PART I : BACKGROUND AND RATIONALE OF STUDY

1.1 Historical background of the Indian Financial System

An efficient, articulate and developed financial system is indispensable for the rapid economic growth of any country. The process of economic development is invariably accompanied by a corresponding and parallel growth of financial organizations. Planned economic development in India had greatly influenced the course of financial development. The liberalization, deregulation and globalization of the Indian economy since the early nineties, has had important implications for the future course of development of the financial system or sector.

The evolution of the Indian financial system falls into 3 distinct phases:

Phase I: Pre-1951 Organization

The organization of the Indian financial system before 1951 had a close resemblance with traditional economy as formulated by Bennett R. L (1965). According to him, a traditional economy is one in which the per capita income is low and constant. The industry had very restricted access to outside savings. Hence, the financial system was not responsive to opportunities for industrial investment. Such a financial system was clearly incapable of sustaining a high rate of industrial growth, particularly the growth of new and innovative enterprises.

Phase II: 1951 to Mid-eighties

In sharp contrast to the position around 1951, the ability of the system to supply finance and credit to varied enterprises in diverse forms was greatly strengthened during the second phase. In pursuance of the broad economic and social aims of the state to secure economic growth with social justice as enshrined in the Indian Constitution, under the Directive Principles of State Policy, the scheme of planned economic development was initiated in 1951. The introduction of the planning has had important implications for the financial system. With the adoption of mixed economy as the pattern of industrial development, in which a complimentary role was conceived for the public and private sectors, there was a need for an alignment of the financial mechanism with the priorities laid down by the Government's economic policy. In other words, planning signified the distribution of resources by the financial system to be in conformity with the priorities of the five year plans. The requirement to allocate funds in keeping with the corresponding pattern implied Governmental control over distribution of credit and finance. The main elements of the financial organization in planned economic development could be categorized into four broad groups:

1. Public/ Government ownership of financial institutions
2. Fortification of the institutional structure
3. Protection to investors
4. Participation of financial institutions in corporate management

Certain deficiencies still persisted in the organization of the Indian financial system. These pertained to:

- Institutional structure: It consisted of 2 categories of financial institutions – Commercial banks which were normal constituents of the institutional financing mechanism and obtained their resources by mobilizing savings from saving-surplus economic units, and Development finance institutions which were like artificial limbs created to compensate for the lack of growth of normal channels and derived most of their funds from their sponsors like the RBI and the Government. The structure of the Indian financial system was heavily dominated by the second category of financial institutions. The prevailing structure sharply contrasted with those in the industrially advanced countries of the West, where the rise of the institutional finance to industry was the result of the institutionalization of personal savings and, therefore, the normal channels played a dominant role, while the development finance institutions played only a supplementary role as "gap fillers".

- Distributed mechanism: The domination of the Indian financial system by the development banks and the massive reliance of industry on them for funds had serious implications for their ability to cope with the future requirements of the accelerated programmes of industrial growth. Thus, while the relevance of the financial system to development is based both on the mobilization of savings as well as their channelisation to saving-deficit units, the Indian financial system so overwhelmingly dominated by the development finance institutions, was practically divorced from the pool of savings in the economy. It was playing a limited role as a distributive mechanism only.
- Forms of financing: A related deficiency of the Indian financial system was the prevalence of financial practices of questionable prudence in terms of the form of financing of industrial enterprises. Since the

development banks provided most of the funds in the form of term loans, there was a preponderance of debt in the financial structure of industrial enterprises and the share of equity/ risk capital was both low and declining.

Phase III: Post Nineties

The organization of the Indian financial system, since the mid-eighties in general, and the launching of the new economic policy in 1991 in particular, has been characterized by profound transformation. The fundamental philosophy of the development process in India has shifted to free market economics and the consequent liberalization/ deregulation/ globalization of the economy (Khan, M. Y., 2004).

In India the wave of deregulation of early 1990s has created heightened competition for banks and other financial intermediaries. The cross-border flows and entry of new players and products have forced banks to adjust the product-mix and undertake rapid changes in their processes and operations to remain competitive. The deepening of technology has facilitated better tracking and fulfillment of commitments, multiple delivery channels for customers and faster resolution of mis coordinations.

In the 1990s, Customer relationship Management (CRM) started attracting attention of academicians as well as practitioners from Marketing and Information Technology (IT). The academic interest in CRM paralleled the explosive growth and adoption of relationship orientation and implementation of CRM solutions across different businesses. The early adopters of CRM in the business to consumer markets were financial services, retailing, telecommunication, travel and hospitality, utilities and automotive. Developments in information and communication technology, especially in the 1990s, have helped these large businesses recreate the personal relationships once enjoyed by small businesses. The IT solutions for automating the sales process initiated the trend, which expanded to include automation of services and marketing as part of comprehensive CRM solutions. The last decade witnessed an explosion of CRM in marketing and IT.

The tremendous growth of interest and investments in CRM across the globe can be attributed to the following macro-environmental factors:

1. **Emergence of service economy**

Advanced countries progressed from agricultural to industrial and then to post industrial economies. The shift from manufacturing to service was spread over a few decades of the last century. The growing importance of services resulted in greater customer orientation. In services, one needs to be close to the customers to deliver the service offering. Hence service businesses like hotels, airlines, banking, financial services, telecom and retail were the early adopters of CRM.

2. **Emergence of market economy**

The 1990s witnessed acceleration in the deregulation of many large industries including banking, telecommunication, broadcasting and airlines across the world. As a result, market-oriented firms operating in intensely competitive markets now take decisions that were once controlled by the government. Market oriented economy necessitated a customer focus and boosted the importance of CRM.

3. **Global orientation of business**

Increasing international trade became the growth engine for the global economy. Liberalization of markets and trade proved to be a far stronger growth engine. It has eased the entry into the foreign markets. Firms need stronger customer-orientation to be able to tap opportunities in new markets while defending themselves in their home markets.

4. **Aging population in economically developed countries**

Aging of population has been attributed to the combined effects of a slowdown in birth rate and an increase in life expectancy. While an aging population creates new opportunities for wellness, financial well being, safety and security, it has also slowed the markets for traditional goods and services designed for a younger population. Marketers are now forced to develop a deep understanding of their existing customers and meet their ever changing needs through suitable products and services. The service industry wants to become One-Stop-Shop for the customers (Shainesh G. and Sheth Jagdish N., 2006).

1.1.1 The criticality of customer relationships

In recent years, businesses are facing new challenges. These challenges have increased the criticality of customer relationships. The three key challenges include:

(a) Non-traditional competition

(b) Market maturity, and

(c) Misalignment between revenue and profits

(a) Non-traditional competition

Porter (1985) identified five forces that determine the intrinsic long-run attractiveness of a market. The forces include industry competitors, potential new entrants, substitutes, buyers and suppliers. Many markets have experienced upheavals in recent times due to the entry of non-traditional competitors. Traditionally, the competition was limited to rivalry among existing players. Non-traditional competitors include:

(i) New entrants from outside the industry like Reliance Industries in the telecom sector in India. Reliance transformed the telecom market in India through an aggressive entry backed with a huge capital investment of approximately US $ 4 billion. It adopted a rapid market penetration entry strategy with low prices supported with heavy promotional spending. These strategies helped Reliance attract over 9 million subscribers to emerge as the second largest player in the Indian telecom industry. In the domestic airlines industry in India, Jet Airways has emerged as the largest player in less than a decade by targeting the business travelers through better service on the profitable domestic trunk routes. Similarly, Virgin Air and Ryan Air have turned the European airlines market upside down by following unconventional strategies.

(ii) Substitute technology – Traditional leaders like Kodak and Fuji in the cameras and photography market lost out to Sony due to substitution of chemical by digital technology. Mobile handset makers like Samsung have emerged as large players in this market with their phone cameras. At the industry level, wireless and Voice Over Internet Protocol (VOIP) are replacing the traditional telecom providers for local and long distance communication.

(iii) Supplier as a competitor – The supplier becomes a competitor when the buying industry has a high margin and the supplier has low margin. It motivates the suppliers to do forward integration (move downstream). Examples include, raw material companies moving into component manufacture and product companies entering into retailing.

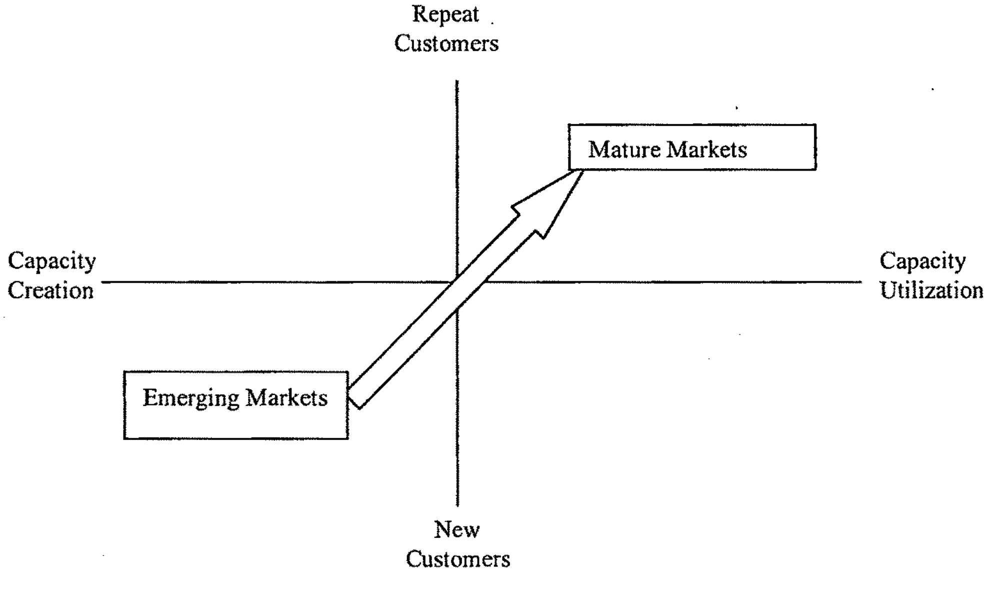
(iv) Customer becomes a competitor – This has coincided with the emergence and consolidation of organized retailing. Retail giants like Wal Mart compete with the national brands through their own private labels. Also, many enterprises after many years of outsourcing are now in-sourcing many corporate support services such as legal, human resources, finance and information services.

Non-traditional competitors often enter the markets with a lower cost structure and offerings targeting the most profitable customers of the incumbents. It is forcing companies to become relationship oriented to retain their customers and protect themselves from the threat of these non-traditional competitors.

(b) Market maturity

After World War II, most countries focused on building capacities to fulfill the pent up demand. Now there is excess capacity in industries, especially those located in the developed economies. Therefore, the focus is no longer on capacity creation but on capacity utilization. Globally, excess capacity exists in industries like agriculture, commodity materials, aircrafts, automobiles, appliances and even telecom bandwidth. Therefore capacity is now searching for markets. More companies from the developed countries, facing either slow or zero growth markets, now rely on repeat customers in their domestic markets (see Figure 1.1). Businesses were used to rapid or stable growth rates for most of the last five decades in developed countries. But now the growth has shifted to emerging markets in developing countries like India and China.

Figure 1.1 Market maturity



Source: Shainesh G. and Sheth Jagdish N., *Customer Relationship Management –A Strategic Perspective,* 2006, p.8

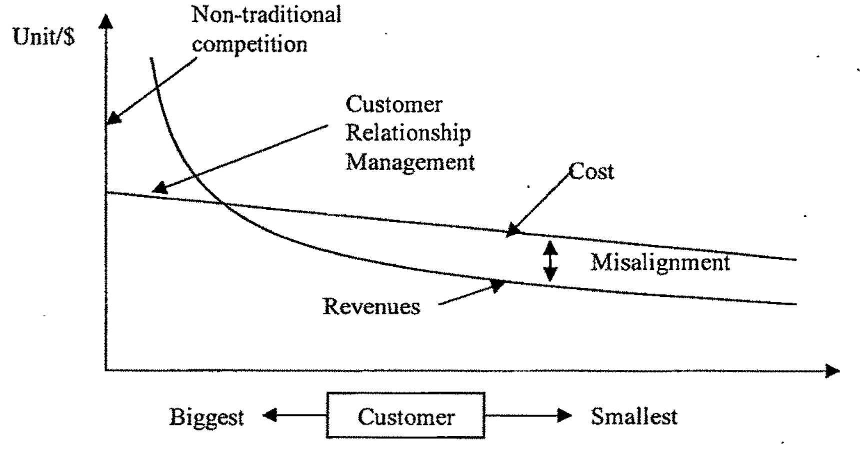
Understanding customers is critical to succeed in these markets due to the inherent differences in the customer needs, cultural, social, economic and also regulatory environments. So, market maturity is forcing companies to be more customer-oriented to retain their customers in their home markets and also to attract customers in emerging markets.

(c) Misalignment between revenue and profit

In the 1990s companies realized that in their efforts to acquire customers and market share, they had also built inefficiencies through customer subsidization. While managers knew subsidization across product and markets, they had never looked at subsidization by customers. Companies adopted Activity Based Costing (ABC) for analyzing the cost of business with customers and comparing it to the revenue generated by them (Shapiro et al. 1987 and Foster et al. 1996). If we plot the revenue and profits by customers, the misalignment between revenue and profits will be clearly visible.

Typically, the distribution of revenues is exponential, while costs are distributed in a more linear relationship with customer size. Thus, while the revenue curve slopes down exponentially, the cost curve slopes down gradually (Sheth and Sisodia 2000). Figure 1.2 shows the distribution of per customer revenues and costs over customers for a typical company.

Figure 1.2 Revenue profit misalignment



Source: Adapted from Sheth and Sisodia, 1999

Revenues are sharply skewed from the largest to the smallest customers, while costs tend to decline more gradually. In such cases, a small number of highly profitable customers are subsidizing a large number of non-profitable customers.

These profitable customers are very attractive targets for many of the non-traditional competitors who can exploit this distribution of revenues and costs to their advantage. In recently deregulated industries such as banking, airlines, telecommunications and electric utilities, for example, new entrants target the most profitable large customers and heavy users, leaving the incumbent with unprofitable customers.

In many instances, data often shows that the biggest and the smallest customers are the least profitable. For example, in the business markets, companies do not get high margins in large accounts as large buyers negotiate a lower price. But in consumer markets, profit margins are higher in large accounts and heavy users. For example, AT & T in August 1998 announced that it was losing money on approximately 25 million of its 70 million residential customers (Sheth and Sisodia, 2000). Theses 25 million customers never made a long distance call or used any of their value-added services. On an average AT&T was spending US$6 per month on its customers for support and care so each of these customers made AT & T lose US$72 a year.

Customer subsidization is a problem created primarily by the traditional accounting systems. Traditional accounting was usually organized around products and sometimes around markets. When companies began to disaggregate revenues and costs at the customer or account level due to improved information and accounting system, they discovered previously hidden subsidies by customers. It also resulted in companies paying attention to their most profitable customers by adopting a relationship orientation.

Thus we have seen that in the last decade or so, the criticality of customer relationships increased due to non-traditional competition, maturing of traditional markets and the misalignment of revenue and profits. These challenges were faced by businesses across industries and stronger customer relationships helped mitigate the impact of these challenges. We foresee these challenges to intensify in the coming years. However, more and more businesses will adopt CRM practices. Rising customer expectations and affordable technology advances will drive these adoptions.

1.1.2 The link between CRM and IT and a few other associated terms

Customer: The person or the unit receiving the output of a process of the system. The customer maybe an immediate, intermediate or the ultimate customer. It maybe a person or a process.

CRM (Customer Relationship Management): The virtual or tangible 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 (Mohammed Peeru H. and Sagadevan 2002).

Researchers have adopted several perspectives in understanding and explaining relationships. In marketing literature, the terms customer relationship management and relationship marketing have been used interchangeably to reflect a variety of themes and perspectives.

Some of these themes offer a narrow functional marketing perspective while others offer a perspective that is broad and somewhat paradigmatic in approach and orientation. After a review of extent literature, Harker (1999) identified 26 definitions of relationship marketing reflecting the diverse academic and socio-political backgrounds of the scholars.

A narrow perspective of customer relationship management is database marketing emphasizing the promotional aspects of marketing linked to database efforts (Bickert 1992). Another viewpoint is to consider CRM only as customer retention in which a variety of after marketing tactics is used for customer bonding or staying in touch after the sale is made (Vavra, 1992). A more popular approach with the recent application of information technology is to focus on individual or one-to-one relationship with customers that integrate database knowledge with a long term customer retention and growth strategy (Peppers and Rogers, 1993). Jackson (1985) applied the individual account concept in industrial markets to suggest CRM to mean, *Marketing oriented towards strong, lasting relationships with individual accounts.*

Parvatiyar and Sheth (2000) defined CRM as:

Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer.

As implied in the above definition, the purpose of CRM is to improve marketing productivity which is improved by increasing marketing efficiency and by enhancing marketing effectiveness. CRM improves marketing efficiency through cooperative and collaborative processes by reducing transaction costs and overall development costs for the company. Marketing effectiveness is enhanced by seeking and achieving strategic marketing goals e.g. Entering new markets, developing new products and services, serving new or expanded needs of customers, and redefining the competitive playing field . To sum up, the definitions address a few common issues. These include:

(a) A process oriented view which looks at the interactions over a period of time.

(b) Explicitly highlight the collaborative and cooperative nature of the relationship for long term mutual benefit, and

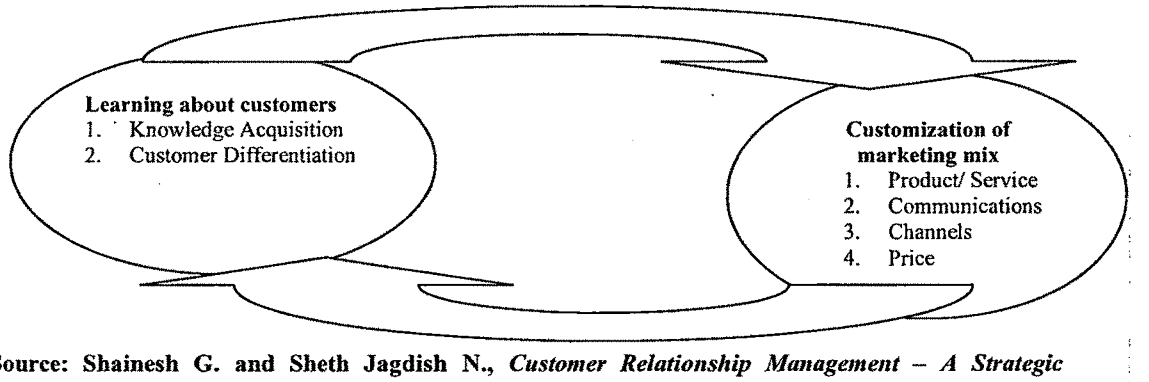
(c) Metrics of relationship performance include enhanced value.

The goals of CRM are:

1. Build long term and profitable relationships with chosen customers,
2. Getting closer to those customers at every point of contact with them.

This can be achieved by establishing a learning relationship by the interactive process as shown in Figure 1.3.

Figure 1.3 The learning relationship process



Source: Shainesh G. and Sheth Jagdish N., *Customer Relationship Management – A Strategic Perspective*, 2006, p. 27

CRM requires learning about customers and then customizing the marketing mix. Knowledge acquisition refers to gaining customer insights by collecting information at every point of contact and converting them into insights , which can be used to meaning fully differentiate customers. This organizational learning is used to develop customized products and services that can be communicated and distributed to specific customers at customized prices. Communication and information technology allow this interactive process at very cost effective prices to the mutual benefit of customer and the organization.

Information Technology (IT) infrastructure: Computer hardware, software, data, storage technology and networks providing a portfolio of shared information technology resources for the organization (Laudon and Laudon, 2004).

CRM and eCRM-the difference: The difference between CRM and eCRM is being able to take care of your customer via the Internet or customers being able to take care of themselves online. It implies a myriad of issues, questions, approaches, technologies, and architecture that are different from client/server based CRM. Many of them are issues general to the Internet. Others are issues related to the creation of applications for the Internet. The third group is related directly to eCRM and its actual value to business.

The use of Internet as a main business passage is an eCRM. As the world population becomes increasingly comfortable using the Internet securely, it is increasingly likely that most of the standard business transactions, which are done on the phone or even in person, will be done via the Internet.

eCRM provides to companies a means to conduct interactive, personalized and relevant communication with customers across both electronic and traditional channels. It utilizes a complete view of the customer to make decisions about messaging, offers and channel delivery. It synchronizes communications across disjointed customer-facing systems. It adheres to permission based practices, respecting each individual's preferences regarding how and whether they wish to communicate with you.

eCRM and Portals: With the emergence of the Internet, enterprise portals took on a whole different meaning. They have now become the gateways to entire Web based communities and customer activity.

A portal is a gateway to an array of services to an optimal community. It is a centralized entry point, usually centered on a Web server that links multiple information and interactivity sources, and allows a personalized view of any or all of the services according to the requirements of the user who is entering. The personalization is accessible through a user name and password. Each user has a different view of the array of information, goods and services available to them (Mohamed Peeru H. and Sagadevan A., 2002).

CRM is about more than simply managing customers and monitoring their behavior. CRM has the potential to change a customer's relationship with a company and increase revenues in the bargain. Technology can help address some of these issues.

1.1.3 Why should businesses adopt CRM

A combination of demand and supply led factors will accelerate the adoption of CRM in the coming years. On the demand side, rising customer expectations will force businesses to adopt CRM. And on the supply side, technological advances and the declining costs of information and communication technology will reduce the barriers to adoption of technology led CRM initiatives.

1.1.3.1 Rising customer expectations

Customer expectations are rising due to increasing affluence in the emerging economies, greater awareness due to media explosion and increasing customer diversity.

(a) *Increasing affluence in the emerging economies:* The economic growth in the emerging economies have created a large middle class, estimated at 250 and 300 million people in India and China, respectively. This middle class is very demanding and quality conscious. The transition of these markets from a sellers to a buyers market and the buying power of the middle class makes them attractive to all businesses. Taken together, nine developing nations – China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa and Thailand – have a combined GDP that is larger, in purchasing power parity, than the combined GDPs of Japan, Germany, France, UK and Italy.

The middle class has a large proportion of professional class with greater global awareness and influence. For example, in India every year over 3,00,000 engineers and about 1,00,000 MBAs join the workforce. They can afford and are willing to pay for better and customized products and services. Many of them are nuclear families and have double income with the spouses employed. This has resulted in a lot of the traditional homemaking activities like cooking, cleaning and childcare being outsourced to service providers. All these will drive the service economy. In services, the customer is a collaborative pattern and a co-producer who routinely offers direct input into the making of the offering.

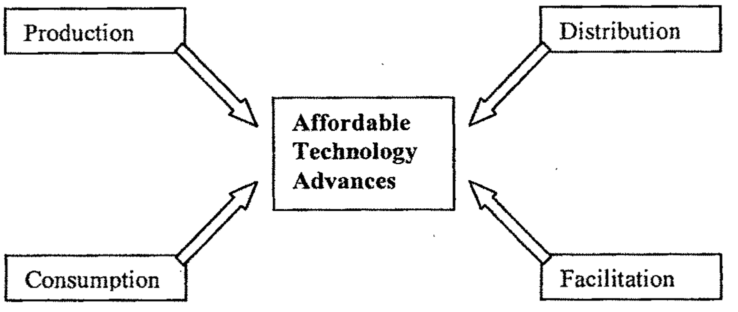
(b) *Greater awareness due to explosive media growth:* Customers in the emerging markets have greater access to marketplace information about products, services and lifestyles through the explosion in the traditional media like the newspapers and television as well new media like cable television and the internet. The total number of TV homes has remained stable at about 100 million in the US in the last decade while it has exploded in the developing countries. China (341 million), India (80 million) and Brazil (44 million) have witnessed some of the fastest penetration growth of TV in homes in the last decade. The information explosion has played a significant role in raising customer aspirations as well as expectations. (Shainesh and Sheth, 2006)

(c) *Customer diversity:* Many of the mass marketing practices fail with customers who are diverse in their lifestyles, age, income and ethnicity. In the last decade, more people have migrated to obtain better living standards after the economic integration of Europe. In the US, ethnic pluralism is increasing as some minority groups like the Hispanic, Afro-American and the Asian are growing rapidly (Cory 1995). About 29 per cent of the workforce in the US are minorities. One-third of all children in the US in 1995 were Asian, African American or Hispanic (Francese 1995). This increase in diversity will greatly increase the diversity in demand and expectations. Rising customer expectations will make CRM a necessity for businesses to be able to customize all elements of marketing mix to satisfy these customers. Fortunately for businesses, advances in affordable technology will help them meet these divergent needs from demanding customers.

1.1.3.2 Affordable technological advances

Advances in technology have made an impact on all stages from production to final consumption.

Figure 1.4 Affordable technology advances



Source: Shainesh G. and Sheth Jagdish N., ***Customer Relationship Management – A Strategic Perspective,*** **2006, p. 11**

They are allowing marketer to offer unique solutions to individual customers. Some of the key technology advances are in production, distribution, facilitation and consumption and their impact on marketing practices as shown in Figure 1.4.

(a) *Production:* Breakthroughs, including computer-aided design and computer-aided manufacturing (CAD-CAM) and processes like flexible manufacturing systems (FMS) and just-in-time operations (JIT), have helped improve the quality while reducing the costs across the supply chain. Production technology leaders like Toyota and Dell Computers have gained significant competitive advantage in their respective markets by being early adopter of these technologies. Consumers will benefit as they are offered products and services tailored to their specific requirements through mass-customization at prices comparable to mass-marketed products.

(b) *Distribution:* Distribution capabilities of firms have been enhanced due to computer-aided logistics (CALS) and scanner technology, which allows faster response for replenishment with fewer stock-outs. Improvements in forecasting and database technologies allow fine-tuned targeted approaches to marketing and close to real-time fulfillment in many cases, especially information intensive services. Distribution intermediaries and third party logistics providers leverage technology to rapidly deliver products at affordable prices and increase market coverage.

(c) *Facilitation:* The use of the Internet to connect enterprise within and outside with suppliers as well as customers through e-commerce technologies has resulted in major improvements in facilitating commercial as well informational exchanges. Dramatic reductions in transaction costs have allowed even small businesses to aspire for a global reach. Large businesses in the airlines, banking and financial services have leveraged the power of the internet to offer services directly to their end customers at a lower cost to them as well as to customers. In many industries the sellers as well as the buyers have benefited by this process of disintermediation, i.e. cutting down layers off intermediaries. While the inefficiencies of the traditional intermediation process were reduced through disintermediation, a new class of intermediaries, e.g. Priceline.com and Freemarkets.com have emerged to facilitate transactions between sellers and buyers. Customer shopping habits are changing with the convenience of information availability, evaluation, and purchase through the click of a mouse.

(d) *Consumption:* Breakthroughs in consumption occurred due to the development of affordable personal IDs, e.g. individual login which helped customize the consumption experience. It allows the seller to datamine the transaction, purchase and usage history at the level of an individual to personalize the offerings. For the consumer, it has given the power to be a co-producer by intervening and providing direct inputs into the making of the product. Dell.com allows buyers to configure the computer of their choice by co-opting them as co-producers during the design stage. In addition to the personalized consumption, these technologies have allowed customers as well as marketers to overcome the limitations imposed by time and place. Customer's desire for instant gratification will drive businesses to provide access to their products anytime and anywhere. Banks have discovered that as customers shift from a time and place restricted channel like the branch to electronic channels like ATMs, call centres and internet, they save on costs and are able to provide improved services.

These technological developments are proving to be a win-win for companies as well as customers. Therefore it is not surprising that shopping on the Internet is growing rapidly. Even in emerging countries like India, customers have started shifting to electronic channels. ICICI Bank, the second largest bank in India, has reported that 70 per cent of its transactions are conducted through electronic channels (February 26, 2004, Economic Times). Its 1,800 ATMs account for 48 per cent of the transactions while the remaining 22 per cent is divided equally between call centre and internet banking.

We will witness greater adoption of these technologies as customers demand for hassle free product information, delivery, consumption and even disposal from businesses. Lowering costs of both information as well as communication technologies will attract firms to invest in these technologies.

1.1.4 Implementing CRM

Developments in information technology, data warehousing and data mining have now made it possible for firms to maintain one-to-one relationships with their key customers. Many organizations initiated CRM projects as they foresaw tremendous potential for benefits. The benefits come from lower costs of customer retention and increased profits due to lower defection rates (Reichheld and Sasser, 1990). But CRM may appear to be an expensive option to firms which have been practicing mass-marketing due to the relatively high initial investments in sophisticated IT systems required to acquire knowledge about individual customers (Davids 1999; Gupta, 2000). However, as discussed above, the improving performance and declining costs of technology is making it attractive, from a cost-benefit perspective, for them to adopt CRM.

In spite of the availability of multiple technological options, organizations face numerous challenges while selecting and implementing technology intensive CRM solutions. These include issues of top management commitment, change management, developing customer centric processes, integrating with legacy systems identifying and establishing performance metrices, and evaluation of return on investments (Adolf et al., 1997; Goff et al., 1998; Ernst and Young, 1999; Sisodia and Wolfe, 2000).

Ernst and Young (1999) reported that:

Firms are investing expansively on CRM, focusing specially on the technology. Yet there has been considerable amount of frustration and disappointment with early efforts to apply technology to various aspects of the customer relationship. .Many companies are sponsoring a number of CRM initiatives – often with little coordination or clarity of *purpose. For instance, an astonishing 63 per cent did not know how much their CRM efforts increased or decreased their profitability.*

Poor technology choices and ill-conceived implementation plans have derailed many customer relationship projects. The failure rate for CRM projects has been estimated to be high (Davids, 1999; Ernst and Young, 1999, p.74). The lure of early-mover advantages make many firms invest heavily in technology, statistical tools, databases and restructuring which increases risk of these firms biting off more than they can chew (Adolf et al., 1977). Unfortunately, many of these challenges are still faced by managers, in spite of so many implementation experiences.

One major reason as to why CRM is such a challenge to implement is that customer relationship management attempts to tie together many people, processes, and technologies within a firm that have, until now, been separate (Ernst and Young, 1999). In the context of banking, Adolf et al. (1997) had argued:

CRM cannot be simply grafted onto the multi-product, multi-organisation of most banks. The huge amount of information available to these banks, coupled with the wide array of products and services they sell, can make implementing CRM a complicated and time-consuming task entailing broad institutional change.

Day (2000) had identified three elements of market-related capability that a firm has to master in order to keep and maintain relationships with its most valuable customers on a durable basis for competitive advantage:

First, relationship orientation must pervade the mindset, values, and norms of the organization. Second, the firm must keep deepening its knowledge of these customers and putting it to work throughout the organization. Third, the key processes must be internally integrated and externally aligned with the corresponding processes of the firm's customers.

A process oriented strategic approach driven by the top management to link the operational, informational and the organizational components of CRM will be crucial for the success of CRM initiatives (Parvatiyar and Sheth, 2000; Pisharodi, Angur and Shainesh, 2003). The process approach helps better delineate the challenges of customer relationship formation, its governance, its performance evaluation, and its evolution. Similarly the division of relationship strategy into its operational, informational and organizational components help managers understand, identify, measure and manage the impact of these individual components on overall relationship effectiveness.

In a similar vein, Goff et al. (1998) reported, *Companies that have taken a comprehensive view are enjoying improved results; those that have not are struggling with technology for technology's sake.* CRM is a fundamental requirement for the success of any enterprise and it requires a holistic strategy and process to make it successful.

Merchants and traders have been practicing customer relationship for centuries. Their business was built on trust. They could customize the products and all aspects of delivery and payment to suit the requirements of their customers. They paid personal attention to their customers, knew details regarding their customer's tastes and preferences, and had a personal rapport with most of them. In many cases, the interactions transcended the commercial transactions and involved social interactions. Even today, this kind of a relationship exists between customers and retailers, craftsmen, artisans – essentially in markets that are traditional, small and classified as pre-industrial markets.

The industrial revolution changed the relationship-oriented practices. Businesses adopted mass production, mass communication and mass distribution to achieve economies of scale. Manufacturers started focusing on manufacturing and efficient operations to cut costs. Intermediaries like distributors, wholesalers and retailers took on the responsibilities of warehousing, transportation, distribution and sale to final customers. This resulted in greater efficiencies and lower costs to the manufacturers but brought in many layers between them and the customers. The resulting gap reduced direct contacts and had a negative impact on their relationships.

The successful implementation of CRM can depend on several factors:

(a) **Employees must feel they are a part of the plans:** The successful implementation of CRM depends almost entirely on the right performance of frontline employees. They are the people who deal with customer, provide them with their "moments of truth" and convert them into loyal customer or turn them into "enemies" of the brand.

(b) **Clear objectives must be set:** The philosophy of customer orientation and service orientation is be the first step towards a successful CRM implementation, along with clear objectives of what is sought to achieved.

(c) **Empowerment of staff to please customer:** The employees in service industries need to be empowered much more than comparable staff in the goods industries. Several reasons could be pointed out for such an approach, the most prominent being the much more human, variable and intangible nature of service customers and situations in detail.

(d) **Product innovation if applicable must be done regularly, to keep it in tune with expectations:** Innovations in service products are sometimes easier to implement. They should be regular and in tune with expectations of customer segments being served. The service firms should think of regular product innovations (like on-broad auctions at Air Sahara, or surprise gifts at random at a music retail store), which would make the fringe customers more loyal.

(e) **Communication and back-up action:** The service provider should be in conversation with customers on a regular basis, almost making them a part of your feedback and service design team. This should be a part of the procedure of a good service company.

(f) **Tangible Benefits to Reward Loyalty:** The CRM programs could also benefit from rewards to customers (like the frequent flier programs of airlines, or the second pizza at half price if you buy one).

1.1.5 The shift in orientation

The post-industrial era (information era) saw the re-emergence of relationship practices. Marketing academics Jagdish Sheth and Atukl Parvatiyar (Sheth and Parvatiyar, 1995) identified the following factors for this shift in orientation:

(a) Rapid advances in technology,

(b) Intensive competition in most markets,

(c) Growing importance of the service sector, and

(d) Adoption of total quality management programs.

(a) Advances in technology

The advances in information, communication and production technologies have helped marketers come closer to their customers. Firms operating in diverse sectors ranging from packaged goods to services started using these technologies to know their customers, learn more about them and then build stronger bonds with them through frequent interactions. Marketers could gain knowledge about customers, which helped them respond to their needs through manufacturing, delivery and customer service. Technology also enabled customers undertake some of the responsibilities, normally performed by markets, like ordering and product-use related services.

Though the emergence of CRM in recent times coincided with the information age, we must remember that technology is just an enabler. Technology enabled marketers overcome several long felt shortcomings of mass marketing. Some of these included:

- Inefficiencies of mass marketing: 1980s and early 1990s witnessed some of the most radical business transformations that resulted in cost reductions in almost all functional departments except marketing. Manufacturing and related operations costs were reduced through business process reengineering, human resource costs were reduced through outsourcing, restructuring and layoffs, financial costs were reduced through financial engineering but marketing costs kept increasing due to increased competition and product parity in virtually every industry.
- Lack of fast, effective and interactive models of customer contact, feedback and information.

- Lack of consolidated information about customer interactions, purchase behaviour and future potential.

(b) Intensive competition

In competitive markets, especially the ones that were maturing and witnessing slow or no growth, marketers found it more profitable to focus on their existing customers. Studies have shown that it costs up to 6-8 times more to attract a new customer than to retain an existing customer (Gruen, 1997). Marketers have now started focusing on the lifetime value of customers. They are moving away from just trying to sell their products to understanding customers needs and wants and then satisfying their needs. This has led to a relationship orientation which creates opportunities to cross sell products and services over the lifetime of the customer.

(c) Growing importance of the service sector

The service sector contributes to over two-third of the GDP of most advanced economies. In India, the services sector contributes to over 50 per cent of the economy. One of the characteristics of the service industries is the direct interaction between the marketer and the buyer. In services, the provider is usually involved in the production as well as delivery directly. For example, professional service providers like a doctor or a consultant are directly involved in production as well as delivery of their services. Similarly, the customers are directly involved in the purchase and consumption of these services. These direct contacts create opportunities for better understanding, a better appreciation of needs as well as constraints and emotional bonding all of which facilitate relationship building. Therefore it should come as no surprise when one sees the service firms pioneering many of the customer relationship initiatives. Firms operating in the financial services, hospitality business, telecom, and airlines are the early adopters and extensive users of CRM practices.

(d) Adoption of Total Quality Management (TQM) Programmes

The adoption of total quality management programmes have helped companies offer quality products and services to customers at the lowest prices. To enable this value proposition, organizations needed to work closely with their customers, intermediaries as well as suppliers thus fostering close working relationships with members of the marketing system. Companies such as Intel, Xerox, and Toyota formed partnering relationships with suppliers and customers to practice TQM.

Other developments such as an increase in the number of demanding customers, increased fragmentation of markets, and generally high level of product quality forced business to seek sustainable competitive advantages. A competitive advantage is sustainable only when it is not easily replicated. One such sustainable competitive advantage is the relationship that a firm develops with its customers.

1.1.6 Benefits of CRM

(a) Customers are profitable over a period of time

Studies by the US-based Bain and Company have shown that a customer becomes more profitable with time because the initial acquisition cost exceeds gross margin while the retention costs are much lower. When an organization retains the customer, it gets a larger share of the customers increase profits by 17 per cent while the same amount of sale to new customers increase profit by only 3 per cent. This huge difference is explained by the fact that for most companies the cost of acquiring a customer is very high. It costs six to eight times more to sell to a new customer then to sell to an existing one. The same study also highlighted that a company can boost its profits up 85 per cent by increasing its annual customer retention by only 5 per cent.

Similarly, studies have shown that the probability of selling a product to a prospect is 15 per cent while it is 50 per cent to an existing customer. Thus, the time, the effort and costs of selling are much lower for an existing customer.

(b) Customer profitability is skewed

An analysis of the revenue and profit contribution of customer base of banks in the US, Europe and Australia showed the following:

- The top 20 per cent of the customers contribute to 150 per cent of the profits while the bottom 20 per cent drain 50 per cent of the profits and the rest 60 per cent just break even.

Experiences of Indian organizations are on similar lines. In a large public sector bank, the top 23 per cent of the customers contribute to 77 per cent of the revenues. Similarly, the top 27 per cent customers of a leading cellular phone service provider contributes to 75 per cent of the revenues (Shainesh and Sheth, 2006).

The implications of such a skew in customer profitability and revenue contribution are startling for organizations, which used to conventionally treat 'all customers as equal'. Competitors have to just lure these top customers and the organization would face serious problems. It also highlights the fact that one has to adopt different strategies for different customer groups:

- Programmes have to be developed to retain and build stronger bonds with the top 'gold standard' customers so that they do not get 'poached'.

- Activity-Based Costing analysis has to be done with the middle group of 'potentials' so that the cost of serving these customers are reduced. In addition, cross-selling and up selling should be done to increase the profitability of these customers.
- An analysis of the bottom group has to be done to identify those customers who can be shifted to the 'potentials' group. For the remaining, the cost of service has to be reduced by encouraging them to use lower cost channels. In extreme cases, some of these customers will be encouraged to defect to competitors. Outsourcing of loss making customers will be encouraged to defect to the competitors. Outsourcing of loss making customers to specialized low overhead agencies is an emerging trend.

1.1.7 CRM in Marketing

CRM will gradually reduce organization's dependence on periodic surveys to gather data. Collection of data related to buying and consumption behaviour will be an ongoing process. In many cases, the transaction data is automatically collected sometimes real time as in the e-commerce transactions. This rich repository of customer information and knowledge update through regular interactions and actual customer transactions and purchase behaviour will help marketers to develop and market customer centric products successfully.

Customized promotions-based customer preferences and purchase patterns will substantially reduce the wasteful expenditure of mass communications and even direct mailing. As the customized promotions are more focused and are based on a deeper insight of existing customers, they have a greater chance of conversion to sales.

1.1.8 Building customer relationship management

1.1.8.1 The Acquisition Stage

Acquisition is a vital stage in building customer relationship. For the purpose of customer acquisition an organization is likely to focus its attention on the following as its major sources for providing inputs for acquisition:

- The suspects
- The enquiries
- The lapsed customers
- The former customers
- The competitor's customers
- The competitor's lapsed customers
- The competitor's enquiries
- The competitor's former customers
- The referrals
- The existing buyers

The suspects represent the segment of the market that has the potential to become prospective customers. Enquiries whether they are intentional or casual provide for a focused approach in the process of acquisition. Proper responses to enquiries are likely to result in customer acquisition.

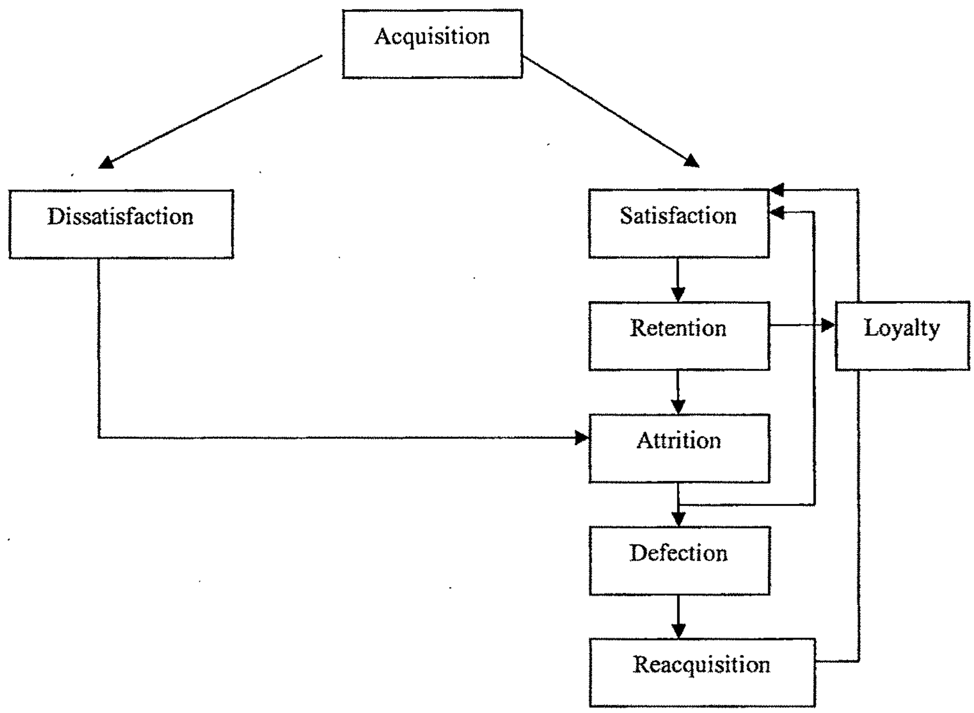
The lapsed customers should not be neglected. They can be booked as new customers if the reasons for lapses are rectified suitably.

The competitor's customers, competitor's lapsed customers, competitor's former customers and competitor's enquiries are major attractions for acquisition. Customers, who always prefer more value for money every time, are naturally inclined to opt for alternatives. In this context, the competing organization can acquire the competitor's customers if the customers perceive that they would be rewarded with more value for money. Referrals play a significant role and provide a strong base for new customer acquisition. It is likely that fresh customers will rely heavily on referrals rather than the organization's own promotional efforts. Existing buyers may also be targeted for acquisition in the event of the organization expanding its product line.

1.1.8.2 The Retention Stage

Under the present context of competitive environment, the focus of the organizations is more on customer retention than simply on customer acquisition. Customer retention is the process of keeping customers in the customer inventory for an unending period by meeting the needs and exceeding the expectations of those customers. It is the approach of converting a casual customer into a committed loyal customer. A retained customer who turns out to be loyal will shift his focus of relationship with the organization, from a mere transactional relationship tied up with emotion and commitment, which will benefit the organization a long way. Customer retention would enable the organization to minimize expenses in terms of acquisition of new customers. Customer retention cost for an organization is expected to be far less than that of the acquisition cost. Customer retention enables a long term relationship of mutual benefit, both to the organization and the customer concerned.

Figure 1.5 Stages of Retention in the Customer Life Cycle



Source: Mohammed Peeru H. and Sagadevan A., *Customer Relationship Management - a Step by Step Approach*, 2002, page 35

1.1.8.3 The Loyalty Stage

There appears to be a close interaction between customer retention and customer loyalty. Loyalty is usually measured in terms of longevity of the patronage of customers. Loyalty that arises out of retention is a preferred state, as compared to loyalty of reluctant customers. A reluctant customer may also appear to be a loyal customer, which is a type of spurious loyalty or artificial loyalty forced by various factors such as situational, limited brand choice, limited income, limited supply and so on.

The delivery of a service to a customer must be timely, accurate, with concern, and with courtesy. All services are intangible and are a function of perception. As such, they depend on interpretation. In addition and perhaps most importantly, service by definition is perishable, and if left unattended, it can backfire on the organization.

Caring shows that the organization is very much interested in what the customer has to say. You may spend time with the customer to find out what his or her real needs, wants, and expectations are. It is not unusual to even tell the customer that you may not be able to help, at the expense of losing the sale. Furthermore, you may go as far as suggesting someone else or some other company.

1.1.9 The attributes of CRM

- Be observant: In most cases, when dealing with service related items, observations may contribute to satisfying the customer more than direct communication. Pay attention to body language and mannerisms, and if necessary, read between the lines. Always try to be one step ahead of the customer. Anticipate his or her action. Actively listen to what the customer is communicating, and perhaps more importantly, what he or she is not communicating.
- Be mindful: It is important to remember that the customer has a choice. If the organization does not recognize the urgency, the sensitivity, the uniqueness, the expectations, and the influence that the customer has, it will not be successful in satisfying the customer.

- Be friendly: Offer guidance and information and let the customer know you are there to help. If necessary, provide feedback to customer to make his or her decision.
- Be obliging: Patience is the keyword in customer satisfaction. Sometimes the customer does not know what he or she wants and maybe making up his or her mind while talking to you. As such, accommodating the person may make the difference between a satisfied and a dissatisfied customer. It may make the difference between a sale and a walkout. While obliging the customer, it is best to educate the customer.
- Be responsible: The customer is looking to the organization to provide the appropriate information in a clear, concise, and easy-to-understand manner. It is not wise to make the sale at all costs because the strategy may backfire.
- Be tactful: In any service organization and in any service delivery, there are going to be problems between the organization and the customer. Tactfulness is the process by which the conflict may be resolved. The focus should be to satisfy the customer, by identifying the problem, analyzing it, and then resolve it in the most expedient way. Being tactful does not mean that the organization will have to give in to the customer all the time. What it does mean is that it has to act in a professional manner, be composed, and communicate to the customer in a way that is not threatening or demeaning. It means that it is willing to listen and exchange information with the intention of resolving the conflict.

The "cost" is not an attribute that will make or break either service or satisfaction. The reason is that, in service especially, cost is equated with value. This does not suggest that high cost is a prerequisite to good service or vice versa. It simply suggests that the organization has to continue to generate more value for the customer without "giving away the store". It is indeed a very delicate balance.

1.1.10 Technical functionality

A CRM solution is characterized by the following functionality:

- Scalability - the ability to be used on a large scale, and to be reliably expanded to what ever scale is necessary.
- Multiple communication channels - the ability to interface with users via many different devices (phone, internet, etc)
- Workflow - the ability to automatically route work through the system to different people based on a set of rules.
- Database - the centralized storage (in a data warehouse) of all information relevant to customer interaction, customer privacy considerations, e.g. data encryption and the destruction of records to ensure that they are not stolen or abused.

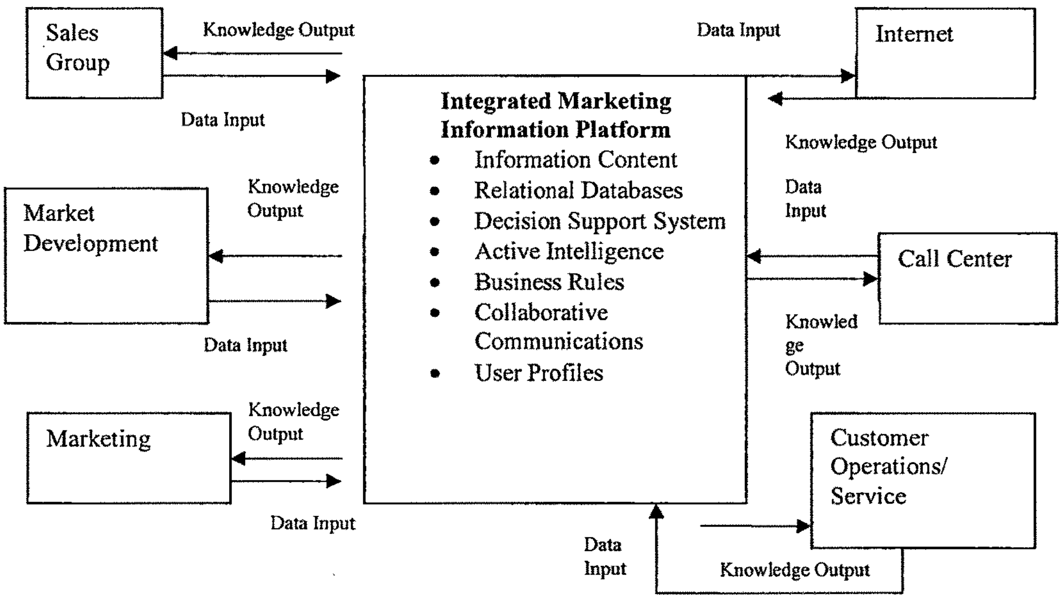
CRM strategy has many aspects, but the basic theme is for the company to become more customer-centric. This does not necessarily create a new revenue stream today or even tomorrow. However, it will add customer loyalty to your business's bottomline.

Executives soon realized cost reduction tactics were not enough to satisfy either customers or shareholders. Maximizing profitability was the real name of the game. The paradox was that companies could not very well increase profits while simultaneously enticing new customers with price breaks. Companies have realized that without customers, products do not sell and revenues do not materialize. Companies are reading the competitive writing on the wall and looking to technology for a leg up. It costs a company six times more to sell a product to a new customer than it does to sell to an existing one. This has motivated businesses to try to maximize existing customer relationships. And the main way to squeeze every drop of value from existing customers is to know who the best customers are and motivate them to stay that way.

To optimize customer service and satisfaction, the service must be understood before asking the customers what they want. In order to do that, data needs to exist. The data maybe qualitative and/or quantitative. Contrary to what most people think, service is not as mushy and touchy-feely as it has been made out to be. To be understood, it requires hard work from management and non management alike, in addition to measuring what is important.

Creativity allows to handle or diffuse problems at hand or later on in the process of conducting everyday business. It can identify what the organization has to do to gain not only the sale but also the loyalty of the customer and the payoff of the transaction both in the short and long term. This can lead to identify what customers want and also if they are satisfied.

Figure 1.6 Information Platform for CRM



Source: Sheth Jagdish N., Parvatiyar Atul and Shainesh G., *Customer Relationship Management – Emerging Concepts, Tools and Applications*, 2001, p. 17

In the enthusiasm to implement CRM solutions, some companies seem to be overlooking the basic considerations that would make such initiatives successful. Since CRM implementation comprises a significant information technology (IT) component, these companies have handed over the responsibility of CRM implementation to IT Departments. They are simply focused on installing CRM software solutions without a CRM strategy or program in place. This leads to creating an operational tool within the company, but the usability and effectiveness in producing desirable results from such tools is limited. CRM tools would be valuable when they are used to identify and differentiate individual customers and to generate individualized offer and fulfill customized solutions. The lack of a CRM strategy or CRM programs would leave the front-line people without any knowledge of what they should be doing with additional customer information that they now have access to. For those who apply themselves and develop improvised solutions, it could backfire as ad hoc solutions could cause unintended deterioration in customer relationships. Hence, it is important to consider CRM process framework in totality. CRM tools are meant to supplement a company's strategy for building effective customer relationships. Appropriate strategy and excellent implementation are both needed for obtaining successful results.

1.2 Rationale of the Study

Why has the study been conducted in the Banking Industry in India?

In recent years, the banking industry around the world has been undergoing a rapid transformation. In India also, the wave of deregulation of early 1990s has created heightened competition and greater risk for banks and other financial intermediaries. The cross-border flows and entry of new players and products have forced banks to adjust the product-mix and undertake rapid changes in their processes and operations to remain competitive. The deepening of technology has facilitated better tracking and fulfillment of commitments, multiple delivery channels for customers and faster resolution of mis coordination.

Unlike in the past, the banks today are market driven and market responsive. The top concern in the mind of every bank's CEO is increasing or at least maintaining the market share in every line of business against the backdrop of heightened competition. With the entry of new players and multiple channels, customers (both corporate and retail) have become more discerning and less "loyal" to banks. This makes it imperative that banks provide best possible products and services to ensure customer satisfaction. To address the challenge of retention of customers, there have been active efforts in the banking circles to switch over to customer-centric business model. The success of such a model depends upon the approach adopted by banks with respect to customer data management and customer relationship management.

Over the years, Indian banks have expanded to cover a large geographic & functional area to meet the developmental needs. They have been managing a world of information about customers - their profiles, location, etc. They have a close relationship with their customers and a good knowledge of their needs, requirements and cash positions.

Though this offers them a unique advantage, they face a fundamental problem. During the period of planned economic development, the bank products were bought in India and not sold. What our banks, especially those in the public sector lack is the marketing attitude. Marketing is a customer-oriented operation. What is needed is the effort on their part to improve their service image and exploit their large customer information base effectively to communicate product availability. Achieving customer focus requires leveraging existing customer information to gain a deeper insight into the relationship a customer has with the institution, and improving customer service-related processes so that the services are quick, error free and convenient for the customers.

Customer-centricity also implies increasing investment in technology. Throughout much of the last decade, banks world-over have re-engineered their organizations to improve efficiency and move customers to lower cost, automated channels, such as ATMs and online banking. There is a growing realization among Indian banks that it no longer pays to have a "transaction-based" operating model. There are active efforts to develop a relationship-oriented model of operations focusing on customer-centric services. The biggest challenge our banks face today is to establish customer intimacy without which all other efforts towards operational excellence are meaningless. The banks need to ensure through their services that the customers come back to them. This is because a major chunk of income for most of the banks comes from existing customers, rather than from new customers.

Customer relationship management (CRM) solutions, if implemented and integrated correctly, can help significantly in improving customer satisfaction levels. Data warehousing can help in providing better transaction experiences for customers over different transaction channels. This is because data warehousing helps bring all the transactions coming from different channels under the same roof. Data mining helps banks analyse and measure customer transaction patterns and behaviour. This can help a lot in improving service levels and finding new business opportunities.

It must be noted, however, that customer-centric banking also involves many risks. The banking industry world over is being thrust into a wild new world of privacy controversy. The banks need to set up serious governance systems for privacy risk management. It must be remembered that customer privacy issues threaten to compromise the use of information technology which is at the very center of e-commerce and customer relationship management - two areas which are crucial for banks' future.

The critical issue for banks is that they will not be able to safeguard customer privacy completely without undermining the most exciting innovations in banking. These innovations promise huge benefits, both for customers and providers. But to capture them, financial services companies and their customers will have to make some critical tradeoffs. When the stakes are so high, nothing can be left to chance, which is why banks must immediately begin developing comprehensive approaches to the privacy issue. The customer centric business models based on the applications of information technology are sustainable only if the banks protect client confidentiality in the process - which is the basic foundation of banking business.

In the context of Banking, CRM cannot be simply grafted onto the multi product, multi-organization of most banks. The huge amount of information available to these banks, couples with the wide array of products and services they sell, can make implementing CRM a complicated and time-consuming task entailing broad institutional changes. Banks have many customers about whom much is already known. This is usually the case because of the demographic information that the customer fill in while availing of the services of the bank and also of the transactions that they routinely carry out with these companies. These companies have many products, for example, a person may have a saving account with the bank, a debit card, loans etc. One of the things that these companies routinely try to do is to try and cross-sell or up-sell their products. They try to sell other products to their customers who already have purchased products. The companies adopt such an approach because it is cheaper to sell more to a customer and retain him or her rather than search for new customers.

One of the problems these companies face is a lot of wastage in communications. If the company routinely sends new product flyers to all of its customers, then, it is likely to incur a lot of cost as the response rates for these is usually very low even among the existing customers. A better idea would be to identify those customers who would be likely to respond favorably to such offers.

The favorable prospects are identified by segmenting the database into subjects who are likely to respond favorably to such marketing efforts and those who are likely to respond unfavorably. By communicating only with the favorable segment, these companies are likely to increase their hit percentages considerably while bringing down the cost of campaigns substantially.

Data mining helps significantly in a CRM environment. It provides the intelligence and the knowledge that is needed to understand customers and their behavior from past interactions. Proper integration between the data mining tools that run on data (provided by a data warehouse) and front-end CRM tools substantially improves a company's goal of providing better service to its customers by providing timely and relevant information to its employees (Shainesh and Sheth, 2006).

Areas of concentration

In the present work an attempt has been made to identify the customer touch points and hence identify the role of IT in customer relationship management solutions across various categories of Banks in India. It aims at studying the customer preferences for various service offerings by banks and hence tries to establish a framework for customer choices governed by their technical inclinations and risk aversity. The study also finds the success of the banking industry in India in terms of attaining productivity as well as customer satisfaction and hence establishes a bottom-line framework that identifies the proper mix of variables that identify wise investments into sophisticated technology based CRM application for different categories of Banks in India.

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