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Review Paper

Customer relationship management practices as recipe for customer loyalty: A literature review

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According to empirical evidence the extent of Customer Relationship Management (CRM) benefits to an organization will vary depending on the nature of the business concerned. They are likely to be more substantial in the case of any organization that has some or all of the following characteristics: frequent customer interactions and purchases, high cross-selling potential, perceived risks and involvement, and profitability. Findings from the empirical studies have grouped CRM benefits under two main paradigms: operational and strategic benefits. The review of literature provides insights into the operational and strategic benefits of CRM and how it can be used for strategic advantage of a business. It is advisable that organizations include in their strategic plans the CRM initiatives that they will use to ensure promotion of customer loyalty. It is one thing to plan for growth of business using data extrapolation and forecasting but it is equally important for organizations to plan for ensuring customers are managed professionally. Competition for business has been in the front of financial performance. Majority of global performance rankings of companies are based on financial performance. It is good if professionals and business experts can develop an index for CRM with very clear indicators and measurable processes. The index and its metrics can be used by firms to benchmark their CRM process and seek ways to improve in the areas which they have shortcomings. This will infuse a culture of firm competition based on best practice CRM.

Keywords: customer relationship management, customer loyalty, CRM

INTRODUCTION

Anderson (2011) argues that the business environment is more dynamic today than it was 50-60 years ago because people are more stressful and both people and companies seek new challenges. These changes during the last century have led businesses into a new direction. The rise in globalization has led to demand of new products and services. The demands for advisory services have also been on the rise from companies who seek new ways of managing the fast changing market. The concept of maintaining effective relationship with customers has been slow, but rapid advancements in ICT and data warehousing concepts, increased awareness of customers and the intense market competition has now given new dimensions to this domain (Intralak and Olssson, 2012).

Kotler and Keller (2009) state that CRM encompasses a process of managing detailed information about individual customers and carefully managing all customers touch points to maximise customer loyalty. 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 (Ma et al., 2010).

The reason for increased popularity of Customer Relationship Management (CRM) is mostly due to the promising benefits it offers in the form of improved company's performance and long term customer retention for obtaining healthier financial payoffs (Chen and Popovich, 2003). 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. Greenberg (2001) emphasized 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. Curry and Kklou (2004) refer to the major benefits and reasons for adoption of CRM which include: customers from the competition will come to prefer your organization; a simplified, customer-focused internal organization will simplify the infrastructure, shrinking the workflow and eliminating non-productive information flow; and profits will increase from more satisfied customers leading to a more compact, focused company.

The current business focus is more on customers instead of products or services; focusing customer's needs and wants to achieve customer's satisfaction and loyalty. CRM is all about increasing profitability and enabling businesses to keep customers under control and making the customer feel they are actually a part of the business progress (Samsudin et al., 2010). A lot of companies are not just attracting customers, but are working at building long term relationships with customers (both local and foreign customers), suppliers, employees, distributors and the general public (Dominici and Guzzo, 2010).

Organizations need to focus on existing customers in order to ensure that they continue purchasing and continue supporting the product. Organizations can increase their profitability by between 20% and 125% if they boost their customer retention rate by 5 percent (Peck et al., 2004). Measuring the performance of CRM in the organization is very important to assist the companies to increase the revenue and enhance customer loyalty. Greve and Albers (2006) stated that the usage of CRM technology consistently has a strong impact on CRM performance. They propose that the more comprehensive CRM technology and higher CRM Technology usage, the better CRM performance across the phases of the customer lifecycle. However, CRM technology shows important impacts on the performance of the customer relationship.

One of the requirements of competitiveness is the ability of the organizations to adjust themselves with the customer needs quickly. Increasingly, competition makes the organizations have more contacts and have relationships with the customers in the world of markets. CRM is a commercial process in the B2B environment, which prepares the organizational structure to improve and survive in trading. CRM is a strategic process of support against the competitors, providing value for the buyers and sellers, and gaining excellent benefits (Mehrdad and Mohammadi, 2011). The management of relations with customer as a key competitive strategy needs paying attention to the customers' needs and practicing customer- facing method in all industries (Buttle, 2009). Using communicative technology of information, industries try to create long term relations with customers, so improving management relations with customers has been more common (Lambert, 2010).

REVIEW OF EMPIRICAL STUDIES

Dickie (2009) surveyed over 1,700 companies worldwide, and found that only 16.1% of the CRM practicing companies reported increased revenues as a result of CRM system usage while the majority of firms or 83.9% did not efficiently utilize the CRM tools they had in place. Furthermore, widespread application of CRM programs has not increased customer retention rates (Thomas and Kumar, 2004). Companies have spent millions of dollars on CRM system, software and structure, but the returns have not been substantial. Given the undesirable facts and diversity of CRM theories, it is really necessary to study the successes and failures of CRM practices all over the world, then to construct an integrated theory regarding CRM.

Krasnikov et al. (2010) using a large sample of US commercial banks show that there is no clear relationship between CRM implementation and organizational efficiency, a measure of how well a firm uses its resources in producing outputs. This is particularly surprising because industry analysts predict that 70% of CRM spending in the coming years will be justified by its potential to increase efficiency (Thompson and Maoz, 2005).

Jitesh et al. (2011) explores the association between deployment of customer relationship management (CRM) best practices and loyalty of profitable customers in Indian retail banking sector. Their findings reveal that there is no perfect bank, as yet, across the three bank types, which has deployed all the 29 CRM best practices to the fullest extent. The results of literal and theoretical replication done by using pattern matching technique indicates no strong association between deployment of CRM best practices in scheduled commercial banks and loyalty levels of both high and medium relationship value retail customers. The results also imply that going for CRM deployment may not be a profitable strategy for retail banks, particularly in the Indian context. These results are supported by an earlier study by Leverin and Liljander (2006) who found that the implementation of a relationship marketing strategy in a retail bank did not result in the increase of loyalty with respect to the most profitable customer segment.

A study was done by Aliyu et al. (2011) in Malaysia to test a model that can explain the impact of technology based CRM on inbound call center performance. To do this, data were collected from 168 call center managers and analyzed through structural equation modelling. The research findings indicate that technology based CRM significantly affects first call resolution and perceived service quality, but weakly influence caller satisfactions through the mediating role of first call resolutions. Observably, this research believes that customer contact centers as the first touch points to company are dependent on other factors such as company policy, product quality, customer characteristics, etc. to influence caller satisfactions, but unfortunately most of these factors fall outside the operational control of contact center activities. The findings in this research has empirically provided the long waiting evidence that technology based CRM applications within the inbound contact center industry can only influence caller satisfactions through first call resolution and perceived service quality. A major implication for call center managers is that this research findings has availed them the opportunity on how to effectively develop, implement, and evaluate their CRM applications.

Krasnikov et al. (2010) investigated the impact of customer relationship management implementation on cost and profit efficiencies from the U.S. commercial banking industry. This study examines the impact of CRM implementation on two metrics of firm performance operational (cost) efficiency and the ability of firms to generate profits (profit efficiency) using a large sample of U.S. commercial banks. The authors use stochastic frontier analysis to estimate cost and profit efficiencies and employ hierarchical linear modelling to assess the effect of CRM implementation on cost and profit efficiencies. They find that CRM implementation is associated with a decline in cost efficiency but an increase in profit efficiency. A firm-level factor, CRM commitment, reduces the negative effect of CRM implementation on cost efficiency. The authors also find that two adoption-related factors, time of adoption and time since adoption, influence the relationship between CRM implementation and cost and profit efficiencies. Early adopters benefit less from CRM implementation than late adopters. However, time since adoption improves the performance of firms that implement CRM. By demonstrating the different ways CRM implementation influences cost and profit measures, the study provides valuable insights to CRM researchers and managers.

Ndubisi and Wah, (2005) and Buttle (2004) have listed the virtues that have been theorised in the CRM literature as trust, commitment, two-way communication and conflict handling. The trusting relationships between customers and organisations are associated with overall positive outcomes and trust in the organisation should increase the benefit derived from transacting with the organisation (Botha and Van Rensburg, 2010). Where trust is focused, there is a generalised sense of confidence and security in the other party. The parties believe that each party will act in the interest of the other, that each party will be credible and that each party has the necessary expertise (Lian et al., 2008).

Many scholars (Goldenberg, 2003; Anton and Petouhoff, 2002; Shanmugasundaram and Munusamy, 2008; Gupta et al., 2009) have characterized CRM as the integration of mainly three crucial components of people, process and technology to satisfy customers' needs. Goldenberg (2003) has asserted that successful implementation of CRM relies on the right combination of these aspects to touch the targeted customers from any point in an organization. CRM processes encompass all processes that help organizations to manage their customer relationships in consistent, efficient and effective ways (Bailey, 2008). While it seems that different authors (Kalakota and Robinson, 2001; Buttle, 2009; Payne, 2005; Saren, 2006) have classified CRM processes in different forms, all these classifications share many similarities in nature. As one of the comprehensive study in this case, Saren (2006) has clearly classified CRM processes into four interrelated sub processes as strategic planning process, information process, customer value process and performance measurement process".

According to a study by Khurana (2010) CRM is often mistakenly assumed as mainly software. It can be, though, the idea behind it is that CRM is basically an approach that organizations take to initiate and retain their relationships with customers (Khurana, 2010). Such approach then can be driven by technology and data that organizations set out in order to manage their relationships, (Khurana, 2010). However, Williams and Curtis (2006) have asserted that 55 to 75 percent of CRM projects fail since, organization often confuse CRM strategy with technology implementation. They then defined CRM as a broad business concept in which technologies act as enablers. A successful CRM is an outcome of an effective and proactive management of the right integration between three components of people, process and technology with a particular aim of satisfying segmented customers' needs.

CONCLUSION

According to empirical evidence above, the extent of CRM benefits to an organization will vary depending on the nature of the business concerned. They are likely to be more substantial in the case of any organization that has some or all of the following characteristics: frequent customer interactions and purchases, high cross-selling potential, perceived risks and involvement, and profitability. Findings from the empirical studies have grouped CRM benefits under two main paradigms: operational and strategic benefits

Customer loyalty is increasingly being recognized by businesses as a path to enhanced profitability in the long term. It is considered as an important key to organizational success and profit. Since, finding new customers and doing business needs time, effort and money. Some Scholars have suggested that the cost of attracting a new customer is five times more than the cost of retaining an existing customer. Although companies are realizing the value of keeping customers loyal, but more important is to know how to do it. Companies measure customer satisfaction, and hope that high customers' satisfaction scores leads to their loyalty. But even satisfied customers leave for the attraction of a competitor's offer. Customer loyalty has become an essential concern for managers mainly due to intense competition, particularly in service industries, and the current consideration on the relationship between consumers and organizations, which is the core of the relational marketing approach.

Recommendations

The review of literature provides insights into the operational and strategic benefits of CRM and how it can be used for strategic advantage of a business. It is advisable that organizations include in their strategic plans the CRM initiatives that they will use to ensure promotion of customer loyalty. It is one thing to plan for growth of business using data extrapolation and forecasting but it is equally important for organizations to plan for ensuring customers are managed professionally.

At an operational level all employees should be trained to practice good customers' relationship. The training should encompass the fact that the customer is the lifeline of business and hence the need to address the smallest details related to customers service. Good customer relationship management is directly and indirectly related to company profitability arising from happy and loyal customers.

Competition for business has been in the front of financial performance. Majority of global performance rankings of companies are based on financial performance. It is good if professionals and business experts can develop an index for CRM with very clear indicators and measurable processes. The index and its metrics can be used by firms to benchmark their CRM process and seek ways to improve in the areas which they have shortcomings. This will infuse a culture of firm competition based on best practice CRM.

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