

Taking the 'R' Out of CRM

A White Paper from Swallow Information Systems

SUMMARY

It seems nowadays that as long as customer data is involved somewhere in the business process, the method is branded CRM (Customer Relationship Management). Let's face it- CRM is not a new strategy. For over a century, the local grocer has been ensuring that customers get the correct necessities every week. Nevertheless, CRM seems to be a buzz phrase that many professionals feel can be executed primarily by the implementation of customer service-related software.

No amount of IT can establish a true business-to-consumer relationship. Instead, it is a two-way interaction that depends as much on the consumer as on those trying to manage him. E-commerce has shifted the balance of power to the customer, which has made it very difficult for businesses to get CRM right. After all, CRM is a strategy that provides the opportunity for success, but it does not guarantee it.

Too many companies have hitched a ride on the e-commerce bandwagon without thinking through what the customer wants from the relationship. Don't they realize customers don't like being sold to? Most of them are sick and tired of being second guessed, pigeon holed and bombarded with company information they don't want or didn't ask for. The one time a relationship is naturally triggered is when a customer contacts an organization with a complaint or inquiry, and this is the area where businesses should focus most.

So what's the solution? We need to remove the emotive, personality-based components from CRM and make it more practical. In short, strip the 'R' out.

It's about time companies realized the right model for customer management is grounded in consumer-to-business, not business-to-consumer.

ABOUT THE AUTHORS

This White Paper was compiled by Swallow Information Systems, but includes a great deal of research from other firms. Swallow Information Systems is a leading global provider of customer management solutions in a variety of industry sectors. Established in 1990, Swallow has headquarters in Beverly, MA and Surrey, UK.

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THEORY

Customer Relationship Management, also known as “CRM” to its many friends, is the current mantra for business executives, strategic consultants, change managers, and especially software vendors. We use the term “especially” because estimates of IT departments’ expenditures in the CRM marketplace are astronomical. According to the Aberdeen Group, revenues from CRM software will top \$14 billion in 2001. The Hewson Group predicts that 2000 will see 70% growth of European market for eCRM applications to \$1.3 billion, and that the market as a whole will grow by 100% or more in 2001. Opportunity for software vendors exists indeed, given that these figures cover anything from call center to business intelligence systems. As long as there is a customer or customer data involved somewhere along the line, then it’s CRM.

It is not surprising that discussion of CRM is dominated by IT. The implementation of a new IT system is the most tangible manifestation of a change in culture and process. It is real and part of everyday activity. The problem is that too often installing a new IT system is as far as it goes and, as a consequence, initiatives fail to meet expectations.

Will the real CRM please stand up?

Part of the reason for this confusion is in the term CRM itself. It’s just so vague. What is a customer relationship? How does one manage this affiliation, if at all? The fundamental truth is that just like personal relationships, the relationships between customers and businesses are two-way and based on dialogue rather than monologue. They are based on trust built over time and, more and more, the success or otherwise of the customer’s last interaction. One can’t force a relationship on someone and unless companies understand this, no amount of IT expenditure, database profiling, or tailored offer is going to make up for rude staff or inaccessibility.

For example, in the retail business, the age-old truth of “location, location, location” still applies today. Companies try to cloud the issues with advertising, loyalty cards, range and price differentiation, but the fundamental premise of the retailer’s relationship with its customer is based on geography. Developing a relationship on any other criteria is secondary in relation to the idea of a store being close to the customer.

But what about the Internet and e-commerce? Doesn’t that shift the balance of the relationship towards other factors such as range, price, convenience and so on? Well, yes, of course, and there will undoubtedly be significant amounts of business built on e-commerce. But already, stories abound that e-commerce equals bad e-service and bad e-care. Customers are already voting with their feet, or rather their fingers. Internet shopping cart abandonment has reached 70% at the checkout according to Forrester Research. Many companies that have thrived on their attention to detail in meeting customer needs find their reputations and profits being threatened through jumping on the technology

bandwagon without thinking through what the customer actually needs from the relationship.

Okay, so what really is CRM then?

CRM is a strategy that seeks to improve business performance by identifying the best or most profitable customers and the top prospects, and then develops products and services to satisfy them. At the same time, the reverse also applies in that companies seek to identify the worst customers, or the least profitable, and try to discourage them from doing business.

It is important to note that CRM as described is not new. Indeed, the local retailer of 50 years ago was probably much more successful in implementing this strategy. He knew that on Wednesdays, Mrs. Brown always bought flowers because that was the day she visited her mother. He knew that every Monday, Mr. Green bought his week's supply of rolling tobacco. It is this sort of relationship and this sort of intimacy that CRM seeks to recreate through the application of data, process and technology.

CRM is not the only strategy for business today. Lowest prices, top products, auctions, spot buying and others remain equally valid models for many businesses. Also true is that implementing a CRM strategy is a huge undertaking, requiring organizations to radically alter their view of the world and to completely change many key business processes. After all, the larger the company, the bigger the changes. Currently, it is estimated that 96% of CRM initiatives fail to meet expected performance improvements. As with any strategy, while the implementation of CRM software provides the opportunity for success, it does not guarantee it.

Importantly, do customers really want a relationship with their supermarket, bank, or gas station? Most of us dislike being sold to. Consumers like to feel that they are making an informed product choice based on color, taste, value, benefits, and any number of criteria. So when companies try to second-guess customers, it is often irritating and more likely to drive them away than retain their precious loyalty. The one time a relationship is naturally triggered is when a customer contacts a company with an inquiry or a complaint. E-mail, telephone and interactive support services have made the need to respond quickly and appropriately a huge priority, so it is crucial to get it right.

So the market is wrong?

Well, no. The principles behind the term CRM are admirable, but the crowded nature of the market can often cloud the logical path to better service and higher sales figures. Managing the process is crucial. What companies need is a more logical approach. They need to bypass the emotive, personality-based approach and make the strategy more practical. In short, they need to strip the 'R' from 'CRM'.

What are we expected to call it then? Customer Management?

Why not? Customer Management is as good a phrase as any and it applies to all businesses, regardless of their approach to customers. If companies have customers, they must manage all points of contact to deliver a consistent and satisfactory level of service.

More specifically, CM means the management of customer information, and the realization of why they buy, what satisfies them, and what makes them stay. It requires a systematic approach to the collection of information, the satisfaction of customer needs, the analysis and dissemination of information gathered, and the sharing of this information across the enterprise and with the customer. Inevitably, this means integrating applications so that they work with each other and share information.

The whole strategy, however, has to be based on realistic objectives. Companies cannot expect to know each and every customer and cater to their exact needs. Instead, they must decide what is achievable and commit themselves to making it happen.

Any chance of a definition?

Customer Management is a business strategy built on the disciplines of marketing, sales, and customer service. Its broad purpose is to increase customer retention and loyalty. The reality of business today is that customers judge companies on the quality of their last interaction, not on the strength of their last mail shot or advertising campaign.

Successful customer management is therefore a seamless continuum of interactions and transactions, extending across the whole of a customer's life cycle and the entire range of a company's operations. More than ever before, companies need to ensure that their sales, marketing, and customer service strategies and operations are tightly integrated.

EVIDENCE

Justifying this paper

It is easy to say that CRM is important, especially where we are involved in the industry. Frankly, there is a lot of rhetoric about where CRM is going and why, so here are some independent statistics to back up our claims.

Cap Gemini/IDC:

- 73% of companies have CRM components in place
- Companies can expect an immediate 8% turnover increase
- This will rise to around 16% within 2 years
- Giving an expected payback period of 28 months

Business Intelligence:

- 40% of businesses currently have CRM software in place
- Of these, 39% developed in-house, 36% used external vendors (25% did not answer)
- Of the 31% of companies who do not have CRM software, 24% plan to introduce it

The Hewson Group:

- 2000 will see 70% growth of European market for eCRM applications to \$1.3bn
- Overall spending including 3rd party services predicted at over \$3bn
- Market will grow by 100% or more in 2001
- "Hard" deadline in 2002 for European e-commerce strategies remains but failure to offer robust e-business operations in 2000 could hurt market share
- E-business projects will launch without integration to other channels
- Best of breed component applications will start to feature this year

That companies are spending a vast amount of time, money, and effort on implementing CRM systems is, of course, good news for the software industry. It is most importantly good news for customers. Since the purpose of the exercise is to drive profitability by improving service and increasing satisfaction, then even partial success must bring some benefit to customers.

The last two points of the Hewson Group research are of particular interest when considering in more detail exactly where companies will focus their efforts.

To quote further:

"While integrated CRM strategies are now being discussed at board level and, in some cases, established as critical business objectives, it is more likely that CRM initiatives will continue to be driven by a line of business manager seeking to achieve a particular result.

The exception to this is e-business where we detect signs of incipient panic about inadequate technology and understanding. We expect this to drive knee-jerk spending on Internet systems simply to plug obvious deficiencies."

So, get ready for some Web sites that don't work and of course some that do. Also, the fact that a lot of CRM initiatives will be driven by line managers will move the market to a best-of-breed approach to application selection. For both vendors and buyers alike, the challenge will be to deploy systems quickly and integrate them tightly with existing systems.

FOCUS

Business-to-Consumer or Business-to-Business? How about Consumer-to-Business?

There are many differences between managing a handful of high value, key account customers and managing a customer database of millions. Customers can be individual consumers or businesses, and both models have their own difficulties and issues. Indeed, CRM can be viewed as the blending of first principles drawn from the disciplines of key account management and direct marketing. Where CM is concerned, the underlying principles remain the same: know your customer. Give them what they want, when they need it. Market more effectively. Get them to return. This applies equally in the business-to-business world as it does in the business to consumer market.

Managing customers in the business-to-consumer market presents particular problems, though. The most obvious is scale-how does one company manage millions of customers? Even more difficult, how can companies have an actual relationship with millions of customers, let alone manage them? And this scale demands a level of technology not necessary for the management of a handful of key accounts or individuals.

The reality is that companies cannot manage individual relationships on this scale, which is why so much money is spent on market research, focus groups, surveys and other tools to answer the basic question of "How are we doing?" While the vision of 1-to-1 marketing remains, the reality is that we are all profiled, sectored, segmented and grouped in a myriad of ways to try to predict our next move. The result is the type of monologue that has dominated the business to consumer relationship for many years.

The new technology that is the Internet offers the potential for a real shift in power. It places the power in the relationship with the customer. He/she can now choose when (s) he wants to contact, why (s) he wants to contact and how far (s) he wants to engage with you. Customer management is therefore a question of being flexible, available and responsive at all times. It is truly a Consumer-to-Business model, and not the opposite.

Of course, excellent companies have been quick to recognize this shift. They have already invested in systems that attract customers and make them feel part of the process, such as self-service elements of the Web, balanced with real-time interaction with knowledgeable customer service representatives.

Similarly, leading customer service companies have highly evolved systems for dealing with customer feedback. Encouraging the customer to contact you, managing contacts and converting requests are the building blocks for customer influence in business strategy.

CONSIDERATIONS

Could it be magic?

The benefits of CM (or CRM) are obvious, which is why it currently occupies so many column inches. Done properly, it promises better client loyalty, increased profits, a stronger customer base, more efficient company performance, commerce taking place over a wide range of channels to increase flexibility...but to achieve anything like the business models required, there has to be sacrifice and compromise. Success depends on a combination of clarity of purpose, agreement through dialogue on methods and scope, and significant investment in both quality systems and reliable people.

Lessons are there to be learned from the implementation of ERP systems in the last decade. According to a META Group study, the average implementation time was 23 months while the ROI was 2.5 years. It is too early yet to assess the impact of major CM initiatives but there is little to suggest that similar timescales and results should not be expected.

Research conducted by Professor Merlin Stone, IBM Professor of Relationship Marketing at Bristol Business School, suggests that the performance of several different components needs to be optimised and synchronised in order to implement CM initiatives:

Customer management strategy

Define where you want to be, with which customers, and over which channels you want to do business for which products and services. Clearly there are vested interests at stake here, so communication of what, where and why has to filter down through the organization.

Customer management model

So you have your strategy in place but reality can often be a far cry from the noblest of business intentions. How are you going to actually manage customers? Which tried-and-tested (or sometimes revolutionary) tactics will you employ on the ground to turn theory into fact? Is CRM an appropriate model for your business? Does CM suit you better? If not, which other model applies and what do you need to make it a success?

Enablers

CM is impossible without support. And in the information age, a large proportion of this rests squarely on the shoulders of IT. Data needs to be used effectively. Systems must be fully integrated, flexible and stable. Key business processes must run smoothly and be tightly aligned to customer needs. Adequate performance monitoring and measuring must be in place in order to allow the constant evaluation and re-evaluation of aims, techniques and results.

People

Often the front line in dealing with customers, no effective CM strategy can work without human intervention at some stage. As discussed previously, CM is a strategy, not a technology, and it needs to be adopted by everyone within the organization. IT may enable, but people deliver, so investment in training and personal development must be a priority. Good people can make bad systems work. The reverse is never true.

The organization and adoption of responsibility and accountability are also core to success. If everybody knows their role, actions are far less likely to slip through the cracks. Russian roulette when dealing with customers is not an option.

Programs

Professor Stone's research suggests that successful implementations are best done a bit at a time. Pilot projects, quick wins, review and rollout appear to be the best option for almost all organizations. Projects need not only to run to time and targets, but results and findings must be transferred across the organization. The result is a cumulative learning process,

allowing the education of all individuals in the importance of CM, as well as the skills required to deliver it.

METHODS

While technology is not, and should never be, the reason for implementing any CM (or CRM) system, it is clear that it has a major role to play. It is important to get it right.

Increasingly, CRM technology and investment fall into two types-Operational CRM, focusing on the automation and improvement of key business process, and Analytic CRM, providing the capability to analyze and mine data. The META Group adds a third type – Collaborative CRM, which includes Web technologies to improve communications with customers and within the business.

A recent Gartner report suggests that the CRM market is shifting from Type A (pioneers) to Type B (mainstream). Customer expectations are therefore changing and so vendors will need to focus on:

- Vertical applications
- Pre-packaged solutions, incorporating as many as 50 distinct elements
- Less additional functionality
- Emphasis on User Interfaces
- Better support services

The challenge for both businesses and vendors alike is considerable. Already major analysts such as META Group are predicting 'serious risk of failure' in many large companies. The whole strategy requires such fundamental changes in outlook, performance and business methods that for some companies the future is fraught with danger.

In terms of implementing CRM technology, the Hewson Group suggests four basic approaches:

Big Bang-choosing a single backbone CRM system, implemented across the enterprise

Tactical-developing local systems to support specific parts of the sales process or the customer experience in order to create quick wins and promoting wider adoption

Green Field-introducing a new channel to market such as a call center or more common today, an e-commerce site

Incremental-a series of projects rolled out across the business in timely fashion and with tight project and cost controls

Both the Hewson research and Professor Stone's work suggest that the *Incremental* approach is much more likely to succeed. It is a more pragmatic approach to systems and strategy that integrates what works now and fills in the gaps with 'best-of-breed' software. This means building on the information contained within existing databases, making systems talk to each other better, harnessing the Internet etc. It is far better to implement systems that manage the information a customer volunteers during inquiries or complaints and use it to respond, address problems, give background on habits and drive improvements. Such information combined with, say, buying patterns from the accounts system can be very powerful.

The result of this approach is to look at the company as an individual entity – one that is unlike any other, and must be treated as such. Hence the need for a tailored, relevant approach which capitalises on existing strengths and works on the areas of weakness.

CHANNELS

The gratuitous Internet section

No White Paper is complete without its token address on all things Internet. Not wanting to buck the trend, here is our take on the technology. Only this time it's not speculation but rather a key component of CM. No, really.

The crux of getting CM right is offering the customer the right choice. This means content. It means product. It means service. But it also means channel.

Take banking as an example. First there were branches. Then ATMs. Then came telephone banking. Now it's Internet, WAP, kiosks are on the horizon etc. The fact that the vast majority of financial organizations are frantically scrabbling around to piece together the missing components of the delivery jigsaw just goes to show:

1. How scared they are of losing market share to their more technologically developed competitors
2. The anticipated demand for 'anywhere banking' models (i.e. any service delivered over any channel to any customer) from customers who want greater flexibility and control, regardless of their location

As we noted earlier, the effect of the Internet and future technologies such as WAP, interactive TV will deliver power to the customer, so it's highly likely to be the driver for a service revolution. But companies also have a vested interest in seeing e-commerce take off.

For a majority of businesses, the Internet represents a low-cost, flexible medium over which to operate. Purchasing and inquiries can be carried out from the same place; transaction costs come down, knocking-on to lower prices for the customer and higher returns for the vendor. The proportion of profitable customers goes up, as does the company's potential reach.

Everyone's a winner then?

Well, no, not exactly. E-commerce doesn't guarantee returns. There are currently too many criteria involved to offer sure-fire success. Do your customers use the Net? Can they find your service? Does it deliver on its promises? The list goes on...

CM should therefore sit behind any e-channel in order to deliver relevant content at the right time, analyze data and browsing habits etc. At the end of the day, the Internet is a cost-effective, potentially highly rewarding path to market. But if it's not used in the right way, that's all it is-another channel.

Customers will volunteer information about their background, the services or products they need, and the way they look at sites, and all of this needs to be taken into consideration and used to redefine or hone the service you offer.

Equally, customers will complain, or ask for something at short notice. The e-mail response culture of many sites can be an effective way of handling these types of inquiries, but can be a customer service nightmare – doubling or quadrupling the number of inquiries to the customer service desk.

Everyone knows this. The Web is, after all, a global medium with a huge reach, and this makes service all the more crucial. But the way in which these inquiries are handled invariably shapes the way in which customers approach the site.

For example, most of us think e-mail = rapid response. In reality, it can take hours or days, which can seriously impact the way customers look at the service, and whether they return. By offering an on-site response mechanism, you're making an implicit promise that problems will be resolved straight away.

The Web and its low barriers to entry are making the market more crowded, and competition fiercer. Failure to deliver will simply not be tolerated by the marketplace.

A Web site is also, at the lowest level, designed to provide an image, as well as a service – that the company is forward thinking, slick and fast moving. Poor service will destroy this perception faster than you can say, "Oops, sorry."

STRATEGY

So how should we go about it?

The Swallow Information Systems Approach:

Strip away the myths of CRM, and to approach the area with a great deal of common sense.

Proper CM practice is based on three overriding criteria:

1. The customer comes first

Putting the customer at the heart of a business is a commendable aim but it's much easier said than done. The simple truth is that companies are only as good as their customer's last transaction, so they had better make it count. And in terms of building relationships with customers, the only time a relationship really counts is when the customer instigates it. Customers who buy, who inquire, and especially those who complain need to feel cherished and valued.

2. It's good to talk

Data should not stand alone. It needs to be integrated and used to the advantage of the company and the customer. Systems also need to interact, but if they already do their job adequately they don't need to be replaced, just linked. Those companies who have poor data sharing and internal communication processes are the ones that will struggle to manage customers the most.

3. Predict. Present. Prosper

Information from all sources and from all touch points with the customer must be used. Drilling down to specifics, analyzing behavior and trends, making

projections and predictions are fast becoming standard marketing practice. Where companies fall down is in not examining data on a regular (at least monthly) basis, and in hoarding information within departments.

Knowledge really is power, so it's no good if it is held back or presented as dull statistics rather than in meaningful, easy-to-understand formats such as tables and graphs.

CM in action

CRM may be a hot and much debated topic, but there are very few companies doing it right.

The following are real life examples of how organizations are not only successfully managing customer feedback, but also demonstrating tangible returns on their investments:

1. The High Street retailer

This well-known international stationery and news retailer manages its customers from a centralized service office, and handles customer information received directly through its retail stores and through its suppliers. This organization's customer service department receives around 6,000 calls per month as well as 1,000 other pieces of correspondence, which are electronically logged into their customer management system irrespective of original format. Responses are fast and multi-channel, and every piece of information is stored in a customer profile. The customer needs to be number one in retail, and all information received is invaluable to every part of the company, particularly the loyalty card division, to understand its customers right now. Customer satisfaction and the management of data are critical to its success. Because of this, the presence of the customer service department has been raised throughout the company and taken on greater involvement in strategic planning and decision-making.

2. The automotive manufacturer

A world-leading automotive company was losing track of customers between dealerships and manufacturers, and therefore introduced a specialist customer management system to link all three into a single feedback cycle. Customers can contact the dealer or the manufacturer directly, and their information will be automatically added to the database for the next user. The customer database is integrated back into sales and marketing departments for corporate communications, and the reporting function highlights areas, products or dealerships with customer issues to be resolved early on. End user information can also be fed back to product development where recurring faults are being identified. The feedback cycle has resulted in a 50% reduction in customer inquiries and complaints and allowed all parties in the customer service loop to benefit from faster, more efficient service and improved products.

For more information the results in this paper, contact Swallow Information Systems at (800) 647-9460 or visit us on the web at www.swallow.com.