Journal of Advances and Scholarly Researches in Allied Education

Vol. IV, Issue VII, July-2012, ISSN 2230-7540

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www.ignited.in

Journal of Advances and Scholarly Researches in Allied Education
Vol. IV, Issue VII, July-2012, ISSN 2230-7540

Customer Relationship Management in the Banking Industry

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Abstract: ***This Article provides an overview of CRM through an extensive review of the literature. The chapter starts with some basic concepts about CRM and its importance for the banking industry. Some discussions based on the current operation of CRM in the banking industry of both developed and developing countries i.e. UK and Pakistan are presented and the major problems associated with the current use of CRM are also highlighted in this chapter. Similarly, multiple contact channels that are mostly offered by banks are also discussed. Moreover, based on the views of several researchers, the chapter presents a taxonomy of several CRM components (i.e. CRM software and packages) that are mostly used in different departments of an ideal CRM enabled bank. These CRM components are mostly used in four major operational areas of a bank i.e. (i) marketing, (ii) sales, (iii) service and support, and (iv) IT and IS. Furthermore, some well known vendors of CRM for banks i.e. SAP, Oracle's Siebel Systems, and Salesforce are thoroughly discussed. Finally, the chapter provides the best practices of CRM in some of the renowned banks.***

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CRM IN THE BANKING INDUSTRY

OBJECTIVES AND BENEFITS

Over the last eight years, banks are highly focusing on the CRM and are expected to continue (Foss, 2002). Dyche' (2002) in his book proposed the objectives and benefits of CRM in the banking industry as:

Before implementing any CRM application, banks would need a complete view of its customers across the various systems that contain their data. If the bank could track customer behaviours, executives can have a better understanding, a predicting future behaviours, and customer preferences. In this way, the data and the applications will help the bank to manage its customer relationship and continue to grow and evolve (Dyche', 2002).

According to Foss (2002), most of the banks around the world are trying to use CRMtechniques to achieve various outcomes. These include:

- Creating consumer-centric culture;
- Securing customer relationships;
- Maximizing customer profitability;
- Aligning effort and resource behind most valuable customer groups.

In a recent paper by Onut et al., (2006), the authors discussed that using the CRM system into the banking industry helps businesses (using technology and human resources) to gain insight into the behaviour of customers and focus on the value of those customers. If CRM system works as hoped, the business can:

- Provide better customer service;
- Make call centres more efficient;
- Cross-sell products more effectively;
- Help sales staff close deals faster;
- Simplify marketing and sales processes;
- Discover new customers;
- Increase customer revenues.

TYPES OF CUSTOMERS IN BANKS

Burnett (2001) in his book mentioned four different types of customers in banks asdescribed below:

- Loyal Customers: They perceive the company's product as much superior to acompetitor's product.
- Competitive Customers: Perceive the company's product as slightly superiorto a competitor's product.

- Switchable Customers: Perceive a competitor's product as slightly superior tothe company's product.

- Competitor Loyal Customers: Perceive a competitor's product as much superior to the company's product (Burnett, 2001).

Similarly, bank customers are usually segmented into different groups based on the number of products they use and also based on their account balances. Day (2000) in his work described two different types of customers that are involved with the banks. The customers with a low number of products and low balances in the banks are having a different relationship with the banks which is known as transactional exchange relationship. With these customers, the focus of a bank is to provide cost effective services.

On the other hand, customers which are holding many products and high potential balances may fall into the value-adding or collaborative relationship with the banks. The author further discussed that the transactional exchange relationship may be transformed into value adding relationship when customers taken up staff's recommendations for additional products such as investment or higher savings accounts perhaps with the automatic funds transfer to optimize interest. From the bank's perspective, the account becomes value-adding because the number of products and services used by the customer increases and fees earned by the bank also increase.

In general, majority of banks around the world are dealing with these two types of customers. These customers most often approach the bank through its branch or a call centre (also referred as customer contact centre). To manage such relationships with customers, a branch and a call centre staff must be responsible and having awareness of both bank products information and customers' information.

CUSTOMER

A party who is involved with the acquisition of the company's goods and services, and who is also of interest to the organization In the above definition, party or customers can be either individuals or organizations.

Customers can also be loose group of individuals joined together as a membership organization such as the Civil Aviation Authority (CAA) in the UK (Jiang, 2003). The author also described the list of some customer types based on the above definition, such as:

- Agent
- Beneficiary
- Bill payer
- Consumer
- Competitor
- Employee
- Guarantor
- Household
- Prospect
- Referral source
- Supplier

This definition is too broad, but in the context of current research, we mean customer as a Bank Client.

CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

Customer Relationship Management (CRM) is defined in many ways by manyresearchers. For instance, Dyche' (2002, p.4) in his book defines CRM as:

The infrastructure that enables the delineation of and increase in customer value, and the correct means by which to motivate valuable customers to remain loyal - indeed, to buy again.

According to Jiang (2003), providing customers with a good experience however andwhenever they choose to contact the organization is a key part of managing relationships with them. Similarly, as seen in Bradshaw and Brash (2001), Ovum (an independent research and consulting company) defines customer relationship management (CRM) as:

A management approach which enables organizations to identify, attract and increase retention of profitable customers by managing relationships with them.

However, CRM definition that best suits the current research in the banking industry context was defined by Ling and Yen (2001) as:

CRM comprises a set of processes and enabling systems supporting a business strategy to build long term, profitable relationships with specific customers.The key objective of CRM is to enhance customers' value through better understanding of each individual customer's needs and preferences (Ling and Yen, 2001).

THE ORIGINS OF CRM

(RELATIONSHIP MARKETING)

CRM came from the origins and is based on the principles of Relationship Marketing (RM) which is considered one of the key developmental areas of modern marketing and the one which has generated great research interest over several years (Sheth and Parvatiyar, 2000). Back in the early 90's, relationship marketing was embraced as away for marketing departments to get to know their customers more intimately by understanding their preferences and thus increasing the odds of retaining them (Dyche', 2002, p.25). Peppers and Rogers (1993) in their work highlighted relationship marketing as a one-to-one marketing approach which was later discussed by Dyche' (2002, p.25) in his book. The original authors argued that in coming years:

you will not be trying to sell a single product to many customers as possible. Instead, you will be trying to sell a single customer as many products as possible over a long period of time, and across different product lines. To do this, you will need to concentrate on building unique relationships with individual customers on a one-to-one basis.

Brodie et al., (1997) referred relationship marketing as a new paradigm and according to the authors, relationship marketing has emerged from a number of streams of research. The first stream examines marketing from a service context (Berry, 1983,1995; Gronroos, 1990); while the second stream focuses on the inter-organizational exchange relationships (Hakansson, 1982; Ford, 1990; Dwyer, et al., 1987; Wilson, 1995). Similarly, the third stream is based on the channels literature, e.g. development of effective and efficient channel relationships (Buzzell and Ortmeyer, 1995). The fourth stream of research examines network relationships (e.g. Axelsson and Easton, 1992; Johanson and Mattsson, 1985, 1988). The emphasis in this case is on industrial markets and the sets of relationships that connect multiple organizations.

The fifth stream of research underlying the new paradigm of relationship marketing stems from the strategic management literature, and draws on recent conceptualizations about the role of relationships in the value chains (Normann and Ramirez, 1993). Finally, the sixth stream draws on the information technology literature and examines the strategic impact that information technology has on the relationships within organizations and between organizations (Scott Morton, 1991).

The authors further explained that drawing these streams of research together provides the basis for the new paradigm argument which views marketing as an integrative activity involving personnel from across the organization, with emphasis on facilitating, building and maintaining relationships over time.

Osarenkhoe and Bennani (2007) in their paper discussed that in early days, relationship marketing's aim was to acquire information about their customers' preferences and information which was stored by them in their databases. This evolved into one-to-one marketing which implies that through interaction and processing, companies will create more customized offers to their customers.

The relationship marketing's one-to-one approach which was very popular throughout the 90's was then replaced with a new approach known as Customer Relationship Management (CRM). CRM was developed in order to secure and manage these oneto-one relationships and to create a profitable and long-term relationship with the customers. Today, CRM is the dominant strategy and has generally been used (Reynolds, 2002).

EVOLUTION OF CRM

CRM was born around 1997 as a means of redefining the customer company relationship through computer-based tools. The main idea behind CRM was that with the help of latest technology, every customer-company interaction can be recorded which allows the company to proactively provide the best customer service possible while creating a large database (data warehouse) of customer preferences that can be reviewed by sales, marketing, and management personnel. Such customer data can then be used to reduce costs and to improve employee productivity (Bergeron, 2002, p.2).

In a web article by Fraya (2006), the author mentions that the actual concept of CRM began back in 1993 when Tom Siebel founded Siebel Systems Inc. Use of the term CRM is traced back to that period. In the mid 90's, CRM was originally sold as a guaranteed way to turn customer data into increased sales performance and higher profits by delivering new insights into customer behaviours and identifying hidden buying patterns buried in the customer databases. More than a decade later, a 2005 study by the Gartner Group found that 60 percent of midsize businesses intended to adopt or expand their CRM usage over the next years. The interest in these organizations was developed because of a large number of CRM vendors offering more targeted solutions with a wider range of prices and more accountability.

Harris (2003) in his work presented the three important phases of CRM. The author discussed that CRM has evolved since its earliest incarnation, originally driven by ansinside-out focus through three phases of evolution i.e. technology, integration, and process. These three phases were further described by the author as:

Technology: In its earliest incarnation, CRM meant applying automation to existing sales, marketing, support, and channel processes as organizations attempted to improve communications, planning, opportunity, and campaign management, forecasting, problem solving, and to share best practices. The promise of the technology was there, but few organizations were realizing the pinnacle of performance. The metric of success was increased efficiency in sales, marketing,support and channel processes.

Integration: By developing cross-functional integration, supported by data warehousing and shared roles and responsibilities, organizations began to create acustomized view of their customers. Support issues, web hits, sales calls and marketing inquiries started building a deeper understanding of each customer and allowed aggressive organizations to adapt their tactics to fit individual needs. Integration focused around two primary components:

i) Make it easier to do business with the seller: Instead of operational silos that inhibited superior customer relationships, the organization as a whole took ownership and the responsibility for customer satisfaction. With a single view of the customer, it was much easier for anyone to respond to sales opportunities or impending support issues and take appropriate steps. Expected benefits are to improve retention and lower support costs.

ii) Predictive modelling: Data mining of an aggregate of corporate knowledge and the customer contact experience was used to improve operational and sales performance. By applying complex algorithms to a history of purchasing or inquiry characteristics, it became practical to predict the demands of individual customers. Up-selling, crossselling,

even the ability to pre-empt potential problems, was now possible for all customer-facing representatives. Expected benefits are to have better cross-selling,up-selling and improved product offerings or delivery.

Process: By rethinking the quality and effectiveness of customer-related processes, many organizations began to eliminate unnecessary activities, improve outdated processes, and redesign activities that had failed to deliver the desired outcomes. 40 Then, by re-creating the process through an understanding of the capabilities of thetechnology, the outcomes were more predictable and the promises for a meaningful ROI (return on investment) more substantial and realistic. The metrics for success became the improved effectiveness in serving the customer (Harris, 2003).

Today, CRM is a need of almost every organization; several companies around the globe have already realized its importance and therefore invested millions on its implementation. To them, CRM is the only approach for organizations (especiallyfinancial organizations such as banks) to increase their revenues as CRM is more focused on customers' satisfaction and retention.

TYPES OF CRM

Several researchers have presented different views about which types comprise a best CRM consideration. For instance, Reynolds (2002) in her book presented three different types of CRM i.e. operational, analytical, and collaborative CRM. These three different types were also presented in the recent work of (Minna and Aino, 2005). Similarly, Dyche' (2002, p.13), in his work emphasized more on operational and analytical CRM. However most recently, Buttle (2009, p.4) in his book presented strategic CRM as a fourth type of CRM. In general, these all types of CRM are important because they all have a common objective which is to deliver CRM successfully within the organizations. Therefore, in this section we present and discuss all four major types of CRM.

OPERATIONAL CRM

According to Dyche', (2002, p.13) an operational CRM is also known as front office CRM. It involves the areas where direct customer contact occurs which is also known as touch points. A touch point can be an inbound contact (e.g. a call to a company's customer support hotline) or an outbound contact (e.g. an in-person sales call or an email promotion to customers). In other words, the operational CRM is used to capture customers' data. The operational CRM also enables and streamlines communications to and from customers, but it does not necessarily mean optimizing service. Justbecause a banking customer checks his/her balance on a website would not conclusively establish that he/she does not prefer to perform his/her transaction in the branch illustrates the various levels of operational CRM.

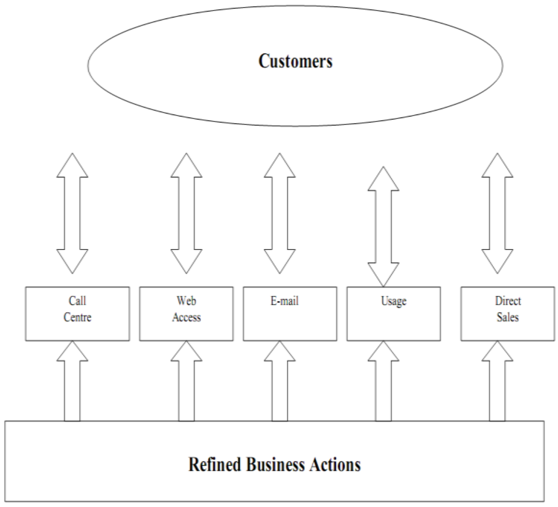

Figure 2.1: Operational CRM: Touching the Customer (Source: Dyche', 2002, p.13)

ANALYTICAL CRM

An analytical CRM is also known as a back office CRM. It involves understanding the customers' activities that occurred in the front office. The analytical CRM requires technology (to compile and process the mountains of customers' data to facilitate analysis) and new business processes (to refine customer-facing practices to increase loyalty and profitability). Under pressure from analysts and industry experts, most of today's CRM vendors are either creating analytical CRM capabilities or partnership with business intelligence (BI) vendors to incorporate analysis into their offerings (Dyche', 2002, p.13)

Figure shows how the data and processes combine to refine business actions. Dyche', (2002, p.13) further explained that the refined-business-actions piece of the puzzle is the most difficult of all to put in place. The greater the number of missing pieces, the harder it is to construct a meaningful CRM picture. In other words, if enhanced customer loyalty is the door, then integration is the key

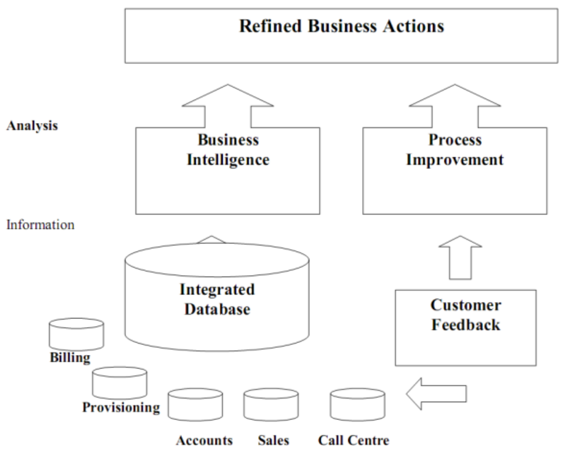

Figure 2.2: Analytical CRM: Understanding the Customer (Source: Dyche', 2002) Similarly, Adebanjo (2003) described that an analytical CRM is mainly used for building data warehouses, improving relationships, and analyzing customers' data. Using analytical CRM, customers' data can be analyzed for a variety of purposes:

- Design and execution of targeted marketing campaigns to optimize marketing effectiveness.
- Design and execution of specific customer campaigns including customer acquisition, cross-selling, up-selling, retention.
- Analysis of customer behaviour to aid product and service decision making (e.g. pricing, new product development etc).
- Management decisions e.g. financial forecasting and customer profitability analysis.
- Prediction of the probability of customer defection (churn analysis).
- Analytical CRM generally makes heavy use of data mining (Wikipedia, 2008a).

COLLABORATIVE CRM

According to the definitions from (SearchCRM, 2007), "collaborative CRM is an approach to CRM in which the various departments of a company such as: sales, technical support, and marketing etc., share any information which they collect from interactions with their customers. For instance, customer feedback gathered from a technical support session could inform marketing staff about products and services that might be of interest to the customer. The purpose of this collaboration is to improve the quality of customer service in order to increase customer satisfaction and loyalty". Minna and Aino (2005) and Adebanjo (2003) explained that: "a collaborative CRM system is mainly used for building online communities, developing business-to-business customer exchanges, and personalizing services".

STRATEGIC CRM

Based on the ideas of Buttle (2009, p.4), strategic CRM is focused upon the development of a customer-centric business culture within an organization. This culture is dedicated to winning and keeping customers by creating and delivering value better than competitors. The author further argues that such business culture is reflected in leadership behaviours, the design of formal systems of the company, and the myths and stories that are created within the firm. Also, in such culture, the resources would be allocated where they would best enhance customer value, reward system to promote employee behaviours that enhance customer satisfaction and retention, and customer information to be collected, shared and applied across the business. In this way, the heroes of the business would be those who deliver outstanding value or service to the customers.

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