CHAPTER I
"Who is a customer?

A customer is the most important person ever in our company—

A customer is not dependent on us we are dependent on him.

A customer is not an interruption on our work; He is the purpose of it. We are not doing him a favour by serving him; he is doing us a favour by giving us the opportunity to do so. A customer is not some one to argue, to match wits with; no body ever won an argument with a customer. A customer is a person who bring his wants—it is our job to handle them profitability to him and to ourselves".

----- Mahatma Gandhi
"CHANGE IS CHANGING"

The business environment has witnessed a lot of changes over the last few years, thanks to the Government’s LPG (Liberalisation, Privatization & Globalization) policies. These changes have not only been in terms of the changing focus of firms towards being more customer centric, but also in meeting the cut throat competition that exist in the corporate environment world wide. What has led to these changes? When one looks back at the last few decades, one realizes that periodically there have been new thrusts of buzzards, which many companies have tried to incorporate into their operations. This seems to be a cycle that keeps repeating itself in terms of an awakening of sorts. One can think of TQM, Kaizen, & ERM, Partnership management as excellent examples in this context. Why does this happen?

Gary Hamel and C.K. Prahalad, the renowned profounders of core competence in the preface to their recent best seller "Competing for the Future" observe that "there are substantial Challenges for any Organization intend on getting to the future first. The first challenge, how to navigate from here to there, as both, public and private institutions struggle to plot a course through an increasing inconsistent environment, where experience is rapidly delivered and familiar landmarks no longer serve as guiding posts. Never before has the institutional terrain been changing so quickly or have industry boundaries been so malleable. Never before have competitors, partners, suppliers and buyers been so indistinguishable. How, then, does they get the future first even there's no map."

Indeed struggle for existence and growth is very difficult for firms in the competitive environment. It is clear then, that at one stage companies are left with nothing different to offer. Each industry cycle seems to proceed in the following manner: A pioneer comes with a new innovation. The innovation may be a product, a process or a philosophy. But after a period of time, this competitive edge is lost as others are able to imitate the innovator. Therefore, the industry once again faces a situation wherein the differentiations between
firms become negligible. And therefore the stage is set for another innovator. Finally an innovation is no longer innovative. It may be dead, raised to become the next great industry standard, or perhaps simply lost among countless similar offers. When the latter occurs, competitive value propositions become so indistinguishable that customer often enlist third parties to score claims in search of the best price/performance combination least disrupted when adopted. This is the way the industry has been progressing. There have been product improvements, process improvements, and drastic and unbelievable changes in technology. However, one aspect had remained unnoticed. Firms began to realize this when there were no other areas where they could differentiate their offering; the unnoticed factor has been the "Customer".

In every industry, companies struggle with the Cultural, Organizational and Technological challenges associated with customer-focused enterprises. In their attempt to define customer value and instill customer loyalty, these businesses organize around customer relationships—not products. To manage transition, companies must develop the capabilities and acquire knowledge tools; resources that can help them match customers with appropriate products and services. The aspiring customer-focused business must transform its relationships with suppliers and partners, especially with customers. Relationship management will become a pervasive, enterprise-wide initiative that affects every customer's real-time interaction. Such efforts cannot be driven or managed by a single, functional department. Relationship Management requires the participation of individuals throughout (and beyond) the enterprise.

Designed to strengthen customer relationships and enhance their profitability, Customer Relationship Management initiatives can promote such successes only by managing customers across front office functions (marketing, sales & services) and channels (direct sales, call centers, the web, retail outlets, resellers, etc.). CRM can be considered a subset of Enterprise Relationship Management (ERM), which encompasses multiple consistencies within and
beyond the enterprise. ERM aims to streamline and supercharge interactions among the enterprise and its constituents. Those companies, which develop enterprise relationship nets, view every member of their network, from suppliers to partners to customers as having an opportunity to contribute or diminish value. Such networks illustrate the "myth" of total customer centricity: The Corporation must remain the hub of the net.

To focus best on customers one must continually engage them, learn their needs and preferences, and act on what one has learned. Companies that do so gain a tremendous advantage: the ability to customize products and services to individual requests. In order to be successful organizations need to put customers at the centre of their thinking, integrating all work processes around a single view of the customer. This ability to personalize is the fundamental feature of CRM.

**CRM Evaluation:**

CRM has its roots in the "relationship marketing" concepts that emerged in the 1980's. CRM requires organizations to lay more emphasis on retaining existing customers rather than on creating new ones. Initially perceived to be a marketing function, it has gradually turned out to be a cross-functional responsibility with the definition of a customer, including internal members and final consumers. Management guru Peter Drucker rightly quoted as follows "there is only one valid definition of business purpose: to create a customer. It is the customer who determines what a business is" and "what the business thinks it produces is not first importance—especially not to the future of the business and to its success. What the customer thinks he is buying and considers "value" is decisive—it determines what a business is, what it produces and whether it will prosper".
The evolution of relationship marketing from functionally based to transaction marketing is shown in the Figure.1 below.

Seth (1998), defined relationship marketing as the ongoing collaborative business activities between a supplier and a customer on a one-to-one basis for the purpose of expanding the total market by creating better end user value at reduced costs. The emphasis is on the words “ongoing” and “collaborative”. Research shows that there is a direct relationship between the customer retention rate and corporate profitability. A 5% increase in the customer retention rate results in 20-125% in profitability.

The five core areas of business transformation is as shown in the next table 1.
Five Core Areas of Business Transformation

<table>
<thead>
<tr>
<th>Product</th>
<th>Sales</th>
<th>Channel</th>
<th>Marketing</th>
<th>Service</th>
<th>Customer</th>
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</thead>
<tbody>
<tr>
<td>❖ Organizational Structure</td>
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<table>
<thead>
<tr>
<th>Product Performance</th>
<th>Sales Performance</th>
<th>Channel Performance</th>
<th>Marketing Performance</th>
<th>Service</th>
<th>Customer</th>
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<tbody>
<tr>
<td>❖ Business Matrices</td>
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<tr>
<th>Mass Advertising</th>
<th>Sales Performance</th>
<th>Marketing Campaigns</th>
<th>Integrated Marketing Communications</th>
<th>Segment Specific Mktg.</th>
<th>Customer Relationship Management</th>
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<tbody>
<tr>
<td>❖ Marketing Focus</td>
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<tr>
<th>Transaction Processing</th>
<th>Data Maintenance</th>
<th>Data Access</th>
<th>Data Warehouse</th>
<th>Data Marts</th>
<th>Customer Touch point Systems</th>
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<tr>
<td>❖ Technology</td>
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Thus there is rapidly emerging, a new focus on the CREATION OF RELATIONSHIPS with customers (not mere exchanges). The idea is to create such a level of satisfaction with customers that they do not feel it necessary to consider alternative offers or suppliers.
The shift to relationship marketing\(^2\):

Table 2.

<table>
<thead>
<tr>
<th>Transactional focus:</th>
<th>Relationship focus:</th>
</tr>
</thead>
<tbody>
<tr>
<td>❖ Orientation to single sale</td>
<td>❖ Orientation to customer retention</td>
</tr>
<tr>
<td>❖ Discontinuous customer contact</td>
<td>❖ Continuous customer contact</td>
</tr>
<tr>
<td>❖ Focus on product features</td>
<td>❖ Focus on product benefits</td>
</tr>
<tr>
<td>❖ Short time in orientation</td>
<td>❖ Long time in orientation</td>
</tr>
<tr>
<td>❖ Limited emphasis on customer service</td>
<td>❖ High customer service emphasis</td>
</tr>
<tr>
<td>❖ Limited commitment to meeting customer expectations</td>
<td>❖ High commitment to meet customer expectations</td>
</tr>
<tr>
<td>❖ Quality is the concern of production staff</td>
<td>❖ Quality is the concern of all staff.</td>
</tr>
<tr>
<td>❖ Doing it right at sale.</td>
<td>❖ Doing it right first time and every time.</td>
</tr>
</tbody>
</table>

The logic of relationship marketing is well grounded. It is based upon the simple idea that if customers are satisfied with totality of the offer, which is the core product and the service package, that surrounds it, then they are unlikely to want to look for alternative sources of supply. The combination of a superior product with a superior service package provides the ultimate source of sustainable competitive advantage.

Survey after survey indicate that the most important factor influencing the purchase decision, even ahead of price, is the expectation of total quality which includes service that surrounds the offer. This is not to suggest that price is unimportant, but rather that the perception of higher quality and services enable a higher price to be charged. This effect is demonstrated by using the economists' classic demand curve, which suggests that as the price increases, then the quantity demanded falls. By increasing the perception of quality and service the organization in effect 'shifts the demand curve to the right' thus implying that a higher price will not necessarily mean in a fall in demand.
SIGNIFICANCE:

"You don't need money to be in business,
You don't need to have an idea to be in business,
You don't need a shop, factory or office location to be in business,
You don't need personnel to be in business,
You don't even need a product or service to be in business

All these things help, of course; But without a customer, you are not in business. If you have just one customer, you are in business. If you have lots of good customers, you have a successful business."

One of the classic definitions of the marketing is that it is concerned with "getting and keeping the customers". In practice most organizations' marketing efforts focus on the "getting" of customers, rather than the "keeping" of them. Thus, an examination of the typical marketing plan will show a bias towards increasing market share than customer retention. While customers are always welcome in any business it has to be realized that an existing customer base provides a higher profit contribution and has the potential to grow in terms of the value and frequency of purchase.

IT TAKES FIVE TIMES AS MUCH EFFORT, TIME AND MONEY TO ATTRACT A NEW CUSTOMER THAN IT DOES TO KEEP AN EXISTING CUSTOMER.

The importance of customer retention is underlined by the concept of the "LIFETIME VALUE" of a customer. The Lifetime Value of a customer is calculated as follows

\[
\text{Life Time Value} = \text{Average Transaction Value} \times \text{Yearly Frequency Of Purchase} \times \text{Customer's Life Expectancy}
\]
Cost of Poor Customer Service:

Customer service pays in many ways, as mentioned earlier. Many businesses try to understand the cost of acquiring a customer, but not the cost of losing one\(^3\). In order to know the annual revenues, the number of customers a company has and cost of acquiring and keeping them, including marketing, sales, advertising, discount etc. one can use rupee amounts or the percentage of sales to help in the calculation.

**HOW MUCH A COMPANY LOSE BY ONE CUSTOMER:**

Let us assume hypothetically a business which has a revenue of Rs.10 million a year from 2,500 customers. Assuming cost of sales is 66% of revenue, or Rs.6.6 million.
Take the total number of customers and multiply it by 25% (an estimate for this example) to get the number of dissatisfied customers. Multiply that result by 70%, an estimate of the number of dissatisfied customers who will switch to a competitor. Divide total annual revenues by the number of customers to get the average revenue of one customer. Multiply this by the number of customers who have switched over, to get the cost of losing your customers.

Next, calculate the foregone (lost) opportunity revenue by assuming each dissatisfied customer will tell 10 people. Assume that 2% of these will buy elsewhere. Multiply this number by the average revenue per customer to get the potential lost revenue.

To determine customer acquisition and replacement costs, multiply total annual revenue by 66%, and divide that by the total number of customers to replacement cost per customer. Multiply this result by five to get your replacement cost per customer. (since it costs five times as much effort, time, and money to attract a new customer than it does to keep an existing customer)

Now add up all the results to get the total cost of poor service. Multiply that figure by 10 to determine the costs of poor service over a 10 year period, considered to be the customer’s lifetime for doing business with the firm.

No business of any size can afford to lose and acquire customers continuously. These results should motivate the firm to improve the customer service programs so that they focus on long-term customer retention. The above calculations are shown below.
THE COST OF POOR SERVICE

Lost Customer Revenue

A. Annual revenue Rs.10, 000,000
B. Total number of customers 2,500
C. Percentage of dissatisfied customers x 0.25
D. Number of dissatisfied customers (C x B) = 625
E. Percentage of dissatisfied customers who are likely to switch x 0.70
F. Number of dissatisfied customers who will switch = 437.50
G. Average revenue per customer (A / B) Rs. 4,000
H. Revenue lost through poor service (F x G) Rs. 1,750,000

Lost Opportunity Revenue

I. Number of other people dissatisfied customers tell (F x 10) = 4,375
J. Number of potential customers who buy elsewhere due to negative word of mouth (Assume one in 50 will tell, therefore I x 0.02) 87.5
K. Potential lost revenue (J x G) Rs. (350,000)

Customer Replacement Cost

L. Customer Acquisition costs ( 66% x A) Rs. 6,600,000
M. Average cost per customer (L / B) Rs. 2,640
N. Replacement cost for lost customers (M x 5) Rs. 13,200

Total Costs

O. Total Annual cost (H + K + N) Rs. (2,133,200)
P. Total cost over customer’s lifetime of doing business for 10 years (O x 10) Rs. (21,132,000)
In this frightening example, the company will lose more than Rs. 2 million a year due to poor service and lower customer retention. Now a company which does the above calculation and sees the results, will probably be motivated to improve customer service and make customer retention efforts.

"Customer service is governed by the rule of 10s. It costs 10,000 to get a new customer; it takes only 10 seconds to lose one, and 10 years to get over it or for the problem to be resolved. We must work to keep our customers."

After knowing how much we lose by a single customer, it is the right time to know why customers stop doing business with a company. Customers stop doing business because

- 1% die.
- 3% move away.
- 5% seek alternative or develop other business relationship.
- 9% begin doing business with the competitor.
- 14% are dissatisfied with the product or service.
- 68% are upset with the treatment they have received.

If one looks at these percentages, a company actually has control over 96% of the reasons why customers stop doing business with them.

How does a company get the customers?

Customers come through direct efforts of the selling machinery or through referrals. Customers largely make referral purchase decisions for those products/services that have greater than normal impact on their budgets or life. Direct selling machinery would have costs that are significantly higher than referral sale -- hence the need to invest in customer
relationships with an eye on acceleration of referrals so as to bring down costs or increase productivity of sales.

The following figure 3. and figure 4. show how the referral sale would increase the sales productivity with respect to time.

Figure 3

The overall unit selling cost (average of direct sale cost + referral sale cost) can be reduced with higher productivity.

If one observes the impact of a given investment in direct sale channel the productivity can at best only be a slightly increased line, while a referral line will be exponentially increasing trend line with growing subscriber numbers. This creates a multiplier effect that quickly overtakes the direct sale numbers, which is shown in (Figure 4.) as below.
Figure 4.

Organizational measure of referral propensity can be taken through customer feedback on their willingness to recommend the product / service to their friends and acquaintances. The figures for actual referral sale happening can be collected from information from increase sales (if coming direct) / or a response coupon mail back.

The study "Likelihood to Recommend" from Kerala market of ESCOTEL subscribers revealed some interesting facts. It is based on face to face survey conducted through independent market research agency on a sample base with > 95% confidence level. The main theme of the study was to know the impact of referrals (measured as a part of six – sigma improvement team working on sales productivity improvement). The order conversion rates from various sources of lead generation were taken and the results were as follows:

<table>
<thead>
<tr>
<th>Method Of Lead Generation Rates</th>
<th>Sample Size</th>
<th>Conversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>COLD CALLING</td>
<td>2210</td>
<td>3%</td>
</tr>
<tr>
<td>DATABASE</td>
<td>1674</td>
<td>1%</td>
</tr>
<tr>
<td>REFERRALS</td>
<td>352</td>
<td>29%</td>
</tr>
</tbody>
</table>
This will determine cost saving rate impact through referral and can serve as a decision point for how much investment should be made for tracking and accelerating referrals which is possible through CUSTOMER RELATIONSHIP MANAGEMENT only.

Malcolm Baldrige Award Criteria Framework:

Even in the above International Quality award the category 7.2 deals with CRM.
7.2a. calls for information on how the company provides easy access for customers.
7.2b. focuses on the complaint management process.
7.2c. Calls for information on how the company follows up with the customers regarding products/services, serving etc.
7.2d. Calls for information on how the company evaluates and improves its customer response management.

CRM Definitions:

Managers are (more) interested in those strategies and processes for customer satisfaction and selectivity; one to one relationships with individual customers; key account management and customer business development processes; frequency marketing loyalty programs cross selling and up selling opportunities; and various forms of partnering with customers including co-branding joint marketing, co-development and other forms of strategic alliances.

Shani and Chalasani define relationship marketing as an integrated effort to identify, maintain, and build up a network with individual consumers and to continuously strengthen the network for mutual benefit, through interactive, individualized and value-added contracts over a long period of time.

Mckenna professes a more strategic view by putting the customer first and shifting the role of marketing from manipulating the customer (telling and selling) to genuine customer involvement, communicating and sharing the knowledge. Marketing is to establish, maintain and enhance relationships with customers and other partners at a profit, so that the objectives of the parties involved are met.
This is achieved by a mutual exchange and fulfillment of promises. The implication of Gronsoos definition is that customer relationships is the "raisen de etre" of the firm and marketing should be devoted to building and enhancing such relationships. Similarly Morgan and Hunt (1994), draw upon the distinction made between transactional exchanges by Dwyer, Schurr, and Oh (1987), to suggest that relationship marketing " refers to all marketing activities directed toward establishing, developing and maintaining successful relationships".

The core theme of all CRM and relationship marketing perspectives is its focus on cooperative and collaborative relationship between the firm and its customers, and/or of other marketing factors.

Another important fact of CRM is "Customer Selectivity". As several research studies have shown not all customers are equally profitable for an individual company. The company therefore must be selective in tailoring its program and marketing efforts by segmenting and selecting appropriate customers for individual marketing programs. In some cases it could even lead to "outsourcing of some customers", so that a company can better utilize its resources on those customers it can serve better and create mutual value. However the objective of a company should not really be to prune its customer base but to identify appropriate programs and methods that would be profitable and create value for the firm and customer. Hence,

"Customer relationship management is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer".

As is implicit in the above definition, the purpose of CRM is to improve marketing productivity. Marketing productivity is achieved by increasing marketing efficiency and by enhancing marketing effectiveness. In CRM, marketing efficiency is achieved because cooperative and collaborative process help in reducing transaction costs and overall development costs for the company. Two
important processes in CRM include proactive customer business development and building partnering relationship with most important customers. This leads to superior mutual value creation.

"The next sale, next product, next idea, next success depend a lot on relationships. A good relationship is an asset. A firm can invest in relationships and it can borrow from them. We all do it, but we seldom account for and almost never manage it. Yet a company's most precious asset is its relationship with its customers. It is not who you know, but how you are known to them".

The nature of relationship varies from situation to situation. Alan Mitchell⁶, has identified the following types of relationship and their relevance for different business situations.

❖ Parent – child (loan – marketer)
❖ Teacher – student (Mass marketer of internet)
❖ Leader follower (fashion brand)
❖ Comrade at arms (fashion brand)
❖ Fellow enthusiast (sports car)
❖ CONFIDANTE (FINANCIAL SERVICE ADVISOR)
❖ Idol to be worshipped (luxury brand)
❖ Casual friend (Beers, crips)
❖ Saw mate (Special Whisky)
❖ Old Flame (Brands your mum used)
❖ A friend whom you seek to escape from everyday reality (holiday)

Relationships do not get formed overnight. Behavioral scientists commonly use the six-stage model to describe the development of relationship. The six stages are contact, involvement, intimacy, deterioration, repair and dissolution.

The three distinct CRM applications:

1. **Operational CRM**: The automation of horizontally integrated business processes, involving customer touch points—sales, marketing and customer
service—via multiple interconnected delivery channels and integration between front office and back office. An operational CRM system automates front office business functions. CRM front office systems (ex. Seibel, Baan, etc) aim at managing, reducing costs and improving productivity of front office operations. An important concept is that of the Customer Information Center (CIC). The CIC enables companies to consolidate information on every customer interaction (incoming and outgoing) in customer information and communicate with the customer in a relevant context.

While these operational processes are essential to CRM, they lack “customer intelligence” and therefore cannot enable employees to add value to the customer.

2. Analytical CRM: The analysis of data, created on the operational side of the CRM equation for the purpose of business performance management. Analytical CRM is inextricably linked to data warehouse architecture and is most often manifested in analytical applications that leverage data marts. Analytical applications include

- Customer segmentation analysis
- Customer churn prediction
- Customer loyalty analysis
- Customer service effectiveness analysis
- Customer profitability analysis
- Channel effectiveness analysis
- Sales analysis (call-center analysis, e-commerce sales analysis), etc.

3. Collaborative CRM: The use of new and traditional groupware/web technologies to facilitate customer and business partner communications. Collaborative CRM enables more comprehensive decision-making by making available personalized business information on individual customers.

The implementing CRM requires a strategic approach rather than a technology focus—technology simply plays an enabling role in CRM. What is
required is an "outward-in" focus, with the ultimate goal of improving the customer's total experience with the organization.

- Across all touch points (call center, web, kiosks, service technicians, etc.)
- Across all company divisions or departments
- Across all experiential elements (pre-sales activity, products/service experience, post sales support, etc.)

**CUSTOMER LIFE CYCLE MANAGEMENT**

Figure 5.

Customer needs assessment and acquisition

Customer retention & referrals for new customers

CRM

Customer equity leverage through cross selling and up selling

Customer development through personalization and customization

Figure 5.
Customer Life Cycle Management\(^7\) starts with acquisition either through the traditional advertising or through referrals. Then it moves on to customer development through personalization of communication and customization of products and services through a mutual learning process. Then it goes on to leverage the customer equity through cross selling and up selling. It works for the retention of existing customer and also benefits by the new customers that they get through their personal referral.

**CRM & FINANCIAL SERVICES:**

Armed with the above data, a manager can calculate the return on investment of embarking on customer – value – improved --programs. Ted Marra, a customer service consultant, said that improving customer satisfaction has demonstrable profit improvement effects. His studies show dramatic returns on investment from attacking the customer satisfaction problem thoroughly, for example, setting up effective complaint management system. He indicates the following levels of return on a variety of industries, through upgrading complaint management process.

- Packaged goods 15 to 20 percent
- Financial services **50 to 170 percent**
- Gas utilities 20 to 150 percent
- Consumer durable goods 100 percent
- Electronic Products 50 percent
- Retailing 35 to 400 percent
- Automobile services 100 percent.

Financial services companies have to adopt their business strategies, management practices, and organization structures and deal with complexities, surprises, and novelty of the competitive arenas that they have created in this new financial era.

Along with marketing management, financial services firms need the following qualities and capabilities to achieve viability and success: global
intelligence networks to identify immediate opportunities and threats as well as long-term trends; strong capital bases to financial growth and withstand unfavourable shocks; considerable flexibility and creativity in thinking about their business; ability to think ahead about their opportunities, threats and resources and make strategic investments for future positioning in target markets; soundly formulated business visions to drive the firms' energies; realistic strategies for achieving and defending profitable bases; sound administrative practices and skills for implementing designated strategies; innovative spirit and capability; strong management information systems for reflecting and analyzing the firm's economics; risk management policies, skills and sensitivities, hedging capabilities to minimize exposure to volatility, risk and loss; and overall devotion to meeting customer requirements and values.

SPECIAL FEATURES OF FINANCIAL SERVICES:

Financial services firms must be responsive to four principal differences:

1. Services are intangible for the consumer. Customers cannot try on services or taste or touch or feel them as a means of predicting how the purchase of a given service will provide satisfaction. Goods producers sell things, service firms sell performances. Services cannot be possessed; they can only be experienced, created, or participated in.

2. Services depend on the collaboration of both the supplier and the consumer of the services. The customer must normally specify the service requirements, provide descriptive and evaluative feedback as the service is delivered, and provide ongoing and post service feedback to ensure continuing satisfaction. Such collaboration requires (1) a willingness and capability by the consumer to be involved and (2) the availability and skill of the supplier to help the consumer gain benefits. Effective communication and cooperation are needed to link both parties.
3. Services cannot always be repeated with uniform quality because of the high human content involved in their delivery. Thus, service quality will vary from time to time, place to place, and customer to customer.

4. In the service firms, the finished service is consumed as it is produced. There should be direct contact between producer and the consumer. Usually no inventories can be created to insulate production capacity from demand patterns. Marketing and Operations functions have to be closely integrated or coordinated.

Until financial services companies have differentiated their services, the public's primary perception is likely to be that of the individual firm as a whole. The firm's image can be thought of as promise of the firm made tangible in the minds of the customers. For firms that advertise extensively to strengthen and reinforce their corporate image, customer recognition and response can be substantial. And financial companies should develop thrust, confidence among the customers. And the approach of the financial companies should be 'we care for you' and/or 'we are with you'.

**ROLE OF FINANCIAL SERVICES:**

An efficient, articulate and developed financial system is indispensable for the rapid economic growth of Indian economy. The process of economic development is invariably accompanied by a corresponding and parallel growth of financial organizations. However their institutional structure, operating policies, regulatory / legal framework differ widely, and use largely influenced by the prevailing politico – economic environment. Planned economic development in India has greatly influenced the course of financial development. The liberalization / deregulation, globalization of the Indian economy since the early nineties, has had important implications for the future course of development of the financial system / sector.
The evolution, reform and management of financial system / sector is a process rather than an event. It cannot be separated from reform in the real sector. They are mutually reinforcing, sustaining and sustained by each other. A broad based organizational structure of the Indian financial system has emerged in response to the requirements of the emerging industrial organizations.

The financial system is most important institutional and functional vehicle for economic transformation. *Finance is a bridge between the present and the future* and whether it be the mobilization of savings, or their efficient, effective and equitable allocation for investment, it is the success with which the financial system performs its functions that sets the pace for the achievement of broader national objectives.

The Financial system can be defined as a set of inter-related activities / services working together to achieve some pre-determined purpose or goal. It includes different markets, the institutions, instruments, services and mechanisms that influence the generations of saving investments capital formation and growth.

Van Horne defines the financial system, as the purpose of financial markets is to allocate savings efficiently in an economy to ultimate users either for investment in real assets or for consumption. Christy has opined that the objective of the financial system is to "Supply funds to various sectors and activities of the economy in ways that promote the fullest possible utilization of resources without the destabilizing consequence of price level changes or unnecessary interference with individual desires".

According to Robinson, the primary function of the system is "to provide a link between savings and investment for the creation of new wealth and to permit portfolio adjustment in the composition of the existing wealth."
From the above definitions, it may be said that the primary function of the financial system is the mobilization of savings and their capital distributions for the industrial investment and stimulating of capital formation to accelerate the process of economic growth.

The process of savings, finance and investment involves financial institutions, instruments & services.

The inter-relationship between varied segments of the economy is as illustrated (figure 6) below:

Inter – relationship in the Financial System
The financial system provides services that are essential in a modern economy. The use of stable, widely accepted medium of exchange reduces the costs of transactions.

Financial Services:
Financial services in a broad sense means “mobilizing and allocating savings”. It includes all activities involved in the transformation of saving into investment. The financial service can also be called “financial intermediation”. Financial
Intermediation is a process by which funds are mobilized from a large number of savers and make them available to all those who are in need of it, particularly corporate customers. A well-developed financial services industry is absolutely necessary to mobilize the savings and to allocate them to various investable channels and thereby to promote industrial development in the country.

CLASSIFICATION OF FINANCIAL SERVICES

❖ Fund based activities

➢ LEASING
➢ HOUSING FINANCE
➢ HIRE PURCHASE
➢ VENTURE CAPITAL FUNDING
➢ INVESTMENT FINANCING
➢ FACTORING
➢ FORFEITING

❖ Fee based Activities

➢ MERCHANT BANKING
➢ UNDERWRITING
➢ LOAN SYNDICATION
➢ INVESTMENT CONSULTING AND ADVISE
➢ MERGERS, ACQUISITIONS, AMALGAMATION
➢ CAPITAL RESTRUCTURING, REVALUATIONS
➢ PORTFOLIO SERVICES
➢ CORPORATE ASSET MANAGEMENT SERVICES
➢ TECHNICAL CONSULTANCY AND PROJECT PREPARATION
➢ MUTUAL FUNDS
➢ NEW ISSUE HOUSE SERVICES
➢ DEPOSITORIES
➢ CREDIT RATING
LEASING:

Section 105 of the transfer of property act defines the term ‘lease’ as:
“A lease of immovable property is a transfer of a right to enjoy such property
made for a certain time express or implied or in perpetuity in consideration of a
price paid or promised or of money, a share or share of crops, service or
anything of value to be rendered periodically or on specified occasions to the
transferor by the transferee who accepts the transfer on such terms.”
Accounting Standard 19 defines “a lease is an agreement whereby the lessor
conveys to the lessee in return for a payment or series of payments the right to
use an asset for an agreed period of time”

TRANSFER OF INTEREST

Lease is the transfer of an interest in the subject matter of the lease or
right to enjoy the property. If a document gives only a right to use the property in
a particular way or under certain terms while it remains in possession and control
of the owner there of it will be a license. The legal possession continues to be
with the owner of the property.

TYPES OF LEASE

Two types of leases can be distinguished:
a) Operating Lease and
b) Financial Lease.

OPERATING LEASE

Short term, cancelable lease agreements are called operating leases.
Convenience and instant services are hallmarks of operating leases. Examples
are: a tourist renting a car, lease contracts for computers, office equipments, car
trucks and hotel rooms. For assets such as computers or office equipment, an
operating lease may run for 3 or 5 years. The lessor is generally responsible for
maintenance and insurance. He may also provide other services. A single
operating lease contract may not fully amortize the original cost of the asset; it
covers a period considerably shorter than the useful life of the asset. Because of
the short duration and lease's option to cancel the lease, the risk of the obsolescence remains with the lessor. Naturally, the shorter the lease period and/or higher the risk of obsolescence, the higher the lease rentals.

FINANCIAL LEASE

Long term, non-cancelable lease contracts are known as financial leases. Examples are plant, machinery, land, building, ships and aircrafts. In India, financial leases are very popular with high-cost and high-technology equipment. Financial leases amortize the cost of the asset over the term of lease; they are therefore, also called capital, or full-payout leases. Most financial leases are direct leases. The lessor buys the assets identified by the lessees for the manufacturer and signs a contract to lease it out to the lessee.

TYPES OF LEASE:
1. Leveraged lease: Leveraged lease involves lessor, lessee and financier. Lessor (leasing company) provides equity equal to about 25% of the asset's cost while the remaining amount is provided by the financier (a bank or a financial institution), mainly as a loan. Leveraged lease is a popular method of financing expensive assets.

2. Sale and lease back: The lessee first sells assets owned by him to the lessor and then leases it back from the lessor. This provides liquidity as well as possible tax gains to the lessee.

3. Cross-border lease: In case of cross border or international lease, the lessor and the lessee are situated in two different countries. Because the lease transaction takes place between parties of two or more countries, it is called cross-border lease. It involves relationships and tax implications more complex than domestic lease. When the lease transaction takes place between three
parties manufacturer / vendor, lessor and lessee in three different countries, it is called foreign – foreign lease;

4. Close and open-ended lease: In the close ended lease the asset gets transferred to the lessor at the end and the risk of obsolescence, residual value etc., remain with the lessor being the legal owner of the asset. In the open-ended lease, the lessee has the option of purchasing the assets at the end of lease.

5. Direct lease: It is a mix of operating and finance leases on a full payout basis and provides for the purchase option to the lessee.

6. Master Lease: Master lease provides for a period longer than the asset's life and holds the lessee responsible for providing equipment in good operating conditions during the lease period.

7. Percentage lease: Percentage lease provide for a fixed rent plus some percent of the previous year's gross revenue to be paid to the lessor. This ensures protection against inflation.

8. Wet and dry lease: In the aircraft industry, when the lease involves financing as well as servicing and fuel, it is called wet leases. Dry lease provides only for financing.

9. Net Net Net lease: In the triple Net (net net net) lease the lessee is obliged to take care of maintenance, taxes and insurance of the equipment.

10. Update lease: Update lease is intended to protect the lessee against the risk of obsolescence. The lessor agrees to replace obsolete asset with new one at specified rent.
The main clauses in a lease agreement:

1. Description clause
2. Period clause
3. Rental clause
4. Exemption clause
5. Manufacturer's warranty clause
6. Ownership clause (open ended / closed ended)
7. Equipment delivery clause
8. Repairs & alteration clause
9. Insurance clause
10. Surrender clause (Transfer of equipment)
11. Default clause
12. Arbitration clause
13. Miscellaneous clause (regarding legal aspects)

Composition Of The Cash Flow Stream

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<tr>
<th>Constituent</th>
<th>From the point of view of</th>
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<tbody>
<tr>
<td></td>
<td>Lessor</td>
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<tr>
<td>Initial investment</td>
<td>Outflow</td>
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<tr>
<td>Management</td>
<td>Inflow</td>
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<tr>
<td>Direct cost</td>
<td>Outflow</td>
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<tr>
<td>Lease payments</td>
<td>Inflow</td>
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<tr>
<td>Lease payments</td>
<td>Inflow</td>
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<tr>
<td>Income tax on lease payments</td>
<td>Outflow</td>
</tr>
<tr>
<td>Sales tax on lease rental</td>
<td>-------</td>
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<tr>
<td>Residual value</td>
<td>Inflow</td>
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</tbody>
</table>
LEASING IN INDIA

Leasing has had an undeniable role in Indian economy from consumer finance to small-scale industry, heavy industry to automobiles, from railways to electricity boards. Almost every sector has utilized leasing as its source capital. Leasing attained an average of over 30% growth rate in the 1990s and has reached 14th largest place in the world leasing industry according to the statistics published by a London financial group. Center for Monitoring the Indian Economy compiles data about Indian leasing volumes, which is carried as a part of Indian leasing yearbook published by the Association of Leasing and Financial Services Companies. The data compiled by the center shows aggregate balance sheet value of leased and hired assets at about Rs.261 as on March 1997 and on a rough and conservative estimate the annual leasing volume in India is estimated at about US $ 3.667 billions. With the exception of 1996 – 97 and 1997 – 98, the 1990s have generally been a good decade for Indian leasing. The average rate of growth on compounding basis works out to 24% from 1991 – 92 to 1996 – 97. The main factors for such growth were no entry barriers, buoyant growth in capital expenditure by companies, high growth optimistic capital markets and easy access to public and generally go - go business environment. From 1997 – 98 onwards the picture has changed. A number of leasing entities reported decline in volume and made losses, some of them heavy losses. Many announced their exit. Stocks of NBFCs are at a never before low and at the same time the financial services have considerably been liberalized and it is not difficult for global majors to make entry into India. Some of the irresistible features of Indian leasing market are:

➢ A vast market, comprising of variety of user agreement, but penetration ratios still low in many key sectors, particularly machinery and infrastructure.
Attractive rates of return: real rate of return close to 10%

Default rates in consumer loans and vehicles financing appreciably lower than many other markets.

Most of the global major players who entered Indian leasing have focused on the vehicles segment. The machinery segment has unlimited scope for growth, currently not being tapped by lessors due to experience in the past. The past experience was due to lack of good credit analysis and management. Infrastructure financing is another area where foreign entry will be welcomed with massive government plan to develop infrastructure, long-term investors in infrastructure segment will find good market, secure clientele mostly with Govt. backing and reasonably good rate of return.

Major constituents of the Indian Leasing Industry.

- The specialized leasing companies.
- Banks and bank subsidiaries.
- Specialized financial institutions.
- One-off lessors.
- Manufacturer - lessor.

MAIN MARKET PLAYERS In India

The major players in Indian leasing with approximate market shares are as follows:

<table>
<thead>
<tr>
<th>Market player categories</th>
<th>Shares(approximately)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Institutions</td>
<td>30 per cent</td>
</tr>
<tr>
<td>Scheduled Commercial Banks</td>
<td>10 percent</td>
</tr>
<tr>
<td>Non - Banking Financial Institutions</td>
<td>52 per cent</td>
</tr>
<tr>
<td>Foreign Institutional Investors</td>
<td>06 per cent</td>
</tr>
<tr>
<td>Others</td>
<td>02 per cent</td>
</tr>
</tbody>
</table>

The customers' profile of the leasing industry is as follows.
• Corporate customers with very high credit rating
• Public sector undertakings.
• Mid – market companies.
• Consumer durable customers.
• Car customers.
• Commercial vehicle customers.
• Govt. Department and authorities.

The main industries that use the leasing options are

1. Manufacturing: domestic and imported equipment (over 50 per cent of the market)
2. Transportation: Commercial and personal vehicles (over 15 per cent of the market)
3. Construction: (Over 15 percent of the market)
4. Office equipment (over 10 percent of the market)

BENEFITS OF CRM:

1. Stronger customer loyalty and more repeated business: Companies that deliver higher perceived quality than their competitors achieve higher customer satisfaction levels and in turn higher repeat purchase rates. This lowers marketing costs and boosts profitability by reducing customer attrition. Reduced vulnerability in price wars. High customer loyalty reduces the chance that customers will switch to the competitions during periodic price battles.

2. Ability to command higher prices with out affecting market share: In almost every industry there is a leading company that is able to command a premium price from customers. These companies obviously have a greater chance to be highly profitable.

3. Lower marketing costs: Companies that deliver high quality products and services spend less money replacing their customer base and benefit more from referrals and word of mouth recommendations.
4. Growth in market share: High levels of customer satisfaction create a positive cycle of success, which results in high repeat purchase levels, more efficient marketing expenditures, and a growing customer base. This provides for economies of scale and superior margins, which in turn provide the resources to launch new initiatives to build market share.

5. One-stop shopping: Customers who are happy dealing with one part of a company are more likely to buy other products and services from it. It usually costs less for the company to supply single, bundled orders; and it is less costly for the customers to receive such orders than to split the business among many suppliers.

6. Less chance of surprises in the market place: Business that have the customers interests at heart keep in close touch with them and are seldom blindsided by new customer requirements. By receiving early signals about emerging customer needs, a firm can better anticipate market demand shifts and make the necessary transitions smoothly.

7. Positive word of mouth recommendations and enhanced image: Satisfied customers tell their friends about their positive experiences, and this, of course, creates new customers for the company. This is particularly important where the purchaser perceives a high degree of risk from the purchase.

8. Successful innovations: Satisfied customers are more open to sharing their experiences on the use of the products or services. They will let suppliers into their places of work, will work on collaborative development projects with the company and will suggest improvements. The results of these joint efforts are new products and services that address real customers needs and are therefore more likely to achieve success in the market place.

All of these benefits are important for a company. By describing them as they relate to the business one will have to get concrete evidence that can be used to argue the case for initiating a value-creation process.
"How many of the customers that we had twelve months ago do we still have today?"

This measure is the real test of customer retention. It can be extended to look at the value of purchases made by the retained customer base to see how successful companies have been in increasing the level of purchases for these accounts. Researchers at Bain & Company, a management consulting company has found that retained customers are more profitable than new customers for the following reasons:

❖ Long term relationships with customers are more profitable for six reasons.

1. The cost of acquiring new customers can be substantial. A higher customers retention rate implies that fewer customers need to be acquired and these can be acquired more cheaply.
2. Established customers tend to buy more.
3. Regular customers place frequent, consistent orders and therefore usually cost less to serve.
4. Satisfied customers often refer new customers to the supplier at virtually no cost.
5. Satisfied customers are often willing to pay premium prices for a supplier they know, and trust.
6. Retaining customers make market entry or share gain difficult for competitors.

Thus the prime objective of any customer service strategy should be to enhance customer retention. While customer service obviously also plays a role in winning new customer, it is perhaps the most potent weapon in the marketing armory for the keeping of customers.

The widely evangelized merits of CRM rely on infrastructure that will "listen to and extract knowledge about customers, enhancing a company's understanding of their needs, expectations, and behaviours and enable it to respond
dynamically to opportunity (new products and services) or change (i.e. when, where, and how customers want to conduct business)”.

To meet the challenges of the competitive environment one should aim the philosophy of ‘zero’, According the Maini Group, their motto is (REVA brand electrical battery car) “Karma Parma Dharma-Work is Worship”-has transcended from a motto to a vibrant way of life, thus actualizing the Zero Philosophy that has been the governing inspiration, perfection beyond definition, always constant, yet never static. The Zero Principle aims to deliver Zero Defect products with Zero time delays, Zero excuses, and Zero complaints. This is achieved through Zero wastage, Zero compromises, and Zero inefficiency. We believe in Zero pollution. And Zero is our inspiration.”

References:
2. Christopher MG., et all, Relationship Marketing. 1997,pp-23
8. Vasanth Desai, ' Indian financial System” Himalya publications,
DESIGN OF THE STUDY

INTRODUCTION:

Twenty-first century has been a century of change and paradigm shift. Undoubtedly, the change has been a shift towards third wave economy. The major components of GDP of various nations, shifted from agriculture and industry to the service sector. There were only few players in the market during the past. The customer was taken for a ride. Not much of importance was given to product safety, quality service and product appeal. The attitude of the manufacturer and the society was that of CAVEAT EMPTOR—buyers beware. Today the market scenario has changed. Thanks to the Government policy on Liberalization, Privatization and Globalization. There is a transformation in the maxim caveat emptor. Now it became 'CAVEAT VENDITOR'—sellers beware.

With the increase in competition negligible product differentiation in terms of the tangible items viz price/quality etc., the companies are concentrating on the intangible component namely the 'service'. As comparable and latest technology is available to each and every company in the market, there could not be much product differentiation. Therefore after sales service has become an important aspect of each and every company and it is no more considered as cost centre, but it is considered as potential 'profit centre'. Every organization strives hard to retain its existing customers, as it are aware of the fact that it is five times more costly to get a new customer than to retain an existing customer and hence, CRM is very relevant in today's market, which is dynamic and ever changing. CRM is communication with the customers i.e. customers should be made to understand that the company cares for him. All customers, however big or small must be treated equally.

The NBFCs in India are regulated by Reserve Bank of India. In the earlier years the focus was more on the deposits and related services. Since 1994 the
emphasis has been shifted to asset related services of the NBFCs, which is welcome feature. The vibrancy and growth of the economy and industry basically depend on finance. The human mind is at its ingenious best to find out various means of finance. Two such novel methods of financing which have come to the fore during the course of this century and hold a lot of promise for the future are Leasing and Hire Purchasing.

Leasing in India has a buoyant future as it is still in its infancy. It goes without saying that leasing is complementary to the growth of capital goods industry, which is vital for India's industrial profile. The need for equipment leasing has increased manifold, for it offers benefits to both the lessor and the lessee and in general to the economy.

NEED FOR THE STUDY:

In their report "working group on financial companies" under the Chairmanship of Dr. A.C. Shah appointed by the Reserve Bank of India, in the year 1992, it has been observed, "it has been revealed by some research studies that economic development and growth of NBFCs are positively correlated". Today over 52% of India's GDP is accounted for by the service sector. Rate of growth of Service is higher at 7% as against to 2 to 3% in case Agriculture. Within the service the finance sector perhaps best represents the overall health of the economy and sets the pace for change. About 48% of total income earned by the financial services industry comes from leasing and hire purchasing. The portfolio mix of the leasing and hire purchasing is usually 70:30 in favour of leasing. While leasing contributes only 5% to the capital formation in India, it is a prominent source of capital formation in developed countries like U.S.A.

"Business without marketing is like groping in dark, you know perfectly well what you are doing, and nobody else does". Marketing of financial services in unique in the sense, the characteristics of intangibility, inseparability and perishability, which are common to all services and, more importantly, deal with 'money'. And
since the service, by nature, has to be personalized, effective internal and interactive marketing is a must for success.

Alvin Toffler in his book "Third Wave" opined that the basic process of 21st century marketing will be choosing the customers, narrowing the focus and dominating the market. Many businesses are becoming market driven in the real sense; their focus is on distinctive competencies, value delivery, market targeting, and customer defined Total Quality Management, Relationship Management, and Partnership Management.

In the era of Globalization there has been total transformation in the way in which the customer is being perceived. Today the players of the market are directing their efforts in retaining the customers and customer base. As they know very well that "satisfied customer is the best source of advertising". A satisfied customer in 10 years will bring 100 more customers and "a customer is the ambassador for the company", exerts pressures to develop a fruitful relationships with customers. Their focus has shifted towards integrating the three elements—People, services, and Marketing, which connotes to customer service, quality and marketing in a close alignment.

**STATEMENT OF THE PROBLEM:**

"Nothing is permanent except change". This holds good for the market very well. The drastic changes in the years led to a lot of choices to the customers and the focus has shifted from sellers to buyers, where the key to success is converting the voice of the customer into reality, to proactively meet customer expectations, not just in terms of product excellence but providing value for money, quick response and right attitude. "THE STRATEGIC SECRET IS RELATIONSHIP BUILDING". In this context this study is initiated to apply CRM to financial services in general and to leasing in specific. The continuous change in guidelines of RBI is also going to affect the performance of financial service companies and thus CRM.
**SCOPE OF THE STUDY:**

The data is collected from both registered and unregistered NBFCs, as the activities of doing the business are same and the number of registered NBFCs is less. In terms of content though there are many fund-based services undertaken by the NBFCs, the present study has been restricted to the services related to leasing only. It is observed from the pilot study that the number of leasing companies, the number of registered NBFCs is less. Many of the NBFCs of Karnataka are in Bangalore. As for as geographical area is concerned the study is restricted to Bangalore because of the above said reasons. With respect to the lessees also it is within Bangalore. This study also covers CRM application to financial services in general and to leasing in specific. The RBI and other regulatory bodies guidelines are applicable to the given period only.

**OBJECTIVES:**

- To study the CRM in financial services
- To study the impact of RBI and other Regulatory bodies’ guidelines on Leasing companies,
- To find the problems faced by the lessor and lessees.
- To suggest strategies to overcome the problems faced by lessor and lessees.
- To suggest strategies to build competitive advantage for leasing companies.

**REVIEW OF LITERATURE:**

As no information is available about the studies conducted in India, the various Ph.D. and other related degrees conducted in various Universities are being reviewed to give a reasonable understanding of the study and to identify the gaps existing in the studies conducted.
In a study entitled “Customer satisfaction with vendor provided information service, antecedents and behavioural consequence of user attitudes” by Heckman, Rober L. for the award of Ph.D. in the University of Pittsburgh, 1993, the author suggested that the manager possesses a single generalized attitude directed towards the system/vendor/price gestalt. Three categories of satisfaction related behaviours were identified. They are helping behaviours, switching behaviours and complaining behaviours. Behaviours that are most strongly related to the satisfaction appeared to be non-system oriented.

In the study, “Service quality and customer lifetime value in professional sport franchise” by McDonald, Mark Alan in 1997 analysed the standard approach for measuring relationship value is customer lifetime value (LTV). LTV is “ the present value of expected benefits (e.g. gross margin) less the burdens (e.g., direct costs of servicing and communication) from customers”. While their model focused on estimated income streams from the relationship, it does not account for the added benefits from the relationship. Perceptions and expectations of service quality increased with higher levels of customer investment for both dimensions of service quality and service areas. However, the overall impact of LTV on service quality gap (perception-expectation) scores was negligible.

In the study, “Service quality in commercial Banks: a comparative study” in J & K by A.Gani and Musttaqu A. Bhat in 2002 analysed the service quality in commercial banks with a view to offer suggestions to make overall service quality in banks more efficient and effective. They used SERVQUAL model for the study and concluded that the service quality of foreign banks is comparatively much better than Indian Banks and suggest heavy investment by Indian banks in tangibility dimension to improve the quality of service to the customers. They also observed that Indian Banks are lagging behind on the front of physical facilities, up-to-date equipments, communication material, and employees.
providing prompt service to customers, willingness to help customers and convenient operating hours.

In the study, "The determinants of the leasing decision: theory and empirical evidence (agency cost, tax)" by Kang, Sungjune for Rutgers the State University of New Jersey, New York, 1996 analysed the empirical investigation on several issues related to the leasing decisions. These issues are the role of taxes on the leasing decision, determinants of the leasing decision based on non-tax reasons, and a substitute relationship between lease and debt. The study found that tax is an important determinant of the use of all non-cancelable leases including non-cancelable operating leases. More specifically, firms in a net operating loss position, which are currently paying taxes, are found to use more leasing.

In a study entitled "An empirical analysis of consumer leasing behaviour (automobile leasing)", conducted by Trocchia, Philip John for the University of Alabama in July, 1998 revealed that the consumers are choosing to rent and lease the products they use. And also observed that individuals who lease their vehicles differ from those who own them in terms of several personality variables, including desire for simplicity, desire for gratification, desire for variety, and possessiveness and also comparing the manner in which owners and lessees care for their vehicles.

In their study 'An agency theory approach to financial leasing" conducted for Texas Tech University, 1989 Sivarama Krishnan and Vaidhyanathan used a large sample of firms to test the following hypotheses. They are 1) the leasing and non-leasing firms differ in many financial characteristics 2) the leasing firms have higher bankruptcy potential 3) the leasing firms have higher agency cost of debt. And the study revealed that there are significant differences in several financial ratios for the leasing and non-leasing firms. The leasing firms used higher leverage and show higher growth rates for sales, EBIT and fixed assets.
The leasing firms also show higher business risks as measured by the coefficient of variation of EBIT. Empirical studies, however, show that lessor invariably earn returns higher than lenders. Also studies of lessees have shown that lease ratios and debt ratios are positively correlated; indicating that debt and lease-financing may be complements rather than substitutes.

From the above review of literature on CRM and leasing it is evident that no significant effort is being made in India on CRM with special reference to leasing. The present study is expected to fill the gap in the empirical research on leasing. Therefore this study is different from the other studies, which are being conducted on this concept, and thus stands as a unique and maiden effort undertaken by the researcher.

**SOURCES FOR DATA COLLECTION:**

*PRIMARY DATA:*

The primary data is collected through the structured questionnaire from the lessors and lessees separately. The two schedules/questionnaires are given in the appendix.

*SECONDARY DATA*

The secondary data required for the study is collected from various libraries like I.I.M., Bangalore, British Library, Bangalore University library, Mysore University library, Osmania University library and Nagarjuna University library.

In order to know the recent guidelines of RBI, RBI bulletins were referred. RBI web sites and other related sites were visited. The various articles regarding the impact of these guidelines were also referred. The various newspapers referred included The Economic Times, The Business Line, Business Standard, etc., and the magazines referred include Business Today, Business World,
Management Review, HBR, MIT Sloan Management, The Intelligent Investor, Banking Journals, Capital Market, Management Accountant, CFA journals, the financial Analyst etc., and various websites on CRM were visited.

**SAMPLING:**

Even though more than 55,000 NBFCs were there in India three years ago, now many of them are have closed down and about 1000 of them are registered with RBI are functioning. In Karnataka only a few are dealing with leasing. All the lessees from whom the data is collected are only from Bangalore city.

**SAMPLE SIZE:**

The sample size of this study is restricted to 50, which include both registered and unregistered NBFCs in Bangalore, Karnataka. The sample size of the lessee is also 50.

**SAMPLING METHOD:**

The convenient random sampling method is used for collection of data from both the lessor and lessees.

**CONVENIENCE SAMPLING:**

In this method, a sample is obtained by selecting convenient population elements. This method is used when selection is made from an available source like that of telephone directory, automobile registration records, industrial or stock exchange directories etc. This is because it is convenient to use these sources. Sample so selected do represent a certain cross section of population sharing some common characteristics yet not alike in all respects. For this study the list of the companies has been collected from the telephone directory, yellow pages and RBI website.
For the data collection from the lessees, the list of the lessees has been collected from the lessor.

METHODOLOGY OF RESEARCH:

Exploratory and Descriptive research methodologies are adopted in this study.

a) Exploratory research is concerned with discovering the general nature of the problem and the variables that relate to it. Exploratory research is characterized by high degree of flexibility, and it tends to rely on secondary data and small-scale surveys.

b) Descriptive research is focused on the accurate description of the variables in the problem model. Any source of information can be used in a descriptive study, although most studies of this nature rely heavily on secondary data sources and survey research.

ANALYSIS AND INTERPRETATION

Since the data was collected by both Primary and Secondary sources, the collected data was tabulated and analyzed by using Sharpening tables, Graphs, Statistical techniques like Correlation Analysis and Hypothesis Testing.

CORRELATION ANALYSIS

I. CORRELATION ANALYSIS FOR CUSTOMER SATISFACTION AND QUALITIES SHOULD BE POSSESSED BY THE EMPLOYEES (from lessors' point of view).

II. CORRELATION ANALYSIS FOR CUSTOMER SATISFACTION AND QUALITIES SHOULD BE POSSESSED BY THE EMPLOYEES (from lessees' point of view).
Correlation is a statistical technique, which measures and analyses the degree or extent to which two or more variables fluctuate with reference to one another. Correlation thus denotes the interdependence among the variables. The degrees are expressed by a co-efficient, which ranges between -1 & +1.

The Types of Correlation considered here are

1. **Positive & Negative**: If two or more variables vary in the same direction then the correlation is said to be positive. In other words if one variable increases, the other variable on an average also increases or if one variable decreases, the other variable on an average also decreases, correlation is said to be positive. If the variables are varying in the opposite direction correlation is said to be negative. In other words, as one variable increases the other decreases or when one variable decreases the other variable increases, correlation is said to be negative.

2. **Simple & Multiple**: Correlation is said to be simple when only two variables are studied. Ex: study of price & demand of an article will give simple correlation. When the relationship between three or more variables is studied it is called multiple correlations.

**SPEARMAN'S RANK CORRELATION METHOD**

When ranks are repeated

\[ \rho = 1 - 6 \left( \frac{d^2 + \frac{m(m^2 - 1)}{12} + \ldots}{n(n^2 - 1)} \right) \]

Where,
\( d = (R_x - R_y) \)
\( n = \text{No. of items given} \)
\( R_x = \text{Rank of the first group and } R_y = \text{Rank of the Second Group} \)
\( m (m^2 - 1) / 12 \) is called the correction factor.
HYPOTHESIS TESTING

Hypothesis testing begins with an assumption, called a hypothesis that is made about population parameter. Then data is collected and is produced a sample statistics, and this information is used to decide how likely it is that hypothesized population parameter is correct. Assume that an assumption is made about certain value for a population mean. To test the validity of the assumption sample data is gathered and determine the difference between the hypothesized value and actual value of sample mean is determined. Then is judged whether the difference is significant. The smaller the difference the greater the likelihood that hypothesized value for the mean is correct and vice versa. Hypothesis testing is a tentative solution for research problem. It is not a final solution but an assumption of the study, which helps as a guidance of a framework to carry out research work.

Case 1.

Null hypothesis:
More than 60% of the respondents are satisfied with guidelines set by RBI.

Alternative hypothesis:
Less than 60% respondents are satisfied with the guidelines set by RBI.

Case 2.

Null Hypothesis:
More than 50% of respondents favour that CRM can be implemented in financial services.

Alternative Hypothesis:
Less than or equal to 50% of the respondents favour that CRM can be implemented in financial services.
Case 3

Null hypothesis (Ho)

There is no evidence to doubt the standards assumed by the researcher (the numbers should be in proportion of 9:5:4:3:3:2:1 for profitability : Debt Equity ratio : Information from the banks : Private consultants : Credit rating agencies : conduct and character of the lessee : others) on evaluation of credit worthiness of the lessee.

Alternative Hypothesis (H1):

There is a evidence to doubt the standards assumed by the researcher (the numbers should be in proportion 9:5:4:3:3:2:1 ) on evaluation of credit worthiness of the lessee.

LIMITATIONS OF THE STUDY:

- As the number of registered NBFCs in Karnataka is very less, the data has been collected from both registered and unregistered companies, even though the registered NBFCs have a slight edge over the unregistered NBFCs. The way the people do business different from place to place particularly in financial services. For example 'cash and carry' system is followed in West Bengal while one-week credit is usual in South India. As this study is restricted to Bangalore, Karnataka the study may not hold good throughout India. However it may be relevant to the entire Karnataka.

- The study deals with application of CRM only for fund based service and not for fee based services. Among the fund based services the study is restricted to leasing only with the assumption that the way of doing business is same everywhere. There is always a chance for indifference as each service is unique and each customer is unique.

- The economic conditions, RBI other regulatory bodies guidelines may change from time to time; the findings of this study are applicable to only the point of time of the study. In case of CRM this is applicable anytime and there is always possibility for further improvement.
• The primary data collected from the lessors and lessees, and there is always a chance for bias in their opinions.
• Due to busy schedule of the Managers, at times the next lower level employees were made to respond to the questionnaire in few companies, which may have resulted in not getting sufficient information.

CHAPTER SCHEME:

CHAPTER I
INTRODUCTION
CRM Evolution
Significance
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