An Evaluation of Customer Relationship Management at Information Technology Industry in India*

Dr.T.S Devaraja
Associate Professor & Head
Department of Commerce
Post Graduate Centre
University of Mysore
Hassan, India

Tel: Mobile: +91-98807-61877
: +91 – 8172-65100
Fax: +91-8172-240674
Web: http://devaraja.me
Email: mail@devaraja.me

Sruthi V K
Research Scholar,
Department of Commerce
Post Graduate Centre
University of Mysore
Hassan, India

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Abstract

Customer Relationship Management is now actively considered by organizations across the globe as an integration of database marketing with technology enabled strategy. This macro marketing view has led to look at database for building strategic links for the benefit of the organization and customer in the face of rising costs and competition. The modern information technology allows larger organizations to individualize their products and services as per the varying needs of the customers. Customer Relationship Management is the establishment, development, maintenance and optimization of long term mutually valuable relationships between consumers and the organizations. CRM builds on the philosophy of relationship marketing that aims to create, develop and enhance relationships with carefully targeted customers to maximize customer value, corporate profitability and thus shareholders value. Customer relationship management can be beneficial to both the firm and the customer. From the firm's point of view, providing services to a client on a long-term basis cuts down customer acquisition costs drastically. It has been found that, loyal customers not only generate more revenue for more years, but also frequently cost less than acquiring new customers. Globalization and deregulation combined with advances in information technology have radically changed the managerial context of service industries. Success of a service provider is dependent on long term relationships that develop between the provider and customer of the service. Services typically are produced and consumed simultaneously means it is common for customers to have a direct input to service provision. Customers who have developed a relationship with a service business expert expect to receive satisfactory delivery of core service. The industry scenario in India saw a rapid increase in the various sectors. But the striking factor was observed in the Information Technology (IT) Industry sector. The IT has potential to raise the long-term growth prospects through increased productivity in almost every sector of the economy. The Indian IT industry comprises of a diverse group of companies associated with Information Technology.

Key words: Customer Relationship Management, Information Technology Industry, Customer service, Service Industry, Economic Development, innovation.


1. Introduction

Customer Relationship Management (CRM) is a term for methodologies, technologies and e-commerce capabilities used by companies to manage customer relationships. The traditional database marketing captures customer information including demographic and psychographic data that helps the marketer to develop suitable target marketing strategy, to forecast demand, to determine type and quality of service required by customers and to build strategy for market entry, diversification and expansion. This macro marketing view has led to look at database for building strategic links for the benefit of the organization and customer in the face of rising costs and competition. In 1960s, Levitt suggested that, the purpose of every business is to create and keep customers. He also suggested that, corporations should view the entire business process as a system consisting of closely held integrated effort to discover, create, arouse and satisfy customer needs.

Customer Relationship Management is now actively considered by organizations across the globe as an integration of database marketing with technology enabled strategy. A new Datamonitor report, “Economic Outlook: Customer Relationship Management” finds that, in 2006, the global CRM software market was worth just under $3.6 billion in license revenue alone and is expected to reach $6.6 billion by 2012 — a compound annual growth rate of 10.5 percent. The basic proposition of a CRM strategy is based on the age old idea of knowing, understanding and serving the customer for developing a sustainable competitive advantage. But building a sustainable and successful relationship with a large customer base is not the easiest thing to do and carries a direct impact on many core operational processes.

It is not a tactical decision of software implementation but interaction of the entire business with customers through an integrated interface. The modern information technology allows larger organizations to individualize their products and services as per the varying needs of the customers. Customer Relationship Management is the establishment, development, maintenance and optimization of long term mutually valuable relationships between consumers and the organizations. Successful customer relationship management focuses on understanding the needs and desires of the customers and is achieved by placing these needs at the heart of the business by integrating them with the organization’s strategy, people, technology and business processes (Fox and Stead, 2001).
A perfect CRM strategy is the creation of mutual value for all the parties involved in the business process. It is about creating a sustainable competitive advantage by being the best at understanding, communicating, and delivering and developing existing customer relationships in addition to creating and keeping new customers. So the concept of product life cycle is giving way to the concept of customer life cycle focusing on the development of products and services that anticipate the future need of the existing customers and creating additional services that extend existing customer relationships beyond transactions. The customer life cycle paradigm looks at lengthening the life span of the customer with the organization rather than the endurance of a particular product or brand. A good customer relationship management program addresses to the changing need of the customers by developing products and services that continuously seek to satisfy the lifestyle and need patterns of individual customers. Organizations tend to acquire a structure around customer segments and not on the basis of product lines to deliver customer satisfaction.

CRM builds on the philosophy of relationship marketing that aims to create, develop and enhance relationships with carefully targeted customers to maximize customer value, corporate profitability and thus shareholders value (Frow and Payne, 2004). The goal then is to improve the customer's experience of how they interact with the company, which hopefully will turn into more satisfaction, which might lead to more loyalty and finally to increase in profit (Chou et al., 2002). Kotorov (2003), while referring to the roots of CRM mentioned that, in the past many speculated whether CRM would turn out to be just another buzzword, one more term to add to the managerial dictionary that would soon fade away. Bull (2003) adds to this thought stating that, it is no longer good enough just to say that you are customer focused, but it matters what you do. Customer relationship management is of vital importance to organizations and it requires customer-centric business approach to support effective marketing, sales and service processes (Carolyn et al., 2003).

Customer relationship management can be beneficial to both the firm and the customer. From the firm’s point of view, providing services to a client on a long-term basis cuts down customer acquisition costs drastically. It has been found that, loyal customers not only generate more revenue for more years, but also frequently cost less than acquiring new customers. The firm is also assured of certain minimum
amount of business which helps it plan and coordinate resource allocation more effectively. Moreover, the chance of getting positive referrals and new customer leads also increases. Thus, building customer loyalty can be a very effective way of building a sustainable competitive advantage. From the customer’s point of view, a certain level of quality of service is assured. The time and cost to search for a quality service provider is also drastically reduced. There is a greater efficiency in decision making, reduction in information processing, more consistency in decision making and reduction of perceived risks with future decisions. In addition, as the relationship matures, the relationship partners also understands the business needs and constraints better and provides expedited and better quality service.

In order to implement a CRM strategy, a key dimension is the question of customer service and the way in which it is perceived by the recipient of the service. Customer service can be defined as a task other than pro-active selling that involves interactions with the customers in person, by telecommunication or by mail. It is designed, performed and communicated with two goals in mind: operational efficiency and customer satisfaction (Lovelock, 1991). The quality of customer service is determined and evaluated by the customer and this affects the desirability of a relationship with the organisation. Customer service creates the moments of truth with the customer and these service encounters need to be managed by the organisation (Payne et al., 2001). Service encounters and CRM are thus associated.

The service sector is considered as one of the most challenging and competitive landscape and like all businesses services firms face some degree of competition. The ability to view all customer interactions and information is essential to provide the high quality of services that today’s customers demand and service firms that want to be successful in the knowledge economy must implement a comprehensive CRM integrated solution that involves all departments working as a team and sharing information to provide a single view of the customer (Yusuf, 2003).

In 1990s, CRM started attracting attention of academicians as well as practitioners from marketing and Information Technology (IT). The academic interest in CRM paralleled the explosive growth and adoption of relationship orientation and implementation of CRM solutions across different businesses. Worldwide, service firms have been the pioneers in adopting the practices of CRM.
In India too, the service firms took some of the early initiatives in CRM. The CRM as a strategic management tool has been successfully implemented in various service firms like IT, hospitality, telecom and financial services.

2. Customer Relationship Management In Service Industries

Globalization and deregulation combined with advances in information technology have radically changed the managerial context of service industries. Though the origin of customer relationship management was initially in the industrial context, the service industry is also focused on maintaining and enhancing customer relationships. Services are produced and delivered by the same institutions. Success of a service provider is dependent on long term relationships that develop between the provider and customer of the service. A greater emotional bond and trust between the service provider and service user develops a need of maintaining and enhancing relationship.

Berry (1983) defines customer relationship management as attracting, maintaining and enhancing customer relationships in multi service organizations. Berry and Persuraman (1991) propose that, customer relationship management concerns attracting, developing and retaining customer relationships. Berry stressed that, the attraction of new customers should be viewed only as intermediate step in the marketing process. Solidifying the relationship, transforming different customers into loyal ones and serving customers as clients should also be considered as marketing. He outlined five strategy elements for practicing customer relationship management: (i) developing a core service around which to build a customer relationship, (ii) customizing the relationship to the individual customer, (iii) augmenting the core service with extra benefits, (iv) pricing services to encourage customer loyalty and (v) marketing to employees so that, they in turn will perform well for customers.

It is a consensus that the relationship between the firm and its customers is critical to their firm’s survival and success. The management of customer relationships is critical in services marketing.

Lovesick (1983) points out that, many services by their very nature require ongoing membership (e.g. insurance, banking etc). Even when membership is not required, customers may seek ongoing relationships with service providers to reduce perceived risk in evaluating service characterized by intangibility and
credence properties. Customers are more likely to form relationships with individuals and with the organizations they represent than with goods (Berry, 1995). Services are performances where the employees play a major role in shaping the service experience (Bitner, 1995). The service setting is especially conducive to customers forming relationships with individual service providers.

3. Relational benefits to Services Industries

Inseparability is widely cited as one of the distinctive features of services. The fact that, services typically are produced and consumed simultaneously means it is common for customers to have a direct input to service provision. For service businesses, strong customer relationships are important because of their inherently interpersonal focus and relative lack of objective measures for evaluating service quality (Czepiel, 1990). Loyal customers can lead to increased revenue (Reichheld 1996; Schlesinger and Heskett, 1991), result in predictable sales and profit streams (Aaker, 1992), are more likely to purchase additional goods and services (Clark and Payne, 2000; Reichheld, 1996), typically lead to low customer turnover (Reichheld and Sassar, 1990) and often generate new business for a firm via word-of-mouth recommendation (Reichheld, 1996; Reichheld and Sassar, 1990; Schlesinger and Heskett, 1991; Zeithamal, Berry and Persuraman, 1996). In addition, a loyal customer base can lead to decreased costs (Reichheld, 1993). Loyal and satisfied customers are likely to cost less to service (Reichheld, 1996), sales, marketing and setup costs can be amortized over a longer customer lifetime (Clark and Payne, 2000).

Customers who have developed a relationship with a service business expert expect to receive satisfactory delivery of core service. There exist different types of relational benefits through effective customer relationship management. Customers derive social benefits from long-term relationships with service firms (Czepiel, 1990). In addition to the benefits received from core service, a kind of friendship often occurs between customer and service providers. A second set of relational benefits reported by respondents can be described as psychological benefits. Customers realize that, there is often a comfort or feeling of security in having developed a relationship with a provider.

This feeling of reduced anxiety, trust and confidence in the provider appear to develop over time and only after a relationship has been established between
customer and the service providing organization. The economic benefits relate to discounts or price breaks for those customers who have developed a relationship with an organization. In addition to monetary benefits, a non-monetary benefit is also identified many a times by the customer. The economic benefits customers may receive for engaging in relational exchanges, both monetary and in the form of time saving are consistent with what scholars have argued is the primary motivation for developing relationships with businesses (Peterson, 1995). For their regular customers many service providers may tailor their service to meet particular needs. In some cases, this may be perceived by customers as preferential or special treatment.

4. Information Technology Industry in India

The industry scenario in India saw a rapid increase in the various sectors. But the striking factor was observed in the Information Technology (IT) Industry sector. In fact no other Indian industry has performed so well against the global market. This is mainly due to the success of India's software industry and contribution of people of Indian origin in IT revolution in the United States. The fact that IT sector in the country has increased at a very high rate of 35% per year for the last 10 years reinforces the view that, India is world class in IT. The IT sector has helped the Indian Industry to develop in leaps and bounds. According to sources, annual revenue projections for Indian IT Industry in 2008 are US $ 87 billion and market openings are emerging across four broad sectors, IT services, software products, IT enabled services and e-businesses thus creating a number of opportunities for Indian companies. All of these segments have opportunities in foreign as well as in domestic markets. The key findings of the NASSCOM - McKinsey report on India's IT industry are -

- IT services will contribute over 7.5 percent of the overall GDP.
- IT Exports will account for 35 percent of the total exports with potential for 2.2 million jobs in IT by 2008.
- IT industry will attract Foreign Direct Investment (FDI) of U.S. $ 4-5 billion.
- Market capitalization of IT shares will be around U.S. $ 225 billion.

Indian IT Industry is a knowledge industry that will help to take the Indian economy to a new horizon and further change the 'Scenario of Indian IT Industry' fueling India's economic growth.
The importance of IT industry in the Indian economy can be gauged from the fact that, its contribution to the national gross domestic product (GDP) has increased by seven fold in a span of just one decade from 0.6% in 1994-95 to 4.3% in 2004-05. Although industry figures are not directly comparable with GDP as they are based on revenues rather than value added, they provide an indicator of growing importance of the IT sector in the country. Assuming that, the Indian economy and IT sector will replicate the past six years performance during the next six years and value added in IT sector is two third of its sales revenue, the contribution of IT sector to GDP will be around 8.5% during the year 2010-11, quite similar to that in the United States (US) today. The IT sector revenue is expected to increase from Rs. 1276 billion in 2004-05 to Rs. 6435 billion in 2010-11.

Table 1: India's GDP and IT Sector

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP at current prices (in Rs. billion)</th>
<th>IT sector revenue (in Rs. billion)</th>
<th>IT sector revenue to GDP ratio (in %age)</th>
<th>IT sector revenue (in US $ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>10128</td>
<td>63</td>
<td>0.62</td>
<td>2.0</td>
</tr>
<tr>
<td>1995-96</td>
<td>11880</td>
<td>99</td>
<td>0.83</td>
<td>2.9</td>
</tr>
<tr>
<td>1996-97</td>
<td>13682</td>
<td>137</td>
<td>1.00</td>
<td>3.8</td>
</tr>
<tr>
<td>1997-98</td>
<td>15224</td>
<td>186</td>
<td>1.22</td>
<td>5.0</td>
</tr>
<tr>
<td>1998-99</td>
<td>17409</td>
<td>253</td>
<td>1.45</td>
<td>6.0</td>
</tr>
<tr>
<td>1999-00</td>
<td>19296</td>
<td>362</td>
<td>1.88</td>
<td>8.2</td>
</tr>
<tr>
<td>2000-01</td>
<td>21043</td>
<td>566</td>
<td>2.69</td>
<td>12.1</td>
</tr>
<tr>
<td>2001-02</td>
<td>22929</td>
<td>658</td>
<td>2.87</td>
<td>13.4</td>
</tr>
<tr>
<td>2002-03</td>
<td>24661</td>
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<td>3.16</td>
<td>16.1</td>
</tr>
<tr>
<td>2003-04</td>
<td>26954</td>
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<td>3.63</td>
<td>21.5</td>
</tr>
<tr>
<td>2004-05</td>
<td>29380</td>
<td>1276</td>
<td>4.34</td>
<td>28.2</td>
</tr>
</tbody>
</table>

Source: http://mospi.nic.in and http://www.nasscom.org
5. IT and Economic Development

The IT has potential to raise the long-term growth prospects through increased productivity in almost every sector of the economy. The resurgence of the American economy since 1995 is a classic example of the same. According to Greenspan (2000), the IT has produced a fundamental change in the US economy leading to a permanent improvement in growth prospects. Similarly, Jorgenson (2001) argues that, the development and deployment of the IT is the foundation of the American growth resurgence. The relentless decline in the prices of semiconductors and thus IT equipments has steadily enhanced the role of IT investment as a source of American economic growth. Furthermore, IT can play an important role in economic development in a broader sense, beyond just economic growth. Obviously, this depends on comparative advantage in providing IT products and services, global demand for these products and services, development of a robust domestic market, positive spillovers to rest of the domestic economy and impact on governance.

IT, in some sense, is a general-purpose technology (The idea of general purpose technology was introduced by Bresnahan and Trajtenberg (1995)). It can influence the national economy in a number of ways. It can create employment opportunities, reduce illiteracy, provide universal health service and deliver good governance. IT can not only help the emerging sector such as ITES, biotechnology, pharmaceutical research, nanotechnology, etc., but also it is crucial for the development of strategically important sectors such as defense and intelligence, space research and development, weather forecasting and transportation.

The information technology can play a major role in overall economic development of the country. India has a comparative advantage in the global IT sector at least in terms of cost. With large pool of workers having software and language skills, it is in a position to move toward producing higher value-added goods and services. In fact, it has just started to move towards higher value added goods and services. IT service companies have included new service lines such as package software implementation, system integration, R&D engineering and remote network management. Whereas ITES-BPO companies have started offering more complex services such as financial research and analytics, actuarial modeling and corporate and business research. The availability of large number of workers with a combination of engineering and managerial skills will definitely be helpful to move towards higher value-added goods and services.
Despite having comparative advantage at least in certain segment of the IT sector, India's share in the global market is just 2%. This should be viewed as a great opportunity for the Indian IT industry. Although the domestic IT market is just marginally more than half of the export, it has started growing at a rate of 20% per year or so during the recent years. Improvement in telecom infrastructure, increase in PC and internet connectivity and decrease in prices of hardware and internet connection have provided great opportunities for firms to strengthen domestic IT market. The use of PC, an important access device for IT and internet needs to be encouraged further for larger economic benefits. This can easily be used to provide distance education, telemedicine and variety of other information. This can also enhance access and delivery of government services to various stakeholders and citizens. Internal record keeping, flow of information and tracking decision and performance can be improved with the use of IT. The use of IT in governance can directly benefit the people, particularly the poor ones (since economically well off people in any case can get the information). Above all, IT has the potential to improve transparency and accountability and thus the efficiency of government delivery system. In India, many government organizations have started to adopt IT based systems and solutions to manage payrolls, stock market, rail reservation, tax collection, etc. Various initiatives have been taken by the government to provide e-governance interface to citizens. The central government has recommended that, each ministry should allocate 2-3% of its budget for promotion of IT and move towards electronic governance. It is clear that, IT can be used not only for improvement in competitiveness in the global market but also for overall economic development. There are strong complementarities between IT and rest of the economy. IT can enhance the productivity and efficiency in other industries.

It can improve efficiency in areas such as accounting, procurement, inventory management and production & operations management. Although labor unions usually raise concern with IT adoption due to fear of job loss, evidence suggests that, increases in other kinds of job as a result of IT use more than make up for job loss (Singh, 2002). Moreover, IT implementation may increase the productivity and/or quality more than that is feasible otherwise. The use of IT in rural banking and micro-finance may enhance efficiency in informal sector and can impact broader cross-section of population. Information access to farmers could
benefit agriculture sector as well. Farmers can receive weather forecasts, market price quotes, advice on farming practice, offers to buy and sell livestock, and specific trainings. Even basic education could be enhanced in rural areas by the use of IT.

To uplift the status of socially and economically weaker section of the society, the government needs to make IT accessible to them. Special efforts should be made to promote IT use in rural areas. There is a need to make significant capital investments in rural areas if not for some altruistic reasoning, at least because of a desire to enter a domestic emerging market that has been virtually untapped so far. The industry along with the central and the state governments should now look at taking IT services to villages. One should remember that, without access to the IT the rural people can be caught in a poverty trap caused by the digital divide between the have’s and the have not’s. Efforts should be made to promote the development and availability of low cost PCs and other communication access devices with internet connectivity at the most reasonable prices. There is a need to resolve regulatory issues in communication, and reduction & rationalization of tariff structure on hardware and software to provide seamless communication connectivity to rural areas and promote value-added services and micro enterprises to enhance economic well-being of rural community.

6. Composition of Information Technology market in India

The Indian IT industry comprises of a diverse group of companies associated with Information Technology. These companies range in size from billion dollar companies to small startups with sales less than a million rupees a year. According to NASSCOM estimates, the size of the Indian IT industry was $19.6 billion in 2003-04, up 17% from $15.8 billion in the previous year.

The Indian IT market is divided into four main segments:

- Software and Service Exports;
- Domestic Software and Services;
- Hardware Peripherals and Networking; and
- Training.

Software and service exports accounts for the largest chunk of the Indian IT industry with a share of 62%. Hardware and peripherals, domestic software services and training, accounts for 20%, 17%, and 1% of the market respectively.
Figure-1 gives the view of Indian IT market segmentation.

![Figure 1: Composition of Indian IT Market (1994-2004)](image)

Source: NASSCOM Report

7. Size of Indian IT Industry

The size of India's IT industry has grown significantly over the years. The size of this sunshine industry of India grew from 150 million US Dollars to 50 billion US Dollars between 1990-1991 and 2006-2007. The growth of the IT industry has been very high in the last few years. The size of the Information Technology industry of India was 5.7 billion US Dollars in 1999-2000. After the turn of the century the industry experienced exponential growth to reach the 50 billion mark by 2007-2008.

Some of the important aspects of the NASSCOM- McKinsey report related to the size of India's IT industry are -

- There is potential of 2.2 million people being employed in the IT industry of India by the end of 2008.
- Contribution of software and services to the total GDP of India will be more than 7.5%.
- FDI (Foreign Direct Investment) of 4.5 billion US Dollars expected in the IT industry by the end of 2008.
- 35% of total exports from India will be from IT exports.
- 225 billion US Dollar worth of market capitalization from IT shares.
- Software and services are exported to about 95 companies from India. North America accounts for 61% of the software exports from India.
The projections about the size of India's IT industry present a very optimistic picture. The industry is expected to grow to double its current size by the year 2012. India's IT industry is expected to grow at an annual average rate of 18% in the next five years. The industry is also expected to cross the 100 billion US Dollar mark by 2011. One of the major areas of growth for the IT industry of India is by tapping the potential in the domestic market. The IT industry of India is largely dependent on the export market. Penetrating more into the domestic market would create further opportunities of growth for the IT industry.

8. Growth of Indian IT Industry

India's IT industry has recorded phenomenal growth over the last decade. During the period from 1992-2001, the compounded annual growth rate of the Indian IT services industry has been over 50%. The software sector in India has grown at almost double the rate of the US software sector.

The statistics of the India's IT industry substantiates the huge momentum acquired by the IT sector in the recent past. During the financial year 2000-2001, the software industry in India accounted for $8.26 billion. The corresponding figure was $100 million 10 years back.

The growth of India's IT sector has brought about many other positive changes in the Indian economy. The purchasing power of a large section of Indian population has increased dramatically. This has resulted in an increase in the average standard of living of the majority of population of the country. The increase in purchasing power of the common people has propelled the growth rate of the other sectors of the economy as well.

There has been considerable increase in the amount of fund available for venture capitalism and equity financing.

India is now home to a number of IT giants. The operations of IT firms like Wipro, Infosys, Accenture, Capgemini, Tata Consultancy Services and many more in different locations of India have changed the entire scenario of the Indian job market. The ITES sector has also come up to complement the growth of Indian IT sector.

Some of the major reasons for the significant growth of the IT industry of India are –

- Abundant availability of skilled manpower
- Reduced telecommunication and internet costs
• Reduced import duties on software and hardware products
• Cost advantages
• Encouraging government policies

9. Challenges before Indian IT Industry

There are number of challenges that are facing the information technology industry of India. One of the major challenges for the Indian information technology industry was to keep maintaining its excellent performance standards.

The experts are however of the opinion that, there are certain things that need to be done in order to make sure that, India can maintain its status as one of the leading information technology destinations of the world. The first step that needs to be taken is to create an environment for innovation that could be carried for a long time.

The innovation needs to be done in three areas that are connected to the information technology industry of India such as business models, ecosystems and knowledge. The information technology sector of India also has to spread the range of its activities and also look at the opportunities in other countries.

The improvement however, also needs to be qualitative rather than just being quantitative. The skill level of the information technology professionals is one area that needs improvement and presents a considerable amount of challenge before the Indian information technology industry.

The Indian information technology industry also needs to co-ordinate with the academic circles as well as other industries in India for better performance and improved productivity. The experts are of the opinion that, the business process outsourcing service providers in India need to change their operations to a way that is more oriented to the knowledge process outsourcing. One of the most important crises facing the Indian information technology industry concerns the human resources aspect. The problems with outsourcing in countries like the United States of America are posing problems for the Indian information technology industry as well.

In the recent times a bill has been passed in the state of New Jersey that allows only the citizens or legal non-Americans to be given contracts. This legislation has also affected some other states like Missouri, Connecticut, Wisconsin and Maryland. These states are also supposed to be considering these laws and their
implementation. This is supposed to have an adverse effect on the outsourcing that is the source upon which the information technology industry of India thrives. The information technology professionals who aim at working in the country are also likely to be hindered by the legislation as a significant amount of these professionals have been going to work in the USA for a long time.

10. Future of Indian IT Industry

The current scenario in the IT industry of India and the tremendous growth registered in recent years has generated much optimism about the future of the Indian Information Technology industry. Analysts are upbeat about the huge potential of growth in the Information Technology industry in India.

The major areas of benefit that the future growth in the IT industry can generate for the Indian economy are-

- **Exports** - The IT industry accounts for a major share in the exports from India. This is expected to grow further in coming years. The information technology industry is one of the major sources of foreign currency for India.

- **Employment** - The biggest benefit of the IT industry is the huge employment it generates. For a developing country like India, with a huge population, the high rate of employment in the IT sector is a big advantage. The IT industry is expected to generate employment of 2.2 million by the end of 2008 which is expected to increase significantly in coming years.

- **FDI (Foreign Direct Investment)** - High inflow of FDI in the IT sector is expected to continue in coming years. The inflow of huge volumes of FDI in the IT industry of India has not only boosted the industry but the entire Indian economy in recent years.

The Nasscom-McKinsey report on the ‘IT industry of India’ projects that the Indian IT industry will reach 87 billion US Dollars by the end of 2008. 2.2 million Employment is expected to be created in the IT industry according to this report. The report also projects 50 billion US Dollars of IT exports from India by the end of 2008.

Software exports from India are expected to grow in coming years. New markets for software exports from India have opened up in the Middle East, South and Southeast Asia, Africa and Eastern Europe. The reputation that India has earned as a major destination for IT outsourcing has opened further possibilities. Many developing countries are now using the Indian model for growth in the IT sector.

Another important area of future growth for the IT industry of India is the
domestic market. While exports dominate the IT industry at present, there is huge scope of growth in the domestic market which can be tapped in the future.

The US recession has had its share of negative impacts on the Indian IT industry. However, the industry has faced the challenges posed by the global market and is sustaining its rate of growth. The focus for the future is to ensure that the benefits of the IT industry percolate to the grass root levels.

The goal of relational marketing is the focus on customer loyalty (Asuncion et al., 2004) and CRM is becoming the foundational cornerstone of profitable financial success (Galbreath and Rogers, 1999). Customer satisfaction, understood as the meeting of the customer’s expectation is related to delivering high customer value (Kotler, 2000). Customers who result with successful relationships have far more potential for loyalty as they are often prepared to pay a premium price for a range of reliable goods and services (Newell, 2000). Once these customers are recruited they are less likely to defect, provided they continue to receive quality service. Relationship Marketing emphasizes that customer stickiness (retention) can substantially reduce marketing cost and contributes to firms’ profitability because it is always cheaper to retain a customer than to acquire a new one (Khalifa et al., 2002).

Customer relationship management appeared as a new concept at the climax of the Internet boom (Kotorov, 2003). It changed both the CRM market and customer-related business requirements of all sizes of companies (Chou et al., 2002). During the early 90’s providers of CRM solutions were offering products that accentuated the automating and standardizing of internal processes related to acquiring, servicing and keeping customers. Still, these solutions were very expensive and hard to maintain (Chou et al., 2002). The new CRM system means that, the existing and potential customers are now able to interact and communicate with corporations.

Kotorov (2003) affirms that, many management experts welcomed the concept of customer relationship management and hurried its implementation in spite of the lack of a clear definition, vision and without an understanding of the extent and complexity of organizational restructuring required for a successful CRM implementation. This is also supported by Abbott (2001) when she mentions in her study that, the majority of the companies were not ready to take advantage
of the enormous amount of data captured for CRM purposes. The increasing disappointing results of the applications of customer relationship management coincided with the technology melt down. Customer relationship management was not delivering the result that organisations expected. Sudhir (2004) estimates that, CRM projects failing to achieve their objectives range anywhere from 60 percent to 80 percent. But on the other hand, a handful of successful Customer relationship management projects were giving both a proof-of-concept and a guideline for a successful CRM implementation (Kotorov, 2003). Furthermore, the successful projects created enormous competitive advantage making the implementation of Customer relationship management by rival companies an absolute survival necessity.

The Customer relationship management concept came also with a number of opportunities for applications and consulting. The demand for CRM related services has exceeded available resources. Information technology (IT) departments within the firms are often unable to provide and implement the demand. The gap between corporate needs and the limited available resources will keep impelling the great demand for CRM-oriented implementation and integration services to increase. They also affirm that, the best word to describe CRM market is "profitable" and projected a market growth from $1.2 billion in 1997 to $11.5 billion in 2002.

According to Bellenger et al., (2004), the growing body of literature on CRM is somewhat inconsistent and highly fragmented. This is a result of the fact that, a common conceptualisation of the phenomenon is lacking (Bull, 2003). Bellenger et al., (2004) further noted that, the ambiguity surrounding the nature of CRM has permeated the academic literature and has generated research streams that address CRM from seemingly incongruent perspective.

Many believes that, through CRM firms are able to understand customers from strategic perspective and as a result the CRM ultimately focuses on effectively turning customer information into intelligence to more efficiently manage customer relationships (Galbreath and Rogers, 1999). Another view is that, it is technologically orientated. Sandoe et al., (2001) argue that, advances in database technologies such as data warehousing and data mining are crucial to the functionality and effectiveness of CRM systems. Kotler (1997) assures that, customer relationship management principally revolves around marketing and
begins with a deep analysis of consumer behaviour. Bose (2002) states that, CRM is an integration of technologies and business processes used to satisfy the needs of a customer during any given interaction. Chou et al., (2002) also describe it as an information industry term for methodologies, software and usually Internet capabilities that help an enterprise manage customer relationships in an organized way.

This same fragmentation of opinions reflects when it comes to implementing customer relationship management. Creating a CRM solution for most companies is generally a matter of complex integration of hardware, software and applications and it also requires a careful analysis of business processes. The implementation of CRM impacts on a number of functions within an organisation including sales, IT, operations, marketing and finance. Bradshaw and Brash (2001) asserted that, implementing CRM is certain to involve the use of new technologies. Most companies are enthusiastic about implementing CRM, but the work involved to bring such a system to reality demands an enormous deal of varied knowledge, project management and a meticulous plan (Bose, 2002). Thus, CRM failure rate was estimated to be between 55 percent and 75 percent in 2001 (Kotorov, 2003). Up to this point it has been suggested that, people, process and technology are key concepts to consider for the implementation of CRM (Chen and Popovich, 2003). The study of what they imply and how they are being approached by different companies becomes relevant in order to increment success of CRM implementation in the future.

The industry scenario in India saw a rapid increase in the various sectors. But the striking factor was observed in the Information Technology (IT) Industry sector. The robust growth of India can be attributed to the meteoritic success of Indian IT industry. In fact no other Indian industry has performed so well against the global market. The industry has been known for its innovative customer service and product custom configuration. Revenues for the industry have grown 10 times over the past decade in India.

Information Technology industry is one of the most successful and profitable industry in India with a GDP of 7.5%. As it continues to grow, it is faced with the challenge of how to maintain its customer relationship, while continuing to meet the demands and requirements of its customers. A long-term relationship with the customer insures their repeat business. It costs more to gain new customer than it
does to retain current ones. The goal of an IT company is to provide customers with their technology as well as customer service needs. As it continues to grow, industry is faced with the challenges of maintaining its customer relationships along with meeting demands and requirements of its customers.

The IT Industry is a very competitive industry in India with the dominance of a few large firms like Infosys, Wipro, IBM, Tata Consultancy Services etc. The IT firms typically have a small number of large customers from which a majority of revenues and profits are generated (Pareto’s 80-20 rule). Moreover, acquiring a large customer is a fairly difficult process because of the intense competition and lack of significant differentiation among the major Indian IT firms. Therefore it is extremely important for the firms to retain the customers and grow the business generated from the customers. This may require the firm to take proactive and well-defined steps aimed at building trust and customer loyalty. The objective of the actions is to increase the faith of various decision makers in the customer organization towards the firm in order to obtain more projects and strengthen the relationship.

Customer Relationship Management (CRM) is a business strategy that involves selecting and managing customer relationships in order to optimize the long-term value of a company (Johnson & Weinstein, 2004). The difference between a business and a ‘successful’ business is the development of customer relationships. Levitt (1983) wrote that, a businesses’ purpose was that of creation and maintenance of a customer, additionally that the sale of a product to that customer was merely the consummation of the courtship. Nevertheless, the origins into the development of customer relationships into business and academic thinking has not been reliably pegged to a specific time, however, in the 1980’s scholars such as Len Berry, Ted Levitt, Robert Dwyer et al., were writing and conducting research on relationship marketing/management (Crosby, 2002).

It is very difficult to evaluate the success of CRM practices employed by a firm. Although the customer retention rate of the firm may be an effective indicator, it may not be an accurate measure as the retained customers may not be profitable customers. Thus, other parameters need to be used along with the customer retention rate to judge the success of CRM practices. Hence the present study evaluates the CRM practices of IT firms based on four levels of relationship
marketing and corresponding retention strategies – financial bonds, social bonds, customization bonds and structural bonds. At each successive level, the potential for sustained competitive advantage is increased as each successive level of strategy results in ties that bind the customer a little closer to the firm.

The study also examines two important concepts in marketing relationships - trust and commitment, in the context of Indian IT sector. It emphasizes the role of trust and commitment as key influential elements between the antecedents and outcomes of the relationship.

Customer Relationship Management (CRM) has been a part of marketing literature since more than a decade. Interestingly, there is still much debate over what exactly constitutes CRM (Nevin, 1995; Parvatiyar and Sheth, 2001; Sin et al., 2005). According to Parvatiyar and Sheth (2001), some of the themes represent a narrow functional marketing perspective while others offer a perspective that is broad and paradigmatic in approach and orientation. One example of a narrow perspective is to view CRM as database marketing (Peppers and Rogers, 1993) emphasizing promotional aspects of marketing by leveraging customer databases. Other examples of a narrow approach include electronic marketing (Blattberg and Deighton, 1991) and after-marketing (Vavra, 1992). Electronic marketing encompasses all marketing efforts supported by information technology while aftermarketing efforts focus on customer bonding after the sale is made.

On a broader level, CRM may mean customer retention or partnering (Peppers and Rogers, 1993; Vavra, 1992). In order to develop a comprehensive list of CRM practices, it is essential to identify the key constructs of CRM. In this direction CRM Organization, Customer Value, Customer Acquisition, Customer Satisfaction, Customer Retention and Loyalty, Trust and Commitment in Relationship Marketing and Key Account Management are discussed below.

11. Customer Relationship Management Definition

CRM is a business strategy designed to optimize profitability, revenue and customer satisfaction by organizing the enterprise around customer segments, fostering customer-centric behaviors and implementing customer centric processes (Gartner, 2004). Jain (2005) proposed that, profiling of the customer, ensuring satisfied employees and delivering superior value would help the cause of CRM.
Studies of successful Relationship Marketing initiatives have been undertaken to highlight the importance of the customer relationship cycle and its components (Rigby and Ledingham, 2004). Harding et al., (2004) pointed out the importance of redesigning of business processes and training of users before CRM implementation.

Chan (2005) highlighted the importance of integration of activities and the danger of having a disconnected view of customers owing to functional disparities. A number of articles highlighting the best practices on CRM have been published. One such article explains the need for balancing the strategic capabilities of CRM—people, process, technology, knowledge and insight (Gordon, 2002).

McGovern and Panaro (2004) highlighted the importance of proper segmentation of key customers and also the alignment of the salespeople with the processes. Kale (2004) explained the major pitfalls of CRM as the seven deadly sins. However, a framework for enabling a strategic approach to CRM has not been proposed by these authors.

Roberts et al., (2005) proposed a ‘CRM Process Model’, but it included very generic strategies (not different from traditional marketing) and also fails to incorporate the need for a CRM vision. After undertaking extensive research, Payne and Frow (2005) proposed a strategic framework for CRM that comprised five major components—the strategy development process, the value creation process, the multichannel integration process, the information management process and the performance assessment process. However, their work failed to delve into certain important aspects like the methods to be adopted for focusing on key customers and critical aspects of choosing the CRM technology. In today’s business scenario, management recognizes customers as the major asset of a business process and the success of an organization depends on how effectively the relationship with customers is managed. Customer retention is considered to be the most important factor of interest for the customer data which enables them to quickly retrieve all information about the customers in few seconds for effective relationship.

The need for relationship marketing arose as a result of industry globalization. The focus shifted from promotion of the product to creating value in the consumer-producer relationship and maintaining said value over time. This was fostered by the value movement, innovation in technology and a shift in power from producer to consumer. Prior to this the traditional marketing paradigm of product, price, place, and promotion was heavily utilized. CRM, however, is designed to utilize information
technology to develop an ongoing relationship with customers who will maximize the value an organization can deliver to them over time. This process should inevitably if utilized as designed, enhance the perceived value of the customer thus increasing their level of satisfaction to the point where the customer is loyal to the company.

Customer Relationship Management has emerged as one of the latest management buzz word, popularized by the business press and marketed by the aggressive CRM vendors as a panacea for all the ills facing the firms and managers, it means different things to different people. CRM, for some, means one-to-one marketing while for some it means a call center. Others call database marketing as CRM. Today CRM is not just a buzzword, but also a trend that is weeping across all industries. In simple words, implementation of CRM implies viewing the entire business from the customers’ perspective and treating them as their most priced assets (Shainesh and Sheth, 2006). CRM is the strategy for delivering high quality service to its customers aimed at helping the organizations to attract, develop and retain the customers (Berry, 1983).

Customer Relationship Management is the process of carefully managing detailed information about individual customers and all customer ‘touch points’ to maximize the customer loyalty (Kotler et al., 2009). A customer touch point is any occasion on which a customer encounters the brand and product from actual experience to personal or mass communication to casual observation. Shani and Chalasani define customer relationship management as “an integrated effort to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value-added contacts over a long period of time”. Jackson applies the individual account concept in industrial markets to suggest CRM to mean, “Marketing oriented toward strong, lasting relationships with individual accounts”. In other business context, Kotler and Armstrong (2001) define CRM as “the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction”. On average, businesses spend six times more to acquire customers than they do to keep them (Gruen, 1997). It is clear that, the corporation needs to orient itself towards total customer relationships versus focusing on single transactions with a customer. Therefore, many firms are now paying more attention to their relationships with existing customers to retain them and increase their share of customer’s purchases. Customer Relationship
Management can be called as a strategic management system. CRM requires organizations to lay more emphasis on retaining existing customer rather than on creating new ones (Clark and Payne, 2000). A long term relationship with the customer insures their repeat business. It costs more to gain new customer that it does to retain current ones. CRM is the process of carefully managing detailed information about individual customers and all customer ‘touch points’ to maximize the customer loyalty (Kotler and Armstrong, 2001). CRM is used to define the process of creating and maintaining relationships with business customers. As opposed to the four P’s of traditional marketing, CRM’s four P’s, which leads to success as described in Johnson and Weinstein (2004) are planning, people, process and platform. To ensure success, it is imperative that a business utilizing CRM knows exactly what they want to achieve with the CRM strategy and how they want to capture and use the data. Secondly, with respect to people, all concerned parties, i.e., employees and partners must be inter-functionally coordinated with the CRM effort. Thirdly, the process of how the customer contacts the company has to be clearly defined. Lastly, after specifying goals, coordinating these goals with the relevant parties, ascertaining the process, IT software should be selected that responds to the CRM needs to the business.

Customer Relationship Management has been growing in the past few years. It includes customer service management, relationship building and electronic shopping (Fletcher, 2003). Greenberg (2001) argued that, CRM is a business strategy to build and sustain a long-term customer relationship. Furthermore, Winer (2001) argued that, CRM is an integration of information technology and business processes. It makes marketers implement the relationship marketing at an enterprise-wide level. However, the issue of privacy is a big problem in CRM. Strong database and data mining techniques help marketers easily find consumers’ personal information (Franzak et al., 2003). Most CRM systems just focus on the benefit and technology of companies rather than on perception and attitude of customers. It is necessary to consider both sides. People should understand how customers view their relationships with companies because customers are not just passive buyers ignoring relationships with companies (Culnan & Armstrong, 1999). More and more organizations and companies have realized that they need to put their customers’ front and center to support a robust strategic customer care process, including profiling customers, segmenting customers, researching customers, investing in
technology and managing customers (Brown, 2000). This move towards more customer centric direction can be traced back to the 1960s when the focus of marketing started to shift from managing products or marketing campaigns to managing the profitability of each individual customer over the entire life of the relationship. The paradigm shift brought lots of discussions on “relationship marketing” since the 1980s (Berry, 1983; Hakansson, 1982). Relationship marketing aims to identify, maintain and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides through interactive, individualized and value-added contacts over a long period of time (Shani and Chalasani, 1992). However, relationship marketing focuses mainly on strategy and lacks a holistic view of the business processes connected to it (Parvatiyar and Sheth, 2000). Customer relationship management evolving from business processes, emphasizes not only a comprehensive strategy but also the process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer (Parvatiyar and Sheth, 2000).

CRM indicates “the strategic process of shaping the interactions between a company and its customers with the goal of maximizing current and lifetime value of customers for the company as well as maximizing satisfaction for customers” (Rajagopal and Sanche, 2005). From the 1990s, CRM became more and more appealing because of two reasons. First, though enterprise resource planning (ERP) software offers a single system linking all corporate operations, including planning, manufacturing, sales, vendor relations, inventory control, human resources and accounting (Handen, 2000). Many organizations and companies recognized that, ERP systems mainly emphasize on “efficiency” and “control”, and the core attention is still stagnant in the “product” and the “organization”, neglecting the relationship among people. Second, while companies and organizations are making efforts to keep pace with the paradigm shift in marketing, customer needs, expectations and behaviors are also changing. Customers expect personal service and that their company already knows every detail of the relationship they have with their company, regardless of the channel they use to communicate with their company.

Customers do not only want services, they want good services, which possess characteristics like ease of doing business, trust, responsiveness, web site navigability, problem resolution and all those other elements of good e-business that don’t fit quite so neatly into a purely binary world. Javalgi et al., (2006) also pointed
that, in today's hyper-competitive markets service firms must be market-oriented. As knowledge is key to nurturing customer relationships (Lavender, 2004), market research plays a critical role in generating the needed data on which a market orientation can be developed and implemented, which, in turn, can enhance the practice of CRM (Javalgi et al., 2006). Therefore, CRM is considered as a means of supplementing ERP systems to match customers’ needs and increase their satisfaction.

Today's businesses are facing fierce and too aggressive competition while operating in both domestic and global market. This diverse and uncertain environment has forced organizations to restructure themselves in order to enhance their chances of survival and growth. The restructuring efforts have included, among others, the emergence of the "new paradigm" which is commonly referred to as relationship marketing (Berry, 1983; Håkansson, 1982; Dwyer et al., 1987; Zineldin, 2000; Gronroos, 1994; Gummesson, 1997; McKenna, 1991; Morgan and Hunt, 1994). Relationship marketing is coined to reflect a variety of relational marketing activities.

The term customer relationship management has become a buzzword, with the concept being used to reflect a number of differing themes or perspectives and becomes a catch-all phrase. Ongoing relationships between businesses and their customers are receiving renewed interest in marketing (Berry, 1995; Sheth and Parvatiyar, 1995). Indeed, the building of strong customer relationships has been suggested as a means for gaining competitive advantage (McKenna, 1991; Reichheld, 1993; Vavra, 1992). However, these definitions of relationship marketing provide the basis for the new paradigm argument that views marketing as an integrative activity involving personnel from across the organizations with emphasis on building and maintaining relationships over time. Personal relationships, interactions and social exchange are the core elements of relationship marketing.

Customer relationship management is to identify, establish, maintain, enhance and when necessary also to terminate relationships with customers and stakeholder at a profit, so that the objective of both parties are met and that this is done by mutual exchange and fulfillment of promises (Michel, 1999). An extensive review of literature reveals ten different but interrelated forms of relationship marketing as mentioned below:
1. The partnering involved in relational exchanges between manufacturers and their external goods’ suppliers (Frazier et al., 1988).
2. Relational exchange involving service providers, as between advertising or marketing research agencies and their respective client (Frazier et al., 1988).
3. Strategic alliances between firms and their competitors, as in technology alliances (Nueno and Oosterveld, 1988; Ohmae, 1989).
4. Alliance between a firm and nonprofit organizations, as in public-purpose partnership (Steckel and Simons, 1992).
5. Partnerships for joint research and development, as between firms and local, state, or national governments (Berry, 1983).
6. Long term exchanges between firms and ultimate customers as particularly recommended in the service marketing area (Berry, 1983).
8. Exchange involving functional departments within the firm (Ruekert and Walker 1987).
9. Exchanges between a firm and its employees, as in internal marketing (Berry and Persuraman, 1991).
10. Within-firm relational exchanges involving such business units as subsidiaries, divisions or strategic – business units (Porter, 1987).

Customer Relationship Management has become one of the most dynamic technology topics of the new millennium. According to Chen and Popovich (2003), CRM is not a concept that is really new but rather due to current development and advances in information and enterprise software technology it has assumed practical importance. The root of CRM is relationship marketing, which has the objective of improving the long term profitability of customers by moving away from product-centric marketing. Bose (2002) noted that, CRM was invented because customers differ in their preferences and purchasing habits. If all customers were alike, there will be little need for CRM. As a result, understanding customer drivers and customer profitability, firms can better tailor their offerings to maximize the overall value of their customer portfolio (Chen and Popovich, 2003). The attention CRM is currently receiving across businesses is due to the fact that, the marketing environment of today is highly saturated and more competitive (Chou et al., 2002).
According to Greenberg (2004), CRM generally is an enterprise-focused endeavour encompassing all departments in a business. He further explains that, in addition to customer service, CRM would also include manufacturing, product testing, assembling as well as purchasing, billing, human resource, marketing, sales and engineering. Chen and Popovich (2003) argued that, CRM is a complicated application which mines customer data, which has been retrieved from all the touch points of the customer which then creates and enable the organisation to have complete view of customers. The result is that, firms are able to uncover and determine the right type of customers and predicting the trend of their future purchases. CRM is also defined as an all-embracing approach that seamlessly integrates sales, customer service, marketing, field support and other functions that touch customers (Chou et al., 2002). They further stated that, CRM is a notion regarding how an organisation can keep their most profitable customers and at same time reduce cost, increases in values of interaction which then leads to high profits. The modern customer relationship management concept was shaped and influenced by the theories of total quality management (Gummesson, 1997) and by new technology paradigms (Zineldin, 2000). There is however, a perceived lack of clarity in the definition of customer relationship management, although all accepted definitions are sharing approximately the same basic concepts: customer relationships, customer management, marketing strategy, customer retention and personalization (Zineldin, 2000).

However, while academics debate the subtleties of various definitions, the practitioners have developed a wealth of applicative papers analysing the concrete challenges and opportunities of implementing the systems (Bacuvier et al., 2001).

CRM in some firms is considered as a technology solution, consisting of individual databases and sales force automation tools and sales and marketing functions so as to improve targeting effort. Peppers and Rogers (1999) argued that, organisations view CRM as a tool, which has been particularly designed for one-to-one customer communications which is the function of sales, call centers or the marketing departments. Accordingly, Frow and Payne (2004) added that, CRM stresses two-way communication from the supplier to customer and from the customer to the supplier to build the customer relations over time. The two-way communication has been enhanced greatly by advances in technology particularly the Internet.
In terms of information technology (IT), CRM means an enterprise-wide integration of technologies working together such as data warehouse, website, intranet/extranet, phone support system, accounting, sales, marketing and production. Kotler (2000) assured that, CRM uses IT to gather data, which can then be used to develop information acquired to create a more personal interaction with the customer. In the long-term, it produces a method of continuous analysis and refinement in order to enhance customer’s lifetime value with the firms.

Goldenberg (2000) believes that, CRM is not merely technology applications for marketing, sales and services but rather when it is successfully implemented, it enables firms to have cross-functional, customer-driven, technology-integrated business process management strategy that maximizes relationships. Chin et al., (2003) stated that, due to many technological solutions available for CRM automation, it is often misconstrued as a piece of technology. But in recent times many companies have realised the strategic importance of CRM and as a result, it is becoming a business-value effort rather than technology-centric effort.

Using information technology as an enabler, CRM strategy leverages key functional areas to maximise profitability of customer interactions (Chen and Popovich, 2003). It has been recognised that, technological advancements and innovations, keen competitive marketing environment, coupled with the Internet are the main drivers that promote one-to-one initiative. Through CRM, firms are able to understand the drivers of present and future customer profitability which makes it possible to appropriately and proportionately allocate firm’s resources to all functional areas that affect customer relationship (Chou et al., 2003).

For customers, CRM offers customisation, simplicity and convenience for completing transactions irrespective of the kind of channel of interaction used (Gulati and Garino, 2000). Many businesses today realise the importance of CRM and its potential to help them achieve and sustain a competitive edge (Peppard, 2000). This view was further boosted by Bose (2002) that, as a result of changing nature of the global environment and competition, firms cannot compete favourably with only minor advantages and tricks that can easily be copied by competing firms. The implementation of CRM is an enabled opportunity to rise above minor advantages with a real focus on developing actual relationships with customers. Firms that are most successful at delivering what each customer want are the most likely to be the leaders of the future.
12. CRM - for whom?

According to Bose (2002) most companies can apply CRM. However there are some companies that are more likely to benefit from CRM than others. Those are companies that accumulate a lot of customer data when doing business and whose customer’s needs are highly differentiated. On the contrary, companies that hardly have any contact with their customers, a high customer turnover and identical customer needs are least likely to benefit from CRM.

13. Components of CRM

To be able to satisfy and even exceed customers’ expectation requires 360 degrees view of the customer. This calls for CRM implementation model that integrate the key dimensions of people, process and technology within the context of an enterprise-wide customer-driven, technology-integrated, cross-functional organization. Each component presents significant challenges, but it is the ability to integrate all three that makes or breaks a CRM system (Goldenberg, 2002).

Figure 2: Components of CRM and implementation model (Chen and Popovich, 2003)

![Diagram of CRM components](image)

14. Benefits of CRM

According to Chen and Popovich (2003), CRM applications have the ability to deliver repositories of customer data at a much smaller cost than old network
technologies. Throughout an organisation, CRM systems can accumulate, store, maintain and distribute customer knowledge. Peppard (2000) noted that, effective management of information has a very important role in CRM because it can be used for product tailoring, service innovation, consolidate views of customers and for calculating customer lifetime value.

CRM systems assists companies evaluate customer loyalty and profitability based on repeat purchases, the amount spent and longevity. Bull (2003) added that, CRM makes it practicable for companies to find unprofitable customers that other companies have abandoned. This position is supported by Galbreath and Rogers (1999) that, CRM helps a business organisation to fully understand which customers are worthwhile to acquire, which to keep, which have untapped potential, which are strategic, which are important, profitable and which should be jettisoned.

Greenberg (2004) emphasised that, CRM can increase the true economic worth of a business by improving the total lifetime value of customer adding that, successful CRM strategies encourage customers to buy more products, stay loyal for longer periods and communicate effectively with a company. CRM can also ensure customer satisfaction through the allocation, scheduling and dispatching the right people, with the right parts, at the right time (Chou et al., 2002). According to Swift (2001), companies can gain many benefits from CRM implementation. He states that the benefits are commonly found in one of these areas:

a. Lower cost of recruiting customers: The cost of recruiting or obtaining customers will decrease since there are savings to be made on marketing, mailing, contact, follow-up, fulfillment services and so on.

b. No need to acquire so many customers to preserve a steady volume of business: The number of long-term customers will increase and consequently the need for recruiting many new customers will decrease.

c. Reduced cost of sales: The costs regarding selling are reduced owing to existing customers are usually more responsive. In addition, with better knowledge of channels and distributions the relationship become more effective, as well as the cost for marketing campaign is reduced.

d. Higher customer profitability: The customer profitability will get higher since the customer wallet-share increases, there are increases in up-selling, cross-selling and follow-up sales and more referrals come with higher customer
satisfaction among existing customers.
e. Increased customer retention and loyalty: The customer retention increases since customers stay longer, buy more and buy more frequently. The customer does also often take initiatives which increase the bounding relationship, and as a result the customer loyalty increases as well.
f. Evaluation of customers profitability: A firm will get to know which customers are profitable, the one who never might become profitable, and which ones that might be profitable in the future. This is very important since the key to success in any business is to focus on acquiring customers who generate profit and once a firm has found them, never let them go.

Curry and Kkolou (2004) refer to the major benefits and reasons for adoption of CRM which include: (i) customers from the competition will come to prefer your organization; (ii) a simplified, customer-focused internal organization will simplify the infrastructure, (iii) shrinking the workflow and eliminating non-productive information flow; and (iv) profits will increase from more satisfied customers and a more compact, focused company.

There are companies that adopt CRM systems just because it is the most advanced technology and they think they have to have it since their competitors have it (Chou et al., 2002). Some statistics that motivate this behavior are resumed as follows:

- By Pareto’s principle, it is assumed that 20% of a company’s customers generate 80% of its profits.
- In industrial sales, it takes an average of 8 to 10 physical calls in person to sell to a new customer, 2 to 3 calls to sell to an existing customer.
- It is 5 to 10 times more expensive to acquire a new customer than obtain repeat business from existing customer. For example, according to Boston Consulting Group (Hildebrand, 1994), the cost to market to existing web customer is $6.80 compared to $34 to acquire a new web customer.
- A typical dissatisfied customer tells 8 to 10 people about his or her experience (Paul Gray and Jongbok Byun, Centre for Research on Information Technology and Organization, University of California, March 2001).
Getting to "know" each customer through data mining techniques and a
customer-centric business strategy helps the organization to proactively and
consistently offer (and sell) more products and services for improved customer
retention and loyalty over longer periods of time. Peppers and Rogers (1999) refer
to this as maximizing "lifetime customer share", resulting in customer retention and
customer profitability.

**15. Identification of Relationship Partners**

Typically, about 20% of a firm's customers account for about 80% of its
revenues and profits (Pareto's 80-20 rule). Thus, the key in relationship marketing is
to identify this small set of customers. There are two main factors that help identify
these key customers – customer lifetime value and strategic importance.

**16. Customer Lifetime Value (CLV)** is defined as the value of customer based on
the future profits over the period of the relationship, i.e. customer's life expectancy
with respect to the firm (Bansal and Guptha, 2000). This reflects what the customer
contributes to the firm over an expected period – the duration of the period. The CLV
can be estimated using the following steps:

- Estimate the annual revenues that the customer would generate each year.
- Estimate the customer acquisition cost.
- Estimate the customer retention cost.
- Estimate the duration of the relationship – the number of years that the
customer is likely to stay with the firm.
- Discount future earnings and costs to their present value.

Relationships can be pursued even with customers who have a low lifetime
value, if they are strategically important.

**17. Strategic importance** of a customer can be determined by considering the
following parameters:

- Importance of the customer in achieving the mission of the firm.
- The overall impact of the customer base of the firm if the customer is lost.
- Acquisition of substantial technical know-how, skill-set or market intelligence
  from the customer.
• Maintenance or enhancement of the firm’s presence in a focus market segment.

18. Practices in CRM

Relationship marketing is a continuing process that begins with the identification of key customers that are to be developed into loyal customers. The strategic imperatives (Bansal and Guptha, 2000) for building a loyal customer base are as follows:

• Focus on key customers
• Proactively generate high level of customer satisfaction
• Anticipate customer needs and respond to them before the competitor does
• Build closure ties with customers
• Create a value perception.

Closely interlinked with the above framework is Berry’s framework for practicing CRM. The framework recommends five strategies that can be implemented by service firms for developing strong, long-term relationship with key customers:

• Develop a core service around which a customer relationship can be built
• Customize the relationship to the individual customer
• Augment the core service with extra benefits
• Price services to encourage customer loyalty
• Market to employees so that they perform well for customers.

19. Implementing a CRM Strategy

The success of any strategy is determined by the success with which it is implemented. This is also true in the case of CRM strategies. Implementing CRM require that the organisation and the associated business processes be in place in order to facilitate its success (Brunjes & Roderick, 2002). The risk in implementing any CRM strategy is that the organisation is not ready to do so and relying on technology to implement the strategy (Brunjes & Roderick, 2002).

Steps in the implementation of CRM strategy

Successful implementation requires specific actions on the part of the
organisation. The implementation of a CRM strategy as proposed by Peppers et al., (1999) comprises four steps, namely the identification of customers, the differentiation of service, interaction with customers and the differentiation among customers.

**Step 1: The identification of customers**

The identification of customers enables the organisations to select those customers that they regard as being strategically significant and who they believe can contribute to the success of the organisation. These customers have unique needs and due to their value to the organisation, will have products developed to meet these needs. It must be possible to identify these customers and so obtain as much detail as possible. This involves collecting as much data as possible in order to obtain as clear a picture as possible of the customer and their profile. This may require the development of a database or the continued maintenance of a database in order to ensure that the data stays as recent as possible. Having this information enables the organisation to determine those customers that have been with the organisation for a long period and those that have recently started using the products and services of the organisation.

**Step 2: The differentiation of service**

The differentiation of service implies that different customers receive a different level of service and a different product from the organisation, depending on the value to the organisation and their specific needs. This requires the organisation to identify the top (or most significant) customers and adapt service accordingly. Identification of these top customers takes place using sales figures or by calculating the CLV associated with each customer. As the organisation is aware of the value of their customers, service levels can be adjusted accordingly.

**Step 3: Interaction with customers**

This step refers to the importance of interacting with the customer in relationship building efforts through a variety of communication tools and technologies. This is necessary as the relationship can only develop and be sustained if there is communication with the customers regarding their needs, perceptions and desires. This involves developing methods of communication
proactively with customers regarding the organisation's products and attempting to initiate dialogue with customers. Use can be made of technology, but this is not essential (Brunjes & Roderick, 2002). The customers with whom communication takes place are not necessarily all the customers, but only those that the organisation regards as being strategically significant. This interaction with the organisation increases the expectations of the customers regarding the service received as well as the quality of the relationship.

**Step 4: Customisation of products, services and communication**

Customisation is carried out by the organisation in order to ensure that customer needs are met. This requires an organisation to adapt its product, service or communication in such a way to have something unique for each customer. Communication can be customised to address the specific needs and profile of the customer. Organisation also makes use of personalisation as part of this process. Products can be customised as to the specific desires that the customer has. The purpose of customisation is to increase customer satisfaction and the loyalty that is exhibited by customers.

**20. Evaluation of CRM Practices**

It is very difficult to evaluate the success of CRM practices employed by a firm. Although the customer retention rate of the firm may be an effective indicator, it may not be an accurate measure as the retained customers may not be profitable customers. Thus, other parameters need to be used along with the customer retention rate to judge the success of CRM practices. These parameters could be the increase in revenues and profits earned from the customer over the duration of the relationship and the increase in the firm's share of the customer's pocket.

To achieve a balanced view of relationship performance, evaluation of four dimensions of performance fitness has been suggested (Jim Banford and Ernst, 2002):

- **Financial Fitness**: It refers to metrics such as sales revenue, cash flows, net income, ROI and expected NPV of the relationship. In addition, financial fitness can include partner-specific metrics such as transfer pricing revenues.
and sales of related products by cross-selling/ up selling. Also, the reduction in
the cost due to learning curve effect is taken into account.

- **Strategic Fitness:** It refers to non-financial metrics such as market share, new-
  product launches, customer loyalty, impact on customer base including access
to new customers, important client for referral purpose, technical expertise
acquisition and the competitive positioning of the firm in a particular market.

- **Operational Fitness:** It refers to explicit goals that can be linked to the
  performance appraisal and compensation of individuals. Examples of such
metrics include the number of customers visited, staff members recruited,
quality of products, manufacturing or service throughput.

- **Relationship Fitness:** It refers to aspects such as the cultural fit and trust
  between partners, the speed and clarity of decision-making, the effectiveness
of the interventions by the partners when problems arise and the adequacy
with which they define and deliver their deliverables and deadlines. An
example of such metrics is the partner-satisfaction survey developed by Siebel
systems, which deals with issues related to alliance management and
partner’s loyalty to Siebel systems. The company uses this information to spot
problems and develop detailed action plans to address them.

The financial and strategic metrics show how the alliance is performing and
whether it is meeting its goals. However, the metrics may not provide enough insight
into exactly what (if anything) may not be going well. The operational and
relationship metrics can help uncover the first signs of trouble and reveal the causes
of problems. Together, the four dimensions of performance create an integral picture
that can be used to measure the health of relationships. However, the weight places
on each type of metric and the amount of detail it should include depends on the
size and the aims of relationship. For example, a consolidation joint venture whose
main goal is to cut costs should focus heavily on financial and operational goals.
However, in the case of an alliance that is entering a new market may expect
negative financial returns in the early stages and should give more weight to
strategic goals such as increasing market share and penetrating distribution
channels.
21. The future of CRM

According to Bose (2002) there seem to be three trends that will affect CRM in the near future. However, Bose emphasizes that “no one can predict the future with certainty”. The trends are presented below.

- Extend CRM to channel partners
  Companies are increasingly collaborating with other parties along the value-chain, consequently, there is a need for channel relationships. Hence, the next step is to extend CRM to business partners within the product value-chain, this is called Partner Relationship Management (Bose, 2002). Partner Relationship Management (PRM) can be defined as a business strategy to select and manage partners to optimize their long-term value to an enterprise. In effect, it means picking the right partners, working with them to help them become successful in dealing with mutual customers and ensuring that partners and the ultimate end customers are satisfied and successful. Managing partnering is a very complex process since each partner has its own goals, customers and very often a business model and corporate culture that is different from the other parties. Consequently, the way to handle each partner is different and it is required to have a channel strategy in order to perform effective PRM. Often Internet-based technology is a part of PRM since it facilitates the management of numerous partners in complex channels (Greenberg, 2001).

- Visual Tools
  More visual tools for analyzing customer data are available. These tools are better than traditional OLAP technologies. (Bose, 2002)

- Consolidation of CRM vendors
  Vendor consolidation is common within the CRM industry. To ensure a smooth integration of hardware and software, companies offering core technologies are acquiring or partnering with CRM specific vendors.

  Greenberg (2001) also mentions verticalization, which is described below, as a trend that will affect the evolvement of CRM.

- Verticalization
  There is no ideal way of designing a CRM system, since each company has its unique needs depending on what customers they are aiming at and in what market they compete. As a result the functionality of a CRM system differs
significantly from industry to industry, even if they may follow the same basic principles when revised briefly. However, today most CRM vendors do not aim at any particular vertical industry niches, instead the adaptations are made during the implementation phase. Consequently, there is an increasing need of specialized solutions since it implies less tailoring of the system to fit to business. In addition, it is valuable to engage a CRM vendor who really knows and understand specific business (Greenberg, 2001).

22. Conclusion

Customer relationship management (i.e. CRM) is one of the topics of the moment in the business arena. Its requirements for the change of scope towards the customer and the necessities for integral change within the organizations make the implementation process a matter for great attention and careful planning.

The domain of customer relationship management extends into many areas of marketing and strategic decisions. Its recent prominence is facilitated by the governance of several other paradigms of marketing and by corporate initiatives that are developed around the theme of cooperation and collaboration of organizational units and its stakeholders, including customers. CRM refers to a conceptually broad phenomenon of business activity, if the phenomenon of cooperation and collaboration with customers become dominant paradigm of marketing practice and research. Study shows that, IT firms develop financial, social, customization and structural bonds with customers towards strengthening the relationship. IT firms concentrate on customer acquisition, maintenance and retention. From the study it is also clear that, CRM practices of software service firms are more structured, organized and looks more formal. Whereas the CRM practices of training and hardware firms are not formal.
References


