Customer Relationship Management (CRM), Customer Satisfaction and Customer Lifetime Value (CLV) in Retail

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Abstract

The aim of this research paper is to understand how CRM affects customer satisfaction and ultimately Customer Lifetime Value (CLV) in retail industry. CRM is considered as an approach to manage customer relationships and other technological factors are not taken into consideration. The purpose of this study is to explore the impact of CRM on Customer Lifetime Value (CLV) as it is focused in various studies. CLV is an important issue for the retailer in the competitive environment. Issues for the Management are creating CLV and customer satisfaction for both the customer retention and repeat purchase as well as expanding customer base through word of mouth apraisals. A literature review in this field has been carried out to develop a conceptual model and draw conclusion. This review first looks into literature that deals with CRM and then dwells in literature on Customer satisfaction and how to manage repeat purchases through customer satisfaction management.

Keywords: *CRM, Customer Satisfaction, Customer Lifetime Value (CLV), Organised Retail*

Introduction

According to 'Yes Bank - Assocham' study, the Indian retail market (both organised and un-organised) was roughly pegged around Rs.47 lakh crore in 2016-17, expanding at a compounded annual growth rate of 15%. According to Brand Equity Foundation survey report 2016, the Indian retail sector is likely to grow at a CAGR of 13% to reach US$ 950 billion by 2018 and the (B2B) e-commerce market is expected to reach US$ 700 billion by 2020. The same report indicates that there were 8500 supermarkets in India in the year 2016. A survey conducted by AT Kearney has shown that Indian Retail sector has seen tremendous growth in the organised segment which is around 10% of the total retail market. The government has also supported this growth through a number of steps like Introduction of Goods and Service Tax (GST) as a single unified tax system from 2017-18, FDI of up to 100% in single-brand retail and for cash and carry (wholesale) trading and exports and about 51% FDI in multi-brand retail (Brand Equity Foundation survey report 2016).

Today the term Customer Relationship Management (CRM) has turned into a trendy expression in the Indian Retail world. There are variety of reasons which can be ascribed to the changing customer worldview and sorted out retailers in making CRM an occurrence marvel. Retailers in India today look at CRM and loyalty as important aspects as generating and retaining customers is the biggest challenge. CRM goals of serving customers better and growing customer relationships have failed at various occasions due to lack of focus, ill-conceived, fragmented initiatives and unrealistic expectations. Retailers need to innovate constantly new methods of attracting customers and retaining the existing ones. Retailers are also facing challenges like difficult data collection, how to identify consumers

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consistently, unclear return on investment and complex integration of CRM with other systems. One of the ways of overcoming this challenge is designing a successful CRM programme by adapting a holistic approach (Girishankar, 2000) through effective leadership (Galbreath and Rogers, 1999) and empowerment and motivation of key personnel (Pinto and Slevin, 1987).

Customer Relationship Management

"CRM is a highly fragmented environment and has come to mean different things to different people" (McKinsey, 2000). Traditional CRM which is customer-centric, has focused mainly on short-term economic results. Researchers such as Anderson and Kerr (2001) wrote a famous book titled 'Customer Relationship Management'. One view of CRM is the utilisation of customer related information or knowledge to deliver products or services to customers (Levine, 2000). Customer relationship management revolves around a central idea of management that retaining an already existing customer is far more efficient and economical for any organisation rather than creating new ones (Payne et al., 1998; Reichheld, 1996). Newell (2000) and other researchers have explored various strategic methods in the recent past for maintaining and improving customer retention. Technological advances particularly in the spheres of database warehousing and data mining, global networks, convergence, improved interactivity are important to the functionality and effectiveness of CRM (Sandoe et al. 2001). Several retailers who believe in transaction-related benefits of CRM have used contact-center automation, campaign management and data analytics to derive maximum value from customers. The objective of making rapid shareholder returns is often in conflict with creating consumer trust and building relationships.

In today's modern digital world, use of automation technologies, such as interactive voice response systems and Web-based frequently asked question pages, augmented reality etc are very popular with customers and have turned out to be highly cost effective to organisations (Petrissans, 2000). According to a recent research on CRM in retail in UK carried out by Hassan and Parves (2013), the Loyalty Card holders of Tesco and Sainsbury's do not frequently shop at other retailers and newsletters sent to the customers are the most reliable way for information sharing. A successful CRM program can obtain up to a 75 % return on investment (Mooney, 2000). Ciborra and Failla (2000) view CRM as an approach which goes beyond front office contact management and some researchers like Trepper (2000) consider it as comprising of operational, analytical and collaborative elements. Peppard (2000) identified channel conflict as one of the problems faced in CRM whereby customer experiences vary depending on the sales channel. According to MacSweeney (2000), 60 per cent of in-house CRM systems fail. Sourcing, timing and adequate resources play an important role in building a robust CRM programme.

Customer Satisfaction

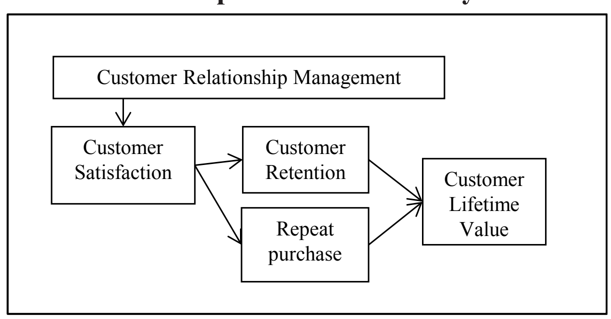
Oliver (1997) defined customer satisfaction as "the consumer's fulfillment response. According to him, it is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment". Fornell (1992) defined satisfaction as an overall post purchase evaluation. Customer satisfaction as defined by Giese and Cote (2000) is the "summary affective response of varying intensity, with a time-specific point of determination and limited duration, directed toward focal aspects of product acquisition and/or consumption". Cronin et al. (2000) studied customer satisfaction in service environment setting and described customer satisfaction as a multi-attribute model wherein factors like interest, enjoyment, surprise and anger were identified in creating satisfaction. Some statements adopted from Oliver (1997) were used to describe evaluative satisfaction in an empirical study carried out on lifestyle retail by Srivasatava and Kaul (2014) as "I am satisfied with the retailer amenities and facilities", "I am satisfied with the overall service quality of the retailer", "I am satisfied with the overall product/ merchandise quality provided by the retailer". Srivasatava and Kaul (2014) also measured emotional dimension of satisfaction using statements adapted from the study on customer satisfaction by Westbrook and Oliver (1991) as "The shopping experience at the retailer was beyond what I expected", "The overall feeling I got from the shopping experience satisfied me and put me in a good mood", "I really enjoyed myself at the retailer".

Customer Relationship Management (CRM) and Customer Satisfaction

Every retailer today is aiming to make a casual customer into a loyal customer yet a research carried out by Jupiter Study in 2001 found that only 13% retailers incorporate customer satisfaction scores into decision making. In a research carried out by Chu and Pike (2002) on IBM, a clear linkage between overall customer satisfaction and retailer financial performance has been proved. A recent empirical research carried out in India on the service industry by Angamuthu (2015), established Customer Relationship capability and CRM technology as one of the important variables in building customer satisfaction wherein Customer relationship upgrading capability significantly correlated with customer satisfaction at 1% level ($p<0.01$) and CRM technology significantly correlated with customer satisfaction at 1% level ($p<0.01$). Khedkar (2015) in a study also established the impact of CRM on satisfaction and found that the R^2 value between the two was 0.729 at significance less than 0.05. Pareto's Principle suggests that 80% of sales can be generated from just 20% of satisfied and valued customers. Value added services like loyalty cards, points redemption system, differentiated offers, paybacks, happy hours, contests for students, free parkings, free home delivery of altered merchandise, exclusive Invites to get-togethers and events, greetings, special counters for premium customers etc are offered to customers by some of the top lifestyle retailers in India like Pantaloons, Shoppers Stop, Globus and Westside in order to retain loyal and valued customers as an emotional connect coupled with strong functional value creates a long lasting relationship with the customer. In USA, Prada's Epicenter store offers an exceptional shopping experience to its customers by making the store more interesting, entertaining and easier to shop and uses customer information to help customers shop better and faster.

Thus, it is established that CRM directly affects customer satisfaction.

Conceptual Model of study



Customer Satisfaction, Customer Retention and Repeat purchase

There is ample support in literature which establishes that customer satisfaction leads to customer retention and repeat purchase. According to Jacoby, Chestnut and Fisher (1978), consumers' (re)purchase decision process is simplified if they are satisfied and satisfied consumers have a greater likelihood of (re)purchasing a firm's product(s) in the future (Oliver 1980, 1997; Vanhamme

& Snelders 2001). Several researchers have established the link been satisfaction and customer retention (Anderson and Sullivan, 1993; Bolton, 1998; Jones and Earl Sasser, 1995; LaBarbera and Mazursky, 1983; Mittal and Kamakura, 2001). In an empirical study carried out on a departmental store in Tehran, Iran by Long, Khalafinezhad et al (13), it was established that CRM has a positive relationship with customer satisfaction and loyalty (R^2=0.186 for CRM on customer satisfaction and R^2= 0.195 for CRM on customer loyalty).

Thus it can be established through literature review that customer satisfaction has a direct relationship with customer retention and repeat purchase.

Customer Relationship Management (CRM) and Customer Lifetime Value (CLV)

Customer lifetime value is an inward-looking view of the consumer and is based on the insight that views customers in terms of on-going long term relationships and not just short-term transactions. It is a predictive tool that provides forward-looking information on customer relationship performance and resource allocation. Estimating the lifetime value of a customer involves predictions of both revenues and customer retention probabilities. Where retailer efforts are focused on the retention of valuable customers and delivering customized products (Ansari and Mela, 2003), cross-selling (Kamakura et al., 1991, 2003), value for customers increases significantly. An early detection and prevention of customer attrition using data mining techniques can enhance the total lifetime of the customer base, lead to repeat purchase by customers and increase footfall. At IBM, customer experience comes full circle through the CRM value cycle through the integration of four important components i.e. people, process, technology and data. There are several models available in literature that relates Customer Lifetime Value to purchase probability. In a research carried out by Berger and Nasr (1998), customer lifetime value emerged to be tied in with loyalty. Gupta et al (2006) modeled Customer Lifetime value wherein they included customer retention as a predictor of Customer Lifetime value.

However, there is limited literature available to link customer satisfaction, customer retention, repeat purchase and customer lifetime value all together in one model. This paper is an attempt to build in literature so that further empirical research on the model can be carried out to establish it in retail and other sectors. In real life consumption experiences also, it is natural to accept that a fully satisfied customer whose benefits outweighed sacrifices in terms of time, money and effort for the purchase, is more likely to visit the store again for future repeat purchases than a less satisfied one and that from a retailer's point of view, customers who repeat themselves at the retailer and make repeated purchases become valuable ones on whom they can focus and build relationships with.

Conclusion

Customer satisfaction, repeat purchase probability values are ultimately values that retailers need to use in order to determine the Customer Lifetime Value (CLV) for long-term competitive advantage. However, retailers focusing CRM efforts only with the objective of maximizing ROI and retaining only those customers with high CLV will lead to a shrinking customer base. Therefore, it is important for service industry in general and retailers in particular to adopt a holistic and practical approach towards CRM and CLV for building robust systems and loyal customers. Further to this research, researchers need to build a mathematical model to measure CLV using this theoretical model.

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