

## Association for Information Systems AIS Electronic Library (AISeL)

---

WHICEB 2013 Proceedings

Wuhan International Conference on e-Business

---

Summer 5-25-2013

# A Study on CRM Implementation in Chinese Commercial Banks

WANG Shu-ying

*Financial Department, Economics and Management School, Wuhan University, China*

Follow this and additional works at: <http://aisel.aisnet.org/whiceb2013>

---

### Recommended Citation

Shu-ying, WANG, "A Study on CRM Implementation in Chinese Commercial Banks" (2013). *WHICEB 2013 Proceedings*. 65.  
<http://aisel.aisnet.org/whiceb2013/65>

This material is brought to you by the Wuhan International Conference on e-Business at AIS Electronic Library (AISeL). It has been accepted for inclusion in WHICEB 2013 Proceedings by an authorized administrator of AIS Electronic Library (AISeL). For more information, please contact [elibrary@aisnet.org](mailto:elibrary@aisnet.org).

# A Study on CRM Implementation in Chinese Commercial Banks

*WANG Shu-ying*

Financial Department, Economics and Management School, Wuhan University, China

**Abstract:** The paper first presents the theory of Customer Relationship Management (CRM) under E-commerce circumstances. It then focuses on the motives and obstructions in implementing CRM in Chinese commercial banks. Further, the paper puts forward a trial solution to these specific problems to be a solving aid to Chinese commercial banks under Customer Relationship Management.

**Key words:** electronic commerce; Customer Relationship Management; CRM implementing; management strategy

## 1. INTRODUCTION

With the development of information technology and the popularization of Internet, Electronic Commerce (EC) is becoming more and more popular. The rapid development of e-commerce has changed traditional business model, from product-centered approach to customer-centered approach. Today's customer not only wants value for money, but also wants to be acknowledged and respected, hence, customer relationship has become an important resource for building up core competence. The focus of CRM helped companies to understand the customers' current needs, what they have done in the past, and what they plan to do in the future.

Customer relationship management (CRM) originated and prevailed among Western countries. In the mid-twenties century, increased productivity for customers by mass production techniques and marketing has changed the purchasing process and view of competition for the firms. Ives and Learmonth (1984) put forward a concept called Customer life cycle (CRLC), which is used to describe the progression of steps a customer goes through when considering, purchasing, using, and maintaining loyalty to a product or service and is considered the rudiments of CRM<sup>[1]</sup>. In the early 1990s, the initial CRM was put into use, such as Sales Force Automation (SFA) and Customer Service and Support (CSS). Though these sector-based solutions enhanced specific business processes, they failed to consider the relationship from the overall perspective. In the mid 1990s, Kalakota and Whinston proposed EC, pointing out that it consists of two relationships: Business-to-Consumer (B2C) and Business-to-Business (B2B)<sup>[2]</sup>. Zwass put forward a concept of Customer Contact Management (CCM) and has defined CCM, as "in interactive process for sharing business information, maintaining business relationships and performing commercial transactions via electronic networks.<sup>[3]</sup>" The Gartner Group first announced CRM as a management philosophy and viewed it as a holistic perspective for the management of enterprises<sup>[4]</sup>. With the proliferation of electronic commerce, CRM gradually developed into the stage of e-CRM. As a subset if CRM, e-CRM is one of the channels that a company can use to deploy its CRM strategies, beyond that, it is a fast and cost-effective means of personalizing customer communications for the companies.

## 2. WHAT IS CRM

According to Shaw, CRM involves: measuring inputs across all functions including marketing, sales and service costs and outputs in terms of customer revenue, profit and value; acquiring and continuously updating knowledge about customer motivation, needs and behavior over the lifetime of the relationship; applying customer information to continuously improve performance through a process of learning from failures and successes; integrating the activities of marketing, sales and service to achieve a common goal; implementing

appropriate systems to support customer knowledge acquisition, sharing and the measurement of CRM effectiveness; constantly flexing the balance between marketing, sales and service inputs against changing customer needs to maximize profits<sup>[5]</sup>.

## **2.1 CRM process**

A CRM process involves four steps: market segregation, designing your overall CRM strategy, implementation the strategy and evaluation of the strategy.

The first step is market segregation. This means figuring out what your target market is and how you are going to draw them in your business. Companies segregate and profile the similar groups of customers. Besides, companies should consider the way customers want to contact them. Companies can trace customer's response to earlier contact. By constructing a database of information, firms can investigate which customers responded well to which kind of contact and then make full use of this historical information. To track information in the past needs a host of technological means. Apart from statistic analysis technique and forecasting technique, it may need decision support system, expert system and neural network technique to explore the internal law<sup>[6]</sup>.

The next step is the strategy to interact with your customers. It is better for firms to dialogue with their customers through email or mail than through mass media. Besides, internet can be utilized as technological tool to facilitate individual relationship building with customers<sup>[7]</sup>.

In the third step, the strategy is implemented, and then finally it is evaluated. The company learns about customer dialogs collected by analyzing data from customer interactions and refining messages, communications, prices, volumes, locations, timings and approaches and understanding specific responses to customer stimulus. Customer satisfaction is the most important factor in evaluation. Based on these results, the company may change target markets and strategies.

## **2.2 CRM technology**

CRM technology is not just a piece of software snapped into an IT ecosystem, but through integration within a company's IT infrastructure, enables a company to develop, archive, and share customer information throughout the business. To provide excellent service system and marketing system, CRM depends on three factors: database technology, data mining technology and calling center technique.

### **2.2.1 Data warehousing technology**

A data warehouse is a subject-oriented, integrated, time-varying, non-volatile collection of data that is used primarily in organizational decision making.

- Data warehouse can be used to analyze full business process, enabling a central view across the company
- Improve data quality, by providing consistent codes and descriptions, flagging or even fixing bad data
- Provide a single common data model for all data of interest regardless of the data's source
- Separate research and decision support functions from the operational systems
- Lay a solid foundation for data mining, data visualization, advanced reporting and OLAP tools.

### **2.2.2 Data mining technology**

Data mining is the process of searching knowledge from data. It enables complex business processes to be reengineered and understood<sup>[8]</sup>. This can be achieved by past behavior of business process in relation with data patterns. Data mining is primarily used by companies with a strong consumer focus –financial, communication, and marketing organizations. It enables companies to determine relationships among internal factors such as price, product positioning or staff skills, and external factors such as economic indicators, competition and customer demographics. Besides, it enables them to determine the impact on sale, customer satisfaction, and profits. Finally, it enables them to drill down into summary information to view detail transactional data.

### **2.2.3 Call center technology**

A call center is a central point of any firms from which all customer contacts are managed. Through their call

centers, a company can understand the needs of current and prospective customers by proper use of information readily available. A well-implemented call center helps:

- Retain current customers and attract new ones
- Define and track what customers value
- Customize products and services
- Meet customer expectations by providing quick, accurate answers when needed by the customer

Customer call center establishes and maintains two information resources: customer archives and fault archives. Actually, minimum CRM systems don't have call center function, and even though they are equipped with the module, they cannot afford running expenses.

### **3. IMPLEMENT BACKGROUND ANALYSIS OF CRM IN CHINESE BANKING**

#### **3.1 Characteristics of CRM in banking sector**

The banking industry is highly dependent on IT industry, all products, services, sales and delivery, are concentrated in the information system. As Clients are the greatest resources of banking industry, its business model is to provide financial services to customers in order to make a profit. Hence, CRM is more critical to financial institutions than to traditional enterprises. CRM in banking has the following characteristics:

- A large and unified CRM system is required. In view of the considerable amount of customers, the banking industry must handle massive amounts of data quickly.
- Banking industry attaches great importance to the implementation of CRM call center. Also, telephone banking platform, online banking and mobile banking are indispensable parts of CRM system.
- CRM has much lower technology threshold than banking core business platform.
- Proved technology maintains dominance in CRM in banking, for banking industry has more strict rules in system's stability and liability.
- Relationship management and process management are particularly important in CRM.

#### **3.2 Why we need CRM in commercial banks?**

##### **3.2.1 CRM objectives in banking sector**

The concept of CRM is that it can help businesses gain insight into customer behavior and customer value. If it works well, it will: make call centers more efficient, help employees close deals faster, simplify market processes, provide better customer services, discover new customers and increase profits. However, this doesn't come true by simply buying software and installing it. First and foremost, a bank must decide what kind of information it needs and why. For instance, in order to market appropriate banking products like IRAs to customers to accommodate their needs, many commercial banks keep track of customers' life stages. Then, a bank must know how customer information is stored in database and how it is used in different ways. A bank may interact with its customers in a multitude of ways including web sites, mail campaigns, mobile sales force staff, call centers, brick and mortar stores, and marketing and advertising. CRM system can link up these points. This collected data flows between operational systems and analytical systems, bank analysts can then sort the data to obtain a holistic perspective of all customers and pinpoint areas where services need improvements.

##### **3.2.2 The importance of CRM**

CRM can help commercial banks to implement more effective and scientific marketing and customer service.

First, it contributes to select efficient customers to obtain high profits via customer value analysis.<sup>[9]</sup> According to the Pareto Principle (also known as the 80-20 rule), 80% of your profits come from 20% of your customers. When applying to the banking sector, it means that golden customers who account for only a minor proportion often bring a larger proportion of the profits for banks. In customer value analysis, identify target markets before finding prime and potential customers for banks through customer indicators related to bank profits. This cannot

be achieved without CRM, which can realize current high profits as well as long-term high profits.

Second, CRM helps to meet individual needs and enhance customer satisfaction. By using the application of customer database, banks can analyze and categorize customer information, develop new products and provide one to one service to customers. And banks can better retain existing customers and attract new customers.

Third, as a new type of integrated technology, CRM can extend to the comprehensive contact channel of banks and customers and synthesize traditional telephone banking, self-service equipment, outlet institutions and online banking. Therefore, it can build dynamic client-facing foreground system and form a stable customer service interface. Through a step-by-step promotion and implementation, CRM will penetrate into many departments such as bank management, product design and human resource. After system integration with MIS, DSS, ERP, banks can operate information flow and resources flow smoothly, handle business automatically and share information bank-wide. To be specific, customers' carrying amount, balance of deposits and cash flow influence financial network and customer behavior. By analyzing cash inflows and outflows every day, banks can mobilize funds in time, provide full network service and arrange scientific fund position management.

Further, it helps to evaluate creditworthiness and conduct risk management. Operational risk primarily results from inaccurate assessment of clients' credit and loan projects. CRM can analysis customers' dynamic and static information, evaluate their credit and current economic position, and therefore help banks to avoid risk.

### **3.2.3 Necessity of CRM in commercial banks**

In this day and age, technological innovations have generated great opportunities for commercial banks; meanwhile, they have posed unprecedented threat to banks' survival and development.

- Market competition. Compared with banks in China, foreign banks have advantages in many aspects, especially varieties of services, customer-oriented business model and rich experiences in CRM.
- Brain drain problem. The advanced technology of commercial banks must be achieved by high-quality employees. However, many talented people turn over to foreign banks.
- Technology pressure. As an inevitable consequence of internet banking and electronic finance, there is no clear separate of areas, thus the branch advantage, which has been proud of by Chinese banks, is vanishing rapidly. On the contrary, foreign banks, with their adaptiveness and capacity to innovate, attract more customers and create more profits.

## **4 PROBLEMS REMAINS TO BE SOLVED FOR CRM**

### **4.1 Management philosophy**

The management of the bank lack deep understanding of CRM and long-term consideration, CRM cannot generate profits promptly; its effects will be shown after several years. The bank has to consider how to reach full potential of CRM. The essence of the problem lies in its culture, not technology. CRM software system is a tool to carry through this philosophy, not a purpose or objective.

### **4.2 Rigid mechanism and credit system**

As Chinese banking industry was highly monopolized, China was still under a strict planned interest system, where a bank was not able to neither set the funding price independently nor adjust to the market change with agility. Therefore, the rewarding mechanism has not been well formulated in Chinese commercial banks.

Since the immature market economy, the market itself has not been able to establish a fair and sound credit system. The bad credit behaviors did not receive justifiable punishments; this deteriorating situation damaged the market greatly. China is in the process of developing a trust system and building up a credit system.

### **4.3 Employee quality**

The implementation of CRM makes high demands on quality of staff. First, they must have a deep insight into banking business including traditional deposit and loan business, international business, intermediate business

and personal financing business. Second, they should be aware of market changes, how to find and create needs, and how to guide customers' behaviors. Third, employees who have a sense of global consciousness can act in the best interest of the bank and contribute to information sharing. However, banks are still short of such kind of versatile talents.

#### **4.4 Immature technology**

Currently CRM is not mature enough technically. The international management software went through three big development phase including MRP, MRP- II and ERP. Compared with that, software in China lagged behind relatively: until 1998, it finally entered into the ERP phase, straightened out internal managing process, but lacked mature CRM system. Compared to ERP, CRM has a shorter implementation cycle but it is not easier, for it involves corporate revenues, customer satisfaction and loyalty, moreover, it directly relates to enterprise operation success. There are three factors impede technology development: first, CRM information are not made fully use of. Many commercial banks only attach importance to performance evaluation of customers and business process management; they ignore customer information mining, which is of highly importance. Second, they lack data warehousing and data mining technology. Data warehousing and data mining technology have matured in developed countries, but in emerging markets like China, they remain in the development phase. Therefore, we have no choice but to adopt foreign products, which have certain problems whether in technical support or product price. Third, the accuracy, completeness and continuity cannot be guaranteed.

### **5. HOW TO REACH THE CRM SUCCESS**

#### **5.1 Customer relationship process reengineering**

The integration of the process requires recombination of original managers and independent departments in order to set up a new team supported by experts, with a foreground of customer managers and a background of CRM system. The reengineering should come from the top management of the bank<sup>[10]</sup>. First, customer-oriented strategy should be well perceived among employees in order to ensure the daily operations can be executed properly. Next, integrate customer resources from customer managers to unified management. Then, training, incentive and assessment of customer managers should be strengthened.

#### **5.2 Make a balance between implementation costs and expected returns**

The implementation costs involve technical cost, service cost, marketing cost, human resource cost, information cost and friction cost. Customer satisfaction and implementation costs have positive correlation. And since bank profits equal to the difference between the revenue and cost, expanding inputs blindly cannot obtain the optimum ratio of cost and benefit. According to Michael Porter's competitive strategy, a commercial bank can have three options to intensify competitiveness: low cost strategy, difference strategy and undivided strategy. Under the circumstance of limited funds, human resources and management level, the best cost and benefit ratio can be achieved by difference strategy and undivided strategy.

To implement difference strategy, a bank has to customize investment and financing ways for each customer. For undivided strategy, a bank has to give full play to its advantages and devote itself to development and management of customer relationships. For instance, in foreign exchange business, Chinese banks take the lead. Hence, it is essential for them to develop customers of settlement of imports and exports and upgrade service level to widen competitive edge.

#### **5.3 Promote customer value**

If a bank wants to add value to its CRM implementation, it has to promote customer interest value first. In Philip Kotler's marketing theory, customer interest is measured by customer delivered value. As customer delivered value is defined as the difference between total customer value and total customer cost, an increase in customer value will result in increasing bank value. In the process of interaction and communication with customers,

through collecting and handling advices, banks can enrich information in the database, improve services and enhance customer satisfaction. Banks can use customer call center, e-commerce websites and online banking to handle information, and then customer manager can make corrective actions based on that to add the total customer value.

#### **5.4 Strengthen risk management**

Customer's contribution to banks is closely related to its degree of credit. The implementation of CRM needs some supporting risk management and control measures. Technical measures should be adopted to improve the system of the line of credit management, thus, the bank's degree of credit can be decreased. However, risk mitigation also means a decrease in risk profit. Therefore, the bank has to dig and keep high quality customers and control the amount at risk at the same time.

### **6. CONCLUSIONS**

Building CRM is a complex and long-term process. Before implement CRM, commercial banks should evaluate current situations, select the most effective way to enhance CRM application, and avoid possible problems. Only in this way can CRM truly play a pivotal role in raising competitiveness of Chinese commercial banks.

### **REFERENCES**

- [1] Ives B, Learmonth G P. (1984) The information system as a competitive weapon [J]. *Communications of the ACM*. 27(12): 1193-1120
- [2] Kalakota R, Whinston A B. (1996) *Frontiers of electronic commerce* [M]. Massachusetts: Addison Wesley
- [3] Zwass V. (1996) Electronic commerce: structures and issues [J]. *International Journal of Electronic Commerce*. 1(1): 3-23
- [4] Group G. (2001) *Strategic planning*[R]. Research Note.
- [5] Gooding N. (2003) what is CRM: A buzz word or an effective process. [www.crmcentreworld.com](http://www.crmcentreworld.com)
- [6] Dwyer, FR&Tanner. (2005) *Business Marketing : Connecting Strategy, Relationship and learning*, 2<sup>nd</sup> edn. McGraw-Hill Irwin.ISBN:0-07-241063-9.
- [7] Ghahfarokhi, AD&Zakaria. (2009) 'The impact of CRM on customer retention in Malaysia' in *Proceedings of the International Conference on Electrical Engineering and Informatics, Selangor*, 309-313.
- [8] Chris Rygielski, Jyun-Cheng Wang. (2002) Data mining techniques for CRM, *Technology in Society*, 483-502.
- [9] Wang Guangyu. (2001) CRM and its application in commercial banking system in China, *Financial Forum*, 6(7):160-167
- [10] Wang Xiuhua. (2003) CRM: the Effective Means of Improving the Competitiveness of the Commercial Bank [J]. *The Theory of Practice of Finance and Economics*.24(1): 1335-1340