Impact of Customer Relationship Management Initiatives in Indian Retail Scenario: A Review

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Abstract

Retail industry is one of the most growing industries in India. Retailers are adopting different CRM initiatives to retain the customer. In India majority of organized retailers are using suitable loyalty programmes which encourages repeat purchase.CRM initiatives provides a lot of information relating to the customer expectations, attitudes and pattern. This information is a valid input to plan and facilitate the task of retaining customers. The states - of - art technologies in this area which are deployed in other developed economies are still not very prevalent in India. The paper focuses on the increasingly important topic of customer relationship management (CRM) initiatives. The paper draws attention to the act of concentrating on the less important group of customers. The highlight of the paper is the reliance of CRM on customer retention which contributes to growth, profitability and lower customer defection.CRM initiatives and thereby customer retention is also responsible for the increase in efficiency ratio of the customers. The paper concludes with the overview of the latest trends in CRM and the challenges encountered in the Indian subcontinent.

Keywords: Customer, Retail, Customer Relationship Management (CRM) Initiatives, Customer Retention, Loyalty Programmes, Customer Defection

Introduction

The retail industry has led to the development of many countries and rising of economies. The retail industry is included in the most dynamic as well as an industry acclaimed for its fast paced growth in the country having lot of new entrants to the market scenario. The retail industry is geared up to become the expectation of the future due to its scope for growth. Retailing deals with the direct interaction of customer with a store. The Delhi High Court was defining the word 'retail' as a sale for final consumption, in other words, sales done to the end consumer (Association of Traders of Maharashtra v. Union of India, 2005).

In the modern era the customer has changed a lot, so their preferences are changed and now the customer prefers to have good shopping experience more than the price. Now price is not the only initiator and differentiator for the customer. In the competitive world satisfying a customer not enough, the retailer can't expect that the customer will come again. Here the importance of customer loyalty and retention comes in to application. Customer preferences are changing on account of an ever dynamic environment of economic, marketing and demographic variables. Modern retail markets are the battleground of big multinationals and their biggest weapon is customer relationship management initiatives. CRM initiatives are a holistic process of acquiring, retaining and growing customers.

CRM can be 'a cross-functional, customer-driven and technology-integrated business process management strategy that maximizes relationships' (Chen & Popovich, 2003). Berkowitz (2006) defines customer relationship management (CRM) as 'the organization's attempt to develop a long-term, cost-effective link with the customer for the benefit of both the customer and the organization.' The definition of CRM according to Dyché (2002) says that the 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. This can be broken down into two specific types; analytical and operational. The distinction is that operational CRM happens mostly at customer touch points (i.e. where the customer and firm interact) and is thus concerned with collecting data, planning for it and practicing strategies. Analytical CRM has more of its tasks in the back office and is concerned with processing and interpreting data and forming strategy. CRM initiatives identifies and helps to retain valued customers, it helps increase the customer base, and it utilizes pricing signals to encourage less profitable consumers to become loyal and more profitable (Milakovich, 1995).

Application of CRM Initiatives in Retail

CRM initiatives particularly had to take into consideration the whole customer base. Through CRM practice, a firm can utilize their core competencies to increase the customer base and thereby high customer value services (Geib, Kolbe, & Brenner, 2006). CRM helps companies to appreciate customer needs, manage the relationships more intelligently and to create a clear path for the future (Dominici & Guzzo, 2010). The premise of CRM is that once a customer is locked in, it will be advantageous to both the organization as well as customer to maintain relationships and would be a win-win

situation for both. Through loyalty programmes, firms can potentially gain more repeat business, get opportunity to cross-sell and obtain rich customer data for future CRM efforts (Liu, 2007).

Fox and Stead (2001) have described customer relationship management as the establishment, development, maintenance and optimization of long-term mutually valuable relationships between customer and organizations. As a CRM tool, loyalty cards are different from other sales promotions due to their defensive character and long term orientation (Sharp & Sharp, 1997). Consumers find it beneficial to join such programmes to earn rewards for staying loyal. The first supermarket network to use loyalty card is G'market (in 2001). In previous literature that Emotional commitment and loyalty program that gave financial incentives have positive impacts on customer retention (Verhoef, 2003).

To make CRM initiatives more efficient the prerequisite of an organized retailer is to collect customer data. In order to facilitate this they get in to the mechanism of membership cards which provides all essential customer information. Information processes available and capabilities possessed within the firm should be utilized to understand the needs and wants of customers (Vorhies & Morgan, 2005). With the information collected from customers it's possible to intimate them about any specific offers or special discounts provided by the retailer. This area had attracted researchers to carry out research into creative, innovative and effective loyalty programme design (Bridson, Evans, & Hickman, 2008; Smith & Sparks, 2009) and programme service quality levels (Omar, Nazri, & Saad, 2009).

Retailers have been able to collect enormous amounts of information at the customer level. It's done by measuring customer purchases, response to marketing activities, and thereby getting a feel of customer attitudes, preferences and expectations. Tesco uses its Loyalty Card as a core tool in planning for its marketing strategy (Humby & Hunt, 2003). Tesco is one of the successful retailers who uses customer database extensively. Tesco is frequently cited in textbooks and business publications as a successful benchmark (Humby & Hunt, 2003; Kumar & Reinartz, 2005). Loyalty Programme was an advantage that allows customers to get their points in the process of repeated purchases with a firm, according to the work of (Liu, 2007).

Vorhies and Morgan (2005) asserted that information processes available and capabilities possessed within the firm should be utilized to understand the needs and wants of customers which only can make the firms more effective and efficient in maintaining excellent customer relationships. In simple parlance a CRM workflow is as follows, acquisition of customers basic data including name, address, gender, age, etc, is fundamental. But transaction data such as date,

time, item, value, etc. at every customer touch points are of paramount importance. Information is often needed to complement these data and to create a meaningful correlation to the applications. These data and information are used by marketers so that they can record the interests and preferences of customers which need to be skilfully analysed. In continuation to this they attempt to relate purchasing patterns on the basis of transaction records. CRM initiatives allow firms to learn meaningful information about the customer. Followed by this the emphasis is to learn how to satisfy them, and determine how and why customers interact with the company. CRM initiatives build technical and non-technical communication networks which strengthens the relationship between business and consumers.

Recent states of art technologies like RFID and thereby PSA are used to appreciate the pattern of purchase, i.e. which specific range of products that are preferred by the customer so that those can be ordered again by the retailer. Customer's path undertaken for the purchase activity is being scanned using this technology. This facilitates product display according to the preferred path and it's guaranteed to get more attention. Altogether the synchronization of technologies, personalization and thereby customization are the buzzwords of the success of modern organized retail organizations.

The use of sophisticated modelling and data mining techniques and behaviour prediction using historical data related to customer behaviour to predict future behaviours. The tendency that a certain type of customer is apt to purchase a specific product according to the product propensity-to-buy analysis and that certain products are often bought along with other specific products by a particular type of customer according to product affinity analysis has a crucial role in making marketing decisions. Data mining activities through CRM provides insights and knowledge about most valuable customers to the retailers which result in maximum sales (Chevalier & Mayzlin, 2006).

Up-to-date information by the store about loyalty programmes and the promotional offers will facilitate the retailer to create a good relationship with the customer and thereby have influence on the shopping (Bellizzi & Bristol, 2004). CRM initiatives enables the firm to take this process further by identifying smaller groups of customers with homogeneous needs, which are sometimes called customer segments or sub segments. Once sub-segments of customers have been identified, the retailer can understand their needs and then the create customized contacts which include customized offers which will more closely deliver the needs of each subgroup. An issue that sometimes arises when creating such contacts is that they should be consistent with

the overarching brand concept. This is because a retailer that fails to do this will confuse its customers over the meaning of the brand.

Unmatched personnel service in one of the factor for service quality (Sirohi, Mc Laughlin, & Wittink, 1998). In addition, academic research reinstates the effectiveness of employee service quality with different service settings under multiple terms, such as quality related to the dealings (Brady & Cronin, 2001; Vesel & Zabkar, 2009). Javalgi and Moberg (1997) observed that lack of personal care and attention makes many customers consider that there is a little disparity prevailing among providers. Ultimately, the new representation of loyalty initiatives are apprehensive more with mounting perceptions of significance through brand relations and personalized interactions with members (Rowley, 2005). Murphy and Murphy (2002) had implied on the importance of creating online association with the customers because their profit tends to get increased over the life term of a customer and they are habituated to buy large quantities as their confidence is on the increase. (Manjunath & Prabhu, 2011) through this study was trying to find out the components of retail service quality in Bangalore supermarkets. The service excellence of supermarket comprises of 4 factors namely Service Personnel, Physical Aspects, Policy and Reliability. The results of the study show that the service personnel had the strongest influence whereas the physical aspect had the weakest one.

The Implication of CRM Practice on Customer Satisfaction

Fairhurst (2000) argues that 'the best examples of CRM still remain the one-to-one services provided by shopkeepers who know their customers personally'. CRM helps companies make sense of customer needs, manage these relationships more intelligently and help predict the future (Dominici and Guzzo, 2010). The literature dealing with CRM gives a lot of narrower, yet relatively tactical outcome measures and among these the most elementary criteria under consideration for this was customer satisfaction, according to (Bolton, Kannan, & Bramlett, 2000; Mithas, Krishnan, & Fornell, 2005). Mithas et al. (2005) had a real time picture of the influence of CRM drives on the understanding of the customer and thereby customer satisfaction, it was clarified that CRM initiatives was relying too much on customer knowledge. The conclusion of the study says that the information received by the customer instigates retail organizations to build upon their customer satisfaction. The characteristic benefits offered by customer relationship management were the significant factors customer satisfaction and loyalty, as per the works of (Krasnikov, Jayachandran, & Kumar, 2009).

The Implication of CRM Practice on Customer Loyalty

The underlying assumption of CRM is that by nurturing the

existing customer relationships and keeping the lucrative customers satisfied and loyal it is possible to make the business more profitable. CRM initiatives provide benefits utilizing customer loyalty and positive word-of mouth campaigns and inherent opportunities (Wong & Zhou, 2006). Reichheld (1993) states, 'Employees who deal directly with customers day after day have a powerful effect on customer loyalty.' Corporates all these days had multiple ways of getting in to CRM initiatives and ways to encourage loyalty programs. Raines (2005) were of the opinion that an effective CRM regime is not just dedicated to the best customers, but also to adopt approaches that will elevate other customers to climb up the 'loyalty ladder'. 'Reliability refers to the promises given by the store. If the store cannot keep or breaks the promises, it dissatisfies customers and results in negative word-of-mouth. In contrast, when the company was able to keep its promises, it increases customer confidence in the store and creates customer satisfaction and lead to loyalty' (Yuen & Chan, 2010).

The Implication of CRM Practice on Customer Retention

Peel (2002) opined that CRM initiatives had become a focus area for many organizations as there was a gradual shift away from merely customer acquisition to more customer retention initiatives which concludes to a reduction strategy which vouches for the need of good CRM initiatives and procedures. Although most firms use CRM initiatives for new customer acquisition, majority believe the real value of customer relationship management initiatives is customer retention. Ang and Buttle (2006) were able to prove empirically that 'a 5% increase in customer retention can generate an increase in customer net present value of between 25% and 95% across a wide range of business environment'.

Several firms fail to understand the importance of improving customer retention which is an important means to profitability (Payne, 2006). Different investigational works had guaranteed for the influences of relationship marketing and its related plans had a strong influence on the behavioural intentions and thereby customer retention (Peng & Wang, 2006). The management of retail shops is trying different methods to retain the customers. Customer retention happened to be the most significant characteristic carried out by the firms who had a very good relation built up (Coviello, Brodie, Danaher, & Johnston, 2002). It could differ how it was done and practiced across industries and organizations. Customer retention is defined as the practice of working to satisfy customers with the intention of developing long-term relationships with them (Hoyer & MacInnis, 2001). Joining hands with customers were centred on three attributes trust, care and sincerity and even by the application of CRM. It's possible to have a good rapport with the customer, take care of them and in still trust

and in return the customer would be sincere to the firm (Murphy & Murphy, 2002).

When customers get the product or service beyond the expected level, customer prefer the same retail shop next time just by human tendency. When the retailer through services like free home delivery or loyalty programme in the form of membership card make the customer feel honoured, it will lead to customer retention. CRM initiatives identify and help to retain valued customers and it helps increase the customer base. Thereby it utilizes pricing signals to encourage less profitable consumers to become loyal and more profitable in the days to come. Higher retention leads to lower customer defection and higher profits. Lengthy customer relationships reduce acquisition and business activity costs. This can be significant when customer acquisition costs are high to acquire a new customer. Moreover business relationship that fosters customer tenure can improve the firm's efficiency in terms of profitability as purchase volume increases and relationship cost decrease.While retention based CRM programmes can provide a lot of intangible benefits, organizations can enjoy economic benefits as well. Retaining current customers is less expensive than attempting to find new customers (Massey, Montoya-Weiss, & Holcom, 2001). There is a positive binding between retention and profitability and it's certainly a directly proportional relationship. Repeat or high-volume customers may indicate some level of satisfaction. But purchasing behaviour is just one component of customer loyalty as it may reveal circumstances other than customer satisfaction.

The Latest Trends in CRM Practice in India

The Indian retail market is in cut throat competition with established Indian players and global players who have entered the market. Because of the ever increasing competition in the organized retail the Indian retail giants have resorted to new technological initiatives to retain customers.CRM techniques are helping retailers to add value to the existing customers and convert them from a casual to a loyal customer whom in turn creates a bond between the store and the customer. A variety of loyalty programmes are exercised by Indian players to implement CRM initiatives. Some of the leading player's term loyalty programme as follows

- Reliance Fresh has its initiative called 'Reliance One'
- Big Bazaar exercised EDLP effectively
- Westside provides two types of club membership named 'Club West'
- Pantaloons provides 'green card' in three categories
- Globus provides 'privilege club card'
- Shoppers stop provides the 'First Citizen Card'

Challenges facing to implement CRM initiatives

However, the same success story is not shared by most of the other retailers. .A recent McKinsey study says that retailers are unable to recover the investments made in loyalty programmes. This is mainly because only less than fifty percent of customers increase their spending after enrolling in a loyalty programme. The dilemma of the practitioners has been a part in multiple deliberations with the academic community on the effectiveness of loyalty programmes in retailing. The challenges were centred on the following aspects like quality of customer data, to align the processes and people, the unavailability of skilled professionals and ascertaining the timing of customer needs. It is also challenging to put to the availed data to the best use using the right technology, relating the customer data to customer preferences, to get reliable real time data spread across channels and lastly to have a 360- degree overview of customers to have an exhaustive understanding.

Conclusion

Through customer relationship management, the aspirations of the customers can be appreciated similar to how the product or service was being introduced to them (Hardeep & Amandeep, 2011). Work ethic pride is another indictor of customer satisfaction as it usually motivates employees to meet customer needs and expectations. Yet employee failures, product or service delays, or other malfunctions may hinder the customer's future relationship with the business. CRM identification and resolution of these issues can increase the customer efficiency ratios. This is because satisfied customers normally have greater purchase volume than non-satisfied customers. And as a result of this the relative cost per-customer drops which again works out as good economics and thereby profits. Customer relationship management strategies that promote business retention can provide significant advantages for an organization. Empirical evidence indicates it can contribute to the financial wellbeing and thereby prosperity of an organization. CRM programmes must include a customer-centric management approach which identifies and segments profitable customers, while fostering satisfaction and loyalty. This is mutually beneficial for the business and customers. It facilitates the efficient use of labour and technical resources to meet even more consumer needs and due to the effectiveness can serve a bigger and better market.

India is one of the sought after markets in the world when it comes to retail market development. But sometimes the challenge involves in the effective conversion to the organized sector which needs some push by way of CRM initiatives. The loyalty programmes, membership cards and dynamic schemes like every day low price (EDLP) will take the Indian organized retailer a long way. But the technological initiatives which are prevalent in the world are

still in the infancy stage in India which has scope for further research. And days are not far when the effective implementation of CRM initiatives makes India the most prospective retail market. A qualitative analysis has good scope in the research in order to get retail customers feedback as result of an in-depth analysis. This could give detailed and in-depth suggestions regarding the expectations and aspirations of the customers in various dimensions.

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