Chapter – I

INTRODUCTION

Chapter Outline

This chapter is divided into six parts. Part I discusses the different facets of Customer Relationship Management including its historical aspects. Second aspect deals with the general setup of Small and Medium enterprises, including its classification, growth drivers and challenges faced by them. The third part deals with the process and technology of CRM and the interrelationship of this with the SME. Fourth part deals with understanding the problem of the study. The next part deals with the Companies under study. The last part of the chapter discusses the chapter schema of the entire thesis clearly establishing the flow and progression from one chapter to the next.

1.1 Concept of Relationship Marketing –

The approaches of doing business and satisfying the customer are changing rapidly. Today, the marketer focuses on the Pareto’s 80:20 rule which say that 80% of the business comes from 20% of the customers. The old transactional approach to marketing no longer works in this. Constant changes in the market, development of service market sphere as well as limitation of traditional marketing conception (it does not analyze how to sustain long-term relationship with customers and other participants of the market) were the premises for the formation of a new marketing paradigm. As the market relationship is changing, new forms of the change of competitiveness, customers’ needs satisfaction and individual random interaction into long-term relationship with suppliers, customers, competitors and other participants of the market were searched for. To be able to achieve the marketing goals the organizations have to focus on the new approach of Relationship Marketing (RM).

Relationship Marketing is “an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value added contacts over a long-period of time.”(Shani and Chalamani, 1992). Berry proposes
relationship marketing as “attracting, maintaining, and in multi-service organizations-enhancing customer relationships.”

Relationship building and management, or what has been labeled as relationship marketing, is one of the leading new approach to marketing which eventually has entered the marketing literature (Gummenson, 1997). Trends in business and modern research in the area of industrial marketing, services marketing, customer relationship economics and small and medium enterprises demand a relationship-oriented approach to marketing.

The growth in the number of published works in recent years is testimony to the renewed interest in the relational marketing paradigm (Bloemer and Kasper, 1995; Bloemer and Lemmok, 1992; Crosby et al. 1990). Two themes emerge from the expanding literature in the field (Barnes, 1994). The first is that relationships are mostly viewed from the perspective of the firm providing the service; and second, it is assumed that virtually any ongoing contact between an organization and a customer constitutes a relationship. To be successful in initiating and maintaining long-term relationships requires a clear understanding of motivations and other forces that entice customers to stay in a relationship. There are different schools of thought that have emerged in the area of Relationship Marketing.

They can be defined as the Nordic school, which is associated with Nordic countries and originated in the field of services marketing (Gummenson, 1997). A research group which links the Scandinavian countries is the Industrial Marketing group (IMG) that focuses on understanding relationships in business to business markets (Turnbull, 1996). Gronroos proposed two further schools: Anglo Australian approach based on quality, customer service and satisfaction and the North American approach which works on company and customer relationships. Over the past two decades, literature suggest that business across all sectors will have to change their approach towards marketing which now will be carried out through relationships, networks and interactions (Day, 2000; Webster, 2000).

Relationship Marketing is still in its infancy as a mainstream marketing concept, although it has established itself as an underlying paradigm in modern industrial marketing and services marketing. (Frederick Webster, 1994) another prominent
American opinion leader in marketing comes to a similar conclusion in a recent analysis of the current developments in business and in marketing: “There has been a shift from a transaction to a relationships focus”. The relatively narrow conceptualization of marketing as a profit-maximization problem, focused on market transactions or series of transactions, seems increasingly out of touch with an emphasis on long-term customer relationships and the formation and management of strategic alliance. In a relationship marketing situation the firm can build up an online, real-time information system. This system will provide management with continuously updated databases of its customers and continuous information about the degree of satisfaction and dissatisfaction among customers.

During the last few years there has been a growing interest in studying the economics of long-lasting customer relationships. (Heskett, 1987) introduced the concept of market economies, by which he means achieving results by understanding the customers instead of by concentrating on developing scale economies. According to (Riechield, 1993) a 5 percent increase in retention grows the company’s profit by 60 percent by the fifth year”. Long-term relationships where both parties over time learn how to best interact with each other lead to decreasing relationship costs for the customer as well as for the supplier or service provider. A mutually satisfactory relationship makes it possible for customers and suppliers to avoid significant transaction costs involved in shifting supplier or service provider. A mutually satisfying relationship makes it possible for customers and suppliers to avoid significant transaction costs involved in shifting supplier or service provider.

Some long-lasting customer relationships where the customers are obviously satisfied with what they get, are profitable even in the long run, (Storbacka, 1993). Therefore, segmentation based on customer relationship profitability analysis is a prerequisite for customer retention decisions. To conclude there is clear evidence that from a profitability point of view intelligent relationship building and customer satisfaction make sense.

The contemporary marketing practice group (Lindgreen, et al., 2001) has placed emphasis on the changing role of the marketing managers towards building relationships. This can be seen happening over two decades. There is another group of
researchers who say that marketing is practiced by using both the transaction approach and the relationship approach. (Coviello, et al., 2001).

Many claims have been made for relationship marketing: the future of marketing. The New Paradigm, salvation from the sins of the 4Ps (Rapp and Collins, 1991; Shetii, 1993; Gronroos, 1994; Sheth and Parvatiyar, 1995). New scientific empires are being built on its foundations (The Anglo-Australian School, The Nordic School, the Emory School) and epistemological battles are being fought regarding its origins, ownership and definition. Several specialist conferences and colloquia have been established, providing alternative theatres: The International Colloquium of Relationship Marketing series, the Emory University conferences and the AMA seminars, for example. As might be expected with new concept formulation, differing perspectives vie to have the last defining word, in much the same ways that alternative new technologies battle to attain a position of acceptance, adoption and diffusion.

Contributors to the development of RM hail from a variety of academic backgrounds with the result that the contributions often take different approaches to the area. Four broad categories of approach to RM can be found: those concerned with the scope of RM; those dealing with concepts associated with RM, for example, commitment; those dealing with the technologies of RM, databases, communications for example, and those attempting to describe the processes of RM. Each of these is briefly reviewed below.

1.1.1 Scope of RM:

Writers such as Webster (1992), Gummesson (1994) and Gronroos (1994) emphasize that relationship marketing embraces not only relationships between the firm and its customers, but also between the firm, its suppliers, other stakeholders and in some cases, even competitors. The latter of these has also been called 'extended relationship marketing' while the former is seen as 'limited' relationship marketing (Mattson, 1997).

1.1.2 Concept of RM:

Concepts which have been examined as part of RM include 'dialogue', 'commitment' and 'trust'. Peppers and Rogers (1995) explain dialogue as interactive behavior which
will allow marketers to increase their customer knowledge and generate innovative means of meeting their needs. Commitment is defined by Morgan and Hunt (1994) as 'an exchange partner believing that an ongoing relationship is so important as to warrant maximum effort at maintaining it' (p23). Trust in the context of RM is present where 'one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt 1994).

1.1.3 Process of RM:

Turning to the processes of relationship marketing, a widely accepted definition is that furnished by Gronroos (1994): .... to establish, maintain and enhance relationships with customers and other partners, at a profit so that the objectives of the parties are met This is achieved by a mutual exchange and keeping of promises. Such relationships are usually but not necessarily always long term'. (p9)

1.1.4 Technologies of RM:

Copulsky and Wolf (1990) position RM as a communication tool used to build loyalty with customers, whilst Petrison and Wang (1993) link RM with the IT processes needed for greater customer knowledge and more focused targeting. In fact the IT approach is itself linked with the communications approach to RM through the linked concept of integrated marketing communications (Schultz, Tannebaum and Lauterbom, 1993; Duncan and Moriarty, 1998). These contributions to the overall description and definition of RM originate within the writings of consultants and practitioners, thereby adding a fresh dimension to RM which academics ought not to ignore if they are in any way concerned with the relevance of their work to these communities.

With the new marketing approach it becomes imperative for businesses to tailor their marketing activities towards important markets, which are, the customer market, suppliers, the referral markets, recruitment market, influencer market and the internal market. All these markets are important but the superior value is with the customer (Pepper and Rogers, 2000).CRM oriented businesses market their products and services through building relationships and interactions through business markets taking advantage of the IT based activity (Ryals and Payne, 2001). Relationship
marketing is termed as Customer Relationship Management when it emphasizes the customer market in particular.

Relationship Marketing is often cited as the philosophical basis of Customer Relationship Management (CRM). It is an approach which is strategic in nature and encompasses building up the relationship with the entire range of stakeholders. It is more emotional and behavioral, focusing on concepts such as bonding, empathy, reciprocity and trust. Customer relationship management (CRM) focuses on your enterprise's number one priority - creating a satisfactory customer experience that will delight your current clients and help you acquire new ones more quickly.

It has developed as an approach based on maintaining positive relationships with customers, increasing customer loyalty, and expanding customer lifetime value (Blattberg & Deighton, 1996; Brassington & Pettit, 2000; Ahn, Kim, & Han, 2003). Understanding the needs of customers and offering value-added services are recognized as factors that determine the success or failure of companies. Kotler (1997) pointed out that CRM principally revolves around marketing and begins with a deep analysis of customer behavior.

RM and CRM are the concepts which are quite different but they have some similarities as well. Both have strong similarities: both strongly focus on individual buyer-seller relationships, except that these relationships are longitudinal in nature, and that both parties benefit in the process (Sin et al., 2005). Thus, CRM can be regarded as, to some extent, a subset of RM.

Customer Relationship Management has been defined as a comprehensive approach for creating, maintaining and expanding customer relationships. It does not belong to sales and marketing. It is not the sole responsibility of the customer service group. Nor it is the brain child of the information technology team. In other words it is “the way of doing business that touches all areas.” It is a way of thinking about and dealing with Customer Relationships. CRM strategy can actually serve as a benchmark for every other strategy in the organization. Any organizational strategy that doesn’t serve to create or expand relationships with the target customers doesn’t serve the organization.
CRM is a combination of people, processes and technology that seeks to understand a company’s customers. The concept was first developed in the mid-1990’s in Information Technology (IT) industries (Boulding et al., 2005; Payne and Frow, 2005). Innovation in information processing, more sophisticated and demanding consumers, and an increasingly competitive environment contributed to the development (Bell et al., 2002; Chen and Popovich, 2003; Parvatiyar and Sheth, 2002). However, overtime it has evolved into a management philosophy in which an organization concentrates its activities around the customer. The goal is to create greater value for both customers and shareholders (Payne and Frow, 2005).

Being able to build a customer relationship is vital to the success of the organization as it focuses on maximizing the revenue from each customer over the lifetime of the customer relationship. Customer Relationship Management is a new way of doing something as old as the business itself. Nevertheless it is not easy to keep customers happy, and it is getting harder all the time. Several companies are turning to customer-relationship management systems and strategies to gain a better understanding of their customer’s wants and needs. It has emerged as a core element of this strategy that focuses on delivering superior customer through such elements as exceptional service and a willingness to cater to individual requirements. The relationship formation in it refers to decisions regarding initiation of relational activities for a firm with respect to a specific group of customers or with respect to an individual customer with whom the company wishes to engage in a cooperative or collaborative relationship. Hence it is important that a company is able to identify and differentiate individual customers. It recognizes this fact of marketing life and recommends that the firm should actively encourage relationships with profitable customers only and attempt to terminate or outsource relationships with unprofitable customers. One of the basic assumptions in relationship marketing is that long-term loyal customers are profitable. Storbacka et al., (1994) suggest that customer relationship profitability is achieved through a chain that starts with perceived value that creates customer satisfaction that, in turn, strengthens the relationships so that it lasts longer and thus becomes more profitable. It is assumed that it is cheaper to keep an existing customer than to acquire a new one.
1.2 Customer Relationship Management: Definition and Classification-

Customer Relationship Management (CRM) has generally been assumed to create a competitive edge for an organization, as well as to have a positive impact on organizational performance. It means “the strategic process of shaping the interactions between a company and its customers with the goal of maximizing current and lifetime value of customers, for the company as well as maximizing satisfaction for customers. (Rajgopal and Sanchez, 2005)

It emphasizes not only a comprehensive strategy, but also the process of acquiring, retaining and partnering with selective customers to create superior value for the company and customer (Parvatiyar and Sheth, 2000). It is mainly an enterprise wide mindset, business strategy and the processes that are designed to acquire, retain and serve customers. CRM technologies help companies to manage the customer lifecycle of acquiring new customers, enhancing the profitability of existing ones, and retaining customers for long.

According to Berry (1983), CRM is a business strategy that an organization employs to identify, select, acquire, develop, retain and serve customers better. According to Rigby et al. (2002), CRM is a mechanism for aligning a firm’s business processes with its strategies to build customer loyalty and the firm’s profit. Similarly Kim et al. (2003) define CRM as “managerial efforts to manage business interactions with customers by combining business processes and technologies that seek to understand a company’s customer”. It is an integration of business processes and technologies employed to satisfy the needs of a customer during any given interaction. The concept of CRM involves acquisition, analysis and use of knowledge about the customers with a view to effectively sell more and more goods and services. It is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior customer value for the company and the customer.

Customer Relationship Management is defined as “a combination of the business process and technology that seeks to understand a company’s customers from the perspective of who they are, what they do and what they are like.” It is considered as a business strategy and not as a technology. Pairing the CRM tools with the right management attitude not only helps the firm generate and retain customers, but it also
provides it with a competitive advantage. The relationship marketing paradigm calls for business organizations to see their customers and other stakeholders as partners to form long-term relationships with them and to reap the ensuing benefits of trust, loyalty and increased profitability. (Hunt and Morgan 1994).

Sin et al. (2005) defined CRM as “a comprehensive strategy and process that enables an organization to identify, acquire, retain, and nurture profitable customers by building and maintaining long-term relationships with them.

It has recently emerged as a strategic solution to modern business problems. It has its roots in the age old business philosophy which recognizes that all business activities must revolve around customers. It is about one to one relationships or personalized service which calls for total employee involvement in serving the customer. All the employees of the organization at all hierarchical levels and across all functional departments need to be oriented towards developing customer franchise. It requires redefining core business and customers, designing and integrating business processes, and implementing and monitoring programmes aimed at creating sustainable customer advantage. If implemented successfully it offers immeasurable benefits to the organization in terms of improved sales, market share profitability, customer satisfaction and reduced customer turnover, service cost and time. It is a ‘core business strategy’ that aims to ‘create and deliver value to targeted customers at a profit’.

It is a disciplined approach towards developing and maintaining customer relationships. It is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high quality customer-related data and enabled by information technology. (Buttle 2009)

Historically, most companies were located close to the markets they served, and knew their customers intimately. Very often there would be face-to-face, even day-to-day, interaction with customers where knowledge of customer requirements and preferences grew. However, as companies have grown larger they have become more remote from the customers they serve. Sometimes this remoteness is just geographic, sometimes it could be cultural also. Sometimes the companies are not able to
understand the markets they serve. Geographic and cultural remoteness, together with business owner and management separation from customer contact, means that many, even small, companies do not have the intuitive knowledge and understanding of their customers so often found in micro-businesses, such as neighborhood stores and hairdressing salons. This has given rise to demand for better customer-related data, a cornerstone of effective CRM. It also results in managing a better customer relationship and to maximizing revenues.

Customer Relationship Management (CRM) system is the system that integrates management of customer groups, establishment and management of marketing companies referring to relationship (intercourse) marketing. The application of relationship marketing theory (model) in narrower conception of CRM is simply inevitable because customer relationship management cannot be only the illustration of the relationship, it is much more important to understand the management and development of relationship and intercourse; CRM integrates new strategic initiatives of communication with customers or their groups, it creates common platform of communication with customers.

Customer relationship management (CRM) is:

- first of all it is business strategy meant for development of customer relationship; and its results optimize profitability, income and meeting the needs of customers;
- multimedia that guarantees the integration of all technological resources used in a company and activity fields related to customers;
- meant for maximum personalized satisfaction of customers’ needs;

The various definition emphasize upon the importance of continuously identifying and satisfying customers ever-changing needs by the facilitation of appropriate organizational structure and management approaches (Nancarrow et al., 2003, Stefanou et al., 2003). The key components of this definition, therefore, include the long-term relationships, customer knowledge, the profitable customer; a customer-centric-focus and strategy. Details of these attributes are presented further below:

**Component 1: Long-term relationships**

Establishing long-term relationships with customers is the fundamental purpose of CRM implementation. Building on the concept of relationship marketing (Chen and
Popvich, 2003), CRM stresses the importance of long-term relationships with clients and does not simply consider the merits of the transaction (Payne and Frow, 2004). This notion is closely related to an awareness of the positive correlation between customer retention and a company’s profitability (Pfeifer and Farris, 2004, Reichheld et al., 2000). Therefore, CRM emphasizes the issue of pursuing long-term relationships with profitable customers in order to maximize customers’ value in the long term. Hence, a long-term relationship is regarded as one of the key components of the CRM concept.

Component 2: Customer knowledge

Customer information plays a key role in CRM (Croteau and Li, 2003). To deliver superior customer services, companies are required to comprehensively learn and understand their markets and target customers (Woodruff, 1997). Therefore, constructing a comprehensive customer information profile or database is the foundation for any CRM implementations (Winer, 2001). By integrating and managing customer information effectively, CRM aids organizations in gaining better knowledge of their customers and managing customer relationships effectively (Christopher et al., 1991). It helps not only the delivery of superior customer services experiences (Payne and Frow, 2004), but also provides opportunities for potential future sales (Winer, 2001). Therefore, comprehensive customer knowledge is perceived as a key attribute of CRM.

Component 3: Profitable customer

As mentioned previously, CRM emphasizes the importance of investment in customer relationships which, in turn, maximizes profitability (Ryals, 2003). However, it is important to note that each customer does not represent the same value to the firm (Kutner and Cripps, 1997, Zablah et al., 2004,) and, as the 80/20 rule suggests, the majority of company profits are generated from a small proportion of its customers (Ettorre, 1997, Sanders, 1987). Therefore, it is expensive and impractical to invest resources for establishing relationships with all customers, as it is more cost effective to target high value customers (Lockard, 1998). To achieve this, the company needs to evaluate life-time value and long-term profitability of its customers (Winer, 2001). It assists the company to identify customers who have high long-term profit potential
and to use marketing resources effectively. Therefore, CRM emphasizes the issue of identifying the profitability of customers while establishing relationships with them.

**Component 4: Customer-centric focus**

In the CRM context, a customer-centric culture is closely related to the success of maintaining long-term relationships with customers (Rigby *et al.*, 2002, Wilson *et al.*, 2002). A customer-centric focus is perceived to be a source of competitive advantage for companies (Slywotzky and Wise, 2003), and has a positive influence on business performance (Deshpande, Farley and Webster, 1993). Research frameworks have been developed with the purpose of demonstrating how customer orientation can be a source of competitive advantage to the company (Day and Wensley, 1988, Slater and Narver, 1995). For example, Woodruff (1997) argues that as the customer is perceived as an important asset, the company needs to be more customer-oriented and is encouraged to establish a customer-focused culture within the organization. As the fundamental purpose of CRM is to establish long-term relationships with customers, it is reasonable to emphasize the need for the establishment of a customer-centric philosophy within organizations, in order to achieve long-term relationships (Zablah *et al.*, 2004). Therefore, a customer-centric focus is regarded as an essential element to illustrate the CRM concept.

**Component 5: Strategy**

Establishing long-term relationships with valuable customers is the purpose of CRM, and an appropriate managerial strategy is essential to enable the company to achieve this objective effectively. Therefore, strategy is included as a component that conceptualizes the concept of CRM. As outlined earlier, one of the common conceptions of CRM is as a business strategy. Payne and Frow (2004) also argue that a strategic perspective is essential for CRM success. This study will adopt this view. Therefore, CRM is perceived as a strategy; in particular, a customer-centric managerial strategy. Hence, this study suggests that the establishment of a CRM ensures the organization remains strategically focused. In addition, it also provides clear guidelines for customer service and other customer-related activities. For example, it provides guidelines on issues such as identifying valuable customers and
determining appropriate relationship management activities (Verhoef and Donkers, 2001).

**CRM can be classified into the following four types (Buttle 2009):**

1) **Strategic CRM** - Strategic CRM is a core customer-centric business strategy that aims at winning and keeping profitable customers. It is focused upon the development of a customer-centric business culture. The business culture is dedicated to winning and keeping customers by creating and delivering values better than competitors. The culture is reflected in leadership behaviors, the design of formal systems of the company, and the myths and stories that are created within the firm. In a customer-centric culture the resources need to be allocated where they would best enhance customer value, reward systems to promote employee behaviors that enhance customer satisfaction and retention, and customer information to be collected, shared and applied across the business.

2) **Operational CRM** - Operational CRM focuses on the automation of customer-facing processes such as selling, marketing and customer service. It automates and improves customer-facing and customer-supporting business processes. Operational CRM aims at automation of CRM processes to improve efficiency and productivity. CRM software applications enable the marketing, selling and service functions to be automated and integrated.

3) **Analytical CRM** - Analytical CRM focuses on the intelligent mining of customer related data for strategic or tactical purposes. They aim to provide better understanding of individual customers’ behavior and needs. It is concerned with capturing, storing, extracting, integrating, processing, interpreting, distributing, using and extracting, integrating, processing, interpreting, distributing, using and reporting customer-related data to enhance both customer and company value. It is the process of collecting and analyzing a firm’s information regarding customer interaction in order to enhance the customer’s value to the firm.

4) **Collaborative CRM** - Collaborative CRM applies technology across organization boundaries with a view to optimizing company, partner and
customer value. These aim to manage and integrate customer communication channels and networks. It is the term used to describe the strategic and tactical alignment of normally separate enterprises in the supply chain for the more profitable identification, attraction, retention and development of customers. Collaborative CRM uses CRM technologies to communicate and transact across organizational boundaries. The term is usually applied to more recent technologies such as electronic data interchange (EDI), portals, e-business, Voice over Internet Protocol (VoIP), conferencing, chat rooms, web forums and e-mail. These technologies allow data and voice communication between companies and their business partners or customers. Collaborative CRM enables separate organizations to align their efforts to serve customers more effectively. It allows valuable information to be shared along the supply chain.

1.3 Integration of CRM into management of Small and Medium Enterprises:

The unique characteristics distinguish SMEs from large businesses and have an impact on Customer Relationship Management (CRM) implementation among SMEs. Research demonstrates that CRM is increasingly seen as vital by SMEs (Berry, 2003, Bland, 2004). For most SMEs, customer service and customer relationships are major sources of competitive advantage (Chen, 1999, Voudouris, Lioukas, Makridakis and Spannos, 2000), and CRM improves SMEs’ ability to perform these tasks (Christopher et al., 1991, Karkoviata, 2001). In the following, implementation of CRM among SMEs is discussed further. In particular, common problems of SMEs concerning customer service and benefits CRM can deliver related to these issues are outlined. Moreover, the adoption of CRM among SMEs so far, and reasons that stop SMEs from executing CRM are illustrated.

Customer service, identified as the key to success by many small companies (Gilmore et al., 1999, Karkoviata, 2001), is an instrument SMEs commonly use to deliver added value to their customers, in order to improve customer satisfaction and obtain a competitive advantage (Clow and Cole, 2004, Gilmore et al., 1999, Martin, 1992, Vermond, 2004). Gilmore et al. (1999) note that SMEs are closer to their customers and have a better understanding of local knowledge. Therefore, it is easier for them to obtain valuable information, such as customer’s preferences and their opinions about
the company’s product and service. In addition, SMEs are more flexible and innovative (Hultman and Shaw, 2003). Hence, it helps a company to be more responsive to customer needs; which, in turn, improves the company’s ability to deliver better customer service.

However, as mentioned earlier, SMEs’ company structure and business operation are less formal than for large companies (Gilmore et al., 1999) and customer information is often scattered within the company. For example, customer information related to the marketing issues might not be integrated with customer information stored within the product department. Therefore, customer information is likely isolated and incomplete. This has negative impacts on SMEs’ ability to perform customer service and customer relationship tasks. CRM, on the other hand, provides a solution to this situation. Karkoviata (2001) argues that CRM helps small companies to improve their ability to combine, integrate, and process customer information. It not only assists companies to be more responsive to customer’s needs (Karkoviata, 2001, Vermond, 2004), but also comprehensive customer knowledge provides an opportunity for SMEs to manage customer relationships effectively (Christopher et al., 1991) and turn satisfaction into loyalty.

As part of CRM implementation, one needs to capture and analyze data about targeted customers and their targeted buying habits. From this wealth of information, one can understand and predict customer behavior. Marketing efforts, armed with this customer intelligence, are more successful or both finding brand new customers and cultivating a deeper share of wallet from current customers. The CRM strategy should be clear and consistent by sharing a common vision of the customer service/ sales profile. Thus, customer service profiling may assume different shapes like an hour glass, pyramid etc. depending on relationships between the three levels:

1. Initial transactions.
2. Repeat customers
3. Customer advocates.

CRM measures can help stabilize the CRM strategy. These measures can come in the form of subjective measures like customer satisfaction surveys or tracking complaints
and compliments. And objective measures through hard data like, average length of transaction, transaction accuracy, ability to resolve issues in the first contact etc. CRM is a comprehensive approach for creating, maintaining and expanding customer relationships. The CRM tools may be high-tech or low –tech. These tools cannot substitute for good customer service skills. At the end of the day, the best customer experiences are human and feel humane. Even if the customer and the service provider never meet, when solid customer-handling skills inform the design of the e-commerce interaction, satisfaction is increased.

Size of a company affects the way how all operations and processes are done. This is also true for how CRM is used in customer’s care. “Small and Medium Enterprises are owned and managed independently and are not dominant in their field of operation. They are separate entities in hands of one or more entrepreneurs with limited number of employees, relatively small production capital and annual turnover (Small Business Act, 1953)”. This methodology uses four criteria for company classification: number of employees, annual sales (income), asset value (property value), and independence. Basic characteristics of these companies can be defined as follows:

- Independent management coupled with independent ownership.
- Capital is owned by one or more several owners.
- Predominant focus on local markets.
- Simple management system (horizontal structure).
- Company is small compared to major competitors.

It is clear that nowadays almost every Small and Medium Enterprise in some way respects requirements of its customers but not all of them base their activities on them. To ensure the success of a company in the market and its competitiveness it must really be based on customer’s wishes and needs and not just respect them. Competitive advantage can’t be viewed as a quality product or low price anymore. Company must be able to offer the value that the customer wants in the whole package – quality product, reasonable price, additional services and after-sale care. Due to the orientation of company’s management on the process and providing value
to the customers the transactional view of marketing is becoming obsolete and is pushed out by the relational approach. It is therefore essential that small and medium enterprises implement CRM into their strategic marketing management.

SMEs have very limited resources, including human resources, finance, technology and knowledge (Gilmore et al., 1999, Iacovou et al., 1995, Knight, Madsen and Servais, 2004, Torres, 2002). SMEs have limited budgets and small numbers of employees, therefore, most of the employees are not specialized in a specific area of expertise and are required to perform multiple and varied tasks (Bland, 2004, Fuller, 1997, Vermond, 2004). In addition, the majority of SMEs lack of human resource planning and development knowledge (Mclarty, 1999, Torres, 2002). Hence, SMEs often have difficulty in recruiting or developing the necessary human resources and managerial know-how for further development (Atkinson and Curtis, 2004, Watson, 1995). Furthermore, the restricted availability of resources in SMEs often results in insufficiency of manpower and the technical expertise required for innovation adoption (Karkoviata, 2001). Therefore, SMEs are often conservative in adopting innovation and reluctant to invest in new technology (Cragg and King, 1993, Iacovou et al., 1995, Raymond, Bergeron and Rivard, 1998). This is considered a possible contribution to SMEs’ low adoption rate of CRM so far, as it requires great amount of resources and investments.

The principles of CRM can be very well applied to the Small and Medium-sized Enterprises (SMEs). SME is an abbreviation for Small and Medium Enterprises. These enterprises can be rightly said as the backbone of the GDP of India. SMEs operate with a strong focus on personal relationships with customers, suppliers, employees, and other stakeholders. The main focus is on the management of customer relationship by SMEs. SME characteristics do not allow for the straightforward application of large firm strategy or tactics. SMEs tend to be informal social entities with a short term focus on profits. The CRM strategies play a very important role in the success of SMEs. In SME, everyday management is through managing personal relationships. Together these personal relationships form a personal contact network and the form of networking it entails displays all the characteristics of relationship marketing and of CRM.
The personalization of relationships is a significant benefit of CRM. By electronically recording the history of customers and providing the metrics for calculating each customer’s profitability, CRM allows SMEs to tailor offerings and predict future behavior. An example could be personalization of emails, offering the right product to the right customer at the right time. In fact, CRM systems could help a firm to achieve better levels of customer service. Committed customers are company assets (Ragins and Greco, 2003) and it is less expensive to retain than to attract a customer (Riechfield and Sasser, 1990; Storbacka et al., 1994). An SME cannot afford to maintain relationships with each one of its customers, rather attention should be paid to the Pareto’s effect where 80 percent of one’s business derives from 20 percent of one’s customers (Gilmore et al., 1999). Customer relationships play a major role in the competence development of SMEs (Skates & Sepanen, 2002). SMEs are embracing CRM as a major element of business strategy, because technological applications permit a precise segmentation, profiling, and targeting of customers and competitive pressures require a customer-centric culture (Gurua, Ranchhod, & Hackney, 2003).

It is interesting to note that although SMEs are adopting the CRM concept, the adoption has not occurred among all industries. Bland (2004) and Vermond (2004) argue that SMEs are reluctant to adopt CRM due to the following reasons:

1. The implementation process is time-consuming, and may tie up key employees;
2. Financial shortage for capital investment;
3. Employees already multi-task and are overworked. They simply do not have extra time for it;
4. A shortage of adequate IT resources;
5. The adoption of CRM technology needs to be strategically planned and some small businesses struggle with it.

1.4 Evolving Business Processes by SME’s –
Customer Relationship Management is the key competitive strategy. Businesses need to stay focused on the needs of the customers and to integrate a customer-facing approach throughout the organization. CRM is essentially a two-stage process. The
task of the first stage is to master the basics of building customer focus. This means moving from a product orientation to a customer orientation and defining market strategy from outside–in and not from inside-out. The focus should be on customer needs rather than product features. Businesses in the second stage are moving beyond the basics; they do not rest on their laurels but push their development of customer orientation, by integrating CRM across the entire customer experience chain. (Rygielski, Wang, & Yen, 2002). To survive in the global markets, focusing on the customer is becoming a key factor for SMEs. It is known that it takes up to five times more money to acquire a new customer than to get an existing customer to make a new purchase. Hence, customer retention is important to SMEs because of their limited resources (Baumeister, 2002). CRM can help businesses enhance their customer relationships by attracting more profitable customers and establishing stronger and more durable customer relationships (Falk, 2004).

Although SMEs are facing problems due to their relative small size, size also provides certain unique advantages. As most SMEs are informal in terms of organizational structure and process, SMEs can be more flexible and innovative than large or multinationals enterprises (Gunasekaran, Forker and Kobu, 2000, LeBlanc, Nash, Gallagher, Gonda and Kakizaki, 1997, Levy and Powell, 1998, Narula, 2004). These are often translated into high degree of responsiveness in delivering customer service (Gilmore et al., 1999, Zontanos and Anderson, 2004). In addition, compared to larger organizations, smaller businesses are closer to customers and have more opportunities to interact with customers to find out what they want (Hardy, 1987, Vermond, 2004).

This is a crucial factor in delivering a value-added service, which is widely recognized as a competitive advantage for smaller businesses in competition with large firms (Berry, 1987, Clow and Cole, 2004). As small firms often have a better understanding of local conditions, it assists the small company deliver added value through various marketing aspects, such as product, price, packaging, delivery, advertising, promoting and customer service (Gilmore et al., 1999). In respect of CRM implementation, the high degree of flexibility in business operation contradicts with CRM requirement of establishing an integrated, organized operational process. Hence, it may need to be adjusted accordingly.
1.5 Definition & Classification of SMEs: (Source MSME, Govt. of India)

Small and Medium Enterprises are not uniform across the globe. The way they are defined depends on the stage of economic development and the broad policy purposes for which the definition is used. There are said to be more than 60 definitions of Small and Medium industries used in 75 countries surveyed (Kin Seung Jin and Suh Jang-Won, 1993). The most commonly used definitions relate either size of employment and/or quantum of capital investment /fixed assets. In the European Union, Small and Medium Enterprises are defined as enterprises with less than 500 employees. In Poland, a small enterprise is defined in terms of employment (less than 50 workers) and net revenues from sales of goods, products, services and financial operations (not exceeding 7 million ECU). In most countries of the East Asian region, the cut-off point for small industries varies between 50 and 100 workers. In India, the definition of small-scale industries is in terms of historical costs of plant and machinery, which is set at Rs.10 million at present.

The term SME covers a variety of different sized enterprises: from sole proprietor managed business to those having 249 employees and from businesses whose annual turnover could be stated in tens of thousands to those whose annual turnover is expressed in million of euros. SMEs are defined as firms that employ less than 200 employees based on the research done by Saleh, M.I. (1999) and Mohd. Asri (1999). This definition is similar to the one used by the World Bank (1984), United Nations (1986) and Asian Development Bank (1990) who defined small enterprises as firms employing fewer than 50 employees and medium enterprises as firms employing between 50 to 199 employees.

SME’s are the engines of growth of any country’s economy. They are an essential source of a country’s jobs, create entrepreneurial spirit and jobs in a country and are crucial for fostering competitiveness and employment.

Definition as evolved in India:

1) The term Small-Scale Industry was defined under the Industries (Development and Regulation) Act, 1951. The Factories Act defines a Manufacturing Unit in terms of workers employed. The Reserve Bank of India, at times made

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distinction in terms of the quantum of advance granted to a unit, restrictions and concessionary interest rates extended. The debt Recovery Tribunal has not recognized these classifications and admitted disputes in excess of Rs 10 lakhs for adjudication.

2) Upto 6 June, 1955, units using power and employing less than 50 persons and those employing less than 100 persons and using no power were considered as small-scale industries. On 18 March 1959 this number was allowed to be taken to be per shift. On 4 January, 1960, ‘capital investment’, i.e. investment in land, building, plant and machinery was introduced – with a limit of Rs 5 lakhs for SSI and Rs 10 lakhs for ancillary unit. Over the years the definition became complex and classifying a unit as small – scale industry has become interpretative than definitive.

3) An industrial undertaking engaged or to be engaged in the manufacture processes/ preservation of goods/ repairs services with investment in fixed assets in plant and machinery whether on ownership terms or on lease or by hire-purchase not exceeding the limit specified in the Act and where the industry undertakes to export at least 30% of the annual production at the end of the third year, is classified as Export Oriented Unit.

4) The following requirements are to be compiled with by an industrial undertaking for being regarded as ancillary industrial undertaking.

An industrial undertaking which is engaged or is proposed to be engaged in the manufacture of parts, components, sub assessments tooling or intermediaries or the rendering of services and undertaking supplies or proposes to supply such components at no more than 50 percent of its production or services as the case may be, to one or more industrial undertakings and where investment in fixed assets in plant and machinery does not exceed Rs 10 mn.

5) No small scale or ancillary industrial undertaking referred to above shall be a subsidiary of or controlled by any other industrial undertaking. When the same person as a proprietor sets up two or more undertakings, each is considered to be controlled by the other. When two or more undertakings are set up as
partnership firm under the Indian Partnership Act and one or more partners are common to the undertakings, each shall be considered controlled by the other. When the industrial unit is set up by companies under the companies act, one unit shall be considered as controlled by the other if the equity holding of the other in it exceeds 24 % and when the same person holds the position of the Managing Director for both the companies.

6) In the new industrial policy of 1991 the Government has permitted domestic, medium and large scale units and FERA companies or foreign companies incorporated outside India to hold up to 24 percent of the equity in these companies provided there is no net outgo of free foreign exchange on the import of raw materials, capital goods, or royalty payments in the project proposed by such a unit.

7) Realising that large number of small-scale units hardly distinguish manufacturing from trade and services, small business and services came to be included in the sector. After Reserve Bank of India sectors classified priority sectors and accorded special status for preferential lending, further distinctions came into being.

Classification of SME:

Realizing that insufficient co-ordination between Government bodies and policies been hindering the processes of SME development, after long deliberation, Government of India came up with a simple but enabling legislation, MSME Development Act, 2006 to make the sector competitive domestically and globally. According to the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as:

- **Manufacturing Enterprises**: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation Act, 1951). The Manufacturing Enterprises are defined in terms of investment in Plant & Machinery.

- **Service Enterprises**: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.
The above classification can be further classified into the following:

MANUFACTURING ENTERPRISES

(i) Micro Manufacturing Enterprises:

The investment in plant and machinery does not exceed Rs.25 lakhs (Rupees twenty five lakhs only).

(ii) Small Manufacturing Enterprises:

The investment in plant and machinery is more than twenty five lakh rupees but does not exceed rupees 5 crores (Rupees five crores only).

(iii) Medium Manufacturing Enterprises:

The investment in plant and machinery is more than rupees 5 crores but not exceeding Rs.10 crores (Rupees ten crores only).

(B) SERVICE ENTERPRISES

(i) Micro Service Enterprises:

The investment in equipment does not exceed rupees 10 lakhs.

(ii) Small Service Industries:

The investment in equipment is more than 10 (Ten lakh rupees) but does not exceed rupees 2 crores.

(iii) Medium Service Enterprises:

The investment in equipment is more than rupees 2 crores but does not exceed rupees 5 crores.

What defines a MSME?

<table>
<thead>
<tr>
<th>Profile</th>
<th>Manufacturing sector (invests in plant &amp; machinery)</th>
<th>Service sector (invests in equipment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>≤Rs25 lakh</td>
<td>≤Rs10 lakh</td>
</tr>
<tr>
<td>Small</td>
<td>&gt;Rs 25 lakh ≤Rs5 crore</td>
<td>&gt;Rs 2 lakh ≤Rs2 crore</td>
</tr>
<tr>
<td>Medium</td>
<td>&gt;Rs 5 crore ≤Rs10 crore</td>
<td>&gt;Rs 2 crore ≤Rs5 crore</td>
</tr>
</tbody>
</table>

Table 1.1 Definition of MSME

1.6 Contribution of SME to Indian Economy:

The small-scale sector has been always looked upon as a source of employment generation, given the number of intensive nature of the industries reserved under it. The small-scale sector has undergone rapid changes with the passage of time. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points.

The role of Micro, Small and Medium Enterprises (MSMEs) in the economic and social development of the country is well established. The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. This sector contributes 8 per cent of the country’s GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through 26 million enterprises. The labor to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.

SME sector in India creates largest employment opportunities for the Indian populace, next only to the agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small-scale sector generates employment for four persons. Some of the interesting observations related to employment in the small scale sector are related to generation of employment according to the industry. It is found that the food products industry ranked first in generating employment. The next two industries are non-metallic mineral products and metal products. Apart from this chemicals & chemical products, Machinery parts and except Electrical parts, Wood
products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products also contributed to generate employment.

SME Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is contributed by SME Sector. Direct exports from the SME Sector account for nearly 35% of total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. This takes place through merchant exporters, trading houses and export houses. They may also be in the form of export orders from large units or the production of parts and components for use for finished exportable goods. Many non-traditional products also account for more than 95% of the MSME exports. The exports from SME sector have been clocking excellent growth rates in this decade. It has been mostly fuelled by the performance of garments, leather and gems and jewelry units from this sector. The product groups where the SME sector dominates in exports, are sports goods, readymade garments, woollen garments and knitwear, plastic products, processed food and leather products. The SME sector is reorienting its export strategy towards the new trade regime being ushered in by the WTO. SMEs can make an important contribution to the infrastructure needed to support larger competitive business. They can help counter regional economic decline because SMEs could survive in limited markets. Other benefits include increased competition, choice and diversity, regionalization of sectors, political stability and social cohesion. This is the opportune time to set up projects in the sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures.

A lot of opportunities exists for the small-scale sector mainly because of the less capital requirement by the SME. The overall growth of the domestic markets is largely fueled by the growth of SME. Studies on MSME show that they have a huge export potential and also a large governmental support. There are extensive promotion and support policies run exclusively by the government for the small and medium sector. Some products have been reserved to be manufactured exclusively by the small scale sector. Several other facilitating opportunities are made available for
the SMEs like tooling and testing support, funding – finance and subsidies, manpower training, technical and managerial skills.

By its less capital intensive and high labor absorption nature, SME sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. This is the opportune time to set up projects in the small-scale sector. It may be said that the outlook is positive, indeed promising, given some safeguards. This expectation is based on an essential feature of the Indian industry and the demand structures. The diversity in production systems and demand structures will ensure long term co-existence of many layers of demand for consumer products / technologies / processes. There will be flourishing and well grounded markets for the same product/process, differentiated by quality, value added and sophistication.

This characteristic of the Indian economy will allow complementary existence for various diverse types of units. The promotional and protective policies of the Govt. have ensured the presence of this sector in an astonishing range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The process of liberalization coupled with Government support will therefore, attract the infusion of just these things in the sector.

Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

Government Support – The government of our country provides a support to the MSME sector both at the Central level and at State level.

- Centre Government – It provides various policies and schemes for the development of the SME sector in our country. The following are the various schemes offered:
  - General Policies
  - Industrial Policies
  - Priority Sector
• Funding & Finance
• Modernization & Training
• Energy & Environment

1.6.1 Reservation for Manufacturing:

Government of India provides protection to the SME sector by providing reservation for certain items. The list has been progressively revised from 1970 to till date. Reservation affords support to SMEs against competition from medium/large/multinational companies.

Reservation of items for exclusive manufacture in MSME sector statutorily provided for in the Industries (Development and Regulation) Act, 1951, has been one of the important policy measures for promoting this sector. Reservation/de-reservation is a continuous process. The Advisory Committee on Reservation constituted under the Industries (Development & Regulation) Act, 1951 recommends items to be added and deleted from the reserved list including bringing changes in nomenclature.

The Reservation Policy has two objectives:

• Ensure increased production of consumer goods in the small scale sector.
• Expand employment opportunities through setting up of small scale industries.

Non-MSME units can undertake manufacture of reserved items only if they undertake 50% export obligations.

1.6.2 Export obligation:

If the units presently in the small scale sector manufacturing a reserved item wish to go beyond the MSME limit then they have to obtain a license from the Secretariat for Industrial Approvals. The license pegs their production capacity at current levels. Manufacturer is required to export 50% of the additional production beyond the pegged capacity. 605 items are presently reserved for exclusive manufacture in the MSME Sector.

Reserved items according to the Second All India Census of Registered MSME Units (1987-88) accounted for:
• 11.3% of the items produced in the MSME sector.
• 28.3% of the production in MSME sector.
• 36% of the working MSME units for which data was compiled in the Census.
• 23.8% of the total number of working and closed units.
• 68 reserved items were found to account for 80% of the production under reserved category. Out of these 5 items have been de-reserved, hence the list now contains 63 reserved items.

There is no regulation or restriction on marketing of the reserved items by large industries.

The small scale industry sector output contributes almost 40% of the gross industrial value-added 45% of the total exports from India (direct as well as indirect exports) and is the second largest employer of human resources after agriculture. The development of Small Scale Sector has therefore been assigned an important role in India's national plans.

In order to protect, support and promote small enterprises as also to help them become self-supporting, a number of protective and promotional measures have been undertaken by the Government. The promotional measures cover industrial extension services institutional support in respect of credit facilities, provision of developed sites for construction of sheds, provision of training facilities, supply of machinery on hire-purchase terms, assistance for domestic marketing as well as exports, special incentive for setting up enterprises in backward areas etc. technical consultancy & financial assistance for technological upgradation.

While most of the institutional support services and some incentives are provided by the Central Government, others are offered by the state governments in varying degrees to attract investments and promote small industries in varying degrees to attract investments and promote small industries with a view to enhance industrial production and to generate employment in their respective States.

1.7 Micro, Small and Medium Enterprises Development Act, 2006
With the pronouncement of the MSMED Act, 2006, the Indian Government has explicitly recognized the dynamic role to be played by the MSMEs in an increasingly
globalized world. The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also to enhance their competitiveness. It provides the first-ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and seeks to integrate the three tiers of these enterprises, namely, micro, small and medium. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmes for this purpose, progressive credit policies and practices, preference in Government procurement to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act.

The clear thrust of the recent policy initiatives has been three-fold:

i) enhance competitiveness through encouraging an innovative ethos amongst firms and being quality conscious;

ii) increase links with multiple stakeholders with a view to benefit from networks both nationally and globally; and

iii) strive for a larger market presence beyond the domestic.

The policy attaches importance to networking with stakeholders both upstream and downstream in the entire global value chain, from raw material procurement to processing/manufacturing to marketing to customer services. For one thing, the Act has identified the category of ‘medium’ enterprises as a vital section in the manufacturing stream and, for the other; it has taken special note of distinct roles to be played by what are termed business service enterprises. The Ministry of MSME has also took a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial
undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now SMEs). This coupled with an expected legislation on Limited Liability Partnerships (introduced in the Parliament by the Ministry of Corporate Affairs) paved the way for greater corporatization of the Small and Medium Enterprises thereby enhancing the access to equity and other funds from the market of these products in keeping with the global standards.

1.8 Challenges faced by SME in India and their adoption of CRM:

Despite its commendable contribution to the nation's economy, SME sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which is a handicap in becoming more competitive in the National and International Markets. SME’s face a number of challenges mainly being an absence of adequate and timely banking finance. There is often a non-availability of suitable technology. They have limited capital and often knowledge about various tools and techniques is less, resulting in low production capacity. They also face constraints in modernization and expansions. Sometimes they face the problems of getting skilled labor at affordable costs. All this also results in an ineffective marketing strategy and also problems in identification of suitable markets by the SME s. These are some challenges which the SME s face and if a follow up could be done by the various Government agencies, then this problem could be resolved. It would result in better opportunities for the SME s and their better contribution to the Indian Economy.

Small and Medium Enterprises in India: Small and Medium Enterprises have come to occupy central stage in the Indian economic development strategy as the SME s are deeply affected by rapid globalization and do not have level playing field. Many SME s that perform with excellence locally may not succeed globally. Globalization, enhancement of technological changes and innovation create new challenges for SME s, although they may also contribute to increased costs of transition. SME sector has a great capability to meet the emerging challenges. Several studies by the RBI, SIDBI and the Government of India at different points of time during the last decade have clearly indicated that the externalities are playing a dominant role in perpetuating the vulnerability of the SME sector. The sector produces 7500 products and several products are governed by product regulations in production, processing, pricing,
branding and marketing. The Government has also demonstrated its keenness to facilitate the sector to grow and to compete effectively both domestically and globally with the enactment of the MSME Development Act in 2006 and by establishing new institutions and partnerships.

SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labor intensive mode of production; employment generation; non concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. It was also coupled with the policy of de-concentration of industrial activities in few geographical centers. It can be observed that by and large, SMEs in India meet the expectations of the Government in this respect. SMEs developed in a manner, which made it possible for them to achieve the following objectives:

- High contribution to domestic production
- Significant export earnings
- Low investment requirements.
- Operational flexibility.
- Location wise mobility.
- Low intensive imports.
- Capacities to develop appropriate indigenous technology.
- Import substitution.
- Contribution towards defense production.
- Technology – oriented industries.
- Competitiveness in domestic and export markets.

At the same time one has to understand the limitations of SMEs, which are:

- Low Capital base
• Concentration of functions in one / two persons
• Inadequate exposure to international environment
• Inability to face impact of WTO regime
• Inadequate contribution towards R & D
• Lack of professionalism

In spite of these limitations, the SMEs have given significant contribution towards technological development and exports. SME can play a larger role in the society by embracing new technologies. CRM is one such technology which can bring about some positive changes in the SME sector in the country. Small and medium sized firms have some unique characteristics that differentiate them from larger enterprises. They are informal and random in their processes because owner manager does business and makes decision of their own choices. The decision making occurs according to business and personal priorities at any given time. However, Small and Medium Enterprises have large capacity than compared to large organizations when it comes to environmental changes. CRM needs to be integrated into the management of Small and Medium Enterprises. CRM could be used as a source of competitive advantage for the firms.

Customer Relationship Management Adoption- Small and Medium Enterprises Perspective: This research tries to identify and validate the main factors that relate (directly or indirectly) to the adoption of CRM components by SME s. The shift from product-oriented strategy to customer-focused relationship strategy has been identified as a major change agent. CRM has emerged as a probable solution promising to significantly improve the implementation of relationship marketing principles (Ryals et al., 2001). CRM has been found attention among SME s recently. Some CRM components were earlier adopted by larger organizations only earlier. SMEs differ from large enterprises mainly in their limited financial abilities affecting their information-seeking practices, and they do not normally have the same burden of large legacy systems to integrate their CRM (Lang & Calantone, 1997). Thus, the adoption of CRM in SMEs cannot be a miniaturized version of larger organizations. Like in large organizations, CRM provides SMEs with opportunities that are still largely unexploited (Horowitz, 2005). However, without a better understanding of the
complex issues involved, the drive to implement CRM will not successfully contribute to SMEs' competitiveness (King & Burgess, 2008). To survive in the global markets, many Small and Medium-sized Enterprises (SMEs) have implemented CRM, so that they can compete effectively (Ramdani, Kawalek, & Lorenzo, 2009). Moreover, studies indicate that there are mixed results as to how successful organizations have been implementing CRM solutions (Goodhue et al., 2002; Alferoff & Knights, 2008). Successfully implementing CRM variables is likely effect the performance of SMEs. A linkage also needs to be developed in order to affect the performance outcome of the SMEs with the CRM focus developed in this thesis.

1.9 Need, rationale and research objectives of the present study-

The rationale behind choosing the study in Small and Medium Enterprises for studying the CRM components is because of the growing importance of SME and their contribution to the Indian Economy. In particular, given the contribution that small to medium-sized enterprises (SMEs) make to the national economy, and the lack of research on SMEs’ implementation of CRM, SMEs were selected as the main focus in this research. This work looks at building strong customer relations exclusively from the point of view of small and medium enterprises. Several studies (Sin et al., 2012) point out to the fact that a lot can be done for the SME if CRM is used.

SME have grown in importance in the last few decades and much needs to be done for the performance enhancement of this industry. Previous Finance Minister P.Chidabaram while launching the National Stock Exchange’s dedicated SME platform said that “..small merchant bankers, public sector banks, rating agencies, …all of them have to take an extra step to hand hold a large number of (small and medium) companies to come to the market.” About 3.11 crore SMEs contribute 45% to industrial output and 8% to the GDP, said Chidambaram, but attempts to bring small and medium enterprises to the market have failed. The government could be looking to SMEs some comfort to grow and achieve economies of scale.

The SMEs have taken up a large attention of the government in the recent times. CRM in larger affect has a great impact on the performance of the organizations also.
CRM in the longer run also makes an impact on the performance of SME. So this study would also study the impact of CRM on SME and on the various performance measures of SME.

1.10 Various dimensions of research problem-

A number of critical research gaps still exist within the domain of customer relationship management and its applications. Though much has been written about customer relationship management, few studies have attempted to address the implementation of CRM in Small and Medium Enterprises (Harrigan et al., 2008). Secondly, concepts of CRM have been spoken about in literature but only a few studies point to their applicability in SME.

CRM studies have not been carried out so far in context of SME and thus SMEs have been studied but not with regard to CRM. Several studies develop relationship between Customer orientation and performance in SME (Appiak- Adu et al. 1998), entrepreneurial marketing in SME (Jones et al. 2009) etc. But not much literature is available about CRM studies in SME.

The importance of CRM in SME stems from the fact that SME need to satisfy and retain customers as already research has suggested that acquiring customers is five times expensive than retaining old ones. They need to retain their customers for sustained growth. This affects the performance of SME.

Though SMEs have improved a lot in the technological front but still there is a strategic gap when it comes to growing profitable customers over the years. This gap can be fulfilled by CRM. CRM is mainly a vision to be adopted by the management of the organization. In particular given the contribution that small and medium-sized enterprises make to the national economy and the lack of research on SMEs implementation of CRM, SMEs were chosen as the major focus of this research. CRM has been mainly discussed from a technological perspective, there is an increasing recognition of viewing as a managerial phenomenon (Leigh and Marshall, 2001 Xue and Harker 2002).

The present study provides steps towards addressing these gaps. The main objective of the study is to study customer relationship management application to small and
medium enterprises and to study its impact on the performance variables of the enterprise.

Research objectives of the study-

The research objectives of the study are delineated below:-

- To explore the components of the CRM as applied in the Small and Medium Enterprises in India.

- To study the role of customer focus in SMEs.

- To study performance parameters of SMEs in context of applied managerial CRM implementation initiatives by
  - CRM Training
  - Managerial Demographics dimensions

- To explore linkages of the CRM focus with the performance outcome of the SMEs.

The objective of this research is to explore the issue of CRM implementation in the context of SMEs in India. The major objective of this research work is to establish whether Customer Relationship Management is influencing the performance of Small and Medium Enterprises. The components of CRM are studied with the help of extensive literature survey. To be effective the SME need to understand the advantages of CRM and its components and also its utility in the present day organization. A model is being developed where the customer focus and its components i.e. customer satisfaction, customer value, loyalty and trust are studied with the help of literature review studies. The linkage between customer focus and performance outcomes of SMEs would then be developed.

1.11 Benefits of the study-

This study has a major managerial implication for the SME of today. The study aimed to establish that customer relationship management results in creating a better model for SME. SMEs are facing a competition like never before. CRM is promoted as a critical contributor to business survival. CRM is not just software used in the organizations but should be understood as a strategy and a managerial orientation for the SMEs. This is line with some earlier studies reported earlier (Sin et al.). The
current research contributes towards understanding relationship between the components of CRM and the performance of SME. The study links customer focus and its components with the performance of SME which will help the SME sector to embark upon a strategy to improve their relationship with their customers and thus enhance their profitability. Our findings imply that SME should understand their customers and develop a better relationship with them just like the larger organizations are doing.

**Chapter Schema**

This thesis work has been divided into five: Chapter 1 discusses the different facets of customer relationship including establishing the link between the broader concept of Relationship Marketing and Customer Relationship Management. Further, it examines various dimensions of customer relationship; next it discusses the need, rationale and research objectives of the present study. The chapter then concludes with concentrating on the rationale for choosing the concerned company for the study. Chapter 2, “Literature Review” of this study illustrates literature relevant to various dimensions of customer relationship. The last section of this chapter is related to research framework, proposed study model and the conceptualization of hypotheses. The chapter 3 titled “Research Methodology” details the research methodology adopted to conduct the research. Chapter 4 titled “Analysis and Interpretation” discusses the analysis and interpretation of the data. Subsequent subsections of this chapter are dedicated to discussion and description of the main results in this section that emerged from statistical analysis for the various SME’s. Furthermore in this chapter, results of the empirical analysis and the hypothesis testing have been presented. Finally Chapter 5 titled “Conclusion and Recommendations” draws conclusion of this study and discusses the recommendation for forging of strong customer relationships in the Small and Medium Enterprises and Customer Relationship Management. This chapter also indicates the limitations and areas of future research.

This study aims to give a new insight into the applicability of CRM in the Small and Medium industries of the country. As has been discussed elsewhere the SME are considered as a backbone of a country’s economy and CRM principles wish to enhance the performance of the SME.