

CHAPTER 2: LITERATURE REVIEW

Customer Relationship Management (CRM) is about understanding what satisfies the customer, how customers behave and why they behave in that way. With this information, companies could convert it into useable business intelligence where it could be used to assist companies to develop products and services that meet the expectation of the customers (Stephen McBride, 2000).

Furthermore by utilising the business intelligence knowledge, companies could predict the demands and needs of the industry as a whole. Hence, by incorporating the demands and needs of the industry into the company's product and services, potential customers may be attracted to switch their preference to that of the company's while the existing customers' loyalty may be strengthened.

Henceforth CRM require businesses to focus on customers rather than the products and the need to change in the processes, systems and culture so to facilitate the implementation of the CRM programme. This concept will embrace all levels from the 'front-office' function of sales to customer service and from back office operations to new products development. In addition, the implementation of CRM requires all channels and media from the Internet to the field of sales and sales partner both up and down of the supply chain to work dependently (Hewson Group and Microsoft, 2000). This means suppliers and staff must work closely and dependently and to perceive each customer as a distinct individual with distinct needs and demands.

Therefore from this understanding, we could comprehend that CRM is a business strategy where companies aim to understand their customers' distinct behaviour so to enable them to develop products and services that meet the customers' need and demand.

In the initial development of the strategy, businesses are required to establish their customers' portfolio in order to develop a basic understanding of the demographic and psychographic behaviour of their customers.

This understanding may assist further in the development of product and services that in turn will draw the attention of new customers while retaining the existing ones.

In demographic segmentation, customers are segmented based on their values, attitudes and lifestyles while in psychographic segmentation customers are segmented based on their age, culture and beliefs. With this segmentation, businesses could develop an in-depth understanding of their customers purchasing behaviour and subsequently to deliver products or services, which could better fulfil their needs and demands (Bearden, Ingram and Laforge (1995), *Marketing Principles and Perspectives*, London: Irwin pg.188 - 190).

Technology plays an important role in the implementation process of the CRM programme. It is said to be an enabler for CRM as it facilitates and supports the integration of information, storage of data and implementation process. For instance the usage of high capacity database for storage of customers' information and the intelligent call routing facilities and firm integrated data mining could facilitate staff in accessing customers' information and attending customers' inquiry in an efficient and effective manner. In a research by CSC Financial Service it discovered that many authors shared the same opinion that without the support of technology, CRM will never be implemented and remains as a plan.

The technology available were call centre telephone sales, internet-based service, intelligent call routers, firm integrated data mining, field service and dispatch technicians and a campaign management system, which is a database management tool used by marketers to design campaigns and track their impact on various customer segments over time. Firm integrated data mining system is a database facility whereby staff could access to customer's data anywhere and at anytime.

Hatton Blue in their research in CRM supported that technology is an enabler for CRM as it enables the integration of large volumes of customer information and sharing of information.

For instance with the introduction of the Maybank 2 U.com website where customers could perform their banking transaction online. In addition these technologies allow companies to move away from conventional marketing models and permits individualise marketing and selling to customers. This makes the targeting of customers to become more effective and consequently the return on this individualisation increases revenue.

From the above, we could perceived that in this era of relationship marketing, the production of quality and defect-free products are no longer the main criteria that determines the success of businesses. One of the main determinants of business success is the development of an in-depth understanding of the needs and demands of the existing as well as potential customers and the provision of efficient service (Adolf, Grant - Thompson, Harrington and Singer, 1997).

This was proven by a recent study on the Swedish Savings Bank in its implementation of the CRM programme. The study showed that the sales application supported sales of different type of funds to private persons and provides information on the total customer engagement with the bank as well as extensive product information via Internet. Th results is within just 6 months after its implementation of the CRM, the Bank has increased its sales of investment products from £0.25 million to £2 million resulting from the overwhelming response from their customers as well as their new customers. (INFACT Research Ltd, 1997)

Beside generation of profit, recent findings have shown that a well-implemented CRM programme has improved the response time to customer requests for information and providing a more responsive technical support as all queries will be directed to the respective personnel instantly with the assistance of the intelligent call routing machine. In addition, customers will receive a greater breadth of solution as well-trained personnel will handle their query or alternatively customers could access the companies web sites to seek for assistance.

Apart from the benefit above, the CRM programme could enhance the operation of the company by providing instant access to the status of orders made by customers and hence enhance the efficiency of the staff to deliver the products and services to customers. For instance, mobility and the service of site technicians could be enhanced as they could service the customers without reporting back to office. With this facility, customers' satisfaction will be enhanced due to the efficient and effective service delivered. This will build the customers' confidence and in turn strengthens their loyalty towards the company (Hewson *albeit*). Besides, CRM has shifted management emphasis from mass production to mass customisation, which in turn will assist in the reduction of customer acquisition cost and improves cross-selling capabilities (Close and Thompson, 2001).

In a similar study, Sue and Morin established that with an effective CRM programme implemented, companies could increase their revenue and decrease their cost. The increase in revenue was due to the elimination of losses from unprofitable customers portfolio while the decrease in cost was due to the lower maintenance of database and software that was used to maintain the customers' data.

From the above study, it could be deduced that customers are the main determinants of either the success or failure of an organisation. Therefore, in the effort to maximise customers' expectation, loyalty and demand companies are encouraged to introduce and implement the CRM concept throughout the company and their suppliers. This is not sufficient to gain the full confidence and loyalty of the customers. Companies are encouraged to extend their services to the next level that is after sales service demands a higher market share and growing customer portfolio (Boone & Kurtz (1998), *Contemporary Marketing*, London: The Dryden Press pg.433 –451).

In addition to that, recent studies have evidenced that successful CRM initiatives are leading to improve profits and subsequently higher stock prices. With this shareholders are happy while as a result CEOs can look forward to larger bonuses.

All in all, with the implementation of a successful CRM programme, companies could enjoy the benefit of increase in the earnings while demanding a higher portion of market share. On the other hand, with the successful initiatives of CRM management will be rewarded for the increase in the shareholders wealth (Close and Thompson, 2001)

In conjunction companies should also allow their customers to have an easy access to the organisation's information such as the facilities provided and updates. The benefit derived from this recommendation is twofold. Firstly, customers will have a clear idea of what the companies are offering and therefore reduce the time to explain to the customers of the services rendered. Secondly, enquiries are efficiently and promptly answered via the call/contact centres. The facilities available to facilitate the easy access of information are call centres/contact centres, web sites, direct contact facilities, interactive media and on-line application (Stephen McBride, 2000).

However Hatton Blue in the same research indicated that currently technology also acts a barrier in the implementation of the CRM initiatives. This was due to the high implementation cost involve, which includes the acquisition of high capacity databases, the intelligent call routers software, the consultation fees, the peripherals such as servers and telephone lines and firm integrated data mining software.

In addition the research indicated that the speed of implementation is another barrier that deters the implementation of the CRM programme. Often the implementation of the CRM programme will take a long time, which will in turn increases, the budgeted cost of implementation.

Peppers and Rogers identified that the delay could possibly due to the complexity of the data conversion process, the integration of the available data with the requirements by the CRM programme and lastly the resistance to change attitude of the staff.

In the research by Hewson Group, the result shows that it is difficult to measure the returns from implementing the CRM programme. The results could generally be classified into three categories:

- i. There are no baseline data prior to the use of the system, making before and after comparisons impossible. CRM is a relatively new concept and therefore companies could not use any benchmark to measure their success;
- ii. There are too many independent variables such as expertise of the staff in executing the programme, understanding on the association between company's objectives and that of CRM and the response time provided to the customers;
- iii. Many benefits are soft or intangible and hard to quantify. This point meant that it is difficult to measure customers' loyalty and satisfaction on the services or products sold to them.

In introducing the CRM programme, companies should take into consideration of the internal and external political influences (McBride albeit). Internal political influence such as top management constantly encouraging staff to participate actively in the programme and introducing the concept of bottom up feedback where top management will take into consideration of the field staffs' suggestion into the CRM initiatives. On the other hand, introduction of the concept of open market in China will lead to stringent competition between the local players and the foreign investors. Hence in order to gain competitive advantage against foreign investors, management of the local businesses have to attract customers' attention and gain their customers' confidence and loyalty through incorporating the CRM initiatives on their services rendered

Despite the difficulty in measuring the effectiveness of the CRM programme, Hewson has suggested measures on the effectiveness of the CRM programme.

The first technique is businesses should identify the saving areas within the business. Subsequently using the current operation of that area as the benchmark against the operation after incorporating the CRM initiatives. In other words, an analysis of current operation will produce a detailed baseline to measure improvements.

The second technique is to use of profitable models such as Customer Solution Profit model, Switchboard Profit model, Profit Multiplier model, Installed Based Profit model, Entrepreneurial Profit model and Time Profit model.

In addition, PriceWaterHouseCoopers introduced the concept of market intelligent enterprise. In this concept, enterprise begins to anticipate the moves and behaviour trends of their customers and subsequently refines its response to the demands efficiently. With this information enterprise could respond on a timely basis to the demand and need of customers and thus providing a competitive edge against other players in the industry.

With greater consumer education, increased availability of information, global competition and deregulation in many industries, customer expectations are being set by direct competitors and by enterprises in other industries. As a result enterprise are force to adopt multiple level strategies to in order to meet customers increasing expectation and demand. However, this situation has in turn led to lower customer satisfaction and customer loyalty and therefore making CRM even more valid to be adopted.