Chapter 2
CHAPTER- 2

CUSTOMER RELATIONSHIP MANAGEMENT

"If growth is what you're after, you won't learn much from complex measurements of customer satisfaction or retention. You simply need to know what your customers tell their friends about you."

-Frederick F. Reichheld

Few years ago, marketers started to know their customers personally, understood what they needed and did their best to fulfill and satisfy that needed through personalized services, which helped them to earn the loyalty and getting a large share of the customer’s business.

But, gradually this costly and inefficient system gave way to mass marketing; customers traded relationships for greater variety and lower prices. But today falling IT costs enable companies to offer both.

The concentration on building beneficial relations with customers is not a new approach in the field of business. The increasing competition and decreasing customer loyalty have shaped the need for implementing new tools to help companies to succeed the competition and win customer’s loyalty by providing more customized products and services.

Rapid growth in information systems applications, that enable business-customer interaction and the boom of internet technology, have provided business organizations with more capabilities to cope with increasing knowledge acquired by customers and the changing nature of their
demands for products and services. For this purpose they start to think of a tool which can help them to interact with their own customer to make them loyal and offer a better services and products to them.

2.1 Introduction to CRM (Customer Relationship Management):

The term “Customer Relationship Management” emerged in the Information Technology (IT) vendor community and practitioner community in the mid-1990s. It is often used to describe technology-based customer solutions, such as Sales Force Automation (SFA). In the academic community, the terms “relationship marketing” and CRM are often used interchangeably. However, CRM is more commonly used in the context of technology solutions and has been described as “Information-enabled Relationship Marketing”.

Customer Relationship Management has been addressed by many academic researchers and practitioners in the field of Marketing and Information Systems. Although CRM is a relatively new concept, it is receiving increasing attention for its promising future. There is no consensus among researchers to identify CRM. The reason for the difficulty in agreeing upon unified definition for CRM is that CRM means different things to different people depending on their academic backgrounds and on their understanding for CRM.

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Thus, CRM is the first step and a critical requirement to implement CRM successfully\textsuperscript{10}.

The new technologies enable large companies to become more customer oriented, because they have faster access to the data of their clients. CRM is becoming more important since globalization makes the markets more competitive. However, the new CRM advance, based on this technology is not just software that when implemented guarantees growth of sales and revenues. Instead, CRM is a comprehensive approach, which provides seamless integration of every area of business that touches the customer. It is a business philosophy focusing on the customers, backed up by people, business processes and technology\textsuperscript{11}. A Customer Relationship Management consists of three single words, representing one concept:-

**2.1.1-Customer:** Most of today’s businesses have realized that a change in dealing with their customers is needed. The times when a company knew all their customers individually including their life history, earnings and future plans are over. The customer’s buying behaviour has changed and the small stores "around the corner" that have personal relationships between the owner and the consumers are getting fewer and fewer. As the companies get larger and more complex, they become more inward looking as they try to cope with their internal issues. Often, the customers are


neglected. With CRM, one goal is to make the individual customer become more important at an acceptable cost to the company.

**2.1.2-Relationship:** Without the CRM technology it is nearly impossible for large enterprises to build, form and keep relationships with their customers. Businesses with a large client base were often unable to access the right information at the right time. Therefore, many companies view the implementation of a CRM system as an opportunity to serve their customers more individually and increase their earnings potential at the same time.

**2.1.3-Management:** Companies are trying to expand their consumer bases and focus on keeping and growing their best customers. Since the costs of retaining customers are significantly lower than those of acquiring new ones, it is essential to manage customers and customer relationships. This is thus an incentive for business to control the relationship with their customers actively to create loyalty.

**2.2 The Emergence of CRM Practice:-**

As observed by Sheth and Parvatiyar\textsuperscript{12}, developing customer relationships has historical antecedents going back into the pre-industrial era. Much of it was due to direct interaction between producers of agricultural products and their consumers. Similarly artisans often developed customized products for each customer. Such direct interaction led to relational bonding between the producer and the consumer. It

was only after industrial era’s mass production society and the advent of middlemen that there were less frequent interactions between producers and consumers leading to transactions oriented marketing.

The production and consumption functions got separated leading to marketing functions being performed by the middlemen. And middlemen are in general oriented towards economic aspects of buying since the largest cost is often the cost of goods sold.

In recent years however, several factors have contributed to the rapid development and evolution of CRM. These include the growing disintermediation process in many industries due to the advent of sophisticated computer and telecommunication technologies that allow producers to directly interact with end—customers. For example, in many industries such as airlines, banks, insurance, computer program software, or household appliances and even consumables, the de-intermediation process is fast changing the nature of marketing and consequently making relationship marketing more popular. Databases and direct marketing tools give them the means to individualize their marketing efforts. As a result, producers do not need those functions formerly performed by the middlemen. Even consumers are willing to undertake some of the responsibilities of direct ordering, personal merchandising, and product use related services with little help from the producers. The recent success of on-line banking, Charles Schwab and Merryll Lynch's on-line investment programs,
direct selling of books, automobiles, insurance, etc., on the Internet all attest to the growing consumer interest in maintaining direct relationship with marketers.

The de-intermediation process and consequent prevalence of CRM is also due to the growth of the service economy. Since services are typically produced and delivered at the same institution, it minimizes the role of the middlemen. A greater emotional bond between the service provider and the service user also develops the need for maintaining and enhancing the relationship. It is therefore not difficult to see that CRM is important for scholars and practitioners of services marketing (Berry and Parsuraman; Bitner; Crosby and Stephens; Crosby, et. al.; Gronroos).

Another force driving the adoption of CRM has been the total quality movement. When companies embraced Total Quality Management (TQM) philosophy to improve quality and reduce costs, it became necessary to involve suppliers and customers in implementing the program at all levels of the value chain. This needed close working relationships with

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customers, suppliers, and other members of the marketing infrastructure.

Thus, several companies such as Motorola, IBM, General Motors, Xerox, Ford, Toyota, etc., formed partnering relationships with suppliers and customers to practice TQM. Other programs such as just-in-time (IIT) supply and Material-resource planning (MRP) also made the use of interdependent relationships between suppliers and customers Frazier, Spekman, and O’Neal\(^\text{18}\).

With the advent of the digital technology and complex products, systems selling approach became common. This approach emphasized the integration of parts supplies, and the sale of services along with the individual capital equipment. Customers liked the idea of systems integration and sellers were able to sell augmented products and services to customers. The popularity of system integration began to extend to consumer packaged goods, as well as services Shapiro and Posner\(^\text{19}\). At the same time some companies started to insist upon new purchasing approaches such as national contracts and master purchasing agreements, forcing major vendors to develop key account management programs Shapiro and Moriarty\(^\text{20}\). These measures created intimacy and cooperation in the buyer-seller relationships. Instead of


purchasing a product or service, customers were more interested in buying a relationship with a vendor. The key (or national) account management program designates account managers and account teams that assess the customer needs and then husband the selling company’s resources for the customer’s benefit. Such programs have led to the foundation of strategic partnering within the overall domain of customer relationship management Anderson and Narus\textsuperscript{21}; Shapiro\textsuperscript{22}.

Similarly, in the current era of hyper-competition, marketers are forced to be more concerned with customer retention and loyalty. “Dick and Basu\textsuperscript{23}”; Reichheld\textsuperscript{24}. As several studies have indicated, retaining customers is less expensive and perhaps a more sustainable competitive advantage than acquiring new ones. Marketers are realizing that it costs less to retain customers than to compete for new ones Rosenberg and Czepiel\textsuperscript{25}.

On the supply side it pays more to develop closer relationships with a few suppliers than to develop more vendors Hayes et. al.\textsuperscript{26}; Spekman\textsuperscript{27}.

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In addition, several marketers are also concerned with keeping customers for life, rather than making a one—time sale Cannie and Caplin 28. There is greater opportunity for cross-selling and up-selling to a customer who is loyal and committed to the firm and its offerings. In a recent study, Naidu, et. al. 29 found that relational intensity increased in hospitals facing a higher degree of competitive intensity.

Also, customer expectations have rapidly changed over the last two decades. Fueled by new technology and growing availability of advanced product features and services, customer expectations are changing almost on a daily basis. Consumers are less willing to make compromises or trade-off in product and service quality. in the world of ever changing customer expectations, cooperative and collaborative relationship with customers seem to be the most prudent way to keep track of their changing expectations and appropriately influencing it Sheth and Sisodia 30.

Today, many large internationally oriented companies are trying to become global by integrating their worldwide operations. To achieve this they are seeking cooperative and collaborative solutions for global operations from their

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vendors instead of merely engaging in transactional activities with them.

Such customers’ needs to make it imperative for marketers interested in the business of companies who are global to adopt CRM programs, particularly global account management programs Yip and Madsen$^{31}$.

Global account management (GAM) is conceptually similar to national account management programs except that they have to be global in scope and thus they are more complex.

Managing customer relationships around the world calls for external and internal partnering activities, including partnering across a firm's worldwide organization.

Customer relationship management has been defined by many academic researchers and practitioners in the field of Marketing and Information Systems; here are some definitions by different researchers.

### 2.3 Definitions of CRM (Customer Relationship Management):

- Berry and Linoff$^{32}$ remark that “CRM is a business philosophy for generating profits through focusing on customers’ share of wealth instead of focusing on the market share”.

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Blattberg suggests that “CRM is a business strategy that intends to lower costs, increase business profitability by retaining loyal customers and emphasize a customer’s lifetime value (CLV)”.

Bull; Chen & Popovich; Kalakota & Robinson, “The strategy of making profits through combining business process with technology, the understanding of customers and managing and improving their relationships and maintaining them”.

DaSilva and Rahimi suggest that any “CRM system strives to function efficiently by combining the marketing and information technology fields in a collaborative effort aimed at targeting their sales market and attracting prospective clients”.

Anderson CRM can benefit brokerages specifically by differentiating customers according to needs and profitability.

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Bull CRM also can help pick out specific customer groups while discarding other customer groups.

Kalakota & Robinson, Trembly, CRM can help generate sales, facilitate marketing and help with customer support through the sharing of flexibility, mobility and information.

Barracliffe and Taylor believe that by using CRM, a company can reduce costs in areas such as sales, marketing and services by properly aligning technology and processes.

Slavens remarks ‘that CRM can bring a more customer oriented vision to the company through its data sharing tools’.

Chen & Popovich Kalakota & Robinson CRM can improve profitability by providing a deeper understanding and prediction of their customers’ behaviors, habits, needs and trends.

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Jamal and Naser 46 ‘CRM can bring openness, honesty, information exchange, flexibility and responsiveness to customers’ complaints, which will all add up to more loyal customers’.

Peppard 47 Practicing elements of an approach to marketing that uses continuously refined information about current and potential customers to anticipate and respond to their needs CRM is a management approach that manages the relationships with the customer.

Ryals et al. 48 the ability to identify and attract customers allows for the retention and identification of profitable customers.

Morrel and Philonenko 49 said that CRM is not a technology or even a group of technologies. It is a continually evolving process that requires a shift in attitude away from the traditional business model of focusing internally. CRM is an approach which the companies takes toward its customers backed up by thoughtful investment in people, technology and business processes.

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49 Morrel and Philonenko; "CRM strategy", 2001
Swift \(^{50}\) CRM is an “Enterprise approach to understanding and influencing customer behavior through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability”.

Zablah, Beuenger and Johnston\(^{51}\), suggest that CRM is “a philosophically-related offspring to relationship marketing which is for the most part neglected in the literature,” and they conclude that “further exploration of CRM and its related phenomena is not only warranted but also desperately needed.

Khanna \(^{52}\) said that CRM is an e-commerce application.

Stone and Woodcock \(^{53}\) CRM is a term for methodologies, technologies, and ecommerce capabilities used by companies to manage customer relationships.

Singh and Agrawal \(^{54}\) CRM is an enterprise wide initiative that belongs in all areas of an organization.

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\(^{50}\) Swift, R.S. (2001), Accelerating customer relationships, Using CRM and Relationship Technologies, Prentice Hall.


Buttle 55 is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. CRM is about the development and maintenance of long term, mutually beneficial relationships with strategically significant customers.

Gosney and Boehm 56 CRM include numerous aspects, but the basic theme is for the company to become more customer-centric. Methods are primarily Web-based tools and Internet presence.

Peppers, Rogers, and Dorf 57 CRM can be viewed as an application of one-to-one marketing and relationship marketing, responding to an individual customer on the basis of what the customer says and what else is known about that customer.

Hobby 58 CRM is a management approach that enables organizations to identify, attracts, and increase retention of profitable customers by managing relationships with them.

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Couldwell CRM involves using existing customer information to improve company profitability and customer service.

Glazer CRM attempts to provide a strategic bridge between information technology and marketing strategies aimed at building long-term relationships and profitability. This requires “information-intensive strategies”.

Kutner and Cripps CRM is data-driven marketing.

Swift CRM is an enterprise approach to understanding and influencing customer behavior through meaningful communication to improve customer acquisition, customer retention, customer loyalty, and customer profitability.

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2.3 CRM Components

Although researchers have developed different definitions for CRM, these definitions are closely related. There is a general acceptance among researchers of the categorization of CRM components. CRM consists of three major components: Technology, people, business culture and relationship, and Process Ali and Alshawi. The contribution to each component varies according to the level of CRM implementation.

2.3.1. Technology:-

Technology refers to computing capabilities that allow a company to collect, organize, save, and use data about its customer. Technology is the enabler for CRM systems to achieve their objectives of collecting, classifying, and saving

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valuable data on customers. Integration technology allows organizations to develop better relationship with customers by providing a wider view of the customer behaviour Thompson et al. 64.

Thus, organizations are required to integrate IT to improve the capabilities of understanding customer behaviour, develop predictive models, build effective communications with customers and respond to those customers with real time and accurate information Chen and Popovich, 65. For an organization to integrate IT, concepts such as data warehouse, software customization, process automation, help desk and call centers, and internet influence should be addressed Mendoza et al. 66.

2.3.2 People:-

Employees and customers are a key factor for successful CRM projects. CRM is built around customers to manage beneficial relationships through acquiring information on different aspects of customers.

The main objective of CRM is to translate the customer information into customized products and services that meet the changing needs of customers in order to gain their


loyalty. Nevertheless, a full commitment of the organization's staff and management is essential for an effective CRM implementation to best serve customers and satisfy their needs.

2.3.3 Business Process:-

CRM is a business strategy that has its philosophical basis in relationship marketing, Chen and Popovich\textsuperscript{67}. CRM success requires a change of business processes towards customer–centric approach.

As such, all business processes that involve both direct and indirect interaction with customers should be analyzed and assessed, Mendoza et al.\textsuperscript{68}.

Although CRM has an organization-wide impact, process that has direct interaction with customers should be dealt with as a priority when integrating and automating business processes.

According to Mendoza et al. the main business processes that should be addressed in CRM implementation are: marketing, sales, and services.


2.4 Levels of Customer Relationship Management Software

Table 2.1 Levels of CRM Software

<table>
<thead>
<tr>
<th>Level</th>
<th>Dominant characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic</td>
<td>A top–down perspective on CRM which views CRM as a core customer-centric business strategy that aims at winning and keeping profitable customers</td>
</tr>
<tr>
<td>Operational</td>
<td>A perspective on CRM which focuses on major automation projects such as service automation, sales force automation or marketing automation</td>
</tr>
<tr>
<td>Analytical</td>
<td>A bottom–up perspective on CRM which focuses on the intelligent mining of customer data for strategic or tactical purposes.</td>
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</table>


2.4.1 Strategic CRM

Strategic CRM is focused on the development of a customer-centric business culture. This culture is dedicated to winning and keeping customers by creating and delivering value better than competitors. The culture is reflected in leadership behaviors, the design of formal systems of the company, and the myths and stories that are created within the firm. In a
customer-centric culture you would expect resources to be allocated where they would best enhance customer value, reward systems to promote employee behaviors that enhance customer satisfaction, and customer information to be collected, shared and applied across the business. You would also expect to find the heroes of the business to be those who deliver outstanding value or service to customers. Many businesses claim to be customer-centric, customer-led, customer-focused or customer-oriented, but few are. Indeed, there can be very few companies of any size that do not claim to be on a mission to satisfy customer requirements profitably.

Customer-centricity competes with other business logics. Kotler identifies three other major business orientations: product, production and selling\(^6^9\).

2.4.1.1 **Product-oriented** businesses believe that customers choose products with the best quality, performance, design or features. These are often highly innovative and entrepreneurial firms. Many new business start-ups are product-oriented. In these firms it is common for the customer’s voice to be missing when important marketing decisions are made. Little or no customer research is conducted. Management makes assumptions about what customers want. The outcome is that products are over specified or over engineered for the requirements of the market, and therefore too costly for the majority of customers. That said, marketers have identified a subset of

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relatively price-insensitive customers whom they dub ‘innovators’, who are likely to respond positively to company claims about product excellence. Unfortunately, this is a relatively small segment, no more than 2.5 per cent of the potential market.70

2.4.1.2 Production-oriented businesses believe that customers choose low-price products. Consequently, they strive to keep operating costs low, and develop low-cost routes to market. This may well be appropriate in developing economies or in subsistence segments of developed economies, but the majority of customers have other requirements. Drivers of BMWs would not be attracted to the brand if they knew that the company only sourced inputs such as braking systems from the lowest cost supplier. Henry Ford did not face this problem in the early stages of development of the automobile market. It was enough to tell customers they could have any car they wanted as long as it was black. But then competition came, and customer expectations changed.

2.4.1.3 Sales-oriented businesses make the assumption that if they invest enough in advertising, selling, Public Relations (PR) and sales promotion, customers will be persuaded to buy. Very often, a sales orientation follows a production orientation. The company produces low-cost products and then has to promote them heavily to shift inventory.

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2.4.1.4 **Customer or market-oriented** company shares a set of beliefs about putting the customer first. It collects, disseminates and uses customer and competitive information to develop better value propositions for customers. A customer-centric firm is a learning firm that constantly adapts to customer requirements and competitive conditions. There is evidence that customer-centricity correlates strongly with business performance\(^7\). Many managers would argue that customer-centricity must be right for all companies. However, at different stages of market or economic development, other orientations may have stronger appeal.

2.4.2 **Operational CRM**

Operational CRM is focused on the automation of the customer-facing parts of businesses. Various CRM software applications enable the marketing, selling and service functions to be automated. The major applications within operational CRM are:-

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### Table 2.2 Forms of operational CRM

<table>
<thead>
<tr>
<th>Operational CRM</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marketing Automation</strong></td>
<td>➢ Market segmentation.</td>
</tr>
<tr>
<td></td>
<td>➢ Campaign management.</td>
</tr>
<tr>
<td></td>
<td>➢ Event-based marketing.</td>
</tr>
<tr>
<td><strong>Sales Force Automation</strong></td>
<td>➢ Opportunity management, including lead management.</td>
</tr>
<tr>
<td></td>
<td>➢ Contact management.</td>
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<tr>
<td></td>
<td>➢ Proposal generation.</td>
</tr>
<tr>
<td></td>
<td>➢ Product configuration.</td>
</tr>
<tr>
<td><strong>Services Automation</strong></td>
<td>➢ Contact and call-center operations.</td>
</tr>
<tr>
<td></td>
<td>➢ Web-based service.</td>
</tr>
<tr>
<td></td>
<td>➢ Field service.</td>
</tr>
</tbody>
</table>


2.4.2.1 Marketing automation

Marketing automation (MA) applies technology to marketing processes. Several capabilities are offered by MA software: customer segmentation, campaign management and event-based marketing. Software enables users to explore their customer data in order to develop targeted communications and offers. Segmentation, in some cases, is possible at the level of the individual customer. Unique offers may be made
to a single customer at an appropriate point in time. Marketing automation enables companies to develop, budget and execute communication campaigns. It automates the multi-person workflow that delivers the communication output. Typically, a print-based communication campaign will involve a number of people such as marketing manager, market analyst, copywriters, artists, printers, salespeople and media buyers. Their contributions to the campaign can be coordinated with the help of the software. MA can also audit and analyze campaign performance, and direct leads from advertising campaigns to the most appropriate sales channel. In multichannel environments, campaign management is particularly challenging. Some fashion retailers, for example, have city stores, an e-tail website, home shopping, catalogue stores and perhaps even a TV shopping channel. Some customers may be unique to a single channel, but most will be multichannel prospects, if not already customers of several channels. Integration of communication strategies and evaluation of performance require a substantial amount of information collection and distribution and of people management across these channels.

Event-based marketing is also known as trigger-based marketing. Typically, sales or service actions are initiated by a company in response to some action by the customer. The customer action triggers the company response. If a business customer emails in a request for information, this might initiate a sales process that commences with a courtesy call to thank the customer for the request. When a credit-card user calls a contact center to enquire about the current rate of
interest, this might be taken as an indication that the customer is comparing alternatives, and might switch to a different provider. This event may trigger an offer designed to retain the customer. Companies can trawl their transactional histories, and sales and service records, to identify exploitable connections between events and outcomes. For example, it might be discovered that many customers who buy flights to exotic destinations also buy high value health insurance. A company that has learned about this connection can target health insurance products to the traveler.  

2.4.2.2 Sales-Force Automation

Sales-Force Automation (SFA) was the original form of CRM. It applies technology to the management of a company’s selling activities. The selling process can be decomposed into a number of stages such as lead generation, lead qualification, needs identification, development of specifications, proposal generation, proposal presentation, handling objections and closing the sale. Sales-force automation software can be configured so that is modeled on the selling process of any industry or organization.

Sales-Force Automation software enables companies automatically to record leads and track opportunities as they progress through the sales pipeline towards closure. Intelligent applications of SFA are based on comprehensive customer data made available in a timely fashion to

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salespeople through various media such as desktops, laptop and handheld computers, Personal Digital Assistants (PDAs) and cell-phones.

Sales-Force Automation software has several capabilities, including opportunity management, contact management, proposal generation and product configuration.

Opportunity management lets users identify and progress opportunities to sell from lead status through to closure and beyond, into after sales support. Opportunity management software usually contains lead management and sales forecasting applications. Lead management applications enable users to qualify leads and direct them, perhaps automatically, to the appropriate salesperson. Sales forecasting applications generally use transactional histories and salesperson estimates to produce estimates of future sales.

Contact management lets users manage their communications program with customers. Customer databases are developed in which contact histories are recorded. Contact management applications often have features such as automatic customer dialing, the salesperson’s personal calendar and e-mail functionality.

For example, it is usually possible to build e-mail templates in Microsoft Outlook that can be customized with individual customers’ details before delivery. Templates can be built that thank a client for an order, or to present a quotation. Salesforce automation is grounded on the right customer
information being made available to the right sales team members and/or customers at the right point of time. In multi person decision-making units, it is important to identify which people need what information. Companies should try to get the right information to the right person.

Proposal generation applications allow the salesperson to automate the production of proposals for customers. The salesperson enters details such as product codes, volumes, customer name and delivery requirements, and the software automatically generates a priced quotation that takes into account the customer’s relational status. Casual customers can generally expect to pay more than strategically significant customers.

Product configuration software allows salespeople automatically to design and price customized solutions to customer problems. Configurators are useful when the product is particularly complex, such as IT solutions. Configurators are based on an ‘if . . . then’ rules structure. The general case of this rule is ‘If X is chosen, and then Y is required or prohibited or legitimated or unaffected.’ For example, if the customer chooses a particular feature (say, a particular hard drive for a computer), then this rules out certain other choices or related features that are technologically incompatible or too costly or complex to manufacture.

The technology side of SFA is normally accompanied by an effort to improve and standardize the selling process. This involves the implementation of a sales methodology. Sales
Methodologies allow sales team members and management to adopt a standardized view of the sales cycle, and a common language for discussion of sales issues. Many methodologies have been developed over the years, including SPIN\textsuperscript{73} (Situation analysis, Problem questions, Implication questions, and Need payoff questions), Target Account Selling (TAS)\textsuperscript{74}, RADAR\textsuperscript{75} and Strategic Selling\textsuperscript{76}.

Some companies face particularly complex selling tasks. This is especially true of mission-critical multimillion dollar sales such as the sales of defense systems to national governments. Here, a team of people from the supply side will sell to a team from the government/customer side over a long period, possibly several years. There will be a large number of contact episodes to understand, develop and deliver to very demanding customer specifications. It is clearly essential to track carefully the status of the opportunity and manage contacts in the most effective and efficient way. Even where the selling context is significantly less complex, SFA still holds out the promise of better contact and opportunity management.


2.4.2.3 Services Automation

Service Automation allows companies to automate their service operations, whether delivered through a call center, a contact center, the web or face to-face in the field. Software enables companies to manage and coordinate their service-related in-bound and out-bound communications across all channels. Software vendors claim that this enables companies to become more efficient and effective, by reducing service costs, improving service quality, lifting productivity and increasing customer satisfaction.

Service Automation differs significantly depending on the product being serviced. Consumer products are normally serviced through retail outlets, the web or a call center as the point of first contact. These contacts channels are often supported by online scripting tools to help to diagnose a problem on first contact. Several technologies are common in service automation. Call-routing software can be used to direct inbound calls to the most appropriate handler. Technologies such as interactive voice response (IVR) enable customers to interact with company computers. Customers can input to an IVR system after listening to menu instructions either by telephone keypad (key 1 for option A, key 2 for option B) or by voice. If first contact problem resolution is not possible, the service process may then involve authorizing a return of goods, and a repair cycle involving a third party service provider. Examples of such a process include mobile phones and cameras. Service automation for large capital equipment is quite different. This
normally involves diagnostic and corrective action to be taken in the field, at the location of the equipment.

Examples of this type of service include industrial air-conditioning and refrigeration. In these cases, service automation may involve providing the service technician with diagnostics, repair manuals, inventory management and job information on a laptop. This information is then synchronized at regular intervals to update the central CRM system. Many companies use a combination of direct and indirect channels especially for sales and service functions. When indirect channels are employed, operational CRM supports this function through partner Relationship Management (PRM). This technology allows partners to communicate with the supplier through a portal, to manage leads, sales orders, product information and incentives. 77

2.4.3 Analytical CRM

Analytical CRM is concerned with exploiting customer data to enhance both customer and company value.

Analytical CRM builds on the foundation of customer information. Customer data may be found in enterprise-wide repositories: sales data (purchase history), financial data (payment history, credit score), marketing data (campaign response, loyalty scheme data), service data. To these internal data can be added data from external sources: geodemographic and lifestyle data from business intelligence organizations, for example.

With the application of data mining tools, the company can then interrogate these data. Intelligent interrogation provides answers to questions such as: Who are our most valuable customers? Which customers have the highest propensity to switch to competitors? Which customers would be most likely to respond to a particular offer?

Analytical CRM has become an essential part of effective CRM implementation. Operational CRM struggles to reach full effectiveness without analytical information on the value of customers.

Customer value drives many operational CRM decisions, such as:

- Which customers shall we target with this offer?
- What is the relative priority of customers waiting on the line, and what level of service should be offered? Where should I focus my sales effort?

From the customer’s point of view, analytical CRM can deliver better, more time, even personally customized, solutions to the customer’s problems, thereby enhancing customer satisfaction.

From the company’s point of view, analytical CRM offers the prospect of more powerful cross selling and up-selling programs and more effective customer retention and customer acquisition programs. Retailer Wal-Mart uses analytical CRM.
It collects data from its 1200 stores to identify which segments are shopping, what they are buying and which promotions are most effective.

It constantly tries to improve average basket value through effective analytical CRM.\(^{78}\)

**Case 1.1** shows how a UK based business-to-business (B2B) catalogue operation found that analytical CRM improved its performance on a number of metrics such as cost of customer acquisition, initial sales per customer, average customer value and customer retention, in comparison to what it normally achieved without the analytical insight provided by CRM.

**CASE 1.1**

<table>
<thead>
<tr>
<th></th>
<th>CRM</th>
<th>Traditional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of catalogues mailed</td>
<td>1000</td>
<td>5000</td>
</tr>
<tr>
<td>Mailing cost</td>
<td>£3000</td>
<td>£15000</td>
</tr>
<tr>
<td>New customers obtained 1998</td>
<td>65</td>
<td>45</td>
</tr>
<tr>
<td>Conversion rate new customers</td>
<td>6.5%</td>
<td>0.09%</td>
</tr>
<tr>
<td>Initial sales per new customer</td>
<td>£180</td>
<td>£120</td>
</tr>
<tr>
<td>Total new initial sales revenues</td>
<td>£11700</td>
<td>£5400</td>
</tr>
<tr>
<td>Acquisition cost per customer</td>
<td>£46.15</td>
<td>£333.33</td>
</tr>
<tr>
<td>Average customer sales 1998–2001.</td>
<td>£7500</td>
<td>£2200</td>
</tr>
<tr>
<td>2 year gross margin (40%)</td>
<td>£3000</td>
<td>£880</td>
</tr>
<tr>
<td>1998 customers still active in 2001</td>
<td>80%</td>
<td>35%</td>
</tr>
</tbody>
</table>


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2.6 Defining the Scope of CRM (Customer Relationship Management):

Defining CRM is required for developing a clear understanding of what CRM means to an organization especially when lacking of such clear understanding is considered as a barrier to successful implement CRM\textsuperscript{79}.

Such a fact is significantly important when considering the wide range of CRM definitions in which CRM is understood differently by different people. Although the view of possible convergence toward common definition for CRM, different approaches are carried out to define CRM ranging from narrow definitions (technical) to broad definitions (strategic).

However, this broadness in defining CRM could be a result of the new emergence of the concept into two fields of study, Marketing and Information Technology. From a technical point of view CRM, Chen and Chin\textsuperscript{80} defined as CRM as a methodology that heavily employs certain information technology such as database and internet to leverage the effectiveness of relationship marketing process.

On the other hand, the wider definition of CRM concentrates on strategic orientation of CRM. For instance, Gray and Byun\textsuperscript{81} have defined CRM as a primarily strategic business


\textsuperscript{81} Gray, P. and Byun, J. (2001), Center for researcher on Information Technology and Organizations. Claremont Graduate School, University of California.
process issue rather than technology which consists of the following components: Customer, Relationship, and Management.

CRM definition should cover major aspects of CRM and should focus on its objectives as the capability of CRM to achieve its objectives is highly dependent on its clear definition.

Based on Payne\textsuperscript{82}, Payne and Frow\textsuperscript{83} and Shang and Lin\textsuperscript{84}, CRM definition is a strategic approach that integrates Process, People, and Technology cross functionally to understand organization’s customers, improve stakeholder value, and deliver profitable and long term relationships with the customers. Therefore, success factors for CRM lie in the scope of managing, integrating, and controlling CRM components.

2.7 Revolution of Customer Relationship Management (CRM)

The revolution in Customer Relationship Management or CRM as it is called has been referred to as the new “mantra” of marketing. Companies like Siebel, E.piphany, Oracle, Broadvision, Net Perceptions, Kana and others have filled this CRM space with products that do everything from track


customer behavior on the Web to predicting their future moves to sending direct e-mail communications.

This has created a worldwide market for CRM products and services of $34 billion in 1999 and which become grow to $125 billion at 2004.

The need to better understand customer behavior and focus on those customers who can deliver long-term profits has changed how marketers view the world.

The impetus for this interest in CRM came from Reichheld where he showed the dramatic increase in profits from small increases in customer retention rates. For example, his studies showed that as little as a 5% increase in retention had impacts as high as 95% on the net present value delivered by customers (advertising agencies) with a low of 35% (computer software). Other studies done by consultants such as McKinsey have shown that repeat customers generate over twice as much gross income than new customers. The considerable improvements in technology and innovation in CRM related products have made it much easier to deliver on the promise of greater profitability from reduced customer “churn.”

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2.8 The Goal of CRM

The general aim of any CRM strategy is to develop more profitable relationships with customers. Some companies do this by taking cost out of the relationship; for example, by shifting customers to web-based self-service. Others do this by increasing the revenue earned from a customer relationship; for example, by selling customers additional products and services. Most companies use both of these approaches. This core CRM objective is noted in the arrowhead at the right end of the CRM value chain: customer profitability. In a not-for-profit context, you would work towards different CRM objectives, such as operational efficiency or increased client satisfaction. Measuring customer profitability implies that an organization must be able to trace revenues and costs to customers, either at a segment or at an individual level.

Most business-to-business (B2B) companies can trace revenues to customers. Invoicing databases contain these data. Fewer B2B companies can trace costs to customers;

For example, costs of customer acquisition and costs-to-serve. In business-to-consumer (B2C) CRM implementations, costs and revenues are more likely to be allocated at a segment level, since there are many more customers.
2.8.1 The primary stages of the CRM value chain

The model identifies five key steps in the development and implementation of a CRM strategy.

In brief, the five steps are as follows.

1. **Customer portfolio analysis**: This involves an analysis of the actual and potential customer base to identify which customers you want to serve in the future. Top of the list will be strategically significant customers, including those that will generate profit (value) in the future.

2. **Customer intimacy**: You will get to know the identity, profile, history, requirements, expectations and
preferences of the customers that you have chosen to serve.

3. **Network development**: You will identify, brief and manage relationships with your company’s network members. These are the organizations and people that contribute to the creation and delivery of the value proposition(s) for the chosen customers. The network can include external members such as suppliers, partners and owners/investors, as well as one important internal party, employees.

4. **Value proposition developments**: This involves identifying sources of value for customers and creating a proposition and experience that meet their requirements, expectations and preferences.

5. **Manage the customer lifecycle**: The customer lifecycle is the customer’s journey from ‘suspect’ towards ‘advocate status’. Managing the lifecycle requires attention to both process and structure:

6. **Process**: How will the company go about the important processes of customer acquisition, customer retention and customer development, and how will it measure the performance of its CRM strategy?

7. **Structure**: How will the company organize itself to manage customer relationships?86

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2.9 Origins of CRM technology:

The building blocks of today’s Customer Relationship Management (CRM) technology have been in place for several decades. Customer Relationship Management has evolved from a range of stand-alone technologies including call centers, sales force automation systems and customer information files, some of which date back to the 1970s and beyond.

![Diagram of a single view of the customer for front office applications.](image)


**Fig 2.3: A single view of the customer for front office applications.**

In the late 1980s, some organizations attempted to consolidate some of these disparate technologies. For example, the Customer Information File (CIF) that was
central to many insurance companies and banks started to be seen as a source of marketing information, rather than a basic record of a customer’s accounts. Call centers began being used for outbound calls such as up-selling customers rather than just responding to inbound service calls. The customer started to be recognized as a single entity across all customer-facing departments, leading to the idea of a ‘single view of the customer’. (Fig 2.3)

Customer expectations played a direct role in the emergence of CRM technology as well as customer moved from one industry to the next. Customer Relationship Management spread rapidly from the early adopter industries such as banks and telecommunications companies to consumer goods and healthcare. Organizations started to realize that they needed a central view of the customer, and an understanding of the value of the customer, if they were to compete effectively.

These early attempts at the creation of a consolidated customer view were often internally focused, rather than aimed at improving the customer experience. The ultimate goal became ‘multichannel CRM’,

Where by customer contact channels such as sales, partners, marketing and the service center were consolidated into a single view of the customer, across all communication media including face-to-face, voice telephony, e-mail, web and wireless. Customers, after all, expect a continuous, consistent dialogue with a company, irrespective of the systems and departments within.
Multichannel CRM presented a significant technical challenge. The technology required to support remote field sales people is very different to the technology required to support a large, high-volume call center.

This technical challenge made it difficult to build all of the customer channels in one system.

The emphasis on obtaining a single view of the customer is dependent on the effective deployment of operational-level CRM. Recently, the emphasis has moved towards understanding the value of the customer, and increasing the value of each interaction to the customer. This requires sophisticated analytical tools; hence the recent focus on analytical, rather than operational CRM.

Web technologies also had a significant role to play in the emergence of a broader conception of CRM, encompassing users other than direct employees (customers, partners, investors).

Web browsers allowed these external users to access and share information without requiring specialist software to be installed on their own computers, leading to ‘extra-enterprise CRM’ functions such as customer self-service, partner portals and investor portals.

CRM technologies are much more than a simple suite of applications. Customer Relationship Management must be flexible enough to stay in touch with a changing audience (the customer). It must reflect different requirements in different industries. It must be accessible to external
stakeholders and mobile professionals such as salespeople and field technicians. It must operate over any communication channel, and it must integrate with other systems to provide a single view of, and for, the customer. Finally, it must be implemented in such a way that appropriate work practices and skills are deployed, as many of the requirements of CRM cannot be solved by technology alone. 

2.10 The CRM marketplace:

2.10.1 Market structure

The CRM market has grown dramatically since the early 1990s. Growth rates and penetration vary across different software segments, different geographies and different industries.

2.10.1.1 Software

The CRM software market is part of a worldwide market in enterprise application software (EAS), encompassing three main application suites: supply chain management (SCM), enterprise resource planning (ERP) and CRM.

During the 1980s and 1990s ERP became mainstream, accounting for over 80 per cent of the EAS market. During this time, CRM and to a lesser extent SCM were a small proportion of the overall market, but enjoyed a high growth rate. In CRM’s case, compound annual growth rates exceeded 50 per cent for most of the 1990s. Since the mid-

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1990s, CRM technology has grown from less than one-eighth of the overall EAS market to over one-third.

In recent years, the overall EAS market has, however, contracted. The explosive growth seen in CRM in the 1990s had ceased. Year 2001 saw a drastic reduction in CRM technology expenditure.

Growth is expected to recover gradually over the next few years. By 2005 CRM is expected to equal ERP and remain significantly ahead of SCM (Fig 2.4).


Fig 2.4: Worldwide EAS licence revenue forecast.

Early CRM software implementations focused on delivering uniform customer communication across sales and service, and more recently marketing. These areas, in particular sales force automation and the traditional call center, are now reaching market maturity in the dominant US market. Future
growth is expected to come from a renewed focus on contact centers (as an extension of the traditional call center), marketing automation and analytics, and customer service automation across multiple channels (Fig 2.5). The rapid growth in customer-facing web applications that accompanied the dot-com bubble is expected to subside before it continues at a flat growth rate.

2.10.1.2 Geography

The US market was the main driver for the growth during the 1990s, although Europe has taken an increasingly important role. These two regions account for 80–90 per cent of global CRM software revenue sales. Projections by Gartner Dataquest indicate that these two regions will continue to play a dominant role in total revenues, although the highest growth rates are now expected to come from Latin America and Asia. (Fig 2.6)

Linacre House, Jordan Hill, Oxford. Pp-83

Fig 2.5: CRM application software segment growth forecast.
2.10.1.3 Industry

Early adopter industries (banking, finance, and telecommunications) are expected to experience moderate growth of around 10 per cent per year from 2002 to 2006. The highest growth industries are expected to be other service industries that are yet to implement CRM on a broad scale, such as wholesalers, transportation, warehousing and professional services. Moderate growth is expected in the public sector, utilities and process manufacturing (particularly consumer goods).
2.10.2 Market participants

The CRM ecosystem comprises software vendors, hardware and infrastructure vendors, and service providers.

2.10.2.1 Software vendors

The best known participants in the CRM market are the software vendors. Specialist CRM vendors such as Siebel, Kana, E.piphany and Chordiant compete with traditional ERP vendors that have either developed a CRM product (SAP, Oracle) or acquired a CRM product (PeopleSoft with the Vantive acquisition, Nortel with the Clarify acquisition), or both. Recent entrants compete on differentiated value propositions, such as taking an analytical approach to CRM (E.piphany and SAS Institute), or focusing on a specific industry [Chordiant in business-to-consumer (B2C), financial services]. In terms of revenue performance, the top ranking CRM vendors in 2001 were:

1. Siebel (CRM specialist)

2. SAP (Enterprise suite)

3. Oracle (Enterprise suite)

4. PeopleSoft (Enterprise suite).

The most significant change here is the rise of the enterprise suite vendors.

In 2000, the top four CRM vendors contained three CRM specialists and one enterprise suite vendor. As indicated above, this reversed in 2001. This reflects the increased
investment of the enterprise suite vendors in CRM, and the appeal that ‘pre-integrated’ suites have for customers. The appeal of pre-integrated suites is that back-office applications, such as general ledger and warehouse management, are integrated with front-office CRM applications by the software vendor, thus removing a layer of technical complexity from the implementation project. Many of the large CRM vendors provide both large-enterprise and midmarket CRM solutions. Vendors such as PeopleSoft, Siebel, Onyx and Pivotal are examples. Some CRM vendors provide industry-specific libraries for their products; StayinFront, for example, focuses on pharmaceutical healthcare and consumer goods. There are also a number of vendors that target small-to-medium businesses specifically, such as FrontRange Solutions (GoldMine, FrontOffice), Microsoft (MSCRM), Salesforce.com and Saleslogix.

The software vendors, however, are only a small proportion of the overall CRM ecosystem. The CRM software must run on hardware such as UNIX or Intel-based computers. It must integrate with communications infrastructure such as telephony and e-mail systems. It must be implemented, often with the involvement of systems integrators and consultants.

2.10.2.2 Hardware and infrastructure vendors

The architectural and performance imperatives of CRM result in a high level of emphasis on hardware and infrastructure. Call centers, for example, need tight integration between the software on the customer service agent’s desktop, and the Automated Call Distributor (ACD)
or switch hardware. Calls may need to be prioritized and routed based on CRM metrics such as customer value or propensity to churn. Handheld devices carried by the sales people need to be synchronized with the central CRM database. Hardware vendors such as IBM and Hewlett-Packard (recently merged with Compaq) provide a range of solutions across the hardware spectrum, while infrastructure providers such as Avaya, Genesys and Siemens provide telephony and CRM-related infrastructure solutions.

2.10.2.3 Service providers

The services component of the CRM ecosystem is the largest, and is the least clearly defined.

Directly related service costs, such as for CRM implementation and technology services are typically in the order of three times the cost of application software.

Indirectly related services, however, such as business process re-engineering and strategy consulting, can lift this ratio to around 5:1, or even higher, making a comprehensive CRM strategy implementation very expensive. The use of service providers in a CRM implementation is often a critical factor in overall success.

Much of the CRM journey involves changes to strategy; business processes, organizational structures, skills and technical infrastructure, and good external advice can make the difference between success and failure. Furthermore, some aspects of the front office, such as the call center, may
be outsourced either technically, or as an entire business process.\textsuperscript{88}

Service providers for CRM can be segmented as shown in below table 2.3.

**Table 2.3 CRM Service providers**

<table>
<thead>
<tr>
<th>Service</th>
<th>Details</th>
<th>Examples of service Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy consulting</td>
<td>Consulting support for the formulation of customer strategy, contact strategy, channel strategy, CRM strategy</td>
<td>McKinsey, Peppers and Rogers</td>
</tr>
<tr>
<td>Business consulting</td>
<td>Services around business process re-engineering, process improvement and best practices for CRM</td>
<td>Accenture, Bearing Point, CGEY, Del Dittes</td>
</tr>
<tr>
<td>Application consulting</td>
<td>Design and development of application modifications, project management of software package implementation and training</td>
<td>CRM vendors, Accenture, CGEY, Bearing Point, IBM</td>
</tr>
<tr>
<td>Technical consulting</td>
<td>Design and implementation of technical infrastructure, and integration of this infrastructure with the existing business processes and applications</td>
<td>Unisys, IBM, Logica</td>
</tr>
</tbody>
</table>