Customer Satisfaction and Loyalty : A Review in the Perspective of CRM

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Abstract

This paper analyzes the concept of Customer Relationship Management (CRM). The literature reviews strengthen the notion that the increase of customer loyalty can be achieved through positive impact of CRM strategy. In spite of the most essential advantages of CRM, there are some difficulties in CRM implementation for many organizations. Therefore, this study attempts to investigate and find out the key elements of CRM that can lead to the increase of customer satisfaction and loyalty. Base on the literature review, four identified critical CRM elements are employees' behavior, quality of customer services, relationship development and interaction management.

Keywords: Customer relationship management; customer loyalty; customer satisfaction

■1.0 INTRODUCTION

Customer relationship management (CRM) is a concept for managing a company's interactions with customers, clients, and sales prospects. It involves using technology to organize, automate, and synchronize business processes. The objectives of CRM are to enhance profitability, income, and customer satisfaction. To attain CRM, many organizations use set of tools, technologies, and procedures to support the relationship with the customer to enhance sales. Therefore, CRM is an issue of strategic business and process rather than a technical one.[1]

The significance of customer satisfaction cannot be dismissed while happy customers are like free advertising for the company. It is necessary to put the customer at the centre of the business according to its strategies, events and processes. In fact, it is easier and more profitable to sell to present customers than to find new ones. Organizations are setting themselves strategies to ensure customer retention, and changing their employees to be more customer-focused and service-oriented.[2]

As Baker indicates, all businesses have been affected to some degree and evolution which is happening in the global market place.[3] Now, not only the organizations aim to satisfy the customers but they attempt to do this more efficiently and effectively than their rivals in the competitive market place to attain their goals.[4-5] The most important goal of an organization is to maintain customer loyalty and focus on customer centric approach in their organizational and marketing strategies.[6]

Bowen and Chen argue that having satisfied customers is not sufficient. This is because customer satisfaction needs to have direct impact to customer loyalty.[7] Sivadas and Baker-Prewitt stress that there is a rising recognition that the last objective of customer satisfaction measurement should be customer loyalty.[8] Many organizations merely categorize customer satisfaction measurement as a type of "marketing intelligence" instead of using it as a management tool to build customer service quality improvement processes and increase profit.[9]

■2.0 LITERATURE REVIEW

2.1 Process Model of CRM

The process model of CRM focuses on the systems that operate as integral tools of information technology (IT). This is to improve the customer relationship, satisfaction and to support the front office business. In fact, CRM could be considered as an application of IT including an input which is a collection component, a data storehouse, and a system for delivery.[10] Figure 1 explains the process model of CRM which is divided to 5 steps consist of:

Step 1 - Customers' data collecting continuously
Step 2 - Implementing the collected information to manage customers' contact
Step 3 - Development of marketing and business strategy
Step 4 - Marketing programs development
Step 5 - Measuring of successfulness while refining and increasing customer data base.[11-12]

In this model, information is collect, refine and enhance continuously and they would be applied appropriately by the organization. This collected information is stored to be used by

the customer contact staff. After analyzing the information and crating the new information, marketing programs would be developed. This is a feedback control system which to be updated constantly, and new marketing programs would be developed based on new information. [13]

2.2 Operational Model of CRM

There is another name available for operational CRM which is front office CRM. The front office refers to the areas which are in direct contact with customers in an organization that also known as touch points. The touch points divide to inbound customer contact and outbound customer contact, for example if a customer call to a hotline customer service means he/she has a inbound contact and some promotions such as in person sales call or email refer to the outbound contact points.[14] In fact the application of operational CRM is capturing the data from customers.

Actually, operational CRM at the primary level consists of software that acquires the information from customers, stores and retrieves them in a standalone pattern, as an example we can refer to the Microsoft outlook application.[15] CRM consists a number of complex, integrated IT components including data warehouses, data marts, analytical tools and applications used to capture and analyze customer information from a variety of inbound touch points, and make them integrated to outbound touch points.[16] Figure 2 shows the framework of operational CRM.

2.3 Analytical Model of CRM

Understanding and to analyze the activities of customers is called analytical CRM. This model is also known as back office CRM. Technology is required to process and compiles the captured data from customers. Analyzing data is important to facilitate and refining the practices of customer in facing new business processes to increase profitability and customer loyalty. [14]

As explained before, CRM act as a glue to stick back office to the front office. That is an important point because if the customer loyalty represent as a door, than the integration is the key.[14]

Furthermore, Adebanjo defined analytical CRM as a tool to build data storehouses, increasing relationship, and analyzing the captured data from customers.[17] Analytical CRM is used to analyze customers' data for different purposes as describe as follow:

(a) Optimization of marketing effectiveness by designing and implementing appropriate target market.
(b) Designing and implementing effective strategies to customer acquisition and retention, cross-selling and up-selling.
(c) Analyzing customer inquiries and behavior to support the decision making for the services and products.
(d) Doing mix analysis to predict the probability of customer defection.

The framework of analytical CRM is illustrated as Figure 3.

2.4 Collaborative Model of CRM

The most common definition of collaborating CRM implies that collaborative CRM share different information captured from customers by different departments such as sales, marketing, customer service, technical support services and so on. For example, the feedback from customers gathered by customer service could aid marketing department to know more about the potential services of customers' interest. Increasing customer loyalty and satisfaction is the main aim of collaborative CRM by

improvement of service quality. On the other hand, the principal application of collaborative CRM is making online communities, development of business to business (B2B), and personalizes services.[17-18] Collaborative CRM is divided to two broad aspects:

The first one is interaction management, which implies that, designing the appropriate interaction channel process within the firm in association with customer could increase the extent communication between both the parties. The interaction channel varies according to the variety of the customers, for example some of the customers prefer to have communication via telephone, or email result in comfort ability or less time consuming, however, some others prefer to contact via online web such as online chatting or web meeting to reduce the travelling cost and also saving time. There are some customers who prefer face to face meeting and believe this is more reliable. It is very important for the organization to implement these methods to meet the customer needs and enhance the interaction process for collecting relevant information from customers. [17]

The second aspect is channel management after implementation the interaction management. The latest technological aspects have to be applied to improve the channel communication that aid organization to contact with customers in best ways to understand customers' requirements. Therefore, arrangement and choosing the right channel is crucial for an organization. [18]

2.5 Previous Studies on the Relationship between Effectiveness of CRM, Customer Satisfaction and Customer Loyalty

Khaligh *et al.* investigate the impact of CRM on customer loyalty and retention in the telecom industry in Iran.[19] The data are collected from 200 Iranian telecom services users. Finding shows that commitment and vision of the management system is highly required for a successful CRM implementation. The structure of the strategy should be based on flexibility and explicitly of the policies especially pricing policies. These factors are very important to increase customer loyalty and benefit of the firm. [19]
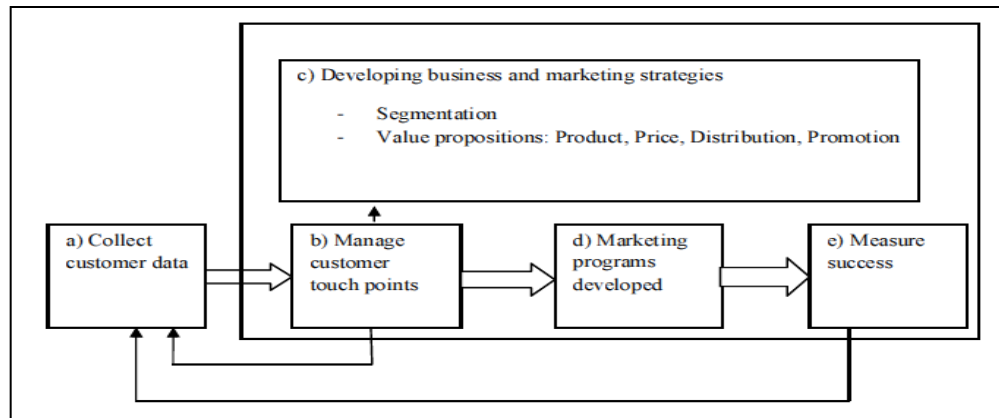
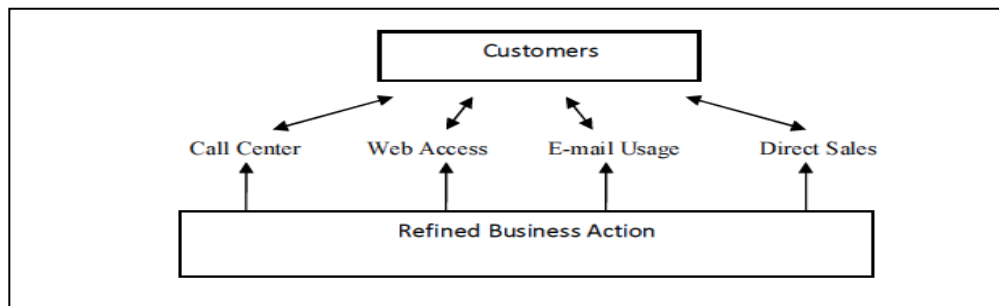**Figure 1** The CRM process model (Roberts, 2003)

Figure 2 Operational model of CRM (Dyche, 2002)
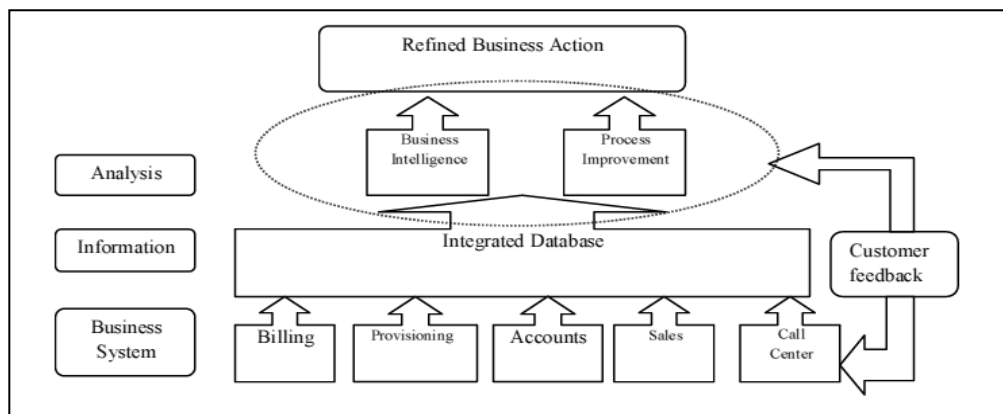

Figure 3 Analytical CRM model (Dyche, 2002)

According to the research by Bhattacharya, CRM is implemented in an organization to reduce cost and increase company performance, which means profitability result through customer loyalty.[20] Indeed, in a successful CRM implementation, data are collected from internal and external source such as sales department, customer service, marketing, after sales services, procurement, and others. This is crucial in obtaining a holistic view of each customer requirement in a real time system. This information will able to aid employees to make fast and accurate decision when dealing with the customers in different areas and touch points. The finding of this study shows that the customer perception and treatment given to each customer individually able to assist in solving many customer's problems. Thus, customer satisfaction and loyalty would be achieved through a successful CRM

implementation. Therefore, organization should discover different requirements of the customers and adjust their policies according to their needs to increase the firm's competitiveness. According to the conceptual framework proposed by Faed, customer relationship management amplifies the relationships of customers and competitors in a firm to increase the share of the organization in marketplace by integrating technology, procedures and people. [21]

The aim of CRM is to maintain the customers and increase their loyalty and organization profit. Customer satisfaction and pleasing are two main elements in a successful CRM implementation for retaining customer's loyalty to a firm. [21]

Kim *et al.,* stress that each perspective of the CRM framework is evaluated by a set of related metrics. [22] In this regards, a case study has been carried out by Kim *et al.,* to an

online shopping company in South Korea that sales 30,000 products in 12 categories. [22] This company ranked as 18th online shopping mall in South Korea. Data collected through experts' interview, questionnaires and weblog analysis. Findings illustrates that, the factor which is very important to increase customer satisfaction, customer loyalty and benefits of the firm is to clear all vagueness and implicit problems that exist in the top level of strategic managements. A single and explicit language would be provided for accurate communication in an organization.

According to a study on 100 firms who are active in different area of industry such as: manufacturing, communication, financial and others, Bohling *et al* develop a number of criteria to implement CRM successfully. [23] These criteria are divided to three main groups:

(a) Project focused
(b) Internally oriented metrics, employees' adoption
(c) Externally oriented metrics, customer satisfaction and loyalty

According to the findings, the most important externally oriented criteria are as follows:

(a) verified customer influence in terms of loyalty and satisfaction
(b) measureable revenue development
(c) enhanced information and perception
(d) measurable cost drop
(e) enhanced employee efficiency
(f) practice by employees
(g) compliance to particulars

Wang and Lo (2004) found that CRM model is based on two perspectives. [24] First, measures the factors related to customer behavior such as: repurchasing, cross and up selling and customer acquisition rate, and second, measures the relationship quality, such as customer satisfaction and customer loyalty. Data were collected randomly from 400 selected customers of two security companies from China. The finding shows that emotional and functional behavior of customers has positive impact on customer satisfaction and customer satisfaction has positive effect on customer behavior based on CRM elements. Finally, the result of this study shows that customer behavior based on CRM have a positive effect on customer and brand loyalty. [24]

Zineldin developed a triangle strategy between quality, CRM, and customer loyalty which is leading to companies competitiveness.[25] This research was designed to measure satisfaction and loyalty of the customers based on two main conditions where the customer database information and strategy of CRM should be well structured and the capacity of the system should be enough to produce data for accurate analysis. According to the findings of the research, any changes of the quality of the services or productions in a firm over time could be used as an indicator to find the level of customer loyalty through a well-structured CRM strategy. If the indicators of interaction, infrastructure, and atmosphere are linked to the product and process quality, it helps the researchers to find what changes are required in CRM strategy to improve customer satisfaction and loyalty. This finding is similar to the study done by José Ángel *et al* on the service quality provided by the banks in Spain. [26] Using structural equations models with AMOS, the results show an influence of the operative aspects and the new technologies on service quality, as well as the confirmation of quality as a precedent to customer satisfaction,

and such satisfaction influences the customer's loyalty towards the bank.

Izquierdo *et al* developed a model in which, car repair and maintenance are tested as a case where long term customer relationship is frequentative. Path analysis is used to evaluate the association of customers' perception, market loyalty and market position. The hypotheses were evaluated using a path analysis, which examines the relationship between marketing activities and economic performance. [27]

This model is proposed based on performance of the market and economic. The measures of proposed model are as follows: [27]

(a) The position of Market
(b) Customer Loyalty
(c) Customer insight
(d) Economic and market performance

The findings suggest that CRM implementation include attraction activities which are service quality, commercial practices and loyalty programs such as bonus, contact, satisfaction and complaints handling. This result in appropriate perception of customers leading to increasing customer loyalty and therefore, economic performance of the firm would be increased.

Feinberg and Kadam argue that emphasizing to online business rather than traditional way of business is necessary nowadays.[28] So in this way, the usage of internet provides an opportunity for business to use it as a tool for CRM. According to their research, there are 42 different e-CRM features used by the retailers. The finding shows that there is significant relationship between CRM implementation on websites of the retailers and customer satisfaction which leads to customer loyalty. However all attributes of implemented CRM are not equal in terms of predicting the customer satisfaction and loyalty. [28]

Yieh *et al* employed structural equation modeling to understanding the antecedents to customer loyalty. Their study analyzed 495 car owners patronizing five automobile service and repair centers operated by Taiwan's three major car companies (Nissan, Toyota, and Mitsubishi). The finding of this study reinforces the notion that the level of employee–customer interaction has the direct and positive impact on customer satisfaction. Yieh *et al* also found that customer satisfaction and trust are all positively related to customer loyalty. Customer satisfaction can also affect customer loyalty by helping customers create trust. [29]

2.6 Critical Elements of CRM

Base on the above review, four critical elements of CRM are identified which are interaction management, relationship development, customer service and employees' behavior.

2.6.1 Interaction Management

According to the Brown and Gulycz, if an organization willing to make a stable relationship with its customers, there are different ways to have an interaction with them including interaction along touch points and distribution channels.[30] The main purpose is to find out how and when the customers would like to interact with the organization.[31] The interaction activities should be well customized and organized through the available touch points. The touch points provide in relation to the customers' profiles developed by data gathered from the former records of the customers. Peppers and Rogers stress that the

touch points must be used for distribution of different products, services and communication with the customers.[32] According to the works of Lindgreen *et al*, interaction management is implemented by a few methods such as: [33]

(a) Getting customers' feedback.
(b) Provide variety of entertainment and promotion to the customers.
(c) Increase the interaction with customers by attractive ways such as using social network like facebook.
(d) Record the customer purchasing trend to evaluate their bonuses and vouchers entitlement.

2.6.2 Relationship Development

The relationship development process concerns an interaction where connections have been developed between two parties. The most important activity to achieve relationship development is known as monitoring of the relationship management process such as service or complaint management.[30] This relationship processes include procedures, mechanisms, schedules, and activities in which the products and services have been delivered to customers.[34] The key performance indicators such as rate of retention, life time value of the customers, and customer satisfaction should be set by the organization. [30]

According to the works of Hanley and Lindgreen *et al*, relationship development is implemented by a few methods such as: [33,35]

(a) Inform customers about promotions, discounts and other facilities of the organizations.
(b) Encourage customers to purchase more by showing appreciation.
(c) To convince customers that their feedback are taken seriously.

2.6.3 Quality of Services

According to Gee *et al* in an attempt to understand the factors that induce customer satisfaction, the concept of service quality is increasingly common in the literature.[36] Studies show that service quality has a positive effect on consumer satisfaction and also has a significant relationship with customer loyalty, and the profitability of the firms. According to the works of Hanley, the quality of services could be implemented by a few methods such as:[35]

(a) Meeting customer expectation of good service level and having many varieties of products.
(b) Provide good quality products with reasonable price.
(c) To handle the customer complains about the products and services tactfully.

2.6.4 Behavior of the Employees

An employee that conforms with organization behavior and value is likely to strengthen the connection between the consumer and the firm. A reverse pattern of effects is to be expected when the employee act through his/her own behavior. In these cases, a consumer may think that the organization actually does not deliver the symbolic benefits that s/he had expected for and may evaluate the organization in a negative way. In other words, under circumstances such as the ones described, an employee will probably exert a strong impact on organization reputation and attitudes.[37] According to the works

of Hanley and Coulter, the effect of positive employees' behavior could be expressed by a few methods such as: [35-36]

(a) Increase the speed of employees' response to the customer.
(b) Ensure employees are friendly and respectful to customer.
(c) Employees to show care and concern to the customers.

◼3.0 CONCLUSION

This paper concentrates to the literature on the impact of customer relationship management on customer satisfaction and customer loyalty. Base on the above literature review on various CRM models and previous studies, several critical elements that link closely with customer satisfaction and loyalty are behavior of employee, quality of customer services, relationship development and interaction management. Therefore a conceptual framework is developed as illustrate in Figure 4.

The CRM approach to marketing has gained much currency in recent years, seeking to establish closer relationships and interactions between a business and its most important customers.[10] CRM-oriented businesses market their products and services through relationships and interactions with multiple markets, most notably the customer market, often taking advantage of IT-based interactivity.[38] Organizations must consider seriously in investing on such tools for implementing CRM systems in their workplace. CRM frequently employs IT technology as a means to attract, develop and retain customers. It permits businesses to leverage information from their customer databases to achieve customer retention, and to cross-sell new products and services to existing customers.[14] It must be emphasized, though, that CRM does not necessarily involve IT technology. CRM is very much involve human interaction and relationship building. CRM is the most efficient approach in maintaining and creating relationships with customers. CRM is not only pure business but also ideate strong personal bonding within people. Development of this type of bonding drives the business to new levels of success.[25] Once this personal linkage is built, it is very easy for organization to identify the actual needs of customers and to serve them in a better way. It is a belief that the more sophisticated strategies involved in implementing CRM, the more fruitful is the business.
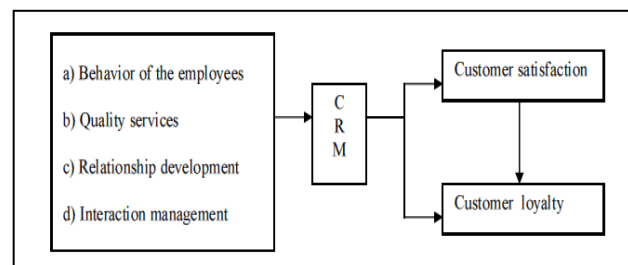

Figure 4 Conceptual framework

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