

# Customer Relationship Management in Indian Commercial Banks

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**Abstract:** *In this day and age, customers are regarded as an article of trade. With the growth of Service Marketing, Customer Relationship Management (CRM) advanced and became popular in India. CRM became crucial to cope up with exceeding competitive global market. (CRM) in a bank bring about important phases such as incorporating the communication tools to meet the needs of customers, referring each customer as individuals, and making the customer relationship an impressive and long-lasting experience. The purpose of this study is to determine the usefulness of CRM implementation on customer contentment and perceived business performance. Various references in respective field conclude that successful CRM implementation requires complete efforts for the development of the three segments, i.e. attainment, enhancement and service recovery phases. In addition, there is a sturdy relationship between CRM implementation and customer satisfaction as well as apparent business conductance. A survey on commercial banks in India reveals that CRM implementation is absolutely linked with customer satisfaction and apparent business conductance. Moreover it is revealed that frequent rate of getting in touch with customers and recovery of services facilitates in retention of customers. Leaking bucket theory also suggests that retention of customers is 10 percent more profitable than attracting new customers every time. Attainment, regular contact and evaluation of customers direct towards improved customer loyalty (by repeat purchase, positive word of mouth publicity) and employee sentiments. In an administrative point of view, this research provides an outline of the impact of CRM efforts on the magnitude of customer satisfaction and apparent business conductance.*

**Keywords:** CRM, Commercial bank, Customer satisfaction, apparent business conductance.

## 1. Introduction

Through several years in field of administration and management it has been found that Customer Relationship Management (CRM) has been a well-liked and widely accepted practice to maximize customer equity. This system is predominantly useful to commercial banks along with its influences in various other sectors in industries. CRM involves the building up and managing of flourishing relationships with advantageous and gain giving customers. CRM initiatives often lead to improved customer satisfaction [1] and apparent business conductance as customer potentials like profits are maximized. In essence, this paper examines the efficiency of CRM efforts in the commercial banks of India.

Since long time, marketing [2] has played a crucial role in building a customer centric organization. Obviously we better know and we accept that companies are customer driven and customers are a central point for any marketing [8] initiatives. Therefore delivering customer satisfaction is of primary importance.

Various research being done in past reveals that a satisfied customer is more loyal and hence facilitates a stable form of economic performance to the company. A stable customer base indicates a company's ability to

fulfill customers' needs and wants and a strong foundation is built with the help of such loyal customers. This widely changed the perspective of traditional marketing concepts which to several years worked on the grounds of attaining new customers and least attention was paid towards positive word of mouth, customer loyalty, positioning of product and service and finally recovery of services. Customers who are get your hands on by word-of-mouth (WOM) are more likely to be loyal than customers via traditional marketing media. Evidently the investment in customer satisfaction can enhance a firm against stock market downturns (Zhang, 2005) and raise shareholder value (Anderson, Fornell, & Mazvancheryl, 2004). Therefore, customer satisfaction is presumed as a measure of customer loyalty and the retention of the existing customer base. This intangible and unquantifiable tool of customer satisfaction, can significantly affect the economic performance of firms and that too if properly handled with tools of recovery and relation building than can do miracles for any business. Kotler (2002) emphasize that firms should formulate their own set of approaches to ensure that their products and services are more superior to their competitors. Through CRM, banks can create a spirited advantage by synergizing their efforts to effective delivery customer satisfaction while getting the most out of the profits. In this research paper, the author attempt to scrutinize the effectiveness

of CRM implementation on customer satisfaction and business conductance. Therefore, the aim of this research is to examine influence of CRM implementation on customer satisfaction and apparent business conductance in commercial banks in India.

### 2. Hypothetical basis of CRM

The initiative to start a study and to proceed towards a proper goal is the hypothetical base which regularly leads the study towards a proper direction. Sooner than structuring a theoretical framework, it is important to bring to light the different levels in CRM. CRM can be categorically grouped into three levels, i.e. functional level, customer-facing level and strategic level (Kumar & Reinartz, 2006). On a conceptual point of view, it is of fundamental nature that CRM is operationalized at the customer-facing level but primarily it is important to how operationalization is carried out. The customer relationship [3] lifecycle comprises phases of customer relationship over time, and enables banks to plan their marketing strategy according to the strength and intensity of its relationships with customers [4]. In general, there are three core phases, i.e. Customer Acquisition i.e. acquiring the new customers through branding and positioning of products and services. The second phase comprises of Customer Enhancement i.e. maintaining the customer base and satisfying them. This could however be done by frequent feedbacks and analysis of satisfaction [5] of customers. Finally the third phase is Customer Recovery which entails the measures taken by the organizations to satisfy the unsatisfied customers. Although it is well said that “do it right the first time” but often due to lack of study of roles by customers and service providers such circumstances appear where service delivery fails in first time. As CRM evolves with distinct phases, the interaction and relationships between the bank and customers should be managed accordingly at each phase. The literature attempts rigorously to study the pertinent stages of CRM in the context of commercial banks of India. This study defines the CRM as a systematic process to manage customer relationship at acquisition, enhancement, and recovery phases and to maximize the value of the relationship portfolio [9].

In the acquisition phase, the customer obtains preliminary knowledge about the availability of products through advertisement, hoardings, promotions etc thereafter customers experience with the bank's products and services, which enables the bank to collect data from the customer for a subsequent preparation of offerings. Matching the demand and capacity of its products and services reduces the gaps that may lead towards dissatisfaction [6]. We better understand that when a customer enters an outlet they have some expectations. When they perceive the service they match what they really expected and what they actually

received. Banks must focus towards making this gap tolerable. As at this point, customers' perceptions of the products and services will take shape. Therefore many companies use the feedback data so being collected to enhance customers' experience thus generating positive perceptions. Evidence shows that the expenses of customer acquisition and retention influence firm value positively and significantly (Gupta, Lehmann, & Stuart, 2004). In the customer acquisition stage, a bank seeks to establish contact to win over the customer. So it faces the following marketing tasks, i.e. customer persuasion and customer stimulation. Quality of services offered and service level guarantees are tools of customer persuasion. Furthermore, other media channels such as Word Of Mouth communication achieves the target of customer acquisition. WOM marketing is effective because the interactions between the sender and receiver facilitate to maintain loyalties of customers. Therefore, the two tool of customer persuasion are quality guarantee and WOM recommendation.

The two instruments of customer stimulation are short-term stimulation and long-term stimulation. These stimulation strategies provide customers incentives to enter into a relationship with the banks which includes special rates of interests on credit card transactions or balancing transfers while long-term stimulation strategies aim for multiple transactions and development of a more sustainable customer relationship. This may include packaged deals like home loans, credit facilities and fixed deposits.

After the development of relationships among customers, customer enhancement phase kicks in. previous studies and researches show that if a company loses a customer, it has to spend approximately five-time the costs to attract a new one (Kotler, 2002). Therefore customer retention [10] is even more important. If customer base is sustainable due to loyalty and good retention programs, firms will benefit from higher profitability. This phase includes three major CRM tasks, i.e. contact rate management, regular evaluation management, and increasing selling management. Bank representatives can help customers to get used to a bank's products and services by spending time with them. It is acceptable that in present era the customer base is not that developed and techno savvy, which facilitates the banking service providers to spend time with customers and help them to get their things done smoother and with due efficiency. This will facilitate in creating a trustworthy relationship and moreover will provide a base for relationship building.

During such interaction if promotions of its product could be done then in turn can facilitate the bank in increasing its market share. Furthermore, traditional perspectives in behavioral studies assume that customers know precisely what they want but in actuality they may not. Quality is the result of communication between the bank representatives and

customers. If the interaction works well, customer perceived quality increase. Such relationships generate positive feelings and attitudes and can lead to cognition and affective based exchange behaviors thus resulting in enhanced business [7] performance. Service industries like banking industry have scrupulous customer integrations and interactions. Therefore, empowerment of frontline service providers will provide better control and accountability of individual customer relationships (Parasuraman, & Berry, 1990). When customer representatives are empowered, they are more motivated and committed. One of the important features of successful CRM implementation is that business is able to develop better or more suitable products and services by tracking customer tastes and evolving needs through each "touch point". The ability to gather and manage customer information is a key factor in sustainable aggressive competition. With the advent of net banking and online transfer of money Internet has also become one of the popular tools for communication and brand promotion. IT infrastructure development encourages one-to-one relationships with customers as services are available at any given moment. Banks have gradually moved their relationship from fact-to-face to a faceless relationship through ATM, call-centers, Internet banking, tele-banking, etc. In a customer lifecycle, profitability varies through the passage of time. It touches extremes of crest when profitability is maximum and when customer is flourishing with its high turnover. Consequently banks need to allocate their resources efficiently to maximize the profitability of customer relationships. In short the customer relationship profitability distribution must be worthwhile and considerable. A common finding suggests that businesses tend to overspend on customers that generate marginal profitability while the more profitable customers are not given ample attention (Reinartz et al., 2004).

It is always important to cross-sell products on existing customer base as the likelihood of purchase is higher. The growth phase for a firm is characterized by full utilization of customer potential, so banks should broaden the customer relationship by increasing selling. Active cross-selling efforts in banking need a high degree of customization, and specific marketing initiatives must be taken to stimulate customer subscription to the products and services. In the mature phase, due to the saturation of customer potential, the primary goal is to maintain the sales level; for examples, providing up-selling and customized offerings. Hence, it is necessary to turn a standard product or service into a customized offering and make it available to the customers. In the maturity stage of a customer lifecycle, it is sometimes difficult to further strengthen the relationship. So, banks can strengthen the switching barriers by increasing the switching cost of customers. For example, long term loans can have lock-in contracts

via penalty fees on early settlements. This prohibits customers from switching to other bank loans. Another approach is to lower customer service costs making switching cost higher than such other banks. For example, banks try to convince less profitable customers to do business with another bank, whilst retaining the more profitable ones by placing them in direct contact with customer representatives. Therefore, the five instruments of selling management are: cross-selling, up-selling, customized offerings, switching barriers, and lower service costs.

Naturally, the CRM process is subject to termination at any stage through causes related to the customers, competitors or internal managerial problems like service errors. The ending of a customer relationship takes place usually when the customer feels that there have been faults in the bank's offerings or service levels. In these situations it is essential that remedial measures are made to maintain the relationships. Not surprisingly, customer also expects service recovery when service faults take place. Consequently service recovery is critical in customer retention and relationship sustainability. Error rectification can be accomplished through measures of marketing mix as well as supporting personally related actions. The termination of a customer relationship may lead to a possible switch to another bank. Hence, the bank should take pro-active efforts to re-acquire the customer by consequent service recovery measures. If the banks lose a profitable customer, recovery offers could be made (e.g. cancellation in the initiation fee; taking care of formality caused by the switching). Therefore, three instruments of recovery management are studied: error rectification, service-recovery offers and added values via the marketing mix in 4P and customized services.

### 3. Basis of CRM Implementation

As mentioned earlier, discussing the implementation of CRM is an initial part of this study that the paper aims in this research to determine the effectiveness of CRM implementation on customer satisfaction and apparent business conductance. This can be achieved by conceptualizing the three main phases of CRM implementation and associating these phases with the dependence on customer satisfaction and perceived business performance.

### 4. Justification of the base

#### Effects on Customer Satisfaction

Customer satisfaction is cumulative and affective. Cognitive measure of purchases and consumption experiences should be wisely taken. In long-run customers overall satisfaction is more important than satisfaction at a specific point of time. The gist of CRM is to provide individual customers with customized products and services through effective relationship

management. In such circumstances, customized offerings of banks are very likely to fulfill customer's actual needs thus raising the perceived quality of the services and subsequently satisfaction levels. It is proposed that relationship marketing initiatives generate gratitude thus resulting in improved firm performance. It also includes that profitability of firms is dependent upon stronger relationships with customers. Therefore customer satisfaction is seen as an indicator of business profit and business performance.

## Effects on Perceived Business Performance

Standardizing in a given industry means firm has the most efficient and effective operational procedures and the best range of offerings of products and services. The ability to gain and manage customer information is a key factor to sustaining competitive advantage. The allocation of resources in each relationship must be optimized. CRM stresses in building long-term customer relationships through related marketing networks which includes customers, employees, suppliers, contributors, retailers, agent, and other stakeholders. Since employee is a part of the marketing network, employees' sentiments are important.

## 5. Methodology

This study involves an experimental study to approximate the causal relationships of a conceptual model. Survey was conducted using a feedback form that included 5 nominal-scaled and 25 interval-scaled questions from a scale of one to five. The 5 nominal-scaled questions were to gather relevant information about the respondents while the 25 interval-scaled questions were about CRM implementation, customer satisfaction and perceived business performance. A show test was conducted on managers of commercial banks and academics. The amended questionnaires were later dispersed to the respondents by emails.

## 6. Discussion

The results of this empirical research produced the following notable findings. The multi-dimensional components in a multilevel model are captured. This model suggests that each dimension of the CRM phases has different functional sub-dimensions. The data collected support conceptualization for the CRM Implementation construct. This is shown in the study where key activities of CRM Implementation were grouped into five primary dimensions: *acquisition management*, *contact rate management*, *regular evaluation management*, *increasing selling management*, and *recovery management*. The study then assessed the extent to which the five dimensions are implemented in commercial banks.

The strongest association comes from *acquisition management*, *regular evaluation management*, and

*increasing selling management*, followed by *contact rate management* and *recovery management*. Nevertheless it is important to highlight that the support for *recovery management* (even in the negative direction for Loyalty) is marginally significant. *Recovery management* in addressing lost customers who are profitable was underestimated by banks, hence implementation was not effectively initiated.

The findings indicate that the implementation of CRM is positively associated with perceived performance. Of the five dimensions, three had significant association. The strongest effects come from *contact rate management*, *increasing selling management* and *regular evaluation management*. The effects from *acquisition management* and *recovery management* are not significant. As mentioned in the literature, the acquisition phase describes the initiation of a customer-bank relationship. This is a becoming accustomed phase where the customer and bank will get used each other. Therefore a possible explanation is that recovery management of lost customers who are profitable was underestimated as banks not implement it effectively.

## 7. Findings

The conclusion of this study shows the following implications for banking industry in the commercial banks in India.

- The study provides a wide-ranging outline of the CRM initiatives that take has taken place at each main phase in banks. Thus, the model presented can be used to identify the key success factors of CRM.
- The finding reflects the idea that the customer base within banks may be unstable due to intense competition within the industry and CRM should be used as a tool to build retention strategies. Proper match of the expectations and perceptions of customers will help the banks to achieve the desired success.
- The results show that CRM-Customer Satisfaction and apparent business conductance links are very intense and fruitful.
- The findings also indicate that recovery management is the need of hour for the commercial banks existing in era of cut throat competition. Thus it will be never be profitable if customers leave the bank and the reason of his/her leaving is undetermined and unattended.
- Consequently this finding echoes the conclusion that banks do not implement recovery activities effectively. May be this due to insufficient interaction of service providers with the service customers.



## 8. Limitations

The research paper facilitated with meaningful conclusions but the limitations of any study are inevitable part of study. Few limitations that the author found while study are:

- a. Implementation of CRM is not a one day task. It require long span of time to draw fruitful results. Although once a base is laid down it will confirm its effectiveness in a dynamic industry like banking and the functioning will smoothen up. It is such an investment which will be realized in long run.
- b. The questionnaires were filled in by representatives of bank, i.e. the general manager, in each bank investigated. Subsequently, variance on the basis of common-method may exist.
- c. As we mentioned that there are three levels of CRM which widely includes functional, customer-facing and strategic levels. This study dealt with the touch point's relationship levels in-spite of in-depth study.

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