CHAPTER - III

A Conceptual Framework of Customer Relationship Management
CHAPTER 3
A CONCEPTUAL FRAMEWORK OF CUSTOMER RELATIONSHIP MANAGEMENT

3.1 INTRODUCTION

Banking is the core of the entire financial services sector. Banking is such an important sector that it touches the life of every human being in some way or the other. Indian Banking Sector what we see as it is today was not the same earlier. Tremendous changes have taken place in this particular sector in such aspects as the way banks operate, in technology, operational speed and most especially in their approach towards dealing with customers, in the last 10 years or so.

At a time when the Indian banking sector was monopolized by few public sector banks, the level of attention given to the customer was very low. But in today’s changed scenario, i.e. after the entry of a number of private and foreign banks in the Indian banking sector, there has been a shift in the focus of Indian banks from ‘transaction focus’ to ‘relationship focus’. The cut-throat competition that exists among the various public, private and foreign banks has necessitated them to adopt a strategic approach in dealing with their customers. Today banks are the major follower of customer relationship management practices1.

3.2 BRIEF HISTORY OF CRM

According to Stead (2001) of Sector Consulting, during late 1960s, in his seminar article on “Marketing, Management Guru” Ted Levitt suggested that the purpose of a business was to “create and keep a customer”. He advocated that the modern firm should view “the entire business process as consisting of a tightly

integrated effort to discover, create, arouse, and satisfy customer needs”. Over two
generations later, businesses are beginning to wake up to this reality. With the advent
of e-commerce comes the e-customer.

According to Vantive, a customer relationship management solutions provide
that was acquired in 2000 by enterprise resource planning (ERP) software company
PeopleSoft; the e-customer expects constant access to a company through e-mail, call
centers, faxes and websites. Customers demand immediate response with a
personalized touch. Meeting their needs puts new demand on the enterprise. Since
traditional ERP applications did not include a customer management aspect, CRM was
the next logical step. Vantive, for example started as early as 1992 in the development
and implementation of these customer management applications. Moreover, Davenport
states that as global competition has increased and products have become harder to
differentiate, companies have begun moving from a product-centric view of the world
to a customer-centric one.

The CRM methodology enables the organization to understand the customer’s
needs and behaviors better. It introduces reliable processes and procedures for
interacting with customers and develop stronger relationships with them. The process
helps organizations in assimilating information about customers, sales, marketing
effectiveness, responsiveness, and market trends. Then this information is used to give
insight into the behavior of customers and value of retaining those customers.
The whole process is designed to reduce cost and increase profitability by holding on to
the customer loyalty.

A simple installation and integration of the software package doesn’t ensure
success. It has to be absorbed into the system. Employees have to be convinced about
its positive attributes, and then they have to be trained. The existing business processes
have to be modified. The company has to decide what kind of information is to be collected about the customers, what is to be done with the information, and prioritize this accumulated information. The company must drill into this database of its customers and ascertain their buying patterns, product preferences, the potential for add-on sales, etc.

A good strategy will be to integrate every area of touch point with customers like marketing, sales, customer service, and field support. This is achieved with the integration of the people, process, and technology in the business.

CRM is all about:

- Acquiring customers
- Keeping customers
- Growing customers
- Gaining customers insight
- Interacting with customers across all touch points
- Building lasting relationship with customers
- Delivering value to customers
- Acquiring a sustainable competitive advantage
- Growing business.

Companies are realizing that without customers, products do not sell and revenues do not materialize. They have been forced to become smarter about selling, and this means becoming smarter about who’s buying. Companies are reading the competitive writing on the wall and looking to technology for a leg up. The main way to squeeze every drop of value from existing customers is to know who the best customers are and motivate them to stay. Based on this realization a good definition of CRM:
CRM is the infrastructure that enables the delineation of an increase in customer value, and the correct means by which to motivate valuable customers to remain loyal—indeed to buy again.

CRM is about more than simply managing customers and monitoring their behaviour. CRM has the potential to change a customer’s relationship with a company and increase revenues in the bargain.

Most companies have recognized that the technology alone cannot address high-profile issues such as new-customer acquisition and web based marketing. To these companies, CRM is much more than a standalone project accounted for by a single organization, it is a business philosophy that affects the company-at-large. Some select views of few marketing theorists, practitioners and researchers on CRM is summarized below to gain more knowledge of the concepts of CRM.

3.3 CRM IN BANKING SECTOR

CRM is a sound business strategy to identify the bank’s most profitable customers and prospects, and devotes time and attention to expanding account relationships with those customers through individualized marketing, repricing, discretionary decision making, and customized service—all delivered through the various sales channels that the bank uses. The model developed here answers what the different customer segments are, who more likely to respond to a given offer is, which customers are the bank likely to lose, who most likely to default on credit cards is, what the risk associated with this loan applicant is. A greater focus on CRM is the only way the banking industry can protect its market share and boost growth. With intensifying competition, declining market share, deregulations, smarter and more demanding customers, there is competition between the banks to attain a competitive advantage over one another or for sustaining the survival in competition.
Over the last few decades, technical evolution has highly affected the banking industry. ATM displaced cashier tellers, telephone represented by call centers replaced the bank branch, internet replaced the mail, credit cards and electronic cash replaced traditional cash transactions. In recent years, banks have moved towards marketing orientation and the adoption of relationship banking principles. The bank would need a complete view of its customers across the various systems that contain their data. If the bank could track customer behaviour, executives can have a better understanding, a predicative future behaviour and customer preferences. Most sectors of the banking industry are trying to use CRM techniques to achieve a variety of outcomes. In the area of strategy, they are trying to:

- Create a customer-focused organization and infrastructure
- Secure customer relationships
- Maximize customer profitability;
- Identify sales prospects and opportunities;
- Support cross and up-selling initiatives;
- Manage customer value by developing propositions aimed at different customer segments;
- Support channel management, pricing and migration
- Gaining accurate picture of customer categories
- Assess the lifetime value of customers
- Understand how to attract and keep the best customers\(^2\).

In banking context, CRM is a system which has to deal with a large number of individual retail customers and has the analytical capability to manage the customer

retention rates of the bank and to enable them to cross-sell their product effectively (Buttle 2009). The idea of CRM is that it helps businesses use technology and human resources gain insight into the behavior of customers and the value of those customers. If it works as hoped, a business can: provide better customer service, make call centers more efficient, cross sell products more effectively, help sales staff close deals faster, simplify marketing and sales processes, discover new customers, and increase customer revenues. It doesn't happen by simply buying software and installing it. For CRM to be truly effective, an organization must first decide what kind of customer information it is looking for and it must decide what it intends to do with that information. For example, many financial institutions keep track of customers' life stages in order to market appropriate banking products like mortgages or IRAs to them at the right time to fit their needs. Should be collected to run process engine: 1) Responses to campaigns, 2) Shipping and fulfillment dates, 3) Sales and purchase data, 4) Account information, 5) Web registration data, 6) Service and support records, 7) Demographic data, 8) Web sales data3.

“Information technology can be helpful in supporting the search for competitive advantage” Dennis, Nunamaker, Paranka (1999). “The electronic exchange of transaction documents has had a significant impact on business practices. EDI brings in many benefits to the organization such as reduced costs, faster turnaround, better customer service, and in some firms strategic advantage over their competitors” Premkumar, Ramamurthy and Nilakanta (1994). Karimi, Gupta and Somers (1996) suggests “that the new competitive strategies will be increasingly technology based global initiatives that are affected by the firms’ IT maturity” [5]. According to a RBI

statement, in future India will have a competitive banking market as one of the most attractive market after 2009. India will see foreign banks come in, what with more freedom to come in, grow and acquire. Therefore, it is imperative that Indian banks wake up to this reality and re-focus on their core asset - the Customer. A greater focus on Customer Relationship Management (CRM) is the only way the banking industry can protect its market share and boost growth.\(^4\)

### 3.4 IMPLEMENTING CRM

To ensure the well-functioning of the concept of customer relationship management for successfully implementation in banking sector prospects, and devotes time and attention to expanding account relationship with those customers through individualised marketing, reprising, discretionary decision making, and customized service through the various sales channels that the bank uses. Any financial institution seeking to adopt a customer relationship model should consider six key business requirements (Chary & Ramesh, 2012), these are:

1. Create a customer-focused organisation and infrastructure.
2. Gaining accurate picture of customer categories.
3. Assess the lifetime value of customers.
4. Maximize the profitability of each customer relationship.
5. Understand how to attract and keep the best customers.
6. Maximise rate of return on marketing campaigns.\(^5\)

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3.5 CHALLENGES FACED BY BANKS IN SUCCESSFUL IMPLEMENTATION OF CRM

- The difficulty of obtaining a complete view of customers
- The need to move away from disjointed, standalone, and inconsistent channels to provide a cohesive, multichannel offering
- The burden of disconnected legacy systems and disparate databases that store client financial data
- The cost and complexity of meeting stringent government regulatory and client security and privacy requirements
- The pressure on margins and growth prospects from increased competition
- The costs associated with retaining customers and developing customer loyalty.

Although CRM can help banking institutions efficiently manage their customers, many banks fail to meld the concept into the prevailing work culture. But the high incidence of CRM failure has very little to do with the CRM concept itself. Usually it's a case of the banks failing to pay attention to customer data they already have. A lot of banks underestimate the magnitude of CRM. They tend to treat it just like any other application technology, without realizing that CRM, if done properly, is a strategic initiative that touches all areas of an organization.\(^6\)

3.6 IMPORTANCE OF CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The concept of customer relationship management is dynamic in nature and therefore required for its effectively and efficiently implementation in the organisation of Indian banking sectors. Customer relationship management is not only

pure business but also ideate strong personal bonding within people. Development of this type of bonding drives the business to new levels of success. Once this personal and emotional linkage is built, it is very easy for any organization to identify the actual needs of customer and help them to serve them in a better way. Although it is a belief that more the sophisticated strategies involved in implementing the customer relationship management, the more strong and fruitful is the business, but it may or may not be correct from actual situation is concerned. Most of the organizations have dedicated world class tools for maintaining CRM systems into their workplace. Some of the efficient tools used in most of the renowned organization are BatchBook, Salesforce, Buzzstream, Sugar CRM etc.

1. A CRM system consists of a historical view and analysis of all the acquired or to be acquired customers. This helps in reduced searching and correlating customers and to foresee customer needs effectively and increase business.

2. CRM contains each and every bit of details of a customer, hence it is very easy for track a customer accordingly and can be used to determine which customer can be profitable and which not.

3. In CRM system, customers are grouped according to different aspects according to the type of business they do or according to physical location and are allocated to different customer managers often called as account managers. This helps in focusing and concentrating on each and every customer separately.

4. A CRM system is not only used to deal with the existing customers but is also useful in acquiring new customers. The process first starts with identifying a customer and maintaining all the corresponding details into the
CRM system which is also called an ‘Opportunity of Business’. The Sales and Field representatives then try getting business out of these customers by sophisticatedly following up with them and converting them into a winning deal. All this is very easily and efficiently done by an integrated CRM system.

5. The strongest aspect of Customer Relationship Management is that it is very cost-effective. The advantage of decently implemented CRM system is that there is very less need of paper and manual work which requires lesser staff to manage and lesser resources to deal with. The technologies used in implementing a CRM system are also very cheap and smooth as compared to the traditional way of business.

6. All the details in CRM system is kept centralized which is available anytime on fingertips. This reduces the process time and increases productivity.

7. Efficiently dealing with all the customers and providing them what they actually need increases the customer satisfaction. This increases the chance of getting more business which ultimately enhances turnover and profit.

8. If the customer is satisfied they will always be loyal to you and will remain in business forever resulting in increasing customer base and ultimately enhancing net growth of business

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Indian banking industry has undergone tremendous transformation after liberalization and globalization process initiated from 1991. These changes have forced the Indian banking industry to adjust the product mix to effect the rapid changes in their process to remain competitive in the globalised environment. Over the years the nature and scope of services provided by banks have changed and expanded so much. The global economic meltdown has increased the pressure on organizations to perform. With many financial institutions offering multi-channel access, customer relationships are becoming more complex to handle. The challenge now is to deliver an equally high level service across all channels. This gives a good cause to examine how CRM can achieve cost savings as well as enhance revenue. The new Basel accord to modify the existing capital adequacy framework is currently under discussion. Under the revised capital adequacy framework, banks will have to provide for market risk and operational risk besides credit risk. Against the background of government decisions to reduce its shareholding in nationalized banks to 33 p.c maintaining the required level of capital adequacy by the banks could come under strain. Strong banks will be able to access the capital markets for raising additional equity, but weak banks could face severe problems. But in any case, there will be tremendous pressure on banks to improve their financial performance if they have to attract additional capital for which maintaining long term relationship with their customers becomes mandatory.

As WTO provisions came into force, countries including India have to provide greater market access to other countries by eliminating Quantitative Restrictions (QR), regarding tariff barriers and liberalizing the market for financial services. Banks will have to keep themselves updated on specific developments taking place in the world, particularly in countries that are India’s major trading partners and advise their
corporate clients to help them to prepare for competition with multinational companies.

3.8 DIMENSION CUSTOMER RELATIONSHIP PRACTICES

Customer Acquisition

Customer acquisition refers to gaining new consumers. Acquiring new customers involves persuading consumers to purchase a company’s products and/or services. Companies and organizations consider the cost of customer acquisition as an important measure in evaluating how much value customers bring to their businesses. Customer acquisition management refers to the set of methodologies and systems for managing customer prospects and inquiries that are generated by a variety of marketing techniques. Some successful customer acquisition strategies include customer referrals, customer loyalty programs, and the like. One way to think about customer acquisition management is to consider it the link between advertising and customer relationship management, as it is the critical connection that facilitates the acquisition of targeted customers in an effective way.

Customer interaction

Interaction plays a lead role in building customer relationships. Customer interaction management constitutes the customer relationship technologies with additions of technology-based interactive solutions. The interactive channels that are currently available enable very effective customer interactive communications which leads to customer interaction management which further leads to relationship building.

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Customer Retention

Customer retention is the process of keeping customers in the customer inventory for an unending period by meeting the needs and exceeding the expectations of those customers. It is the approach of converting a casual customer into a committed loyal customer.

Customer Product/Services Management

Product/Service Management is a marketing function that involves obtaining, developing, maintaining, and improving a product or service mix in response to market opportunities. To understand product/service management better, one should start with a clear understanding of what products and services are.

Customer value

This customer value is weighed against the customer values assigned for similar products and services that would provide a similar benefit. Consumers will typically purchase the item with the highest customer value among all offerings in the marketplace. Every consumer has a unique set of needs and resources, so no two consumers will place the same customer value on the same product or service. The highest-quality product or service does not always provide the highest customer value, since the benefit of each item is measured against the cost.

3.9 CRM STRATEGIES

To achieve the long term value of CRM, enterprises must understand that it is a strategy involving

The whole business, and thus should be approached at an enterprise level, CRM initiatives need a frame work to ensure that programme are approached on a strategic, balanced and integrated basis.
Customer relationship management (CRM) Strategies and the technologies that enable them make it possible to figure out what customers want and the most profitable ways to give them—important in an age when acquiring new customers—new customers—is about five to ten times the cost of retaining current ones. CRM strategies are based on the premise that the quick, accurate knowledge about customers empower organizations to increase the value of current customers, keep them longer and more effectively acquire new customers.

The second stage is to assess the stage of the customer base when viewed as an asset. That can be achieved by plotting the strength and value of customer relationships along two perspectives

How much does the customer value the enterprise?
How much does the enterprise value the customer?\(^9\).

3.10 CRM – IMPLEMENTATION

To implement CRM, following factors need to be given due consideration:

- Easy interaction between customers and company, enhancing quick response to customers’ request and suggestions.
- Easy access to information about company like content of customization, advantages of the company, benefits doled out to the customers. This establishes profitable relationships with the customers based on mutual trust and respect.
- Abundant supply of customer information which have been accumulated and integrated from different channels.

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Grow with customers, i.e., customers’ information should be updated along with the passage of time.

Have cordial relationship with other companies targeting the same customer segment. Thus, giving relevant solution to customers’ need and increasing acknowledgement to customers.

Customers’ information must be segmented to provide support for customization based on personalized information, i.e., tailoring the company’s product and services accordingly.

Improvement customer relationships increases customer loyalty, decreases customer turnover, increases sales revenue, and decreases marketing costs, thus, increasing profit margins.

3.11 SUMMARY

Customer relationship management practices in banking sector dealt in this chapter gives an idea about the banking services, dimension of CRM, need for CRM, objectives of CRM. The theoretical background about the CRM practices provided by the banks will help to understand the concept properly.