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Bachelor of Business Administration (BBA) | Fifth Semester | UK5DSCMGT304

Customer Relationship Management

Course Code: UK5DSCMGT304 • Module 1 Notes

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Module 1: Foundations of CRM and Relationship Strategy

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Chapter 1: Concept, Definition, and Evolution of CRM

1.1 Meaning and Definitional Scope of CRM

Customer Relationship Management (CRM) is a comprehensive, enterprise-wide business and technological strategy designed to identify, acquire, cultivate, satisfy, retain, and maximize the long-term economic value of profitable customers. Rather than viewing customer interactions as isolated, transactional product exchanges, CRM conceptualizes the customer relationship as a valuable strategic asset that must be systematically managed across the entire customer lifecycle. The core philosophy of CRM dictates that an organization's internal processes, corporate culture, organizational structure, and information systems must be aligned around the evolving needs and behaviors of its customer segments.

Contemporary management literature defines CRM across three interrelated dimensions:

- **Strategic CRM:** A top-down corporate orientation that prioritizes customer-centricity as the primary competitive differentiator. It focuses on allocating capital and resources to create superior customer value and achieve sustained customer advocacy.
- **Operational CRM:** The automation, streamlining, and synchronization of customer-facing front-office business processes, spanning marketing automation, sales force automation, and customer contact service operations.
- **Analytical CRM:** The capture, storage, synthesis, and quantitative mining of customer data to extract actionable intelligence regarding purchasing patterns, churn propensities, customer lifetime value, and profitability tiers.
- **Collaborative CRM:** The seamless sharing of customer information across internal enterprise departments (such as procurement, manufacturing, logistics, and billing) and external supply chain partners to deliver a unified, consistent customer experience across all touchpoints.

1.2 Historical Evolution of Customer Management Thought

The philosophical and operational evolution of customer relationship thought has transitioned through four major industrial eras:

1. **The Production & Product Era (Pre-1950s):** Industrial philosophy was dominated by Say's Law ("supply creates its own demand") and Henry Ford's manufacturing paradigm. Organizations focused exclusively on production efficiency, factory throughput, and cost minimization, displaying utter indifference to heterogeneous customer preferences.
2. **The Sales Era (1950s–1960s):** Surging manufacturing capacities generated industrial surpluses, prompting corporations to adopt aggressive, hard-selling advertising and promotional

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tactics to force goods into distribution channels. Relationships were strictly short-term and adversarial.

3. **The Classic Marketing Era (1970s–1980s):** Catalyzed by the Marketing Concept, firms recognized that customer satisfaction was the key to commercial profitability. However, operational execution remained tethered to mass marketing, broad market demographic segmentation, and the 4 Ps (Product, Price, Place, Promotion).
4. **The Relationship & Digital CRM Era (1990s–Present):** The convergence of database computing, internet connectivity, and enterprise software enabled **One-to-One Marketing**. Modern enterprises treat individual customers as distinct accounts, personalizing offerings, optimizing customer lifetime value, and cultivating enduring mutual commitment.

Chapter 2: Transactional Marketing versus Relationship Marketing

2.1 The Paradigm Shift

The transition from classical Transactional Marketing to modern Relationship Marketing represents the foundational conceptual shift underlying CRM. Transactional marketing operates on an offensive strategy focused exclusively on customer acquisition and short-term unit sales. In contrast, relationship marketing operates on a defensive and developmental strategy focused on customer retention, continuous dialogue, and mutual value co-creation.

Analytical Dimension	Transactional Marketing Paradigm	Relationship Marketing Paradigm
Primary Strategic Focus	Single discrete transaction; closing the immediate product sale.	Customer retention, continuous relationship development, and loyalty cultivation.
Time Horizon	Short-term; quarterly sales quotas and episodic campaign cycles.	Long-term; maximizing Customer Lifetime Value (CLV) over decades.
Customer Contact & Interaction	Low, arm's-length contact; episodic interactions initiated primarily by marketing.	High, continuous contact; interactive two-way dialogue across omnichannel touchpoints.
Product Differentiation Basis	Core physical product features, functional packaging, and competitive discounting.	Augmented service delivery, personalized experiences, and trusted advisory partnerships.
Customer Feedback Mechanism	Passive; monitored through warranty claims, returns, and periodic market surveys.	Active; real-time feedback loops, net promoter scores, and co-creation communities.
Price Sensitivity & Elasticity	High customer price elasticity; buyers switch suppliers for minor price discounts.	Low customer price elasticity; buyers tolerate price premiums in exchange for proven reliability.

Analytical Dimension	Transactional Marketing Paradigm	Relationship Marketing Paradigm
Role of Quality	Quality is the technical responsibility of the factory manufacturing department.	Quality is the holistic cultural responsibility of every enterprise employee.
Economic Metric of Success	Sales volume, market share percentage, and gross transactional revenues.	Customer retention rate, share of customer wallet, and aggregate customer equity.

Chapter 3: The Strategic CRM Process and Value Creation

3.1 The Five-Stage Strategic CRM Lifecycle

Executing an effective CRM strategy requires an enterprise to structure its cross-functional operations into five sequential, continuous lifecycle stages:

- **Stage 1: Customer Identification and Profiling:** Capturing multi-channel transactional, behavioral, and demographic data across retail stores, websites, call centers, and mobile applications to construct a **Unified Single Customer View (SCV)**.
- **Stage 2: Customer Valuation and Segmentation:** Applying analytical RFM (Recency, Frequency, Monetary) scoring and Customer Lifetime Value (CLV) modeling to segment the customer base into distinct economic tiers: Platinum (Most Valuable Customers), Gold (High Potential), Iron (Low Margin), and Lead (Unprofitable Customers).
- **Stage 3: Customer Interaction and Dialogue:** Designing personalized, context-aware touchpoints across the customer journey. Communication is synchronized across digital push notifications, direct mail, email marketing, and field sales visits.
- **Stage 4: Value Proposition Customization:** Tailoring products, pricing structures, payment terms, and delivery schedules to meet the idiosyncratic requirements of high-value accounts.
- **Stage 5: Continuous Retention and Win-Back:** Proactively monitoring customer satisfaction, identifying early churn indicators, and deploying targeted retention incentives and win-back offers to rescue disaffected accounts.

3.2 Core Enterprise Drivers and Strategic Benefits of CRM

Organizations invest in enterprise CRM systems to achieve four primary strategic drivers:

1. **Cost Reduction via Retention Economics:** Empirical marketing research established by Bain & Company demonstrates that acquiring a new customer costs 5 to 7 times more than retaining an existing customer. Reducing customer defection rates dramatically expands corporate net profit.
2. **Enhanced Share of Wallet:** Existing satisfied customers exhibit higher willingness to purchase complementary product categories (Cross-Selling) and upgrade to premium versions (Up-Selling).

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3. **Word-of-Mouth Advocacy:** Loyal customer advocates generate authentic organic referrals, reducing aggregate customer acquisition expenditures.
4. **Operational Front-Office Efficiencies:** Automating repetitive sales administration, lead routing, and customer service ticketing reduces operational overhead and elevates workforce productivity.

Chapter 4: The Four C's of CRM Process

4.1 Transition from the 4 Ps to the 4 Cs

Traditional transactional marketing frameworks relied upon E. Jerome McCarthy's classic **4 Ps** (Product, Price, Place, Promotion), which reflect an inside-out, manufacturer-centric worldview. In contrast, modern CRM operates upon Robert Lauterborn's **4 Cs** framework, which adopts an outside-in, customer-centric worldview:

CRM 4 Cs Pillar	Corresponding Traditional 4 Ps	Strategic CRM Philosophy & Enterprise Application
1. Customer (Solution)	Product	Firms do not sell physical products; they deliver tailored solutions to customer problems. Rather than engineering product features and then searching for buyers, CRM starts by analyzing customer pain points, workflows, and emotional needs to co-create value.
2. Cost (Sacrifice)	Price	Price represents only the surface retail sticker invoice. The true cost to the customer comprises the **Total Cost of Ownership (TCO)**, including time invested in purchasing, psychological acquisition anxiety, operating maintenance costs, energy consumption, and eventual disposal expenses.
3. Convenience (Access)	Place	Customers reject rigid physical distribution channels in favor of frictionless, seamless accessibility. CRM enables omnichannel convenience—allowing customers to research online, purchase via mobile app, pickup in-store (BOPIS), and receive customer support via WhatsApp or web chat.
4. Communication (Dialogue)	Promotion	Promotion is one-way, intrusive, and manipulative monologue. Communication in CRM is interactive, participatory, two-way dialogue where the enterprise listens actively to customer sentiment, incorporates feedback, and engages in authentic brand storytelling.

Chapter 5: Critical Success Factors and Organizational Pre-requisites

5.1 The High Failure Rate of Technology-Only CRM Projects

Industry research by Gartner and Forrester indicates that between 50% and 70% of enterprise CRM implementations historically failed to realize their projected return on investment. The root cause of failure is almost universally the **"Technology Trap"**—the mistaken belief that purchasing expensive CRM enterprise software (such as Salesforce or Microsoft Dynamics) automatically transforms an organization into a customer-centric enterprise without altering employee culture, incentives, or business processes.

5.2 Foundational Pre-requisites for Successful CRM Deployment

To ensure successful enterprise CRM adoption, corporate leadership must secure five non-negotiable organizational pillars:

- **Executive Leadership and Strategic Vision:** CRM requires unequivocal sponsorship from the Chief Executive Officer (CEO) and Board of Directors. Executive leadership must communicate that customer centricity is an existential corporate strategy, not an isolated departmental IT software project.
- **Comprehensive Business Process Re-engineering:** Customer-facing workflows must be redesigned from the customer's perspective before software configuration. Automating a fragmented, inefficient manual sales process merely produces a faster, expensive broken automated process.
- **High Data Integrity and Hygiene:** A CRM platform is only as valuable as the underlying customer records. Fragmented, duplicate, obsolete, or inaccurate customer databases lead to embarrassing customer communication errors, sales rep cynicism, and failed analytics.
- **Cultural Change Management and Workforce Alignment:** Employees must be trained, mentored, and incentivized to adopt CRM tools. If sales representatives perceive CRM as a managerial surveillance tool that drains administrative time, they will resist data entry. Incentive compensation must reward data accuracy and long-term customer retention.
- **Scalable IT Architecture and Cross-System Integration:** The CRM platform must be seamlessly integrated with legacy back-office Enterprise Resource Planning (ERP), billing, warehouse management, and e-commerce systems via robust APIs to eliminate departmental data silos.

Chapter 6: Theoretical Foundations: Commitment-Trust Theory and Social Exchange

6.1 Morgan and Hunt's Commitment-Trust Theory

In academic marketing theory, the foundational theoretical framework explaining relationship marketing success is the **Commitment-Trust Theory** formulated by Robert M. Morgan and Shelby D. Hunt (1994). The theory posits that relationship commitment and trust are the two indispensable mediating variables that directly determine relationship marketing success:

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- **Relationship Trust:** Exists when one party has confidence in an exchange partner's reliability, technical competence, and commercial integrity. Trust reduces vulnerability and perceived transactional risk.
- **Relationship Commitment:** An enduring desire to maintain a valued relationship, characterized by a willingness to invest resources and make short-term sacrifices to preserve the partnership.
- **Key Antecedents and Outcomes:** Shared corporate values, transparent communication, and the absence of opportunistic behavior directly foster trust. In turn, trust and commitment yield three vital commercial outcomes: (1) Lower relationship termination costs; (2) High willingness to cooperate; and (3) Dramatic reduction in perceived decision uncertainty.

6.2 Taxonomy of Relational Bonding Mechanisms

Enterprises cement customer relationships by constructing three distinct structural layers of relational bonds:

1. **Financial Bonds (Level 1):** Incentivizing customer loyalty primarily through financial pricing concessions, volume discounts, cashback rewards, and frequent flyer points. While simple to implement, financial bonds are easily replicated by competitors and yield fragile, low-loyalty customer relationships.
2. **Social Bonds (Level 2):** Cultivating interpersonal connections, personalized relationship manager assignments, customized communication, and community belonging. Social bonds elevate switching barriers because customers are reluctant to sever trusted personal human friendships.
3. **Structural Bonds (Level 3):** Integrating technology systems, shared electronic data interchange (EDI) ordering portals, dedicated vendor-managed inventory (VMI) infrastructure, and tailored physical logistics between buyer and supplier. Structural bonds create immense technological and economic switching costs, locking the customer into an enduring, highly profitable commercial alliance.

Chapter 7: The Customer Loyalty Ladder and Relationship Progression

7.1 The Six-Stage Customer Loyalty Progression

In relationship marketing theory, customer relationships do not materialize instantly; they evolve across a structured developmental hierarchy known as the **Customer Loyalty Ladder** (Payne, Christopher, Clark, and Peck). As a customer climbs the ladder, enterprise marketing expenditures decline while customer profitability and switching costs escalate exponentially:

Ladder Rung	Behavioral & Psychological State	Prescribed CRM Strategic Intervention
1. Prospect	A prospective target individual or business fitting the ideal	Deploy targeted lead generation, content marketing, educational webinars, and promotional

Ladder Rung	Behavioral & Psychological State	Prescribed CRM Strategic Intervention
	customer profile who has not yet engaged in commercial exchange.	trial incentives to initiate first contact.
2. Customer	A buyer who has executed a single, transactional initial purchase but possesses zero emotional commitment or brand loyalty.	Execute flawless post-purchase fulfillment, provide onboarding orientation, and solicit early feedback to eliminate buyer remorse.
3. Client	A recurring buyer who regularly purchases products across multiple categories but views the vendor as one of several viable suppliers.	Assign dedicated relationship managers, implement automated reordering workflows, and introduce personalized loyalty discounts.
4. Supporter	A satisfied buyer with strong positive brand attitude who actively prefers the enterprise over competitors whenever purchasing.	Provide VIP customer support, invite to exclusive product preview beta tests, and deliver personalized appreciation recognition.
5. Advocate	A passionate brand champion who proactively recommends the enterprise to colleagues, family, and online professional networks without financial compensation.	Engage in co-marketing case studies, provide referral recognition rewards, and spotlight user-generated success stories.
6. Partner	The highest relational tier; buyer and supplier enter an enduring structural alliance with shared systems, co-created products, and joint business plans.	Establish executive steering committees, integrate digital supply chain EDI systems, and execute multi-year collaborative contracts.

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Chapter 8: Gummesson's 30 Relationships (30Rs) Framework

8.1 Holistic Relationship Marketing Architecture

Swedish management scholar Evert Gummesson formulated the influential **30 Relationships (30Rs) Framework**, challenging the narrow view that relationship marketing is confined strictly to the buyer-seller dyad. Gummesson establishes that an enterprise is embedded within an intricate web of thirty distinct operational relationships partitioned into four strategic categories:

- **Classic Market Relationships (R1 to R3):**
  - *R1 (Classic Triad):* The foundational relationship among the customer, the supplier, and the competitor.
  - *R2 (Classic Network):* Relationships spanning physical distribution channels (wholesalers, logistics carriers, retailers).
  - *R3 (Electronic Interface):* Relationships mediated through automated digital channels, e-commerce web portals, and mobile apps.
- **Special Market Relationships (R4 to R17):**
  - *R4 (Relationship via Service Encounters):* Interpersonal human interactions between front-line service personnel and customers.
  - *R6 (The Many-Headed Customer and Many-Headed Supplier):* Multi-stakeholder relationships between corporate procurement buying centers and vendor sales teams in B2B markets.
  - *R8 (Close versus Distant Relationship):* Managing high-touch physical advisory relationships versus high-tech automated self-service.
  - *R11 (The Customer as "Member"):* Constructing exclusive club memberships and subscription communities to foster relational lock-in.
- **Mega Relationships (R18 to R23):**
  - Relationships operating above the immediate marketplace, encompassing alliances with government regulatory bodies, media organizations, trade unions, environmental NGOs, and international standard-setting bodies.
- **Nano Relationships (R24 to R30):**
  - Internal organizational relationships operating inside the enterprise, including cross-departmental collaboration between marketing and engineering (internal customer concept), corporate culture alignment, and employee union relations.

Chapter 9: Service Quality Dimensions and the SERVQUAL Model in CRM

9.1 Parasuraman, Zeithaml, and Berry's SERVQUAL Framework

Customer retention in modern service-dominated economies depends upon delivering consistent, perceived service quality. Marketing scholars A. Parasuraman, Valarie Zeithaml, and Leonard Berry formulated the **SERVQUAL Gap Model**, measuring service quality as the variance between customer expectations (E) and perceived service delivery (P):

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Service Quality (Q) = Perceptions (P) - Expectations (E)
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Legend: If P > E, service quality is exceptional (Customer Delight); if P = E, quality is satisfactory; if P < E, service quality defect exists.

9.2 The Five Core Dimensions of Service Quality

SERVQUAL Dimension	Operational Definition	CRM System Execution & Quality Audits
1. Reliability	The ability to execute promised services dependably, accurately, and consistently without failure.	Ensuring billing statements are 100% error-free; meeting promised delivery dates; honoring warranty terms without dispute.
2. Responsiveness	Willingness to help customers and provide prompt, enthusiastic service.	Answering contact center calls within 20 seconds; responding to customer support emails within 2 hours; resolving service tickets rapidly.
3. Assurance	Knowledge, technical competence, and courtesy of employees, inspiring customer trust and confidence.	Equipping front-line personnel with comprehensive product certifications, security clearances, and professional etiquette training.
4. Empathy	Caring, individualized, compassionate attention provided to customers.	Empowering customer service agents to offer customized solutions, actively listening to customer grievances, and acknowledging loyalty milestones.
5. Tangibles	Physical facilities, equipment, staff appearance, and visual communication materials.	Maintaining pristine retail branches, modern intuitive mobile app UI/UX, and visually appealing branded packaging.

Chapter 10: Customer Journey Mapping and Moments of Truth

10.1 The Architecture of Customer Journey Maps (CJM)

Customer Journey Mapping is an analytical and visual design methodology used to document, illustrate, and optimize the end-to-end sequence of experiences, emotional states, touchpoints, and operational interactions a customer undergoes with an enterprise across their entire relationship lifecycle. Rather than analyzing siloed departmental touchpoints, a CJM captures the holistic human narrative from the customer's subjective perspective.

Journey Phase	Customer Goal & Mindset	Touchpoints & Channels	Operational CRM Enablement
1. Awareness	Recognizing a problem, exploring potential solutions, searching educational materials.	Search engine results, industry blogs, digital display advertisements, peer recommendations.	SEO optimization, retargeting pixels, thought leadership content downloads, social media listening.

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Journey Phase	Customer Goal & Mindset	Touchpoints & Channels	Operational CRM Enablement
2. Consideration	Comparing competing commercial alternatives, validating technical specifications, seeking pricing.	Corporate website, product comparison tables, customer case studies, online webinars.	Dynamic website personalization, live chat assistance, automated product specification sheets.
3. Purchase	Finalizing commercial selection, negotiating contract terms, executing financial transaction.	Sales representative presentation, CPQ digital proposal, e-commerce checkout gateway.	Automated quote generation, frictionless payment gateways, transparent delivery tracking.
4. Service & Onboarding	Learning product operation, configuring software integrations, resolving operational questions.	Customer onboarding portal, knowledge base documentation, technical support contact center.	Automated welcome email workflows, interactive product walkthroughs, dedicated success managers.
5. Advocacy & Renewal	Evaluating realized return on investment, deciding contract renewal, recommending to peers.	Quarterly executive business reviews, customer community forums, executive check-in calls.	Automated renewal alerts, satisfaction surveys, referral program invitations, loyalty benefits.

10.2 The Four Moments of Truth (MOT)

In service management theory pioneered by Jan Carlzon of Scandinavian Airlines (SAS) and expanded by Google, customer brand loyalty is made or broken during critical micro-interactions known as **Moments of Truth**:

- **Zero Moment of Truth (ZMOT):** Coined by Google to designate the pre-shopping digital research phase. Customers conduct extensive peer review lookups, watch unboxing videos, and compare forum discussions on smartphones before contacting the enterprise.
- **First Moment of Truth (FMOT):** Coined by Procter & Gamble to denote the initial 3 to 7 seconds when a prospective buyer encounters the physical product on a retail store shelf or arrives at an e-commerce landing portal. Visual aesthetics, branding, and value clarity drive purchase commitment.
- **Second Moment of Truth (SMOT):** The continuous sensory and functional experience when the customer unboxes, operates, and consumes the product or service over weeks and months. Delivers the core promise of quality and reliability.
- **Third Moment of Truth (TMOT) / Ultimate MOT:** The point at which a customer becomes emotionally engaged to share their user experience publicly—posting a positive video review, submitting a testimonial, or conversely venting frustration on social media.

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Chapter 12: Relationship Termination and Strategic De-Marketing

12.1 Strategic Rationale for Terminating Customer Relationships

While the fundamental tenet of relationship marketing is customer retention, contemporary CRM recognizes that **not all customer relationships are worth preserving**. When accounts persistently destroy economic value, consume disproportionate front-line servicing resources, mistreat customer support staff, or demand price concessions that eradicate operating margins, management must proactively terminate the relationship.

De-Marketing Trigger	Underlying Commercial Symptom	Prescribed Strategic Exit Mechanism
Chronic Value Destruction	Customers whose Activity-Based Cost-to-serve persistently exceeds gross revenue contribution across multiple fiscal cycles.	Unbundling premium services; imposing full-cost fees for technical support; strictly eliminating all discretionary discounting.
Strategic Mismatch	Customers demanding legacy custom hardware configurations that conflict with the enterprise's strategic migration to standard cloud SaaS platforms.	Assisting client transition to specialized niche competitors; executing graceful, dignified contract non-renewal upon expiration.
Behavioral Toxicity & Abuse	Customers who repeatedly harass, abuse, or verbally threaten front-line service personnel or engage in fraudulent warranty claims.	Immediate zero-tolerance contract termination; blacklisting contact records across all enterprise CRM channels.

Chapter 13: Service-Dominant Logic and Value Co-Creation

13.1 Vargo and Lusch's Service-Dominant (S-D) Logic

Formulated by Stephen Vargo and Robert Lusch in 2004, **Service-Dominant (S-D) Logic** represents a profound philosophical evolution in marketing thought. Traditional Goods-Dominant (G-D) logic viewed tangible physical goods as the primary vehicle of exchange, with value embedded during factory manufacturing (Value-in-Exchange). S-D logic posits that:

- **Service is the Fundamental Basis of Exchange:** All businesses are service businesses; physical goods are merely appliances or vehicles for service delivery.
- **The Customer is Always a Co-Creator of Value:** Value does not exist independently inside a manufactured product sitting in a warehouse. Value is realized only when the customer actively operates and integrates the product into their lifestyle or workflow (**Value-in-Use**).
- **Enterprises Only Offer Value Propositions:** An enterprise cannot create value unilaterally; it can only propose potential value. The customer co-creates realized value through active

collaboration, customization, and continuous feedback.

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