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Status of Customer Relationship Management in India Findings of a Survey of Service Firms

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Introduction

Relationship marketing is emerging as the core marketing activity for businesses operating in fiercely competitive environments. On average, businesses spend six times more to acquire customers than they do to keep them (Gruen, 1997). 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.

Worldwide service organisations have been pioneers in developing customer retention strategies. Banks have relationship managers for select customers, airlines have frequent flyer programs to reward loyal customers, credit cards offer redeemable bonus points for increased card usage, telecom service operators provide customised services to their heavy users, and hotels have personalized services for their regular guests.

Literature Review

Till recently, most marketers focussed on attracting customers from its target segments using the tools and techniques developed for mass marketing in the industrial era. In the information era, this is proving to be highly ineffective in most competitive markets.

Slowing growth rates, intensifying competition and technological developments made businesses look for ways to reduce costs and improve their effectiveness. Business process re-engineering, automation and downsizing reduced the manpower costs. Financial restructuring and efficient fund management reduced the financial costs. Production and operation costs have been reduced through Total Quality Management (TQM), Just in Time (JIT) inventory, Flexible Manufacturing Systems (FMS), and efficient supply chain management. Studies have shown that while manufacturing costs declined from 55% to 30% and management costs declined from 25% to 15%, the marketing costs have increased from 20% to 55% (Sheth, 1998). The practice of relationship marketing has the potential to improve marketing productivity through improved marketing efficiencies and effectiveness (Sheth and Parvatiyar, 1995).

Still relationship marketing appears to be an expensive alternative to firms practicing mass marketing due to the relatively high initial investments. Firms would adopt relationship marketing only if it has the potential to benefit them. The benefits come through lower costs of retention and increased profits due to lower defection rates (Reichheld and Sasser, 1990). 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 (Sheth & Parvatiyar, 1995).

In the context of service, relationship marketing has been defined as attracting, maintaining and in multi-service organisations enhancing customer relationships (Berry 1983). Here attracting customers is considered to be an intermediary step in the relationship building process with the ultimate objective of increasing loyalty of profitable customers. This is because of the applicability of the 80-20 rule. According to Market Line Associates, the top 20% of typical bank customers produce as much as 150% of overall profit, while the bottom 20% of customers drain about 50% from the bank's bottom line and the revenues from the rest just meeting their expenses.

Berry (1983) recommended the following five strategies for practicing relationship marketing -

- i. developing a core service around which to build a customer relationship,
- ii. customizing the relationship to the individual customer,
- iii. augmenting the core service with extra benefits,
- iv. pricing services to encourage customer loyalty, and
- v. marketing to employees so that they will perform well for customers.

Developments in information technology, data warehousing and datamining have made it possible for firms to maintain a 1to1 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 customised 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.

Successful implementation of CRM requires a strategic approach which encompasses developing customer centric processes, selecting and implementing technology solutions, employee empowerment, customer information and knowledge generation capabilities to differentiate them, and the ability to learn from best practices.

Research Objectives

The current research was aimed at determining the approach being adopted by businesses in India for relationship marketing. The research focussed on the following major issues –

1. Do managers in service firms believe that their processes are customer centric?
2. Do they select technology on the basis of an understanding of customer needs?
3. Have they empowered their employees to deliver superior service?
4. Do they have a customer knowledge strategy? How well do they manage their customer relationships?

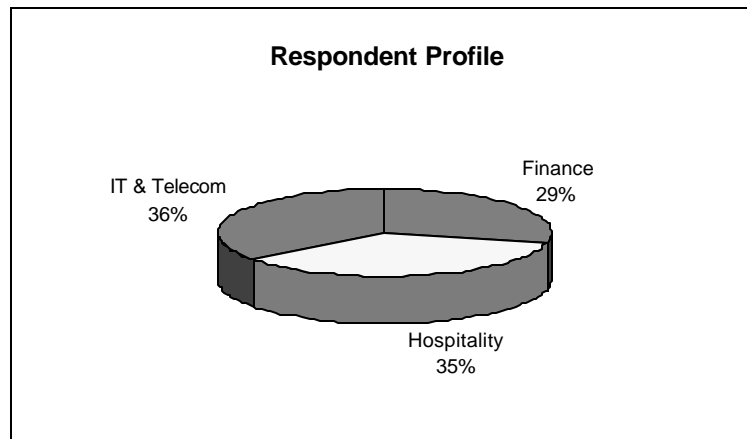
It adopted the framework recommended by Peppers, Rogers and Dorf (1999) for the survey to understand the status of relationship marketing across service businesses in India.

Methodology

The research was exploratory in nature and adopted a two-stage process.

During the first stage, 73 managers of service firms operating in India were surveyed through respondent administered questionnaires. These managers belonged to the following three categories –

- a. Hospitality industry encompassing hotels and restaurants.
- b. It and Telecom industry which included software firms and telecom service providers.
- c. Financial services included commercial banks and mutual funds.



The survey focussed on the quality and customer centric processes, technology selection, employee empowerment, and customer knowledge strategy to gauge the status of CRM practices in these firms.

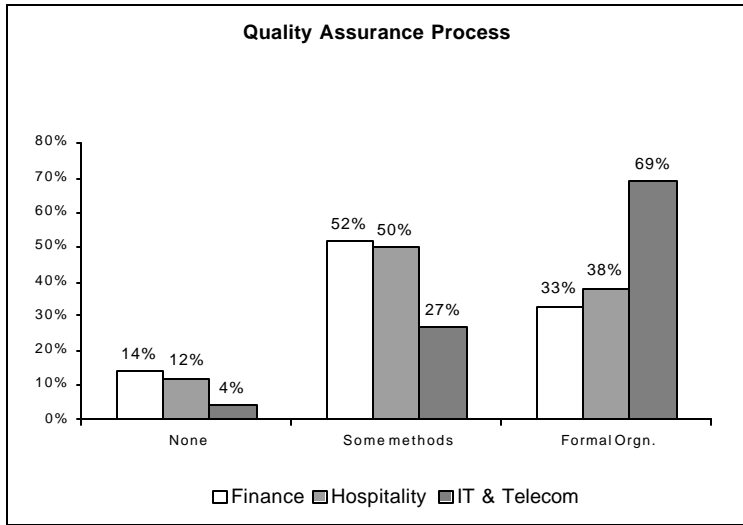
In the second stage, managers of select firms in each category of services were interviewed to understand the relationship marketing practices adopted by them. These interviews explored the following issues –

1. What are the various CRM initiatives undertaken by the firm?
2. How do they develop these programs?
3. How do they measure the effectiveness of these programs?
4. How successful are these programs in retaining customers?

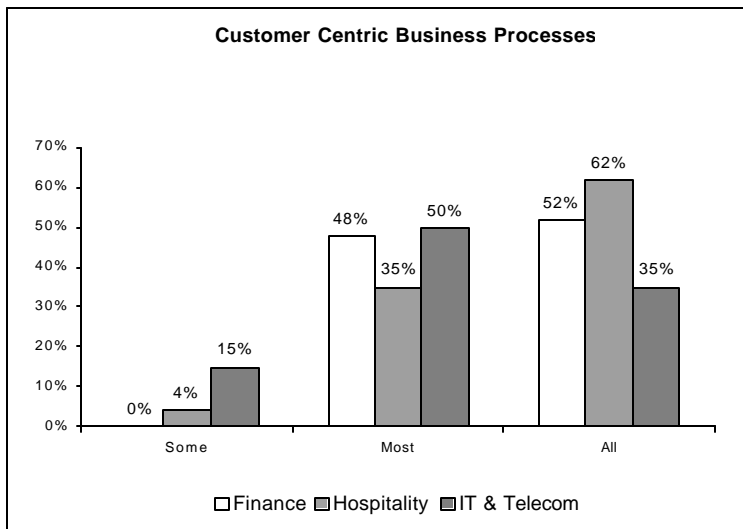
Analysis of Findings

Processes -

The managers reported a wide divergence with respect to the adoption of quality assurance across the three sectors.



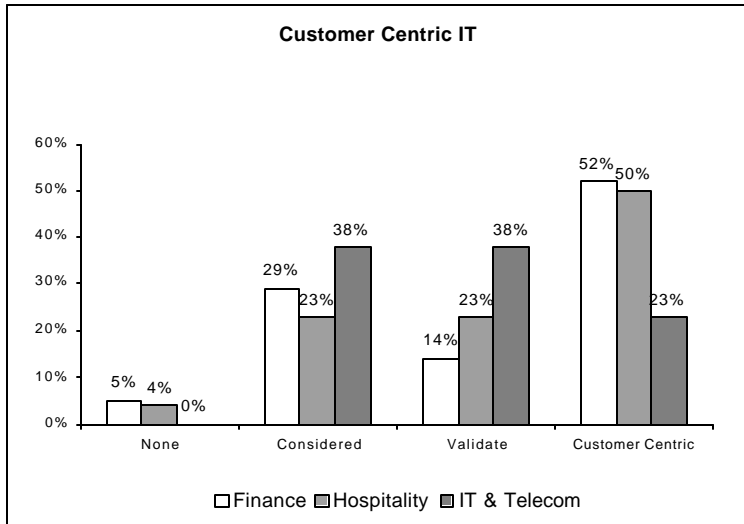
The IT and telecom sector is at the forefront of adopting a formal quality management organisation. Most of the players in the finance and hospitality sector report having some methods in place to ensure quality management initiatives. About 8% of the overall sample have indicated the absence of any quality initiatives in their organisations.



At a broad level, most managers believe that they understand most of the interactions between customers and their business processes. About 50% of them have indicated that they have a full understanding of all possible interactions between customers and their business processes. Customer-centric marketing emphasizes understanding and

satisfying the needs, wants, and resources of individual consumers and customers rather than those of mass markets or market segments (Sheth, Sisodia and Sharma 2000). In customer-centric marketing, marketers assess each customer individually to determine whether to serve that customer directly or via a third party. Also, customer-centric marketers determine whether to create an offering that customizes the product and/or some other element(s) of the marketing mix or standardize the offering. Therefore it is very important to have an understanding of all the linkages between the customers and the business processes which help fulfill the customer needs.

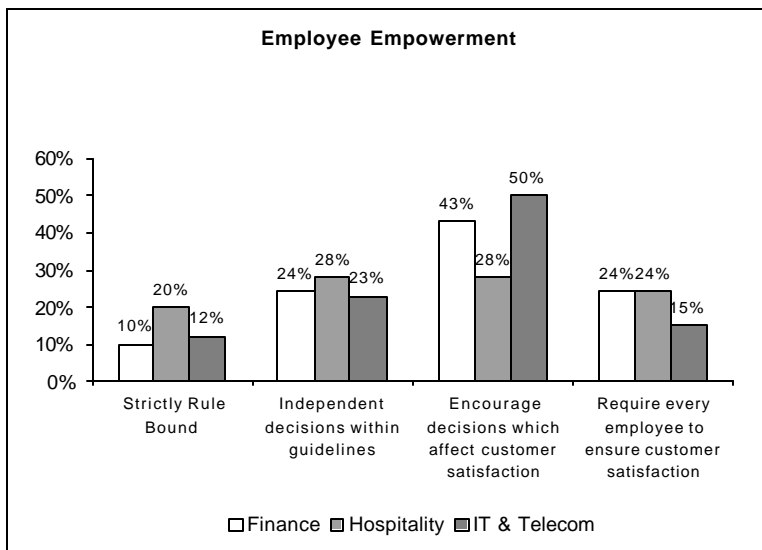
Technology Selection -



Information technology (IT) is a major facilitator for CRM implementation. In response to the question on whether they take consider customers’ needs when selecting and implementing IT, about 30% of managers have indicated that they consider customer needs. Only 14% of managers in financial services do customer validation when selecting technology. While only

23% the managers in IT & telecom firms believe that their technology selections are customer centric whereas this was over 50% in the other two sectors.

Employee Empowerment



When asked whether their employees are empowered to make decisions in favor of the customers, less than a quarter of the managers across the three sectors indicated that every employee is empowered to take actions to ensure the ultimate satisfaction of the customer. Most of them feel that their employees have been empowered to take independent

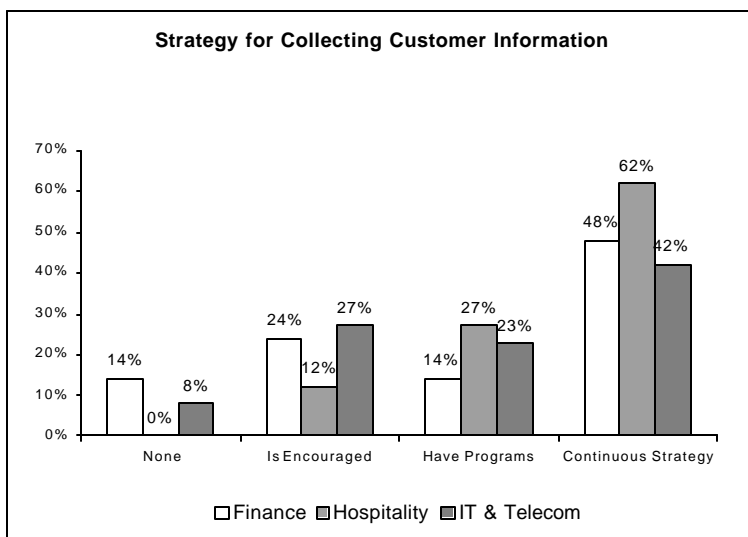
decisions within the guidelines. This aspect of limited empowerment gets reinforced when one looks at the linkage between the employee’s rewards with customer centric behavior. Over 18% of the respondents across the sectors have reported no linkages or use of ad hoc methods to reward customer centric behavior.

Facilitation of employees for their role fulfillment through IT is another aspect of employee empowerment. IT helps employees respond to customer queries and provide

support in a fast and timely manner. It helps them access information which is normally spread across the organisation. Over 54% of IT and telecom firms have provided the most effective technology to all employees who interact with customers. This reduces to 42% for the hospitality and 19% for the financial services sector.

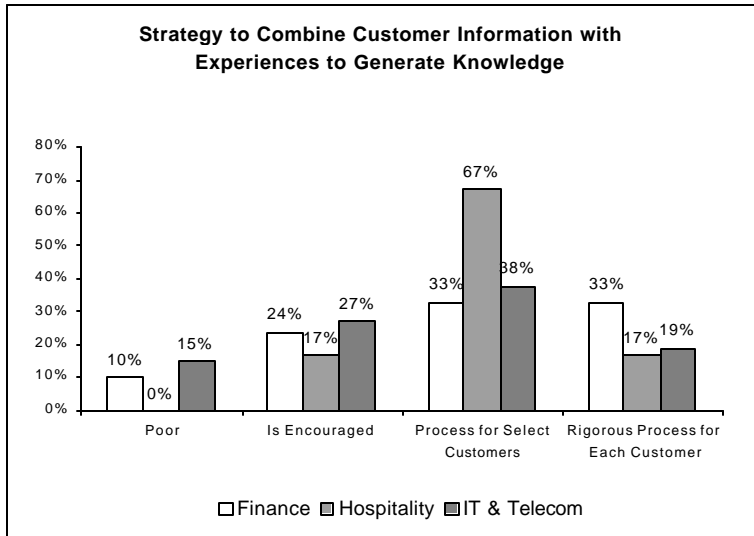
Customer Knowledge Strategy

Customer knowledge gets built when information is collected systematically over a period of time. This can be done through regular surveys and also during customer interactions. But importantly this information has to be combined with the organisation’s experiences with customers to build rich customer profiles, buying behavior, preferences and usage patterns.



Over 60% managers in the hospitality industry have indicated that they have a continuous strategy for collecting customer information. In most of the services, opportunities to come in direct contact with their customers are high in comparison to other businesses who have intermediaries and hence have a arms length

relationship with their customers. Therefore it is natural for service firms to collect customer information on a regular basis. But information collection is just the first step in generating customer knowledge. This information has to be combined with experiences to develop consumer insights which help them serve their customers better.



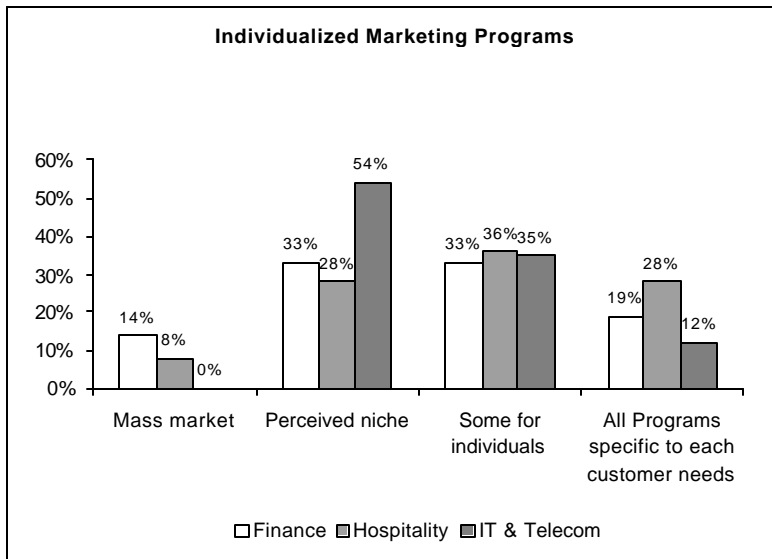
When it comes to combining customer information with experiences, service firms seem to be economising. Most of them seem to be doing it for select customers. Hotels do it for their regular guests specially those who have enrolled for their membership schemes. Financial service providers selectively do it for their high net worth individuals

who typically use multiple offerings of the service provider.

Most service firms rely on periodic surveys to understand their customers’ expectations and also understand and anticipate their behaviors. Over 40% of managers in the financial services have indicated that they work with customers as a team to ensure that their expectations are met or exceeded. It is very important to work with customers to understand their expectations as research has consistently indicated that one of the major reasons for poor service quality is the gap between managers perceptions about customers expectations and actual customer expectations (Parasuraman, Zeithaml and Berry 1985).

The purpose of collecting customer information and developing knowledge is to be able to differentiate customers and meet their specific requirements. Peppers, Rogers and Dorf (1999) have recommended a four stage process of Identification, Differentiation, Interaction, and Customization for implementing one to one relationships with customers. Over 50% managers in financial services have indicated that they have critical business information about their relationships with individual customers. This falls to about 40% in the hospitality and IT services.

Customer knowledge can be used to initiate customization of the service for customers based on their needs. By tailoring the elements of services marketing mix, firms can customize their offerings to all or select customers.



A majority of the marketing programs are targeted for smaller segments of the markets. But there is a growing trend towards individualizing these programs. With the emergence of e-commerce, this trend is going to further intensify.

Some of the important findings of the depth interviews with managers of these services are –

- a. The relationship initiatives undertaken by firms have been directed towards customer retention. The initiatives were mostly membership /privilege schemes with gradations based on frequency and value of usage / purchase.
- b. Most of them also indicated that these schemes were table stakes i.e. they cannot survive in the business without these schemes if everyone else offers them. But the race is always to differentiate on the basis of convenience for customers.
- c. The source and reasons for these programs were found to be diverse - frontline initiatives, adaptation of successful programs in parent organisations abroad especially for the multinational firms, or copying competitor’s offerings. Pioneers in the industry like one of the multinational bank, which introduced the concept of relationship manager, adopted the practices of their parent organisation.

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Structure

- Introduction – to CRM, direction of initiatives in Indian industry (based on newspaper / magazine reports and our survey).
- Literature Review & Problem statement (HBR, JAMS, E&Y study, Gartner Report & other CRM Forum white papers)
- Research Objectives
- Methodology – Sample profile, survey method (of about 100 firms), depth study of about 16-18 firms
- Analysis of Findings – based on graphs and other literature
- Conclusions (Propose a framework for implementing CRM)
- Directions for future research