CHAPTER -5

LITRATURE REVIEW

5.1 STRATEGIES OF CRM

CRM is a for the most part perceived, widely-executed technique for overseeing and development an organization's communications with customers. It is a procedure designed to gather data connected with customers to improve the relationship between an association and its customers. This is could be attained through creating procedure customer procurement, customer maintenance, and customer development. Moreover, CRM has been characterized as the methodology and the framework for making customer loyalty (Azani, C., & Khorramshahgol, R., 2005). Moreover, CRM has been considered as a complete method and methodology of securing, holding, and joining forces with particular customers to make prevalent worth for the organization and the customer (Parvatiyarl, A., & Sheth, N. J., 2001). The CRM is seen as a procedure by which an organization extends the customer data to enhance loyalty and hold customers. Therefore, the goal of the CRM is to discover, get, and hold customers (Choy, K. L., Lee, W. B., & Lo, V., 2003).

For the thought of this study, we can expect that customer relationship management is recognized as the center competency and
a major playing point of a specific endeavor. Also, we are endeavoring to present information management ideas, systems, and tools into the association to turbo charger their customer relationship management competency, and in addition supercharging the auxiliary or supporting methodologies or skills so as to considerably enhance corporate aggressiveness.

There are two real territories to consider regarding reinforcing the customer relationship management abilities i.e. customer relationship management capacity or competency overhaul, and supporting methodology competency development. The three stages in which CRM can help to backing the relationship between a business and its customers are, to:

Procure: a CRM can help a business in securing new customers through phenomenal contact management, direct marketing, selling and satisfaction. Improve: a web-empowered CRM joined with customer administration tools offers customers phenomenal administration from a group of prepared and gifted sales and administration pros, which offers customers the comfort of one-quit shopping. (James A. O’brien & George M. Marakas, 2009) Retain: CRM software and databases empower a business to distinguish and reward its reliable customers and further create its focused on marketing and relationship marketing activities.
The essentials of customer relationship management developed from interest on after-sales customer administration. Moreover, it is focused around sales transactions and escalated data transforming. With further impact of marketing and customer introduction standards, customer relationship management advances to reception of quality included critical thinking and modified services. Then again, a definitive customer relationship management rule is to construct customer loyalty and lifetime patronization.

The expression customer relationship management (CRM) has only been in use since the early 1990s. Since then there have been many attempts to define the domain of CRM. As a relatively immature business or organizational practice, a consensus has not yet emerged about what counts as CRM. Even the meaning of the three-letter acronym CRM is contested. For example, although most people would understand that CRM means customer relationship management, others have used the acronym to mean customer relationship marketing.

The concept of Customer Relationship Management has its roots in relationship marketing. The following figure presents the triangle showing differences between those terms.
Relationship marketing brought new approach to relations with customers, creating at the same time new market assumptions. CRM is a business strategy focused on maximizing shareholder value through winning, growing, and keeping the right customers. We can distinguish here two important elements. First of all, concentrating on the most important from company’s perspective customers and second of all retaining long-term relationship with them.

That is why it is essential to collect consequently customers’ opinions, complaints and new needs. In this way it is possible to approach a client more individually, and make them feel important for the company, because each company is worth as much as customer values it. Satisfied client will also recommend company’s products to their friends. Therefore the main challenges are:

- Building long-term partner relations with customers,
• Identifying and focusing on the most significant customers,
• Acquiring and retaining new customers,

In developing CRM strategies whole organizations should be engaged. It includes adequate approach in terms of sales, marketing and customer support. A truly comprehensive picture of customer might include information collected by sales partners, suppliers or collaborative service deliverers. When company limits whole its attention only to operational activities, it can decrease communication between business and customer. Initial CRM implementations should be based on adequate information and perspective about customers and the firm’s demand environment. Once implemented, CRM should allow organizations to see beyond the boundaries of the internal enterprise, and collect, analyze, and leverage such insight. It should include following issues:

• Understanding markets and customers (gathering market information, selecting target markets),
• Ability of dealing with different customers in different ways,
• Focusing on one-to-one relations by satisfying needs of individual customers,
• Developing an offer (selecting products, positioning, differentiating),
• Providing customer care (delivery process, service process, support, loyalty programs).
According to M. Stanusha, the main purpose of the concept from this perspective should be achieving such state, when high-profitable customers, each time they have a specific need, they would see only one company, that could satisfy it. It is big challenge, however possible thanks to good communication with customer. CRM systems enable any representative of a company to remember who they are talking to, no matter what the transaction might be. It is essential to get to know all the processes used by potential customer to create value. JOtto said that company which wants to follow rules of CRM concept should use all the means in order to precisely get to know these processes. It should also concentrate on retaining mutual trust between company and customer. The product itself is important, but it is not enough just to produce it, advertise and find recipients. In order that customers keep it in conscience, it is important also to take care of such things as additional service, such as transport, insurance and guarantee. Such activities help to consolidate this relationship and attach customer to the company. CRM enables to differentiate products by adding new dimension, where even mass-produced products can differ with type of relationship which company has with its customers. So there is no point on concentrating on maximization of single transaction, but company should focus on creating strong and long-term relationship with customer. The shift to customer-centricity has implications for the entire organization, requiring changes in company’s business culture, processes, and supporting
systems. However to get full benefits, it is necessary to create interactions which are based on trust between both parties and aim to mutual improvement of this relationship.

Summing up, CRM as a strategy focuses on building and consolidating a loyal group of regular customers, through constant satisfying of their needs and even going beyond these needs and individual preferences. In order to achieve this goal it is necessary to build strong relationships with those customers based on mutual trust.\textsuperscript{73}

The idea of CRM is that it helps businesses use technology, human resources to gain insight into the behavior of customers and the value of those customers to provide better customer service, simplify marketing, and sales processes, cross sell products more effectively, help sales staff close deals faster, discover new customers and increase customer revenues. CRM is about creating a competitive advantage by being the best at understanding, communicating, and delivering and developing existing customer relationships in addition to creating and keeping new customers.

\textbf{5.2 CONCEPTUAL PRINCIPLES OF RELATIONSHIP MARKETING}

At a time of intense competition and increasingly demanding consumers, relationship marketing has attracted the attention of both

\textsuperscript{73}Dougan S., Customer Relationship Management Strategies In Financial Services, London, Business Insights Ltd., 2004
researchers and managers. Academics have focused their attention on its scope, and developed a conceptual framework aimed at understanding the nature and value of the relationships not only with customers but also with a number of other stakeholders. Many researchers with varied interests in the field of marketing – such as distribution channels, services marketing, business-to-business marketing and marketing communication – have studied and explored the conceptual fundamentals of relationship marketing and its application in the business world (Palmer, Lind green and Vanhamme, 2005). In 1994 Grönroos stated that relationship marketing would probably turn into one of the dominant paradigms in marketing theory.

What are the origins of this approach? It is generally accepted that the roots of the expression “relationship marketing” can be found in the early 1980s. Two years later, in the context of a project related to industrial marketing, Barbara Jackson uses the same expression of “relationship marketing” in her book Winning and Keeping Industrial Customers as well as in an article published in Harvard Business Review in 1985. This fact bears mentioning: the two researchers who introduced the expression – one in the area of services and the other in the industrial field – indicate, to some extent, its conceptual pillars. Finally, we must also mention the great Theodore Levitt, who in 1983, without using the term “relationship marketing” in those exact words, states that the objective of a business should not be limited to sales in itself but should also provide the greatest customer satisfaction,
which depends on “how well the relationship is managed by the seller”.

In 25 years, relationship marketing has undergone a significant evolution, with its current status undeniable. A recent Google search showed close to 8 000 000 hits for the search term “relationship marketing”. On the other hand, the American Marketing Association changed its definition of marketing in 2004, putting in evidence its relational nature: “marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.” It’s interesting to compare this definition with the one adopted before: “marketing is the process of planning and executing the conception, pricing, promotion, and distribution of goods, ideas, and services to create exchanges that satisfy individual and organizational goals.” It should be noted that the Journal of Public Policy & Marketing published a special issue at the end of 2007 dedicated to the theme of “The American Marketing Association’s New Definition of Marketing: Perspectives on Its Implications for Scholarship and the Role and Responsibility of Marketing in Society”, which reveals how the definition of marketing has changed its focus.74

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Relationship marketing is based on the generation of a foundation of shared interest, in which companies and customers are committed to each other. Companies strive to use interactions with customers to generate commitment, a lasting desire in customers to maintain a valued relationship, and trust, a readiness to rely on the exchange partner. Trust is considered especially critical for relational exchanges because it is a crucial determinant of commitment. An important antecedent of trust is communication (Morgan and Hunt 1994). Communication in the CRM context involves the sharing of information between a firm and its customers (De Wulf, Odeken-Schröder, and Iacobucci 2001). To establish and maintain relationships, it is also imperative that organizations use the information to shape appropriate responses to customer needs. In effect, information plays a key role in building and maintaining customer relationships.

Consequently, CRM subsumes a collection of activities, for example, sub-processes related to the evaluation and prioritization of current and prospective customers, and market relating tactics that are not under the purview of relationship marketing. Therefore, although relationship marketing and CRM are both concerned with relationship development and maintenance activities, crucial differences regarding the intended process outputs (i.e., close, collaborative exchange relationships vs. profit maximizing and performance of customer
relationships) and the (necessarily) broader nature of CRM indicate that the two are related but have distinct phenomenon.\textsuperscript{75}

5.3 CUSTOMER KNOWLEDGE MANAGEMENT - INCREASING EFFICIENCY OF CRM WITH KM

Customer relationship management (CRM) and knowledge management (KM) initiatives are directed towards the same goal: the delivery of continuous improvement towards customers. Initiatives stemming from this effort have been labeled ‘customer knowledge management’ (CKM) or ‘knowledge-enabled CRM’ (Geib and Riempp, 2002)\textsuperscript{76}. In this contribution, we conceptualize CKM as the utilization of knowledge for, from and about customers in order to enhance the customer-relating capability of organizations. Recent research shows that an organization’s KM capabilities are the most significant critical success factor affecting CRM impact. However, due to a history of poor solutions coupled with technology failures, many companies have a hard time justifying CKM initiatives in today’s business world.

Nevertheless, the idea of combining KM initiatives with CRM activities is still alive as it has also proven to bring about considerable benefits when done correctly (Gibbert et al., 2002)\textsuperscript{77}. The CRM discipline’s


relationship with KM approaches and technologies has widely been recognized as a relevant field of research.

As CRM processes can be considered semi-structured or even unstructured, they reveal a high complexity as well as strong knowledge intensity. Since collecting, storing and distributing relevant knowledge for those CRM processes makes the deployment of KM techniques necessary, it is evident that an organization’s KM capabilities play a key role in CRM success. In this context, KM can be defined as “the process of critically managing knowledge to meet existing needs, to identify and exploit existing and acquired knowledge assets and to develop new opportunities.” Likewise, CKM can be defined as the systematic handling and management of knowledge collected at customer interaction points which are required for the efficient and effective support of business processes.

As a further concretization of this notion, we distinguish three kinds of knowledge flows that play a vital role in the interaction between an organization and its customers: knowledge for, from and about customers. Firstly, in order to support customers in their buying cycle, a continuous knowledge flow directed from the company to its customers (i.e. knowledge for customers) is a prerequisite. Knowledge for customers comprises information about products, markets and suppliers and is primarily addressed by CRM service processes. This knowledge dimension also impacts the customer’s perception of the

At the same time, knowledge \textit{from} customers has to be incorporated by the company for product and service innovation, idea generation as well as for the continuous improvement of its products and services. Capturing customer knowledge and involving customers in the innovation process can be achieved in various ways (Gibbert et al., 2002). For example, customers' knowledge about products, suppliers and market trends can be used via appropriate feedback mechanisms to enable a systematic improvement and innovation of products (Gibbert et al., 2002).

The collection and analysis of knowledge \textit{about} customers is certainly one of the oldest forms of KM activity in the CRMdomain. Besides the customer's master data and past transactions, knowledge about the customer encompasses the customer's present needs and requirements, future desires, connections, purchasing activity and financial capability. Knowledge about customers is collected in CRM service and support processes and analyzed in CRM analysis processes.
Up to now, there has been an abundance of publications to KM, which fall into two broad categories, epistemological and ontology oriented KM models. Within epistemology mainly the cognitivistic and the autopoietic approaches have been of significance to the area of KM. The cognitivistic approach describes knowledge as stored in distinct knowledge structures which are created through rule based manipulation and can exists independently of an individual. In contrast, the autopoietic approach according to states that knowledge is context sensitive and embodied in the individual. 79

According to the autopoietic epistemology, individuals acquire knowledge by observing and interpreting their environment. They can actively transfer knowledge between themselves through articulation and different types of interaction. The main differentiating characteristic of knowledge is the difficulty of its articulation. Knowledge that can be easily articulated is labeled “explicit knowledge”. Knowledge, that is difficult to articulate and therefore difficult to transfer is labeled “tacit knowledge” which was superseded by the term “implicit knowledge”. With their SECI KM model Nonaka and Takeuchi have formulated an encompassing epistemological autopoietic KM model.80

Ontological KM models on the other hand view knowledge as a “black box”. The characteristics of knowledge are defined through its relationships with a constructed universe of discourse. Modeling dimensions frequently used by ontological KM models include a process dimension and an agent dimension.

Process oriented KM models focus on the characteristics of knowledge during its lifecycle. They analyze the relationships and environmental variables that influence the processes of knowledge development, dissemination, modification and use. Examples for process oriented KM models. Agent oriented KM models focus on the characteristics of knowledge during the flow between individuals. They analyze the variables that expedite or hinder the flow of knowledge in social networks. Examples for agent oriented KM models.

Most KM models developed within the last decade include characteristics of both views. Nonaka has integrated an agent ontology dimension in 1994 and he tries to fully bond both views in his concept of “BA”.

Marketing, sales, and service are primary business functions [26] with the characteristics of a high degree of direct customer interaction and knowledge intensity. We derive our process model by detailing these functions into relevant business processes, which may be cross-
functional. A CRM business process involves the processing of customer knowledge to pursue the goals of relationship marketing. Usually it also involves direct customer contact and the exchange of information or services between enterprise and customer. Such processes are either triggered by the customer with the aim of receiving information or services or by the enterprise with the aim of delivering information or services to customers. Each process handles a specific business object which distinguishes it from other processes. Based on [31, pp. 57 et seqq.] and our own action research experience we identified campaign management, lead management, offer management, contract management, complaint management, and service management as the six relevant CRM business processes (cf. figure 5.2).

Figure 5.2: Customer Knowledge Management process model
The contribution of this study lies in illustrating the successful application of the CKM process model in different companies in an operational setting. In each case critical customer processes were identified, KM instruments suitable for those processes selected according to the CKM process model and then implemented. This resulted in significant performance improvements in those processes eventually enabling higher revenues and/or lower costs.

Case one identified content creation and knowledge navigation as crucial elements within the CCC and service management. The CKM process model suggests content management systems with an easily maintainable content structure and search functionality as appropriate KM instruments for these elements.

With the implemented system the duration of service calls and the quality of the provided service could be improved, enhancing knowledge transfer to the customer, resulting in higher customer satisfaction, higher loyalty and thus, higher revenue. Also, more efficient content creation was facilitated, resulting in lower costs.

5.4 CUSTOMER RELATIONSHIP MANAGEMENT AND LOYALTY

Customer loyalty is defined with consideration paid to the amount of buying for a given trademark. The level of loyalty is measured by the watching of the frequency of buying. With the increase in the amount of accessible information in recent years, the conscious level of
customers has improved continually. Today’s customers are aware of the power they have on the market and that every activity is realized for them. It is now easier to reach the products and services. Before choosing a given trademark, consumers look at the price, newness, accessibility of the product and the additional services offered. As the alternatives increased, consumers’ loyalty to the products and services decreased. Today firms have entered into an effort to present at a lower cost than their rivals the products and services that can meet the customer wishes and expectations fully, so that they can render customers more loyal.

Whether enterprises can make their current customers loyal depends on whether they can manage the customer relationships well. As customers have grown to be more conscious consumers, enterprises have had to pay the prices of the errors and faults they do in customer relationships. The most important quality of the 1990s is that customers revealed their power then. They realized that they themselves had something to say and have themselves listened to. The firms, then, understood that they had to listen to their customers so as to be able to sustain their presence in the market. (Bozkurt, 2000: 25) After the 2000s, with the increased use and effect of the internet and such platforms as discussion groups, customers had the opportunity to be more powerful and effective against the enterprises. Thus, enterprises noticed that they could only be successful if they adopted customer-based marketing.
Customer loyalty is the major concern today for organizations and is a critical issue for sustainability in today’s competitive market place. One of the challenges faced today by the companies other than increasing the sales of products, reduction of marketing cost and other marketing variables, is to minimize customer defection. This is because loyal customers’ tend to produce greater cash flow and profits; and they are less sensitive to price increases, they generate positive word of mouth messages and they do not have an acquisition cost (Reichheld, 2000;). One of the primary goals of CRM is customer retention or customer loyalty (Verhoef, 2003).

The concept of customer loyalty often builds up long-term customer relationships. The advantage of building such loyal relationship is to increase companies’ profitability as loyalty brings about low transaction costs, reduced price sensitivity and increase recommendations thru WOM. The two main strategies to achieve customer loyalty are to enroll the customer into long-term relationships and ensuring sustained customer satisfaction. Customer satisfaction is characterized by trust and being treated well in the future and it is customer’s overall evaluation of the performance of an offering to date. This overall satisfaction has a strong positive effect on customer loyalty intentions across a wide range of product and service categories. Satisfaction typically mediates the effects of product

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quality, service quality, and price or payment equity on loyalty. It also contains a significant affective component, which is created through repeated product or service usage (Oliver, 1999). In a service context, overall satisfaction is similar to overall evaluations of service quality. Compared with more episodic or transaction-specific measures of performance, overall evaluations are more likely to influence the customer behaviors that help a firm, such as positive word of mouth and repurchase (Boulding et al., 1993).

5.5 IT AND CRM

Information technology (IT) companies have tended to use the term CRM to describe the software applications that automate the marketing, selling and service functions of businesses. This equates CRM with technology. Although the market for CRM software is now populated with many players, it started in 1993 when Tom Siebel founded Siebel Systems Inc. Use of the term CRM can be traced back to that period.

Forrester, the technology research organization, estimates that worldwide spending on CRM technologies will reach US$11 billion per annum by 2010. Others with a managerial rather than technological emphasis claim that CRM is a disciplined approach to developing and maintaining profitable customer relationships, and that technology may or may not have a role.

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Many CRM implementations are seen as IT initiatives, rather than broader strategic initiatives. True, most CRM implementations require the deployment of IT solutions. However, this should not be misunderstood. To say that CRM is about IT is like saying that gardening is about the spade or that art is about the paintbrush. IT is an enabler, a facilitator. Improvements come about in the way customers are managed through a combination of improved processes, the right competencies and attitudes (people), the right strategies and the right enabling technologies.

The importance of people and processes should not be underestimated. People develop and implement the processes that are enabled by IT. IT cannot compensate for bad processes and unskilled people. Successful CRM implementations involve people designing and implementing processes that deliver customer and company value. Often, these processes are IT-enabled. IT is therefore a part of most CRM strategies. That said, not all CRM initiatives involve IT investments. An overarching goal of many CRM projects is the development of relationships with, and retention of, highly valued customers. This may involve behavioral changes in store employees, education of call centre staff, and a focus on empathy and reliability from salespeople. IT may play no role at all.85

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Customer relationship management has been so pervasive that it has evolved both as a business philosophy and as a technology. View CRM as one of three core macro level business processes and define it as “all aspects of identifying customers, creating customer knowledge, building customer relationships, and shaping their perspectives of the organization and its products.” Others use the term CRM to refer to “the use of technology to manage customer interactions and transactions”, which explicitly recognizes technology’s importance to CRM processes. However, technologies alone often cannot perform the CRM business process that Srivastava, Shervani, and Fahey describe; yet people often use technological tools to implement the CRM business process.

Customer relationship management (CRM) can be thought of as IT-enabled relationship marketing. It has numerous definitions and perspectives, and success of implementation has been limited to date. Literature on the subject gives importance of a balance between strategy formulation, IT and organizational alignment when adopting and implementing CRM in a business environment. Customer relationship management (CRM) has emerged in recent years as the convergence of a number of factors. coined the term ‘relationship marketing’, which encouraged a new movement towards customer relationships rather than customer transactions promoted the concept of one-to-one marketing and of mass customization, and (Reichheld, 1996) further motivated companies with his research on
loyalty and empirical evidence of the profitability of customer retention. Customer lifetime value (CLV) has become a key element of CRM.

5.6 SATISFACTION AND PROFITABILITY

There are two principal interpretations of satisfaction within the literature of satisfaction as a process and satisfaction as an outcome. Early concepts of satisfaction research have typically defined satisfaction as a post choice evaluative judgment concerning a specific purchase decision.

The most widely accepted model, in which satisfaction is a function of discontinuation, which in turn is a function of both expectations and performance. The discontinuation paradigm in process theory provides the grounding for the vast majority of satisfaction studies and encompasses four constructs ± expectations, performance, discontinuation and satisfaction. This model suggests that the effects of expectations are primarily through discontinuation, but they also have an effect through perceived performance, as many studies have found a direct effect of perceived performance on satisfaction. Swan and Combs (1976) were among the first to argue that satisfaction is associated with performance that fulfils expectations, while dissatisfaction occurs when performance falls below expectations. In addition, Poiszand Von Grumbkow (1988) view
satisfaction as a discrepancy between the observed and the desired. This is consistent with value-percept disparity theory which was developed in response to the problem that consumers could be satisfied by aspects for which expectations never existed. The value-percept theory views satisfaction as an emotional response triggered by cognitive-evaluative process. In other words, it is the comparison of the "object" to one's values rather than an expectation.

Customers want a meeting between their values (needs and wants) and the object of their evaluations. More recently, renewed attention has been focused on the nature of satisfaction = emotion, fulfillment and state. Consequently, recent literature adds to this perspective in two ways. First, although traditional models implicitly assume that customer satisfaction is essentially the result of cognitive processes, new conceptual developments suggest that affective processes may also contribute substantially to the explanation and prediction of consumer satisfaction. Second, satisfaction should be viewed as a judgment based on the cumulative experience made with a certain product or service rather than a transaction-specific phenomenon (Wilton and Nicosia. 1986).

Customer satisfaction is defined as a customer's overall evaluation of the performance of an offering to date. This overall satisfaction has a
strong positive effect on customer loyalty intentions across a wide range of product and service categories (Gustafsson, 2005). The satisfaction judgment is related to all the experiences made with a certain business concerning its given products, the sales process, and the after-sale service.

Whether the customer is satisfied after purchase also depends on the offer’s performance in relation to the customer’s expectation. Customers form their expectation from past buying experience, friends’ and associates’ advice, and marketers’ and competitors’ information and promises (Kotler, 2003). (Yeung and Ennew, 2001) found that satisfaction does not always lead to loyalty. Anderson, Fornell and Lehmann (1994) found that customer satisfaction had a strong effect on profitability as measured by the company’s return on investment. Further, they found that there was a strong immediate effect and a weaker carryover effect of customer satisfaction on a company’s profitability, which implied that customer satisfaction in one period influenced profitability in that period and also in the next period. The rationale provided by Anderson, Fornell and Rust (1997) could explain the mixed evidence for a positive relationship between customer satisfaction and financial

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performance measures found by Yeung and Ennew (2001). Similarly, Standard and Poor’s Compustat, found that the relationship between satisfaction and profitability varied from industry to industry, with positive relationships in some industries and no relationships in others. As the difference between customer desires and the company’s offerings increase, the level of satisfaction with the company’s offerings will decrease. Research (Anderson, Fornell and Lehmann, 1994; Griffin and Hauser, 1993; Fornell and Wernerfelt, 1987, 1988) has found that satisfaction and market share are negatively related simply because a given company’s limited resources cannot maintain the same level of satisfaction achieved in a niche market when the firm makes inroads into other larger markets.

Customer satisfaction has significant implications for the economic performance of companies (Bolton, Lemon, and Verhoef, 2002). Customer satisfaction has been found to have a negative impact on customer complaints and a positive impact on customer loyalty and usage behavior. Increased customer loyalty may increase usage levels, secure future revenues, and minimize the likelihood of customer defection. Customer satisfaction may also reduce costs related to warranties, complaints, defective goods, and field service costs.

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