Executing A Customer Relationship Management Programme In An Emerging Market: An Empirical Approach

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Abstract: Retail financial services in all markets, including emerging markets, are undergoing major transaction, 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 execution 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 execution of customer relationship management (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 indicates that there are positive associations with these steps and customer service.

Key words: Retail, Financial services, Emerging markets, Customer service, Competitive advantage, Customer relationship management.

Introduction

Changes in customer expectations can be identified throughout the world. Customer relationship management (CRM) strategies have become increasingly important world wide 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 Nigeria 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 and Strydom, 2001). It can also be noted that the relationship is developed with strategically significant customers, and hence it is necessary for the organization to determine the nature of the significance. Traditionally this would be done by determining the value of the customer to the organization, 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, 20002).

The implementation of CRM is regarded as desirable by organizations 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 organization to find new customers for their products. This means they are required to developed 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 : organizations also need to focus on existing customers in order to ensure that profitability by between 20% and 125% if they boost their customer retention rate by 5 percent (Peck, Payne, Christopher and Clark,2004).

Profitability: customer profitability reflects the financial performance of customers with respect to all the costs associated woth a transaction (Gordon, 1998).Profitability in the case of CRM is determined in the light of the lifetime value of the customer to the organization, 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 capita GDP(Hough, Neuland and Bothma, 2003). This analysis makes it possible to categorize economies as being developed, developing and less developed (Hough et al, 2003). Developing economies (such as USA and Japan) are characterized 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 . Organizations 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 (Brunjec and Roderick, 2002). This indicates that CRM can be used within developing markets, though organizations 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 organizations have customer information, which makes the implementation of CRM impossible. Examples of these products include mass product (Gordon, 1998). Further, businesses where their is a high customer churn(where customers remove their patronage) or where there is a low customer life time value(CLV) which impacts on the profitability of the organization are not suitable to the implementation of CRM (Kotler, 2003). These are true, irrespective of the nature of the economic development within markets. It can thus be said that CRM is appropriate for certain organizations in emerging markets .

Organizations 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 organization and the associated business processes be in place in order to facilitate its success (Brunjec and Roderick, 2002). The risk in implementing any CRM strategy is that the organization is not ready to do so and relying on technology to implement the strategy (Brunjec and Roderick, 2002).

The Role Of Customer Service In CRM Strategy

In order to implement 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 (Loverlock,1991). The quality of customer service is determined and evaluated by the customer, and this affects the desirability of a relationship with the organization. Customer service creates the moments of truth with the customer, and these service encounters need to be managed by the organization (Payne, Christopher, Clark and 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 organization. The implementation of a CRM strategy as proposed by Peppers, Rogers and 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 organizations to select those customers that they regard as being strategically significant and who they believe can contribute to the success of the organization. These customers have unique needs and due to their value to the organization, 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 organization to determine those customers that have been with the organization for along period and those that have recently started using the products and services of the organization.

The hypothesis regarding this aspect is formulated as follows :

H1: 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 organization, depending on the value to the organization and their specific needs. This requires the organization 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 organization is aware of the value of their customers, service levels can be adjusted accordingly.

The hypothesis regarding this aspect is formulated as follows :

H2: Differentiation 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 organization's products and attempting to initiate dialogue with customers. Use can be made of technology, but this is not essential (Brunjec and Roderick, 2002).The customers with whom communication takes place are not necessarily all the customers, but only those that the organization regards as being strategically significant. This interaction with the organization 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 :

H3: The level of customer service is increased if there is an active interaction with potential and existing clients.

Step 4: Customization of products, services and communication

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

The hypothesis regarding this aspect is formulated as follows :

H4: The level of customer service is increased if customized service is offered according to each individual client's needs.

Methodology

The survey was conducted among clients in a leading commercial bank in Nigeria. The primary research objective was to determine how the implementing of a CRM programme could optimize the relationship between a leading bank and its clients, and thereby to gain competitive advantage in the market place. Hypotheses linked to each step were formulated. The research instrument used was developed by the researchers 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 where after 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 customization. Use was made of a five-point Likert scale. Structured questionnaires, with 35 statements to measure the respondent's perceptions and expectations, were sent out of 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.

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 organization. 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 and Dorf, 1999) and customer service. The level of association as measured by Pearson's Coefficient 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 and 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 and Schlegelmilch, 1997).

Results and Discussion

H1: Identifying new and existing clients increases the level of customer service

Statistical null hypothesis : H0: $r = 0$

Statistical alternative hypothesis : Ha: $r \neq 0$

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 at 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.

H2: Differentiating between the services offered to new and existing clients increases the level of customer service

Statistical null hypothesis : H0 : $r = 0$

Statistical alternative hypothesis : H0 : $r \neq 0$

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.

H3 : The level of customer service is increasing if there is an active interaction with potential and existing clients.

Statistical null hypothesis : H0: $r = 0$

Statistical alternative hypothesis : H0 : $r \neq 0$

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.

H4: The level of customer service is increased if customized service is offered according to each individual client's needs

Statistical null hypothesis: Ho : r = 0

Statistical   alternative   hypothesis   : Ho: ≠ 0

Variable one (independent variable)	Variable two(dependent variable)	Pearson value(r)	P - value
Customized 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 0.9512 is less than 0.6. The association between customized 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 is 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 organization 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 Nigerian context, and specifically the financial service sector. The degree to which the finding can be generalized is also limited to 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 and 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 Nigeria 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 organization 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 customized service. This requires that management have the ability to identify customers who are important to the organization and then be able to ensure that their needs are different. Thus 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 emails, short message service (SMS) and other technical communication devices.

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