CHAPTER VI
Machiavelli once said, “nothing is eternal on the earth below; and fortune delights in constant change, so she may more plainly show her power.”

This change represents both opportunities and perils. Those who adapt succeed, those who don't perish. Financial services marketers have finally come to realize that change is inevitable and to flourish and grow they have to keep pace with change.

In the past few years, the financial services industry has been swept by a wave of change. In the banking sector, the competition heated up with the entry of private sector players and the foreign banks. Deregulation and globalisation resulted in increased competition that redefined traditional ways of doing business. The insurance monolith, Life Insurance Corporation, which was hitherto protected from competition, suddenly finds itself vulnerable. In the asset management market, many players are vying with each other for a higher share of the customer's wallet. The crisis in UTI, scams in some co-operative banks have led to an erosion of trust and the customer today is more skeptical than ever. To add to this list of woes we have the economic recession and the recent Union Budget that does not provide any incentive to save.

But not all the Indian financial services players have been caught napping. Some of the more aggressive players led by ICICI have pro-actively embraced change and realigned their strategies to the new environment. A customer-centric approach, a focus on brand building, IT enable solutions, all signify that these companies are fast adapting to the changing environment. To cut a long story short, financial service companies have finally realized the need for a comprehensive market strategy.
PROCESS MODEL FOR CUSTOMER RELATIONSHIP MANAGEMENT IN FINANCIAL SERVICES

1. Define mission/vision statement, objectives highlighting relationship.

2. Build Customer Information System for present and for future.

3. Segregate the customers based on transaction volumes. Identify the products, services and channels used by the customer.

4. Develop organization structure to support relationship management.

5. Develop the process that supports the relationship management, providing adequate authority, delegation and train the employees for relationship management.

6. Develop customer profitability tools.

7. Evaluate the relationship pricing at all segments of the business and develop appropriate policies.

8. Develop customer contact programs and implement.

9. Add value to the relationship by encouraging customers to be loyal to the organisation and build customer relationship.
I. Define mission/vision, objectives highlighting relationship.

"The first place a marketing person has to sell is on the inside – and that is the hardest of all".

For any CRM project to start there has to be a sense of belonging for the project at all levels in an organization. CRM processes span multiple functional areas within a firm, which makes it imperative for enterprise wide improvement to take place. Convene a customer value Creation Task Force,

The Customer – value Creation Task Force should be made up of all the functional areas, and the CEO should chair it. The commitment from the top management is a must for successful implementation of CRM. This task force will be the engine of change (as it is commonly said, speed of the train is the speed of engine) in the company and a clearinghouse for ideas and projects related to the value – creating process. The task force should adopt a customer centric business philosophy and work towards implementing information systems and processes that help to gather comprehensive information on the customer. Task Force should build a service mission (Vision) statement for the company from the customer’s point of view after “Brain - Storming”.

This requires extra planning and commitment of the top management. They should act as a motivator for lower level employees in the organization. This is required because having a service mission helps to have specific objectives, targets, towards which a company can then work. The objectives/goals need to come from the higher levels of the organization but the solutions have to come from the lower customer facing levels (front end) of the organization.

The service mission statement about relationship should be communicated to each and everyone in the organization. Each and everyone
should understand and have a positive attitude towards it. For which, top management should take the employees into confidence.

It is rightly said, "service quality starts at home". In order to build the external customer relationship, first relationship should be build with internal customers i.e. with the employees. In other words if a firm wants to be successful in external marketing, it should first achieve success first in internal marketing.

For success of an organization human capital is important resources. Actually it is not human capital but, intellectual capital that counts. And it is not just intellectual capital that makes the difference, but heart capital. Thus it is rightly said "The four Ps of service marketing are: People, People, People, & People".

For successful implementation of CRM, heart capital is more important than the intellectual capital.

The following table shows the internal and external applications of the people when they work with their heads and hearts.

Capital & Application (Table 4)

<table>
<thead>
<tr>
<th>Capital &amp; Application</th>
<th>Internal Applications</th>
<th>External Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intellectual capital</td>
<td>Knowledge or know how about people, processes, practices etc.</td>
<td>Patents, trade marks copyrights, licenses.</td>
</tr>
<tr>
<td>Emotional Capital</td>
<td>The feelings of employees which affect their decision to act on knowledge about the organization and buy into business goals.</td>
<td>The feelings of outside stakeholders, which affect their knowledge about organization and buy products services or shares.</td>
</tr>
</tbody>
</table>
In order to build relationship with the internal customers (employees) one should do research to know whether they are satisfied or not. A structured questionnaire is prepared and added in the appendix. Along with the employee satisfaction, one should determine employees' perceptions about what customers want, and discover their opinions about company policies and practices that may stand in the way of customer satisfaction and identify the factors that affect their relationship with customers. All the above are helpful in giving an element of human touch element in any service.

Thus the attitude of the Task Force should be

"Our client is our employer, our employee is our customer".

To have real value a service mission statement should clearly provide guidance and direction, beyond this; it should also focus upon the unique and distinctive elements of it's offer. The process of defining the relationship mission statement will itself be a valuable exercise.

REQUIREMENT FOR A SUCCESSFUL SERVICE MISSION:

1. It is nontrivial; it has weight. It must be reasonably concrete and action - oriented.
2. It must convey a concept which people in the organization can understand, relate to and some how put it into action.
3. It must offer or relate to critical benefits that are important to the customer. It must focus on something the customer is willing to pay for.
4. It must differentiate the organization in some meaningful way from it's competitors in the eyes of the customer.
5. It should be simple, unitary, easy to put into words, and easy to explain to the customer.
CUSTOMER RELATIONSHIP OBJECTIVES:

"If you don't know where you are going, any road will take you there".

Before setting the objectives, certain questions relating to customer relationship should be answered.

- How important is customer relationship in integration of the elements in the marketing mix?
- Which aspects of customer relationship contribute most to overall customer satisfaction and market share?
- What dimensions of service do customers see as important and relevant when they make their choice of suppliers?

After defining the service mission and objectives the most important aspect is to take the employees into confidence, as this is crucial for successful implementation of CRM. It is the right time to recollect the valuable statement of W.V. Lammer Meyer in his book "Total Quality Management" which states as "We must learn to accept that employees are not only our greatest and also most expensive asset, but they alone are the creators of "Quality". Managers should give up their elite status and move from their fancy offices to where the action is to become managers of people. In this process of integration with the organization, the artificial assured and upheld status may suffer, but it will certainly be replaced by honesty, respect and cooperation from the employees".

II Build Customer Information System for present and for future:

"Without in-dept knowledge of a customer base, products will gather more dust than sales, And the pillar of the knowledge is realizing that product development depends on a keen awareness of how much customer can and will spend on what they need, and by anticipation or even better, creating those needs"

–Michel Blun
In the financial services industry, the firm's internal data about the behavior of its' customers and sales forces constitute one of the best information sources. Financial services firms are sitting on an information gold mine; they just need to develop the tools to get the information out.

For the required information, to collect primary data the problem is sampling i.e., the types of people one needs to interview are difficult and, therefore, expensive to find. Thus some studies ask the right questions to the wrong people because it is easier. The task of obtaining information (for marketing decision making) presents two overriding challenges.

- Focusing limited information resources in situations where the value of the information is greater than the cost of obtaining it.
- Providing management with correct information that is interpreted correctly.

The successful completing of these two tasks is interrelated. Since there will be more requests for information than resources allocated to collect and analyze data, Managers and Researchers must try to assess the value of the information for its intended decision. There should be 'information work plan' before any research is undertaken.

BUILDING A CUSTOMER INFORMATION SYSTEM

THE DATA BASE: In most financial institutions, data are collected by "account" number on different operating systems. The most difficult (and expensive) part of developing a customer database is bringing together the account data from the different operating systems in the firm and matching the account records so that the resulting record indicates the total business being done with the institutions by the customer. If the customer is an individual, the account matching is usually done on tax identification number i.e. PAN. If the customer is the household, the account matching is based on similar account name and address data. To the extent that the institution (particularly banks) link accounts for legal or pricing
purposes, this information is also used to try to identify all the accounts associated with a customer.

After developing the capability to turn account data into customer data the following questions arise about the content and maintenance of the database.

1. Which data elements should be retained (account open dates, transaction data, financial data)?
2. For what periods (daily data for the past three months, monthly data for the past five years)?
3. How frequently should the database be updated (daily, monthly)?

The answers to these questions depend on the primary purpose of the database, i.e., its use for operational, tactical or strategic decisions. These three types of decisions require differing information systems in terms of scope of data, analysis timing and measurement accuracy.

ICICI bank which practices CRM collect a lot of information about the customer while opening an account including customer habits, date of birth, likes and dislikes, family members, etc.

DIFFERENT MIS NEEDS FOR DIFFERENT DECISIONS

1. Pay programming genius to develop generic extract programs for getting the data out of the central customer database and into a form that is ready for input into statistical packages.
2. Use stratified samples for most of the studies using internal data. One must be able to manipulate a few variables from the total customer base to understand the concentration statistics and draw the appropriate stratified samples for each study. Once these key statistics are known, detailed behavioral analyses can be done, using the full record of data for the stratified samples of customers.
3. Developing a separate processing environment (for example, a minicomputer) for doing the analyses. Working with samples then becomes very important.

4. Use statistical packages (like SAS) and analysts accustomed to doing behavioral data analyses (for example, those who have analyzed panel data for packaged goods).

Once the firm has product policies in line it must rethink the way to solicit and handle its customer’s personal information. The long-term relationships is extremely private and valuable, so the firm must treat it with care. Intimacy and vulnerability are entwined. For example, if a company routinely asks its customer for sensitive information but doesn’t put that information to use, it should stop asking those questions.

The firm must try to achieve their relationship goals honestly. A firm can’t expect to develop intense devoted relationships with every consumer of every product or brand the firm offer. True customer intimacy is the backbone of a successful rewarding relationship that required deep understanding of the context in which our products and services are used in the course of our customers’ day-to-day lives. Put simply it requires comprehensive view of consumer behavior and the foundations of marketing work.

To understand people’s minds, marketers need to turn to the tools of ethnography and phenomenology. Qualitative social science methods dedicates to richly describing and interpreting people’s lives. Video - tapes and photography are also good reporting tools. They can reveal what a day in the life of the customer is all about? Finally long-term studies are better than adhoc surveys in painting an accurate picture of how customers react to and use products.
Principal Benefits of an Effective Service - Quality Information System:

Figure 7

- Encourages and enables management to incorporate the voice of the customer into decision making.
- Reveals customer's service priorities.
- Identifies service improvement priorities and guides resource allocation decisions.
- Allows the tracking of company and competitors service performance over time.
- Discloses the impact of service quality initiatives & investments.
- Offers performance based data to reward excellent service and correct poor service.
<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Purpose</th>
<th>Frequency</th>
<th>Limitations</th>
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</thead>
<tbody>
<tr>
<td>Transactional surveys</td>
<td>Service satisfaction survey of customers following a service encounter.</td>
<td>Obtain customer feedback while service experience is still fresh. Act on feedback quickly if negative patterns develop.</td>
<td>Continuous</td>
<td>Focuses on customers most recent experiences rather than their overall assessment and non customer are excluded</td>
</tr>
<tr>
<td>Mystery Shopping</td>
<td>Researchers become customers to experience and evaluate the quality of service delivered</td>
<td>Measure individual employee service behaviors for use in coaching, training, performance evaluation, recognition, &amp; rewards. Identify systemic strengths &amp; weakness in customer contact service.</td>
<td>Quarterly</td>
<td>Subjective evaluations; researchers may be more &quot;judgmental&quot;, than customers would be; expense limit repetitions; potential to hurt employee morale if improperly used</td>
</tr>
<tr>
<td>New, declining and lost customer surveys</td>
<td>Surveys to determine why customers select the firm, reduce their buying, or leave the firm.</td>
<td>Assess the role of service quality and other issues that play a role in customer patronage and loyalty</td>
<td>Continuous</td>
<td>Firm must be able to identify and monitor service usage on a per-customer basis</td>
</tr>
<tr>
<td>Focus group interviews</td>
<td>Direct questioning of a small group usually eight to twelve people. Questions focus on a specific topic that can be used with customers, non-customers or employee groups.</td>
<td>Provide a forum for participants to suggest service improvement ideas; offer fast informal feedback on service issues.</td>
<td>As needed</td>
<td>Dynamics of group interview may prevent certain issues from surfacing. Focus groups are, in effect brainstorming sessions; the information generated is not project able to the population of interest. Focus group research is most valuable when it is coupled with projectable research.</td>
</tr>
<tr>
<td>Customer advisory panel</td>
<td>A group of customers contacted periodically to provide the firm with feedback and advice on service performance and other issues. Data are obtained from meetings, over the telephone, through mail questionnaires or other means. Employee's panels also can be formed.</td>
<td>Obtain in-depth timely feedback and suggestions about service quality from experienced customers who cooperate because of 'membership' nature of the panel.</td>
<td>Quarterly</td>
<td>May not be projectable to entire customer base. Excludes non-customers. Panelists may assume role of 'expert' and become less representative of customer base.</td>
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<tr>
<td>Service reviews</td>
<td>Periodic visits with customers (or a class of customers) to discuss and assess the service relationship. Should be a formal process with a common set of questions, capture of responses in a database and follow up communication with customers</td>
<td>Identify customer expectations and perceptions of the company's service performance and improvement priorities in a face-to-face conversation. A view of the future not just a study of the past. Opportunity to include multiple decision makers and decision influences in the discussions</td>
<td>Annually or semiannually</td>
<td>Time consuming and expensive. Most appropriate for firms marketing complex services on an ongoing relationship basis.</td>
</tr>
<tr>
<td>Customer complaint, comment and enquiry capture</td>
<td>System to retain, categorize track and distribute customer complaints and other communications with the company.</td>
<td>Identify most common types of service failure for corrective action. Identify through customer communications opportunities to improve service otherwise strengthen customer relationships</td>
<td>Continuous</td>
<td>Dissatisfied customers frequently do not complain directly to the company. Analysis of customer complaints and comments offers only a partial picture of the state of services</td>
</tr>
<tr>
<td>Total market</td>
<td>Surveys that measure</td>
<td>Assess company's</td>
<td>Semi</td>
<td>Measures customers over</td>
</tr>
<tr>
<td>Method</td>
<td>Description</td>
<td>Frequency</td>
<td>Notes</td>
<td></td>
</tr>
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<td>-------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-------------</td>
<td>---------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Surveys</td>
<td>Customers overall assessment of a company's service. Research includes both external customers and competitor's customers. i.e. the total market.</td>
<td>Annually or quarterly</td>
<td>All service assessments but does not capture assessments of specific service encounters.</td>
<td></td>
</tr>
<tr>
<td>Employee field reporting</td>
<td>Formal process for gathering, categorizing and distributing field employee intelligence about service issues.</td>
<td>Continuous to monthly</td>
<td>Some employees will be more conscientious and efficiently report than others. Employee may be unwilling to provide negative information to management.</td>
<td></td>
</tr>
<tr>
<td>Employee surveys</td>
<td>Surveys concerning the service employees provide and receive and the quality of their work lives.</td>
<td>Quarterly</td>
<td>The strength of employee surveys is also a weakness; employees view service delivery from their own vantage point subject to their own biases. Employee can offer valuable services insights into the root causes of service problems but are not always objective or correct in their interpretations.</td>
<td></td>
</tr>
<tr>
<td>Service operating data capture</td>
<td>A system to retain, categorize, track and distribute key service performance operating data, such as service response times, service failure rates and service delivery costs.</td>
<td>Continuous</td>
<td>Operating performance data may not be relevant to customers perceptions of service focus is on what is occurring but not why.</td>
<td></td>
</tr>
</tbody>
</table>
III. Segregate the customers:

All customers are not one and the same. This is the basic theme behind the segregation of customers. This is not a new concept, one can observe in this day-to-day life. (in a cloth stores not all customers are offered with cool drinks).

The Pareto, or 80 / 20 Rule can provide the basis for developing a cost – effective strategy. Fundamentally, the issue is simply that since not all our customers are equally profitable, not all products equally profitable, should not the highest service be given to key customers and to key products? As one understands that money spent on service is a scarce resource, therefore the service decision is looked upon as a resource allocation issue.

The Pareto curve takes on the following general shape (Figure 8)

![Pareto Curve](image)

The curve can further sub – divide the curve so that there exists three categories. The top 20 percent of products and customers by profitability are the ‘A’ category; the next 30% or so are B category and the final 50% are category ‘C’. The precise split between the categories is arbitrarily as the precise distribution will vary from business and from market to market.
Appropriate measure of importance should be profit rather sales revenue or volume. The reason for this is that revenue and volume measures might disguise considerable variation in costs. In the case of customers this cost is the "cost to serve".

The preferred approach to product profitability analysis is based upon measuring the costs that attach to a product it moves through the logistics system. Sometimes these costing methods have been referred to as Throughput Accounting and Activity Based Costing.

The basic principle is that one should identify and manage the activities that produce the costs rather than the costs *per se*. What one should be concerned about doing at this stage in the analysis is to identify the contribution to profit that each product or service makes. By
contribution it means the difference between total revenue accruing and the directly attributable costs that attach as the product moves through the logistics system.

Step 3. Prioritize service target
Looking first at difference in product profitability, what use might be made of the A, B, and C categorization? First it can be used as the basis for classic inventory control whereby the highest level of service (as represented by safety stock) is provided for the ‘A’ products a slightly lower level for the ‘B’ products and lower still for the ‘C’ s.

This concept of service prioritization can be extended to include customer priorities. Because the same 80 / 20 rule applies to customer as it does to products it makes sense to focus resources on key accounts and key products.

The diagram shown above shows that if the 80 / 20 rule applies both to products and customers then all businesses are actually very dependent upon a very few customers buying a few high profit lines. Indeed the arithmetic is easy:

\[ 20\% \text{ of customers buying 20 percent of the products} = 4\% \text{ of all customer / products transactions} \]

Which provides

\[ 80\% \text{ of total profit} = 64\% \]

In other words just 4 percent of transactions (measured order line by order line) give 64 percent of all our profit!

An organization has to make use of this important fact. The first is obviously to offer the highest levels of service and availability to key customers ordering key products. At the other end of the spectrum the firm should constantly review the less profitable products.
Prioritize Service

A useful further analysis that is carried out by researchers classifies attributes based on stated importance and customer ratings given for the company on each attribute as shown in the figure. If an attribute has a high importance score but the company gets a poor rating on an area that is of low priority customers, the company is said to be over engineering in that area; and the resources used for those areas can be diverted for improving other areas that requires the attention badly.

Areas where the company is doing well and the customer also rates the same as important can be maintained. Attributes of low importance to customers where company is also not performing well may be left as such or improved marginally.

Figure 9

<table>
<thead>
<tr>
<th>Customer Related Importance</th>
<th>COMPANY RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>LOW</td>
</tr>
<tr>
<td>Customer does not want it and does not get it. Maintain / Improve</td>
<td>Customer wants it And Does not get it</td>
</tr>
<tr>
<td>Concern area (shift resources here)</td>
<td>Main status quo</td>
</tr>
<tr>
<td>HIGH</td>
<td>LOW</td>
</tr>
<tr>
<td>Customer wants it and gets it</td>
<td>Customer does not want it and gets it any way. Over Engineering (Inefficient use of extra efforts and funds)</td>
</tr>
</tbody>
</table>

ATTRIBUTION RATING MATRIX
DETERMINANTS OF SERVICE QUALITY IN FINANCIAL SERVICES:

RELIABILITY: Involves consistency of performance and dependability. It means that the firm performs the service right the first time and every time. It also means that the firm honors its promises. Specifically, it involves: Accuracy in billing; Keeping records correctly; and Performing the service at the designated time.

RESPONSIVENESS means willingness or readiness of employees to provide service. It involves timeliness of service. Mailing a transaction slip immediately. Calling the customer back quickly. Giving prompt service (e.g. setting up appointments quickly).

COMPETENCE means possession of the required skills and knowledge to perform the service. It involves: Knowledge and skills of the contact personnel. Research capability of the organizations e.g. securities brokerage firm.

ACCESS involves approachability and ease of contact. It means:
The service is easily assessable by telephone, mail, etc. (Lines are not busy and they don’t put you on hold); Waiting time to receive service (e.g. at a bank) is not extensive; Convenient hours of operations; Convenient location of service facility.

COURTESY involves politeness, respect, consideration, and friendliness of contact personnel (including receptionists, telephone operators etc.) It includes:
Consideration for the consumer's property (e.g., on muddy shoes on the carpet); Clean and neat appearance of public contact personnel.

COMMUNICATION means keeping customers informed in a language they can understand and listening to them. It means that the company has to adjust its language for different consumers -- increasing the level of sophistication with a well-educated customer and speaking simply and plainly. It involves:
Explaining the service itself; explaining how much their service will cost; Explaining the trade-off between service and cost; assuring the consumer that a problem will be handled.
CREDIBILITY involves trustworthiness, believability, and honesty. It involves having the customer's best interest at heart. Contributions to credibility are:

- Company name
- Company reputation
- Personal characteristics of the contact personnel
- The degree of hard sell involved in interactions with the customer

SECURITY is the freedom from danger or risk, or doubt. It involves:

- Physical safety (will I get mugged at the automatic teller machine?)
- Financial security (Does the company know where my stock certificate is?)
- Confidentiality (Are my dealings with the company private?)

UNDERSTANDING / KNOWING THE CUSTOMER involves making the effort to understand the customer's needs. It involves:

- Learning the customer's specific requirements
- Providing individualized attention
- Recognizing the regular customer

TANGIBLES include the physical evidence of the service:

- Physical facilities
- Appearance of personnel
- Tools or equipment used to provide the service
- Physical representations of the service such as a plastic credit card or a bank statement
- Other customers in the service facility

IV. Develop organization structure:

"Workers are never to blame for flaws in the process. Process design is management's responsibility".

The next step of the task force is to review company and administrative procedures, incentives, performance measures, organization structures and information flow. And look for blockage in the systems that limit the company's responsiveness to the customer. To do this one can use value analysis technique.

Value analysis relates the quality, importance, and cost of a function to its essential purpose or to an organization service mission. In doing so, it offers
a means of quantifying these relationships and indication to management where operational and/or quality improvement might to made.

Value analysis is the organized and systematic study of every element of cost in a part; material or service to make certain it fulfills its function at the lowest possible cost. It employs techniques, which identify the functions that users want from a product or service; it establishes by comparison the appropriate cost for each function; then it causes the required knowledge, creativity and initiate to be used to provide each function for the lowest cost.

In simple terms, value can mathematically be expressed as function / cost. Value can be increased by reducing costs or improving function or reducing costs and improving function or by increasing function by a disproportionately low increase in cost. In particular, value analysis will provide insight into:

- Where customers' needs are not being satisfied.
- Where important functions are not being performed adequately.
- Where necessary functions or activities are not being carried out.
- Where operational waste is occurring.
- The impact of functional and service level changes on profitability.

Value added services make the external customer's life easier or in the case of internal customers help them to better carryout their particular function. Valued added service provided to external customers yields two benefits. Firstly, they differentiate the organization from competition. Indeed, in many cases it is easy to copy a firm's product than it is to create the value – added service infrastructure to support it. Second these services build relationships that bind customers to the organization in a positive way.

Value analysis simplifies organizational complexities by classifying functions within an organizational unit into basic and supporting activities, assigning
costs to them and establishing their respective degree of importance and quality. Once a value analysis is completed, management can make rational choices about how it should operate in the future to increase quality and productivity. After value analysis, management should provide adequate authority, delegation to support relationship management.

V. Train for relationship management:
QUALITY STARTS WITH EDUCATION AND ENDS WITH EDUCATION ------

JUSE

Ask any consumer why companies give poor service, and they will respond as follows:

■ Uncaring employees
■ Poor employee training.
■ Negative attitudes of employees towards customers.
■ No customer service philosophy within the company.
■ Poor handling and resolution of complaints
■ Employees are not empowered to provide good service, take responsibility and make decisions that will satisfy the customer.
■ Difference in perception between the way businesses think customers want to be treated and the way customers really want to be treated, or are actually treated.
■ Differences in perception between the product or service businesses think they provide and what customers think they receive.

Many of the above reasons can be overcome by proper training of the employees.

After setting right the organizational structure, the next step is to communicate the new priorities to the front line (all) employees and begin the training programs necessary to help them develop new skills.
A communication plan for front line employees should be formulated. (Reaching out to the internal customer market is just as important as communicating with the external customer market.) The organization can take the help of human resource practitioners / training consultants to train the employees to meet the following objectives.

- Pinpoint the characteristics of the working environment and the types of management behavior that facilitate the creation of a customer-satisfying (relationship) organization.
- Identify the real nature of the company's business and who its customers are.
- Assess how the company's products are differentiated in the market place.
- Understand customer behavior and buying decisions.
- Determine key performance areas that will make the best impression on the customer.
- Learn management's role in a customer value driven company.

To inspire better attitudes among employees and regain a competitive market edge, companies may use a variety of techniques.

Specific Training Programs

- Quality Control Circles where employees are trained to be "Quality People", constantly inspecting and checking for mistakes or defects (a defect is one which dissatisfies the customer). Within this type of scheme, there is no question of blaming people for specific defects; the emphasis is on the process of achieving the highest quality service possible.
- Suggestion schemes and quality control initiatives which may in some cases be compulsory and in financial rewards. In order to reduce the number of impractical ideas, organization should encourage people to try out their ideas and only put forward those that work in practice.
Job rotation ensures that employees develop a wide range of skills by moving from one job or another. Specialist skills are not uncommon, particularly in scientific positions, but it is more likely that staff will be specialists in a variety of functions. Job rotation can be temporary.

Transfer is based on two or three years stay in different departments or different jobs before a specialist area is chosen.

Study clubs and cultural classes: Employees are encouraged to attend in house classes, with the mutual support of their colleagues, to improve their personal skills and therefore their contribution to the organization.

Post induction training: Post induction off the job training may have a schedule such as below.

First Year may be: Seminars to generate interest in the organisation.
Second year may be on: Seminars to encourage loyalty and increase understanding.
Third year may be on: Seminars to demonstrate how to deal effectively with customers.
Fourth year may be on: Seminars to deepen understanding of corporate image and refined ability to handle customer.

More important than the training method, however is the training message. The following points should be kept in mind while training.

- Train sellers to use online tools to build insightful surveys of their customers and prospects. This information is critical for all subsequent sales activities.
- Instruct sellers in orchestrating a team
- Develop probing skills
- Teach the use of simple visual models.

The most important sales skill may be the ability to display information visually.
Empower the coaches with as much as information as it takes to lead your customer facing employees through the technology and information.
The main objective of the training programme is to enable the entire employee to understand them more effectively. The employees should also be educated on the economic environment, the available financial instruments, tax incentives and tax structures.

And finally training programs becomes successful when taskforce inculcate the concept of “continuous improvement in the minds of all the employees”.

VI. CUSTOMER PROFITABILITY TOOLS

“We have forgotten a lot smarter about separating the customers we do want from the customer we don’t”

--------- C. Michael Armstrong AT & T C.E.O.

It is no longer adequate to know your customer’s needs and interests. Customer profitability is now a key metric in the corporate world. Companies commonly focus on overall revenues and profits as well as the profit margins of particular products. Customer Profitability and potential is a critical form of corporate knowledge about customers. Many companies can’t tell their best customers from their worst or begin to analyze the gradation between them.

Companies that assess customer relationships based on financial value can more effectively evaluate costs incurred to sustain those relationships. It’s better to differentiate customers by relative value and serve them accordingly than to disappoint top customers by treating all customers the same. Such differentiation can build solid relationships and ultimately achieve the “customer lock-in”.

The customer profitability matrix illustrated below provides some generalized guidance for strategic direction.
CUSTOMER PROFITABILITY MATRIX:

Figure 10.

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>COST ENGINEER</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILD</td>
<td>DANGER ZONE</td>
</tr>
<tr>
<td>LOW</td>
<td>HIGH</td>
</tr>
</tbody>
</table>

Cost Of Service

The appropriate strategies for each quadrant of the matrix are:

BUILD:

These customers are relatively cheap to service but their net sales value is low. Can volume be increased without a proportionate increase in the cost of service? Can the sales team be directed to seek to influence these customer's purchases towards a more profitable sales mix? These are some of the questions to be answered before taking any decision about them.

DANGER ZONE:

These customers should be looked at very carefully. Is there any medium to long-term project either of improving net sales value or of reducing the cost of service? Is there a strategic reason for keeping them? Do the firms need them for their volume even if their profit contribution is low? These are some of the questions to be answered before taking any decision about them.

COST ENGINEERING:

These customers could be more profitable if the costs of servicing them could be reduced. The following points are to be taken into consideration.
for the right decision-making. Is there any scope for increasing drop sizes? Can deliveries be consolidated? If new accounts in the same geographic area where developed would it make delivery more economic? Is there a cheaper way of gathering orders from these customers, e.g. tele-sales?

PROJECT:

The high net sales value customers who are relatively cheap to service are worth their weight in gold. The strategy for these customers should be a seek relationship, which make the customer less likely to want to seek alternative suppliers. At the same time the firm should constantly seek opportunities to develop the volume of business that they do with these customers whilst keeping strict control of costs.

VII. EVALUATION OF RELATIONSHIP PRICING:

Normally pricing is a function of customer’s sensitivity to prices of financial services. Lower price is fixed for a service with higher price elasticity of demand. Conversely, higher price is fixed for a service with lower customer’s price sensitivity. However, the price sensitivity must not be only the basic criterion for price determination of financial services. There exists a degree of joint demand and joint supply of financial services. This is clearly evident from the following generalizations. “Every loan creates its own deposits”. What a financial firm owes is always equal to what it owns”. These theoretical possibilities come true only when all effects are related services, demand and supply taken into account while pricing financial services.

Suppose X & Y are related services and are complementary goods. Hence X & Y are services in joint demand. A change in price of one service causes a proportionate change in purchases of other service. This is referred to as cross elasticity of the demand between two services. For example say leasing and hire
purchasing. Measure of cross elasticity is obtained by considering the change in purchases of $Y$ resulting from giving change in the price of $X$ – the Price of $Y$ being held constant.

\[
\text{Cross-elasticity of demand} = \frac{\text{Proportionate change in purchase of } Y}{\text{Proportionate change in price of } X}
\]

Similarly in the case of supply of services a measure of cross elasticity is obtained with the help of a formula:

\[
\text{Cross-elasticity of demand} = \frac{\text{Proportionate change in sales of } Y}{\text{Proportionate change in price of } X}
\]

RISK and PRICING:

There is a basic difference between manufacturing industry and financial services industry. The former normally transfers the risk of business to others and pays premium. Where as the latter assumes or bears or advises about the risk and earns by minimizing or managing the risk. Accordingly, the financial services industry charges high price for the services to the customer's activities where the risk involved is higher and vice versa.

Pricing Strategies:

Against the backdrop of the above theoretical approach to financial services pricing, the following four strategies are suggested (I) Product differentiation strategy; (II) Market segmentation strategy; (III) Inference strategy; (IV) Scale / size and scope / opportunities strategy.

(I) Product Differentiation Strategy: The financial firms unique skill and knowledge can facilitate developing a product, which is totally different from others in the eyes of the customers. Such product differentiation is achieved
would enable the firm to fix a relatively high price at which it can reap better profit.

(II) Segmentation Strategy:

Based on elasticity's of demand for the products (Financial services) the market are segmented. A firm can maximize its profit through price discrimination. This could be done through fixing a relatively high price in the market where the product has inelastic demand and a relatively low price for the product with high elasticity. Similarly, rating could also be used for changing different prices for the same financial services. For example, firm can charge higher interest on loans given to a company with “A” rating than that to a company with “AAA” Rating.

(III) Inference Strategy:

Inference strategy can also be used gainfully for pricing financial services. On the basis of well researched findings coupled with sound judgment, predications about future developments in the money markets such as interest rate changes or exchanges rate changes can be made. These predictions could be used to bring about appropriate changes in financial services, cost of generating services, pricing system, diversifying business into new areas.

(IV) Scale / Size and Scope strategy:

An appropriate pricing system can be used as one of the effective tools, for the purpose of expanding the size, diversifying into new areas of business and identifying possible scope of economies and business opportunities available. Furthermore, relatively large size of a firm in turn, entails generation of quality services at relatively cheap cost, creating services in joint supply and joint demand, larger opportunities for diversifying into new areas of business, enjoying scope, economics etc. size / scale economics available to financial services.

Other than the cost of creating financial services there are many factors that are to be taken into account while pricing financial services. In comprehensive
criteria for price determination of firm's financial services cost is one among several elements.

**Efficient Usage of Capital**

Firm's Capital management assumes greater significance in the context of the recent prudential norms such as capital adequacy, credit rating etc. The way in which firms manage their capital has decisive bearing on the size of balance sheets and the structure of income yielding assets. The efficient capital management requires great flexibility, knowledge and skill. This means that firms must be able to unlock capital from a business with poor returns and use the same in a business with high return. Acknowledged, this underpins the necessity of risk / return core skill of high order. To minimize subjectivity in the decision of shifting capital from one activity to other activities, a practice of pursing other specific measures and norms is absolutely necessary. Approaches and methods to measure rate of return and the strategies implied there in of return on capital (ROE) are described as under.

To bring out an improvement in rate of return on equity (ROE), the basic changes directed towards better financial performance is essential. There are several ways to effect better performance. To identify some of these ways, return on Equity (ROE) ratio is to be broken up into the following components.

I. Approach / Strategy

\[
\text{ROE} = \frac{\text{NET INCOME}}{\text{EQUITY}}
\]

\[
\text{PROFIT} = \frac{\text{NET INCOME}}{\text{EQUITY}}
\]
The above approach indicates that the ROE depends on how firms operate efficiently in terms of generating income – yielding assets in their balance sheet for the given capital. Furthermore, it also reveals that firm can achieve better return by enhancing profit margins on the assets. These are the two methods through which firms can improve their returns on equity. But in a competitive environment, it is very difficult to realize better return by raising profit margin on the assets. In fact in this situation the profit margin of firms will be under great pressure. However the second method is relatively easy. Firms can improve their ROE by raising equity turnover in the competitive market. A better equity turnover in turn depends interlaid on effective recovery management and securitization.

II APPROACH / STRATEGY

It is possible to increase equity turnover by changing assets structure of a firm's balance sheet. The firm's assets structure consists of two types of assets, viz. Active assets and passive assets i.e. performing / and non-performing assets. The active assets are those, which yield income regularly; interest and installment payments are regular, there are no defaults. Whereas non-performing assets which include doubtful and bad loans etc. and do not ensure regular interest and installment payments.

\[
\text{ROE} = \frac{\text{PROFIT}}{\text{ACTIVE ASSETS}} \times \frac{\text{ACTIVE ASSETS}}{\text{TOTAL ASSETS}} \times \frac{\text{TOTAL ASSETS}}{\text{EQUITY}}
\]
The higher leverage ratio indicates that more assets are generated without matching rise in equity capital. The higher leverage ratio can be achieved by two methods viz. I) Efficient Recovery Management and II) Securitisation. An effective deployment of working funds, maintaining high quality of assets and concerted efforts to recover the deployment of working funds, maintaining high quality of assets and concerted efforts to recover the doubtful and bad loans and advances constantly monitoring irregular accounts. (II) Securitization refers to sale of loan asset or shifting capital-intensive assets to other institutions or acquiring more low capital-intensive assets. To be more specific, it is the process of converting loans or receivable into negotiable instruments. Both Recovery management and securitization are, among other very many useful instruments available to banks for improving their return in the short time as also in medium term.

III Approach / Strategy:

The above approaches / strategies are mainly concerned with macro – level business of financial firms. In order to achieve effective capital usage in all areas of business at Marco level, it is necessary to break down the total business into a number of segments as investment portfolio, loan portfolio trading department etc. The next step is to measure return on capital use in each of these activities. Then return on equity used in each activity must be compared with historic (may be perspective) return on the fraction of equity. Then workout the threshold point which exhibits a minimum possible return on equity. The business activities which give higher return over threshold point should get additional capital, while the business activities which fail to get equivalent to threshold point must be denied additional capital.

IV. Approach / Strategy:

To evolve even more specific norms to allocate capital among business activities of financial firms, fraction of capital in each activity must be treated as project investment. Then return on such investment reflects a cash flow. This
approach to measure ROE and allocation of capital on the basis of ROE is known as "Value based planning approach". 

Value based Planning Approach

\[ \text{Value Addition} = \text{Cash in (Cn)} - \text{Cash out (Ct)} \]

\( Cn = \text{Revenues} + \text{assets sales proceeds} + \text{value of business as a going concern} \)

\( Ct = \text{Initial capitalization of the business} + \text{incremental capital or capital added} + \text{Operating costs} \).

These flows are discounted at the risk – adjusted cost of capital. What remains of the flows after such adjustments is the negative or positive value being created by the activity / activities using a fraction of capital. Take decision about use of additional capital for the some activities based on the value addition. If it is positive then continue applying capital. If it is negative then deny additional capital to that activity.

Incidentally one should be noted that the business activities which do not generate additional value need not be dispensed with. The strategies like securitization or shifting high capital intensive assets to other institutions or acquiring assets with low cost or low capital intensity might be tried. This strategy might improve the return on capital, either through low leverage average ration / high total assets turnover.

**VIII. DEVELOP CUSTOMER CONTACT PROGRAMMES:**

In an economy of covering technologies, morphing markets and web placed communications; customers get ready access to an unprecedented amount of information from anywhere in the globe and at any time of day or night. In response, a host of new financial products and services emerges to serve these customers. In a competitive environment, the one idea that is likely to succeed will be the customer centric model, where the organization builds long term strategic relationships with its customers.

**CALL CENTER:**

Definition: CRM is embedded into every Call Center (CC). A CC is an arrangement where the division in an organization or its intermediary acts as a
link with their customers. The typical CC\textsuperscript{8} is an area where several specially trained employees (called Customer Service Representatives or CSR) manage bank of telephones to handle queries on product and services.

The contact center is an upgraded form of the CC. Contact center is a CC unit that is integrated from two perspectives, media (Email, Internet, Fax, & Data) and functional (linkage to be central database, and working in concert with other sales and service channels, such as direct sales). Contact Center has great potential for improving expense ratios, standardizing services and improving service equality to customers. The integrated Contact Center can be approached through various “touch points” such as email, touch screen kiosk, fax & Internet chat.

Customer Service Representative of the contact center is an active salesman, not a passive middleman routing queries. He is on a bank of telephones that is supplemented by computer terminals and high end CRM software. In most basic customer interactions like inquires are automated, and the CSR gets more time for customer services with personalized care.

Typical CC software would link telecom hardware to IT database at the back end, and communication automated information to the Callers in the form of interactive voice response (IVR), and screen pop-up layers through the CSR. New CC systems incorporate Internet technologies and the web – enabled, following more interactivity for their callers, while keeping the basic model for customer interaction unchanged.

Customer service applications at the CC include help desks, technical support, product information service calls, scheduling catalogue services, reservations and other one time needs. CC telemarketing has been mostly used for sales prospecting, solicitations for donations, surveys and opinion polls. Most Indian applications are in the nature of reminders for credit card and loan outstanding credit card telemarketing and tele- surveys.

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Components of the Call Center:
The CC system has three entities: the caller, the CC and the Bank of financial services provider. The Caller communicates with the PBX linked to the IVR, Where he selects an option that relates to his need. The trigger in the CTI for the screen pop – up could be either the caller's telephone number or his account number, although a unique customer identification number may support this. The caller may seek his account statement, or if in doubt, seek the CSR's intervention.

The Typical CC organization is built around its chief customer officer, to whom report supervisors in group of 10 – 12 CSR, each. The supervisors manage self-directed teams, where intervention is limited to abnormally long calls received by the CSR. The central idea is to maximize the number of callers attended, with correct information.

The focus of the CC should be three fold; get new customers, keep existing customers and grow profitable customers. This is possible when its effectiveness and efficiency is measured and monitored regularly. The first critical measure of effectiveness of the CC is caller satisfaction, which may be determined through customer interviews. A second is the proportion of calls handled without further transfers or clarifications through a second call, which may be measured through electronic tracking with in CC. The efficiency of the CC may be measured in terms of cost per call, calls per shift, the average time taken to handle and complete a call, and calls abandoned and converted, and revenues per seat or per call.

A customer contact center is a more effective channel of communication between customer and company and differs in a variety of ways. It is a powerful and efficient cost effective method of managing increased communication with customers and meeting customers increasing expectations of quality service. It represents the way of the future as technological advances continually broaden the 'old' call center's scope and limit.
In an effective CRM solution the customer contact system must be able to manage communication with a customer through a variety of media.

A second requirement for a successful customer contact solution is the ability to effectively integrate inbound and outbound communication. Unlike two separate call centers – one inbound and one out bound that are isolated from each other, an effective customer contact system must be able to manage both outbound and inbound communication as an integrated fashion. As in any productive communication with the customer, the system must be able to listen and speak.

A third requirement for an effective customer contact center is that it is closely integrated into the overall CRM solution. As the primary point of communication between the customer and the company, the customer contact system must effectively capture all relevant information received and report it to the CRM system. For example, managers need to know which of their products are selling quickly and which products are passed over and why. Managers need to ascertain which campaigns are confusing or alienating to customers and which elicit more positive responses. They also need to know which products are generating the most after sales calls and why.

The customer contact system must also be effective at receiving and using the information derived from a comprehensive CRM solutions. Outbound campaign agent scripts, for example must incorporate the latest data from the CRM, so agents can effectively deliver the right information to the customer. The customer center 'face' must be connected to the CRM system 'brain'.

The customer contact center's place in the overall CRM environmental also needs to be realistically assessed and understood across the organization if full use of it is to be made and if customers are to receive all the planned benefits of
the CRM effort. Then call centers will transform from the cost center of the past to the profit centers of the future.

**IX. Adding value to the relationship by encouraging customers to be loyal to the organizations:**

(a) **Achieving High Quality Operational Performance:**

"The bitterness of poor quality and service remains long after the sweetness of low price is forgotten"

"By definition bad quality is a waste of time"
The Task Force should inculcate the philosophy of quality i.e. quality is everyone's business. Corporate Wide Quality Control (CWQC) is one, which everyone in every division in the company must study, practice, and participate in quality management.

Creating CWQC program

Knowing what customers want is hardly sufficient for actively satisfying them. The organization operations should meet customer requirement.

CWQC consists of following five principles.

1) **Attention to quality in management:**
   "You will not get a second chance to get first impression of the customer"
   Managing quality should not be a narrowly focused process based just on improving service attributes. Top executives must be proactive, innovative, must have conscientious management practice as well, auditing the system rather than the product / service, emphasizing change for quality improvement.

2) **Involvement of all functions:**
   Quality management permeates all company activities. Customer satisfaction and value creation, the key objectives, are most effectively achieved in a situation where the companies' cross-functional linkages work smoothly so that the "Voice of the customer" is heard throughout the company.

3) **Involvement of all employees:**
   Corporate wide quality control means the involvement of all employees at all levels in solving quality problems and improving the quality management process. Employees closest to the problems areas should participate in the development of the solutions. To accomplish this goal, the Japanese use "Quality Circles", which consists of team of employees who meet regularly to discuss quality problems, device methods for improving quality and participate in extensive training in problem solving techniques. The same can be practiced in the domestic organizations also.
4) A belief in continuous improvement:

Internet in CWQC is the conscious effort to set improvement goals, take action, measure results and then learn from them. It emphasizes that progress is best accomplished through making many small improvements daily, rather than expecting dramatic results from breakthrough projects.

5) A strong focus on the customer:

CWQC emphasizes the need for the voice of the customer to be heard throughout the company and to be the primary guide in corporate decision-making. Careful market research is a must. Quality standards should be formulated through listening to the customer feedback. The result of the quality management process should meet customer needs and expectations better than the competition services do.

(B) Supporting The Value Creators: People

Proper communication network should be developed. The recognition of the employees who have done quality service is crucial for CRM. They can act as role model for other employees. The technologies available in the market can be implemented in the organization for successful sharing of the information like call centers etc. Mere sharing the information is not sufficient. The company should learn about themselves and also about the customers.

As discussed in the step IV training should be given. Training programs should be evaluated periodically so that employees will take the training programs seriously.

Here are 10 things a business can do to proactively manage its service quality and customer satisfaction. Following some of them will ensure a large customer base; adopting all of them will possibly make the organisation market leader in the field.
1. **Everyone works for the customer.** One must become a customer-focused organization, totally and completely. Company and the employees shall work for the customer. The company must place customers on the highest pedestal possible and do everything it can to ensure their satisfaction.

2. **Get to know your customers intimately.** Companies that know their customers intimately are much more profitable than their competitors. This will make sure that the company is giving customers exactly what they want and ask for. Talk to the customers directly. Write to them. Call them up. Ask them questions. Survey them. Invite them to your facility. Take them to lunch or dinner. Court them. Do anything and everything to learn about who they are; what they need, want and expect; and how they want you to give it to them. Then, give it to them just that way, even if it means modifying the current product or service or policies.

3. **Build quality:** After knowing what your customers want from you, you can get it to them at the highest level of quality possible. Quality is whatever the customer say it is, and it can change from time to time. The firm must build quality into the products and services from the starting so that it can meet customer's present and future needs.

4. **Develop a passionate customer focus:** Being customer focused is no longer enough. That will make a company barely competitive, as every company believes they are customer focused. One must be passionate about the customers. LOVE them as one would have loved you. Your customer focus must be so deep and dedicated that it permeates the personal being and the life of the business. Customers are lifeblood of the business, so treat them with care, affection and attention.

5. **Train the staff:** this is one of the most critical elements in producing quality and achieving customer satisfaction. Customer service and quality improvement is everyone's job, so the company must train the staff in the technical aspect of their work as well as the service related aspects of it. Everyone gives service to the customers, not just the "customer service department". Everyone in the organization is a marketing executive.
6. **Empower the staffs**: Empower the staff with the authority to do whatever it takes to guarantee the customer is satisfied. No passing the buck to another employee or having to get a manager's approval on a refund or an exchange. Everyone should have the authority to do whatever it takes, whenever the customer wants it, to ensure total customer satisfaction. When one empowers their staff, one will find their commitment to their jobs to business and customers greatly increases.

7. **Measure, Measure, & Measure**: Measure everything. There are two important reasons for this 1. What get measured gets done & 2. One must measure it to improve it. Therefore measure the performance of self and the employees. Measure the quality of the product and services one produce and sell. Measure the satisfaction levels and service perceptions of the customers. Then, make the appropriate and necessary positive changes based on the results of these measurements.

8. **Recognize and Reward.** Recognize and reward both the employees and the customers. Show the employees appreciation for a job well done. Let them know the firm cares about them as people, not just as workers. Show the customers that you appreciate their business. Let them know you care about them as people also, not just buyers of the product of service. When one recognizes people for their efforts, the rewards should be meaningful, and this does not mean they necessarily have to be monetary; people crave recognition for their efforts. Some of them are like "job well done cards" and "thank you cards" "Holiday cards and gifts" etc.

9. **Go out of your way**: Give the customers as many value added benefits as possible. Do everything that can think of to satisfy that customer that customer did not or would not expect from the company. In fact take the passionate customer focus and develop it to the point that customer satisfaction is not enough. Now, one must "WOW" and "delight" ("Thrill"), ("Surprise") the customer.

10. **Makes it better**: Some businesses survey their customers and find out the customers believe that they are getting quality products and services and
they are very satisfied. Then, the businesses get complacent and begin to rest on their laurels. One cannot do that in today's economic and competitive environment. If the customers tell you that the quality is excellent and the service is superb and they are highly satisfied with the way the company treat them, you must immediately look for way to make everything you are doing better.

C. Managing Customer Relationships:

All parts of the company have the potential to influence customers' perceptions. Senior executives however, need methods of analysis to manage all elements of the customer satisfaction process. Here, the concept of blueprinting is useful. Blueprinting means looking at the basic systems and structures of the organization to better understand the business as a process that creates satisfied customers.

First, identify all points of contact that a customer has with the organization. From there, the organization can map the underlying business processes to identify blockages to customer satisfaction. Then use the information for implementing improvements. There are several frameworks that are useful in carrying out a blueprint exercise, as follows:

- Cycle - of service analysis.
- Value - chain analysis
- Story - boarding.

CYCLE OF SERVICE ANALYSIS:
The cycle of service analysis will show the customer experiences each contact with the organization. Each point of contact with the firm is a "Moment of truth" for the customers and for their perceptions of value delivered by the business. Every contact point has the potential to increase or decrease customer satisfaction levels. And each contact point forms a continuous chain of events for the buyers, even though the customers may deal with many
departments with the organization. Yet service providers often fail to think of the process as a single flow of connected experiences. Instead, they think of it in terms of their own individual tasks and activities. Each department sees only a part of the picture. No one sees the whole processes from the customer's point of view.

VALUE - CHAIN ANALYSIS:
Value – chain analysis is a method of analyzing a business to understand its sources of competitive advantage. The value chain strips down a firm into its component activities so that one understands how it provides value for its customers. Value is created from the discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its products.

STORY – BOARDING:
This approach combines elements of the two previous concepts to provide insights into how a company interacts with its customers. As a customer – analysis technique, story boarding was developed by the Walt Disney organization in designing its theme park. Walt Disney executives wanted to choreograph every aspect of their patrons' experiences with the park's attractions to ensure the highest possible degree of "customer happiness". Appropriate enough, for a company that earned its reputation producing cartoons, they borrowed from movie making a technique known as story boarding. In making a movie each scene is carefully planned in advance of actual filming. This is done through a series of cartoon – like sketches, called storyboards, which are arranged in sequence. Using this framework, you can portray exactly how a customer comes into contact with your organization and rearrange the "Scenes" to improve the customer satisfaction levels, and then build the business processes necessary to make the scenes come alive.

All of the above approaches are tools that would see the business as a process that works towards a goal of creating satisfied customers and identifying way to
improve procedures for maximum customer value. This in turn will help you become a long-term partner with the customers.

CUSTOMER RELATIONSHIP PROFITABILITY
Offering good customer perceived value is critical, because good value will have a positive impact on customer loyalty, which in turn through lower relationship costs and premium pricing opportunities improves a customer’s contribution to the firm’s profit. However, value, of course is, not the only factor influencing profit.

Analyzing the profitability and profit contribution of customers and customer relationships is a problematic task in most firms, for individuals as well as for customer groups. Accounting systems are normally based on products, not customers. For a manufacturer of physical goods, it is not possible to calculate revenues costs, profits and even profitability per product and product group. In a service firm it is much more difficult to do the same, because of the difficulty of measuring and quantifying one unit of service. For both manufactures and service firms it is almost impossible to find out information about revenues, costs, profits and profitability of customers or customer bases. The tradition of registering cash flow, revenue and cost per product comes from the industrial era where customers and employees are the bottleneck, customer’s profitability and registration of cash flows revenues and cost per customer is more important for strategic as well as tactical management.
Figure 11.

Figure illustrates a customer relationship profitability model. This model helps managers to see mechanisms that make customers more or less profitable. A quick glance at the model demonstrates that the road from customer perceived value to customer profitability includes a considerable number of factors, which are areas that have to be planned managed and monitored if a positive contribution to profit is to be expected. The model is conceptual, and should help managers realize the complicated mechanisms that influence customer profitability. Some of the factors, such as perceived sacrifice, some customer–firm bonds, patronage concentration, relationship length, relationship revenue and relationship cost can be measured in an objective manner using metric scales. Other factors such as perceived quality and value, satisfaction;
commitment, some customer firm bonds and relationship strength can only be measures using attitudinal scales and / or qualitative data. The objective here is not however to develop a calculation model, but to show, what to take into consideration and how to think.

The customer relationship profitability model includes four links as well as factors that influence these links. The four links are:

- From customer perceived value to customer satisfaction;
- From customer satisfaction to relationship strength;
- From relationship strength to relationship length;
- From relationship length to customer relationship profitability.

From value to satisfaction, the total service offered includes core solutions and additional services, how the quality of this offering is perceived compared to the perceived sacrifice of customers which determines customer’s perceptions of the value of this offering and in ongoing relationships the value of relationship. Customers are satisfied with perceived quality provided that the sacrifice involved – price and relationship costs – is not too high. Hence perceived value determines customer satisfaction.

Customer satisfaction has an effect on two factors that have an impact on the next link in the model. Satisfied customers may become committed to the supplier or service provider, because they trust the other party or are pleased suppliers or service providers, depending on with the level of sacrifice involved in the relationship. Customer satisfaction also contributes to the formation of bonds between the two parties, bonds (which can be social, cultural, ideological, psychological, knowledge - based, technological, geographical, time – related legal or economic) between the customers and the supplier or service provider, because they make it easier, more comfortable or more economical for the customer to continue to patronize the same firm.
From satisfaction to relationship strength: The next link shows how satisfaction has a favorable effect on the strength of a relationship. Strong relationships make a customer loyal. Customer satisfaction has a direct impact on relationship strength. However the effect also applies to a relationship. Strong relationships make customers loyal. Customer satisfaction has a direct impact on relationship strength. However the effect also applies to customer commitment and bonds between the two parties. The more committed a customer is to a firm and more bond that exist between them, the stronger the relationship will be. The model does not say anything about what degree of satisfaction and commitment is required to create relationships of certain strength, since this varies from case to case. It is important to bear in mind that the degree of satisfaction and commitment and perceived bonds often may have to be quite high to have a definite impact on relationship strength. For example it seems that customers who claim that they are satisfied with a solution are not always loyal. The percentage of customers who make repeat purchases can be as low as 30 or even lower. However customers who claim that they are very satisfied with a solution seem to have a much stronger relationship with the seller. The repurchase percentage may increase to 80 or above.

Strong relationship influences the number of alternative solutions that a customer thinks of. High relationship strength can be expected to make the customer think less of alternatives to the existing relationship, and vice versa. In addition, a strong relationship will probably include fewer critical service encounters or episodes (unfavorable incidents). First, customers are satisfied with and feel committed to the relationship because none or only a few unfavorable incidents have occurred. Second a strong relationship can be expected to make critical episodes look less unfavorable provided that such incidents do not occur too often.

Form relationship strength to relationship length:
In the third link, relationship strength has direct and indirect effects on the length of a relationship. The stronger the relationships, the longer it will last, customers do not see incentives to stop doing business with the same supplier or service provider. At the same time, a strong relationship makes customers perceive that fewer alternatives exist, and this lack of alternatives has a positive effect on the length of a relationship. Also a lack of perceived critical episodes has a similar influence.

Longer relationships can be expected to have a favorable effect on two factors, which are critical for customer’s contribution to profit. In continuing relationships, where customers are satisfied and feel strong ties with the other party; they can be expected to purchase more from this firm. A patronage concentration effect thus occurs. The suppliers or service provider get a " Larger share of the customer’s wallet". In ongoing relationships both parties also learn how to adjust to other and how to collaborate so that the customer uses the offering in a more effective and personalized way. Fewer mistakes are made, so less recovery is needed. A more cost – efficient episode configuration should develop. Moreover when there is a trusting and enduring relationship, the firm can more easily explore new ways of producing and using a service, moving to, for example less expensive internet – based contacts for information and payments. Hence the service can be produced in a way which ties up less expensive resources with out a perceived negative effect on quality and value.

From relationship length to relationship profitability:
The final link shows how length of a relationship influences the profitability of customer relationships. The length or a relationship by itself has a positive effect on profit, because costs of customer acquisition can be minimized and in many cases opportunities exist for premium pricing. A higher patronage concentration has a positive effect on the revenue streams in the relationship with any given customer. In addition a more cost – efficient episode configuration where unnecessary elements in relationships, such as answering customer questions
and recovering service failures, can be avoided, and less expensive ways of performing a service can be introduced and accepted by customers which will have a positive effect on relationship costs.

Hence a stronger relationship can be expected to directly influence customer relationship profitability and the company does this indirectly through improved revenue streams higher relationship revenue, and more cost – efficient service processes and lower relationship costs.

If all favorable effects implied by the model occur, higher perceived service quality compared to customer sacrifice should lead to improved profitability in customer relationships. However the links are not totally clear – cut; factors external to the model may influence some of the links or factors in an unexpected manner. A customer who introduces a solution, for example, based on new technology, or who aggressively promotes a low price may change the links between the factors in the model. For example a new much lower price option may make customers perceive episodes in existing relationships in a negative sense, because price may suddenly have become an issue, or new technology offered by a competitor may unite a technology based bond. In both cases, a new alternative may suddenly be considered realistic.

Managers must always follow up customer relationships on individual relationship levels where possible, to monitor how the mechanisms in the model function. What can be measured using hard data should be measured, this requires that accounting systems are adjusted so that data costs and revenues are available at a customer – or customer based level. Factors that can be measured only by attitudinal measurement instruments or in qualitative ways should also be monitored.
Prevention of premature death of CRM:

CRM is a dangerous phrase. The idea of relationship management seems logical and obvious. Explaining the idea does not take a long time. The Principles of CRM sound ideal. But does it really work in today’s cutthroat competitive scenarios where riding over attitude of the customers is very common? ‘Is it practical or is CRM a fallacy or another fad which would pass over like many earlier innovative management concepts?’ There are many pitfalls for CRM programmes that fail to generate significant improvements. By avoiding these pitfalls, the organization may minimize the risk of falling short of CRM goals. These are under committing to CRM initiative, creating a one point solution, taking the low cost approach, non response or poor response, avoiding the human side of the equation, standard approach, being too diplomatic etc.

CRM is an excellent concept, it is possible to implement it but it is challenging. It requires distinct vision, strong will and lot of efforts in nullifying the barriers, apart from attitudinal overhaul, which is difficult even with the best of intentions. Relationships are built over a period of time and have to be continuously nurtured. Especially in a competitive environment with new players in the market, it is difficult to practice customer retention. It takes close follow up of customer expectations and requirements and a perfectionist attitude. Everyone in a customer intimate company should always be prepared to go the extra mile for the customers. There should be a close involvement of marketing, project planning, basic engineering, front-end design & engineering, commissioning and other wings. Every employee in a customer intimate company should act as customer advocate. CRM is a concept, which is not to be viewed in isolation; it should be used to formulate strategies for different classes of customers. Thus a company should concentrate on customer caring, providing quality and making things happen. The entire organisational team has to develop potential CRM skills.
References: