CHAPTER - 1

INTRODUCTION
1.1 INTRODUCTION TO CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship Management (CRM) is one of the best techniques which support the development of service sector, it can also be called as one–to–one marketing, customer value management, customer-centric management, continuous relationship management or technology–enabled relationship marketing. A customer-oriented organisation develops and manages individual relationship with different customers for the long-run relationship.

[Francis Buttle [1]] defined CRM as “CRM is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high-quality customer data and enabled by information technology.”

[W. G. Zikmund, McLeod Jr, and W. Gilbert [2]] defined CRM as “A business strategy that uses information technology to provide the enterprise with a comprehensive, reliable, and integrated view of its customer base so that all business processes and customer interactions help maintain and expand mutually beneficial relationships.”

[Peppers & Rogers [3]] defined CRM as “An enterprise-wide business strategy for achieving customer-specific objectives by taking customer-specific actions.”

“Customer Relationship Management (CRM) is a fundamental business of every enterprise and it requires a holistic strategy and process to make it successful” [J. N. Sheth [4]].

“CRM deals with long term mutually beneficial relationship among consumers, companies and other stakeholder”.

“CRM is a well-defined series of functions, skills, processes and technologies which together will allow companies to manage customer more profitably as tangible assets” [N. Sathia [5]].

The development of CRM is discussed in the following sections as transaction marketing and relationship marketing.

1.1.1 Transactional Marketing (TM)

Transactional marketing approach focus on individual transaction, it does not take into account to continue relationship with customer, so its framework does not contain a long-term strategic perspective as shown in figure 1.1. It only center on
tentative adjustments process regarding performance of marketing function. In this context customers are viewed as outsiders. Under transactional approach customers satisfaction, expectation and multiple influences about decision making processes are not given due implication. It reflects very small attention paid to customer service and customer commitment.

**Figure 1.1 – Transactional marketing framework.**
Source: [Ashok Trimbakk Aher [6]]

### 1.1.2 Relationship Marketing (RM)

Relationship marketing focus on continues marketing instead of isolated individual transaction. Relationship marketing has two types of approaches, the primary approach consider customer as insider for the organisation, it also aim to build up a long term perspective. The idea of retaining customers forever enables the relationship marketing approach centers around developing loyal customers. In this approach high degree of customer commitment, contact and services are maintained.

The second approach has greater significance in business and was given more preference. Later it was shaped to CRM. RM has its narrow focus on the customer. It not only focuses on the marketing function of the organisation concerned, but also focuses more widely on the entire function connected with customers. Such as value creation and delivery chain of the organisation etc. Organisations have preferred the use of the term CRM instead of RM.

### 1.2 STAGES OF RELATIONSHIP WITH CUSTOMERS

Relationship in regards with the customers may change time to time. It may be because of evolvement under different situations. Following are the stages at were relationship with consumer may evolve.
a) **Exploration**: It is the process when customer investigates or tests the supplier’s capabilities and performance or cross verifies the product’s or brand’s usefulness. If the test results fail to satisfy customer’s demands, the relationship drastically come to an end.

b) **Awareness**: It is the process when the customer understands the motivational values of supplier or the products he sells.

c) **Expansion**: It is the process when the supplier wins customer’s faith and customer falls under huge interdependence of the supplier. This is suitable when there are more chances of business with that particular customer and expands business.

d) **Commitment**: It is a powerful stage when suppliers learn to adopt business rules and goal to excel.

e) **Dissolution**: It is a stage when customer requirement suddenly changes and he looks for better perspectives. This sudden change is the end of relationship.

Relationship or interaction with consumer may come to end due to various reasons. It may be because of customer has not satisfied with the organisational services or he disagree for other better brand and product.

### 1.3 KEY ELEMENTS OF CRM

![Figure 1.2 Key elements of CRM.](image)

Source: [Nancy Rauseo [7]]
The figure 1.2 represents the key elements of CRM. The CRM strategy is at the center because it serves as the compass or the direction for other strategies and actions. There are two-way arrows going to and from each component because these are all related in some way to each other. It must be viewed that elements are integrated interdependent.

1.4 THE BENEFITS OF CRM

The real value to a company lies in the value they create for their customers and in the value the customers deliver back to the company. So, it is important to mark that the value does not lie in more information and in more advanced technology. The value lies in the customer knowledge and is how the company uses that knowledge to manage their customer relationship. Knowledge is the sole of CRM.

Unfortunately, few companies are transforming the information to customer knowledge and therefore they miss the opportunity to provide value to their customers. However, applied in the right way, CRM is the tool that contributes to profit. Companies are transforming the customer data into knowledge and then use that knowledge to build relationship and loyalty, followed by profits. Successful CRM implementation is reasonable based on the following benefits.

a) Lower Cost of Recruiting Customers:

Customer recruitment cost will be decreased thereby increased savings in marketing, mailing, contact, follow-up, fulfillment, services, and so on.

b) Steady Volume of Business:

Increase in long-term customers’ relationship will ultimately results in constant volume of business which leads to steady output.

c) Reduced Cost of Sales:

Long-term customers are more responsive than the newer ones that will decrease the selling cost. Marketing campaign cost will decrease due to familiarity with the distribution channels.

d) Higher Customer Profitability:

Customer profitability will increase by higher customer wallet-share, up-selling, cross-selling and follow-up sales and satisfied customer refers more customers.
e) Increased Customer Retention and Loyalty:

The retained or long-staying customer buys big quantities frequently [Anil Kumar Yadav [8].

f) Evaluation of Customer Profitability:

Every organisation evaluates and identifies profitable customer, it should also identify the customer who is going to be profitable in future and never profitable in future. The key to success in business is to discover economically beneficial customers, acquire them and never let them go and collect data regarding to this [T. Vijaya kumar [9]].

1.5 CRM AND ITS ROLE IN SERVICES

Service sector is essential for economic growth of any country. Rising urbanization, privatization and demand for services brought boom in Indian service sector. This sector continues to be a star performer by contributing major percent of GDP. The service sector in India comprises a wide range of activities such as tourism, transportation, business process outsourcing, healthcare, logistics, trading consultancies and financial sector which includes banking. Banking plays a significant role in the economic development of our country. Banks have control over a major part of the supply of money in circulation.

1.6 HISTORY OF INDIAN BANKING

Banks in India are flourished even in ancient Vedic times. Money was accepted on deposit and given in the form of advances. As far back as the second or third century A.D., Manu, the great Hindu Jurist, devoted a section of his work to deposits and advances and laid down rules relating to rates of interest to be paid or charged.

1.7 BANKING SYSTEM IN INDIA

In the olden days bankers were transacting business with their customers by sitting on benches in the market place. The bankers knew their individual customers by name, their financial situation and needs so they could treat “each customer differently” because “each customer has different needs and brings different value to the relationship”.

In earlier days banker knew their customer connection to the country’s economy and indirect connection with their own investments, so they could give a special credit or some extra services to their most valuable customers. But, at present even if one
person is a loyal customer with two or three different accounts and may be credit for the car or mortgage on the house in the same bank, he would be treated the same as any other ‘new’ customer, if he wishes to open another account for his child or to get new credit he will need to fill out a bunch of papers about his personal data even. Structure of Indian banks is shown in figure 1.3.

Figure 1.3 – Structure of Indian banks
There were 6,200 scheduled bank offices at the end of 2014. Aggregate deposits amounted to Rs. 79,557 billion, registering a lower growth of 13.4 per cent in 2014, the all-India credit-deposit ratio was 79.0 per cent in 2014 as per RBI.

Now, the customers are able to access their account by 24×7. The rapid improvement in technology help the customers to access his bank account wirelessly and the banking system already know everything relevant about that customer and will automatically choose how to treat that particular customer for his requirement. Today’s technology is making it possible and soon it will be used massively–banks will increase profitability and customer will save time and feel more comfort with the satisfied services, it require building customer satisfaction through quality service and value [Philip Kotler [10]].

1.8 BANKING IN CYBER AGE

The electronic age has brought several changes in banking system. The foremost change-delivery channels have increased leading to lower cost and wider variety of services. The channels include Internet, ATM and phone banking.

The recently launched negotiated dealing system for bond markets is an example of electronics has transformed the functioning of the financial markets. Finally, the electronic age has affected clearing systems, leading to very fast and more reliable electronic funds transfer.

The development in electronic banking has also led to new areas of risk such as data security and integrity. These require newer techniques for risk management.

1.9 ROLE OF BANKS

The banking sector has shown remarkable responsiveness to the needs of the planned economy. It has brought about a considerable progress in its efforts at deposit mobilization and has taken a number of measures in the recent past to accelerate the rate of growth of deposits. To achieve this end, commercial banks opened a number of branches in urban and rural areas. In this changing scenario, the role of banks is very important for the growth and development of customers as well as economy.

Banking sector is offering traditional and other services. The services offered are regular saving and current a/c, regular FD, ATM, credit cards and D-mat a/c, student banking and kid e-bank, special NRI services, home loan, vehicle loan and home-appliances loan, tele-banking, internet banking, power pay roll a/c, online trading,
business multiplier a/c, loans against shares, insurance, portfolio investment scheme, relief bonds and mutual funds, senior citizen – special deposit scheme and munshi scheme, etc.

1.10 PROBLEMS AND PROSPECTS OF INDIAN BANKS

Indian banking sector is facing few problems and challenges due to Liberalization, Privatization and Globalization. These are low profitability, lack of integrity, increase of administrative expenses, survival of branches in loss, inflation, lack of professional behaviour, lack of personal and friendly approach with customers, non-performing assets, customer oriented market, problem of customer satisfaction, depression period running over the country, managing workforce and management of technological advancement.

However, the banks have some prospects in current environment. By converting threats into opportunities, the banks can have better advantages offering innovative services, door to door service approach, better customer services by managing relationship with more focuses [C. H. Lovelock [11]], professional approach, managerial excellence, marketing and technological orientation, mass-class customized and cyber services, branch expansion or rationalization of branches and deposit mobilization.

1.11 COMPETITION

With the entry of private and foreign banks, there is cutthroat competition in the banking industry. This competition has laid foundation for remarkable advancements in terms of services, technology and products. Every player in the banking sector is adopting innovative strategies from time to time for holding their customer base. CRM becomes the competence area for the banks to have an edge over their competitors [Aitu Afarwal [12]].

1.12 CRM IN BANKING

[B. Ravi Kumar [13]] banking is such an important sector that it touches the life of every human being in some way or the other. Tremendous changes have taken place in Indian banking sector in such aspects as the way banks operate, in technology, operational speed and especially in their approach towards dealing with customers, in the last 10 years or so. At a time when the Indian banking sector was monopolized by few public sector banks, the level of attention given to the customer was very low. But
in today’s changed scenario, i.e. after the entry of a number of private and foreign banks in the Indian banking sector, there has been a shift in the focus of Indian banks from ‘transaction focus’ to ‘relationship focus’. The cut-throat competition that exists among the various public, private & foreign banks has necessitated them to adopt a strategic approach in dealing with their customers. Today banks are the major followers of customer relationship management practices.

Customer relationship management is the process of attracting, maintaining, and enhancing customer relationships. Customer relationship management or retention marketing represents a paradigm shift within marketing away from an acquisition and transaction focus towards a relationship focus. Building long-term and profitable relationships with chosen customers and getting closer to these customers at every point of contact with them are the two major goals of CRM. The present paper is an attempt made by the author to present the meaning of CRM, regarding how Indian banks have transformed from transaction focus to relationship focus, factors that created a strong need on the part of Indian banks to adopt CRM, the IDIC framework in banking and the relationship marketing strategies that help a banking firm in bonding with its customers.

There is still a long way to go in implementing customer relationship management by banks, as the trend started only in the recent past. Still in some rural areas the level of attention and promptness in service given by few public sector banks to their customer is very low.

A customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to serve him. If a banking firm can follow the above valuable words given by Gandhi, it will definitely become the best bank in the world for customer service.

Banks are highly focusing on CRM for the past few years that is expected to continue most of the financial services industries are trying to use CRM techniques to achieve varieties of outcomes. These areas are

a. creating consumer-centric culture and organisation
b. Securing customer relationship;
c. Maximizing customer profitability;
d. Aligning effort and resource behind most valuable customer groups.

e. To implement CRM strategies, these aspects are considered:

f. Communications and supplier-customer interactions through channels;

g. Identifying sales prospects and opportunities;

h. Supporting cross- and up-selling initiatives;

i. Managing customer value by developing propositions aimed at different customer segments;

j. Supporting channel management, pricing and migration.

The bank would need a bird-eye view of its customers across the various systems that contain their data. If the bank could track customer behaviour, it helps the executives for better understanding to predict future behaviour and customer preferences. The data and applications can help the bank to maintain its relationship with the customer.

If CRM works as it with the desire of the system then bank can provide better service for better customer response [Ashok Trimbakk Aher [6]], it help sales staff close deals faster, cross sell products more effectively, make call centers more efficient, discover new customers, simplify marketing and sales processes and increasing consumer revenue.

CRM helps banking sector to use of technology and human resources; these allow them to gain insight of consumer behaviour and their values.

1.13 MODELS FOR CRM IN BANKING SECTOR

Managing customers profitably is the core objective of any organisation. CRM is the best method to achieve the core objective. CRM models are helpful to understand the concept of CRM and regulate the modern concept of CRM. There are number of CRM models developed to learn and manage customers. Some of the CRM models are explained below.

1.13.1 IDIC Model

The IDIC model was developed by Peppers and Rogers [D. Peppers and M. Rogers [3]]. This model suggests that organisations should take four actions in order to build, keep and retaining the long term one-to-one relationships with customers as shown in 1.4.
- Identify
- Differentiate (value, need)
- Interaction
- Customize

**Identify:** Initially an organisation must identify who is actual customer and should know about their customers’ tastes and preferences. It is not only necessary to know about your customers but, you have to know more and more about your customers, so that, you can easily understand and serve them profitably.

**Differentiate:** Differentiate your customer on two bases: value and need

Value: Differentiate your customer to identify which customer is generating most value now and which offer most for the future. Give more value to those customers who are generating more value for you.

Need: Differentiate your customers according to their needs. Different customers will have different needs, we need more knowledge about their needs to serve them in a profitable way.

**Interaction:** Organisation must emphasis on interaction with customer to ensure that you understand customer’s expectations and their relationship with brand. Organisation must consider and interact with customers according to their needs and value that they are providing you. Interaction directly with customers makes believe that organisation
has concern with them and organisation wants to serve them individually. These efforts make customers loyal and help organisation to build long term relationships.

**Customize:** When you differentiate your customers according to their values and needs, after that, you have to customize your product according to their needs and values. Customize the offer and communications to ensure that the expectations of customers are met.

Failure in the third step means something wrong with second or third steps. So return or go back to previous steps study them again and search out more and more and rearrange these steps.

1.13.2 Loyalty Model

Loyalty model represents that perceived quality, satisfaction and switching cost are the factors influencing customer loyalty in banking industry. [A. Beerli, J. D. Martin and A. Quintana [14]] as shown in figure 1.5.

![Loyalty Model Diagram](image)

**Figure 1.5 Loyalty model [A. Beerli, J. D. Martin and A. Quintana [14]]**

1.13.3 Traditional Customer Relationship Model

Traditional CRM model presents the following key issues as shown in figure 1.6

1. Organisational culture, operations, and go-to-market strategy does not put the customer and real customer insights into the center of CRM operations
2. Relies on data, analytics, and customer history to drive on-going customer interactions.
3. Puts the organisation at extreme risk of missing the boat from a customer’s perspective – real needs, wants, concerns, preferences, experiences, etc.
4. Companies that rely on this model are at-risk of customer defections, decreased customer spend/loyalty, etc.

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**Figure 1.6 Traditional CRM Model**

Source: [Stevenjeffes [15]]

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1.13.4 Integraed Framework Model

“The integrated framework for customer value and CRM performance” [Wang, Yonggui, Po Lo Hing, Chi. Renyong, Yang. Yonghen [16]] focuses on four customer values, when these values are fulfilled, customer satisfaction is achieved and customer satisfaction in turn creates customer loyalty as shown in figure 1.7
1.13.5 CRM Model

A frame of reference explains the key factors, constructs, or variables and the presumed relationship between them [M. B. Miles and A. M. Huberman [18]]. Understanding those relationship will help in better utilization of CRM in banking sector, and banks will be able to build customer loyalty in order to have a better long-term competitive edge over their competitors [M. M. M. Bagram [17]], as shown in figure 1.8.

Figure 1.7 The integrated framework model
Source: [Wang, Yonggui, Po Lo Hing, Chi. Renyong, Yang, Yonghen 16]]

Figure 1.8 CRM model [M. M. M. Bagram 17]
Consequently, a frame of reference presents the theories and models that are most suitable for the research problem. By studying and understanding the above models the researcher anticipated to propose the following model for his research.

1.14 STUDY AREA
1.14.1 Selection of study area

The Chittoor district of Andhra Pradesh is selected for the present study to analyse CRM practices in banking with the following reasons:

The personal interviews conducted with bank managers revealed that the system of hybrid banking is in particular in this district when compared to other districts in Andhra Pradesh, the interview results also revealed that the customers of the banks in this district constitutes different mix of customers like farmers, listed companies, pulp processing units, granite industries and other small scale units, which is not in the other districts, Development of Women and Children in Rural Areas (DAWCRA) groups and the temples like Tirumala, Tirupathi, Kanipakam and Kalahasti, are also important sources for the requirement of banking for both pilgrims and management trusties. With the above reasons there is greater necessity of banking and also CRM in Chittoor district.

The present study is conducted in Chittoor District of Andhra Pradesh. Chittoor is a part of Rayalaseema region of Andhra Pradesh. Chittoor District was formed on 1 April 1911. The district headquarters is Chittoor and the largest city is Tirupati. The district occupies an area of 15,359 square kilometers (5,930 sq mi), The district has a population of 4,170,468 according to 2011 census of India. Chittoor district has major temples that include Tirupati, Kanipakam and Sri Kalahasti. It lies in the Poini river valley of southernmost Andhra Pradesh along the Chennai-Bangalore section Chennai-Mumbai highway.

The district is divided into 3 revenue divisions viz., Chittoor, Tirupati and Madanapalle. The district has 66 mandals under these 3 revenue divisions, with 2 Municipal Corporations of Chittoor and Tirupati and 6 municipalities of Madanapalle, Punganur, Palamaner, Nagari, Srikalahasti and Puttur. Each revenue divisions are divided into mandals. There are 14 Andhra Pradesh Legislative Assembly constituencies in Chittoor District.
Table 1.1 Chittoor district-wise distribution of all scheduled commercial banks

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Bank</th>
<th>No. of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank of India and its subsidiary banks</td>
<td>66</td>
</tr>
<tr>
<td>2</td>
<td>Nationalized Banks</td>
<td>160</td>
</tr>
<tr>
<td>3</td>
<td>Regional Rural Banks</td>
<td>94</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>All Scheduled Banks</td>
<td>357</td>
</tr>
</tbody>
</table>

Source: Hand book of statistics, Govt. of Andhra Pradesh.

It is a major market center for mangoes, grains, sugarcane, and peanuts. It is also supporting a small and medium scale enterprises like granite and pulp etc. these made the foundation for the requirement of banking in Chittoor District. The following table provides the details of scheduled commercial banks of Chittoor District. Chittoor District-wise distribution of all scheduled commercial banks are shown in table 1.1.

1.15 LITERATURE REVIEW

To understand the concepts of CRM and its role in banks a full-fledged literature review was made. 138 literature reviews were studied which were explained in detail in chapter two, supported to develop the research gap and statement of the problem.

1.16 RESEARCH GAP

Review of literatures collected for the present study revealed that majority of previous Customer Relationship Management (CRM) studies in banks are in view with customer only, relation between few CRM elements were studied, loyalty related studies are more. Studies based on both customers and employees of banks found to be very few. The studies related to CRM in banking in Chittoor district doesn’t exist.

Improved customer knowledge and banking requirements, cut-throat competition between banks, innovative technology has raised importance to understand the switching behaviour of the customers through the studies of CRM in banking to find a better solution. In view with above statements it has become a keen need to study this matter for which the researcher has selected this topic.

The figure 1.9 represents the flow chart for the present research work conducted in select banks of Chittoor District.
Figure 1.9 Flow chart of the study

- Initiation
  - Review of Literature
  - Research Gap
  - Statement of the Problem
    - Theoretical Concept and Model Building
      - Survey Instrument
      - Pilot Study
    - Data Collection
      - Analysis
        - Reliability Test
          - CFA
            - SEM
              - Hypotheses Testing
  - Findings and Conclusion
1.17 STATEMENT OF THE PROBLEM

Time has changed; earlier people were very loyal to their banks but in today’s competitive era banks cannot expect committed relationship from their clients. With increased number of banks, products and services and practically nil switching costs, customers are easily switching banks whenever they find better services and products. The quality of customer service play significant role in the context of sustained business growth in services, banking is one such which is included it. It has become very difficult for the banks to survive in this heavy competitive business environment. However the essential strength of a bank lies in maintaining good customer relationship. Banks are rushing towards gaining technology and achieving efficiency to face the danger of forgetting fundamental premises. Now a day’s banks are concentrating not only to acquire the new customers but also to retain the existing customers because they understand the importance and profitability due to retained customers. For the last decade most banks have been so absorbed that their own internal issues, particularly merger drives, cost-cutting and re-engineering, that customers and their relationship often received short shrift. Banks have to come out with innovative measures to satisfy the needs of both the present and the potential customers at the same time adopt procedures to win bank the lost customers. It is with this background the researcher has made an attempt towards studying CRM practices applied in the banking service.

This research basically seeks to study the opinion of the bank employees and customers on CRM practices through the following questions
1. What is the perception of customers about banking service?
2. Are the customers satisfied about their relationship with the bankers?
3. What is customer relationship as perceived by bankers?
4. Which factor contributes more towards the customer relationship among the various banks?
5. Does the banker understand the importance of customer retention?
6. How can the banker customer relationship be strengthened?

1.18 NEED FOR THE STUDY

Over the last 50 years, the focus of marketing function has shifted from services to customers and has narrowed down to customer relationship, consequently it has
forced many marketing functionaries to sit back and decide how the new challenges of CRM should be met effectively. The need for this study has aroused out of these challenges which are primarily faced by CRM executives. The study focuses on both customer and employee perspective of banks because to understand and enhance the applicability of CRM.

This study will help the CRM practitioners to understand and to facilitate CRM executives to interact effectively with customers where it requires high customer involvement.

1.19 CHAPTER FRAME WORK

The plan of the thesis is organized into six chapters as detailed below:

1. The first chapter deals with the introduction to CRM, Role of CRM in banking.
2. The second chapter deals with the review of literature and proposed model.
3. The third chapter deals with research methodology.
4. The fourth chapter deals with analysis and interpretation of data along with hypotheses tested results pertaining to the bank customers.
5. The fifth chapter deals with analysis and interpretation of data along with hypotheses tested results pertaining to the bank employees.
6. The sixth chapter deals with findings and conclusion.