# BBA SEM – V

# ADVANCE MARKETING MANAGEMENT - I

# (CODE: UM05EBBI10)

**UNIT 3: CUSTOMER RELATIONSHIP MANAGEMENT**

- INTRODUCTION
- CRM PROCESS
- ORIGIN AND FEATURES OF CRM
- DIFFERENCE BETWEEN CRM AND E-CRM

## INTRODUCTION

Customer relationship management (CRM) is one of the largest applications of information Technology (IT) concepts as on date. It has the concept of shifting the ownership of the customer up to the enterprise level and away from individual departments. These departments have the responsibility for the customer interactions, but the enterprise has the responsibility for the customers. In order to achieve CRM, the enterprise brings automation to each customer touch point in the areas of sales automation, the internet, point of sale and call centers. These are all components of CRM. It is well known and often don't stated that CRM evolution of web services both commoditization and standard IT infrastructure shall provide a huge leap in the ability of enterprise system to be developed i.e. customized and integrated

CRM market place is filled with a number of terms:

- Database marketing
- Campaign management
- Marketing automation and
- Enterprise customer management etc.

The enterprise are in a fix as they try not only to sort out the terminology and they also have to determine how to incorporate this technology into their environments and marketing plans. The strategic analysis reports are two-fold:

- To give the components of CRM and
- Provides a time line as to when enterprises will see these solutions actually develop.

In order to accomplish these goals, the strategic analysis report defines the commonly used terms:

- Marketing automation and
- Enterprise customer management.

Further, it examines the processes that enterprise are trying to automate. The report discusses the components of a complete solution and analyses the time line and implications to enterprises.

Developing close, cooperative relationship with customer is more important in current era of intense competition and demanding customers, than it has been before.

**DEFINITION OF CRM**

CRM, a well-defined business strategy, is fusion of a series of cautions, skills, processes and technologies which together allows companies to more profitability manage (acquire and retain) customers as tangible assets.

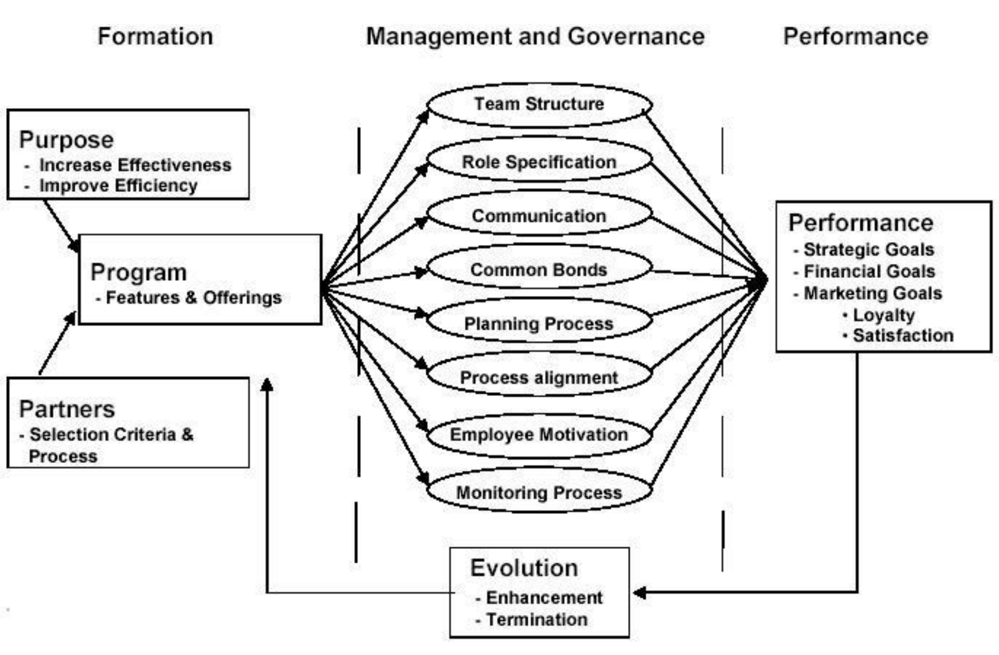
Customer relationship management is a comprehensive strategy and process of acquiring retaining and partnering with selective customers to create superior value for the company and the customer.

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 efficiencies and effectiveness in delivering customer value.

**CRM PROCESS**

Building on that work we develop a four-stage CRM process framework comprised of the following four sub-processes: a customer relationship formation process; a relationship management and governance process; a relational performance evaluation process, and a CRM evolution or enhancement process. Figure 1 depicts the important components of the process model.

Figure 1: The CRM Process Framework




**(1) The CRM Formation Process**

The formation process of CRM refers to the decisions regarding initiation of relational activities for a firm with respect to a specific group of customers or to an individual customer with whom the company wishes to engage in a cooperative or collaborative relationship. Hence, it is important that a company be able to identify and differentiate individual customers. In the formation process, there are three important decision areas: defining the purpose (or objectives) of engaging in CRM; selecting parties (or customer partners) for appropriate CRM programs; and developing programs (or relational activity schemes) for relationship engagement with the customer.

### (i) The Purpose of CRM and Its Operational Goals.

The overall purpose of CRM is to improve marketing productivity and to enhance mutual value for the parties involved in the relationship. Improving marketing productivity and creating mutual values can be achieved by increasing marketing efficiencies and/or enhancing marketing effectiveness. By seeking and achieving such operational goals as lower distribution costs, streamlining order processing and inventory management, reducing the burden of excessive customer acquisition costs, and by considering the economics of customer retention, firms can achieve greater marketing efficiencies. They can also enhance marketing effectiveness by carefully selecting customers for their various programs, by individualizing and personalizing their market offerings to anticipate and serve the emerging needs of individual customers, by building customer loyalty and commitment; by partnering to enter new markets and develop new products, and by redefining the competitive playing field for their company. Thus, stating the objectives and defining the purpose of CRM in a company helps clarify the nature of the CRM programs and activities that ought to be performed by the partners. Defining the purpose also makes identifying the relationship partners with the necessary expectations and capabilities to fulfill mutual goals an easier task. Furthermore, it helps in the evaluation of the CRM performance. The results achieved can be compared to the objectives. These objectives can be specified as financial goals, marketing goals, strategic goals, operational goals, and organizational goals.

Similarly, in the mass-market context, consumers expect to fulfill their goals related to efficiencies and effectiveness in their purchase and consumption behavior. Consumers are motivated to engage in relational behavior because of the psychological and sociological benefits associated with reduction in choice decisions. In addition, to their natural inclination to reduce choices, consumers are motivated to seek the rewards and associated benefits offered by CRM programs.

(ii) **Relational Parties and Partners**

Customer partner selection (or parties with whom to engage in cooperative or collaborative relationships) is another important decision in the relationship formation stage. Even though a company may serve all customer types, few have the necessary resources and commitment to establish CRM programs for all. Therefore, in the initial phase, companies have to decide on which customer types and specific customers or customer groups to focus their CRM efforts on. Subsequently, when a company gains experience and achieves successful results, the scope of CRM activities can be expanded to include other customers in the program or to include additional programs.

Although partner selection is an important decision in achieving CRM goals, not all companies have a formalized process of selecting customer partners. Some select customer partners by following the intuitive judgments of their senior managers and select other partners from those customers who demand to be selected. On the other hand, other companies do have formalized processes of selecting relational partners through the use of extensive research and the evaluation of chosen criteria. The criteria for partner selection vary according to company goals and policies. They can range from a single criterion such as the revenue potential of the customer to multiple criteria that include variables such as customer commitment, resourcefulness, management values, technological and market leadership, national and global presence, strategic value, and complementary business processes. When several criteria are applied and a complex model developed, it is necessary to test its validity based on strategic fit and the distinctive competitive advantage to the firm.

(iii) **CRM Programs and Strategies**

A careful review of the literature and the observation of corporate practices suggest that there are several types of CRM programs. Broadly specified, they fall into the following three categories: continuity marketing, one-to-one marketing, and partnering programs. Each one of these can take different forms depending on whether they are meant for end-consumers, distributor customers, or business-to- business customers.

Obviously, marketing practitioners in search of new creative ideas are able to develop many variations and combinations of CRM programs to build mutually beneficial relationships with their customers. However, the essence of CRM programs is customer selectivity. It has now become common knowledge that the value of all customers is not equal. The 80/20 rule prevails whereby we have learned that 20 percent of customers generate more than 80 percent of revenues for most companies, and it is not uncommon to find that an even lower percentage of customers can generate more than 80 to 90 percent of the revenues. Under such circumstances, it is not prudent for a company to allocate equal resources to all customers. Customer segmentation and program differentiation is needed in order to match revenue potential with service offerings. Those with higher revenue potential deserve a greater allocation of costs and service.

Otherwise, competitors will seize the opportunity by offering better service and a greater allocation of resources for the high-end customers. At the lower-end, attempts should be made to achieve cost savings through the re-allocation of efforts based on less-expensive resources.

### (2) The CRM Governance Process

Once a CRM program is developed and rolled out, the program as well as the individual relationships must be managed and governed. For mass- market customers, the degree to which there is symmetry or asymmetry in the primary responsibility for whether the customer or the program sponsoring company will be managing the relationship varies with the size of the market. However, for programs directed at distributors and business customers the management of the relationship would require the involvement of both parties. The degree to which these governance responsibilities are shared or managed independently will depend on the perception of the norms of the governance processes among the relational partners given the nature of their CRM program and the purpose of engaging in the relationship. Not all relationships are or should be managed alike. In fact, several studies suggest appropriate governance norms for different hybrid relationships.

Whether management and governance responsibilities are independently or jointly undertaken by relational partners, several issues must be addressed. These include decisions regarding role specification, communication, common bonds, the planning process, process alignment, employee motivation, and monitoring procedures. Role specification relates to determining the role of the partners in fulfilling the CRM tasks as well as the role of specific individuals or teams in managing the relationships and related activities. The greater the scope of the CRM program and the associated tasks and the more complex the composition of the relationship management team, the more critical is the role specification decision for the partnering firms. Role specification also helps in clarifying the nature of the resources and empowerment needed by the individuals or teams charged with the responsibility of managing the relationship with the customers.

Communication with customer partners is a necessary process of relationship marketing. It helps in relationship development, fosters trust, and provides the information and knowledge needed to undertake the cooperative and collaborative activities of relationship marketing. In many ways it is the lifeblood of relationship marketing. By establishing proper communication channels for sharing information with customers a company can enhance their relationship with them. In addition to communicating with customers, it is also essential to establish intra-company communication, particularly among all concerned individuals and corporate functions that directly play a role in managing the relationship with a specific customer or customer group.

Although communication with customer partners helps to foster relationship bonds, conscious efforts to create common bonds will have a more sustaining impact on the relationship. In business-to-business relationships, social bonds are created through interactions; however, with mass-market customers frequent face-to-face interactions will be uneconomical. Thus marketers should create common bonds through symbolic relationships, endorsements, affinity groups, and membership benefits or by creating on-line communities. Whatever the chosen mode, institutionalizing relationships with customers is accomplished by creating value bonding, reputation bonding, and structural bonding.

Another important aspect of relationship governance is the process of planning and determining the degree to which customers need to be involved in the planning process. Involving customers in the planning process would ensure their support in plan implementation and in the achievement of planned goals. However, not all customers are willing to participate in the planning process nor is it possible to involve all of them in relationship marketing programs for the mass market. Yet, the involvement of major customers in the planning process is desirable and sometimes necessary for managing a cooperative and collaborative relationship.

Executives are sometimes unaware, or they choose to initially ignore the nature of misalignment in operating processes between their company and customer partners leading to problems in relationship marketing implementation. Several aspects of the operating processes need to be aligned depending on the nature and scope of the relationship. For example, operating alignment will be needed in order processing, accounting and budgeting processes, information systems, merchandising processes, and so forth.

Several human resources decisions are also important in creating the right organization and climate for managing relationship marketing. Training employees to interact with customers, to work in teams, and manage relationship expectations is important. So is the issue of creating the right motivation through incentives, rewards, and compensation systems towards building stronger relationship bonds and customer commitment. Although institutionalizing the relationship is desirable for the long-term benefit of the company, personal relationships are nevertheless formed and have an impact on the institutional relationship. Thus needed is proper training and motivation of employees to professionally handle customer relationships.

Finally, proper monitoring processes are needed to safeguard against failure and manage conflicts in relationships. Monitoring processes include periodic evaluation of goals and results, initiating changes in the relationship structure, design, or the governance process if needed, and creating a system for discussing problems and resolving conflicts. Good monitoring procedures help avoid relationship destabilization and the creation of power asymmetries. They also help keep CRM programs on track given proper alignment of goals, results, and resources.

Overall, the governance process helps in the maintenance, development, and execution aspects of CRM. It also helps in strengthening the relationship among relational partners, and if the process is satisfactorily implemented, it ensures the continuation and enhancement of the relationship. Relationship satisfaction for involved parties would include governance process satisfaction in addition to satisfaction from the results achieved in the relationship.

### (3) CRM Performance Metrics

Periodic assessment of results in CRM is needed to evaluate if the programs are meeting expectations and if they are sustainable in the long run. Performance evaluation also helps in taking corrective action in terms of relationship governance or in modifying relationship marketing objectives and program features. Without proper performance metrics to evaluate CRM efforts, it would be hard to make objective decisions regarding continuation, modification, or termination of CRM programs. Developing performance metrics is always a challenging activity as most firms are inclined to use existing marketing measures to evaluate CRM. However, many existing marketing measures, such as market share and total volume of sales may not be appropriate in the context of CRM. Even when more CRM oriented measures are selected, they cannot be applied uniformly across all CRM programs, particularly when the purpose of each program is different. For example, if the purpose of a particular CRM effort is to enhance distribution efficiencies by reducing overall distribution cost, measuring the program's impact on revenue growth and the customer's share of the business may not be appropriate. In this case, the program must be evaluated based on its impact on reducing distribution costs and on other metrics that are aligned with those objectives. By harmonizing the objectives and performance measures one would expect to see more goal directed managerial action by those involved in managing the relationship.

For measuring CRM performance, a balanced scorecard that combines a variety of measures based on the defined purpose of each program (or each cooperative/collaborative relationship) is recommended. In other words, the performance evaluation metrics for each relationship or CRM program should mirror the set of defined objectives for the program. However, certain global measures of the impact of a CRM effort by a company are also possible. Srivastava, Tassadduq, and Fahey (1998) developed a model to suggest the asset value of cooperative relationships to firms. If the cooperative and collaborative relationship with customers is treated as an intangible asset of the firm, its economic value-add can be assessed using discounted future cash flow estimates. In some ways, the value of relationships is similar to the concept of the brand equity of the firm and hence many scholars have alluded to the term relationship equity. Although a well-accepted model for measuring relationship equity is not available in the literature as yet, companies are trying to estimate its value, particularly in measuring the intangible assets of the firm.

Another global measure used by firms to monitor CRM performance is the measurement of relationship satisfaction. Similar to the measurement of customer satisfaction, which is now widely applied in many companies, relationship satisfaction measurement would help in finding out to what extent relational partners are satisfied with their current cooperative and collaborative relationships. Unlike customer satisfaction measures that are applied to measure satisfaction on one side of the dyad, relationship satisfaction measures could be applied on both sides of the dyad. Since both the customer and the marketing firm have to perform in order to produce the results in a cooperative relationship, each party's relationship satisfaction should be measured. By measuring relationship satisfaction, one could estimate the propensity of either party to continue or terminate the relationship. Such a propensity could also be indirectly measured by measuring customer loyalty. When relationship satisfaction or loyalty measurement scales are designed based on the antecedents, they can provide rich information on their determinants and thereby help companies identify those managerial actions that are likely to improve relationship satisfaction and/or loyalty.

### (4) The CRM Evolution Process

Individual customer relationships and CRM programs are likely to undergo evolution as they mature. Some evolution paths may be pre-planned while others evolve naturally. In any case, several decisions have to be made by the partners involved about the evolution of the CRM programs. These include decisions regarding the continuation, termination, enhancement, and modification of the relationship engagement. Several factors could hasten any of these decisions. Amongst them relationship performance and relationship satisfaction (including relationship process satisfaction) are likely to have the greatest impact on the evolution of the CRM programs. When performance is satisfactory, partners would be motivated to continue or enhance their CRM program. When performance does not meet expectations, partners may consider terminating or modifying the relationship. However, extraneous factors could also impact on these decisions. For example, when companies are acquired, merged, or divested, many relationships and relationship marketing programs undergo changes. Also, when senior corporate executives and senior leaders in the company move, CRM programs undergo changes. Yet, there are many collaborative relationships that are terminated because they had planned endings. For companies that can chart out their relationship evolution cycle and state the contingencies for making evolutionary decisions, CRM programs can be more systematic.

**ORIGIN OF CRM**

CRM originated in early 1970s when the business units had a manifestation that it would be advisable to become 'customer emphatic' rather that 'product emphatic'. Birth of CRM was because of this heedful perceptiveness.

The famous writer and management consultant Peter Drucker wrote; 'The true business of every company is to make and keep customers'. Traditionally every transaction was on paper and dependent on goodwill which created hindrance in clutching customers. People used to work hard in entertaining customers by presenting new products with astonishing services; they were ready to work overtime for grasping more and more customers for increasing business. This too resulted in customer satisfaction and loyalty up to some extent, but at the end of the day there was no such bonding or relation between the two to carry on with future business smoothly.

Previously business was quite easy as it was mere a one-to-one dealing without any specific process. But with time, due to incoming complexities in communication, it found itself in troubled waters. Emerging of new strategies and technologies in global marketplace and a mammoth degree of competition in business, the approach needed to be changed to proactive rather than reactive. Origination of CRM turned out to be a piece of cake for all suppliers and customers due to its advantages. Customer relationship management came as a process that dealt with relationships with customers surpassing the whole business.

Originally customer relationship management was based on three major principles; shielding the current customers, fostering new customers and enhancing asset value of all the customers. With the advent of CRM which was integrated with high end software and technology, business perspectives were totally changed. A CRM system eventually emerged as consisting of company-full of information which is depicted sophistically to increase business profit and meliorate customer satisfaction and loyalty, on the same hand reduces business cost and investment.

The outgrowth in origin of CRM as a strategic approach is a result of some of the following important perspectives:

1. The belief that customers are the real assets and not just the people in the audience.
2. The maturation of one-to-one transaction advent.
3. Extensive use of software and technologies to maintain useful information and no manual labor.
4. The realization of the benefits of utilizing information proactively and not reactively.
5. The change of business view to relationship approach rather than transactional approach.
6. The approach of concentrating more on customer values rather than concentrating on how the product is delivered to the customer.
7. The approach of focusing on customer satisfaction and loyalty rather than focusing self-satisfaction and profit.
8. The acceptance of the fact that using high end technologies and software the cost can radically be decreased without compromising on quality and service of products.
9. The increasing tendency to retain existing customers and trying to get more and more business out of them.
10. The realization that the traditional trends of marketing and selling are increasingly fading out in the current economic scenario.



## FEATURES OF CRM

Customer Relationship Management is a strategy which is customized by an organization to manage and administrate its customers and vendors in an efficient manner for achieving excellence in business. It is primarily entangled with following features:

1. **Customer Needs**

An organization can never assume what actually a customer needs. Hence it is extremely important to interview a customer about all the likes and dislikes so that the actual needs can be ascertained and prioritized. Without modulating the actual needs it is arduous to serve the customer effectively and maintain a long-term deal.

2. **Customers Response**

Customer response is the reaction by the organization to the queries and activities of the customer. Dealing with these queries intelligently is very important as small misunderstandings could convey unalike perceptions. Success totally depends on the understanding and interpreting these queries and then working out to provide the best solution. During this situation if the supplier wins to satisfy the customer by properly answering to his queries, he succeeds in explicating a professional and emotional relationship with him.

3. **Customer Satisfaction**

Customer satisfaction is the measure of how the needs and responses are collaborated and delivered to excel customer expectation. In today's competitive business marketplace, customer satisfaction is an important performance exponent and basic differentiator of business strategies. Hence, the more is customer satisfaction; more is the business and the bonding with customer.

4. **Customer Loyalty**

Customer loyalty is the tendency of the customer to remain in business with a particular supplier and buy the products regularly. This is usually seen when a customer is very much satisfied by the supplier and re-visits the organization for business deals, or when he is tended towards re-buying a particular product or brand over times by that supplier. To continue the customer loyalty the most important aspect an organization should focus on is customer satisfaction. Hence, customer loyalty is an influencing aspect of CRM and is always crucial for business success.

5. **Customer Retention**

Customer retention is a strategic process to keep or retain the existing customers and not letting them to diverge or defect to other suppliers or organization for business. Usually a loyal customer is tended towards sticking to a particular brand or product as far as his basic needs continue to be properly fulfilled. He does not opt for taking a risk in going for a new product. More is the possibility to retain customers the more is the probability of net growth of business.

6. **Customer Complaints**

Always there exists a challenge for suppliers to deal with complaints raised by customers. Normally raising a complaint indicates the act of dissatisfaction of the customer. There can be several reasons for a customer to launch a complaint. A genuine reason can also exist due to which the customer is dissatisfied but sometimes complaints are launched due to some sort of misunderstanding in analyzing and interpreting the conditions of the deal provided by the supplier regarding any product or service. Handling these complaints to ultimate satisfaction of the customer is substantial for any organization and hence it is essential for them to have predefined set of process in CRM to deal with these complaints and efficiently resolve it in no time.

7. **Customer Service**

In an organization Customer Service is the process of delivering information and services regarding all the products and brands. Customer satisfaction depends on quality of service provided to him by the supplier. The organization has not only to elaborate and clarify the details of the services to be provided to the customer but also to abide with the conditions as well. If the quality and trend of service go beyond customer’s expectation, the organization is supposed to have a good business with customers.

**DIFFERENCE BETWEEN CRM AND E-CRM**

| NO. | POINTS | CRM | E-CRM |
|---|---|---|---|
| 1 | Customer contact | Customer contact usually initiated through traditional means of retailed store, telephone or fax | In addition to telephone, contact also initiated through the internet, e-mail, wireless, mobile and PDA technologies |
| 2 | System interface | Work with the back-end application | Designed for front-end application, which in return with back-end application through ERP systems, data warehouses, and data marts |
| 3 | System overhead (client computers) | Web-enabled applications require a PC client to download various applicants and applications. These application and applets would have to be rewritten for different platforms. | No such requirements, the browser is the customer's portal to e-CRM |
| 4 | Customization and personalization on Information | Different audience require different views and types of information. Personalized views for different audience are not | Highly individual dynamic and personalized views based on purchased and preference are |

| NO. | POINTS | CRM | E-CRM |
|---|---|---|---|
| | | possible individual customization requires programming changes. | possible. Each audience individually customized the views. |
| 5 | System focused | System is designed around products and job functions (for internal use) web un-abeled applications are designed around one department or business unit. | System is designed around customer's needs (for external use) enterprise wide portals are designed and are not limited to a department or business unit |
| 6 | System maintains modification | Implementation is longer and management is costly because the system is situated at various and on several serves | Reduced time and cost. System implementation and expansion can be managed in one location and no one serves. |

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