

HOW CRM AFFECT CUSTOMER RETENTION: A REVIEW

Shivani Narwal¹, Dr. Dalbir Singh²

¹ *Research Scholar, Haryana School of Business,*

Guru Jambheshwar University of Science and Technology, Hisar, Haryana, (India)

² *Assistant Professor, Haryana School of Business,*

Guru Jambheshwar University of Science and Technology, Hisar, Haryana, (India)

ABSTRACT

Customer relationship management is the strongest and most efficient way of creating and maintaining long term relationship with the customers. The aim of this paper is to review the effect of various customer relationship management variables on the customer retention. Here, five variables of CRM namely satisfaction, trust, commitment, communication and quality are considered that show their impact on repurchase intention of the customers. In the results these variables have depicted positive and significant impact on the retention except satisfaction, the only variable, which shows both positive and negative influence on retention. Focusing only a few variables is been the biggest limitation of this review and it is suggested that more variables are to be considered in future so that the behavior of the customers can be understood properly and decisions are taken accordingly.

Keywords: Customer Relationship Management, Customer Retention, Commitment, Satisfaction, Trust.

I INTRODUCTION

The concept of CRM was initially emerged in the early 1990s, especially among the academics and practitioners [1]. CRM has its roots in relationship marketing which aims at improving long run profitability and emphasize on winning new customers [2]. The newer concept directed the attention of the business houses towards more vital aspects, which includes the need of direct relationship between customer and marketers, the importance of retaining the present customers and preserving the lifelong relationships with them in order to survive in this increasingly competitive economy [3]. CRM activities enhance satisfaction, retain existing customers, provide strategic information and improve customer lifetime value (LTV) [4] which further leads to increase in business performance and productivity. Now expectations of customers are not only confined to get best products and services, they also wish a face to face business in which they want to get exactly what they demand within a definite time period. CRM

5th International Conference on Science, Technology and Management

India International Centre, New Delhi

(ICSTM-16)

30th July 2016, www.conferenceworld.in

ISBN: 978-93-86171-00-9

programs help managers in identifying and targeting their most valuable customers so as to allocate their resources efficiently to achieve company's goal. It is concerned with creation, growth and enhancement of the relationship with the targeted customers to maximize total customer lifetime value (LTV) [5]. Different authors have different view point about the concept of CRM. Some authors consider it as a process and strategy for customer retention and acquisition [47], [48] whereas some authors defined it as a philosophy [6] and some other researchers explained CRM as technology [49], [7]. As a whole, CRM strategy does not mean only the installation of the CRM software, in fact theory starts with the employees first. The employees must be trained on the CRM theory so that they can get the best from the customers from customer relationship management.

II CUSTOMER RELATIONSHIP MANAGEMENT

Customer Relationship Management is a comprehensive process and strategy for customer acquisition and retention to create superior value for the customers and for the company [47]. It is a combination of people, process, strategy, philosophy, capability and technology [8] that tries to understand the customer to earn their loyalty and commitment and provides the best suitable ways to serve customers and enhance the market share as well as the profitability of the firm. CRM refers to customer oriented practices which helps companies to work with the customers for their mutual benefits. It is the planning and organizing of the customers for maintaining long term relationships with them. CRM is a competitive strategy which includes attracting, budding, mounting and retaining profitable relationships with the customers which significantly effects overall performance.

III CUSTOMER RETENTION

Customer retention has increasingly been seen as an important managerial tool in the competitive world. Customer Retention means securing long term mutually benefited relationships with the customers. It is the core and heart of the relationship marketing and is important to most of the companies because the cost of acquiring the new customers is way more than the cost of retaining the existing one [9]. Satisfaction earns loyalty for the firm that helps in maintaining life term relationships with the company. It is not only giving the customer what they expect; it's about exceeding the expectations of the customers so that they feel contented. Customer Retention is concerned with upholding the relationship established between the organization and the customer [10]. As per the Pareto's Rule, i.e. 80-20 rule, 80% profit and sales of the company are from the 20% customers. So it is very essential for the company to satisfy its most profitable customer of the company and should focus on retaining these customers. Therefore, it can be considered as the primary goal of the organizations practicing CRM strategies and applications [11].

IV LITERATURE REVIEW

The literature reveals a positive influence of CRM on consumer repurchase intention. Customer retention has been considered as one of the key objective of the relationship marketing due to its potential benefits. CRM emphasize on customer retention which affects profitability because it is more efficient to maintain an existing relationship with a

customer instead of creating a new one [51], [12]. CRM comprises three phases: acquiring, enhancing and retaining which support intimacy and better understanding between the company and its customers [13]. Successful implementation of the CRM programs and strategies will definitely reap the awards in the form of customer satisfaction, loyalty, retention and long term profitability [2]. Stakeholders can develop loyalty and customer retention by building trustworthy relationships with the customers [14]. CRM helps in increasing the confidence of customers in their products and company and helps in increasing profits by reducing customer's acquisition rate and by increasing repeat purchase rates. With the help of product and service quality and CRM programs one can achieve competitive positioning which undoubtedly effects customer satisfaction, productivity and efficiency. Company must consider the provision of tailor-made products which reduce the customer defection rate. Past research claimed that it costs five to six times more to attract a new customer than to retain the old one [50] and therefore, practicing long term relationships with customers, instead of a transaction-oriented approach, is more fruitful for the organization.

V OBJECTIVE OF THE STUDY

The main objectives of this paper are:

5.1 To identify the factors of Customer Relationship Management based on review of literature in the field of CRM and relationship marketing.

5.2 To review the impact of factors of CRM on Customer Retention.

Factors of Customer Relationship Management

There are numerous factors of CRM which impact the intention of the customer to continue business with company as well as the performance of the company as evidenced in the past literature. Variables of relationship marketing namely satisfaction, trust, commitment, communication, seller expertise, switching barriers, brand image, happiness, top management support, conflict handling, customization and reward programs positively and significantly affects the customer retention, profitability and the performance of the company. However, the present study will focus on these five variables namely:

Satisfaction	[15], [16], [17]
Trust	[18], [19]
Commitment	[20], [15]
Communication	[7]
Quality	[21], [22]

6.1 SATISFACTION

Customer satisfaction is defined as the degree to which a customer believes that the possession of a good or service prompts his or her positive feelings [23]. It is a measure of how well a customer's expectations and hopes are fulfilled by the firm [24]. It is accepted as the strong predictor for variables such as repurchase intention, word of mouth and loyalty. The importance of customer satisfaction cannot be denied as happy customers are like the free

advertisement to the company. A single unsatisfied customer is dangerous than the ten highly satisfied customers. The more we focus on the customer satisfaction and retention, the more long term business will be there and this competitive and ever-changing business environment compels the organizations to have satisfied customers and preserve them in order to survive and compete with the rivals [25]. Researchers claimed that higher the customer satisfaction, high will be the retention of the existing customers [26], [27] and is important factor for the firms to retain its customers [28]. Satisfaction leads to loyalty among the customers and therefore they pay less attention to the competitors conversely dissatisfaction will adversely affect the loyalty and diminishes profitability and goodwill of the company. Numerous studies have hypothesized and validated the link between the customer satisfaction and retention [15], [16], [17], [29], [30]. However, some authors argued that there is little affect of satisfaction on the retention of the customers [14], [21], [31], [32].

6.2 TRUST

Trust is considered as the primary and fundamental requirement for developing and improving relationships [33] and is viewed as one of the most relevant antecedents of stable and collaborative relationship [34]. Trust is described as a willingness to rely on an exchange partner in whom one has confidence [35]. It is customer's confidence in a service provider's reliability and integrity, reflecting the willingness to rely on the service provider [36]. Trust plays important role in the prediction of the future intention of the customers [31]. Trust is a significant factor in any kind of association between the customers and the existing service providers [20]. In a similar way, [37] identified the development of trust as an important factor contributing to the relationship development. The more the customer trust the supplier, the higher the perceived value of the relationship by the customer, therefore, one can expect that the greater the chances of customer being in the relationship with the supplier [38]. Trust notably influences customer loyalty which eventually assists in facilitating higher customer retention and profitability. Consequently, when a customer trusts a business or brand, that customer is willing to form positive buying intentions towards the business [39]. There are numerous studies confirming the expected positive effect of trust on the retention of the customers and considering as an important driver of retention [40], [17], [19], [18], [14], [41].

6.3 COMMITMENT

The relationship marketing literature recognizes another potential driver which eventually affects customer retention known as relationship commitment. In literature it was agreed that mutual commitment among partners in business relationships results into significant benefits for the business. Marketing scholars have variously defined commitment as a desire to maintain relationship [42] a pledge of continuity between the parties [43]. Commitment is a psychological sentiment of the mind through which an attitude concerning continuation of a relationship with a business partner is formed [44] and concluded that there is a positive relationship between commitment and the intention of the partner to stay in the relationship. It is considered as useful driver for evaluating the likelihood of customer loyalty and for predicting future purchase as well [42], [43]. It helps in understanding the strength of the marketing relationship and with a higher level of commitment; there is also a higher level of obligation to make the

5th International Conference on Science, Technology and Management

India International Centre, New Delhi

(ICSTM-16)

30th July 2016, www.conferenceworld.in

ISBN: 978-93-86171-00-9

relationship satisfying and long lasting. Direct effect of affective commitment on both relationship maintenance and relationship development has been demonstrated [45]. In a similar way, [15] concluded that calculative commitment has a negative effect on churn and positive effect on the customer retention. It not only creates favorable intentions to maintain the relationship but also increase the relationship quality [20]. Various researchers proved the positive influence of commitment on the decision of the customers to maintain and preserve the long life relationship with the firm [30], [39], [40].

6.4 COMMUNICATION

Several studies indicated that the exchange of information amid the buyers and the sellers is an important element of relationship marketing. Communication is an interactive dialogue between the company and the customers which takes place during pre-selling, selling, consuming and post-consuming stages [7]. It means providing information that can be trusted, providing information when problems occur and fulfilling promises [46]. Strategies should be adopted to improve communication between the customers and the organization which ultimately improves both loyalty and retention [7]. Better communication by organization leads to trust between the exchange parties and thus positively influences relationship continuity intention of the buyer [18]. Communication plays a significant role in improving relationship quality as it ensures both parties understanding and sharing information with each other [41]. It is very important, especially in the initial stage of the relationship building with the customers and helps organizations in building awareness and convincing them to make a purchase.

6.5 QUALITY

With the advent of technology which provokes the intense competition, the need of providing satisfactory quality will necessitate that companies should focus on improving and controlling their product/service quality. [22] developed the five dimensions of quality (5Qs) which affects the satisfactions and loyalty and stated that high Prodserv quality maintains the existing customers over longtime and attracts new customers as well. With increasing awareness consumers are demanding higher quality products and services than ever before. Providing customers with the quality products and services is considered as an essential strategy for the success and survival in today's competitive environment. [40] developed a conceptual model which shows that relationship between satisfaction and customer retention is moderated by the relationship quality. Service quality is considered as a tool to enhance the value for the customer, and as a way of positioning in a competitive atmosphere to ensure customer satisfaction, retention and patronage [21].

VII CONCLUSION

From the above literature it is observed that CRM is very essential for success in any business house. Numerous factors affect the repurchase intentions of the customers which must be kept in mind by the business heads while entertaining its customers. These are the few factors which molds the decision of the customers whether to continue the relationship or not. All these factors of relationship management have positive and significant influence on the

5th International Conference on Science, Technology and Management

India International Centre, New Delhi

(ICSTM-16)

30th July 2016, www.conferenceworld.in

ISBN: 978-93-86171-00-9

retention decision of the customers. Trust is considered as one of the most significant antecedent for any stable relationship. Commitment also creates favorable intentions among customers and in the similar way, communication and quality greatly and optimistically influences the choice of the customer to continue business with the organization. But satisfaction is the only factor here which has both positive impact in some studies and on the other hand less significant impact as well in some studies on the customer retention. So, it can be concluded that aforesaid factors should be kept in mind by the managers if they want to maintain long run relationships with their customers who directly influence the profitability and performance of the organization.

VIII LIMITATION AND FUTURE RESEARCH

Nevertheless, this study has some limitations which offer opportunities for future research. The first limitation of this research paper is that it is concerned with only few variables of customer relationship management. Another limitation of this study is that it provides only static view of the relationship between CRM and customer retention. Empirical validation of these effects in multiple settings will help shed further light on these phenomena. Further research can be done by considering other effective variables which shows the impact of CRM on retention and ultimately on firm performance and profitability.

REFERENCES

- [1] Soliman, D. H, Customer Relationship Management and Its Relationship to the Marketing Performance. *International Journal of Business and Social Science* , 2 (10), 2011, 166-182.
- [2] Chen, I. J., & Popovich, K, Understanding customer relationship management (CRM) People, process and technology. *Business Process Management Journal* , 9 (5), 2003, 672-688.
- [3] Jayachandran, S., Sharma, S., Kaufman, P., & Raman, P, The role of relational information processes and technology use in customer relationship management. *Journal of marketing*, 69(4), 2005, 177-192.
- [4] Xu, M., & Walton, J, Gaining customer knowledge through analytical CRM. *Industrial Management & Data Systems* , 105 (7), 2005, 955-971.
- [5] Reinartz, W., Krafft, M., & Hoyer, W. D, The customer relationship management process: Its measurement and impact on performance. *Journal of marketing research*, 41(3), 2004, 293-305.
- [6] Ryals, L., & Knox, S, Cross-functional issues in the implementation of relationship marketing through customer relationship management. *European Management Journal*, 19(5), 2001, 534-542.
- [7] Roberts-Lombard, M, Customer Retention through customer relationship management: The exploration of two-way communication and conflict handling. *African Journal of Business Management* , 5 (9), 2011, 3487-3496.
- [8] Zablah, A. R., Bellenger, D. N., & Johnston, W. J, An evaluation of divergent perspectives on customer relationship management: Towards a common understanding of an emerging phenomenon. *Industrial Marketing Management* , 33, 2004, 475-489.

5th International Conference on Science, Technology and Management

India International Centre, New Delhi

(ICSTM-16)

30th July 2016, www.conferenceworld.in

ISBN: 978-93-86171-00-9

- [9] Lindgreen, A., Davis, R., Brodie, R.J. and Buchanan-Oliver, M, Pluralism in contemporary marketing practices. *International Journal of Bank Marketing*, 18(6), 2000, 294-308.
- [10] Ndubisi, N. O, Relationship marketing and customer loyalty. *Marketing intelligence & planning*, 25(1), 2007, 98-106.
- [11] Ang, L., & Buttle, F, Customer Retention Management Processes: A quantitative study. *European Journal of Marketing* , 40 (1/2),2006, 83-99.
- [12] Zineldin, M, Quality and customer relationship management (CRM) as competitive strategy in the Swedish banking industry. *The TQM magazine*, 17(4), 2005, 329-344.
- [13] Peppers, D., & Rogers, M, A new marketing paradigm: share of customer, not market share. *Managing Service Quality* , 5 (3), 1995, 48-51.
- [14] Gulid, N, The Influence of Satisfaction, Trust and Switching Barriers on the Thai Tourists Retention.2014, 39-45.
- [15] Gustaffsson, A., Johnson, M. D., & Roos, I, The effect of Customer Satisfaction, Relationship Commitment Dimensions, and Triggers on Customer Retention. *Journal of Marketing* , 69 (4), 2005, 210-218.
- [16] Winer, R. S, A Framework for Customer Relationship Management. *California Management Review* , 43 (4), 2001, 89-105.
- [17] Ranaweera, C., & Prabhu, J, The influence of satisfaction, trust and switching barriers on customer retention in a continuous purchasing setting. *International Journal of Service Industry Management* , 14 (4), 2003, 374-395.
- [18] Jena, S., Guin, K., & Dash, S, Effect of Relationship Building and Constraint-based factors on business buyer's relationship continuity intention: A Study on the Indian steel industry. *Journal of Indian Business Research* , 3 (1), 2011, 22-42.
- [19] Lin, J.-S. C., & Wu, C.-Y, The role of expected future use in relationship-based service retention. *Managing Service Quality: An International Journal* , 21 (5), 2011, 535-551.
- [20] Gournaris, S.P, Trust and Commitment influences on Customer Retention: insights from business-to-business services. *Journal of Business Research* , 58(2005), 2003, 126-140.
- [21] Roberts-Lombard, M., & Nyadzayo, W, A Conceptual Framework to improve Customer Retention at Motor Dealerships in an Emerging Economy. *Asian Journal of Science and Technology* , 4 (12), 2013, 001-010.
- [22] Zineldin, M, The royalty of loyalty: CRM, quality and retention. *Journal of Consumer Marketing* , 23 (7), 2006, 430-437.
- [23] Rust, R. T., & Oliver, R. L, Should we delight the customer? *Journal of the Academy of Marketing Science*, 28(1), 2000, 86-94.
- [24] McIlroy, A., & Barnett, S, Building customer relationships: do discount cards work? *Managing Service Quality* , 10(6), 2000, 347-355.

5th International Conference on Science, Technology and Management

India International Centre, New Delhi

(ICSTM-16)

30th July 2016, www.conferenceworld.in

ISBN: 978-93-86171-00-9

- [25] Mohsan, F., Nawaz, M. M., Khan, M. S., Shaukat, Z., & Aslam, N, Impact of customer satisfaction on customer loyalty and intentions to switch: Evidence from banking sector of Pakistan. *International Journal of Business and Social Science*, 2(16), 2011, 263-270.
- [26] Fornell, C, A National Customer Satisfaction Barometere: The Swedish experience. *Journal of Marketing* , 56 (1), 1992, 6-21.
- [27] Rust, R. T., & Zahorik, A. J, Customer Satisfaction, Customer Retention, and Market Share. *Journal of Retailing* , 69 (2), 1993, 193-215.
- [28] Oliver, R. L, A cognitive model of the antecedents and consequences of satisfaction decisions. *Journal of Marketing Research*, 17(4), 1980, 460-469.
- [29] Nataraj, S, Customer Retention-CRM Application. *Issue in Information System* , XI (2), 2010.
- [30] Appiah-Kubi, B., & Doku, A. K, Towards a successful customer relationship management: A conceptual framework. *African Journal of Marketing Management* , 2 (3), 2010, 037-043.
- [31] Garbarino, E., & Johnson, M. S, The Different Roles of Satisfaction, Trust, and Commitment in Customer Relationship. *Journal of Marketing* , 63, 1999, 70-87.
- [32] Qadri, U. A., & Khan, M. M, Factors Affecting on Customer Retention: A Case Study of Cellular Industry of Pakistan. *International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)* , 1 (1), 2014, 1-22.
- [33] Medlin, C. J., Aurifeille, J. M., & Quester, P. G, A collaborative interest model of relational coordination and empirical results. *Journal of Business Research*, 58(2), 2005, 214-222.
- [34] Akbar, M. M., & Parvez, N, Impact of service quality, trust, and customer satisfaction on customers loyalty. *ABAC Journal*, 29(1), 2009, 24-38.
- [35] Moorman, C., Deshpande, R., & Zaltman, G, Factors affecting trust in market research relationships. *The Journal of Marketing*, 57(1), 1993, 81-101.
- [36] Crosby, L. A., Evans, K. R., & Cowles, D, Relationship quality in services selling: An interpersonal influence perspective. *The journal of marketing*, 54(3), 1990, 68-81.
- [37] Bejou, D., Ennew, C. T., & Palmer, A, Trust, ethics and relationship satisfaction. *International Journal of Bank Marketing* , 16 (4), 1998, 170-175.
- [38] Gounaris, S. P, Trust and Commitment influences on Customer Retention: insights from business-to-business services. *Journal of Business Research* , 58 (2005), 2005, 126-140.
- [39] Vuuren, T. v., Roberts-Lombard, M., & Tonder, E. V, Customer satisfaction, trust and commitment a s predictors of customer loyalty within an optometric practice environment. *Southern African Business Review* , 16 (3), 2012, 81-96.
- [40] Hennig-Thurau, T., & Klee, A, The Impact of Customer Satisfaction and Relationship Quality on Customer Retention: A Critical Reassessment and Model Development. *Psychology & Marketing* , 14 (8), 1997, 737-764.

5th International Conference on Science, Technology and Management

India International Centre, New Delhi

(ICSTM-16)

30th July 2016, www.conferenceworld.in

ISBN: 978-93-86171-00-9

- [41] Bataineh, A. Q., Al-Abdallah, G. M., Salhab, H. A., & Shoter, A. M, The Effect of Relationship Marketing on Customer Retention in the Jordanian's Pharmaceutical Sector. *International Journal of Business and Management* , 10 (3), 2015, 117-131.
- [42] Morgan, R. M., & Hunt, S. D, The commitment-trust theory of relationship marketing. *The journal of marketing*, 58(3), 1994, 20-38.
- [43] Dwyer, F. R., Schurr, P. H., & Oh, S, Developing buyer-seller relationships. *The Journal of marketing*, 51(2), 1987, 11-27.
- [44] Wetzels, M., Ruyter, K. d., & Birgelen, M. V, Marketing service relationships: the role of commitment. *Journal of Business & Industrial Marketing* , 13 (4/5), 1998, 406-423.
- [45] Verhoef, P. C, Undersatnding the Effect of Customer Relationship Management Efforts on Customer Retention and Customer Share Development. *Journal of Marketing* , 67, 2003, 30-45.
- [46] Ndubisi, N. O., & Wah, C. K, Factorial and discriminant analyses of the underpinnings of relationship marketing and customer satisfaction. *International Journal of Bank Marketing* , 23 (7), 2005, 542-557.

BOOKS

- [47] Parvatiyar, A., & Sheth, J. N. *Conceptual framework of customer relationship management* (New Delhi, India: Tata/McGraw-Hill, 2001).
- [48] Kumar, V. & Reinartz, W., *Customer relationship management: A data based approach* (N. Y: John Wiley, 2006).
- [49] Peppers, D. and Rogers, M, *The one to one manager: real-world lessons in customer relationship management*, (N Y: Doubleday, 1999).
- [50] Lovelock, C. and Wright, L, *Principles of service marketing and management* (Englewood Cliffs, NJ: Prentice-Hall, 1999)
- [51] Payne, A., Christopher, M., Clark, M., & Peck, H, *Relationship marketing for competitive advantage* (Butterworth-Heinemann, 1999).