

Crm market and adoption of crm in india management essay



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Customer Relationship Management is based on the principles of relationship marketing, the formal study of which goes back to 20 years, but the origins of it, involving building relationships of mutual value between suppliers and customers, have existed since the start of commerce (Payne, 2006).

In the current scenario, as the power of the seller shifts to the buyer

(Wilson et al., 2002), companies have realized that competing with cheaper, better or different products is not sufficient, and competitive advantage could not be achieved by pure product differentiation alone, but through enhanced customer relationships (Puschmann and Alt, 2001). CRM studies conducted by (Buttle, 2004; Winer, 2001) have attributed the rapid growth of CRM to the following factors namely (a) fierce business competition for valuable customers, (b) economics of customer retention which is estimated by calculating the lifetime value of the customer and (c) technology advances.

CRM gained importance as a popular business tool because of a number of CRM projects implemented successfully in the early 1990s. As per studies by Chattopadhyay (2001), Corner and Hinton (2002), Kotorov (2003), the firms that have adopted CRM as a corporate strategy are expected to have grown at a faster pace than those firms who have not adopted within the same industry.

The technological advancement, widespread usage of the internet and the emergence of one to one marketing has made CRM a prime area of focus on marketing (Palmatier et al, 2006; Payne and Frow, 2005). CRM technology

developers and enterprise implementations have grown at a phenomenal rate (Chalmers, 2006; Zablah et al, 2004).

Srinivasan et al (2002) said that e-business technologies such as CRM or ERP could be regarded as radical technologies that have been transforming business models and processes, resulting in the disruption of old industries and the creation of new ones. Further they also suggested that the firms can adopt e-business innovative technologies such as CRM by taking specific actions such as focusing on the future, by having a top management advocate the use of new technologies. The research works of Utterback, (1994); Srinivasan et al (2002a) proved that the firms tend to be more successful if they adopt a radical technology and align their business processes on the basis of such innovation.

1. 3 Introduction to SME Sector in India

As per Report of Prime Minister Task force on the Micro Small Medium Enterprise (MSME) 1, this sector contributes 8 per cent of GDP, 40 per cent of exports and 45 percent of manufactured output. This sector employs around 60 million persons spread across 26 million enterprises. The geographic distribution of this sector is said to be almost even. This sector produces 8000 different products annually not only for domestic markets but also for international markets.

Within the MSME sector the Small & Medium Enterprises (SMEs) are estimated to contribute 22 percent of India's GDP this year up from about

17 percent at present. According to ASSOCHAM survey, the projected increase in SMEs' contribution to GDP would be on account of increased production due to technological up gradation. SMEs contribution to GDP is projected to touch a minimum of 5 percent and reach 22 percent this year i. e. 2012. It is expected that

60 percent of them are aggressively upgrading themselves technologically.

The survey also pointed out that liberalization and deregulation in the industry would also contribute to this sector's growth and expected to register a 40 percent growth in the next five years, from 35 percent in the last two years. Currently this sector contributes 40 percent to India's export and its share is estimated to increase over 44 percent with the help of modernized technology.

The " Micro, Small and Medium Enterprises Development (MSMED) Act, 2006" is the first single comprehensive legislation in India, covering micro, small and medium enterprises. Under the Act, the terms " medium sector" and " micro enterprises" have been defined for the first time. The concept of ' Industries' has been widened to that of the ' Enterprises'. The enterprises have been classified broadly into two categories, namely, enterprises engaged in the manufacture/production of goods pertaining to any industry; and enterprises engaged in providing/rendering of services. The term " enterprise" has been defined in terms of investment in plant and machinery/ equipment (excluding land and building).

As per 4th All-India Census of MSMEs, the number of enterprises is estimated to be about 26 million and these provide employment to an estimated 60
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million persons Of the 26 million MSMEs, only 1. 5 million are in the registered segment while the remaining 24. 5 million (94%) are in the unregistered segment

Table 1. 1: The classification details of Micro, Small and Medium Enterprises (MSME)

Classification of Enterprise* Manufacturing Enterprises Service Enterprises

Micro Micro Up to Rs. 25 lakh Up to Rs. 10 lakh

Small More than Rs 25 lakh and up to Rs 5 crore More than Rs. 10 lakh and up to Rs 2 crore

Medium More than Rs 5 crore and up to Rs 10 crore More than Rs. 2 crore and up to Rs. 5 crore

*Classification based on Investment in plant and machinery/ equipment (excluding land and building) Source: MSME Ministry, Govt of India .

The State-wise distribution of MSMEs show that more than 55% of these enterprises are in six States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships. MSMEs in the country manufacture over 6, 000 products. Some of the major sub sectors in terms of manufacturing output are food products (18. 97%), textiles and ready-made garments (14. 05%), basic metal (8. 81%), chemical and chemical products (7. 55%), metal products (7. 52%), machinery and equipments (6. 35%), transport

equipments (4.5%), rubber and plastic products (3.9%), furniture (2.62%), paper and paper products (2.03%) and leather and leather products (1.98%).

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced the levels of technology employed, etc. These could be broadly grouped into the following three categories, based on the different sets of constraints faced and requirements of policy interventions.

1.3.1 High Growth Enterprises

This MSME spectrum contains highly innovative and high growth enterprises. These include MSMEs in sectors like textiles and garments, leather and leather products, auto components, drugs and pharmaceuticals, food processing,

IT hardware and electronics, paper, chemicals and petrochemicals, telecom equipment, etc. Such enterprises not only have high potential for growth but could also contribute significantly in enhancing the country's exports.

1.3.2 Enterprises with market linkages (subcontracting):

Promotion of sub-contracting has been one of the important ingredients of the policy envisaged for the development of MSMEs in the country. Several measures have been taken by the Government towards this endeavour such as ancillarisation, vendor development programmes, buyer-seller meets, etc. This has resulted in a significant number of micro and small enterprises operating under some system of sub-contracting with large enterprises. Such

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arrangements have not only helped in providing marketing linkages but have also resulted in technological linkages through provision of product specification and design.

1. 3. 3 Unorganized Sector Enterprises

The National Commission for Enterprises in the Unorganized Sector (NCEUS) defines an unorganized sector as an enterprise employing less than

10 workers². It has estimated such enterprises are 58 million in number with employment generated for 104 million persons. Of these, more than half the workers are classified as ' self-employed'. A large segment in this universe of self-employed consists of those who are engaged in non-farm activities.

This segment predominantly consists of own account enterprises, i. e., where there are no hired workers and are run by self with or without the help of unpaid family members. The own account enterprises can be distinguished into those running within households and those outside the households. More than 94 per cent of MSMEs are unregistered with a large number of them belonging to the unorganized sector.

1. 4 CRM Market among SME Segment

SMEs are considered as major economic players and a potent source of national, regional and local economic growth (Taylor and Murphy 2004).

They play a vital role as they contribute significantly in terms of employment and income distribution in many countries (Seyal et al, 2000) Firms in

various industries are adopting new technologies in order to stay ahead and outperform their competitors. The market today has more number of brands
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and services and customers' choice and buying option has increased. So there is inherent need to meet the growing demands of customers. Intense competition, sluggish growth rate in certain sectors and technological development has forced firms to cut costs and enhance their effectiveness of their business operations. Here Customer Relationship Management has immense potential to improve business and market productivity.

As per Gartner, the Indian CRM market is currently 500 crores and includes both on premise and cloud computing offerings. The compounded annual growth rate (CAGR) i. e. 17.4 percent is expected to touch around Rs 800 crores in 2014. Gartner research also stated that India is projected to have the second highest CAGR after China as far as CRM is concerned³. An independent study on CRM with specific reference to SME sector carried out by Zinnov Management Consulting indicate that CRM market was in a nascent stage and the total market size was USD 16-18 million. Their findings of the survey of 403 small & medium scale industry reveal that the CRM tool is still a new concept among small and medium sized businesses in India⁴.

While as high as 63% of Indian mid-sized businesses (100 to 1000 employees) have not adopted CRM solutions, the percentage of non-users further go up for small sized businesses (Less than 100 employees). Further, the adoption levels of CRM solutions are the highest among the logistics and finance verticals with 60% and 57% adoption levels respectively, followed by hospitality, real estate, manufacturing and media. Overall, the CRM adoption level among the Indian Small and Medium Business stands at 25%.

The survey also reveals that the demand for CRM solutions in India is likely to be driven by both the large organizations and SMEs. In terms of demographic spread, while the Tier-I cities has a significant share of the CRM market, Tier-II cities are now emerging as the destinations for CRM providers to sell their solutions. For the SMEs adopting CRM, the reasons stated include the need for streamlining and managing the processes in a better manner. Strengthening the customer relationship, push from the customer and customer retention especially among the finance and logistics verticals are some of the primary drivers for CRM adoption. The majority of the non-adopters cited that they don't need CRM solutions since they are self-sufficient in managing their relationships with E-mails/ mail clients, Spread sheets, etc.

The CRM software market is dominated by Oracle Siebel, SAP CRM and Amdocs. SAP and Oracle were early entrants to the Indian market in 1990s. Oracle's Siebel product and Amdocs have largely penetrated the Indian software landscape along vertical markets, while SAP CRM has been more broadly adopted due to the presence of their highly successful enterprise resource planning (ERP) software suite SAP. Oracle CRM and PeopleSoft are gradually being phased out on a global basis, these legacy solutions may operate longer in India than other global regions as many local companies have less desire to upgrade than their international counterparts.

The SME segment has also been aggressively pursued along industry lines from suppliers such as Pivotal CRM and Talisma. New entrants in this segment include CRM software players like Microsoft Dynamics CRM, Sage SalesLogix, Salesforce. com, Impel CRM and Sugar CRM. During the past <https://assignbuster.com/crm-market-and-adoption-of-crm-in-india-management-essay/>

three years witnessed the rise of on-demand CRM solutions like Salesforce.com and Microsoft Dynamics CRM is entering the India customer relationship management software landscape and opening the doors to a very large and growing SMB market space. Recently Netsuite has started establishing their presence in India following the early success of Salesforce.com. Locally developed CRM software in India like Impel CRM, Zoho, CRM 24x7.com, Smiles and Trivium are gaining ground in this CRM market, however they do not possess a significant market share. Currently open source software solutions like Sugar CRM and Vtiger are also making their presence felt in the Indian CRM market.

Table 1. 2 The list of CRM vendors in India

Source: <http://crmsearch.com/india-top-10-crm.php>

CRM is identified as a new and emerging technology for IT business and can be recognized as a type of technology innovation in organizations (Swanson and Ramiller, 1997). CRM is also looked upon as innovation comprising technical as well as a social innovation (Mattsson et al 2005; Mattsson and Orfila Sintes 2007; Johannisson 1987).

The competencies involved in CRM can be considered as social and organizational innovation since it involves a new technology, organizational change, employee with IT knowledge (Sundbo 1998). According to Lin et al (1970), CRM involves five aspects of innovation capabilities namely product, process, administrative, marketing, and service innovations. Hence the term innovation can be used for implementing CRM in organizations. The advent of CRM technology being adopted by large companies has radically changed <https://assignbuster.com/crm-market-and-adoption-of-crm-in-india-management-essay/>

this scenario. This technology represents a major threat to SMEs because many are deluding themselves into believing they are still able to offer a level of customized service that is superior when compared to their larger counterparts (Chaston 2003). Therefore, the adoption of CRM technology is equally significant, if not, critical for SMEs to remain viable today. It is increasingly imperative that SMEs must embrace technological upgrading in their business operations to sustain and enhance their competitiveness. The key to survival for many SMEs is the ability to exploit new technology such as CRM to improve productivity and cost efficiency, and generate new sales.

1. 5 Adoption of CRM in India

The recent findings of a Chief Information Officer (CIO) survey conducted by Gartner, CRM software will see the largest increase of all the application software markets worldwide in 2011. In the survey which polled 1, 500 CIOs across 40 countries (including India), more than 42% of respondents indicated that they expected to spend more on CRM compared to 39% on office suites and 36% on ERP, which ranked second and third respectively.

Cloud Computing in Asia Pacific 2010, End-User Adoption Trends by Springboard Research quotes that many Asia businesses adding CRM systems to their enterprise applications are selecting software as a service (SaaS) solutions.

In fact, on-demand systems represented 48% of CRM software implementations in the Asian region. The research report also forecast that on-demand CRM application sales are expected to grow to US\$570 million this year (2012), compared with US\$183 million in 2008 and US\$460 million <https://assignbuster.com/crm-market-and-adoption-of-crm-in-india-management-essay/>

in 2010. The estimates made were not giving concrete figures but one must agree that CRM in India is nascent stage and hence warrants an investigation of its slow adoption.

1. 6 Adoption of CRM in Organizational level

The research on CRM within the academic literature has primarily focused on “ installation” issues such as gaining sponsor support, IT infrastructure, and training (Wilson et al 2002), rather than on factors that influence when, how, and why firms “ adopt” CRM and similar information technology

(Mole et al. 2004; Kickul and Gundry 2002; Peppers and Rodgers 2003). The diffusion of technological innovations has emerged as a prominent topic in the marketing literature (Calantone and Montoya-Weiss 1994; Moore 1991; Speier and Venkatesh 2002). Further there is a well-grounded belief that the successful adoption of technology creates sustainable competitive advantages in the marketplace (Srinivasan et al 2002), provides a central mechanism for adapting to rapidly changing markets and the opportunities they offer, helps shape and enhance buyer-seller relationships (Parasuraman and Grewal 2000), and is critical for leveraging applicable systems in the practice of customer-centric marketing (Sethi 2000).

Roger (1995) refers adoption to the decision of any individual or organization to make use of an innovation, whereas diffusion refers to the accumulated level of users of an innovation in a market . This definition of the diffusion of innovations as a process where innovations are communicated through certain channels over time among the members of a social system is a much accepted concept among marketers. This diffusion of the innovation process <https://assignbuster.com/crm-market-and-adoption-of-crm-in-india-management-essay/>

has four main components: the innovation, communication channels, timing of adoption, and entities within a social system (Mahajan et al 1990).

Augmenting this literature is a growing body of research that focuses on ways to launch and market “ high tech” innovations (Mick and Fournier 1998).

Kaldi et al (2008) observed that adoption of innovation like knowledge management systems occurs in both organizational level and individual level. The decision to adopt knowledge management systems for the organization is influenced by many factors like perceived characteristics of the system, adopter characteristics, firm characteristics, and environmental turbulence. Further the influential factors concerning knowledge management systems acceptance can be categorized as individual factors, organizational factors, and system characteristics.

There are two types of organizational adoption decisions identified and these are the decision made by an organization to adopt an innovation and the decision made by an individual within an organization to adopt an innovation (Frambach and Schillewaert 1999). The research study focuses on CRM adoption in an organizational context with specific reference to SME segment among the MSME sector.

1. 7 Background of Research

The term Customer Relationship Management (CRM) gained prominence in the mid -1990s as per the observations by (Ling and Yen, 2001; Xu et al. 2002).

The principle of CRM stems from the principle of Relationship Marketing (RM) the formal study of which dates back to 20 years ago which showed that building relationship of mutual value between sellers and buyers existed since the start of commerce (Payne 2006). The commerce has witnessed various changes and trends that affect customer relationship today.

Dyche (2001) observed that in the past decade technology -enabled RM is a significant trend that provides the best opportunity to serve the customers. It was noticed that as the power of the seller shifts to the buyer (Wilson et al., 2002), companies have recognized that competing with cheaper, better or different products is not sufficient, and competitive advantage could not be achieved by pure product differentiation alone, but only by means of enhanced customer relationships (Puschmann and Alt, 2001).

Today customers are experiencing low switching costs and they are redirecting their loyalty from one firm to another easily (Massey et al 2001). Further studies have shown that it costs more to attract a new customer than retaining existing customers due to the high operating cost incurred by companies in their