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The Impact of CRM on Customer Retention

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Abstract

The purpose of this paper is study of Customer Relationship Management process in Customer Retention. We describe the objectives of Customer Relationship Management (CRM) in Customer Retention which is very important for the survival of companies in today competitive environment.

Today, “CUSTOMERS” are very important factors in companies management with the power to change their short-term and long-term polices and strategies. Therefore enough knowledge of environment, expectations of customers and their desires are very important to find the best solution for facing un-expected behaviours of customers and then behave in such a way to change the mind of customers in the direction of companies’ profit. It’s an art to absorb customers by using different techniques such as CRM in order to manipulate companies’ policies a head of them.

Keywords: CRM, Customer Satisfaction, Customer Retention

1. Introduction

Marketing is one of the core disciplines of successful management today. It impacts on society everyday in a myriad of ways – creating new products and services; helping organizations understand what people want and need; helping people find products and services that meet their needs; communicating information that makes people’s lives more efficient; creating exchanges that generate employment and wealth. But marketing also raises ethical issues about excess consumption, unhealthy obsessions and addictions, the impact we have on the environment and the communities in which we live.

Obviously marketing is important in all areas of the organization, and customers are the reason why business exist. In fact, marketing efforts (including services as promotion and distribution) often account for more than half of the price of product.

Based on the nature of marketing, it involves voluntary “exchange” relationship where both sides must be willing parties. The parties must be able to communicate which could be through different instrument. Therefore, in today’s highly competitive environment, business needs to better understand their customers, which who are the most profitable, and how to best retain those customers. This understanding meets through different channels which one is CRM.

“CRM is short for Customer Relationship Management, the industry term for the set of methodologies and tools that help an enterprise manage customer relationships in an organized way.” (Strategic Management website- 2005)

CRM helps companies make sense of customer needs and helps companies manage these relationships more intelligently and help predict the future. Such knowledge provides a crucial competitive differentiation for companies to gain market share and reduce operational costs with retaining their customers. On the other hand the generally accepted purpose of CRM is to enable organization to better serve its customer through the introduction of reliable processes and for interaction with those customers.

It is a process or methodology used to learn more about customers' needs and behaviours in order to develop stronger relationships with them. There are many technological components to CRM, but thinking about CRM in primarily technological terms is a mistake. The more useful way to think about CRM is as a process that will help bring together lots of pieces of information about customers, sales, marketing effectiveness, responsiveness and market trends.

CRM Strategy implementation is based on the concept that an organization's most valuable asset is the customer and the organization must manage its customer relationships wisely. Having the various departments of the organization (such as: marketing, sales and service) gather qualified information will create a database which is of real value to the company. Establishing defined processes for data retrieval will allow effective use of the data and a uniform platform for customer relations management as well as optimal customer service. Thus, an in depth organizational change that supports. CRM is required throughout the marketing, sales and service departments.

In another word, CRM is an effective tool for allowing customers to perform their own services via a verity of communication channels, and also make sawing and encourage.

2. Review of Literature

In today's business world, there are different marketing approaches or strategies that fit to different circumstances. Marketing strategy has a range, where relationship marketing is placed at one end of it and transaction marketing is placed at the other end. In the relationship marketing approach the focus is on building relationships with customers, while in transaction marketing the focus is on creating single transactions with customers.

Companies producing consumer packed goods will probably benefit more from using a transaction marketing approach. This is mostly because they usually do not have direct contact with the customers and therefore there is no need for focusing on the customer relationship. In contrast, service companies almost always have close customer contacts and for that reason have to focus on customer interactions.

“Relationship marketing is one of today's most powerful business marketing techniques. It is an extension of “1 to 1 marketing,” where you satisfy each individual customer's needs and wants. You can make more money, save time, and deliver outstanding customer service. You gain a larger share of each customer's business, and you benefit from their referrals.

Accountants, real estate agents and brokers, financial companies, and other businesses where building strong customer relationships really make a difference are increasingly using CRM techniques. CRM uses today's powerful, low-cost technology to help you, work smarter.” (Charles W. Jaeger - p. 1)

3. Customer Relationship Management

“To survive in the global market, focusing on the customer is becoming a key factor for companies big and small. It is known that it takes up to five times more money to acquire a new customer than to get an existing customer to make a new purchase. A Second aspect of CRM is that knowing the customer and his /her problem allows to acquire new customers more easily and facilitates targeted cross-selling.” (Tariq Mohiuddin Ahmed – p. 9)

“CRM is based on the based on the basic marketing belief that an organization that knows its customers like individuals. Its components may include data warehouse that store all a company’s information, customer service system, call centres, e-commerce, web marketing, operations system (that handle order entry, invoicing, payments, point of sale, inventory system, etc.) and sales systems (mobile sales communication, appointment making, routine, etc.). In practices, CRM system range from automated customer-contact system to the company- wide pooling of customer information.” (Kotler – pp. 409 - 410)

“CRM is one of the key process in any firm. Although CRM is a relatively new business term, and therefore, the definition can vary depending on the background of the individual writing it. The “F. Dwyer and Tanner” believe that CRM as those process that address all aspects of identifying customers, creating customer knowledge, building customer relationship, and shaping their perception of the organization and its products.” (Kotler - p. 304-305)

“CRM builds especially on the principles of relationship marketing; the formal study of which goes back 20 years. CRM builds on the philosophy of relationship marketing. This emphasis on relationships, as opposed to transactions, is redefining how companies are interacting with their customers. Customer relationships have received considerable attention from both academicians and practitioners. The increasing emphasis of relationship marketing is based on the assumptions that building committed customer relationships results in greater satisfaction, loyalty, positive word of mouth, business referrals, references, and publicity. Intense competition for market share in today’s market requires managers to attend to customer retention and the how’s or whys of a patron returning and continuing to repurchase.” (Tariq Mohiuddin Ahmed – p.1)

“In order to more efficiently manage customer relationships, CRM focuses on effectively turning information into intelligent business knowledge. This information can come from anywhere inside or outside the firm and this requires successful integration of multiple databases and technologies such as the Internet, call centers, sales force automation, and data warehouses.”

“The activities a business performs to identify, qualify, acquire, develop and retain increasingly loyal and profitable customers by delivering the right product or service, to the right customer, through the right channel, at the right time and the right cost. CRM integrates sales, marketing, service, enterprise resource planning and supply-chain management functions through business process automation, technology solutions, and information resources to maximize each customer contact. CRM facilitates relationships among enterprises, their customers, business partners, suppliers, and employees.” (John Johansson & Fredrik Strom – p . 3)

“However, for CRM to be successful, all activities in a company need to be managed in combination to reach success. Stone, Woodcock & Wilson¹ (1996) note that in some companies there is the belief that good market planning is equal to good CRM. It must be clear that CRM is not equal to market planning, since they are founded on two different marketing approaches.

However, the authors add that although the information in market research is CRM, it is only a small part of the CRM that is needed in order to create profitable customer relationships.”

“Market planning is based upon the transactional-based point of view with market segmentation as the emphasis. Moreover, market planning still generalize and segment customers according to specific characteristics, but fail to identify individual wants and need as CRM does, i.e. the knowledge about the individual customers.”(Ibid)

4. Frame of Reference

Customer satisfaction and customer loyalty are central success factors in the market. Satisfied customers remain loyal towards a company; recommend it to friends and acquaintances and also go on to buy further products (cross selling). Winning back customers you’ve lost, however, requires much more effort. Therefore it is important for every company to know to what extent their customers are really satisfied. Central for quality management is also the question of concrete sources of dissatisfaction and what actions could be taken to increase customer loyalty.

5. Customer Satisfaction

In today's extremely aggressive and competitive marketplace, commercial organizations need new and radically different strategies to attract and then retain quality customers who have good lifetime profitability potential. When economic slowdown is also looming, it becomes absolutely vital to make sure that those customers - the 20%, say, who provide the most cash or the best profits - stay loyal and do not defect to the competition.

Even though it is self-evident that all customers are not equal, companies have traditionally treated them as though they were. This across-the-board standardization has often meant that service to the best customers has been compromised, which in turn has led to their dissatisfaction and eventual defection.

To succeed in the new customer economy - where loyalty, particularly among high value customers, can be extremely fickle - companies need to target investment strategically in the most profitable customer groups, and to match levels of customer service to customer value in order to earn their loyalty.

6. Investing In Your Best Customers First

Without the ability to differentiate between the value of customers, it is likely that customer retention activities and campaigns will be just as successful at retaining unprofitable customers as they are at retaining profitable ones. As Wendy Hewson¹, of analysts Hewson Group², has observed, "If you can't provide differentiated service strategies for your best customers, you'll need to provide top flight service for all your customers. And, economically, this is a killer."

7. Towards A Single View of The Customer

In a situation where all customers get uniform levels of good, bad or indifferent service, then less profitable customers, with lower expectations, are typically more than happy with the service they get. Conversely, more valuable, and more demanding, customers are typically left unsatisfied - making them more open to competitors' advances.

The underlying culprit is often poor integration of customer activities, organized by products rather than by customer. Without a single, unified view of all the customer's contacts and transactions with a company, it is impossible for that company to calculate or estimate the

individual's current or future profitability. But with a single view, a whole range benefits become available, including in-depth customer knowledge for sales and service representatives; a consolidated view of the profitability of the customer; and a sound understanding of the customer's behaviour patterns across different channels.

Equipped with this information, the company can tailor marketing and service activities to ensure a precise fit with the customer's needs, propensities and aspirations, and personalize offers using channels best suited to the customer's known preferences.

8. Optimizing 'Exchange of Value' Between Company And Customer

What a company knows about a customer, his product preferences, his current and his projected value - can all be used to optimize the exchange of value between company and customer. For example, a high value customer can be given priority service when he or she calls the call center, or be given access to additional features on the company's website. Meeting customers' value expectations is the key to customer profitability, since customer value creates customer satisfaction which results customer loyalty.

9. Some Simple Tactics For Improving Best-Customer Satisfaction

One of the most common causes of customer annoyance is the waiting time experienced in getting through to voice response systems or accessing company websites. Satisfaction among high-value customers can be significantly improved by giving them a priority service for example, by pushing them nearer the front of the queue when they call a customer service center.

Another way of increasing best-customer satisfaction is to avoid making irrelevant offers. The targeting of promotions can be firmly based on knowledge of the customer's situation and value expectations, and the right offer made at the right time through the right channel.

The same principles can be applied to accessing a web storefront, where the customer's value score can direct the promotions presented to them - high-value customers might be given access to privileged areas of the website for example. The sum total of such customer experience events will play a significant role in raising a customer's level of satisfaction, and in turn determining their loyalty to that provider.

10. Customer Loyalty

The definition of loyalty is when your customer is faithful to your business and product brand. They will return again and again to do business with you, even when you may not have the best product, price or delivery service.

Loyalty is the result of developing past positive experiences with an individual and having that person return back to you various times due to these experiences. If you can recognize the unique situation of your customer at any point in time, like their current business condition, purchase history or immediacy of purchases, these little pieces of information can be used to benefit your business. Measuring the effectiveness of your client's history against loyalty is a responsibility for tools like CRM systems.

These tools help measuring these actions, move your clients to purchase more, introduce them to other products you may carry and have those clients use word of mouth to help promote your business. It has been proven that great service is still what motivates clients to become loyal to the organizations they deal with. If they are receiving poor service and neglect from you towards their needs, your company will have a short-term relationship with them. This negative action also will spread by word of mouth and could be hurting your business more that you ever imagine.

11. Assessing Customer Value and Motivating Loyalty

The first step in achieving customer loyalty is asking you these questions: “What key service or other business attributes do our customers truly value? What are the real incentives for loyalty in our business? What performance measures must we meet to respond to these incentives?”

Commitment and accountability to the customer by providing a standard service of value to them, along with a full range of relationships must be nurtured. Customers expect you to be reliable, empathetic, and responsive. Also, tangible attributes like facilities, equipment and the outward appearance of customer facing professionals play a large role in their perception of your business.

There are many ways to build this customer loyalty. When you target whom your clients are, then segment and decide who are the ones of high value, and determine the products and services they want or need, key account marketing will help you focus and concentrate on what you are trying to be to your customers. Not just the list of products you want to sell them. Continuously provide excellent customer service; when you consistently deliver this, you are fulfilling your product brand.

12. Cost Efficiency

For the past 15-20 years business owners and executives truly believed that the only answer to increased competition was reducing costs. Many businesses began to downsize, de-layer, restructure, and re-engineer their organizations. While at the time this may have been a solution to short term success, it was not the solution for longevity in the business market. Small/Medium sized businesses must work harder to keep up with customer expectations, be smarter about where they focus their energies, and remain competitive in their lines of business. You can no longer rely on just reducing costs, pricing your products, improving the quality of product or marketing to bring in revenue. With the snap of a finger your competitors have access to any information they want on your business and change their products accordingly to become more competitive. With these aspects of business changing all of the time, how are you going to stand out from the crowd and keep those customers coming back to you and only you?

Loyalty today is becoming harder and harder to retain. With all of the options that are out there it is no surprise that one day your client is singing your praise and the next they have slipped through your fingers and are giving business to your competition.

Customers have a huge amount of leverage over Small/Medium sized businesses due to the massive amount of information they are able to get their hands on, and are using it to make informed decisions. These customers are finding it easy to just up and leave because Customer Service has not been a main area of focus, and loyalty is not something they feel.

13. Customer Retention

As it's mentioned in the previous lines, customer satisfaction is important to any business and is shown through clients repeatedly coming back to you due to your service. This is only achieved when you are providing excellent Customer Service, which then turns into Customer Loyalty. This sums up a section of small or medium sized business that has been neglected over the past several years and is only beginning to make a come back. When running a small or medium sized business you are going to need a set of tools to take real time care of customers and constantly provide a personalized experience.

Researchers, analysts, and consultants have developed a multiple selection of theories, programs, and practices for customer retention. Businesses today readily share their experience in improving customer retention. Most solutions point to business culture, staff training, and

sales methodology along with tracking and responding to customer demographics. In simple terms, customer retention is all about the customer and the customer's experience.

14. Research Methodology

Methodology can refer to the science that studies the methods of problem solving. Most sciences have their own specific methodology. It is sometimes used synonymously with "method," particularly a complex method or body of methods, rules, and postulates employed by a discipline.

We are going to study the correlation between Customer Relationship Management (CRM) and Customer Retention (CR) and the impact of CRM on CR. In fact, better understanding and extensive study of these concepts are our main goals for establishing research priorities and formulating research questions.

When conducting research there are two different approaches to consider: Quantitative and Qualitative. The abstract of approaches considering their strengths and limitations has been explained in the following sections:

14.1. Quantitative Approach

14.1.1. Definition

Quantitative research methods usually involve large randomized samples, more application of statistical, and few applications of cases demonstrating findings. The objective of quantitative research is to determine the relationship between one thing (an independent variable) and another (a dependent variable) in a population. Further, quantitative methods are often used within natural science, and the aim is usually explanatory to explain causal relationships, to facilitate generalization, and also to predict the future.

14.1.2. Strengths

- Precision
- Control
- Hypotheses test based on statistical analysis.

14.1.3. Limitations

- Less details on human behaviour, attitudes and motivation
- Denigrates human individuality and ability to think.

14.2. Qualitative approach

14.2.1. Definition

Qualitative research methods focus on providing a complete picture of the situation with the aim of increasing the understanding of social processes and interrelations. It is defined as a research to explore and understand the opinions and strive for in-depth understanding of different kind of findings in library research.

14.2.2. Strengths

- Acquire a depth of information about a problem area,
- To discover perceptions of the context and problem under study,
- Closeness to the source of information,
- To provide abundant information and prerequisites for deeper knowledge of current problem.

14.2.3. Limitations

- Findings are not statistically reviewed.

“Qualitative research designs are those that are associated with interpretative approaches, from the informants' point of view, rather than ethically measuring discrete, observable behaviour. Qualitative methodologies are strong in those areas that have been identified as potential weaknesses within the quantitative approach.” (Ian Jones - P. 3)

The nature of this research that is literature – based, help us to select the research approach. In qualitative data, we can acquire a depth of information about a problem area and explain more about research questions. The aim of this research is doing library research for getting more reliable and valid information from different sources

15. Research Design

“Research design is the plan and structure of investigation so conceived as to obtain answers to reach questions. The plan is the overall scheme or program of the research. It includes an outline of what the investigator will do from writing hypotheses and their operational implications to the final analysis of data. A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem”. (Cooper & Schindler – P. 146)

In fact, the choice of research design must be appropriate to the subject under investigation. “A good research design will ensure that the information collected will be consistent with the objectives of the study and that the procedures regarding data collection is accurate and efficient.” (Petra Persson – P. 65)

16. Data Collection

When the research problem has been defined and the type of research has been selected, it is time to decide which technique for collection of data should be applied. “The data collected can be classified as primary versus secondary data. Primary data is gathered and assembled specifically for the research project in hand. Secondary data has already been collected for purposed other than the problem at hand. Secondary data is often found inside the company, in the library on the Internet and it can be collected quickly.” (Petra Persson – P. 69)

In qualitative research, there are different instruments for data collection such as interview, recorded observations like focus groups, texts and documents, multi-media or public domain sources, policy manuals and photographs.

In this research secondary data will be used and all qualitative research about CRM systems and relevant subjects such as customer satisfaction and customer retention will be collected from public documents which can be categorized as follows:

- Reliable books, articles and scientific findings.
- Documentation: documentary information including related books, articles, Scientific written reports, formal studies, progress reports, proposals.
- Archival Records: including survey data previous collected, organizational records and personal records.
- Internet websites and available online libraries that include information about CRM system and its role in customer satisfaction and customer retention.

When choosing the sources, the most difficult task is determining their quality and reliability. The nature of current research provides us to emphasize on “Reliable Sources” for this kind of data collection. We have not any special instrument for data collection in this literature – based research; therefore, we should select our sources for data collection very carefully based on library research.

17. Data Analysis

“Analysis as a research technique for making replicable and valid references from data to their contexts. The researcher searches for structures and patterned regularities in the text and makes inferences on the basis of these regularities.” (Krippendorf). It’s clear that we should have content analysis in this research due to performing library research.

18. Content Analysis

“Content analysis is a procedure for the categorization of verbal or behavioral data, for purposes of classification, summarization and tabulation. The content can be analyzed on two levels. The basic level of analyzing is a descriptive account of the data: this is what was actually said with nothing read into it and nothing assumed about it. Some texts refer to this as the manifest level or type of analysis. The higher level of analysis is interpretative: it is concerned with what was meant by the response, what was inferred or implied.” (Rodson, C., Hill, G., Hancock, – P.1) Several databases will be searched and should be divulged, including the search dates and search words. We critically analyze the research reviewed and this analysis is reported in a synthesized manner based on the information extracted during the review. The procedure of content analysis for this research has been divided to 4 phases:

18.1. Phase 1. Analytic review of the literature about CRM in general and CR and the impact of CRM on CR in particular. Also derivation of the conceptual framework that is used as an initial guide for next phase.

18.2. Phase 2. Development of CRM models sufficiently reliable and valid for measuring the impact of CRM on CR.

18.3. Phase 3. Inductive derivation of CRM practices and customers behaviour changes theoretical framework, explaining the roles of CRM in directing successful customer services.

18.4. Phase 4. Conclusions and the generation of propositions based on the theoretical framework derived in phase 3. Upon deriving those propositions, the findings obtained from this study as applied to customer retention modes are compared with those reported in the literature based applied to an CRM system for CR. Similarities and differences are explained on the basis of findings of researchers. Through this analysis answers of the

research questions about the role of CRM systems in CR should be discovered and the impact of CRM applications on the customer retention should be evaluated through the following studies:

- 1) The role of periodic assessment of CRM systems in terms of customer retention.
- 2) The effectiveness of CRM trainings in customer retention.
- 3) The role of innovations in CRM usage for customer retention.
- 4) The role of CRM satisfactory services for customer retention

19. Conclusion

The goal of this research was to study the impact of Customer Relationship Management systems and practices on today's Customer Retention endeavor. CRM has been a key element of the modern marketing in recent years. All around the world companies in different sizes have been trying to utilize CRM systems to help them with their competitive businesses. On the other hand because of vigorous competition, not only acquiring new customers is becoming difficult but also holding existing customers is a quite challenging task.

During our research we learned that it is a lot cheaper to keep existing customers happy than to attract new ones. But maintaining relation with existing customers in level that constantly encourage them to stay with a company is a dynamic and meticulous job. That is why computerized CRM system can play a critical role in success of a company. But the way that CRM systems are used can make substantial different on the outcome.

Along with sales and marketing, all the other departments of a business should be involved with CRM processes. A new emerging approach that recently has been attracting corporations is Customer Value Management. Their goal is to identify the value that can be delivered to customers along with their products through their supportive processes and services. The CVM methodology incorporates a key concept from CRM, namely that success comes from focusing on, understanding and serving targeted customers or groups of customers.

For a successful relationship it is up to the company to perform Customer's profitability analysis. As a result of this analysis, if a customer is not doing well with presented products or services, there is an opportunity for us to find a better solution for that customer before losing it to competitors.

One of the other important facts we learned in this research was; a fundamental principle of CRM is that all customers are not the same. CRM is based on the idea of treating different customers differently. Another words, it is not possible to attract and we also realized that retaining "all" customers might not be the most favourable for companies. CRM systems can assist sales and marketing to identify advantageous customers faster and more reliable than other resources.

Another important highlight of our research was getting to realize that "customer retention" requires strategy and it should be considered by management team a Main stream activity which requires same level of attention that other marketing and sales strategies may require. Close to the "customer retention" we studied the "win-back" scheme. There are a number of CRM win-back strategies to regain high-value lost customers. In a win-back stage, the organization will take special efforts to retrieve a customer by entering into another interaction policy. Win-back policies can be implemented in many ways. But the best time to win-back a customer is before the customer terminates the relationship.

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