CUSTOMER- CENTRIC KNOWLEDGE MANAGEMENT IN E-BUSINESS : A PARADIGM SHIFT IN SRI LANKAN BANKING

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1. Introduction

Banking Industry has introduced new ways of using the electronic media to deliver products/ services to customers. Using such innovative delivery channels, consumers can conduct financial transactions quickly and conveniently and obtain account information without physically visiting the banks. (Lee and Lee 2000; Lee, Lee and Schumann 2002; White 1998). Further, Nielsen (2002) found that Internet banking is expanding in many Asian countries, including South Korea, Hong Kong, Singapore, China, and Taiwan.

Many businesses are stuck in the customer-centric mindset of the 1990s; however, few that have looked beyond the knowledge-technology discontinuity, have dominated their lines of business. As Peppers and Rogers (1999) would describe them, " they have seen one-to-one future and have come back to prepare for it."

E-businesses are dramatically altering the long-standing, traditional business rules and industry structures. As businesses increasingly realize that knowledge is their only sustainable edge, customers are their key assets, and channel relationships are their fountainhead of adaptability, they are turning to Knowledge Management and Customer Relationship Management with high hopes of weathering the complexity, uncertainty, unnatural time scale, unexpected competitor innovations, shifting markets, and ambiguity that surround them (Tiwana, 2001).

Sri Lankan Banking sector too has followed worldwide trends in introducing electronic banking and other innovative delivery channels. However, a literature survey had shown that Internet Banking is yet a relatively recent phenomenon in Sri Lanka. The development and success of Internet banking in Sri Lanka depends on the customers' acceptability of the concept. Findings of scientific research have revealed that there is much potential for development in this area. Further, banking authorities need to pay more attention to enhance the potential customers' knowledge on Internet banking, to convince them of the benefits of Internet Banking and enhance the trust towards the banks in order to promote Internet banking.(Ernst & Young, 1996; Oliver, 1997; Davidson, 1998; Fazeela, 2005; Chandralal 2006).

Over the past two decades, advancement in communication and information technology, changing stakeholder profile, strong regulatory requirements, increase in capital adequacy levels, redefinition of the traditional boundaries, and liberalization of the economy have reinforced market competition in the Sri Lankan banking industry, locally and internationally. Sri Lankan banking sector too has followed worldwide trends in introducing electronic banking, such as internet banking or on-line banking, which comes under e-business. Sri Lankan banks have significant operations beyond their domestic borders and are handling a large amount of businesses and millions of non-resident clients across the globe. In the process, domestic banks and financial institutions are also forging stronger cross-border linkages by acquiring customers abroad. Competition intensified with banks entering e-business, offering on-line banking products and services. However, surveys have revealed that the use of Internet Banking facilities by customers has been estimated as low as 1% of the retail transactions of banks (Ernest & Young, 1996).

The purpose of this paper is to introduce the concepts of: Customer Centricity, Electronic Business; Knowledge Management; Customer Relationship Management in e-business, and to discuss about: Customer loyalty & life-time value of customers; Thinking beyond customer segments and How the Sri Lankan banking sector can make use of these concepts in the customer service areas, to make a paradigm shift in Sri Lankan banking.

2. What is Customer Centricity or Customer -Centric?

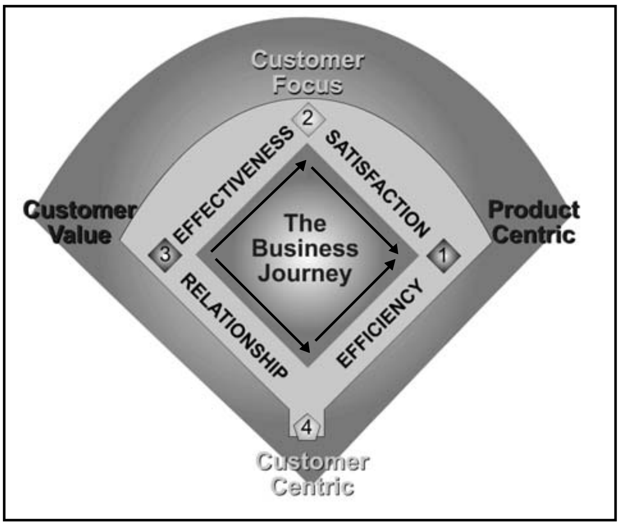
"Customer Centricity" or "Customer-Centric" has become the buzz words of today's business environment. Harvard Management Update Newsletter (August 2001) offers the following seven key insights at www.hbsp.harvard.edu/managers about the concept.

What Customer-Centric really means : Seven Key Insights

- i. It goes beyond handling customer calls efficiently. It means addressing all customer issues fully and resolving them completely.
- ii. It is not just ensuring that your support departments regard front-line workers as their internal customers. It is ensuring that everyone adopts an external focus.
- iii. It involves more than telling your employees how to treat customers right. You have got to give employees the authority and tools to decide the right way to treat customers.
- iv. It is not a matter of steering customers through your Web-site or store just the way you envisioned. Customer-centrism means letting customers interact with your locations just the way they want.
- v. It is not just giving customers what they want, but it is giving them what they will want !
- vi. It is not organizing the company to serve customers. It is letting customers determine how you organize.
- vii. Customer-centrism is not just about winning new customers from recommendations of current customers. But it is about having customers say, "You should raise your prices".

To further elaborate on the concept, we will look at the Baseball Model mentioned below (Figure 1), which shows the path an organization has to take, to become truly centered on the needs of their customers.

Figure 1 : Customer -Centric Baseball Model



Source : www.crmguru.com/cci

According to the above Model, there are four bases that represent the stage of the customer relationship development. Each base represents the stage of the customer relationship development and contains its own unique characteristics, cultural development and performance measures.

- **Product Centric** - 1st Base Companies typically have functional organization design, volumetric performance measures and are dedicated to maximizing efficiency.

- **Customer Focus** - 2nd Base Companies are dedicated to maximizing customer satisfaction, creating end to end customer processes to ensure service consistency.

- **Customer Value** - 3rd Base Companies ccntre on sound service foundations to maximize customer value through the application of customer strategies at every touch point.

- **Customer Centric** - 4th Base Companies develop such a strong emotional bond with their customers that customers become stake holders in their success and even become part of the extended organization.

3. What is Electronic Business?

"E-business is an internet-facilitated integration of processes, applications, and information systems to facilitate rapid collaboration, coordination, and relationship formation across traditional organizational boundaries". - (Tiwana A. , 2001)

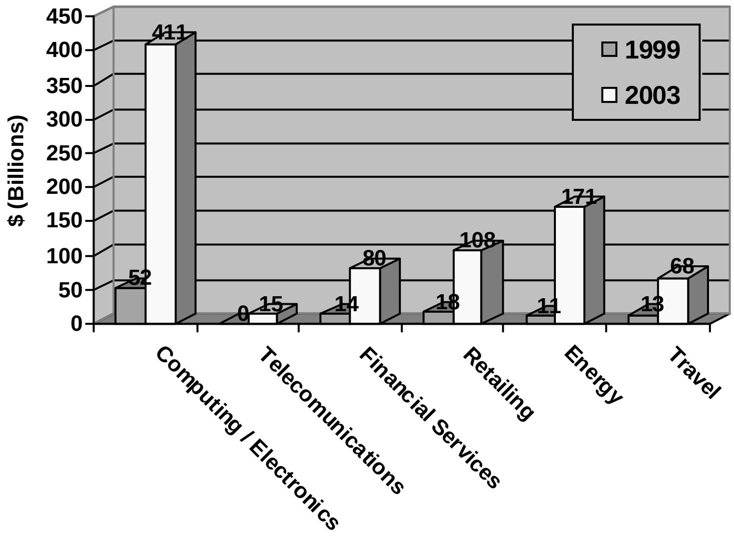
The ability of an e-business to differentiate itself is influenced by its ability to translate its innovative business strategy to on-line capabilities. Relationships and knowledge are the key assets of the digital economy. However, the rewards are exclusively reserved for those who actually use that knowledge to re-think, re-cast, and even cannibalize their own businesses. There is no standard formula for success in the e-business-driven digital economy and no two businesses are alike. E-business has now shifted from customer acquisition to customer retention and loyalty. It is vital to implement Customer Relationship Management (CRM), Knowledge Management (KM), and Channel Relationship Management in an e-business environment. These are the processes that bring your suppliers, distributors, service providers, infrastructural partners, business allies, and customers together in the system. Much knowledge is created at the interface of an e-business. The interface between customers and an e-business (called "marketface") is one such interface. Therefore, e-business must incorporate the ability to offer customers individually, relevant products/services, while providing them the opportunity to offer feed-back to improve the site's capability to meet their continuing needs. The transformative influence of e-business is prominent in any business, because financial services, information technology, retailing, and communications are all turning to be e-business driven.

Tiwana, (2001) states, "the Web is a marketer's dream for relationship building for three reasons: (1) inexpensive, individual addressability, (2) two-way exchange between buyers and sellers that supersede the broadcast strategy of traditional marketing, and (3) its instantaneous, real-time nature."

Reichheld and Schefter noted in their analysis on e-loyalty (Harvard Business Review, July - August 2000) that increasing customer retention rate by five percent typically increases profits by 25 to 95 percent. The biggest strength on the web is the ability to forge communities. Examples of companies that have succeeded : eBay, Amazon.com, Anand Tech, America Online, eFax.com, Schweb and Dell. The key point is broadening and deepening relationships over time, gaining the loyalty of the most profitable customers and maximizing their business, and selectively acquiring the right type of new customers.

Figure 2 below shows the pervasiveness of the impact of e-banking, which is expected to increase further in the future.

Figure 2: The predicted growth of e-business leaves no industry untouched



Source: Business Week October 04, 1999

4. What is Knowledge Management ?

> *"Knowledge Management (KM) is the process of managing organizational knowledge for creating business value and sustaining competitive advantage through the creation, com munication, and application of knowledge gained from customer interactions to maxi mize business growth and value."* - (Tiwana A. , 2001)

Tiwana (2001) defines KM as "management of business, customer, and process knowledge and its application for adding value and competitively differentiating product and service offerings." Further, it says that well-managed knowledge serves as a competitive differentiator in e-business. KM is the process of managing organizational knowledge – explicit or tacit – for creating business value and sustaining competitive advantage through the creation, communication, and application of knowledge gained from customer interactions to maximize business growth and value. KM focuses on creating and delivering innovative products or services; managing and enhancing relationships with existing and new customers, partners, and suppliers; and improving customer-related work practices and processes.

Further, Knowledge Management (KM) is the creation, organization, sharing and flow of knowledge in organizations. It seeks to make the best use of the knowledge that is available to an organization. KM is the process of creating new knowledge & increasing awareness and understanding in the process. KM can also be defined as the capturing, organizing, and storing of knowledge and experiences of individual workers and groups, within an organization and making this information available to others in the organization.(http:/en.wikipedia.org/wiki/ Knowledge management)

There are several types of 'Knowledge' available in an organization. Nonaka and Takeuchi (Nonaka, I. and Takeuchi, H., 1995) suggests, that Knowledge can be divided into four concepts as follows :

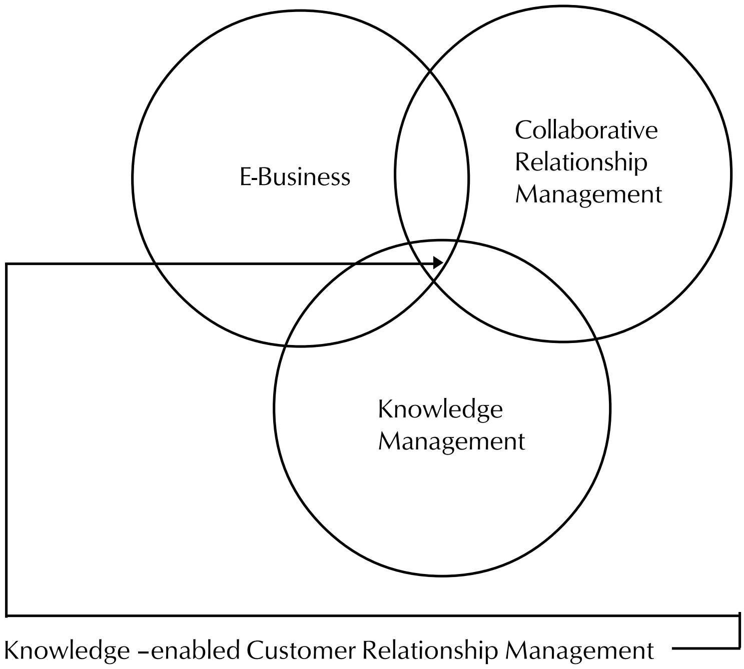
- **Data** : Data is factual raw material and therefore, without information attached.
- **Information** : Information is refined into structural form. (eg. Customer database).
- **Explicit (or codified/ articulated**) : Knowledge relates to "knowing about" and can be written and easily transferred. This type of knowledge may include manuals, specialized databases, or collections of case law or may even be in the form of standardized tech niques of investigations or templates. The key attribute of explicit knowledge is the possibility to store it.
- **Tacit :** Tacit knowledge relates to "knowing how" or "understanding" and cannot be directly transferred between individuals; it is transferred through application, practice and social interaction.

There are various components and characteristics of knowledge : Intuition, ground truth, judgement, experience, values, assumptions, beliefs and intelligence. Out of the lot, three characteristics of knowledge provide insight into its management: (1) Its experimental nature (2) Its collaborative nature and (3) Reciprocity.

In the context of CRM, Knowledge Management aims at creating and delivering innovative products/services; managing and enhancing relationships with existing and new clients, shareholders and suppliers; and improving customer-related work practices and processes. KM and CRM have like goals and are closely related to the health of any business. .

Following Figure 3 illustrates what Knowledge-enabled Customer Relationship Management (KCRM) exactly means. KCRM lies at the intersection of KM, Collaborative Relationship Management (with customers and partners) in E-business.

Figure 3



Source : Tiwana, A., 2001.

5. Customer Relationship Management (CRM) in E-business

"Customer Relationship Management is the process of managing relationships with existing customers to maximize their loyalty, increase revenues from them , and retain them while selectively attracting new customers." - (Tiwana A., 2001)

CRM is a combination of business processes and technology that seeks to understand a company's customers from multiple perspectives to competitively differentiate a company's products and services. CRM represents a concerted effort to improve customer identification, conversion, acquisition, and retention. The objective of CRM is to improve levels of customer satisfaction, boost customer loyalty, and increase revenue from existing customers facing stiff competition, globalization, high customer turnover, and growing customer acquisition costs. The potential of CRM in e-business is higher than that in traditional businesses since the switching cost as well as transaction costs are lower in such environments. One-to-one business relationships that predominated in 1950s have returned with new technology-driven vigor, this time. CRM technology allows tracking of millions of customers, individually at a low cost. Knowledge gained from CRM techniques allows a business to efficiently create new delivery channels, capture massive amounts of data from existing customers and use that knowledge to create a customized experience focused on customers' needs in real time.

CRM marks a definite shift from Mass Marketing as illustrated in a cross-comparison in Table 1 below.

Table 1 : From Mass Marketing to Customer Relationship Management

Mass Marketing	**Customer Relationship Management**
Sell one product to many customers	Sell many products to one customer
Differentiate products	Differentiate customer
Acquire a constant stream of new clients	Acquire a constant stream of new businesses from existing clients
Focus on product features	Focus on customer value
Discontinuous customer interaction	Continuous customer interaction
Customer research	Customer participation
Physical collaboration with suppliers	Knowledge collaboration with suppliers
Short-term focus	Long-term focus
Economies of scale	Economies of scope

Source : The Essential Guide to Knowledge Management, Tiwana A., 2001

It is extremely important to provide customers a single face across technologies and media. The customers should be treated equally well, whether they are on a Website, in a brick-and-mortar store, or on a toll free phone order line. Promoting and selling a product/service and associated intangibles – convenience, savings, and personalized service – on the Web, and not delivering that complete package is much like breaking a promise. Failing to deliver just one out of the three components , may cause loss of the customer for ever. The software solutions on CRM should be end-to-end solutions which contribute to competitive advantage.

It is important to note that, CRM is a business strategy, not a suite of software products.

The following four ideas have been stated by Tiwana (2001), regarding the value proposition of CRM. These can be used by Banks to build up long-term relationships with their customers:

- **Use existing relationships to maximize revenue –**
  CRM focuses on establishing stronger relationships with existing customers, retaining "good" customers, and dropping out the "bad" customers. Life-time value of a customer can be created.

- **Use customer knowledge to consistently deliver excellent service -**
  Effective CRM should delight/surprise your customers with how well your organization knows them.

- **Develop repeatable sales processes -**
  CRM facilitates integration of customer knowledge through supporting technology and allows companies to use knowledge of past transactions to effectively sell to both new and existing customers.

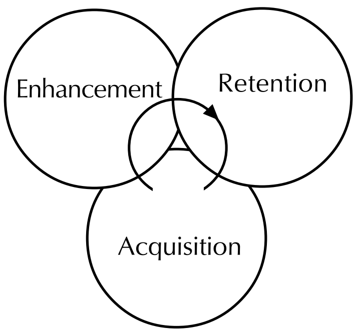
- **Deliver value and develop customer loyalty -**
  Loyalty can be stimulated by proactively using collected information to solve issues before they become problems. Further, by convincing the customers that the organization is aware of their needs and that the products and services have been designed to suit their requirements, the organization may establish dependence on their products/services over time.

Customers – whether consumers or businesses- do not merely want more choices. Pine, Peppers and Rogers state in their article on 1995 Harvard Business Review, "They want exactly what they want – when, where, and how they want it," It is interesting to note that, in turbulent and fragmented markets, applying a mass-marketing or mass-production mentality only turns customers off by loading them with too many choices. Marketing drives must always go beyond mass customization and instead focus on individualization, based on sustainable two-way learning relationships.

To build such relationships, it is necessary to understand the three phases of Customer Relationship Management :

(1) Acquisition, (2) Enhancement and (3) Retention, as shown in Figure 4 below.

Figure 4 : Three Phases of CRM



Source : The Essential Guide to Knowledge Management, Tiwana A., 2001

Although all three phases are inter-related, not many companies are able to do well on all three phases. Therefore, it is essential to choose one activity as the primary, initial focus of your CRM initiative. This choice is important since technology infrastructure-related investments are guided and shaped by it. However, the other two phases should not be neglected.

Table 2 below, illustrates the three phases in detail.

Table 2: Three Key Phases of CRM

CRM Phase	Key Activities
Acquisition	Differentiate product/service according to customer needs. Offer unmatched convenience through customer knowledge. Back with excellent service and support and proactive response.
Enhancement	Cross-sell and up-sell products Increase sales per customer
Retention	Gain customer knowledge to build service adaptability. Deliver new products that meet current customers' needs.

Source : The Essential Guide to Knowledge Management, Tiwana A., 2001

6. Customer Loyalty and Life-time Value of Customers

Building customer loyalty in any business begins with three key attributes delivered by the organization, valued by the customer:

- Knowledge
- Anticipation of future requirements and
- Superior communication.

Consistently delivering on these three facets can help build a knowledge-based relationship with the customer, eventually creating life-time value.

CRM necessitates viewing a customer not as a one-time transaction, but as a series of transactions over time. Focus shifts from maximizing a single sale to maximizing a single customer's life time value to the organization. Don Peppers and Martha Rogers point out in the article, " *One-to-One Marketing*" that it costs companies five times as much to get a new customer as it does to keep an existing customer. Research has revealed that in the pre-web era, Companies tended to lose about 25 % of their customers annually. But this number has risen drastically since electronic commerce went main-stream. Reducing customer loss by 5% can often add as much as 100 % to the Company's revenues.

7. Thinking Beyond Customer Segments

Future leading e-businesses must use what has been learned about individual customers and not just micro segments, to determine product/service configurations, promotion tactics, pricing and service levels, understand evolving needs, predict behavior, maximize share of the customer (not just market share!), and to select the right interaction and sales channel mix or the channel strategy.

E-business success is measured not only through improved quality of customer information, but also through increased customer retention, sustained loyalty, high quality customer relationships, which are above industry average. Further, operational efficiency is expected and is rarely sufficient to distinguish one business from another. Changes to business processes, organizational structure, people, and culture must accompany e-business strategy formulation. CRM effectiveness must therefore be measured using a comprehensive set of standards that benchmark both financial and non-financial outcomes - a tough transition from the Return-On-Investment (ROI) driven mentality.

Building customer loyalty is a crucial factor in the modern, e-business environment and heavily depends on the strength of the learning involved in the business relationships with its customers. A learning relationship improves with each successive interaction. Eventually, the relationship becomes so strong that the cost of re-building it with another competitor makes it impossible for the customer to switch. This is called a "lock-in" situation in the business environment and the lock-ins must be sustained to generate customer knowledge management. Learning relationships can be built with customers in any line of business. However, the cost of building a long term relationship must be weighted against the life time value of the customer, not just the immediate revenue stream ! (Peppers, D., Rogers, M., 1997).

8. Conclusion

During the past two decades, innovations has emerged as a strategic imperative in the banking sector, worldwide. Implementation of advance communication/delivery channels with the introduction of electronic technologies has made substantial changes and intensified the competition in the banking sector. Sri Lanka too has followed worldwide trends and implemented many innovative products/services to meet the challenge. The introduction of electronic banking or Internet banking in Sri Lanka can be considered a milestone. Since concepts such as Electronic Business, Customer Relationship Management in e-business & Customer loyalty & life-time value of customers are still in its infancy in terms of implementation locally, they should be nurtured so that in the future the Sri Lankan market can think beyond customer segments and the Return on Investment driven mentality, and focus more on the Life-time value of the customer. The Sri Lankan banking sector can make use of these concepts in customer service areas, to make a paradigm shift in Sri Lankan banking.

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