CHAPTER 1

CUSTOMER RELATIONSHIP MANAGEMENT

1.1 Introduction to CRM:

Many successful organizations display the following poster around their offices and on shop floors to inspire employees and make them customer oriented.¹

“What is a customer?
A customer is the most important visitor on our premises.
He is not dependent on us, we are dependent on him.
He is not an interruption on our work. He is the purpose of it.
He is not an outsider on our business. He is a part of it.
We are not doing a favor by serving him. He is doing us a favor by giving us an opportunity to do so.

-Mahatma Gandhi, 1890

This visionary statement was made by the father of the nation at a time when the world was experiencing a sellers’ market. Today the world is experiencing a buyers’ market where the customer is supreme. Customization is the key word today for which the marketers have to get connected with the customers.

1.1.1 The heart of business – The Customer:

Irrespective of what product the company is selling right from a soap to software to financial or medical service the customer is the heart of a business. This is because the company’s revenues, profits and market-share and even the employees’ salaries - all come ultimately from only one source: the customers. In short, the one single thing a company needs to be in business is a customer. Once a company has a customer, even a single customer, it doesn’t need money or a factory or an office or people not even a product to be in business. All these things if present help no doubt but they are not as crucial as a customer because a business just cannot start without a customer.

For a successful business one must have a large number of “good customers”. Good customers are those who do good things like-

¹ Gandhi M. K, As quoted by Chavan Rajashri, Bhola Sarang, CRM is not a task Examples from the hospitality sector, Marketing Mastermind, July 2009, pg 21
• Buying regularly and in large quantities– even if the prices are (somewhat) higher than those of the competitors.
• Recommending the company’s products to colleagues, family and friends. Referrals is the best promotional message a business can have coming from a satisfied customer.
• Treating the company as an idol and being ready to try out its new products and assist in improving them further.
• Taking efforts to let the company know of their dissatisfaction. A good customer generates a lot of business, while a dissatisfied customer can hurt badly. For every complaint, there are many other dissatisfied customers who do not make the effort to let the company know of their dissatisfaction. The companies look at complaints as opportunities to improve. They encourage the customers to come forward and register their complaints if they have any rather than keeping it to themselves. The companies ensure that the mail id’s, the toll free numbers for feedback are very easily accessible to the customers so that if at all there is a complaint it must reach the company. It is necessary for a business to be in touch with its customers so as to detect the complaints and the potential complaints in the budding stage before it becomes a crisis in the form of lost customers or bad publicizers.

Good customers are ready to be involved in the business and are usually willing to invest their time and effort to help develop new product and service. Thus they tend to migrate from good customers to better customers.

1.1.2 Today’s customer:

Today’s customer is no longer a passive acceptor of the product offered to him but is an active co-creator of the product/experience he expects. He is very choosy and well informed and knows what exactly he wants. If he is not happy he has no sense of guilt in defecting. Thus customer loyalty is a precious asset of the business.
1.1.3 *Some striking facts and figures about customers:* \(^2\)

Alok Kumar, Sinha and Sharma have pointed out following important facts about customers:

- Reducing customer defections can boost profits by 25-85%. In 73% of the cases, the organization made no attempt to persuade dissatisfied customers to stay; even though 35% said that a simple apology would have prevented them from moving to the competition.
- Sixty eight percent of customer defections take place because customers feel poorly treated.
- One percent cut in customers’ services problems could generate an extra $16 million in profits for a medium-sized company over 5 years.
- A survey of 3000 businessmen by Price Waterhouse Coopers and the University of Bradford showed the benefits of customer service. They found that where there was high customer satisfaction, on average bills were paid at least 14 days earlier than where there was poor customer satisfaction.

In the past, the market was such that there were not many players in the field and the customer was more or less taken for granted. Product safety, quality, service and product appeal were of secondary importance. The attitude of the manufacturer was that of caveat emptor. Today the market scenario has changed. There are many brands in each category giving rise to a cut throat competition in the field with each company dying for a major share in the market. Consumerism in India has arrived. The consumer is stronger now with confidence from customer protection laws and regulation of the Government, the powerful comforting hands of social organizations, improved quality of product and services expecting the best quality under competitive environment from the business community. The maxim caveat emptor has changed to caveat vendor.

So far conventional methods of advertisement and promotion were used for marketing. The new approach is that people do not buy things but they buy solutions to problems. Developing close, cooperative and symbiotic relations with the

\(^2\) Alok Kumar, Sinha Chabbi, Sharma Rakesh 2007, *Customer Relationship Management Concepts and Applications* biztantra pg 4
customers has therefore become a must to face the ever demanding, choosy and mercurial customers. To understand their psyche a strong relationship bond has become mandatory to companies and also the key to attracting and holding the customers. Thus CRM has become the need of the hour.

The concept though has not emerged overnight but has evolved gradually from the barter age.

1.2 Historical evolution of CRM:

   As everything in this world has gradually evolved to become more responsive to the demands of the business so also has the concept of CRM. The beginnings of CRM were from historical age right from the time trade started when the form of conducting business was different with different rules of the business appropriate to the then prevailing surroundings. It is interesting to see that the seedlings of CRM were sown in the very early stages though it took many years for it to manifest in today’s form.

1. **Barter Age**: There was a stage when consumers started producing more of a specific product. They had one or more commodity in a surplus amount than their requirement. They exchanged this surplus commodity for the other amongst themselves. One commodity for the other. This is where barter exchange started. Parties of a barter exchange had to play the role of buyer as well as seller and their relationship with each other was customer relationship. Buyer and seller transacted for a mutual exchange of goods/services.

2. **Customized Product Age**: This was a stage when skilled craftsmen created goods that were customized for buyers and were delivered personally so there was direct contact with them. During this contact the needs of the buyer/customer were studied and accordingly the product was modified if required. Thus the customer relations developed further.

3. **Mass Production Age**: With industrial revolution came mass production capabilities enabling large volumes of production and bringing down costs and servicing of buyers across geographical boundaries. As the markets spread far and wide, the end consumers got separated from the manufacturer. Thus 1 to 1 contact was difficult leading to emergence of differentiation between ‘customer’ and ‘consumer’.
a. **Customer**: purchaser of goods/services and not necessarily the one consuming them e.g. dealer/stockist /retailer/wholesaler. Thus though customers they were not necessarily consumers but customer relations applied to them too.

b. **Consumer**: One who utilizes the goods/services to fulfill his need.

Due to the distancing of the producer from the final consumer – the feedback of the customer started getting distorted by the time it reached the manufacturer. Since consumers from different market segments were distinctly different and varied, the corporations had to build capabilities/systems and methods to systematically and accurately pick these feedbacks and respond to them as appropriately and as quickly as possible to fulfill the consumers’ felt/expressed needs. This refers to the customer feedback mechanism which is so crucial in CRM.

4. **Customization Age**: Similar concepts evolved in ‘service’ industry where the consumer defined service specification on the web. E.g. if a bicycle of a specific design was needed by a customer he could specify the design on the web and a bicycle catering to the specific requirements could be produced. This age addressed individualized needs in a mass production environment – closer to building a 1:1 relationship with consumers.

This close relationship has its own distinct advantages -

- Getting the highest share of ‘lifetime value’ of the consumer for specific product/services
- Understanding the changing patterns in consumer preferences in various segments.
- Understanding changes in competition scenario
- Identifying and closing of the gap between management perception and customer expectation.
- Building a strong referral base. Thus customer relationship management had arrived on the Indian market scenario. Some Indian experiences are given in the following pages.
1.3 Evolution of CRM thinking:

Even CRM thinking has evolved over a period of time. Many thinkers have provided frameworks and ideas that have helped firms to connect with their customers. The thinking started with the concept of direct marketing leading to focused and accurate marketing. Further came the concept of value creation which can also act as a differentiator for the firm as well as gain a competitive advantage in the competition. The next step was changing over from mass marketing to customer marketing using technology as an enabler. The link with the customer which was broken for sometime was reestablished with the internet. The concept of mass customization was also introduced by then bringing into the picture customer relations and their importance to a business and its survival and growth. Thus CRM definitely had arrived on the corporate agenda and the world’s perception of CRM was greatly influenced by Siebel.

1.4 Relevance of CRM today:

The current millennium has unfolded new business rules, the most significant being that past history or experience in a given product market is no indicator of future success. Market leadership cannot be taken for granted, as customer loyalty is getting eroded day by day.

The customer is becoming more and more untamed and will not stick to one brand alone. Wherever there is a better value for money offered he will switch over without any questions or guilt. He is exposed to a plethora of products that he can see over the television channels, Internet marketing, teleshopping. The customer today is described as a shameless bargain seeker who seeks better and better bargains. He likes to be pampered by marketers. Today, marketers have tried almost every option they have to retain and expand their brand’s share in the consumer’s mind. e.g. Various attractive sales promotions schemes to loyalty clubs to customer relationship management (CRM) programmes.

1.4.1 Trends in the new millennium:

I. The Internet has reduced the gap between societies which was due to physical distance and gaps in knowledge and information.

II. Customers want value for money. Thus the products will have to be globally competitive.
III. Business will be carried out at the speed of thought with online help and interactive technology that will enable the marketer to creatively customize the product for the buyer. The key issue will be to continuously update the customer database and proactively market product solutions based on research and in turn move the customer up the technology path.

IV. The customer will be the co-producer of products and services. The producer will take the product up to a certain level in the value chain and leave it for the buyer to customize it to his/her requirement. Following examples support the trends seen in the market today:

AP facility lets the buyer have his choice of shade customized through the company’s outlets, deploying interactive technologies.

- A Toyota car is assembled in 13 hours but an assembled car is not kept ready just to ensure customization. Hence a customer can get a car with all the four doors of different colors.

- Interactive technologies like call centers, toll-free numbers have made the customer the co-producer of products and services.

- In the internet age, customers have access to wide variety of information from various national and global sources. The marketer will have to use this information for developing its marketing mix.

- Innovation and the speed of response hold the key to survival in this highly turbulent Asian markets.

- E.g.(a) Intel is the largest selling microprocessor firm only because of its innovation and speed of response.

- (b) HDFC Bank has emerged as the best bank because of its continuing thrust on customer-centric innovations. E.g. Using IT to make banking a pleasurable experience and responding to customers even before the competition gets prepared.

Some other successful firms such as HUL, ITC, Bajaj, Reliance etc. are known to be innovative and nearest to the market place i.e. customer-centric.

Today, marketing is recognized as “relationship marketing” – which emphasizes the “hard” and “soft” aspects of marketing process which help acquire reliability. The “hard” aspects are product reliability, use of interactive technologies at the front end and back end etc. The “soft” aspects include human interactions i.e.
dependability of sales personnel, proactive initiatives of the personnel etc. A successful relationship marketing firm leverages its knowledge of customer needs and values to determine resource allocation to different customer groups.

Thus, today’s firms have realized that their relationship with their customers will give them the ability to compete in the market. Customer relationship management (CRM) is therefore indispensable today.

1.5 What is CRM?

The precise definition of CRM in a jiffy is difficult as it is a complex and comprehensive process that takes the organization to customer centricity. HBR defines CRM\(^3\) as - Aligning business processes with customer strategies to build customer loyalty and increase profits over time.

- CRM is a strategic business initiative which is enterprise wide and these initiatives are aimed at treating each individual customer differently. (Paul Greenberg)

- CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer. (Atul Parvatiyar and Jagdish Sheth)

- CRM is a philosophy and a business strategy, supported by a system and a technology, designed to improve human interactions in a business environment. (Paul Greenberg) CRM is a customer focused business strategy designed to optimize revenue, profitability and customer loyalty. (Bruce Culbert)

To put it simply, CRM revolves around the management of customer life cycle as shown in the figure below:

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Figure No. 1: Customer life cycle:

The customer life cycle starts with a clear and precise assessment of customer needs and then attracting them with the traditional modes of advertising or through recommendations.

The next step would be customer development i.e. please the customer by offering him a product of his dreams by learning about it from him through close relations with him.

Then comes the stage of leveraging customer equity wherein cross selling and up selling are resorted to but while keeping in mind that there must be mutual value creation.

The last part of customer life cycle management is retaining the existing customers and trying for more customers through referrals of these satisfied customers. In spite of all these efforts there will be a certain amount of customer migration at various stages due to various reasons. CRM tries to work out ways to identify the reasons of defections and introspect about the methods and assumptions that are made during the whole process. Basically the question arises whether these
psychological transactions can be measured and if so, the extent to which accuracy can be claimed and what CRM can then do to reduce this uncertainty.

1.5.1 **Ingredients of CRM:**

It is necessary to understand the basic ingredients that make CRM.

**Figure No. 2: The basic ingredients of CRM**

- **Value** - The first ingredient is creating value for customers. Value may be different for different customers. It may be price or convenience or variety of needs answered or better service or customization. It is relative so could be different for different people. E.g., Internet banking, mobile vans, ATM’s, one-stop shopping malls, better service, Premium price for customization - furniture, car etc.

- **Segmentation** - The second ingredient is grouping customers sharing particular characteristics or needs into a homogenous segment. This considerably helps the shotgun approach. The crucial step in CRM initiatives is understanding customers which becomes easy by segmenting them and thus the understanding can be translated into corporate profitability. The segmentation may be based on demographics, behavioral characteristics, customer needs etc.
• **Customer Process** - The third ingredient is the customer process. It is everything that firms do as corporate processes for customer satisfaction. The most relevant being

**Managing customer information** –

The basic minimum information about the customer that must be always acquired and maintained is the demographic information such as age, education, gender etc. The quality of information may be more detailed and sophisticated depending upon the corporate ambition and focus on customer needs. e.g. relationships with other customers or prospects and their behavior etc.

**Making decisions about customers** –

Customer information must be utilized to achieve something meaningful. e.g. Using this information in improving the customer interactions, a better understanding of customer decision making, delivering a better, customer experience and improving the profitability. Data warehousing and data mining etc can be used for this purpose.

**Marketing to customers** –

More focused marketing, segment driven marketing, relevant timing and personalization of customer interactions can make the interactions more effective.

**Interacting with customers** –

This is not just a goody goody interaction but a more effective and relevant customer contact across different channels and media making the content appropriate and desirable.

• **Loyalty** - The fourth ingredient is loyalty. Loyal customers make repeat purchases, forgive mistakes and slips, bring new customers, teach the company about their preferences. Apparently loyal customers may also report low levels of satisfaction as they keep buying a product due to the compelling corporate policy tie up, or due to lack of choice or plain inertia. Thus loyalty should not be confused with inertia and must focus on valued customers i.e. loyalty of undesirable customers should not be preferred.

• **Profitability** - The fifth ingredient is profitability. Plainly it is getting more money from customers but along with their satisfaction through a better understanding of customers, delivering better value cost effectively and pleasing the existing customers sufficiently to bring in more customers.
CRM can bring profitability by:

i. Increasing sales through cross selling, up selling, self service media such as a transactional website.

ii. By using knowledge gained from customers one comes to know what exactly the customer wants. Focusing on this useful information value can be delivered to the customers more cost effectively. Due to the shotgun approach wastage of efforts can be reduced and the increased efficiency can be used to attract more customers.

iii. Pleased customers automatically bring other customers to the firm by referral. But in the past it was limited to family, friends and word of mouth publicity. Now spreading word to a large global community is possible with Internet and an active lobby of satisfied customers.

- **Customer Centric** – The last but not the least ingredient is being customer centric. It does not mean handing over all controls to the customer. To what extent the customer can have a say in the product or service being produced is to be decided by the corporate strategy.

  In moving from product centricity to customer centricity a firm moves through the following stages:

  a. The corporate focus of the firm is on acquiring more customers, greater market share through a supply driven business focusing on price and quality or innovation.

  b. The firm markets to individual customers and maintains a database of name, address or telephone number. The individual customer needs are not identified though the individual is identified as a target for pushing the products.

  c. Now the firm is midway and along with the customer database, recognizes customer needs and tries to match them but there is no substantial change in the offerings. There is no restructuring of the business but use of technology for better predictions and thus focused marketing.

  d. The firm becomes customer centric and the customer is almost a partner in the process. There are changes in the processes, organization structure, facilities, technology infrastructure as per the needs of the customers. The data management is
more sophisticated and the offerings to the customer are driven by the customer needs.

e. A truly customer centric firm emerges with the customer as a partner whose current and future needs are understood in depth. The customer is served very intimately so that every solution is an individual solution. There is recognition that the business exists to serve the customer.

Peppers and Rogers⁴ described CRM as focus on individual or one-to-one relationship with customers that integrate database knowledge with a long term customer relation and growth strategy (Peppers and Rogers 1993)

Gronroos (1990)⁵ defined CRM as “Marketing 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 Gronroos definition is that customer relationships is the ‘raison de etre’ of the firm and marketing should be devoted to building and enhancing such relationships.

The core theme of all CRM and relationship marketing perspectives is its focus on co-operative and collaborative relationship between the firm and its customers.

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⁵ Gronroos, Christeran (1990), Relationship Approach To Marketing in Service Contexts: The Marketing and Organizational Behavior Interface”, Journal of Business Research, 20 Jan, pp 3-11, pg 138
Another important aspect of CRM is customer selectivity\textsuperscript{6}. It is evident from research that all customers are not equal hence depending on their potential profitability to the organization different programs have to be designed for different customers. Some “not so profitable” customers need to be outsourced so that the resources of the organization can be better utilized for the more profitable customers. Thus, CRM serves to improve marketing productivity by improving the effectiveness of marketing process and creating mutual value. Thus identifying appropriate value creating programs for customers is facilitated by CRM.

1.5.2 CRM - A strategic management tool:

CRM is therefore a strategic management tool that utilizes tools and technologies to leverage the information collected at the front end of the business and to integrate it with processes and back office operations to create value for customers and create customer loyalty.

Thus, CRM is a combination of processes, tools and technologies to increase profitability and cross sell, at the same time create value to the customer. A better understanding of customer needs helps us to focus better on those operations

that are valued by customers and giving less importance to those operations which the customers do not value. It helps to identify precisely what is pulling the existing customers so that the same can be used to find new customers. It is thus a basic building block of an organization.

CRM recognizes that the customer is the core of the business. It may or may not provide excellent customer care but at least it is on the right track by putting the customer at the heart of the business.

1.5.3 Some realities of customer relations:

Customer relations today have become very crucial for a business to be successful because they are an important link with the customer. The customer relations help an organization to understand the way in which the customer psychology works as well as finding out the customer preferences. Retaining customers is easier with good customer relations. Hence understanding what these customer relations are, goes a long way in creating value for the customer and the business. Some facts are given below:

- Customers are no more loyal.
- Customers are not desperate for a relationship but companies are.
- Customers need information for which the companies must have a wide network of connectivity with customers.
- Customers want to be acknowledged and given cognizance for their patronage, they expect it.
- Customers dictate terms in the selling process.
- The company must create lifetime value for a customer rather than calculating the lifetime value of a customer to the company.
- The programme must be simple and understandable.
- The reporting must be simple and focused on the customer.
- The company must try to experiment at every chance

1.6. What CRM is not?

It is necessary to understand what CRM is not to clear a few misconceptions about CRM.

CRM is not just a sales or a technical issue. It is not a new technology and software applications but an enabler in achieving the CRM objective (of understanding, anticipating, managing and personalizing needs of the customers).
CRM also means Call Center or Contact Center to some. CRM is also not just a goody goody gesture or offering discounts to solve a problem/dispute.

To summarize, it can be said that CRM is not:

1. A software solution
2. Sales gimmicks
3. Call Center Services
4. Relationship building by behavioral attributes of the contact person.
5. Empowerment to sanction goodwill waivers.
6. A much hyped tool

**Figure No. 4: CRM process and its benefits:**

Source: Adapted from Exhibit 1: Basic CRM and corporate strategy, The paradigm of CRM, Marketing Mastermind, June 2007. The Icfai University Press

**1.7 Types of CRM:**

CRM can be broadly classified into two types. These two types of categorization are as follows:

**1.7.1. Proactive versus Reactive CRM:**

In proactive CRM a company anticipates and responds to the customer needs with suitable offerings. The reactive CRM is a company’s reaction to the suggestions or complaints of the customers which acts as a stimulus.
Proactive CRM generally increases the level of personalization as in one to one marketing.

1.7.2. Operational, Collaborative and Analytical CRM:

Operational CRM:

It is also known as front office CRM as it deals with all those areas where the customer comes in direct contact with the organization i.e. the front liners. Since the customer is in touch with the organization through these front liners, these contact points are called customer touch points. The customer touch points are of the following types:

- Face to face touch points
  - Sales/Service/Channel/Events/Stores/Promotions
- Database driven touch points
  - Telephones/Email/Mail/SMS/Fax/Loyalty Cards/ATM’s.
- Mass Media touch points
  - Advertising/PR/Website

The transactions that take place at these touch points are of the following types

- Financial transaction
- Sales
- Payments
- Return of sales
- Information transactions, Request for information
- Complaints
- Suggestions

Operational CRM enables a company to collect all the possible information about all the transactions of customers, monetary or nonmonetary, from all touch points i.e. point of sale, call centers, web. etc. It is an effort to understand the customer better to give a consistent client service and thus improve the prospects of customer loyalty and retention.

Operational CRM enables and streamlines communication to and from the customer.

Collaborative CRM:

This enables a two-way communication between a company and its customers. These interactions are made possible through a variety of channels and the benefit is
that the quality of customer interactions improve and gradually work towards building long term and ‘profitable’ relationship with the valuable customers. Effective interactions with customers and intermediaries not only build strong relations but also integrate the activities of various functions such as marketing, sales service support etc making possible a lifetime value from all stakeholders.

**Analytical CRM:**

The data collected at the front office is interpreted and analyzed to understand the customer activities and correlating it with the data already possessed through data warehousing and data mining. This cross functional data collected is used in formulating strategies for cross sell and up sell after studying the consumer behavior, patterns of purchase and decision making, levels of service expected etc. Technology is an enabler which makes possible delivering better product and service and ultimately moving a step towards greater customer satisfaction. Since all this data processing takes place in the back office i.e. not customer facing, it is called as back-office or strategic CRM.

The figure below clearly brings out the inter-relations between the front office and back office operations, the touch points at various interfaces of the organizations e.g. The customer can get in touch through the e-mail, telephone, mobile, kiosks or ATM, call centers or web chat. They can have one to one interactions with agents or can get in touch with the service providers at the store. The information collected at these points goes into operational data store. The back office carries out the analysis by using analytical applications after contacting the various departments of the organizations such as sales, marketing, customer service and customer support.

The operational, collaborative and analytical CRM is applied at various points. The figure indicates these applications and their interrelations.
Figure No. 5: Relation between operational, collaborative and analytical CRM.
1.8 Benefits of CRM:
The crux of having satisfying relations with customers is empowering both the management and the sales/marketing team with the latest and relevant information. This is possible if the relevant information collected and compiled is sent to the concerned persons in time so that accurate targeting and prospecting can lead to improving sales productivity. It also decreases the sales cycle, provides decision support and thus helps develop customer loyalty. All these result in increased revenue base along with improved productivity, enhanced customer care, etc. provided the employees realize the importance of sales, marketing and sales support functions.

In short, the benefits of CRM are:
- Better opportunity management for better sales
- Decreased cost of sales
- Expand the base of loyal customers
- Deliver high customer service standard
- Give a holistic-view of the activities in the organization
- A higher hit rate by a systematic and scientific sales process
- Better quality of business decisions due to better reporting capability
- Making the whole system process driven rather than personality driven
- Increased sales force productivity

1.9 Limitations of CRM:
In spite of all the benefits of CRM and though the process is clearly illustrated, there are a few points that still make it a difficult process.

First and foremost is that the process can use technology as an enabler but the human element in it cannot be fully eliminated. Inherent in the human factor are some limitations that arise out of the human tendency to err. From the past till today talented human resource has always been a scarce and precious asset of an organization. Employees who are skilled in personalizing customer relationships, solving delicate and tricky problems, reacting to customer requests, engaging in beneficial information exchange are even more valued today. In spite of all this there is a major hitch and that is these employees may still be error prone, inconsistent,
unresponsive, unpredictable at times because they are all very much human. This can turn out to be a major bottleneck in the service channel.

Successful CRM needs that the culture of customer service percolates from top to bottom. It is only then that the customer care can be delivered satisfactorily by one and all. It cannot be treated merely as a technological application but needs an all out effort on the part of the whole organization for being successful.

Human Resource Department plays an important role in imbibing this culture of customer care in the minds’ of the employees. The relations with customers are nurtured to get a mutual value creation for the customer and the business. Responsiveness, reliability, empathy and assurance are important skills that are necessary to create a bonding amongst the customers and the organization. HR department plays a very influential role in helping the employees imbibe these skills to build good relations.

The relations are leveraged to create a customized product for the customer who is expected to be the brand ambassador in the form of a satisfied customer who refers the product to others. The customer has a variety of needs at various levels some explicitly stated while, some implicit expecting to be understood without being specified. The customer needs to be understood in depth to ensure that he is fully satisfied with the product offered. Understanding customer can be a tricky process.

It is a process that is largely IT enabled but it is not to be misconceived as an IT application. The details of the technology applications have been dealt with in detail later.

Another major limitation of the whole process is that deciding the parameters for measurement are not very clear. Unless the performance is measured it will not be possible to identify the areas of satisfactory performance or the areas that need to be improved further. The balanced scorecard studies the financial performance, the organizational provisions for successful CRM, the customer’s perspective etc. Other measure suggested is the catalytic measure that focuses on the organization’s efforts on the identifiable changes. This measures the following areas:

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• Areas needing change
• Creating a relevant yard stick of performance
• Developing the measurement approach through consultation
• Communicate and implement the program.

Thus CRM is a process which is very important in building relations with customers but quite complex to understand and measure and implement because of its multifaceted requirements e.g. people, infrastructure, organizational alignment, performance measure and control and new strategic patterns.

1.10 CRM: Strengths and Weaknesses:

Every process, every product has its plus points and drawbacks. The plus points or the strengths help the organization gain an advantage over competitors and gives the organization a distinct advantage in its efficient working.

The drawbacks or the limitations called the weaknesses are areas where there is scope for improvement, areas where the operations need to be performed better to gain some benefits for the organization. CRM also has its plus points and its weaknesses. These are studied in details below to get an idea about the benefits that accrue as well what needs to be done for better results.

**Strengths:**

In the early days a craftsman or a manufacturer or a service provider directly delivered the products to the customers and hence could identify their customers’ needs and solutions appropriately as they were in direct contact. As the markets spread far and wide intermediaries in the form of distributors, dealers and retailers came into existence. As per the thumb rule of communication greater the agencies in the communication channel, greater is the distortion. This extended channel created communication barriers between managers and customers. CRM is the solution to overcome these barriers so that catering to customer demands which is indispensable today becomes possible.

The noteworthy contributions of the CRM approaches prevailing as of today are as follows:

• The most noteworthy contribution has been its ability to link the customer to the product/service offerer with the help of advances in IT. This provides a direct
link to the customer and having an insight into their requirements helps in creating exactly what is needed.

- By tracking the buying patterns of various customers and then aggregating and analyzing all the data helps in better inventory management, customer satisfaction and improved operations. The latest CRM tools collect and make available a detailed study of consumer buying which is of immense help to businesses.
- Data warehousing and data mining make it possible to have access to this voluminous centralized data at various points even across the national borders. Since the customers can be tracked all over the world there is considerable clarity about the customer, giving a greater confidence to the businesses.
- The personalization involved creates enhanced relations due to the emotional bond between the customer and the product/service offerer as well as close working relations amongst all the members of the marketing infrastructure and the organization.

Thus, CRM has rightfully closed the gap that existed between the solution providers and the beneficiaries.

**Weaknesses:**

Broadly, there are two types of weaknesses,

i) At the conceptual level and

ii) In implementation.

i) **At the conceptual level:**

- Many businesses try to implement CRM as a technical application even before they are ready for it. It is rightly described as running before walking. eg. Modifying the organization structure suitably, managerial development, internal customer care, fixing accountability etc are some of the prerequisites for successful implementation of CRM.

- The CRM tools collect data on the past buying behavior and blissfully assume that the consumer will follow the same track. This is a dangerous assumption as in reality the consumer behavior is the most unpredictable chemistry due to their changing wants, changing lifestyles and preferences, availability of added product features etc. Every customer in his context is unique and his responses cannot be predicted by a computerized database.
ii) **In implementation:**

- If the employees who are an integral part of the CRM strategy are not convinced of the importance of tracking customers and their buying pattern, they do not develop the right attitude. Many times the discussion on awareness and importance of CRM does not percolate to the lower levels that play an important role in its implementation.

- The cost of the hardware and software for CRM is a pivotal point in the CRM strategy. The amount to be invested and long term implications of investment recovery are as it is quite confusing which are further complicated by the onslaught of newer versions of the same software. The cost benefit analysis is a very crucial part of the exercise.

- Computer packages for CRM collects voluminous data and then picking out the appropriate data from a whole lot of unwanted data becomes a Herculean task.

- The practicing managers are quite skeptical about the relevance and practical utility of CRM as they had experienced disillusionment with ERP, BPR, TQM etc. CRM investments after rising between 1999-2000, CRM sales dropped by 5% in 2001, 25% in 2002 and 17% in 2003 according to the technology market research firm Gartner.  

- To implement these concepts one needs staff support. People who are already stretched for time are reluctant to give more time to attend to customer requirements.

- CRM processes may become too mechanical after some time as the initial enthusiasm wanes and the consistency of efforts is lost.

On account of CRM benefits, its position as the customer centric strategy of the decade is slowly gaining ground. Despite the huge costs involved companies prefer to opt for it on account of the tremendous benefits of CRM. In 2003, Bain and company's annual Management Tools Survey of 708 global executives found that firms were actually satisfied with the results of CRM investments and 82% of them planned to increase their CRM investment expenditure in 2003.

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1.11 CRM Process Framework :

Jagdish Sheth and others have developed the relationship development process model based on the buyer-seller relationships studied by various authors. The figure below depicts the four stages and is described in details further below:

**Figure No. 6 Conceptual Process Frame work of CRM**

The model consists of four stages:

a) Customer relationship formation process.

b) Relationship management and governance process

c) Relational performance evaluation process and

d) CRM evolution or enhancement process

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1.11.1 Customer relationship formation process:

The first stage is marked by three important decisions

- Defining the purpose of engaging in CRM,
- Selecting the parties for developing CRM and
- Developing suitable relational programs for engaging the right customers.

The overall purpose of CRM is to improve marketing productivity and efficiency and thus create a win-win situation for both the parties. The efficiency is improved by achieving operational goals like lower distribution costs, streamlining order processing and inventory management, reducing the burden of excessive customer acquisition costs. The marketing effectiveness can be improved by carefully selecting customers, studying their needs and individualizing and personalizing the offerings made so as to build customer loyalty and commitment and helping them become co-partners in developing new products.

Once the CRM goals are clearly identified the type of CRM programs to be expected from the partners becomes clear. This will help in identifying the right relationship partners i.e. who have the necessary resources and commitment to implement CRM programs. Thus the initial focus on a certain group of customers will be expanded in due course to include more customers in the CRM program.

The process for partner selection though very important may or may not be a formalized procedure in the organizations. It may be a purely intuitive process or a formal process based on extensive research and evaluation of the chosen criteria. These criteria could vary from company to company ranging from revenue potential of the customer to various criteria such as customer commitment, resourcefulness, ethics and management values etc.

Then suitable programs are designed for the customers. There are three types of programs – continuity marketing; one-to-one marketing; and partnering programs which differ with the type of customer i.e. end consumer, distributor or B2B customer.

These CRM programs are aptly summarized by Atul Parvatiyar and others as shown in the table below :-
Table No. 1 CRM programs:

<table>
<thead>
<tr>
<th>Program Type</th>
<th>Mass markets</th>
<th>Distributors</th>
<th>Business to Business markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous marketing</td>
<td>After marketing Loyalty programs</td>
<td>Continuous replenishment ECR programs</td>
<td>Special sourcing arrangement</td>
</tr>
<tr>
<td></td>
<td>Cross-selling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>One–to-One marketing</td>
<td>Permission marketing</td>
<td>Customer business development</td>
<td>Key account</td>
</tr>
<tr>
<td></td>
<td>Personalization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnering/co marketing</td>
<td>Affinity partnering</td>
<td>Logistics partnering</td>
<td>Strategic partnering</td>
</tr>
<tr>
<td></td>
<td>Co-branding</td>
<td>Joint marketing</td>
<td>Co–design</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Co- development</td>
</tr>
</tbody>
</table>


**Continuity marketing:** These programs are aimed at retaining customers and increasing their loyalty. For end customers these are membership and loyalty programs and added points for cross purchased items. For distributors it is just in time inventory i.e. continuous replenishment ;electronic order processing , material resource planning i.e. efficient consumer response .For B2B markets preferred customers, special sourcing arrangements etc are developed as special services for customers to create mutual value and retain them.

**One–to one marketing:** These are used to satisfy each individual’s needs uniquely and individually. Individual information on customers is collected with the technological advancements at low cost .This is then used to design programs like frequency marketing ,interactive marketing ,after marketing for the high yielding customers .It helps in developing business with the customer by developing intimate relations with them and gaining a better insight in their needs.A large organization is treated as a single account and fully dedicated managers are appointed to look after their requirements.
Partnering programs: For end consumers it is co-branding i.e. two marketers combine their skills to offer a better product to the market or affinity partnering where in the products of one organization are offered to the customers of the other i.e. celebrity endorsements. In distributor customers the marketing is done jointly while in B2B it takes the form of Co-design, co-development co-marketing.

1.11.2 Relationship management and governance process:

CRM governance process is the second stage wherein the CRM programs as well all individual relationship must be managed and governed. All relationships are not managed alike and depend on the CRM process. Some of the basic issues to be addressed are role of partners, associated tasks, and employee motivation, planning process, process alignment and monitoring procedures. Role specification specifies what the relational partners have to do as their role in CRM. This clarifies the level of empowerment and the resources. Communication with customer partners is the life and blood of relationships marketing. Establishing proper communication channels with customers and intra organizational players is essential for effective interaction. Trust is created and an atmosphere conducive for cooperative and collaborative relations is established because of it. The process of planning and the degree to which customers need to be involved in the planning process is another important issue so as to garner their support in the co-operative and collaborative relationships. HR plays an important role in creating the right climate and the right organization. Training employees to interact with customers, teamwork, relationship expectations management, rewards, incentives, compensation all contribute towards building strong relationships and customer commitment. Professionally handled customer relationships require proper monitoring to safeguard against failure and conflicts in relationships. These include periodic evaluation of goals, initiating changes in relationship structure, creating new systems for problem discussion etc. If the governance process is satisfactory it results in relationship satisfaction for the concerned parties.

1.11.3 CRM performance Evaluation Process:

It is necessary from time to time to evaluate if programs are meeting expectations and hence whether they can be continued or modified or terminated. This can be done with tools like balanced scorecard that combines a variety of measures, measuring relationships satisfaction through satisfaction surveys etc. In short the evaluation metrics must be able to evaluate whether the CRM objectives are being attained or
not. The impact of these relationships on the firm are also measured as an intangible asset as in discounted cash flow. In relationship measurement both the concerned parties are required to perform for a cooperative relation and hence satisfaction of both the parties is measured.

1.11.4 **CRM evolution or enhancement process:**

In this process the CRM programs evolve as per the situation e.g. some continue as they are, some come to a planned end or some others are terminated due to non-fulfillment of expectations. The propensity to continue on the part of both the parties is indirectly measured by measuring customer loyalty. When the performance is satisfactory, partners continue the CRM program.

To manage the CRM development a company needs to manage a plethora of customer interfaces. It includes cross functional teams in case of large organizations. These units need to share the collected information on a real time basis for effectiveness. A company needs a front line information system that shares relevant customer information across all interface units. This needs developing an integrated CRM platform that collects relevant customer data at each interface and provides knowledge output about possible strategies to customer loyalty.

**Figure No. 7 Integrated CRM platform**

![Integrated CRM Platform](source)

Since IT plays a significant role in CRM, some companies focus on installing CRM software solutions by the IT department without a CRM strategy in place. This reduces the usability of the CRM tools, as the frontline people have no idea about what to do with the additional information collected with no proper direction. Some initiatives taken on their own could backfire and affect the customer relations.

Thus, CRM should not be viewed as a software solutions implementation but a fundamental business of every enterprise and it requires a holistic strategy and process for delivering success.

1.12 Concluding remarks:

The chapter is an introduction to the basic concepts of CRM and its importance as a strategic management tool and its inevitability to every business. It further deals with the concept of CRM, its historical evolution and the relevance of customer relationship management in the present scenario. The chapter explains the CRM process framework, types of CRM and its strengths and weaknesses. Finally, the benefits and limitations of customer relationship management as well as the performance evaluation measures have been discussed in this chapter.

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