Chapter-2

REVIEW OF LITERATURE

2.1 INTRODUCTION

Customer Relationship Management (CRM) has been a part of marketing literature since more than a decade. Interestingly, there is still much debate over what exactly constitutes CRM (Nevin, 1995; Parvatiyar and Sheth, 2001; Sin et al., 2005). According to Parvatiyar and Sheth (2001), some of the themes represent a narrow functional marketing perspective while others offer a perspective that is broad and paradigmatic in approach and orientation. One example of a narrow perspective is to view CRM as database marketing (Peppers and Rogers, 1993) emphasizing promotional aspects of marketing by leveraging customer databases. Other examples of a narrow approach include electronic marketing (Blattberg and Deighton, 1991) and after-marketing (Vavra, 1992). Electronic marketing encompasses all marketing efforts supported by information technology while aftermarketing efforts focus on customer bonding after the sale is made.

On a broader level, CRM may mean customer retention or partnering (Peppers and Rogers, 1993; Vavra, 1992). In order to develop a comprehensive list of CRM practices, it is essential to identify the key constructs of CRM. In this direction CRM Organization, Customer Value, Customer Acquisition, Customer Satisfaction, Customer Retention and Loyalty, Trust and Commitment in Relationship Marketing and Key Account Management are discussed below.

2.2 CUSTOMER RELATIONSHIP MANAGEMENT

CRM Definition:

CRM is a business strategy designed to optimize profitability, revenue and customer satisfaction by organizing the enterprise around customer segments, fostering customer-centric behaviors and implementing customer centric processes (Gartner, 2004).

Jain (2005) proposed that, profiling of the customer, ensuring satisfied employees and delivering superior value would help the cause of CRM. Studies of successful Relationship Marketing initiatives have been undertaken to highlight the importance of the customer relationship cycle and its components (Rigby and Ledingham, 2004). Harding et al., (2004) pointed out the importance of redesigning of business processes and training of users before CRM implementation.
Chan (2005) highlighted the importance of integration of activities and the danger of having a disconnected view of customers owing to functional disparities. A number of articles highlighting the best practices on CRM have been published. One such article explains the need for balancing the strategic capabilities of CRM—people, process, technology, knowledge and insight (Gordon, 2002).

McGovern and Panaro (2004) highlighted the importance of proper segmentation of key customers and also the alignment of the salespeople with the processes. Kale (2004) explained the major pitfalls of CRM as the seven deadly sins. However, a framework for enabling a strategic approach to CRM has not been proposed by these authors.

Roberts et al., (2005) proposed a ‘CRM Process Model’, but it included very generic strategies (not different from traditional marketing) and also fails to incorporate the need for a CRM vision. After undertaking extensive research, Payne and Frow (2005) proposed a strategic framework for CRM that comprised five major components—the strategy development process, the value creation process, the multichannel integration process, the information management process and the performance assessment process. However, their work failed to delve into certain important aspects like the methods to be adopted for focusing on key customers and critical aspects of choosing the CRM technology.

In today’s business scenario, management recognizes customers as the major asset of a business process and the success of an organization depends on how effectively the relationship with customers is managed. Customer retention is considered to be the most important factor of interest for the customer data which enables them to quickly retrieve all information about the customers in few seconds for effective relationship.

The need for relationship marketing arose as a result of industry globalization. The focus shifted from promotion of the product to creating value in the consumer-producer relationship and maintaining said value over time. This was fostered by the value movement, innovation in technology and a shift in power from producer to consumer. Prior to this the traditional marketing paradigm of product, price, place, and promotion was heavily utilized. CRM, however, is designed to utilize information technology to develop an ongoing relationship with customers who will maximize the value an organization can deliver to them over time. This process should inevitably if utilized as designed, enhance the perceived value of the customer thus increasing their level of satisfaction to the point where the customer is loyal to the company.
Customer Relationship Management has emerged as one of the latest management buzz words, popularized by the business press and marketed by the aggressive CRM vendors as a panacea for all the ills facing the firms and managers, it means different things to different people. CRM, for some, means one-to-one marketing while for some it means a call center. Others call database marketing as CRM. Today CRM is not just a buzzword, but also a trend that is weeping across all industries. In simple words, implementation of CRM implies viewing the entire business from the customers’ perspective and treating them as their most priced assets (Shainesh and Sheth, 2006). CRM is the strategy for delivering high quality service to its customers aimed at helping the organizations to attract, develop and retain the customers (Berry, 1983).

Customer Relationship Management is the process of carefully managing detailed information about individual customers and all customer ‘touch points’ to maximize the customer loyalty (Kotler et al., 2009). A customer touch point is any occasion on which a customer encounters the brand and product from actual experience to personal or mass communication to casual observation. Shani and Chalasani define customer relationship management as “an integrated effort to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value-added contacts over a long period of time”. Jackson applies the individual account concept in industrial markets to suggest CRM to mean, “Marketing oriented toward strong, lasting relationships with individual accounts”. In other business context, Kotler and Armstrong (2001) define CRM as “the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction”.

On average, businesses spend six times more to acquire customers than they do to keep them (Gruen, 1997). It is clear that, the corporation needs to orient itself towards total customer relationships versus focusing on single transactions with a customer. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer’s purchases. Customer Relationship Management can be called as a strategic management system. CRM requires organizations to lay more emphasis on retaining existing customer rather than on creating new ones (Clark and Payne, 2000). A long term relationship with the customer insures their repeat business. It costs more to gain new customer that it does to retain current ones. CRM is the process of carefully
managing detailed information about individual customers and all customer ‘touch points’ to maximize the customer loyalty (Kotler and Armstrong, 2001). CRM is used to define the process of creating and maintaining relationships with business customers.

As opposed to the four P’s of traditional marketing, CRM’s four P’s, which leads to success as described in Johnson and Weinstein (2004) are planning, people, process and platform. To ensure success, it is imperative that a business utilizing CRM knows exactly what they want to achieve with the CRM strategy and how they want to capture and use the data. Secondly, with respect to people, all concerned parties, i.e., employees and partners must be inter-functionally coordinated with the CRM effort. Thirdly, the process of how the customer contacts the company has to be clearly defined. Lastly, after specifying goals, coordinating these goals with the relevant parties, ascertaining the process, IT software should be selected that responds to the CRM needs to the business.

Customer Relationship Management has been growing in the past few years. It includes customer service management, relationship building and electronic shopping (Fletcher, 2003). Greenberg (2001) argued that, CRM is a business strategy to build and sustain a long-term customer relationship. Furthermore, Winer (2001) argued that, CRM is an integration of information technology and business processes. It makes marketers implement the relationship marketing at an enterprise-wide level. However, the issue of privacy is a big problem in CRM. Strong database and data mining techniques help marketers easily find consumers’ personal information (Franzak et al., 2003). Most CRM systems just focus on the benefit and technology of companies rather than on perception and attitude of customers. It is necessary to consider both sides. People should understand how customers view their relationships with companies because customers are not just passive buyers ignoring relationships with companies (Culnan & Armstrong, 1999).

More and more organizations and companies have realized that they need to put their customers’ front and center to support a robust strategic customer care process, including profiling customers, segmenting customers, researching customers, investing in technology and managing customers (Brown, 2000). This move towards more customer centric direction can be traced back to the 1960s when the focus of marketing started to shift from managing products or marketing campaigns to managing the profitability of each individual customer over the entire life of the relationship. The paradigm shift brought lots of discussions on “relationship
marketing” since the 1980s (Berry, 1983; Hakansson, 1982). Relationship marketing aims to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value-added contacts over a long period of time (Shani and Chalasani, 1992). However, relationship marketing focuses mainly on strategy and lacks a holistic view of the business processes connected to it (Parvatiyar and Sheth, 2000). Customer relationship management evolving from business processes, emphasizes not only a comprehensive strategy but also the process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer (Parvatiyar and Sheth, 2000).

CRM indicates “the strategic process of shaping the interactions between a company and its customers with the goal of maximizing current and lifetime value of customers for the company as well as maximizing satisfaction for customers” (Rajagopal and Sanche, 2005). From the 1990s, CRM became more and more appealing because of two reasons. First, though enterprise resource planning (ERP) software offers a single system linking all corporate operations, including planning, manufacturing, sales, vendor relations, inventory control, human resources and accounting (Handen, 2000). Many organizations and companies recognized that, ERP systems mainly emphasize on “efficiency” and “control”, and the core attention is still stagnant in the “product” and the “organization”, neglecting the relationship among people. Second, while companies and organizations are making efforts to keep pace with the paradigm shift in marketing, customer needs, expectations and behaviors are also changing. Customers expect personal service and that their company already knows every detail of the relationship they have with their company, regardless of the channel they use to communicate with their company.

Customers do not only want services, they want good services, which possess characteristics like ease of doing business, trust, responsiveness, web site navigability, problem resolution and all those other elements of good e-business that don’t fit quite so neatly into a purely binary world. Javalgi et al., (2006) also pointed that, in today’s hyper-competitive markets service firms must be market-oriented. As knowledge is key to nurturing customer relationships (Lavender, 2004), market research plays a critical role in generating the needed data on which a market orientation can be developed and implemented, which, in turn, can enhance the practice of CRM (Javalgi et al., 2006). Therefore, CRM is considered as a means of
supplementing ERP systems to match customers' needs and increase their satisfaction.

Today's businesses are facing fierce and too aggressive competition while operating in both domestic and global market. This diverse and uncertain environment has forced organizations to restructure themselves in order to enhance their chances of survival and growth. The restructuring efforts have included, among others, the emergence of the "new paradigm" which is commonly referred to as relationship marketing (Berry, 1983; Håkansson, 1982; Dwyer et al., 1987; Zineldin, 2000; Gronroos, 1994; Gummesson, 1997; McKenna, 1991; Morgan and Hunt, 1994). Relationship marketing is coined to reflect a variety of relational marketing activities.

The term customer relationship management has become a buzzword, with the concept being used to reflect a number of differing themes or perspectives and becomes a catch-all phrase. Ongoing relationships between businesses and their customers are receiving renewed interest in marketing (Berry, 1995; Sheth and Parvatiyar, 1995). Indeed, the building of strong customer relationships has been suggested as a means for gaining competitive advantage (McKenna, 1991; Reichheld, 1993; Vavra, 1992). However, these definitions of relationship marketing provide the basis for the new paradigm argument that views marketing as an integrative activity involving personnel from across the organizations with emphasis on building and maintaining relationships over time. Personal relationships, interactions and social exchange are the core elements of relationship marketing.

Customer relationship management is to identify, establish, maintain, enhance and when necessary also to terminate relationships with customers and stakeholder at a profit, so that the objective of both parties are met and that this is done by mutual exchange and fulfillment of promises (Michel, 1999). An extensive review of literature reveals ten different but interrelated forms of relationship marketing as mentioned below:

1. The partnering involved in relational exchanges between manufacturers and their external goods’ suppliers (Frazier et al., 1988).
2. Relational exchange involving service providers, as between advertising or marketing research agencies and their respective client (Frazier et al., 1988).
3. Strategic alliances between firms and their competitors, as in technology alliances (Nueno and Oosterveld, 1988; Ohmae, 1989).
4. Alliance between a firm and nonprofit organizations, as in public-purpose partnership (Steckel and Simons, 1992).
5. Partnerships for joint research and development, as between firms and local, state, or national governments (Berry, 1983).
6. Long term exchanges between firms and ultimate customers as particularly recommended in the service marketing area (Berry, 1983).
8. Exchange involving functional departments within the firm (Ruekert and Walker 1987).
9. Exchanges between a firm and its employees, as in internal marketing (Berry and Persuraman, 1991).
10. Within-firm relational exchanges involving such business units as subsidiaries, divisions or strategic–business units (Porter, 1987).

Customer Relationship Management has become one of the most dynamic technology topics of the new millennium. According to Chen and Popovich (2003), CRM is not a concept that is really new but rather due to current development and advances in information and enterprise software technology it has assumed practical importance. The root of CRM is relationship marketing, which has the objective of improving the long term profitability of customers by moving away from product-centric marketing. Bose (2002) noted that, CRM was invented because customers differ in their preferences and purchasing habits. If all customers were alike, there will be little need for CRM. As a result, understanding customer drivers and customer profitability, firms can better tailor their offerings to maximize the overall value of their customer portfolio (Chen and Popovich, 2003). The attention CRM is currently receiving across businesses is due to the fact that, the marketing environment of today is highly saturated and more competitive (Chou et al., 2002).

According to Greenberg (2004), CRM generally is an enterprise-focused endeavour encompassing all departments in a business. He further explains that, in addition to customer service, CRM would also include manufacturing, product testing, assembling as well as purchasing, billing, human resource, marketing, sales and engineering. Chen and Popovich (2003) argued that, CRM is a complicated application which mines customer data, which has been retrieved from all the touch points of the customer which then creates and enable the organisation to
have complete view of customers. The result is that, firms are able to uncover and determine the right type of customers and predicting the trend of their future purchases. CRM is also defined as an all-embracing approach that seamlessly integrates sales, customer service, marketing, field support and other functions that touch customers (Chou et al., 2002). They further stated that, CRM is a notion regarding how an organisation can keep their most profitable customers and at same time reduce cost, increases in values of interaction which then leads to high profits.

The modern customer relationship management concept was shaped and influenced by the theories of total quality management (Gummesson, 1997) and by new technology paradigms (Zineldin, 2000). There is however, a perceived lack of clarity in the definition of customer relationship management, although all accepted definitions are sharing approximately the same basic concepts: customer relationships, customer management, marketing strategy, customer retention and personalization (Zineldin, 2000).

However, while academics debate the subtitles of various definitions, the practitioners have developed a wealth of applicative papers analysing the concrete challenges and opportunities of implementing the systems (Bacuvier et al., 2001).

CRM in some firms is considered as a technology solution, consisting of individual databases and sales force automation tools and sales and marketing functions so as to improve targeting effort. Peppers and Rogers (1999) argued that, organisations view CRM as a tool, which has been particularly designed for one-to-one customer communications which is the function of sales, call centers or the marketing departments. Accordingly, Frow and Payne (2004) added that, CRM stresses two-way communication from the supplier to customer and from the customer to the supplier to build the customer relations over time. The two-way communication has been enhanced greatly by advances in technology particularly the Internet.

In terms of information technology (IT), CRM means an enterprise-wide integration of technologies working together such as data warehouse, website, intranet/extranet, phone support system, accounting, sales, marketing and production. Kotler (2000) assured that, CRM uses IT to gather data, which can then be used to develop information acquired to create a more personal interaction with the customer. In the long-term, it produces a method of continuous analysis and refinement in order to enhance customer’s lifetime value with the firms.
Goldenberg (2000) believes that, CRM is not merely technology applications for marketing, sales and services but rather when it is successfully implemented, it enables firms to have cross-functional, customer-driven, technology-integrated business process management strategy that maximizes relationships. Chin et al., (2003) stated that, due to many technological solutions available for CRM automation, it is often misconstrued as a piece of technology. But in recent times many companies have realised the strategic importance of CRM and as a result, it is becoming a business-value effort rather than technology-centric effort.

Using information technology as an enabler, CRM strategy leverages key functional areas to maximise profitability of customer interactions (Chen and Popovich, 2003). It has been recognised that, technological advancements and innovations, keen competitive marketing environment, coupled with the Internet are the main drivers that promote one-to-one initiative. Through CRM, firms are able to understand the drivers of present and future customer profitability which makes it possible to appropriately and proportionately allocate firm’s resources to all functional areas that affect customer relationship (Chou et al., 2003).

For customers, CRM offers customisation, simplicity and convenience for completing transactions irrespective of the kind of channel of interaction used (Gulati and Garino, 2000). Many businesses today realise the importance of CRM and its potential to help them achieve and sustain a competitive edge (Peppard, 2000). This view was further boosted by Bose (2002) that, as a result of changing nature of the global environment and competition, firms cannot compete favourably with only minor advantages and tricks that can easily be copied by competing firms. The implementation of CRM is an enabled opportunity to rise above minor advantages with a real focus on developing actual relationships with customers. Firms that are most successful at delivering what each customer want are the most likely to be the leaders of the future.

2.2.1 CRM – for whom?

According to Bose (2002) most companies can apply CRM. However there are some companies that are more likely to benefit from CRM than others. Those are companies that accumulate a lot of customer data when doing business and whose customer’s needs are highly differentiated. On the contrary, companies that hardly have any contact with their customers, a high customer turnover and identical customer needs are least likely to benefit from CRM.
2.2.2. Components of CRM

To be able to satisfy and even exceed customers’ expectation requires 360 degrees view of the customer. This calls for CRM implementation model that integrate the key dimensions of people, process and technology within the context of an enterprise-wide customer-driven, technology-integrated, cross-functional organization. Each component presents significant challenges, but it is the ability to integrate all three that makes or breaks a CRM system (Goldenberg, 2002).

*Figure 2.1: Components of CRM and implementation model (Chen and Popovich, 2003)*

2.2.3 Benefits of CRM

According to Chen and Popovich (2003), CRM applications have the ability to deliver repositories of customer data at a much smaller cost than old network technologies. Throughout an organisation, CRM systems can accumulate, store, maintain and distribute customer knowledge. Peppard (2000) noted that, effective management of information has a very important role in CRM because it can be used for product tailoring, service innovation, consolidate views of customers and for calculating customer lifetime value.

CRM systems assists companies evaluate customer loyalty and profitability based on repeat purchases, the amount spent and longevity. Bull (2003) added that, CRM makes it practicable for companies to find unprofitable customers that other companies have abandoned. This position is supported by Galbreath and Rogers (1999) that, CRM helps a business organisation to fully understand which customers are worthwhile to acquire, which to keep, which have untapped potential, which are strategic, which are important, profitable and which should be jettisoned.
Greenberg (2004) emphasised that, CRM can increase the true economic worth of a business by improving the total lifetime value of customer adding that, successful CRM strategies encourage customers to buy more products, stay loyal for longer periods and communicate effectively with a company. CRM can also ensure customer satisfaction through the allocation, scheduling and dispatching the right people, with the right parts, at the right time (Chou et al., 2002). According to Swift (2001), companies can gain many benefits from CRM implementation. He states that the benefits are commonly found in one of these areas:

a. Lower cost of recruiting customers: The cost of recruiting or obtaining customers will decrease since there are savings to be made on marketing, mailing, contact, follow-up, fulfillment services and so on.

b. No need to acquire so many customers to preserve a steady volume of business: The number of long-term customers will increase and consequently the need for recruiting many new customers will decrease.

c. Reduced cost of sales: The costs regarding selling are reduced owing to existing customers are usually more responsive. In addition, with better knowledge of channels and distributions the relationship become more effective, as well as the cost for marketing campaign is reduced.

d. Higher customer profitability: The customer profitability will get higher since the customer wallet-share increases, there are increases in up-selling, cross-selling and follow-up sales and more referrals come with higher customer satisfaction among existing customers.

e. Increased customer retention and loyalty: The customer retention increases since customers stay longer, buy more and buy more frequently. The customer does also often take initiatives which increase the bounding relationship, and as a result the customer loyalty increases as well.

f. Evaluation of customers profitability: A firm will get to know which customers are profitable, the one who never might become profitable, and which ones that might be profitable in the future. This is very important since the key to success in any business is to focus on acquiring customers who generate profit and once a firm has found them, never let them go.

Curry and Kkolou (2004) refer to the major benefits and reasons for adoption of CRM which include: (i) customers from the competition will come to prefer your organization; (ii) a simplified, customer-focused internal organization will simplify
the infrastructure, (iii) shrinking the workflow and eliminating non-productive information flow; and (iv) profits will increase from more satisfied customers and a more compact, focused company.

There are companies that adopt CRM systems just because it is the most advanced technology and they think they have to have it since their competitors have it (Chou et al., 2002). Some statistics that motivate this behavior are resumed as follows:

- By Pareto's principle, it is assumed that 20% of a company’s customers generate 80% of its profits.
- In industrial sales, it takes an average of 8 to 10 physical calls in person to sell to a new customer, 2 to 3 calls to sell to an existing customer.
- It is 5 to 10 times more expensive to acquire a new customer than obtain repeat business from existing customer. For example, according to Boston Consulting Group (Hildebrand, 1994), the cost to market to existing web customer is $6.80 compared to $34 to acquire a new web customer.
- A typical dissatisfied customer tells 8 to 10 people about his or her experience (Paul Gray and Jongbok Byun, Centre for Research on Information Technology and Organization, University of California, March 2001).

Getting to "know" each customer through data mining techniques and a customer-centric business strategy helps the organization to proactively and consistently offer (and sell) more products and services for improved customer retention and loyalty over longer periods of time. Peppers and Rogers (1999) refer to this as maximizing "lifetime customer share", resulting in customer retention and customer profitability.

2.2.4 Identification of Relationship Partners

Typically, about 20% of a firm’s customers account for about 80% of its revenues and profits (Pareto’s 80-20 rule). Thus, the key in relationship marketing is to identify this small set of customers. There are two main factors that help identify these key customers – customer lifetime value and strategic importance.

2.2.4.1 Customer Lifetime Value (CLV) is defined as the value of customer based on the future profits over the period of the relationship, i.e. customer’s life expectancy
with respect to the firm (Bansal and Guptha, 2000). This reflects what the customer contributes to the firm over an expected period – the duration of the period. The CLV can be estimated using the following steps:

- Estimate the annual revenues that the customer would generate each year.
- Estimate the customer acquisition cost.
- Estimate the customer retention cost.
- Estimate the duration of the relationship – the number of years that the customer is likely to stay with the firm.
- Discount future earnings and costs to their present value.

Relationships can be pursued even with customers who have a low lifetime value, if they are strategically important.

2.2.4.2 Strategic importance of a customer can be determined by considering the following parameters:

- Importance of the customer in achieving the mission of the firm.
- The overall impact of the customer base of the firm if the customer is lost.
- Acquisition of substantial technical know-how, skill-set or market intelligence from the customer.
- Maintenance or enhancement of the firm's presence in a focus market segment.

2.2.5 Practices in CRM

Relationship marketing is a continuing process that begins with the identification of key customers that are to be developed into loyal customers. The strategic imperatives (Bansal and Guptha, 2000) for building a loyal customer base are as follows:

- Focus on key customers
- Proactively generate high level of customer satisfaction
- Anticipate customer needs and respond to them before the competitor does
- Build closure ties with customers
- Create a value perception.

Closely interlinked with the above framework is Berry’s framework for practicing CRM. The framework recommends five strategies that can be implemented by service firms for developing strong, long-term relationship with key customers:
• Develop a core service around which a customer relationship can be built
• Customize the relationship to the individual customer
• Augment the core service with extra benefits
• Price services to encourage customer loyalty
• Market to employees so that they perform well for customers.

2.2.6 Implementing a CRM Strategy

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

Steps in the implementation of CRM strategy

Successful implementation requires specific actions on the part of the organisation. The implementation of a CRM strategy as proposed by Peppers et al., (1999) comprises four steps, namely the identification of customers, the differentiation of service, interaction with customers and the differentiation among customers.

Step 1: The identification of customers

The identification of customers enables the organisations to select those customers that they regard as being strategically significant and who they believe can contribute to the success of the organisation. These customers have unique needs and due to their value to the organisation, will have products developed to meet these needs. It must be possible to identify these customers and so obtain as much detail as possible. This involves collecting as much data as possible in order to obtain as clear a picture as possible of the customer and their profile. This may require the development of a database or the continued maintenance of a database in order to ensure that the data stays as recent as possible. Having this information enables the organisation to determine those customers that have been with the organisation for a long period and those that have recently started using the products and services of the organisation.
Step 2: The differentiation of service

The differentiation of service implies that different customers receive a different level of service and a different product from the organisation, depending on the value to the organisation and their specific needs. This requires the organisation to identify the top (or most significant) customers and adapt service accordingly. Identification of these top customers takes place using sales figures or by calculating the CLV associated with each customer. As the organisation is aware of the value of their customers, service levels can be adjusted accordingly.

Step 3: Interaction with customers

This step refers to the importance of interacting with the customer in relationship building efforts through a variety of communication tools and technologies. This is necessary as the relationship can only develop and be sustained if there is communication with the customers regarding their needs, perceptions and desires. This involves developing methods of communication proactively with customers regarding the organisation's products and attempting to initiate dialogue with customers. Use can be made of technology, but this is not essential (Brunjes & Roderick, 2002). The customers with whom communication takes place are not necessarily all the customers, but only those that the organisation regards as being strategically significant. This interaction with the organisation increases the expectations of the customers regarding the service received as well as the quality of the relationship.

Step 4: Customisation of products, services and communication

Customisation is carried out by the organisation in order to ensure that customer needs are met. This requires an organisation to adapt its product, service or communication in such a way to have something unique for each customer. Communication can be customised to address the specific needs and profile of the customer. Organisation also makes use of personalisation as part of this process. Products can be customised as to the specific desires that the customer has. The purpose of customisation is to increase customer satisfaction and the loyalty that is exhibited by customers.
2.2.7 Evaluation of CRM Practices

It is very difficult to evaluate the success of CRM practices employed by a firm. Although the customer retention rate of the firm may be an effective indicator, it may not be an accurate measure as the retained customers may not be profitable customers. Thus, other parameters need to be used along with the customer retention rate to judge the success of CRM practices. These parameters could be the increase in revenues and profits earned from the customer over the duration of the relationship and the increase in the firm’s share of the customer’s pocket.

To achieve a balanced view of relationship performance, evaluation of four dimensions of performance fitness has been suggested (Jim Banford and Ernst, 2002):

- **Financial Fitness**: It refers to metrics such as sales revenue, cash flows, net income, ROI and expected NPV of the relationship. In addition, financial fitness can include partner-specific metrics such as transfer pricing revenues and sales of related products by cross-selling/up selling. Also, the reduction in the cost due to learning curve effect is taken into account.

- **Strategic Fitness**: It refers to non-financial metrics such as market share, new-product launches, customer loyalty, impact on customer base including access to new customers, important client for referral purpose, technical expertise acquisition and the competitive positioning of the firm in a particular market.

- **Operational Fitness**: It refers to explicit goals that can be linked to the performance appraisal and compensation of individuals. Examples of such metrics include the number of customers visited, staff members recruited, quality of products, manufacturing or service throughput.

- **Relationship Fitness**: It refers to aspects such as the cultural fit and trust between partners, the speed and clarity of decision-making, the effectiveness of the interventions by the partners when problems arise and the adequacy with which they define and deliver their deliverables and deadlines. An example of such metrics is the partner-satisfaction survey developed by Siebel systems, which deals with issues related to alliance management and partner’s loyalty to Siebel systems. The company uses this information to spot problems and develop detailed action plans to address them.

The financial and strategic metrics show how the alliance is performing and whether it is meeting its goals. However, the metrics may not provide enough insight
into exactly what (if anything) may not be going well. The operational and relationship metrics can help uncover the first signs of trouble and reveal the causes of problems. Together, the four dimensions of performance create an integral picture that can be used to measure the health of relationships. However, the weight places on each type of metric and the amount of detail it should include depends on the size and the aims of relationship. For example, a consolidation joint venture whose main goal is to cut costs should focus heavily on financial and operational goals. However, in the case of an alliance that is entering a new market may expect negative financial returns in the early stages and should give more weight to strategic goals such as increasing market share and penetrating distribution channels.

2.2.8 The future of CRM

According to Bose (2002) there seem to be three trends that will affect CRM in the near future. However, Bose emphasizes that “no one can predict the future with certainty”. The trends are presented below.

- Extend CRM to channel partners
  Companies are increasingly collaborating with other parties along the value-chain, consequently, there is a need for channel relationships. Hence, the next step is to extend CRM to business partners within the product value-chain, this is called Partner Relationship Management (Bose, 2002). Partner Relationship Management (PRM) can be defined as a business strategy to select and manage partners to optimize their long-term value to an enterprise. In effect, it means picking the right partners, working with them to help them become successful in dealing with mutual customers and ensuring that partners and the ultimate end customers are satisfied and successful. Managing partnering is a very complex process since each partner has its own goals, customers and very often a business model and corporate culture that is different from the other parties. Consequently, the way to handle each partner is different and it is required to have a channel strategy in order to perform effective PRM. Often Internet-based technology is a part of PRM since it facilitates the management of numerous partners in complex channels (Greenberg, 2001).

- Visual Tools
  More visual tools for analyzing customer data are available. These tools are better than traditional OLAP technologies. (Bose, 2002)
• Consolidation of CRM vendors
  Vendor consolidation is common within the CRM industry. To ensure a smooth integration of hardware and software, companies offering core technologies are acquiring or partnering with CRM specific vendors. Greenberg (2001) also mentions verticalization, which is described below, as a trend that will affect the evolution of CRM.
• Verticalization
  There is no ideal way of designing a CRM system, since each company has its unique needs depending on what customers they are aiming at and in what market they compete. As a result, the functionality of a CRM system differs significantly from industry to industry, even if they may follow the same basic principles when revised briefly. However, today most CRM vendors do not aim at any particular vertical industry niches, instead the adaptations are made during the implementation phase. Consequently, there is an increasing need of specialized solutions since it implies less tailoring of the system to fit to business. In addition, it is valuable to engage a CRM vendor who really knows and understands specific business (Greenberg, 2001).

2.3 CUSTOMER VALUE

Real customer relationships, those that result in the customer feeling a genuine sense of loyalty to the firm, are predicated on a series of satisfying experiences with the company. Relationships are not developed overnight. Until the customer senses some attachment to the company, no relationship can be said to exist. What, then, drives customer satisfaction? Surely it is the ongoing creation of value in the mind of the customer. (Bristol Group, 2004).

Woodruff (in Chi et al., 2004) defined customer value as a customer-perceived preference for and evaluation of product attributes, attribute performances, and consequences in terms of the customer's goals and purposes. According to Chi et al., (2004), there have been limited studies to examine the differential effects of individual dimensions of customer value on the specific dimensions of CRM performance. They argued that, investigating key dimensions of customer value and their effects is very critical and important since the delivery of superior customer value can involve significant costs for firms. Firms even though they recognize the fact that superior customer value can lead to higher profits, they may be bit skeptical since it can lead to profit reduction.
Delivering superior customer value has become an ongoing concern in building and sustaining competitive advantage by driving customer relationship management (CRM) performance. Driven by demanding customers, keen competition and rapid technological change many firms have sought to deliver superior customer value. Based on this the role of the customer has changed from that of a mere consumer to a multi-faceted role as consumer, co-operator, co-producer, co-creator of value and co-developer of knowledge and competencies, which implies a much more important position of the customer than ever. Hence, firms are seeking to retain existing customers and attract new customers by targeted value creation activities (Chi et al., 2004).

Ryals and Payne (2001) affirm that, CRM creates value for the customer. The customer benefits from product and/or service offers which are targeted to meet individual needs and from improvements in customer service. There are number of ways in which customer service can be improved through CRM. This includes reliability, security, efficiency and communication as well as quality control and service monitoring. CRM systems also act as an ‘organizational memory’ about the customer. This can benefit the customer by reducing the amount of repetitive form-filling that the customer has to do. The use of CRM to provide added value to customers can be directly linked to improved profitability and value-based marketing for the company.

Apart from the value CRM creates for the customer, it can also bring operational benefits and boost company performance. This in turn, can increase customer satisfaction and long-term success through longer and closer relationships. In addition, customer data analysis enables organizations to identify the customers it does not want to have. Companies have known for a long time that customer profitability varies and that not all customers are equally desirable.

However, it is only with the advent of powerful systems that they are able to quantify and track customer profitability and forecast customer lifetime value at the level of the individual customer. Previously, companies could only say that customers of a certain type were likely to be more commercially attractive, now they can pinpoint the individuals who are the most attractive customers. These are the customers with whom it is vital to retain long-term relationships. One American retail bank carried out a customer profiling and targeting exercise using data mining techniques. The impact on direct mail campaigns was dramatic. Campaign costs fell by one third and response rates doubled the number of new accounts increased.
by 33% and the profitability of these new accounts by the same amount. Defection rates fell by 5% and the lifetime value of these new customers grew by an estimated 20%. By combining an understanding of customer purchasing drivers and customer profitability, companies can tailor their offerings to maximize the overall value of their customer portfolio (www.cranfield.ac.uk, 2004).

Types of Customer Value

Kotler (1997) argued that, customer value can be understood in terms of product value, service value, employee value and image value. However, this approach is largely derived from the standpoint of a firm not that of customers or at least not totally customer based. The broad theoretical framework developed by Sheth et al., 1999 (in Chi et al., 2004) was somewhat different. In that they suggested five dimensions of value from the customer's perspective (social, emotional, functional, epistemic and conditional) as providing the best foundation for extending the value construct. However, it is worth noting that, not all these dimensions have equal significance at any time, although they are related in some sense. As a result the study posits that, customer value can be better understood in terms of four key dimensions each of which may play a different role in the customer perception process and thus contribute differently to the performance of CRM. The figure 2.2 illustrates the types of value that a customer can experience.

Figure 2.2: The integrated framework for customer value and CRM performance (Chi et al, 2004)
Functional value refers to the utility derived from the perceived quality and expected performance of the product or service and perceived sacrifice refers to the loss derived from the product or service due to the increment of its perceived short-term and long-term costs. Functional value pertaining to the customer’s acquisition and use of the product is generated by price, convenience, access or technology. Unfortunately, competitors can most easily duplicate functional value (Bristol Group, 2004). Customers are becoming more value-oriented and are not simply influenced by high quality or lower price and value for money represents, therefore, the simplest and most easily copied form of functional value. Thus, creating functional value offers a fleeting competitive advantage. (Bristol Group, 2004).

Social Value refers to the social utility derived from the product or service. Emotional value refers to the utility derived from the affective states that a product or service generates. Barnes (2004) has noted that, emotional value is much more lasting form of value which elicits an emotional response from customers. It is less easily duplicated by the competition and generally contributes to less emphasis on price. When a firm employs qualified, friendly and helpful employees, value is created every time a customer is made to feel welcome, important and valued. The creation of such emotional value for customers is fundamentally different from the creation of functional value through price reductions, increased convenience and technology. Both forms of value are important. However, genuine customer relationships cannot be formed on the basis of functional value alone. Customer relationships require an emotional connection with the firm if they are to thrive. The emotional value is the more lasting, yet the more difficult to create. A reliance on technology alone will not do it (Barnes, 2004).

2.4 CUSTOMER ACQUISITION

Customers are assets that need to be acquired before they can be managed for profit (Levitt, 1986). Customer retention is clearly a most important objective in competitive and mature markets. However, customer acquisition is still hugely important to companies in many contexts: for new business start-ups, when entering new geographic or customer market segments, when launching a new product, when exploiting new applications for an existing product or service, when marketing low involvement products and services, when repeat purchases are infrequent and when switching costs are low. Also, when markets show growth
potential it is strategically important for all players to grow the aggregate market size rather than protect their own customer base through customer retention efforts. There are some businesses in which the constant acquisition of new customers is the only way to survive.

Customer acquisition is important even where customer retention is justified as the core strategy. It has been observed that, 25% or more of customers may need replacing annually (Sellers 1989; Hanan 2003; Buttle 2004). In a business-to-consumer context, customers may shift out of a targeted demographic or their personal circumstances may change such that they no longer find value in an offering. In a business-to-business context, corporate customers may be lost due to acquisition by another organization with firmly established supplier preferences, ceasing production of the goods and services for which the input was needed or ceasing trade. It is clear that, without a well-developed, focused and successful customer acquisition strategy, customer retention and development is irrelevant.

Customer acquisition is a first step in building a customer relationship management. Targeting, acquiring and keeping the “right” customers entails a consideration of fit with current firm offering future profitability and contribution to the overall business risk. Many firms do not employ appropriate criteria to identify profitable customers and their marketing programs are broadly communicated to potential customers who may or may not be profitable. Consequently, customer acquisition can be a costly and risky process, especially because new customers may not represent a good fit for the organization’s value proposition and a phenomenon that can often occur if acquisition is done outside previously targeted segments. Customer product fit becomes important because campaigns aimed toward new customers that change the positioning of a product can alienate existing customers. Mittal and Kamakura (2001) discuss the nature of the relationship (or fit) of the customer and the brand finding that, customers with different characteristics have different satisfaction thresholds and therefore different probabilities of repurchase. This leads to the more general observation that, customer acquisition influences the diversity of the customer portfolio, thereby influencing business risk, but this aspect of CRM is rarely studied in marketing (Johnson and Selnes, 2005).

Lack of focus during acquisition activities is very likely to result in adverse selection whereby the prospects that are least likely to be profitable are mostly likely to respond to marketing efforts. Gruca and Lopo (2005) address the problem of adverse selection by using data from a firm’s CRM system to target prospects likely
to respond and be approved. This approach increases the number of customers who are approved while reducing the number of “bad” customers. Their analysis is post facto and the marketing message is not altered, but their results show 30% to 75% improvements compared to traditional models that take into account either response likelihood or approval likelihood but not both. This method can be extended to new customer acquisition and better targeting of costly promotions to migrate customers to higher levels of lifetime value.

Against this tendency towards a retention emphasis, a number of authors promote the view that acquisition is important. Dowling (2002) suggests that, customers have little time, energy or interest in establishing strong brand relationships. Some customers are frequent brand switchers or portfolio shoppers and others are simply interested in need fulfillment, rather than continuity. Goodwin and Ball (2003) indicate that, there may be considerable economic gain from focusing on customer acquisition. They compute that a firm having a 16.7% share of market enjoys 5 times the revenue impact from a 1% increase in acquisition than from a 1% increase in retention.

### 2.5 Customer Satisfaction

Kotler (2000) defined satisfaction as a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations. When customers become satisfied about the value that is offered and sometimes his or her expectation is met and exceeded, can generate many benefits for a firm (Bateson and Hoffman, 2002). According to them, positive word-of-mouth coming from existing and satisfied customers sometimes can translate into more new customers coming to the firm. Also, satisfied current customers often buy more products more frequently and are less likely to defect to competitors than are dissatisfied customers. According to Bateson and Hoffman (2002) firms that have high degree of customer satisfaction also seem to have the capacity to shield off competition particularly price competition.

Kotler (2000) pointed out that, it is important to measure customer satisfaction regularly through survey to determine customers’ level of satisfaction. He said, this is because firms may think that they are getting a sense of customer satisfaction through customer complaints. However, in reality, 95 percent of dissatisfied customers do not make any complain and they just leave. As a result
it is important for firms to make it easy for the customer to complain. Dissatisfied customers who usually complain about 54 percent to 70 percent will continue to do business again with the organisation if their complaints are taken care of and resolved and may even be 95 percent if the complaint receive quick response and action (Kotler, 2000).

Customer satisfaction has significant implications for the economic performance of firms (Bolton et al., 2004). Customer satisfaction has been found to have a negative impact on customer complaints and a positive impact on customer loyalty and usage behaviour (Bolton and Ruth, 1998; Fornell, 1992). Increased customer loyalty may increase usage levels (Bolton et al., 2000), secure future revenues (Rust et al., 2002) and minimize the likelihood of customer defection (Anderson and Sullivan, 1993). Customer satisfaction may also reduce costs related to warranties, complaints, defective goods and field service costs (Fornell, 1992). Finally, in a recent study, Anderson et al., (2004) find a strong relationship between customer satisfaction and Tobin’s q (as a measure of shareholder value) after controlling for fixed, random and unobservable factors.

Customer relationship management applications are likely to have an effect on customer satisfaction for at least three reasons. First, CRM applications enable firms to customize their offerings for each customer. By accumulating information across customer interactions and processing this information to discover hidden patterns, CRM applications help firms customize their offerings to suit the individual tastes of their customers. Customized offerings enhance the perceived quality of products and services from a customer’s viewpoint. Because perceived quality is a determinant of customer satisfaction, it follows that CRM applications indirectly affect customer satisfaction through their effect on perceived quality. Second, in addition to enhancing the perceived quality of the offering, CRM applications also enable firms to improve the reliability of consumption experiences by facilitating the timely, accurate processing of customer orders and requests and the ongoing management of customer accounts. For example, Piccoli and Applegate (2003) discuss how Wyndham uses IT tools to deliver a consistent service experience across its various properties to a customer. Both an improved ability to customize and a reduced variability of the consumption experience enhance perceived quality, which in turn positively affects customer satisfaction. Third, CRM applications also help firms manage customer relationships more effectively across the stages of relationship initiation, maintenance and termination (Reinartz et al., 2004). In turn, effective
management of the customer relationship is the key to managing customer satisfaction and customer loyalty.

2.6 CUSTOMER RETENTION AND LOYALTY

Customer retention is a must in relationship marketing. If the company is not able to keep their customers and to build long-term relationships they will fail with their marketing activities. In order for a company to keep their customers a research study made by Vavra et al., (1992) shows that, it demands a high-quality customer service and well-managed strategically delivered formal and informal communications (McIlroy et al., ref. to Vavra et al., 1998).

McIlroy et al., (ref. to Morris et al., 1998) also state that, customers will not stay with a company just because of the discounts offered or the loyalty program that is available. Companies has to understand their customer perceptions and expectations and offer the customers what they want, when they want it (just-in-time), a perfect delivery each and every time with the desired levels of service that appeal to the consumer. Offering the customer what they want increases the possibility of customer retention (McIlroy et al., 2000).

Research has indicated that, assessments of quality and satisfaction are critical in the process by which a consumer develops a positive attitude towards a particular experience, makes a repeat purchase and develops brand loyalty.

Bateson and Hoffman (2002) define customer retention as focusing a firm's marketing efforts towards the existing customer base. This explains the view that instead of trying to acquire new customers, firms engulfed in customer retention efforts must make sure that, existing customers are satisfied so as to create and maintain long-term relationships. Lovelock et al., (1999) said in business context, loyalty is used to describe the willingness of a customer to continue patronising a firm's goods and services over a long period of time and on a repeated and preferably exclusive basis and voluntarily recommending the firm’s products to friends and associates. In their view, customers will continue to be loyal to a particular firm if they feel and realise that better value is being offered.

While undertaking a study in the field of customer retention and corporate profitability, Reichheld and Sasser (1990) stated that, role of customers is essential for corporate performance, so that when relationships with customers endure, profits rise up. In addition, Sheth and Parvatiyar (1995) showed that, the cost of
retaining current clients is frequently much lower than cost of acquiring new ones. In the same way, Reichheld (1993) concluded that, economic benefits of high loyalty are important and in many industries they explain the cost-effectiveness differences among companies. Furthermore, there are two ways by which these improvements can take place: (i) customer retention entails an improvement of corporate performance by means of repeated purchases and references; (ii) enhanced organizational performances enable the company to invest more resources on motivating and improving the relationship with its employees and this will affect again customer retention.

Kotler (2000) assured that, the most important consideration to attain high customer loyalty is for firms to deliver high customer value. He continued to stress that it has been the practice by firms to devote much attention and effort on attracting new customers rather than retaining existing ones, adding that traditionally firms emphasise more on making sales rather building relationships, on preselling and selling rather than caring for the customer afterwards.

Kotler (2000) states that, the critical factor to attaining customer loyalty is customer satisfaction because a customer who is highly satisfied will exhibit the following characteristics:
1. stays loyal longer;
2. buys more as the company introduces new products and upgrades existing ones;
3. talks favourably about the company and its products;
4. pay less attention to competing brands and advertising, and is less sensitive to price; and
5. cost loss to serve than new customers because transactions are routinized.

Bateson and Hoffman (2002) noted that, firms must put in place effective tactics for retaining customers and subsequently making them loyal. They mentioned tactics such as maintenance of proper perspective, remembering customers between calls, building trusting relationships, monitoring the service delivery process, responding swiftly to customers in need and provision of discretionary effort. According to them despite that every customer is important, firms must not retain certain customers if they are no longer profitable, abusive to the extent of lowering the morale of employees, reputation is so bad that it tarnishes the image and reputation of the company.

The customer is god (boss). An effective CRM is able to please this god by placing him at the level that makes your business ‘customer centric’ in the most
practical sense. Customer satisfaction and loyalty occurs since customers find each company to be more responsive and more in touch with their specific needs. The topic of loyalty has received increased attention in service industry in recent years. For an organization, loyal customers are the most profitable types of customers since they tend to spend more over a long time period. The ‘life time’ value of loyal customers can be enormous (Reichheld and Sasser, 1990). At the same time costs can be substantially decreased. Furthermore, loyal customers represent a source of positive word-of-mouth communication, often resulting in referral business. For a customer on the other side, loyal to one organization reduces the risk of service variability, allows for the development of a social rapport with the provider, and the customization of services to his/her specification (Berry, 1995).

As Berry said, Loyalty can be divided into levels based on purchase frequency, visit frequency, customer recommendations, product recognition and deal periods. Levels can be represented numerically by classifications such as:

1. Suspect: Person who hasn't purchased, yet registered as customer;
2. Prospect: Person who hasn’t purchased but inquire about a product with a higher degree of interest;
3. First time customer: Person who has purchased first time;
4. Repeat customer: Person who has purchased more than once;
5. Client: Person who has purchased numerous times, especially over different products within those available from the company;
6. Advocate Customer: A client who furthers the relationship by recommending other customers;
7. Disqualified Prospects: A person whose interest or activity indicates less than arranged count as a suspect or prospect;
8. Inactive Customer: A person who has no purchase activity over a predetermined window of time, which falls outside the window of measurement indicative of a first time customer or repeat customer;
9. Inactive Client: A person who has no purchase activity over a predetermined window of time, which falls outside the window of measurement indicative of an Advocate or Client.
2.7 ROLE OF TRUST AND COMMITMENT IN RELATIONSHIP MARKETING

In the last 20 years a significant change has occurred in the way companies in Business-to-Business markets approach their suppliers and buyers (Morris et al., 1998; Håkansson and Snehota 1998; Håkansson et al., 2004). Firms are increasingly looking to have fewer, yet more intense relationships with their partners (Geyskens et al., 1998). In most exchanges in the business-to-business market, achieving a sale is not the completion of a single effort but an event taking place within a broader endeavour to build and maintain a long-term relationship with the customer and ensure that sales keep coming. Therefore, it is important to understand what influences the customer’s willingness to remain with the existing supplier. Within this broader research stream, trust and commitment are two highly interrelated concepts which stimulate a relational bond between the supplies and the customer (Kumar et al., 1994).

Han et al., (1993) found that both buyers and sellers in business-to-business markets see trust as the most important factor of a good relationship. Companies began to realise that, in order to be competitive in the market one has to be a trusted co-operator (Morgan and Hunt, 1994). The need for trust arises in any supplier-client marketing relationship characterised by a high degree of risk, uncertainty and/or a lack of knowledge or information on the part of the interacting party (Mayer et al., 1995). This need for trust is particularly important in service industries, where risk and uncertainty are increased to the extent that then client is unable to examine a service before purchase (Parasuraman et al., 1985).

Besides trust, researchers recognise commitment as a central ingredient of establishing and maintaining long-term relationships (Dwyer et al., 1987; Geyskens et al., 1996; Gundlach et al., 1995; de Ruyter and Wetzels, 1999; Håkansson and Snehota, 1995; Kim and Frazier 1997b; Rylander et al., 1997; Tellefsen and Thomas 2005). Commitment is also one of the most common dependent variables used in buyer-seller relationship studies (Wilson, 1995). While researchers agree on the importance of this construct, there are differences in its conceptualisation. Most proposed relationship models in marketing have conceptualised and operationalised commitment as a global construct. However, researchers observing relationships in organisational and social psychology have pointed out three distinct motivations (affective, calculative/continuance and normative) that underlie the desire for continuity and over the last decade some researchers (Kumar et al., 1994; de Ruyter
and Wetzels 1999; Gounaris 2005; Bansal et al., 2004; Kim and Frazier 1997) have transferred this framework to marketing relationships. Geyskens et al., (1996) pointed out that, using the general expression ‘commitment’ to describe any of the three very different components creates confusion in the interpretation of theories, models and empirical findings related to commitment.

Trust is an essential relationship model building block and has often been defined as a belief that one relationship partner will act in the best interest of the other (Wilson, 1995). It has also been referred to as the key element of successful relationship development (Goodman and Dion, 2001). Geyskens et al., (1998) on the basis of a meta-analysis of studies about trust pointed out that most studies in marketing build on interpersonal research and define trust as ‘the extent to which a firm believes that its exchange partner is honest and/or benevolent’ or some variant thereof. Two definitions of trust very often cited are those by Moorman et al., (1992) and Morgan and Hunt (1994). Moorman et al., (1992) define trust as a willingness to rely on an exchange partner in whom one has confidence’. According to Morgan and Hunt (1994), trust exists ‘when one party has confidence in an exchange’s partner reliability and integrity.’ Their definition is similar to that proposed by Moorman et al., (1992) except that, Morgan and Hunt leave out ‘willingness’ because they believe it does not add value to the definition. Doney and Cannon (1997) built on social psychology literature and similarly defined trust as the ‘perceived credibility and benevolence of a target of trust’. This study adopts the definition of Moorman et al., (1992) who studied trust in relationships between suppliers and buyers of marketing research services. An important aspect of their definition is the concept of trust as a belief, feeling or expectation about an exchange partner, which can be judged from the partner’s expertise, reliability and intentions. This definition reflects two components of trust: credibility and benevolence.

Credibility reflects the buyer's belief that the supplier has sufficient expertise to perform the job effectively and reliably. Benevolence reflects the extent of the buyer’s belief that the seller’s intentions and motives are beneficial to the buyer even when new conditions arise about which a commitment was not made (Ganesan, 1994). Geyskens et al., (1998) also pointed out trust in the partner’s honesty, which is one firm’s belief that its partner is reliable, stands by its word, fulfils its promises and is sincere.

Commitment implies the importance of the relationship to the relationship partners and their desire to maintain the relationship in the future (Wilson, 1995).
Dwyer et al., (1987) defined it as ‘an implicit or explicit pledge of relational continuity between exchange partners’. Moorman et al., (1992) similarly proposed it is ‘an enduring desire to maintain a valued relationship’. What is common to the different definitions of commitment is that commitment is characterised by a disincentive to replace relationship partners.

Researchers have used a ‘more is better’ approach when studying commitment in marketing relationships (Fullerton, 2003) and have focused on the common construct of commitment assuming that, it is better for a company to have more committed buyers. This approach works if commitment is defined as a construct directed at the identification and attachment that bonds a customer to the company (Morgan and Hunt, 1994). However, marketing academics and practitioners now realise that, commitment is a complex multidimensional construct that includes numerous components. On the basis of findings from the context of interpersonal relationships and organisational behaviour, Kumar et al., (1994) noted that, (attitudinal) commitment consists of different components that have different influences on marketing relationships. These components are: affective commitment, calculative/continuance commitment and normative commitment. All these components of commitment pertain to psychological states but they originate from different motivations for maintaining a relationship (Geyskens et al., 1996). Allen and Meyer (1990) suggested that, one should understand affective calculative/continuance and normative commitment as components and not types of commitment because the different levels of each can be present in the relationship between the employee and the organisation.

Affective Commitment in marketing relationships, similarly, as in the employee-organization relationship, originates from identification, common values, attachment, involvement and similarity (Bansal et al., 2004; Fullerton, 2003; Geyskens et al., 1996; Gruen et al., 2000). Affectively committed customers also continue the relationship because they like the provider and enjoy working with it (Geyskens et al., 1996). On the other hand, calculative commitment stems from the perceived structural constraints that bind a company to its partners and reflects some kind of negative motivation for continuing relationship (Geyskens et al., 1996). It presents some kind of constraining force that develops in the presence of high switching costs or a perceived lack of alternative providers and binds the customer to the company out of need (Bansal et al., 2004; Fullerton, 2003). Normative commitment reflects a force that binds a customer to the provider due to a perceived
obligation (Bansal et al., 2004). Hackett et al., (1994) pointed out that, this attitude develops on the basis of the internalisation of normative pressures that are used before or after entering the relationship. People who act morally feel they ‘have to’ act in a certain way because this is their obligation or duty (Etzioni, 1998). Kumar et al., (1994) stated that, a normatively committed firm continues the relationship because it feels it should do so due to moral imperatives.

2.8 KEY ACCOUNT MANAGEMENT

A key account can be defined as a customer in a B-2-B market identified by a selling firm as of strategic importance (Millman, 1997). All customers are not equally profitable or equally important. In fact, some sellers and vendors consider some customers as key accounts not because of their profitability, which may be low, but because of other issues such as prestige or reference value or because they permit access to new markets and technologies. All key accounts are considered to be of strategic importance by the seller. However, with respect to the other variables they may vary widely.

Key Account Management (KAM) is one of the most popular and successful approaches used for customer retention and development. It has been recognized as an important part of the CRM in B-2-B marketing. Key Account Management is a strategic planning approach that goes further than traditional selling activity. It is about building symbiotic relationships within both the seller and buyer companies for mutual benefit. These relationships take time, effort and money to develop, so they must be selected carefully. If managed right, they can offer significant business opportunities and save costs for both sides.

Key Account Management is about knowing and understanding the customer and their business needs so firms can help them sustain and grow their business and simultaneously firms own. By focusing extra effort on most valuable customers, with customized services, support and even products firms can build a loyal and referential customer who views business success as a contributory factor to their own. Firm’s revenue from your key customers will be under less threat from competitors and cost savings will accrue - there is less marketing expenditure in developing existing customers than finding new ones.
2.8.1 KAM Model:

KAM is an organizational process that assumes relationships are not static and they evolve over a period of time. Each interaction is a consequence of relationship that exists between the customers and the supplier. The interaction in turn, influences the relationship and its growth. Millman and Wilson (1994) have developed a six-stage model which is a useful tool for examining sources of competitive advantage characterizing managerial behavior. The six stages of the model are:

i. **Pre-KAM**: In this stage, the firm identifies those accounts that have the potential of moving towards key account status. This is important so that the firm does not waste time and money in those accounts that do not hold this potential.

ii. **Early-KAM**: In this stage, the firm explores opportunities for closer collaboration with its customers by examining the motives, behavior, culture, strengths and weaknesses of the customers.

iii. **Mid-KAM**: As a relationship of the firm with customers deepens, the level of trust and the range of problems that are addressed increases. The number of contacts between the employees of the firm and the customer also increase to a much higher level.

iv. **Partnership KAM**: This represents a mature stage of key account development. The supplier is often viewed as an external sources of the customer and the sharing of sensitive commercial information becomes commonplace.

v. **Synergistic KAM**: At this advanced stage, the key account management goes beyond the partnership level and the two organizations tend to see each other as parts of large entity creating joint value in the marketplace.

vi. **Uncoupling KAM**: This is the final stage wherein the partnership comes to an end. Partnerships that are ill conceived or that have outlived their usefulness and served their purpose should not be allowed to continue beyond a certain point.

2.8.2 Using KAM for Customer Segmentation

Generally, relationship managers analyze their customers and then try to group them into various categories based on the performance and value of the customers to the firms. Many managers attempt to segment customers on the basis of
their profitability. The trickiest part in this kind of analysis is cost allocation and defining the costs that should be included in the analysis at different level of aggregation. Instead of spreading out the total costs across all the customers, it is essential to infer the real costs of servicing each customer. Each customer requires different levels of service, promotion mix, sales strategies, customization etc. what the organization requires is a means of capturing the incremental costs over and beyond routine order processing and service support. For example, customization may be particularly expensive to achieve, however, a marketing manager in his eagerness to get a customer account may promise very high levels of customization without actually knowing the costs of implementing the customization. This means that initially could have been profitable now contributes very less to the kitty of the firm. This happens primarily due to the inability of the firm to capture key costs. Other information that marketing managers may find useful with respect to accounts and its management include:

i. Growth in profits as compared to growth in sales.

ii. The characteristics of the key account.

iii. Cost of servicing each customer vis-à-vis his/her contribution.

iv. The impact of losing a key account on the bottom line of the firm etc.

2.8.3 KAM as a Customer Retention Strategy

Customers are segmented into different groups to identify the value placed on long-term relationships with particular customers or customer groups. This is from the perspective of the customers and this exercise allows the setting up of KAM systems and the tailoring of customer retention strategies. One problem that firms often face in formulating customer development/retention plans is the dichotomy in opinion that arises owing to different perspectives. This arises from the fact that, the marketing and purchase functions place different emphasis on the various aspects of the relationship with the customers and consequently might lose sight of the marketing/purchase interface. Another important aspect of KAM system is the receptivity that sellers and buyers display towards such systems. Both partners may not wish to get close to each other or may be ready to do so at different rates. The potential of mismatch between the objective and aspirations of buyers and sellers may prove important, especially in developing long-term relationships. While a seller may see a new account as a prospective long-term customer, the buyer may view it as a one-time purchase or use it to obtain more competitive quotes from other
sellers. It is better to obtain a deep understanding of the customer behavior and use receptivity to KAM strategies as a major segmentation variable. Each segment (account) may require a different allocation of resources to the relational mix as a part of the account plan.

### 2.8.4 KAM as a Growth and Development Strategy

Most of the firms focus their KAM efforts on customer retention. This brings about stability to the company’s operations. However, as a response to the medium/long term structural change in the business environment, this strategy is not sufficient. The more important thing to do in such a condition is to be able to capitalize upon the potential of key accounts and use it to increase the share of profitable customers. A firm may fail to use KAM as a growth and development strategy if it does not have the diagnostic tools to gain an in depth knowledge of the customer’s business and how they add value to the firm. An essential feature of a successful KAM is to combine customer retention with building customer share.

### 2.9 CONCLUSION

Customer relationship management (CRM) has become a number one focus as today’s competitive markets are getting more saturated and aggressive. The marketing model is changing from the product-centered stage to the customer-centered stage. Customers are demanding a different relationship with suppliers than the traditional sales model. The objective of any business is to amaze customers by anticipating and fulfilling their unarticulated needs. This can be done by implementing CRM.

The goal of this chapter was to provide an overview of the literature in the areas covering the research. First CRM history, functions, benefits, implementation and evaluation were reviewed, followed by Customer value, Customer Acquisition and Customer Retention, Finally Role of Commitment and trust in Managing relationship and Key account management were discussed. Under literature review, a number of theories were discussed which will eventually function as basis for the development of conceptual framework in the following chapter.