



Customer Relationship Management – A Study on the Impact of CRM on Firm- and Relationship-Level Performance with Special reference to Indian Manufacturing Industry

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ABSTRACT

The need to better understand customer behavior and focus on those customers who can deliver long-term profits has changed how marketers view the world. Traditionally, marketers have been trained to acquire customers, either new ones who have not bought the product category before or those who are currently competitors' customers. This calls for heavy doses of mass advertising and price-oriented promotions to customers and channel members. Today, the tone of the conversation has changed from customer acquisition to retention. This requires a different mindset and a different and new set of tools. A good thought experiment for an executive audience is to ask them how much they spend and/or focus on acquisition versus retention activities.

CRM is highly fragmented environment and mean differently to different business people. Few view CRM is the utilization of customer related information or data or knowledge to deliver appropriate products and services to the customers. Such CRM definitions has emphasized on the goals, logistics and complex characteristics of CRM. CRM evolved from business processes such as Relationship marketing and the increased emphasis on improved customer retention through effective management of customer relationships. Relationship Marketing emphasizes that customer retention affects company profitability, in that it is more efficient to maintain an existing customer relationship with a customer than create a new customer (Payne 1999).

The Relationship Marketing to build CRM would be strong and needs the companies to explore strategies for maintaining or improving customer retention by adopting database technologies tools.

Keywords : Customer Relationship Management; Relationship Marketing; CRM Process; CRM Definition; CRM Strategy; CRM Programs; CRM Implementation

1.1 INTRODUCTION:

In the recent past two decades Indian Industries have grown exponentially, and have become global companies. These Indian industries have also recognized competition from multi-national companies as well. Indian Industries have identified the need of the hour is to become more customer centric. The prime objective of Indian Industries is to focus on Customer Relationship Management and strategize to be competitive and sustain profitability. Indian Industries have initiated to implement Customer Relationship Management (CRM) systems by utilizing Information Technologies.

The essence of the information technology revolution and, in particular, the World Wide Web is the opportunity to build better relationships with customers than has been previously possible in the offline world. By combining the abilities to respond directly to customer requests and to provide the customer with a highly interactive, customized experience, companies have a greater ability today to establish, nurture, and sustain long-term customer relationships than ever before. The ultimate goal is to transform these relationships into greater profitability by increasing repeat purchase rates and reducing customer acquisition costs. Indeed, this revolution in customer relationship management or CRM as it is called has been referred to as the new "mantra" of marketing. Companies like Siebel, E.piphany, Oracle, Broadvision, Net Perceptions, Kana and others have filled this CRM space with products that do everything from track customer behavior on the Web to predicting their future moves to sending direct e-mail communications. This has created a worldwide market for CRM products and services of \$34 billion in 1999 and which is forecasted by IDC to grow to \$125 billion by 2004

1.2 Need of the Study:

CRM Implementation Issue:

Formation process: Defining the purpose (objectives) of engaging in CRM; selecting customer partners for appropriate CRM programs, developing programs or relational activity schemes. The overall purpose of CRM is to improve marketing productivity and enhance mutual value for relationship mutual benefit

Management and Governance Process: Ensure smooth functioning of the CRM programs. Managers need to take decisions related to role specification, communication, common bonds, planning process, process alignment, employee motivation and monitoring procedures

Performance Evaluation: To help assess the programs and take corrective actions in terms of relationship governance or in modifying relationship marketing objectives and program features.

The performance evaluation metrics for CRM program should reflect the defined objectives for multi dimensional customer loyalty and customer accountability program. CRM performance can be conceptualized as multi-dimensional measure having strategic, financial and marketing dimensions.

Evolution: Individual customer relationships and CRM programs evolve and change over a period of time due to dynamic nature of competitive markets. Decisions regarding the continuation, termination, enhancement, and modifications of the relationship programs to be undertaken regularly. Relationship performance and satisfaction influence the evolution

of the CRM programs.

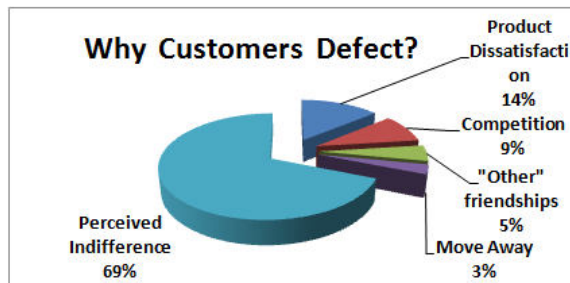
1.3 Scope of the Study:

CRM program implementation is to be viewed as a discipline as well as set of discrete software technologies which will focus on automating and improving the business process associated with managing customer relationships in the areas of sales, marketing and customer service and support. The Organization planning to implement should aim to achieve the end goal of one-to-one marketing

- Understand and Differentiate:
- Develop and Customize:
- Interact and Deliver:
- Acquire and Retain:
- Prioritizing the Changes:
- Involvement of Top Management - Creating an Action plan
- Selecting and Implementing a Technology - Few Key Issues

As CRM reaches all functional areas of business, the company/organization has to view and adopt holistic approach and integrate the customer oriented business processes and the integration of CRM systems. Holistic approaches to CRM help the company coordinate and effectively maintain the growth of various customer contact points (customer touch points) or channels of communication. The problems of channel conflict have to be identified where customer experiences differ depending on the sales channels.

For product markets which have reached a stage of commoditization as a result of technological parity such as Personal computers, consumer durables like household electronic appliances, consumer electronics. In such markets, services (attached to the product like financing, after-sale-service, etc) become a major source of differentiation. Superiority in services is sustainable, as they are relatively more difficult to copy.



Why Customers Defect **

* (Reichheld, F.F. and Sasser, W.E., "Zero Defections Quality Comes to Services, Harvard Business Review, September-October, 1990).

(** "Learning's from Defections" Harvard Business Review, March-April 1996)

This CRM study also need to find about the probable reasons for customer defection and suggest any customer retention program.

Conceptual foundations of Customer Relationship Management:

CRM has emerged as one of the latest management buzz word. Popularized by Business press and marketed by aggressive CRM solution vendors for all its ills facing the companies and managers. It means different things to different people. CRM for some means 1 to 1 marketing while for some it means call center. Some call database marketing as CRM.

Merchants and traders have been practicing customer relationship for centuries.

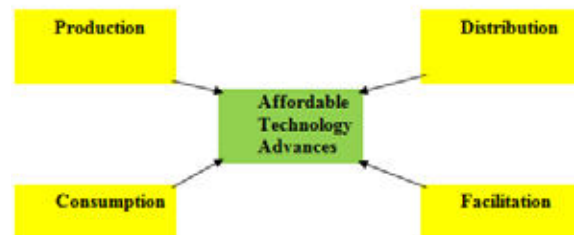
Their business was built on trust. They could customize the products an all aspects of delivery and payment to suit the requirements of their customers. They paid personal attention to their customers, knew details regarding their customers' tastes and preferences, and had a personal rapport with most of them. In such interactions of the commercial transactions transcended to social interactions. Even today, this kind of a relationship exists between customers and retailers, craftsmen, artisans – essentially in markets that are traditional, small and classified as pre-industrial markers.

The industrial revolution changed these relationship-oriented practices. Businesses adopted mass production, mass communications and mass distribution to achieve economies of scale. Manufacturers started focusing on manufacturing and efficient operations to cut costs. Intermediaries like distributors, wholesalers and retailers took on the responsibilities of warehousing, transportation, distribution and sale to final customers. This resulted in greater efficiencies and lower cost to the manufacturers but brought in many layers between them and customers.

The resulting gap reduced direct contacts and had a negative impact on their relationship.

The post-industrial era (information era) saw the emergence of relationship practices. Marketing academics Jagdish Sheth and Atul Parvatiyar (Sheth and Parvathiyar, 1995) identified the following factors for this shift in orientation:

- Rapid advances in technology
- Intensive competition in most markets
- Growing importance of the service sector and
- Adoption of total quality management programs



Marketers could gain knowledge about customers, which helped them respond to their needs through manufacturing, delivery and customer service. Technology has enabled customers undertake some of the responsibilities, normally performed by marketers, like ordering and product-use related services.

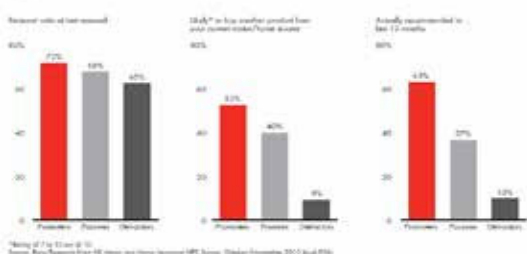
Though the emergence of CRM in recent times coincided with the information age, one need to remember that technology is just an enabler. Technology enabled marketers overcome several shortcomings of mass marketing. Few of such shortcomings of marketing are:

- **Inefficiencies of mass marketing**, in early 1990s witnessed some of the most radical business transformations that resulted in cost reductions in almost all functional departments except marketing. Manufacturing related operations costs were reduced through business process re-engineering, human resources costs were reduced by outsourcing, restructuring and layoffs, financial costs were reduced by financial restructuring but marketing costs kept increasing due to increased competition and product parity in virtually every industry.
- **Lack of fast, effective and interactive modes** of customer contact, feedback and information
- **Lack of consolidated information** about customer interactions, purchase behavior and future potential.

1.4 Benefits of CRM:

Customers are Profitable over a period of Time: Studies by US-based firm Bain and Company have shown that a customer becomes more profitable with time because the initial acquisition cost exceeds gross margin while the retention costs are much lower. When an organization retains the customer, it gets a larger share of customer's wallet at higher profit. One percent increase in sales to existing customers increase profits by seventeen percent while the same amount of sale to new customers increase profits by only three percent. This huge difference is explained by the fact that for most companies the cost of acquiring new customers than to sell to an existing one. It costs six times to eight times more to sell to a new customer than to sell to an existing one. The same study also highlighted that a company can boost its profit up eighty five per cent by increasing its annual customer retention by only five per cent.

Figure 2: Customer promoters stay longer, buy more and attract new customers



Source: <http://www.bain.com/publications/articles/the-p-and-c-customer-rediscovered-through-analytics.aspx>

Customer Profitability is Skewed: An analysis of the revenue and profit contribution of customer base of banks in the US, Europe and Australia showed the following:

Top twenty percent of customers contribute to one hundred fifty per cent of the profits while the bottom twenty percent drain fifty of the profits and the rest sixty per cent just break even.

Experiences of Indian organizations are on similar lines. In a large public sector bank, the top twenty per cent of the customers contribute to seventy seven percent of the revenue. Similarly the top twenty seven per cent customers of a leading cellular phone service provider contribute seventy per cent of the revenues.

1.5 Marketing Benefits of CRM

CRM would gradually reduce organization's dependence on periodic surveys to gather data. Collection of data related to buying and consumption behaviour would be on-going process. In many cases, the transaction data is automatically collected sometimes real time as in the case of e-commerce transactions. This is a rich repository of customer information and knowledge updated through regular interactions and actual customer transactions and purchase behaviour will help marketers to develop and market customer centric products successfully.

Customized promotions: Customer information based - customer preferences and purchase pattern would substantially reduce the wasteful expenditure of mass communications and even direct mailing. As the customized promotions are more focused and are based on a deeper insight of existing customers, they have a greater chance of conversion to sales.

A simple illustrative calculation indicates the huge potential for savings in a direct marketing exercise, which was done by me at M/s. ARC Advisory Group, Bangalore to carry out a marketing campaign:

Particulars		Amount in Rs
Cost of sending 100,000 mails: Cost of address database Printing (mailer and envelope) Handling and mailing	Rs. 5,00,000/- 12,50,000/- 5,00,000/-	22,50,000/-
Hit rate, i.e. average response (~ 3 per cent)		
Actual purchase (25 per cent of the respondents) i.e. 750 sales		
Direct marketing cost per sale		3,000/-

In this case, the margin per sale has to be substantially higher than Rs. 3,000/- to justify the mailing exercise. It also highlights the potential for savings through low cost media, improved targeting and higher conversion rates.

Using data mining, collaborative filtering and event based triggered offerings, a financial services provider, with over a million customers, can shortlist just four potential customers who are ripe for a sale, make a pitch through email and follow it up with other direct contact and get three sales – conversion rate of 75 percent.

Service benefits of CRM: Research findings conducted across industries as part of Technical Assistance Research Project (TRAP) indicate that:

- 95 per cent of customers do not bother to complain, they just take their business elsewhere
- Most loyal customers take time to complain. This enables the product / service provider to improve and ensure such mistakes do not reoccur
- A typical dissatisfied customer will tell an average fourteen others about his/her bad experience while he/she tell only six about a satisfying experience with the organization
- 70 per cent customer who complains will do business with the company again as it quickly takes care of a service problem.

Transactions versus Relationship Orientation in marketing: Conventional marketing focused on exchanges to satisfy the customers' needs while meeting the organization's objectives.

The relationship marketing reduces transaction costs, efforts, and time while moving towards a reutilized transaction in place of negotiated transactions. The relationship orientation is built around the idea of treating customers in an individualized way. The developments of long-term mutually beneficial relationships with customers are favored in place of short-term orientation on transactions.

Transactions Marketing V/s. Relationship Marketing:

Transaction Marketing		Relationship Marketing
One off exchange	Focus	Ongoing Exchange
Brand Management		Customer Management
Short-term focus	Time perspective	Long-term Focus
Mass communication	Primary Communication	Personal Communication
Isolated Market Research	Customer Feedback Mechanism	Ongoing Dialogue
Mass Markets or Market segments	Market Size	Markets of One
Market Share	Criterion for Success	Mind share (Share of customers)
Profitability of Transaction	Critical Metrics	Lifetime Value of Customers
Brand Equity		Customer Equity

The growth of practice of relationship marketing is supported by growing research interest in different aspect of CRM concepts. Researchers in different countries observed shifts / transformation in marketers' orientation towards customer relationship.

1.6 CRM Program Implementation

CRM program implementation is to be viewed as a discipline as well as set of discrete software technologies which will focus on automating and improving the business process associated with managing customer relationships in the areas of sales, marketing and customer service and support.



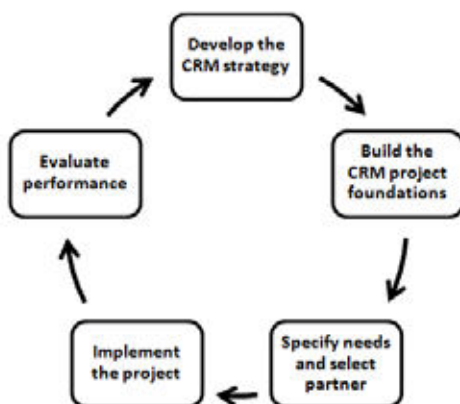
CRM – Holistic View

The Organization planning to implement should aim to achieve the end goal of one-to-one marketing

Depending on the scope of the CRM project, it would involve few major phases of CRM implementation, and the processes and tools that could be used within those phases to ensure that CRM projects deliver what is expected of them. Depending on the scope of the project some of these phases, processes and tools may not be required. The key phases could be:

- Develop the CRM strategy
- Build the CRM project foundations
- Specify needs and select partner
- Implement the project
- Evaluate performance

The CRM strategy is high level plan of actions that aligns people, processes and technology to achieve customer-related goals.



Key Phases of CRM implementation

Develop the CRM strategy:

- Situation analysis
- Commence CRM awareness education
- Develop the CRM vision
- Set priorities
- Establish goals and objectives
- Identify people, process and technology requirements
- Develop the business case

Build the CRM project foundations

- Identify stake holders
- Establish governance structures
- Identify project management needs
- Identify critical success factors
- Develop risk management plan

Specify needs and select partner

- Process mapping and refinement
- Data review and gap analysis
- Initial technology needs specification, and research alternative solutions
- Write Request for Proposal (RFP)
- Call for proposals
- Revise technology needs identification
- Assessment and partner selection

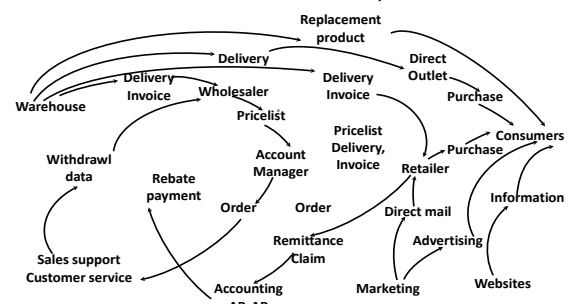
Implement project

- Refine project plan
- Identify technology customization needs
- Prototype design, test, modify and roll-out

Evaluate performance

- Project Outcomes
- Business Outcomes

Customer interaction map



Understand and Differentiate:

- Organizations need to understand their customers in order to have a relationship with them, Understandings of customers such as know their values, required types of services and their likes – Know Your Customer (KYC)
- Profiling to understand demographics, purchase patterns and channel preferences.
- Segmentation to identify logical unique groups of customers that tend to look alike and behave in a similar fashion
- Identification of actionable segments in a practicable manner

Develop and Customize:

- In a customer focused world, product and channel development has to follow the customer's need, identify customer's wants, determine the value and desire of the customer
- Organization need to develop products and channels based on customer needs and service expectations
- Challenges of customization based on the potential value delivery by the customer segment

Interact and Deliver:

- Customer do not just interact through normal marketing and sales channels, or media
- All areas of organization need to have easy access to

relevant and actionable customer information

- All areas need to be trained to use customer information to tailor interactions based on both customer needs and potential customer value

Acquire and Retain:

- Learning about customers is a time consuming process – maintain interactions without interruptions
- Continuation of “deliver on customer’s definition of value” – efforts and cost involved
- Customer change as they move different stages of their lives, hence organization needs to modify its services and value proposition as they change

Prioritizing the Changes:

- The gaps between current stage of the organization as

compared to intended ideal, optimal stage of the organization is looking for

- Cost to implement – initial one-time costs, and also anticipated ongoing expenses
- Overall benefit – some changes may have larger impacts on the organization’s ability to increase customer value and loyalty
- Feasibility – based on organization’s readiness, data and systems support, resource skills-sets and number of other factors
- Time Required – including the time necessary for training and addressing “cultural” change management issues related to specific strategy

Strategic Goals for CRM - Franics Buttle



Develop Business Case

Generate additional income:

- Conversion of more leads from suspect to prospect to opportunity
- More cross-selling and up-selling
- More accurate product pricing
- Higher levels of customer satisfaction and retention
- Higher levels of word-of-mouth influence
- More leads and/or sales from marketing campaigns
- Incremental sales from marketing campaigns

Costs could be reduced by:

- Improved lead generation and qualification
- Lower costs of customer acquisition
- More efficient account management
- Less waste in marketing campaigns
- Reduce customer service costs
- More efficient front-office processes

Involvement of Top Management - Creating an Action plan

- It is necessary in planning process a very detailed action plan be prepared with involvement of top management - Develop an Action Plan
- One of the top leader in the organization need to lead and drive the implementation process, monitor and ensure the CRM goal is achieved
- Leadership Action Plan needs to create additional strategies by identifying the actions necessary to lead the organizational change – Executives to identify their roles

and responsibilities and actions necessary to eliminate barriers and nurture change in Organization process and strategies

Selecting and Implementing a Technology - Few Key Issues

- Buy ready solution or customized solution, make decision evaluating adoptability of the solution based on set of criteria like:
 - Flexibility in incorporating changes
 - Scalability with the growth
 - Adjustability with the existing architecture of systems (legacy systems)
 - Adjustability with the global best practices
- Commercial impact - evaluate in terms of the lifetime of the solution
- CRM Solution providers expertise in a specific industry vertical
- Solution providers implementation worldwide and also in Asia/India
- Solution providers focus on CRM, specifically in ERP (Enterprise Resource Planning) Solution providers credentials including financial, client list, life history, etc

Manufacturing, logistics, retail store/branch operations and the public sector have all produced great examples — of both success and failure. For years, change programmes involving a big change to systems, or even totally new systems, involved additional risk. The more the change the greater the

risk. CRM systems success and failure have attracted a lot of publicity in recent years, but in the last few years, there have been many other management areas where the issue of systems success and failure has attracted the same interest. The reasons for success and failure turn out to be pretty closely related. Successful systems-supported change projects observe change management disciplines, unsuccessful ones do not. Successful projects are planned carefully, with all aspects covered, all the right people involved, and the company and any external suppliers (consultancies, systems companies, business partners) work well as a team. The opposite applies to failed projects. In the middle lie the many partly successful projects that achieve some but not all of their objectives, probably at a higher cost than initially planned.

1.7 Summary of Findings :

The successful implementation of CRM programme depends upon four critical factors:

- CRM readiness assessment
- CRM change management
- CRM project management
- Employee engagement.

A CRM readiness assessment is an overview audit which helps managers to assess the overall position in terms of readiness to progress with CRM implementations and to identify how well developed their organisation is relative to other companies.

CRM change management involves strategic organisational change and cultural change. Senior level understanding, sponsorship, leadership and cross-functional integration are clearly critical in a complex CRM implementation.

CRM project management requires forming cross-functional teams of specialists who manage the enterprise's CRM implementation programme. Successful CRM projects deliver against the CRM objectives derived from the corporate objectives and support the overall business strategy. Finally, employee engagement comprises support and commitment of the employees to CRM projects. Increasingly, firms recognise the significant value their employees contribute to the business, which extends well beyond the basic fulfilment of core duties. Companies cannot develop and operate appropriately customer-focussed CRM systems and processes without motivated and trained employees.

Various arguments have been put forward for the failure of CRM systems. The main reason for CRM project failure is the lack of strategic planning prior to the implementation of CRM.

The reasons for failure of many CRM initiatives ranged from technological implementation problems to a lack of organisational integration and customer orientation.

Most such failures are attributed to poor design, planning and measurement of CRM projects. They comment that capturing the wrong customer information, unclear goals, inappropriate selection and use of technology, inability to integrate people and processes and use of misleading metrics or improper measurement approaches are the major barriers in implementing and managing CRM projects.

Few deterrents for unsatisfactory CRM outcome are:

- Viewing the CRM initiative as a technology initiative
- Lack of customer-centric vision
- Insufficient appreciation of customer lifetime value
- Inadequate support from top management
- Underestimating the importance of change management;
- Failing to re-engineer business processes
- Underestimating the difficulties involved in data mining and data integration

Most executives are not even aware of these issues, even though they could spell disaster for their careers and for the

company. Others argue CRM failures are heavily influenced by the firm's lack of ability to integrate CRM technologies into its functional processes.

Different industries and users have different priorities and varying amounts to invest in CRM. Companies with very tight profit margins or limited funds tend to partner where they can (eg shared loyalty schemes, outsourced database management and call centres) and to use small 'pay as you use' development stages, while keeping a consistent vision and objective in mind.

Many of the largest scale projects were in the financial services industry such as Banks, Insurance companies usually used packages such as Banks 2000, Finacle, and Automobile manufacturing, Retailing and others usually used packages such as Oracle Siebel, SAP at the core of their operations, but some developed their own systems.

These companies were moving from managing customers mainly in the branch or direct mail, to managing them in the contact centre and over the web.

Here, the main reason for the investment was to cut the cost of managing customers, and to enable the company to move into new product markets very quickly (eg from banking to insurance or vice versa). At the same time, telecommunications companies were investing in large CRM projects. Some did it as a replacement for an existing system which was focused entirely on subscriber management, including billing. Their new systems enabled them to manage churn and up/cross-sell much better. In telecommunications, particularly in mobile telephony and now broadband, reducing churn is a critical target, while increasing customer value by up-sell and cross-sell is the core of customer relationship management.

Many of these companies have sustained their CRM systems focus over time, although these investments may or may not be considered part of a long-term CRM strategy. For example, one major international bank defines its CRM systems as the marketing databases and campaign management and considers distribution channels to be a separated (but linked) systems investment area.

Industries with tighter margins eg. Automobile, Garments, appear to have invested more cautiously but have usually sustained this over a long period to achieve substantial effect. With limited funds we saw far greater focus on challenging proofs and pilots, also a strong management process for re-investing early savings to create a 'pay as you use' approach. This approach is increasingly used within the private sector, where 'lean' initiatives can generate savings that can be immediately reinvested for additional productivity gains.

1.8 Conclusion:

Many Manufacturing industries outsource CRM solutions from few alternative solutions available and face critical issue during implementation. These CRM solution providers may not have core competency in a specific industry vertical which results in failure of CRM initiatives. Most of Indian companies do not have in-house capabilities to develop CRM solutions for its own use, even if the company wants to develop its CRM solution, it takes long-time to develop and later to implement which results in high costs and also technical skill set / technical personnel required for the development of customized CRM system may not be available as there is high attrition of technical people. CRM software development could be lengthy process and there may be positive aspects if the responses are received fast & appropriately from both internal & external environment of the company. CRM could be facilitating the outsourcing of more business operations directly to the customers such as self-tracking systems through internet which could make impact on enabling the "customer convenience" and huge annual cost savings for the company.

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