CHAPTER IV: CUSTOMER RELATIONSHIP MANAGEMENT

CONCEPTUAL FRAMEWORK

This chapter aims to provide the conceptual framework required for the current research work. In the first part of the chapter overview of customer relationship management is provided. Followed by need of CRM and strategies of CRM is discussed. This includes work done by several researches in the past and present. The extant theoretical framework provides in-depth analysis of customer relationship management. Researcher has focused this study specifically to meet the objectives.

4.1 Introduction:

Customer Relationship Management

Customer relationship management is a business strategy with the outcomes that optimizes profitability, revenue and customer satisfaction by organizing around customer segmentation, fostering customer satisfying behaviors and implementing customer centric processes.

At the core customer relationship management is an integration of technologies and business processes used to satisfy the needs of a customer during any given interaction.

More specifically customer relationship management is the process of acquiring, satisfying, retaining and growing profitable customers. It requires a clear focus on the services attributes that represent value to the customers and create loyalty. This encompasses developing long term relationship with the customers.

Customer’s relationship management principally revolves around marketing and begins with a deep analysis of consumer behavior. It uses IT to gather data which can be used to develop information required to create a more personal interaction with the customer. In long term, it produces a method of continuous analysis and refinement in order to enhance customer’s lifetime value with the firm.

Simply customer relationship management can be viewed in four principal ways firstly it is a contemporary response to the emerging climate of unprecedented customer churn, waning brand loyalty and profitability. Secondly customer relationship management is central to the task of making an organization customer centric. Thirdly customer relationship management is the surest symbol embracing
information technology in business fourthly and finally customer relationship management is the most certain way to increase the customer’s profitability to the practicing organizations. Relationship marketing essentially represents a paradigm shift within marketing away from a transaction focus toward a retention focus. There has been a shift from a transaction to a relationship focus in marketing. Customers become partners and the firm must make long term commitments to maintaining those relationships with quality, service and innovation.

4.2 Bucket theory of marketing

James L Schorr, Executive V.P. marketing at holiday inns, illustrated the bucket theory of marketing, by this he meant that marketing can be thought as a big bucket, its what the sales advertising and promotions programs do that pours business into the top of the bucket as long as these programs are effective the bucket stays full, there is only one problem, there is hole in the bucket. When the business is running well and the hotel is delivering on its promises, the hole is small and few customers are leaving. When the operation is weak and customers are not satisfied with what they get, however people start failing out of the bucket through the holes faster than they can be poured in through the top.

The bucket theory illustrates why a relationship strategy that focuses on plugging the holes in the bucket makes so much sense. Historically marketers are more concerned with acquisition of customers, so a shift to a relationship strategy often represents changes in the mind set of organizations culture and employee reward systems. In today’s internet real time product driven differentiation, product lifecycles continue to be driven shorter, thus technological upgradation is the need of hour. To rectify these problems, enterprise has to introspect customer relationship management, make a strong mind set and set business policies and procedures that are designed to create and grow customer relationship long term by catering exceptional service and product offerings tailored with them. Good customer relationship management must be able to help people throughout the enterprise make smarter decisions and faster, for this enterprise must possess
extensive knowledge of customer buying patterns, channel preferences and past historical information. Thus successful customer relationship management must be integrated, insightful and pervasive and requires a customer centric business philosophy and culture to support effective marketing, sales and service process, provided that enterprise has right leadership strategy and culture, which is foundation of competitive advantage growth and profitability.

Fig- 4.1-Six Stage Model of Relationship

4.3 Objective’s of relationship management

The primary goal of customer relationship management is to build and maintain a base of committed customers who are profitable for the organization. To achieve this goal, the firm will focus on the attraction, retention and enhancement of customer relationships. As the number of relationships grows, the loyal customer themselves will frequently help to attract new customers with similar relationship potential. Loyal customers not only provide a solid base for the organization they may represent growth potential.

![Customer Goals of Relationship Marketing](image)

**Fig.-4.2-Customer Goals of Relationship Marketing**

The overriding goal is to move as many profitable customers up through the pyramid from being newly attracted customers through to being highly valued, enhanced customers.
Effective customer relationship management has the ability to determine which customer are more profitable determining what drives the profit, ability also to know which customer are not profitable and being able to build the business models tactics framing the policies to ensure future profitability from such customers.

Every firm needs to focus on its game plan called as **G-Spot** i.e. Goals, strategies, plans, objectives, & tactics.

**Goals**-include things like profitability, higher customer satisfaction & retention.

**Strategies**- to achieve the goals, firms need to establish strategies such as designing innovative products focusing on new markets, establishing long term relationships with its customers.

**Plans**- hiring top product design managers is a plan to achieve innovative products in the future.

**Objectives**- these are measurable goals of each plan like to maintain 20 % customer retention rate.

**Tactics**- tactics are how the managers will achieve the objective that is implementation of plans. E.g to create customer data warehouse to compile all customer information like. Gathering customer data, storing customer information, analyzing, processing, organizing data, thereby formulating strategy to recognize customer value. Taking actions based on strategy, by building effective model to analyze customer data, creating profits, acquiring new customers.
4.4 Need and benefits of customer relationship management.

4.4.1 Need for customer relationship

A satisfied customer in 10 years will bring 100 more customers to company. It costs 7 times to attract a new customer than to serve an old one.
20% on the company’s loyal consumers account for 80% of its revenues (Pareto’s principle). Approximately 70% of the customer’s switch the brand because they do not like the services. On an average, a customer tells 9-11 people about the problem. Berry and Parasuraman (1991) propose that customer relationship management concerns attracting, developing and retaining customer relationships.

Berry stressed that the attraction of new customers should be viewed only as an intermediate step in the marketing process. Solidifying the relationship, transforming indifferent customers into loyal ones and serving customers as clients should be considered as marketing.

He outlined five strategy elements-

1. Developing a core service around which to build a customer relationship.
2. Customizing the relationship to the individual customer.
3. Augmenting the core service with extra benefits,
4. Pricing services to encourage customer loyalty and
5) Marketing to employees so that they in turn will perform well for customers.

4.4.1 Benefits for customers

Assuming customers have choice, they will remain loyal to a firm when they receive greater value relative to what they expect from competing firms. Perceived value is the consumers overall assessment of the utility of a product based on perceptions of what is received and what is given. Consumers are more likely to stay in a relationship when they get (quality, satisfaction, special benefits) exceed the gives (monetary and non monetary cost). When the firms can consistently deliver value from the customer’s point of view, clearly the customer benefits and has an incentive to stay in the relationship.

For example, one may choose to stick with his/her current bank even when he/she learns about the attractive offers from competing bank.

1) When on feels comfortable in the relationship
2) One know what to expect
3) Having good working relationship with his personal banker
4) And knows that will be taken care of even if one has the unusual request.

Researchers have found some uncovered specific types of relational benefits that customers experience in long term service relationships including confidence benefits, social benefits, and special treatment benefits.

4.4.2 Confidence benefits

These benefits comprise feelings of trust or confidence in the provider, along with a sense of reduced anxiety and comfort in knowing what to expect.

4.4.3 Social benefit

Over time, customers develop a sense of familiarity and even a social relationship with their service providers. These ties make it less likely that they will switch, even if they learnt about a competitor that might have better quality or a lower price.

4.4.4 Special treatment benefit

Includes such things as special deal or price, getting preferential treatment.

4.4.5 Benefits for organization

As consumers get to know the firm better and are satisfied with the quality of its services relative to that of its competitors, they will give more of their business to the
firm. And as customers mature (in terms of age, life-cycle, growth of business) they frequently require more of a particular service.

Few of them include-

4.4.6 **Lower costs**

There are many startup costs associated with attracting new customers that include advertising and other promotional costs of setting up accounts and systems and time costs of setting up accounts and systems and time costs of getting to know the customers. Hence from profit point of view there would seem to be great incentive to keep new customers once the initial investment has been made.

4.4.7 **Free advertising through word of mouth**

Satisfied loyal customers are likely to provide a firm with strong word of mouth endorsements. this form of advertising then any paid advertising firm might use and has added benefit of reducing the costs of attracting new customers .Again referral customers are more qualitative and profitable as against those attracted by price promotions and new advertising campaign.

4.4.8 **Employee retention**

People like to work for companies whose customers are happy and loyal. Thus indirect benefit of customer retention is employee retention. As employees stay with the firm longer, service quality improves and costs of turnover reduced, adding further to profits.

*Fig- 4.5.Customer Retention and Employee Retention*

4.5 Types of customer relationship management

There are four types of customer relationship management

1) Win back or save
2) To attract new or potential customers
3) To create loyalty
4) To up sell and cross sell

4.5.1 Win back or save - This is the process of convincing a customer to stay with the organization at the point they are discontinuing service or commencing them to rejoin once they have left.

The targeting of win back campaign is more difficult because many companies are poor at defining and identifying lost customers. Sometimes relationship ends because of high price and wrong product. So win back can be initiated when these issues are resolved. Win back is hardest if the customer is left due to poor service, unless the competitor service is even worse.

4.5.2 Prospecting- prospecting is the effort to win new, first time customers. apart from the offer itself. The three most critical elements of prospecting are segmentation, selectivity, and source. Establishing, Maintaining and enhancing customer relationships from the service provider’s Perspective:

1) Establishing a relationship involves giving promises; 2) maintaining a Relationship is based on fulfillment of promises; and finally, 3) enhancing a relationship Means that a new set of promises are given with the fulfillment of earlier promises as a Prerequisite.”

4.5.3 Loyalty: It is the category in which it is most difficult to gain accurate measures. Firm tries to prevent customers from leaving and uses three elements

- Value based segmentation: willingness of customers to invest in products.
- Need based segmentation: to offer customized loyalty program.
- Predictive churn model: forecasting customer attrition through the use of advanced data-mining tools, an organization can develop models that identify vulnerable and potential customers who can be targeted for the loyalty campaign.
4.5.4 **Cross-sell**—The purpose is to identify complementary offer that a customer would like. Customers need bases, previous contacts, determine the nature of offer.

4.5.5 **Up selling** is similar but, the organization offering a complementary product, the organization offers an enhanced one. Cross sell/up sell campaigns are important because the customer targeted already has a relationship with the organization. Cross selling and up selling campaigns are important because the customer targeted already has a relationship with the organization.

4.6 **Customer relationship management strategy**

1) Quality offered in core service
2) Careful market segmentation and targeting and
3) Continuous monitoring of relationship (Mass Customization Technology)

Retention strategies will have little long term success unless there is a solid base of service quality. This doesn’t mean that firms have to be world class in their services but they have to be competitive. It is not better to attempt retention strategies for inferior services.

*Fig-4.6- Services quality dimensions*

4.6.1 Satisfaction versus service quality
Both the terms are used interchangeably. Consensus is growing that the two concepts are fundamentally different in terms of satisfaction is generally viewed as broader concept while service quality focuses on specifically on dimensions of service. Based on this view perceived service quality is a component of customer satisfaction. Service quality is a focused evaluation that reflects the customers perception of specific dimensions of service: reliability, responsiveness, assurance, empathy, tangibles. Satisfaction on the other hand is more inclusive it is influenced by perceptions of service quality product quality and price as well as situational factors and personal factors. Thus mere satisfaction will not help firms in retaining customer loyalty, because customers perceived quality, situational factors and personal factors can take him to the competitors.

4.6.2 Market segmentation and targeting
A second basic foundation of relationship marketing is market segmentation learning and defining who the organization to have relationship with. At one end service firms have relatively small number of customers and they have to design marketing plans for each customer. Service offerings customized specifically and individually for large corporate clients. At other extreme some service firms offer one service to all potential customers as if their expectations, needs and preferences are homogeneous for this reason their marketing approach is standardized. To handle this effectively companies need market segmentation and targeting.

4.6.3 Mass customization technology
It enables business to customize products and service as a matter of routine. And when the technology exists to understand how each customers desires differ and the interactivity to present the set of options available to address unique offering can be developed to suit that need. This type of marketing is called as one- to one marketing, in fact the terms database marketing and data mining exists for several years. Thus it is necessary for the firms to create customer information files (CIF’S) that integrates different data sources on individual customers including demographics, segmentation, usage information, customer satisfaction data and accounting and financial
information. One to one marketing represents massive change in marketing research, not in the types of information that is collected but in the manipulation and use of data once it has been stored.

Joe pine has described various different approaches for working towards mass customization goal like creating customizable services here the firm offers the same service to everyone. Using that can be customized by the consumer, interactive computer services. ATMS and automated ticketing system are examples of this type of service customization.

A well designed customer database is also critical knowing who the organizations current customers are name addresses phones numbers etc what their buying behavior is the revenue they generate the related costs to serve them their preferences and relevant segmentation information (e.g. demographics, lifestyle, usage patterns) forms the foundation of a customer database. In case of customer leaving the organization, information on termination would also exist in the database. Thus by having such a detailed database on its customer’s American express is able to tailor its corporate card member newsletter on the basic of cardholders spending patterns and preferences.

For example trailer calls, complaint monitoring, lost customer surveys and customer visits to develop a profile of the organizations customer relationships. With the foundation of customer knowledge combined with quality offering and value, a firm can engage in retention strategies to hold on to its customers.

4.7 Retention strategies

To this point in the study we have focused on the rationale for relationship marketing, the benefits of customer retention, and the importance of identifying the right market segment(s) for relationship building. Next we have to look at some of the specific strategies and tactics used by the firms to build relationships and tie customers closer to the firm. That is once a firm has carefully identified its market segments and developed quality services, what are some of the specific tactics it can use to accomplish the goal of retaining customers?

Leonard berry and A. parsuraman have developed a framework for understanding types of retention strategies. The framework suggests that retention marketing can
occur at different levels and that each successive level of strategy results in ties that binds the customer a little closer to the firm. At each successive level, the potential for sustained competitive advantage is also increased. Building on the levels of the retention strategy idea.

**Fig. 4.7: Customer Retention Strategies**

4.7.1 Financial bonds
At level 1, the customer is tied to the firm primarily through financial incentives—lower prices for greater volume purchases or lower prices for customers who have been with the firm a long time. Trying to provide volume discounts and other price incentives to retain market share and build a loyal customer base. While price and other financial incentives are important to customers, they are generally not difficult for competitors to imitate. Financial bonds do not generally provide long term advantages to a firm since, unless combined with another relationship strategy.

4.7.2 Level 2- Social bonds: strategies bind customers with long term relationship through social and interpersonal as well as financial bonds. They are much more difficult for competitors to imitate than are price incentives. In the absence of strong reasons to shift to another provider, interpersonal bonds can encourage customers to stay in a relationship. Social, interpersonal bonds are common among professional service providers. *For example:* A dentist who takes a few minutes to review the patients file before coming into the consultancy room is able to jog the memory on personal facts about the patient (occupation, family details, interests, dental health etc.) by bringing these personal details into conversation the dentist reveals the genuine interest in the patient as an individual and builds social bonds.

4.7.3 Level 3- Customization bonds: involve more than social ties and financial incentives, although there are commonly elements of level 1 and level 2 strategies encompassed within a customization strategy and vice versa. Mass customization and customer intimacy does not mean providing customers with endless solutions of choices that only make them work harder for what they want.

4.7.4 Level 4- Structural bonds: These strategies are most difficult to imitate and involve structural as well as financial, social and customization bonds. Structural bonds are created by providing services to the client that are frequently designed right into the service delivery system for the client. Often structural bonds are created by providing customized services to the client that are technology based and serve to make the customer more productive.
4.8 Implementing effective customer relationship management

Customer relationship management is not right for every company thus it is advisable for the company to begin by clearly detaining the business issues and needs and then determine whether customer relationship management can be and should be a part of the solution. Customer relationship management strategies that are clearly linked to business objectives has much greater likelihood of success.

The cost required to introduce and implement customer relationship management cannot be overlooked, it deserves prime attention because the system must be remunerative. It must at least cover its cost.

In order to leverage relationships customer relationship management data warehousing and mining must be integrated to the goal of right customer identification and their sharp profiling. it is required to devise a database that pulls information from every department from sales to customer support and creates a unified report.

4.8.1 Identifying lifetime value of customers

Life time value of customer is a concept or calculation that looks at customers from the point of view of their lifetime revenue and profitability contributions to a company. This type of calculation is obviously needed when companies start thinking of building long term relationships with their customers, to know the financial value of those long term relationship.

This takes into consideration that if firms knew how much it really costs to lose a customer they would be able to make accurate evaluations of investments designed to retain customers.

A somewhat less complex yet equally convincing approach to understanding the lifetime value of a customer is simply to multiply out the customers average rupees purchases over the average lifetime of the customer in a particular industry.

4.8.2 Selecting profitable customers

Firms may want to treat all customers with superior service; they find it is neither practical nor profitable to meet all customers’ expectations.
Hence they are identifying segments more appropriately tiers of customers that differ in current and future profitability thereby capturing their financial worth to the firm.

4.8.3 Defect prone customers
Firms find it difficult to create and execute strategies those are responsive towards defect prone customers. Certain systems need to be developed to isolate potential customers, evaluate them and retain them.

Three group of customers need to be focused
1) Customers those close their accounts and switch to a competitor.
2) Customer those shift some of their business to another firm
3) Customers who actually buy more but whose purchase represent a smaller share of their total expenditure. Developing early warning systems of such customers is important requirement for the firms.

4.8.4 80/20 CUSTOMER PYRAMID

Source: M.L. Agarwal CRM & Corporate Renaissance
Generally all firms are aware at some level that their customers differ in profitability. This is often called as 80/20 rule. 20% of customers produce 80% of sales or profit. In this 20% of customers constitute the top tier those can be identified as profitable customers. The remaining are difficult to distinguish but certainly they are different from the top tier in profitability.

This often helps the firm to keep track of which customers are profitable and which ones are least profitable.

4.8.5 Extended Customer Pyramid

Fig-4.9-Extended Customer Pyramid

More than two tiers can be used if the firm has sufficient data to analyze customer tiers finely. The following four tier system as follows-
1. The platinum tier describes the company’s most profitable customers, typically those who are heavy users of the product, are not price sensitive. Those willing to invest in and try new offerings and are committed customers of the firm.

2. The gold tier differs from the platinum tier in that profitably levels are not as high, perhaps because the customers want price discounts that limit margins or are not as loyal.

3. The iron tier contains essential customers who provide the volume needed to utilize the firm’s capacity but their spending levels loyalty & profitability levels are not substantial enough for special treatment.

4. The lead tier consists of the customers those costing the firm money. Firm needs to pay more attention to these customers even though they are least profitable. And are problem customers complaining about the company.

4.9 Retention and loyalty programs

![Ladder of loyalty diagram](image)

Source: M.L. Agarwal CRM & Corporate Renaissance
Customer loyalty can be viewed as the customers feel about the service and they act. Customers are loyal as long as they use the service. Measuring loyalty firms are interested to know the “share of wallet of customers” which typically means percentage of spending in a particular service category is made on given service provider.

Company first tries to determine most likely prospects, having strong potential interest in the product and ability to pay for it. Then to convert those satisfied first time customers into repeat customers.

Then the company tries to convert customer into client, i.e they are those people who buy only from the company in the relevant product categories.

The next challenge for the companies is to convert these clients into advocates. They are the clients who praise the company and encourage others to buy.

The ultimate challenge is to convert these advocates into partners where the customer and client work actively together to discover ways of getting mutual benefit. Thus in customer relationship management the key performance is not just the current market share but share of lifetime value of converting consumer into partners.

Customer loyalty can’t be bought but it can be earned by providing value in the ways that are meaningful to the individual customer.

- Birthday greeting
- Holiday and special occasion reminders
- Delivery of gift ideas
- Win back programmes for inactive customers

4.10 Identifying causes behind service switching

Customer switching rate is the major cause of concern in the study of customer relationship management. There are different causes of switching of these include wrong pricing policies, inconvenience of the service provided, core service failures, service encounter failures. Where the customer finds better service with another service provider.
Moreover ethical problems like cheat hard sell, unsafe service also leads to switching behavior. Or there may be also voluntary switching due to consumers geographical movement. Or the service provider closes its branch.

Fig.4.11-Service switching behavior

<table>
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<th>Pricing</th>
<th>Inconvenience</th>
<th>Core service failure</th>
<th>Service encounter failures</th>
<th>Response to service failures</th>
<th>Competition</th>
<th>Ethical problems</th>
<th>Involuntary switching</th>
</tr>
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<tbody>
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<td>• Location/Hours</td>
<td>• Service mistakes</td>
<td>• Uncaring</td>
<td>• Negative response</td>
<td>• Found better service</td>
<td>• Cheat</td>
<td>• Customer moved</td>
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<tr>
<td>• Price increases</td>
<td>• Wait of appointment</td>
<td>• Billing errors</td>
<td>• Impolite</td>
<td>• No response</td>
<td></td>
<td>• Hard sell</td>
<td>• Provider closed</td>
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<tr>
<td>• Unfair pricing</td>
<td>• Wait for service</td>
<td>• Service catastrophe</td>
<td>• Unresponsive</td>
<td>• Reluctant response</td>
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<td>• Conflict of interest</td>
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Source: Valarie A. Zeithmal & Mary Jo Bitner (2000), Services Marketing
4.11 Service recovery strategies

As one understands the service switching behavior the attempt should be made to recover or win back the customers those are unsatisfied by the following ways-

4.11.1 Welcome and encourage complaints

A critical component of service recovery strategy is to welcome and encourage complaints. Complaints should be anticipated encouraged and tracked. Customer research can be designed specifically to do this through satisfaction surveys, critical incidents studies, and lost customer research.

Source: Valarie A. Zeithmal & Mary Jo Bitner (2000), Services Marketing
4.11.2 Act quickly- complaining customer wants quick responses thus if the company welcomes even encourages complaints it must be prepared to act on them quickly. This requires system and procedures that allow for quick action as well as empowered employees. There is need for recovery training and incentives included for employees for solving complaint calls by goals.

4.11.3 Treat customers fairly- In responding customers quickly, it is also critical to treat each customer fairly. Customers expect to be treated fairly in terms of the outcome they receive the process by which the service recovery takes place. In terms of interpersonal service they receive.

4.11.4 Learning from recovery experience
Problem resolution situations are just opportunities to fix discrepancies in services and strengthen ties with customers. By tracking service recovery efforts solutions manager can often learn about systematic problems in the delivery system that need fixing, by conducting root-cause analysis the sources of the problems can be identified and processes modified.

4.11.5 Learning from lost customers
Conducting lost customer survey
This type of research involves deliberately seeking customers those have dropped the company’s service and decreased the purchase to enquire the reasons for leaving. In which open ended questions are asked to expose the reasons for defection and the particular events that lead to dissatisfaction.

4.11.6 Customer panels
Customer panels are ongoing customer groups of customers assembled to provide attitudes and perceptions about a service over a time. In which they offer to the firm’s regular and timely information that provides insights & suggestions for improvement.
4.11.7 Fail safe the service
It leads directly back the beginning “fail safe the service and do it right first time” by integrating all the strategies companies will less and less need for service recovery.

4.12 Conclusion:
Reflecting upon the entire conceptual framework all important theoretical aspects necessary for the research work have been elaborated. The study of customer relationship management is very vast however in order to meet the objectives of the study a specific focused approach pertaining to the same was performed.