



CUSTOMER RELATIONSHIP MANAGEMENT – A CONCEPTUAL FRAMEWORK

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ABSTRACT

Customer Relationship Management is based on the principles of relationship marketing, so a brief review of the relationship marketing is helpful for understanding the evolution of CRM. Until the early 1980s, most of the marketers focused on the acquisition of customers by attempting to develop a better marketing mix than the competition-the marketing mix being the blending of optimal product, place, promotion, and price for the targeted market segment (the 4p's).

KEYWORDS :

In the 1990s Relationship Marketing has become a topic of great interest to many organizations. Relationship marketing has its origin in industrial and business-to-business markets. However, much of the recent interest and research activity in relationship marketing has been mostly in the service sectors. Currently consumer goods companies are now seeking to develop stronger relationships with their final consumers, in addition to the traditional business-to-business relationships with their immediate customers. Thus all sectors, industrial, services and consumer—are increasingly examining ways to develop greater competitive advantage through relationship-based strategies.

According to Richard Staelin, Relationship Marketing “Involves the identification, specification, initiation, maintenance and (where appropriate) dissolution of long term relationships with key customers and other parties through mutual exchange, fulfillment of promises and adherence to relationship norms in order to satisfy the objectives and enhance the experience of the parties concerned”¹.

The traditional approach to marketing has been increasingly questioned in recent years. It emphasized management of the key marketing mix elements such as product, price, promotion and place within a functional context. The new relationship approach, whilst recognizing these key elements, reflects the need to create an integrated cross-functional focus of marketing while giving a special importance to customers. Thus the focus is shifting from customer acquisition to customer retention, and ensuring that the appropriate amounts of time, money and managerial resources are directed at both of these key tasks. The new relationship marketing paradigm reflects a change from traditional marketing to customer –focused management or market-oriented management. Hence, the term relationship marketing embraces an organization-wide perspective of marketing rather than a narrow functional focus².

Although the origins of relationship marketing were initially in the industrial context, the service industry has increasingly become focused on maintaining and enhancing customer relationships (Clark et al.). Relationship marketing in the service context was first introduced by Berry (1983) to describe a long-term approach to marketing³.

The domain of CRM has always been marketing-in particular, customer service and sales. In the late 1980s, telemarketing technology was built into the Customer Call Center (CCC). In the early 1990s, customer service and support applications were introduced as well. According to J.G. Freeland, the first CRM initiatives were launched in the early 1990s and focused on improvements to the call center. Other new technologies and evaluation metrics were developed to improve the handling of customer enquiries.

Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater effectiveness in delivering customer value 4.

Customer Relationship Management (CRM) has attracted the expanded attention of practitioners and research scholars. More and more companies are adopting customer-centric strategies, programs, tools and technology for efficient and effective customer relationship management. They are realizing the need for in-depth and integrated customer knowledge in order to build close cooperative and partnering relationships with their customers. The emergence of new channels and technologies is significantly altering how companies interface with their customers, a development bringing about a greater degree of integration between marketing, sales, and customer service functions in organizations. For practitioners, CRM represents an enterprise approach to developing full-knowledge about customer behavior and preferences and to develop programs and strategies that encourage customers to continually enhance their business relationship with the company.

Marketing scholars are studying the nature and scope of CRM and are developing conceptualization regarding the value and process of cooperative and collaborative relationships between buyers and sellers. Many scholars with interests in several sub-disciplines of marketing, such as channels, services marketing, business-to-business marketing, advertising, and so forth, are actually engaged in studying and exploring the conceptual foundations of managing relationships with customers. They are interested in strategies and processes for customer classification and selectivity; one-to -one relationships with individual customers; key account management and customer business development processes; frequency marketing, loyalty programs, cross-selling and up-selling opportunities; and various forms of partnering with customers including co-branding, joint-marketing, co-development, and other forms of strategic alliances⁵.

Scholars from other academic disciplines, particularly those interested in the area of information system and decision technologies, are also exploring new methodologies and techniques that create efficient front line information systems (FIS) to effectively manage relationships with customers. Several software tools and technologies claiming solutions for various aspects of CRM have recently been introduced for commercial application. The majority of these tools promise to individualize and personalize relationships with customers by providing vital information at every point in the interface with the customer. Techniques such as collaborative filtering, rule-based expert systems, artificial intelligence and relational data basis are increasingly being applied to develop enterprise level solutions for managing information on customer interactions.

Customer relationship management and relationship marketing with a focus on customer relation, customer commitment, and share of the customers business instead of market share have generated enormous research interest. Hundreds of papers have been presented at dozens of conferences. Several papers have been published in top journals and many books have been written on this topic, as indicated by the literature reviews presented in Sheth and Parvatiyar (2000). There is an abundance of research on CRM in the marketing literature. The recent articles by Winer (2001), Rust and Chung (2005), and Kamakura et al. (2005) give excellent reviews of existing marketing

models of service and customer relationship management. Venkatesan and Kumar (2004) developed a dynamic framework that enables managers to improve customer relationship proactively through marketing contacts across various channels and to maximize customer lifetime value. Rust and Verhoef (2005) derived the optimal marketing interventions mix in intermediate-term CRM. Several empirical studies have shown that CRM brings benefit in terms of improved performance (Zablah *et al.*, 2004; Coltman, 2007). This Performance is improved since CRM involves the ongoing process development of market intelligence for building and maintaining a profit-maximizing portfolio of customer relationship (Zablah *et al.*, 2004). Its customer-centric rather than product-centric should enhance interaction with customers, add value to the products and services and generate customers' loyalty and profitability. Although not all CRM strategy implementation brings about these desired benefits (Richards and Jones, 2008), effective management of customer relationships through the use of CRM strategy is expected to have a positive relationship with performance. Through its customer differentiation and retention, CRM aims to retain and engage in long-term relationships with profitable customers in order to enhance profits.

4.1 The Emergence of CRM

The emergence of CRM as a management approach is a consequence of a number of important trends. Those include:

- The shift in business focus from transactional marketing to relationship marketing.
- The realization that customers are business asset and not simply a commercial audience.
- The transaction in structuring organizations on a strategic basis from functions to processes.
- The recognition of the benefits of using information proactively rather than solely reactively.
- The greater utilization of technology in managing and maximizing the value of information.
- The acceptance of the need for trade-off between delivering and extracting customer value.
- The development of one-to-one marketing approaches.

The objective of customer relationship management is to turn new customers into regularly purchasing clients, and then to progressively move them through being strong supporters of the company and its products, and finally to being active and vocal advocates for the company thus playing an important role as a referral source. Customer service has a pivotal role to play in achieving this progression up the ladder of customer loyalty. It should be obvious that traditional marketing mix elements of product, price, promotion and place are the principle elements used to turn prospects into customers, while the other additional elements like customer service, people and process are those which are used to move customers into clients, supporters and ultimately advocates for company's products and services. In moving clients up the ladder it is essential to understand in an in-depth and explicit manner exactly what the customer is buying and how can offer augmentation or differentially improve the offering to the customer. To achieve the transition from customer to advocate, one has to go beyond more 'customer satisfaction' to 'customer delight' by delivering products or services that exceed expectations⁶.

Objectives of Customer Relationship Management

Management interact with their customers in a number of ways including marketing and advertising, direct mail campaigns, websites, call center, mobile sales service, brick and mortar stores. CRM is an organizational strategy to develop mutually profitable site long relationship with the customer. CRM objectives should be: to understand customer needs (Stringfellow *et al.*, 2004), to rapidly gather sufficient customer data (Chan, 2005), to identify the most valuable customers (Fjermestad and Romano, 2003), to maintain long-term relationships (Wayland and Cole, 1997), to improve the processes of CRM (Chen and Popovich, 2003), to compare customer satisfaction and loyalty online vs. offline (Shankar, Smith, and Rangaswamy, 2003), to enable the managers to improve customer relationship proactively and to maximize the customer lifetime value (Venkatesan and Kumar, 2004) and to derive the optimal marketing interventions mix in intermediate-term CRM (Rust and Verhoef, 2005) to retain and engage in long-term relationships with profitable customers in order to enhance profits. (Richards and Jones, 2008).

4.2 Reasons for Development of Customer Relationship Management

1. The simplest reason why firms are seeking to develop ongoing relationship with their customers is that, it is generally much more profitable to retain existing customers than continually seeking to recruit new customers to replace lapsed ones. (Burez and Van den Poel, 2008) show that the cost of winning a new customer is about five times greater than the cost of retaining a current customer through the use of relationship marketing strategies. Furthermore, (Burez and Van den Poel, 2008) comment that "companies can boost profits by almost 100% by retaining just 5% more of their customers"⁷

The core aim of customer relationship management (CRM) is to focus on improving the creation and management efforts of firms with respect to their relationships with customers (Geib *et al.*, 2005). It accomplishes this by analyzing and using marketing databases and leveraging communication media to establish practices and methods that will maximize the lifetime value of each individual customer to the firm (Kumar and Reinartz, 2006). These distinctive relationships have the potential to increase customer retention (Zindelin, 2006), resulting in greater loyalty and profitability (Chen and Popovich, 2003).

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