

CHAPTER 1 INTRODUCTION

1.1 Background of Customer Relationship Management (CRM)

With the emergence of a global economy and the rapid technological changes, the fundamental nature of competition in many industries is changing. The pace of this change is increasing. (Hitt, et. al., 2003) Therefore, managers must adopt a new mindset that values flexibility, speed, innovation and the challenges from the constantly changing conditions.

Today, services go beyond “the service sector”. Understanding services and service management becomes imperative to success (Gronroos, 1990). It is not only so-called service companies but also so-called manufacturing sector that need to understand the nature and the management of service. Pursuing a service strategy for service businesses and manufacturing companies is a way to differentiate their offering from competitors and creating competitive advantage.

Service management perspective has changed the general focus in service and manufacturing companies as follows (Gronroos, 1990):

- 1) From the product-based utility to total utility in the customer relationship,
- 2) From short-term transactions to long-term relationship,
- 3) From core product (goods and services) quality (the technical quality of the outcome) to total customer perceived quality in enduring customer relationship,
- 4) From production of the technical solution as the key process in the organization to developing total utility and total quality as the key process.

Quality service precedes customer satisfaction and this is what every business company is looking for. Many customer satisfaction studies have concluded that there is a significant relationship between customer satisfaction and customer loyalty. Customer loyalty that begins with customer satisfaction means revenue for the company. Once the customers do not feel satisfied, the

first decision is whether or not to take any external action. The consumer may decide to live with the dissatisfactory situation. The decision is a function of:

- i. The importance of the purchase to the consumer,
- ii. The ease of taking action,
- iii. The consumer's existing level of overall satisfaction with the brand or outlet; and
- iv. The characteristics of the consumer involved.

Besides complaining to store or manufacturer, private or government agencies and initiate legal action, those dissatisfied customers are engaged in word-of-mouth activities by warning their friends and colleagues about the product, then their bad word creates a time bomb to the company (Brown and Beltramini, 1989). On the other hand, once the customer feel satisfied they would do the same thing.

Customer relationship, especially the way a company builds relationship with its customer becomes important when there are many companies also trying to satisfy their customer and to create customer loyalty, especially for companies that decide to utilize technology such as Internet in their operation. Internet, which is an electronic world of communication appeared in three decades ago, is now readily available and is challenging the very notion of distant horizon in time or space. With its rapid growth, e-business is bringing the world into faster operations of companies.

Amongst many business models in managing customer relationship to build customer loyalty, Customer Relationship Management (CRM) is one of them. It is the process of acquiring, retaining and growing profitable customer. Basically, it is the same with the old way of doing business by establishing a communication with the customers to understand and anticipate their evolving and to build a good relationship with them. The new thing about this model is that

business companies now can do those activities on an “industrialized” basis for tens of thousands, even million of customers through Internet.

The implementation of CRM requires a clear focus on the service attributes that represent value to the customer to create loyalty. The only way company can distinguish itself in the eyes of the customer is through customer service and customer relationship management, and what makes winner is not only emphasis on products but on how a company get out of there and create lasting relationship with its customer. Executing CRM strategy on a mass basis through the availability of technology (e-CRM) will allow a company to establish relationship with many customers like never before. That is what counts, and that means CRM, a strategic imperative in the world of e-business (Brown, 2000)

1.2 Purpose of the study

The concept of CRM is quite a new phenomenon in Malaysian businesses. There are not many studies done in this field area. This study is an exploratory study on automobile marketers' perception on CRM. The purposes of this study are:

- i. To look into how marketers use various facilities in CRM as a marketing tool to build profitable customer relationship (CR) in the automobile industry in the Klang Valley region. The resultant customer relationship will help determine the level of customer loyalty which will translate into increased profitability for the company as a whole.
- ii. To investigate the requirement of integrating various facilities in CRM to support its effectiveness. This is useful for the marketers to assess and measure CRM effectiveness in terms of the degree of integration amongst various infrastructure facilities available in the company.
- iii. Besides benefits, this study also researches into possible barriers in relation to technology in the implementation of CRM by marketers in their company. This will guide the marketers in their effort to re-look into

customer needs and adopt alternative CRM decisions in the right perspectives.

The study on the user profile will provide us information on user characteristics among different companies in their CRM usage to create customer relationship.

1.3 Significance of the Study

This research investigates the importance of using an integrated system in CRM strategy in creating loyalty amongst the current and future customers in the automobile industry. However, different marketers have different definitions on customer loyalty, which ranges from transactional concept related to repeat purchases, perceptual related to satisfaction and complex pertaining to lifetime value and brand loyalty (Brewer, 2000).

Brand loyalty arises from identification, where a customer believes the brand reflects and reinforces some aspect of his or her self-concept. It also arises through preferences expected that delight the customer related to the product or firms or the manner in which the firm responds to a complaint or a customer problem. Such being the case, it is more difficult to develop brand loyalty for some product categories than for others (Hawkins, et. al., 2004).

For high involvement product categories, like automobile, most firms should focus on creating loyal or committed customers rather than creating satisfied repeat purchases for the low-involvement product categories (Oliver, 1999).

Therefore, it is hoped that this research is able to:

- i. Provide some insight into CRM,

- ii. Encourage the companies to introduce and implement the CRM throughout the company and their suppliers, including after sales services, and
- iii. Help the companies to build committed and loyal customers through profitable relationship.

1.4 Theoretical Underpinning

During the past three decades, the concept of marketing has changed drastically (Keegan, 1999). It has evolved from the production era to the sales and marketing era and finally to the relationship era at present.

In the production era around 1925, most firms focused on the production of quality value products. They believed they were able to sell whatever volume they produced as the world population was facing production shortages and increased consumer demand.

Production techniques, which became more sophisticated in 1950, had led to the increase in output. Manufacturers had to emphasized on effective sales force in order to find customers for their products. This was the onset of the sales era.

The new concept of marketing, which appeared around 1960, shifted the focus at marketing from product to the customer (Keegan, 1999). The objective was still profit; but the entire marketing mix used to achieve the objective includes the '4 Ps", which are product, price, promotion and place (channel of distribution). This ushered in the marketing era when the effectiveness and efficiency in meeting customer demands, needs and wants were the key elements in determining a company's long-term success.

The 1990 saw the beginning of the relationship era in the marketing history when companies focused on the establishment and maintenance of

mutually beneficial relationship with their existing customers and suppliers. This concept was known as Customer Relationship Management (CRM) (Borne and Kurtz, 1998).

According to Sue and Morin (2001), CRM is defined as a technology enabled business strategy whereby companies leverage increased customer knowledge to build profitable relationship, based on optimizing value delivered and realized from their customers.

1.5 Scope of the Study

The study is confined to 24 automobile companies located in the Klang Valley region. The particulars of the companies with their franchise holdings and country origins are as Appendix 1.

The study is targeted at these companies which use CRM programmes as a marketing strategy to improve customer relationship and retention, be it short term, intermediate or long term.

The whole study is devoted to CRM users in business and the non-users of CRM are excluded from this study.

The respondents to this study include franchise holders, agents and distributors of locally assembled as well as imported new vehicles.

A total of 24 respondents are chosen in order to capture the responses from various categories with a wider spectrum to be more reliable and representative in the survey results. The results based on the sample will represent the whole population of the automobile industry in the Klang Valley region.

The departments chosen for this survey are one of the following: -

- i. Strategic Planning Department, which formulates and introduces some CRM concepts and ideas to the company.
- ii. Customer Service/CRM Department, which has regularity in dealing with their customers.
- iii. Information Technology (IT) Department, which is the facilitator for the implementation and functionality of the CRM initiatives.
- iv. Sales/Marketing Department, which is the initiator and planner for the implementation of CRM as part of a marketing plan.

1.6 Organization of the Study

This study is organized into five (5) chapters as follows:

Chapter One (1) is the introduction, which provides a background of CRM, the purpose and significance of the study. The scope and limitations of the study are also included in this chapter.

An overview and review of the related but relevant studies on CRM is given in Chapter Two (2). The studies are mainly from the West.

Research Methodology is discussed in Chapter Three (3). It looks at the research hypothesis, the selection of measures in the research design, sampling design and data collection procedure. It also includes a discussion on data analysis techniques for the research study.

Chapter Four (4) discusses the research results, following the interpretations and analysis of questionnaires. The hypotheses of the study developed in Chapter Three are tested to arrive at the research results which are presented in this chapter.

Chapter Five (5) is the summary and conclusion. Whilst the implications of the study to the car industry are discussed in this chapter, the suggestions for further research are also recommended.

All figures, tables, charts and diagrams are appended in the text as appropriate. The questionnaire is enclosed as appendices whereas the references are listed under Bibliography.

1.7 Study Framework

This study will treat various company strategies used in CRM as independent variables and the profitable customer relationship built as dependent variable.

The study has six (6) independent variables. They are:

- i. Customer strategy
- ii. Product strategy
- iii. Channel strategy;

Integrated infrastructure strategy, which comprises of

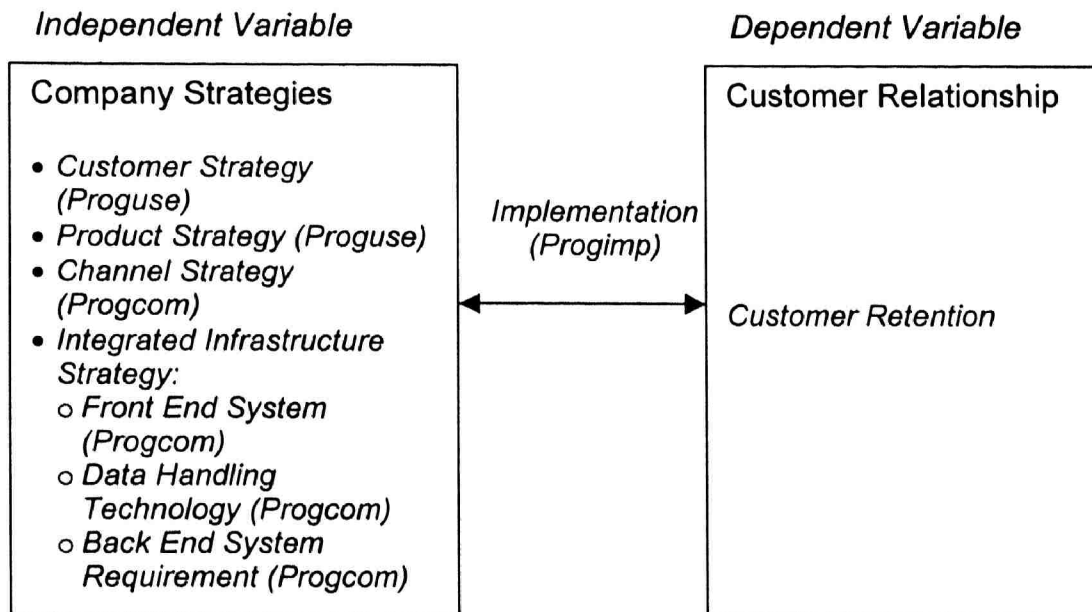
- iv. Front end system
- v. Data handling techniques; and
- vi. Back-end system requirement

The dependent variable, "profitable customer relationship", has two (2) components, namely:

- i. Customer retention; and
- ii. Customer satisfaction

A conceptual relationship between various company strategies and profitable customer relationship is presented in Figure 1.1 as follows:

Figure 1.1 Theoretical Framework



From this conceptual framework, and also from the literature review undertaken in Chapter 2, a number of hypotheses can be derived for this research.