

Customer Relationship Management
Prof. Swagato Chatterjee
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

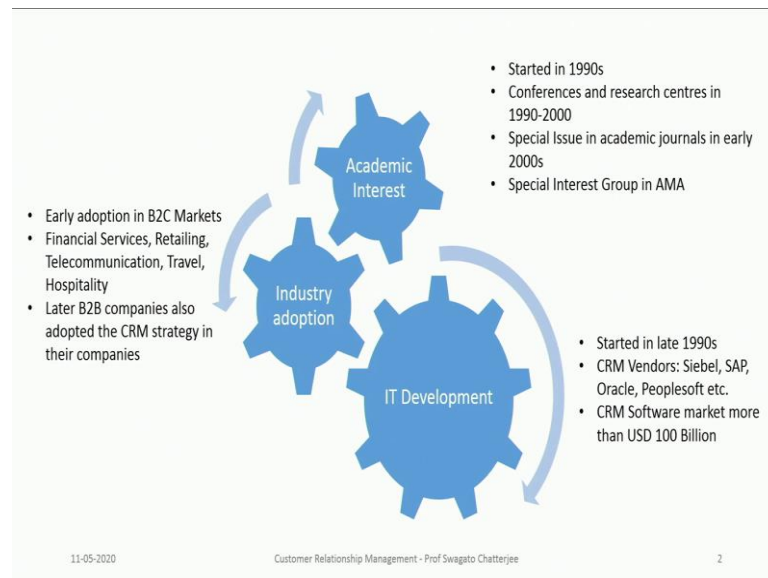
Lecture - 01
CRM: The Strategic Imperative

Hello everybody. Welcome to the NPTEL course of Customer Relationship Management. This is Dr. Swagato Chatterjee from the VGSOM, IIT Kharagpur who is taking this course. We are in week 1 and session 1 and in this in this particular session; we will talk about the Customer Relationship Management: The Strategic Imperative. So, we will focus on how customer relationship management is related to the strategy of a business.

So, when we talk about customer relationship management the academic interest on customer relationship management started sometime in 1990s. So, there were initially generally what happens is, marketing theories generally evolve from industry practices people do industry practices first and then all the academicians who work in the management domain generally look at the best practices and try to create a theory out of that.

So, it is more of an observational study that we academicians do in marketing that what is the best practice and why that is a best practice and how that has a boundary condition in which condition that can be applied, which condition that cannot be applied that kind of knowledge gets created in an academia. But, this is one area where it started mainly from the academics that academia suggested that this kind of customer relationship management as a domain will be an important area of study. And though relationship management practices were going on in the industry for quite some time, people were not aware that relationship management was a big thing the whole industry was not aware.

(Refer Slide Time: 01:52)



At a personal level at a individual company level there that kind of focus was there. But that was because see in 1990s who are the biggies of the industry. If you think carefully the biggies were all the product companies and we will talk about the marketing concept later, but you remember that initially in marketing we have four concepts. It started from the basic I would say the product concept and then the production concept and then the selling concept and then came the marketing concept.

So, in the product concept people actually created innovative products and then in the production concept people actually tried to focus on how efficiently reducing the cost, I can produce a lot within a say low resource available. When the resource availability is low, how I can produce a lot how I can get the benefit of economies of scale the competition was on that that whether you can make things cheaper, whether you can make at a smaller cost large volume of products.

And then came the I would say the selling concept where major focus were on selling how the already created lots of products will be sold. Now the 1990s and etcetera that was that time when it was in a production and selling concept kind of things were going on in the market that people who were majorly focusing on whatever they have produced, how they can sell it. But then came the marketing concept where customer orientation came into play where people started that first of all you cannot sell whatever you produce. Your whole journey of marketing will start from the customer.

The first thing that you have to understand that what customer wants and then you produce what customer wants. And then customer will automatically buy that; you do not have to sell it. If you produce what customer wants and do not do any kind of pushing of the products, customers will anyway buy because they know that you will be the person; from whom they will buy it.

But later academicians started thinking that see purchasing is not a one single time frame game because customers evolve customers change. I as a customer, whatever I liked 10 year back and whatever ah I will like 10 year later and whatever I like me, that those all these three avatars of me are three different people. And if I these three avatars are three different people, then you have to target; you have to see that what this how this avatars are changing and you have to probably change yourself according to the change of this particular person so, that you can make better profit.

So, in in 1990s from various conferences and various kind of visa centers, these kind of discussions came in at the at the starting that there is something called customer relationship like normal human relationships and that is something which is important to study and that can probably lead to profitability.

So, there had been a special issue in academic journal in early 2000 on this and there was a special interest group on American Marketing Association also in the similar time period. Now, these academic interest and then the consultancy by these academicians led to early adoption of B2C early adoption in the B2C market specifically. Because for a very long time, this relationship management focused on B2C markets and probably the early academicians also thought that B2C will be the B2C means business to customer market where the where you are selling something to the customer directly.

So, they thought that that is where the applicability of customer relationship management will be higher. Why did they think like that because you think that what kind of context where you generally have multiple interactions with the customer?

For example, let us say if you are if you had a mobile phone company, then that your customers use mobile phones of the same number probably 4 years, 5 years sometimes 10 years. Now depending on who the customer is, the longer the stay with you, the better is the profitability and that is something where the B2 in the B2C, concept the relationship management comes in.

Another classic example can be let us say, health care. We generally like to we go to the same doctor because we create a sense of I would say trust a sense of attachment, a sense of belongingness with a particular doctor.

So, whatever happens with me or my friend, I will suggest this particular doctor if I am happy with the doctor if I trust the doctor and etcetera. So, they are also the customer relationship management comes in. It also comes in, in case of retail in case of hospitality like hotels. So, majorly in the B2C, we very well see the application of customer relationship management and that's why the early adoption also happened into the in the B2C sector.

But what happened later is that, see in B2B most of the most of the strong purchases or I would say high value purchases that happens in B2B follow a different path than B2C. The purchase decision making path for B2B and B2C, this is this comes from marketing 101. So, these are two different paths altogether. And often time B2B purchases are fixed you know that I will be buying from this particular supplier only; because the number of suppliers are sometimes low in a particular zone. Let say I want to buy I am a company who is a mining company and I want to buy excavators means whichever excavates the land, then probably I will have 3, 4 companies in the whole world who can actually cater to me. So, in that kind of situation we oftentimes B2B companies do not have a choice.

Oftentimes B2B companies do not have multiple interactions with these suppliers just because the purchase has been made of a capital good. Like for example, the excavator that you buy, you will be buying that for the next 10 years. The only transaction that will happen between you and the seller will be the maintenance. Other than the maintenance probably, there will be very less chance that the purchasing process will come into the picture after you have bought an excavator.

So, that's why in B2B initial in the initial days in B2B this application of customer relationship management where you try to create a relationship with your customer your B2B customer was not very strong, but later it evolved. So, initially as I wrote, as I was discussing financial services like banks or mutual funds or various kind of financial companies, traders, then the retailing companies, telecommunication companies, travel and hospitality companies. These were the major industries where the application of customer relationship management came in.

But later that evolved and later B2B companies also adopted CRM strategies. And in this course as we go ahead slowly, we will be discussing that how both B2C companies and B2B companies can adopt this customer relationship management strategy and how these two things are different and what kind of mechanisms these particular two customer relationship management policies follow in two different cases and what can be done.

And then at later point of time post, I would say 2005 or early 2010 in these kind of frame 2005 to 2010, the IT boom happened and internet became available and there were lots of platforms that came in the PHP and HTML-based web pages were being built. And then people started creating various kind of platforms and various other kind of using various other kind of technologies. ERP systems came in, SAP came in as a very strong way and other kind of ERP systems which were homemade ERP systems or probably custom made ERP systems also came in.

So, basically the IT development led to the adoption of CRM in the industry quite a bit. So, it actually started in in also 1990s probably parallel to the academic interest. When the CRM vendors were mainly Siebel and SAP, Oracle PeopleSoft; so, SAP is the ERP system while Oracle is basically a database system and currently probably they these two guys are together.

But at that time they were different and these were the major CRM vendors, but the problem with these vendors were that they were very costly because at that time in premises; you have whatever you have to do you have to do in the premises; you have to have a server, where you have to put all these all the data that you collect.

So, selling server selling of databases, managing of data centers become a huge business and not all B2B companies or B2C companies can actually have that kind of a I would say deep pocket to invest so much of money on CRM strategy and CRM development, The IT part of the CRM which only can be monetized in the long term; see I am talking about customer relationship management. So, any monetization of this customer relationship will only happen in the long term. It will not happen in the short term.

So, if it does not happen in the short term, then you have to have deep pocket. So, that you can invest lot of money which can only be generating any kind of returns in a long term and not many companies had that at that point of time.

So, CRM software market was more than USD 100 billion right now and that change happened because the IT development has become so much popular and I would say so much easier than before that people have created their own CRM system. So, this is how chronologically first the academic, then the industry adoption as a strategy, then industry adoption as a practice through IT the advancement of CRM happened.

(Refer Slide Time: 12:51)



Now, growth of CRM has these four major drivers. The first major driver is called the emergence of service economy. So, what is service economy, you have to understand first. So, for a very as I was telling there are three four concept like product production and then selling and then marketing concept and etcetera and then came the service concept.

So, the service concept is the latest concept probably and where we think about service dominant logic. The idea of that is that everything is a service. You cannot create a product or create a create anything without taking the customer into your product in your solution generating process. You cannot create any solution without taking the customer into your solution generating process. If you create that then there will be always a gap between what you have created and what the customers want whatever well you can understand the customer.

Let say you understand the customer very well, still there will be a gap that can be small or large depending on how accurate you are, how efficient you are, but that gap will be

there. The better way is to involve the customer in the solution making process that is number 1.

And number 2 is you have to understand that everything is a solution everything is actually a service that is trying to solve a problem of the customer. There is nothing called a product. To give an idea let's say what is the purpose of a mobile phone if I ask you what is the purpose of a mobile phone? Just pause this particular video for at least 30 seconds at this point and then just think that what is the purpose of a mobile phone?.

So, if you have thought about that; now if you have not thought, please think. But if you have thought about that, then you will understand that mobile phone is majorly the purpose of mobile phone is to connect with somebody. So, any solution that can help you easily connect with somebody will be required will be enough to be used as a mobile phone or something like that.

So, mobile phone itself, its job is to connect with somebody. Now do you think mobile phone is a product or mobile phone is a service because I can connect with somebody else I can connect with somebody else without a mobile phone also probably I can connect with my tab or with my laptop. If I can put a data connection internet connection in it I can. So, then the next problem that it is solving is it should be mobile; means it there should be some mobility component here. I can be I can be able to connect with somebody on the go, but still laptop and other things can do that.

So, then the concept comes that ok; it should be carriable it should be easily carriable. So, I do not need a bag or anything else or a cover to just carry it. I can just carry it in my pocket, and then the product comes in. Now you have to understand this product; it is a tangible thing altogether, but ultimately it is solving a problem. Tomorrow a new product comes in which you do not have to even carry. Let us say tomorrow, I am just think talking a futuristic thing loudly; let us say tomorrow something comes in where even if you just say in the air the message goes to your recipient and you do not need a hardware to do that then that, then that requirement of this particular mobile phone will go away.

For example, requirement of watches are not anymore there because there is somebody else who gives you time and that is a software not even a hardware. It just catches it if there is one particular probably clock located somewhere. It might be a digital clock or something; it is connecting to that through internet in your mobile in your mobile phone

the moment you connect with internet. It is connected to that server and you are getting your time; it is not even doing any mechanical thing to give you time. So, all I am trying to say here that ultimately it is trying to solve a solid problem that you have.

Now when people started thinking that everything is a service is ultimately a solution providing that we are trying to do. For example, in case of mobile phone they think that okay it is a it's a connectivity that I am trying to give I am not giving this particular product and the connectivity matters and that is why they tied up with telecom companies sometimes. So, they are tying up with certain softwares where you have internet even if you do not have the even if you do not have the mobile SIM, if you have Wi-Fi or if you have Bluetooth, you can connect with somebody. So, that kind of features are coming in. Because I do not because connectivity is the major issue other things are not so important.

So, when you start thinking it as a service everything as a service, then generally for product it is transaction oriented one transaction happened; you sold the product, it is gone. But the moment you think it is a service there are multiple touch points that started getting created.

For example, have you seen that if you have if you go to the go to a salon a beauty salon or a barber shop, he gives you probably a better experience in the first visit or the second visit. Why and then he in the third fourth fifth visit he starts giving you the regular experience; his behavior is very good in the first or second visit.

Because in a service he knows that I am not making more money from this one time you come here. One time you go to the beauty salon the profit that he makes is probably 200 rupees depending on what service you take. One time you go to a barber shop, the profit is probably 30 rupees depending on what service you take. But the more you go every month if you go or in this every, two weeks if you go to a barber shop then the profit comes. It does not come in one single transaction because he does not have to do any extra marketing. You are a you are a loyal customer you are a you are a set customer who will always come to me. So, the moment that happens the profit comes.

So, the service focus actually needs multiple transactions multiple touch points between one customer and you and the touch points are basically spread over time; not in a one single time period there will be multiple touch points, but spread over time. So, when

that happens you need a long term relationship and when that long term relationship is required, you will go for customer relationship management.

For to give an, another example let us say this mobile company, I am coming back again and again to this mobile example. This mobile companies sale the mobile phone many of the mobile company sell the mobile phone through their franchises their own franchises. I would say like Samsung will have their own shops or Nokia will might have their own shops at some point of time they used to have.

Now, Samsung will have or Sony will have and etcetera. Now I have bought a Samsung mobile phone from somewhere and after probably around 6 months or 1 year, this person in that particular mobile phone store calls me and says that sir new versions of Samsung mobile phone has come up; why do not you come and have a look. Or he says that okay sir the New Year is coming up or why do not you gift somebody this Samsung phone for for his birthday or some anniversary and etcetera.

So, how did he get these detail here? He has actually noted down when I was buying this particular thing, he told that sir why do not you go for a loyalty card or something you will get 100 rupees discount or 200 rupees discount. I said why not and then he collected my date of birth, he collected probably my anniversary date if I am interested to give, there is a form that they give even this was very popular in hospitality industry. Now it is coming up in the mobile phone industry as well.

So, now after I fill up that form, they call me on the on this particular day or 1 week ahead of that particular day and says that why do not you come and buy; same applies with jewelry. So, jewelry companies call you and say that why do not you buy this Dhanteras is coming or your anniversary is coming your wife's birthday is coming and these and that; so, why do not you come and buy.

Now, they know that we have the urge of buying, but when that poke will happen, then probably through multiple interactions between them I will be interested to buy. They also know that you generally we use a single mobile number for a long period of time, but often times we change. Currently the people change mobile phones every 6 months or 1 year.

So, if that is the lifespan that one mobile phone will be used 6 months and or 1 year if I do not touch this customer after 6 months there is a chance that he will switch from my brand to another brand. So, while for barbershop or for a beauty salon, it is a monthly transaction, for these guys, it is a 6 monthly or yearly transaction.

But still if that is a high value customer, you might probably buy a mobile phone of 5 to 10000 rupees or probably more 20000, 30000 rupees. So, he knows that I will make quite a bit of money from that and even if I follow the customer relationship management strategies and think it has a service business rather than a mobile phone selling is the service business rather than a product business, there is a better chance.

So, all I am trying to say is this emergence of service economy as a majors provider to our GDP actually also led to growth of CRM. Then emergence of market economy that is also different important that market economy means everything starts from the market. It is not like the product economy, I have already discussed about this. So, I will not focus a lot on these particular point that we started our marketing concept from the customer from the market itself.

So, when this when you start from the customer itself and when you give lot of importance to the customer, you have to follow the customer relationship management strategies so; obviously, this emergence will also lead to growth of CRM, then what came? Then came the global orientation of business.

So, in 1990s, we opened up to the open market and there are lots of places where the where the foreign companies can come and invest in Indian market. Now you have to understand that if I considered about India or China or this kind of places, China might be a closed market yet still in some of the zones or in some of the industries, but India is fairly open.

Now India is a huge market also and when it is a huge market and there are lots of consumers, there can be a variation in terms of their spending ability, but; obviously, the size is big. So, when the size is big lots of foreign companies who have deep pocket who can invest on customer relationship management gets interested to this huge customer base.

Because if I have a huge customer base and that customer base stays with me for let us say 4 years or 5 years or 10 years, the money that I invest to on the technology part is peanuts in that case. So, given that, this global orientation of business and when the FDI s were open and lots of foreign investments were open, the customer relationship management grew like anything.

And the last one and probably one of the most important one is aging population. So, why do you think our population is aging? Aging population means the median value or the mean value of our population in terms of age the mean age is increasing. So, if the mean age is increasing, what is the reason for that? The health care is improving every day. We are slowly moving from lower income category to middle income category. More number of people have decent income if not so, so the poverty level is coming down. More people are switching from BPL to middle range; even if it is a lower middle class, but people are moving to that.

So, people have some amount of extra money in their hand to spend and their lifestyle is improving if the lifestyle is improving. If the healthcare is improving if more amount of vaccination is happening mass vaccination is happening or public health is improving; people are living more. And when people are living more and they have some money in their hand and another important thing that is happening in India probably is that we people are moving from, I would say saving orientation to consumption orientation because of westernization because of globalization as I just told discussed right now.

Globalization not only helps companies to invest here, globalization also help us to understand what other people are doing. And sometimes there is a clash there is a dilemma between our culture and western culture; our culture is conservative more saving oriented more risk averse culture. Western culture is a little bit risk taking culture and then there is when this amalgamation happens, there is a little bit of middle ground we follow and in that middle ground we start consuming a little bit more.

So, my dad if I just think about my dad my dad actually saved a lot of money for me whatever he did whatever small jobs he did, whatever money he got he generally tried to save for the kid. But today we are actually investing; we are not saving, we are investing to create wealth and part of that wealth can be created, given to the kid, but the other wealth can be consumed can be enjoyed.

So, our with the healthcare increase, the population is aging and with the change of our mindset, we are consuming more as we are getting aged also. So, both together; that means, the lifespan is increasing and the consumption over the lifespan is also increasing. Both together it creates a importance of customer relationship strategy because if I can be your service provider for a longer period of time, for multiple different kind of services, then I as a business can make more money. So, that's why these are the major four factors that improve CRM. So, in the next video, we will continue the strategic discussion about CRM as a strategy. I will see you in the next session.'

Thank you.