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Conceptual Structure Of Customer Relationship Management

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A **customer** (sometimes known as a client, buyer, or purchaser) is the recipient of a good, service, product, or idea, obtained from a seller, vendor, or supplier for a monetary or other valuable consideration. Customers are generally categorized into two types:

- An **intermediate customer** or **trade customer** (more informally: "the trade") who is a dealer that purchases goods for re-sale.
- An **ultimate customer** who does not in turn re-sell the things bought but either passes them to the consumer or actually is the consumer.

A customer may or may not also be a consumer, but the two notions are distinct, even though the terms are commonly confused. A customer *purchases* goods; a consumer *uses* them. An ultimate customer *may* be a consumer as well, but just as equally may have purchased items for someone else to consume. An intermediate customer is not a consumer at all. The situation is somewhat complicated in that ultimate customers of so-called *industrial* goods and services (who are entities such as government bodies, manufacturers, and educational and medical institutions) either themselves use up the goods and services that they buy, or incorporate them into other finished products, and so are technically consumers, too. However, they are rarely called that, but are rather called **industrial customers** or **business-to-business customers**. Similarly, customers who buy services rather than goods are rarely called consumers.

Customer service

Customer service is the provision of service to customers before, during and after a purchase. According to **Turban et al. (2002)**, "*Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation.*"

The importance of customer service may vary by product or service, industry and customer. The perception of success of such interactions will be dependent on employees "*who can adjust themselves to the personality of the guest*," according to Micah Solomon. From the point of view of an overall sales process engineering effort, customer service plays an important role in an organization's ability to generate income and revenue. From that perspective, customer service should be included as part of an overall approach to systematic improvement. A customer service experience can change the entire perception a customer has of the organization.

Some have argued that the quality and level of customer service has decreased in recent years, and that this can be attributed to a lack of support or understanding at the executive and middle management levels of a corporation and/or a customer service policy. To address this argument, many organizations have employed a variety of methods to improve their customer satisfaction levels, and other key performance indicators (KPIs).

A challenge in working with customer service is to ensure that you have focused your attention on the right key areas, measured by the right Key Performance Indicator. There is no challenge

to come up with a lot of meaningful KPIs, but the challenge is to select a few which reflects your overall strategy. In addition to reflecting your strategy it should also enable staff to limit their focus to the areas that really matter. The focus must be of those KPIs, which will deliver the most value to the overall objective, e.g. cost saving, service improving etc. It must also be done in such a way that staff sincerely believes that they can make a difference with the effort.

One of the most important aspects of a customer service KPI is that of what is often referred to as the "**Feel Good Factor**." Basically the goal is to not only help the customer have a good experience, but to offer them an experience that exceeds their expectations. Several key points are listed as follows:

1. **Know your product** – Know what products/service you are offering back to front. In other words, be an information expert. It is okay to say "**I don't know**," but it should always be followed up by "**but let me find out**" or possibly "**but my friend knows!**" Whatever the situation may be, make sure that you don't leave your customer with an unanswered question.
2. **Body Language / Communication** – Most of the communication that we relay to others is done through body language. If we have a negative body language when we interact with others, it shows that we don't care. Two of the most important aspects of positive body language are smiling and eye contact. Make sure to look your customers in the eye. It shows that we are listening to them and hearing what they are saying. And of course smiling is more inviting than a blank look or frown.
3. **Anticipate guest needs** – Nothing surprises your customer more than an employee going the extra mile to help them. Always look for ways to go above and beyond the expectations of your customer. In doing so, it helps them to know that you care and it will leave them with a "**Feel Good Factor**" that we are searching for.

Customer Relationship Management (CRM)

Customer Relationship Management (CRM) is a model for managing a company's interactions with current and future customers. It involves using technology to organize, automate, and synchronize sales, marketing, customer service, and technical support.

As is implicit in the above definition, the purpose of CRM is to improve marketing productivity. Marketing productivity is achieved by increasing marketing efficiency and by enhancing marketing effectiveness. In CRM, marketing efficiency is achieved because cooperative and collaborative processes help in reducing transaction costs and overall development costs for the company. Two important processes for CRM include proactive customer business development and building partnering relationship with most important customers. These lead to superior value creation.

The success CRM policies between firm and customers can be measured mostly by behavioral indicators like their length of the relationship, regency, frequency and by monetary benefits

gained by firm through them. A good customer is a customer who contributes a relatively large share to the return of the organization within a certain period.

There are several aspects of customer relationship management which are related to each other and play a key role in the outcome of the entire process.

1. **B2B relationships:** Business to business relationships which includes relationships with partners, suppliers and distributors or retail channels. This is a completely external network that works as a support system for internal networks.
2. **Data Analysis:** Undoubtedly, the backbone of the entire CRM system. Customer data to be analyzed is added constantly and is combined with predictive analytics to plan out and strategize targeted marketing campaigns, newer product models, conceive new strategies and lastly to analyze the very success of the CRM model.
3. **Customer interaction channels:** Customer interaction channels are a direct indicator of the success or failure of a CRM model and needs to be constantly monitored. A better business has fewer calls/emails, lesser escalations and a high customer satisfaction to dissatisfaction ratio.

Key CRM principles

Differentiate Customers: All customers are not equal; recognize and reward best customers disproportionately. Understanding each customer becomes particularly important. And the same customers' reaction to a cellular company operator may be quite different as compared to a car dealer. Besides for the same product or the service not all customers can be treated alike and CRM needs to differentiate between a high value customer and a low value customer.

What CRM needs to understand while differentiating customers is:

- Sensitivities, Tastes, Preferences and Personalities
- Lifestyle and age
- Culture Background and education
- Physical and psychological characteristics

Keeping Existing Customers - Grading customers from very satisfied to very disappointed should help the organisation in improving its customer satisfaction levels and scores. As the satisfaction level for each customer improves so shall the customer retention with the organisation.

Maximizing Life time value - Exploit up-selling and cross-selling potential. By identifying life stage and life event trigger points by customer, marketers can maximize share of purchase potential. Thus the single adults shall require a new car stereo and as he grows into a married couple his needs grow into appliances.

Increase Loyalty - Loyal customers are more profitable. Any company will like its mindshare status to improve from being a suspect to being an advocate.

Company has to invest in terms of its product and service offerings to its customers. It has to innovate and meet the very needs of its clients/ customers so that they remain as advocates on the loyalty curve. Referral sales invariably are low cost high margin sales.

Types/variations

Sales force automation

Sales force automation (SFA) uses software to streamline the sales process. The core of SFA is a contact management system for tracking and recording every stage in the sales process for each prospective client, from initial contact to final disposition. Many SFA applications also include insights into opportunities, territories, sales forecasts and work flow automation.

Customer service and support

CRMs can be used to create, assign and manage requests made by customers, such as call center software which help direct customers to agents. CRM software can also be used to identify and reward loyal customers over a period of time.

Appointments

Appointment CRMs automatically provide suitable appointment times to customers via e-mail or the web, which are then synchronized with the representative or agent's calendar.

Small business

For small businesses a CRM may simply consist of a contact manager system which integrates emails, documents, jobs, faxes, and scheduling for individual accounts. CRMs available for specific markets for professional markets (legal, finance) are frequently touted for their event management and relationship tracking opposed to financial return on investment (ROI).

Social media

Social media is the modern form to build customer relationship. Some CRMs coordinate with social media sites like Twitter, LinkedIn, Facebook and Google Plus to track and communicate with customers who share opinions and experiences about their company, products and services. Once you have identified the trends through social media a business can make more accurate decisions on what products to supply to the society.

Non-profit and membership-based

Systems for non-profit and membership-based organizations help track constituents, fund-raising, demographics, membership levels, membership directories, volunteering and communications with individuals.

Conceptual Framework of Customer Relationship Management

According to **Galbreath and Rogers (1999, p 162)** the definition of CRM can be described as:

... Activities a business performs to identify, qualify, acquire, develop and retain increasingly loyal and profitable customers by delivering the right product or service, to the right customer, through the right channel, at the right time and right cost. CRM integrates sales, marketing, service, enterprise resource planning and supply- chain management functions through business process automation, technology solutions, and information resources to maximize each customer contact. CRM facilitates relationship among enterprises, their customers, business partners, suppliers and employees. Figure 1 describes different conceptual definition of CRM.

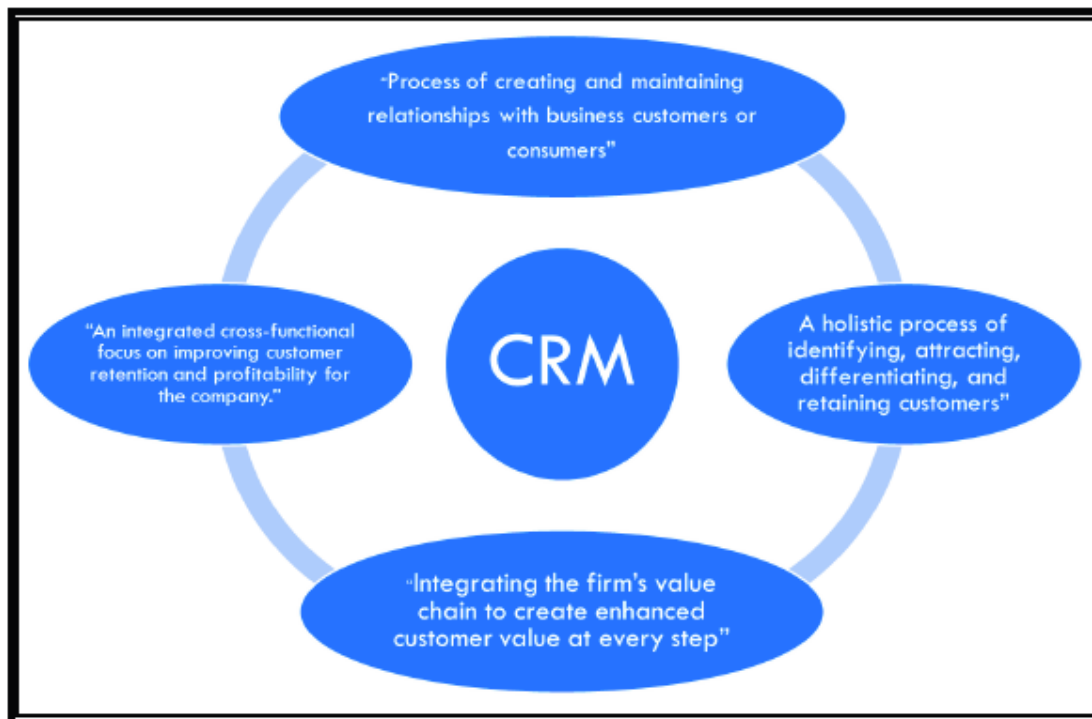


Figure 1- Definition of CRM in nutshell

For a successful company customers are the most important and they must be looked after and served properly. Many big companies are investigating in managing the relations through CRM. It helps a company by using correct processes and procedures to look after customers accurately. CRM is a software which gives a company valuable information at the most basic level like remembering the birthdays and names of the children of customers. This kind of information helps staff to give more value to make customers feel very special. Business Call Centers are the biggest user of CRM Software because they contact many customers at the same time and give feedback. The strategy of CRM is not to have only installation of this software but its starting point is to consider employees at first, the employees must be well trained to CRM theory so they could get maximize benefits by using this tool.

According to **Brige (2006)** customer relationship management is considered a new approach, new management concept. It is to manage technology, information resources, process and people to make an environment which permits a business to have view of its customers at 360 degree. CRM's environment is complex and it needs the organizational change, a new thinking and vision of the business, database in CRM environment is considered as a resource from where commercial benefit is generated by understanding the customer behavior.

Firms can use CRM technology but mostly it is beneficial in financial sectors where a lot of data about customers is handled (**Harvard Management Update 2000**). CRM is a technology innovation with its ability to collect and make analysis of customer data by seeing the customer's patterns, predict customer behavior, respond on time with customized communication, creates predictive models and deliver products and services to individual customers. By using this technology, optimize interaction with customers create a 360-degree view of customers to learn from past interaction to the future trends (**Chen and Popovich, 2003**). 360 degree view of customer is a person to person model supported by technologies in prediction of customers buying patterns and price differentiation (**Galbreath and Rogers, 1999**). The main idea of this model is that the best market performance is achieved by having superior skills in understanding the customer in better way (**Narver and Slater, 1990**). In **Figure 2**, 360 degree view of the customer can be understood.

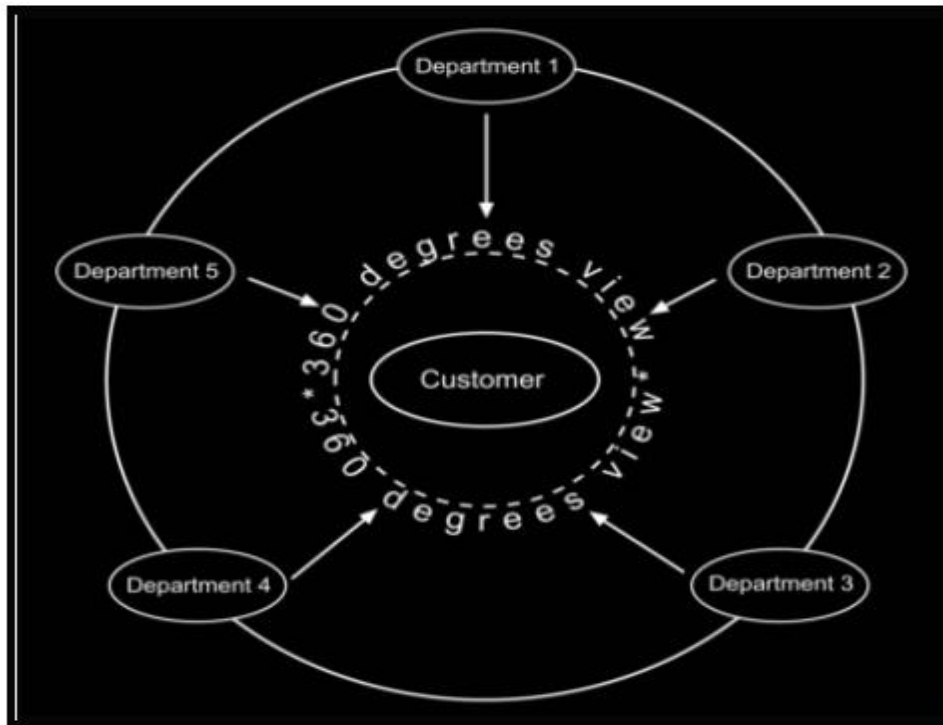


Figure 2 – 360 view of the customer

Customer Relationship Management (CRM) is a term for methodologies, technologies and e-commerce capabilities used by companies to manage customer relationships. The traditional

database marketing captures customer information including demographic and psychographic data that helps the marketer to develop suitable target marketing strategy, forecast demand, and determine type and quality of service required by customers and to build strategy for market entry, diversification and expansion. This macro marketing view has resulted in use of database for building strategic links for the benefit of the organization and customer in the face of rising costs and competition. In 1960s, Theodore Levitt suggested that the purpose of every business was to create and keep customers. He suggested that corporations should view the entire business process as consisting of closely held integrated effort to discover, create, arouse and satisfy customer needs. Customer Relationship Management is now actively considered by organizations across the globe as an integration of database marketing with technology.

The basic proposition of a CRM strategy is based on the age-old idea that knowing, understanding, and serving the customer is the best method of developing a sustainable competitive advantage. But building a sustainable and successful relationship with a large customer base is not the easiest thing to do and carries a direct impact on many core operational processes from development of new products to faster debt recovery in financial services industry. It is not a tactical decision of software implementation but interaction of the entire business with customers through an integrated Interface. The modern information technology allows larger organizations to individualize their products and services as per the varying needs of the customers. CRM is the establishment, development, maintenance and optimization of long term mutually valuable relationships between consumers and the organizations. Successful CRM focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization's strategy, people, technology and business processes (**Fox & Stead, 2001**). At the heart of a perfect CRM strategy is the creation of mutual value for all the parties involved in the business process. It is about creating a sustainable competitive advantage by being the best at understanding, communicating, and delivering and developing existing customer relationships in addition to creating and keeping new customers. So the concept of product life cycle is giving way to the concept of customer life cycle focusing on the development of products and services that anticipate the future need of the existing customers and creating additional services that extend existing customer relationships beyond transactions. The customer life cycle paradigm looks at lengthening the life span of the customer with the organization rather than the endurance of a particular product or brand. A good customer relationship management program addresses the changing need of the customers by developing products and services that continuously seek to satisfy the lifestyle and need patterns of individual customers. Organizations tend to acquire a structure around customer segments and not on the basis of product lines to deliver customer satisfaction.

According to Gartner Group CRM is defined as a business strategy designed to optimize profitability, revenue and customer satisfaction. **Sheth and Parvatiyarhas (1995)** defined Customer Relationship Management as a competitive strategy and process of acquiring reacting and partnering with selective customers to create superior value for the company and the customers. Among many available definitions of CRM, the following comprehensive definition by **Payne and Frow (2005)** is chosen which best fulfill the purpose of this study: "CRM is a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments. CRM unites the potential of relationship marketing strategies and IT to create profitable, long-term relationships with customers and other key stakeholders.

CRM provides enhanced opportunities to use data and information to both understand customers and co-create value with them. This requires a cross-functional integration of processes, people, operations, and marketing capabilities that is enabled through information, technology, and applications.” A current and widely accepted classification of CRM systems identifies three categories:

- Operational CRM systems improve the efficiency of CRM business processes and comprise solutions for sales force automation, marketing automation, and call center/customer interaction center management.
- Analytical CRM systems manage and evaluate knowledge on customers for a better understanding of each customer and his or her behavior. Data warehousing and data mining solutions are typical analytical CRM systems.
- Collaborative CRM systems manage and synchronize customer interaction points and communication channels (e.g. telephone, e-mail, and the web).” (Adebanjo, 2003; Geib et al., 2006)

Figure 3 depicts the virtuous triangle of CRM in terms of above stated categories of CRM.

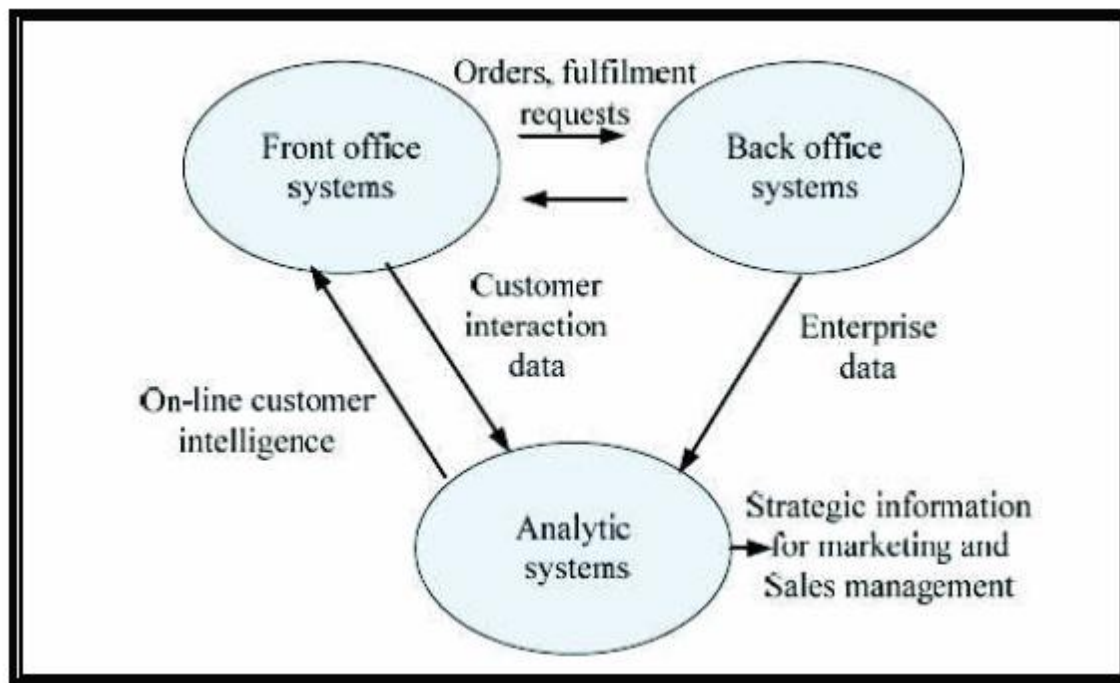


Figure 3 - The “Virtuous Triangle” of CRM

According to Xu et al.(2002), the battle for customers has never been more intense. Deregulation, diversification and globalization have stimulated a dramatic rise in competition and these unforgiving marketplace realities have forced companies to switch from a product centric approach to a customer-centric approach. Rahman (2006) considers increased price competition, reduced regulation and reducing consumer loyalty as some reasons that has brought customer retention and customer relationship management (CRM), the no. 1 business buzzword at the turn of the millennium (Gummesson, 2004), into the marketing limelight.

Alvarez et al. (2006) stated customer-centric approaches such as CRM have become an essential part of twenty-first century business. In fact, over the past several years, CRM software has been one of the hottest segments in the business solutions marketplace (**Ross, 2005**). The potential opportunity for CRM is huge, as illustrated by Siebel Systems' bold prediction that worldwide spending on customer-facing technology solutions over the next 10 years will be nearly five times larger than the total for the preceding decade (**emarketer.com, 2005**).

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