# THE ROLE OF CRM IN SERVICE SECTOR – A KEY TO ACHIEVE CORE COMPETENCY

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## ABSTRACT

*Liberalization, Privatization, Globalization the key economic changes this past century have far reaching effects on the competitive environment in the services sector. The highly volatile business environment has led to manufacturing organizations being transformed into service organizations, bundling services with products.*
*Competition has never been fiercer than it is now. Market place success goes to those organizations that are able to adapt to the changing environment, that are*

- *Focused on maintaining and satisfying their key stakeholders*
- *Able to develop and manage value delivery networks with its customers and partners*
- *Able to nurture their core resources and competencies*

*Customers have emerged as the key players and means to achieve competitive advantage. Marketers are earnestly trying to retain their existing customers than acquiring new customers which costs six times more. CRM defined as a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and customer, this article explores how service firms by initiating CRM programs in their organizations can achieve core competency.*
***Key Words**: Competitive Advantage, Core Competency, Core Resources, Value Delivery Network*

## INTRODUCTION:

The present globalized era is witnessing services being used by a cross-section of society from the corporate world to the common man. The role of services is becoming more pronounced. After the Second World War, services economy has been growing at a rapid pace. According to a survey services contribute a bulk to the GDP[1], 28% in India (2002-2003), this figure is rapidly rising making it a growing sector attracting a wide array of competitors.

Analyzing the current situation of slowdown in the global economy, competition has become all the more intense. The ability to replicate physical products at lower and lower costs facilitated undercutting by domestic and international competitors. This encouraged many manufacturers to augment their physical products with services in order to compete and even to survive, transforming from a predominantly manufacturing firm to a predominantly service organization by bundling services with products[2]. Organizations no longer have an edge over their competitors because of technology, it being easily replicated.
Companies that are able to navigate through this intense competition not only should be able to create high absolute value, but also value relative to competitors at a sufficiently low cost. This competitive advantage can be gained through developing core competencies. Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match[3]. But few competitive advantages are sustainable. Any competitive advantage must be seen by customers as customer advantage. Companies must focus on building customer

advantages. Then they will deliver high customer value and satisfaction, which leads to repeat purchases and ultimately to high company profitability[4].

Companies that are able to reach customer value and satisfaction goals are known as high-performance businesses. The keys to success of these high-performance organizations are stakeholders, processes, resources and organization[5], of which the most important is being able to nurture the core resources and competencies which make up the essence of the business.

Core Competencies have three characteristics: (1) It is a source of competitive advantage in that it makes a significant contribution to perceived customer benefits, (2) It has a breadth of applications to a wide variety of markets, and (3) It is difficult for competitors to imitate[6].

In the wake of technologies being easily replicated by competitor, customers need to be looked at more seriously than ever before. Companies world over have realized that customers are that core competency, which when developed satisfy the above mentioned criterion of being a source of competitive advantage and being difficult to imitate by the competitors. As Porter urged, companies should develop core competencies that are sustainable, companies that are able to attract, acquire and retain customers gain enormous leverage over their competitors. By attracting those consumer segments that are profitable the company lays down foundations to gain high profits, and by retaining the loyal customers who are advocates of the company the organization has developed a core competency that cannot be replicated or poached by its competitors.

The winners in today's highly competitive service markets make progress by continually rethinking the way they do business, looking for innovative ways to serve customers better[7]. Marketing to protect the customer base has become imperative

Targeting, acquiring, and retaining the "right" customers is at the core of many successful service firms.

CRM is about creating a competitive advantage by being the best at understanding, communicating, delivering, and developing existing customer relationships in addition to creating and keeping new customers.

The key how a successful firm differentiates itself from mediocre ones is by customer retention strategy. Increased competition and deregulation in many service dominated industries resulted in concentration on service quality as a means to achieving competitive advantage. The concept of CRM is now gaining wide acceptance and is recognized as a powerful tool for business development and to have an edge over the competitors.

Recent years have seen the emphasis on enhancing shareholder value by a vigorous effort to reduce expenses. The efforts to capture new customers cost six times more than the effort to retain existing customers. When implemented well CRM systems provide managers with tools to understand their customers and tailor their service, cross-selling, and retention efforts, often on a one-on-one basis[8].

In a classic study, Reicheld and Sasser analyzed profit per customer in various service businesses. The researchers found that the longer customers remained with a firm the more profitable they became to serve[9].According to the research conducted there are four factors working to the service supplier's advantage to create incremental profits

**1.** Profits derived from increased purchases:

Few companies think of customers as annuities - Frederick Reicheld

A loyal customer is a consistent source of revenue over a period of many years.

- Loyal customers spend five times more than indifferent customers, on annual maintenance, upgrades and additional products offered.
- Loyal customers contribute to enduring corporate prosperity. Old customers are the most profitable customers because their value rises with each subsequent order. But also the more they buy from you, the more they trust you. And more likely they are to buy again- and again.

**2.** Profits from reduced operating costs

- As customers become more experienced they make fewer demands on the supplier (less need for information and assistance). They also make fewer mistakes in operational processes thus contributing to greater productivity.
- The marketing costs involved in the creation of interest in uninformed new customer far outweigh those involved in maintaining the relationship necessary to continue exchanges between buyer and seller (Barnes and Glynn, 1992)

**3.** Profits from referrals to other customers

- Loyal customers turned advocates of the firm spread positive word of mouth recommendations, which save the firm from having to invest as much money in advertising, and other promotional activities.

**4.** Profit from price premium

- When customers trust a supplier they maybe more willing to pay regular prices unlike new customers to whom the firm must offer introductory promotional discounts.

Based on the above observations by Reicheld and Sasser, the benefits to an organization by maintaining and developing a loyal customer base are numerous. The benefits come from a variety of sources[10]**.**

## BENEFITS FOR THE FIRM

Increased revenue over time from the customer, reduced marketing and administrative costs, and the ability to maintain margins without reducing prices.

Fifty per cent of customers are lost every five years due to changing needs that remain unmet, new technologies and competition. Reducing this defection level by as little as 10 to 15 per cent can double profits, CRM programs help reduce this defection rate.

Good relations with customers can result in minimal bad word-of-mouth in the event of unsuccessful exchanges[11] not only do their subsequent orders delay your front end advertising costs.

It has been demonstrated that across service industries profits climb steeply when a company is able to successfully retain its existing customers, which is the primary goal of CRM. It is not only in the best interest of the organization to build and maintain a loyal customer base, because they provide benefits to the firm but customers themselves also benefit from long-term associations.

**BENEFITS FOR CUSTOMERS**

Consumers will remain loyal when they receive greater value relative to what they expect from competing firms. Firms that adopt CRM programs have consistently been able to deliver value providing an incentive for the customer to stay in the relationship.

There are other types of relational benefits that customers experience in long-term service relationships

*Confidence Benefits:* These benefits comprise feelings of trust or confidence in the provider, along with a sense of reduced anxiety and comfort in knowing what to expect.

*Social Benefits:* Overtime customers develop a sense of familiarity and even a social relationship with their service providers. The social support benefits resulting from these relationships are important to the customer quality of life above and beyond the technical benefits of the service provided.

*Special Treatment Benefits*: Special treatment includes such things such as getting the benefit of the doubt, being given a special deal or price etc.

The above stated benefits reinforce the fact that CRM is the key to achieving core competency in the service sector. The reason could be argued as:

The very nature of services is that customers derive value from services without obtaining the ownership of any tangible elements. Services are difficult to evaluate prior to purchasing, consumers often look to others for advice on which providers to consider. Satisfied loyal customers retained through CRM are likely to provide these strong word-of mouth endorsements.

CRM defined as a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and customer. In simple words CRM helps the company develop a loyal base of customers by providing them inherent benefits which stem from the implementation of CRM programs. These benefits are perceived by the customer as customer advantages which are what Porter urged to build competitive advantages that are actually customer's advantages which cannot be replicated by competitors.

The existing customers tend to purchase more frequently and are more familiar with the firm's personnel and procedures, leading to higher efficiency in service transactions.

The evolution from a service-based to an experience based economy is not only natural but also inevitable. Companies have embraced CRM as a strategic imperative. More than technology, finance or research, customer relations will be the guiding star of their destinies[12]. (Clifford Martis)

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