

Business Drivers for CRM Adoption in the Software Services Sector: A Case Study Analysis

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Abstract

This study was undertaken to gain better understanding of the business drivers for CRM adoption in software service companies. The literature on CRM gives the impression of being inconsistent. The objective is to uncover the market trend and reasons for CRM adoption. A case study analysis involving three Bangalore based software service firms which implemented CRM, was done. Semi-structured interview method was used for gathering data. The key finding of this research is that competition and customer retention are the major motivators for a firm to adopt CRM. Software services companies are fast emerging all over the world especially in South Asia. These companies operate in a very competitive market and there is a need to differentiate a service from the competition, for endurance. One of these differentiators could be the adoption of CRM to improve service, performance, customer satisfaction and productivity. However, the process of CRM adoption in the service industry has not yet been studied. The value of this paper is that it illustrates how a case study approach can be used to understand the real market scenarios and identify business drivers for CRM adoption by software service firms.

Keywords: Software service industry, CRM implementation, Key drivers, Case study investigation

1. Introduction

Customer Relationship Management (CRM) builds on the philosophy of relationship marketing that aims to create, develop and enhance relationships with carefully targeted customers to maximise customer value, corporate profitability and thus shareholder's value (Frow & Payne, 2004). The goal then is to provide a more fulfilling experience to customers, for services, products as well as their interaction with the company, in the hope that their experience of interaction with the sales people will turn into more satisfaction, which might lead to more loyalty (Chou *et al.*, 2002). Kotorov (2003), in his reference to the genesis of CRM pointed out that initially, it was a big question whether CRM really meant anything or would it fizzle out like many other buzzwords used by managers in the course of motivational communication. However, it has stayed on and according to Bull (2003), just talking about CRM is not good enough, what is important is what is done about it. Today, CRM is absolutely vital to organisations since every organisation has realised the value of a customer-centric business approach which can add value to plain vanilla marketing, sales and service activities and processes (Chin *et al.*, 2003).

Most industry players and academicians agree that CRM is a significant part of the business strategy that helps organisations in establishing strong relationships with existing and prospective customers, to support their revenue goals. Over the last two decades, CRM has grown rapidly (Buttle, 2004). Most organisations as well as academic faculty have accepted it as a three pronged strategy that is adopted by organisations to reach their objective of customer satisfaction – modification of process, people and technology. Whatever size, geography and field of operations, all businesses globally have gone full steam for adoption of CRM, since they are aware that it will give them that competitive advantage so essential in today's neck to neck competition. With a proper system to help analyse customer attributes and the ability to categorise them according to their spending pattern, most have also realised that in order to eliminate resource wastage, they need to focus on economically viable customers, to meet revenue goals, and not so much on the economically unviable ones (Romano, 2000).

Today, CRM, as an emerging discipline, is in great need of theoretical assistance (Gummesson, 2002). With the concept of CRM fast taking centre stage in the business policies of most organisations, there needs to be an in depth study of what drives a company to adopt a CRM system and thus formed the background for this research.

2. Review of Literature

Kumar (2011) maintains that the origins of CRM lies in the fact that no two customers are alike, so they should not be treated alike. It is only when companies understand this difference; they become apt at treating every customer as an individual with unique preferences and this realisation has given rise to a new business paradigm. Today, organisations have understood that they will get more benefit if they become customer centric, and focus on getting more share of each customer, i.e., more business out of one customer in various different ways, rather than blanket bombing the whole market. It is very evident from this statement that the strongest driver for a CRM implementation is the current business need to focus on a customer centric strategy, since customer information is core to the success of any organisation.

Karakostas *et al.* (2005) in their empirical investigation of the financial services companies of UK reported that 82 per cent of the respondents recognised the need for internal efficiency as the primary driver for implementing CRM. Only 5 per cent of the respondents were influenced to adopt CRM due to the action of their competitors. But 62 per cent of them were positively influenced to adopt, due to the threat from competition. In their report, they revealed that the most widely recognised driver was the belief that CRM would help to improve customer satisfaction. Another important finding by them was that the financial institutions in the UK did not invest in CRM, not because of the fear of being left behind but due to their confidence in the contribution of CRM to customer satisfaction. According to them, the strongest motivators for a CRM implementation, are the ones that help companies to:

- Respond to sales, marketing or customer service stakeholders
- Respond to customer demands
- Respond to upper management strategies

A large number of industrial studies have revealed that the cost of retaining an existing customer is much lower than the cost of acquiring a new customer. Undoubtedly, any investment in customer retention makes a lot of business sense, and customer retention is the focus of most marketing strategies worth their salt. A study by Lin (2012) on the hospitality and tourism sector of Australia points out that a 5 per cent increase in customer retention can result in 18 per cent reduction in operating costs. Rosenberg & Czepiel (1984) explained that the cost of acquiring a new customer is about five times the cost of retaining an existing customer, if the relationship marketing system and principles are used effectively.

In addition, Reichheld & Sasser (1990) claimed that a company can almost double profits if they are able to successfully retain just 5 per cent of their customers. They also highlighted the importance of the life time value of the customer. This focus should change the direction of the CRM strategy – away from the transactional view of the customer to a relationship view, to ensure retention as well as maximise contribution to the company's revenue (Alexander & Colgate, 2000). Here, we need to understand that the value or motivation for a CRM system is not based on a common requirement or recognition of value addition across verticals and geographies. It also depends on the size of the operation, and while CRM adds a large value percentage to some types of organisations, sometimes only a limited customer relationship is needed, the kind and amount that can be handled on a manual and personal interaction basis. In some instances, the nature of the vertical plays an important role. For instance, retail sector has its own requirements of customer relation systems and CRM is indispensable for them. On the other hand, the IT sector relies very heavily on a CRM system, since there is apparently no limit to how IT can support business systems, hence a good CRM system becomes critical for marketing in that sector.

3. Research Methodology

The objective of this paper is to identify the key business drivers for organisations to adopt a CRM system. A case study approach was adopted since it allows the researcher to ask open-ended questions relating to what, why and how things happened (Yin, 1994). The case study illustrates the experiences of three Bangalore based software services companies prior to their CRM implementation. Due to the confidential nature, the companies' name has been changed to Corp 1, Corp 2 and Corp 3 to camouflage the client's identity. Data collection was by means of many semi-structured interviews with members of the sales and marketing team within the company. The manager of

sales and marketing and sales executives were targeted for the interviews. The semi- structured interview approach facilitated collection of data that was rigid and rich in detail (Miles & Huberman, 1994).

4. Research Findings

According to inputs from Corp 1 (name changed), various internal reasons drove the company to adopt and implement CRM. With the growth of the sales team, it was becoming difficult to manage sales contacts using the traditional methods - like spread sheets. Although they stored all their databases in a common server, it was not accessible to members who were in other locations, so they needed a simple contact management system to manage the growing database. In order to provide a clearer view of the customer, an efficient database that could be accessible across geographies was required, so CRM was one great way to do it. There was a need for a more professional way to communicate with the customer base in a manner that was more personalised and offer services that were customised to their needs. They also wanted to create a metric to establish performance measurement guideline for all the customer facing functions, and use this framework to set appropriate goals.

For the mid tier IT Services Provider Corp 2 (name changed), several factors have acted as motivators for a CRM implementation. First, the company wanted to add to its revenues by farming on existing accounts, building on the customer relationships that have existed over several years. The CRM implementation would help in enhancing the relationship with the current customers and acquiring new customers by providing better-customised services. Second, the increasing competition had motivated the company to implement CRM as a tool to face the new competitors in the market. Expansion across geographies added the need to have a real time database and communication system with the customers globally, and that would also help their sales teams, starting from the Managers to the field sales personnel, to be on the same page. The united front they presented to the customer activities and requirements, the better market standing they had, giving them a notch above rivals. The Business Development Director revealed that the CRM implementation in the company was a vital decision made by the top management of the company to strengthen the relationships with new and potential customers. It would serve as a tool to face a new competitor which started its operations recently targeting the same market. In order to satisfy these motivations and accomplish their sales objectives, the company developed a new strategy that focuses on relationships with customers and meeting their domain expertise expectations.

Corp 3 (name changed) had implemented its CRM as a part of a project that was launched to create a strategy focusing on customers. This strategy emerged after a market analysis conducted by the company on software services market, state of competition, and deriving a heat map. This created the way forward, in terms of having a proper CRM system in place to meet their market and business objectives. The heat map showed that many of the competing brands had much more experience and a more advanced technological infrastructure. The way forward seemed to be, adding functionality to their sales expertise that would help outdo the competing brands – if not in length of experience or size, then in the relationship built with customers and offering them customised services. A CRM system would help them distinguish themselves in a cut throat competitive market. CRM, hence, for them, became a tool that provided a better understanding of its customers and therefore aimed to fulfil their needs with customised strategy and solutions. By implementing CRM project, the top management of Corp 3 aimed to serve better in their target market as stated by the Head of Sales. Top management having previous experience in CRM and in its benefits was also another driver for Corp 3 to adopt CRM.

5. Discussion

CRM is fast becoming a priority due to the economic, technological, and social forces that have driven customer relationship to become the centre of all business models. Today every company is looking at garnering loyalty from customers to create a differentiation. With a unique approach, marketing teams can provide a unique buying experience that caters straight to the specifics of customer preference, based on data gathered and analysed by an effective CRM strategy. This is a significant driver for having a CRM system in place.

Corp 1 and Corp 2 needed a system that would help meet the needs of geographical expansion plans and thus

customer diversity, on one platform. Corp 1, being an established player in its vertical, was driven by the need for a global database access for customer details, to help their sales teams offer services that were customised to customer specific needs. This would give them a clearer view of customer preferences and enable better selling strategies. CRM made it possible to have a metric for all the customer facing functions, and use this framework to set appropriate goals and revenue targets for the sales personnel. Above all, the industry as a whole was taking to CRM, it would make them uncompetitive to not have it. Corp 2 would also need to use CRM for the same purpose - to enhance revenues, add to top lines and streamline resources for customer needs. They wanted to add to revenues by farming on existing accounts as well as building on the customer relationships that have existed over several years. The CRM implementation would help in enhancing the relationship with the current customers and acquiring new ones by providing better-customised services. Another important motivating factor was their geographical expansion, for which they needed a real time database and communication system with customers globally. Corp 3 took up CRM as the result of an exercise – a project that was launched to create a customer focused strategy. Here this decision was driven by Top Management since they had previously experienced CRM's benefits in creating great relationships with customers. As a new entrant in the market, Corp 3 needed to add more functionality to their sales expertise to outdo competition. So, for them, CRM, was a tool that provided a better understanding of its customers and therefore aimed to fulfil their needs with customised strategy and solutions.

All three companies had one common motivator - the desire to stay ahead of competition, whether in local or global markets. Retaining and attracting newer customers is the major objective for most businesses today. Agrees Rosenberg & Czepiel (1984), explaining that the cost of acquiring a new customer is about five times the cost of retaining an existing customer, if the relationship marketing system and principles are used effectively. Added Reichheld & Sasser (1990), when they claimed that a company can almost double profits if they are able to successfully retain just 5 per cent of their customers.

6. Conclusions

Gaining customers confidence and loyalty, providing personalised service to customers, acquiring better knowledge of customers buying habits and other details, creating competitive differentiators, creating cross-selling opportunities are the key drivers for the organisations in the information technology industry markets to implement efficient CRM systems, and gaining competitive advantage as well as greater market share (Kumar, 2011). Due to the unpredictable pattern of customer buying behaviour, traditional marketing methods is phasing out, making way to one-to-one marketing efforts. In the given scenario, CRM is fast becoming a high priority due to economical and technological forces that have made the traditional marketing models obsolete in the modern business world.

E-commerce and e-business has put the power of choice in the hands of customers. In this new world, a competitor is just a click away and the only way to win loyalty from customers is to create a differentiation. With a systematic support, marketing teams can provide a unique buying experience that caters straight to the specifics of customer preference, based on data gathered and analysed by an effective CRM strategy. This should be a significant driver for having a CRM system in place. Besides, a satisfied customer is a living advertisement, and this is another good reason for implementing CRM.

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