

## CUSTOMER RELATIONSHIP MANAGEMENT

(CHALLENGES OF INFORMATION TECHNOLOGY)

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### ABSTRACT

*The development of modern information is a complex process. It needs knowledge, know-how, skills and technology in almost all the disciplines. The developer, the designer and the user must be knowledgeable in their respective area of functions and responsibilities. As information systems & technology demanded for on-line real-time usage in business management, its development requires thorough understanding of the business and the manner in which it is executed. Further, different technologies, other than the IT, are used in the businesses which are used for providing input to the information systems. As the businesses are getting automated, the information systems are undergoing cultural changes making them more sensitive to the business needs. It demands flexibility in design and reliability in its use. Customer relationship management (CRM) is a combination of people, processes and technology that seeks to understand a company's customers. Managing a successful CRM implementation requires an integrated balanced approach to technology and managing relationships by focusing on customer retention and relationship development. CRM has evolved from advances in information technology and organizational changes in customer-centric processes. Understanding customer lifetime value, having inadequate top management support, underestimating the change management involved, not re-engineering business processes, and underestimating the difficulties in data mining and data integration. Current competitive challenges induced by globalization and advances in information technology have forced companies to focus on managing customer relationships, and in particularly customer satisfaction, in order to efficiently maximize revenues, minimize the waste and least time taken and highest durability of the product. Since CRM is a concept enabled by technology this topics is closely connected Customer Relationship Management as a holistic concept for the private*

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*sector to start, maintain and optimize relationships to make customers more loyal/profitable - in sum to improve the relationship with the consumers. In this paper, I review the latest findings in CRM research from the private sector and connect it to the public sector.*

**Keywords:** *IS, IT, CRM, Customer Satisfaction, Customer Retention*

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## Introduction

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 has been referred to as the new “mantra” of marketing Companies. 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 has required heavy doses of mass advertising and price-oriented promotions to customers and channel members.

The concept of customer relationship management has gained its importance in marketing domain. Although it is difficult to make a totally approved definition of CRM, we can generally describe it as a comprehensive strategy including processes of, retaining and partnering with selective customers to create value for both the company and customers. 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. Based on the philosophy that retailers can increase their profitability by building relationships with their better customers, the goal of CRM is to develop a base of loyal

customers who patronize the retailer frequently. In other words, it is the process of developing and managing long term relationships with customers so that they will keep coming back make repeat purchases. 70 percent of the average company's sales come from present customers. It makes more sense to focus resources on keeping the best customers than to spend than chasing fair weather customers who will defect to any better deal that comes along. Customers have a life time value to a business and that keeping the best customers over time may be a company's greatest sustainable advantage.

CRM means different things to different people. For some, CRM means direct e-mails. For others, it is mass customization or developing products that fit individual customers' needs. For IT consultants, CRM translates into complicated 4 technical jargon related to terms like OLAP (on-line analytical processing) and CICs (customer interaction centers). A major purpose of this paper is to provide a managerially useful, end-to-end view of the CRM process from a marketing perspective. The basic perspective taken is that of the customer, not the company. In other words, what managers need to know about their customers and how that information is used to develop a complete CRM perspective?

This change in perspective is supported by research indicating that it costs three to six times more to sell products and services to new customers than to existing customers and that small increase in customer retention can lead to dramatic increases in profits.

The objective of CRM is more than having customers make repeat visits to a retailer and being satisfied with their experiences. Customer loyalty to a retailer means that customers are committed to purchasing merchandise and services from the retailer and will resist the activities of competitors attempting to attract their patronage. They have a bond with the retailer, and the bond is based on more than a positive feeling about the retailer.

Programs that encourage repeat buying by simply offering price discounts can be easily copied by competitors. In addition, these types of price-promotion programs encourage customers to always look for the best deal rather than develop a relationship with one retailer. However, when a retailer develops an emotional connection with a customer, it is difficult for a competitor to attract that customer.

Emotional connections develop when customers receive personal attention. For example, many small, independent restaurants build loyalty by functioning as neighborhood cafés, where waiters and waitresses recognize customers by name and know their preferences.

## CRM PROCESS

CRM is a process that turns customer data into customer loyalty through four activities:

1. **Collecting customer data:** The process begins with the collection and analysis of data about a retailer's customers and the identification of target customers.
2. **Analyzing the customer data and identifying target customers:** The analysis translated the customer information into activities that offer value to the targeted customers.
3. **Developing CRM programs:** The activities are executed through communication program undertaken by the marketing department. Having segmented customers according to their future profit potential, the next step in CRM process is to develop programs for the different customer segments.
4. **Implementing CRM programs:** Customer service programs implemented by customer contact employees, typically sales associates.

**Customer Retention:** There are four approaches that retailers use to retain their best customers:

1. Frequent shopper programs
2. Special customer services
3. Personalization
4. Community

Till recently, most marketers focused on traditional modes of marketing to segment and acquire new customers from its target segments, using the tools and techniques developed for mass marketing in the industrial era, as a way to engender growth. In the present competitive era, this is highly ineffective. Today, there is a different approach to business that involves relationship marketing, customer retention and cross-selling, leading to customer extension, which is a far cry from the traditional segmentation models. The relative and marked emergence of CRM as a business strategy has radically transformed the way organizations operate. There has been a shift in business focus from transactional to relationship marketing where the customer is at the center of all business activity and organizations are now desperately trying to restructure their processes around the needs of their strategically significant customers. The critical driver of such a

dramatic shift towards customer orientation is the realization that customers are a business asset that when managed effectively can derive continuous and sustainable economic value for an organization over their lifetime.

The dynamics of the business ecosystem have changed the way in which companies do business both in relationship management and the streamlining of their operations. Relationship management is emerging as the core business activity for companies operating in fiercely competitive environments. On an average, business spends six times more to acquire new customers than to keep them. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer's purchases.

As consumer preferences mature and they look beyond product utility, marketers are trying to establish long term relationships with buyers. A look at how they are building new bonds.

While relationship marketing can do wonders for brand loyalty, it can also dispel myths about brands.

It's inevitable fallout of brand proliferation and mounting competition. And, one that not even the bluest of blue chip brand marketers have been able to escape. As parity products abound, advertising alone can no longer provide the edge in the marketplace. And to beef up their brands, marketers have taken resort to direct marketing, promotions and tele-marketing. But all that is still not enough to keep customers loyal to brands. For, at the end of the day, it's still a one-way street as the marketer-consumer relationship is being nurtured only by one of the players - the marketer. While some had hit upon schemes and projects that require a two-way communication between the marketer and consumer some years ago, it's only now that most are recognizing the value of 'relationship marketing.'

"It is the exact opposite of sales promotion which is a short term exercise – a temporary incentive for people to buy more of the product," says Jagdeep Kapoor, director, Parle Agro.

“Relationship marketing is an attempt at a long-term relationship and is in an exercise in brand building, with interaction between the brand and the consumer.” Adds Ashok Jain, business manager, Dollops: “We have to move beyond the conventional methods of marketing to relationship marketing. We have to make for a more enduring relationship with our consumers. Just one event doesn’t make sense. If we are able to provide constant excitement, the product remains with the consumers.”

The first step in relationship marketing is, not surprisingly, dependent on finding as much data on consumers as possible. And its quality is what could make or break a company’s relationship with its consumers. Take for instance the manner in which Leo Mattel Toys has gone about building a distinct personality for its Barbie Doll and interacting with consumers, so that the brand has stopped being just another branded toy but has a special appeal to consumers.

Of course, the inspiration for the strategy came from Mattel which has been able to create a phenomenal demand for its Barbies worldwide by setting up kiddie clubs. On the same lines, Leo Mattel in India set up the Barbie Friends Club four years ago. Says Shantonu Aditya, sales and marketing manager, Leo Mattel, BlowPlast Ltd: “We wanted to have an interactive club where children could emulate the role model. The members of the club write to Barbie and she writes back to them. Through the club, we have attempted at fun with learning. For children, involvement levels and attachment to characters and products are very high.”

It is this attachment and involvement that has helped Lee Mattel build a 21,000 strong database. Today, the Barbie Friends Club has 12,000 active members between the ages of six to 12 years. And every year, the club adds around 5,000 new members to its rolls despite a subscription fee of Rs.95. Says Aditya: “The club has helped us develop the cult of Barbie. These members are hardcore Barbie fans who write to us regularly. We receive around 100 letters everyday and we reply to each of them.” So much so that relationship marketing has helped sell 1.5 million Barbie dolls so far.

Among the first ones to capitalize on relationship marketing as a strategic option has been Hawkins Cookers Ltd. While training of its 500-odd dealers on how-to-deal-with-

consumers has always been an important feature of the company's strategy, incentives offered ensure that the dealers are constantly on their toes. A personal touch is added by salesmen who drop in on consumers and even cook to demonstrate the product. The guarantee card that the customer returns on purchase of a cooker has helped Hawkins to build a strong database. And it sends out cookbooks to keep interest level in its cookers high.

But the masterstroke came with the launch of the Hawkins Miniature – an exact replica of the cooker in a scaled-down size. “The miniature,” says Selwyn Sundaram, vice president, marketing, Hawkins Cookers Ltd: “is helping us in three ways. It is generating in young children an interest in learning how to open and close a pressure cooker. Secondly, it is an interesting conversation piece in the drawing room, even among grown-ups. Thirdly, introduced in May 1990, the miniature has helped in increasing the sale of the mother brand.” And Sundaram maintains that the only reason for it maintaining its 33 per cent share of the market in a category that has nearly 130 brands jostling with one another for shelf space is the company's emphasis on customer relations.

While relationship marketing can do wonders for brand loyalty, it can also help dispel some common myths about brands. That's what Shyam Ahuja, the makers of designer carpets and dhurries, is aiming for. “We're trying,” says Vikram Ahuja, director of the Rs.15 crore Shyam Ahuja Ltd, “to make people understand that we're into more than just carpets and dhurries which constitute just 20 per cent of our business. So our communication is focused on everything except carpets.”

### **Technology – an enabler for CRM**

Developments in information technology, data warehousing and data mining have made it possible for firms to maintain a one above relationship with their customers. Firms can now manage every single contact with the customer from account management personnel, call centers, interactive voice response systems, on-line dial-up applications, and websites to build lasting relationships. These interactions can be used to glean information and insights about customer needs and their buying behavior to design and develop services, which help create

value for the customers as well as the firms. Although customized as well as off the shelf technological solutions are available in the marketplace, businesses need to do a lot more than just adopt these solutions to implement customer relationship management (CRM) practices.

CRM offers huge potential benefits but requires a more sophisticated approach adapted to specific opportunities and circumstances. At the core of any technology enabler for CRM is the customer database. This represents the data hub that integrates the various statistical modeling, campaign management, contact history and response tracking components of the marketing campaign life cycle. The technology layer and its integration with emerging business processes is therefore the key to successful implementation of a data-driven customer relationship management.

To take advantage of the benefits of CRM, a company must undertake a structured process that ensures the automation venture does not become the automation misadventure. For effective implementation of CRM concept, it is important to identify which process to automate and which not to automate. Reengineering could be improved for providing complete end-to-end set of activities that together create value for a customer. It should be coupled with the complete vision of the business process – keeping customer as its base. Top management commitment, personnel motivation, user training and prototyping the system are the other key factors for successful implementation of CRM concept.

### **Implementation**

Customer relationship management is accomplishable. However, the following guidelines must be taken into consideration before embarking upon its implementation. Namely,

- Evaluate and plan. All aspects of customer relationship management, including technology solutions, must be fully explored to effectively deliver the competencies required to realize the business benefits.
- Tackling any one competence alone will lead to a dysfunctional business. One competence does not make customer relationship management.



- Take pragmatic steps with a clear view on delivery of all the components in the medium term, rather than adopting a piecemeal approach in the short term.
- Successful mass customization is crucial to reducing customer acquisition costs and improving the cross-selling capability.
- Channels are a delivery mechanism. The effectiveness of the mechanism can be achieved only when it is seamless.

Customer relationship management, if implemented successfully, enables companies to capitalize and grow their business. Still relationship marketing appears to be an expensive alternative to firms practicing mass marketing due to the relatively high initial investment. Firms would adopt relationship marketing only if it in CRM has the potential to benefit them. The benefits come through lower costs of retention and increased profits due to lower defection rates. When customers enter into a relationship with a firm, they are willingly foregoing other options and limiting their choice. Some of the personal motivations to do so result from greater efficiency in decision making, reduction in information processing, achieving more cognitive consistency in decisions and reduction of perceived risks with future decisions.

It is generally accepted that it costs more to acquire a customer than to retain an existing one. However, identifying valuable customers is also important. There is still a trend that a customer must be kept no matter what the cost to the organization, even if it means incurring a loss. It is a realization that countless organizations have been oblivious to and in the process have experienced substantial customer churn. Successful implementation of CRM requires a strategic approach, which encompasses developing customer eccentric processes, selecting and implementing technology solutions, employee empowerment, customer information and knowledge generation capabilities to differentiate them, and the ability to learn from outstanding practices.

**CRM vital lifeline for company's survival:** Competitive environment, eroding margins, need to reduce costs, finding and keeping customers are the prime drivers for organizations. The

need for CRM, however, varies across different industries citing an example, the need for a manufacturing industry to use CRM would be to tailor made products for its customers, while range of product offerings. Many experts view that happy employees in turn give happy customers. Employees in a company should get the service mind set. Management of customer information is what CRM is all about.

**CRM is basically an offshoot of data mining:** There is a serious necessity to keep an intelligent database, which is the key for a good implementation of CRM. Data mining ensures to change the heavily loaded database into an intelligent database worthy of taking intelligent decisions. It's a process of extraditing valid previously unknown actual business information into useful data capable of taking intelligent decisions.

### Challenges of CRM

Companies around the world have leveraged CRM strategies to gain competitive advantage. As more and more companies rush to implement CRM, precautions must be taken to do it right. It is approximated that 50-70% CRM implementations fail, depending on the Industry vertical. Hence, it is essential to identify the key challenges, address risks and build a strategy that can make your CRM successful. CRM is full of talk about strategy, but at the end of the day, someone has to lead the way and implement. Listed below are some practical tips to consider when building effective CRM strategies and implementation plans.

**1. Understanding of CRM:** CRM is not software. It's a business philosophy. It is a strategy, implemented using a software solution that typically covers all customer facing departments like sales, marketing, customer service, etc of a company. Hence CRM is a term, collectively used to refer to a combination of strategy & software.

**2. Getting Clarity on Objectives:** What are the set of objectives the company wishes to achieve with CRM? Trivial as it may sound, a majority of implementations don't have these goals spelled out. Ensure that these objectives are listed and define a measurement metrics to be used to access

the success of the implementation. Without these, the companies can't access the benefits or the ROI of the CRM system

**3. No Core CRM Team:** Unlike other software implementations, IT team alone should not be expected to roll out a CRM system. It is very critical for companies to form a core CRM team, which in addition to IT draws participation from Top Management, Senior Executives of Sales, Marketing and Customer Service departments and finally the end-users. Decisions related to the implementation should be discussed in this forum.

**4. The Costing Ice-berg:** It is not unusual for CRM implementations to overrun costs and timelines. When assessing the costing always calculate the Total Cost of Ownership (TCO). There are two ways of getting CRM, the license model or the ASP (hosted) model. In the licensing model, licenses typically represent 9 - 18% of the TCO. The actual TCO will need to include the cost of hardware, software, engineering, operations, AMC's, etc. On the other hand, in the ASP model, a subscription fee represents the true TCO. Since ASP models offer a fully managed and a continuously evolving system, it also saves implementation time, upgrade costs and ownership hassles. Any implementation delays also have a cost associated with it, in form of lost time and opportunity.

**5. Product Evaluation Metrics:** In most companies, investment in IT is need based. With time, this buying pattern results in multiple systems that fragment customer data. While short-listing CRM products, it is essential to analyze overall capabilities of the product, in addition to the 'need driver' module. As the company matures in its CRM initiative, the expectation from its CRM system multiplies. As a rule of thumb, consider only those CRM products that offer multiple modules like Sales Force Automation, Marketing Automation, Customer Support & Services, etc. This will enable companies to span horizontally, as requirements evolve.

**6. Expectation Curve:** Every CRM implementation starts with a desire to improve productivity and streamline processes, fast. However, CRM implementation is a cultural change. It has to be planned, and executed in phases. If the change is too fast, it will get derailed, if the change is too

slow, CRM will pale into obscurity. Don't compromise on your expectation, but be sure to have a roadmap to get there.

**7. Getting User Adoption:** User Adoption is the key for success of any CRM. It is important to design effective training programs in order to provide enough skills and understanding to end users for them to be able to effectively use the system. Ensure that the user interface is kept simple. Consultants often underestimate or miss the motivation required to get the end-users to start using the system. Consider the sales executives; their motivation is to meet the targets to get to the incentive cheque. They are happiest when selling; to them everything else is a waste of time. Don't expect them to navigate complex screens or fill detailed time consuming information because it simply won't fly.

**8. Managing the Application:** Once the CRM has been rolled-out, it is important to re-align the working culture of teams around it. At times, the "As-is" bug bites people. To illustrate, the VP sales direct his sales team to carry excel sheet prints of their pipeline when coming for a review. Here either the report was not configured well in the system, or users have not been updating it enough. Such scenarios need immediate correction or else the CRM system will slowly lose its relevance. The core team must review such anomalies from time-to-time.

**9. Process, Process, Process:** Clearly defined processes and their enforcement are critical to the success of any CRM rollout. The objective is to cut out the ambiguity in the system. It is advisable to create a central depository, accessible to all, which store all the process definitions. Some key processes that need to be defined are Change Management process, Feature re-evaluation process, Success evaluation process, Business flows, etc. Any process implemented via CRM, must map your real-world process and vice-versa.

**10. Finding the Right partner:** The rate of CRM success considerably goes up with the right solution partner. While strategy consultants are good, it is the solution partner who will make it work. Ideally select a partner who can do both, strategy & implementation. It is important that your partner shares the risks of your implementation. Pay only for success. While global knowledgebase is impressive, local issues can often negate these learning's. Work with a vendor

who understands local - work culture, technology limitations, cultural sensitivities and is willing to listen.

### **The Future of CRM**

With the increased penetration of CRM philosophies in organizations and the concomitant rise in spending on people and products to implement them, it is clear we will see improvements in how companies work to establish long-term relationships with their customers. However, there is a big difference between spending money on these people and products and making it all work: implementation of CRM practices is still far short of ideal. Everyone has his or her own stories about poor customer service and emails sent to companies without hearing a response. More companies are recognizing the importance of creating databases and getting creative at capturing customer information. Real-time analyses of customer behavior on the Web for better customer selection and targeting is already here (e.g., Net Perceptions) which permits companies to anticipate what customers are likely to buy. Companies will learn how to develop better communities around their brands giving customers more incentives to identify themselves with those brands and exhibit higher levels of loyalty. One way that some companies are developing an improved focus on CRM is through the establishment or consideration of splitting the marketing manager job into two parts: one for acquisition and one for retention. The kinds of skills that are need for the two tasks are quite different. People skilled in acquisition have experience in the usual tactical aspects of marketing: advertising, sales, etc. However, the skills for retention can be quite different as the job requires a better understanding of the underpinnings of satisfaction and loyalty for the particular product category.

### **Summary and Conclusion**

Customer relationship management is a strategic approach that is concerned with creating improved value through the development of appropriate relationships with key customers and customer segments. Customer relationship management unites the potential of relationship marketing strategies in long-term and in the relationships with customers and other employees. The key aspects of customer relationship management are customer satisfaction and customer retention. Customer relationship management provides enhanced opportunities to use data and

information to understand customers. This requires a cross-functional integration of human resource and marketing capabilities. CRM is a widely-implemented strategy for managing a company's interactions with customers, clients and sales prospects. It involves using technology to organize, automate, and synchronize business processes—principally sales activities, but also those for marketing, customer service, and technical support. The overall goals are to find, attract, and win new clients, nurture and retain those the company already has, entice former clients back into the fold, and reduce the costs of marketing and client service. Customer relationship management describes a company-wide business strategy including customer-interface departments as well as other departments. CRM consists of four dimensions such as customer identification, customer attraction, customer retention, and customer development. Customer identification is meant to identify segments of potential customers, each of which includes customers who are relatively similar. Customer attraction attempts to attract the target customer segments by motivating customers to place orders through various channels. Customer retention refers to the activity of preventing the existing customers from switching to competitors by enhancing the level of customer satisfaction through one-to-one marketing, loyalty program, complaints management, etc. Customer development, the ultimate goal of CRM, aims to maximize the revenue by expanding transaction intensity, transaction value and individual customer profitability through customer lifetime value analysis, up/cross selling and market basket analysis. Information-technology enabled strategy aimed at identifying, targeting, acquiring, and retaining the best mix of customers. CRM helps in profiling prospects, understanding their needs, and in building relationships with them by providing the most-suitable products and a very high level of customer service. It integrates back and front office systems to create a database of customer contacts, purchases, information requested, technical support, etc. This database helps the firm in presenting a unified-face to its customers, and improving the quality of the relationship.

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