

Chapter 2

Literature Review

2.1 BACKGROUND

Now a day, the competitive level in the market is changing to be more aggressive from time to time which is very hard to retain the existing customer and improve the profitable operation in the future and customer is the most important factor of each organization to be success in the business. Therefore, the organizations who want to success will invest a lot of money to in the marketing tool to keep the existing customer and gain the new customer as much as possible and the marketing tool that most organization use is Customer Relationship Management (CRM).

However, the first CRM initiatives launched in the early 1990s focused primarily on improving a single service channel “the call center”. Which the company using the new technology and performance measure designed to streamline the process of answering and handling customer inquiries, expecting to increase customer satisfaction and company operating efficiency.

Later, company widened their focus to include sales by implementing new automation tools to enhance sales force efficiency and productivity and then the CRM expand to service channel and finally many companies also implement the data warehouses and customer analysis program to help manage the customer data and mine it for deeper insight into customer preferences which is call data mining.

Unfortunately, these investments are not enough to sustain an existing customer and the leadership position. Even, they has a perfect sales and service program, companies are discovering that they must do more. Customer always expect more and what they expect changes at an ever-increasing rate. As a result, the cost of acquiring and serving customers are also extremely high. So companies need to go back to the initiative idea of CRM and try to understand the real CRM.

2.2 DEFINITIONS RELATING TO CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

The specialist literature contains a host of definitions relating to this topic, however, some of them are different from each other. Very often one encounters instead of the term Customer Relationship Management (CRM), the synonymously used terms Customer Management (Diller/Kusterer), Relationship Marketing (Kotler), Concept of Customer Linkage (Bliemen/Eggert), Business Relationship Management (Belz) and Customer Proximity (Homburg).

An international consultant firm uses the following definition of CRM: “An integrated strategic approach to capture disproportionately high share of value from current and potential customers by using proprietary customer information effectively” (CRM Forum)

In the other words, Customer Relationship Management is: the practice of building long-term satisfying relations with the key customers in order to retain their long-term preference and business” (Kotler)

In the other practical ways, Ravi Kalakota and Marcia Robinson define CRM as an integrated sale, marketing and service strategy that precludes lone showmanship and depends on co-coordinated actions. They defined the goals of CRM business framework as follow:

- Use existing relationships to grow revenue. Composite a comprehensive view of the customer to maximize his or her relationship with the company through up-selling and cross-selling. Enhance profitability by identifying, attracting and retaining the best customers.
- Use integrated information for excellent services. It is about saving time and easing frustration for customers. Customer should be surprised by how well the company knows them.

- Introduce more repeatable sales processes and procedures. With the proliferation of customer contact channel, many more employees are involved in sales.
- Create new value and instill loyalty. This is the point of difference or competitive advantage of the company. It is company's ability to respond to needs and accommodate requests of customers.
- Implement a more proactive solution strategy. Use customer focused business solution that works across the entire enterprise instead of just gathering data and eventually using it. Move from reactive data collection to reactive consumer relations that resolve problems on the first calls.

Based on the above goals, becoming customer-focused does not necessarily mean improving customer service. It means having consistent, dependable and convenient interaction with customers in every encounter. CRM is an integration framework of a business strategy, not a product. Implementing CRM business strategy into practical requires developing a set of integrated applications that address all aspects of front office needs by using and integrated support across the range of business functions.

2.3 MANAGING THE CUSTOMER LIFE CYCLE: THE THREE PHASES OF CRM

In the personal relationship, the level of understanding grows over time as both parties are committed to making the relationship work. It is same thing as in the world of business. Competition is increasing from time to time that customer are very easy to change from supplier to supplier and more and more company to choose. Ravi Kalakota and Marcia Robinson suggested the three phases of CRM that have different impact on the customer relationship. Those three phases are acquisition, enhancement and retention.

All phase of CRM are inter-related. However, doing all three phases well is very difficult to do, even for the best company in the world. Companies often have to choose which their primary focus is, however choosing one does not mean forget the

other two. The choice will reflect the technology infrastructure strategy. Each phase of CRM will be described as follow:

2.3.1 Acquiring new relationship

Beginning the new business relationship is much like going to see a new friend. There is insecurity, hesitation, some fear and anticipation. It takes time to overcome those obstacles. In the same way, acquiring new customer demands a great deal of planning, professional presentation, very fast service and some luck. Potential customers are very impressed when companies call them while they are finding to buy the companies product. Normally, the company can acquire new customers by promoting product or service leadership that pushed performance boundaries with respect to convenience and innovation.

2.3.2 Enhancing Existing Relationships

The company can enhance the relationship by encouraging excellence in cross-selling and up-selling. Companies prove their commitment by taking time to give the service to the customer. Call center is one of effective application for developing and maintaining relationship. For example, when customer call about a product, the staff can automatically suggest a complementary item (cross-selling), moreover when a customer call about the replace part or new project that need the same product; the staff can suggest a similar product which is better quality (up-selling)

From the above approach, some companies that can access and use customer information effectively may offer the superior service that provides the information to the customer when the customers need it because the companies know when the customers need it. For example, the car company can offer the maintains service to the customer by direct mail when the mileage is reach the level of preventive maintain which they calculate from the

customer database instead of waiting for the customer to come to the service center.

2.3.3 Retaining Customer Relationship

Like the personal commitment, business relationships need patience, understanding and time. Retaining customer require a complete understanding of customer need and a determination to stay in the relationship. Normally, retaining need to focus on the service adaptability, delivering what customer wants not what the market wants. The value proposition to the customer is to offer a proactive relationship which works for customer best interest. Today, leading companies focus on retention much more than attracting new customers. Some preliminary research shows that even a five percent increase in customer retention can increase profits by as much as eighty five percent because the cost of acquiring a new customer is extremely high. However, it is not easy to do.

2.4 E-CRM

To be successful at e-business and Customer Relationship Management (CRM), companies must rethink at the most basic level, how they do business, how they bring products to market and how they serve their customers. Their business models must evolve from production-centric to customer centric. As product has become more commodity and price competitive, the great different today is delivering customer value. Perceived value is what leads to increased loyalty, sales and retention rates.

Rushing to implement a website is not the solution. Too many organizations take a “build it and they will come” attitude. This is a common mistake that may do more harms than good to the customer relationships. According to Gartner Group, more than 55 percent of organizations pushing the website is negative than positive. Their web pages are static and non-functional and have limited online business

capability, giving first time visitors no reason to return. What customer centric companies need is a well planned integrated e-business strategy that takes into accounts both customers' needs and corporate business objectives. Only by combining the two can reach their objectives of more satisfied customers, increased sales and new revenue streams. These are the goals of CRM in the electronic age.

Customer Relationship Management is hardly a new concept. Good businesses have been practicing it for centuries knowing customer's names and family information, monitoring buying patterns and preferences and promoting new business using this information. The difference today is electronic technology, which has exponentially increased both in speed and the volume of information. However, customers are still customers and the key word in CRM is "Relationship". The media company uses to reach and serve customers today may include a traditional enterprise as well as various kinds of electronic interactions such as e-mails, web-site FAQs, self help applications, remote help centers for sales and after sales support and inbound and outbound call centers for telemarketing, technical support and service.

Today customers want to access to the products in a fastest way, removal of geographic boundaries. easy ordering, timely delivery and responsive service. If the company does not deliver, they are just a mouse click away from the competition. In research conducted by Internet and e-business analyst Jupiter Communications, up to 42 percent of top ranked web sites took longer than five days to a customer inquiry, did not accept e-mail or never respond at all. Something is wrong with this picture.

CRM is fast becoming a market imperative. Correctly gauging the potential of the electronic market place, a number of early adapters devised e-business and customer relationship strategies that were tightly linked to their core businesses. To grow their customer base and better serve existing customers, they implement more than just a good looking web presence.

It has been proven that Website functionality and integration strengthens e-business initiative. Static web site does very little for a business. To get close to customers, whether consumers or other businesses, the company needs a fully

transactional web site that provides key links to the company's ERP, supply chain, sales and marketing, logistics and other.

Organizations that neglect to integrate e-business solution with back end systems run the risk of the "silo" effect. A silo is a stand-alone application that does not relate to the enterprise as a whole. In silo applications, the focus is on the enabling solution – such as the store front, catalogue, order entry, payment and customer service – instead of in the business impact and ROI.

Well-planned and well-executed CRM solution can have a significant long-term impact on both the bottom line (e.g. reducing administrative and customer support costs, speeding up order to delivery cycles for faster, better customer service), as well as on the top line (e.g. increasing the value of existing customers, increasing sales and profitability). The important thing is to do it right. One of the greatest benefits of integrating front-end CRM solution with back office business processes is improved business intelligence (BI). In doing so, data can be captured at every point of customer contact from order entry to fulfillment whether that contact is by telephone, fax, call center or web site. Using data warehousing and online analysis tools, companies can transform these raw data into valuable information to help them increase competitive advantage in their market.

For the most lasting effect, the e-business vision should be long term. Once the e-business vision has been formulated, incremental steps can be taken to bring the vision to reality. It is important to link the corporate and customer service objectives to technical realities that affect not just the website, but the entire enterprise. By linking key front end CRM applications with critical back end components of the enterprise application such as order entry, logistic, execution, business intelligence, sales, marketing and finance the value of the CRM solution is multiplied tremendously. The key is to focus not on quick profits and one-time customers, but on taking good care of existing customers by being more responsive to their needs.

2.5 NEW CRM ARCHITECTURE IN ORGANIZATION

New CRM architecture is one of the most considering issues by company around the world. Corporate demand is on the rise for integrated applications that are built around customer life cycles and customer interactions. Rising to meet this demand is smart new generation of CRM architecture that seamlessly integrates emerging customer serving processes. In the customer centric companies, they try to organize the CRM process around the customer rather than marketing, sales or any other internal functions. Measurement and feedback from the customers drive CRM process. Customer's viewpoint is an integral part of the process, allowing to change with the customers' need. The new integrated CRM process is shown in Figure 2.1.

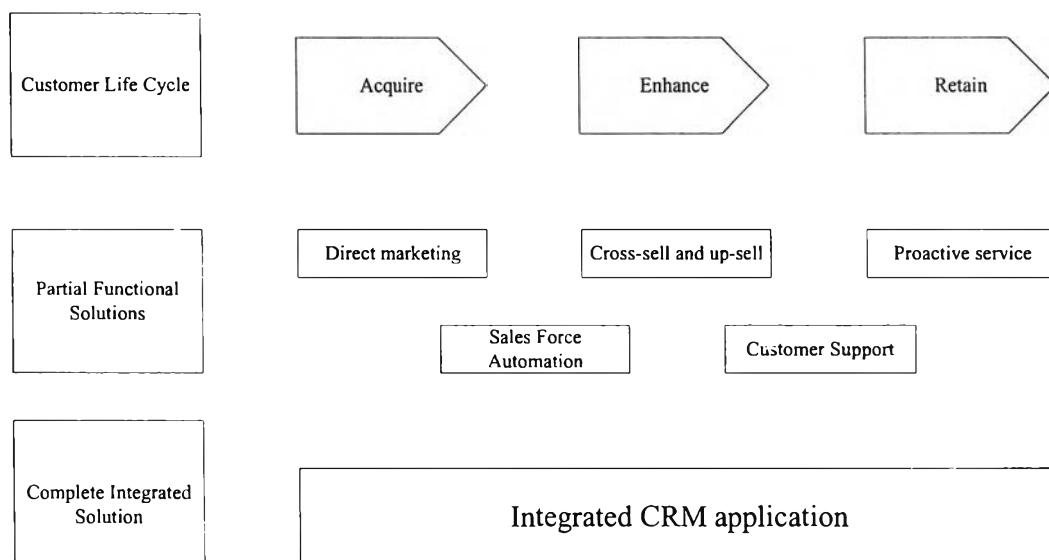


Figure 2.1 New CRM Architecture

Before aggressively deploying CRM applications, company might have to restructure customer interaction processes. There is growing trend toward managing all activities that identify, attract and retain customers in an integrated fashion, which is, managing them as a process that cuts across functional departments. By this process, organizations can create end to end communications and performance accountability for entire sets of activities. Conclusion, a CRM infrastructure is really a portfolio of process competencies.

2.6 NEXT GENERATION OF E-CRM INFRASTRUCTURE

The universal trend of the next century is integration. Next generation CRM infrastructure is no exception. Ravi Kalakota and Marcia Robinson suggest five types of integration to be effective in the next century as follow:

- Integration of customer content: The ability to access, manage and process all relevant customer content, including the seamless integration of structured and unstructured customer data, has emerged as key requirement for CRM application today. With the push of CRM, companies are beginning to recognize how to integrate this critical data. The integrated picture of customers allows for numerous service and sales opportunities, as well as level of service distinctions for the best customers.
- Integration of customer contact information: Contact Management (CM) is defined as the electronic capture of customer information with the capability to access and share information throughout the organization for sale and service purposes. Today, customer inquiries and transactions are coming from the call center, the internet and many other channels. Capturing and sharing these interactions within an organization should be top priority, a well-designed CM infrastructure allows a company to create virtual contact center that centralizes information and makes it available 24 hours a day, seven days a week across all service delivery channels. CM information can be accessed in the “here and now” to provide service during interaction with customers and it can also be accessed off-line, extracted to decision support system for further analysis and sale opportunities.
- Integration of end to end business process: Companies must have cross-functional process integration because business environment becomes focused on anticipating and addressing customer needs. Today, prospects and customers want to access companies from a variety of places in order to obtain fast, accurate and consistent information. They want before and after sales service. Then, today service must start before the sale and be inherent in every interaction a customer has with the company. Web offers an unprecedented opportunity for organizations to achieve and end to end, integrated sales and

service environment. Moreover, web is now becoming an interactive customer care and fulfillment center that can handle multiple channels of communication. This shift places a premium on highly integrated customer self-service interaction.

- Integration of the extended enterprise: Deploying a tightly integrated front office throughout a company is not enough. Sharing customer information with partners or third parties is absolutely critical as companies come to depend on outside alliances. The partners will enable companies to share leads or customer support issues with everyone who comes in contact with customers, regardless of whether they work for the company or not. To provide the kind of service that guarantees customer loyalty, companies must extend to their partners and vendors a CRM infrastructure via Internet, Intranets, and Extranets. Through this infrastructure, partners can share information, communicate and allocate with the company.
- Integration of system: The demand for complete relationship management is driving the need to integrate telephone, web and database technologies to provide a 360 degree view of customer attributes and account history. Execution of this strategy requires four enabling technologies that must work together to provide some punch to CRM infrastructure. These technologies are Legacy systems, Computer Telephony Integration (CTI), Data warehousing and Decision support technology.

Therefore, to help the companies to build appropriate infrastructure in the next generation of E-CRM, there are many intelligent software packages that can help the companies to meet their customers' diverse needs. Most of the software is trying to cover all components of the company's operation such as marketing, sales, service functions, call centers and internet business delivery system.

The driving principle behind that software is the customer centric enterprise. This allows companies to better understand their customer relationships, value and profitability. Moreover, turning traditional CRM concept into the E-CRM is one of the most critical points to concern.

2.7 DATA WAREHOUSE / DATA MARTS-REPOSITORIES FOR DATA MINING

Companies over the last couple of decades have done more logging and data capture with the advent of computers with database capabilities. Many have found that these data are quite useful to analyze of focus market groups if only the information was available for statistical analyses. The increasing popularity of intranets and the internet has given rise to repositories of data and engines that can search for correlates for internal used and “sellable” information (e.g. what kind of people watch what kind of television shows during what times of the day). These “gold mines” of hidden information has been as speculative as the analogy implies.

2.7.1 What is a data warehouse and data mart?

Both the warehouses and the marts store information about clients, demographics, interactions and transactions. They are not limited to commercial gains but can be applied in any number of fields. For example, a transaction log history would keep information like: “Mr. A withdrew 50 Bath each weekend at 9am Saturday morning” or “Most reliable visual astronomical observations were before sunrise”. Of course, like the last case, the conclusions are fairly obvious.

Data Warehouses combine data from all types of source and have the following characteristic: subject oriented, integrated, time-variant (has a time component), and nonvolatile (no data are deleted: everything is stored, time stamped and logged). These collections of data are very huge and are often unnaturally homogeneous. The structures needed to make the data homogeneous made the storage and maintenance very unmanageable. Also, warehouses often have to be custom-built to meet the needs of the user and IT.

In response to the unnatural homogeneity and sheer data collection problems of data warehouse, data marts tried to cut down the database by focusing on topics or specific subjects. Focusing on more specific topics helped structure that data in a more intuitive way and made the information

more accessible. The collections would still be gathered from other sources including warehouses and other data marts. Lastly, marts were easier to compartmentalize so the off-the-shelf solutions could be sold.

2.7.2 What is the current state of the art?

The classical transaction database is not able to do analytical processing, because:

1. Transactional databases contain only raw data and the processing speed will be considerably slower.
2. Transactional databases are designed for queries, reports and analyses.
3. Transactional databases are inconsistent in the way that they represent information.

Data warehouses are specially designed to handle different types of queries based on statistical analysis. Most companies, until recently, were forced to build their own warehouse. Now, there are several companies which sell warehouse and mart databases. However, these tools are very expensive and are more general than the custom-built ones. On one hand, the advantage of custom-built marts and warehouses ensures that the structure and queries match the data, but the customization makes it very difficult and expensive to maintain. On the other hand, off-the-shelf marts and warehouses are maintained by the third party but are more general and less useful than the custom ones. In either case, they can easily grow beyond anything manageable.

2.7.3 What are the corporate benefits?

If well understood and used correctly, companies can gather information to create a special niche for their market in this increasingly competitive economy. Many times that object (or client) of the analysis does not even know its behaviors. Having statistical engines to analyze and draw

useful marketing conclusions may mean the difference between coming in the market at the crest or at the lull: using the data to create an opportunity or niche.

2.7.4 Advantage/Issues

Data warehouse

- **Historically custom built.** The IT professional often, after reviewing the different commercial tools used to opt for custom. In house tool. Now, most would rather buy than build. This inserts randomness into the data, since no tool is able to process all data meaningfully.
- **Trends to be unmanageable.** Many claim a false to installation and maintenance. Unfortunately, the resources alone needed to maintain, clean and feed a warehouse many require a doubled IT workforce. Additionally, with off-the-shelf tools and once a vendor is selected, the vendor is entrenched in the needs of the company, and the company might as well for the support provider.
- **Require consultation for user clients.** Often the process of creating a meaningful query is the bulk of the effort. With hundreds of tables and tools, specialists would be required to serve those who are merely trying to analyze the data.

Data Mart

- **Will be easier to maintain** than a warehouse until more, dependent marts are created. So, the idea is to keep the marts relatively independent. Unfortunately, these marts tend to be very data hungry and ill eventually form natural dependencies.
- **Grow increasingly complex** to maintain as more marts are added – may be more expensive than doing the data warehouse itself. The connection and dependencies between marts will make mart removal or overhaul very difficult.
- **Lure “non-techies”** to implement and query without proper understanding and foresight. This is a serious problem: for proper

growth and nurturing of a mart, proper architecting is critical. Otherwise the system will grow and make any fixes nearly impossible.

- **Give a false sense of security:** many claim that “it’s fast, cheap and easy... That’s true if you’re building one or two. But it’s terribly misleading, because most companies end up with lots more.
- **Massive duplication.** Marts, by their own nature, have “massive duplication’s database administration cost for multiple data marts can be as much as 50 percent higher than comparable enterprise data warehouse.”

Both

- **Grow at an enormous rate,** giving little time to react to revisions. Eventually will collapse under its own weight unless checked by some kind of expiration measures.
- **Results from queries are usually contradictory.** Often the results are meaningless or obvious.
- **Require special query processing and analysis** by someone very familiar with the schemes and data layout.
- **Data associations may be too random.** In the process of collecting and processing the information, illogical associations may occur.

2.8 NEW GUIDING PRINCIPLES

Customer expectations now increase at faster rate than most companies can match by relying on the traditional approaches to CRM. Consider the findings of a recent study, which revealed that 74 percent of online customers will shop elsewhere if their inquiries are not quickly answered, and that most expect these online responses within an hour.

Consequently, many executive feel as though they are running in place. For companies to break free, the practice of CRM will need to evolve as dramatically as the business context has. Companies will need to change the strategic focus behind

their CRM programs once more, adopting the new methods and tools required to satisfy a new set of customer expectations and competitive demands.

In the next phase of CRM, the companies should base future investments on a holistic approach that ties together customer, channel, and brand strategies with supporting processes and technologies. Companies should focus not only on generating customer insights, but also on realigning their customer treatment protocols with the highly individualized view of the customer that emerges from those insights. Finally, they should broaden their CRM focus to include marketing as well as sales and service. As a business practice, marketing needs to be revitalized by reintroducing the rigor of marketing analytics to what has often been viewed as primarily a creative activity. As companies reshape the focus of their CRM programs, they should bear in mind three guiding principles.

1. *Customer experience is essential to creating brand value.* Smart logos, catchy jingles, or memorable commercials can play major role in generating awareness, but they are just part of the brand equation. Brand strength and brand value are the sum of experiences that customers have with the company and all its products and services.
2. *Customer insight should inform and drive customer treatment.* Every contact customers have with a company contributes to their perception of the company, and either enhances or destroys economic value.
3. *Customer insight should be executed in a pragmatic way that mitigates financial and delivery risk.* CRM is not about building elegant capabilities (based on the latest software packages) or serving customers at any cost. Rather, companies must be pragmatic, learning how to acquire the new capabilities they need with reduced up-front investment, how to mitigate financial risk with innovative business structures, and how to improve their ability to predict and variables operation cost.

2.9 ORGANIZING FOR CRM SUCCESS

Given these guiding principles, the company should organize their CRM initiatives around four components:

1. Setting the strategy
2. Gaining customer insights
3. Realizing greater value from customer contact activities
4. Transforming marketing

Setting the strategy

To generate the greatest return, CRM must be viewed from strategic perspective that encompasses *customer strategy*, identifying customer wants, base on its existing business model and corporate mission; *channel strategy*, selecting the most appropriate and effective channels for reaching desired customers; *brand strategy*, understanding how all interactions with customers contribute to the company's brand value; and *CRM strategy*, determining the most appropriate CRM capabilities for supporting the critical interaction points and channels needed to reach chosen customers and prospects.

Gaining Customer Insights

Many past CRM initiatives lacked the element of customer insight - the ability to understand customer needs and accurately predict customer behavior. This has become particularly critical as customers have become more mobile, more fickle, and more demanding. Companies must have all the capability required to capture and analyze critical customer data and analyze that data to create deep insights into how customers behave, how they would like to interact with the company, and what they truly want and need from the company. In turn, these insights should determine how the company interacts with customers in the future - what offers they make, what service options they provide, and so on.

Realizing Greater Value from Customer Contact Activities

One frequent criticism of CRM initiatives today is that they often fail to generate a satisfactory return on invested capital. One major cause is that many companies have built elegant but extremely expensive CRM infrastructures that are now

difficult to justify, Organizations face a dual challenge; improving the quality of customer interactions while at the same time reduce the operating cost. Accomplishing this task will involve reengineering the customer experience, adopting innovative sourcing strategies, and optimizing workforce performance in the contact center.

Transforming Marketing

The primary focus of past CRM efforts has been on enhancing aspects of sales and service; by contrast, marketing has been relatively neglected. This has prevented companies from generating deeper customer insights, because they have not been able to “close the loop” on customer information. In addition, by neglecting to apply CRM concepts and technologies to marketing, companies have missed an opportunity to bring more discipline to a function that has been left to operate largely on its own terms.

Effective marketing is not a matter of guesswork or gut instinct, It can and must be quantified and optimized in ways that most have not yet attempted – just as companies streamlined their manufacturing processes or made their logistics activities more effective and efficient. Given the challenges that all companies face today in being heard above the market, it is essential that they begin to take a more rigorous approach to marketing that not only makes their activities more effective, but also identifies where money is being wasted or misspent.

2.10 CONCLUSION

To be sure, companies face some significant challenges in making their CRM initiative pay off. But this does not mean that CRM is fated to become nothing more than a fad. When properly conceived and executed, CRM programs can create exceptional economic value.