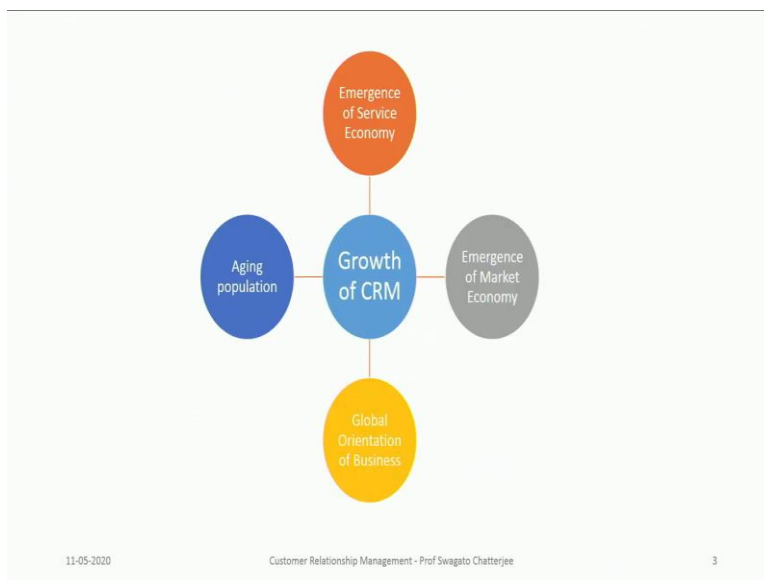


Customer Relationship Management
Prof. Swagato Chatterjee
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Lecture - 02
CRM: The Strategic Imperative (Contd.)

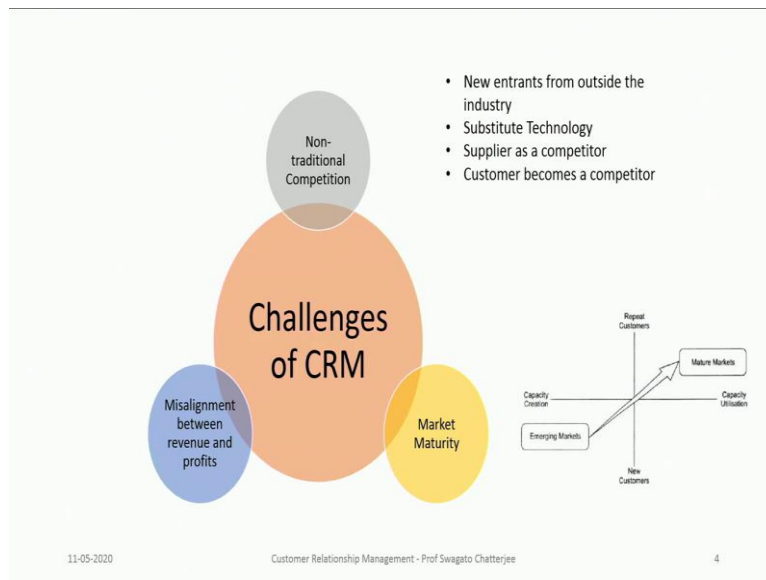
Hello everybody, welcome to the NPTEL course on Customer Relationship Management. This is Doctor Swagato Chatterjee from VGSOM IIT Kharagpur who is taking this course. We are in week 1 and we are discussing Module 1 the Strategic Imperative of Customer Relationship Management.

(Refer Slide Time: 00:27)



So, in the last video I was discussing about what are the growth factors of CRM and in this particular session we will also focus on the challenges of CRM.

(Refer Slide Time: 00:31)



So, what are the various things which impacts CRM in a negative way. So, one of the major challenges of CRM as strategy is the nontraditional competition. So, often times that there are new entrances from outside the industry which can change the industry like anything. For example, for a classic example that we take is like the watch industry, the HMT is of the world has changed or probably have washed out from the market or the Kodak of the world has washed out from the market because there is an alternative technology that comes up.

So, sometimes that becomes a huge challenge for adapting a CRM, because if let say you have invested a lot in CRM and you in expect that this CRM strategy will give me some money back over 10 years. Nobody knows whether you live for 10 years as a business, nobody knows whether a technology change comes and you get washed off in 10 years.

So, the exit will be very painful in that case because you have already invested on something which will only make money over a longer period of time and now you have to exit. So, what happens to that already made investments? So, that is a challenge. Then comes the substitute technology; obviously, again as I was telling that technological development will actually change the market, similarly the new entrance will change the market. Often times new entrance come with a substitute technology where your technology becomes obsolete.

So, when that happens; obviously, that is a challenge because nontraditional competition will always focus on whether your company will live for a longer period of time or not. So, that becomes a challenge for your company's life time. So, that is an issue. Then often times we have seen that supplier becomes a competitor because supplier generally create — a classic example will be the supplier of Apple.

So, iPhone supplier of iPhones for various parts, there were certain companies which were supplying and then they started making their own mobile phones which were absolutely similar to iPhone in terms of the quality and etcetera on. But they did not have the brand name initially but over a period of time, they created their own brand names also and now they are competing with iPhone probably even in the price range.

So, I will be giving you the similar product, but a little bit lesser price, 5,000 rupees less price or 10,000 rupees less price, same product. So, that kind of a competition also is coming in which also impact CRM and sometimes customer becomes a competitor also. So, often times in this procreation market where I am saying that you have to deal with the customer, you have to live with the customer for a longer period of time like you know the customer also starts knowing you and then often time customer develop their own product and which can be your competitor. There can be classic examples for that also.

For example, for a quiet longer period of time the SAP ERPs were used by various customers and then customers created their own ERP systems and now they are selling those ERP systems which are competition to SAP systems. Because your customer knows what you can do, what you cannot do and if that kind of knowledge customer generates then the customer can create their own product.

So basically, in a CRM strategy you have to always keep your antenna high because you have to think that I am making a huge investment. So, I have to be always risk averse or I have to think that from which corner the risk will come and the risk can come from your supplier, risk can come from your competitor, risk can come from your customer also. So, all of these things are threats, are challenges for CRM.

Then another challenge is market maturity. So, as the customers becomes matured as the as the markets becomes matured, the applicability of CRM becomes high, but if it has

already matured, then probably that is the time period when you reap the benefits of CRM. You generally, probably sow the seeds of CRM when the market is not matured.

So, you will generate customer base, you will generate — acquire customers and keep them with you when the market is new and you will reap the benefits when the market has already matured. If the market has already matured at that point of time you are doing CRM activities, it does not work. Classic examples will be like, let say Uber or Ola and etcetera.

So, Uber and Ola even known when the market was not matured, they were focusing on your habit forming kind of a strategies, they were giving lots of coupons, lots of benefits, so that you use this particular thing better. And for all types of travels whether you are travelling 2 kilometers or 20 kilometers, whether you are travelling within your city or outside your city, they created such an atmosphere that when you travel you have to think about Ola or Uber. You have to search Ola and Uber check the prices then can only you can go in somewhere else.

So, that is where they focus at the early periods. And now the market of shared cabs or probably any kind of call cabs or mobile app-based cab services is matured and now they are reaping it, now they are reaping the benefit of the customer base that they have created. Now they are not giving any more discounts, but they are coming up with discounts in newer markets when they are when they are spreading all over India in smaller cities also, but in the metro cities they are not giving any such discounts anymore.

Now, if another company comes, tries to come in, they cannot create customer base they cannot do customer relationship management because the market is already matured and settled. So, you in your mind always know that I prefer Ola over Uber or Uber over Ola. So, that kind of maturity have already generated you have settled with your service provider. So, penetrating in that market becomes very difficult because you cannot use CRM strategies in a matured market.

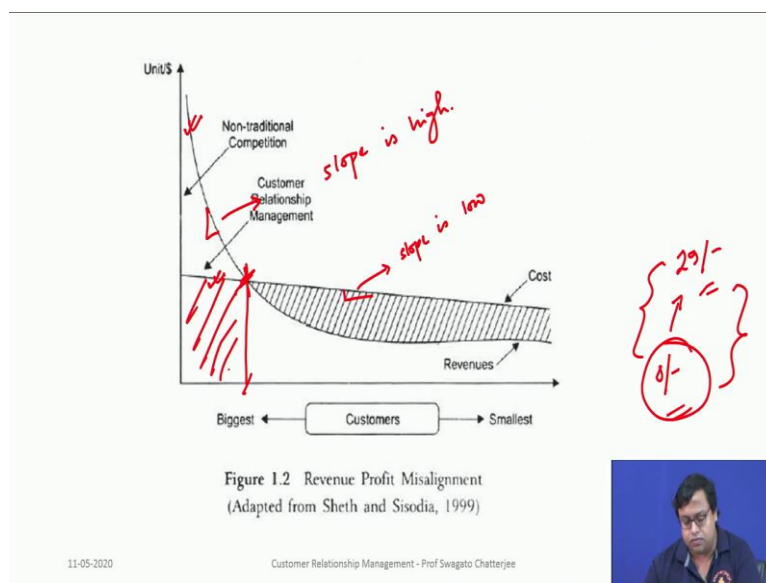
So, you can only reap the benefits of CRM strategies in a matured market. So, that is also a challenge and then the third challenge is a misalignment between the revenue and profits. So, often time CRM strategy generates revenue a lot because you have kept lots

of customers for longer period of time, but keeping the customer for a longer period of time often is associated with costs also.

So, you have to check that your cost is coming down over time. If the cost is not coming down over time in a relationship, then that relationship, managing that relationship, or keeping that relationship is very difficult. If the cost is going up over and over time in a in any relationship even in human relationships then keeping that particular thing is difficult. So, you have to think that even if your revenue is going up, your cost revenue goes up goes down whatever happens your cost must come down if that does not happen for a individual customer, the new CRM strategies is not working well.

So, basically these three things: the nontraditional competition, the market maturity and the misalignment of the revenue and profits are the major drivers or I would say major challenges of CRMs-so, major threats or challenges or barriers of CRM as a strategy.

(Refer Slide Time: 08:43)



So, when people talk about this. So, for example, let us say, this is a revenue profit misalignment which I have taken from Sheth and Sisodia in 1999 paper which talks about how the revenue and profit are misaligned.

So, you see that here the revenue, per customer revenue for the, non, initially there is a nontraditional customer, you will see here at this phase. So, when the nontraditional competition is coming up and you take customer relationship strategy this is the unit per

dollar, in the Y-Axis it is unit per dollar, and the X-Axis, it is basically the biggest customer and the smallest customers.

So, as you do customer relationship management and when you do customer relationship management more customers stay with you. So, if more customers stay with you the per-customer cost will be higher. So, for smallest customers you will see that the revenues are much lower and the biggest customers, when the customers are big the revenues are much higher —you make lots of profits. So, this is the profit unit per dollar.

So, here in this particular curve which is coming down very sharp is talking about the profitability of the customers — how much they are, how much, sorry revenues of the customers, how much revenues they are generating. This particular curve is saying that the smaller customers are not giving you enough profit and the higher customers are giving you, the bigger customers are giving you enough profit. And this is the cost and the level in, through which, the economies of scale that you are, that you generally get over a cost reduction over the increase of customers is not in that speed. I would say the curve's slope is low, here the slope is much high.

So, when the slope is low here, we have to decide that at what point, because after this customer all the right side customers are basically less profitable. So, there has to be a cut off of customer after which you will not apply your customer relationship management strategy. So, in other words you do not apply CRM to all, use capitalize CRM to only those kind of people for whom applying CRM corresponding cost will be lower than the revenue.

So, a classic example is, have you, have you heard about Airtel increasing the minimum recharge that is required from 0 rupees to 29 rupees if I am not wrong these values might be different these values might be different, but something like that they did. So, when you do something like that means, what? So, there are quite a few people who are not recharging at all, who are let say, working in some place and there is a — in their home they have kept a number and they just give that, give a miss call to the home and the person in the home will call them or the other way, the home will give a miss call and they will call them.

So, with that, so, now, you just imagine that if only one number recharges and another number just gives miss call that is enough it has to be alive over a month and a single

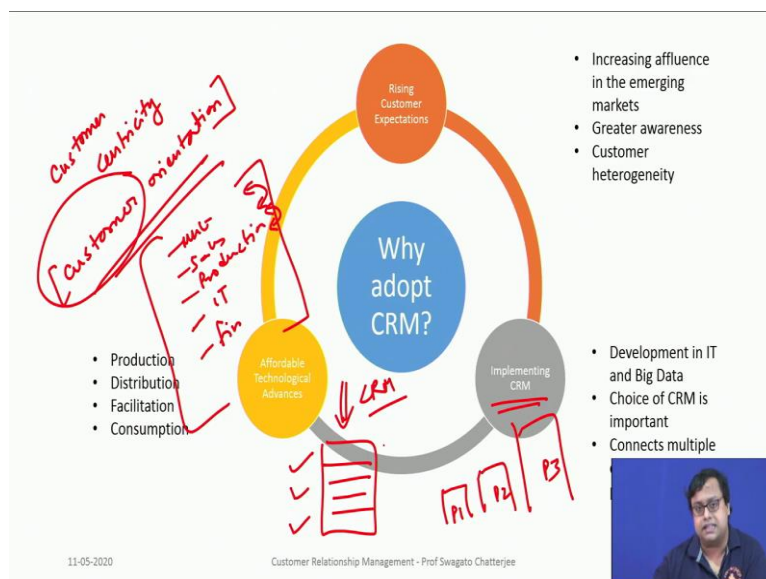
number recharges as per the talk time and etcetera whatever discussion they do, but another number just remains alive and the cost of remaining alive for a free sim was 0 rupees.

So, now they have shifted from 0 rupees to 29 rupees many customers who are not profit making customers will go away. Now, why that is ethical probably because see these are they have come for business. Now, in a place where there is a locality which is a village let say which is a rural area the income is low probably or people is following this kind of a strategy, but whether they follow this kind of strategy or not the connectivity has to be there. You have to maintain a tower there also so, that the connection happens, you cannot say that here the revenues low that is why I will not put.

So, if we have to maintain a connectivity if we have to maintain a, I would say a tower there, at least that much revenue should happen, at least that much revenue should happen that will ensure that your cost, this is your cost, your cost gets I would say covered.

So, if the cost is not covered, then keeping those kinds of customers does not make sense. So, often times this revenue and the cost is not aligned or I would say revenue and profit is not aligned and that is something we have to take care.

(Refer Slide Time: 13:55)



So, in this dilemma of drivers and barriers of CRM, another key strategic question comes up is why should a company adopt CRM strategy.

So, one is that, the major thing is that the customer expectations are rising. So, increasing affluence in the emerging market, so, people are getting more money in their hand as I was telling. So, people are getting more money because the industry is booming, now there is some recession coming that's why probably there will be some amount of effect on poverty level, some amount of effect in generic economic structure, but for a quite long time when last 20 years India's economy was growing pretty well and that is true for many other places.

So, in that case the affluence in the emerging market is coming up. So, people have money in their hand, they have greater awareness also because they have internet, they know which other companies are giving better services or they generally talk with other customers also let say, I faced a bad experience, I will talk with my friends and then probably my followers and my social connections that these particular thing — guy is not doing a good job.

So, the moment you do that, your people get aware about the company, their good deeds and the bad deeds and when people become aware about the good deeds and bad deeds, that affects customer expectations and in turn that affects the CRM strategy. So, you have to adopt CRM so that kind of things can be managed and also customer heterogeneity.

So, you cannot any anymore give one medicine-fits-all kind of strategy, you cannot adopt because every customer is different. Now, if every customer is different then you have to know every customer to cater to every customer. So, if we have to know every customer, you have to adopt customer relationship management strategy because otherwise he will not know the individual purchase pattern of every person.

Now, in today's world Amazon and Google are fighting with each other over data, over the how much data they have captured about you the. Facebook and Google and Amazon are actually fighting because they know that what you are, who you are, what are your likes and dislikes. That information is basically the strength. That information is power because unless they know you, unless they capture the customer heterogeneity they will create one single service or product and try to sell it to many people which is not

happening anymore. We are focusing on micro targeting or we are calling micro segmentation so, that is also coming up. For that CRM data set is important.

The second thing is the price — the cost of CRM. So, at a certain point of time I am told that the Siebel and Oracle and SAP were the main CRM vendors. Now, all these companies were pretty costly and that's why only the companies which has deep pocket which could invest a lot for a long term relationship could only invest on CRM strategies. But things have changed now.

Now, with I would say from with production distribution facilitation and consumption basically they are four parts of affordable technology. Technologies become affordable, there were more number of, I would say CRM companies that have come up and probably people are also using pay as you go kind of pricing techniques, the pricing techniques have changed,. It's a such kind of pricing techniques have come up where people can use as their need — means a small MSME company can probably use the lower package and a person which is a huge company can buy a bigger package or probably take a license take a license for the whole company itself.

So, those kind of affordability it has come into the picture in the CRM technology which is obviously, I would say a big go ahead in terms of CRM adoption because this particular affordability has come up, you should, there should be less barriers in CRM adoption and that is why you as the company should adopt CRM.

What else? #The implementation — the third one is implementation. So, development in IT and Big Data which has improved, choice of CRM has also improved and connects multiple operations and processes. So, that is something also CRM is doing in today's world. So, CRM is not only customer management anymore. For a long time so, there is something called customer orientation or customer centricity we call it. Customer centricity which is a part of customer orientation, which says that to think about a customer is not only the marketing department's job, it is the job of everybody in your company.

So, marketing, sales, production, IT, everybody, finance — everybody should think about the end customer because until and unless the end customer is happy and you are making enough money from them none of this particular industries make any sense, particular departments make any sense. So, that is why this CRM strategy; CRM strategies, when

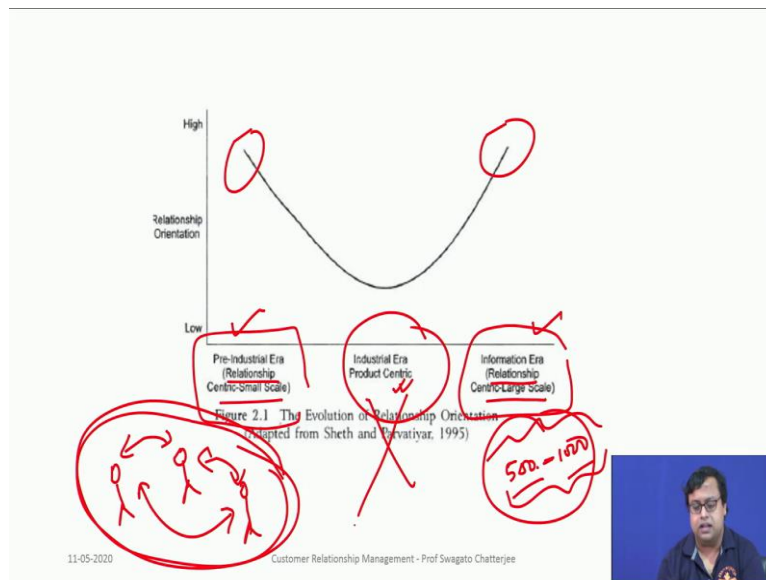
we implement we try to create a, so, for a long period of time this marketing and IT and production did not use to talk with each other.

So, the offices were in different locations, the production houses were in factories which are in remote locations, the marketing offices are in the central cities, and the person who is working in production did not even know in a bigger company, did not even know who is the person who is working in marketing. So, that has changed. Now, with the implementation of CRM strategy a factory which is located in a remote location can know that what kind of orders are coming up — even before the marketing guy calls him or sends the order.

So, the marketing guy can just put that this kind of order is coming up or this kind of I would say, enquiries are coming up in the CRM system and the production office which is sitting in the remote location will have an idea that okay these are the probable orders that will come. So, I can make this much of stock of product of 1, stock of product 2, stock of product 3. I can make as per the anticipated orders that are coming up what still not there. So, all these things are in CRM system. So, IT implementation is actually connecting the marketing and the production offices together which makes the adoption of CRM is almost an inevitable step in a strategic perspective.

Now, we have talked quite a bit about CRM, in the next a few slides I will discuss about the conceptual foundation of CRM. I have talked about customer relationship management, I told then this is relationship management you have to, you have to create a relationship with your customer. So, everybody knows there has to be some conceptual background of that also and I will be discussing about that.

(Refer Slide Time: 21:44)



So, as I was telling that for a quite long time, there was, in the pre industrial era when the industrial revolution did not happen, all the business were personal business only. So, that the personal-level creditworthiness. So, when the companies have not come down before the industrial revolution, when the individual there is a potter let us say or there is a there is a mason let us say. So, who used to work and there was not many organizations per say, they were all individual service providers or product developers, they that economy was majorly I would say governed by personal relationships.

So, the grocery person and the mason and the and let's say the carpenter within a community had interrelationship with each other and those interrelationships lead to, within a community-based relationship was there and that lead to—so, as I was told relationship was centered and relationship-centric and small-scale industry was there in majorly cases. But then the industry came in the industrial revolution came in and when the industrial revolution when the steam engines and automation and this and that, there were major focus on production, people started that how I can produce a lot rather than focusing on how can leverage relationships a lot.

And then in the information era when production is okay high that is okay, but you, the information became strength again, as I was telling that now the only difference between pre industrial era and information era in both the cases this is high, the importance of

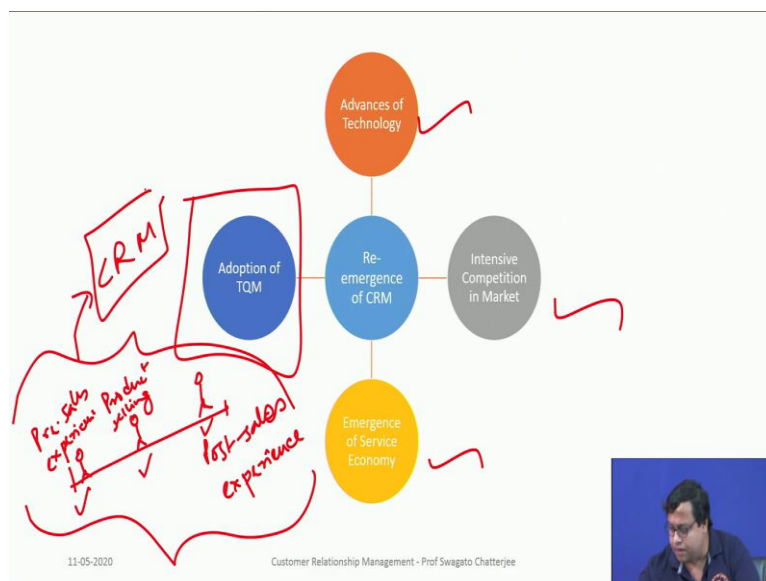
customer relationship management is high, but the difference is these relationship is in large scale.

So, previously we use to keep relationship with 4-5 — just think about yourself before the internet came in, you had let's say 10 friends, out of them two were best friends or one was best friend or two were best friends and there was always quarrel between who is the best friend, but the number of friends were small —10.

But now we have 5,000, 1,000 people in our Facebook profiles and none of them are best friend probably or your best friend might also be there, but the level of interaction that you used to have is not there. But the relationship is become large scale and, and though the you do not remember exactly where these guys work exactly what these guys do, but it's a choice if you want you can find out you can just go to his profile you can skim through the profile see what kind of posts he is making what kind of things he is liking or disliking and you will know in one probably one hour time that how he is, whether his life is good or bad and etcetera.

So, now we are creating relationship in a large scale previously relationship was there in a small scale and in between there was no relationship at all. So, that is how the customer relationship management has evolved over time.

(Refer Slide Time: 25:00)

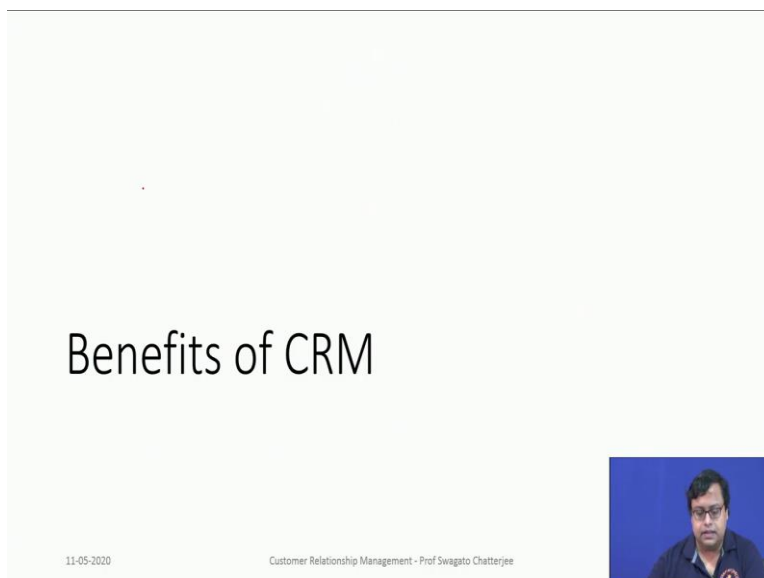


And we discussed about this thing that the reemergence of the CRM. The reemergence of the CRM over time has happened, one is because of advances of technology we discuss about these, intensive marketing competition we have also discussed about this in the in the last video probably.

And emergence of service economy is also, and another important thing that comes up is adoption of total quality managements. People have started thinking that you have to give me an end-to-end good quality and end-to-end good quality means not only the product is good when the product selling is happening, but this is let us say the product selling. But your presale experience should also be good and the post sales experience: that means, your maintenance and other kind of experience should also be good.

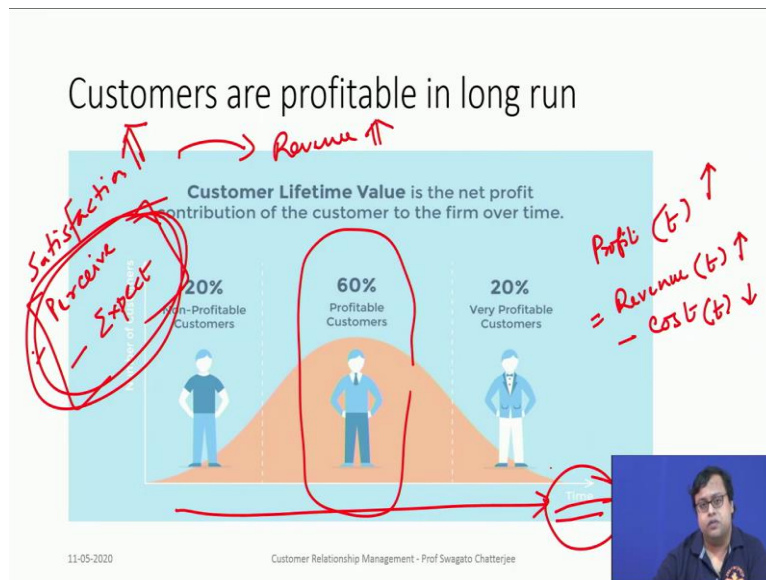
So, pre sales during product selling and post sales every time there has to be, then the persons will be different the faces can be different, but the quality issues will be there quality issues should not be there in any of this part. So, that is the total quality management and when you try to do that, you have to have an experience on CRM. So, that's why the CRM came in again when the total quality management became important even in the production sector.

(Refer Slide Time: 26:30)



What are the benefits of CRM?

(Refer Slide Time: 26:32)



One major benefit of CRM and this is where I would probably try to discuss about some: there are lots of, I would say CRM as a concept or CRM as a strategy it has lots of similarity with human relationships. So, one of the major similarity with human relationship is that, just thinks about if you were in a relationship for 10 years let's say you have, you have a college sweetheart or a school-level sweetheart whom, with whom you have kept the relationship for long period of time.

And then you guys got married or if you if you are a college student, then you probably not married, but if you have not a college student you have evolve from being a college student and not now you are working then probably you got married and having a long term relationship. Just think about that the relationship is pretty long you have sustained the relationship for quite long time.

Now, just do you think that the effort that you use to give to this relationship in the early days and the effort that you are giving today after 4 years, 5 years, 10 years the effort that you have to put to sustain the relationship after 10 years of relationship which effort is higher? So, at least from my personal experience I can say that I have a pretty long relationship with my current wife, my wife actually.

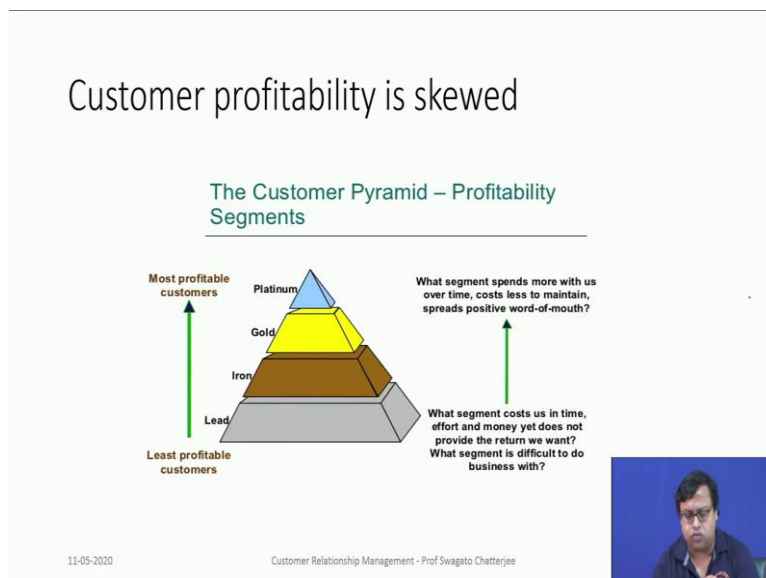
So, I would say that the early days I had to give lot of effort and she also had to give lot of effort because we don't use to know each other, we have to know each other, we have to adjust with our differences, we have to bring in a homogeneity and that kind of efforts

were pretty high and now after so, many years we are in a settled space and we are in the maturity space and because we are in the maturity space we do not have to put a lot of effort.

So, one important benefit of having a lot long term relationship is to sustain the relationship for one more year you do not have to put in lot of effort. So, all I am trying to say is your marketing expenditure comes down that is one of the major benefits of customer relationship. So, if you just think about your customers, there were some customers who are non-profitable, some customers are very profitable, and majority customers are okay types of profitable customers and these are the customers with whom you have to keep your and this is time you see that overtime these guys become profitable and why this becomes profitable? Now, you have to think about these things very carefully that profit is nothing but revenue minus cost.

So, if I say that over time the profit goes up, there I am saying that revenue as a function of time goes up and cost as a function of time comes down and that is what I just told that cost as a function of time comes down, because you do not have to put lots of effort to keep this particular guy in your customer base.

(Refer Slide Time: 29:45)



So, that is one important thing. Another important thing is that over time the revenue also goes up; revenue also goes up, why? Because revenue gets generated from multiple channels if the — so for example, another example if I come back to the, to come back to

my relationship that I was talking about human relationship, one is to sustain you do not have to put much effort.

Second is that if you want to be happy in a probably co-created environment, the chances of being happy much higher because you know what I like my wife knows what I like, I know what she likes, what kind of movies we will both enjoy, what kind of I would say places where we will both enjoy if we visit. So, that kind of knowledge has been created we both know each other well now.

So, if we know both know each other well now, if I want to satisfy my wife or my wife wants to satisfy me it becomes very easier and the satisfaction levels probably, achieved satisfaction level is probably much higher and that is applicable here as well. If you know what the customer wants and customer knows what you can give, then the expectation and whatever you are giving is matching and satisfaction is always a function of what you perceive minus what you expect.

And if these two matches if these two things match with each other then obviously, the satisfaction level will be high. The satisfaction level will be high means the revenue will be high and this happens, this matching happens when customer and the company knows each other well and that can only happen when they are there for a quite a bit of time. So, that is how the customers become profitable in the long run. We will keep on discussing on this particular topic in the next session also. Be with us and I will see with the next video.

Thank you very much.