

Conceptualizing CRM with Special Reference to Banking

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Abstract

Purpose: This paper aims to trace the conceptual framework and evolution of CRM. It then elaborates on the significance and applications of CRM concept in Banking.

Design/Methodology/Approach: This is a descriptive paper in which a detailed review of literature has been carried out to develop understanding of the CRM concept and its application in Banking.

Findings: CRM is a very powerful strategy, with potential to differentiate and capitalize on customer relationships for business growth. The rate of success of CRM solutions is low. Banking, today is poised to differentiate with CRM, but a lot many impediments exist. A detailed action plan is suggested to implement CRM in Banking.

Practical Implications: The CRM has become a buzzword, and many myths surround it making it more complex and less used. The paper demystifies CRM concept and applications. Practical suggestions for CRM implementation in Banking are proposed. Particularly, for banking industry in India, in the present highly competitive scenario, understanding and application of the concept has become a must. The paper proposes action plan which suggests a phased manner in which Banks should utilize the benefits of CRM.

Originality/Value: The paper will be very useful in filling the vacuum today, in the field of CRM, where CRM systems are in place, need is there, but initiative and information about its use and significance is not there. Also a lot of missing links are there which impede use of state of the art information technology for customer acquisition, retention, better service and loyalty. The paper addresses these issues in light of literature study and practical observations and discussions.

Index Terms: CRM, Customer Relationship Management, Relationship Marketing, Bank Marketing, Customer Service.

Introduction

In a scenario of stiff competition in financial services, the banks are increasingly changing their ways of business, policies and strategies towards adoption of a customer-centric approach. They are strategizing to gain more market share by attaining and retaining customers by relationship oriented marketing. An important strategic initiative in this respect is CRM, which is a combination of technology, processes and people to develop and maintain profitable relationships with prospective and present customers in a proactive manner. The paper attempts to develop an insight on the conceptual framework of CRM, its evolution, the organization framework it requires, and its significance vis-à-vis the banking industry. The objective is to generate an understanding of the fundamental concepts of CRM, its adoption and framework which enables its adaptation and application.

Methodology

Objectives

1. To understand the Customer Relationship Management.
2. To underline the conceptual framework of CRM.
3. To indicate the evolution of CRM and its use in product and service business.
4. To highlight the various dimensions to CRM in Banking.

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5. To suggest an action plan for adoption of CRM in Indian Banking.

Sources of Information:

Secondary: Books, Journals, Magazines and Newspaper Articles, Annual Reports of Banks.

Primary: Discussion with officials in head office, Regional office and branches.

Sample: 5 banks were chosen for the study.

2 leading public sector banks, 1 mid-size public sector bank, 1 old private sector bank and 1 cooperative bank were selected for study.

Sample size: 20 officials at different level were selected for administering unstructured questionnaires.

Tool: Unstructured questionnaire and in-depth interviews: The reason for using unstructured questionnaire and in-depth interviews is that all these banks are at different stage of CRM implementation. No one has completed the successful implementation of all modules. Different software are being used and different organizational designs are in place. This resulted in the option for use of unstructured questionnaire, to gain insights into a less known aspect of Indian banking. The in-depth interviews with a number of bank officials from all the selected banks was very useful in eliciting CRM practices and perceptions about CRM, as the CRM concept itself has multiple facets, and it is viewed in a variety of ways by stakeholders.

CRM Conceptual Framework

Creating satisfied customers at a profit has been espoused as the prime role of business since Peter Drucker first wrote about it (Drucker 1954; "it is the customer who determines what a business is -- the purpose of firm is to create and keep customers"). It has been observed that, firms innovate in product design, product function, manufacturing processes, distribution, service and communications to differentiate their offers from those of competitors. Much of this innovation focuses upon creating new and improved products and services and reducing costs. Efficiency and innovation drive competitive strategy for most firms. However, long term social, business and economic trends are having an impact on this efficiency drive, and organizations no longer focus exclusively upon making better products at lower cost. We observe that many firms strive to help customers in both consumer and business markets, become more effective through the goods and services they sell them. For e.g. improving effectiveness for consumers of financial services may not just be about creating an innovative investment product or offer. It is more likely to center on helping consumers achieve important life goals, such a financial security and increased leisure time.

Efficiency driven firms focus on the products and services they sell, where as effective firms focus on their ability to understand and fulfill individual customer's most important needs. Efficiency driven firms seek competitive advantage in scale, experience and creating barriers to entry. Effective firms seek competitive advantage i.e. customer involvement, service and superior knowledge of customer motivations, and behavior.

Moving from efficiency to effectiveness represents a major shift in business emphasis, and is one of the drivers behind the surge of attention and investment in CRM.

The past few years have seen an outpouring of books and articles on the subject of CRM. There are a variety of view points and definitions to CRM.

CRM is the process of carefully managing detailed information about individual customers and all customer 'touch points' to maximize customer loyalty. A customer touch point is any occasion on which the customer encounters the Brand and Product from actual experience to personal or mass communications to casual observation.

(Philip Kotler)

The business strategy and mode of operation deployed to maintain and develop relationships with profitable customers, and manage the cost of doing business with less profitable customers."

(a leading bank)

CRM is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value of the company and the customer.

(Jagdish Sheth and Atul Parvatiyar)

CRM is an organization wide process, which focuses its activities on treating different customers differently to increase value for both customer and organization.

(Simon Know et al.)

However, there seems to be a broad agreement that CRM is a mechanism for knowing who your customers are, and using this as a way of acquiring high value (as opposed to high net worth or affluent) customers, increasing cross selling and reducing lapse. It is a way of achieving greater operational efficiency in sales and lead generation, and achieving increased customer satisfaction.

Particularly from banking point of view a research quotes some banks describing CRM as, 'giving power to customer', 'managing the value and profitability of customer base', having a single view of customer', adding value to the company by enhancing the customer's experience of the co-service and product offering and improving profit', 'managing relationships across all channels' and 'getting to the holy grail of one to one marketing'.

A report published by Financial Times (Ryal et al 2000) suggests that CRM consists of three main elements:-

1. Identifying, satisfying, retaining and maximizing the value of the firm's best customers;
2. Wrapping the firm around the customer to ensure that each contact with the customer is appropriate and based upon extensive knowledge both of the customer's needs and profitability.
3. Creating a complete picture of the customer.

The Financial Times Report identifies the major components for the successful implementation of CRM as:

- A front office that integrates, sales, marketing and service functions across media (all centres, people, stores, internet);
- A data ware house to store customer information an the

appropriate analytical tools with which to analyze the data, and learn about customer behavior.

- Business rules developed from the data analysis to ensure that the front office benefits from the firm’s learning about its customers.
- Measures of performance that enable customer relationships to continually improve.
- Integration into the firm’s operational and support systems (back office), ensuring that the front office’ promises are fulfilled.

CRM is the road from brand trial to brand usage to brand advocacy. It is a passion to please the customer and search excellence and quality in every interaction with her. CRM is about human interactions (aided by technology and behavior).

Evolution of CRM

Relationships are as old as mankind. The traders and businessmen, in all ages and civilizations have relied upon relationships for business exchanges. In fact, right from our nearest mom and pop stores to all other products, services we consume, relationship marketing is practiced with the intention to - retain customers, sell them more of the products and understanding of their usage pattern and life styles to convert into sales.

In the early 90s the concept of relationship marketing was formally introduced into the field of services marketing. Financial service institutions, airlines and other service providers found it profitable to retain and reward the existing customers than running after new customers.

It was established that building closer relationship with customers resulted in better returns to companies through the following means (Reichheld, 1993)

- Increased use of company services by loyal customers
- Charging of price premium for customized services
- References by satisfied customers that brought new customers.

The concepts developed for services marketing also found application in the case of industrial as well as consumer products. This has led to the debate as to whether the whole marketing should be rewritten with the new relationship paradigm or should it rest on traditional 4 Ps (Product, Price, Place and promotion) approach (Gronroos, 1994).

In more ways than one, CRM represents a logical end of the philosophy that the business should be customer oriented (Gamble et al, 2000, Payne 1997). It traversed a successive strains of thoughts to reach what is now viewed as a new business paradigm (Figure 1). For instance, the early marketing paradigms prevalent until the sixties, ordained marketers to satisfy customer needs that were essentially nature created. Later in the seventies, the marketing functions served the customers wants that were nothing but ‘specific solution’ to the needs and were the outcome of the marketing initiatives. Marketing thoughts of the eighties devoted themselves to meet the higher, more lifestyle oriented demands and expectations of customers. These were the result of the then social and economic environment. The nineties witnessed the most potent force of out times, information technology. Naturally marketing thoughts

focused on how to leverage on the same and serve the customers (Kotler, 2000). One of the fall out of the era is Customer Relationship Management. (Table 1)

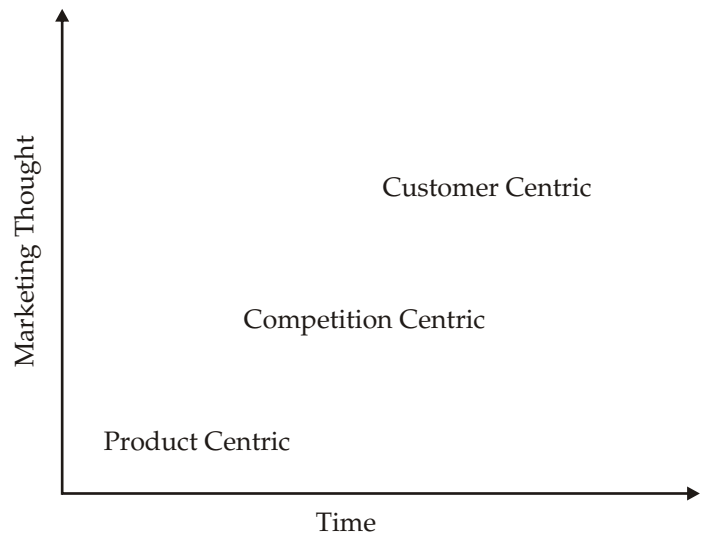


Figure 1: Evolution of Marketing thought

Table 1: Towards CRM- The Run up and Ordainment

Source of Ordainment	Economy Stage	Creation or Output
Nature	Commodity	Needs
R & D and Creativity	Manufacturing	Wants
Sales and Promotion Mix	Selling	Desire
Marketing Mix	Marketing	Demand
and Lifestyles	Service	Preference
Customer Care	Experience	Retention
CRM and IT		

(Source: Journal of Services Research, Volume 3, Number 2 (October 2003-March 2004))

Benefits of CRM

The central theme of CRM is the mutual gain to both the company and the customer through relationships.

Benefits to the Company

Through effective CRM, service companies can:

- Have analytical consumer database
- Identify the most profitable customers
- Have greater understanding of the customers
- Increase market revenues through greater penetration, market expansion and market development, improved channel efficiency and profitable cross-selling and up-selling.
- Reduce cost through improved channel efficiency and

reduce the expenses due to usage of Internet services

- Design an effective marketing mix
- Design effective participation strategies
- Provide right ambience at the service outlet
- Promote customers' satisfaction, loyalty and responsiveness
- Get ideas from customers for innovation or for improving products or services
- Reduce introductory cost for new offerings
- Promote organizational image

Benefits To Consumers

Consumers also gain some benefits by establishing longer relationship with the service provider. The following are some benefits CRM provides to customers:

- Reliable source of service
- Time saving by not searching for various other service providers
- Minimise information search cost, energy cost and psychological cost
- Confidently get recovery in case the service provided by the seller is deficient
- Effective role play in service production due to familiarity with service organization
- Can get liberal credit terms
- Enhanced social value

The Goals of CRM

The goals of CRM cannot be universalized. They are to be company specific. However, the possible goals of CRM are listed here.

- To build, maintain and enhance mutually rewarding relationships with customers.
- To promote up-selling and cross-selling to gain maximum wallet share of the customers.
- To provide better care and service to customers.
- To collect information on customers regularly through consumer research.
- To develop and integrate technology and human resources in all customer activities.
- To provide highest possible value to the customers better than competitors.

The Organisational System for CRM

CRM requires an organizational system that facilitates the achievement of its goals. It requires coordinated and integrated efforts of the total organization. An efficient organization system has the following to achieve high quality in CRM:

- Quality assurance processes.
- Customer-centric business policies.
- State-of-the-art and suitable technology.
- Continuously updated customer database.
- Rightly qualified and service-oriented human resources.
- Recognition and rewards for employees with customer-centric behaviour.
- Mechanism to respond to customer problems and grievances.
- Periodic consumer research to understand and anticipate customer behaviour.

Operationalisation

The organizational system based on the customer-centric

philosophy generally follows the four-stage operational process. In the journey of understanding customers the managers of a company will be able to anticipate challenges ahead and plan to utilize organizational resources optimally to face the challenges effectively. Ranjay Gulati and James B. Oldroyd identified the following four stages in their research: communal coordination, serial coordination, symbiotic coordination and integral coordination.

1. **Communal Coordination:** Communal coordination requires creation of a centralized repository of customer information. It requires a two-step process. The first step is to pool all the standardized information from each customer touch point throughout the firm. The second step is to organize the information customer wise, making the customer the fundamental unit and analysis. This process requires establishment of a coordination infrastructure. Instead of contacting one another directly, each organizational unit can contribute information to the common pool and draw information whenever needed. Though the concept of communal coordination is simple, it requires a substantial investment both in time and technology. However, against the huge advantages, the investment requirements may not stand as a limitation.
2. **Serial Coordination:** This stage involves a series of tasks performed by certain functional units in analyzing and interpreting the customer data and information to pass to users in the business unit. The objective is to use information in the best way in marketing efforts and also to have the knowledge of local markets. This process is also useful to explore business opportunities and to carry out innovations. It also helps uncover critical gaps in employee's skills.
3. **Symbiotic Coordination:** This stage indicates a shift in the focus from the analysis of past customer interactions to anticipating and even shaping the future. It is to identify customers on their loyalty level and predict their intended relationships with the company in future. For the purpose, companies may create models to predict consumer behaviour or experiment with various interactions to change consumer behaviour and measure the results. Companies may also use feedback from frontline personnel to improve models and business approaches.
4. **Integral coordination:** This is the stage at which companies use their understanding of the customers to incorporate in day-to-day operations. They see that customer focus becomes institutionalized. Getting closer to customers is not only about building an information technology system but it's a learning journey - one that unfolds over four stages, each with its own obstacles, and each requiring people and units to coordinate in even more sophisticated ways. Companies that recognize this invest their customer relationship dollars much more wisely and see their customer-focusing efforts pay off on the bottom line.

CRM in Banking

In the competitive landscape, characterized by proliferating technology, higher customer expectations and process constraints, shifting from transaction banking to relationship banking is a natural outcome. Banks are gradually developing CRM as a tool for attaining, retaining and value creation for the customer as well as the firm. Research world wide indicates that CRM positively influences service quality of banks. Another well

recognized fact is the acceptance of maintaining client relationships as a method of creating sustainable competitive advantage.

Dimensions of CRM in Banking

1. **Customer Analysis:** Capturing and successfully leveraging customer information and insight to optimize offer development, pricing decisions and rewarding loyalty can become a major competitive differentiator in Banking.
2. **Enhancing the customer experience:** Banks can maintain profitable customer base by investing in branches, delivering personal attention across channels and combining customer insights with technology to improve offerings. This intends to an integration of product, technology and process towards increasing customer convenience and satisfaction.
3. **Customer segmentation and use of CLV related metrics:** Many of the banks today have already come up with segment specific branches and this trend will grow further with the intent to better service customer according to segment specific requirements and specialized devoted services. The Customer Life time value related matrices are to be utilized to target right products at the right time to right customers and to focus proportionate attention on customer keeping in view his value to the bank in the long-term.
4. **Utilizing Customer feed-back:** The Banks should make it easy for customers to provide feedback at all touch points with the bank. This will allow a better understanding of which customers are likely to promote, detract or be passive. This will also enable banks to more proactively engage those customers at the risk of attrition.
5. **Service Recovery and Complaint Management:** All the banks are monitoring the number of complaints and the time of their redressal. Also the complaints are analyzed for future measures to avoid recurrence. In addition, the service recovery also should be fast and capable of retaining the customer.
6. **Creating differentiated customer value propositions:** CRM can help the banks to understand the specific needs of different customer segments and then design the product bundling, pricing and access in such a way that significant value addition is created for the customer. This will lead to incentive of availing more product and services from the bank leading to increased loyalty. This can further be augmented by tracing and rewarding customers accessing more products and services.
7. **Analyzing the causes of customer defection and winning back of customers:** The causes of customer defection should be systematically traced, recorded and analyzed to prevent further attrition due to controllable factors. Also, a follow-up process to win back the customer should be put in system.
8. **Differential reward system and relationship pricing:** To a very little extent these initiatives are there in Indian Banking. A detailed research coupled with customer analysis can generate feasible strategies in this respect.
9. **Cross selling:** The current trend is gut based cross-selling without any use of systematic data analytics. The customer data analysis, results are not available to the personnel responsible for cross selling in most cases. If this missing link is placed, a better proactive and practical cross selling

approach will lead to higher levels of selling success.

10. **Strengthening emotional bonds with customers:** This also is very scantily performed CRM practice. If done systematically and thereby touching the customer emotions, getting higher mind share, higher customer relationships and greater business can be achieved.
11. **Personnel Training and Performance Appraisal:** CRM cannot be implemented without organization wide training of different types at different levels. Analytical ability, data processing skills, relationship marketing skills, etc. are essential for bank personnel to conduct CRM oriented transactions. In addition, employee reward system should also be linked to consistently delivery customer oriented services, of course the pre-requisite to this is clearly defined customer standards.

Findings

The analysis of filled questionnaire and indepth interviews with Bank officials at different levels, in Marketing department, zonal office, head office, branch managers frontline executives generated valuable insights in the understanding, use and scope of CRM in Indian Banking. The main findings of the exercise can be summarized in the following points:

1. **Low awareness about the concept:** Bank officials are not aware of the concept of technology enabled CRM and conceptual aspects of operational, collaborative and Analytical CRM. Although CRM is carried out and recognized, it is in the context of maintaining relationship with selected customers. But many conceptual and fundamental aspects of practicing CRM like lifetime value analysis, differential treatment to different segments, single consolidated view of customer across all channels, loyalty benefits, differential pricing are not emphasized, clearly communicated and practiced.
2. **Nascent Stage:** The discussions and observations reveal that CRM is at a very nascent stage in most banks in India. Only module is in place, but relevant fields are still to be generated, usage encouragement, usage guidelines are not in place. In addition to it, in some more advanced situations sophisticated CRM tools and applications are in place, but the awareness of their potential usage and actual usage is minimal.
3. **Non-technology based CRM is the most prevalent form:** For generating branch business at branch level and for efforts of boosting sales from top, relationship marketing practices like greetings, gifts, publicity material, sales calls are done. But, all these efforts do not make use of CRM tools available. At most, the MIS generated reports indicating top customers would be utilized for upselling and cross selling.
4. **Lack of ownership:** When it comes to use of CRM tools and techniques, the most crucial hurdle is ownership. No single department owns the concept. Most of the officials consider it as an IT application, which is to be carried out by IT people only. Many officials opine that is the task of Marketing Managers so they should own it. Branch Managers feel that it is an extra work load. In such a lack of ownership, no one bothers to utilize its benefits.
5. **Lack of awareness about probable applications:** Although many applications like lead management, activity management are user friendly and have lot of benefits for day to day sales and business growth, officials are simply not aware of them.

6. **Lack of framework for CRM adoption and implementation:** In most banks, collaborative CRM is present in the form of net banking and portals, operational CRM is there in the way of customer reports and customer profile. Call centres are there for customer service and support, but all these efforts are scattered. A systematic adoption, implementation and integration is absent. This leads to officials in different departments and at different levels having a diverse view point and approach to CRM. This dilutes the motivation in practicing customer centric initiatives enabled by use of advanced techniques.

Action Plan for Banks to use CRM as a Strategic Initiative

The implementation of Core Banking Solution (CBS) in all Indian Banks has enabled the most important pre-requisite of CRM i.e. availability of customer information. The data centers store, manage and retrieve the desired information. The next logical step would be utilizing this information for business development and better customer service. The movement from data storage and management to data analysis and analysis driven marketing will help a Bank in attaining, better servicing and retaining customers. Some possible initiatives are as follows:

1. Use of MIS generated reports for cross selling, up selling and servicing. For e.g. Intimating customers on important account related events like maturity of term deposits helping him to take timely action and save interest losses.
2. **Effective management of Call Centre leads:** Call center generated leads are transferred to respective branches. Fast follow up of such leads and problem solving approach in case of complaints, by branches can bring in more customers.
3. **Use of CRM applications:** Different banks employ different software to enable CRM applications. The use of these applications is very less, confined to some people only and the utility of the same is less encouraged. The Banks should initiate wider use of these applications by putting in place suitable policy and procedural mechanism.
4. **Lead Management:** Lead management application of CRM module should be used to store, monitor and service leads. This will bring more business, and monitoring of lead closures which will enable understanding of marketing or system flaws which result in loss of customers by banks.
5. **Activity Management:** Activity management application of CRM module enables automation of sales related activities and empowers relationship managers and sales executives to efficiently manage sales calls. It aids in good presentations, informed dialogue and responsiveness in sales activities. This adds to banks brand image and customer satisfaction as well as fast conversion of leads. The Banks should encourage and trace the use of this important application.
6. **Campaign Management:** Leaving some exceptions, the general practice is launching campaigns by banks as reactive activity. The information in data center and technology in campaign management tool of CRM can enable proactive campaigning by banks. This will help targeting the right group of prospects, with right offers at right time. This will bring about a positive impact in campaign outcomes.
7. **Development of organization policies to capitalize on CRM:** The present organization systems, structures and policies in banks have drawbacks in terms of full utilization

of CRM. These can be reduced and subsequently removed by developing a transformational approach. Step by step, the strategic framework should enable effective adoption and proliferation of CRM backed by suitable organization structure.

8. **Bringing about a CRM culture in the Banks:** CRM being a strategic initiative, its implementation cannot be successful unless and until the culture of organization supports it. A cultural transformation to adopt CRM practices should be enabled in banks.
9. **Informed customer response:** Utilizing the operational and collaborative CRM applications, banks should be able to take an integrative view of customers account behavior across all channels he uses. Based on understanding of this, informed customer communications and decisions should be made. This will increase response rates to offers, higher satisfaction and customer loyalty.
10. **Movement towards Analytical CRM:** Effective implementation and use of data mining applications will help bank in new product development, reduction of NPAs, Fraud detection and development of strategies for even better customer engagement and service. The analytical CRM should be used in a phased manner to reap benefits of sophisticated customer insights for better performance of bank.

Conclusion

A synthesis of diverse view points, studies and observations on CRM elicits the fact that it is a very powerful tool for customer centric operations. It relies on the four bases of Top management support, Compatible Technology, Process and People. CRM has the potential to emerge as the predominant perspective of marketing. CRM should not be misunderstood to simply mean a software solutions implementation project. Building Customer Relationship is a fundamental business of every enterprise and it requires a holistic strategy and process to make it successful.

Adoption of a suitable CRM model considering it as an organization wide strategic initiative will lead to the desired goal of customer centricity. Particularly in Banking industry, in India, in present highly competitive scenario, it is an initiative almost all major banks are putting in topmost priority. The proposed action plan suggests that in a phased manner banks should utilize the benefits of CRM. This will not only gradually move from operational, collaborative to analytical CRM, banks will witness positive outcomes in the form of higher productivity, business development, customer loyalty and customer satisfaction. The technology enabled CRM practices woven into a relationship marketing culture will help bank capitalize on better customer service as a competitive advantage.

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