

Unlocking The True Value Of Customer Relationship Management

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Customer Relationship Management has come so far, so fast. Perhaps too fast? Even as it takes its first steps to adulthood, observers are sceptical of its potential. Some already consign CRM the bargain bin of business buzzwords. At WCJ, however, we believe that CRM is here to stay. How then to unlock its true value? An understanding of CRM's history will help.

The roots of CRM are deeper than many realise, in the domains of services and business-to-business (industrial) marketing. During the 1980, CRM emerged as customer relationship marketing, incorporated into a range of then in-vogue customer care and total quality initiatives. However, it was largely neglected by academics and large businesses alike - whose focus was more on mass marketed goods.

The changes that occurred in the global marketplace, the growth in services economies and technology advances altered this orientation. Mass marketing shifted to target marketing then mass customisation. Fuelled by popular publications (notably Reichheld's 1990 book *The Loyalty Effect*) and the insights of Peppers & Rogers, mass customisation migrated rapidly into 1 to 1. At some point, significantly, the responsibility for managing customer interactions also moved beyond the marketing department - the traditional guardians of the customer - to involve all business functions. CRM, as we recognise it today, became enterprise-wide. So what is CRM? Many commentators have attempted a definition. I do not propose to re-open the debate, but rather to offer a simple explanation that will help set the context of this White Paper:

Customer Relationship Management is an integrated approach to maximising customer value, through the differential management of customer relationships.

At WCJ we extend the definition to include two key guiding principles. CRM is about: (1) understanding the drivers of current and future customer profitability; and (2) using this understanding to influence the allocation of resources across all areas that affect customer relationships, including communications, customer service, billing and collections, product/service development, pricing strategies etc. This broad definition of CRM explains its true value. But why has it moved so fast into the business consciousness and across so many sectors of industry?

CRM – A SUPPLY-SIDE PHENOMENON?

CRM has been a product (or maybe victim) of its own making. The convergence of trends in managing customer data - supported by cost-efficient technology to capture this data and the analysis tools to generate insights from it - meant that CRM was

positioned as the right solution in the right place at the right time. If this sounds like product-speak, it's intended to. The modern approach to CRM has essentially been a 'supply' rather than 'demand'-side phenomenon, driven as much by cost and systems thinking as by changes in customer relationship marketing. Consider the factors that have caused CRM to move so fast.

1. The shift from transactional to relationship-based markets. The fortunes of CRM are inexorably tied to the explosion of the service economy. Acting as both cause & effect, CRM-seekers have invested heavily in the new enablers of the service economy - such as customer service centres, interactive web sites, and supporting databases - which have in turn allowed the development of more sophisticated service offerings for an increasingly relationship-hungry marketplace.

2. Growing proof about the profitable impact of the right customer relationships. Continued investment in the tools of the service economy has been encouraged by the evidence of the value in targeted customer relationships. It is said, for instance, to cost up to five times more to acquire a customer than to retain one; long-standing customers do not have acquisition costs.

3. Improved marketing communications effectiveness. Integrated marketing agencies have made great progress in improving the effectiveness of their communications activity, with superior database technology, analysis tools, targeted communications activity and performance measurement techniques. While acknowledging our stake in this domain, we firmly believe that many of the new, time-critical areas of CRM activity - call centres, database-driven marketing communications and web-sites that capture personalised customer data - would not have happened without these agencies' efforts.

4. The appeal to IT vendors and management/change consultants. To IT vendors and associated change management consultancies, concerned with the technology and process side of customer relationships, CRM represents one of the last bastions of untapped IT potential (and budgets). The initial demand was for stand-alone products, such as salesforce automation, marketing campaign management or call centre management tools. Now buyers are increasingly seeking an integrated suite of solutions.

5. The continually-reducing costs of data capture and storage ('Moore's Law'). Finally, there is the related recognition that CRM is a product of the increasingly low-cost and high-functionality of data capture. If it were not for the chip, CRM would not be possible.

Unsurprisingly, CRM receives an increasing amount of attention by our clients, who now engage us in 'CRM discussions' on an almost-daily basis. It's easy to see why – the business opportunity (or pressure) is great; the concepts of CRM are intuitive, accessible and user-friendly; and it offers a holistic, integrated approach that can harness all parts of the organisation.

Frequently, however, we observe a critical gap in most CRM conversations: between the articulation of a CRM 'vision', voiced at all management levels, and the subsequent story you would expect about the implementation of a comprehensive, integrated programme. Elsewhere in the company's value chain, you have success stories and even awards for communications effectiveness, sales distribution and manufacturing flexibility. So why doesn't CRM appear to work?

HOW TO MAKE CRM WORK MORE EFFECTIVELY?

WCJ has been fortunate enough to engage in more CRM conversations than most. Driven by our heritage as one of the longest-established relationship management firms; our position within the integrated service offering of Young & Rubicam Inc.; and our truly global presence, we've been active listeners to these stories since long before they were called 'CRM'.

We have identified five main reasons why CRM is not working effectively:

1. Failure to define a compelling business case up-front. Most CRM strategies collapse when the real spending starts. We have heard stories that go something like: "To achieve the objective, you need to begin with a multi-dimensional data warehouse that can manage information from all the operating unit legacy systems. Its going to cost at least \$xx million, will take 30 weeks to complete - and I need your sign-off by this Friday. OK?" Success in CRM doesn't mean avoiding expenditure but defining the business case early on. Will this new business model be more profitable than the current? How will it benefit our customers, today and in the future? What's the opportunity cost of investing in CRM? What could cause it to fail? What are the performance measures we should be tracking to know whether its working?, and so on

2. The difficulty in getting going. Many organisations begin their CRM journey with a desire to focus on the customers who are most profitable, following the '80/20' rule. An understandable objective. But in order to make even this simple objective happen, you need: (1) robust transaction data, which (if it exists) may need to come from multiple sources; (2) data warehousing capability for capturing and storing data; (3) an associated retrieval and data delivery system; (4) data mining tools that reflect the unique nature of your business; (5) detailed costing information, including the process cost (what it costs to get something done) as well as the physical product or service cost; (6) a meaningful economic model that responds to the distinct fluctuation in your customer's and business' lifecycle . No wonder so many people stop before they've got going.

3. Obstacles created by current organisation structures. Seeing the organisation from the customer's viewpoint can bring departments into intimate contact with each other. Suddenly marketing are no longer custodians of the customer; sales have to deal with multiple channels, some physical, some (like call centres and the web) remote; finance are being asked for detailed costing data by departments other than manufacturing; the person responsible for joint ventures (usually located next to the Chairman's office) is put centre-stage as the organisation recognises that it can't deliver all elements of the value chain itself.

4. Making new organisation structures work. Even once the new organisational model has been built, businesses face the challenge of making change work. How many organisations can you think of that could deal with this degree of organisational change today and still deliver (let alone grow) the business?

5. Focusing on the infrastructure (usually technology) first. Many business cases for CRM are used to justify technology investments (as suggested in the data warehouse example in point 1. above). However, IT represents the automation of the solution, not the answer in itself. We have heard of organisations requesting mailouts to existing customers "in order to populate the data warehouse". This is not a customer-centric orientation, but a view of the world (and CRM) from a technology mindset.

STRATEGIES FOR SUCCESS

Given that the CRM concept is a reality across all industry sectors, the challenge is making it happen for your business. WCJ's response to the CRM challenge has been a natural evolution into a new vision of 'practical' CRM. Frequently, this approach means focusing on reassessing, redesigning and redeploying resources.

The key principles to this approach are as follows:

1. Follow the Successful Money. It sounds simple, but understanding where value is being created from your customers today, and how it is being destroyed by non-customer relationship building activities, will lead you to success in all but the most volatile market sectors.
2. Get the board to buy in to the CRM 'business case' up-front. Board-level buy-in is critical to making CRM a reality. Customer strategy must equal business strategy; the question is therefore not "Should we be a customer-centric organization" but "We need to be customer-centric. How do we make it happen - faster and better than our competitors?"
3. Build CRM from the customer up. Most of the traditional business models were developed around products - the manufacture and delivery of goods or services - not customers. We challenge you to re-design your business from the customer up; an approach that new internet companies have the luxury of doing.
4. Know your starting point. The challenges of CRM pose a dilemma for most organisations. On the one hand is paralysis: "How do we begin when we have so far to go?" On the other hand is denial: "We don't have poor or unprofitable customer relationships." An objective understanding of where the business is today and a valid economic model is needed. For instance: "We have identified that we currently capture only 38 cents in every dollar that our customer spends in this category. What would it take to move it to 50 cents? Then 60."
5. Visualize the future and determine where you are going. Think about the relationship you want with your most important customers three years from now. What solution will you provide to their problem then? How will customers obtain it? Will you provide it directly or in partnership with others? The leading edge Internet companies today have a clear view of the end game. Amazon.com isn't about selling books, prescribing medicines or running on-line auctions. Its about having a degree of insight into customer transactions that will enable them to deliver innovative services to satisfy their needs today and in the years to come.
6. Prioritise. When you get going, your biggest challenge will be knowing what not to do. As you prioritise the activities of the organisation, think about the practicalities: what can be done today that will build customer relationships tomorrow? Is there any point capturing this data, if it can't be stored? Is there any point storing data if you can't do anything with it?

LOOKING FORWARD

The future of CRM is a paradox. The increasing sophistication of customer insight and targeting conflicts with the increasing fragmentation and complexity of the marketplace. This has led us to define the key operating principles of the WCJ CRM operating approach:

1. “Talk less, do more”. CRM is like a race. All of your competitors are starting from the same place, and can see the same finish line. Winning depends on the course you take and the pace of your journey. But most importantly, it’s about getting off the starting line. Too many executives are in their offices discussing the corporate CRM vision for the next 10 years, without knowing what to do tomorrow.
2. “Test, test, test”. Is a CRM vision right for your organisation? Pilot your strategy first before betting the bank on it.
3. “Earn as you learn”. The payback from CRM is unlikely to come in the usual 12-month cycle. So, consider ways in which you can “earn as you learn”. Can you define your CRM pilot so that it is self-funding? Can you leverage the data, or distribution channel, or brands that you own in order to pay for future capital investments? Few Finance Directors will fault this kind of approach.