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MAJOR COMPONENTS OF CRM FOR THE BANKING INDUSTRY

Major Components of CRM for the Banking Industry

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Abstract – We highlighted the problems associated with the current use of CRM within the banking industry. Multiple contact channels of banks such as branch banking, phone banking, ATM, and internet banking are also discussed. Then, major components of CRM that are commonly used at bank's contact channels and at bank's internal operational departments are thoroughly presented. These components are categorized based on the designed taxonomy comprises of several CRM components that are classified into four major operational areas of a bank i.e., (i) Marketing, (ii) Sales, (iii) Service and Support, and (iv) IT and IS. Ideally, in banks, CRM is implemented across these four operational areas. CRM components in each area are thoroughly presented.

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INTRODUCTION

CRM system comprises of several components that are essential for any organization. For instance, customer management, lead management, sales force automation (SFA), customer service, business reporting etc., are all CRM components used at the banks. Each component has significant advantages towards the success of a CRM system used within a bank. In an article by West (2001), the author argued that in order to implement CRM system successfully, organizations (especially banks) must apply policies, processes, and technologies in order to provide a personalized and engaging experience which would be consistent across all customer interactions. The author presented several components of CRM such as, marketing automation, sales force automation (SFA), contact centres, field service, etc., which are used in three major operational areas of a CRM enabled bank i.e. Marketing, Sales, and Service. These components may also be seen as the life cycle of a customer relationship which moves from marketing, to sales, and service.

Similarly, Xu *et al.*, (2002) discussed that: "if we look into a complete CRM picture, we will see that in business terms, the basic operational areas to address are sales, customer service, and marketing". However, Kincaid (2003) presented IT and IS as another crucial area in supporting these three operational areas as well as the whole CRM process in banks. Based on these ideas, Ngai (2005) in his CRM review paper, covered 205 articles of CRM and presented a taxonomy containing several components of CRM which are broadly classified into the four major operational areas of a bank i.e. (i) Marketing, (ii) Sales, (iii) Service and Support, and (iv) IT and IS. According to the author, in order to successfully deliver CRM system, organizations especially banks would need to

focus on these four operational areas where most of the CRM components are functioning.

CRM and work done by several researchers in this field; here, we will present and discuss several CRM components that fall under the four operational areas of a bank. These major operational areas discussed in this section are: (i) Marketing, (ii) Sales, (iii) Service and Support, and (iv) IT and IS which are also shown in figure. Each operational area contains several CRM components and some of these well known CRM components used in each operational area of a bank are also shown in table and are thoroughly discussed in the following section.

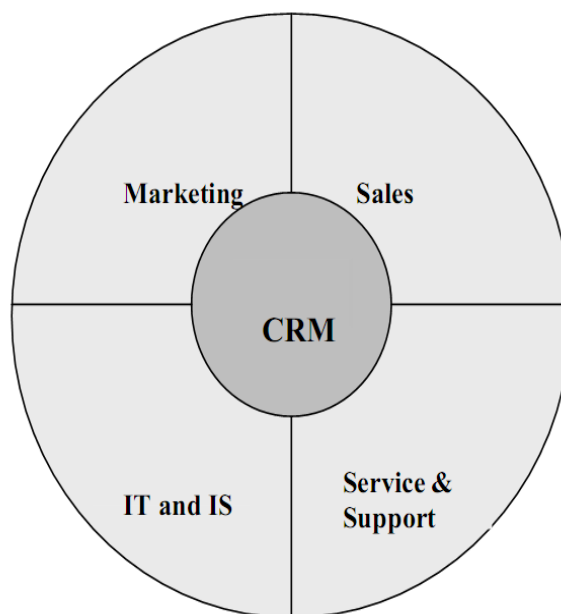


Figure : Major Operational Areas of a Bank (Source: Ngai,)

Components of CRM					
Marketing	Customer Value	Customer Segmentation	Customer Behavior Prediction	Customer Retention	Customer Loyalty
Sales	Account Management	Cross-Selling and Up-Selling	Sales Force Automation (SFA)		
Service and Support	Contact Centre	Quality Management	Customer Satisfaction		
IT and IS	Hardware and Software	Database Management	Data Warehousing	Web Data Mining	Security Systems

Table : A Taxonomy Containing Major CRM Components Used in the Four Operational Areas of a Bank.

MARKETING

Traditionally, the term marketing simply refers to carry out the promotional activities that are involved in promoting a product to either a single customer or to a group of customers. CRM facilitates and enhances the marketing function in order to increase the effectiveness of marketing by studying the potential targeted customers (Crminfoline, 2009). Several CRM components are available under this domain and some of them are discussed in this section which relates to the banks.

CUSTOMER VALUE

Schneider (1980) in his work presented a clear view about the customer value. According to the author, knowing customer's value and being able to pinpoint profitable customers is just the beginning of CRM. To build a successful CRM, organizations need business strategies and practices that enable them to nurture the relationship beyond its simple dollar value. Similarly, Reichheld and Sasser (1990) argue that the longer an organization retains a customer, the better profit it will generate. Bolton *et al.*, (2004) and Reinartz and Kumar (2000) in their research indicates that the breadth and depth of the relationships with customers are possibly more important than its length. Farquhar and Panther (2008) discussed that banks should need to identify valuable customers and then maintain relationships with them to generate most profit. Also, knowing the customers' value would help the segmentation process. In this way, banks would identify and focus on maintaining relationships with the most valuable as well as profitable customers.

CUSTOMER SEGMENTATION

According to (Groth, 2000; Ahn, *et al.*, 2003), customer segmentation is an analytical technique of marketing department at banks which is required for personalized

services. Clustering and classification are the two common techniques used for customer segmentation in CRM. For segmentation, certain variables of customers can be used such as sex, age, as well as their visiting order and the visiting time of the web pages etc. With the help of segmentation technique, it is easy for marketing staff of banks to promote their products to the required and targeted customers.

CUSTOMER BEHAVIOUR PREDICTION

Behaviour prediction is a marketing component of CRM which (by using some data mining techniques) helps marketing department at the bank to determine what customers are likely to do in the future. It uses historical customer behaviour to predict future behaviour (Dyche', 2002, p.33). The author further explained that this analysis involves several variations:

Propensity-to-buy analysis: Understanding which products a particular customer is likely to purchase.

Next sequential purchase: Predicting what product or service a customer is likely to buy next.

Product affinity analysis: Understanding which products will be purchased with other products. It is also known as *market basket analysis*.

Price elasticity modelling and dynamic pricing: Determining the optimal price for a given product, often customer or customer segment.

By understanding how a customer is likely to behave using the behaviour prediction analysis, marketing department makes further offerings to retain that particular customer.

CUSTOMER RETENTION

In any organization, keeping an existing customer is far more cost effective than acquiring a new one. In other words, the more customers leave the bank, the greater the loss of revenue, loss of the initial acquisition investment, and the loss of a stable market base for selling new products (Dyche', 2002, p.32). According to Ahmad and Buttle (2002), customer retention is increasingly being seen especially in the context of saturated market or lower growth of the number of new customers. It has also been acknowledged as a key objective of relationship marketing primarily because of its potential in delivering superior relationship economics.

CUSTOMER LOYALTY

Customer loyalty describes the tendency of a customer to choose one product over another for a particular need. In other words, it is the result of well-managed customer retention programs; customers who are targeted by a retention program demonstrate higher loyalty to a business. All

customer retention programs rely on communicating with customers, giving them encouragement to remain active and choosing to do business with a company (Jimnovo.com, 2009). Similarly, Kincaid (2003) believes that customer loyalty is based on the customer's value perception and is measured by behaviour. Moreover, customer satisfaction is often used as a loyalty indicator.

However, Bergeron (2002, p.30) argued that it is hard to predict which customers are loyal and which ones are not. Customer loyalty can sometimes be predicted by looking at customer's positive and negative behaviour. The positive contributors to behaviours consistent with loyalty include:

Value: The greater the perceived value of a company's goods or services, the greater the loyalty effect.

Investment: The more time and money invested in the relationship, the more likely the relationship will continue.

DIFFICULTY LOCATING ALTERNATIVES:

The more unique or readily available a product or service, the more likely a customer will continue buying it from a particular company.

Similarly, the negative contributors to loyalty behaviours include:

Number of Affordable Alternatives: The more affordable alternatives exists, the less the loyalty effect.

Customers' Frustration: Being put on hold, corralled into endless push-button menus and an extended-hold customer support system, and having to wait in excessively long lines are some examples associated with customers' frustration (Bergeron, 2002, p.30).

SALES

Sales department in any organization is considerably an important area which is responsible for improving the overall CRM strategy hence, it should be tightly integrated. Basically, sales department in banks is responsible for direct interactions with the customers (Kincaid, 2003). According to Ingram *et al.*, (2002), in order to effectively achieve CRM goals in the banks, it is important for banks to develop sales strategies at the customers' level in order to build and maintain close relationships with them and to accomplish revenue goals. Numerous CRM components fall into this area; some of them are presented in the following sections.

ACCOUNT MANAGEMENT

In an article published in Articlebase (2006), the author explained that account management is a business practice which involves storing, sharing, managing, and reviewing of all account information. In simple words, it is a CRM software program used by the sales personnel in the banks through which they can easily track their customers' every interaction with the bank. It usually stores all information related to the customers such as: customer name, customer contact information, number of visits, how much money customer spent on products, visiting intervals etc., in an appropriate CRM databases. Similarly, the software also manages complete history of customers' various accounts. Also, these software solutions automatically tracks and stores all small and large interaction of accounts such as customer contacts, money transfers, employee payment, partnership programs etc. Account management tool further automatically stores customers' information in a centralized database (data warehouse). In the same article, the author further explained that such information is then retrieved and integrated by the sales department in order to find the potential customers. Account management software also helps sales department at banks to design and develop suitable service and marketing plans for each individual customer (Articlebase, 2006).

CROSS-SELLING AND UP-SELLING

Cross-selling means selling other products (utilizing a current customer for one product from a bank and engage them in purchasing other) i.e. in a retail banking level, where customers have current and savings accounts; banks then cross sell other financial services such as investment advice, mutual funds, etc. Similarly, up-selling is specific to the particular product i.e. selling a more expensive and profitable product to increase the value of the sale (MarketingProfs, 2005). In the banking industry context, both cross-selling and up-selling are components of sales department which helps sales representatives at banks to understand which products and services customers have already purchased. Such information is further used to accurately predict which products and services customers are most likely to purchase in the future (Chaudhry, 2004).

SALES FORCE AUTOMATION (SFA)

According to Kincaid (2003), sales force automation (SFA) is CRM software designed to facilitate the sales process. It helps sales representatives at the banks to be more effective and efficient in front of their customers by looking at their previous account history. These representatives then provide or sale the best available products and solutions based on the previous knowledge of their customers. The author further mentioned that many

of the SFA implementations fail because they are launched without remembering what the sales force is really for. Zeng, *et al.*, (2003) in their work presented SFA as a characteristic of CRM which can be used for any organization. According to the authors, SFA include automation of sales promotion analysis, automatically tracking a client's account history for repeated sales or future sales, and coordinating sales, marketing, call centres, and retail outlets etc.

SERVICE AND SUPPORT

Today, with the help of new technologies and with the use of internet, customers are more knowledgeable having variety of options when it comes to buying products. They can easily switch to other company if they find better products and services. In short, customers are more demanding; hence, it is becoming more difficult for banks to meet with their expectations. Banks must realize that customer retention is as important as customer acquisition. The only way to survive in the marketplace is to maintain good relationship with the existing as well as with the new customers by providing better customer service and support. Ngai (2005) argued that high quality customer service and support is the key to improve customer retention rates and maintaining good relationships with the customers. Customer service and support is an important area of banks having several CRM components. Some of them are presented in the following sections.

CONTACT CENTRE (ALSO KNOWN AS CALL CENTRE)

According to West (2001), in the majority of organizations especially in the banking industry, a contact centre of telephone agents is the primary mechanism for providing service and support to the customers. Solutions exist that help contact centre agents to be productive by automatically distributing calls, allowing customers to get answers to their common questions through interactive voice response (IVR) systems and other telephone integration. The author further argued that the contact centres are equipped to handle web chat and collaboration as well as respond to their customers' e-mails.

QUALITY MANAGEMENT

According to the definition from Wikipedia (2009a), quality management can be considered to have three main components: quality control, quality assurance, and quality improvement. Quality management is not only focused on product quality, but also the means to achieve it. Quality management therefore uses quality assurance and control of processes as well as products to achieve more consistent quality. In a web article by Addington (2004), in which the author relates quality management with customers' feedback; the author explained that the customer feedback is a requirement for any organization if it is engaged in

executing a quality management system. Listening to the voice of customers and gathering the qualitative data is a key element to the success of the quality management program. The author further argued that by measuring customer feedback, banks can easily determine how current technology solutions offered by them are performing and what solutions may be applied to provide better service and additional sales to customers. Usually at banks, call centres gather customers' feedback with the help of different surveys by using their automated system. Using customers' feedback, banks can also test the performance of their newly instituted systems i.e. new speech applications at the call centres, etc., and their success by how well it measures up to customer expectations via automated surveys. The use of customer feedback in the speech project life cycle, can give additional insight into the human-interaction factors of the new system.

CUSTOMER SATISFACTION

Ideally, for any organization, customer satisfaction can be achieved by providing the best quality of service and support to its customers. Khalifa and Shen (2005) in their work focused on the effects of CRM on the customer satisfaction. The authors argued that in the context of CRM, customer satisfaction is an immediate objective that also determines the medium-term goals (e.g. customer retention and loyalty) and subsequently the bottom-line (i.e. profitability). Indeed, satisfaction has been shown to have significant effects on customer loyalty, customer retention, and profitability. The authors further argued that the only way to study the CRM success is to examine the relationship between CRM and customer satisfaction.

IT AND IS

IT and IS plays a key role in any organization and is considered as an important area in the development of CRM. In banking industry, several technological issues related to (computer hardware, backup hardware, network hardware, CRM software, telecommunication products used at call centres, security systems, databases, data warehouses, etc.) are handled by IT and IS department. According to (Ngai, 2005), appropriate CRM strategies can be adopted through the assistance of technology, which can manage the data required to understand customers. Moreover, the use of IT and IS can enable the collection of the necessary data to determine the economics of customer acquisition, retention, and the life-time value. Some of the known components of CRM related to IT and IS are described in this section.

HARDWARE AND SOFTWARE

Generally, internal communications (staff to staff interaction via email) and external communication (interaction with the customers using CRM packages via call centres) in the banks is performed using

computer hardware. Such communication is possible with the help of special licensed software. If these hardware and software are not up-to-date, the whole communication process slows down. Bergeron (2002, p.81) argued that the continual upgrading of computer hardware and software is essential and is a part of every modern CRM operation. The author further explained that computer hardware and software are interdependent. Not only is either one useless by itself, but most systems also use some combination of software and hardware to get things done. For instance, voice recognition software at the bank's call centre requires a microphone, a sound card, and software. In short, the performance of the CRM system depends on how well the hardware and software works together. Therefore, it is important for IT staff at the banks to keep upgrading their hardware and software in order to avoid any unpredicted problems.

DATABASE MANAGEMENT

Database management is a software interface between the customer service representatives and the data stored in a computer system is a database management system (DBMS). The DBMS stores, processes, and manages customers' data in a systematic, economic way. It simplifies and regulates the process of working with the records and files of a database by providing tools for ensuring security, querying relations among different data, and removing duplicate data. Because it provides access to customer, product, service, and employee data, a good DBMS is a prerequisite for any significant CRM effort (Bergeron, 2002, p.78).

DATA WAREHOUSING

Data warehousing is more precisely described by Bergeron (2002, p.79) in his book. According to the author, a typical data warehouse for a large organization (such as a bank) is a central database that can provide customer service representatives, call centre managers, administrators, and other authorized users with access to a variety of information. A data warehouse, which is based on DBMS, is different from a simple database; it provides customer service representatives with data from a variety of otherwise non compatible sources, such as a separate customer database, product database, order database, and inventory database. In a CRM enabled organization, data warehousing software is not a single program but is typically a suite of software tools that can be used to extract data from disparate databases, check for errors and duplicate data, and store the data in a data warehouse. As illustrated in Figure 2.5, a typical data warehouse incorporates data from different applications into one accessible database (Bergeron, 2002, p.79).

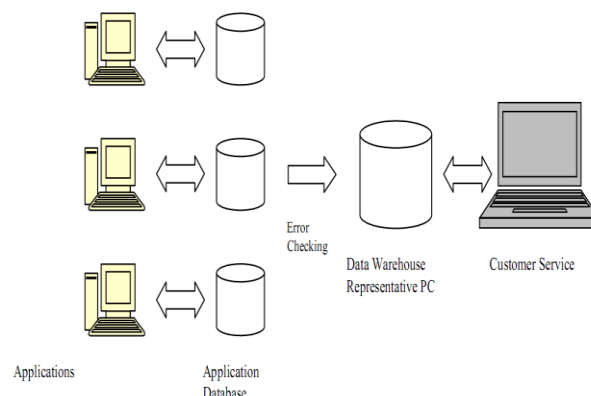


Figure: A Typical Data Warehouse Containing Data from Several Applications (Source: Bergeron, 2002, p.79).

WEB DATA MINING

Web Data mining is also an important component of CRM in IT and IS area and is defined as the process of extraction and analysis of useful information and patterns from the web data. Basically, it extracts the useful information from the web data such as server access logs, user profiles, and user transactions etc. (Ahn, *et al.*, 2003; Cooley *et al.*, 1997). Using data mining techniques, IT and IS personnel at the banks extract the necessary information of their customers from the internet to perform further analysis in order to provide efficient service.

SECURITY SYSTEMS

For organizations especially banks and other financial institutions, customers' data is considered as most valuable information because customers share their financial and personal information by having trust on their service provider. Securing customer information should be the top most priority for any organization. Failure to do so would result the loss of customers as well as business. With the use of new technologies, several security products are available for organizations to secure customers valuable information. Basically, these security products encrypt the information such that those bank employees with access to decryption key can only read customers' information. According to Kincaid (2003), security systems are used for keeping customers' information safe from anyone with whom you have not planned to share it. Security systems involve finding the right products and technology and using them. When the customers' data is stored in the bank's databases, it should be protected with a combination of a firewall, encryption, and passwords.

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