

Managing Customer Relationships in Service Organizations

- Mr. Balaram * & Bibhav[⊙] Adhikari

Abstract

Presently, many managers regard Customer Relationship Management (CRM) as a database application or software solution and try to adopt it to become an agile company. But CRM has extended its scope beyond that. In real terms, CRM is a philosophy and the software solution part is just a tool to aid better implementation of the philosophy. CRM has existed since ages. Either it is the corner betel shop owner who recognizes regular customers and offers them his regular betel or a technologically advanced Call Center's executive who addresses customers by their names when he makes a call by looking up in their database for the customer's detail. This paper tries to understand this philosophy and its uses in the high customer blends open to service sectors and also tries to find the uses of a CRM to improve the customer satisfaction levels and develop a better CRM framework.

Background:

"Acquiring new customers is important for business success, but maintaining customer relationships is just as crucial." This statement highlights the importance of customer relationship to be nimble and competitive organizations. Therefore, Customer Relationship Management (CRM) is the business strategy that aims to understand, anticipate, manage and personalize needs of potential customers that can be integrated with current organizational target.

There are different opinions on CRM by different experts. For instance, Prof. Philip Kotler (2006) and many other marketing experts have defined CRM as process of creating & retaining profitable customer with long term relation by delivering customer value and satisfaction. Similarly, Management Information System (MIS) experts like James A O'Brien & George M. Marakas (2007) argue

* Mr. Balaram Adhikari is a Deputy Director of Studies at the Nepal Administrative Staff College.

⊙ Mr. Bibhav Adhikari is a graduate of Computer Information System from Pokhara University (PoU), an MBA student at Apex College (PoU), and presently associated with several institutes as a freelance Business/System Analyst.

that CRM is a cross functional enterprise system that helps a business to develop and manage its customer oriented business processes.

Therefore, these arguments will become even more important in service organizations that basically focus on activities that have some elements of intangibility associated and involve some interaction with customer that create value and provide benefits for customer's specific times and places, as a result of bringing about a desired change in or on behalf of the recipient of the service.

Process of developing customer relationships:

Morrel and Philonenko (2001, p.8) argue that "CRM is not a technology or even a group of technologies. It is a continually evolving process that requires a shift in attitude away from the traditional business model of focusing internally. CRM is an approach a company takes toward its customers backed up by thoughtful investment in people, technology and business processes". It is important to understand the concept with respect to information systems and marketing.

As a marketing component, CRM is a relationship process which a company can cultivate with its customer groups/segments in such a way that it would benefit both the customer and the company. It can also be considered as a liaison process between a product and a consumer which is as old as marketing itself.

Similarly, with regards to the information systems perspective, CRM system includes four main technological components (Curley, 1999). They are:

- A data warehouse with customer, contract, transaction and channel data
- Analysis tools for examining database and identifying customer behavior patterns.
- Campaigning management tools for allowing the marketing department to define communication and facilitate automatic generation of these communications
- Interface with the operational environment for maintaining the marketing database and communication channels to deliver the messages.

Customer relationship management (CRM) has become a topical area of interest especially with the commencement of e-commerce and is used in a broad manner. There is probably a need for the organization to understand its impact and applicability to an organization as well as its benefits to customers. CRM

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requires a long-term plan, and strong organizational commitment with appropriate investment to support its overall organizational strategy. In order to develop the better customer relationship, there should be:

- A willingness from both the organization and the customer to stay committed to the relationship which is based on mutual benefits.
- A 'non-transactional' orientation that involves a combination of strategies which build up the relationship between the organization and customer over a period of time (though transaction-based loyalty programs could be formulated).
- A willingness from organization to invest in an infrastructure that can help implements the CRM system. The infrastructure could include web-based hardware/software which could effectively harness the advantages of CRM.

It should be noted that customer relationship is always associated with loyalty and customer satisfaction aspects. These two aspects point out to the fact that different customer segments/groups would be interested in different dimensions of the offerings made by an organization. The implication of these aspects will be reflected in retention and loyalty programs plan and monitoring of satisfaction parameters developed by organizations.

Major application components of CRM system:

It is clear that managing customer relationship in an effective manner means- to provide the organizations and all of their customer-facing employees with a single complete view of every customer at every touch points and across all the channels; and to provide the customers with a single, complete view of the company and its extended channels (Norris, Grant; James Hurley; Kenneth Hartley; John Dunleavy & John Balls, 2000).

Organizations are now paying more attention to improve their customer orientation. For that, CRM practices provide a consolidated, integrated view of customers across all business areas to ensure that each customer receives the highest level of service (Karakostas et al., 2005; TDWI Industry Study, 2000). For instance, in colleges and universities, students are the customers. Some areas that touch the students are the registration processes, transcript services, career counseling and academic support services. Similarly, today students can also have a wide variety of choices in higher education like engineering, management studies, social sciences etc or online learning environment. The academic

reputation of a school is also a major factor in determining their selection. Other performance indicators that prospective students may examine include pass rate of licensure examinations (like, Public Service Commission examination and other competitive examinations), improvement in critical thinking and communication skills, alumni satisfaction with their college experience, and the percentage of graduates who find employment (Cleary, 2001). In the same way, satisfaction with the college's programs and services is also a critical performance measure. CRM can play a significant role in this regard. While being able to obtain information about a course prerequisite or a schedule listing is not relevant to the student's learning. However it is an integral part of the college experience. Most students regard administrative activities as a necessary evil. An information system with an enhanced CRM initiative that provides an individualized fast-track to completing these activities can be a strong incentive for selecting a particular institution.

The major application components of a CRM system are: (James O'Brein, 2007)

- *Contact and account management:* By using CRM, organizations can track relevant information about every past and planned customer. The information can be obtained and captured from all customer touch points like telephone, fax, e-mail, organizations website, exhibition stalls and personal contacts. The CRM system store the data in a common repository that integrate all customer account information and make it available throughout the organization via internet, intranet or other network links for sales, marketing, service etc.
- *Marketing and fulfillment:* For marketing professionals, CRM can help to accomplish direct marketing campaigns by automating tasks like scheduling and tracking the direct marketing mails. It also helps to capture and manage prospect and customer response data; and analyze the customer and business value of organizations' direct marketing campaigns. Beside, CRM also support in fulfilling the responses of prospect and customer by quickly scheduling sales contacts as well as providing appropriate information on products and services to them.
- *Sales:* Using CRM system, organizations are able to optimize their sales activities (like cross-selling & up selling) such as sales prospect and product information, product configuration, and sales quote generation capabilities. It can be made effective by providing customers with real time access to a single common view of the product available and scheduling the sales calls. For example, using IT enabled CRM system, a salesperson

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could be made alert of unresolved service, delivery or payment problems that could be resolved through a personal contact with customer.

- *Customer Service and support:*

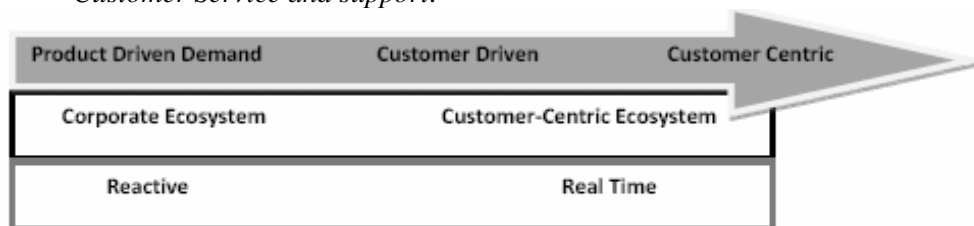


Fig.1: The Transformation of Business Ecosystems, Adapted from "CRM at the Speed of Light" by Paul Greenberg, P-11, Tata McGraw Hills Publication, 3rd Ed., 2007.

The given diagram explains that the evolution of the business ecosystems has broadened up the scope of customer service and response of the CRM strategies to it. This gives an emphasis that modern organizations are becoming more customers centric and moving rapidly providing more customized product. There is no doubt that with effective customer relationship organizations can create, assign and manage requests for service by customers. The organization can be more customers focused by taking customization strategy and by understanding the interest of each customer personally. For example, Call-Center routes calls to customer support agents based on their skills and authority to handle specific kind of service request and Help-Desk assists customer service repository in helping customers who are having problems with a product or service, by providing relevant suggestions for resolving problems. An organization can also introduce web-based self service that enable customer to easily access personalized support information at the organization's website, while giving them an option to receive further assistance online or by phone from customer service personnel.

- *Retention and loyalty programs:* Highly satisfied customers are always assets of the organizations. They have less price sensitiveness and generally talk constructively about the company to outsiders. They will also show their trustworthiness for a longer period. The relationship between customer satisfaction and loyalty varies according to the nature and competitive situation of the organization. Enhancing and optimizing retention and loyalty is the major business strategy and primary objective of any service oriented organization. CRM system tries to help

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organizations to identify, reward and market their most loyal and profitable customers. Organizations can use different analytical software that includes data mining tools, for identifying and extracting profitable customer from customer data warehouse and data marts; so that relationship marketing program can be implemented toward them which includes both financial benefits program as well as social benefits program.

Stages in Customer Relationship Cycle:

Stage	Prospect	Newly Acquired Customer	Peak Customer Relationship	Declining Customer
Revenue	None	Rising	Rise, Peak or Plateau, then start showing signs of Decline	Declining
Customer Relationship Cost	Acquisition Cost	Building Relationship Cost	Cost of Retaining & Creating satisfied customers plus cost of recruiting to the club of satisfied customers who give testimonials or referrals	Wind down relation or retain as alumnus customer
Product &/or Servicing Cost	No	Yes	Yes	Yes
Net Cash Flow	Negative	Increasing	Increase, Peak/Plateau, Decline, plus indirect cash flow impact of recruiting customers (if satisfied) or discouraging prospects (if not satisfied)	Decreasing

Customer Lifetime Value, Suggested by Nobel Laureate Franco Modigliani.

Adapted: "CRM at the Speed of Light" by Paul Greenberg, P-656, Tata McGraw Hills Publication, 3rd Ed., 2007.

The above table explains the whole process of CRM implementation during the lifecycle of customer relationship. A customer relation needs to be supported at various stages of the relation lifecycle in different ways and evolves out over time.

Advantages:

There are many potential benefits of managing customer relationships like guarantee ongoing customer satisfaction with quick response to service and support calls, optimize the potential of the service operations, service contract

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management and customer support etc. Beside these, with effective management of customer relationship we can have:

- ☞ More effective sales management, that can convert more opportunities into sales and prospects into customers
- ☞ Increased customer satisfaction due to faster response to calls and better problem resolving capabilities
- ☞ Improved decision making based on timely, accurate data on all aspects of the sales process

Popular trends:

As organizations are more emphasizing on customer relationship, they must create tighter collaborative linkage with partner, suppliers and customers by squeezing out time and costs while enhancing the customer experience and the total value proposition. The given table outlines four types or categories of CRM that are being implemented by different organizations world wide today and it summarizes their benefits to the enterprises. These categories can also be viewed as dimensions in integration of data.

<i>TYPES OF CRM</i>	<i>BUSINESS VALUE</i>
Operational	<ul style="list-style-type: none">▪ Support customer interaction with greater convenience through a variety of channels like phone, fax, e-mail, instant messenger, and mobile devices▪ Synchronizes customer interactions consistently across all channels▪ Enable organizations to do business with
Analytical	<ul style="list-style-type: none">▪ Extracts in-depth customer history, preferences and profitability information from the data warehouse and other databases▪ Allows to analyze, predict and derive customer value and behavior and forecast demand▪ Helps to reach to the customer with relevant information and offers that are tailored to their needs
Collaborative	<ul style="list-style-type: none">▪ Enables easy collaboration with customers, suppliers and partners▪ Improves efficiency and integration throughout the supply chain▪ Allows greater responsiveness to customer needs through sourcing of products and services outside the enterprise
Portal-based	<ul style="list-style-type: none">▪ Provides all users with the tools and information that fit their individual roles and preferences▪ Empowers all employees to respond to customer needs and demand more quickly and become customer centric in real sense▪ Provides the capability to instantly access, link and use all internal and external customer information

Source: mySAP Customer Relationship Management, my SAP.com, 2001, p.7;
and Brain Caulfeild, "Toward a More Perfect and Realistic E-Business,"
Business 2.0, January 2002, p.80 .

However, many organizations wonder what to do with the data that they have on their data repository. Most of the times, valuable data is flushed out of the data repository but the organizations have no idea how the data can be used or what the potential benefits of analyzing it are.

CRM Strategy Always Successful?

While it is an agreed fact that CRM implementation if done with due prudence can help minimize the costs while increasing customers' satisfaction levels and hence increasing the average spending by each customer; albeit, the benefit of customer relationship management is not guaranteed and researches have proven elusive at many organizations. It is the noted fact that over 50% of CRM projects did not produce the results that were promised (James A O'Brien & George M. Marakas, 2007). Some researchers also reported that 20% of businesses have actually damaged long standing customer relationship due to infirmity of CRM implementation and in a survey of management satisfaction with different management tools, CRM ranked near the bottom in user satisfaction. (W. Kettinger, James Teng & Subashish Guha, 1997).

How can it be successful?

The most common reason for CRM implementations fail to meet basic company goals is due to the lack of executive sponsorship, relying on technology to fix bad business practices, poor system design, unrealistic expectations, lack of sufficient training, etc. (Davis, 2002; Eager, 2002; Gefen and Ridings, 2002). In order to minimize the failure and grasp genuine opportunity, the following steps are suggested for successful implementation of CRM (Andersen and Jacobsen, 2000; Eberhardt, 2001):

- i. Accurately assess CRM needs and set precise goal
- ii. Understand customer's value, needs, requirements and behaviors
- iii. Involve all staff affected
- iv. Motivate the staff willing to participate
- v. Communicate continually with interested parties
- vi. Avoid over-specialized solutions
- vii. Be critical in choice of methods, tools, equipments, etc.

Hence for motivating and make the organization ready for successful implementation, change is also very critical. This needs measured change management techniques to be put in place and implemented. Change management can be divided into two basic areas:

1. Plan for change
2. Manage change

Planning For Change

For better change planning, a good case of need to change is to be developed. Beside this, case of need to change also should be understood by others. These include:

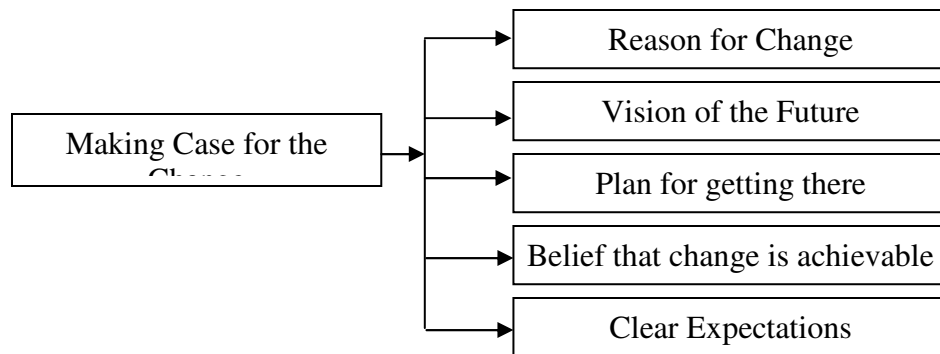


Fig.2. Making Case for the Change

(http://www.mercedelta.com/organizational_consulting/PDFs/insights/ins_Transitional_Leadership.pdf accessed on 17/03/2009)

After the successful development of case for the change, the next step is to identify and tie up all the components of the change process. These components are:

- Purpose of Change → Strategy for the Change → Organization of the Change
- Operating Environment → Operational Performance → Values of the organization
- Governance of the Organization → Existing Knowledge and Talents

Managing Planned Change

The main objectives of planned change are:

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- ☞ Improving the ability of the organization to adapt to changes in its environment.
- ☞ Changing the behavior of individuals and groups in the organization.

So, after identification and binding all the component of the change process; we have to properly understand and manage these changes for realizing right organizational benefit from the change. For this purpose, John Kotter has described a helpful model for understanding and managing change in his books 'Leading Change' (1995) and the follow-up 'The Heart of Change' (2002). In these books, he acknowledges a key principle relating to people's response and approach to change, in which people see, feel and then attempt for change. Kotter's eight step change model can be summarized as:

1. *Increase urgency* - inspire people to move, make objectives real and relevant.
2. *Build the guiding team* - get the right people in place with the right emotional commitment, and the right mix of skills and levels.
3. *Get the vision right* - get the team to establish a simple vision and strategy focus on emotional and creative aspects necessary to drive service and efficiency.
4. *Communicate for buy-in* - Involve as many people as possible, communicate the essentials, simply, and to appeal and respond to people's needs. Develop clear channel for communications - make technology work for you rather than against.
5. *Empower action* - Remove obstacles, enable constructive feedback and lots of support from leaders - reward and recognize progress and achievements.
6. *Create short-term wins* - Set aims that are easy to achieve - in bite-size chunks. Manageable numbers of initiatives. Finish current stages before starting new ones.
7. *Don't let up* - Foster and encourage determination and persistence - ongoing change - encourage ongoing progress reporting - highlight achieved and future milestones.
8. *Make change stick* - Reinforce the value of successful change via recruitment, promotion, and new change leaders. Weave change into culture.

Since, CRM is an integrated system carrying out different costumer-focused business processes; the next step is to make certain that the proper vendor is

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selected after ensuring that change can be managed and specification is set out in order to support the three phases of the relationship between organizations and their customers. These phases include:

1. Acquiring
2. Retaining
3. Expanding/Extending



Fig. 3. Phases of CRM, www.marketingteacher.com, 2008

Acquiring customers is the most difficult task. It highly depends on the value perceived by customers and their satisfaction on the product. The customer perceived value is difference between total customer perceived benefit and total customer perceived costs. To be precise

$$\text{Perceived value} = \text{total perceived benefit} - \text{total perceived cost}$$

For example, students studying at Kathmandu University (KU) for management studies gain number of benefits. The most obvious is high market salability and reliability for quality education. However, being the member of KU also may receive some status and image value. Using KU product makes both employer and employee feel more valuable and important. So, while choosing the colleges and universities, people will weigh all these and other benefits against the fee

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structure (cost), effort and intuitive cost of joining KU. Moreover, they will compare the value of joining KU against the value of joining other colleges and universities– Apex College, Ace Institute of Management, South Asian College of Management, White House GSM etc. They will select the service that gives them greatest perceived value.

Similarly, customer satisfaction depends on the extent to which a product's (service) perceived value match with the expectation. The customers' expectations are basically influenced by:

- ⇒ *Personal needs*: Personal needs can fall into many categories, including physical, social, psychological, and functional.
- ⇒ *Enduring service intensifiers*: These are individual, stable factors that lead the customer to heightened sensitivity to service. One of the most important factors is derived service expectations, which occur when customers are driven by another person or group of people. Another enduring service intensifier is personal service philosophy – the customers underlying generic attitude about the meaning of service and the proper conduct of the service providers.

Sources of adequate expectations are short term and tend to fluctuate more than the factors of desired expectations. If the products' performance falls short of expectation, the customer will be dissatisfied. For example, after world economic recession of 2008, many highly qualified and skilled graduates are accepting the basic entry level jobs (like junior assistant or clerk) with lower paying salary because they realized that the limited options despite their desired expectation may be to have managerial position. The basic sources of desired expectation are:

Explicit service promises

These are personal and non-personal statements about the service made by the organization to customers. Personal are those promises communicated directed by authorized personnel of the company to individual customers and non-personal statements are the promises communicated to mass of customers through advertising, brochures or written publications.

Implicit service promises

These are service related cues other than explicit promises that lead to inferences about what the service should and will be like. The cues come from pricing and

tangibles associated with service. Explicit promises influence the levels of both desired service and predicted service.

Word of mouth

The comments and views of parties other than the organization convey to customers what the service would be like and influence both desired and predicted service.

Past experience

It is the previous exposure of the customer to same service which shapes his/her level of desire and prediction.

Predicted service

Predicted service are more concrete and specific than the types of expectations levels customers hold for adequate service or desire service. Predicted service is typically an estimate or calculation of the service a customer will receive in an individual transaction rather than in an overall relationship with provider.

Similarly, Customer's tolerance zones also vary for different service attributes or dimensions. Customers are less tolerant on unreliable services (broken promises or service errors). Likewise, Different customers also possess different tolerance zones. It depends upon number of factors. Busy people prioritize time as crucial factor in service. People working outside their homes are more tolerant to late service or lack of punctuality by plumbers or repair personnel than the peoples staying at home and do not work at all. Prices also increases and decreases the zone of tolerance.

Thus, the customer-centric organizations always seek to deliver high customer satisfaction relative to competitors. They can increase the customer satisfaction by lowering its price or increasing its services quality so that more customer value can be generated. So the goal of CRM functions is to help customer perceive the value of superior services offered in an outstanding way.

Another important issue in CRM is to retain the profitable customers. It is only possible if customers are highly satisfied. It is often observed that, satisfied customers are less sensitive in term of price. They talk in the favor of the firms and basically remain loyal for a longer period. So with effective CRM, the organization can proactively identify and reward its most loyal and profitable customers to retain and expand their business via targeted marketing and

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relationship marketing programs. For this purpose different analytical CRM software tools and databases can be used.

Beyond simply retaining good customer, organizations also wants to constantly increase their share of customer (it extend and expand their products and services). They may do this by becoming the sole service provider or they may persuade the customer to purchase additional services. Thus, banks want a greater "share of wallet", colleges want greater "share of education" and airlines want greater "share of travel".

One of the best means to expand the share of customer is by using cross selling. Cross selling helps to capture more business from current market by offering them additional offering. For example, the business collaboration between KIST Merchant Bank and KIST College has helped both to cross-sell their product. A student loan scheme of KIST Merchant Bank let student seeking education through KIST College to easily complete their course with less financial burden and college can get wider range of the student. This helps to expand the service and product of both institutions.

In the effective expansion/ enhancement on share of market the web enabled CRM account management and customer service and support tools help to keep customer happy by supporting superior service from a responsive networked team of sales and service specialists and business partners. Similarly, CRM sales force automation and direct marketing and fulfillment tools helps organizations cross sell and up sales to their customers. This will increase their profitability as well as reliability and quality in services.

Conclusion:

"CRM is the business strategy that aims to understand, anticipate, manage and personalize the needs of an organization's current and potential customers". Investing in a business organisation for the application of Customer Relationship Management is no different than investing in any other business operations. With the proper implementation of CRM we can integrate and automate many customer serving processes in sales, marketing and other services that interact with a customer. Since, CRM systems use information system, it can help organizations to reorient themselves into customer-focused services as a top business strategy. However, many companies have found CRM very difficult to implement and costly due to lack of adequate understanding and preparation by management and responsive employees. Even then they are moving towards

collaborative CRM systems that support the collaboration of employees, business partners and the customers in enhancing profitable customer relationship. So, this article basically delves in the area of CRM implementation and tries to bring about a framework for optimum support to service organizations.

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