

Chapter 1

1 Introduction to Customer Relationship Management

Objectives:

At the end of the chapter, students will be able to:

- Define customer relationship management
- Analyse the CRM marketing elements
- Describe CRM processes and systems

Case Study

THE NATURE OF CUSTOMER RELATIONSHIP MANAGEMENT

When David Chow, a Singaporean businessman arrives at the KLIA airport, a sleek white limousine is waiting to whisk him off to Hill World Hotel and golf course in Hill Highland, Kuala Lumpur. He doesn't give a glimpse as he passes by several 5 stars hotel in Kuala Lumpur where he was once a regular when he visited Malaysia. Now he wouldn't dream of staying anywhere but Hill World Hotel.

Upon arriving at the hotel, he is greeted with a big smile by his personal host, Mary Ng, who makes his hotel reservations and books his seat at a concert held by the hotel. In his suit, he finds fruit baskets, cookies, cold drinks in the fridge and a welcoming voice mail from the concierge. If he goes to Hill World Hotel on his birthday, there's a cake in the room. "I think they know my whole life history," says David Chow. "Whether it's a birthday or an anniversary, there's always something in the room to acknowledge that, and that, to me, is special."

David Chow has been playing golf at Hill World Golf Course, one of the largest golf course in Malaysia since 1995; in 1998 he started staying at the hotel exclusively. The year before, the company Hill World Corporation had rolled out a loyalty card program called 'HILL WORLD CARD', which tracks customers' spending and gaming activity and gives them rewards to encourage them to spend more money at the games. Although David says it was the service – not the games - that made him a Hill World Hotel devotee, the company would not have been able to provide its high-caliber service without the card. And thanks to that service, David Chow's spending is increased by 72 percent from 1997 to the present. Now, he spends between RM10,000 and RM20,000 on gaming per visit.

This customer's experience illustrates a perfect company-customer relationship for a high-value customer. This book will attempt to show how large and small companies try to establish and maintain similar customer relationships. This chapter defines customer relationship management and how it benefits both customers and companies.

1.1 What is Customer Relationship Management (CRM)?



In general, Customer Relationship Management or CRM is “a business strategy that is aimed to develop long-term, mutually profitable individual customer-supplier relationships and is based on IT infrastructure to control processes”.

This definition sounds difficult to understand don't you think so? Don't worry, to make it simple, we break down this definition into FOUR main points. Basically, Customer Relationship Management is:

- a business strategy
- developing long term customer-supplier relationship
- giving profits to both customer and supplier
- based on IT infrastructure to control processes

Now, let us look at the reason why CRM is defined as these FOUR main points.

1.1.1 CRM as a business strategy

- Why is CRM considered as a business strategy? What is a business strategy? Is there any other strategy than business strategy? The answer is yes. Normally in a company, there are THREE levels of strategy consist of corporate level, business level, and operational level strategy.

- As shown in the pyramid below, is the level of strategy in a company.



Levels of strategy in company

1.1.1.1 Corporate strategy

- Referring to the above pyramid, as you can see, the highest level of strategy is at corporate level.
- Corporate strategy is concerned with the overall purpose and scope of the organisation. This is to meet the expectations of the owner or major stakeholders in the business.
- Corporate strategies are set based on longer-term view usually more than 5 years for the organisation. Example of a corporate strategy is by setting up company's mission, vision, aim, and objectives. Mission and vision will give an aim for the organisation on where they are heading to in the business.
- Why do you think CRM is not considered as corporate strategy? Look at the explanation of business strategy to find the answer.

Example (Referring to the Hill World Hotel scenario)

Hill World Vision and Mission

Vision: TO BECOME ASIA'S OUTSTANDING HOSPITALITY BRAND.

Mission: LEAD THE REGION OF ASIAN HOSPITALITY THROUGH OUR ASIAN GRACE, WARMTH AND CARE.

Image: HOTEL

Business strategy

- Business strategy identifies the future direction of the enterprise. It also manages the functions of operations, marketing, finance and human resource management. Business strategy is usually set for more than 1 year or less than 5 years.
- Therefore, business strategy is actually a process and a way of thinking. It leads to the development of a set of strategies that assist the business in achieving its corporate objectives, aim, mission and vision.
- So why do you think Customer Relationship Management is a business strategy? That is simple! Obviously because, CRM assists the business in achieving its corporate objectives, aim, mission and vision!
- Now there is another question that we should think of. How can CRM assists a business in achieving its corporate objective?
The answer is, CRM helps organisation to communicate to customers over the long-term on its major goal of a business. This is done by adopting the right CRM processes and system. CRM processes and systems will be discussed further, later in this chapter. Meanwhile, please refer to the example below for better understanding on CRM as a business strategy.
- A perfectly defined CRM at business level will help the operational level to control the process effectively.

Example:

As for Hill World Hotel, a more specific strategy can be identified by asking several questions such as;

- What is the meaning of an outstanding hospitality brand?

Let say Hill World Hotel defines outstanding hospitality brand as – giving the highest satisfaction level to the customer in hospitality.

- How can this aim be achieved?

To give Asian grace, warmth and care by;

Giving good quality services

Giving empathy (understanding situations from customer's point of view)

Establishing and retaining relationship with customers

- Why do we want to provide an outstanding hospitality brand?

To retain in the business for at least 15 years and strengthening as the market shares growth.

- Who is our target market?

Business people and individuals who like to spend for leisure and for golf course.

- What are the available strategies in order to achieve this?

Traditional Marketing – Good services will be given to customers when they consume our services. Customers with a high level of satisfaction are assumed to repeat purchase.

Customer Relationship Management – No assumption made. Instead, try to establish and retain the customers. All relevant information about customers will be kept in a specific system. The information will be manipulated by relevant departments to make sure that the customers will come back for more.

- Which strategy suits best?

Customer Relationship Management because it gives clearer pathway on how to reach the aim.

1.1.1.2 Operational strategy

- Operational strategy is a daily basis strategy. Operational strategy concerned on how the organisation's resources, processes, people and their skills effectively deliver the corporate and business level strategies.
- In most businesses, successful business strategies depend to how decisions and activities occur at the operational level.

Example:

In the Hill World Hotel, the operation strategy is to fulfil customer's expectation and to deliver promises made by the company to its customer.

That is what the hotel did to David Chow. David Chow is treated with warmth and care. Once he reaches KLIA, a white limousine is waiting for him. Then, he is sent to a reserved suit with complimentary items waiting for him in the suit.

With a perfectly defines CRM at business level, the process is effectively controlled at operational level. This can be seen when both parties benefited from CRM implementation.

Image: Doorman greeting a customer that walks out from a limo.

1.1.2 CRM is developing long term customer-supplier relationship

- CRM helps to develop long term customer-supplier relationship by listen to customers more than tell.
- The services will be provided according to customers' requirement and not solely because of profit.
- Once customers are happy, the chances of developing and retaining relationship with them are high.

Example:

By implementing CRM, Hill World Hotel successfully keep a good and long-term relationship with David Chow since 1998 until present. The relationship has reached almost 10 years.

Image: Cartoon

Customer service officer: Hi, how may I help you? What kind of products or services do you required?

Customer: I don't need your help. All I wanted is just for you to understand me without asking me so many questions!!!

1.1.3 CRM is giving profits to both customer and supplier

- How can CRM profits both customer and supplier?
Customers are benefited not only when they are satisfied and happy with the products or services but also the way they are treated. The customers feel secure and can trust the product or services. This helps them to avoid hassle and reduce time and cost to find for other products or services.

Suppliers are benefited because they get to retain the customers and reduce the chances of customers succumb to their competitors. On top of that, long term profitability can be ensured when customers are investing their money to the supplier.

Example:

Hill World Hotel profited from David Chow's loyalty on its services since 1998 especially when he spends RM10,000 and RM20,000 on gaming per visit.

Meanwhile, David Chow experienced a very warm welcoming with special treatments while utilising the services provided by Hill World Hotel.

Image: Many Customers- Happy face, Hotel staff – welcoming the customer, and

awarded bonus by superior.

1.1.4 CRM is based on IT infrastructure to control processes

- In order to implement an effective CRM, IT infrastructure is required to control processes.
- Information technology (IT) helps to develop an effective CRM system that can control processes.
- CRM system is a process to compile information or customer data. From the compilation of customer data, important customers or high profile customers can be identified.

Example:

Hill World Corporation had rolled out a loyalty program called Hill World Card. Once customer produce the card, the hotel executive will swipe it at a machine designed to detect customer's purchase history. This allows the hotel to track David Chow's spending. It helps the hotel to match his spending with the right strategy to approach him.

Image: CRM System

1.2 CRM marketing elements

- After understanding what Customer Relationship Management is, we now should know that CRM has FOUR marketing elements. These marketing elements will
- What is the meaning of marketing element?

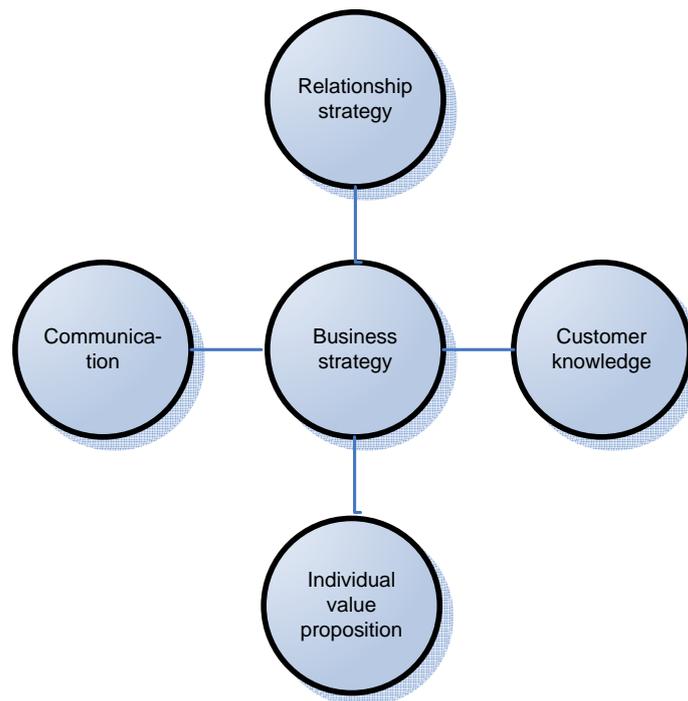


Figure 1B: CRM marketing elements

There are FOUR (4) marketing elements of CRM from business strategy perspective:

- Customer knowledge
- Relationship strategy
- Communication
- The individual value proposition



1.2.1 Customer knowledge

- Company must be able to develop tools that can recognise their customers' details and backgrounds when adopting CRM.
- Knowledge of the individual customer is essential to develop a long-term relationship and supply customisation.
- This can be used as CRM marketing elements as it provides the overall picture of customer's requirement and attitude.

Examples of customer knowledge manipulation:

Example 1:

A golf club takes customers' details and stores them into the company's database. The company sends birthday cards when the data comes. This may increase customer loyalty and encourage customers to get emotionally attach to the company.



Example 2:

YAHOO! MAIL

Yahoo.com provides an online form for new user to fill up when registering to yahoo email. This form helps yahoo.com to understand the user better and allow a customisation services such as providing newsletter for particular interest.

1.2.2 Relationship strategy



- Relationship strategy appreciates longer-term horizon outlook, 'tell' and 'listen' more than 'sell'.
- The organisation has broader and deeper interest in the right customers.
- Interest in individual does not end at the moment the transaction is completed.
- The purchase process is viewed as the beginning of the relationship in which trust and commitment must grow.

Example of relationship strategy:

A hotel offer loyalty cards for their loyal customers. Each time the customer check-in and produce the card, the hotel will be able to trace the customer's transaction history. This helps the business to identify which customers are important. Special treatment such as complimentary breakfast or room upgrade will be given to loyal customers. On top of that, the hotel also has established a department to handle complaints and enquiries from their loyal customers. This strategy helps to strengthen the relationship between the hotel and the right customer.

This example shows how a company appreciates its relationship with its customers. The interest lies in the right individuals and establishing long-term relationship with them.



Communication



- A network communication channel must be developed to allow communication at ‘anywhere, any time, any place’.
- A reliable communication channel increases customers’ loyalty and able to capture potential customer.

Example of a reliable communication in CRM:

Adam, a businessman who is always on the move able to check his bank account balance and pay bills online while on board using the in-flight internet connection. These services are really crucial for a businessman like Adam who has the potential to become a loyal customer to the reliable service provided by such financial institution.



"Online banking helps me stay on top of my business accounts and I can access them any time of the day. Thanks to the emergence of Internet that diversifies the communication tools!"

1.2.3 The individual value proposition



- The individual value proposition appreciates customisation. This means, the physical product, service and price are all adapted to the individual circumstances.
- The organisation builds up the capability to supply customisation in one form or another.
- If customer requested for customisation, the product can be composed from flexible assembly modules.
- The disadvantages of individual value proposition:
 - Create a large complexity
 - Increase cost of operation
 - Time consuming

Example of individual value proposition:

Yahoo.com allows its end users, who are amateurs, to customise their homepage and yahoo mail using the wizard template provided. Therefore, users without knowledge on programming can customise their page according to their own preferences. This is known as individual value proposition.



1.3 CRM processes and systems

- The FOUR CRM marketing elements which were discussed earlier are very much depending on IT.
- IT assists the development of customer knowledge in an efficient manner, relationship strategy, communication process flows, and customisation.
- Therefore, it is important to identify the challenges faced by CRM processes in order to lessen the effect of the identified issues.
- The key challenges of CRM processes:
 - Lack of human touch customer service.
 - Legacy system issue.
 - Channel integration.

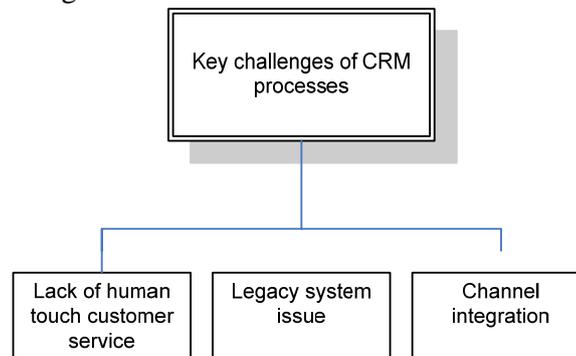
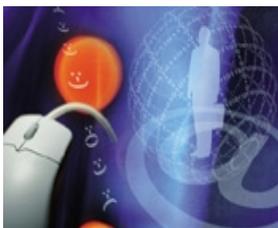


Figure 1C: Key challenges of CRM processes

1.3.1 Lack of human touch customer service



- System integration such as purchasing online through websites without customer service officer intervention may reduce the role of the human element.
- For example, a customer wants to talk to operator regarding his barred mobile phone number, has to go through several steps following instruction from the answering machine before diverted to the in charged executive. This actually waste customer's time and reduce customer's satisfaction.
- There will be several advantages and disadvantages when the companies are imposing less human touch customer service.



- The advantages are:
 1. Cost can be reduced as less manpower required since the services offered are using formatted systems such as websites, answering machines, etceteras.
 2. Time can be reduced when dealing with customers due to the standardised approach.
- The disadvantages are:
 1. Only limited information is available for customer access.
 2. No one-to-one communication which will reduce the personal touch of the company towards its customers.
 3. Services are not available to customers during system breakdown.
- To overcome the disadvantages, company should:
 1. Identify appropriately what customer wants and provide sufficient information on the system.

For example, company should describe perfectly on its website about the processes involved in acquisition, ordering, payment, remittance, complaints, and information queries to avoid confusion or dispute.
 2. Company should practice the conventional customer service to support the system integration.

For example, appointing customer service officers to deal with special cases such as queries, complain, etc.

Legacy system issue



- Legacy system issue is when large part of the company's computer system is outdated or inherited from other department that has no focus on relationship strategy.
- One way to overcome this is to invest on relevant CRM application.
- For example, a company has been using ABX system for 5 years to record customers' information. However, the system does not have any feature that allows other department to access the customer information. The system can only be assessed by data entry department in order to get the actual number of customers and sales collection amount per head. This system therefore does not promote relationship strategy although it kept customers' information. This is because the system has been designed to fulfil other goal than the initial purpose of CRM.

1.3.2 Channel integration



- Usually, systems are developed independently according to the function or the objective of the department.
- When the systems are developed independently, the communication channels are not integrated.
- This can delay the communication process.
- Therefore, channel integration is important to get a smooth communication flow.
- Linking one channel to another is a way to integrate channels.
- For example, system for call centres may differ

from those in back office than the front office. Front office communication tools are usually designed to entertain customers, such as telephone or email to answer customer's enquiries. Whilst back office communication tools are designed to communicate internally within the company.

Without any exposure on the customer's actual problem, back office staffs might process the data wrongly since they have the wrong idea towards customer's needs and demands.

Therefore, channel integration is important in order to avoid miscommunication and misunderstanding as well as to promote time efficiency among the staff.

The communication with customers should be made available to all relevant departments including back office since they are the one who do the work process.

1.4 Summary

1. Customer Relationship Management (CRM) can be defined from THREE different dimension including:

- Communication channel integration
- Customer identification
- Building relationship as well as sustaining customer

Communication channel integration

CRM is defined as an integration of communication channel, whereby it allows different departments to access customer contact through interconnected channels. Communication channels include Internet, telephone, and face-to-face channel.

Customer identification

CRM is also defined as a process of identifying customers and developing relationships with them. The company not only interested in closing a deal, instead to get to know the customer better and develop a relationship with him or her.

Building relationship as well as sustaining customer

CRM is defined as building of an infrastructure which may be used to develop long-term customer-supplier relationships. As a result of this infrastructure, the walls between company and customer are torn down. There is no barrier between customer and company.

2. CRM is a business strategy because it provides direction to each department or employee that maintains contact with customers. CRM provides direction to develop long-term, mutually profitable customer -supplier relationship.
3. There are FOUR CRM marketing elements including customer knowledge, relationship strategy, communication and the individual value proposition.
 - *Customer knowledge* is when the individual customer's data and information is used to develop a long-term relationship and supply customisation. This can be treated as a CRM marketing element as it provides the overall picture of customer's requirement and attitude.
 - *Relationship strategy* is when the organisation has broader and deeper interest in the right customers. This marketing element appreciates longer-term horizon outlook, 'tell' and 'listen' more than 'sell'.

- *Communication* is considered as a CRM marketing element since a reliable communication channel increases customers' loyalty and able to capture potential customer. Thus, a network communication channel must be developed to allow communication at 'anywhere, any time, any place'.
4. There are THREE key challenges in CRM processes and systems including; lack of human touch customer service, legacy system issue, and channel integration.
- *Lack of human touch customer service* - System integration such as purchasing online through websites without customer service officer intervention may reduce the role of the human element. This might increase dissatisfaction or confusion among customers.
 - *Legacy system issue* - Legacy system issue is when large part of the company's computer system is outdated or inherited from other department that has no focus on relationship strategy. A company should invest on a relevant system that promotes customer relationship management implementation.
 - *Channel integration* – Usually, the communication channels will not be integrated when systems are developed independently according to the function or the objective of the department. This will delay the communication process. Linking one channel to another is a way to integrate channels.

Exercise

Answer all short and long essays.

1. Define customer relationship management (CRM).
2. What are the major challenges for CRM future?
3. From the case study below:
 - a) List down at least FIVE CRM strategy that ABCD Bank can implement.
 - b) Explain the mutual benefits shared by both parties, Jason and ABCD Bank on the implementation of CRM.

Jason is on his way to his office. While trapped in a heavy traffic, he decided to surf for personal loan options using his mobile phone.

He found ABCD Bank website which offered an attractive bank loan rate. He then decided to call ABCD Bank.

After identification process and some short discussion, he agreed and confirmed with credit provider to take up the loan.

Later when Jason reached home, he surfs the Internet using his pc to get more information on the offered loan.

He called ABCD Bank for further information.

After clarification, Jason agreed to close the deal and arranged a face-to-face meeting with ABCD Bank credit officer.

True / False and Fill in the blank.

4. CRM can be defined as an operational strategy that develops customer-supplier relationship. TRUE / FALSE
5. Peelen (2005) defined CRM as a process of identifying customers and developing relationships with them. TRUE / FALSE
6. CRM is a business strategy because it provides direction to develop long-term, mutually profitable customer-supplier relationships. TRUE / FALSE
7. _____ promotes longer-term outlook by 'tell' and list' more than 'sell'.

8. CRM marketing elements consist of relationship strategy, customer relationship, communication, and _____.
9. _____ channel must be developed to allow communication at 'anywhere, any time, any place'.
10. Peelen (2005) defines CRM as a process of _____ customers and _____ relationships with them.

Answers

Short essays and long essays

1. Generally, CRM is “a business strategy that is aimed to develop long-term, mutually profitable individual customer-supplier relationships and is based on IT infrastructure to control processes”.

Specifically, CRM can be defined based on three different dimension consist of:

- Communication channel integration
 - Customer identification
 - Building relationship and sustaining customer
2. Major challenges for CRM future:
 - Lack of human touch customer service.
 - Legacy system issue.
 - Channel integration.
 3. a) CRM strategy suggestion for ABCD Bank:
 - Customer knowledge*
 - Back office stores and manages customer’s data properly and offers adequate and relevant information to front office.
 - Bank should focus on a proper database management to avoid repetition and reiteration of identification.

Relationship strategy

- ABCD Bank should provide complete information on its attractive bank loan rate at its website to attract customers like Jason.

Communication

- The bank should make sure its call centres are capable in offering sufficient information to clients or potential clients.
- Call centres are available 24hours with sufficient call centres officer.
- Make sure company’s server is always up to allow customer to access its website at anytime.

Individual value proposition

- The credit officer who was appointed to handle Jason application should monitor Jason’s satisfaction on the products and services.

- Feedback from Jason is important to identify the specific needs and wants that might be fulfilled by the bank to Jason.
- Loan payback period should be flexible depending on customers' financial background.

b) Mutual benefits:

Jason	ABCD Bank
1. Faster information access, no transportation cost.	1. Lower operation cost. Paperless transaction.
2. Able to access to various resources and make own research before making any decision.	2. Lower labour and overhead cost. Less human intervention.
3. Mobility access. Able to execute transaction at anywhere, any time, any place.	3. Gain and retain customer trust and loyalty in long-term due to efficient customer data management system.
4. No tedious repetitive identification process.	4. Better understanding on customers needs and able to provide services accordingly.

True / False and Fill in the blank.

4. FALSE	5. TRUE	6. TRUE
7. Relationship strategy	8. Individual value proposition	9. Network communication
10. identifying, developing		