CHAPTER-III

CUSTOMER RELATIONSHIP MANAGEMENT- A CONCEPTUAL FRAMEWORK
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Customer Relationship Management is based on the principles of relationship marketing, so a brief review of the relationship marketing is helpful for understanding the evolution of CRM. Until the early 1980s, most of the marketers focused on the acquisition of customers by attempting to develop a better marketing mix than the competition—the marketing mix being the blending of optimal product, place, promotion, and price for the targeted market segment (the 4p's).

In the 1990s Relationship Marketing has become a topic of great interest to many organizations. Relationship marketing has its origin in industrial and business-to-business markets. However, much of the recent interest and research activity in relationship marketing has been mostly in the service sectors. Currently consumer goods companies are now seeking to develop stronger relationships with their final consumers, in addition to the traditional business-to-business relationships with their immediate customers. Thus all sectors, industrial, services and consumer—arc increasingly examining ways to develop greater competitive advantage through relationship-based strategies.

According to Richard Staelin, Relationship Marketing “Involves the identification, specification, initiation, maintenance and (where appropriate) dissolution of long term relationships with key customers and other parties through mutual exchange, fulfillment of promises and adherence to relationship norms in order to satisfy the objectives and enhance the experience of the parties concerned”.

The traditional approach to marketing has been increasingly questioned in recent years. It emphasized management of the key marketing mix elements such as product, price, promotion and place within a functional context. The new relationship approach, whilst recognizing these key elements, reflects the need to create an integrated cross-functional focus of marketing while giving a special importance to customers. Thus the focus is shifting from customer acquisition to customer retention, and ensuring that the appropriate amounts of time, money and
managerial resources are directed at both of these key tasks. The new relationship marketing paradigm reflects a change from traditional marketing to customer-focused management or market-oriented management. Hence, the term relationship marketing embraces an organization-wide perspective of marketing rather than a narrow functional focus.

Although the origins of relationship marketing were initially in the industrial context, the service industry has increasingly become focused on maintaining and enhancing customer relationships (Clark et al.). Relationship marketing in the service context was first introduced by Berry (1983) to describe a long-term approach to marketing.

The domain of CRM has always been marketing-in particular, customer service and sales. In the late 1980s, telemarketing technology was built into the Customer Call Center (CCC). In the early 1990s, customer service and support applications were introduced as well. According to J.G. Freeland, the first CRM initiatives were launched in the early 1990s and focused on improvements to the call center. Other new technologies and evaluation metrics were developed to improve the handling of customer enquiries.

Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater effectiveness in delivering customer value.

Customer Relationship Management (CRM) has attracted the expanded attention of practitioners and research scholars. More and more companies are adopting customer-centric strategies, programs, tools and technology for efficient and effective customer relationship management. They are realizing the need for in-depth and integrated customer knowledge in order to build close cooperative and partnering relationships with their customers. The emergence of new channels and technologies is significantly altering how companies interface with their customers, a development bringing about a greater degree of integration between marketing, sales, and customer service functions in organizations. For practitioners, CRM
represents an enterprise approach to developing full-knowledge about customer behavior and preferences and to develop programs and strategies that encourage customers to continually enhance their business relationship with the company.

Marketing scholars are studying the nature and scope of CRM and are developing conceptualization regarding the value and process of cooperative and collaborative relationships between buyers and sellers. Many scholars with interests in several sub-disciplines of marketing, such as channels, services marketing, business-to-business marketing, advertising, and so forth, are actually engaged in studying and exploring the conceptual foundations of managing relationships with customers. They are interested in strategies and processes for customer classification and selectivity; one-to-one relationships with individual customers; key account management and customer business development processes; frequency marketing, loyalty programs, cross-selling and up-selling opportunities; and various forms of partnering with customers including co-branding, joint-marketing, co-development, and other forms of strategic alliances.

Scholars from other academic disciplines, particularly those interested in the area of information system and decision technologies, are also exploring new methodologies and techniques that create efficient front line information systems (FIS) to effectively manage relationships with customers. Several software tools and technologies claiming solutions for various aspects of CRM have recently been introduced for commercial application. The majority of these tools promise to individualize and personalize relationships with customers by providing vital information at every point in the interface with the customer. Techniques such as collaborative filtering, rule-based expert systems, artificial intelligence and relational data basis are increasingly being applied to develop enterprise level solutions for managing information on customer interactions.

Customer relationship management and relationship marketing with a focus on customer relation, customer commitment, and share of the customers business instead of market share have generated enormous research interest. Hundreds of papers have been presented at dozens of conferences. Several papers have been published in top journals and many books have been written on this topic, as
indicated by the literature reviews presented in Sheth and Parvatiyar (2000). There is an abundance of research on CRM in the marketing literature. The recent articles by Winer (2001), Rust and Chung (2005), and Kamakura et al. (2005) give excellent reviews of existing marketing models of service and customer relationship management. Venkatesan and Kumar (2004) developed a dynamic framework that enables managers to improve customer relationship proactively through marketing contacts across various channels and to maximize customer lifetime value. Rust and Verhoef (2005) derived the optimal marketing interventions mix in intermediate-term CRM. Several empirical studies have shown that CRM brings benefit in terms of improved performance (Zablah et al., 2004; Coltman, 2007). This performance is improved since CRM involves the ongoing process development of market intelligence for building and maintaining a profit-maximizing portfolio of customer relationship (Zablah et al., 2004). Its customer-centric rather than product-centric should enhance interaction with customers, add value to the products and services and generate customers' loyalty and profitability. Although not all CRM strategy implementation brings about these desired benefits (Richards and Jones, 2008), effective management of customer relationships through the use of CRM strategy is expected to have a positive relationship with performance. Through its customer differentiation and retention, CRM aims to retain and engage in long-term relationships with profitable customers in order to enhance profits.

4.1 The Emergence of CRM

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

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

The acceptance of the need for trade-off between delivering and extracting customer value.

The development of one-to-one marketing approaches.

The objective of customer relationship management is to turn new customers into regularly purchasing clients, and then to progressively move them through being strong supporters of the company and its products, and finally to being active and vocal advocates for the company thus playing an important role as a referral source. Customer service has a pivotal role to play in achieving this progression up the ladder of customer loyalty. It should be obvious that traditional marketing mix elements of product, price, promotion and place are the principle elements used to turn prospects into customers, while the other additional elements like customer service, people and process are those which are used to move customers into clients, supporters and ultimately advocates for company’s products and services. In moving clients up the ladder it is essential to understand in an in-depth and explicit manner exactly what the customer is buying and how can offer augmentation or differentially improve the offering to the customer. To achieve the transition from customer to advocate, one has to go beyond more ‘customer satisfaction’ to ‘customer delight’ by delivering products or services that exceed expectations.

Objectives of Customer Relationship Management

Management interact with their customers in a number of ways including marketing and advertising, direct mail campaigns, websites, call center, mobile sales service, brick and mortar stores. CRM is an organizational strategy to develop mutually profitable site long relationship with the customer. CRM objectives should be: to understand customer needs (Stringfellow et al., 2004), to rapidly gather sufficient customer data (Chan, 2005), to identify the most valuable customers (Fjermestad and Romano, 2003), to maintain long-term relationships (Wayland and Cole, 1997), to improve the processes of CRM (Chen and Popvich, 2003), to compare customer satisfaction and loyalty online vs. offline (Shankar, Smith, and
Rangaswamy, 2003), to enable the managers to improve customer relationship proactively and to maximize the customer lifetime value (Venkatesan and Kumar, 2004) and to derive the optimal marketing interventions mix in intermediate-term CRM (Rust and Verhoef, 2005) to retain and engage in long-term relationships with profitable customers in order to enhance profits. (Richards and Jones, 2008).

4.2 Reasons for Development of Customer Relationship Management

1. The simplest reason why firms are seeking to develop ongoing relationship with their customers is that, it is generally much more profitable to retain existing customers than continually seeking to recruit new customers to replace lapsed ones. (Burez and Van den Poel, 2008) show that the cost of winning a new customer is about five times greater than the cost of retaining a current customer through the use of relationship marketing strategies. Furthermore, (Burez and Van den Poel, 2008) comment that “companies can boost profits by almost 100% by retaining just 5% more of their customers”. CRM should help firms to create an optimum fit between a firm’s investments and satisfying its customers’ needs as a means to maximize profits (Gebert et al., 2003; Schierholz et al., 2007). According to Payne and Frow (2004), this is achievable through creating, developing and enhancing relationships with the firm’s most profitable customers.

The core aim of customer relationship management (CRM) is to focus on improving the creation and management efforts of firms with respect to their relationships with customers (Geib et al., 2005). It accomplishes this by analyzing and using marketing databases and leveraging communication media to establish practices and methods that will maximize the lifetime value of each individual customer to the firm (Kumar and Reinartz, 2006). These distinctive relationships have the potential to increase customer retention (Zindelin, 2006), resulting in greater loyalty and profitability (Chen and Popovich, 2003).
2. Liberalization, privatization and globalization have brought unprecedented changes in the economic, trade and industrial scenario throughout the world. The nature of competition has changed to a great extent that product distinctions are blurred. Good products alone are insufficient to differentiate an organization's product from its competitors. Once most companies had reached the common standard, they become the norm for the sector and attention is switched to differentiation through superior-added value relationships. Markets are so segmented that niche becomes the king. The quick pace of developing technologies and increasing competition make it difficult to gain strategic competitive advantage through physical products alone. Moreover, customers are more demanding. They not only expect excellent, high-quality goods; they also expect high levels of service along with them. Companies are now competing by trying to develop genuine relationship with their customers to build up loyalty.

3. Developments in information technology have had dramatic effects in developing relationship marketing activities. The development of powerful user-friendly databases has allowed the organization to recreate in a computer, the individual needs. Information technology enhances the practical value of relationship marketing by efficient performance of the following key tasks:

a) Tracking the buying patterns and overall relationship of existing customers, customizing services, promotions and pricing to customers' specific requirements.

b) Coordinating or integrating the delivery of multiple services to the same customer.

c) Providing two-way communication channels - company to customer, customer to company, minimizing the probability of service errors and breakdowns.

d) Augmenting core service offerings with valued extras and personalizing service encounters as appropriate.

4. The growing emphasis on the rapidly expanding service sector and the growth of service sector industry can be attributed to change in lifestyle, changing world, changing international economies, changing population and changing
technology. There is a growing market for services and increasing dominance of services in economies worldwide especially in United Kingdom. In UK 75% of GDP value is added by service sector in terms of employment relative to volume, while the share of manufacturing sector is 23.8% and the share of agricultural sector is 1.2%.

Obviously the development of service industry has become an economic indicator or indicator of maturity of an economy. The tremendous growth and economic contributions of the service sector have drawn increasing attention to the issues and problems of service sector industries. In the mid-1990s service industry competition has never been fiercer. In most industries, providing quality service is no longer simply an option. This rapidly changing situation emphasizes the importance of services and services marketing.

The intangible nature of service industries had always posed a problem to traditional marketers whose models had always proved to be an ineffectual fit. Pure service characteristics, often described as intangibility, inseparability, variability, perishability and inability to “own” the service (Palmer, 2006) coupled with the importance of people and processes, were providing challenges to the traditional marketing concepts. Above all, it has the potential advantage that the building of relationships might create where service differential was low that led to development in this area.

The implementation of CRM

The implementation of CRM is regarded as desirable by organizations due to the benefits that accrue from the strategies among their customers, such as greater loyalty and resulting profits. The focus of a CRM strategy is the acquisition, retention and overall customer profitability of the specific group of customers.9

- Acquisition of customers: This refers to the need of organization to find new customers for their products. This means they are required to develop strategies to attract potential customers to purchase the products. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy (Kotler, 2005).
Retention of customers: Organizations also need to focus on existing customers in order to ensure that they continue purchasing and continue supporting the product. Organizations can increase their profitability by between 20% and 25% if they boost their customer retention rate by 5 percent (Peck, Payne, Christopher & Clark, 2004).

Profitability: Customer profitability reflects the financial performance of customers with respect to all the costs associated with a transaction (Gordon, 2005). Profitability in the case of CRM is determined in the light of the lifetime value of the customer to the organization, taking account the income and expenses associated with each customer and their respective transactions over time (Gordon, 2005).

Organizations within developing markets have customer information in databases, though many do not have the advanced technology or skills to exploit the information that is stored (Brunjes & Roderick, 2002). This indicates that CRM can be used within developing markets, though organizations will still be required to manage its implementation with care. Organizations that can implement CRM successfully are those that have a great deal of information concerning the customer and where there are differentiated needs among the customers (Kotler, 2002). Financial services meet the criteria for the implementation of CRM as indicated by Kotler. Financial institutions have a great deal of information concerning their customers and their needs differ. The financial circumstances of customers differ, resulting in different packages being offered to customers. It is also possible for financial institutions to tailor their packages thereby making them customer specific.

The success of any strategy is determined by the success with which it is implemented. This is also true in the case of CRM strategies. Implementing CRM require that the organization and the associated business processes be in place in order to facilitate its success (Brunjes & Roderick, 2002). The risk in implementing any CRM strategy is that the organization is not ready to do so and relying on technology to implement the strategy (Brunjes & Roderick, 2002).
4.2 Multiple Levels of Marketing

Berry and Parasuraman have developed a framework for understanding the type of relationship strategies. The framework suggests that retention marketing can occur at different (four) levels and that each successive level of strategy results in ties that bind the customer a little closer to the firm. At each successive level, the potential for sustained competitive advantage is also increased.

**Level one - Financial Bonds**

At level one the customer is tied to the firm primarily through financial incentives – lower prices for greater volume purchases or lower prices for customers who have been with the firm a long time. Unfortunately, financial incentives do not generally provide long-term advantages to a firm since, unless combined with another relationship strategy, they don’t serve to differentiate the firm for a long period. While price and other financial incentives are important to customers, generally it is not difficult for competitors to imitate, since the primary customized element of the marketing mix is price. Moreover, customers most interested in pricing incentives are particularly vulnerable to competitor promotions. Marketers seeking to establish the strongest possible relationships typically must be more than a price competitor.

**Level two - Social Bonds**

This strategy bonds the customers to the firm through more than financial incentives. While price is still assumed to be important, level two retention marketers build long-term relationship through social and interpersonal as well as financial bonds. Customers are viewed as clients rather than mere customers. The clients are the individuals whose wants and needs the firm tries to understand and design the product accordingly. Services are customized to fit individual needs, and the marketers find ways of striking to the customers, thereby developing social bonds with them. While social bonds alone may not tie the customer permanently to the firm, they are much more difficult for competitors to imitate than price incentives. In the absence of strong reasons to shift to another provider, interpersonal bonds can encourage customers to stay in a relationship. In combination with financial incentives, social-bonding strategies may be very effective.

71
Level three - Customization Bonds

Level three strategies involve more than social ties and financial incentives, although there are common elements of level one and two strategies encompassed within a customization strategy and vice-versa. Two commonly used terms fit within the customization bonds approach: mass customization and customer intimacy. Both these strategies suggest that customer loyalty can be encouraged through intimate knowledge of individual customers, and through the development of one-to-one solutions that fit individual customer needs.

Level four - Structural Bonds

Level four strategies are the most difficult to imitate and involve structural as well as financial, social and customization bonds between the customer and the firm. Providing services to the client that are designed right into the service delivery systems creates structural bonds. Providing customized services to the clients that are technology based and serve to make the customer more productive often creates structural bonds.

Measures of CRM and Its Business Impact

Long-run profitability can be achieved in CRM through the new focus on customer retention which resulted from an effective management of customer relationships. Thus, the competitive pressures are demanding that not only adopt the customer-focused CRM strategy, but also the customer-related measures of performance. Customer differentiation requires to identifying customers, differentiating them, interacting with them and customizing their services. Through customer rather than product differentiation, CRM is an enabler to concentrate on strategic customers who add value and increase profitability. Hence, within the context of CRM, the use of customer-related performance measures for evaluation is expected to enhance performance.

Another important insight of CRM is the importance of customer interactions that are relationship rather than transaction-based. Interaction-based relationships entail retaining customer through delivering quality service to satisfy the customers over time rather than over a single transaction. The key for success is to focus on
measuring and managing customers with the intention to create loyal and profitable customers. In this respect, the key thrust of CRM is to build lasting relationships with customers through identifying, understanding and meeting their needs. Customer loyalty can be measured over a long period of time using the customer lifetime value (Shoemaker and Lewis, 1999). Thus, the ultimate aim of CRM is to maximize the lifetime value of customer relationships.

CRM is expected to drive performance through the improvements such as greater customer satisfaction, customer loyalty, profitability and new businesses. Thus, performance-driven CRM emphasizes the use of customer measures such as the percentage of customer retention to indicate loyalty, ratings of surveys to indicate customers’ satisfaction, customer accounting to measure profitability by customers, and new businesses by measures of number of new customers, total sales to new customers.

According to the CRM literature (Gefen and Ridings 2002), a CRM system consists of multiple modules including: operational CRM, which supports a variety of customer-oriented business processes in marketing, sales and service operations; and analytical CRM, which analyzes customer data and transaction patterns to improve customer relationships. Operational and analytic CRM modules provide the major functions of a CRM system. In addition to leveraging CRM functions, firms use CRM systems to realize collaborative interactions with customers and business partners through system integration. System integration links CRM systems with back-office enterprise systems (such as enterprise resource planning (ERP) and legacy systems) and web-based e-business applications via internet-based communication protocols, and connects these systems with those of suppliers’ and customers’ based on common data standards. Further, leveraging CRM systems requires both IT and business managers to have sufficient technical and business skills for carrying out CRM-enhanced operations (Goodhue et al. 2002). More importantly, successful CRM implementation often entails significant organizational transformation due to the complexity of multiple operations involved in managing customer relationships (Karimi et al. 2001). Implementing a CRM system is only part of the needed change. To embrace the new ways of interacting with customers, firms need to align various organizational aspects with their CRM systems, e.g.
business processes, strategies, top management support, and employee training (Goodhue et. al 2002). These organizational efforts are termed as organizational capital and must take place in conjunction with technology investments (Brynjolfsson et al. 2002).

Benefits of CRM

4.3 Benefits to the customer

Sheth and Parvatiyar11, (2001) Zeithaml and Bitner 12(2003) identified a number of relationship benefits that can be reduced to three main categories:

a. Confidence benefits

b. Social benefits; and

c. Special treatment benefits

a) Confidence Benefits

The benefits, which are experienced and beyond core service benefits, that are displayed consistently across all types of service relationships. Confidence benefits are the most important to consumers across all three categories of services. The sense of reduced anxiety, faith in the trustworthiness of the provider, reduced perceptions of anxiety and risk and knowing what to expect are the most critical benefits of service relationships. Sheth and Parvatiyar (2001) contend that consumers like to reduce choices. Long-term relationships may facilitate choice reduction through confidence benefits.

b) Social Benefits

Social benefits are the second most important benefit to consumers across service types. Social benefits are associated with personal recognition by employees, customer familiarity with employees and the development of friendship. The importance of the social aspect of the relationship between customers and service provider employees, particularly for services, has been noted in the literature (Zeithaml and Bitner 2003. The special treatment benefits are perceived as the least important of the three types of benefits across all three service categories.
c) Special Treatment Benefits

The final category of relational benefits identified relates to customization of the service offering. That is, for their regular customers, many service providers may tailor their service to meet customers’ specifications and requirements. In some cases, this may be perceived by customer as preferential treatment.

Benefits to the Firm

Benefits to an organization maintaining and developing a loyal customer base are numerous. They can be linked directly to the firm’s bottom line (Zeithaml and Mary Jo Bitner 2003). They are:

a) Increasing Purchases

Result of studies reported by Fredrick Reichheld and W Earl Sasser show that across industries, customers tend to spend more each year with the particular relationship partner than that in the preceding period. Customers who get to know a firm and have satisfaction with the quality of its service relative to that of its competitors, will be tempted to give more business to the firm. And as customers mature, they frequently require more of a particular service.

b) Lower Costs

There are many start up initial costs associated with attracting new customers. They include advertising and other promotion costs, operating cost of setting up accounts and systems and time costs of getting to know the customers. These initial costs can outweigh the revenue expected from the new customers in the short term. Once learning about one another has taken place, the customer will have a few problems and questions and the service provider will incur fewer costs in serving the customer.

c) Free Advertising or Word of Mouth

When it is complex and difficult to evaluate a service as in the case with many services, customers most often look to others for advice on which provider to consider. Satisfied, loyal customers are likely to provide a firm/company with a
strong word of mouth. This form of advertising can be very effective than any paid mode of advertising. The firm may use these customers and has the added benefit of reducing the costs of attracting new customers.

d) Employee Retention

An indirect benefit of customer retention is employee retention. It is easier for a firm to retain employees when it has a stable base of satisfied customers. People like to work for companies whose customers are happy and loyal. Because employees stay with the firm longer, service quality improves and cost of turnover is reduced adding further to profits. Satisfied employees are more likely to provide superior levels of service: they stay longer with the firm and have a greater sense of commitment to the company and its customers.

4.5 Conditions for Customer Relationship Management

The first thing to note at the outset is that is not an all or nothing strategy - a firm may adopt a relational strategy with only some of its customer segments. In some cases, a firm may desire to adopt a relational strategy with only some of its customer segments. In some cases, a firm may want to develop a relationship strategy only with customers in the 'high-value' segment.

Second, customers who have regular and medium-high frequency contact with the firm tend to lend themselves more to relational development. Because of the frequency with which they interact with the service organization, the firm can assess this segment’s needs and buying behavior and thus has an opportunity to forge strong social bonds, deliver service customization, develop trust and demonstrate that it cares about the relationship with the customer.

Third, medium-high contact services are more amenable to relationship development than low-contact ones. Where the customer must be physically present for an extended period of time for the service delivery to take place, the opportunity exists to strengthen social bonds.

Fourth, services where the customer is highly involved (seeing the service as of high personal importance) let themselves to relationship development. Regular
customers of a family doctor, accountant, financial planner, hair dresser, auto service mechanic, day care centre or fitness club are highly involved in the service of experience and invest considerable emotional cognitive energy in the relationship. Such customers are likely to stay in the relationship as long as they see value and trust is not served.

Perceived risk is the fifth contingency condition. Many services are highly variable and difficult to standardize. Services that are high in credence properties are especially high in perceived risk, precisely because the customer has difficulty in confidently evaluating the quality of the service received even after purchase and consumption. Hence, in situations where a customer perceives high risk or uncertainty in the outcome, one risk-reduction strategy is that once having found a firm (e.g., financial planner, accountant, doctor, hair dresser, travel agent), the customer will stay with that service provider.

Finally, when a service provider has what Lovelock (2004) calls a “Membership Relationship” with a customer, then opportunities for strengthen relationship are increased. This allows the potential to segment and customize service offerings to different groups furthermore; it makes it time-consuming top switch over suppliers.

**Applicability to Indian Insurance Sector**

The Indian service sector has become increasingly vibrant in the past few years. Heavy industrialization stemming from the government’s liberalization policies coupled with the process of globalization has resulted in the Indian market integrating with the global market. Against this backdrop, with the service industry undergoing a metamorphosis at a rapid pace, identification and investigation of research issues with respect to service industry management assumes paramount importance.

India is fast moving from a protected economy to an open market economy and becoming integrated with the world economy. Worldwide the service sector growth has been phenomenal which is reflected in its increased contribution to GDP as well as employment generation. The service sector of India accounts for about
54% (2007-2008) when compared to 51.2% in 1998-1999 and 43.69% share in 1990-1991. During 2007-08, the services sector grew 10.7 percent, higher than the 8.8 percent growth in the manufacturing and 4.5 percent growth in the agriculture sectors. A major part of the share in service sector has taken place in communications, banking and insurance segments Appendix-A (2).

The onset of economic reforms has opened up the Indian service industry to private sector players. Major Service industries such as banking, telecommunication, insurance and airlines, which were largely government-owned until recently, are facing stiff competition from new private sector entrants. These private sector firms with their state-of-the-art service systems and high service quality pose a real threat to the government-owned public sector organizations. In such a scenario organizations have to adopt a more pragmatic, market-oriented approach, if they have to succeed in winning and retaining customers. The need to develop greater competitive advantages in the service arena has provided an impetus for relationship marketing to become a topic of great interest to organizations including life insurance companies. Among the service organizations, insurance sector is the third largest one that caters to the needs of people belonging to all sections of society.

The structure of the Indian financial sector has changed markedly over the last decade. Prior to this, the market was characterized by functional demarcation and regulatory restrictions, which resulted in limited competition both domestically and internationally. The forces of deregulation, advancing technology and a worldwide trend towards globalization have vastly increased the competitive pressure within the financial services market. This has affected both the structure and operation of the firms within the industry and has set the scene for the development of marketing activity to be approached in a new way.

In the domain of services, where the intangible element makes it difficult to differentiate across the service providers, CRM finds varied applications. In a country like India, where majority of customers are not fully aware about the desirable insurance and banking service levels, CRM can increase the service delivery and satisfaction levels (Trivedi, 2004).
Furthermore, the Indian insurance environment is at present engulfed in a very healthy and intense competition between government-owned public sector insurance companies, privately-owned private sector insurance companies and foreign insurance companies. Therefore, the insurance industry in India provides a perfect platform to delve into the critical issues of customer relationship practices.

Insurers have added a plethora of products to lure the customers. Increased competition has led to insurance companies joining hands with banks to sell to customers. Such kinds of channel partnerships are designed to increase the coverage area and target all kinds of customers. In this CRM is helping insurance providers to have details about the banks valued and high net worth customers (Mishra, 2006). There has been an increased growth of different companies diversifying into insurance. Tata AIG's alliance with HSBC, Birla Sun Life's with Citibank and IDBI and LIC ally with Corporation Bank, while Kotak Life Insurance has an arrangement with Kotak Bank.

Applicability of CRM consists in being able to help marketing managers take decisions faster and enable them to manage campaigns more efficiently. Companies are able to categorize customers according to the revenues they generate and their loyalty for the company.

CRM adoption is at early stages of development in India, its applicability to translate results and revenues has still to be understood and adopted. Information is viewed by companies as fulfilling the requirements of different product categories separately. Marketing departments may possess their own aggregate databases, but they do not link into sales operations. The use of these databases remains restricted only for specific purpose: if this could be used for various marketing processes the results would be more cost efficient. Data are being maintained about the same customer at different points; so information becomes disintegrated when decision is supposed to be taken related to new product launches or customizing a service according to the specific requirements of the individuals. Probably centralizing the operation would make information readily available and accessible to not only the sales personnel but also service problems can be handled more efficiently without delay. Linking data about customer's past behavior and purchase patterns can make targeting decisions more focused and effectively planned.
Most organizations are able to calculate the revenues generated by individual customers as well as the cost of acquiring a customer. The importance given to customers has increased because companies are awakening to the notion that ultimately the business drivers are not cost-cutting production models but the philosophy to retain customers and provide them with improved quality and service.

CRM has been used by the company for effective event-based marketing and cross-selling its offerings (Jethwani, 2004). Many Insurance companies are still highly dependent on business intelligence systems for data mining and analytical purposes. The initial investment of insurance sector is in operational CRM suite and then slowly they are integrating efforts towards data extraction and analysis for analytical CRM in India. The industry is still at the very early stages, so there is an over-cautious approach towards use of CRM software as an application that coordinates across various branches. Standard Chartered Bank was initially using a system called On-line Transaction Processing (OLTP) which enabled the bank to manage its through information accessibility to the customer using phone line or e-mail. Operational CRM alerts the call center personnel about the details the customer requires about his bank account. Analytical CRM enables to analyze the information by understanding the nature of the account and transaction. Here tools such as data warehousing and data mining are prominently used. By using Analytical CRM the bank can offer the customer lower service rates thus enhancing his service encounter experiences. Other advantages that may be reaped are cross-selling and up-selling to the customers’ certain services. Data warehouse provides the bank with a single view of all the disparate data that may spread across the bank’s systems. Data mining helps to make meaning of the data and use it for positioning and targeting decisions.

"According to a report from Indian Info line (2004), India has the highest number of life insurance policies in force in the world. The industry is pegged at Rs 400 billion in India. LIC dominated the Indian market largely with the help of its huge sales force" (Pasha, 2004). But as competition has increased and new companies are entering the market, LIC has upgraded its system to improve customer service levels by going for IT deployment. The LIC customer can check his account details through Internet banking and does not have to visit the bank. The
upgraded WAN has streamlined processes, making it easier for customers and LIC providers are facing that CRM is just being viewed as a facilitating technology rather than being understood as a strategy that would enhance the productivity of the bank. This is the prime reason why CRM has still met with limited success even being around for about 5-6 years. It can also be instrumental in helping banks to exploit into new service options for customers.

Many Indian insurance companies have realized the need for importance of a relationship marketing programme and have taken steps to initiate such programmes. Most of the insurance companies which have adopted a well planned approach to relationship marketing are mostly the foreign insurance companies and new generation private insurance companies. Of course the public sector insurance companies are trying to establish a pace with them. Successful implantation of relationship marketing strategy is possible, only if the dimensions influencing relationship between customer and employee in insurance set up can be identified and concentrated upon. Hence, in order to provide a more exhaustive understanding of the dimensions of customer relationship, with specific reference to public sector insurance companies, ten dimensions of relationship have been identified. They are:

1. Trust
2. Commitment
3. Empathy
4. Reciprocity
5. Interaction
6. Quality
7. Attraction
8. Emotional element
9. Customization and
10. Social responsibility
These ten dimensions are independent variables constituting customer relationship. A study of these ten dimensions would provide much more useful information when related and measured with the relationship outcomes namely, customer satisfaction and customer loyalty.

4.7 Relationship Outcomes

Most researchers have viewed customer satisfaction and customer loyalty as measures to capture the relationship outcomes. Achieving the highest possible level customer satisfaction is the ultimate goal of marketing and sustained customer satisfaction overtime leads to customer relationships that increased the long-term profitability of the firm. Loyalty is very closely related to the concept of relationship. Genuine relationship stems from the emotional bond that makes it difficult for one of the parties to the relationship to leave. The foundation of loyalty in a sustained customer is satisfaction, it is an emotional attitudinal connection not simply a behavioral one.

4.7.1 Customer Satisfaction

One of CRM’s purposes is to increase customer satisfaction, improve customer perception of service quality (equally important in the sales of tangible and intangible goods), and increase customer loyalty. Consequently, these variables can serve as measures of the effectiveness of an organization’s CRM initiatives. Some marketers feel that retention rate is the most important component of market share, and the retention is driven by customer satisfaction. (Rust R.T.& Zahorik A.J. 2001). Customer satisfaction and service quality have a measurable impact on customer retention, market share and profitability. (Rust R.T, Zahorik A.J. 2001 & Keiningham T.L, 1995)

Customer Satisfaction – is the consumer’s response to and evaluation of the perceived discrepancy between prior expectations (or some other norm of performance) and the actual performance of the product as perceived after its consumption.

Richard Oliver has proposed a formal definition for satisfaction—“Satisfaction” is the consumer’s fulfillment response. It is a judgment that a product
or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption related fulfillment, including levels of under or over fulfillment”.

Customer satisfaction can occur at multiple levels in an organization. e.g. satisfaction with the contact person, satisfaction with the core service and satisfaction with the organization as a whole. The need for striving for customer satisfaction lies in the ability to result in economic success.

Many academics would agree that customer satisfaction is a central construct in marketing research (Xueming and Christian, 2007 Oliver, 1999). It is “Marketing literature consistently identifies customer satisfaction as a key antecedent to loyalty and repurchase” (Seiders et al, 2005). Customer satisfaction has been conceptualized differently by different scholars. Some have argued that satisfaction is a transaction-specific measure (Pappu and Pascale, 2006). Others suggested that satisfaction’s effect on loyalty is more apparent in customers who are inexperienced with a brand than those who are due to an evolutionary process of loyalty. Studies reveal that 65%-85% of customers who defect report before defection that they were satisfied or very satisfied (Chanrashekaran et al, 2007). But the Meta analysis of customer satisfaction finds that satisfaction explains less than 25% of variance in repeat purchases (Szymanski et al, 2001).

There is evidence of a positive relationship between satisfaction and loyalty (Dabholkar et al, 2000; Yang and Peterson, 2004, Carpenter and Fairhurst, 2005). But Sivadas and Baker-Prewitt (2000) found no relation between satisfaction and customer loyalty. Some researchers found weak correlations between satisfaction and customer loyalty (Van Looy et al, 1998). There still seems to be a predominant belief that satisfied customers are often loyal and that they engage in repeat purchase (Homburg and Giering, 2001).

There is obviously a strong link between customer satisfaction and customer retention (Seiders Kathleen, et al., 2005). Customer’s perception of service and quality of product will determine the success of the product or service in the market (Ashish, Bhave, 2002). Several studies find that a higher level of customer satisfaction leads to greater customer loyalty. Through increasing loyalty, it is
argued, customer satisfaction helps to secure the future revenue (Singh, Harkiranpal and Jalil, Bukit, 2006)

In most marketing organizations, the single most important way to keep customers is to build satisfaction and loyalty, while the best way to gain new customers is through positive referrals from existing customers. Michael states that organizations can achieve this “by cultivating satisfied and engaged employees”. The concept is rather simple, yet effective – happy employees create happy customers and happy customers turn into repeat purchasers and have a higher lifetime value to the company. Price Waterhouse Coopers reported in April of 2002 that 47 percent of surveyed executives from multinational companies cite employee satisfaction and decreased turnover as major contributors to long-term shareholder return.

Sears used an “Employee-Customer-Profit Chain” to analyze aggregated data from 800 stores, finding that employee attitudes towards their company and their jobs lead to positive employee behaviors towards customers. Sears found that a five percent increase in employee satisfaction drives a 1.3 percent in customer satisfaction, which results in 0.5 percent increase in revenue growth. Between 40 and 80 percent of customer satisfaction and loyalty is determined by the customer-employee relationship, depending upon the industry and market segment. At Sears, employee satisfaction accounts for 60 to 80 percent of customer satisfaction. At the Royal Bank of Canada, 40 percent of the difference in how customers view its services can be linked directly to their relationship with bank staff. PNC Bank Corporation found an 84 percent correlation between branches and their levels of customer satisfaction and employee satisfaction.

In insurance companies there is an ongoing relationship between the insurance companies and the customers. Here, customer satisfaction is based on evolution of multiple interactions. Hence, satisfaction is considered as a composite of overall customer attitude towards a life insurance corporation that incorporates a number of measures. Hence, customer satisfaction is approached as a multi-dimensional construct inclusive of the existence of high quality relationship, excellent quality of the service, meeting customers’ expectations, non-receipt of too many complaints and overall satisfaction.
4.7.2 Customer Loyalty

Loyalty is a subjective concept, one that is best defined by customers themselves. It refers to a favorable attitude towards a brand in addition to purchasing it repeatedly. Customer loyalty has been generally described as occurring when customers:

- Repeatedly purchase a good or service over time; and
- Hold favorable attitudes towards a good or service, or towards the company supplying the good or service.

Customer retention is the cornerstone of relationship management programmes and offers immeasurable benefits to both, the organization and the customer. Success of service organizations is determined by their loyal customer base or customer turnover/defection rate. Life time value of the customer is at the core of retention or loyalty programmes.

According to H. Peeru Mohamed and A. Sagadevan (2008), loyalty is a willful commitment to the brand in view of the perceived satisfaction. The action based on loyalty is an outcome of positive attitude of the customer towards the brand. This positive attitude may be built up by the brand, store, organization or the sales person. Customer loyalty needs the organization to be customer focused and make them feel good and personally contended. Loyal customers act as the agents of the company by talking of their positive experience with others. 93% of the companies, which have actively implemented CRM, state that the increased loyalty and satisfaction will justify the investment in CRM. According to Harvard Business Review, hike in the customer retention by 10 to 15 per cent will double its profits and customer retention can happen only when an organization is capable of building loyal customers.

Customer loyalty has a powerful impact on the performance of service firms and serves as an important source of competitive advantage (Rust, Zeithaml, Lemon, 2000). The consequences of enhanced customer loyalty in service firms are increased revenue, reduced customer acquisition costs and lower costs of serving repeat purchases, leading to greater profitability.
Many studies have examined the relationship of service quality with customer loyalty (Bloemer, Ruyter & Peeters, 1998; Dean, 2002; Ganesan, 2007; Wong & Sohal, 2003), and indicate that they are positively associated. Moreover, a positive relationship between service quality and loyalty has been found in the banking sector (Bloemer, Ruyter & Peeters, 1998; Ehigie, 2006). Service quality is directly related to the customer’s behavioral intentions (Venetis and Ghauri, 2004). In another study of the banking sector, surveys quality was linked with the behavioral outcomes as word-of-mouth, complaint, recommending, switching (Yavas, Benkenstein and Stuhldreier, 2004).

In today’s world of intensive competition, the key to sustainable competitive advantage lies in delivering high quality service that will, in turn, result in satisfied and loyal customers. Hence, in the following chapters, the ten dimensions of customer relationships have been analyzed in detailed and the perception of the customers and the employees on these dimensions have been separately measured against the relationship outcomes namely customer satisfaction and customer loyalty which highlights the dimensions to be focused on by public sector life insurance companies to arrive at a strategic competitive advantage.