CHAPTER 3

CONCEPTUAL FRAMEWORK OF CUSTOMER RELATIONSHIP MANAGEMENT
3.1 INTRODUCTION

Customer Relationship Management is an integration of business processes and technologies employed to satisfy the needs of a customer during any given integration. The concept of CRM involves acquisition analysis and use of knowledge about the customers with a view to effectively sell more and more goods and services. The implementation of CRM will help in retaining the existing customers and attracting new ones. Basically, CRM is considered as a business strategy and not as a technology. Implementation of CRM will increase the delight of the customers and make them stay longer and be loyal to the organization for a longer period.

Customer Relationship Management (CRM) is a strategy adopted by business firm in recent years and includes the formation of methodologies and tools that help businesses manage customer relationship in an organized way. The CRM processes are extremely helpful in identifying and targeting the best customers for the business firm.

The CRM also endow the employees of the organizations with the information they need to know about their customers’ wants and needs, and to build a long-term sustained relationship between the firm and its customers.

3.2 WHY CRM?

Traditionally businesses competed with others on the basis of price or the product features or by locating them at the places they were in demand. But in present-day environment it is very difficult to compete on the basis of product features alone so many technologies exist that facilitate near replication of function and features, taking away the first more advantage. Customers no longer satisfied with only products but expect the best possible after sales service. Customers can get any
information about the product or information at his command, the customer has become very choosy and demanding.

Another factor is customer experience. Paul Greenberg (2001) author of popular CRM at the speed of light says:

“When customers approach a business for a product or service, they also have an expectation associated with their interest. The completed transaction leaves some kind of experience in the minds of the customers with regard to their expectations”.

If the experience is pleasant the customer will repurchase otherwise he well not. Most surveys conclusively proved that repeat purchases are based on customer satisfaction and experience with that company.

The CRM enables customer centric processes of identifying, acquiring, nurturing, retaining customers and developing life-long relationship with them by providing best possible service and satisfaction in the process of achieving organizational goals. Towards this end CRM aims at serving the customers on a one to one basis, reducing the intermediaries, continuously monitoring their needs, providing services and products in alignment with those needs.

3.3 DEFINING CRM

CRM started gaining prominence in early 1997 and emerged as a management buzz and a topic of interest among business firms, media, software vendors, management gurus and academic institutions.

Robert Shaw (2001) says “CRM is an interactive process for achieving the optimum balance between corporate investments and the satisfaction of customer needs to generated the maximum profit”. CRM is a comprehensive strategy and
process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer.

According to Rigby, Reichheld and Schefter (2002), “CRM aligns business process with customer strategies to build customer loyalty and to increase profits overtime”. Thus CRM system effectively unifies and manages each stage of a complex sales process so that it is enjoyed by the truly customer-focused organizations.

In the words of Parvatiyar and Seth (2001), “CRM is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer”. It is a process or methodology used to learn more about customers’ needs and behaviours in order to develop strong relationship with them.

Greenleaf and Winer (2002) have explained CRM thus “Customer Relationship Management is a business strategy and manage customers to optimize long-term value. CRM is a business approach that integrates people, processes, and technology to maximize the relations of an organization with all types of customers”. According to Christopher et al considers relationships marketing as “a tool to turn current and new customers into regularly purchasing client and then progressively move them through being strong supporters of the company and its products to finally being active and vocal advocates for the company”.

“Customer Relationship Management (CRM) is a business strategy for improving profitability by focusing on customer needs and creating an attentive relationship with the customer. It involves a personalized and interactive approach for the entire customer lifecycle” (Fletcher & Alan, 2001)
Rogers & Peppers (2001) Definition of CRM: Establishing relationship with customers in individualized media and delivering the data collected to different people that allow the customers and companies to have mutual benefits through transaction as long as the customers can contribute their data to reward the individualized service designed particularly for their demands.

“CRM is a business strategy to select and manage the most valuable customer relationships. CRM requires a customer-centric business philosophy and culture to support effective marketing, sales and service processes. CRM applications can enable effective customer relationship management, provided that an enterprise has the right relationship, strategy & culture”. (CRM Guru.com 2003)

CRM can be broadly defined as a company’s activities related to developing and retaining customers. It is a combination of internal business processes, such as sales, marketing and customer support and technology and data capturing techniques. CRM is all about building long-term business relationships with customers (AB Office Solutions 2003) (Charlene Van Zyl, 2003)

James J Lynch views CRM as “selling by using psychological rather than economic inducements to attract and retain customers. It seeks to personalize and appeals to the hearts, minds and purses of the masses consumers”.

CRM is defined as “a management process of acquiring customers by understanding their needs, retaining customers by fulfilling their needs more than their expectations and attracting new customers through customer specific strategic marketing approaches”.

“CRM is the process of managing detailed information about individual customers and carefully managing all customer touch points to maximize customer loyalty. A customer touch point is any occasion on which a customer encounters the
brand a+nd product, from actual experience to personal or mass communication to casual observation”. (Kotler. P., & Keller. K.L. 2006)

“CRM focuses on technology, particularly that technology which attempts to manage all customer touch points and facilitate the integration of various database systems to provide a single picture of the customer”. (Evans. M., Malley. L., & Patterson. M. 2004)

CRM comprises the business processes an organization performs to identify, select, acquire, develop and retain and to better serve customers. This process includes a company's end-to-end engagement with its customers and prospects over the lifetime of its relationship with them”. (Baran. R.J., Galka. R.J. & Strunk. D.P. (2008)

### 3.4 THE EMERGENCE OF CRM

The emergence of CRM as a management approach is a consequence of a number of important trends. These include:

- The shift in business focus from transactional marketing to relationship marketing.
- The realization that customer are asset of the business and not simply a commercial audience.
- The transaction in structuring organizations on a strategic basis from functions to processes.
- The recognition of the benefits of using information proactively rather than solely reactively.
- The greater utilization of technology in managing and maximizing the value of information.
• The acceptance of the need for trade-off between delivering and extracting customer value.

• The development of on-to-one marketing approaches.

The objective of customer relationship management is to turn new customers into regularly purchasing clients and then to progressively move them through being strong supporters of the company and its products and finally to being active and vocal advocates for the company thus playing an important role as a referral source.

Customer service has a pivotal role to play in achieving this progression up the ladder of customer loyalty. It should be obvious that traditional marketing mix elements of product, price, promotion and place are the principle elements like customer service, people and process are those which are used to move customer into clients, supporters and ultimately advocates for company’s products and services. In moving clients up the ladder it is essential to understand in an in-depth and explicit manner exactly what the customer is buying and how can offer augmentation or differentially improve the offering to the customer. To achieve the transition from customer to advocate to advocate, one has to go beyond more “customer satisfaction” to “customer delight” by delivering products or services that exceed expectations.1

3.5 NEED FOR CRM

Building relationship with customers in current market trends is the most important aspect that an organization should focus on. Distinction and eminence are now most sustainable and affirm for which developing good relationship with customer is must. Some of the substantial outcomes of building a quality relationship is explained below by which need of relationship with customer are insight.

3.5.1 Better Customer perceptiveness

As the customer lengthens to deal with a supplier, tends to explicate a better insight of customer’s needs and expectations. By this high level of relationship can be developed between them. This will results in selling more products and retain the business with the customers which finally will lead to profitable business.

3.5.2 Lead to Customer satisfaction

Customer satisfaction is the measure of how the needs and response are collaborated and delivered to excel customer expectation. It can only be attained if the customer has an overall good relationship with the supplier. In today’s competitive business marketplace, customer satisfaction is an important performance exponent and basic differentiator of business strategies. Hence, the more is customer satisfaction; more is the business and the bonding with customer.

3.5.3 Lead to customer loyalty

Customer loyalty is the tendency of the customer to remain in business with a particular supplier and buy the products regularly. This is usually seen when a customer is very much satisfied by the supplier and re-visits the organization for business deals, or when he is tended towards re-buying a particular product or brand over times by that supplier. To continue the customer loyalty the most important aspect an organization should focus on is customer satisfaction, hence it can be said that customer loyalty is also an out-come of good relationship.

3.5.4 Customer retention

Customer retention is a strategic process to keep or retain the existing customers and not letting them to diverge or defect to other supplier or organization
for business and this only possible when there is a quality relationship between customer and supplier. Usually a loyal customer is tended towards sticking to a particular brand or product as far as his basic needs continue to be properly fulfilled. He does not opt for taking a risk in going for a new product. More is the possibility to retain customers the more is the probability of new growth of business.

3.5.5 Chances of getting referrals

It is always a cost – free advocacy by customers to provide referrals to supplier when they feel satisfied and encouraged and when they have a health relationship with customers. These referrals or customer’s reference of other customers acts like a piece of cake for suppliers as there is no cost and struggle involved in this. This could be treated as the best outcome of quality relationship what a supplier can think of.

3.5.6 Growth in revenue

When suppliers have healthy relationship with customers th revenue of the organization always increase as customers tend to buy more and more. There is possibility that a satisfied customer seek to buy special category of related products apart from the regular ones from the particular supplier. For instance if a satisfied and loyal customer has a home insurance from an insurance company then there are positive chances that he could also insure his property and car also if he is fully satisfied with the services of that insurance company. This will definitely result in growth of business.
3.5.7  **Cost to serve is low**

Cost to serve existing satisfied customers is always very less for the supplier as they know and understand customers. Customers never come back with complaints and queries because they know the actual business flow and completely rely on the relationship with supplier. ²

3.6  **FEATURES OF GOOD CRM PROGRAMME**

A good CRM programme of the firm can improve its customer service by facilitating communication in the following ways:

1. Offering product information, product usage information and technical support through the web and other means round the clock.

2. Offering services in keeping with the requirements an expectation of each individual customer.

3. Providing a fast mechanism for managing follow-up sales calls to assess post-purchase problems, pre-purchase probabilities, repurchase times, frequencies etc.

4. Developing an effective system to track all possible points of contact between the firm and the customer in an integrated manner.

5. Locating the potential problems well in advance even before such problems arise.

6. Facilitating the adoption of user-friendly mechanisms for registering the complaints from the customers to prevent customer dissatisfaction.

7. Suggesting a speedy mechanism for correcting service deficiencies, which may lead to higher customer satisfaction.

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3.7 HOW CRM IMPROVES CUSTOMER RELATIONSHIP AND SERVICE

The CRM programmes, implemented by firms, help to improve the relationship between the customers and the firm. The effective implementation of CRM results in:

1. Tracking of customer interests, needs and buying habits, likes and dislikes tastes and preferences on a continuous basis and formulation of dynamic marketing strategies. This enables the customers to avail of exactly what they want.

2. CRM can be used in improvements of customer service to facilitate long-term sustained customer satisfaction. It thus paves the way for enhanced customer satisfaction, encouraged repeat purchase, improved customer loyalty, reduce customer switchover, thereby contributing towards a greater profit margin for the firm throughout life.

3. CRM establishes an in-depth understanding between the firm and its customers, thus enabling the firm to attain a higher rate of repeat purchases.

A good CRM programme can improve customer service by:

- By providing product information and technology assistance with an accessibility for 24 hours a day, seven days a week.
- Identifying the difference in qualities perceived by different customers and then by designing a suitable service strategy for each customer based on expectations.
- To identify potential problems quickly, even before they occur.
• Providing a fast mechanism for managing follow-up sales calls to assess post-purchase problems, pre-purchase probabilities, repurchase times, frequencies etc.

• Providing a fast mechanism for handling problems and complaints etc.

3.8 GOALS OF CRM

The goals of CRM are:

1. To understand the needs and behaviour of present and potential customers.
2. Acquire, retain and establish mutually rewarding one to one relationships with customers
3. Provide better service to customers.
4. Identify high value customers so that the organization can serve them better.
5. Collect and make available information to the entire organization wherever and whenever needed, so that the customer could be served better.
7. Increase customer revenue by cross selling and up selling.
8. Simplify marketing and sales processes.
9. Provide the level of service required to be provided to high value customers.
10. Integrate all customer related activities like marketing, sales, service in such a way that the highest value is provided to the customer.

3.9 ADVANTAGES OF CRM

Early researchers had hypothesized that CRM benefits varied by industry as the process and technologies associated with CRM were tailored to specific industry structures (Lemon and Zeithaml, 2001). However, findings in cross cultural, multi-industry study of CRM done by Thomas and Kumar (2004) supports the notion that
desired CRM benefits do not vary across industries or cultures as stipulated by earlier thoughts. The latest findings were associated to three components including relationship, value and brand equity (Richar and Jones, 2008). The list of desired benefits will be used as the critical link between CRM initiatives and the development of customer equity. These core benefits of CRM will be linked theoretically to the three types of equity (relationship, value and brand) and ultimately to customer equity.

1. Improved ability to target profitable customers.
2. Integrated offerings across channels
3. Improved sales force efficiency and effectiveness
4. Individualized marketing messages
5. Customized products and services
6. Improved customer service efficiency and effectiveness and
7. Improved pricing.  

3.10 STEPS FOR SUCCESSFUL CRM

The following steps would ensure the successful implementation of CRM in any firm:

1. Managers should only think about providing quality customer services rather than concentrating more on CRM label.
2. The effective implementation of CRM necessitates the availability and allocation of adequate funds.
3. CRM implementation can be undertaken on a small scale in the initial stages, which will help the firm find out the pitfalls and practical difficulties.

4. The firms should focus on the CRM integration and data mining.

5. The firm must carry out proper periodical evaluation to measure the success of its CRM strategy.

6. The firm must wait for the right opportunity to reap benefits arising out of the implementation of new CRM strategies.

7. The motto of the CRM strategy of the firm should be to enhance the sharing of the information between the firm and its customers for maintaining a long-term sustained relationship. This would enable the firm to deliver better series to the customers.

3.11. BENEFITS OF CRM TO AN ORGANISATION

The primary focus of any CRM strategy is to enable the organization to create and retain profitable customers. Most strategies evolve around three aspects, namely customer profitability, customer acquisition and customer retention, due to the reduced costs associated with retaining customers rather than obtaining new customers.

3.11.1 Customer profitability

Customer profitability tracks the financial performance of customers with respect to all the costs associated with transaction. Profitability is determined in the light of the lifetime value of the customer to the organization, taking into account the income and expenses associated with each customer over time. The tracking of profitability is made more accurate through the use of technology.

3.11.2 Customer acquisition

A great deal of time and money is spent on attracting new customers, but few resources are focused on retaining customers. The cost of attracting a new customer
is estimated to be five time the cost of keeping a current customer happy. The cost of attracting a new customer is often higher than the customer’s lifetime value with the organization. It is clear from the above that an emphasis on customer acquisition without focusing on the resulting relationship with the customer is a waste of money to the organization.

3.11.3 Customer retention

Retention involves ensuring that the customer remains loyal to the organization and in so doing both parties are able to receive substantial benefits. Organizations can increase their profitability by between 20% and 125% if they boost their retention rate by five percent. Customers who receive excellent service remain loyal and provide free advertising by talking about the organization’s products and services. An organization with a primary focus on customer retention should have information about the customer retention rate and the aspects that affect possible customer defection and migration.  

3.12. CHALLENGES AND FUTURE OF CRM

CRM has come on the corporate agenda in a big way but it has come with its own challenges. CRM is on the management agenda for the past several years. Forrester Research Inc, in May 2001, reported that 20% of the global 3500 leading companies had implemented CRM programs and 61 percent intended to invest in CRM software. Software vendors and their allied system integrators have a commercial stake in CRM and some research firms have predicted that new technology could improve CRM implementations.

To study the effectiveness of CRM is difficult because the exact definition of CRM is not clearly identified. Though most firms are doing some CRM, many are employing only the tactical applications such as database marketing. Call center, online information sites or sales automation. Very few firms have fully embraced a strategic, enterprise wide concept of CRM. Research firms and consultancies try to measure the success of CRM programs. Thought the methodologies are not always given they draw on the manager assessments of the extent to which the objectives have been achieved. This may introduce some bias.

In India, CRM is still in its infancy. Some of the companies have adopted the concept of CRM as “customer care” pond’s has customer response center; H.L. Surf provides for ‘open customer feedback; Lakme, DHL and Xerox and many others conduct regular customer satisfaction surveys.

In this new millennium, organizations can improve their “customer ownership” by creating a feeling of trust and confidence about the organization and its products in the minds of the customers. There is an enormous opportunity for organizations to improve their bottom-line by addressing all the de strategic element, customer inter-actions, front and back office integration, CRM culture, change management etc., to attract new customer and hold on to the old ones. Ultimately, however, to be successful in CRM implementation an organization must have a clear strategic vision that fosters the CRM culture and practices.

The organization must selectively choose appropriate analytical tools and techniques to utilize the data and should also select the right vendor for supplying technology solutions. As CRM progress, vendors predict that the near future will see the sharing of common customer interaction channels, with a greater thrust on customization and personalization.5

3.13 RETAILING

Retailing consists of the sale of goods or merchandise from a fixed location (such as a departmental store or kiosk) in a small or individual lots for direct consumption by the purchaser. Retailing may include subordinated services such as packing and delivery.

3.14. RETAILER

Retailers are at the end of the supply chain. A retailer buys goods or products in large verities from manufacturers or importers, either directly or through a wholesaler, and then sells in smaller quantities to the end-users.

3.1 Different Formats in Retailing

<table>
<thead>
<tr>
<th>FORMAT</th>
<th>APPEARANCE</th>
<th>ADVANTAGES</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRANDED STORE</td>
<td>Exclusive showroom either owned or franchised out by a manufacturer</td>
<td>Complete range available for a given brand, certified product quality</td>
<td>Bharati-wall mart</td>
</tr>
<tr>
<td>SPECIALITY STORES</td>
<td>Focus on a specific consumer need, carry most of the brands available</td>
<td>Greater choice to consumer, comparison between brands is available</td>
<td>Health and glow</td>
</tr>
<tr>
<td>DEPARTMENTAL STORES</td>
<td>Large stores having a wide variety of products, organized into different departments such as clothing, house wares, furniture, appliances, toys, etc.</td>
<td>One stop shop catering to varied consumer needs</td>
<td>Shopper’s Stop</td>
</tr>
<tr>
<td>SUPERMARKETS</td>
<td>Extremely large self-service retail outlets</td>
<td>One stop shop catering to varied consumer needs</td>
<td>Food world</td>
</tr>
<tr>
<td>DISCOUNT STORES</td>
<td>Stores offering discounts on the retail price through selling high volumes and reaping economies of scale</td>
<td>Low prices</td>
<td>Subhiksha</td>
</tr>
<tr>
<td>HYPER MARKET</td>
<td>Larger than a supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city</td>
<td>Low prices, vast choice available</td>
<td>Spencer’s Big Bazaar</td>
</tr>
<tr>
<td>CONVENIENCE STORES</td>
<td>Small self-service formats located in crowded urban areas</td>
<td>Convenient location and extended operating hours</td>
<td>Reliance fresh</td>
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<tr>
<td>SPECIALITY STORES</td>
<td>Focus on specific consumer need, carry most of the brands available</td>
<td>Greater choice to the consumer, comparison between brands is possible</td>
<td>Departmental stores</td>
</tr>
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### 3.15 CRM IN RETAILING

The CRM is quite a new phenomenon in retailing industry. It is only big retailers have installed CRM systems to identify and track customer purchases and take appropriate management decisions, especially on managing customer relationships. Now, organized retailers have started concentrating on providing more value to their valuable customers using targeted promotions and services to increase their share wallet, i.e., the per cartage of the customer’s purchase made from these retailers with these consumer. Almost all of them have started Loyalty Programs in order to reward the existing customer. These programmes help the retailers in increasing the number of footfalls as well as enhancing their sales revenues and profit.

The organized retailing in India is progressing towards a tough competitive environment where only those retailers would survive who can understand their customers and develop a strong bond with them by developing and implementing appropriate CRM strategies and programmes effectively. In the time to come, CRM is going to be the most dominant marketing tool to enhance the overall retailer performance.