IMPLEMENTING A CUSTOMER RELATIONSHIP MANAGEMENT PROGRAMME IN AN EMERGING MARKET

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ABSTRACT

Retail financial services in all markets, including emerging markets, are undergoing major transformation, driven by change, deregulation and customer sophistication. Customer service and specifically relationship management, in particular, are crucial to attaining a sustainable competitive advantage in the marketplace. The implementation of a one-to-one programme within an emerging economy is the focus of this paper, specifically in the financial services environment. The steps in the implementation of CRM as proposed by Peppers, Rogers and Dorf (1999b) are examined and the effect on customer service in an emerging market is investigated. The findings indicate that there are positive associations with these steps and customer service.

INTRODUCTION

Changes in customer expectations can be identified throughout the world. Customer relationship management (CRM) strategies have become increasingly important worldwide due to these changes in expectations from customers as well as changes in the nature of markets. Changes have been noted across the world, but opportunities present themselves in South Africa and other developing countries for CRM strategies.

Customer Relationship Management (CRM) is a managerial philosophy that seeks to build long term relationships with customers. CRM can be defined as "the development and maintenance of mutually beneficial long-term relationships with strategically significant customers" (Buttle, 2000). Under certain circumstances it may result in the termination of relationships (du Plessis, Jooste & Strydom, 2001). It can also

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be noted that the relationship is developed with strategically significant customers, and hence it is necessary for the organisation to determine the nature of the significance. Traditionally this would be done by determining the value of the customer to the organisation, but other criteria that can be used include whether a customer serves as a benchmark for other customers or whether the customer inspires change in the supplier (Buttle, 2002).

The implementation of CRM is regarded as desirable by organisations due to the benefits that accrue from these strategies among their customers, such as greater loyalty and resulting profits. The focus of a CRM strategy is the acquisition, retention and overall customer profitability of the specific group of customers.

- Acquisition of customers: this refers to the need of organisation to find new customers for their products. This means they are required to develop strategies to attract potential customers to purchase the product. The cost of attracting a new customer is estimated to be five times the cost of keeping a current customer happy (Kotler, 1997).
- Retention of customers: organisations also need to focus on existing customers in order to ensure that they continue purchasing and continue supporting the product. Organisations can increase their profitability by between 20% and 125% if they boost their customer retention rate by 5 percent (Peck, Payne, Christopher & Clark, 2004).
- Profitability: Customer profitability reflects the financial performance of customers with respect to all the costs associated with a transaction (Gordon, 1998). Profitability in the case of CRM is determined in the light of the lifetime value of the customer to the organisation, taking account the income and expenses associated with each customer and their respective transactions over time (Gordon, 1998).

In attempting to understand the implementation of CRM programmes, it must be borne in mind that economies differ in terms of their level of development. Two economic criteria can be used in this economic analysis; population size and per capita income have been incorporated into the calculation of per capita GNP and per capital GDP (Hough, Neuland & Bothma, 2003). This analysis makes it possible to categorise economies as being developed, developing and less-developed (Hough et al., 2003).

Developed economies (such as the USA and Japan) are characterised by political stability, highly-educated and literate populations, high levels of innovation and entrepreneurship as well as high levels of both industrial and information technology. Less-developed economies (such as Bulgaria, Bangladesh and Ethiopia) have political instability (sometimes political anarchy), government inefficiency, low standards of living and low levels of economic wealth. An emerging market (or developing economy) is defined as markets that are in the process of evolving to becoming developed (i.e. higher income) (Hough et al., 2003). It is into this category that South Africa can be placed.

Developing economies have the following characteristics:

- Improving educational standards, literacy and work skills levels
- Relatively efficient technology systems
- Relative political stability and a movement towards market-based economies
- Rapidly expanding financial services (Hough et al., 2003).

The characteristics of developing economies as listed above form part of the imperatives for the implementation of CRM. CRM includes the use of technology in the building of databases and the use thereof to develop and improve the relationship with the various markets, including the final consumer. In order to exploit this technology, skills among staff are required. Organisations within developing markets have customer information in databases, though many do not have the advanced technology or skills to exploit the information that is stored (Brunjes & Roderick, 2002). This indicates that CRM can be used within developing markets, though organisations will still be required to manage its implementation with care.

The answer to this question has to be no. The reason for this is that not all organisations have customer information, which makes the implementation of CRM impossible. Examples of these products include mass products (Gordon, 1998). Further, businesses where there is a high customer churn (where customers remove their patronage) or where there is a low Customer Lifetime Value (CLV) which impacts on the profitability of the organisation are not suitable to the implementation of CRM (Kotler, 2002). These are true, irrespective of the nature of the economic development within markets. It can thus be said that CRM is appropriate for certain organisations in emerging markets.

Organisations that can implement CRM successfully are those that have a great deal of information concerning the customer and where there are differentiated needs among the customers (Kotler, 2002). Financial services meet the criteria for the implementation of CRM as indicated by Kotler. Financial institutions have a great deal of information concerning their customers and their needs differ. This means that banks offer different products to different customers. Some customers require a mortgage bond in addition to their current account and credit card, while for other customers, vehicle financing is more important. The financial circumstances of customers differ, resulting in different packages being offered to customers. It is also possible for financial institutions to tailor their packages thereby making them customer specific.

IMPLEMENTING A CRM STRATEGY

The success of any strategy is determined by the success with which it is implemented. This is also true in the case of CRM strategies. Implementing CRM require that the organisation and the associated business processes be in place in order to facilitate its success (Brunjes & Roderick, 2002). The risk in implementing any CRM strategy is that the organisation is not ready to do so and relying on technology to implement the strategy (Brunjes & Roderick, 2002).

The role of customer service in CRM strategy

In order to implement a CRM strategy, a key dimension is the question of customer service and the way in which it is perceived by the recipient of the service. Customer service can be defined as a task, other than pro-active selling, that involves interactions with the customers in person, by telecommunication, or by mail. It is designed, performed and communicated with two goals in mind: operational efficiency and customer satisfaction (Lovelock, 1991). The quality of customer service is determined and evaluated by the customer, and this affects the desirability of a relationship with the organisation. Customer service creates the moments of truth with the customer, and these service encounters need to be managed by the organisation (Payne, Christopher, Clark & Peck, 2001). Service encounters and CRM are thus associated.

The steps in the implementation of CRM strategy

Successful implementation requires specific actions on the part of the organisation. The implementation of a CRM strategy as proposed by Peppers, Rogers & Dorf (1999) comprises four steps, namely the identification of customers, the differentiation of service, interaction with customers and the differentiation among customers.

Step 1: The identification of customers

The identification of customers enables the organisations to select those customers that they regard as being strategically significant and who they believe can contribute to the success of the organisation. These customers have unique needs and due to their value to the organisation, will have products developed to meet these needs. It must be possible to identify these customers and so obtain as much detail as possible. This involves collecting as much data as possible in order to obtain as clear a picture as possible of the customer and their profile. This may require the development of a database or the continued maintenance of a database in order to ensure that the data stays as recent as possible. Having this information enables the organisation to determine those customers that have been with the organisation for a long period and those that have recently started using the products and services of the organisation.

The hypothesis regarding this aspect is formulated as follows:

$H_{1:}$ Identifying new and existing clients increases the level of customer service.

Step 2: The differentiation of service

The differentiation of service implies that different customers receive a different level of service and a different product from the organisation, depending on the value to the organisation and their specific needs. This requires the organisation to identify the top (or most significant) customers and adapt service accordingly. Identification of these top customers takes place using sales figures or by calculating the CLV associated with each customer. As the organisation is aware of the value of their customers, service levels can be adjusted accordingly.

The hypothesis regarding this aspect is formulated as follows:

$H_{2:}$ Differentiating between the services offered to new and existing clients increases the level of customer service.

Step 3: Interaction with customers

This step refers to the importance of interacting with the customer in relationship building efforts through a variety of communication tools and technologies. This is necessary as the relationship can only develop and be sustained if there is communication with the customers regarding their needs, perceptions and desires. This involves developing methods of communication proactively with customers regarding the organisation's products and attempting to initiate dialogue with customers. Use can be made of technology, but this is not essential (Brunjes & Roderick, 2002). The customers with whom communication takes place are not necessarily all the customers, but only those that the organisation regards as being strategically significant. This interaction with the organisation increases the expectations of the customers regarding the service received as well as the quality of the relationship.

The hypothesis regarding this aspect is formulated as follows:

$H_{3:}$ The level of customer service is increased if there is an active interaction with potential and existing clients.

Step 4: Customisation of products, services and communication

Customisation is carried out by the organisation in order to ensure that customer needs are met. It requires that the organisation adapts its product, service or communication in such as way have something unique for each customer. Communication can be customised to address the specific needs and profile the customer, and organisation also makes use of personalisation as part of this process. Products can be customised as to the specific desires that the customer has of the organisation. In the case of the financial services, it refers to the product package that is offered to the customer. The purpose of customisation is to increase customer satisfaction, and the loyalty that is exhibited by customers.

The hypothesis regarding this aspect is formulated as follows:

$H_{4:}$ The level of customer service is increased if customised service is offered according to each individual client's needs.

RESEARCH DESIGN

Research objectives

The survey was conducted among clients in a leading retail bank in South Africa. The primary research objective was to determine how the implementing of a CRM programme could optimise the relationship between a leading bank and its clients, and thereby to gain competitive advantage in the marketplace. Hypotheses linked to each step was formulated (refer above).

The research instrument

The research instrument used was developed by the researcher and measured both the expectations and perceptions of the customers of the bank's actions. Statements were developed to reflect the steps in the CRM model, and hypotheses were formulated to reflect the associations between these steps and the customer service offered by the institution. The instrument was pre-tested whereafter a number of changes were made to the original questionnaire. The main body of the questionnaire included 35 positive individual statements reflecting customer service, identification, differentiation, interaction and customisation. Use was made of a five-point Likert scale.

Structured questionnaires, with 35 statements, to measure the respondents' perceptions and expectations, were sent out to 52 branches and to the call centre. A total of 950 questionnaires were distributed among the branches, and 50 questionnaires were distributed to the call centre. The respondents were selected randomly and personal face-to-face interviews were conducted.

Statistical analysis

The statistical treatment of the study included the determination of the association between the steps in the CRM model and the customer service offered by the organisation. Use was made of Pearson's coefficient to determine the level of association between the steps in the implementation process as discussed earlier (Peppers, Rogers & Dorf, 1999) and customer service. The level of association as measured by Pearson's co-efficient falls between -1.0 and +1.0, which indicates the strength and direction of association between the two variables. The Rules of Thumb proposed by Burns & Bush (in van Heerden, 2001) suggests that "moderate" ends at ±0.60, and "strong" starts at ± 0.61.

It is also necessary to determine a score (p-value) to evaluate the probability that the correlation (r) falls within a desired significance level. The lower the p-value, the stronger the evidence against the null hypothesis, hence the acceptance of the alternative hypothesis (Diamantopoulos & Schlegelmilch, 1997).

RESULTS OF THE STUDY

Discussion of the specific findings

H_1: Identifying new and existing clients increases the level of customer service.

Statistical null hypothesis: H_o: $r = 0$
Statistical alternative hypothesis: H_a: $r \neq 0$

VARIABLE			
Variable one (independent variable)	**Variable two (dependent variable)**	**Pearson value (r)**	**p-value**
Identification	Customer service	0.5792	0.00

With a Pearson value (r) of 0.5792, the correlation is moderately positive as the r value of 0.5792 is less than 0.6. The association between the identification of new and existing clients and customer service is statistically significant because of the p-value of 0.00, indicating the acceptance of the alternative hypothesis. The strength of this association is seen in the p-value of 0.00 obtained and depicted above.

H_2: Differentiating between the services offered to new and existing clients increases the level of customer service.

Statistical null hypothesis: H_o: $r = 0$
Statistical alternative hypothesis: H_a: $r \neq 0$

VARIABLE			
Variable one (independent variable)	**Variable two (dependent variable)**	**Pearson value (r)**	**p-value**
Differentiation	Customer service	0.5952	0.00

With a Pearson value (r) of 0.5952, the correlation is moderately positive as the r value of 0.5952 is less than 0.6. The association between differentiation and customer service is statistically significant because of the p-value of 0.00, resulting in the acceptance of the alternative hypothesis. The strength of this association is seen in the p-value of 0.00 obtained and depicted above.

H_3: The level of customer service is increased if there is an active interaction with potential and existing clients.

Statistical null hypothesis: H_o: $r = 0$
Statistical alternative hypothesis: H_a: $r \neq 0$

VARIABLE			
Variable one (independent variable)	**Variable two (dependent variable)**	**Pearson value (r)**	**p-value**
Interaction	Customer service	0.598	0.00

With a Pearson value (r) of 0.598, the correlation is moderately positive as the r value of 0.598 is less than 0.6. The association between interaction and customer service is statistically significant because of the p-value of 0.00, resulting in the acceptance of the alternative hypothesis. This association is also a strong one due to the p-value of 0.00 obtained and depicted above.

H_4: The level of customer service is increased if customised service is offered according to each individual client's needs.

Statistical null hypothesis: H_o: $r = 0$
Statistical alternative hypothesis: H_a: $r \neq 0$

VARIABLE			
Variable one (independent variable)	**Variable two (dependent variable)**	**Pearson value (r)**	**p-value**
Customised service	Customer service	0.5912	0.00

With a Pearson value (r) of 0.5912, the correlation is moderately positive as the r value of 0.5912 is less than 0.6. The association between customised service and customer service is statistically significant because of the p-value of 0.00, resulting in the acceptance of the alternative hypothesis. This also shows a positive relationship between these two factors, and the strength of the relationship is seen in the p-value obtained.

CONCLUSION AND MANAGERIAL IMPLICATIONS

The issue of CRM and customer service are vital in the developing environment as customer expectations increase. This is especially the case in developing countries where changes in customer expectations are linked to increasing educational standards and literacy. This study has indicated that the implementation of a one-to-one marketing of financial services in emerging markets do not differ from the way in which it would be implemented among customers in other economies. This requires organisation in developing environments to pay attention to the issues of customer needs and differentiation in order to building long term customer relationships.

Limitations of the study include the fact that this was an exploratory study that has been conducted within the South African context, and specifically the financial services sector. The degree to which the finding can be generalised is also limited in scope.

Further, the question of the existence of the halo effect in the findings can be raised. The halo effect refers to the bias that is introduced by carrying over a general impression from one area to another (Cooper & Emory, 1995). This means that the responses received in one area relating to customer service are carried over into other areas in investigation.

It is however proposed that future research could be conducted to determine whether these findings are consistent with other financial institutions in South Africa and whether similar findings would be obtained in another industry, such as the insurance industry.

The managerial implications of these findings include a commitment to the implementation of CRM within the organisation as well as a commitment to the provision of excellent customer service in order to affect the relationship building and the implementation of CRM. This places great emphasis on improving the customer service of personnel in order to ensure that the objectives of the CRM strategy are attained.

Specific actions that can be considered by management include:

- Customer service levels are critical in establishing and developing relationships. Management need to examine existing processes and methods in which service is offered, and where necessary make changes which can improve the service for customers.
- Training with respect to customer service and improvement in the service levels offered by staff. This is a key area in the development of long term customer relationships.
- In any implementation, it is necessary to identify, differentiate and then interact with customers in order to provide customised service. This requires that management have the ability to identify customers who are important to the organisation and then be able to ensure that their needs are different. This will enable them to communicate more appropriately with the customer.
- Continuous interaction with the customers are necessary in order continue with relationship building activities over the long term. This may require new methods and techniques in communication such as the use of email, SMS and other technological communication devises.

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