<tr>
<td>1970, early 1980</td>
<td>Customers are seen as passive buyers with a predetermined role of consumption</td>
</tr>
<tr>
<td>Late 1980 and early 1990</td>
<td>The customer is an individual statistic in a transaction</td>
</tr>
<tr>
<td>1990</td>
<td>The customer is a person: cultivate trust &amp; relationship</td>
</tr>
<tr>
<td>Beyond 2000</td>
<td>Customers are part of the enhanced network: they co-create and extract business value. They are collaborators, co-developers, and competitors.</td>
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The customers are coming out of their casts. They are not mere users of the products/services but are becoming co-creators of the offerings. The availability of various channels of communication in the form of IT applications is acting as a catalyst in this process. For example, various reviews given by the prospective / current customers can be of great help to the manufacturers for creating more value/customization. Today’s consumer is more assertive of his changing requirement & vocal also because he will be listened. This was missing in the traditional consumers.

Companies also on their part have understood the importance of this process and are aiming at actively engaging the customers through customization & personalization.

Customization is when the manufacturer designs a product suited for customer needs. Personalization is about customers becoming co-creators of content of their experiences.

Managing variety of customer experiences is different than managing variety of products. Managing experiences is about managing interfaces at various touchpoints. Managers must develop products that cater to the need of customers & not the other way round. But as customers evolve so should product evolve in sync with customers changing needs and companies’ changing capabilities.
According to Alok Kumar, Chhabi Sinha, Rakesh Kumar (2008), CRM may or may not be panacea for providing excellent customer care, but the philosophy of keeping customers at the heart of business is a step in the right direction.

2.1.4 CRM Process: As per Sheth, Parvatiyar & Shainesh, (2006), the process of CRM can be understood through following phases:

1. Need Analysis: This step is characterized by identification of problems which brings out that there is a need to adopt CRM process. This happens by identifying gaps or areas of concerns & acknowledging that the gaps exist. In this phase the current business practices are analyzed at a great length. Technically, in this phase software is used to find gaps & then plans for actual implementation are made.

2. Establishment of CRM goals: This step in the process must clarify who would be your target customers. This would keep the organization focused in right direction. Technically, the software design will be based on the goals set.

3. Education amongst employees: Awareness & education of the employees is an important step in the CRM process. No change will be smooth if the awareness & communication is not effective. It is very important to let the employees be aware of their respective roles in the CRM process. What is expected out of each of them must be communicated to them.

4. Collection of customer information: Designing data models, collection of required customer information & selection of appropriate software are key areas in this phase.

5. Implementation: This phase is has following characteristics;

- Delivery of end users education & training
- Adjustments of internal operation procedures
- Develop support plan
- Follow up
2.1.5 CRM Business Cycle: As explained by Sheth, Parvatiyar & Shainesh, (2006), CRM is a 360 degree process in which each phase is interrelated and continuous. A typical CRM business cycle has following phases:

- **Understand and differentiate:** In this stage customers are profiled on the basis of demographics, buying patterns and channels through which they buy. This helps in understanding what customers value, what kinds of product/services they are looking for. This also tells how they prefer to be communicated. So as to communicate and target right customers, segmentation of customers is also done during this stage of differentiation.

- **Develop & customize:** Not all customers are profitable. Therefore companies must target the more profitable customers for the customized offerings. Not only products and services are customized but the channel and medium of communications. Then only the total company’s productivity will be high.

- **Interact and deliver:** Interaction between customers and organization happens in various ways. This underlines the importance to have relevant and easily accessible information about customers to serve & communicate with them better.

- **Acquire and retain:** Organizations aim to acquire and retain the customer giving greatest value to them.

- **Prioritize and change:** As business needs and customers’ needs are always changing, the consequent effect is on deliverables. That is why it is important to monitor and effect changes depending on change in customer value.

- **Making an action plan:** Designing and selecting an action plan ensures delivery of the customized offerings to the targeted customers.

- **Evaluating results:** it does not serve the purpose in the end if the organization can not establish where it stands in accomplishment of the set objectives. Therefore there must be effective tools to measure success. MIS, report on percentage of customers leaving organizations with reasons, customer satisfaction report etc are tools to evaluate results.
2.2 REVIEW OF LITERATURE ON INSTITUTIONS OF HIGHER EDUCATION

Student retention has received increased attention as competition for students has escalated among colleges and universities. It is important to measure service quality and use the tools of continuous improvement since service quality and student satisfaction are important factors in student retention. As per Coate (1990) explained quality is not determined by us but by the customers.

Chua (2004) has assessed the perception of quality in higher education of the School of Business Management, Ryerson University, Toronto-Canada, using the input-process-output (IPO) framework. This study supported the fact that different groups of customers have different perspectives of quality. Students’ perspective of quality falls into mainly the process (46.56%) and output (46.56%); parents seemed to think that quality should be in terms of input (46.52%) and output (46.52%); faculty’s perspective of quality focus on all aspects of their activities, i.e., input-process-output; and the employers considered quality in terms of process (41.27%) and output (58.73%). The students gave most of the suggestions of improvement pertaining to the process of the education system to achieve quality output. Some of the suggestions mentioned were caring professor, provision for various support services for students, provision for a variety of advising services, participation in curriculum design, and encouragement for lifelong learning. They also noted that there is a large variation in terms of quality teaching, such as contents, feedback, and assessments to inspire learning. For most quality dimensions, students expect more than what they perceive the school would provide. Using the paired t-test, this study indicated that all dimensions except reliability were significant. Moreover, the study showed that all the quality dimensions are primarily related to the educational process of the IPO framework.

Faganel and Macur (2003/04) conducted a case study at the Faculty of Management, Koper, Slovenia by using the SERVPERF model (i.e., an instrument used to measure perception of performance only) in order to identify the most important quality dimensions. Their results showed that students and professors understand quality differently. Students’ understanding of service quality can be described with two factors consisting of several items. The first factor includes four out of five quality dimensions, i.e., reliability, responsiveness, assurance, and empathy; while the second factor which is less important consists of only one quality dimension,
i.e., tangibles; which is less important in understanding quality and do not influence students’ satisfaction as much as others. On the other hand, the academic staffs understand quality in different way than the students. They recognize five different quality dimensions which differ from the Parasuraman et al. They find (1) attention to students, (2) being regular and timely in informing students about services, (3) realization of planned services and students’ suggestions, (4) attractiveness of study materials and other service materials, and appropriateness of service hours, and (5) service performance in time as the most important determinant of quality, respectively.

Darlaston-Jones et al. (2003) carried out survey on student expectations of higher education at the School of Psychology, Edith Cowan University, located in the Western Australian capital of Perth using the SERVQUAL model. This study showed that there is a difference between student expectations of university and the reality of their experience. The students anticipate having close contact with their lecturing staff to the degree that the lecturer would know each student and his/her personal situation. Besides, students need to have facilities and resources available to them at times that are convenient to students not just the university.

Sherry et al. (2004) have undertaken an assessment of the local and international students’ perceptions of services experienced at New Zealand Tertiary Institute, UNITEC using the SERVQUAL model. The study indicated large expectations gap by the international students on all five dimensions. These international students were unsure of the skills they were learning will help them academically or in future employment. They were skeptical of teachers’ knowledge in imparting subject knowledge to them. They were also not satisfied with the support services given to them. These international students did not feel being cared. International students expected high in terms of empathy, responsiveness and assurance from UNITEC. It means international students have certain expectations of services they think a tertiary institute should fulfill, such as learning support services, quality teaching, good staff-student communications and prompt feedback from tutors.
Holdford and Reinders (2001) conducted a study to measure quality of pharmaceutical education using the SERVQUAL instrument at the School of Pharmacy, Virginia Commonwealth University. This study found that student perceptions of faculty significantly affect the manner in which students approach their school work. Student perceptions of faculty reliability, trustfulness, and communication have been found to affect student compliance and cooperation with faculty class assignments (Holdford and Wright, 1997). It indicates that education is a cooperative venture between students and faculty.

Ruby (1998) has tried to demonstrate how the use of SERVQUAL, a market-driven assessment model adapted from business, can be used to study student satisfaction with four areas of support services related to enrollment management (academic records, admissions, career services, and financial aid). This study was conducted at ten institutions that were members of the Coalition of Christian Colleges and Universities (CCCU) in Ohio. In the case of career services, the result identified the following service factors with the largest negative gaps (i.e., perception – expectation) requiring improvement: providing office hours that are convenient to students, avoiding the appearance of being too busy to help students, making sure that staff members are knowledgeable about career services issues, demonstrating an understanding of student needs, maintaining error free records, demonstrating a commitment to students’ best interests, communicating a willingness to help, providing personal attention to students, being courteous to students, and performing services correctly the first time.

Pariseau and McDaniel (1997) assessed service quality in two small private business schools employing the SERVQUAL model in the north-east region of the USA where teaching is given primary importance. Their results showed that the faculty and business schools were not delivering quality service in the view of their students, ANOVA tests confirmed significant differences in perceptions of service quality; and student expectations were highest in the area of assurance. The second most important factor for students was responsiveness and rank tangibles last. However, the faculty rank tangibles second and responsiveness last. In sum, this study found that the most important determinants of overall quality for students were assurance, reliability, and empathy.
Soutar and McNeil (1996) undertook a pilot study in an attempt to assess service quality in many units in a big Australian University by using SERVQUAL model. The result showed that the students were very satisfied though there were small gaps which ranged from 0.79 to 0.18. This study also brought out that considering all dimensions was not important, as tangibility and empathy were not taken as determinants. The study further suggested that reliability, assurance and responsiveness are key influencers in student satisfaction.

2.3 CRM IN MANAGEMENT EDUCATION IN PUNE CITY

The study of the CRM practices followed by higher education in general provides a strong linkage to the study of CRM practices followed by the management institutions in particular.

Customer relationship management strategies followed by Medical and Dental colleges is an exception because the wide gap between demand and supply. There is great dearth of Medical and Dental colleges with lakhs of students aspiring to take up medical/dental courses for study. Therefore the same principles do not apply to medical and dentals colleges. There is no need to adopt CRM practices/strategies as it does not matter to the students seeking medical education. If some Medical or Dentals colleges are doing so then its icing on the cake for the students of that medical/dental college.

Same is not true in case of Management education, where nowadays reverse trend exists. The supply exceeds demand. The management colleges had tough time at the time of recession in 2009, for getting students enrolled, especially the management institutes. Usually the seats are allotted by the Department of Technical Education, but there are many students who do not appear for MHCET, but are eligible by having appeared for examinations like MAT/AMMI etc. Then there are many management colleges who have permission to take only 30% of seats through MHCET Centralized Admission Process. Rest of the seats these management colleges can fill by their own. These management colleges are approached by students who could not appear for main MHCET or have low score cards for MHCET/MAT etc.