CHAPTER-II

CONCEPTUAL FRAMEWORK OF CRM

2.1 THE ORIGIN OF CRM 24
2.2 HISTORY OF CRM 27
2.3 CUSTOMER RELATIONSHIP MANAGEMENT 32
2.4 THEORETICAL FOUNDATION OF CRM 35
2.5 THE NEW MILLENIUM CUSTOMER 41
2.6 TYPES OF CRM 43
2.7 COMPONENTS OF CRM 45
2.8 SALIENT FEATURES OF CRM 47
2.9 OBJECTIVES OF CRM 52
2.10 PRINCIPLES OF CRM 58
2.11 BEHAVIOURAL DIMENSIONS OF CRM 59
2.12 CUSTOMER LOYALTY AND RETENTION 67
2.13 CUSTOMER SATISFACTION AND CUSTOMER LOYALTY 69
2.14 CRM AND CUSTOMER LOYALTY 70
2.15 BUSINESS PROCESS 71
2.16 A STRATEGIC FRAMEWORK FOR CRM 73
2.17 INTEGRATION OF CUSTOMER INFORMATION 77
<table>
<thead>
<tr>
<th>Section Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.18</td>
<td>CRM SYSTEMS</td>
<td>78</td>
</tr>
<tr>
<td>2.19</td>
<td>THE DEVELOPMENT OF THE CUSTOMER ORIENTED COMPANY</td>
<td>78</td>
</tr>
<tr>
<td>2.20</td>
<td>CRM AND INFORMATION TECHNOLOGY</td>
<td>79</td>
</tr>
<tr>
<td>2.21</td>
<td>CRM INFRASTRUCTURE</td>
<td>82</td>
</tr>
<tr>
<td>2.22</td>
<td>ENTERPRISE RESOURCE PLANNING (ERP)</td>
<td>86</td>
</tr>
<tr>
<td>2.23</td>
<td>INTERNET TECHNOLOGY</td>
<td>87</td>
</tr>
<tr>
<td>2.24</td>
<td>E-CRM COMPONENTS IN HOTEL INDUSTRY</td>
<td>89</td>
</tr>
<tr>
<td>2.25</td>
<td>CUSTOMER VALUE IN CRM PROCESS</td>
<td>90</td>
</tr>
<tr>
<td>2.26</td>
<td>PRIMARY STAGES OF THE CRM VALUE CHAIN</td>
<td>91</td>
</tr>
<tr>
<td>2.27</td>
<td>CRM GOALS DIFFERENTIATED BY DEPARTMENTS</td>
<td>92</td>
</tr>
<tr>
<td>2.28</td>
<td>PRACTICES OF CRM</td>
<td>93</td>
</tr>
<tr>
<td>2.29</td>
<td>PARAMETERS TO MEASURE CRM SUCCESS</td>
<td>101</td>
</tr>
<tr>
<td>2.30</td>
<td>KEY FACTORS OF CRM PRACTICES</td>
<td>101</td>
</tr>
<tr>
<td>2.31</td>
<td>FACTORS’ EFFECTIVENESS ON CRM PRACTICES</td>
<td>103</td>
</tr>
<tr>
<td>2.32</td>
<td>SUCCESSFUL AND FAILURE PRACTICES OF CRM</td>
<td>107</td>
</tr>
<tr>
<td>2.33</td>
<td>BARRIERS OF CRM PRACTICES</td>
<td>111</td>
</tr>
<tr>
<td>2.34</td>
<td>SUMMARY</td>
<td>116</td>
</tr>
</tbody>
</table>
CHAPTER-II
CONCEPTUAL FRAMEWORK OF CRM

This chapter presents several concepts highlighting the history of CRM, types of CRM, behavioural dimensions of CRM and their influence on the hotel industry. The importance of CRM practices in star hotels is explained with its objective to increase customer satisfaction, customer acquisition, customer development, customer loyalty and customer retention. Key factors and parameters of CRM practices are also discussed in this chapter. Several of current key factors of CRM are mentioned to know the conceptual framework.

2.1 THE ORIGINS OF CRM

Customer Relationship Management (CRM) is one of those magnificent concepts that swept the business world in the 1990’s with the promise of forever changing the way businesses small and large interacted with their customer bases. In the short term, however, it proved to be an unwieldy process that was better in theory than in practice for a variety of reasons. First among these was that it was simply so difficult and expensive to track and keep the high volume of records needed accurately and constantly updating them.

In the last several years, however, newer software systems and advanced tracking features have vastly improved CRM capabilities and the promise of CRM is becoming a reality. As newer, more customizable Internet solutions have hit the marketplace, competition has driven the prices down so that even relatively small businesses are reaping the benefits of some custom CRM programmes.

The 1980’s saw the emergence of database marketing, which was simply a catch phrase to define the practice of setting up customer service groups to speak individually to all of a company’s customers. In the case of larger, key clients it was a valuable tool for keeping the lines of communication open and tailoring service to the clients needs. In the case of smaller clients, however, it tended to provide repetitive, survey-like information that cluttered databases and didn’t provide much insight. As companies began tracking database information, they realized that the bare bones
were all that was needed in most cases: what they buy regularly, what they spend, what they do.

In the 1990’s companies began to improve on CRM by making it more of a two-way street. Instead of simply gathering data for their own use, they began giving back to their customers not only in terms of the obvious goal of improved customer service, but in incentives, gifts and other perks for customer loyalty. This was the beginning of the now familiar frequent flyer programmes, bonus points on credit cards and a host of other resources that are based on CRM tracking of customer activity and spending patterns. CRM was now being used as a way to increase sales passively as well as through active improvement of customer service.

CRM is based on the principles of relationship marketing, so a brief review of the development of marketing is helpful to understand the evolution of CRM. As industries have matured, there have been changes in market demand and competitive intensity that have led to a shift from transaction marketing to relationship marketing. In the 1950s, frameworks such as ‘the marketing mix’ were developed to exploit market demand. The shorthand of the ‘4Ps’ of product, price, promotion and place were used to describe the levers that, if pulled appropriately, would lead to increased demand for the company’s offer. The objective of this ‘transactional’ approach to marketing was to develop strategies that would optimize expenditure on the marketing mix in order to maximize sales.

During the latter years of the twentieth century some of these basic tenets of marketing were increasingly being questioned. The marketplace was vastly different from that of the 1950s. Numerous markets had matured in the sense that growth was low or nonexistent, resulting in increased pressure on corporate profitability. In many instances consumers and customers were more sophisticated and less responsive to the traditional marketing pressures, particularly advertising. Greater customer choice and convenience existed as a result of the globalization of markets and new sources of competition and the emergence of new media and channels. Innovative business thinking and action was required to meet the challenges of this new competitive environment.

Kotler (1997) proposed a new view of organizational performance and success
based on relationships, whereby the traditional marketing approach – based on the marketing mix – is not replaced, but is instead ‘repositioned’ as the toolbox for understanding and responding to all the significant players in a company’s environment. He outlines the importance of the relationship approach to stakeholders:

The consensus in business is growing: if companies are to compete successfully in domestic and global markets, they must engineer stronger bonds with their stakeholders, including customers, distributors, suppliers, employees, unions, governments and other critical players in the environment. Common practices such as whipsawing suppliers for better prices, dictating terms to distributors and treating employees as a cost rather than an asset, must end. Companies must move from a short-term transaction-orientated goal to a long-term relationship-building goal.

The comments of Kotler (1997) underscore the need for an integrated approach for understanding the different stakeholder relationships. In many large industrial organizations, marketing is still viewed as a set of related but compartmentalized activities that are separate from the rest of the company. Relationship marketing seeks to change this perspective by managing the competing interests of customers, staff, shareholders and other stakeholders. It redefines the concept of ‘a market’ as one in which the competing interests are made visible and therefore more likely to be managed effectively.

The development of this broader wave of marketing thinking by marketing academics and practitioners has influenced the perceived role of marketing in business. In effect, marketing is given lead (but not sole) responsibility for strengthening the firm’s market performance. Researchers have described relationship marketing as:

- A move from functionally based marketing to cross-functionally based marketing
- An approach which addresses multiple ‘market domains’, or stakeholder groups – not just the traditional customer market
- A shift from marketing activities, which emphasize customer acquisition to marketing activities, which emphasize customer retention as well as acquisition.
2.2 HISTORY OF CRM

Alderson and Cox (1948) discussed the impact of ecological studies on marketing theory acknowledging market relationships. They practically provided a starting point for a theory of the relationships of individual retailers or clusters and their customers. In the decade of 1970s relationship marketing (RM) concept assumed great significance because of the systematic studies carried out by the Nordic School of Services. Berry (1983) formally introduced the concept of relationship marketing and integrated it into the academic marketing literature by stating it as attracting, maintaining and enhancing customer relationships in multi-service organizations. Scholars have focused their attention on mainstream marketing from the late fifties through to the late eighties on the study and utilization of the marketing mix. Later on, Morgan et al. (1994) suggested an all-encompassing relationship management. They stated that relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges. The scholars also used one of four dominant theoretical perspectives to investigate and understand inter-organizational relationships namely commitment-trust, dependency, transaction cost economics and relational norms according to Adamson et al. (2003).

The concept of relationship specific investments (RSI), and opportunistic seller behaviour highlights transaction cost economics. In reality, the relationship specific investments represented sunken assets in a relationship since the sellers are less likely to act opportunistically. Subsequently there was a greater expectation of partnership continuity since relational norms provide the fourth substantial theoretical perspective and often emerged with the commitment trust viewpoint in order to explain the positive influence of relationship marketing (RM), observe Gerbing and Anderson (1998). This perspective assumed that transactions are undertaken within the context and norms of a stable ongoing relationship and that a set of common contract norms exists under normal business circumstances.

In the decade of 1950s, scholars proposed that an emphasis on the 4P marketing mix was no longer the dominant marketing logic and that RM may be a more appropriate new paradigm for marketing thought, theory and practice according to Kotler (2002). Other scholars like Dwyer et al. (1987), Strandvik and Grönroos (1994), Gummesson (1997), Vargo and Lusch (2004), endorsed this perception. There
was greater emphasis on RM, which provided the theoretical basis for the emergence of customer relationship management. Relationship marketing was often cited as the philosophical basis of CRM since they perceived them to be so similar as to not warrant a distinction in the literature.

Peppers and Rogers (2004) stated that modern managements duly focused on relationship management which specifically included one-to-one marketing techniques since market orientation primarily focused on collecting, analyzing and disseminating large quantities of customer data which helped to create the opportunity for the practice of CRM. The rapid growth of CRM can be attributed to prominent factors such as fierce business competition for valuable customers, economics of customer retention and technological advancements according to scholars namely Buttle (2004), Goodhue (1995), Karimi et al. (2001), Ling and Yen (2001), and Winer (2001). Practically, the CRM term grew from the desire of combining the terms helpdesk, customer support, Enterprise Resource Program (ERP) and data mining.

Scholars have contradicted that the introduction of electronic diaries with basic database functionality facilitated better understanding of the background, needs and demands of the consumers. Subsequently, another phenomenon called contact management system (CMS) emerged as a result of its increasing take on by people in sales and marketing. The contact managers played a major role in understanding the requirements of the customers and facilitating better rapport between the customers and service providers. The development of database engines facilitated the emergence of larger volumes of data of customers of modern organizations. The contact management system was converted into Sales Force Automation (SFA), which practically formed the cornerstone of modern CRM applications, observes Peterson (1999).

The first CRM initiatives were launched in the early 1990s. They focused mainly on call center activities which were widened to include sale and open additional channels. The practice of CRM emerged on the basis of customer-centric business philosophy and culture adopted by the organizations in order to support effective marketing, sale and service activities which enabled effective customer relationship, customer satisfaction and customer loyalty, comment Petrissans (1999). The practice of CRM was deliberately developed as an approach based on gain,
a 360-degree view of the customer, having all the data from all touch points, maintaining positive relationships with customers, increasing customer loyalty, and expanding customer lifetime value, state Plakoyiannaki and Tzokas (2002).

According to Financial Times (2000), the practice of customer relationship management included primarily Sales Force Automation (SFA) and Customer Services (CS) before 1993.

2.2.1 Sales Force Automation

Sales Force Automation was initially designed to support salespersons in managing their touch points and to provide them with event calendars about their customers. SFA’s meaning expanded to include opportunity management that is supporting sales methodologies and interconnection with other functions of the company such as production.

The capabilities of Sales Force Automation (SFA) are:

- **Contact Management**: Maintain the information and contact history of existing customers.
- **Activity Management**: Supply calendar and scheduling for particular sales people.
- **Communication Management**: Communication by means of fax and email.
- **Forecasting**: Help with sales in future, targets, and projections.
- **Opportunity Management**: Manage potential leads for new customers.
- **Order Management**: Acquire online quotes and convert inquiries into orders.
- **Document Management**: Develop and recover standard and reports of customizable management as well as presentation documents.
- **Sales Analysis**: Examine sales data.
- **Product Configuration**: Assemble the specifications of optional product and pricing.
- **Marketing Encyclopedia**: Provide the recent information about products, prices and promotions. (Gray, P. and Byun, J. 2001)
Sales Force Automation (SFA) typically includes the following benefits:

- Identifying a target market
- Identifying the best customers in place
- Doing marketing research to develop profiles of core customers
- Understanding competitors and their products
- Understanding one's company's strengths and weaknesses
- Providing input into feedback systems to help monitor and adjust the process

2.2.2 Customer Service

Customer Service (CS) is an after sales activity to satisfy customers. The goal of customer service is to resolve internal and external customer problems quickly and effectively. By providing fast and accurate answers to customers, a company can save cost and increase customer loyalty and revenue. Customer service includes call center management, field service management, and help desk management.

- **Call Center Management:**
  1. Provide automated, end-to-end call routing and tracking
  2. Obtain the information about customer feedback for measuring quality control, the performance and product development

- **Field Service Management:**
  1. Allot, plan, and dispatch the right people, with the right parts, at the right time
  2. Log supplies, cost, and time connected with service orders
  3. View the history of customers
  4. Seek for proven solutions

- **Help Desk Management:**
  1. Solve the problem by searching the existing knowledge base
  2. Launch, modify, and follow the reports of the problem
  3. Furnish updates and new versions (Gray, P. and Byun, J. 2001)
CRM is one of those magnificent concepts that swept the business world in the 1970’s with the promise of forever changing the way businesses small and large interacted with their customer bases. In the short term, however, it proved to be an all-pervasive process that was better in theory than in practice for a variety of reasons. The development of communications media and information technologies has added a new dimension to the practice of CRM across the globe. It gained a new momentum in the age of economic liberalization in 1990s. The new media of communication have advanced CRM capabilities and facilitated storage and retrieval of huge amount of information resources about the customers who mattered most in the changed business environment.

In the 1990’s companies began to improve on CRM by making it more of a two-way street. Instead of simply gathering data for their own use, they began giving back to their customers not only in terms of the obvious goal of improved customer service, but in incentives, gifts and other perks for customer loyalty. This was the beginning of the now familiar frequent flyer programmes, bonus points on credit cards and a host of other resources that are based on CRM tracking of customer activity and spending patterns, observe Ramana et al. (2003).

By the end of the 20th century, the practice of CRM was perfected on the basis of sound thoughts and deeds contributed by eminent thinkers and professionals. Modern organizations regardless of their area, target group and nature of operations have exploited the medium of CRM to a considerable extent in order to build mutually beneficial relationship. Today, CRM practically includes all customer-facing applications namely:

- Sales Force Automation (SFA),
- Customer Service (CS),
- Sales and Marketing Management (SMM), and
- Contact & Activity Management [Emerging Market Technologies, 2000].

Hotel industry has exploited the medium of CRM to a considerable extent in order to build a mutually beneficial relationship. Hotels have also used this tool to further human relationship rather than gather mere information from the customers. The majority of the star hotels have adopted CRM practice to enhance their marketing
strategies and generate adequate income in this age of competitiveness. The implications for CRM are generally recognized from a marketing perspective rather than human relations perspective. Star hotels have joined the ‘cyber world’ mainly to multiply customer transactions and enhance customer satisfaction. Several scholars have pointed out that empirical studies are seldom linked to conceptual schemes or operational strategies with respect to adoption of CRM in modern organizations including star hotels.

Today, CRM is used primarily by sales, sales support and customer service staff (including call centers and telemarketers) to portray a unified and coordinated point or point of contact to customers. It is also used as a marketing tool to segment and target customers, help develop marketing or sales programmes for targeted customers, and aid in keeping track of customer activities according to Ling and Yen (2001). Broadly speaking, the practice of CRM adds value to the business by making it easy for customers to do business, focusing on the end-customer for products and services, redesigning customer-facing business processes from the end-customer’s point of view, designing a comprehensive electronic business architecture and fostering customer loyalty, state Reinartz et al. (2004).

2.3 CUSTOMER RELATIONSHIP MANAGEMENT

CRM is only one, but an important approach in the domain of customer management and marketing. There are two main drivers of the growth of CRM. The first is the fact that customer acquisition and retention have become top management priorities. This additional dimension of business strategy has not come to the fore just because systems suppliers and management consulting firms have promoted the ideas. It is because senior managers realize that this is a dimension of competitive strategy which if managed well can lead to much more profit, but if managed badly can lead to the loss of the best customers, missed opportunities in developing customers, and high costs of customer acquisition and management. All these affect company profitability.

The second driver of the growth of CRM is the trend towards e-business and the increasing importance of the Internet as a customer-care and sales channel, which has brought a feeling of uncertainty to companies. Poor identification of the value model has led to many companies suffering very high customer acquisition costs.
Adding a new channel has created problems for old channels. Companies have been looking for approaches which help them integrate old and new ways of managing customers, in particular an increasing demand for an integrated view of the customer and a switch in spending on information technology (IT) from increasing back office efficiency to improving front-office effectiveness (Stone and Foss, 2001).

Customer relationship management has become one of the most dynamic technology topics of the new millennium. According to Chen and Popovich (2003) CRM is not a concept that is really new but rather due to current development and advances in information and enterprise software technology, it has assumed practical importance. The root of CRM is relationship marketing, which has the objective of improving the long-term profitability of customers by moving away from product-centric marketing. Bose (2002) noted that CRM was invented because customers differ in their preferences and purchasing habits. If all customers were alike, there would be little need for CRM. As a result, understanding customer drives and customer profitability, firms can better tailor their offerings to maximize the overall value of their customer portfolio (Chen and Popvich, 2003). The attention CRM is currently receiving across business is due to the fact that the marketing environment of today is highly saturated and more competitive (Chou et al., 2002).

According to Greenberg (2004) CRM generally is an enterprise-focused endeavor encompassing all departments in a business. He further explains that, in addition to customer service, CRM would also include, manufacturing, product testing, assembling as well as purchasing, billing, human resource, marketing, sales and engineering. Chen and Popovich (2003) argued that CRM is a complication, which mines customer data, which has been retrieved from all the touch points of the customer, which then creates and enables the organization to have complete view of the customer. The result is that firms are able to uncover and determine the right type of customers and predict the trend of their future purchases. CRM is also defined as an all-embracing approach that seamlessly integrates sales, customer service, marketing, field support and other functions that touch customers (Chou et al., 2002). They further stated that CRM is a notion regarding how organizations can keep their most profitable customers and at the same time reduce cost, increase in values of interaction, which then leads to high profits.
The emergence of CRM as a management approach is a consequence of a number of important trends. These include:

- The shift in business focus from transactional marketing to relationship marketing
- The realization that customers are a business asset and not simply a commercial audience
- The transition in structuring organizations, on a strategic basis, from functions to processes
- The recognition of the benefits of using information proactively rather than solely reactively
- The greater utilization of technology in managing and maximizing the value of information
- The acceptance of the need for trade-off between delivering and extracting customer value
- The development of one-to-one marketing approaches (Payne, 2005)

The modern customer relationship management concept was shaped and influenced by the theories of total quality management (Gummesson, 1997) and by new technological paradigms. There is however a perceived lack of clarity in the definition of customer relationship management, although all definitions approximately accept the same basic concept: customer relationship, customer management, marketing strategy, customer retention, and personalization.

The generally accepted purpose of CRM is to enable organizations to better serve its customers through the introduction of reliable processes and procedures for interacting with those customers.

In today's competitive business environment, a successful CRM strategy cannot be implemented by only installing and integrating a software package designed to support CRM processes. A holistic approach to CRM is vital for an effective and efficient CRM policy. This approach includes training of employees, a modification of business processes based on customers' needs and an adoption of relevant IT-systems (including soft and maybe hardware) and/or usage of IT-Services that enable the organization or company to follow its CRM strategy. CRM-Services can even make redundant the acquisition of additional hardware or CRM software- licenses.
The term CRM is used to describe either the software or the whole business strategy oriented on customer needs. The main misconception of CRM is that it is only software, instead of the whole business strategy. Major areas of CRM focus on service automated processes, personal information gathering and processing, and self-service. It attempts to integrate and automate the various customer-serving processes within a company.

2.4 THEORETICAL FOUNDATION OF CRM

The literature review clearly reveals that CRM evolved over a period of time on the basis of systematic practice of relationship marketing. Peel and Gancarz (2002) have advocated that building and managing ongoing customer relationships delivers the main marketing message. CRM allows a single view of the customer across all contact channels. The champions of Corporate Social Responsibility theory have strongly urged that corporate houses should not neglect their social obligations in particular and customer care services in general. Scholars have emphasized in their writings that the practice of CRM should be based on sound theoretical and ethical considerations.

The scholars have analyzed four distinct issues, which are directly related to the practice of CRM. Morris (1994) had emphasized that building and managing ongoing customer relationships was the essence of the marketing concept, which was the basis for the practice of CRM in modern society. Dwyer et al. (1987) have stated that customer relationships evolved through distinct phases on account of industrial revolution, democratic evolution, economic liberalization and other processes. Fayerman (2002) has pointed out that it is necessary to interact with customers and manage relationships at each stage in order to retain the existing customers and multiply the potential customers. Gupta et al. (2001) have emphasized that the distribution of relationship value to the company is not homogenous under normal business circumstances.

Richard (2003) has documented that the first assumption in the theoretical approach of relationship management is that managing relationships which is beneficial to business organizations. Others also shared the perception and advocated that managing customer relationships has a direct impact on the business. Also, these observations have been qualified by empirical evidence that stresses the importance of
moderating effects according to Rigby and Ledingham (2004). The scholars have also noted that organizational design; appropriate incentives, information technologies, customer knowledge enhancement, rival competition and other factors were primarily associated with the relationship marketing campaigns.

Schuster (2002) observed that the second assumption of CRM is that relationships evolve with distinct phases. He was supported by other scholars who argued that relationships cannot be viewed as multiple separate transactions; rather, the interdependency of the transactions which took place over a period of time. Reinartz et al. (2004) noted that the first stage of the relationship is the customer acquisition, followed by retention, and finally relationship termination. They also argued that the customer or company could terminate the relationship at anytime, either intentionally or unintentionally. Scholars coined certain theoretical perceptions, which revealed that CRM is a longitudinal process, and the customer relationship must be able to evolve over time.

Fayerman (2002) focused the attention of professionals by stating that CRM facilitated the cultivation of financially useful relationship between the service providers and customers in modern society. They argued that the recognition of relationship evolution has implications for the modern organizations, which were required to interact with customers and manage relationships differently at each stage. Others scholars namely Srivastava et al. (1999) stated that the goal of CRM is to manage the different stages of the relationship systematically and proactively. These touch points or key moments of truth are the specific times the company and the customer make contact.

O’Malley and Tynan (2000) noted that the final assumption is that the distribution of relationship value to the company is not homogenous. This perception was shared by other scholars namely Niraj et al. (2001). They further advanced the theory that modern organizations should scientifically measure profitability based on customers, not just product lines, allowing companies to re-examine resource allocations. The most valuable customers frequently do not receive the company’s share of attention and resources while the company overspends on marginal customers. Zeithaml et al. (2001) stated that companies define different allocations for different tiers of customers even though the customer’s value depends on their
economic value to the company.

Researchers have given different names to the CRM process, but they all have the same underlying themes. The stages include:

- Identification of key moments of truth throughout the customer life cycle
- Identification of the ideal value customer
- Identification of the gap between what the company currently offers and what the customer values most
- Identification of discrepancies among the current and expected services
- Identification of core competencies along with enablers required to close the gap

Injazz and Karen (2004) further noted that customer relationship management is valuable in many industries if it is implemented and used properly. The scholars shared the perception that corporate identity could not be built over night but it takes several years before organizational customers become profitable to modern organizations. Imrie and Fyall (2000) propagated that CRM is more cost effective to focus efforts on customer retention rather than on customer acquisition.

The ideologies focused on the social and economic advantages of customer relationship management in service sectors including the insurance industry. They observed that the key moments of truth are the critical points in which the connection between attitudes and experiences are reinforced or changed. Inge (2001) suggested that all moments of truth must be identified in each phase of the relationship between the customer and the business. These touch points are interactions between the supplier and customer, and many times these are the points where the customer’s expectations and preferences may shift under the influence of an event. They also argued that customer related authentic information could be gained from research or by using brainstorming with groups from all aspects of customer interaction to understand what moments are most critical to the customer.

Foss (2002) and Stone et al. (1996) highlighted that several obvious moments of truth were important to the customer - company relationship including when the customer receives a bill, when a customer calls the sales line, when a customer goes
with the company’s performance in moments of truth would determine whether the customer would stay or defect.

The next generation of researchers in the field of customer relationship management called upon the organizations to determine each customer’s lifetime value since it was a prominent measure of the net profit that the company receives from a given customer during their future lifetime as a customer (Stone and Woodcock, 1989). The following definitions of key customer costs and revenue sources provide a solid background for initial customer lifetime value calculations.

Scholars like Reinartz and Kumar (2003) suggested that large and heterogeneous customer groups be separated into homogenous segments that possess different Life Time Values (LTV). In order to create detailed individual LTV and to ease calculation efforts, each value component should be calculated separately for each customer segment. Then the specific value figures of each group will serve as a basis for the calculation of the individual LTV’s. An examination of basic LTV models reveals that the incorporated variables can generally be classified into three categories: retention rate, revenue, and costs.

Hansotia (2002) and other thinkers also offered their own views about the retention rate which refers to the probability that an individual customer will remain loyal to a company, yielding expected revenue and costs within a fixed period of time. They suggested that the retention rate could be estimated with the help of empirically validated determinants of loyalty, such as customer satisfaction, switching barriers, and the attractiveness of the alternatives.

Reinartz and Kumar (2003) also invited the attention of professionals on the classification of revenue generated by the organizations. They observed that revenue could be classified into four sub-categories: autonomous revenue, up-selling revenue, cross-selling revenue, and contribution margins resulting from referral activities of existing customers. These components play a major role in compiling a complete record of the customer’s history over the life cycle and are essential to the identification of operative touch points of contact. Autonomous revenue accounts for factors not directly influenced by the company are only affected by standard
marketing measures like TV advertising. Essentially, it is basic revenue not including targeted measures to increase up selling and cross selling.

Roh et al. (2005) explored the basic methods for predicting costs on the basis of product-related accounting. The traditional forecast methods have been supplemented by findings about cost reducing effects of long-term customer relationships. They further suggested that acquisition, marketing, recovery, and sales costs must also be included. Besides this, they suggested that indirect-monetary contributions such as information, cooperation, and innovation value should also be included for the purpose of systematic prediction of costs.

Studies also revealed that valuable customers could give insight into services and standards, which are imperative to the insurance experience. Once standards have been established, the gap between what the insurance companies currently offer and what the customer wants can be evaluated. If the gap is small, the company is on target with customer expectations. However, if the gap is substantial, the company is not meeting customer expectations and runs the risk of having a customer defect. The United Services Automobile Association (USAA), a prominent insurance company also understood the importance of evaluating the gap between customer service with the current company standards and the customer’s expectations. They regularly gauge the discord between current and expected standards. The scholars also called upon the organizational leaders to collect feedback from the customers and find out the extent of customer satisfaction over the quality and status of goods and services delivered by them.

Building stronger relationships with customers can be very satisfying in many ways. It provides new opportunities to be of service and to learn what you need to be focused on not only today, but in the future as well. By getting to know your customers better, you also learn more about them and their business. The more you learn and understand about the customer, the less likely someone else could even be able to take away your customer’s business. Your relationships with your customers can be the best investment in your business or career that you can ever make (Garber, 2007).

In less than a decade Customer Relationship Management, or CRM, has escalated into a topic of major importance. Although the term CRM, more recently
relabeled customer management, only came into use in the latter part of the 1990s, the principles on which it has been based have existed for much longer. CRM builds especially on the principles of relationship marketing, the formal study of which goes back about 20 years but the origins of it, involving building relationships of mutual value between suppliers and customers, have existed since the start of commerce. However, what has changed over the past decade is a series of significant trends that collectively shape the opportunity to serve customers better through information-enabled relationship marketing, or CRM.

Where a profitable relationship already exists, CRM can especially boost superior service at a lower cost. In addition to this it helps to serve customer's unspoken needs. Generally speaking, the five needs of customers are:

- a) Service
- b) Price
- c) Quality
- d) Action, and
- e) Appreciation. (By Raghunath and Shields 2001)

Apart from these, there would be needs, which even the customers have perhaps not taken care of, but which, if would have satisfied will lead to higher customer loyalty. CRM, if practiced properly might lead to cross selling and up selling of products and services. Cross-selling means selling the right product to the right customer. One other relevant and important attribute of CRM is its ability to help in the ego mending of customers. This, if practiced efficiently, soothes the customer's negative emotions he could have, due to the non-attainment of his expectations regarding the product or the service.

The adoption of CRM in the hospitality industry has been impeded by a number of factors. These include the persistently fragmented nature of the industry, the disparate, proprietary and relatively immature nature of IT systems, and the additional complexity associated with managing a perishable product that is sold through a variety of distribution channels. However, more rapid progress is being made due in part to the continued consolidation between hospitality companies and hospitality IT vendors.
There are three main elements to consider when aligning your business towards a customer relationship format:

- **The first is to do with retention**: if you just keep the customers that you have, you will probably be able to grow and prosper much in the future. Most businesses only get a small percentage of the share of each of their customers.

- **The second stage is to develop customer potential**: turning one of the infrequent casual customers into a higher spending, more frequent, referring advocate.

- **The third element is the de-selection of customers**: of customer relationship management and perhaps the most controversial one is the de-selection of customers: it starts to lose those customers that do not offer long-term future value.

### 2.5 THE NEW MILLENNIUM CUSTOMER

In the new millennium, people have witnessed a great customer revolution. Modern organizations have become increasingly aware of the predominance of the consumer. Modern institution builders have also realized that the success of an enterprise primarily depends upon the cultivation of customer relations rather than finance, technology and manpower. Scholars have stated that ‘good customer relations is the foremost feature of a successful company. Modern sellers of goods and services have come to realize that customers matter most in the successful conduction of business. In the present business environment a plethora of goods and services are found on account of economic liberalization and globalization.

In the age of economic liberalization, public undertakings are also facing stiff challenge from the private undertakings. In reality, competition has encouraged the growth of consumption in all spheres of human life. “The phenomenal increase in purchasing power of the people has also given an impetus to consumption. In the age of new consumerism, management has been adopting a ‘marketing approach’ as against the traditional producing and selling approach. The contemporary marketing philosophy is a customer-oriented concept as against the product-oriented approach of traditional selling methods”, observed Swift (2001).
In the age of information and communication revolution, modern customers are fully informed about the availability of goods and services across the globe. Today’s consumers no longer take things lying down but stand up for their rights and privileges. Many consumer protection organizations, movements and platforms have sprung up over a period of time. Judicial institutions and media organizations have also played a crucial role in the protection of consumers’ interest. Eminent management expert Drucker (1999) calls consumerism a failure of marketing.

The Government of India passed the Consumer Protection Act, 1986, which turned the tables on the hitherto sacrosanct principle of ‘Buyer beware’ and granted a number of rights and privileges to the customer while at the same time imposed many obligations on the sellers of goods and services. This act broadly included the right to quality, right to information, right to service and the right for redress of the grievance of the consumers. Several consumer organizations have been constituted across the country to facilitate meaningful redress of the grievances of the consumers.

The service industry has also grown by leaps and bounds over a period of time. Consumerism has been reflected in various public sector undertakings. Consumer grievance redress machineries are established in modern organizations. Print media and electronic media have given importance to consumer grievances and provided consumer – specific services in order to create new awareness and responsibility among the service providers towards consumers.

Martis (2000) observes: “Our eagerness to look up the customer as an all-important person has driven us to give him various titles. The customer has been described variously as King, Master, VIP, Guest and so on. These titles only reflect the desire of a management to put the customer on a pedestal so that those who have the responsibility to serve them would feel adequate motivation. The customer is the most important partner because without him there is no business. A management may arrange capital and labor but it is the customer who throws in the sales revenue and makes it possible for the business to earn profits. There is a wide spread belief that the customer is the profit, the rest is all overheads”.

In the new millennium, organizations have prepared the ground to meet the needs of the new generation customers through customer-centric goods and services and innovative marketing communication strategies. The present generation of
customers has also become active global citizens who are more conscious of their value, rights and privileges.

Verma (1999) states: “The value seeking customer today is conscious of and responds to broader issues like environmental protection, human values etc. Thus if a credit card company declares that it is going to contribute part of its earnings to social causes like flood relief the customer is likely to indicate his preference for that company’s card. No wonder then, the European market is reluctant to buy the Indian carpet because it involves child labor, which is perceived as exploitation. The new generation customer is likely to opt for cars, which conform to Euro II emission standards or buy a cool drink, which comes in a biodegradable bottle”.

The new millennium customers are concerned about environment, social responsibility, human values, concern for animal life and other humanitarian aspects of production of goods and services. The producers of goods and services are also conscious of their corporate social responsibility, non-price factors and the intangibles involved in winning and retaining customers. Empowerment of the people has become a challenging task of our times. The service providers are required to empower the customers at all levels and develop a strategic marketing perspective by taking into account social obligations, demographics, constitutional norms, governmental regulations, changing technologies and emerging aspirations of the new millennium customers.

2.6 TYPES OF CRM

Scholars have identified four major types of CRM such as Strategic CRM, Operational CRM, Analytical CRM and Collaborative CRM.

Figure 2.1: Types of CRM

Strategic CRM: The strategic CRM is a core customer-centric business strategy that aims at winning and keeping profitable customers. Successful strategic CRM is a complex set of activities that together form the basis for a sustainable and hard-to-imitate competitive advantage. Strategic CRM shapes interactions between companies and customers to allow the maximization of customers’ lifetime value as well as recognizes differences between customers with respect to their economic value to the firm as well as their expectations from the firm. The characteristics of a defined CRM strategy are such as value proposition, business case, customer strategy, enterprise transportation plan and other stakeholders.

Operational CRM: The operational CRM focuses on the automation of customer-facing processes such as selling, marketing and customer service. It makes interactions between a business, its channels and its customer’s possible. It provides the means for the customer to contact the company and enables collaboration between suppliers, partners, and customers. It provides the scope for improving customer service, online marketing, automating sales force, etc. It is the automation of customer-facing processes. It handles the customer contact and processing. It manages and synchronizes customer interactions in marketing, sales, and service. Customer data is collected through a whole range of touch points such as contact center, contact management system, mail, fax, sales force, web, etc. The data then are stored and organized in a customer centric database, which is made available to all users who interact with the customer. A typical operational CRM is the contact center and contact management.

Analytical CRM: The analytical CRM focuses on the intelligent mining of customer-related data for strategic or tactical purposes. The analytical CRM is required for building data warehouses, improving relationships, analyzing data, etc. It uses customer data to create a mutually beneficial relationship between a business and its customers. The analysis, modeling and evaluation help to optimize information sources for a better understanding of customer behaviour, so as to make the contact more personalized. Customer satisfaction is essential for increasing the competitiveness of companies and achieving customer objectives. To improve it, it is necessary to identify customer needs and expectations and ensure they are met. This requires the construction of a measurement system fed
by information, part of which will come directly from the customer and part will be extracted from the company’s computer system. Data stored in the contact-centric database is analyzed through a range of analytical tools in order to generate customer profiles, identify behavior patterns, determine satisfaction level, and support customer segmentation. The information and knowledge acquired from the analytical CRM will help develop appropriate marketing and promotion strategies. (Kotorov, 2003)

**Collaborative CRM:** The collaborative CRM applies technology across organizational boundaries with a view to optimizing company, partner and customer value. Kracklauer and Mills (2004) have stated that the CRM systems are integrated with enterprise-wide systems to allow greater responsiveness to customers throughout the supply chain. The features include instant service response based on customer input, one-to-one solutions to customer requirements, direct online communications with customers anytime and anywhere, and customer service centers that help customers solve their questions. The impacts are increased customer satisfaction, customized service, and attracting more customers, maintaining the customers.

### 2.7 COMPONENTS OF CRM

CRM clearly reveals that it practically contains three components namely Customer, Relationship and Management.

![Figure 2.2: Components of CRM](image)

**Customer:** Modern organizations are primarily dependent on the customers who are the primary source of the company’s present profit and future growth. Sometimes it is difficult to distinguish who is the real customer because the buying decision is frequently a collaborative activity among participants of the
decision-making process. Information technologies can provide the abilities to distinguish and manage customers. CRM can be thought of as a marketing approach that is based on customer information, according to Wyner (1999). Five needs of customers are: Service, Price, Quality, Action and Appreciation. (Raghunath & Shields, 2001)

- **Relationship:** Modern organizations cannot survive the competitive business environment in the absence of active customer appreciation, participation and success. Actually, the relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long-term, continuous or discrete, and repeating or one-time. Relationship can be attitudinal or behavioural. Even though customers have a positive attitude towards the company and its products, their buying behaviour is highly situational, states Wyner (1999).

- **Management:** The organizational leaders are required to facilitate the establishment of mutually beneficial relationship between the organizations and customers. Management of rewarding, fruitful and sustainable relationship between the customers and service providers becomes a challenging task from the business promotion point of view. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities, opines Wyner (1999).

In today's competitive business environment, only installing and integrating a software package designed to support CRM processes cannot be a successful CRM strategy. A holistic approach to CRM is vital for an effective and efficient CRM policy. This approach includes training of employees, a modification of business processes based on customers' needs and an adoption of relevant IT-systems (including soft and maybe hardware) and/or usage of IT-Services that enable the organization or company to follow its CRM strategy. CRM-services can even make redundant the acquisition of additional hardware or CRM software-licenses.

Customer relationship management is a customer oriented company strategy which, with the help of modern information and communication technologies, aims at building and consolidating long term profitable customer relationships by means of global and individual marketing, sales and after-sales concepts.
Based on this definition, Hippner (2006) distinguishes two central CRM components:

- **Customer Oriented Strategy**: CRM is first of all a customer-oriented strategy implying reorganization of the business processes and of the responsibilities on the customers.

- **Integrated Information Systems (CRM Systems)**: In order to have a global image of the customers ('one face of customer') and a consistent communication with the customers ('one face to customer'), CRM requires information systems to centralize all customer related information and to synchronize all the communication channels.

These two aspects clearly show the main drivers of the CRM framework: on one side, the theoretical perspective which is supported by an abundant literature and, on the other side, the technological perspective encompassing a large number of CRM systems for the storage and the analysis of the customer data as well as the automation of customer related processes. In order to be effective, CRM should rely on both aspects. In reality, however, CRM is often reduced to its technological component or, in a similar manner; many theoretical constructs do not have a concrete realization.

### 2.8 SALIENT FEATURES OF CRM

#### 2.8.1 Concept of CRM

CRM is an important component of modern marketing management, which has undergone series of changes and modifications in the age of globalization. It has been widely regarded as a company activity related to developing and retaining customers through increased satisfaction and loyalty. CRM is indeed a customer-focused activity, which dynamically integrates sales, marketing and customer care service in order to create and add value for the company and its customers.

Mahatma Gandhi understood the need for customer relationship management. He firmly advocated that CRM was a strategy that can help modern organizations to build long-lasting relationship with their customers and increase their profits through the right management system and the application of customer-focused strategies. He observed: “Customer is the most important person for a business. He is not an
interruption to our work but the purpose of it. He is not an outsider; he is a part of it. We are not doing him a favour; he is doing us a favour by giving us an opportunity to serve him”.

Public and private organizations have invested adequate resources, manpower and technologies on systematic customer relationship management, which is rightly considered as an invaluable asset to organizational management. In particular, CRM provides companies with a means to conduct interactive, personalized and relevant communications with customers across both traditional and modern tools and channels.

Scholars have offered various definitions of CRM in their works, which highlight the nature, scope, and significance of this tool of marketing management. Olsen (1996) defines: “The goal of CRM is to reach out to the customers who are spread across different parts of the world and provide them satisfactory services in order to enhance the business status of modern organizations”. The purpose of CRM is to maximize profit by achieving an optimum balance between corporate investments and customer satisfaction.

Galbreath and Rogers (1999) emphasize: “CRM facilitates relationships among enterprises, their customers, business partners, suppliers and employees. By nature, CRM enables the organizational leaders and professionals to identify, qualify, acquire, develop and retain increasingly loyal and profitable customers by delivering the right product or service, to the right customer, through the right channel, at the right time and the right cost. CRM integrates sales, marketing, service, enterprise resource planning and supply-chain management functions through business process automation, technology solutions, and information resources to maximize each customer contact”.

Swift (2001) indicates: “CRM is a process designed to collect data related to customers, to grasp features of customers, and to apply those qualities in specific marketing activities. It is an enterprise approach to understanding and influencing customer behaviour through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability”. Practically, CRM provides modern organizations with a means to conduct interactive, personalized and participatory communications in order to enable
the customers to take right decisions at the right time on their consumption preferences and patterns.

Bose (2002) observes: “CRM is about managing customer knowledge to better understand and serve them. It is an umbrella concept that places the customer at the center of an organization”. The practice of CRM assumes great significance in modern business environment since it has become an important instrument of marketing, sale and service process.

Greenberg (2002) states: “CRM is a coherent and complete set of processes and technologies for managing relationships with current and potential customers and associates of the company, using the marketing, sales and service departments, regardless of the channel of communication”. According to the scholar CRM contains three basic elements namely – an integrated single view of customers, managing CRM in a single way and improving the efficacy of marketing management system. In reality, CRM basically represents a paradigm shift in marketing thoughts and deeds based on two-way communication strategies and technologies.

Chen and Popovich (2003) elaborate: “CRM focuses on leveraging and exploiting interactions with the customer to maximize customer satisfaction, ensure return business, and ultimately enhance customer profitability”. The practice of CRM is an all-pervasive phenomenon, which has brought about remarkable togetherness and cooperation between the service providers and customers.

Luck and Lancaster (2003) note: “The term CRM has become a buzzword, with the concept being used to reflect a number of different perspectives”. In practice, however, managers often perceive CRM from different perspectives. It is a part of marketing efforts, customer service, particular software and technology, or even process and strategy.

Richard (2003) specifies: “Customer satisfaction is a good base to start with when retaining customers, it is not the only influencing factor. Some customers even though they are satisfied will leave the firm while others who are dissatisfied will remain”. CRM is a relatively new management concept, which is currently sweeping through businesses worldwide and is especially finding a receptive audience in the professional service sector. It may be noted that CRM, though not a formal
programme, generally combines various elements of technology, people, information resources and processes in order to create a business that takes a ‘360-degree’ view of its customers.

Injazz and Karen (2004) comment: “CRM is a set of business processes and overall policies designed to capture, retain and provide service to customers”. It is a combination of people, process and technological applications designed to understand and manage a company’s relationships with customers by focusing on relationship development and customer retention. The practice of CRM is motivated by the business goal of maximizing profit by achieving an optimum balance between corporate investments and customer satisfaction.

Xu and Walton (2005) highlight: “Basically, CRM is an idea regarding how a company can keep their most profitable customers by increasing the value of interaction. The value is maximized through differentiation of the management of customer relationships”. Basically, CRM is a notion regarding how an organization can keep their most important customers and at the same time reduce costs, increase the values of interaction to consequently maximize the profits”. Practically, CRM is an all-embracing approach, which seamlessly integrates sales, customer service, marketing, field support and other functions that impact the thoughts, deeds and lives of the customers.

The definitions offered by various scholars commonly identify the goals of CRM, which include the following:

- Provide better customer service
- Make service providers more efficient
- Simplify marketing processes
- Facilitate customer loyalty
- Discover new customers
- Increase customer revenues
- Build positive corporate identity
2.8.2 Nature and Scope of CRM

CRM is more than the automation of traditional sales, marketing, supply-chain, ‘back-office’ or service functions through the use of technology and process reengineering. However, CRM is also more than a newfangled ‘customer service’ or ‘service quality’ issue. CRM is about the transformation of the entire enterprise and how it views and conducts business with its customers. CRM is a strategy for competitive advantage. It is a transformation philosophy and ideal of how businesses must compete in the twenty-first century. It is becoming the foundational cornerstone of profitable financial success.

Bradshaw and Brash (2001) elaborate: “CRM may mean database marketing or electronic marketing. At a strategic level, CRM may mean customer retention or customer partnering. At a theoretical level, CRM may mean an emerging research paradigm in marketing. To deal with the challenges of customer relationships in the fast-evolving Internet world, even the most customer-focused companies have to understand the three essential insights to getting customer relationships right.

- Building CRM in the front office is just the start and that it must involve the back-office functions as well as the analytical functions like data warehousing and ‘pushing’ customer insights back up to the front office. The back office executes the customer requirements. Generally the only customer contact functions in the back office are billing and logistics, and in even these functions, the customer contact is moving into the front office environment.

- Conducting relationships across multiple media requires the correct technical infrastructure, allowing companies to deal with their customers in a consistent way across multiple media, and even add new media as required without the need to develop every interface separately and from scratch. The CRM primarily deals with customers in and across multiple media and still have a unified up-to-date view of the customer, with no gaps.

- Building the correct strategy for directing customers to different media, and getting CRM right is the closest approach to achieving these ideals that a large organization can make. Doing this across multiple media is a major achievement that will make the organization ready to face the future.
2.9 OBJECTIVES OF CRM

CRM has mainly three objectives:

1) To achieve higher revenues per customer by knowing and serving one’s customers better.

2) To increase customer satisfaction and retention by integrating information from multiple channels stored in disparate systems.

3) To lower costs to acquire and service customers by using technology to automate, manage, and analyze processes and data.

Many organizations are realizing that a closer relationship with the customer is a key factor in business success. Therefore they are moving closer to their customers and their extended enterprise business units. Business opportunities can be increased by the practice of CRM objectives:

- The right customers are targeted and a progressive process of communication is used with them.
- Each customer is offered the right offers through the correct channel and at the right time. (Wilson et al. 2002).

Customer relationship management is an interactive process for achieving the optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit. CRM involves:

- Measuring both inputs across all functions including marketing, sales and service costs and outputs in terms of customer revenue, profit and value.
- Acquiring and continuously updating knowledge about customer needs, motivation and behaviour over the lifetime of a relationship.
- Applying customer knowledge to continuously improve performance through a process of learning from successes and failures.
- Integrating the activities of marketing, sales and service to achieve a common goal.
- The practice of appropriate systems to support customer knowledge acquisition, sharing and the measurement of CRM effectiveness.
Constantly flexing the balance between marketing, sales and service inputs against changing customer needs to maximize profits.

Kim et al. (2003) propose an application framework for evaluating CRM effectiveness. According to Kim et al. (2003) there are some reasons why performance measurement is so powerful in enhancing business. First, measurement removes the ambiguity and disagreement that surround high-level strategic concepts. Second, measurement provides the precise language for clearly communicating at all levels what the organization wants to accomplish and how it intends to accomplish it. Third, measurement allows the continual evaluation of organizational alignment on strategic objectives. Last, measurement not only improves the probability but also speeds the pace at which change occurs. The four perspectives are customer knowledge, customer interaction, customer value, and customer satisfaction.

![Diagram of Objectives of CRM]

Source: Kim et al. (2003)

### 2.9.1 Customer Knowledge

In order to adopt the current customer-centric business environment, organizations use data mining and data warehousing technology. A major problem is filtering, sorting, manipulating, analyzing, and managing this data in order to extract information relevant to CRM activities. Data mining tasks are used to extract patterns from large data sets. Technology learning is also important towards understanding customers. It is required, therefore, to assess employee skills to use customer information effectively. Security is another basic and critical prerequisite when dealing with customer information. Security, in particular, has been a serious issue concerning online purchases and an impediment to the acceptance of the e-channel. Many customers are concerned about the amount of personal information that is
contained in databases and how it is being used. Customers perceive safety of transactions and seller empathy as important. Customer knowledge typically includes the following benefits:

1) Collecting appropriate customer information
2) Analyzing customer data
3) Acquiring new customers
4) Improving skills of employee
5) Improving CRM technique
6) Secure service

2.9.2 Customer Interaction

Many communication channels are developed to interact with the customer effectively. To manage various communication channels effectively, managers make an effort to monitor the business processes. The processes can be divided into internal and external processes. The internal processes refer to the handling of the processes in the organization internally, whereas the external processes describe the interactions between suppliers and customers. Internal processes determine operational excellence and external processes determine channel management effectiveness. The customer relationship can be reinforced by effective customer interaction. Customer interaction typically includes the following benefits:

1) Appropriate response to customer request
2) Integration of business processes
3) Improving channels management
4) Maximizing the effectiveness and efficiency of organization operations
5) Customizing products and services

To analyze customer interaction, some important measures need to be considered, such as the number of marketing campaigns, total cost for promotion, frequency of content updates, payment, response channels, and so on. Communication channels not only include classic communication channels such as letters, fax, and
telephone but also emerging new channels such as call centers, service centers, websites, and virtual internet communities. It is vital to manage various channels efficiently and immediately. Internal processes need to connect and integrate diverse channels effectively.

### 2.9.3 Customer Value

Customer value describes tangible and intangible benefits gained from CRM activities, which help to arrange the relationship with the customer successfully. Customer value can be achieved through, for example, value added by relevant information in virtual communities, a loyalty programme, and an attractive bundling of different products. In order to determine the customer value, organizations need to analyze such information as marketing campaigns, number of retention customers, and net sales. CRM initiatives should provide mutually beneficial value to the customer and the organization. Current customer profitability should be calculated, establishing a baseline and comparing new calculations to that baseline periodically. Customer value typically includes the following benefits:

1) Improving customer retention
2) Profit increase
3) Improving customer service and support
4) Building an attractive virtual community

Real customer relationships, those that result in the customer feeling a genuine sense of loyalty to the firm, are predicated on a series of satisfying experiences with the company. Relationships are not developed overnight. Until the customer senses some attachment to the company, no relationship can be said to exist. What, then, drives customer satisfaction? Surely it is the ongoing creation of value in the mind of the customer.

Chi et al. (2004) defined customer value as a customer perceived preference for, and evaluation of, product attributes, attribute performances, and consequences in terms of the customer’s goals and purposes. Also there have been limited studies to examine the differential effects of individual dimensions of customer value on the specific dimensions of CRM performance. They argued that investigating key
dimensions of customer value and their effects is very critical and important since the delivery of superior customer value can involve significant costs for firms. Also firms even though they recognize the fact that superior customer value can lead to higher profits, they may be a bit skeptical since it can lead to profit reduction.

Delivering superior customer value has become an ongoing concern in building and sustaining competitive advantage by driving CRM performance. Driven by demanding customers, keen competition, and rapid technological change, many firms have sought to deliver superior customer value, and based on this the role of the customer has changed from that of a mere consumer to a multi faceted role as consumer, co operator, co producer, co creator of value, and co developer of knowledge and competencies, which implies a much more important position of the customer than ever. Hence, firms are seeking to retain existing customers and attract new customers by targeted value creation activities. (Chi et al., 2004)

It is suggested that it is impossible to create sustained value for a firm’s shareholders unless value is being created for its customers. In fact service has been enhanced because, through the use of technology, the customer can now deal with the firm in a much more convenient way. Access is available through several channels and is guaranteed 24 hours a day, seven days a week. This then raises a fundamental question about the type of value companies should create for their customer. For example, Kotler (1997) argued that customer value could be understood in terms of product value, service value, employee value and image value. However, this approach is largely derived from the standpoint of a firm not that of customers, or at least not totally customer based.

The broad theoretical framework developed by Chi et al. (2004) was somewhat different in that they suggested five dimensions of value from the customer’s perspective (functional, social, emotional and sacrifice) as providing the best foundation for extending the value construct. However, it is worth noting that not all these dimensions have equal significance at any time, although they are related in some sense. As a result the present study, therefore, points that customer value can be better understood in terms of four key dimensions, each of which may play a different role in the customer perception process and thus contribute differently to the performance of CRM.
2.9.4 Customer Satisfaction

Customer satisfaction is a key success factor of every venture. Every enterprise views the satisfaction of its customers as the very reason for its existence. However, the satisfaction of customers is a function of the relationship that exists between the customer and the firm. The satisfaction customers derive from a relationship depends on how the relationship is managed and the benefit of the relationship to the customer (Parvatiyar et al., 1998). Customer satisfaction refers to the extent to which customers are happy with the products and services provided by a business. Customer satisfaction levels can be measured using survey techniques and questionnaires. Gaining high levels of customer satisfaction is very important to a business because satisfied customers are most likely to be loyal, to make repeat orders and to use a wide range of services offered by a business.

Customer satisfaction is one of the most essential elements of customer loyalty and customer retention. Customer satisfaction is difficult to measure because it is hard to quantify the satisfaction level. It represents a modern approach for quality in organizations, and serves the development of a truly customer-focused management and culture. Measuring customer satisfaction offers an immediate, meaningful, and objective feedback about customer preferences and expectations. Customer satisfaction perspective is the most important because customer satisfaction is directly linked to an organization’s profits. Proper CRM practices can potentially impact customer satisfaction ratings and can potentially lead to increased customer retention. Customer satisfaction typically includes the following benefits:

1) Improving service quality
2) Establishing relationships with customers

With reference to the assertion of Fox and Stead (2001) and review of other relevant literature, Yim et al. (2004) too in the same vein, hypothesized that CRM is a multi-dimensional construct consisting of four broad behavioural components: key customer focus, CRM organization, knowledge management, and technology-based CRM.

Customer satisfaction is a critical issue in the success of any business system traditional or online. In a turbulent commerce environment, in order to sustain the
growth and market share, companies need to understand how to satisfy customers, since customer satisfaction is critical for establishing long-term client relationships (Peterson et al., 1997). To understand satisfaction, we need to have a clear understanding of what is meant by customer satisfaction. Customer satisfaction is defined as a result of a cognitive and effective evaluation, where some standard is compared to the actually perceived performance. If the perceived performance is less than expected, customers will be dissatisfied. On the other hand, if the perceived performance exceeds expectations, customers will be satisfied.

Kotler (2000) defined satisfaction as a person’s feeling of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations. When customers are satisfied about the value that is offered and sometimes their expectations is met and exceeded, can generate many benefits for a firm. Positive word of mouth coming from existing and satisfied customers sometimes can translate into more new customers coming to the firm. Also, satisfied current customers often buy more products more frequently and are less likely to defect to competitors than are dissatisfied customers. Firms that have high degree of customer satisfaction, also seem to have the capacity to shield off competition, particularly price competition.

2.10 PRINCIPLES OF CRM

The overall process and applications of CRM are based on the following basic principles:

1- Treat customers individually.

Remember customers and treat them individually. CRM is based on philosophy of personalization. Personalization means the content and services to customers should be designed based on customer preferences and behaviour. Personalization creates convenience to the customer and increases the cost of changing vendors.

2- Acquire and retain customer loyalty through personal relationship.

Once personalization takes place, a company needs to sustain relationships with the customer. Continuous interactions with the customer – especially when designed to meet customer preferences – create customer loyalty.
3- *Select "Good" customer instead of "Bad" customer based on lifetime value.*

Find and keep the right customers who generate the most profits. Through differentiation, a company can allocate its limited resources to obtain better returns. The best customers deserve the most customer care; the worst customers should be dropped (Paul and Jongbok, 2001).

2.11 **BEHAVIOURAL DIMENSIONS OF CRM**

With reference to the assertion of Fox and Stead (2001) and review of other relevant literature, Yim et al. (2004) in the same vein, hypothesized that CRM is a multi-dimensional construct consisting of four broad behavioural components: key customer focus, CRM organization, knowledge management, and technology-based CRM.

![Figure 2.4: The Four Behavioural Dimensions of CRM](source: Sin et al. (2004))

2.11.1 **Key Customer Focus**

A customer-focused structure, culture, policy, and reward system should permeate any organization that strives to practice CRM successfully. All interactions with key customers, who are often identified by “lifetime value computations,” must fully reflect this company-wide CRM focus. The ultimate goal is to achieve deep customer relationships through which the seller organization becomes indispensable to its most profitable customers. Equipped with company-wide understanding and internal support for key customer relationships, the sales force generally is better enabled and motivated to cultivate long-term customer relationships by offering more personalized products and services.
CRM programmes are generally classified as either:

a) **Database-driven** (i.e., identifying profitable segments through statistical techniques) or

b) **Customer-need-driven** (i.e., the use of database to supply information that aids in the development and maintenance of long-term relationships with key customers). Arnett and Badrinarayanan (2005), Dowling (2002) observed that customer-need-driven CRM programmes are common with firms that adopt business-to-business marketing strategies because customer-need-driven CRM programmes boost inter-firm relationships. According to the CRM behavioural component model of Yim et al. (2004), key customer focus is a composition of dialogue with customers on customizing their needs, customizing products, customer needs assessment, and implementation of customer needs information. According to Arnett and Badrinarayanam (2005), customer-need-driven CRM strategy should be an important constituent of the overall business strategy of firms. Therefore, firms, as part of their CRM practices, ought to develop CRM strategies that are capable of delivering both economic and non-economic benefits to key customers. Arnett and Badrinarayanan, (2005) indicated that customer-need-driven CRM strategy involves two steps:

1. Uncovering insights regarding customer needs, and
2. Special programmes developed to meet the discovered needs (e.g. the development of customer-specific processes and procedures) (Dowling 2002).

### 2.11.2 CRM Organization

With a strong focus on key customers deeply embedded throughout its CRM system, the entire company should be organized around cultivating these valuable relationships. The organizational structure needs to be flexible and, if necessary, reconstructed to generate customer-centric values, and improve coordination of customer-focused, cross-functional teams. For CRM success, there also must be an organization of wide commitment of resources. With concerted efforts by all organizational functions to continuously provide a stream of value-rich actions and customer outcomes, the company and its sales force are assured that they can satisfy customers’ needs and enhance customer relationships.
2.11.3 Knowledge Management

Strongly related to knowledge management, successful CRM is predicated on effectively transforming customer information to customer knowledge. Specifically, to enhance customer profitability, information about customers should be gathered through interactions or touch points across all functions or areas of the firm, so that a 360-degree customer view is established, maintained, and continually updated. Customer knowledge thereby generated needs to be shared and disseminated throughout the organization to address customers’ current and anticipated needs. Salespeople are then equipped with a wealth of valuable customer knowledge to meticulously adjust marketing offers to fit the idiosyncratic needs of each customer.

Knowledge Management is basically a support process and due to the pervasive nature of knowledge any business process can be transformed into a “Knowledge Management Process”, such as knowledge creation, knowledge dissemination and use (Gebert et al., 2003). KM is crucial to organizational survival, yet it is a difficult task because it requires large expenditure in resources.

A firm cannot be customer focused without knowing the needs of customers. Customer–need-driven CRM strategies requires uncovering customer needs through the analysis of customer information. Firms must become proficient at managing knowledge about their customers and knowledge that is useful to their customers in order to be customer focused (Zablah et al. 2004). Such knowledge includes, but is not limited to, knowledge about one's company, industry, competitors, customers, the procedures and processes that allow firms to work well with partners, and the organizational structures that allow firms to be efficient and effective.

Janz and Prasarnphanich (2003) identified three facets of knowledge management competence such as:

1) Knowledge development,
2) Knowledge dissemination, and
3) Knowledge application.

The success of customer relationship management heavily depends on the collection and analysis of customer information that is used for developing highly
personalized offerings. Romano (2000) and Massey et al. (2001) strongly advocated the relation of CRM with KM and specifically customer KM, while the significance of customer knowledge is highlighted in several CRM studies. However, information should not be confused with knowledge. Knowledge is produced when information is analyzed and used to enable and leverage strategic actions.

One important feature of knowledge development is the fact that knowledge is not found in the database of any firm and can only be created from information that may be found in the database or elsewhere. Knowledge in general is created in diverse ways.

Arnett and Badrinarayanan, (2005) reported that Nonaka (1991) identified four distinct forms of knowledge creation or development which are:

- **Tacit to Tacit:** (i.e., acquiring someone else’s tacit knowledge through observation, imitation, and practice)
- **Explicit to Explicit:** (i.e., forming new explicit knowledge by combining existing discrete pieces of explicit knowledge)
- **Tacit to Explicit:** (i.e., developing useful rules and procedures that stem from tacit knowledge) and
- **Explicit to Tacit:** (i.e., incorporating explicit knowledge into one’s routines, where it is adapted and added to through trial and error).

Generally, explicit knowledge is very important because of its simplicity and ease of transferability, yet, tacit knowledge, despite the fact that it is difficult to codify and can be acquired only on the job (learning by doing), usually plays an important role in the knowledge creation process (Arnett and Badrinarayanan, 2005). Moreover, because tacit knowledge is difficult to develop and learned, it could be a promising source of sustainable competitive advantage (Hunt 2000).

The value of knowledge is enhanced by its level of accessibility. The more accessible knowledge is, the more valuable it becomes (Davenport and Klahr 1998). Customer knowledge thereby generated needs to be shared and disseminated throughout the organization (Peppard 2000, Ryals and Knox 2001) to address customers’ current and anticipated needs (Yim et al., 2005). Explicit knowledge is
better disseminated through IT systems. However, Dissemination of tacit knowledge is a social process (Lee and Yang 2000). Hence, Yim et al. (2005) observed that successful dissemination of knowledge requires firms to develop both information technology systems, such as marketing management support systems (MMSSs) (to disseminate explicit knowledge) and other processes and procedures to encourage the dissemination of tacit knowledge.

The ultimate outcome of knowledge management programmes is the application of knowledge in a way that creates additional value for the firm and its customers. As Janz and Prasarnphanich (2003) stated, it is widely accepted that organizational performance depends more on the ability to turn knowledge into effective action than knowledge itself. Holsapple and Joshi (1992) called attention to the importance of externalizing knowledge. They explained knowledge externalization as the activity of using existing knowledge to produce organizational outputs for release into the environment.

Information Technology solutions, such as email, document management and intranets, are proving very useful in certain areas (Milton et al. 1999). Knowledge Management is engaged with the managing of company’s corporate knowledge and information assets to provide this knowledge to as many staff members as possible as well as its business process to encourage better support and more consistent decision making (Bose & Sugumaran, 2003).

Galagan (1997) proposes the following as a sample list of knowledge management process:

- Generating new knowledge.
- Accessing knowledge from external sources.
- Representing knowledge in documents, databases, software and so forth.
- Embedding knowledge in processes, products, or services.
- Transferring existing knowledge around an organization.
- Using accessible knowledge in decision-making.
- Facilitating knowledge growth through culture and incentives.
- Measuring the value of knowledge assets and impact of knowledge management.
2.11.4 Technology-based CRM

Many CRM-oriented activities, such as knowledge management, cannot be optimized without leveraging the latest technology. Indeed, most CRM applications take great advantage of technology innovations with their ability to collect and analyze data on customer patterns, develop prediction models, respond with timely and effective customized communications, and efficiently deliver personalized value offerings to individual customers.

Zablah et al. (2004) described CRM technology as one of the organizational resources that serves as an input into the CRM process and is intended to enhance a firm’s ability to productively build and maintain a profit-maximizing portfolio of customer relationships. Although the specific CRM tools individual firms choose to deploy are likely to vary significantly, CRM technology can be categorized according to the organizational function it is intended to support and by its functionality (Zablah et al., 2004).

More specifically, CRM tools are designed to support sales (e.g. opportunity management), marketing (e.g. campaign management), and service and support tasks (e.g. case management), and serve either to:

- Enable the coordination of tasks within a process or across functions,
- Automate routine tasks,
- Provide detailed insight regarding organizational and individual employee performance, or
- Standardize common tasks and processes (Zablah et al., 2004).

No wonder, it is said that most CRM applications take great advantage of technology innovations, with their ability to collect and analyze data on customer patterns, develop prediction models, respond with timely and effective customized communications, and efficiently deliver personalized value offerings to individual customers. Yim et al. (2005) The expansion of sophisticated information management tools, such as database marketing, data warehousing, data mining, and push technology keep firms in a continuous search for the latest technology that could be built-in into their CRM systems.
With the right CRM technology, firms are able to collect, analyze, and distribute information firm wide. Yim et al. (2005) asserted that with appropriate CRM technology for data collection and distribution, firms will be in a position to enhance prospecting, improve communication and sales presentations, and able to customize their product configurations. Another advantage of CRM technology is that it aids cross-referencing of customers of the various sections of a firm to identify trends of customer buying behaviour and this is a potential source of more sales opportunities.

According to Yim et al. (2005) the main outcome of CRM-based technology are:

1) Enhanced customer satisfaction,
2) Higher customer retention, and
3) More profitable long-term customer relationships

Xu et.al. (2002) stated that CRM technologies allow the organization to gain an insight into the behaviour of individual customers. It turns to target and customize marketing communication and messages. In addition, these tools generate data that support the calculation of customer lifetime value for individual customers. The best CRM implementations offer advantages to both the organization and its customers.

Scholars have commonly stated that CRM is an approach or business strategy, which provides seamless integration of every area of business that touches the customers. They have defined CRM in terms of the opportunity for profit maximization, as in attracting and retaining economically valuable customers while getting rid of economically invaluable ones. A number of studies take a more integrative and holistic approach to CRM, attempting to define CRM jointly through its relationship with technology and as a business strategy. The contemporary view of CRM is defined more around using technology and IT to help manage the relationship with customers.

CRM technology defining characteristics and elements found within the extent literature generally focuses around the use of IT are to:
Acquire and retain long-term customers,
Create a (long-term) business strategy,
Help practice CRM processes, and
Increase profit (over time).

Modern organizations are required to develop appropriate database, which allows a company to understand better customer’s needs-particularly their relationship needs - better than their competitors. The customer database should include data about the current and past trend of customer’s business, industry and market shares profitability, etc. The data about customer’s needs and behaviour enables companies to identify the present customers, develop relations with future customers and calculate the revenue the customer generates and estimate own future investment opportunities. Technology in CRM includes the applications such as Call centers; Web based self-service, Customer satisfaction measurement, Call scripting, Cyber agents and Web site.

According to Haley and Watson (2003), any self-respecting, CRM toolbox contains its own four Ps that all of them are tactical elements required for a successful CRM initiative in any hotel company:

- **Profiles:** Effective profiling is related to capturing relevant information about the hotels’ guests and their behaviour both observed and reported in order to represent a major tactical decision in a hotel CRM initiative.

- **Preferences:** Preference data may be either observed or reported in order to make the communication enticing and attractive and increase the share of that guest’s wallet and mind.

- **Precision:** This variation cripples a CRM effort that attempts to match new stays with prior guest visits.

- **Property:** Property Management Systems (PMS) is built to drive the operation, not perform detailed analyses or manage personalized communications and is a crucial part of servicing that interaction. All the profiling and preference capture in the world won’t help if service delivery fails due to faulty or missing information.
2.12 CUSTOMER LOYALTY AND RETENTION

Customer loyalty is all about attracting the right customer, getting them to buy, buy often, buy in higher quantities and bring you even more customers. However, that focus is not how you build customer loyalty. Customer loyalty can be said to have occurred if people choose to use a particular shop or buy one particular product, rather than use other shops or buy products made by other companies. Customer loyalty can be built by treating people how they want to be treated. Customer loyalty typically includes the following types and degrees:

- Monogamous loyalty,
- Polygamous loyalty,
- Behavioural loyalty, and
- Attitudinal loyalty.

Customer retention is the activity a company undertakes to prevent customers from defecting to alternative companies. Successful customer retention starts with the first contact and continues throughout the entire life-time of the relationship. Customer retention is a cost-effective and profitable business strategy that is imperative in today's competitive economic environment. A company’s ability to attract and retain new customers, is not only related to its product or services, but also strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace. Customer retention is more than giving the customer what they expect; it’s about exceeding their expectations so that they become loyal advocates for your brand and has a direct impact on profitability. Customer retention typically includes the following benefits:

1) Increased revenue
2) Lower customer acquisition costs
3) Increased referrals

Customer retention is a very important aspect in CRM since the acquisition of new customers is much more expensive than retaining the existing ones (Lefebure and Venturi, 2000).
According to Hippner (2006), customer retention is defined as repeated transactions of a customer with a given company. The fact that customers buy repeatedly without the company undertaking any acquisition endeavor has three important advantages regarding a company:

- **Security Effect**: Customer retention is a security factor since it improves the relationship stability by having customers with a habitual buying behaviour, an immunization against other competitors and a greater tolerance to the provider's potential faults. Secondly, customer retention improves the information feedback, as bound customers are more willing to express their complaints or their opinions as well as to collaborate actively in the development process. Customer retention also increases the possibilities and the success chance of interaction like customer events, customer clubs, etc. Last but not least, customer retention augments the customer trust towards the company, which leads to a consolidation and a deepening of the customer relationship in the future.

- **Growth Effect**: Customer retention can also have a turnover growth effect by means of a better customer penetration as well as a development of the customer base. Customer penetration can be achieved by improving the buying concentration, intensity and frequency as well as the cross selling of the customers. On the other side, customer retention can induce a growth effect by developing the customer base through customer recommendations.

- **Rent-ability Effect**: The third aspect of customer retention is an improvement of the rent-ability due to cost reduction and a revenue increase. A cost reduction is possible since bounded customers involve no more acquisition costs and their handling is less. Revenues can also benefit from the customer retention as bounded customers are less price sensitive and, based on the customer knowledge, cross and up selling can be achieved.

Customer retention is defined as focusing firms’ marketing efforts towards the existing customer base. This explains the view that instead of trying to acquire new customers, firms engulfed in customer retention efforts must make sure that existing customers are satisfied so as to create and maintain long-term relationships.
Lovelock and Wright (1999) said in business context, loyalty is used to describe the willingness of a customer to continue patronizing a firm’s goods and services over a long period of time and on a repeated and preferably exclusive basis, and voluntarily recommending the firms’ products to friends and associates. In their view, customers will continue to be loyal to a particular firm if they feel and realize that better value is being offered.

Kotler (2000) assured the most important consideration to attain high customer loyalty is for firms to deliver high customer value. He continued to stress that it has been the practice by firms to devote much attention and effort to attracting new customers rather than retaining existing ones, adding that traditionally firms emphasize more on making sales rather building relationships, on pre-selling and selling rather than caring for customers afterwards.

Also a critical factor to attaining customer loyalty is customer satisfaction because a customer who is highly satisfied will exhibit the following characteristics:

- Stays loyal for longer
- Buys more as the company introduces new products and upgrades existing ones
- Talks favourably about the company and its products
- Pays less attention to competing brands and advertising, and is less sensitive to price
- Costs less to serve than new customers because transactions are routine.

2.13 CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

The literature on customer satisfaction related to customer loyalty is abundant. Research by Cronin and Taylor (1992) indicates that service quality is an antecedent of consumer satisfaction and that consumer satisfaction exerts a strong influence on purchase intention.

Heskett et al. (1994) proposed that in the service-profit chain and profit and growth is primarily stimulated by customer loyalty. They consider loyalty to be a direct result of customer satisfaction and in turn, satisfaction is largely influenced by
the value of services provided to customers. Satisfied, loyal and productive employees create value. Employee satisfaction results from high-quality support services and policies that enable employees to deliver results to customers. In other words Heskett et al. (1994) have established direct relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity.

2.14 CRM AND CUSTOMER LOYALTY

‘The customer is King’. An effective CRM is able to please this King by placing him at the level that makes your business “customer centric” in the most practical sense. Customer satisfaction and loyalty occurs since customers find each company to be more responsive and more in touch with their specific needs. The topic of loyalty has received increased attention in today’s marketplace. For an organization, loyal customers are the most profitable types of customers since they tend to spend more over a long time period. The lifetime value of loyal customers can be enormous (Reichheld and Sasser, 1990). At the same time costs can be substantially decreased. Furthermore, loyal customers represent a source of positive word of mouth communication, often resulting in referral business. For a customer, on the other side, loyalty to one organization reduces the risk of service variability, allows for the development of a social rapport with the provider and the customization of services to his/her specification. Loyalty can be divided into levels based on purchase frequency, visit frequency, customer recommendations, product recognition and deal periods. Levels can be represented numerically by classifications such as:

- **Suspect**: Person who has not purchased yet or registered as a customer;
- **Prospect**: Person who has not purchased but inquired about a product with a higher degree of interest;
- **First Time Customer**: Person who has purchased for the first time;
- **Repeat Customer**: Person who has purchased more than once;
- **Client**: Person who has purchased numerous times especially over different products within those available from the company;
- **Advocate Customer**: A client who furthers the relationship by recommending other customers;
- **Disqualified prospect**: A person whose interest or activity indicates less than arranged count as a suspect or prospect;  
- **Inactive Customer**: A person who has no purchased activity over a pre-determined window of time, which falls outside the window of measurement indicative of a first time customer or repeat customer;  
- **Inactive Client**: A person who has no purchased activity over a pre-determined window of time, which falls outside the window of measurement indicative of advocate or client.

### 2.15 BUSINESS PROCESS

A business process refers to a collection of tasks or activities that together result in a desired business outcome (Hammer, 1996). It could also mean a business process refers to a group of activities that convert organizational inputs (e.g. human resources) into desired outputs. The process component of CRM is the most delicate because inappropriate automation of the CRM business process will only speed up the errant process. While most companies do have customer facing business processes in place (i.e. processes that directly interface with the customer during the purchase, payment, and usage of the company’s products and services), many times these business processes need to be updated or even replaced (Goldenberg, 2002).

Processes are often difficult to implement and manage formally in an environment with many sales and marketing people. But clearly, consistent processes are essential to all areas of customer relationship management and despite the technological perspectives the philosophical bases of CRM are relationship marketing, customer profitability, lifetime value, retention and satisfaction created through business process management (Chen and Popvich, 2003). They also stated CRM is a continuous effort that requires redesigning core business processes starting from the customer perspective and involving customer feedback.

In fact, companies have been repeatedly warned that failure is eminent if they believe that CRM is only a technology solution (Goldenberg, 2000). To realize effective process change, a company needs first to examine how well existing customer facing business processes are working. Then the company needs to redesign or replace broken or non-optimal process with ones that have been created and/or
agreed upon internally (Goldenberg, 2002). Also processes need to be constantly reviewed for acceptability from both the customer’s point of view and the organization’s perspective. Optimizing customer relationships requires a complete understanding of all customers; profitable as well as non-profitable, and then to organize business processes to treat customers individually based on their needs and their values (Chen and Popvich, 2003).

Companies pursuing a CRM initiative often make the dangerous mistake of trying to correct their own customer facing process deficiencies. They do this, not by agreeing internally on how users would like a process to be done, but rather by purchasing CRM software that contains one or more business processes that have been pre-built by the CRM vendor. By doing this, they force the “not-built-here” process upon system users (Goldenberg, 2002).

By rethinking the quality and effectiveness of customer-related processes, many organizations began to eliminate unnecessary activities, improve outdated processes, and redesign activities that had failed to deliver the desired outcomes. Then, by re-creating the process through an understanding of the capabilities of the technology, the outcomes were more predictable and the promises for a meaningful return on investment (ROI) more substantial and realistic. The metrics for success became the improved effectiveness in serving the customer (www.darwinmag.com).

While both technology and business processes are both critical to successful CRM initiative, it is the individual employees who are the building blocks of customer relationships. The people component is the most difficult component given the sensitivity of users to change. CRM systems, which support and/or automate integrated customer processes, often, imply changes in the way users do their day-to-day jobs. Users who have not properly understood the reasons for the change, who do not participate in formulation of change, who do not receive sufficient information about the change, or who do not get sufficiently trained on the change will often be adverse to that change. The story of “the rotten apple spoiling the lot” is relevant here since negative feedback can substantially harm a CRM systems success (Goldenberg, 2002).

CRM initiatives require vision and each and every employee must understand the purpose and changes that CRM will bring. Re-engineering a customer-centric
business model requires cultural change and the participation of all employees within the organization. Some employees may opt to leave; others will have positions eliminated in the new business model. Successful practice of CRM means that some jobs will be significantly changed. Management must show its commitment to an ongoing company-wide education and training programme. In addition to enhancing employee skills and knowledge, education boosts motivation and commitment of employees and reduces employee resistance. Additionally, management must ensure that job evaluations, compensation programme, and reward systems are modified on a basis that facilitate and reward customer orientation. After all how people are measured will determine their behaviour (Chen and Popvich, 2003).

2.16 A STRATEGIC FRAMEWORK FOR CRM

Customer Relationship Management (CRM) is increasingly found at the top of corporate agendas. Companies large and small across a variety of sectors are embracing CRM as a major element of corporate strategy for two important reasons: new technologies now enable companies to target chosen market segments, micro segments or individual customers more precisely and new marketing thinking has recognized the limitations of traditional marketing and the potential of more customer-focused, process-based strategies. CRM also more recently called customer management, is a business approach that seeks to create, develop and enhance relationships with carefully targeted customers in order to improve customer value and corporate profitability and thereby maximize shareholder value.

CRM is often associated with utilizing information technology to practice relationship-marketing strategies. As such CRM unites the potential of new technologies and new marketing thinking to deliver profitable, long-term relationships. Although the term CRM is relatively new, the principles behind it are not unfamiliar. Organizations have for a long time practiced some form of CRM. What sets present day CRM apart is that the organizations can manage one-to-one relationships with their customers—all one thousand or one million of them. In effect, CRM represents a renewed perspective of managing customer relationships based on relationship marketing principles; the key difference being that today these principles are applied in context of unprecedented technological innovation and market transformation. The marketplace of the twenty-first century bears little resemblance to
bygone eras characterized by relatively stable customer bases and solid market niches.

Nowadays, customers represent a moving target and even the most established market leaders could be ousted quickly from their dominant positions. The urgent need to find alternative routes to competitive advantage has been driven by profound changes in the business environment, including: the growth and diversity of competition; the development and availability of new technology; the escalating expectations and empowerment of the individual; the advent of a global operating environment; and the erosion of conventional timeframes in the electronic-enabled era. These changes have reinforced the adaption of wider business horizons and more customer-oriented perspectives.

Companies have realized that it is no longer simply enough to offer excellent products; ease of duplication and market saturation can quickly dispel initial indications of a winning formula. Today’s key differentiator is exceptional service provided on a consistent and distinctive basis. Service is more difficult than a product because service requires customer input and involvement. Competitive advantage can therefore be gained by leveraging knowledge of customers’ expectations, preferences and behaviour. This involves creating an ongoing dialogue with customers and exploiting the information and insights obtained at every customer touch point.

CRM is aimed at increasing the acquisition and retention of profitable customers by, respectively, initiating and improving relationships with them. The development of strategically targeted relationships is enabled through the opportunities afforded by advances in information technology (IT). Companies today can seek to improve their customer management by utilizing a range of database; data mart and data warehouse technologies, as well as a growing number of CRM applications. Such developments make it possible to gather vast amount of customer data and increase customer feedback, as well as to analyze, interpret and utilize them constructively. Furthermore, the advantages presented by increasingly powerful computer hardware, software and services are augmented by the decreasing costs of running them. This plethora of available and more affordable tools of CRM is enabling companies to target the most promising opportunities more effectively.
The strategic framework for CRM shown in the figure above is based on the interaction of five cross-functional business processes that deal with strategy formulation, value creation, information management, multi-channel integration and performance assessment. These processes make a greater contribution to organizational prosperity collectively than they can individually and they should therefore be treated as an integrated and iterative set of activities. It is also important to point out that the framework is not intended to include all the aspects of implementation; for CRM practices issues vary greatly from one organization to another. However, CRM practices should begin with strategic planning and end, ultimately, with performance improvement.

The arrows in figure above represent interaction and feedback loops between the different processes, emphasizing the iterative nature of CRM. For example, likely shifts in disintermediation within a given industry, considered within the strategy development process, will have an impact on channel choices within the multi-channel integration process. Likewise, changes within the multi-channel integration process will have a direct impact on decisions taken within the value creation process. Further, decisions on choice of customer segments taken as part of the strategy development process may be changed as a result of economic modeling undertaken as part of the value creation process.
The framework is the result of extensive research and the synthesis of experience. It was developed using a number of sources, including: an extensive review of the CRM and relationship marketing literature; in-depth interviews with senior executives working in CRM, marketing and IT; interviews with a variety of CRM vendors; discussions with a number of leading CRM and strategy consultancies; and many individual and group discussions with corporate representatives at CRM seminars and workshops.

The main attraction of the strategic framework for CRM is that it can enable organizations to identify and address those CRM issues, which prevent them from achieving better performance. In considering each of the five CRM processes, working essentially from left to right in figure 2.5; organizations need to ask themselves some fundamental questions.

Process 1: the strategy development process
- What is the status and what is supposed to accomplish?
- What kinds of customers are required and how to segment them?

Process 2: the value creation process
- How to deliver value to the customers?
- How to increase the customers’ lifetime value?

Process 3: the multi-channel integration process
- How to reach customers and how they can get to us?
- How is an excellent customer experience, deliverable at a low cost?

Process 4: the information management process
- How to organize information on customers?
- How to replicate the customers’ mind to improve the CRM activities?

Process 5: the performance assessment process
- How to increase profits and share the value of holder?
- How to set standards, measure outcomes and enhance the performance? (Adrian and Pennie 2005)
While these five CRM processes have universal application, the extent to which they are emphasized will vary according to each organization’s unique situation. Large customer-facing businesses will certainly need to review these CRM processes and the key questions underpinning them. However, small and medium-sized enterprises (SMEs) and other organizations such as those in the public sector may need to modify some of the questions to ensure they are of utmost relevance.

2.17 INTEGRATION OF CUSTOMER INFORMATION

The process of extracting customer data from legacy systems (i.e., the property management system) and integrating the entire database in the property that contains guest information is complex and time-consuming. The data sources may include guest history, external guest profiling systems, restaurant club programmes, sales and catering system information and other data.

- **Customer profiling:** Demographic and Psychographic information can be appended to a large percentage of the customer database. This is followed by the practice of effective marketing programmes to attract similar customers to build revenue.

- **Direct marketing:** The utilization of the integrated customer information for direct marketing offers is the goldmine of any CRM effort. Highly profitable offers can provide business during slow periods. These offers can be communicated via mail or e-mail.

- **Best customer/extraordinary service:** The Mecca of all is to understand if the most profitable customers are the most satisfied. This involves very detailed satisfaction analysis, combined with valid financial data about each customer. It’s uncertain whether anyone is there in the hospitality industry, but certainly companies are getting very close to understanding the most profitable customers and most profitable micro-markets.
2.18 CRM SYSTEMS

CRM system is the system that is used for collecting and maintaining customers and competitors data, and providing tools to analyze the report for business objective, where customer insight of the perception. The function of CRM system is to process and collect vast amount of customer data and use that information to fulfill the business model. Customer information will affect resources layer such as sales, marketing, etc., offering (price and cost), and the activities and organization of the business model. The CRM system is based mostly on open and flexible technologies. In addition, the CRM system consisted of 2 main parts, the first is software and data processing logic, which are core functions to determine and process the data; the second part is databases and hardware, where data was stored. But with CRM components, a lot of components depend on the type of works and business requirement. Some of the components are as following:

- An opportunity management component
- A configuration component
- A partner relationship component
- An interactive selling component
- A call center component
- An analysis component
- A campaign management component.

2.19 THE DEVELOPMENT OF THE CUSTOMER ORIENTED COMPANY

After the change from seller’s to buyer’s markets about 40 years ago, the quality orientation, Total Quality Management (TQM), became increasingly important in companies. Hence, until the end of the 1980s, firms focused mainly on the improvement of manufacturing processes, on the product quality and the integration of in-house product data. Thereafter, companies started to align the product quality to the customer’s needs and, within the scope of Business Process Re-engineering (BPR), to redesign business processes. Due to information systems, such as Sales Force Automation (SFA) or Computer Aided Selling (CAS), business processes were customized and production or sales data integrated. Since the 1990s, many companies had to align the complete value chain and the organization to
customers, especially in high competitive markets. With the rise of Customer Relationship Management (CRM), many companies became more customer-oriented. Thereby, the sale of a product or service is not considered as a business transaction only, but as the beginning of a customer relationship. In addition, a consistent view of customers in enterprises often is only possible by integrating all customer relevant data in a CRM information system.

Within the field of CRM, several trends can be observed: CRM became more and more systematic, individual, differentiated and, due to innovations in information technology (IT), highly technical in the last years. The profit orientation and the controlling of CRM and CRM processes also increased.

The main ideas of customer (relationship) management are not new, but as old as people doing business. Concepts like customer satisfaction and retention, which have been discussed since the 1970s, are still the basic for long-term and profitable relationships. However, the importance and potential of CRM is highly increasing due to technological innovations and software in information technology (IT).

2.20 CRM AND INFORMATION TECHNOLOGY

Davenport and Short (1990) stated that information technology (IT) for a very long period of time has been seen and recognized as an enabler to make firms radically re-engine their business process if they want to achieve dramatic efficiency and importance in performance. CRM also is synonymous to information technology and in most cases the core of it.

Exploitation of IT that will facilitate the use and management of information is regarded as one of the key contributors to future marketing success, both for large and small firms (Domegan, 1996). IT plays an important role in CRM, enabling the assembly of customer information and the creation of customer knowledge (Cooper et al., 2000), which is critical for maintaining customer relationships (O'Malley and Mitussis, 2002). Ryals and Payne (2001) stress that CRM seeks to provide a strategic bridge between IT strategies and marketing strategies in building long-term relationships and profitability.

The push towards better CRM technologies is a natural result of the search for businesses for greater productivity and efficiency in customer facing operations like
sales, marketing, customer service and support (Greenberg, 2004). The rapid rate at which CRM technologies are evolving gives businesses many tools, which can enable them to enhance customer relationships. According to Trepper (2000) CRM technologies are designed to automate sales and service functions, aggregate customer information into data warehouses and data marts, and manage collaborations with customers through an expanding number of interaction points. CRM technological initiatives most commonly are implemented in functional areas such as customer support and service, sales and marketing, so as to optimize profitability and revenue (Croteau and Li 2003). The software and hardware applications for CRM are focused upon automating primarily three areas:

- **Business operation processes** (operational CRM): such as order management, customer service, marketing automation and field service;
- **Business performance processes** (analytical CRM): such as campaign and data warehousing; and
- **Communication and coordination processes** (collaborative CRM): such as voice mail, e-mail, the Web, and portals (Crosby and Johnson, 2001).

Chen and Popovich (2003) emphasize that information technology assists and supports business process reengineering, thus facilitating work practice changes and adapting innovative ways that link a company with its customers, suppliers and other stakeholders. They argued that CRM application is capable of leveraging innovations in technology to gather and analyze customer data patterns, interpret customer behaviour, develop predictive models, respond with timely and effective customized communications, and deliver product and service value to every individual customer.

Peppard (2000) suggests that technological advances in global networks, convergence and improved interactivity, are key and critical to e-business and CRM growth. The core functionality of a CRM product is the ability to maintain a single, cohesive view of the customer for the customer-facing functions of sales, services and marketing (Trepper, 2000). This view is shared by Chen and Popovich (2003) that the use of technology can make companies enhance and optimize their interaction with customers by creating an integral view of customers to learn from their past interactions to optimize future ones.
CRM technology enables firms to harness the power of database, data mining and interactive (e.g. Internet) technologies to collect and store unprecedented amount of customer data, build knowledge from the data, and disseminate the resulting knowledge across the organization (Bose, 2002). Thus, it seems that both over and underestimating the role that technology plays in CRM initiatives can have detrimental effects on a firm’s relationship management efforts.

From a customer’s perspective, effectively identified and practiced technology can help companies directly match customer desire for customization of the products and services they seek and provide personalized after-sale service and support based on customer profile data. From a business standpoint, technology can help identify the most valuable customer relationships and equip employees with abundant and relevant information about those customers in order to provide more effective sales and service. In effect, CRM technology can integrate the enterprise, fostering an environment of shared customer knowledge and focusing the right employees on serving the right customers (Galbreath and Rogers, 1999).

Data sources that are used in CRM systems are, e.g., customer service inquiries, customer surveys, or sales force input such as purchase history, shipping history, account data, demographic data, and Web sales data. Since a part of this information is obtained through enterprise resource planning (ERP) systems, ERP databases must be integrated with some aspects of CRM databases.

Furthermore, CRM technology includes different aspects of information management, including integration with other enterprise-related systems and methods that convert data to usable information.

CRM uses technology, strategic planning, and personal marketing techniques to build a relationship that increases profit margins and productivity. It uses a business strategy that puts the customer at the core of a company’s processes and practices. The practice of CRM software should come along with a change of a company's mindset to become more customer oriented. It requires this customer focused business philosophy to support effective sales, marketing, customer service, and order fulfillment.
2.21 CRM INFRASTRUCTURE

The technical infrastructure of CRM must integrate the customer information that flows through diverse departmental touch points and customer channels. The CRM technology must provide a way to process this sea of information so that, it becomes available when and where it is required. Through CRM technology the customer experience will be identical no matter what channel is used (Reynolds et al., 2002).

In business today, as has often been noted, change is the only constant, and change is occurring at an ever-increasing rate. Accelerating change has a direct effect on all aspects of business — customers, technology, organizational culture and business strategies. As a company positions itself to respond to change, information requirements also change.

A key challenge to businesses in the 21st century is practicing an information infrastructure that enables rapid responses to competitive pressures and the capability to survive into the future. Corporate CRM strategies are dependent on an information infrastructure comprised of various technologies that enable organizations to store, access, analyze, and manipulate large amounts of customer data. Most organizations with large numbers of customers to manage, frequently in the thousands or millions, require a combination of sophisticated technologies to practice CRM. Four major areas of technology contribute to a successful CRM project:

1) Data warehousing

2) Database management systems

3) Data mining

4) Business analysis software (Sharp 2003)

2.21.1 Data Warehouse

Large organizations routinely collect vast amounts of personal information about their customers through the transactions they conduct. Organizations such as financial institutions, healthcare providers, travel agencies, retailers, automotive manufacturers, and communication companies, among others, collect this data to use in a variety of ways and for several reasons:
- For targeted marketing based on individual preferences
- To analyze customers for profitability
- To evaluate their own service levels

However, getting positive, measurable business results from these activities do not come from simply gathering information and storing it. Many CRM strategies have failed to achieve objectives because of difficulties in developing a strong understanding of who customers are and what they really want, and applying this knowledge to establish customer relationship strategies and processes (Sharp 2003).

Chen and Popovich (2003) defined data warehouse as an information technology management tool that gives decision makers of an organization instant access to information by collecting “islands of customer data” throughout the enterprise by combining all databases and operational systems such as sales and transaction processing systems, financial, human resources, inventory, purchase, and marketing systems. According to Greenberg (2004) data warehouse is interpreted as an enterprise-wide, cross-functional repository of data, which is organized around subjects that have collected many sources and merged centrally into a coherent body over time. Chen and Popvich (2003) further explained that data warehouses extract, clean, transform and manage a huge amount of data from different systems, which allows it to create a historical record of all its customer interactions.

According to Dyché (2000) to be able to have a total customer view as in the words of “a single version of truth”, all data must be stored in a centralized cross-functional data where both current and past information moves in and out. The sources for data warehouse can be those from within the company itself, customers and other third parties. Data warehouse, which makes it possible for companies to be able to extract knowledge about customers in a constant manner, reduces the need for traditional marketing research tools such as customer survey and focus groups.

In CRM, data warehouse is considered an important aspect because of its ability to transform consolidated customer data into customer intelligence, which then provides a basis for understanding the behaviour of the customer so that the right decision on how to service the customer is made (Chen and Popvich, 2003). Dyché (2002) pointed out that if the data is not fully integrated the view of the customer
relationships is based on a fraction of the customer’s real interactions with the company, which then leads to false and un-holistic view of the customer. Examples of customer data can be said to include all sales, promotions and customer service activities, information relating to billing and account status, customer interaction, back orders, product shipment, product returns, claims history, and internal operating cost, coupled with transaction details that can enhance the understanding of customers and their purchasing patterns. The application of data warehouse according to Chen and Popvich (2003) can provide the following benefits to an organization:

1) Accurate and more rapid access to information to facilitate responses to questions from customers

2) Quality of data and filtering to eliminate unwanted and duplicate data

3) Customer profitability analysis, customer profiling and retention modeling enhanced and facilitated because data is extracted, manipulated and drilled down quickly.

2.21.2 Data Mining

Data is at the heart of most companies’ core business processes. It is generated by transactions in operational systems regardless of industry, retail, telecommunications, manufacturing, utilities, transportation, insurance, credit cards, and hotel industry, for example. Adding to the deluge of internal data are external sources of demography, lifestyle, and credit information on retail customers, and credit, financial, and marketing information on business customers. The promise of data mining is to find interesting patterns lurking in all these billions and trillions of bytes. Merely finding patterns is not enough. One must respond to the patterns and act on them, ultimately turning data into information, information into action, and action into value.

In the narrow sense, data mining is a collection of tools and techniques. It is one of the several technologies required to support a customer-centric enterprise.

In a broader sense, data mining is an attitude that business actions should be based on learning, that informed decisions are better than uninformed decisions, and that measuring results is beneficial to the business. Data mining is also a process and a
methodology for applying the tools and techniques. For data mining to be effective, the other requirements for analytic CRM must also be in place. In order to form a learning relationship with its customers, a firm must be able to:

- Notice what its customers are doing
- Remember what it and its customers have done over time
- Learn from what it has remembered
- Act on what it has learned to make customers more profitable

To avoid wasting analytic effort, it is also important to measure the impact of whatever actions are taken in order to judge the value of the data mining effort itself. If we cannot measure the results of mining the data, then we cannot learn from the effort and there is no virtuous cycle. Measurements of past efforts and ad hoc questions about the business also suggest data mining opportunities:

- What types of customers responded to the previous campaign?
- Where do the best customers live?
- Are long waits at automated tellers a cause of customers’ attrition?
- Do profitable customers use customer support?
- What products should be promoted?

The data mining methodology has 11 steps:

1) Translate the business problem into a data-mining problem.
2) Select appropriate data.
3) Get to know the data.
4) Create a model set.
5) Fix problems with the data.
6) Transform data to bring information to the surface.
7) Build models.
8) Assess models.
9) Deploy models.
10) Assess results.

11) Begin again.

For most businesses, relatively few more than six billion people are actually prospects. Most can be excluded based on geography, age, ability to pay, and need for the product or service. A company selling backyard swing sets would like to send its catalogue to households with children at addresses that seem likely to have backyards. A magazine wants to target people who read the appropriate language and will be of interest to its advertisers. And so on.

Data mining can play many roles in prospecting. The most important of these are:

- Identifying good prospects
- Choosing a communication channel for reaching prospects
- Picking appropriate messages for different groups of prospects

Although all of these are important, the first identifying good prospects are the most widely practiced (Berry and Linoff, 2004).

### 2.22 ENTERPRISE RESOURCE PLANNING (ERP)

Enterprise resource planning, according to E.M. Shehab et al. (2004) is a business management system that comprises integrated sets of comprehensive software. Chen (2001) explains ERP as a system highly integrated with back-office function. ERP links all areas of firms operation such as manufacturing, distribution, order management, human resources and financial systems with external customers and suppliers which then becomes a highly integrated system available to all.

Chen and Popvich (2003) noted that ERP is not the same as CRM and there are some differences between them. While ERP can be described as integrated back office functions, CRM combines both front and back office functions so as to maintain relationships and build loyal customers. Also, ERP integrates all functional areas of a firm with its suppliers and customers but CRM improves front applications and customer touch points so that customer satisfaction and profitability can be optimized. Further, ERP systems address fragmented information systems while CRM addresses fragmented customer data.
E.M. Shehab et al. (2004) added that when ERP is implemented successfully, it could be used to manage and integrate all the business functions within an organization. ERP has the ability to facilitate the flow of information between all supply chain processes both internal and external in an organization. They further stated that ERP allows companies to have full integration of the various departments and it has been described as the information infrastructure that can perform almost everything from entry to sales to order to customers.

### 2.23 INTERNET TECHNOLOGY

Internet technologies are making sweeping changes in the software industry and almost every class of software application is incorporating Internet functionality as a core feature and this is also true in CRM applications. Companies are using Internet technologies to build a stronger relationship with their customers by improving customer service, increasing sales efficiency cycle and the development of more effective marketing programmes (Chou et al., 2002). In this regard, they have stated that CRM provides a new opportunity for Internet service firms, and as such Internet service firms are coming out with strategic initiatives to offer their clients CRM solution.

Gilbert et al. (2003) postulated that the Internet is experiencing a striking evolvement and provides the underpinning for electronic mail, the World Wide Web (www) and electronic commerce. They further argued that the Internet has been propagated as a near perfect market, which provides an unparalleled transparency beyond the capabilities of conventional media. This perspective was further boosted by Mols (2000) that the application of the Internet has led to the belief that it will have weighty impact on the way service firms such as insurance companies, law firms, distributors and financial service firms will do business in the future. The author added that the Internet is believed to change the way and manner firms interact with their customers and thus change the way they initiate, develop and terminate relationships with them.

Kotler (2000) mentioned that the Internet has potential benefits like buyers’ convenience, information and few hassles, lower cost to marketers, relationship building tool that can accrue both the firm and the customer. According to Mols
(2000) the Internet has made the market become more transparent, leading to increased price competition in business that offers easily comparable services and which are unable to build significant switching barriers or close relationships with customers. Advances in Internet technologies have greatly enhanced the flow of dialogue, and the capture, interpretation and dissemination of information. Internet technologies enable the development and management of more complex multiple channels and cross-channel relationship.

Kristin et al. (2002) stated that the Internet can enable customer relationship management strategy in three ways:

**Level 1: Getting information out to customers**

The Internet can provide an avenue for getting information about your business and your products and services to your current and potential customers. At its most basic level, this means letting them know you are there and how to reach you in the “real world.” It can be as simple as a Web-based brochure that describes your products and services and tells customers where you are located and how to reach you by phone.

**Level 2: Getting information back from customers**

The next level of sophistication means you not only provide information to your customers, but also learn more about them and from them. The Internet allows you to collect all sorts of useful and sometimes not so useful data about your customers. Sometimes this means customers respond to questions and provide you useful information. In other cases you may be able to collect information that’s very useful to your business without interfering at all with the customer experience.

**Level 3: E-commerce sales**

At its highest level, you can use the Internet to deliver products and services to your customers. You can have mutually rewarding relationships with customers you never see, meet, or speak with! Your entire relationship can successfully exist in cyberspace. With the technology available today, you can sell your products over the Internet, respond to customer questions, offer additional products and services based on previous purchases, and evaluate customers’ satisfaction with your offerings all
without ever dealing with them in person. Leveraging the Internet can free up the resources to deliver higher levels of value to customers in new ways.

2.24 E-CRM COMPONENTS IN HOTEL INDUSTRY

- **Sales functionality**: Contact management profiles and history, account management including activities, order entry, proposal generation.

- **Sales management functionality**: pipeline analysis (forecasting, sales cycle analysis, temporary alignment and assignment, roll up and drill down reporting).

- **Telemarketing/Telesales functionality**: call list assembly, auto dialing, scripting, and order taking.

- **Time management functionality**: single user and group calendar/scheduling, e-mail.

- **Customer service and support functionality**: incident assignment, escalation, tracking/reporting, problem management/resolution, order management/promising, warranty/contract management.

- **Marketing functionality**: campaign management, opportunity management, web-based encyclopedia, configuration, market segmentation, and lead generations/enhancement/tracking.

- **Executive information functionality**: extensive and easy-to-use reporting.

- **ERP integration functionality**: legacy systems, the web, and third party external information.

- **Data synchronization functionality**: mobile synchronization with multiple field devices, enterprise synchronization with multiple databases/application servers.

- **E-commerce functionality**: manages procurement through EDI link and web-server and includes B2B and B2C applications.

- **Service support functionality**: Worker orders, dispatching, real time information transfer to field personnel via mobile technologies.
2.25 CUSTOMER VALUE IN CRM PROCESS

Committed customers are profitable to an organization for long term. Customer commitment forms when a customer’s expectation is satisfied and the customer realizes fair value from his/her relationship with the organization. From an organization’s perspective, this value reflects customer equity, but from a customer’s perspective, it represents the customer’s perceived value of the relationship.

Kotler (2000) defined customer value as the difference between the benefits which enterprises obtained from customer of enterprises and the costs incurred in attracting and serving customers. Customer value is fundamental to customer relationship management.

It can be a starting point of customer relationship management to understand and measure the true value of a customer (Kim et al., 2003). As enterprises successfully improve the lifetime value of customers, they also improve their investment returns, enhance customer loyalty, increase the profits from the existing customers, and improve the value of their database, and so on. The generation of superior customer value is on the base of a company’s competitive advantage (Guenzi & Gabriele, 2007). Furthermore, superior customer value creates a comparative advantage if the company can financially benefit from the exchange in the long term, like creating such value more efficiently and effectively than its competitors (Slater and Narver, 2000).

Effective CRM has become a strategic imperative for companies in virtually every business sector. Companies are moving closer to their customers, expending more effort in finding new ways to create value for their customers and transforming the customer relationship into one of solution finding and partnering rather than one of selling and order taking (Sawy and Bowles, 1997).

Organizations will be more successful if they concentrate on obtaining and maintaining a share of each customer rather than a share of the entire market (Peppers and Rogers, 1995). It has been illustrated in practice that retaining an existing customer is more profitable than acquiring a new one (Reichheld and Sasser, 1990).

Each relationship exchange incurs transactional or non-transactional data. Transactional data typically include sales amount, transaction time, place and buyers
while non-transactional data may include inquiries or feedback in the form of complaints or suggestions. Both transactional and non-transactional data must be organized into an integrated customer data profile because such information is what makes customer interaction powerful. (Wells et al., 1999)

Such integration is a foundation of simplifying customer support activities and reducing transaction costs so that the organization may not only differentiate its products but also offer lower prices.

Companies try to segment their customers by identifying groups of persons with need structures that are as homogeneous as possible within each group and significantly heterogeneous between groups. These groups can then be addressed with a specially designed but also standardized strategy. The goal is to solve the conflict between the intentions to satisfy customer needs as individually as possible but also to allocate marketing resources as economically as possible (Machauer and Morgner 2001).

2.26 PRIMARY STAGES OF THE CRM VALUE CHAIN

- **Customer Portfolio Analysis**: This involves an analysis of the actual and potential customer base to identify which customers you want to serve in the future. At the top of the list will be a strategically significant customer, including those who will generate profit (value) in the future.

- **Customer Intimacy**: This enables getting to know the identity, profile, history, requirements, expectations and preferences of the customers that you have chosen to serve.

- **Network Development**: This helps identify, brief and manage relationships with your company’s network members. These are the organizations and people that contribute to the creation and delivery of the value propositions for the chosen customers. The network can include external members such as suppliers, partners and owners/investors, as well as one important internal party, employees.
Value Proposition Development: This involves identifying sources of value for customers and creating a proposition and experience that meet their requirements, expectations and preferences.

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

1) **Process:** This follows how the company will go about the important processes of customer acquisition, customer retention and customer development, and how it will measure the performance of its CRM strategy.

2) **Structure:** This patterns how the company will organize itself to manage customer relationships.

These five primary stages of the CRM value chain represent three main sequential phases of CRM strategy: analysis, resource development and implementation.

2.27 **CRM GOALS DIFFERENTIATED BY DEPARTMENTS**

Different departments have different objectives when adapting a CRM program. Some examples of department-specific goals are presented (Dyché, 2002):

- **Customer Support:** Customer service objectives are, for instance, obtaining basic information about customers, customer satisfaction monitoring and faster complaints resolution, to raise customer retention rates, increase self-service efficiencies, and mitigate the need for in-person assistance.

- **Marketing:** The marketing department is interested in performing dynamic customer segmentation to begin more targeted customer communications and campaigns, refined marketing campaigns, customer satisfaction by segment analysis, and tracking campaign responses.

- **Sales:** The sales department objectives are to deploy sales force automation across regions, to track contact history, streamlining sales process, and to qualify prospects based on past experience.
- **Field Service**: Field service implies the service or repair of customer equipment on the customer's premises. Field service engineers need to track historical customer outages and repair histories.

### 2.28 PRACTICES OF CRM

CRM practices are a way of creating active, participatory and interactive relationship between business and customer. The actual objective is to achieve a comprehensive view of customers, and be able to consistently anticipate and react to their needs with targeted and effective activities at every customer touch point. It is known that it takes five times more money to acquire a new customer than to retain the existing customer. To survive in this global and competitive market focusing on the customer has become very important. CRM practices teach its staff no matter where, when, or how a customer interacts, the contact is personalized, consistent, and demonstrate that the company knows and values that client.

CRM practices include different ways of maintaining customer relationship by adopting various methods of putting the customer in the center of organization activity by providing technological assistance and, taking complete view of customer needs and requirement. Various practices are followed by hotels but every time different practices are designed after listening to customers in such ways to motivate the customer to return to the same company.

The practice of CRM impacts on a number of functions within an organization including sales, IT, operations, marketing and finance. Bradshaw and Brash (2001) also asserted that practicing CRM is certain to involve the deployment of new technologies that require a re-examination of business process which should lead technology decisions. Still many companies have difficulty in practicing an effective CRM programme because they allow software to drive their approach to customer management, or retrofit a customer strategy to match the CRM technology they have purchased. Bradshaw and Brash (2001) further noted that CRM applications must not only integrate functionally at the front office but also integrate with back office functions such as manufacturing and billing.

Star hotels adapt CRM practices on various dimensions namely: Customer needs, Management and leadership, Technology, CRM-oriented websites, Customer

2.28.1 Customer Needs

Particular characteristics and specifications of goods or services as determined by a customer is called customer needs. One of the most unforgiving errors is, not understanding the customers' needs. This most basic, but surprisingly elusive, information is essential to the success of any product or service offering. Many companies mistakenly believe they have an adequate understanding of the needs of their customers. But these same organizations often experience product or solution offerings that don't reach their potential.

Unfortunately, determining the real needs of a potential customer is not as simple as asking them what they want. Many people are unable to clearly articulate their most pressing and compelling product or service requirements because determining how products could or should be improved is not forefront in their mind. To learn what one customer really needs, one must watch them and talk with them. One must be sure you understand their concerns and overall business issues.

2.28.2 Management and Leadership

Management and leadership are important for the delivery of good health services. Although the two are similar in some respects, they may involve different types of outlook, skills, and behaviour. Good managers should strive to be good leaders and good leaders, need management skills to be effective.

Leaders should have a vision of what can be achieved and then communicate this to others and evolve strategies for realizing the vision. They motivate people and are able to negotiate for resources and other support to achieve their goals. The attitude of a good leaders includes: a) sense of mission, b) being charismatic, c) able to influence people to work together for a common cause, d) being decisive, and e) using creative problem solving to promote better care a positive working environment.
Managers ensure that the available resources are well organized and applied to produce the best results. In resource constrained and difficult environments of many low – to middle-income countries, a manager must also be a leader to achieve optimum results. Certain attributes are required for a manager to be effective, including: a) Clarity of purpose and tasks, b) Good organizational skills, c) Ability to communicate tasks and expect results effectively, d) Ability to negotiate various administrative and regulatory process, and e) Good delegation skills.

2.28.3 Technology

The purposeful application of information in the design, production, and utilization of goods and services, and in the organization of human activities is called technology. Technology is generally divided into five categories: a) **Tangible**: blueprints, models, operating manuals, prototypes. b) **Intangible**: consultancy, problem solving, and training methods. c) **High**: entirely or almost entirely automated and intelligent technology that manipulates ever-finer matter and ever-powerful forces. d) **Intermediate**: semi automated partially intelligent technology that manipulates refined matter and medium level forces. e) **Low**: labor-intensive technology that manipulates only coarse or gross matter and weaker forces.

Using CRM technology can allow a hotel to run targeted marketing campaigns and measure how effective they are. It can also help businesses understand why customers complain. CRM technology in hotel industry a) Improves customer satisfaction and profitability, b) Strengthens brand loyalty, c) Increases sales to corporate accounts, and d) Increases cross-chain sales. CRM technology enables star hotels to harness the power of database, data mining and interactive technologies to collect and store unprecedented amount of customer data, build knowledge from the data, and disseminate the resulting knowledge across the organization.

2.28.4 CRM-oriented Websites

A website is a set of related web pages served from a single web domain and hosted on at least one web server, accessible via a network such as the Internet or a private local area network through an Internet address known as a Uniform resource locator. Too frequently companies’ websites tend to be self-focused, rather than customer-centric. Due to the average visitor’s short attention span, simply bragging
about product attributes will drive them away. It is necessary to make a website as customer-focused as possible in order to keep them on your site, educate them about your product, and convert them to a sale.

Understanding your customer and his needs is the primary key to creating CRM-oriented websites. The main role of hotel industry is to create useful and efficient websites, with high levels of communication. It is clear that communication of the content to visitors should be the primary objective of the layout, believing that aesthetics is the most important factor, influencing visitor’s experience with the website. If people find value in your website and you show that you understand and care about them you will go a long way toward creating a good long lasting relationship between you and your customer. Here are some tips on how to achieve a CRM-oriented website: a) Segment your audience, b) Recognize customers’ needs, c) Deliver relevant content, d) Keep it simple, e) Make it professional, and f) Highlight the benefits.

2.28.5 Customer Satisfaction

Customer satisfaction is a measurement of how pleased customers are with a particular product or service. Satisfied customers are likely to make repeat purchases and often refer others. Customer satisfaction is difficult to measure because it is hard to quantify the satisfaction level. It represents a modern approach for quality in organizations, and serves the development of a truly customer-focused management and culture.

Measuring customer satisfaction offers an immediate, meaningful, and objective feedback about customer preferences and expectations. Customer satisfaction perspective is the most important because customer satisfaction is directly linked to an organization’s profits. Proper CRM practices can potentially impact customer satisfaction ratings and can potentially lead to increased customer retention. Customer satisfaction typically includes the following benefits: a) Improving service quality, and b) Establishing relationships with customers.
2.28.6 Customer Acquisition

It is a way of attracting new customer by examining the market and adopting various practices. This is considered as the first step towards the generation of loyal customers, the main objective of the entire organization. In order to start with acquiring customers, employees have an important and critical role in delivering the CRM practices. Even managers from technologically strong hotels would agree that highly motivated and passionate employees are required to deliver CRM practices. Resources to recruit, train and retain employees are essentials for the success of CRM practices.

The prime activities that need to be followed while adopting CRM practices are customer acquisition for which various view points are put up by different researchers as it is believed that loyal customers are hard to acquire and if they are not treated in an acceptable manner, they will eventually stop doing business with the organization. Hence in order to enhance service experience, hoteliers need to focus on customer interaction. That will lead to maintain a positive relation between the customer and service provider.

2.28.7 Customer Development

Customer development is the practice of gaining customer insights to generate, test, and optimize ideas for products and services through interviews and structured experiments. Customer development is used to help build products that customers want and avoid spending time and money on products customers don't want. It can be used to identify problems and new startup ideas, to test ideas, and to optimize ideas and existing products. In an age, where technological advancement has made it easier than ever to build a product, the question is no longer whether a product can be built, it's whether or not if anyone actually wants it. Customer development helps us learn about our potential customers.

2.28.8 Customer Retention

Customer retention is the activity a company undertakes to prevent customers from defecting to alternative companies. Successful customer retention starts with the first contact and continues throughout the entire life-time of the relationship.
Customer retention is a cost-effective and profitable business strategy that is imperative in today's competitive economic environment. A company’s ability to attract and retain new customers, is not only related to its product or services, but also strongly related to the way it services its existing customers and the reputation it creates within and across the marketplace.

2.28.9 Long-term Customer Relationships

Long-term customers tend to be less price-sensitive and more loyal to the company than one-time buyers. This can result in increased sales and extra profit for the company. In addition to increased profit long-term customers have other positive outcomes for the company too. Satisfied long-term customers tend to spread positive word of mouth promotions and referrals to their family and friends. Satisfied long-term customers tend to be less expensive for the company because they are familiar with the patterns, require less education, and are consistent in their order placement. Increased customer retention makes the employees' work easier and more satisfying, so holding on to the customers is not only beneficial for the company but its’ employees as well.

In order to gain long-term relationships with profitable customers, companies should hold on to their best employees. Especially, in service business, customer-employee relationships are important because employees are part of the service. Research suggests that the quality of relationships is largely determined by how employees at the front line make customers feel. Taking care of the employees and making sure that they are satisfied will help the company to develop long-term customer relationships.

2.28.10 Customer Loyalty

Customer loyalty is all about attracting the right customer, getting them to buy, buy often, buy in higher quantities and bring one even more customers. However, that focus is not how one builds customer loyalty. One builds loyalty by: a) Keeping in touch with customers using email marketing, thank you cards and more, b) Treating the team well so they treat the customers well, c) Showing that one cares and remembering what they like and don’t like, d) Rewarding them for choosing you over your competitors, e) One builds it by sincerely caring for them and figuring out
how to make them more successful, happy and joyful.

2.28.11 Customer Commitment

In relationship marketing, commitment has widely been acknowledged to be an integral part of any long-term business relationship. In most cases it is described as a kind of lasting intention to build and maintain a long-term relationship. There are three different dimensions in commitment: a) Effective commitment describes a positive attitude towards the future existence of the relationship, b) Instrumental commitment is shown whenever some form of investment (time, other resources) in the relationship is made, and c) the temporal dimension of commitment indicates that the relationship exists over time.

2.28.12 Knowledge Management

Knowledge Management (KM) facilitates the processes by which knowledge is created, shared and used in organizations. It is not necessarily about making major investments in technology and sophisticated software applications, or establishing a new office to oversee organizational KM efforts, or managing all knowledge. It is about managing the knowledge that is most important to the organization and using that knowledge in ways that allow employees to work smarter, resulting in production and/or quality improvements throughout the organization.

There are many ways of looking at KM and different organizations will take different approaches. Creating a knowledge environment usually requires changing organizational values and culture, adapting individual employees’ behaviour and work patterns, and providing people with easy access to each other and to relevant information resources.

2.28.13 Customer Expectations

Customer expectations are perceived-value that customers seek from the purchase of goods or services. The expectations should be realistic and should not exceed expectations. In addition, customer expectations are a key factor behind customer satisfaction.

Customer expectations are beliefs about service delivery that serve as standards or reference points against which performance is judged. Since customers
compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services marketers. Knowing what the customer expects is the first and possibly most critical step in delivering good quality service. Being wrong about what customers want can mean losing a customer’s business when another company hits the target, spot on. Being wrong can also mean expending money, time and other resources on things that do not count to the customer. Being wrong can even mean not surviving in a fiercely competitive market.

2.28.14 Information System

An information system (IS) refers to a collection of multiple pieces of equipment involved in the dissemination of information. A combination of hardware, software, infrastructure and trained personnel organized to facilitate planning, control, coordination, and decision making in an organization comprise an IS.

2.28.15 Employee Satisfaction

Employee satisfaction is the terminology used to describe whether employees are happy and contented in fulfilling their desires and needs at work. Many measures purport that employee satisfaction is a factor in employee motivation, employee goal achievement, and positive employee morale in the workplace.

Employee satisfaction is a compulsory part in the job and if your employee is not satisfied it will also affect its performance and he cannot perform well. It is the duty of the business manager to find out the problems and to resolve the issues. Employees are the main assets of the company and it is human capital and without human capital there is no value for the financial capital. So it is most important to keep one’s employees happy and contented to run a successful corporation.

2.28.16 Technical Supports

User-friendly assistance for individuals sans technical problems with electronic devices is vital. The technical support team is composed of individuals that are familiar with the ins and outs of a device. With this knowledge, they are able to troubleshoot most problems that a user experiences. Information on how to reach technical support is usually provided with the packaged materials included with a
device. Technical support may be provided over the phone, through email, or with a live-chat interface.

2.29 PARAMETERS TO MEASURE CRM SUCCESS

- **CRM's ability to impact corporate strategy:** Without a corporate strategy, giving emphasis to a customer-centric approach, no CRM initiative can be made fully successful.

- **Successful technology integration:** The technology, which has been used across different departments of an enterprise, should be integrated to give a comprehensive and successful CRM application.

- **Enhanced strategic partnerships:** For a good CRM implementation, there should be a co-ordinated effort among the different partners of the enterprise.

- **Assimilation of CRM related technologies:** Those who are responsible for the CRM activities should thoroughly be conversant with the technological aspects of that particular technique. Otherwise, misuse or under utilization of these technologies may take place resulting in partial or full failure of those activities.

2.30 KEY FACTORS OF CRM PRACTICES

CRM is a complex and holistic concept requiring appropriate business processes and integrated systems:

- **Strategy first, then CRM**

Strategy is defined as an overall plan for developing resources to establish a favourable position (Bellenger et al., 2004). CGI Group Inc. (2004) noted that a CRM initiative launched without a strategy can lead to a failure. Simply stating “we are going to do CRM” is not a strategy. A CRM strategy needs to clearly define how a firm will be viewed and manage all touch points with your customers and should also define how you plan to achieve results. The strategic view of CRM emphasizes the fact that resources destined for relationship building and maintenance efforts should be allocated based on a customer’s lifetime value to the firm (i.e. estimated net profits over the cause of the relationship). This view thus suggests that all customers are not
equally valuable and that maximum profitability can only be achieved when available resources are invested in customer relationship that provide a desired level of return (Ryals, 2003). The implication that stems from this strategic perspective of CRM is that firms must continually assess and prioritize customers based on their expected lifetime value, if they are to build long term profitable customer relationships. Those who define it as a strategy also tend to stress that it enables firms to build the right type of relationships with each individual customer, which in some instances, implies not to build one at all (Amalia et al., 2003). The strategic view of CRM is not on how relationships are developed and maintained, but also, on how building the right type of relationships can have a substantial positive impact on corporate profitability. Hence, it has been argued that customer relationships should be treated as a portfolio of assets or investments that needs to be actively managed to maximize profitability (Ryals, 2003).

Freeland (2003) suggested that organizations must address four critical strategies and understand the key interplay between them, which are:

1) Identifying the customer
2) Selecting the most appropriate channel to reach the customer
3) Receiving the effects on the brands value
4) Determining the most appropriate CRM capabilities

It is also noted that too many CRM initiatives have an inward focus. The point of CRM is to achieve both, value for stakeholders and customers for a mutually beneficial relationship. Strategy is first, followed by the value creation process. Many executives mistake CRM technology for a marketing strategy and they allow the software vendors to drive their approach to customer management. Yes, CRM systems will lure high-profile customers, but if the system is not congruent with business strategy and based on a sound customer strategy, it will fail in the mid to long-term period (Rigby et al., 2002).

Organizational Culture and Acceptance: Another basic prerequisite for a CRM practice project is internal support and marketing. The initial customer strategy must be supported through a proper internal business culture that gives customer relationship philosophy from top-level management to front of house staff (Haley
Customer Relationship Management (CRM) is the replacement of many processes. This replacement requires change, which most people are afraid of. Researchers point out that permanent change in behaviour is a three-step process: Unfreezing previous behaviour, changing and then refreezing the new patterns. To overcome employee resistance in the CRM context, one needs to focus on is education and communication and participation and involvement. Education and communication helps people to understand the need for change and leads towards a mutual trust for the project. Participation and involvement is the key to success, as people are likely to accept their own work.

**Leadership:** Galbreath and Rogers (1999) pointed out that CRM environments, by nature, are complex and require organizational change and a new way of thinking about customers and about a business in general. Creating such an environment requires more than adequate management of the customer relationship or new technologies, it requires new forms of leadership as well. Because leaders monitor the external environment of an organization they are often the best placed to have a vision or strategic direction of CRM projects. In addition, leaders are influential in the authorization and control of expenditure, the setting and monitoring of performance and the empowerment and motivation of key personnel.

Management attention tends to be focused more on profit than customers, which probably explains why organizations are more reluctant to measure critical dimensions of the value creation process not directly reflected in the financial accounting. There are also likely to exist other constraints in the form of limited management resources, whereby priority is given to technical development, the system being too detailed to produce simple performance measure and a lack of internal expertise resulting in limited sources for obtaining accurate data on CRM to improve internal knowledge (Curry and Kkolou, 2004).

### 2.31 FACTORS’ EFFECTIVENESS ON CRM PRACTICES

The following factors influence CRM practices in star hotels namely: Sales Force Automation, Database and data warehousing, Staff training and behaviour, Business image, Business activity quality, Distribution channels effectiveness, Idea of
customer retention, Long-term customer relations, Globalization and advances in Information Technology, Service quality, and Idea of gaining new customers.

2.31.1 Sales Force Automation (SFA)

Sales Force Automation is a technique of using software to automate the business tasks of sales, including order processing, contact management, information sharing, inventory monitoring and control, order tracking, customer management, sales forecast analysis and employee performance evaluation. SFA is often used interchangeably with CRM; however, CRM does not necessarily imply automation of sales tasks.

The growth of SFA in the hospitality industry in recent years has led to virtually every hotel salesperson having a computer at his or her desk in order to perform his or her sales responsibilities. SFA success depends upon factors such as previous computer experience, management support and ease of system use.

2.31.2 Database, Data Warehousing and Data Mining

The database is called a data warehouse, where current and historic information moves in and out. A data warehouse is a relational database that is designed for query and analysis rather than for transaction processing. It usually contains historical data derived from transaction data, but it can include data from other sources. Data mining is a collection of tools and techniques. It is one of the several technologies required to support a customer-centric enterprise.

Star hotels routinely collect vast amounts of personal information about their customers through their transactions is for several reasons: a) To do targeted marketing based on individual preferences, b) To analyze customers for profitability, and c) To evaluate their own service levels.

2.31.3 Staff Training and Behaviour

Educational preparation for performing a job is provided to staff by the business that has recently hired them before they become active in service to the company. Staff training enhances the capabilities of employees and strengthens their competitive advantage. It is increasingly required to assist the work force in using modern techniques, tools, strategies and materials in their jobs. Effective training will
improve the personal characters, behaviour and professional abilities.

In modern hotel business, it is all about competence in people, and especially the employees’ qualities. The level of service quality depends on the qualities of the staff. The qualities include knowledge, skills and thoughts, which lead to a hotel’s survival and development.

2.31.4 Business Image

In the business world, people often judge a company by the image it presents. Building a business image is not something invented by a public relations firm: It's a reflection of what you do and how you do it. Marketing a business brand means running a first-rate business and letting people know about it. Customers should be encouraged to participate actively in the decision-making process and image building process.

Business image is really important for hotels in order to gain new customers. When most of the hoteliers think about letting the world know about their hotels, they imagine a clever ad. But advertising is one of the most expensive and least effective forms of marketing. Therefore, the practices and programmes being followed by the leading players in this sector and the steps being followed by them enhance customer retention, customer satisfaction and in turn, lead to enhanced profits and brand image in the minds of the customers. It is rightly believed that the practice of CRM would boost the business image, popularity, status and business prospects of star hotels.

2.31.5 Business Activity Quality

The term business activity refers to a task or operation performed as a component of a commercial enterprise for the primary intention of generating a profit. Business activities (also known as “business operations”) can include things like operations, marketing, production and administration.

The business activity quality in hotel industry could achieve remarkable progress on the basis of customer-friendly services and marketing communication strategies. The CRM practice enables star hotels to improve the quality of services rendered by the service providers focused on measures of customer satisfaction.
2.31.6 Effectiveness of Distribution Channels

A distribution channel is the chain of individuals and organizations involved in getting a product or service from the producer to the consumer. Distribution channels are also known as marketing channels or marketing distribution channels.

Technology has created a massive change in the hotel industry and the hoteliers should find out which distribution channels have the highest ROI and adopt their strategy accordingly. Before investing in any distribution channel, hoteliers should start by figuring out who is booking the hotel, what distribution channel did they use to book the hotel, and what people think about the hotel by looking at guests’ reviews. Most importantly, they should invest more time and money in digital marketing in order to drive guests to their "favourite" booking channels. Effective distribution channels management requires hoteliers to regularly assess, review and optimize their distribution channels.

2.31.7 Idea of Customer Retention

Customer retention is the activity a company undertakes to prevent customers from defecting to alternative companies. Successful customer retention starts with the first contact and continues throughout the entire lifetime of the relationship. Customer retention is a cost-effective and profitable business strategy that is imperative in today's competitive economic environment.

Customer retention is a very important aspect in CRM since the acquisition of new customers is much more expensive than retaining the existing ones. The hotel industry recognizes that superior quality of service is one of the crucial factors that will lead to customer retention. This explains the view that instead of trying to acquire new customers, star hotels engulf in customer retention efforts by satisfying existing customers so as to create and maintain long-term relationships.

2.31.8 Long-term Customer Relations

Customer relations refer to the way a business communicates and interacts with the public to gain and retain customers. It is necessary for a business to cultivate good customer relations to attract and keep a loyal base of customers. Customer relations, is the key to understanding consumer motivation.
Long-term relations should be built with only customers who are more profitable enough to ensure win-win situation in the CRM process in the hotel industry. This may be the one of the points that links CRM to the customer lifetime value theory. Star hotels practice CRM enhancing customer satisfaction, loyalty and retention so as to create and maintain long-term customer relations. Without assessing customer relations, it's difficult for a hotel to know how visible it is in terms of attracting customers who keep coming back.

2.31.9 Globalization and Advances of Information Technology

Globalization is a process of interaction and integration among the people, companies and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well being in societies around the world.

Technology has been the main principal driver of globalization. Advances in information technology (IT), in particular, have dramatically transformed economic life. IT has given all sorts of individual economic actors — consumers, investors, and businesses — valuable new tools for identifying and pursuing economic opportunities. IT plays an important role in CRM, enabling the assembly of customer information and the creation of customer knowledge, which is critical for maintaining customer relationships.

In the 21st century, with the increasing levels of globalization in the hospitality industry, IT is important because star hotels will need a good system to manage their inventory, budget, rates, and status of all rooms reservations, as well as managing the guest’s charges. Hotels generally use computers to accomplish this somewhat daunting task. Computers store all of this important information in databases, which dramatically simplify the bookkeeping process.

2.32 FAILURE AND SUCCESS PRACTICES OF CRM

High-quality, well-integrated customer data is the cornerstone of a successful CRM effort (Nelson, 2001). Advances in information technology (IT) is due to high-quality, well-integrated customer data. Advances in information technology (IT) had a
significant influence on CRM (Payne, 2005) but CRM is much more than pure use of information technology and customer databases. It could be divided into three parts: analytical, operational and collaborative CRM.

A successful CRM strategy dictates that both analytical and operational CRM be integrated, and that enterprises understand the difference between segmenting customers (Analytical CRM) and targeting them (Operational CRM). (Nelson, 2001)

Successful practice of CRM initiatives rests on successful cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications. (Bohling et al., 2006)

The most important elements of any CRM practice programme are:

- The establishment of a single, integrated view of the customer.
- Cross-functional processes that enable the swift delivery of integrated service offerings and support to the customer.
- A service vs. product orientation, resulting in the ability to deliver actionable advice to the customer.
- A culture changes from a "relentless focus on internal matters" to a focus on "the customer relationship and understanding the customers underlying needs" (Carol, 2001).

According to Rigby et al. (2002) the CRM success factors can be clustered in four areas:

1) Building a relationship with the right customer while implying the knowledge about the real targeted customer (definition, requirements and lifetime value);
2) Creating a customer strategy before putting into practice a CRM strategy;
3) Changing the organization before practicing CRM;
4) Using appropriate technology suited to the company’s CRM requirements.
Kristin et al. (2002) propounds; for successful CRM practice to focus on five factors:

1. **Strong internal partnerships around the CRM strategy**

   CRM is a way of doing business that touches all areas of your organization. This means that you and your management peers need to form strong internal partnerships around CRM.

2. **Employees at all levels and all areas accurately collect information for the CRM system.**

   Employees are most likely to comply appropriately with the in-house CRM system when they understand what information is to be captured and why it is important. They are also more likely to trust and use CRM data when they know how and why it was collected.

3. **CRM tools are customer-and employee-friendly**

   CRM tools should be integrated into the systems as seamlessly as possible, making them a natural part of the customer service interaction.

4. **Report out only the data you use, and use the data you report.**

   Just because your CRM tool can run a report does not mean it should. Refer to your CRM strategy and then run the data you would actually use, and share that data with your team.

5. **Don’t go high-tech when low-tech will do.**

   Organizations that successfully practice CRM look for the simplest solution when practicing their CRM strategy. A low-tech solution that works for the people who actually use it is more effective than a high tech solution that is cumbersome, costly and apt to be discarded or inconsistently practiced.

   Sharp (2003) stated that developing and practicing effective and successful customer relationships through the formal process of a CRM strategy is not an event, but an ongoing process, and it needs to be strategically managed and integrated at all levels within an organization by every employee. Ultimately, CRM is all about increasing customer profitability by identifying detailed customer segmentation,
defining marketing communication strategies, and providing the intelligent decisions to more effectively drive retention, profitability, and customer satisfaction.

Based on the foregoing analysis of today’s customer, there are four distinct stages in establishing and maintaining a successful corporate CRM process:

- **Interacting** — referring to the series of transactions and interactions that make up a dialogue between a customer and an organization (e.g., sales processes)

- **Analyzing** — applying insightful marketing practices to create relevant interactions that build valued relationships

- **Learning** — connecting interaction points between a consumer and an organization to obtain knowledge of the customer

- **Planning** — developing marketing plans and strategies to meet customer requirements

According to Josef (2008) Critical Success Factors (CSFs) for CRM in K2 Enterprises are the following:

- Top management support
- Communication of CRM strategy
- Knowledge management capabilities
- Willingness to share data
- Willingness to change processes
- Technological readiness
- Culture change/customer orientation
- Process change capability
- Systems integration capability

Finally, effective practice of CRM is a cultural process; it will take time for everyone to adjust to new ways of doing business.
2.33 BARRIERS OF CRM PRACTICES

There are barriers of CRM practices in star hotels namely: Inadequate supporting budgets, Lack of senior management commitment to CRM, Lack of communication, Lack of customer management skills, Inefficiencies in business process, Lack of standardizing CRM, Inter-departmental conflicts, Lack of cultural readiness, Lack of end-user input at service stage, Lack of technology advancement, Fragmentation of customer segmentation, Price competition and lower operating cost, and Commodityization of services and rising customer demand.

2.33.1 Inadequate Supporting Budgets

A budget is the estimate of costs, revenues, and resources over a specified period, reflecting a reading of future financial conditions and goals and it can be made for a person, family, group of people, business, government, country, multinational organization or just about anything else that makes and spends money.

Gaining adequate budget for CRM practice is an important issue for the hotel industry, particularly as many of the projects expand in cost. Star hotels need to overcome the problem of funding in order to improve customer service and higher turnover. The CRM practice cannot be successful in case of inadequate supporting budgets in any organizations.

2.33.2 Lack of Senior Management Commitment

Senior management commitment to CRM is required for hotel industry to be successful. Senior management should provide evidence of its commitment to the development and implementation of the quality management system and continually improve its effectiveness. Without their commitment or demonstrated leadership, star hotels, fall substantially short of the expectation or just plain fail. Today, perhaps more than ever, the hotel industry must improve service quality, customer value and customer satisfaction, and meet more stringent quality requirements in order to compete with the foreign competitors. Every company simply has to get better in order to survive. The best way to ensure survival is to continually improve results by continually improving business processes.
2.33.3 Lack of Communication

Communication is the process of transferring information from a sender to a receiver with the use of a medium in which the communicated information is understood by both sender and receiver. Communication in any type of business is incredibly important, but when the business is open to the public, the importance of communication is extremely high, and interaction and communication really must be paramount at all times, between colleagues, customers and management.

In hotel and hospitality management, communication needs to be the key and paramount. To establish a strong business relationship, effective communication practices must be established. Many situations for poor communication arise in any work environment. Lack of communication in business whether written or oral, can obstruct the efficiency of the organization. This lack of communication results in an angry customer and confused staff who have to deal with a complaint they weren't informed of. Without implementing clear communication, however, CRM practice will be slow and inefficient in star hotels.

2.33.4 Lack of Customer Management Skills

Customer management is used to capture, research and analyze information such as customer behaviour, buying preferences and demographics. It encompasses all the systems, processes and applications needed to manage customer relationship. Effective customer management involves clear communication to reduce misinterpretations or misunderstandings and improve customer satisfaction.

A lack of customer management skills and leadership of CRM practice is a further barrier to CRM success. Managers should view themselves as ‘chief customer officer’. Their role is to ensure that a high level executive, ideally at the Board level, acts as a sponsor and champion for star hotels’ CRM practices and that the importance of transforming the hotels’ relationships with customers through CRM is understood and shared by the Board and senior management. Managing customers effectively will help the hospitality industry, provide market differentiation, increase customer retention and, thereby, stay ahead of the competition.
2.33.5 Inefficiencies in Business Process

A business process or business method is a collection of related, structured activities or tasks that produce a specific service or product for a particular customer or customers. A business process begins with a mission objective and ends with achievement of the business objective. Process-oriented organizations break down the barriers of structural departments.

Business processes in hotel industry are designed to add value for the customer and should not include unnecessary activities. The outcome of a well-designed business process is increased effectiveness (value for the customer) and increased efficiency (less costs for the hotel). Lack of business processes leads to numerous problems namely: a) Customers may complain about poor product quality or bad service, b) Colleagues get frustrated, c) Work may be duplicated, or not done, d) Costs increase, e) Resources are wasted, and f) Bottlenecks can develop, causing you to miss deadlines.

2.33.6 Lack of Standardizing CRM

Standardization is the process of developing and implementing technical standards. Standardization can help to maximize compatibility, interoperability, safety, repeatability, or quality. It can also facilitate commoditization of formerly custom processes. In social sciences, including economics, the idea of standardization is close to the solution for a coordination problem, a situation in which all parties can realize mutual gains, but only by making mutually consistent decisions.

Lack of standardizing CRM is a major barrier in hotel industry in enhancing service quality, customer satisfaction, business image, and customer profitability. Failure to take a strategic view of CRM can leave hotels trying to integrate manual and automatic processes across business lines and regions, which can actually increase the operational risks they are seeking to measure.

2.33.7 Inter-departmental Conflicts

Interdepartmental conflict refers to the tension between departments, whose source is the incompatibility of actual or desired responses on certain aspects of organizational life. In order to survive, an organization has to create for itself a series
of functionally specialized entities. These entities are characterized by a number of distinct skills, resources and capabilities, operating interdependently and being able to achieve their own goals and participate in fulfilling the organization's ultimate goal.

Interdepartmental conflicts can take many forms. Its original conceptualization highlights the dysfunctional form that is associated with adverse outcomes, distorted information, interactions characterized by hostility and mistrust, opportunistic behaviour, lack of information dissemination the creation of obstacles in decision-making. Moreover, dysfunctional form of conflict reduces team performance because the tension associated and related antagonism may distract individuals from their responsibility.

2.33.8 Lack of Cultural Readiness

Culture is defined as the shared patterns of behaviour and interactions, cognitive constructs, and affective understanding that is learned through a process of socialization. These shared patterns identify the members of a culture group while also distinguishing those of another group. Culture is any product or fabrication of human society.

The practice of CRM requires right leadership, strategy and culture. Adopting the culture of CRM has become increasingly important for hotel industry with complex relationship structures and multiple revenue streams.

Lack of cultural readiness can be a challenging task in the hotel industry. Star hotels can achieve this by identifying the cultural challenges they will face during implementation and the measures they need to take throughout the CRM to encourage staff to adopt new processes that will benefit the entire organization now and in the future.

2.33.9 Lack of End-user Input at Service Stage

Input/output (I/O) is the communication between an information processing system and the outside world, possibly a human or another information processing system. End-user inputs are the signals or data received by the system, and outputs are the signals or data sent from it.
Organizations at different stages of CRM development experience different issues with respect to data quality and data quantity. For the hotel industry at an early stage of CRM development data quality is a key issue. The extent of data quality problems and the amount of work necessary to remedy them surprises many managers. Lack of end-user input in star hotels is a crucial issue related to customer knowledge failing to understand the needs of customers.

2.33.10 Lack of Technology Advancement

Technology advancement is advancement in the area of technology. It is a situation whereby resources are combined such that the same value of resources yields an increased output or smaller volume of resources yields the same amount as output. Technology often relates to science and industries. CRM technologies are rapidly evolving and are providing star hotels a collection of tools to use in order to enhance their customer relationships. There are two main forces that influence the need for CRM technologies: a) The need for higher quality in CRM, and b) The need for greater productivity in CRM.

Most of the hotels are using information for support of strategic market analysis including, targeting new customers, fine tuning loyalty programmes, sales analysis and conducting trend analysis. It concluded that the hotels’ ability to collect, process, and access large amounts of data could help hotels build a competitive advantage. Lack of technology advancement is a crucial issue in star hotels and fails to enhance customer relationships in order for poor data.

2.33.11 Fragmentation of Customer Segmentation

Customer segmentation is the practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests, spending habits and so on. Customer segmentation allows a company to drive sales force behaviour strategically and increase the overall profitability and sustainability of the business by creating a customer hierarchy and focusing on specific groups.

Segmentation strategy is important to an organization and can be effectively applied in the hotel industry as they have many segments of customers to be served. Customer segmentation enables an organization selectively to target “good” business.
Fragmentation of customer segmentation is a barrier of CRM in star hotels based on common needs as one of the most powerful tools in marketing strategy.

2.33.12 Price Competition and Lower Operating Cost

Competitive pricing, and its impact on revenue, is a mainstay of marketing in the highly competitive hotel industry. The emergence of the Internet as a formidable sales tool is changing the rules when it comes to pricing, and in the process, elevating the strategic importance of responsive rate management.

Online distribution channels now dominate the landscape for web booking companies, online travel agencies and lodging properties of all types, giving consumers transparent access to rate-related market information. Consumer demand can influence competitors pricing. When demand is high, prices are raised and all businesses benefit. This is the ideal macro-pricing situation for a business, whatever the industry. When demand is low, pricing levels fail to attract buyers. Competition heats up for the smaller available demand and pricing tactics get pulled out of the marketing toolbox.

2.33.13 Commoditization of Services and Rising Customer Demand

The process of ensuring customer satisfaction begins with a product or service. Often, customer service takes place while performing a transaction for the customer, such as making a sale or returning an item. Customer service can take the form of an in-person interaction, a phone call, self-service systems, or other means.

Customer service is an extremely important part of maintaining ongoing client relationships that are key to continuing revenue. For this reason, many companies have worked hard to increase their customer satisfaction levels. Often there are many more people working behind the scenes at a company than there are customer service representatives, yet it is primarily the personnel that interact directly with customers that form customers' perceptions of the company as a whole.

2.34 SUMMARY

Customer relationship management is a strategy and tool that bridges service, sales and marketing initiatives, which enable business organizations to realize faster problem resolution, increased sales, more effective customer acquisition, and greatly
enhanced customer loyalty and retention. The theory and practice of CRM are widely discussed by the scholars and practitioners all over the world. There are both operational and strategic benefits to the business, inherent in preemptive alerting. This process eliminates unnecessary, costly, non-revenue-generating inbound customer contact, resulting in increased customer satisfaction, dramatic cost-per-call savings, call elimination, better service levels, as well as a reduction in the number of agents required in call centers. On a strategic level, proactively giving customers the information they want drives an increase in customer satisfaction and gives companies a competitive advantage. In addition, systematic CRM practices offer a necessary intelligent response option which enables companies to combine sales and service initiatives that increase revenue, generate highly qualified, inbound traffic, and make the most efficient use of both customer and company time. The measurement of CRM practices must be an ongoing activity in the marketing management in the present times. In the business of the 21st century, the time and effort required to perform many analyses and reporting functions are costly. A systematic and scientific practice of CRM would make all the marketing strategies and customer relations more appropriate and result-oriented in the contemporary business environment.