

## **CHAPTER 3 - CUSTOMER RELATIONSHIP MANAGEMENT (CRM)**

### **3.1 INTRODUCTION**

The most important purpose of any service orientated organisation is to retain customers. It is critical for any organization to keep their customers and to grow the relationship. The reason why this is important as Cartwright (2000:1) comments is that if you have no customers, there will be no work, no income and no jobs. Customers however have a choice of similar products and services all around the world, and it is therefore critically important to retain existing customers. Many studies in the banking environment have indicated that the cost to retain an existing client is much lower than attracting new clients. Cartwright (2000: preface) states that it costs far more to gain a new customer that it does to retain an existing one. The cost reflects the amount spend on marketing and the time it takes to build up a relationship with a new customer. Customers want to do business with organisations that understand what they want and need. Cartwright (2000: preface) therefore argues that unless you recover the situation quickly, a lost customer will be lost for ever. In order to retain customers and to make sure that they refer their friends and colleagues to you, it is necessary to delight them (Cartwright, 2000: 38). According to Cartwright (2000:38), delight is when a customer receives more than what they expected.

The only way how business can obtain information what a client want and need is to build client relationships. Customer relationship is more than just providing excellent service and care at the point of a transaction and should be managed over a long span of time. Customer relationships are all about finding out new ways to add value for the customer. It is also important to state that relationships can be good or bad. It is a good relationship that every organisation should seek with customers.

### **3.2 DEFINITION**

CRM is a strategic approach to improving shareholder value through the development of appropriate relationship with key customers and customer segments.

CRM unites the potential of IT and relationship marketing strategies to deliver profitable, long-term relationships. Importantly, CRM provides enhanced opportunities to use data and information both to understand customers and implement relationship marketing strategies better. “This requires a cross-functional integration of people, operations and marketing capabilities enabled through information technology and applications” (Christopher, Payne & Ballantyne, 2002: 16).

CRM therefore allows a business to target customers more closely and allows for marketing strategies to be implemented on a one-to-one basis. By using information technology, customer relationship management builds on the philosophy of relationship marketing. Information technology will enable the organisation to narrow the gap between the customer’s needs and what the organisation can offer.

Customer relationship management is a comprehensive approach for creating, maintaining and expanding customer relationships (Anderson & Kerr, 2002:2).

The definition consists of six key concepts that will be discussed in short.

The first key word “comprehensive”. Customer relationship management should affect all areas of the business. Customer relationship is not only the responsibility of one department. The IT department, marketing and sales department must adopt a strategy that direct the company into a certain direction. Anderson and Kerr (2002:2) states: “When CRM is delegated to one area of an organization, such as IT, customer relationships will suffer.” It is therefore also important for an organization to integrate all the divisions with Customer relationship planning and management.

The second key word of the definition is “approach”. According to Anderson and Kerr (2002:3) customer relationship management is a way of thinking about or dealing with customer relationships. Customer relationship management must integrate with every other strategy in the organisation. A good clear defined strategy together with customer relationship management will set a direction for any organisation to gain or to sustain a competitive advantage over the competitors.

The third key concept of the definition is to create, maintain, or expand relationships. In order for a customer to keep on doing business with the organisation, the organisation needs to create added value for the customer. The customer must feel that he or she receives more than just products and related services from the organisation. CRM is about creating a high touch in a high tech environment (Anderson & Kerr, 2002:4). A person to person engagement is sometimes required in order to create the sense of personal relationship which can lead to the maintaining of current customer relationships. In many interviews with Bank clients it is clear that their biggest frustration is the fact that they have no personal contact with someone in order to resolve their problems. Many of the clients feel that they are treated as just another number in the system. This is one of the main reasons why customers take their business away from one bank to another. Grönroos (1990:129) states: "Far too often people in the organisation view customers as an abstract phenomenon or a mass which always is present somewhere." This statement indicates the type of "attitude" which organisations have when it comes to customers. There will always be new customers when the old ones have left. This type of "attitude" is one of the main reasons why organisations will never be able to sustain or have a competitive advantage.



The moment that the personal relationship between a customer and a Bank deteriorates, the customer is searching for a new banking institution. This is why the role of the relationship manager is of utmost importance for the bank. The relationship manager is the link between the organisation and the customer. The relationship manager in the banking arena can therefore obtain critical information from the client that can lead to improved service systems, and in the same process will assist the organisation to provide better service to the customer. The more knowledge and information that a relationship manager can obtain from a customer the more additional products and services the organisation can provide to the customer. This will lead to expansion of service offerings, products and customer relationships. Anderson and Kerr (2002:5) stated that "CRM is about growing advocates and finding new ways to add value.

When a customer is satisfied with the quality of service and products provided, the probability that the customer relationship will continue is high. When a new customer

feel that the organisation is not able to satisfy his or her needs, or when poor service is received the probability that the customer relationship will continue is very low. It is therefore that Grönroos (1990:129) stated: "Customer relationships are not just there; they have to be earned."

It is important to understand what customers want and need. Some customers expect the person to person attention, whilst others never want to have long face to face discussions. Managing relationships is the key to success for any organisation. A good planned customer relationship management strategy will increase product and service offerings and reduce unnecessary costs.

Marketing expenditure can be reduced when the focus is placed on existing customers instead of attracting new clients.

The Peppers and Rogers Group surveyed a number of business leaders from companies that are at the forefront of CRM. The following definition was then formulated by the group. Customer relationship management (CRM) is a business strategy that aims to understand, anticipate and manage needs of an organisation's current and potential customers. It is a journey of strategic, process, organisational and technical change whereby a company seeks to better manage its own enterprise around customer behaviours. It entails acquiring and deploying knowledge about one's customers and using this information across the various touch points to balance revenue and profits with maximum customer satisfaction.

Dr. Robert Shaw from Shaw consulting and author of Measuring and Valuing Customer Relationships defines customer relationship management as an interactive process for achieving the optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit. CRM involves:

- (i) measuring both inputs across all functions including marketing, sales and service costs and outputs in terms of customer revenue, profit and value.
- (ii) acquiring and continuously updating knowledge about customer needs, motivation and behaviour over the lifetime of the relationship.
- (iii) applying customer knowledge to continuously improve performance through a process of learning from successes and failures.

- (iv) integrating the activities of marketing, sales and service to achieve a common goal
- (v) the implementation of appropriate systems to support customer knowledge acquisition, sharing and the measurement of CRM effectiveness.
- (vi) constantly flexing the balance between marketing, sales and service inputs against changing customer needs to maximise profits.

### **3.3 MANAGING FOR REPEAT BUSINESS**

A good customer relationship will ensure customers that will do repeat business. Repeat business in a financial services environment such as the bank, can be described when a client already has a checking account and requests for a savings or investment account to be opened. Another example of repeat business is when a customer has financed a vehicle three years ago through ABSA bank and due to good service and customer relationships uses the same bank three years later to finance the new vehicle. Anderson and Kerr (2002:40-43) points out that repeat business is where organisations make their greatest profit.

Individual customers can make multiple purchases over a period of time or have a multiple buying relationship with a banking organisation. For example the customer may have vehicle finance, line of credit, savings, investment or checking account with the bank. Good relationships can also benefit the organisation as the customer can act as a marketing division for the organisation. Customers that have a good relationship and receive good service will spread the word very fast to their friends, family and colleagues.

### **3.4 RELATIONSHIP MANAGEMENT AND SEGMENTATION**

The basic need for banking services and products may be common to all segments in the banking industry; however the manner by which this need is fulfilled may be very different. Customers in the affluent market of the banking arena may require more personal attention than a retail banking client. The level of complexity is also higher when financial needs are analysed and loan facilities are structured for affluent market clients. Chapter Five contains detailed information with regards to ABSA's segmentation model. ABSA Bank has developed a strategic business unit

four years ago within the group which was called Absa Personal Financial Services (PFS). Its sole purpose is to provide a full range of financial services in order to meet the needs of the affluent market, backed up by extensive client relationship management. PFS integrates transactional and lending products together with comprehensive financial planning and expertise into one single delivery channel. A relationship manager assists with all the cash flow and funding requirements necessary to maintain the wealth of customers. The ABSA PFS vision was then also formulated and read as follows:

To deliver genuine client relationship to the affluent and high net- worth markets.

The success of the vision is based on four components which need to be entrenched and developed in order to build effective and long-lasting customer relationships.

#### **(a) Competence**

A customer has to have faith in the competence of both the staff member and the organisation and its employees (Cartwright, 2000:145). The relationship manager therefore must have extensive knowledge of the banking products and must embark on regular training initiatives. Customers must feel that they can trust their relationship manager when financial advice is given.

#### **(b) Attitude**

The relationship manager must have the right attitude towards the customer.

The right attitude is the one that recognises the importance of the customer to the well-being of everybody in the value chain (Cartwright, 2000:145).

#### **(c) Resources**

The right relationship manager with the right attitude must have the sufficient resources available to carry out an effective customer relationship role. Information is a key resource. Modern technology allows information to be available to and about customers. Access to information about customers will allow the relationship manager to deliver better customer service. Cartwright (2000;146) states that staff need to be able to access information that will allow them to deliver a better

standard of customer care. ABSA PFS relationship managers are regularly sent on two to three day training sessions to learn about the use and applicability of technology and to use vast amounts of data effectively.

#### **(d) Time**

One of the biggest frustrations that a client experience is when a customer needs the assistance of a relationship manager and cannot get hold of his relationship manager. Comments from customers such as, my so called “Relationship Manager” who looks after my account, is “never” available when I need him/her is not unknown. The customer feels that this staff member has not got the time to deal with them properly. Absa PFS has therefore segmented the affluent market customer base and has allocated certain relationship managers with certain expertise to a certain group of customers. Refer to Chapter 5 for detailed information about Absa PFS and the segmentation model within Absa Personal Financial Services division .This segmentation of the customer base was done in order to reduce the amount of customers linked to one relationship manager. With a reduced client base the relationship manager should allow for more quality time with a customer. A Cartwright (2000:146) comment that time is a precious resource. Relationship managers need to spend time interacting with a customer as an individual.

#### **(e) Empathy**

Empathy is the ability to understand the situation from the other person’s point of view (Cartwright, 2000:147).If knowledge about customers needs are known, the relationship manager will be in a position to understand how the customer feel.

### **3.5 WHAT ATTRIBUTES DOES A RELATIONSHIP MANAGER REQUIRE?**

- **Education and experience**

A relationship manager will have to demonstrate sufficient evidence of the ability to think, rationalise, weigh up alternatives, argue constructively and present ideas in a structured manner. With regard to experience, we now need to look for the type and level of experience that would be relevant to the different customer segmentations. Customers earning in excess of R750,000 gross income per annum may require a relationship manager with high business operational experience and tertiary

qualifications .A “senior citizen” customer may only require a relationship manager that will maintain the relationship via sorting out queries on the account and to reinvest their investments on the maturity date. In this segment for an example, business experience and university qualifications are not required.

- **Planning**

The relationship manager will spend some time in planning and developing new ideas for presentation to the client a new product or idea, thus maintaining the highest possible standards of innovation. An important part of this planning is to maintain a healthy proactive contribution to the business.

- **Making contact and interaction**

Regular liaison with the customers with regards to feedback on loan applications and customer complaints are essential to maintain the relationship. Making contact with the customer is also important when a new product is introduced to the market. Customers want to be informed about new products and services.

- **Identifying needs and industry knowledge**

The relationship manager will constantly be striving to identify needs. As previously mentioned customers want to build a relationship with an organisation that understand and identify their needs. A deep understanding of the special needs of the affluent market customers is essential to the relationship manager. Customers’ needs can be satisfied only once a deep understanding of the need is known. In order to make a significant contribution towards the customer, a relationship manager will need to keep well ahead of the latest developments in the financial industry.

- **Product and Service Knowledge**

The relationship manager must know what benefits the product or services can provide for the client. It is therefore also critical that the relationship manager must know what the business limitations are in order to prevent problems with service delivery and product features.



- **Trust**

Brink and Berndt (2004:30) states that trust is a belief in a persons' or organisations competence to perform a specific task under specific circumstances. It means that the word of another can be relied upon. Grönroos (2000:37) defines trust as a willingness to rely on a business partner in whom one has confidence. In relationship marketing the role of trust is very important .Relationships between customers and organisations are influenced by trust. When the customer experiences negative outcomes the relationship will be at risk.

- **Commitment**

Commitment is about a desire to maintain a valued partnership (Brink & Berndt, 2004:30). Commitment is about being reliable, being loyal and show stability in a relationship. Grönroos (2000:38) defines commitment as an enduring desire to maintain a valued relationship. Grönroos (2000:38) comments that a customer will be committed to a supplier if the latter has proven to be trustworthy.

### **3.6 USING RELATIONSHIP MANAGERS TO MANAGE THE RELATIONSHIP**

Organisations are constantly striving to create value for customers. Organisations therefore encourage to interactively engaging the customer in the many steps of looking for innovative and meaningful benefits for the customer. Gordon (1998:16) states that the role of managing the relationship includes integrating communication, listening to and with the customer and integrating technologies, people and processes collaboratively with a customer counterpart. In most organisations this role is given to relationship managers. The relationship manager will manage the relationship and make sure that the customer and organisation get the value that they seek. Gordon (1998:16) states that the relationship manager will also lead an internal process of value creation with all people involved with the customer, using the technology and business processes put in place by the organisation.

ABSA bank Personal Financial Services division strive towards building a mutually rewarding relationship between its customers and the organisation. This division has

appointed relationship managers to fulfil this role. The customer segmentation of this division in ABSA bank will be discussed in detail in Chapter five.

### **3.7 ACQUISITION OF CUSTOMERS**

Christopher et al. (2002:55) points out that acquiring new customers involves costs that can be significant and it take some years to turn a new customer into a profitable customer. Grönroos (2000:23) mentions that customers in many cases only become profitable after they have remained customers for some time. Cartwright (2000: preface) also states that it costs far more to gain a new customer that it does to retain an existing one.

Acquiring new customers can be expensive as it involves advertising, promotion, start-up operating expenses and sales costs (Zeithaml et al. (2003:514). ABSA bank continuously strives to improve customer acquisition. Management has realised that they continuously need to increase market share. ABSA Personal Financial Services strives to provide good service and thereby gaining a positive reputation. A high responsibility is placed on relationship managers to deliver quality service to the customers thereby spreading a positive word of mouth. Zeithaml et al. (2000:513) comments that satisfied customers spread positive word of mouth, which leads to the attraction of new customers. “Word-of mouth communication brings new customers to the firm, and the financial value of this form of advocacy can be calibrated by the company in terms of the promotional costs it saves as well as the streams of revenues from new customers” (Zeithaml et al., 2003:515).

### **3.8 THE PROFIT IMPACT ON CUSTOMER RETENTION**

A research done by Reichheld and Sasser quoted in Christopher et al. (2002:55) found that even a small increase in customer retention produced a dramatic and positive effect on profitability. The following reasons were given to explain their findings:

- The more satisfied and confident customers become in their relationship with suppliers the more business the customers will give to suppliers. The relationship can be strengthened by increasing the value of services.

- Mutual understanding will increase as the relationship with a customer develops, which will produce efficiencies that will lower operating costs.
- Satisfied customers are more likely to promote the organisation, which increases profit generation as the cost of acquisition of new customers is reduced.
- Loyal customers value the relationship with the organisation, and may be less likely to be price sensitive.

### **3.8.1 Benefits of customer retention**

Zeithaml et al. (2003:159-161) identifies three types of benefits for customers of maintaining a relationship with a service provider.

- (a) confidence: having faith in the service provider, feeling of trust-worthiness of the service provider and reduced anxiety;
- (b) social benefits: the development of friendship with employees, customer being familiar with employees and personal recognition by employees;
- (c) special treatment: higher priority than other customers and extra services.

### **3.9 Customer loyalty**

Lovelock (2001:151) defines customer loyalty as a customer's willingness to continue patronising a firm over the long term, purchasing and using its goods and services on a repeated and preferably exclusive basis, and voluntarily recommending the firm's products to friends and associates. It is therefore clearly an advantage for an organisation to have a loyal customer base. If the customer is disappointed by poor service standards and performance from employees, customer loyalty may be at risk. Lovelock (2001:151) comments that customer loyalty will continue only as long as the customer feels that better value is received than could be obtained by switching to another organisation. Customer loyalty is therefore needed to retain customers and to increase profits over the long term.

### **3.10 CONCLUSION**

Managing customer relationships is seen as an alternative to focusing on transactions or exchanges of goods and services for money

(Grönroos, 2002:8). Financial institutions such as banks, where the main focus is service has to focus on relationships with their customers and other stakeholders. Thus understanding relationship marketing or marketing based on customer relationship management becomes a necessity for understanding how to manage an organisation in a service environment.

Chapter four focuses on the theory of relationship marketing and how customer relationship management can be seen as an integrated process of relationship marketing.

