CHAPTER-2

Review of Literature and Theoretical Framework
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2.1 Introduction

The rising contribution of service sector to global economy and intensive competition thereof has compelled researchers to explore the concept of service quality quite often. Over the years, exploration to enhancement of service quality has remained as the focal research object (Yavas et al., 1997; Rust and Zahorik, 1993; Cronin and Taylor, 1992, 1994; Buttle, 1996; Crosby and Stephens, 1987; Parasuraman et al. 1988; Kearns and Nadler, 1992; Avkiran, 1994; Julian and Ramaseshan, 1994; Lewis, 1989, 1993; Llosa et al., 1998). Gaining sustainable competitive advantage over competitors through satisfying customer relationships has become one of the strategic weapons for a modern day service firm (Zeithaml et al., 2000). Grönroos (1982) described service quality as a customer’s perception of difference between the expected service and the perceived service. He then defined the concept of perceived service quality as the outcome of an evaluation process, where the customer compares his expectations with the service he perceives or has received (ibid). The study of service quality was pioneered by PZB, who developed the gaps framework in 1985 and its related SERVQUAL instrument in 1988 (Parasuraman, Zeithaml and Berry [PZB] 1985, 1988, 1991).

Quite a few number of scholars did agree to the fact that service quality can be represented by a dual-dimension process (Grönroos, 1983; Lehtinen and Lehtinen, 1982). The first dimension deals with what the service actually delivers and is referred to by PZB (1985) as “outcome quality” and by Grönroos (1984) as “technical quality”. The second dimension deals with how the service is delivered. PZB (1985) described it as “process quality” while Grönroos (1984) termed it as “functional quality”. Parasuraman and Zeithaml (2006) defined service quality as “the degree and direction of discrepancy between customers’ service perceptions and expectations”. One of the results of the studies initiated by Parasuraman, Zeithaml and Berry (1985) was the identification of ten determinants of service process quality. They were listed in Table 2 as follows:
# Table 2: Ten determinants of service process quality by PZB (1985)

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Description</th>
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<tbody>
<tr>
<td>Reliability</td>
<td>Involves consistency of performance and dependability.</td>
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<tr>
<td>Responsiveness</td>
<td>Concerns the willingness or readiness of employees to provide service</td>
</tr>
<tr>
<td>Competence</td>
<td>Means possession of the required skills and knowledge to perform the service</td>
</tr>
<tr>
<td>Access</td>
<td>Involves approachability and ease of contact</td>
</tr>
<tr>
<td>Courtesy</td>
<td>Involves politeness, respect, consideration and friendliness of contact personnel</td>
</tr>
<tr>
<td>Communication</td>
<td>Keeping customers informed and listening to them</td>
</tr>
<tr>
<td>Credibility</td>
<td>Involves trustworthiness, believability, honesty.</td>
</tr>
<tr>
<td>Security</td>
<td>Freedom from risk, uncertainty and fraudulence</td>
</tr>
<tr>
<td>Knowing the customer</td>
<td>Involves making the effort to understand the customer’s needs</td>
</tr>
<tr>
<td>Tangibles</td>
<td>Include the physical evidence of the service</td>
</tr>
</tbody>
</table>

In a later study conducted by *Parasuraman, Zeithaml and Berry (1988)* revealed some overlapping among the dimensions listed above. The study compressed the ten dimensions identified earlier into five composite dimensions:

1. Tangibles
2. Reliability
3. Assurance
4. Responsiveness
5. Empathy

*Buttle (1996)* found serious concerns with the number of dimensions as well as their consistency in different contexts. *Carman (1990)*, after conducting a research which involved testing five the five dimensions in services other than those used by Parasuraman, Zeithaml and Berry, warned that “while Parasuraman, Zeithaml and Berry [PZB] items provide a start for item development, all items need to have validity and reliability checks before commercial application.” *Woo and Ennew (2005)*, meanwhile, found that in business services markets, the dimensions were completely different.
As noted by Doran (2002), it is imperative that we seek to examine commonly accepted, western-based marketing theory in the context of different countries to see whether such concepts explain the same phenomena in consumers from different countries. Whilst extensive research has been conducted on service quality over the past two decades (e.g. Bitner, 1990; Cronin and Taylor, 1992, Parasuraman, Zeithaml and Berry, 1988), relatively little attention has been paid to issues surrounding service quality in non-western countries, like the Asian region and in particular, Malaysia.

Of the knowledge gained in the service quality literature, the work of Parasuraman, Zeithaml and Berry (1988) provides an approach to defining and measuring service quality, known as SERVQUAL. Incorporating five service quality dimensions of tangibles, reliability, responsiveness, assurance and empathy, SERVQUAL has been well utilised within the literature. This being said however, it is important to note that SERVQUAL has been found to possess certain limitations, particularly when applied across different service industries (e.g: Babakus and Boller, 1992; Schneider and White, 2004). For example, DINESERV for restaurants was developed by Stevens, Knutson and Patton (1995), in response to findings that SERVQUAL was inadequate for the ‘unique’ restaurant environment (Dube, Renaghan and Miller, 1994).

2.2 SERVQUAL: An application tool for measuring service quality

Service quality assessment has become one of the most important considerations for the service firms. But due to the inherent peculiarities of the service it has become almost impossible to perceptualize service quality along certain scale. Attempts have been made by several researchers to use normal scaling technique like Likert scale, Ordinal scale etc., but they have failed to explain the real essence of service quality (Baksi, 2009). With the introduction of technology the expectation and perception level of the customers with respect to service quality has undergone a sea change. Services augmented with the help of information technology (ITES) have proliferated across the sectors e.g. financial sector, hospitality sector, medical service sector, tourism sector, recreation and entertainment sector etc. A popular acronym has been given to this emerging concept-‘e-service quality’. One of the major paradigm shifts in the service quality, both expected and perceived, offered by the banking sector has taken place in India with the implementation of Core Banking System (CBS) in different banks including the biggest bank in India – State Bank of India (SBI).
According to Zeithaml, et.al (2000), e-service quality is comprehended both from pre and post web-sites service perspectives. It can be understood as the evaluation of the efficiency vs. effectiveness of online shopping, purchase and delivery products. Similarly, Santos (2003) defined e-service quality as overall customer evaluation and judgment of excellence in e-service delivery in the virtual marketplace. Service quality, within the personal interaction environment, has well established definitions in the literature, but it is only recently that it has been applied to the e-commerce environment (Santos 2003). The technology-driven service quality research has been limited to relationship management rather than metrics of service quality (Buckley 2003). Parasuraman et al. (2005) discussed automated service quality within the services that are delivered through web sites. A significant number of studies viewed the dimensions of e-service quality as antecedents of e-satisfaction (Dina et.al, 2004). Wolfinbarger and Gilly (2002), through focus group interviews and online survey, reduced the scale of online service quality into four dimensions: web-site design, reliability, privacy/security and customer service. Yang et.al (2004) have suggested six key technologically enhanced service quality dimensions-reliability, access, ease of use, attentiveness, security and credibility employed by internet purchasers to evaluate e-tailers’ service quality. Santos (2003) further explained that technology-enabled service quality consists of incubative and active dimensions, and each dimension composed by five or six determinants. Numerous researchers have also highlighted the independent effect of perceptions on service quality evaluations and have questioned the use of disconfirmation paradigm as the basis for the assessment of service quality (Carman, 1990; Bolton & Drew 1991a, Babakus & Boller, 1992; Cronin & Taylor, 1992). The superiority of performance-only measures over difference-score measures has been demonstrated in numerous studies including those by McAlexander et al (1994), Hahn et al. (1997), Avkiran (1997, BANKSERV), Lee et al (2000) and by Brady et al (2002).

2.3 Service Quality Models

The academic researchers have devoted a considerable amount of time in developing service quality models which can be put to use by the corporate houses to understand the perception and expectation level of the customers with respect to the service provided to them and to identify the critical determinants of service quality specific to the nature of service provider.
2.3.1 Grönroos’s model of technical and functional quality

Grönroos (1984) proposed a model which focused on three major components of service quality namely (a) technical quality, (b) functional quality and (c) image.

2.3.2 Service quality ‘GAP’ model by Parasuraman, Zeithaml and Berry

The most significant development in the area of conceptualizing a service quality model was done following the introduction of SERVQUAL (Parasuraman et. Al, 1985) in the form of service quality ‘GAP Model’ (Parasuraman, Zeithaml and Berry, Parasuraman, Zeithaml and Berry (1985). The ‘GAP model’ identifies the potential ‘gaps’ that exist between the service provider and customers at various levels of interactions. The researcher identified five (5) distinct ‘GAP’s which are briefly described as follows:

**Gap I**: refers to difference between customers’ expectation about the service and firm’s perception about customers’ expectation. A gap may exist if there is a disparity or incongruity between the customers’ expectation and firms’ perception about customers’ expectation.

**Gap II**: refers to the difference between firm’s perception of customers’ expectation and service quality specifications conceptualized by the firm thereof.

**Gap III**: refers to the difference between service quality specifications and the service delivery.

**Gap IV**: refers to the difference between the service delivered and external communication about the service with customers.

**Gap V**: refers to the difference between consumer expectation and their perception of service quality – measured by the difference between what customers expect and what customers perceived about the service. Gap V may be further explained as a function of Gap I, II, III & IV and can be represented as: Gap V = f (gap I, gap II, gap III, gap IV).

The service quality ‘GAP’ model can be diagrammatically represented showing the areas where gaps can arise (Fig.6)
2.3.3 Haywood-Farmer’s Attribute service quality models

The model stated by Haywood-Farmer (1988) emphasizes on three basic attributes of services namely (a) physical facilities and processes, (b) people’s behaviour and (c) professional judgment. This model attempts a ‘Service-Mapping’ for a specific service provider depending on the degree of customization, degree of labour intensity and the degree of customer interaction. The mapping process takes into consideration the different service-settings specific to a service provider.

2.3.4 Synthesised model of service quality by Brogowicz

The model proposed by Brogowicz (1990) attempts to make synchronization between the design and operational aspects of the service and integrate it with the strategic marketing activities of the firm. The model relies heavily on this integration process to identify the
service quality parameters which will provide the managers to frame strategies to design and deliver services meeting the quality parameters identified.

2.3.5 Performance model by Cronin and Taylor (SERVPERF)
In 1992, Cronin and Taylor proposed ‘SERVPERF’ as a modified version of ‘SERVQUAL’ stating that the ‘perception’ of the customers related to their service providers emphasize the service quality of the same.

2.3.6 Mattson’s Ideal value model of service quality
Mattson’s (1992) model created the idea of a benchmarked standard of customers’ perception with regard to service quality. The model recommends a value-based approach to service quality which admits that service quality is an outcome of the satisfaction level of the service recipients.

The model proposed by Spreng and Mackoy (1996) attempted to link service quality and customer satisfaction by taking into consideration the effects of service expectations, perceived level of performance, desired level of congruency between expectation and perception and expectation disconfirmation. One of the key issues addressed in this model is the dichotomous effect of rising customer expectations. It has a positive effect on customer satisfaction perceptions, but it is also having a negative effect on satisfaction through disconfirmation linking through negative quality.

2.3.7 PCP attribute model by Philip and Hazlett
The model proposed by Philip and Hazlett (1997) focused on a hierarchical structure comprising of three main classes of attributes namely (a) pivotal, (b) core and (c) peripheral. This model is devoid of enough empirical validation.

2.3.8 Internal service quality model by Frost and Kumar
Frost and Kumar (2000) developed an internal service quality model. The model (Fig.7) evaluates the dimensions, and their relationships which determine service quality gaps among internal customers (front-line staff) and internal suppliers (support staff) within a large service organization. The gaps are as follows:

Internal gap 1: Difference in support staff’s perception (internal supplier) of front-line staff’s expectation (internal customers).
**Internal gap 2**: Difference between service quality specifications and the service actually delivered resulting in an internal service performance gap.

**Internal gap 3**: Difference between front-line staff’s expectations and perceptions of support staff’s (internal supplier) service quality. This is the gap which focuses on the front-line staff (internal customers).

This model conceptualizes the existence of ‘internal customers’ and ‘internal suppliers’ and their possible effect on the ‘external customers’. The model indicates strategic significance in identifying the aspects of internal marketing and its integration with the external marketing initiatives.

![Internal Service Quality Model by Frost and Kumar](image)

**2.3.9 Luk and Layton’s model**

Luk and Layton (2002) developed the traditional model of Parasuraman et al. (1998) by adding two more gaps. They reflect the differences in the understanding of consumer expectations by manager and front-line service providers and the differences in consumer expectations and service providers' perception of such expectations. This model is illustrated in Fig.8.
2.3.10 Disconfirmation theory

The expectancy disconfirmation model of customer satisfaction (Oliver and Rust, 1997), purchase and usage pattern exhibits the performance levels which are compared to the expectation levels of the customers using heuristics techniques. Oliver (1981) proposed three specific disconfirmation conditions as follows:

1. Positive disconfirmation: occurrence of low-probability desirable events or non-occurrence of high probability undesirable events.

2. Negative disconfirmation: occurrence of low-probability undesirable events or non-occurrence of high-probability desirable events.

3. Confirmation: occurrence of both low and high-probability desirable and undesirable events or non-occurrence of the same as expected.
2.4 Behavioral and Financial Consequences of Service Quality

The research suggests that most employees have a true customer orientation, understand customer needs, and possess empathy and respect for their customers (Bitner, Booms & Mohr, 1994). Quality service sustains customer faith and is essential for maintaining competitive advantage (Berry, Parasuraman & Zeithaml, 1994). Superior service quality leads to favorable behavioral intentions, which leads to retention, which leads to ongoing revenue, increased spending, payment of price premiums, and generation of referred customers (Zeithaml et al., 1996). Excellent service is a profit strategy because the results include new customers, increased business with existing customers, fewer lost customers, more cushioning from price competition and fewer mistakes requiring the services to be repeated (Berry et al., 1994). Listening to the customer is a part of providing excellent service. Listening and responding to the customer’s needs in a quality way has a direct effect on the quality of service provided (Berry & Parasuraman, 1997). To maximize long term customer and shareholder value, organizations must develop customer retention strategies (Weinstein et al., 1999c).

Inferior quality leads to unfavorable behavioral intentions which leads to customer defection from the organization which leads to decreased spending, lost customers, and increasing costs associated with attracting new customers (Zeithaml et al., 1996). Customer switching behavior can damage market share and profitability. Switching can cost an organization the customer’s future revenue stream (Keaveney, 1995). Evidence that customer loyalty makes an organization more profitable makes it imperative that complaints and other unfavorable behavioral intentions are handled effectively to ensure the stability of these relationships (Tax, Brown & Chandrashekar, 1998b). It is important for organizations to also realize that customers may also switch because of the attraction of competitors that are providing better service, more personable service or higher quality. In this case, the customer is not switching because of unsatisfactory service. Managers of service firms should know that some customers would switch services even when they are satisfied with a former provider (Keaveney, 1995).

2.5 Service quality and retention

The relationship between service quality and retention has been extensively investigated both theoretically and empirically over the past few years in the traditional service context (Ranaweera and Neely, 2003; Caruana, 2002). In this context, service quality has usually
been considered an important component of establishing and retaining customers (Bei and Chiao, 2001). However, with the rapid diffusion and adoption of information technology, use of automated channels as a medium of interaction, in addition to the traditional banking services has become very popular (Lang and Colgate, 2003). Internet banking as a means of delivering traditional banking services has become an important way to retain customers, increase market share, create a new range of products, and change the cost structure of retail banking (Al-hawari and Ward, 2004; Santos, 2003; Gardener, Howcroft and Williams, 1999). Retention of customers can be accomplished through automated services by providing superior service quality (Reichheld and Schefter, 2000). However, the researchers have found limited empirical research examining the relationship between internet banking service quality and customer retention. A few studies investigating the relationship between web site attributes and customer retention in different contexts found a positive relationship between the two variables (Anderson and Srinivasan, 2003; Yen and Gwinner, 2003; Meuter et al. 2000). In the banking sector, customers tend to use different service delivery channels in a complementary way; consequently, developing a relationship with the customer can be achieved from any one of these media and more likely, a combination of them (Al-hawari, Hartley and Ward, 2005). Since banks around the world are increasingly utilising internet banking to supplant traditional products and service delivery processes, it was necessary to compare the influence of each service quality context (internet and tellers) on customer retention. Therefore, banks can identify the best strategies to maximise their competitive advantage. A few researchers have investigated similar issues. For example, in a 2004 study conducted by Curry and Penman to investigate the extent of IT use in banking, it was shown that the balance between personal interaction and technologically delivered service must be right. However, the study did not explain how that balance should be maintained. Furthermore, Mols (1998) found that PC users were more satisfied, less price sensitive, had a higher intention to repurchase and provided more positive word-of mouth referrals than nonusers. Conversely, Mohr, Fisher and Nevin (1996) recommended that face-to-face communications might be used to create an atmosphere of mutual support enhancing the relationship between partners.

2.6 Service quality in banking

Studies in service quality have been used to assess the service performance of various service providers including the banking sector. Cowling & Newman, 1995. Johnston (1995) stated 18 service quality attributes in banking. They are: access, aesthetics, attentiveness, availability,
care, tidiness, comfort, commitment, communication, competence, courtesy, flexibility, friendliness, functionality, integrity, reliability, responsiveness and security. Nantel (2000) proposed six underlying key dimensions in retail banking. These are effectiveness and assurance, access, price, tangibles, service portfolio and reliability (ibid). Joseph et.al. (1999) studied the technological impact on banking service quality (internet banking). The study revealed six dimensions of electronic banking service quality. They are convenience and accuracy, feedback and complaint management, accessibility and customization. Jun and Cai (2001) identified seventeen service quality dimensions of technology-enabled banking service quality: reliability, responsiveness, competence, courtesy, credibility, access, communication, understanding, the customer, collaboration & continuous improvement, content, accuracy, ease of use, timeliness, aesthetics, security and drivers features.

Table 3: Selected Service Quality literatures both online and offline

<table>
<thead>
<tr>
<th>Authors</th>
<th>Reliability</th>
<th>Responsiveness</th>
<th>Security</th>
<th>Communication</th>
<th>Access</th>
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<tbody>
<tr>
<td>Parasuraman et.al. (1985)</td>
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<td>Parasuraman et.al. (1988)</td>
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<td>Johnston (1995)</td>
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<td>Johnston (1997)</td>
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<td>Joseph et.al (1999)</td>
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<td>Nantel (2000)</td>
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<tr>
<td>Zeithaml et. al. (2000)</td>
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<td>Jun and Cai (2001)</td>
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<td>Madu (2002)</td>
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<td>Wolfinbarger &amp; Gilly (2002)</td>
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<td>Santos (2003)</td>
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<td>Jun et.al. (2004)</td>
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<td>Jun et.al. (2004)</td>
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<td>Yang &amp; Fang</td>
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<td>Dina et.al. (2004)</td>
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<td>Lee &amp; Lin (2005)</td>
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The changing environment of services with respect to its conceptualization, contact process with customers, communication delivery, tangibilization and rapid usage of technology has totally restructured the consumer buying behaviour in this sector and has redefined the relationship between customer and the service provider. The perception of quality has also undergone a tremendous change with the advent of technology. The service providers predominantly shifted to a new mode of marketing practice – "Relationship Marketing". Jolson (1997) stated that growing service orientation of the economy; technological developments and changing buying process have influenced the nature of selling from a hard sell to a soft sell approach. Technology has taken over most of the functions of simple exchange-based transactional selling (Graham, 1999) such as communication of information and product offerings. This phenomenon has forced the service providers to re-strategise their selling efforts. The strategic shift towards relationship-centred marketing began taking place from a pro-customer-centric marketing orientation (Graham, 1999). Technology ensured close encounters with service providers and customers. The concept of relationship marketing got strong footing. During the 1980s service firms and manufacturers began realizing that a superior technical solution in the form of a product or service (Grönroos 1990a) The service industry and industrial sector where multiple customer interactions, customization of products & services & on-going relationship with customers are essential components of the sales process, started using relationship marketing and service quality for differentiation. (Aigo 1996). Relationship Marketing became a primary business strategy to proactively scan a customer from multiple aspects eg. cost of acquisition, cost of retention, profitability, ability to act as a secondary service provider etc.

Gradually relationship marketing became a primary business strategy for competitive purposes. Reflecting these changes and the economy’s growing service orientation, relationship selling, consultative selling and strategic selling became topics for study in the sales and marketing literature in recent years.

During the last two decades the financial sector has developed rapidly in terms of size, industry structure and the variety of consumer and B2B products and services (Edey, 1996). With this came a change of quality perception with regard to banking services. One of most prominent drivers that initiated the changes in the quality perception of services is technology. The changes motivated banks to be aware of future trends in order to survive and compete effectively. Many retail banks face huge challenge in reducing the number of branches they currently operate as down-sizing efforts bring with them complex post-merger
problems such as social and political issues, organizational culture concerns, product modifications and IT integration (Gyptra & Dixon, 2002).

Technological developments and financial liberalisation (deregulation) are viewed as the main forces influencing the financial sector’s development (Edey and Gray, 1996; Thompson, 1996, Gardener et al., 1999). These changes motivated banks to become aware of future trends in order to survive and compete effectively. Technology has had a remarkable influence on the growth of service delivery options (Dhabolkar and Bagozzi, 2002) and a profound effect on service marketing (Bitner et al., 2000). More and more banks have used technology to deliver their services and this has resulted in: reduced costs, the creation of value added services for customers (Zhu et al. 2002), the facilitation of their employee’s jobs and ultimately, the provision of self service options for customers (Dhabolkar and Bagozzi, 2002). In today’s intensely competitive economy, providing excellent customer service plays a vital role in a company’s success and failure (Mouawad and Kleiner, 1996). Quality perceptions with regard to service functions have been extended in the areas of e-commerce environment (Santos, 2003). Ruyter et al., 2001, defined technology-driven service as ‘interactive, content-centred and internet-based customer service, driven by the customer and integrated with related organizational customer support process and technologies with the goal of strengthening the customer-service provider relationship’. The automated service quality research has been limited to relationship management rather than metrics of the service quality (Buckley, 2003). Parasuraman et al (2005) only discussed automated service quality within the services that are delivered through websites.

Researches on technology-driven service quality have been conducted by Riel et al, 2001 and Long & McMellon, 2004. Mols 2000) argued that customer acceptance of new automated channels of service delivery in banks may bring a dramatic change in the way that retail banks build and maintain a close relationship with their customers. The new automated channels of service delivery has made customer participation more widely possible (Dhabolkar, 1994) and therefore conceptualization of service quality dominated by technology needs to take into account the contribution of delivery channels to deliver banking services (Dhabolkar, 1996, Meuter et al. 2000, Szymaski & Hise, 2000). According to Al-Hawari, Hartley and Ward, 2005, the critical success factors of customer perceived technology-driven service quality (automated service quality ASQ is represented in the following diagrammatic relationship:
The researchers have tried to isolate critical dimensions that are predominantly influencing the customers to perceive service quality that has become technology dependent.

Table 4: Critical dimensions influencing the customers to technology-driven perceive service quality

<table>
<thead>
<tr>
<th>Critical dimensions</th>
<th>Related items</th>
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<tbody>
<tr>
<td>ATM**</td>
<td>• Sufficient number of ATMs</td>
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<td>• Secure locations</td>
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<td></td>
<td>• ATM has user-friendly system</td>
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<td></td>
<td>• Conveniently located</td>
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<td>• ATM functions</td>
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<tr>
<td>Telephone banking**</td>
<td>• Reasonable number of voice prompts</td>
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<td></td>
<td>• Short waiting time</td>
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<td></td>
<td>• Clear instructions</td>
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<td></td>
<td>• Reliability</td>
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<tr>
<td></td>
<td>• Telephone banking options.</td>
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<tr>
<td>Internet banking**</td>
<td>• Availability of information</td>
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<td></td>
<td>• Ease of use</td>
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<tr>
<td></td>
<td>• Secure</td>
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<td></td>
<td>• Error-free transactions</td>
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<td></td>
<td>• Attractive web site</td>
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<td></td>
<td>• Website interface accuracy</td>
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<td></td>
<td>• Up-to-date information</td>
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<tr>
<td>Price</td>
<td>• Adequately explaining service charges</td>
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<td></td>
<td>• Acceptable fees</td>
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<td>• Competitive fees</td>
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<tr>
<td>Core Product**</td>
<td>• Wide range of services</td>
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<td></td>
<td>• Diverse service features</td>
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** Dimension used in the study.
2.7 Relationship Marketing

Relationship Marketing is the part of the marketing process spectrum, which emphasizes relationship maintenance and ranges from strategic partnering and alliances to network organizations (Webster 1992). Relationship marketing is used in both B2B and B2C consumer product transactions as well as service transactions. The relationship type and intent is different in each of these situations (Fontenot 2001). Coviello et al. (1997, 2001, 2002, p.42) have developed an empirically derived taxonomy of marketing practices—the Contemporary Marketing Practices (CMP) framework—which generally supports the idea that ‘relational aspects of marketing are implemented in all types of firms.’

At the core of relationship marketing is the notion of customer retention. It is known that it can cost five times more to obtain a new customer than to keep an existing one according to a research conducted by American Management Association (Weinstein et al., 1996). The costs of customer acquisitions are generally higher than costs of retention (Reichheld and Kenney, 1990, Reichheld and Sasser, 1990) and the inequality is particularly in evidence in the service sector (Ennew and Binks, 1996). It is claimed by Reichheld and Sasser that a 5% improvement in customer retention can cause an increase in profitability of between 25% & 85% (in terms of net present value) depending on the industry. According to Buchanan & Gilles, the increased profitability associated with customer retention efforts occurs because:

- The cost of acquisition occurs only at the beginning of a relationship, so the longer the relationship, the lower the amortized cost.
- Account maintenance costs decline as a % of total costs (or as a % of revenue).
- Long term customers tend to be less inclined to switch, and also tend to be less price sensitive. This can result in stable unit sales volume and increase in rupee-sales volume.
- Long term customers may initiate free word-of-mouth promotions and referrals.
- Long term customers are more likely to purchase ancillary products and high margin supplemental products.
- Customers that stay with you tend to be satisfied with the relationship and are less likely to switch to competitors, making it difficult for competitors to enter the market or gain market share.
- Regular customers tend to be less expensive to service because they are familiar with the process, require ‘less education’ and are consistent in their order placement.
Increased customer retention and loyalty makes the employees’ jobs easier and more satisfying. In turn, happy employees feed back into better customer satisfaction in virtuous cycle. Customer satisfaction has traditionally been regarded as a fundamental determinant of long term consumer behaviour (Oliver, 1980, Yi, 1990). The more satisfied customers are, the greater is their retention (Anderson & Sullivan, 1993; Fornell, 1992).

The revolutionary concept of relationship marketing swept across service sectors. The main reason for service sector absorbing relationship marketing lies in its inherent typical features of services. Intangibility and heterogeneity played big roles in adopting relationship marketing (RM). RM, in certain cases allowed a service provider to customize their services thereby getting rid of heterogeneity to certain extent. Buttle 2004) found that companies can employ one or more type of retention strategies. Coyles & Gorkey’s (2002) research also notes the significance of focusing on the retention of profitable customers, rather than all customers. Gummesson’s (1987) interpretation of the short term nature of transactional marketing ignores that branding links the buyer with the seller under a relationship (Aggarwal, 2004; Fournier, 1998; McKenna, 1991; Thorbjornsen, Breivik & Supphellen, 2002). However, Bengtsson (2003) argued that there was no reciprocity between the consumer and the brand, challenging the validity of a relationship between a human and a symbol. Morgan and Hunt (1999) illustrated the strategic value of organizational resources in obtaining a relationship-based competitive advantage. Li and Nicholls (2000) contended that mutually cooperative interaction in an exchange process was a strategic choice. An extensive review of literature reveals ten different but interrelated forms of relationship marketing as mentioned below:

1. The partnering involved in relational exchanges between manufacturers and their external goods’ suppliers (Frazier et al. 1988)

2. Relational exchange involving service providers, as between advertising or marketing research agencies and their respective clients (Frazier et al. 1988)

3. Strategic alliances between firms and their competitors, as in technology alliances (Nueno and Oosterveld (1988), Bucklin and Sengupta (1993), (Ohmae 1989))

4. Alliance between a firm and nonprofit organizations, as in public-purpose partnership (Steckel and Simons (1992)).
5. Partnerships for joint research and development, as between firms and local, state, or national governments (Comer et al. 1980), (Berry 1983)

6. Long term exchanges between firms and ultimate customers as particularly recommended in the service marketing area (Berry 1983)


8. Exchange involving functional departments within the firm (Ruckert and Walker 1987)

9. Exchanges between a firm and its employees, as in internal marketing (Arndt 1983), Berry and Parsuraman (1991)

10. Within-firm relational exchanges involving such business units as subsidiaries, divisions or strategic –business units (Porter 1987)).

The gaps framework posits that customers have a predetermined set of expectations, and then form a perception of whether or not a particular service encounter or set of encounters has met those expectations (Grönroos, 1988, Parasuraman, 1985). The gap between these perceptions and expectations (quality equals perceptions minus expectations) is the central theme of the framework (Parasuraman, 1985). In their initial study, PZB had suggested that there were ten possible determinants of service quality. These determinants later condensed into five clear dimensions (reliability, assurance, tangibles, empathy and responsiveness) during the subsequent development of the operational SERVQUAL instrument (Parasuraman et al., 1988). The framework and its associated instrument went on to motivate numerous diagnostic studies across many business domains and now form a significant branch of the service quality literature. See, for example, (Brown et al., 1993, Buttle, 1996, Carman, 1990, Parasuraman and Zeithaml, 2001). Over time however, the findings of the original studies were subjected to deeper scrutiny and replication (Carman, 1990, Teas, 1993) as positivist researchers sought to uncover general is able and predictive outcomes. This scrutiny sparked a long-running debate concerning the validity and reliability of SERVQUAL-based research studies. Information systems (IS) technologies have become the enabling mechanisms behind a wide variety of customer-organisation service delivery interactions (Pitt et al., 1995). The emergence of Internet-based service encounters over the past ten years has seen the rise of new forms of online service encounters. As a result, there
has been a proliferation of SERVQUAL variants adapted to the Internet customer service setting (Parasuraman et al., 2005). These variants have relied to a greater or lesser extent upon the substantial body of preexisting service quality knowledge as exemplars of service quality modeling and assessment. However, most of that prior knowledge was predicated on the idea of the person-to-person service encounter. The recent rise of technology-mediated service encounters has required researchers to undertake a substantial rethink concerning the nature of a customer's service relationship in the online context. As a result, IS researchers now often find themselves with objectives that overlap with marketing researchers in their treatment of similar phenomena as it relates to service quality (McKenna, 2002). The addition of near-ubiquitous information technology (IT) artifacts, such as the Internet and mobile communications technologies to the service encounter context links the emergent service quality research paradigm to the (slightly) more established IS research tradition. The resulting literature, supplying the service quality body of knowledge has evolved from studies that are dispersed across multiple disciplines, drawn from a wide range of situations, and subject to numerous, and at times contradictory analytical treatments (Parasuraman, 2004). The SERVQUAL instrument has been applied as the method of choice in many organizational settings such as financial services, healthcare and e-commerce. Customer satisfaction has long been recognised as a process (Oliver, 1981) and is the difference between consumers' perceived and expected performance of a product or service. In other words, customer satisfaction occurs when performance is higher than expected, while dissatisfaction occurs when performance is lower than expected. Overall, to gain customer satisfaction, some argue that organisations need to exceed predictive expectations of customers, rather than just satisfy expectations (Spreng and Mackoy, 1996).

Service quality and customer satisfaction are inarguably fundamental concepts within services marketing theory (Spreng and Mackoy, 1996) and their relationship has seen increasing research interest over the years (Bitner, 1990; Dabholkar, 1995; Spreng and Taylor, 1997; Mohsin, 2003). While it is generally accepted that a positive relationship exists between service quality and customer satisfaction, there is debate (Shemwell, Yavas and Bilgin, 1998) with proposals of a causal link from customer satisfaction to service quality (Bitner, 1990), service quality to customer satisfaction (Bolton and Drew, 1991; Spreng and Mackoy, 1996; Parasuraman, Zeithaml and Berry, 1994); suggestions that directionality varies according to the service situation (Dabholkar 1995) and even that there is no relationship under particular circumstances (Parasuraman, Zeithaml and Berry, 1985). Such
contention within the literature has lead to repeated calls for further examination of this relationship (e.g. Rust and Oliver, 1994; Anderson and Fornell, 1994). Intention to repurchase is an individual’s judgment about re-buying a designated service, taking into account their current situation and likely circumstances (Hellier et al., 2003). Within the literature, repurchase behaviour is seen as a form of loyalty, which according to Law, Hui and Zhao, (2004) and Oliver (1997) is a deeply held commitment to consistently repatronise a service in the future. Repurchase intentions have a powerful effect on potential business profit with some reports arguing as much as 95 percent of profit arises from repeat purchases (Hoffman et al., 2003). As such, loyal customers are valuable marketing tools, telling friends and families of their positive experiences and creating new business and increased revenue for successful service organisations. Service quality is tied to desirable business outcomes, such as customer loyalty, which ultimately lead to increased profits (Schneider and White, 2004). As argued by Rust, Zahorik and Keiningham (1995), service quality generates consumer intention to return, which can translate into actual behaviours that may lead to increased revenues and profits. In the extant literature however, there are mixed findings as to the relationship between overall service quality and behaviors that are indicative of customer loyalty. For example, while Boulding et al (1993) and Rust and Zahorik (1993) provide empirical support that higher perceptions of service quality increases loyalty intention, Cronin and Taylor (1992) found that overall service quality did not effect repurchase intentions. According to Schneider and White (2004), satisfied customers most likely will become loyal which can then translate into higher profits organizations. As such, the relationship between customer satisfaction and repurchase intentions has been examined with results implying that satisfied customers are more likely to intend to repurchase (Taylor and Baker, 1994; Patterson and Spreng, 1997).

2.8 Customer Relationship Management (CRM)

Traditionally, businesses have employed transaction marketing, that is, the 4Ps of product, price, promotion, and place (e.g., Borden 1965; Culliton 1948; Kotler 1997). However, over the past decades, it has been argued that businesses across all sectors should move toward supply chain management and, most recently, interactions, relationships, and networks (e.g., Day 2000; Grönroos 2000; Gummesson 1999; Hunt 2000; Peck et al. 1999; Webster 2000).
The two different approaches to marketing have been compared and contrasted in Table 5. Customer Relationship Management (CRM) was initially conceptualized and designed to take care of the tactical problems experienced by the customers and thereby improving the overall experience of the customers (Dyche, 2001). CRM has its footing on the conceptual platform of Relationship Marketing which evolved as a focal shift in marketing process related to and constrained within ‘transactional format’. The cementing factor between company and their customers are now nurtured on this sensitive issue where a company asks itself at the beginning of every new day ‘Do I know my customer?’. Strategically speaking, Customer Relationship Management (CRM) is to create a sustainable competitive advantage by virtue of understanding, communicating, delivering, and developing existing customer relationships, in addition to creating and keeping new customers.

### Table 5: Comparison between Transactional and Relationship-based marketing.

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Old Transactional Concept</th>
<th>New Relational &amp; Networking Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participants</td>
<td>The buyer possesses a generic demand and the seller has a generic offer</td>
<td>The buyer possesses a specific demand and the seller offers a unique product/service</td>
</tr>
<tr>
<td>Type of Marketing Exchange</td>
<td>Products and services are standardized</td>
<td>Products and services are customized</td>
</tr>
<tr>
<td>Participant’s interaction</td>
<td>Interaction grounded on bargaining power</td>
<td>Interaction grounded on trust, commitment and cooperation</td>
</tr>
<tr>
<td>Time-line for Marketing Exchange</td>
<td>Time-line for marketing exchange is independent and discrete</td>
<td>Time-line is ongoing and the process is continuous</td>
</tr>
<tr>
<td>Structural characteristics of market</td>
<td>Market structure is anonymous</td>
<td>Market structure is networked</td>
</tr>
</tbody>
</table>
the practice rotates around ‘customer’, maintenance of assorted databases and a corresponding data retrieval technique is of prime importance. Therefore, CRM is a customer-focused strategic impetus that integrates people, process and technology which has the potentiality to ensure:

a. One-to-one marketing instead of mass marketing (Peppers & Rogers, 1996)

b. Commitment on long-term relationships (Pearson, 1995)


d. Progressive reduction of marketing costs (Cockburn, 2000).

Table 6: Evolution of CRM

<table>
<thead>
<tr>
<th>The evolution of CRM</th>
<th>CRM Wave – I</th>
<th>CRM Wave – II</th>
<th>CRM Wave – III</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRM Wave – I</td>
<td>CRM Wave – II</td>
<td>CRM Wave – III</td>
<td></td>
</tr>
<tr>
<td>Call centre/Sales Force</td>
<td>Multi-Channel Integration</td>
<td>Conversational Marketing</td>
<td></td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Integration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CRM Goals</td>
<td>Improving channel efficiency, Increasing Customer satisfaction</td>
<td>Improving customer interactions, Improving customer retention</td>
<td>Predicting customer behaviour, Building brand and lifetime customer value</td>
</tr>
<tr>
<td>CRM Strategy</td>
<td>Provide more efficient means of customer interactions</td>
<td>Provide customers with multiple points of contact, gather insights</td>
<td>Integrate communications and brand across channels</td>
</tr>
<tr>
<td>Resulting Customer experience</td>
<td>Customers enjoyed more convenient transactions, but channels were not integrated</td>
<td>Customers had more options to interact with the company, but the experiences were fragmented across contact points</td>
<td>Customer is given a seamlessly integrated experience across all channel</td>
</tr>
<tr>
<td>Marketing focus</td>
<td>Customer acquisition Product sales</td>
<td>Customer retention Cross-selling</td>
<td>Customer conversation Brand equity</td>
</tr>
</tbody>
</table>
With the CRM philosophy gradually penetrating the business domains, the companies realized that critical asset management will be the key to long term sustenance and success. The most critical asset identified by the companies – ‘Customer’ needs to be well integrated with them not only in terms of business transactions but also in terms of culture, image and loyalty. With information technology blooming, CRM processes found the desired tool to create customer databases.

Reynolds (2002) identified three key processes which brought companies closer to the customers and vice versa:

(i) Data-enabling product-centric processes

(ii) Customer Centric processes

(iii) One-to-one philosophy

Most of the CRM applications, in their earlier years, concentrated only on customer interactions. Now the applications include all possible transactional data, supply chain integration and collaborative networking. (Ijaz & Hu, 2005). The Meta Group identified three CRM segments:

(i) Operational CRM : Operational CRM involves automation of customer-interaction process.

(ii) Analytical CRM : Analytical CRM utilizes customer data to create mutually beneficial relationship between companies and its customers.

(iii) Collaborative CRM: Collaborative CRM enables interaction between a company, its delivery channels and its customers. It creates a platform for the customers to contact the company and enables collaborative relationships with suppliers, partners and customers. Reynolds (2002) pointed out the components are interdependent. For example, analytics stimulates the decision making in operational CRM for effective deployment of marketing, sales and customer related services, but without the data collected via operational CRM the entire process will be redundant due to lack of data. At the integration level Operational CRM, Analytical CRM, Collaborative CRM and Business intelligence works in full congruence to drive the Customer Life Cycle. Business community has increased its concentration on applications of analytical tools rather than their initial inclination towards
operational and collaborative tools. They have realized that the analytical tools are necessary to drive the strategic and tactical decisions related to customer acquisition, customer retention and customer enhancements.

The CRM concept thematically goes beyond the process of just identification of valued customer, providing them with quality service and analyzing their preferences. It explores the psycho-dominated domain of customer loyalty and its immediate impact on profitability. The CRM phenomenon has contributed and equipped the service sector, particularly the vulnerable yet lucrative financial service sector, with constant improvisation and innovation, customization, shift from marketing myopia to marketing hypermetropia, adjunct service line inclusion, value addition, proactive decision making to provide customers with service which goes beyond simple functional utilities inclusive of both tangible and intangible attributes. These initiatives bind the customer with the brand by ensuring customer delight.

Paul Gray and Jongbok Byun (2001) viewed CRM as a continuous flow of corporate changes in culture and processes that combines three focal areas: (i) Customer (ii) Relationship and (iii) Management. Richard Barrington (2008) viewed that CRM systems evolved as a system to track customer interactions with an objective to offer customized products and services to the customer. With this introduction of hyper-customized products and services, particularly in the cross-selling and up-selling domains of a financial service organization, the customer needs and desires have undergone a sea change. This has reflected in a number of studies conducted over a period of time (2005-2008) by a number of researchers in terms of changing perception and expectation level of customers with reference to the services provided to them. CRM Guru (2006) conducted a study which was subsequently reported by Judith Sandall (2007), with regard to this growing complexity in customer need identification. The study revealed that the ‘customer satisfaction’ factor is a complex function of interaction of the customer with company’s products, services, brands and people. The service organizations found it more difficult to penetrate this ‘customer-satisfaction’ domain because of the degree of in tangibility and heterogeneity associated to map, design, price and deliver a service. Therefore service organizations turned their focus on ‘Customer Retention’ rather than ‘Customer acquisition’. Sandall (2007) viewed that effective customer support rendered by the service organizations makes a customer happy and improves the chance of customer being retained by the firm. The retention factor stimulated the companies to identify the most valued customer who significantly contributed to the profit-line of the same. Studies
conducted by Vlčková and Bednaříková (2007) suggested that customer retention over their lifetime will significantly contribute to enhance company's profitability. The service organizations, in particular, delved deep into the calculations of Customer Life-Time Value (CLTV) to identify the most valued customers on the basis of their net-worth to the company. CRM revolves around the management of Customer Life Cycle (Sheth, Parvatiyar and Shainesh).

Bateman and Snell (2001) observed that CRM is a business process which results in optimized profitability and revenue generation, while achieving customer satisfaction. Relationship marketing gave rise to the practice of Customer Relationship Management [CRM]. Pisharodi, Angur and Shainesh (2003) in a study of success of CRM found that a process oriented strategic approach to connect the operational, informational and the organizational components are critical for the success of CRM application. Ernst & Young (1999) observed that enterprises investing on CRM solutions predominantly focus on technology. The challenge lies in combining people, processes and technologies while implementing CRM solutions.

CRM emerged in the 1950s but became a relevant term amongst business practitioners and consultants in the 1990s (Grabner-Kraeuter et al, 2007). CRM has taken the shape of an important strategic tool to organizations worldwide as global competition intensifies and technological breakthroughs in communications continue to evolve (Baksi, 2005). According to Light (2003), CRM evolved from business processes, such as relationship marketing and the increased emphasis on improved customer retention, through the effective management of customer relationships. The purpose of CRM is to efficiently and effectively increase acquisition, growth and retention of profitable customers by selectively initiating, building and maintaining appropriate relationships with them. CRM generated great research interest among the researchers as it evolved to be one of the critical success factors for modern marketing initiatives (Sheth 2000). Relationship Marketing, which was viewed as a paradigmatic shift in marketing process (Grönroos, 1997; Gummesson, 1997; Parvatiyar & Sheth, 1993) has been very much influential in designing the CRM process and it has been expressed an integration between people, process and technology. The increased interest in ‘one-2-one’ marketing (Peppers & Rogers, 1993) raised the potential for shifting from a mass to individualized and customized marketing. Relationship based approaches have been increasingly advocated over the last fifteen years (e.g. Grönroos, 1994, Gummesson, 2002b,
Webster 2002, Vargo & Lusch, 2004). Parvatiyar and Sheth (2001) stated that RM and CRM are often used interchangeably. Contributors Ryan and Payne (2001) proposed that RM is concerned with relationship with multiple stake holders, while the focus of CRM is primarily on customer. In 2003, Zablah, Benenger and Johnston observed that CRM was "for the most part neglected in the literature and that further exploration of CRM and its related phenomena was not only warranted, but also desperately needed. Some important contributions were made on the concept development of CRM (e.g. Meta Group 2001, Srivastava, Shervani & Fahey, 1999; Sue & Moria, 2001; Winer 2001; Zablah, Benenger & Johnston, 2003; Payne & Frow, 2005) and on issues associated with implementation (Ebner et.al. 2002; Henneberg, 2003; Pettit, 2002; Rigby, Reichheld & Schefter, 2002), however much works still remains to be done. A brief analysis of the literature on CRM system points, historically to implementation problems. For example, Gartner Group (2003) found some 70% of CRM projects resulted in either losses or no-bottom-line improvement. More recent work analysis (Rigby and Ledingham, 2004) has shown companies are now reporting improved satisfaction with their CRM investments.

In a recent work on CRM, Boulding et.al (2005) argued that the domain of CRM has not begun to converge on a common definition: "Specifically CRM relates to strategy, managing the dual creation of value, the intelligent use of data and technology, the acquisition of customer knowledge and the diffusion of this knowledge to the appropriate stakeholders. Grabner-Kraeuter and Moedritscher (2002) point to the lack of an adequate CRM strategic framework from which to define success as being a reason for the disappointing results of many CRM initiatives. One of the major reasons for CRM failing to deliver goods is overemphasis on technological aspect by ignoring the 'people' and the process part. Buttle (2001) provides a CRM value chain. CRM refers to all business activities directed towards initiating, establishing, maintaining, and developing successful long-term relational exchanges (Heide, 1994; Reinartz & Kumar, 2003). One of the results of CRM is the promotion of customer loyalty (Evans & Laskin, 1994), which is considered to be a relational phenomenon (Chow & Holden, 1997; Jacoby & Kyner, 1973; Sheth & Parvatiyar, 1995; cited by Macintosh & Lockshin, 1997). The benefits of customer loyalty to a provider of either services or products are numerous, and thus organizations are eager to secure as significant a loyal customer base as possible (Gefen, 2002; Reinartz & Kumar, 2003; Rowley & Dawes, 2000). The idea that one cannot have a profitable relationship with all customers
and the practice of targeting customers with a differentiated product or service is already widespread in many financial services, e.g. banking, insurance, credit cards etc.

Since CRM does possess a technology dimension, Sandoe et al., 2001 argued that advances in database technologies such as data warehouses and data mining are crucial to the functionality and effectiveness of CRM systems. Furthermore Peppard (2000) suggested that technological advances in global networks, convergence and improved interactivity are key to explaining the growth of technology-enabled business or e-business and CRM. The increasing use of digital technologies by customers, particularly the internet, is changing what is possible and what is expected in terms of customer management (Tamminga and O’Halloran, 2000). Internet based tools, such as e-commerce, internet marketing (Yang and Fang, 2004), personalization (Jun and Cai, 2001) and self-help (Walters and Lancaster, 1999; Parasuraman, 2005) were evolving. Due to the novelty of technology, these products competed outside of CRM sphere and were referred to as “e-business”. When the concepts of CRM and e-business became integrated (Light, 2003; Fjermestad and Romano, 2003; Bull, 2003), there was a short period where vendors talked about eCRM. But CRM is more than technology, it is a strategic process. CRM concepts and technologies have been widely accepted by the companies across the countries. It is extremely difficult to find a new customer in a mature economy but it is just as difficult to retain existing ones. Strategic implementation of CRM requires a definite framework. Sue and Morin (2001, p.6) outlined a framework for CRM based on initiatives, expected results and contributions. Another model of conceptual framework was developed by Plakoyinanaki and Tzokas (2002). Gartner Research (2001) developed a conceptual framework comprising of 8 building blocks: vision, strategy, valued customer experience, organizational collaboration, processes, information, technology and metrics. A brief review on CRM success and failure was conducted to evaluate the comprehension and suitability of Payne and Frow’s (2006) framework. The study by Payne and Frow (2005) focuses on enterprises seeking to develop strong relationships with customer. CRM normally involves business process change and the introduction of information technology, consequently, effective leadership is important (Galbreth and Rogers, 1999). Customer Relationship Management is also undergoing evolutionary changes and concepts like Customer Managed Relationship [CMR] are evolving (Baksi, 2007).
In recent years, however, several factors have contributed to the rapid development and penetration of CRM applications. One of the major factors is serious de-intermediation due to advent of sophisticated technology in communication process. Across the industries which include aviation, banking, insurance, automobile, household appliances, hospitality, hospital industry etc., the de-intermediation process is fast changing the pedagogy of marketing and ensuring a transition from transactional base to a more emphatic relationship base. This metamorphosis of marketing concepts, practices and processes is quite visible in high interactive service sectors. Several CRM models have been proposed to elaborate its functionalities and integration process. Fig.11 is one such model which depicts the ‘System Flow Concept’ of CRM.
Recent studies have conceptualized CRM as a multi-dimensional construct consisting of four broad behavioural components namely (i) Key Customer Focus (ii) CRM Organization (iii) Knowledge management and (iv) Technology-based CRM. (Senyah and Sobotie, 2009). This concept of construct acknowledges the observation of Fox and Stead (2001) who suggested that successful CRM implementation banks on strategy, people, process and technology. Kwame and Dzato (2007) recommended that integration of people, process and technology is the focal domain of CRM implementation of financial services organization namely the banking sector. This notion was further supported by Bee (2008).

2.8.1 Technology in CRM: Integration of People, Process and Technology

Sandall (2007) was of the opinion that the basis of successful CRM is to integrate people and processes with technology playing the role of a driver. The basic objectives of this integration operation are to:

1. Streamlining and automating the sales processes.

2. Streamlining and automating the marketing processes.

3. Enhancing the responsiveness of customer service centre.
4. Analyze and predict customer behaviour to improve marketing, sales and target market efforts.

5. Managing relationships with partners and suppliers productively.

Technology (CRM softwares) in CRM has been used as an analytical tool to predict customer behaviour over time because customer’s loyalty increases as the length and quality of the relationship increases (Senyah & Sobotie, 2009). Richard Barrington (2008) cited some examples, one of which is:

- Using a system from Oracle Seibel, CRM solutions were able to target their highest value opportunities, resulting in a 100% increase in revenue.

ThuyUyen and Nguyen (2007) highlighted the ‘Process Integration’ which they elaborated as the process of digitizing the knowledge of the employees (summarized in Table-7 below):

<table>
<thead>
<tr>
<th>1. Enhancement in Customer Loyalty</th>
<th>Complete information about customers profile and previous requests and preferences instantly available to sales and service representatives when a customer makes a call.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Superior Service Quality</td>
<td>Customer representatives can provide with customized or personalized services, introduce the customers to new products or services, introduce customers to cross-selling and up-selling products and services etc. based on the customer endorsement or patronization history.</td>
</tr>
<tr>
<td>3. Superior Information gathering and Knowledge Sharing</td>
<td>The system is updated each time a customer contacts the company. Multiple Channel Integration (MCI) allows the customer to contact the company through a number of devices and networks.</td>
</tr>
</tbody>
</table>
Xu and Walton (2005) developed a model namely ‘Analytical Customer Knowledge Acquisition’ to identify the areas knowledge requires to be obtained with regard to customers for better profiling and segmentation. (Fig.12)

**Figure 12: Analytical Customer Knowledge Acquisition., Source: Xu and Walton (2005) p.963**

Zineldin (2006) supported the suggestions made by Xu and Walton and expressed his opinion regarding acquisition of knowledge about customers for better segmentation and its impact on positive revenue generation for the company. Lynette and Simon (2001) pointed to continuous improvement or reengineering of customer value through better service recovery and competitive positioning of the offer. Ghavami and Plyaei (2006) viewed CRM as a series of relationships which are symbiotic in nature.

Peelen (2005) identified the touch-points or the interfaces between company and customer which are:

1. Media
2. Websites
3. E-mail
4. Telephone
5. Personal Selling Encounters & Service Employees
Peelen (2005) also explained the strategic imperatives to acquire or to retain customers by nomenclating them as ‘offensive’ and ‘defensive’ strategies. According to Smith (2006) technology needs to help the company to optimize the value of customer relationship across channels and product lines. Lindgreen and Antioco (2005) suggested that CRM deploys technology (Information technology) to acquire, nurture and retain customers. Payne and Frow (2005) pointed out that Multi-Channel Integration (MCI) in CRM is one of the most critical processes. MCI optimizes the value proposition for the customers often by adding values. Convergence of technology has given that extra edge to the companies to go for offering the customers multiple channel-based transaction facilities. Payne & Frow (2005) classified the channel options into six broad categories depending on the balance of physical and virtual contact. They are:

1. Sales force including the customer representatives.
2. Outlets: Retail, Kiosks, Stores and Depots.
3. Telephony
4. Direct marketing
5. E-commerce
6. Mobile Commerce

Acknowledging the fact that CRM revolves around the successful integration of People, Process and Technology, a generic model can be designed to understand how the people, process and technology mix changes for key CRM implementation activities. This generic model requires varied degree of modifications to fit into an organization’s CRM implementation at varied speed levels. (Table-8)

<table>
<thead>
<tr>
<th>Key CRM implementation activities</th>
<th>Most relevant components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining business requirements</td>
<td>People, some process</td>
</tr>
<tr>
<td>Setting up the Project Management team</td>
<td>People, some process</td>
</tr>
<tr>
<td>Integrating legacy and other needed systems</td>
<td>Technology</td>
</tr>
<tr>
<td>Customizing the CRM software</td>
<td>People, Process &amp; Technology</td>
</tr>
</tbody>
</table>
Key CRM implementation activities | Most relevant components
---|---
CRM system pilot | People, Technology
CRM system roll out | People, Technology
CRM system support | People, some process
Growing your CRM system | People, Process & Technology


Technology has been used to get a 360° view of customers with an objective to bridge between the past interactions with the customers with the future options. (Eckerson and Watson, 2000). CRM solutions deliver repositories of customer data at a fraction cost of the older network technologies. Data and information with regard to customers play a vital role in CRM. Information is very much critical for product customization, service blueprinting (mapping) and innovation, estimation of Customer Lifetime Value and comprehensive views of customers (Peppard, 2000). Data Warehousing, Enterprise Resource Planning (ERP), Web Technology and Internet combine to form the nucleus of CRM system. Convergence of technologies has allowed the ‘process’ component of CRM to harness the concept of ‘Multi-Channel Integration (MCI’ which has emerged as a service delivery wizard in recent times. In fact, Multichannel Integration (MCI) is one of the most critical processes in strategic framework for CRM (Payne, 2005) [Fig.13]. The MCI process is a key activity as it translates the business strategy into value-augmented outputs. The MCI concept allows the customer to enter into interaction with their firms with more flexibility and create a ‘unified view of the customer’ (Payne, 2005). People who are in charge of channel strategy preparation need to realize the two forms of structural changes:

(i) Disintermediation – where the business proposition does not consider intermediaries as critical points to create value for customers.

(ii) Reintermediation – where a new generation of intermediaries have emerged which can effectively create more value compared to the previous channel structure namely ‘infomediaries’ or web-enabled information agents which perform the analysis on behalf of the customer in the pre-purchase phase.
Technology, although an important cog in the wheel of CRM deployment, should not be over-emphasized. Gartner asserts that through 2005-2006, CRM initiatives focused only on technology and the concept of CRM rotated around deployment of CRM softwares and the firms who collaborated with the service providers as CRM vendors got all the credit to run the show. Gartner, further added that the companies focusing too much on technology deployment are three times more vulnerable to fail compared to those companies who focus on process and people and then utilize technology to integrate the system (CRM Business Transformation: More than Just Technology, Gartner, 2006). On the other hand Meta Group Incorporation’s research established that companies are three times more likely to be
successful if they strategically amalgamate with a consulting partner to help them devise a strategy, assess business process requirements and deploy technology according to that plan (Mid-Market Comes of Age, 1 to 1 Magazine, April, 2006). There are several critical factors for successful CRM implementation that goes well beyond technology. The CRM philosophy can be best defined by using the Peppers and Rogers Group ‘IDIC’ methodology which serves to:

- Identify customers individually and addressably.
- Differentiate customers or customer groups based on their needs and value.
- Interact with customers in a way that benefits them and the company
- Customize the relationships over time based on the company’s understanding of customers’ needs and values.

### 2.8.2 CRM Performance Measurement

One of the most critical issues often taken up in CRM deployment is the measurement of CRM success or failure and the vis-à-vis causes for the same. Greenberg (2004) identified three different categories of metrics:

(i) Customer Metrics

(ii) Performance Metrics

(iii) Diagnostic Metrics

- Customer Metrics
  a. Relationship format is preferred to transactional format by the customers
  b. Customers tend to accept consolidated and value-added solutions on behalf of the company.
  c. Customer potential index in terms of their usage of assorted products/services

- Performance Metrics
  a. Increase in revenue per salesman
  b. Increase in customer retention rate
  c. Increase in Customer Lifetime Value (CLTV).
  d. Increase in response rate for marketing campaigns.
  e. Increase in cross-selling and up-selling opportunities
  f. Increase in renewal rates in service agreements
Diagnostic Metrics
a. Total number of employees using the CRM application
b. Total number of completed customer profiles with addresses in the database
c. Speed of response by an employee when it comes to access customer information

A scorecard approach was proposed by Hyung-Su and Young-Gul (2007) for evaluating CRM in an organization. Table-9 depicts the scorecard.

Hughes (2009) recommended that CRM performance can also be measured by using the Balance Scorecard approach or by using the Six Sigma concept. The measurements that he suggested are:

a. Increased Customer Retention, less customers defecting each year
b. Increased Sales, number of orders placed by each customers per year
c. Increased Cross-Sales and Up-Sales, customers endorsing wider and more expensive product/service range.
d. Increased Win-Back, more customers who defected away were reacquired.
e. Increased Referrals retained and satisfied customers patronizing products/services and acquiring new customers for the company.
f. Performing the activities stated above with cost component remaining below revenue generated thereby ensuring profit.

Table 9: Scorecard approach for CRM evaluation, Source: Hyung-Su and Young-Gul (2007)

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Diagnostic Factors</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational</td>
<td>Shareholder Value</td>
<td>SHV</td>
</tr>
<tr>
<td>Performance</td>
<td>Profitability</td>
<td>Perceptual Performance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ROA, ROI, Net sale, Net Sales/Employee</td>
</tr>
<tr>
<td></td>
<td>Customer Equity</td>
<td>Perceived Loyalty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Customer Loyalty, CLTV, Profit/Customer</td>
</tr>
<tr>
<td>Customer</td>
<td>Customer Loyalty</td>
<td>Perceived Loyalty</td>
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<td>RFM</td>
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<td></td>
<td>Customer Retention</td>
<td>Perceived Customer</td>
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<td></td>
<td></td>
<td>Satisfied Customer Rate</td>
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<tr>
<td>Perspective</td>
<td>Diagnostic Factors</td>
<td>Instruments</td>
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<td>-------------------</td>
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</tr>
<tr>
<td></td>
<td>Subjective</td>
<td>Objective</td>
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<tr>
<td></td>
<td>Satisfaction</td>
<td>Customer Complaints</td>
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<tr>
<td>Customer value</td>
<td>Perceived value,</td>
<td>Leads per channel,</td>
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<tr>
<td></td>
<td>Brand equity,</td>
<td>Acquisitions, Visits of</td>
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<tr>
<td></td>
<td>Relationship</td>
<td>websites, Profitability of</td>
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<tr>
<td></td>
<td></td>
<td>new customer, Response</td>
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<tr>
<td></td>
<td></td>
<td>rate, Sales success rate,</td>
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<tr>
<td></td>
<td></td>
<td>Customer contact rate.</td>
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<tr>
<td>Process</td>
<td>Customer Acquisition</td>
<td>Readiness for Acquisition Process</td>
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<tr>
<td>Customer Retention</td>
<td>Readiness for Retention Process</td>
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<tr>
<td>Customer Expansion</td>
<td>Readiness for Expansion Process</td>
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<tr>
<td>IT</td>
<td>CRM Technology</td>
<td>System/Information quality, System</td>
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<tr>
<td></td>
<td></td>
<td>Usability</td>
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<tr>
<td>Human Capital</td>
<td>Employee Behaviour</td>
<td>Customer Oriented Attitude</td>
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<tr>
<td></td>
<td>Employee Satisfaction</td>
<td>Satisfaction</td>
</tr>
<tr>
<td>Strategic</td>
<td>Training</td>
<td>Training Procedure</td>
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<tr>
<td>Alignment</td>
<td>Reward system</td>
<td>Appropriateness of reward</td>
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<td></td>
<td>Organizational</td>
<td>Organizational flexibility</td>
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<tr>
<td></td>
<td>Structure</td>
<td></td>
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<tr>
<td>Culture</td>
<td>Partnership</td>
<td>Coordinating effort</td>
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<tr>
<td></td>
<td>Market Orientation</td>
<td>Market Orientation</td>
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<td>Explicit Golas</td>
<td>Explicitness of Golas</td>
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Over the years CRM has migrated from its process concept to a system concept where one observes impact of technology to a considerable extent. Financial service sectors like banks are using electronic CRM or e-CRM to manage customer data. The concepts of ‘data warehousing’ (chronological storage of data) and ‘data mining’ (retrieval of data from warehouse hinted by a query) are being used to delve deep into the insights of customer demographics and psychographies as well. This transition of CRM into technology-enabled CRM or e-CRM has also triggered the researchers to prescribe a performance evaluation criteria. Zarah & Kimiloglu (2009) provided a list assembled through an extensive review of literatures, of metrics that can be used to measure e-CRM performance:

1. Increase in Brand awareness.
2. Increase in trustworthiness of brand.
3. Strengthening of pre-sales services to customers.
4. Increase in sales support to customers.
5. Increase in support to those customers who have already endorsed the product or service.
6. Increase in the total number of users.
7. Increase in the number of new customers.
8. Decrease in acquisition cost related to new customers.
9. Increase in repeat purchase and intention to repatronize.
10. Increase in the rate of winning back defected customers
11. Optimization of time between order and delivery.
12. Provision of creation of more accurate customer database
13. Increased efficiency in profiling, segmenting and targeting customers
14. Increase in customer satisfaction
15. Increase in customer transactions

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16. Increase in the usage pattern of company resources by the customers

17. Increase in time deployed by the customers to explore company websites for information

18. Faster and accurate mode of customer complaints and grievance registration

19. Higher solve rate of customer complaints and grievances

20. Increase in willingness among customers to share more information about themselves

21. Increase in importance/significance of website as a means to help and support customers.

The success of CRM depends on the CRM vision of the company and its strategic implementation across cross-functional area by taking into consideration (a) Customer Information, (b) Customer-focused Process Design and (c) Adoption of changes. Addressing these elements will ensure ROI and will earn sustainable competitive advantage for the company. Synchronized deployment of strategies across cross functional areas is the key to successful CRM implementation (Fig. 14).

Figure 14: Synchronized Deployment of CRM Initiative, Source: Forrester Research, Inc.
2.8.3 CRM and Profitability

The profitability derived out of successful deployment of CRM depends on effective management of Customer Life Cycle (Fig.15). Customer lifecycle starts with customer acquisition followed by customer development through personalization of communications and customization of products and services through a mutual learning process. The next step is of extreme importance which involves leveraging customer equity through cross selling and up-selling.

![Figure 15: Customer Life Cycle Management](image)

One of the most significant process in CRM is retaining customers. Factors that are responsible for customer retention are:

1. Customer satisfaction
2. Customer Loyalty

Customer profitability depends on the ability of a firm to retain valued customer. But whatever may be the CRM programmes, there is a certain amount of customer migration at different stages of Customer Life Cycle because of various reasons. This can be clearly demonstrated as below:
Customer Migration

Customer need
Assessment & acquisition

Customer Retention
and referrals for
new customers

CRM

Customer equity leverage
through cross-selling up-
selling

Customer Development through
personalization &
customization

Figure 16: Customer Migration

Source: Jagdish Sheth, Atul Parvatiyar, G.Shainesh, ‘Customer Relationship Management-

Customer Lifetime Value (LTV) is one of the most significant issues addressed by CRM (Kale, 2003). LTV is expressed as the profit-contribution by a customer made to a firm over the course of his/her relationship with the firm. Kale (2003) further stated that a 5% increase in the retention rate of customers by a firm stimulates an increase of profitability of the firm to the tune of 20-85%. The transition of marketing focus from a transactional orientation to a relationship orientation has enabled the marketers to customize products/services to fit the flexible demand levels of customers (Panda, 2002). This has reinforced the concept of customer LTV. The marketing strategies and policies should be integrated with the process of the calculation of LTV (Lewis, 2005) since managerial perspective is a crucial aspect. Ryals (2005) confirmed this proposition of considering the marketing strategies related to
products/services. Ragins and Greco (2003) identified three distinct benefits of customer intimacy namely:

1. Creation of committed customers by virtue of proactive relationships.
2. Economies of scope realization based on relationship value.
3. Reducing customer defection or churn rate and thereby reducing costs.

Individual touch-points or interface with customers enables a firm to design customer-centric product or services (Turban, 2002) which in turn positively affects the loyalty syndrome and ensures long-term profitability for the firm. De Torcy (2002) hinted towards the fact that CRM can induce profitability by reducing costs significantly. Strategic CRM initiatives can be used for differentiating one organization from another and thus making it more attractive for the customers to invest (Crosby and Johnson, 2002). The dyadic relationship between customers and service providers in a CRM environment result in a synergistic output by ensuring mutual value (Plakoyiannaki and Tzokas, 2002). Langerak and Verhoef (2003) observed the strategic orientation of CRM. In a study made on the hotel industries, Lin & Su (2003) observed that CRM has the potentiality to increase customer value and thereby retain existing customers in addition to acquire new customers. Similar opinion was expressed by Cuthbertson and Laine (2004) with regard to customer loyalty induced by the successful implementation of CRM.

A model of profitability of a customer based on past and current purchases can be drawn on the basis of the following equation:

\[ \text{Profit}_t = \sum_t \left( \sum_j (P_j - C_j) - \sum_k MC_k \right) \]

Where:

\( t = \text{the current time period} \)
\( T = \text{the total number of time periods in the database} \)
\( J = \text{the number of products purchased} \)
K = the number of marketing tools used to target customers

\[ P_j = \text{price of the } j\text{th purchase} \]

\[ C_j = \text{cost of the } j\text{th product purchased} \]

\[ MC_k = \text{cost of the } k\text{th direct marketing tool (customer acquisition cost)} \]

In other words, profits generated by a customer are the sum of margins of all the products purchased over time less the cost of acquiring that customer. The equation is not only the basis of Lifetime Customer Value (LCV), but it can also be used to show where additional profits can be obtained from customers. Increased profits can result from:

- Increasing J, the number of products purchased, by cross-selling
- Increasing P, the price paid, by up-selling and changing higher prices
- Reducing C, product's marginal cost
- Reducing MC, reducing customer acquisition cost.

Customer retention, the focal objective of CRM has been considered as critical contributor to ensure profitability, and in this respect retention of customers with maximum net worth to the service providers is of utmost importance. The significance of customer retention was first quantified by Reichheld and Sasser (1990). They found that profits in service industries, including credit card companies, increased in direct proportion to the length of a customer's relationship. Reichheld and Sasser (1990) concluded that cutting defections in half could more than double the growth rate of the average company.

Everett (1993) noted that a dedicated customer retention unit developed by Patrick J. Swanick at the Society National Bank in Cleveland, achieved a 57% success rate in persuading callers to remain with the bank. According to Everett (1993), these representatives first probed for causes, then tried to resolve the problem. He added that they followed-up on each call with a letter to the customer.

Veneris and Ghauri (2004) argue that service quality is linked to organizational profitability through two routes, and each of these routes involves customer retention. Management can deploy a company's marketing assets to acquire superior service quality that differentiates the
company from its competitors, and, in turn, leverage the company's competitive advantage through greater market share and profitability as the Profit Impact of Marketing Strategies (PIMS) studies indicate (Buzzell & Gale, 1987). In the second route, "service quality is viewed as an important means for customer retention" (Zeithaml et al., 1996). The relationship between customer satisfaction and customer profitability are now growing attention in the customer satisfaction literature (Sui-Hua Yu, 2007). The main objective of CRM is to improve customer loyalty and customer profitability (Cockburn, Dec, 2000). In view of this 'intention to repurchase' has been studied by many researchers who believe that intention to repurchase shows the prima-facie signs of retention and a probable loyalty effect in the long run. Intention to repurchase is an individual's judgment about re-buying a designated service, taking into account their current situation and likely circumstances (Hellier et al., 2003).

Within the literature, repurchase behaviour is seen as a form of loyalty, which according to Law, Hui and Zhao, (2004) and Oliver (1997) is a deeply held commitment to consistently repatronise a service in the future. Repurchase intentions have a powerful effect on potential business profit with some reports arguing as much as 95 percent of profit arises from repeat purchases (Hoffman et al., 2003). As such, loyal customers are valuable marketing tools, telling friends and families of their positive experiences and creating new business and increased revenue for successful service organisations. Service quality is tied to desirable business outcomes, such as customer loyalty, which ultimately lead to increased profits (Schneider and White, 2004).

Harvard Business Review identified that an increase in customer loyalty by 5% could increase profits in Telecom sector by over 50%. Research suggests that customers are willing to pay higher prices for quality rather than compromise quality, and they are willing to do so in a long run exchange relationship that keeps them retained for the firm under the rubrics of customer relationship management (Sheth & Parvatiyar, 1995; Duncan & Moriarty, 1998; Cronin, Brandy & Huit, 2000; Grönroos, 2000). In this latter framework, both quality and long run customer retention impact current changes in retention under the notion of exchange efficiency as the bedrock of customer relationship management (Gronroos, 1993, 2000; Kotier, 1994; Sheth & Parvatiyar, 1995). Richa S. Vyas and Nijaguna R.B. Math (2006) in a comparative study of cross selling practices in public and private sector banks in India concluded that despite the differences in private and public sector banks, it was found that both the sectors are effectively using cross-selling for profitability. The findings also show that customer relationship management is very important as Indian customer prefer personalized services, and are interested in long term relationships with their banks and are
willing to seek expert opinion of bank officials. Relationship customers have far more potential for loyalty as they are often prepared to pay a premium price for arrange of reliable goods or services. Newell (2000) concluded that there are six underlying reasons why retained customers are more profitable:

1. Customer acquisition costs may be high, so customers may not become profitable unless they are retained for one or more years.

2. There will be a stream of profits from the customer in each year after acquisition costs are covered;

3. Customers buy more over time, so revenues go up; companies become more efficient at serving them (there is a learning curve to the relationship), so costs go down;

4. Retained and satisfied customers may refer other prospective and potential customers;

5. The relationship has a value to the customer too; as a result retained customers tend to become less price sensitive.

A number of authors highlighted the importance of targeting on customers, building relationships with them and keeping them (Christopher et.al., 1991; Johnson, 1992; Storbacka, 1997; Peck, 1997; Intindola, 1991; Reichheld, 1993). In banking profit drivers include deposit balance, consistent fee income, efficient lending practices, relationship building customers, aggressive retention of profitable relationships, and quality sales and service (Berry and Britney, 1996). Customer profitability must be measured over some time period. Hartfeil (1996) found at Bank One, profitability varies greatly for any particular customer from month to month and suggests measuring customer profitability on a three month and a 12-month rolling average basis as one gives a smoothed-out current picture, while the other gives a longer-term view. Hartfeil (1996) found huge differences in costs among its customers of a bank based on transactions volume and argues that the transaction costs "are one of the key differentiators of profit among customers". Berry and Britney (1996) suggest the inclusion of transaction intensity in a customer profitability analysis. Cooper and Kaplan (1991) found that the profitability pictures that emerges from the Activity Based Costing (ABC) analysis helps managers focus their attention and energies on improving activities and enables managers to slice into business by product or group of similar products,
by individual customer or client group, or by distribution channel. In other words, ABC helps managers understand precisely where to take actions that will drive profits. ABC can be used to calculate individual customer profitability and the ABC associated software can be used for linking customer transactional data from enterprise resource planning (ERP) and CRM system with financial information (Kaplan, R.S. & V.G.Narayanan, 2007). Kaplan and Narayanan (2007) argue that detailed data about individual customer transactions and in customer relationship management will improve customer satisfaction.

2.8.4 Application and adoption of CRM in banking sector

Historically, CRM has been a feature of the service marketing sector where intangible nature of services and its inseparability from its delivery and consumption process have made service provider-customer dyadic relationship quite pivotal in determining customer loyalty, retention of valued customers, profitability etc. The financial services industry has gone through a rapid structural change (Lehmann, 2000). Competitive pressure and customer demand has compelled the financial services providers focus on core competencies in order to deliver better value to their customers. Consequently, companies that were formerly highly integrated have split into divisions or independent companies focusing on different parts of the value chain (Heinrich and Leist, 2002). On the other hand, many customers demand a complete range of financial products in order to satisfy their financial 'one-stop' needs. This forces financial services companies to collaborate with providers of complementary products and services. Ultimately, networks of financial services companies emerged (Alt and Reithbauer, 2005). This emergence stimulated initiation of networks consisting of relationship managers, product providers and transaction processors (Heinrich and Leist, 2002; Hagel and Singer, 1999). CRM emerged as a response to decreasing customer loyalty in different industries. The reasons for decreasing customer loyalty in the financial services industry are manifold and closely interconnected. Three fundamental factors can be identified (Walter, 2000; Korner Zimmermann, 2000; Krishnan et al., 1999):

- New technological opportunities.
- Increasing competition from new market entrants.
- Customers' changing behaviour.
Community and retail banking system has evolved as a major domain of CRM application. As banks automated back-office functions with mainframes, and the number of products and services, particularly related to cross-selling and up-selling activities, grew, banks found it increasingly necessary to introduce and replace its branch-based filing cards with a Central Information file (CIF). At the beginning of the 1970s, CIFs were equivalent to centrally located file cards which during the latter half of the decade was replaced by mainframe based hierarchical database management system. Even with computerized CIFs it became difficult to update customer records particularly at a time when the banking sector proliferated rapidly and expanded its business spectrum in cross-selling and up-selling product lines like insurance, mutual funds, cards etc. A customer investing in a diversified portfolio across the product/service line offer of a single bank has different data for different accounts. Banks that are organized around product ‘silos’ with separate systems for deposit accounts and other transaction involvements, found that effective customer relationship revolves around retrieval of data from different databases and synchronizing it according to homogeneous information provided. Panda and Parida (2005) pointed out the needs for implementation of CRM solutions in retail banking which are as follows:

(i) Need for increase in operating efficiencies.

(ii) Need to derive more values from the employees.

(iii) Dealing with increasing competition

(iv) Managing the rise in NPAs

(v) Increasing importance of Fee-based income

(vi) Lack of clarity regarding branch banking

(vii) Emergence of Universal banking concept

(viii) Vasudevan Committee recommendations.

Panda and Parida (2005) have further identified the key drivers of CRM in retail banking which has been categorized under two factors: (i) Internal factors (ii) External factors. The drivers are presented in Table-10 below:
Table 10: CRM drivers for banks

<table>
<thead>
<tr>
<th>Internal factors</th>
<th>External factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improving customer satisfaction and cross-</td>
<td>1. Reduced competitive barriers</td>
</tr>
<tr>
<td>selling/up-selling initiatives</td>
<td></td>
</tr>
<tr>
<td>2. Increasing share of customer spend</td>
<td>2. Reduced scope for differentiation</td>
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<tr>
<td>4. Competitive pressure</td>
<td>4. Relationship banking</td>
</tr>
<tr>
<td>5. Realization of Customer Lifetime value</td>
<td>5. Increased risk and their intermediation</td>
</tr>
<tr>
<td>6. Multi-Channel Integration</td>
<td>6. Advances in technology</td>
</tr>
<tr>
<td>7. Automated Business processes</td>
<td>7. Affordable data-storage for the retention</td>
</tr>
</tbody>
</table>

Banks and financial institutions are recognizing that they can no longer look at a consumer from a specific product or snapshot perspective but must encompass the entire customer relationship to fully understand a client’s profitability. From a strategic standpoint, CRM mobilizes resources around customer relationships rather than product groups and fosters activities that maximize the value of lifetime relationships. From an operational standpoint, CRM links business processes across the supply chain from back-office functions through all touch points, enabling continuity and consistency across a customer relationship. From an analytical standpoint, CRM is a host of analytical data tools that enable banks to fully understand customer segments, assess and maximize lifetime value of each customer, model "what-if" scenarios, predict customer behaviors, and design and track effective marketing campaigns. *(SAS White Paper, www.sas.com/reg/wp/corp/3604, date of surfing: 08-08-2009)*

According to Meridien Research, retail financial services institutions are expected to spend some $6.8 billion on CRM in 2001. Those investments will pay off for banks by:

- Restoring the personal-service connotation that previously removed.
- Fostering greater long-term loyalty through relationship building.
- Maximizing lifetime value of each customer through cross-selling.
- Enabling immediate action to retain the most valuable customers.
- Identifying high-risk customers and adjusting service accordingly.
- Enabling the bank to fulfill customer needs at the right time with the right offer.
Increasing the rate of return on marketing initiatives.

According to NASSCOM report “Strategic Review 2004”, Indian CRM market was estimated at US $ 14 million and is forecast to grow to US $ 26 million in 2005. Banking and financial services segment has a high growth potential and accounts for 22 percent of CRM license revenue. There are many banks such as ICICI Bank, HDFC Bank and Citibank, which are using CRM products. Disciplined work along four dimensions, can significantly improve results from CRM initiatives:

**Customer Segmentation** – Do intensive data analysis and value-based segmentation to highlight the value of different customer segments and the underlying drivers of that value.

**Design programs** - Design innovative programs focusing on customer acquisition, cross-sell, retention, loyalty, and customer service, based on customer insights, experience and industry best practices.

**Design Processes** - Design internal and external processes to support and sustain successful programs.

**Good Decisions based on Right Information** - The information from a CRM program can often guide better operational business decisions at many levels of the organization. Gather customer information at a broader set of touch-points, perform in-depth analysis, and make critical information available to relevant stakeholders.

CRM primarily caters to all interactions with the customers or potential customers, across multiple touch points including the Internet, bank branch, call center, field organization and other distribution channels.

CRM can help banks in following ways:

**Campaign Management** - Banks need to identify customers, tailor products and services to meet their needs and sell these products to them. CRM achieves this through Campaign Management by analyzing data from banks internal applications or by importing data from external applications to evaluate customer profitability and designing comprehensive customer profiles in terms of individual lifestyle preferences, income levels and other related criteria. Based on these profiles, banks can identify the most lucrative customers and
customer segments, and execute targeted, personalized multi-channel marketing campaigns to reach these customers and maximize the lifetime value of those relationships.

a. **Customer Information Consolidation** - Instead of customer information being stored in product-centric silos, (for e.g. separate databases of savings account & credit card customers), with CRM the information is stored in a customer-centric manner covering all the products of the bank. CRM integrates various channels to deliver a host of services to customers, while aiding the functioning of the bank.

b. **Marketing Encyclopedia** - Central repository for products, pricing and competitive information, as well as internal training material, sales presentations, proposal templates and marketing collateral.

c. **360-degree view of company** – This means whoever the bank speaks to, irrespective of whether the communication is from sales, finance or support, the bank is aware of the interaction. Removal of inconsistencies of data makes the client interaction processes smooth and efficient, thus leading to enhanced customer satisfaction.

d. **Personalized sales home page** – CRM can provide a single view where Sales Managers and agents can get all the most up-to-date information in one place, including opportunity, account, news, and expense report information. This would make sales decision fast and consistent.

e. **Lead and Opportunity Management** - These enable organizations to effectively manage leads and opportunities and track the leads through deal closure, the required follow-up and interaction with the prospects.

f. **Activity Management** – It helps managers to assign and track the activities of various members. Thus improved transparency leads to improved efficiency.

g. **Contact Center** – It enables customer service agent to provide uniform service across multiple channels such as phone, Internet, email, Fax.

h. **Operational Inefficiency Removal** – CRM can help in Strategy Formulation to eliminate current operational inefficiencies. An effective CRM solution supports all channels of customer interaction including telephone, fax, e-mail, the online portals, wireless devices, ATMs, and face-to-face contacts with bank personnel. It also links these customer touch points to an operations center and connects the operations center with the relevant internal and external business partners.

i. **Enhanced productivity** – CRM can help in enhanced productivity of customers, partners and employees.
**CRM with Business Intelligence** - Banks need to analyze the performance of customer relationships, uncover trends in customer behavior, and understand the true business value of their customers. CRM with business intelligence allows banks to assess customer segments, which help them calculate the net present value (NPV) of a customer segment over a given period to derive customer lifetime value. Customers can be evaluated within a scoring framework. Combining the behavior key figure and frequency to monetary acquisition analysis with a marketing revenue quota can optimize acquisition costs and cut the number of inefficient activities. With such knowledge, banks can efficiently allocate resources to the most profitable customers and reengineer the unprofitable ones. Data warehousing solutions have been implemented in Citibank, Reserve Bank of India, State Bank of India, IDBI, ICICI, MaxTouch, ACC, National Stock Exchange and PepsiCo. And Business Intelligence players hope many more will follow suit.

Many studies have reported that banks which develop a customer-centric strategy develop higher profits (*Formant, 2002; Lamparello, 2000; Melnick et al., 2000*). In continuation with the earlier services like ATMs, the banking industry began to offer telephone banking, network banking, customer care centres etc., which have gradually increased the investment in front-office systems, which directly relate to customers. Banking industries in the United States of America, Europe in general are ahead in responding to opportunities provided by the internet. Banks like Wells Fargo, Wachovia and bank one in the U.S.A. Royal bank of Canada, Merita-Nordbanken in Finland, the Taiwan based China Trust Commercial Bank and Bank SinoPac are viewed as the role models in the banking industry (*Brown-Humes, 2000; Gandy, 2000; George, 2000; Knox, 2003; Laudon and Laudon, 2004; MIC, 2005; Swift, 2000; Turban et al., 2002*).

Studies on best practices of CRM in banking industry in India are yet to take objective shape. The banking industry in the United States of America and Europe possess the role model banks in terms of CRM deployment namely Wells Fargo (http://www.wellsfargo.com), Wachovia (http://www.wachovia.com) and Bank One (http://www.bankone.com) in the USA; Royal bank of Canada (http://www.royalbank.com), Merita-Nordbanken (http://www.meritanordbanken.com) of Finland etc. Based on the best practices, a CRM architecture for the banks can be developed (Liu, 2005). The major focus of the architecture is on customer intimacy with streamlined business processes (Fig. 17).
The Indian banking sector has witnessed a paradigm shift since the concept of liberalization has swept across. All banks, both public and private, have either totally implemented 'Core
banking Systems’ or halfway through. A survey result was obtained from 295 respondents having their banker as State Bank of India, expressed their views on electronic banking channels (Baksi, 2009). The results indicate that the majority of the customers are very comfortable and willing to use e-banking channels. At the same time, over 80% feel that ‘human contact is necessary’. This throws up a challenge to banks. Technology alone cannot give a sustainable competitive advantage for the banks. When all banks introduce IT in their technology, IT will lose its position as a differentiator. Beyond a point, IT along with ‘personal touch’ will be necessary for the banks to retain the existing clients and attract new clients. Banks have to incorporate this in their IT and operational strategy. Sharma and Mehta (2004) made a comparative study of quality perceptions on four banks in India – State Bank of India, Corporation Bank (both government-owned banks), UTI Bank (NPSB) and J&K Bank (OPSB) using SERVQUAL model. The result indicated that there is a difference in the service quality perception of customers in the public sector and private sector banks. On tangibility dimensions, UTI Bank topped the list followed by Corporation bank, SBI and J&K Bank. Public Sector Undertaking Banks were ranked better when compared with private sector banks on reliability. On the dimensions of responsiveness (employees’ capability to respond to customers), the ranking was that corporation bank leading the list followed by UTI, SBI and J&K Bank. On empathy dimensions (Bank’s understanding of customer needs), Corporation bank lead the ranking followed by UTI, SBI and J&K Bank. PSU banks were found to be ahead of private sector bank on assurance dimension of service quality. Bhat (2005), using SERVQUAL scale, studied the service quality of Indian banks and service quality variation across demographic variables. The study was conducted in four north Indian states of Jammu & Kashmir, Punjab, Haryana and Delhi restricted to five banks such as State Bank of India (SBI), Punjab National Bank (PNB), Jammu & Kashmir Bank (J&K Bank), CITI Bank (CB) and Standard Chartered Grindlays Bank (SCGB). The results suggest that foreign banks are relatively close to the expectations of their customers in comparison with Indian banks. The study confirmed that poor service quality among Indian banks is mostly owing to deficiency in tangibility and responsiveness. The analysis of service quality across income variable shows that service quality of Indian banks as perceived by their respective customers varies with their level of income, though not proportionately, vis-a-vis less variations across income segments as perceived by clients of foreign banks. The reason could be that proportion of transactions done through ATMs is higher across clients of foreign banks compared with Indian banks, and ATM machines do not differentiate customers. The analysis of service quality as perceived by different age groups reveals that service quality of
banks is comparatively better among higher age groups, whereas reverse is the case among lower age groups. Service is perceived to be better at states where competition is higher and banks provide better quality service to business group customers in comparison with service group customers, as they are small in numbers but have higher income level. In a study conducted by Jasola and Kapoor, (2008), it was observed that customers in the CRM implemented bank rate its services far more favourably than those in non-CRM banks indicating a superior level of services in the former. The study further reveals that there is a direct relationship between perception and satisfaction, commitment and loyalty which underlines the significance of CRM in financial industry. For those planning to up-sell and cross-sell, raising customer perceptions is all the more important.

As the Internet grew into an online banking channel in the mid-1990s, banking industry experts were predicting the decline and eventual demise of the physical branch. However, as they say, the future isn't what it used to be. Instead of withering away, there are more retail bank branches than ever. Some regional banks, such as Commerce Bank, based in Cherry Hill, NJ, are even pursuing aggressive branch expansion strategies, offering previously unheard-of amenities such as Sunday hours. The typical bank branch, however, isn't what it used to be either. These facilities are now sophisticated centers that support multi-channel access including ATMs, Internet banking and call centers, along with the traditional face-to-face access. Branch automation software has grown in sophistication along with the branches. Today's generation of branch automation solutions are built around CRM and multi-channel access. Some have CRM functionality built right into the products, while others support leading CRM systems such as Siebel or PeopleSoft Vantive. These tools enable increased sales, cross-sell and customer service opportunities, as well as marketing customer information files (MCIFs), loan origination, data warehousing, and workflow and imaging. Customers have changed as well. Many expect their financial institutions to be able to provide 24x7 real-time access to accounts and services from any channel. Banks have been leveraging new branch automation system purchases that serve multiple channels. Centura Banks Inc., of Rocky Mount, NC, recently deployed a multi-channel CRM system as a corporate portal and desktop with SAIC's Broadway & Seymour TouchPoint software. The software not only includes platform and teller functionality in its banking centers, but also supports call center and Internet transactions. "Centura's philosophy is to understand our clients' needs and to deliver solutions through the channels of their choice," says Kent Miller, chief information officer of Centura.
Branch automation systems, which typically include teller, platform and lending modules, have been a feature on the market for years. Typically, the teller workstation provides access to customer accounts, check capture and reports. Platform systems store customer data, and are typically accessed by branch customer service and branch representatives. Lending solutions offer application origination and links to credit databases. Now, this technology has been extended to call center operations, providing call center representatives the same view of the customer.

Branch automation vendors have retooled solutions for multi-channel delivery of financial services and customer service capabilities, says Stessa Cohen, retail banking analyst with Gartner Inc., based in Stamford, CT. "The branch automation system is no longer a single channel," says Cohen. "Branch automation systems now supply transactional and CRM functionality and data not just to the branch channel, but also to the bank's Web site, wireless devices and ATMs." Branch automation systems are finding a new form and purpose in CRM. Such systems "contain demographic and transactional data that bankers use to further manipulate the data by customer segment and overall customer profitability criteria, such as by product, by segment and by household," Cohen says. Investment in CRM technologies by retail financial institutions will drive growth of these software tools at a compound annual growth rate of 6% through 2005 at a rate considerably higher than anticipated, according to new research from Tower Group of Needham, MA. This CRM spending won't be limited to larger institutions, which typically have been the mainstay of CRM. "Until recently, CRM has been the province of very large banks," says Kathleen Khirallah, senior analyst with Tower Group. "In the minds of many retail executives, CRM was equated with a major technology expenditure. We're now seeing the beginnings of a change in perspective." Successful CRM implementations rely more on effective management practices than technology alone, she notes. "Smaller retail institutions will discover that they can pursue CRM business strategies without investing every last dime of their capital on technology."

A plethora of software vendors that only previously focused on larger institutions have been expanding their marketing to mid-tier banks. While most large branch automation systems previously ran on large Unix or AS/400 systems, many have ported their offerings to more commodity-priced Windows platforms as well. This has also moved CRM functions within the reach of mid-tier institutions. A number of vendors compete for this market. Solutions providers include ARGO Data Resources, Fiserv, Harland Financial Solutions, S1/Software...
Dynamics Inc., SIAC Broadway & Seymour, Sanchez Computer Associates Inc., EDS, and Unisys. In addition, upstart international vendors such as Kindle Banking Systems and Financial Objects plc have also been targeting the North American banking market with component-based solutions.

However, industry-specific solutions may not provide the full-fledged capabilities that dedicated CRM packages may offer. "While some branch automation systems provide CRM functionality, these tools may not have the high-end functionality of enterprise CRM applications such as Siebel," says Gartner's Cohen. "In addition, the bank may have to create customized interfaces between applications and enterprise CRM applications." The challenges to banks are managing interfaces from delivery channels and sharing enterprise data with the touch-points, she adds. In addition, Cohen points out that data synchronization between channels can be a daunting task. To overcome deficiencies with branch automation-based CRM functions, some vendors provide middleware platforms with a local CRM application, Cohen states. She notes that some systems collect transactional data from teller systems to build customer transaction histories and take in data from other CRM systems. Some vendors provide analytical views as well.

With the rise of multiple channels within banking organizations, many institutions are managing data silos that do not communicate with each other. The increasing levels of multi-channel delivery are creating enormous pressure to put CRM-enabled applications in place. "The mere capture and analysis of customer information is only one part of CRM," according to Tom Shen, president of Software Dynamics, which is now part of S1 Corp. "The most important element of CRM is the actual behavior of the organization at the front-end; anywhere the customer and the institution meet. Having a cross-channel integration infrastructure in place is essential to deliver on the promise of CRM." As the systems that serve multiple customer channels converge, a new role is being carved out for branch automation systems.

At Citi, the efforts begin with turning its banking units into something more closely resembling the United Nations. The ongoing project will move the global banker beyond its COSMOS (Consolidated Online Modulated Operating System), the technology platform Citi first implemented during the 1970s when it began to grow quickly as an international bank. COSMOS was designed to be efficiently deployed at a new bank, which could offer a standard suite of products such as foreign exchange, letters of credit, funds transfer and
regulatory reporting. FORUM is three-year-old Total Application Processing System (TAPS) manages a variety of financial services for the Indianapolis-based credit union, which manages $585 million in assets for its 75,000 members. TAPS started simple, with on-line loan processing in 1999, and grew to include home banking in 2001. Now it offers a nearly complete line of financial services nuggets, including on-line bill payment.

TAPS is keyed by CACHE, a data management platform developed by software vendor Inter-systems that allows the credit union to spin data into alternate products and swift customer service lot like some banks major CRM initiatives. While credit unions have lagged banks in use of new technology to provide customer service, a data engine and a way to offer and expand upon products, FORUM is embracing such Web technologies. The banking industry, across the globe, has adopted the end-to-end [E2E] Retail Banking Solution which takes care of the following key operational and functional areas:

| Table 11: Key operational & functional areas taken care by Retail Banking Solution |
|----------------------------------|--------------------------------------------------------------------------------------------------|
| Customer Contact Centre          | Provides highly skilled agents with deep process expertise, supported by proven technologies, to handle customer sales support and customer service |
| Multichannel integration         | Integrating all customer-facing channels to provide a seamless sales and service environment    |
| Customer segmentation            | Offers extensive experience in implementing customer segmentation solutions and strategies to ensure clients truly ‘know their customers’ |
| Security and privacy             | Implements appropriate programmes to manage how confidential data is stored, used and delivered. |

2.8.5 CRM Models

Several researchers have proposed models of Customer Relationship Management (CRM) specific to industries and amalgamated with various business processes like knowledge management, business intelligence, business process reengineering, supply chain management etc.
2.8.5.1 Generational model of CRM

The Generational Model of CRM was articulated by Gartner Research Inc. According to this model CRM initiatives require a focal view on eight critical elements:

1. Vision
2. Strategy
3. Customer experience
4. Organizational collaboration
5. Processes
6. Information
7. Technology
8. Metrics

Gartner (2004) refers to these elements as the 'Eight Building Blocks of CRM. In each of these building blocks, different enterprises will have progressed to different levels. Few enterprises align a single generation across all building blocks. Instead, they tend to have several in a particular generation. Enterprises that are more than one generation off (either forward or behind) in a particular building block, however may have an out-of-balance CRM strategy that needs careful examination. For example a sophisticated 4th generation strategy will not be operational if the customer information data remains basic and fragmented i.e. at level 1. The eight critical elements when placed across the 5 generational level of CRM, produces a matrix that eventually speaks out about the element distribution across the 5 generations and their evolutionary path. The differences across the generations/levels are quite inevitable as CRM should represent a continuous process and not a one-time initiative. Therefore enterprises need to understand where they are and where they are headed for. For example, the transition of operational and system related functionalities of State bank of India by implementing CBS and CRM system depicts the travel-path of a manual, single-branch, localized operation process, basic and fragmented customer database, inward oriented process to a shared customer centricity, true end-to-end process optimization and value-based collaboration for mutual benefit.
### CRM Building Blocks:

<table>
<thead>
<tr>
<th>Generation</th>
<th>1&lt;sup&gt;st&lt;/sup&gt;</th>
<th>2&lt;sup&gt;nd&lt;/sup&gt;</th>
<th>3&lt;sup&gt;rd&lt;/sup&gt;</th>
<th>4&lt;sup&gt;th&lt;/sup&gt;</th>
<th>5&lt;sup&gt;th&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vision</strong></td>
<td>None</td>
<td>Initial productivity and visibility</td>
<td>Function/channels effectiveness</td>
<td>Intraenterprise integration</td>
<td>Value-network-enabled</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>None</td>
<td>Isolated projects, initiated from the bottom up</td>
<td>More 'joined-up' thinking, but still silo-oriented</td>
<td>Enterprise-level CRM programme</td>
<td>Value-based collaborations for mutual benefits</td>
</tr>
<tr>
<td><strong>Customer Experience</strong></td>
<td>Unknown concept; designs itself</td>
<td>Unknown concept; designs itself</td>
<td>Understanding and focus at silo level</td>
<td>Cross-LOB understanding and focus</td>
<td>Understanding of wider scope; collaboration</td>
</tr>
<tr>
<td><strong>Organizational Collaboration</strong></td>
<td>Inward focus, silo structures</td>
<td>First signs of customer centricity; silos</td>
<td>Changing culture and incentive silos</td>
<td>Customer-centric, recognized by segment</td>
<td>Shared customer-centricity; goal alignment</td>
</tr>
<tr>
<td><strong>Processes</strong></td>
<td>Inward focus ; silo oriented</td>
<td>Start optimizing for efficiency; silo oriented</td>
<td>Optimization at silo level for cost and value reasons</td>
<td>Enterprise-level optimization for cost and value</td>
<td>True end-to-end process optimization</td>
</tr>
<tr>
<td><strong>Information</strong></td>
<td>Basic and fragmented</td>
<td>Team based; fragmented; minimal insight</td>
<td>Shared information at silo level; insight developing</td>
<td>Shared information and insight across the enterprise</td>
<td>Shared information and insight beyond enterprise</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td>Very fragmented; weak functionality</td>
<td>Fragmented; limited functionality and focus</td>
<td>Strong functionality within silos</td>
<td>Strong functionality with enterprise-level integration</td>
<td>Strong functionality; integrated beyond</td>
</tr>
<tr>
<td><strong>Metrics</strong></td>
<td>Few metrics, inward focus</td>
<td>Fundamental and limited metrics; operational focus</td>
<td>Focus on silo efficiency; lack of customer focus</td>
<td>Enterprise and customer focused; balanced hierarchy</td>
<td>Shared objectives and balanced metrics; aligned</td>
</tr>
</tbody>
</table>

**Figure 18: CRM Generational Framework [Source: Gartner]**

#### 2.8.5.2 Axiomatic model

Anton’s (2002) model of CRM takes into consideration two components of CRM: Operational CRM and Analytical CRM. An axiomatic model has been proposed by Plakoyiannaki and Tzokas (2002) which comprises of eight steps (Fig.19). They went on to propose a conceptual framework for CRM capabilities (Fig.20) based on these eight building blocks.
Figure 19: Eight building blocks of CRM by Plakoyiannaki & Tzokas, 2002

Figure 20: CRM Capabilities – Conceptual framework (Plakoyiannaki & Tzokas, 2002)
2.8.5.3 Three Component model

The model proposed by Verhoef and Langerak (2002) focused on three elements namely customer orientation, relationship marketing and database marketing. The researchers went on to state that synergistic value is created both for the customers and organizations by using the technology, statistical decision making tools and interactive communication techniques.

![Three Component Model by Verhoef and Langerak](image)

2.8.5.4 Migratory model

CRM maturity depends on an effective migration of CRM philosophy by taking it into consideration what a business wants to accomplish in terms of marketing & sales and customer service & support. The strategic shift continues till CRM function is properly integrated with the strategic planning process of the organization and its corresponding business operations (Fig.22)
2.8.5.5 Knowledge-enabled CRM model 1

Lambe (2001) proposed a CRM model grounded on knowledge management platform. He observed that customer value identification is a knowledge task. Interaction with customers requires a strong tacit knowledge base. Knowledge management effectively utilizes the information processing power of technology.
2.8.5.6 Knowledge-enabled CRM model 2

Another model of CRM amalgamated with knowledge management (KM) concepts has been proposed by Henning et al. (2003). Integration of CRM and KM concepts to achieve a synergistic output, they proposed a business process model comprising of six key elements namely campaign management (CM), lead management (LM), offer management (OM), contract management (COM), service management (SM) and complaint management (CPM). Customer interfacing activities are identified as channel management (CHM) and interaction management (IM). To lend support to the CRM processes, Henning et al identified four knowledge management components namely content, competence, collaboration and composition.

![Figure 24: Knowledge-enabled CRM 2](image)

2.8.5.7 Integrated framework of customer value and CRM performance

An integrated framework of customer value was proposed by Wang et al (2004) with the identification of key dimensions of customer value. Effects of customer value on CRM effectiveness is expressed in terms of relationship quality and customers behaviour. The
researchers proposed a structural equation model showing the relationships between the constructs.

![Diagram of customer value and CRM performance](image)

Figure 25: The integrated framework for customer value and CRM performance (Wang et al, 2004)

### 2.8.5.8 Customer Relationship Leadership (CRL) model

Galbreth and Rogers (1999) proposed this model for business leaders. They suggested readjustment and realignment of leadership styles so as to create an environment for successful implementation of CRM. This model has managerial implication as they provide effective direction towards implementation of CRM.

### 2.8.5.9 Value compass model

Wayland and Cole (1997) proposed the value compass model of CRM which focused on customer-oriented perspectives. The identified four dimensions of value compass model which are customer portfolio management, value proposition design, value-added role and reward and risk sharing. The objective is to understand and identify customers and suppliers which can maximize value proposition for the firm.

### 2.8.5.10 Five-pillars model

For effective integration with the enterprises, a five-pillar model has been proposed by Brown (2000).
2.8.5.11 Systemic integrated communications model

Lin (2000) presented a systemic integrated communications model. This model is targeted to identify the issues to be addressed by CRM applications. The model further tries to integrate the enterprise resources applications and business resources.

2.8.5.12 CRM Value-chain model

Buttle (2004) proposed a value-chain model for CRM value maximization. The five-step process is also having supporting conditions to ensure successful implementation. This model has been empirically tested in B2B and B2C environments with adequate modifications made to suit a generalized environment.

Figure 26: Buttle's CRM Value Model (2004)

2.8.5.13 Customer Management System in CRM

In establishing a relationship between business performance and customer management, the QCi consulting firm developed a model namely CMAT. The model encompasses all of the essential elements of practical customer management. The model defines the scope of customer management.
The customer management process has become quite complicated with the advent of multiple transaction channels in banking supported by technology. It requires channel hybridization or a multi-channel closed-loop customer management. The Multi-channel integration has become a great convenience tool for the customers who now possess more than one option to enter into a banking transaction.

2.8.5.14 Gerhard et al's model of three pillars of Integral CRM

The model is based on three specific platforms or pillars of integral CRM namely personnel, technology and organization. The model views internalization of CRM philosophy by the top management and its subsequent integration with the organizational scaffold. Once the philosophy of CRM is accepted at the top-management level, the human resource will be able to deal with the concept in a better way with technology as the mediating driver.
Figure 28: Gerhard et al's model of three pillars of Integral CRM

Figure 29: An example of multi-channel and closed-loop customer management
2.9 CRM – conceptual variations

The buzz word CRM spawned several acronyms which have been explained to be operation and process specific. As the functional domain of CRM expanded across the business periphery, the terminologies began to take over to focus on specific areas. Some of the acronyms which are in regular use are:

a. eCRM: denoting ‘electronic’ customer relationship management. This is a specific version of web-based CRM application which is normally adopted in the B2B format of marketing.

b. ECRM: refers to ‘enterprise’ CRM which spans an enterprise-wide view of a customer.

c. PRM: refers to ‘Partner Relationship Management’ whereby a company manages its alliance partner and reseller relationships to provide customers with the optimal sales channel while streamlining sales processes.

d. cCRM: refers to ‘collaborative’ CRM where a customer can interact directly with the organization, usually through a specific portal, and integrates him/her with the functional and strategic component of the organization.

e. SRM: refers to ‘Supplier Relationship Management’, a partial modification to the concept of PRM whereby an organization can go for qualitative screening of vendors and vendor optimization to streamline supply chain.

f. mCRM: refers to ‘mobile’ CRM which suggests the provision of data to customers, suppliers and business partners via wireless technologies.

Apart from the aforesaid CRM hybrids, two distinctive CRM approaches are observed depending on the application area:

1. Operational CRM, also known as ‘front-office’ CRM where touch-points are generated upon customer interaction in the form of ‘inbound contact’ or ‘outbound contact’

2. Analytical CRM, also known as ‘back-office’ CRM, involves understanding the customer activities that occurred in the front office. Analytical CRM requires the support of technology to compile and integrate data procured from customers, suppliers, trade associates,
government and other sources. Today CRM vendors are creating analytical CRM capacities within the organization itself or amalgamating it with Business Intelligence [BI] vendors.

![Diagram of Operational CRM - Touching the Customer](image)

**Figure 30: Operational CRM – Touching the customer**

![Diagram of Analytical CRM: Understanding the Customer](image)

**Figure 31: Analytical CRM: Understanding the Customer**
2.10 Realigning Marketing Process with CRM—A case of Market Process Reengineering [MPR]

The gradual transformation of transactional format of marketing process into relationship format brought about a sea change in the traditional marketing practices. The basic marketing activities related to segmentation, targeting customers, campaign designs etc. has been redefined. Organisations integrating CRM practice with their basic operations assign a variety of segments to their customers, often dynamically defining segments and temporarily regrouping customers for specific campaigns. Some of the emerging categories are:

- Firmographics
- Infographics
- Risk Score
- Privacy preferences
- Lifetime value

Since CRM is an initiative to integrate people, process and technology with an objective to maximize value proposition for the customers, communication aspects have become extremely important for an organization. With valued customer retention as its basic philosophy, CRM process introduced a whole new concept of managing campaigns. The contemporary ‘Linear Campaign Process’ [LCP] gave way to the ‘Closed-loop Campaign Process’ [ClCP]. In mass marketing concept the mentality of ‘batch and blast’ didn’t allow a proper analytical approach to campaign management. It was highly individualistic effort with no precision predictability of success. Organisations were hoping that their campaigns, which were pretty linear in orientation, will be enough to retain customers. This linear form of campaigning and initiation of corporate communication didn’t work in the service sectors particularly in the banking service operations. The three-way communication process in service sector simply didn’t support this linear campaign system. As a result of which there was friction between the internal customers and the employer and between the internal customer and external customer. The linear campaign restricted itself in communicating external customer with the organization. To retain customer or alternatively to arrest customer attrition, a closed-loop campaign management was adopted by the banking sector whereby there is a provision of modifying the communication message at a given point of time and it also allowed the banks to customize their campaigns. With integration with
technology, automated campaign management evolved which enabled organizations to forecast quantifiable return on investment by identifying the most valued customer, paving a way to calculate Customer Lifetime Value (CLV).

Figure 32: A Linear Campaign Management Process

Figure 33: Closed-loop campaign management
2.10.1 CRM Marketing Initiatives

CRM doesn’t mean simple automation of business processes. The concept goes beyond integrating technology as a driver in mapping, prototyping, communicating and delivering a product or a service. In banking sector the CRM initiatives can be identified in the following areas:

Cross-Selling and Up-Selling

Cross-selling is an act of selling a product or service to a customer as a result of another purchase. The banking sector in India has expanded their business portfolio by amalgamating several business propositions like insurance (bancassurance), mutual funds, credit-cards, stock-trading etc. The art of cross-selling and up-selling is to understand which products will increase the customer’s overall profitability.

Customer Retention

The aphorism that keeping an existing customer is far more cost effective than acquiring a new customer drives the initiatives of analysing customer attrition. Reducing the customer defection by even a fraction has been proven to increase profits exponentially.

Behaviour Prediction

Using data-mining techniques and sophisticated modeling process, behavioural prediction of customers can be done with minimum ambiguity. The analysis includes several variations namely propensity-to-buy analysis, next sequential purchase, product affinity analysis, price elasticity modeling and dynamic pricing etc.;

2.11 Benefits of Customer Relationship Management

Customer Relationship Management, popularly acronymed as CRM, has accrued benefits for the companies over the last decade or so. The quantum of benefits is much more evident in case of financial companies where profitability and growth is largely dependent on customer loyalty. In other words customer retention factor is a key issue in influencing intangible and heterogeneous transactions like services. Therefore customers have emerged as the most important and valuable asset for a service organization. Swift (2001) identified the following areas where a company can reap the benefits of CRM deployment:
(i) Higher Customer Retention and Loyalty

(ii) Increased Customer Profitability

(iii) Better evaluation of Customer Profitability

(iv) Reduced Costs on sales

(v) Lower Cost on Acquisition of New Customers.

Peoplesoft (2003) presented the benefits of CRM (also acknowledged by Senyah & Sobotie, 2009) by highlighting a specific financial service in a tabular form as below:

**Table 12: CRM Applications & Benefits; Source: An Oracle White paper (2003) Peoplesoft.**

<table>
<thead>
<tr>
<th>Process involved in Financial Service</th>
<th>CRM Applications</th>
<th>Benefits</th>
</tr>
</thead>
</table>
| Product Definition                   | Product configuration tools based on a Graphical User Interface (GUI)            | 1. Reduces the cycle time to add new products or make changes that were traditionally made by the IT department
1. Gives more control in the hands of business users |
| Distribution                         | Web-based agents (live internet chat), emailing customer information            | 1. Enables faster communications with agents and brokers and reduces the cost to distribute and update information on paper and CD-ROM.
2. Improves response times and customer satisfaction |
| Underwriting                         | Web-based forms and electronic links to rating engines                         | 1. Enables online requests for quotes and data gathering, which improves efficiencies and customer satisfaction.
2. Reduces re-keying and typing errors, which helps to decrease risks |
| Issuance                             | Electronic distribution of service-related documents to agent and customer       | 1. Reduces printing and mailing time and decreases costs. |
| Servicing | Contact center management systems | 1. Enables better servicing by contact center staff  
2. Enables self-service thereby reducing costs |
|-----------|---------------------------------|--------------------------------------------------|
| Claims    | Web-based loss filing and claims status checks | 1. Gives customer a better control over the service process  
2. Reduces call volume into the call center |
| Marketing | Campaign management and execution, predictive analytics, performance measurements | 1. Enables targeted and personalized cross channel marketing  
2. Uses marketing budgets more effectively |
| Sales     | Lead & opportunity management, interactive selling, forecasting, territory management | 1. Lowers sales cost and conversion times  
2. Optimizes selling strategy |

The major reasons and benefits of adopting CRM according to Curry and Kkolou (2004) are:

(i) Elimination of non-productive flow of information while concentrating on critical information assessment of customers

(ii) Win-back customers from competing firms

(iii) Flexibility in infrastructural deployment

(Oracle Corporation, 2005). Guy Riddle (2005) stated that there are three reasons for companies adopting the CRM philosophy:

(i) CRM enables companies to adopt a pro customer-centric approach and build up a strong and profitable customer bonding.

(ii) CRM helps a firm streamline its business processes, thereby reducing the operational costs and enhancing the capability of the company’s responsiveness to market developments.

(iii) CRM optimizes the processes involving marketing, sales and customer services and allows the companies to identify new business opportunities, it shortens the sales cycle, increases repatronization intention of the customers and increases the customer retention. Kim et al. (2008) observed that CRM adoption by the financial institutions like banks can
manage client data in a better way. Adoption of CRM improves data accuracy and helps in creating a common repository of client information which will integrate the client database with the key functional areas of the company. Nguyen, Sherif and Newby (2007) stated that increased customer loyalty, superior information gathering and knowledge sharing, better understanding of customers and superior service are the major benefits of CRM. LaValle and Scheld (2004) stated that profitable CRM value propositions lead to profitable serving of customers. Zablah, Bellenger and Johnston (2004) observed that better CRM adoption increases better penetration into customer segments, improved wallet share of existing customers, enhanced marketing effectiveness and better campaign hit rates. Jens Berfenfeldt (2010) in his research on CRM concluded that the benefits of CRM can be apprehended from its core objectives which are:

(i) Centralizing and capturing information from the customers.

(ii) Better control on information

(iii) Employee efficiency increases.

Table 13: Major studies in CRM and its allied areas.

<table>
<thead>
<tr>
<th>Year</th>
<th>Researcher/Contributor</th>
<th>Focal Area of Research/Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Brown</td>
<td>Description of CRM as a modern tool for customer integration</td>
</tr>
<tr>
<td>2000</td>
<td>Cockburn</td>
<td>Customer churn, declining brand loyalty</td>
</tr>
<tr>
<td>2000</td>
<td>Woodcock</td>
<td>Customer Centric Organization</td>
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<tr>
<td>2001</td>
<td>Berg</td>
<td>Implementation failures of CRM</td>
</tr>
<tr>
<td>2001</td>
<td>Peppers &amp; Rogers</td>
<td>IDIC concept</td>
</tr>
<tr>
<td>2001</td>
<td>Verhoef</td>
<td>Impact on Cross-selling</td>
</tr>
<tr>
<td>2001</td>
<td>Swift</td>
<td>Model to structure CRM Organization</td>
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<tr>
<td>2002</td>
<td>Wilson et al.</td>
<td>Studies on CLV</td>
</tr>
<tr>
<td>2002</td>
<td>Jain and Singh</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>Ha et al.</td>
<td>Data mining for customer profitability</td>
</tr>
<tr>
<td>2002</td>
<td>Reynolds</td>
<td>Segregation of CRM-Analytical, Collaborative and Operational</td>
</tr>
<tr>
<td>2002</td>
<td>Peppers &amp; Rogers</td>
<td>Customers as Most Valued Asset (MVA)</td>
</tr>
<tr>
<td>Year</td>
<td>Authors</td>
<td>Title</td>
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<td>------</td>
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<tr>
<td>2003</td>
<td>Bull and Chen and Popovich</td>
<td>Managerial commitment in CRM</td>
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<tr>
<td>2003</td>
<td>Zen, Weg and Yen</td>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td>2003</td>
<td>Mintzberg and Lampel</td>
<td>Product Customization</td>
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<td>2003</td>
<td>Zikmund</td>
<td>Drivers of CLV</td>
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<td>2004</td>
<td>Chase</td>
<td>Levels of functional integration</td>
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<tr>
<td>2004</td>
<td>Curry and Kkolou</td>
<td>Customer Lifecycle Management</td>
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<td>2004</td>
<td>Du</td>
<td>Enterprise-wide system as a part of CRM</td>
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<tr>
<td>2004</td>
<td>Payne &amp; Frow</td>
<td>Management of Channels</td>
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<tr>
<td>2004</td>
<td>Kim</td>
<td>CRM and Business Process Reengineering</td>
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<tr>
<td>2005</td>
<td>Xu and Walton</td>
<td>Profit-Cost Matrix in CRM</td>
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<td>2005</td>
<td>Xu and Walton</td>
<td>Customer knowledge acquisition</td>
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<td>2005</td>
<td>Peelen</td>
<td>Customer touch-points</td>
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<td>2005</td>
<td>Sin et al</td>
<td>Long-term customer relationship and value creation</td>
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<td>2005</td>
<td>Payne &amp; Frow</td>
<td>Customer Value realization</td>
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<tr>
<td>2005</td>
<td>Cao &amp; Gruca</td>
<td>Effective targeting of customers</td>
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<tr>
<td>2005</td>
<td>Javalgi, Radulovich, Pendelton and Scherer</td>
<td>Integrative framework to explain competitive advantage to internet based firms gained out of CRM and customer behaviour</td>
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<td>2005</td>
<td>Themistocleus et al</td>
<td>Studies on Enterprise Application Integration (EAI)</td>
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<td>2005</td>
<td>Buehrer</td>
<td>Sales force automation in CRM</td>
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<td>2005</td>
<td>Alonso-Mendo &amp; Fitzgerald</td>
<td>CRM as a part of e-commerce</td>
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<td>2005</td>
<td>Componovo et al.</td>
<td>Mobile commerce in collaborative CRM</td>
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<td>2005</td>
<td>Javalgi</td>
<td>Measurement of CRM performance and profitability</td>
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<td>2005</td>
<td>Jayachandran, Sharma, Kaufman and Raman</td>
<td>Technology enabled CRM and significance of relational information processes</td>
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<td>2005</td>
<td>Mithas, Krishnan and Fornell</td>
<td>Effect of CRM on customer knowledge and customer satisfaction</td>
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<tr>
<td>2005</td>
<td>Xu and Walton</td>
<td>Knowledge management in CRM</td>
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<td>2006</td>
<td>Zineldin</td>
<td>Using customer knowledge to profile customers</td>
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<td>2006</td>
<td>Liu and Comer</td>
<td>Sales force as information accumulators in CRM</td>
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<tr>
<td>2006</td>
<td>Özgener and Iraz</td>
<td>CRM in SMEs</td>
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<tr>
<td>2006</td>
<td>Min</td>
<td>Loyalty patronization pattern in CRM environment</td>
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<tr>
<td>Year</td>
<td>Authors</td>
<td>Title</td>
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<tr>
<td>2006</td>
<td>Cheng et al.</td>
<td>Customer segmentation in CRM</td>
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<tr>
<td>2006</td>
<td>Teo et al</td>
<td>Customer focus in operation</td>
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<tr>
<td>2006</td>
<td>Limayem</td>
<td>Transformation of business performance through people, process and infrastructure</td>
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<tr>
<td>2007</td>
<td>ThuyUyen and Nguyen</td>
<td>Use of digitized knowledge in CRM</td>
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<tr>
<td>2007</td>
<td>Hyung-Su and Young-Gul</td>
<td>Development of CRM scorecard</td>
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<tr>
<td>2007</td>
<td>Sheriff, Nguyen and Newby</td>
<td>Customer loyalty</td>
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<tr>
<td>2007</td>
<td>Burez and van den Poel</td>
<td>Development of testing methods for customer data analysis-neural networking, Bayesian equilibrium, Markov chain transition matrix, fuzzy clustering.</td>
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<tr>
<td>2007</td>
<td>Smith</td>
<td>ERP system as a storehouse of Customers’ financial relationships</td>
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<tr>
<td>2007</td>
<td>Tokman, Davis and Lemon</td>
<td>Focused on reasons for customer defection</td>
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<tr>
<td>2007</td>
<td>Venkatesan, Kumar and Bohling</td>
<td>Proposed a Bayesian decision theory based customer selection framework</td>
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<tr>
<td>2007</td>
<td>Kwame Dzato</td>
<td>Integration of people, process and technology to maximize value proposition for customers.</td>
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<tr>
<td>2008</td>
<td>Amper, Politzinier and Mattia</td>
<td>ERP and CRM</td>
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<td>2008</td>
<td>Bee</td>
<td>Enterprise-wide CRM strategy</td>
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<td>2008</td>
<td>Richards and Jones</td>
<td>Identification of core benefits of CRM and their impact on the enhancement of brand equity, value equity and relationship equity of firm</td>
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<tr>
<td>2008</td>
<td>Moutot and Bascoul</td>
<td>Framework for better understanding of sales force automation (SFA) on CRM</td>
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<td>2009</td>
<td>Hughes</td>
<td>CRM measurements</td>
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<td>2009</td>
<td>Zarah and Kimiloglu</td>
<td>Measurement of e-CRM</td>
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<tr>
<td>2010</td>
<td>Berfenfeldt</td>
<td>Centralization and control of customer information</td>
</tr>
</tbody>
</table>

### 2.12 Conclusions

Global upsurge in service industry has stimulated the researchers to review the aspects of service quality, which, at the perceptual level, is going through prodigious metamorphosis. These changes are reflected in the studies made by the academic researchers to redefine the
dimensions of service quality by incorporating critical factors that have been considered significant by the customers to perceive service quality. With the gradual transition from a transactional based marketing process to a relationship based marketing process, the importance of customer retention has increased tremendously. Review of literature has revealed the relationship between service quality, customer satisfaction and customer retention. Zeithaml, Berry and Parasuraman (1996) made a path-breaking study on behavioural consequences of service quality throwing lights on the delicate relationships between service quality and customers’ intention to be loyal & repatronize or propensity to switch. A number of service quality models were proposed by the researchers specific to the nature and gamut of service being provided. As the service markets grew in stature, it gradually travelled towards the level of saturation forcing the service providers to fight fiercely to sustain and survive. Profitability and growth has always remained as the 'mantra' to sustain and survive. Reduction of cost by virtue of retaining valued customers and convincing him/her to invest in broad spectrum of services/products has evolved as a pivotal marketing strategy. Newell (2000) justified the concept of retaining the customers to ensure profitability by highlighting important issues like lowering of acquisition cost as retained customers tend to take up advocacy and lowering of price sensitivity of the retained customers to newly launched products/services by the firms. Literatures revealed that with the advent of Customer Relationship Management (CRM) as a philosophy, service providers are harmonizing the resources pertaining to people, process and technology to leap into the next level of service quality. The banking sector with high intangible and heterogeneous value proposition embraced the philosophy of CRM. Revolutionary information technology has allowed the banks to integrate with their customers in a better way. Customer profiling has been much more specific and accurate and fitment of the products/services according to the profile is virtually errorless. Literatures supported the fact that widespread upgradation of banking system automation has paved the path for CRM implementation and has allowed the banks to adopt techniques like data warehousing and data mining to segment and target customers. Studies suggest that banks are concentrating on realizing the life time value (LTV) of customers and subsequently formulate strategies of retention.

Review of literatures did not reveal precisely about the studies taken up to correlate service quality, customer retention and profitability in CRM environment by considering demographic cross-factors and behavioural consequences as significant influencers and
outcomes in Indian banking industry. Therefore, the study undertaken is justified to enhance the existing body of knowledge.

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