MBA Program

Customer Relationship Management

GSN493

Study Guide
and
Resource Book

Queensland University of Technology

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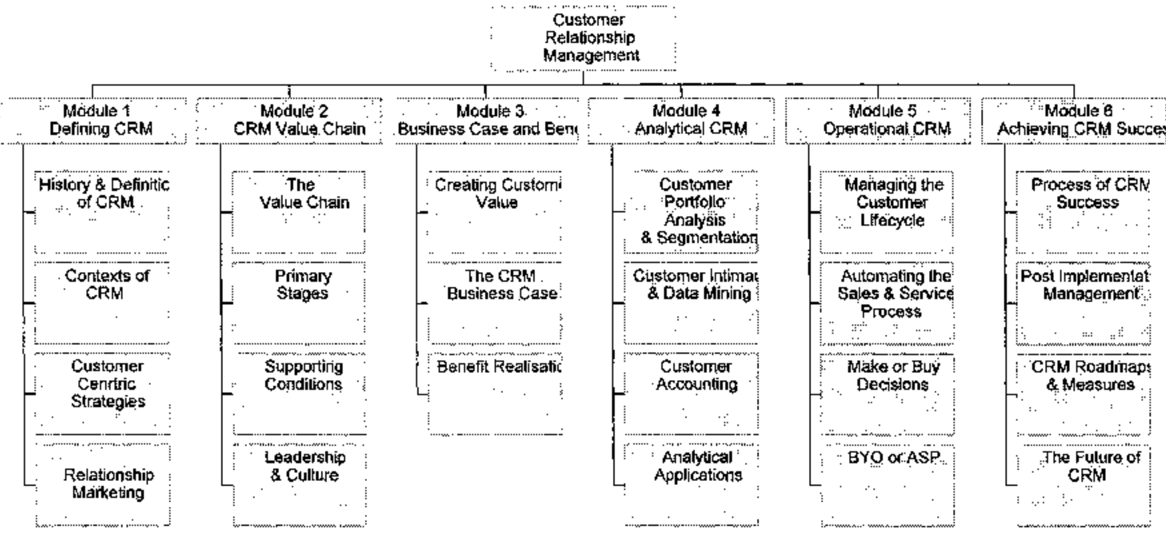
Concept Map of the Unit



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Module 1: Defining CRM

Introduction

Reading

Buttle, Chapters 1 and 10

Reading 1.1
The Relationship-Based Enterprise, McKenzie, pages 13 to 44

Customer Relationship Management (CRM) can mean different things to different businesses in various contexts, however, CRM is highly likely to become a key component of successful business practice as businesses focus on gaining more profitability from the relationships they have with their customer, as opposed to taking products to market in an endeavour to establish profitability.

CRM takes the marketing concept and applies it across the entire business process. CRM is the next generation of marketing concepts and represents a refocusing of marketing with intense emphasis on the creation of customer value – shifting from satisfying customer needs to building relationships through a long-term value creation process (Honeycutt et al, 2003).

American marketing guru, Philip Kotler released a book in 2004 called, 'Ten Deadly Marketing Sins'. In this publication he says:

> *Marketing is in bad shape. Not marketing theory, but marketing practice... Marketing is supposed to drive business strategy. The marketers' job is to research new opportunities for the company and carefully apply segmentation, targeting and positioning (STP) to point the business in the right direction. Then marketers are supposed to flesh out the 4Ps – Product, Price, Place and Promotion – making sure that they are consistent with each other and with the STP strategy. Then marketers are supposed to implement the plan and monitor the results...*
> *But today, too many marketing departments don't handle this whole process.*
> (Kotler, 2004:3)

Kotler then articulates what he sees are the Ten Deadly Sins of Marketing (Kotler, 2004:10):

1. The company is not sufficiently market focused and customer driven
2. The company does not fully understand its target customers
3. The company needs to better define and monitor its competitors
4. The company has not properly managed its relationships with its stakeholders
5. The company is not good at finding new opportunities
6. The company's marketing plans and planning process are deficient
7. The company's product and service policies need tightening
8. The company's brand-building and communications skills are weak
9. The company is not well organised to carry on the effective and efficient marketing
10. The company has not made maximum use of technology.

Many of these "sins" are related to the customer strategy and the use of technology. Additionally, Kotler says that marketing is to drive the business - these are the goals of CRM to centre the business on the customer, maximise the use of technology to enable the business productivity, and grow customer relationships profitably. CRM, placed in a broad context within a business, matches the "yin" of enterprise CRM with the "yang" of how customers view the enterprise from outside. It creates value *with* the customers rather than delivering value *to* customers. Rather than targeting customers, a relationship based enterprise becomes the hunted rather than the hunter (McKenzie, 2003:ix)

This unit will focus on CRM as a business strategy and we will see that CRM will address many of these failures of marketing practice that Kotler identifies. This study guide is intended as a companion to the prescribed text: *Customer Relationship Management, Concepts and Tools*, Francis Buttle, (2004), The classes for this unit will use case studies and real world examples in an effort to bring to life the key concepts from each module and students would benefit from being prepared and involved in class discussions and debates. This first module covers these topics as the basis of defining CRM, the context it is used in and how CRM may deliver value to a business.

Topics

1.1 Definitions and History of CRM

1.2 Contexts of CRM

1.3 Customer Centric Strategies

1.4 Relationship Marketing

Objectives

To gain an understanding of;

1. Where CRM has evolved from
2. How to define CRM
3. How CRM is used in business
4. Relationship marketing
5. Customer centric strategies and their value to the business

1.1 History and Definitions of CRM

History

Customer relationship management has existed since the beginning of business transactions, however, it was not then called CRM, it was called business or commerce. Early business people, whether it was merchants with goods on camels or farmers producing more than they needed, built relationships with people who had something of value to them that could be exchanged for their product. People doing business with other people, having and using knowledge about each other. Villages, towns and whole civilisations developed along the early trade routes as merchants managed the relationships with their 'customers'. Since then we can see the principles of CRM being exhibited in local general stores, where the owner-operator knows everyone who comes into the store, their family, needs, wants and regular requirements. Effectively managing relationships with customers has provided the essence of successful business since the birth of commerce.

In more recent times, CRM was evangelised by business visionaries in the early 1990's, who described a business world centred on customers rather than products. A few years later CRM was being driven by software vendors who had discovered a need for sales force automation, call centre automation and the usefulness of customer information in these environments. In the last few years CRM has emerged as a customer-centric business strategy that is enabled through change leadership and technology tool (Hocknell, 2004), or as a CRM analyst in China described it "a business strategy to acquire, retain and maximise a customer's profit worth" (Lee, 2002)

CRM implementation has a poor track record with industry analysts (Gartner, Forester etc) claiming that most CRM initiatives have failed to deliver ROI for the business (up to 70%) (McConnell, 2003). The reasons for the high failure rate are essentially described by Buttle (2004, pages 11 to 13) where he talks about the "misunderstandings" of CRM.

1. CRM is database marketing
2. CRM is a marketing process
3. CRM is an IT issue
4. CRM is about loyalty schemes
5. CRM can be implemented by any company

Similarly McKenzie (2001) on pages 37-39, describes the management problems associated with the poor performance, with the lack of programme scope, clear objectives and a lack of shared knowledge across business units and change programmes. We can also add one more challenge for businesses and CRM, that is 'complex' (Gupta and Lehmann, 2005)

The businesses that pioneered CRM during the 1990's, and contributed to the high failure rate, most likely fell victim to one or more of these misunderstandings or management challenges. With respect to misunderstanding 5 on page 13, we can see that CRM can actually be implemented by any company, but the scope may be limited depending on environmental impediments. From this then we can see that CRM is about a whole-of-business approach.

Definitions

Managers today, in their attempt to gain value from CRM, are no longer just implementing technology, but change. The change tackles the issues of culture and people, processes and technology, in an effort to gain increased wallet share and tenure with customers. There are many definitions of CRM, however the most descriptive seems to be; *'CRM is a customer-centric business strategy that is enabled through change leadership and technology tools'* (Hocknell, 2004).

Foote el al (2001) describe the move away from marketing products to developing solutions for customers, and the process starts with a desired outcome for the customer. The writers also spend time talking about the organisation around solutions and customers rather than product based structures. The move from product based marketing and businesses to customer-centric businesses, is the customer centric strategy referred to in the above definition. This change requires leadership throughout the organisation and the enabling of tactics to support the strategy are reengineered business processes and technology (Hocknell, 2004).

CRM then, is a customer centric business strategy that is enabled through:- change management (to create the culture and shift from a product focus) and the effective use of technology tools (operational and analytical to support customer centric processes). And because CRM is a business strategy, each business needs to determine what CRM means for itself, and herein lies one of the challenges for the effective business implementation of CRM (Hocknell, 2004).

This definition can be extended as CRM is aligning business strategy, organisation structure, culture, customer information and technology so that all customer interactions can be conducted to the long term satisfaction of the customer and to the benefit and profit of the organisation (Imhoff et al 2001).

Unclear language about CRM has contributed to its problems in the past (McKenzie, 2001:41). For the purpose of making the subject a little clearer, the following definitions are provided and should be considered with McKenzie's comments on pages 41 to 44. CRM, as a business strategy can be difficult to conceptualise, so breaking it down into strategic CRM, operational and analytical streams should make it easier.

Relationships

Buttle (2004:13) defines a relationship in the following way:

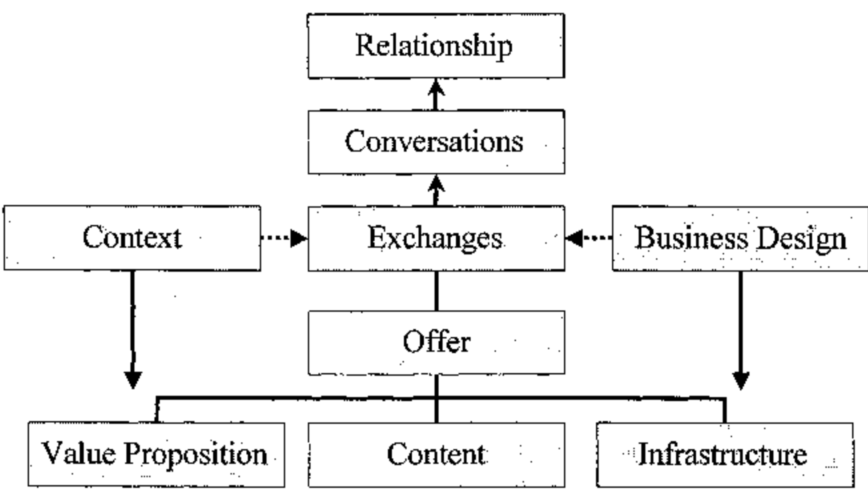
> *A relationship is composed of a series of episodes between dyadic parties over time.*

McKenzie (2001:44-47) describes the situation similarly, however he contends that the relationship part of CRM consists of *conversations*. The conversations are made up of economic exchanges and everything that goes with them. CRM then becomes a way of handling these conversations. Relationships, being built upon mutual trust and respect, and being seen as a series of conversations should enable businesses to better understand the actions that must be taken to design, measure, manage and sustain a business relationship. The conversation then can be described as a series of exchanges that are discreet interactions between a customer and a business.

The key ingredient in a relationship is clearly, trust between the two parties. Buttle (2004:15) proposes three stages of trust as the relationship develops. Calculus-based trust, relating to economic exchanges; Knowledge-based trust, relating to the history between the two parties and their predictable behaviour; Identification-based trust, based on mutual understanding. Peppers and Rogers (1999) said that, "trust is the currency of all commerce".

The model below shows how the relationship is developed through an offer, an exchange of value between the parties, and then followed by conversations a relationship is formed.

Relationships Defined (McKenzie, 2001:47)



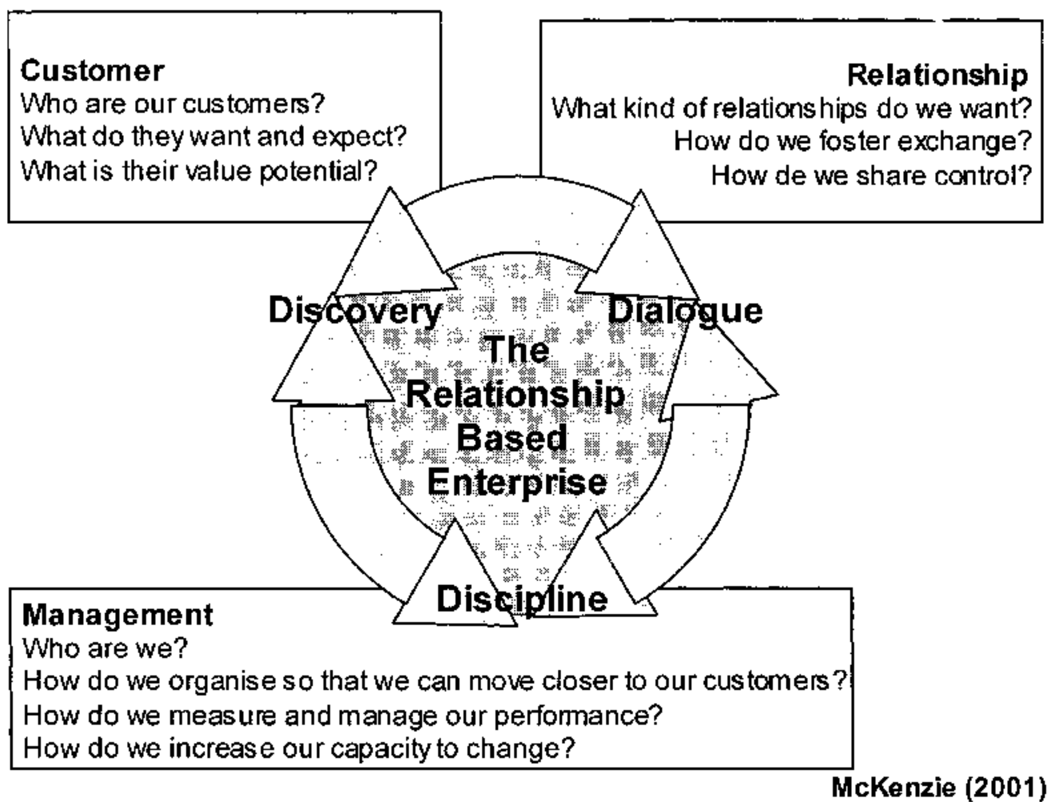
Customer relationships (Honeycutt et al, 2003:255) can also pass through developmental stages, as described below.

- Complementary needs – between a bank and a person with needs to save cash, borrow money for a home etc; between businesses that depend on skills or resources that each company has
- Interactions – following these complementary needs, repeated personal contacts between the parties (what McKenzie refers to as conversations) help build the relationship
- Outcomes and satisfactions – the satisfaction (or not) of these interactions will lead to (hopefully) mutually beneficial outcomes and satisfaction
- Investments – Following the satisfactory fulfilment of obligations by each party, each party will continue to invest (time and resource) into the further development of the mutually beneficial relationship
- Commitment – is eventually developed through the exchanges, this arises from trust, shared values, and the belief that both parties in the relationship have value to offer the other and are difficult to replace (Buttle, 2004:15).

Strategic CRM

Strategic CRM is about the development of a customer centric culture within the business. Because strategic CRM is about defining how the business interacts with its customers, it can and should cut across the three other major business orientations (Buttle 2004:4) of product, production and selling.

McKenzie (2001) talks extensively about customer-centricity and puts forward this model about creating a "Relationship-Based Enterprise", that is a business that puts customer relationships at the heart of it's business.



McKenzie (2001)

Discovery – The first three critical questions, grouped under discovery, are aimed at the continual profiling of a customer.
Dialogue – The questions under dialogue focus on the evolution of the relationship between the enterprise and its customers.
Discipline – The questions under discipline focus on the management decisions and choices that must be made concerning those mechanisms that will enable continual discovery and dialogue.

McKenzie says that each business must answer and address these questions for 'itself' to develop customer-centricity and potentially become a Relationship-Based Enterprise. In doing this the business will actually reorient themselves around the customer rather than attempting to implement CRM in competition with the other three major business orientations. In doing this a business will establish a platform for strategic CRM.

Operational CRM

Across pages 5-9 Buttle (2004), provides an extensive definition of operational CRM, which essentially can be summed up by saying that operational CRM has to do with automating processes at the points of the business where the company's people come into contact with the customers. From a technology perspective, the operational systems are internal and external core systems that run the day-to-day business operations. Typically they are accessed through application program interfaces (APIs) and are the prime source of customer data for the analytical processes and systems (Imhoff et al, 2001). Operational CRM will be dealt with in more detail in Module 5.

The key elements of operational CRM are:

Marketing Automation	***Sales Force Automation***	***Service Automation***
Segmentation	Opportunities/leads	Customer contact ▪ Any customer touch point in the business - call centre, web, field etc
Campaign management	Sales pipeline contact	
Event based marketing	Proposal generation	
	Product customisation	

Analytical CRM

Analytical CRM is concerned with exploiting customer data to improve the value and performance of the customer relationship and the business itself (Buttle 2004:9). It is therefore about applying analytical processes to the data the business collects on its customers so that the information will enable improved decision-making, campaign effectiveness and customer-facing productivity. Analytical applications are the systems that are pre-designed, ready-to-install, decision-support applications. They generally require some customisation to suit a business and integrate with its data warehouse (Imhoff et al, 2001). Examples of analytical applications are, risk analysis, database marketing, propensity modelling, data marts etc. Analytical CRM will be dealt with in more detail in Module 4.

Compare Figures 2-1 and 2-2 in the Reading for this Module (McKenzie, 2001) for another perspective of CRM "front office" (operational) and "back office" (analytical) applications.

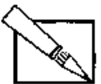
Reflection

Buttle (2004) page 10, asks three questions that drive the analytical CRM function and relate to operation CRM effectiveness. Think of an offer you have received recently from a company, either through direct mail, email etc or a cross-sell attempt from a sales/service representative. Consider the following questions.

How did the company decide to target me with this offer?

Did I perceive a different level of service from other customers?

Do you think the company is directing its sales effort wisely?



Activity

Think of a business you know well. Answer the questions that McKenzie determined were needed for a business to commence the journey of becoming customer centred.

Discovery - Customers

Who are the customers?

What do they want and expect?

What is their value potential?

Dialogue - Relationship

What kind of relationship does the business want?

How does the business want to foster exchange?

How do we share control?

Discipline - Management

Who are we (what is the business identity)?

How does the business organise itself so that it can move value closer to the customer?

How does the business measure and manage performance?

How does the business increase its capacity for change?

1.2 Contexts of CRM

Stakeholders

On pages 27 and 28 Buttle (2004) lists out the 'constituents' of CRM, the payers in the CRM market or ecosystem. Firstly there are the businesses themselves developing, implementing and learning CRM capability. Then there are the customers – either consumers or businesses that are end users of the services and or products of the business. Buttle then describes the various suppliers in the ecosystem such as software providers, hardware and infrastructure sellers, and a wide variety of consultancies.

Consultancies that can be useful vary from those that develop CRM strategy, to those that facilitate the CRM strategy development in a business. Likewise, consultancies can vary in their context from IT architecture development, database construction to programme/project management.

Essentially, there is a consultant willing to take on any role a business can imagine. The challenge for any business is to clearly define the roles, competencies and responsibilities needed to start the journey of CRM, then assess their own business for the skills and then (if financial resources allow) fill the gaps.

In addition to those mentioned by Buttle, we could add the outsourcing businesses. In the last few years outsourcing has lent itself to analytical CRM. In this model a business can supply its data to an outsourcer (or business partner) and they will perform the analytical role for the business. The information is then fed back into the business for decision-making or even for campaign development or deployment to the frontlines. Likewise, outsourced IT systems can also be used. For example, an ASP (application service provider) for the operational CRM functions can be contracted on a monthly basis or for longer terms and even provides customisation. Or a business can purchase its own system and have an IT service provider manage the system (maintenance, development etc).

In summary the stakeholders can be listed as:

- Businesses, developing, implementing CRM capability
- Customers (consumers and businesses)
- Partners of the businesses
- Vendors of CRM software
- Application Service Providers for CRM systems
- Vendors of hardware and infrastructure
- Consultancies
- Outsource service providers

Contexts of CRM

Buttle (2004) on pages 32-33 uses a few examples to place CRM in a business context.

Banks and telecommunications companies are generally regarded as the pioneers of CRM. In the early 1990s these businesses typically had the resources to implement CRM and also had a lot to gain from the effective management of their large customer bases. The business community has learnt important from lessons from these pioneers of CRM.

In addition to the examples provided by Buttle, we should also consider the following illustrations.

- Small-to-medium sized enterprises that use customer based systems to collect information about the businesses they deal with. This can be seem in the form of sales force automation, but particularly in the context of extracting information from sales people about the clients they manage. Typically, this information is not collected centrally and therefore decision-making within the business may be flawed – particularly about specific customers and potentially strategy.

- Sole traders in a variety of industries can benefit from CRM. Consider a businessperson who, as many of these one-person businesses do, manages customer information from memory, uses a diary or notebook to maintain information, follow-up etc. From using a CRM package available at any software outlet, this sole trader could manage more effectively the customer information, manage leads, follow-up contacts etc. The benefits for a sole trader of CRM are a more efficient and effective business with less pressure on the individual.

The principles of CRM can virtually be applied to any business context. As our definition of CRM said, CRM is a business strategy that is enabled by change leadership and technology tools – therefore the principles of benefits from dealing with customers more effectively can be applied universally.

Not-For-Profit Context

Buttle (2004: 33) briefly describes a few uses of CRM in a not-for-profit context, the Case 1.4 is a good example of what many councils or local governments are attempting to do. In addition to the cost reduction benefits, councils, by applying the principles of CRM, can manage ratepayers or residents of the community, rather than focusing on property.

In recent years CRM operational technology has been readily deployed for case based usage. For example, Government departments responsible for the care of foster children can easily use CRM applications to manage the information and history of child growing up in foster homes.

1.3 Customer Centric Strategies

Customer strategies are focused on the customer – not only their needs, but more importantly in terms of offering them solutions, with the aim of developing, long-term, value-based relationships.

In contrast to developing products, then the cost of the product, then adding margin to get a price, then determining the value and taking it to the customer; the customer centred strategy is focused on the problems of the customers, then developing solutions, determining value and taking it to market. Essentially customer strategies turn the process around for many businesses and make the customer (their issues, problems and needs) the heart of the business with the intent of taking customer solutions to market (Foot et al 2001).

The following table describes typical actions that separate customer-centred 'winners' from struggling companies (Whiteley & Hessan 1996).

	Struggling Companies	***Customer-Centred Winners***
Laser-beam focus	Distracted managers and employees seek business opportunities everywhere	Managers and employees focus laser-like on being the best-in-the-world at providing value for well-defined target customers
Hardwiring the Voice of the Customer	Companies invest heavily in the poorly coordinated customer research and take little action on the data	Companies develop clear listening strategies and then hardwire what they learn into the company so employees predictably deliver what customers seek
Universal Collaboration	Fashionable trends like "total quality" have disrupted traditional ways of work, but no consistent, new way of getting things done has emerged	Shared superordinate goals, wise investments in training, and a well-designed infrastructure produce a collaborative way of working that is visible everywhere
Lasting Customer Enthusiasm	Salespeople pressured to maximise orders; service is a "support function" treated as a necessary evil	The company develops a proprietary customer interaction process that is as much a part of what its brand stands for as the core product itself
Contact Leadership	Executives try to reposition their companies by force of their own decisions or "go back to basics" when the basics don't work anymore	Contact leadership emerges as managers come out of their ivory towers to customer work sites and to the places in the organisation where real work gets done

The research conducted by Whiteley and Hessan (1996), identified five tactics that the customer-centred business used to become more successful. The behaviours exhibited by these companies are a good description of the customer-centric attributes for a business.

- The idea of having a "*laser-beam focus*" as opposed to a distracted form of strategy that seeks "growth" or "cost reduction" from anywhere within the business has been proven to be sound. However, businesses that do this with the focus on providing value for the customer, win with their customers. Jim Collins' research published in 'Good to Great', likewise found that businesses that translated understanding into a simple, crystalline concept that guided all their efforts, out performed the market (Collins, 2001:95).
- Businesses that amass *customer information* do not do enough to be effectively competitive. Successful customer-centric businesses get precise information from customers and then actually use that data to shape their strategies, tactics and set priorities (Whiteley & Hassen 1996). Gupta and Lehmann (2005) believe customer's need to viewed as assets, information collected, analysed and action taken to maximise the asset or investment.
- One of the challenges for a business embarking on CRM is the change effort (discussed in more detail in Module 2), including challenging the organisational structure (discussed in Module 6). An effective CRM implementation requires far more *collaboration* and *interdependence* across business units that, perhaps have acted independently or in a silo approach.
- Businesses that focus on the competition will never become effectively successful, nor creative (De Bono, 1992). Therefore, focusing on taking customer satisfaction towards *customer enthusiasm* or advocacy is clearly a successful strategy. What it requires is that companies create breakthroughs in how they interact with customers, making an indelible impression, one that so utterly distinguishes them from others, that it actually becomes part of the brand value itself (Whiteley & Hassen 1996). This is one of the goals of CRM, to change to current level of interaction with customers to something more meaningful and value adding.

Each these initiatives require leadership, which will be discussed in Module 2.

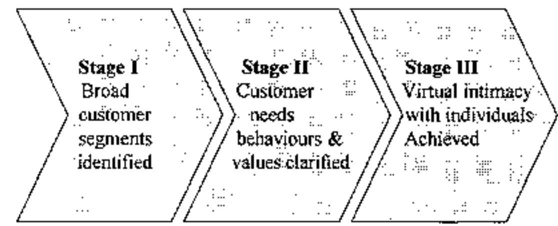
Peppers and Rogers (1999) believe that the process of implementing a CRM strategy or initiative can be thought of as a series of four basic steps: identify, differentiate, interact, and customise. The four steps do overlap and increase in difficulty and complexity.

> ***Identify*** – you need to be able to identify your customer so you can have a relationship with them. It is critical to *know* customers individually, in as much detail as possible.
> ***Differentiate*** your customers, in that they represent different levels of value to the business and they have different needs. The following steps may then be to prioritise the efforts of the business to gain an advantage with the more valuable customers and tailoring the service offerings to meet the needs of the chosen customers.
> ***Interact*** – with customers, but then business will need to continually improve both the cost efficiency and the effectiveness of interactions. Context is an important concept applied here where Peppers and Rogers (1999) believe that each interaction should take place in the context of all previous interactions.
> ***Customise*** some aspect of the business's behaviour toward the customer, to "lock the customer into a learning relationship". That is, treating customers differently, or at least making them feel like they have been treated differently.

Stages of Customer Centricity

Businesses develop skills and competency in customer centricity and their effectiveness in managing customer relationships. Brown (2000) puts this process of development into the following three stages.

Stages of Customer Management



Brown, S.A., 2000

Stage I

In this first stage profitability segmentation and householding for current customers is the primary weapon. The business has not yet developed a refined analyses of customers which has some influence on the product, channel, pricing, retention, cross-selling & service mix offered to the customer base. Generally, the organisation is internally focused and not yet focused on relationships, but rather relationship-transactions as a means to sell more product.

Stage II

In this second stage the business progresses to proactive prospect and customer management enabled by combining profitability and behavioural segmentation and analysis. The customer information is delivered to customer touch points to influence customer activity and workflow management. More often than not, intense internal conflicts erupt due to traditional silo structures being challenged by cross-silo customer management. The definition of CRM earlier, referred to CRM being enabled by change leadership. Effective leadership will reduce the conflict and provide the people within the business with a longer-term vision to aspire to. Buttle (2004:332-7) puts forward a number of structures that relate to the organization of the business. This change to a customer centric structure creates some of the change that can cause conflict among traditional silo-focused product-based structures (we consider change in more detail in Module 2).

Stage III

In this final stage the business has achieved a major transformation of strategies, processes, systems and structures. The analytical processes are now advanced and uses defined information gathered from a variety of sources (including frontline operations) and uses a predictive capability used for customer acquisition and cross-selling. A business in this category gains advantages over competitors. Testing, measuring and retooling of strategy and tactics are automatic; learning is continuous, the traditional organisation is redrawn and IT infrastructure is redesigned.

At this point the business is in a position to achieve the strategic goals of CRM defined by Buttle (2004:332) as;

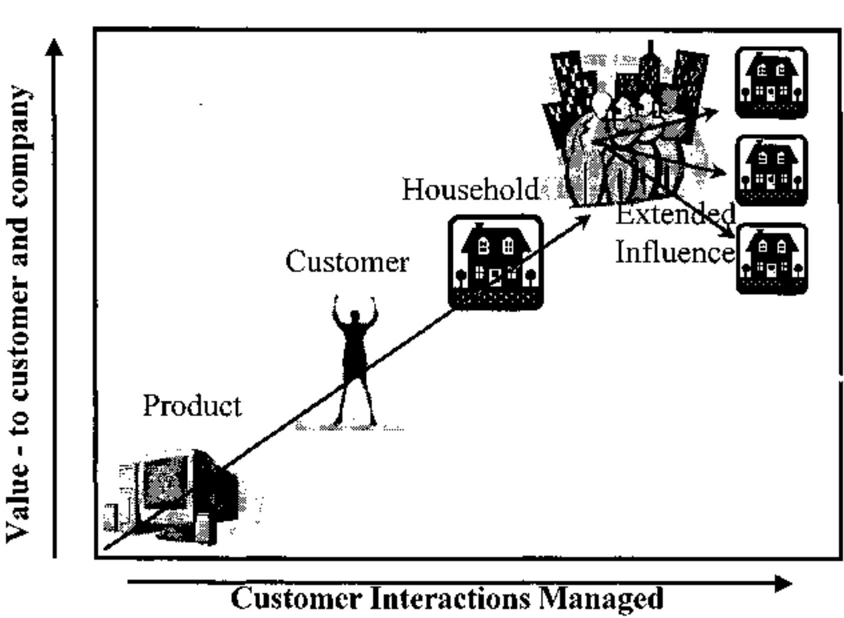
- The acquisition of carefully targeted customers or market segments
- The retention and development of strategically significant customers or market segments
- The continuous development and delivery of competitively superior value propositions to the selected customers.

In the Pursuit of Customers

Buttle (2004) pages 16 to 20 provides reasons why businesses want relationships with customers, as opposed to just selling them products. Relationships with customers (in this context) is essentially about maintaining the person as a customer for longer, so that the customer…

- Repurchases more often
- Becomes and advocate for the products and services
- Stays longer that ensures the whole customer-base grows
- Repurchases, reducing internal business costs
- Profitability increases with each repurchase and the duration of the relationship

We discussed the Banks and telecommunication companies earlier, who were the pioneers of CRM implementations. These businesses found themselves with large customer bases and yet the need to constantly find new customers to reach sales targets. Using the principles of CRM allowed them opportunity to effectively prospect their existing customers, reducing the cost of sales.



The above figure is adapted from Imhoff et al (2001) and attempts to portray the extended value to the business from taking a product relationship, to the customer level, which then can include the household of the customer (and other purchasers or sometimes referred to as a purchasing units) and then the extended influence the household has on other purchasers.

Customer Satisfaction and Loyalty

Customer satisfaction and loyalty have generally been used as early measures to determine the repurchasing or 'stickiness' of a customer. They both share the same goals as CRM – to increase business performance through increasing customer profitability. Customer satisfaction has been used as a measure of the customers' perception of the effectiveness of the service delivery, so businesses feel they have some control over their destiny. However, businesses have found that satisfaction alone is not a good indicator of future purchasing behaviour. Loyalty programmes soon developed as a mechanism to 'lock customers in' to repurchasing from the business.

Buttle (2004), on pages 20 to 26 discusses the development of customer loyalty and business performance. Figure 1.6 (Buttle 2004) shows how customer satisfaction and loyalty can lead to business performance – there is a subtle but important point here. Customer satisfaction and loyalty initiatives *can* lead to improved business performance as part of a programme of work. CRM is that programme of work that is enabled by change leadership and technology tools (Hocknell, 2004).

Figure 1.9 on page 25, Buttle (2004) shows the increasing returns from resources invested in customer satisfaction – CRM pursues the same goal - increases in the value of customer relationships.

Customer loyalty is an expression that is often used and is more complex than it seems or than it is made to seem (Brewer, 2000). Within the phrase customer loyalty there can be:-

- Transactional loyalty – which looks at the customers' buying behaviours and motivations to repurchase. This transactional loyalty can be affected by the level of activity and effectiveness within the business of – cross-selling, up-selling, repeat purchases and persistency or the level of retention within the business.
- Perceptual loyalty – where the attitudes and opinions of the customer are paramount. This has a shortfall in that it does not really predict future behaviour. Within this level of customer perception resides the ideas of satisfaction (with the last transaction or interactions over time) and awareness (how well known is the business within its target market).
- Complex loyalty – where there is a combination of both transactional and perceptual loyalty. Within this category terms such as lifetime value and brand value are used which are often seen as outcomes of customer loyalty (Brewer, 2000).

When we consider the above discussion on customer loyalty, initiatives of this type can be viewed as a pseudo CRM programme. Consider how Griffin (2002) describes the 12 laws of building loyal customers:

1. ***Build loyal staff.*** To have loyal customers you need to create a loyal workforce with low turnover, high employee satisfaction and a belief in the vision of the company.
2. ***Practice the 80/20 rule.*** Essentially the principles of segmentation and the assumption that 80percent of the business value comes from 20percent of customers.

3. ***Know your loyalty stages and ensure your customers are moving through them.*** This law recognises the stages a customer passes through to become a loyal customer and then assesses the sales and service processes of the company to see if they actually move a customer through the stages of loyalty.
4. ***Serve first, sell second.*** The idea is to have a service excellence culture, based on the premise that customers demand and expect the best service before they will repurchase.
5. ***Aggressively seek out customer complaints.*** For most companies only around 10percent of complaints get articulated and often not heard by people within the business that can do something about the issue. Complaints that are not articulated to the business by the customer are far worse in there consequences – such as not purchasing, telling their circle of influence of their poor service experience etc. This law then seeks to make it easy for customers to complain, and then treat the complaints seriously as if a key source of customer information.
6. ***Get and stay responsive.*** Responsiveness is often seen as a key part of the customer's perception of good service. Be responsive to customers to proactively manage their perceptions.
7. ***Know your customer's definition of value.*** How do the customers in the target group experience value – define this, and then deliver it to them, keeping in mind that it will change over time.
8. ***Win back lost customers.*** Winning back lost customers is often overlooked, and yet research indicates that a lost customer may be easier to sell to than new prospects. Likewise the perception of a customer being 'won-back" adds to the perception of value and therefore attributes to loyalty.
9. ***Use multiple channels to serve the same customers well.*** Research suggests that the customers who engage a company through multiple channels exhibit deeper loyalty – as long as they get a consistent, acceptable level of service.
10. ***Give your frontline the skills to perform.*** The points of contact for a customer are critical to the effective delivery of service and development of loyalty, therefore businesses need to invest in the development of the skills of the frontline people.
11. ***Collaborate with your channel partners.*** A company is often dependant on channel partners and suppliers – businesses should embrace these supply chain relationships for the greater good of the ultimate customer and the benefits that flow on (Buttle 2004, actually makes this point one of the primary stages of the CRM value chain, 'creating and managing networks').
12. ***Store your data in one centralised database.*** Most companies lack a 360degree view of the customer; storing customer data in a centralised database will allow the business to collate this information to promote the effective decision-making within the company. (Griffin, 2002)

From this consideration of customer satisfaction and loyalty we can see that the goals, and essentially the concepts, are the same. The goal is to improve business profitability through improving the effectiveness of customer management. The 12 steps above could easily be expanded to seem like a CRM programme. Customer satisfaction and loyalty need to be part of the CRM programme as essential parts of the business strategy.

The Value of Customer Centric Strategies

Customer centric strategies endeavour to put the customer – their needs, problems, values and desires – at the heart of the business. These strategies then transform a typically product centred business into one that has the potential to be far more effective than its competitors through having more profitable customers. The value of customer centric strategies then is in increasing the average profitability of the customers of the business, so that the customer base of the business, as a whole, grows in value from, in summary

- Longer customer tenure
- Increased share of customer spend or wallet
- Increased repurchases
- Higher levels of average customer profitability
- A growing number of profitable customers within the portfolio
- The development of products and services that are needed by customers.

Reflection

Imhoff et al (2001:3-7) suggest that a business can determine its level of CRM accomplishment by asking some, seemingly simple questions. Think of the business you work with now, or a business you know well and try to answer the following questions.

How many customers does the business have?

Is one of these customers more profitable that the other?

How many products does each customer own?

Can the customers contact the business effectively and efficiently?

Does the business measure customer satisfaction or loyalty?

What does it do with these measures?

Does the business cater for different customer requirements when it comes to product or service features, services and fees?

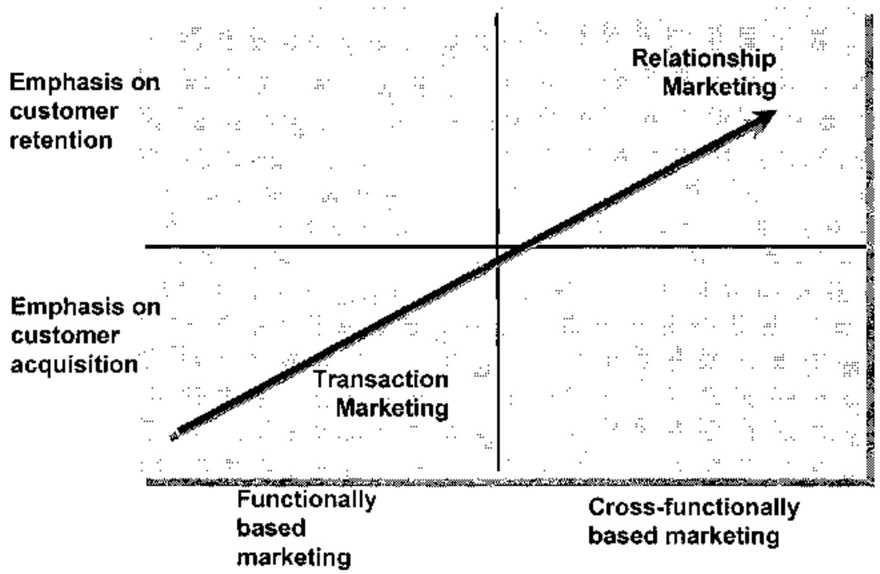
Can the business determine the current level of customer profitability?

Does the business measure the future profit potential for individual customers or purchasing units?

1.4 Relationship Marketing

Relationship marketing has most likely provided the origins of the academic CRM theories. Relationship marketing (as defined by McColl-Kennedy and Kiel, 2000:684) involves the focused selection of specific customers and prospects, and comprises strategies to build and develop long-lasting and profitable relationships with these customers. The marketing aspect of CRM has virtually the same goal, howbeit perhaps on a broader scale.

Relationship marketing heralded the change from the transactional processes of marketing that focused on customer acquisition and product features where customer contact was only at a moderate level and the 'relationship' was only short-term. Relationship marketing, on the other hand, attempted to instil the concept of acquiring customers for the purpose of retaining them for the long term, seeking the to add and obtain value. This can be depicted in the following chart.



McColl-Kennedy & Kiel 2000:684

Batterley (2004) describes the evolution of relationship marketing as coming from the constantly evolving effectiveness of the marketing function. He explains that relationship marketing grew from database marketing, one-to-one and loyalty marketing principles, as more sophisticated marketers recognised that just because a person was a customer, they were not necessarily loyal.

In addition to this Kotler (1997:49-50) further breaks relationship marketing down into the following subsections

	High Margin	Medium Margin	Low Margin
Many Customers	Accountable	Reactive	Basic or reactive
Medium number of Customers	Proactive	Accountable	Reactive
Few Customers	Partnership	Proactive	Accountable

Levels of Relationship Marketing

Kotler, 1997:50

Where he defines the activities of the sales and service people in the following way

Basic marketing – is where the sales person simply sells the product.

Reactive marketing – the sales people sell the product and encourages the customer to call if he or she has any questions, comment, and complaints.

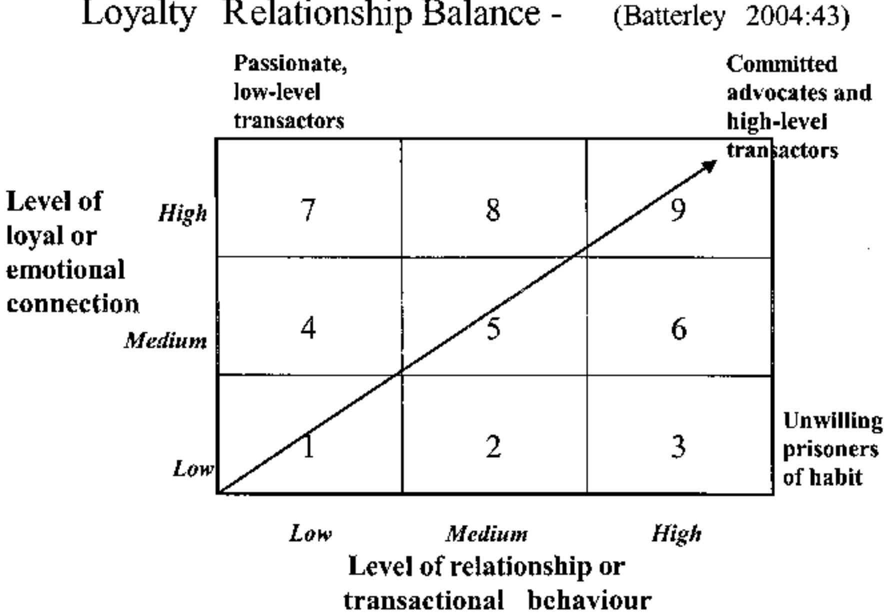
Accountable marketing – The business has processes that ensure the customer is contacted a short time after the sale is made to check if the product is meeting the customer's expectations. The sales people may also ask for product or service enhancement suggestions, or any specific disappointments.

Proactive marketing – The salesperson contacts the customer from time to time with suggestions about improved product uses, or new products that may be useful to the customer.

Partnership marketing – the business works continuously with the customer to discover ways to effect customers saving or help the customer perform better – adding value and depending the relationship.

Batterley, (2004) puts the similar notion in this format.

Loyalty Relationship Balance - (Batterley 2004:43)



Account Management

Buttle (2004) from pages 340 to 346 takes us through the concept and practice of account management and team selling. This marketing tactic is probably the most common example we have to the application of relationship marketing. Account management is often seen as a costly way to deliver service and achieve sales, however, on pages 342 and 343 Buttle (2004), gives examples of the processes a business can put into place to determine the level of account management required to deliver the best result for the business.

Early in 2004 Hewlett Packard Australia (HP) listened to customer feedback and changed its account management practices. Initially HP had account managers representing various divisions of products and services, working with the client-business. This often left the client-business with multiple people from HP calling on them for ideas, services and of course additional sales. HP restructured the sales force, adopting a single point of contact for each client-business customer. This new account manager is a generalist who is supported by various specialists and teams within HP (Kennedy, 2003). This change is an example of the model put forward by Buttle (2004) on page 343, figure 10.6.

Activity

Read the section in Buttle (2004:339-340) “Person-to-person contacts”. In this he puts forward three main patterns of interpersonal contact or relationship marketing. What category would you put the HP example from above...?

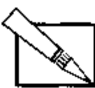
Likewise, from your experience or studies write examples for each of the three main patterns.

1. **Controlled contact pattern.**

Example:

Is this example a conscious decision by the company to interact this way or has it ‘evolved’ over time?

Do you consider this to be the most appropriate way for this business?



2. Co-ordinated contact pattern.

Example:

Is this example a conscious decision by the company to interact this way or has it 'evolved' over time?

Do you consider this to be the most appropriate way for this business?

3. Stratified contact pattern.

Example:

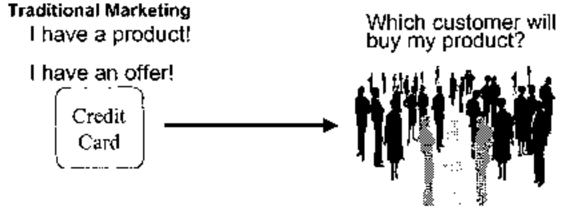
Is this example a conscious decision by the company to interact this way or has it 'evolved' over time?

Do you consider this to be the most appropriate way for this business?

1 to 1 Marketing

One-to-one marketing is also a term that is synonymous with CRM. The concept of one to one marketing was driven by market responses to the broad based marketing efforts that consumers became immune to. The model below gives a banking example where a bank has developed a new product for the market, and now markets it to all customers, on a mass-market approach, in an endeavour to find the customer or customers who want this product.

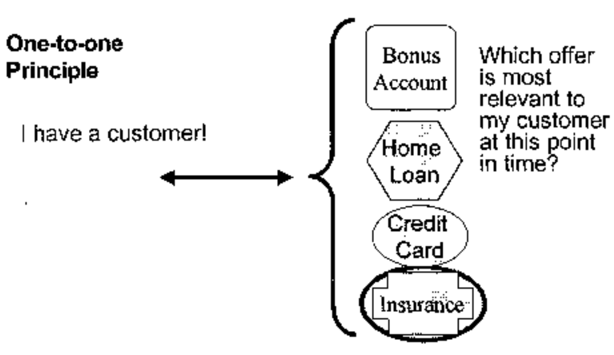
Traditional direct marketing processes are campaign focussed



However, consumers learnt to reject these offers without considering the potential suitability, becoming desensitised to the unsolicited, impersonal offers. Hence the development of One-to-one marketing, an attempt by marketers to personalise the offers, to almost make the consumer feel that the offer was made just for them.

Marketers now have started to look at the individual customer, their attributes, needs and problems. At this individual level (which is actually at a very small segment level), marketers attempted to predict when the customer comes into market for a particular offer or when they will be most receptive to a campaign. This is also called micro marketing, an attempt to focus marketing on ever-smaller groupings of customers (Christopher and Peck, 2003).

One-to-one marketing becomes customer focused



An additional characteristic of one-to-one marketing is the personalisation of offers. By this we mean addressing the direct mail, or campaign offer, to the customer individually (Bichler, 2001). Great examples of this tactic are delivered by the publishers of Time magazine who will send direct mail to individuals, getting their names correct and then making out that this individual is the only one who has had this offer made to them.

CRM has a significant role to play in one-to-one marketing, particularly as an enabler, from three perspectives.

1) By the collection of customer specific information at the frontline
2) Analysis of this data, determining customer propensity to purchase, repurchase and market readiness
3) Delivery of campaigns

Reflection

Have you ever received a piece of direct mail that was personally addressed to you, that seemed to arrive at a time when you wanted or were thinking about a particular need?

- What sort of information can a business use to predict your needs?
- Where can a business source this form of information?
- What are the characteristics of the micro-customer-segment you belong to?
- Other than you age and gender – what other type of behavioural information of yours is collected by businesses?

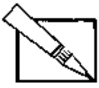
Web

Go to your favourite web search engine and type the words "one-to-one marketing" and "personalisation". Your search should result in a large number of sites, probably organisations that specialise in assisting businesses achieve one-to-one marketing and personalisation in their campaigns. Familiarise yourself with the key functions and benefits they describe. Three websites worth considering are:

www.lexisnexis.com - www.1to1.com and www.butlerandtanner.com

Summary

The market for CRM has grown considerably in the last ten to fifteen years, so much so that it is a measurable market on its own. Concurrently, the understanding of effective CRM practices has grown. These practices have evolved from the principles of relationship marketing and the frustrations that marketers have felt attempting to engage the imagination of the ever-increasing sophistication of the consumer. This module, therefore defined the various concepts within CRM, how they apply to business situations and how businesses can develop customer centric strategies.



Activity
One of the challenges for businesses and organisations implementing CRM is that sometimes, both IT and Marketing claim to have ownership of CRM. Under each heading please write down the top five reasons you think CRM should be 'owned' by each group and answer the questions at the bottom. This will be discussed in the first class.

IT Ownership

1.
2.
3.
4.
5.

Marketing Ownership

1.
2.
3.
4.
5.

Which business group do you think should 'own' CRM?

What are you reasons for this?

Does CRM have to be owned by one group?

How else may this work?

Can you provide an example?

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Module 2: The CRM Value Chain

Introduction

Reading Buttle (2004) Chapters 2 and 6

Resource 2.1 Lee, T. (2004), Cultural Change Agent: Leading Transformational Change,

This module introduces the CRM Value Chain (Buttle, 2004), which is the core concept within the textbook and the main idea for the structure of the book. In this module we will look at value chains in general, the primary and supporting elements of Buttle's CRM Value Chain. Each one of the primary elements will be summarised in this unit and dealt with in more detail in the following manner.

- Creating Value for Customers, Chapter 7 in Module 3, the Business Case
- Chapter 8 and 9 – Managing the Customer Lifecycle in Module 5, Operational CRM
- Chapters 4 and 5 Customer Portfolio Analysis and Intimacy in Module 4, Analytical CRM
- And chapter 10, Organising for CRM in Module 6 CRM Success
- Chapter 6, Creating and Managing Networks is dealt with in this module.

Of the supporting elements of the CRM Value Chain, we will look a little more closely at leadership and culture, as these are two critical elements for the implementation and management of CRM within a business and one that is often underestimated.

Topics

2.1 The Value Chain

2.2 Primary Stages

2.3 Supporting Conditions

2.4 Leadership and Culture

Objectives

To gain an understanding of

1. Value chains and the CRM value chain
2. The primary stages of the CRM value chain and their applicability in the business setting
3. The supporting conditions that need to be present in a business for effective CRM
4. The role of leadership in effective CRM
5. How culture plays a critical role in the realisation of CRM objectives

2.1 The Value Chain

Introduction

According to Viljoen and Dann (2000:267) to establish an efficient and effective organisation it is essential that each component of the business processes in which the organisation is involved can be analysed and assessed. The purpose is to ensure that each part is adding or creating value towards the corporate objectives. If each part is creating value toward the business goals, then the business will have alignment, with each component and part of the process adding value and contributing to business outcomes.

Viljoen and Dann (2000:268) say that value chains are useful because:

- They focus the business on the needs of the end user of the product or service (the customer then defines the value)
- They show how all parts of the organisational activities contribute, or not, to the creation of value for the customer
- It shows that organisational activities and resources can be combined in different ways to create value more effectively
- Value chains demonstrate how value can be created using resources that the business does not own but has influence over

Considering the definition of CRM from Module 1 that, "CRM is a customer-centric business strategy that is enabled by change leadership and technology tools" (Hocknell, 2004), value chains are extremely useful concepts for the analysis of the strategic management within the business. But also because:

- They focus the business on value creation for the customer – the customer centric element of business strategy
- They analyse how each business component contributes to value creation for and from the customer – required for the change leadership element
- They also provide analysis of opportunities where businesses can develop networks and partners to support the business processes of business – for example, technology tools.

Elements of a Value Chain

The elements of the value chain were first introduced by Michael Porter (1979) and have since become a common technique.

Elements of a Value Chain

Viljoen & Dann, 2000:270

The primary activities are those that are the primary functions and processes of the business and here considers skills and resources associated with

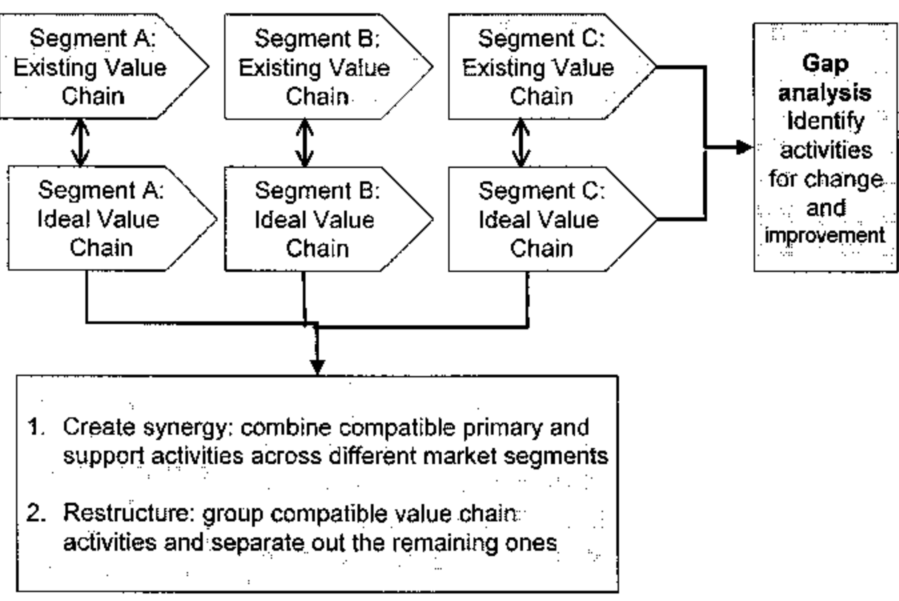
- ***Inbound logistics*** – maximising the value of suppliers
- ***Operations*** – processing inputs to achieve valued products/services
- ***Outbound logistics*** – assembling, storing and distribution
- ***Sales*** – helping the customer buy and become a regular user of the product/service
- ***Service*** – Ensuring the product/service has value through after sales support, warranties etc that aid the customer to use and obtain value from the product/service

Underlying each of these primary functions, are the processes and systems within the business that supports each of the primary activities.

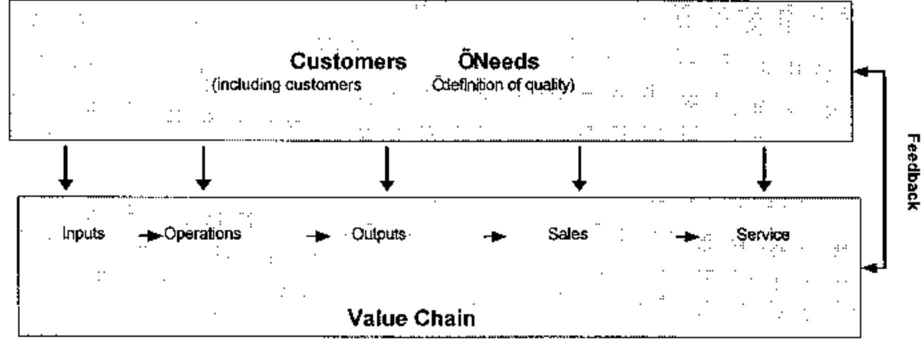
- ***Procurement*** – the process of obtaining resources for the primary activities
- ***Technology development*** – assesses the effectiveness of the technology in the business and how each primary function is supported by technology
- ***Human resources*** – considers the efficiency of the business to get skilled people in the right roles needed for each primary activity
- ***Systems*** – ensuring that efficient and effective information, reporting, planning and control systems are in place for each primary activity
- ***Marketing*** – measures the relevance of the products/service offering and the customer perception of value - has to do with the effectiveness of product, pricing, promotion and distribution. Value chain analysis is also useful for dealing with different market segments, as each market segment should have

its own value analysis. An organisation that creates multiple value chains for multiple market segments can identify commonalities and differences between each value chain and then can; (1) Amalgamate value chains for similar segments, or where primary or support functions are compatible, and (2) Separate value chains out that do not have common functions and treat them as a separate business function.

Market Segmentation and Value Chain Analysis (Viljoen & Dann 2000:276)



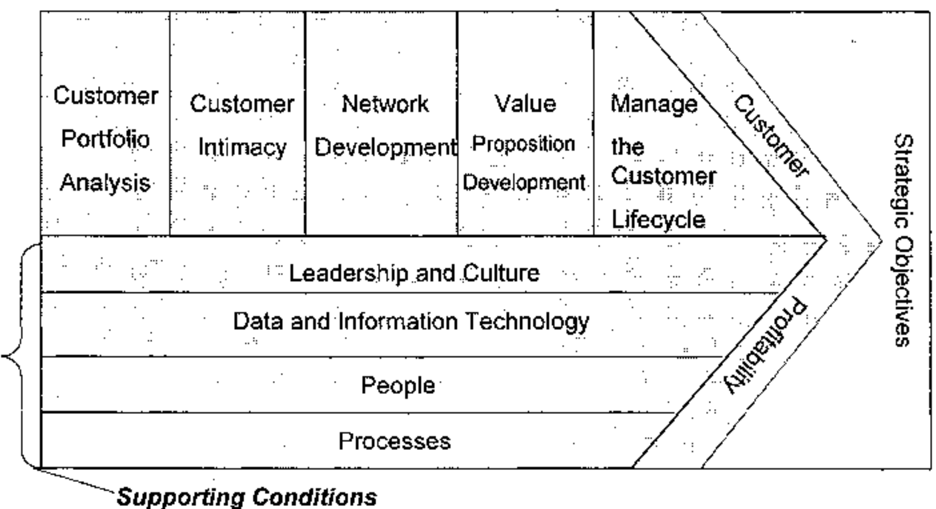
The value chain therefore can be easily applied to CRM, to assess the effectiveness of the business customer-centricity and the alignment of resources through the value chain and within the business. Once the value chain is created around the value to the customer, a business can align its resources to meet the valued-needs of the customer.



Adapted from Viljoen & Dann , 2000:277

The CRM Value Chain

Reading Buttle (2004) Chapter 2



Buttle, 2004

The key driver for businesses to undertake CRM is to increase profitability. This is achieved through an increase in profitability of each customer relationship. This can be achieved through either reducing costs or increasing revenue. However, effective businesses efficiently align the resources and learn to grow the profitability of customer relationships by doing both, reducing cost and increasing revenues (Buttle 2004:39-40).

The three sequential stages of developing CRM strategic capability are:

1) Analysis
2) Resource development
3) Implementation

The five primary stages of the CRM value chain follow this sequential development, but must be seen as iterative as CRM will never, in a sense be complete. That is a business can implement CRM and from that point on can continue to reform, finetune and learn improved CRM capability (Hocknell, 2004; Buttle 2004:40-41).

2.2 The Primary Stages

Customer Portfolio Analysis

This is described by Buttle (2004) on page 40 as the components of CRM that involve the analysis of the actual and potential customer base to identify customers you want to serve. That is, a business must articulate and define what the relationship it determines to have with its customer. This primary stage is part of the analysis stage of CRM strategy development and is dealt with in more detail in Module 4.

Customer Intimacy

This second stage is also part of the analysis stage and is core to CRM as the business must not only get to know its customers, but also understand their needs, preferences, wants, desires, not only now but must learn to predict the customer requirements (Buttle 2004:41). We will look at this stage in more detail in Module 4.

Network Development

Textbook Buttle (2004) chapter 6, pages 172 to 224

This third primary stage of the CRM value chain acknowledges the dependence a business has on its network or array of suppliers, partners, investors and employees.

The concept of a network is similar to that of a business array (Mills, 2001). The array can be seen as a value-creating strategy that includes suppliers, partners, investors and employees that contribute to the development and delivery of a product and service. However, arrays can also be seen can also be seen as those businesses that are also working in the same general direction, whilst competing in some respects, they often work together or in parallel. For example the founder of Nudie Fruit Juices recently commented that the fresh juice bars that have recently appeared on the retail market, could be seen as competitors to Nudie Fruit Juices. However, they are in fact increasing the consumer awareness of the new product lines, and therefore are increasing the size of the market they share (www.nudie.com.au).

Buttle (2004) defines the various players in the networks on pages 173 to 180. Mills (2001:85) adds value to this discussion where he states

> *"The major corporation in the next decade will spread risk and reduce its required capital base by choosing key value positions in different geographic and product/service markets and outsourcing everything else, either formally to subcontractors or informally to other firms in the business lattice (defined as the next generation global network).*
>
> *"A firm usually plays one of three major roles in a lattice:*
>
> - *The **initiator** supports lattice activities with strategic insight or the bulk of resources or both*
> - *A **player** contributes significant resources, but typically does not participate in formulating strategic intent or drawing the value-map*
> - *A **member** contributes limited resources and performs just one or two lattice activities."*

In a similar way Buttle (2004:177) talks about relationships existing between businesses because at least one party performs activities for the other, and the mnemonic BRA – Bonds, Resources and Activities.

A good example of a network/array or lattice is figure 6.6 on page 180. The partners for a business developing and implementing CRM can be:-

CRM Implementation Network

Consultants
Infrastructure Vendors
Prospects, Customers and Clients
System Integrators
CRM Software Vendors
Process Re-engineers
Data Analytics

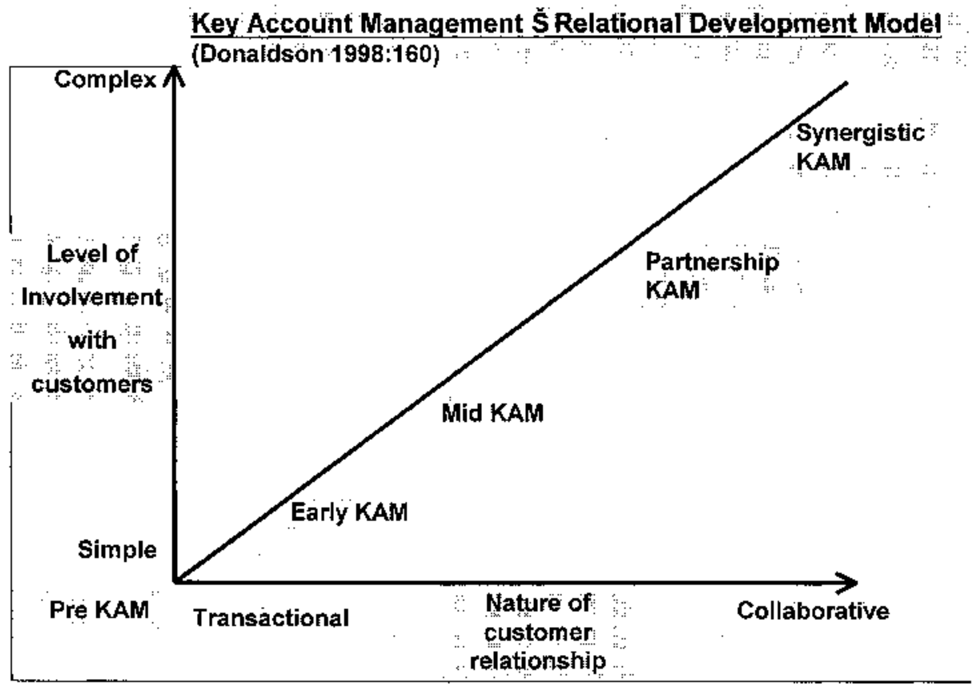
Even after an implementation it is common for a CRM enabled business to use outsourced services, for example, an Application Service Provider (ASP), analytical services, supply of supplementary customer data, business continuity services, software application operational support for development and maintenance.

Buttle (2004:182-3) puts forward three lessons of network management for CRM being;

- Identify network requirements that create and deliver value to the customer
- Acquire network expertise; evaluates the current capability of the network and establishes the network members required. This may be because the business does not have the competency itself, or because the business wishes to remain focused on its core business and uses the expertise of a service provider. Another model can be to create a subsidiary to provide the service, or a joint venture with others in the market. For example the motoring associations of Australia (NRMA, RACV etc) created a business that provides accommodation and tourism information services for the motoring associations and supplies them to their customers (www.aaatourism.com.au).
- Manage network performance. Performance management is critical is all aspects of business. Service level agreements and contracts can effectively be used to support the understanding and management of the relationships.

  The principles of key account management (KAM) can be useful in understanding the type of relationship that should be in place. KAM looks at the level of interaction with the customers, or in this case the businesses within the network. If the transactions are simple, then the relationships can be monitored with contracts and agreements. However if the involvement with the customers is more complex, performance agreements and contracts

may limit innovation. The other axis considers the nature of the relationship between the businesses, is it transactional or collaborative? Given these factors the relationship can develop to be simply transactional, or synergistic, that is where two or more organisations, produce a greater result than the sum of their individual effects or capabilities, which is really the objective of networks.



With pages 184-200 Buttle (2004) takes us through the nature of supplier relationships, from page 201 to the end of the chapter he discusses partner relationships.

Activity

What are the characteristics of a supplier?

What are the characteristics of a partner?

How does a business differentiate between suppliers and partners?

Activity

Think on the business you work with now, or one you know well.

List off the key suppliers/partners of the business, their service or function and type of relationship (synergistic, partnership, low-end partnership or transactional).

Supplier or Partner	Service or Function in the network	Nature of relationship

1) How do the synergistic relationships combine to add value to the network and more importantly, to the end customer?

2) How are the transactional relationships controlled?

   - How is quality managed?
   - Does the service get tendered regularly?
   - How often are the contracts renewed?

Web

Using your favourite search engine type SCM (supply chain management) and then PRM (partner relationship management). Review the benefits to business suggested by vendors of these services.

2.2 The Primary Stages (continued)

Value Proposition Development

In Module 3 we will consider this concept in more detail, essentially this primary stage of Buttle's value chain stresses the importance of creating value for the customer. Customer value can be achieved from products, service, processes, the people of the business, communications, channels, and the experience or the physical attributes of the company that communicates with the customer. We look at this chapter in Module 3 as a prelude to looking at how the business gains value and competitive advantage from the customer in the business case.

Manage the Customer Lifecycle

This important stage of the value chain is considered in Module 5 under Operational CRM, as the core functions of managing the customer lifecycle (acquiring and retaining customers) are operational in their business function. That is, how the sales force interacts with the customer, how the business communicates and deploys campaigns.

2.3 Supporting Conditions

Textbook Buttle (2004) chapter 2, pages 42 to 56

The four supporting conditions of the CRM value chain have a significant influence on the implementation and effectiveness of each of the five primary stages. The implementation and ongoing development of the primary stages of CRM development rely heavily on,

- The leadership within the business
- The organisational culture, its readiness for change and the level of customer focus the people have
- The effective usage of quality customer data and information technology tools
- The people of the business – their level of tenacity and persistence to achieve customer centricity
- Processes are the way things get done by the company (Buttle 2004:51); the efficiency of the processes either supports or inhibits CRM.

Data and Information Technology

Buttle devotes chapter 3 of the textbook to information technology for CRM and we will consider analytical and operational CRM technology tools in Modules 4 and 5.

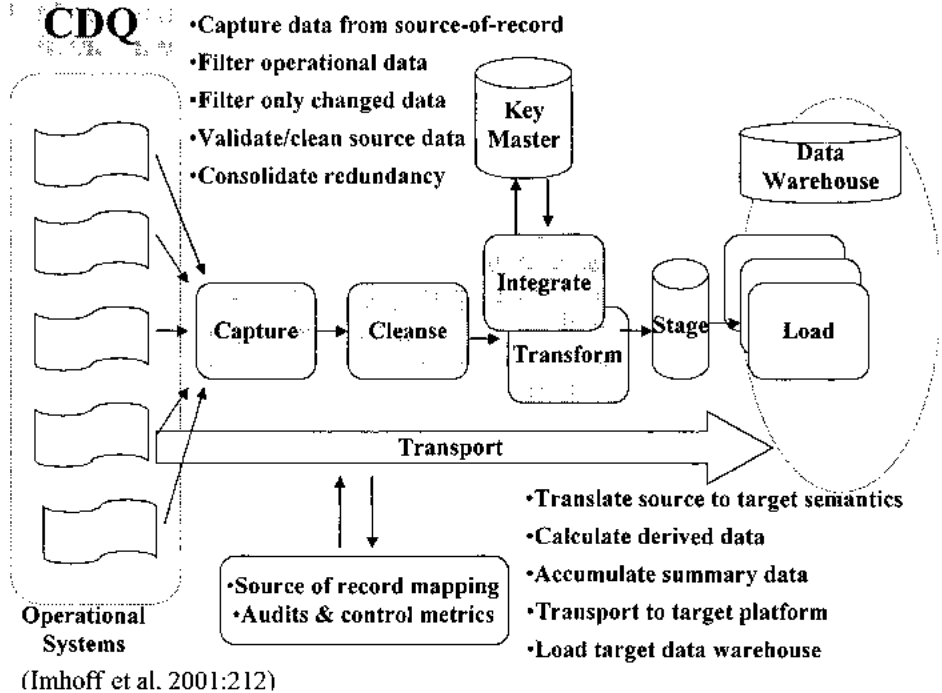
Customer data is critical to the effectiveness of the CRM programme and ongoing development of CRM capability. Buttle (2004:47-50) articulates the importance of data to all the primary stages of the CRM value chain.

Many businesses have multiple sources of customer data collection, at some point in the business this information needs to be collated, so a single view or picture of the customer can be achieved. Where this occurs, should be defined in the CRM strategy. For example, many banks attempted to get a single customer view to the frontline people. This, single customer view, at an operational level provides information to customer service and sales people, so the interactions with customers has the potential to be more meaningful. At an operational level the customer data needs to be accurate to ensure a high level of communication efficiency. At worst, a business must achieve at single view of the customer at the analytical level to enable the business to make effective decisions about the types of relationships that are most profitable, customer lifetime value and campaign development – getting the right offer to the right customer at the right time.

Customer Data Quality (CDQ)

As part of the CRM strategy a business should develop a supporting programme that looks at establishing

1) Standards within the business for CDQ
2) Key initiatives for cleansing current data
3) Initiatives to improve the level of data maintained by the business
4) Action plan to implement the initiatives



(Imhoff et al. 2001:212)

Sustainable Identifiers

Effective CRM programmes attack the CDQ issues early and the business recognises that CDQ is an ongoing piece of work that needs to be institutionalised in the business. The CDQ programme then needs to either create a single customer identifier, or determine which source of customer data will be the master. Imhoff et al (2001:208) make the following comments about the customer identifiers.

- Must be unique over the scope of integration, two customers cannot have the same identifier.
- The identifier must be unique by design not by circumstance.
- The identifier must be persistent over time and in a manageable format. Firstly, because the intent is to keep the customers for a long time and secondly, the work of establishing identifiers needs to last, potentially for the lifetime of the business.
- The identifier should not carry any intelligence. For example, if a customer resided in Shanghai, China, the idea might be to create an identifier that starts with the country (or region) C, then the city, S and then a number for the individual (eg, CS321654). What happens if the customer could moves to Hong Kong? The identifier needs to be unique to the customer and remains with the customer.

Data Capture

The first step is to extract the appropriate data elements from each operational source at the right time without impacting the performance of the system being extracted. Typically there are two common issues. Firstly, that the data is only partially captured, and secondly that the fields in the operational systems are used for multiple purposes or the fields are not formatted (Imhoff et al, 2001:213-214).

Data Cleansing

Data cleansing is a process that cleans and validates (as much as is possible) the customer data coming from operational sources. Once the data is extracted, it needs to be authenticated and the appropriateness of the data confirmed. This can include data hygiene processes, error detection, correction processing etc. The data cleansing initiatives for CRM are always extremely complex and need commitment from an organisation that will (typically) loose interest in CDQ (Imhoff et al, 2001:213-220).

Data Integration

Integration is the process that brings together the various pieces of cleansed customer data together to create a cohesive view of the customer. These processes can be called scrubbing and matching, but are in fact an involved set of algorithms, equations and rules that ensure the organised, functional grouping of information (Imhoff et al, 2001:221-222).

Data Transformation

Cleansed and integrated data is then converted into a standard format for the central customer database or information system. For example, reference data, date fields and measurements are converted to the enterprise standard. The transformation process is also accountable for creating record level summaries such as monthly, weekly, daily totals, balances, revenues etc.

Web

Using your favourite search engine search for these companies: Innovative Systems, i.d.centric or Trillium. Likewise, look up www.hopewiser.com or Quick Address in Australia. These businesses all provide services that assist organisations cleanse their data, improve data capture and achieve higher levels of customer data quality.

People

People are the third supporting condition in Buttle's (2004:50-51) CRM value chain. People fill the various roles that are needed to complete the CRM process, they are the decision makers and ultimately are the benefactors, either as customers or shareholders.

Processes

Processes (Buttle 2004:51-55) are the way a business gets things done. Buttle (2004:52) describes the various classifications of processes, such as *Vertical*, *Horizontal*, *Front-office*, *Back-office*, *Primary* and *Secondary*. Much of the work on the CRM initiative will be to map the existing processes of the business and compare them with the ideal processes that create value for the customer. The gap is essentially the scope of work for the CRM programme.

2.4 Leadership and Culture

Buttle (2004:43-45) puts leadership as the first of the supporting conditions for effective CRM strategic development and implementation. Effective leadership is clearly one of the key differentiators between CRM implementations that go well and those that don't. Very early in the history of CRM, the deployments were left to the technology departments who developed and implemented the technology as best they could, but without the long-term commitment and support from the business leaders the implementation was ultimately doomed to be classified as a CRM failure. In this section we add to the discussion on leadership and consider the effective leadership for the successful development of strategic CRM, and then the deployment of operational and analytical CRM.

Leadership

Most, if not all CRM initiatives require a form of transformational leadership; this is primarily due to the fact that most businesses are centred on the products or services they have developed, rather than the customer. Therefore, the business needs a transformational leader to take the business from its current state - product focused - to its new state - customer centred.

Transformational Leadership

The theory of transformational leadership (Hughes et al, 1999:291-292) says that these leaders serve to change the status quo by appealing to followers' values and their sense of higher purpose. Transformational leaders articulate the problems with the current state and define a compelling vision of what a new state could bring for all stakeholders. This is precisely the role of the CEO and executive management in developing customer-centric strategies. The executive management team need to be solidly behind CRM because the return-on-investment will come in years, not months and the long-term commitment to CRM of the management team is essential. As the ultimate leader, the CEO needs to define the vision of the new customer-centric business, articulating the problems with the current state, and ensure that the management team are focused on the implementation of CRM – this action creates the clear perception that there is a need for change.

Sometimes transformational leadership is described as a moral exercise, that it serves to raise the standard of human conduct. This also applies to effective leadership under CRM, as the leader needs to engage an emotional reaction in the employees to ensure that there is momentum to create a transformed business. Likewise, transformational leaders are adept at reframing issues so they are aligned with the leader's vision and the followers' values, which teaches the employees how to become leaders within their areas of influence, therefore becoming change agents within the business. In this sense transformational leaders are charismatic (Hughes et al, 1999).

In his study of successful business transformations in the late 1990's Jim Collins (2001) and his research team developed the concept Level 5 Leadership. The idea was based on the characteristics of the transformational leaders that were able to produce, long-term, better-than-market business performance.

(Collins, 2001)

	Level 5 Executive
Level 5	Builds enduring greatness through a paradoxical blend of personal humility and professional will.
	Effective Leader
Level 4	Catalyzes commitment to & vigorous pursuit of a clear & compelling vision, stimulating higher performance standards.
	Competent Manager
Level 3	Organises people & resources toward the effective & efficient pursuit of predetermined objectives
	Contributing Team Manager
Level 2	Contributes individual capabilities to the achievement of the group objectives & works effectively with others in a group setting.
Level 1	**Highly Capable Individual**
	Makes productive contributions through talent, knowledge,skills and good work habits.

Collins' Description of Level 5 Leaders	*Effective CRM Leadership Functions*
Level 5 leaders channel their ego needs away from themselves and into the larger goal of building a great company.	The CRM vision will (in most cases) outlive the tenure of the CEO, and therefore the focus must be on the enduring needs of the business, rather than the individual glory of the leader.
Level 5 leaders combine humility and will. They have an ambition for the company and set successors up for success.	Due to the average tenure of a CEO and the long-term nature of CRM, the effective leaders need to establish successors within the business.
Level 5 leaders have an unwavering, almost ferocious resolve and quiet determination to do what must be done to make the company great. They set the standard of building an enduring company and will settle for nothing less.	A determined resolve is needed to overcome the short-term hurdles and *urgent* issues that arise to deliver on the long-term benefits of customer-centricity. The resolve is not loud and effusive, but with quiet determination.
Level 5 leaders look out the window to apportion credit to factors outside themselves when things go well. At the same time, they look into the mirror to apportion responsibility, never blaming bad luck when things go poorly.	Blame destroys creativity and innovation, while personal responsibility builds an effective culture. CRM is a business strategy as unique as each business. A creative, innovative, iterative approach is needed to gain operational and analytical efficiencies.

(Collins, 2001:20-39)

Displaying Level 5 behaviours will assist a leader implementing CRM to address the leadership issues raised by Buttle (2004:43-44):

- Leadership decides whether CRM is focused on strategic, operational or analytical goals, and when each one needs to be played out
- CRM can be expensive to implement, therefore the long-term view of leadership is required, not the shorter term view of the egocentric leader
- Prioritisation of the CRM programme can be done within a framework that delivers long-term results to the business
- Leadership provides the oversight of scheduling and requires resolve and persistence to achieve an effective outcome

Leadership breaks down the functional silo walls, when the executive management is selfless and focused on creating a great, sustainable business, functional silos disappear.

Culture

Buttle (2004:45) provides a definition of organisational culture and this can be supplemented by the following definitions.

> "*Culture is the learned and shared ways of thinking and doing found among members of a society (or organisation)*" (Wood et al 1998)
> Or
> "*Culture is what is created from the messages that are received about how people are expected to behave in the organisation*" (Taylor, 2004)

Culture can be more easily understood by dissecting it as per the model to the right. This model portrays that the behaviours (artefacts) of the people in the company (and their manifestations) are attributable to the values and assumptions that lie below the surface of behaviours. This concept supports the ideas from the definitions of culture being learned and shared ways of doing things, and that the culture is created from the messages (verbal, non-verbal or behavioural) that are received by the people in the company.

The Iceberg of Culture (adapted from Wood et al, 1998)

Cultural assessment, and the behaviour patterns of the people in the company, is a key part of the transformational change needed for CRM to take hold within the business. To understand the current status of the existing business culture is important and needs to be mapped against an estimate of the culture needed to achieve CRM success, emulating the new behaviours needed to create a truly customer-centric business.

Resource 2.1 Lee, T. (2004), Cultural Change Agent: Leading Transformational Change,

Change

In the above reading Lee (2004) makes the definitive links between leadership, culture and change. He says in the introduction that "*transformational change begins with transforming the mind-sets of managers*" and this is the role of the executive management team or CEO, to create a vision and set of values that will drive the business towards customer-centricity. CRM transformations require this form of change and to institutionalise the change, it must be led (or at worst supported) by the entire management team and a group of empowered change agents throughout the business. As John Kotter (and Cohen, 2002) puts it, "the number one problem in all stages of a change effort is changing the behaviour of individual managers and employees".

One of the points made is that a strong culture built around shared values will guide the people in the business towards creating value and energises the people to go the 'extra mile' when needed (Lee, 2004:42). Referring to research on page 45, Lee (2004) points out four traits of the best performing organisations – these traits are critical for the business undergoing CRM driven change.

- Mission – the new customer-centric vision must engage all within the business and be relevant for the customer
- Consistency – relates to employee satisfaction and also being in the change for the long-term (as CRM is a long-term initiative)
- Involvement and adaptability – correlate with innovation and market growth, both are needed for CRM as the process of gaining CRM effectiveness is iterative and needs involvement from all employees and relies on the adaptability of the business.

Similarly to the effects of transformational leadership, the leader has the levers to utilise, that of strategy (and execution) and culture, building commitment from the people of the business to deliver value to the customer (Lee, 2004:46-51). The leader that leads the successful change effort facilitates the people so they see, feel and then change (Kotter and Cohen, 2002).

To gain an effective change of peoples' mindset and behaviour, there are said to be four conditions (Lawson and Price, 2003).

1) ***A purpose to believe in*** – if people believe in a company's overall purpose, they will change their individual behaviour to serve that purpose
2) ***Reinforcement systems*** – the systems that guide an employees behaviour need to be updated to reflect the new direction of the business, so that these systems reinforce the behaviours that will institutionalise the change
3) ***The skills required for the change*** – a business needs to invest in its people to ensure they have the skills needed to perform the new behaviours competently
4) ***Consistent role models*** – the role models in the business must accept their role to model the new behaviours, language and values that are critical to the adoption of new behaviours in the people of the business.

Finally, Kotter's (1996) eight step process of change is applied to the CRM programme.

Kotter's 8-Step Process of Change (1996)	***CRM Change Examples***
Establish a sense of urgency	Led by the CEO a sense of urgency needs to be established that can be around the concept of evolving with the customer expectations of value or perishing in a market that will show no mercy.
Create a guiding coalition	The executive management team needs to initially be the guiding coalition so that prioritisation and focus is maintained within the business and programme of work.
Develop a vision and strategy	The customer-centric strategy and vision, needs to be supported by a high level plan of how it will be achieved and when.
Communicate the change vision	The CRM programme will maintain constant communication of the vision, strategy and plan to ensure employees are constantly being reminded and guided in their day-to-day tasks.
Empower others to act	The guiding coalition will need to create advocates within the business with the ability to act and be agents of change within the business.
Creating short-term wins	Short-term wins need to be found within the CRM programme of work. These may be determining certain customer segments to pursue, increasing cross-sell rates, taking administrative tasks away that no longer add value.
Consolidating gains and producing even more change	CRM will often involve the rollout of technology tools. Often the CRM programme is left to sink-or-swim within a busy environment. Post implementation leadership needs to ensure that the planned benefits from the CRM systems are realised and further benefits gained.
Institutionalising changes in the culture	Post CRM implementation, the employees will observe to see if the changes initiated remain to be driven. Leadership must run the marathon of CRM to institutionalise the changes in behaviour required.

Summary

This module has shown the key elements of the creation of a CRM value chain in an organisation. Our discussion in this module has focused heavily on leadership and change. In the introduction of his book "Good to Great", Jim Collins (2001) describes how the research team that was conducting the analysis on the businesses, kept coming back to the characteristics of the leader as a core differentiator of a "great" business. Collins initially felt that leadership was too soft as a competency for 'great' businesses and pressed the research team to come up with something more concrete. However, their research kept bringing them back to one common factor in each 'great' company was the leader, and from here they developed the principles of Level 5 Leadership. CRM is a customer-centric business strategy and may appear and be applied slightly differently in each business; however, all successful CRM transformations have one common characteristic – effective long-term leadership.

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Module 3: The Business Case and the Benefits

Introduction

Reading Buttle (2004) Chapter 7

Resource 3.1 Gough, C. (2005), *Building a Business Case for CRM,* 451 Consulting, Brisbane

Resource 3.2 O'Hara, G. (2005), *Benefit Realisation Series: parts 1 and 2,* 451Consulting, Brisbane.

This module is essentially about value – firstly how the business creates value for the customer and then the business extracting value from the CRM initiative – or developing customer relationships. How the business gains this value is to plan and execute the CRM initiative exceptionally well. Two tools that will help a business achieve this value are (1) a well-developed business case and then the translation of the benefits within the business case to realised benefits through the (2) implementation of benefit realisation plans.

The creation of a business case for CRM is just about compulsory these days. Early on in the history of CRM technology, businesses took the CRM challenge because it made good strategic sense. Some of these businesses succeeded in their endeavours, some invested more resources than they needed to and are still looking for a return on the investment. To avoid these pitfalls, organisations are well advised to carefully consider their CRM initiative, develop a costs benefit analysis in the form of a business case and then ensure the business case is backed up with a benefits realisation plan to ensure management are accountable for the measurement and delivery of the benefits.

Topics

3.1 Creating Customer Value

3.2 The CRM Business Case

3.3 Benefits Realisation

Objectives

To gain an understanding and working knowledge of

1) How to create customer value within a business context
2) The creation of a convincing CRM business case
3) The fundamentals of CRM economics and business benefits
4) The fundamentals of developing project costing
5) Developing and implementing the organisational tools to support programme management and benefit realisation

3.1 Creating Customer Value

Textbook Buttle (2004) chapter 7

> *"The most valuable asset in any business organization is the strength of its relationships with its customers. . . To win and retain customers requires an understanding of what those customers **value** and a focus on the processes whereby that value can consistently be delivered. . . Hence the challenge is to identify ways in which customer value can be enhanced through marketing strategies that go beyond the traditional focus on brands and images."* (Christopher & Peck, 2003:41)

This is the fourth primary stage of Buttle's (2004) CRM value chain. After describing the four different senses of value (page 228) Buttle states that value for the customer equals Benefits divided by Sacrifices.

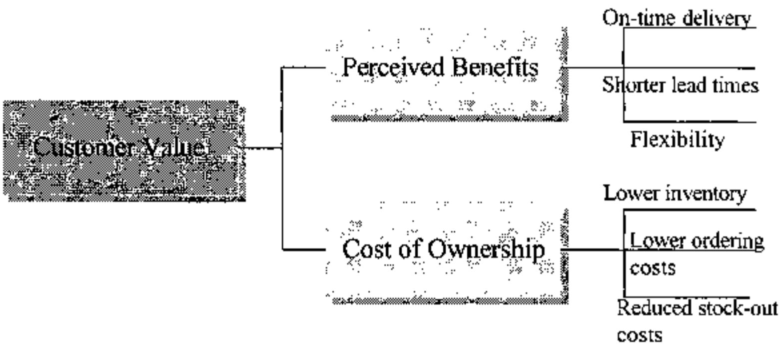
$$\text{Value} = \frac{\text{Benefits}}{\text{Sacrifices}}$$

Sacrifices are then listed as money, search costs, and psychic costs. In a similar way, customer value is created when the perceptions of benefits received from a transaction exceed the total costs of ownership (Christopher & Peck, 2003:43). Or,

$$\text{Customer Value} = \frac{\text{Perceptions of benefits}}{\text{Total costs of ownership}}$$

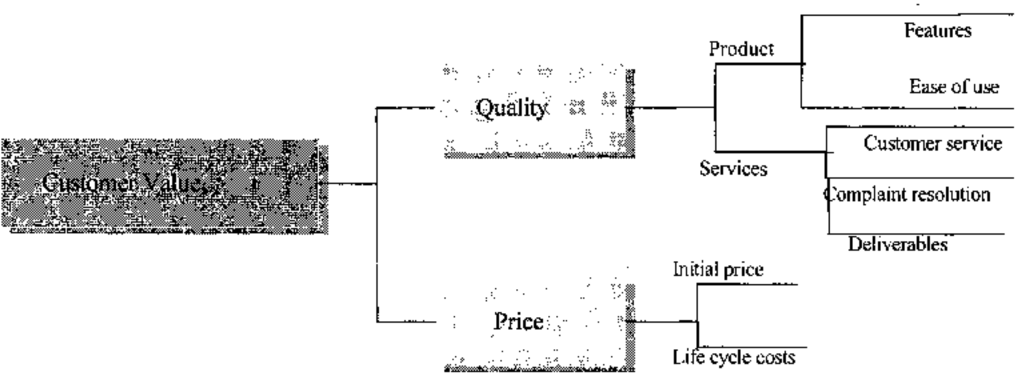
Where the total cost of ownership involves costs or sacrifices such as inventory carrying costs, maintenance costs, running and disposal costs, etc

Within business-to-business (B2B) markets, the model can be described in the following way.



(Adapted from Christopher & Peck, 2003)

With the model above we are considering value from the customer perspective, their perception of value while they weigh up the benefits versus the costs. In a similar way we can look at the business-to-consumer market.



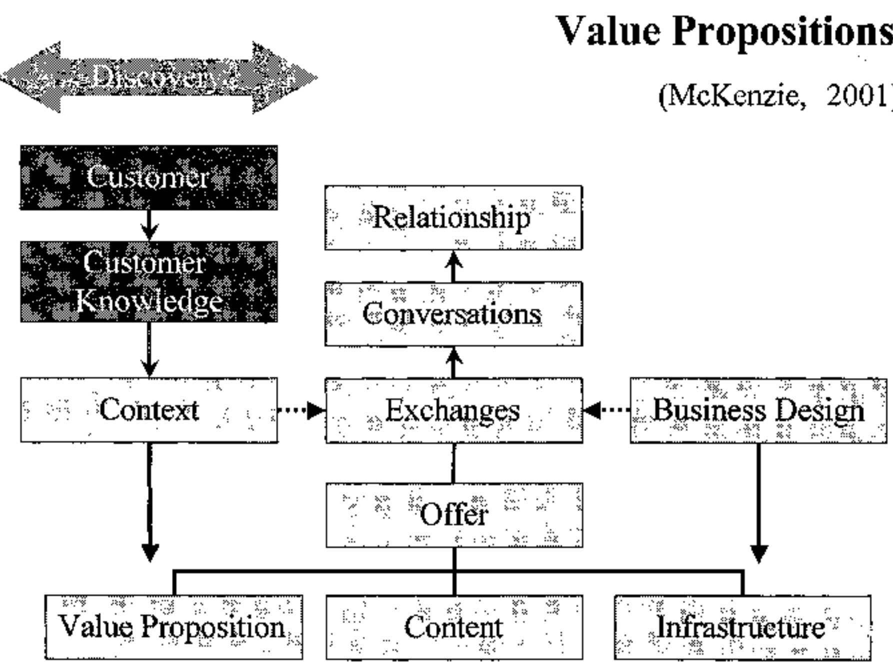
...Where the consumer considers the quality of the product, the service that follows and the benefits this brings, against the price of the product.

> *"Long-term relationships are the basis for enhanced profitability. Such relationships will, however, only exist as long as the customer perceives there to be superior benefit arising from the arrangement."* (Christopher & Peck, 2003:41)

The customer perception of value comes from their perception of the difference of the benefits realised from the products and services against the cost of ownership. In the B2B market, these perceptions are often converted to a business case where the business, objectively assesses the value achieved from the 'purchase' of CRM (for example). We will consider the development of CRM business cases in the next section.

Buttle (2004) in the remainder of the seventh chapter describes how customers obtain value from products, service, processes, people, from physical evidence and communications. It is critical for businesses to gain an understanding of the role these business functions play in delivering value to its customers. McKenzie (2001:132-133) says, "*every conversation with a supplier must deliver value, or there will be no further conversations and no relationship. It is up to the supplier to develop value propositions, embed them in conversations and deliver the promised value.*"

The following diagram takes the model of 'relationships defined' in Module 1 and adds to it the interaction of the customer with the organisation.



Value propositions need to explain what customers define as value, in their own words, and then form the core of what the business delivers through its products, service, processes, people, physical evidence and communications. Customers essentially define value in four ways (McKenzie, 2001:132-135).

- ***Goals*** – customers sometimes define theirs goals, such as "hassle-free business trips". Which means a business supplying business-trips needs to deliver everything from, online booking systems that are easy to use, to SMS text messaging for flight delays, to airport transfers and anything else required to meet that expectation of value for the customer.
- ***Results*** – customers also express their perceptions of value in terms of results. For example a bank that sells mortgages needs to deliver on the settlement of the property so the customer can move into their home.
- ***Experience*** – the perception of value is also dominated by the end-to-end experience the customers have during the delivery of the goals or results. Using the above example, if a bank delivers the result of settling on the property on time, but the customer perceived that the approval process, the documentation for the loan and the haggling of solicitors at the settlement meeting, was a total hassle, then the bank failed to deliver on a trouble free process of selling a mortgage.
- ***Community*** – at times, customers value that the product or service is delivered to a community they belong to. For example, alumni groups often receive 'special' benefits from suppliers. Likewise, some luxury motor vehicle brands, such as Lexus, focus on delivering extra value to owners of their vehicles to reward them for belonging to the unique community of Lexus owners.

For the services market, Buttle (2004:232-233) puts forward the specific issues that marketers face in the delivery of value in this market. And because of their nature, services normally require a greater level of evidence in the areas of quality control, credibility, and adaptability to create the perception of value in the customers mind (Kotler, 1997:443).

For example, Lah et al (2002:232-246), articulate four phases of building professional services capability and these four phases show the development of the customer perception of value in this market.

1. ***Implementation Services***. This is where a product-based company begins offering services as they are pulled by its customers into offering services beyond their basic support services. The value proposition is essentially about offering product expertise and risk reduction.
2. ***Integration Services***. If the first level is met the company migrates to this next level, integration where other critical components are required to provide a customer solution. Some CRM vendors do not develop all the services themselves but partner with other businesses and integrate services together. For example, Onyx operational CRM software uses Cognos reporting tools, integrated into the solution. Beyond product expertise and risk reduction then, the value proposition includes specialisation for products/services that are combined in the service offering.
3. ***Consulting Services***. The first two phases are mostly about technical solutions. The evolution of a value proposition in this arena then needs to include consulting services that are about business solutions and how the technology is used. So the value proposition moves to include the demonstration of business-solution expertise. Almost all CRM vendors provide business-consulting services, either directly or through a partner in their network, to help customers best choose, implement and use the products to their advantage.
4. ***Productised services***. Productising is about treating services as products, the discipline of managing the intellectual property (IP) that makes up the services. This productisation of IP creates a point of leverage for the services provider. For example, CRM vendors will brand their strategy development and project implementation processes to become a product that is sold. The value proposition then, now includes the quantification of the experience gained from previous customer engagements.

Going beyond all this, the successful customer-focused business will do three things exceptionally well (adapted from Zingale & Arndt 2001).

1. Develop an imaginative understanding of the current and future customer needs from each market segment it serves
2. Formulate a superior and profitable value proposition for each market or customer segment
3. Organise themselves into one or more value delivery systems that impeccably fulfils and communicates the propositions to its customers.

3.2 The CRM Business Case

Resource 3.1 Gough, C. (2005) *'Building a Business Case for CRM'*

Within the above reading Gough (2005) states that, '*the business case process provides the seeds for success for any project, and it is a foundation stone in converting strategy into action. We believe the output of this stage is not just words in a business case, but more importantly, it must be a syndicated view by all key stakeholders with emotional commitment*'. This is critically important as research shows that (Anon, 2003) almost 94 percent of businesses are seeking to undertake initiatives aimed at increasing the value of customer relationships, but only 19 percent of organisations have qualified the actual benefits will create for the business. Thorp (1998:21,112) talks about business cases being used to support IT investment decisions and stimulating 'silver bullet thinking' and he prefers to use the term 'value case'. Within the 'value case' he believes the information should be concise, answering critical strategic questions for the business and business focused information about prospective programs of work. He also believes that the 'value case' is to be revisited as the program of work progresses and is used to guide the program and benefits realisation process. We will continue to use the term 'business case', while recognising that in Thorp's terms (1998) is it also a 'value case'.

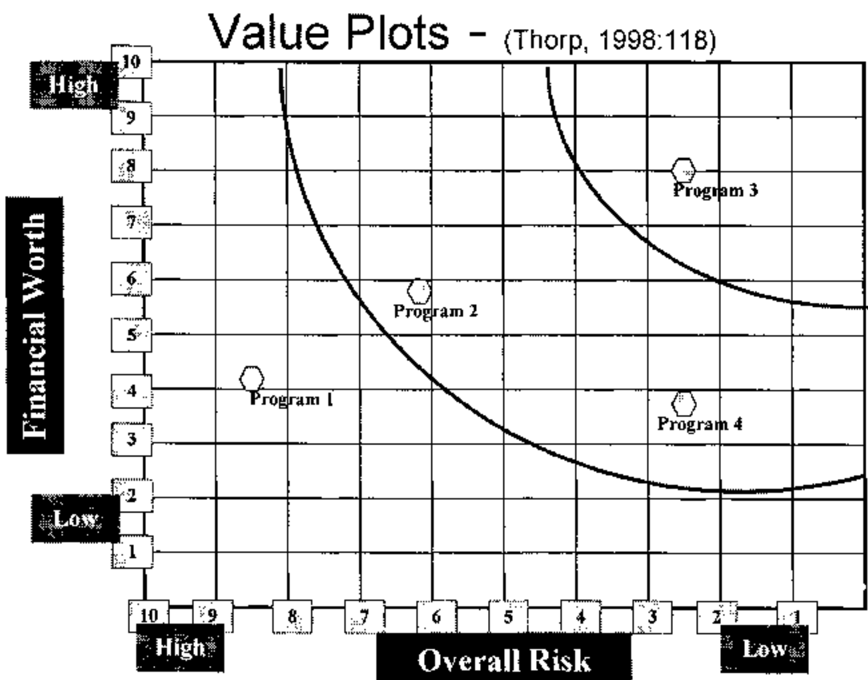
Gartner (Anon, 2004) say that excellent CRM cases give decision-makers all the information they need to prioritise and allocate resources. Additionally the business case should be used to add value throughout the investment life cycle (including benefit realisation covered section 3.3).

	Investment Life Cycle Phase		
	Investment Appraisal	***Project Execution***	***Benefit Harvesting***
Business Case Objective	To get buy-in, approval and funding	Keep project on track	Achieve project payoff
Business Case Role	Inform and convince, develop collective ownership	Baseline reference for scope decisions	Measurement yardstick for auditing
Key Persons and Groups Involved	Executive sponsor, project owner, investment committee	Project management, project steering committee	Business unit management, auditors

Typically the decision-makers will prioritise the competing opportunities for the business resources into the following categories (Lane, 2004).

> ***Priority One – Absolute Must.*** Includes security, legal, regulatory typically anything externally mandated, where the business has little choice. If a business is under tight budget constraints these are the initiatives to be done.
> ***Priority Two – Highly Desired/Business Critical.*** This category includes short-term break-even (less than six-months), significant short-term "return to top or bottom line" (less than six months), and large projects already in progress.
> ***Priority Three – Wanted.*** Valuable projects with longer return term (more than 12 months). Typically these projects get funded only if there is capital or investment funds remaining, and if the strategic and/or financial value is fairly secure. These initiatives often lead to higher priority levels as the initiative progresses.
> ***Priority Four – Nice to Have.*** Given the availability of resources, these projects may have good return prospects, but the return on investment has more intangibles or a higher level of risk.

Thorp (1998:113-114) puts forward a matrix that is designed to consider the overall picture of the initiative, base don Financial Worth and Overall Risk. Financial worth needs to consider the costs of the initial investment, the total cost of ownership and benefits streams using a discounted cash flow method. Risk is a measurement based on the likelihood of delivering on the forecast benefits stream and the probability the initiative will meet the cost and time targets.



Gough (2005) explains that there are three key criteria for the development of an effective business case for CRM

1. Business outcomes are clear - that is, how will the success of the initiative be judged?
2. Scope covers people, process and technology (and is not be driven from a systems perspective) and needs to be defined in terms of business benefits (O'Hara, 2005) and
3. There is a strong 'emotional contract' with the Benefits Guardian(s) in committing to the benefits documented in the business case.

Of course the business case needs to have a structure. Within the following table are the key elements of a CRM business case, as described by Gartner (Anon, 2004).

Business Case Section	***Content Description***
1. Executive Summary	Summarises the opportunity, recommendations and business impact
2. Introduction and background	Sets the scene by tracking the key events leading up to the business case and builds credibility by summarising the due diligence performed
3. Opportunity or problem definition	Describes the opportunity to be seized or problem to be solved in business terms, either linked to business objectives or pain points
4. Recommended solution and alternatives	Recommends a specific solution, and provides the rationale for its selection from the alternatives considered
5. Benefits estimates and assumptions	Presents underlying assumptions, and quantifies major sources and types of expected benefits, how they will be measured and who is responsible for them
6. Cost estimates and assumptions	Quantifies expected costs and the assumptions on which they are based, usually with scenarios for the range of costs
7. Risk factors and mitigation	Quantifies the major risks that could impact project success and provides mitigation strategies for each
8. Financial analysis	Presents the standard financial measures (such as ROI, NPV or IRR) used to evaluate other capital investments
9. Implementation approach and timeline	Provides estimated timing of major tasks and phases, so that financial analyses based on the timing of expenditures and benefits can be completed
10. Appendices	Presents detailed supporting data, such as financial models

Strategic Benefits

Gartner (Anon, 2004) believe that more than 80percent of CRM funding will require more justification than just return on investment calculations. Business justification for investment dollars depends on the degree of risk associated with investing. Where business risks are certain (for example, legal or regulatory) justification is certain. CRM programs can be easier to substantiate if the justification is in areas such as innovation, revenue enhancement, cost avoidance and containment. However, if the justification takes the form of first-mover advantage for example, the benefit will be more difficult to prove.

We can divide the strategic benefits from CRM into two areas, Advantage and Alignment.

Advantage

There are five main classifications of competitive advantage (Boar, 1997).

1. ***Cost advantage*** results in being able to provide products and services at a lower cost than competitors. For CRM this could mean (for example) the delivery of effective campaigns to improve productivity, the improvement of customer retention and therefore customer lifetime value (see Module 4), it could also refer to a more cost effective service delivery channel.
2. ***Value-added advantage*** creates a product or service that offers some highly desired feature of function of the customer. CRM may have some benefits here in terms of generating, through improved customer analytics, more relevant value-adding offers to the customer. The analytics capability may even produce new products or service offerings.
3. ***Focus advantage*** allows a business to more tightly meet the needs of explicit customer groups or segments. This is one of the core benefits from CRM, to clearly define and target profitable customer segments or models of customer relationships.
4. ***Speed advantage*** permits a business to create and deliver products and service customers' needs more quickly than competitors. For CRM, this may translate to improved service through better customer knowledge or the swift delivery of campaigns and relevant offers.
5. ***Manoeuvrability advantage*** permits a business to adapt to changing requirements more quickly than competitors. This form of advantage allows a business to constantly refresh the other types of advantage and is the one advantage that competitors cannot take away. For CRM, this may mean a closer understanding of customer needs so the business can adapt more readily to changing customer needs. It could also relate to the type of technology installed as part of CRM that it gives the business an ability to be more responsive.

Alignment

Alignment refers to the organisational alignment or congruence a program delivers and can be strategic, delivering benefits to a variety of stakeholders. Thorp (1998:113) outlines three main types of alignment a program can bring to the organisation.

1. A contribution to the ***current objectives and priorities*** of the organisation. This could be measured in terms of the positive impacts the CRM programme has on the key measures within the business, the balanced scorecard or other directional goals. These might then be measured in financial terms, cultural measures, customer outcomes or improved processes.
2. A contribution to the ***objectives of a parent company*** or a larger context within which the organisation is operating. This reflects the reality that organisations often need to adjust their plans to align with those of a parent company and therefore a program of work that aligns with a greater purpose should be considered to create alignment.
3. A contribution to the ***achievement of a desired future state*** or business vision. This measure captures the characteristics of transformation programs that are necessary to long-term survival of the organisation. CRM often fits within this category with the CRM goals helping to create or enable some crucial elements of the vision.

Whatever the form of strategic justification the business case takes on, it must consider traditional and emerging value categories that blend tangible and intangible forms of value. This is likely to require, for a CRM business case, strong customer analytical skills to fully evaluate the range of value created through the CRM initiative (Anon, 2004).

Financial Benefits

Imhoff et al (2001:334) put forward the following justifications for CRM technology automation.

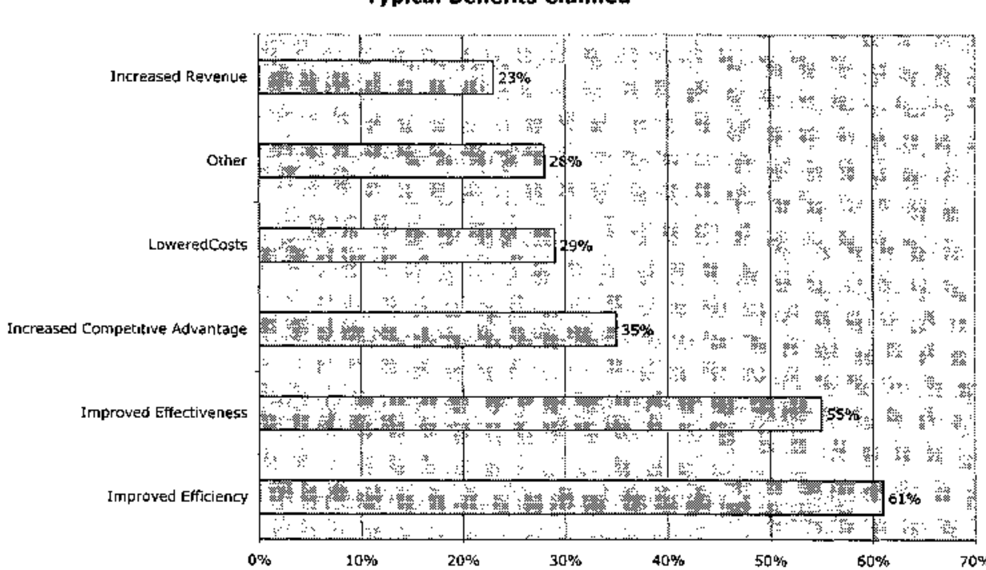
Justification Factor	***Impact***
Increase Customer Satisfaction	Increase Revenue (tenure)
Increase Customer Loyalty/Retention	Increase Revenue (tenure)
Improve Productivity	Decrease Cost
Increase Revenue from Existing Customers	Increase Revenue
Acquire New Customers	Increase Revenue
Develop New Products/Boost Market Share	Increase Revenue
Reduce Transaction Costs	Decrease Cost
Increase Speed to Market	Decrease Cost
Reduce Customer Contact/Support Requirements	Decrease Cost
Reduce Fulfilment/Customer Response Errors	Decrease Costs
Increase Brand Perceptions	Increase Revenue
Displace Costs	Decrease Cost

From this we can see that Imhoff et al (2001) have identified a broad range of outcomes and then allocated an impact of the CRM initiative in terms of either increasing revenue or decreasing costs.

For articulating the financial benefits from a CRM initiative, a business must understand the key concepts that form the foundation of CRM economics (Anon, 2004).

- Total cost of ownership (TCO) provides a holistic view of the costs across the enterprise over time, and includes people, process and technology.
- Benefits are those tangibles or intangibles that promote or enhance the interests of, and/or provide an advantage to the business. Benefits result from identifying various metrics and the degree to which the CRM initiative will impact the metrics. One of the key new metrics needs to be CLV (customer life time value – see Module 4).
- Return on investment (ROI). Simply put is benefits less costs. However, it is possible the most important measure to ensure that the CRM initiative will deliver economic value to the company over time.

As we saw from the earlier table on CRM justifications, the prime financial benefits of a CRM business case justification are (1) improving revenue and (2) reducing costs, resulting in an increase of profitability. These factors will determine the level of benefits and therefore directly impact on the ROI. Gartner research (Anon, 2004) shows the following results during a survey of the typical benefits claimed under CRM business cases.



The following table is heavily adapted from information gathered by The Hewson Group in the UK (Anon, 2003a). The table describes the typical sources of measurable business benefit from CRM initiatives; it is indicative and by no means exhaustive. The benefits are achieved through a measured change in the results being achieved today, to those achieved post the initiative and with some measures growing over the duration of the benefits realisation timeframe.

Revenue Growth

Category	Benefit
Increased Sales through	
	Gaining new customers
	Getting existing customer to purchase more products or services (cross-sell and up-sell)
	Retaining customers for longer periods ensures greater sales
	A one off acceleration of revenue by reducing the number of calls necessary to close a sales (improved strike rates)
Better sales or customer mix	
	Increasing the sales of higher margin products or services
	Targeting higher quality customers to purchase high margin products
	Targeting profitable customer segments
	Targeting relationship development tactics with profitable customers
Customer benefits that (may) lead to improved retention	
	Improved customer complaint handling processes
	Greater focus on the customer – customer needs focus
	Improved response time to requests for information
	Delivered service/product meets customer requirements
	Reduced costs to purchase the product/service
	Reduced costs of using the product/service
	Immediate access to order/delivery status
	Greater breadth of solutions
	More responsive support service

Cost Reductions

Category	Benefit
Customer Contact Centres	
	Automation of various processes, (complaints, service requests, address changes etc)
	Improved call routing
	Improved systems and process improved morale which reduces employee turnover
	Switch customer (by choice) to lower cost channels
	Increased generation
Direct Mail	
	Improved targeting
	Improved response rates through improved analytics
	Reduction of duplicates
	Reduction of returned mail
Direct Response Advertising	
	Improved response due to improved analytics
	Reduced spend to achieve the same volume of leads/sales

Cost Reductions (continued)	
Sales – People & Support	
	Automation of proposals/quotes
	Reviewing customer contact history, notes etc prior to sales calls
	Management of samples, demonstration stock, sales literature
	Saving in the time for sales forecast preparations, call reports
	Providing improved quality of leads
	Increased strike rate (sales divided by number of calls) due to improved analytics, campaigns, activity guidance
	Reduced error rates and rework
	More accurate sales forecasts (resulting in better stock and financial management)
	Improved productivity
Employee Motivation and Loyalty	
	Improved systems, processes and customer focus generally improves motivation and loyalty of the employees, therefore productivity improves
	Perhaps an improvement in sales people motivation will improve sales by x%

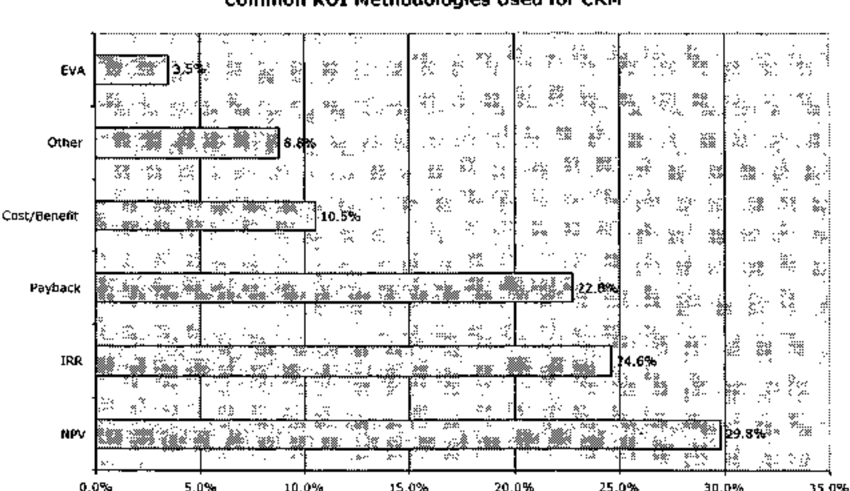
Return on Investment

In addition to justifying CRM based on strategic alignment and/or advantage, and the softer measures such as customer satisfaction, the business needs to use proven financial measurement methodologies to evaluate the potential outcomes from a CRM initiative. The most common, according to Gartner (Anon, 2004), are;

Net Present Value (NPV) – the discounted value of future cash flows minus the present value of the investment.

Payback Period – The investment divided by the average annual cash flows and estimates the period of time taken for the business to retrieve its investment.

Internal Rate of Return – Produces a percentage return of the discounted cash flows; this percentage is then assessed against the cost of capital.



When calculating ROI for a CRM initiative Gartner (Anon, 2004) believe that the most appropriate financial measure is to use one that discounts future cash flows (such as NPV, IRR), and that the business should consider a variety of cost and benefits scenarios. Gartner research (Anon, 2004) shows that some organisations use nominal costs and benefits that do not allow for the opportunity cost of the capital. Also, some organisations use a best-case scenario to predict the financial outcomes of CRM. Because CRM is an iterative process where the organisational competence develops, businesses should be pragmatic in their calculations using a scenario-based approach. The table below provides an example (adapted from Anon, 2004).

ROI Scenario	NPV of revenue	NPV of net earnings	Confidence Level		
			90%	75%	50%
Improve Strike Rate					
1.5%	$2,843,637	$1,137,455	$1,137,455		
2.0%	$3,791,516	$1,516,606		$1,516,606	
3.0%	$5,687,274	$2,274,910			$2,274,910
Increase Renewal					
3%	$571,031	$228,412	$228,412		
5%	$951,718	$380,667		$380,667	
10%	$1,903,436	$761,374			$761,374
Increase Billable Service Calls per Technician					
1.25 calls per week	$4,299,750	$1,719,900	$1,719,900		
1.75 calls per week	$6,019,650	$2,407,860		$2,407,860	
2.5 calls per week	$8,599,500	$3,439,800			$3,439,800

Activity

Select an organisation you are familiar with and, if you do not already know, find out answers to the following questions (probably from a project manager, finance manager or someone similar).

1. Does the organisation use discounted cash flow methods to assess the value of different initiatives?

2. If so, what methodologies do they use and what is the internal hurdle rate (or cost of capital)?
   If not, how does the organisation assess the economic value of various initiatives?

3. Does the organisation use scenario-based models like the one above?

4. If the organisation has a CRM initiative – how was the business case justified?

Costs

All business cases must include a TCO estimate of delivering the initiative so that the business decision-makers can determine if the initiative is worth the investment required. The investment by the business will be in the form of resources.

Resource Type	***Uses and other considerations***
Human resources	Investment in HR for the duration of the initiative Loss of business (people from finance, marketing, sales and service) and IT resources for the duration Competencies and motivation levels the resources bring to the initiative that add degrees of complexity to the initiative Training Loss of productivity during change
Technology	Purchase of software/applications for the CRM initiative Total cost of ownership Drain on existing IT resources to support the initiative Applications and information to support the initiative (customer data, project management software, privacy, security, financial data, email, communications etc) Increased network capacity, line traffic etc
Information	Information resources from the business are critical to the success of the initiative – financial data, customer data and analysis, marketing, sales and service performance information Cooperation with the supply and usage of information is paramount and this brings a cost to the business-as-usual activities
Operational	The CRM team will consume a range of operational resources – work stations, chairs, meeting rooms, computers, stationary, travel, entertainment, communication, supplies etc Working capital – projects are very rarely overfunded - cash flow management

(Adapted from Hartley 2003:)

For the CRM initiative the investment of resources is most likely to come from four areas, (1) Project costs of delivering the CRM initiative, (2) Cost estimates for the associated information technology, and (3) loss of productivity with business-as-usual resources (4) the ongoing costs associated with the CRM initiative. We will consider the first two, the third is potentially a business risk and needs to be assessed by each individual organisation to determine how it copes with any loss of productivity – or more importantly, how the business will prioritise resources and support the initiative. The fourth investment of resources will be solution specific and typically involves costs associated with IT (such as, licenses, increased bandwidth, system maintenance, administration, hardware depreciation, etc) and relates to the concept of TCO discussed in the last section.

Project Costs

Project cost management involves processes required to ensure that the project is completed within an approved budget, so scope of the project and getting the budget approved and allocated is important. The processes include (Schwalbe, 2000:144-145).

Resource planning – determining the resources needed to deliver the project

Cost estimating – developing an estimate of the costs of the resources needed to complete the project

Cost budgeting and control – allocating the overall cost estimate to individual work items to establish a baseline for measuring performance. Then controlling changes to the project budget/baseline, such as revised costs estimates, budget updates, corrective action etc.

Additionally, Schwalbe (2000:150-153) describes three types of cost estimates and four different tools or techniques for cost estimating.

Type of Estimate	***Description***	***When***	***Why***	***Accuracy***
Rough order of magnitude ROM	Provides a rough idea of the overall costs of the project	Very early in the project lifecycle, often 3-5 years before project completion (for large projects)	Provides an estimate of costs for selection decisions	Actual costs could be -25% to +75%
Budgetary	An early budget developed of the project	Early, say 1 to 2 years out	Allows the business to allocate funds	-10% to +25%
Definitive	An accurate estimate of project costs	Later in the project life cycle, say less than 1 year out	Provides details for purchases, budgets, estimates the actual cost	-5% to +10%

Techniques and Tools

Analogous estimates or top-down. Uses the actual cost of a previous, similar project as the basis for estimating the costs of the current project. This is generally an inexpensive way of estimating the cost of a project, however may be less accurate. This method depends on the estimators knowing the analogous projects are more or less expensive than the one being estimated and may not compensate for more complex technology, or cost differences in hardware.

Bottom-up estimating. This method involves estimating individual work items and summing them up to get the project total. This method also depends on the skill of the estimators and the detail contained in the work breakdown structure for the project. Using smaller work breakdown structures increase the accuracy.

Parametric modelling. Uses project characteristics (parameters) in a mathematical model to estimate project costs. This model might use as a parameter, $50 per line of code developed – based on the programming

language, level of expertise of the programmers, size and complexity of the data, etc.

Computerised tools. These can be spreadsheets or project management software, or specialised software for estimating software projects.

Constructive Cost Model (COCOMO). A parametric model for estimating software development costs based on parameters or function points (technology-independent assessments of the functions involved in developing a system). COCOMO II is a computerised version and uses algorithmic models when estimating software projects.

Web

For more information on COCOMO or COCOMO II, a web search on these terms will bring back a variety of websites with resources. The University of Southern California's Centre for Software Engineering provides a range of information on these constructive models (http://sunset.usc.edu/otherSE.html).

Additionally, expert opinions could be sought from those who have done similar implementations previously, consultants and the like. Unfortunately, no one tool delivers a complete or totally accurate cost forecast. When developing a cost estimate it should be fit for the purpose. That is, the estimate has to be appropriate for the stage in the project life cycle, knowledge and expectations of the stakeholders, the accuracy required and the resulting accountabilities from the cost estimate (Hartley, 2003). Lane (2004:308) believes that CIOs (Chief Information Officers) are evaluated on the accuracy of their cost estimates for capital expenditure dollars in projects, with a deviation of plus or minus 10percent being acceptable. So, as cost estimates are developed and refined during the project lifecycle, it is important to ensure that the assumptions and rationale of the cost estimate is fully explained.

Typical Problems with IT Costs Estimates

Schwalbe (2000:153) describes four common problems with cost estimating for IT projects, especially those involving new technologies or software development.

1. An estimate for a large software project is complex and requires significant effort. Often the estimates are done quickly and more often before any detailed requirements have been completed. The ROM estimate before the detailed requirements are completed is always dependant on there being very few 'demons in the detail'.
2. The people who develop software cost estimates often do not have much experience with cost estimation (especially large projects). There is also very little information kept within a business to create analogous estimates.
3. Human beings have a bias towards underestimation. Also, if competent IT people are preparing the estimate they will often determine the costing based on competent resources, not allowing for average productivity. Likewise, on larger projects integration and testing costs are often underestimated.
4. Business leaders may ask for an estimate, but are really looking for a favourable number to support their proposal to gain funding. Project managers developing the estimate need to use their persuasion skills to remain steadfast to the estimate.

3.3 Benefit Realisation

Resource 3.2 O'Hara, G. (2005) *'Benefits Realisation Series, Parts One and Two'*

The challenge for all businesses from CRM implementations is the realisation of benefits. Typically the benefits and results from the business initiative will have a few common challenges (Thorp, 1998).

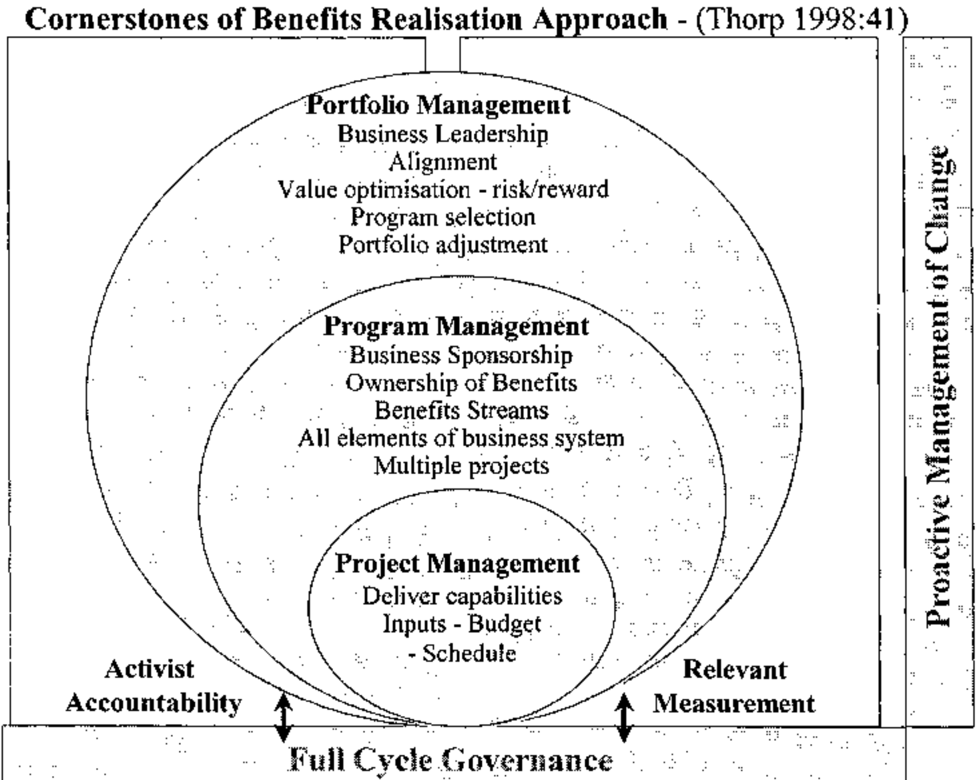
(a) Benefits won't always happen according to the plan and may come from unexpected areas and opportunities
(b) Benefits do not happen by themselves, they need to be managed
(c) Benefits realisation is a continuous process

Project management is today being seen as a critical competency in organisations rather than an overhead. But rather than focusing on delivering a project on-time and on-budget, project delivery should be based on the realisation of benefits (Thomsen-Moore, 2005). O'Hara (2005) concurs and articulates the three reasons that benefits have become so important for business leaders.

1. Benefits have become an issue of good governance
2. The need for businesses to convert strategy into action
3. The need for bankable projects – that is benefits from projects that the business can bank on.

Thorp (1998) describes the benefits realisation process (BRP) with the chart and notes below. He says that the BRP uses traditional project management processes to achieve the benefits, but goes beyond the "design-develop-test-deliver" cycle. The BRP is designed to provide a framework for the proactive management of realising benefits.

Cornerstones of Benefits Realisation Approach - (Thorp 1998:41)



O'Hara (2005) defines benefits realisation as "*the active process designed to increase the 'hit rate' between espoused benefits in a Business Case and those benefits that actually materialise from implementing a project or initiative.*" Thorp (1998) believes that the above model needs to be in place for businesses to have a better chance of delivering on the espoused benefits.

Here is a description of the three fundamentals and three necessary conditions needed as the cornerstones of the BRP (Thorp, 1998:40-46).

Three Fundamentals:

1. A shift from stand-alone IT project management to ***business program management***. Projects are a structured set of activities concerned with delivering a defined capability to the organisation based on an agreed schedule and budget. Programs, however, are structured groupings of projects designed to produce clearly identified business results or other end benefits. Programs are blended business investment programs, including all elements of the business system. This helps overcome the sixth point of failure identified by O'Hara (2005).
2. A shift from 'free-for-all' competition among projects for resources and priority, to a disciplined ***portfolio management*** approach. Portfolios are structured groupings of investment programs selected by management to achieve defined business benefits, whilst meeting clear risk/reward standards. The concept follows that of investment returns, where a business prioritises and blends investment programs, then manages them as a portfolio to produce a stream of benefits.
3. Organisations need to shift from myopic project management to ***full cycle governance*** that is an integrated management system that operationalises the concepts of program and portfolio management. Full cycle governance is distinguished by its long time frame that supports management of the BRP from the conception of projects to the harvesting of the benefits – 'concept to cash'. It is also distinguished by a process of progressive resource commitment in which resources are committed to programs in small increments. How this is done is critical, as O'Hara (2005) warns, these processes may stifle innovation and create bureaucracy.

Three Necessary Conditions

These conditions are necessary for effective BRP, the conditions require organisations to manage and act differently.

1. Full cycle governance makes business managers clearly accountable for delivering business benefits and IT managers accountable for delivering the right tools and technological capabilities. ***Activist accountability*** exists in order to identify business sponsors with active, continuous ownership of investment programs.
2. The development of ***relevant measurement*** systems to monitor the things that count in the BRP and to give people who are accountable the information they need to make decisions and act on them.
3. The third condition is designed specifically to ensure that people think, manage and act differently and therefore ***proactive management of change*** will help people make the transition. Change leadership is needed to introduce the new benefits mind-set and to support all phases of full cycle governance.

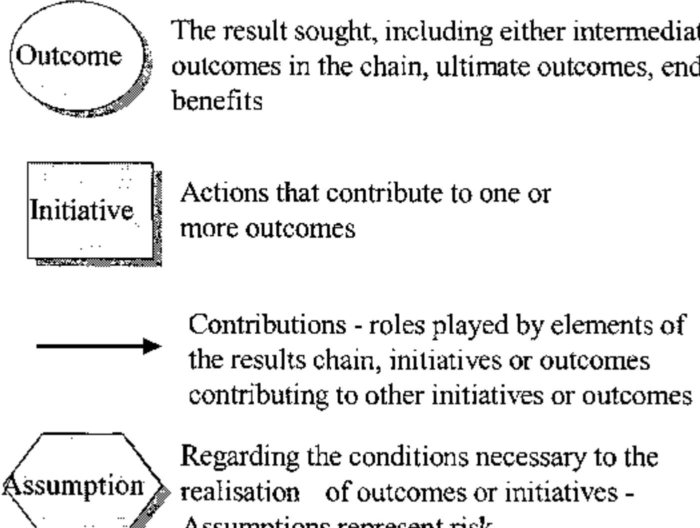
In terms of what we have covered so far in this section, we can see that for the projects 'Scope provides the potential for benefits, and therefore reducing scope undermines benefits'. Organisations should define project 'scope by the activities that are needed in order to realise the benefits'. This is a crucial step in understanding the benefits to be realised, and then provide the measurement systems and clear accountability for the realisation of the benefits (O'Hara, 2005).

Thorp (1998:46-64) insists that there are two practical challenges when implementing BRP (1) designing programs and (2) assessing the relative value of programs. He suggests two techniques to meet these challenges, modelling and value assessment.

Modelling

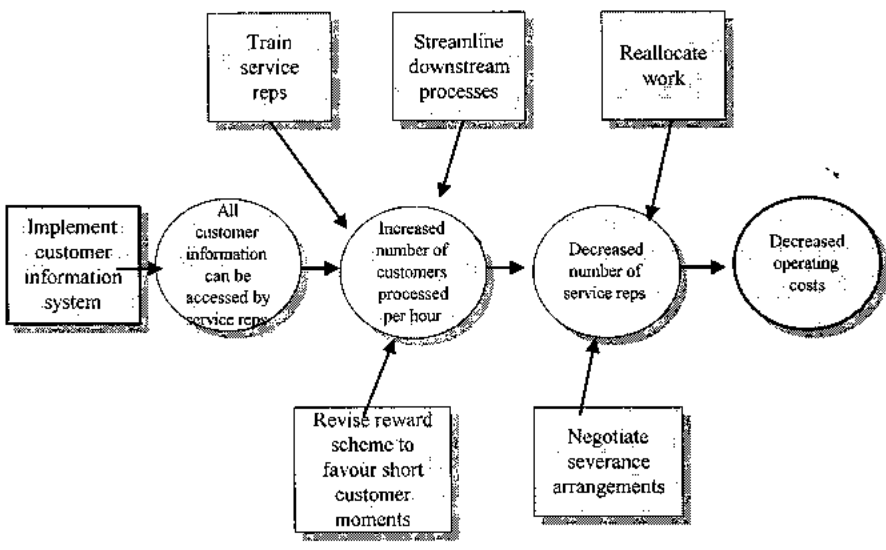
Modelling supports program design through the improved understanding of the linkages between investments and benefits of various initiatives. Modelling also supports the dynamic management of the BRP.

A results chain is a form of modelling that is used to build simple yet rigorous models of the linkages among four core elements of the BRP; outcomes, initiatives, contributions and assumptions.



(Thorp, 1998:48)

Example Results Chain



(Thorp, 1998:83)

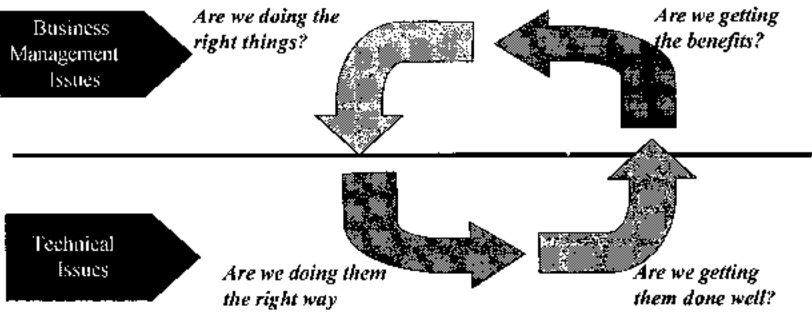
The next step is to group results chains together under a program or portfolio of business initiatives to understand the interdependence of initiatives and more importantly, how initiatives contribute to the outcomes of other initiatives.

Value Assessment

While the results chain provides a model for benefits realisation by showing the desired outcomes and the possible paths that can be taken to reach those outcomes. It does not, however, assist an organisation to decide the relative value. A value assessment technique will assist you in gauging the odds of success for a specific investment program. The four "ares" is one such method (Thorp, 1998:51).

1. ***Are we doing the right things?*** Questions the definition of business, the business direction and the alignment of programs.
2. ***Are we doing them the right way?*** Addresses organisational structure and process, and the integration of programs within that structure and process.
3. ***Are we getting them done well?*** Challenges organisational capability, the resources available and supporting infrastructure to get the work done efficiently.
4. ***Are we getting the benefits?*** Questions the proactive management of the benefits realisation process as a whole.

The Four "A res " Framework & Management Roles



(Thorp, 1998:150)

Summary

Buttle's seventh chapter takes us through the principles of how to create value for the customer, the content of this study guide complimented this by describing some of the techniques that effective organisations use to maximise the return on investment from customer initiatives. The primary tool is the business case that is also used as a communication tool to ensure all stakeholders are committed to the CRM initiative. Attached to the business case needs to be the benefit realisation plan, to ensure all stakeholders are also committed to pursuing the anticipated benefits. Organisations can then support the initiative with a disciplined programme management centre that will coordinate the people, change, business and technology efforts.

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Module 4: Analytical CRM

Introduction

Reading Buttle (2004) Chapters 4 and 5

Resource 4.1 Blattberg, R.C. & Thomas, J.S. (2001) 'Valuing, Analysing and Managing The Marketing Function Using Customer Equity Principles'

This module delves into analytical CRM, building upon the definition given in Module 1 and the figures referred to in Reading 1.1. As well as driving marketing, sales and service initiative, CRM analytics is often used to prioritise projects and measure the success of the projects and the programme itself. McKoll and Kennedy (2000:767) point out that analytical applications are implemented in order to improve the ability a business has to find new markets, maintain revenue growth and create barriers to entry. Data analysis is needed from start to finish and is an essential part of an ongoing CRM strategy.

Topics

4.1 Customer Portfolio Analysis and Segmentation

4.2 Customer Intimacy and Data Mining

4.3 Customer Accounting

4.4 Analytical Applications

Objectives

To gain an understanding of

1) Market segmentation and portfolio analysis
2) Customer based accounting
3) Customer lifetime value and activity based costing
4) Data mining strategies and their role in CRM
5) Core functional elements of the analytical CRM tools

4.1 Customer Portfolio Analysis

Customer Portfolio Analysis

Textbook Buttle (2004) chapter 4, pages 99-135

Customer portfolio analysis is the first of the primary stages of Buttle's CRM value chain. Portfolio analysis is about understanding the value from the various customer segments or groupings within the entire customer base. This may then lead to the business decisions that Buttle (2004) puts forward on page 99, however the analysis may lead the business to another set of decisions. The principle of this primary stage is about *understanding* the *value* (or not) of distinct customer groups, and then making businesses decisions upon this analysis.

For example, a certain retail financial services group in Australia conducted the analysis of its large customer base and discovered customers with a certain mix of product and services were profitable. That is, of the profitable customers they were not all high-value type individuals, even the lower socio-economic grouped customers could be profitable and contributed value to the business with this certain mix of products and services. This bank/insurance company then embarked on an initiative to develop these relationships with all (or as many as possible) customers by directing the activities of sales and service personnel towards creating these relationships.

Segmentation and Targeting

Buttle (2004) covers this subject within pages 101 to 113. In reading 4.1, Blattberg and Thomas put forward their customer equity equation. On page 307 they say this about segmentation and targeting;

> " *The purpose... is to reduce the universe of potential customers to a smaller number but those that remain are much more likely to respond to the firm's offering*".

So segmentation and targeting is also about affecting the customer equity equation through,

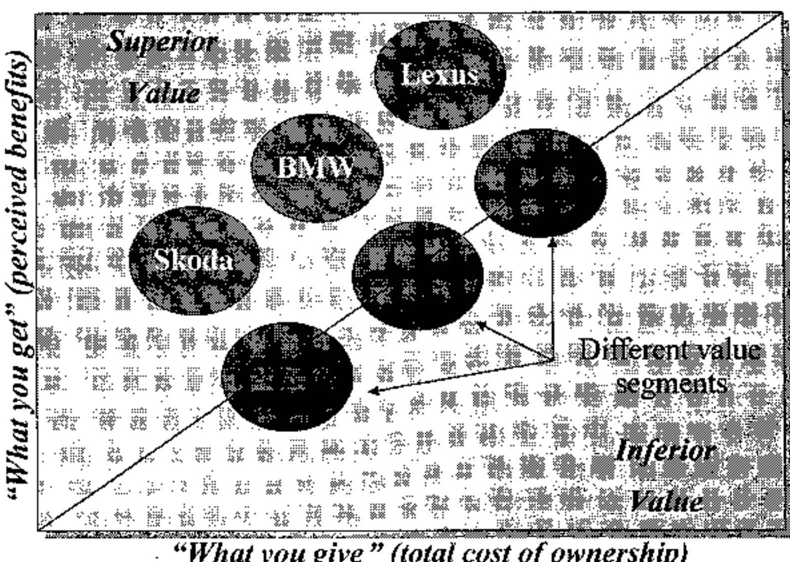
- Reducing the number of prospects, to reduce the cost of acquisition
- By making the customer offerings more relevant, and therefore positively affecting loyalty and retention rates
- Improving sales per customer, at the point of acquisition and afterwards
- Improved return on investment for marketing campaigns

> " *The business that can determine which segments are increasing and which are decreasing the value of the firm. The firm can then readjust its customer investments.*" (Blattberg and Thomas, 2004:307-308)

Additionally, Christopher and Peck (2003:47-52) discuss the concept of value segmentation, where a number of customer segments can be quite different in their perceptions both of benefits and sacrifice (see Module 3).

That is, the weight that individual customers place upon the attributes of the offer will differ, as also their perceptions of value performance. Once this analysis on customer segments has been completed, different value segments within each segment will emerge. This technique of mapping customer perceptions of benefit against their appraisal of total cost of ownership, provides a powerful basis for competitive analysis (Christopher and Peck, 2003).

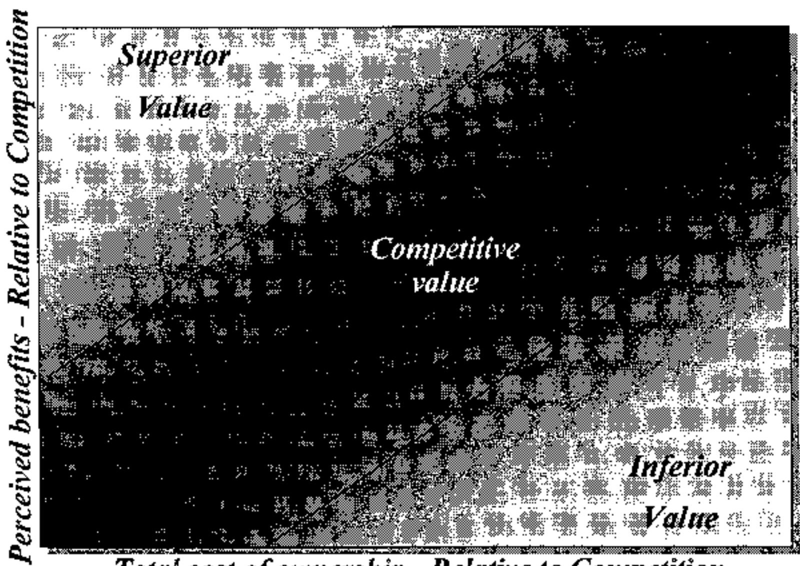
Value Segmentation



(Christopher & Peck, 2003:51)

The model above provides a generic example in the luxury car market.

Relative Customer Value



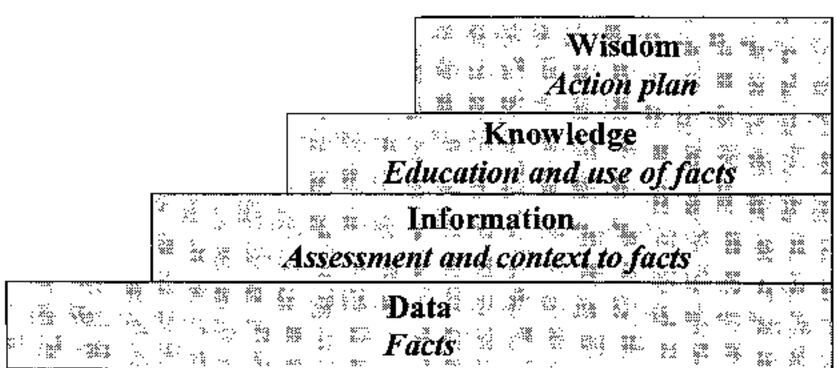
(Christopher & Peck, 2003:51)

The above model suggests that both the perceived benefits and total cost of ownership can be measured against the competitive landscape. A business with an offering in the bottom right hand corner, reflects an inferior offering. Similarly, an offering in the right had corner may be offering too much to obtain competitive advantage (Christopher and Peck, 2003:51-52).

Conclusions

From looking at Customer Portfolio Analysis and Segmentation, we need to realise businesses that do this analysis, must then make decisions. Imhoff et al (2001), put the concept forward in this following way.

Moving From Data To Wisdom



Imhoff et al, 2001:276

The customer data are only facts. From this the business must, assess the information and begin to apply logic, reason, experience, testing and trial to turn the data into wisdom. From this then come the actions within the business. Buttle (2004:131-132) briefly describes the strategies and tactics that can flow from the wisdom and action plans. Firstly by dividing the customers or prospects, page 131 and then by articulating the tactics on pages 132 to 133.

The action plans can be formed at two levels, strategic and operational.

- ***Strategic*** – decisions based on historical records and consist of the trends and/or patterns in customer behaviours. They may involve product costs or revenues, patterns of fraud, bad credit risk, and determining whether the 'wisdom' is really a trend or an exception.
- ***Operational*** – or tactical functions, are those actions that provide a certain view of the customer, products, finances, reactions to customer complaints, service requests, prospect lists and campaigns to the frontline people (Imhoff et al, 2001).

As Kotler (2004:111-112) says, '*Companies can improve their targeting precision by collecting information about individual customers. By building a customer database that contains past transactions, demographics, psychographics, and other useful information, the company will be in a much better position to match offers to individuals. . . CRM skills are rapidly being added in marketing departments to create competitive advantage over competitors...*'

4.2 Customer Intimacy and Data Mining

Customer Intimacy

Textbook Buttle (2004) chapter pages 139 to 161

This is the second of the five primary stages of Buttle's (2004) CRM value chain and places emphasis on the company creating an intimate understanding of the customer. Once the intimate understanding of the customer is gained the business can then create and deliver the value propositions relevant to its targeted customers. The level of effectiveness that the operational CRM achieves is dependant on the veracity and relevance of the analytical CRM functions and processes. Much of this depends on the quality of customer data and how the data is then processed. Poor data may result in poor decisions, with better data and improved analytical processes; the business has a better chance of making effective decisions.

Customer intimacy then, in this day and age is about obtaining, storing, managing and analysing information about customers – which means using technology tools to achieve these business goals. Whilst this is a business/marketing unit function, we will not be dealing with the technical aspects of creating a database, however it is critical that business and marketing people are able to articulate their goals in language that technicians can then transfer to usable tools that can be utilised by the business. Buttle (2004) on pages 140 to 158 defines the key elements in constructing a customer database. In each step of the database construction, the clearer the business people can be in defining their requirements to the database developers, the more precisely they will be able to meet the needs of the business.

Imhoff et al (2001) take this issue one step further and say, that when the business states; "*Give me all the data I need when I need it*", what they mean is

- Data must be specific to particular functional requirements. Generally, this does not mean real-time data, but rather some historical data that supports the particular function that the business requires at the time. For example, integrated customer information for a single customer view, or for determining a "next best" offer.
- Data must be reliable and consistent. Meaning the data should be of a quality standard to enable effective business decisions, or determining an accurate segmentation model.
- It must be delivered in a timely manner, meaning it must be relevant in the context of the customer, the offers and time.
- It must be delivered in a format that is intuitive and familiar to the user.

Similarly, when the business says, "*I'll figure out what I want to do with it*", they mean (Imhoff et al, 2001:40-41)

- Data must be easily accessed and intuitive for the user. 80 percent of queries are relatively straightforward and therefore should require very little effort for the user to access it.
- It must be flexible enough to support multiple purposes. As CRM is an iterative process, the business really needs the data to be flexible and usable in different ways

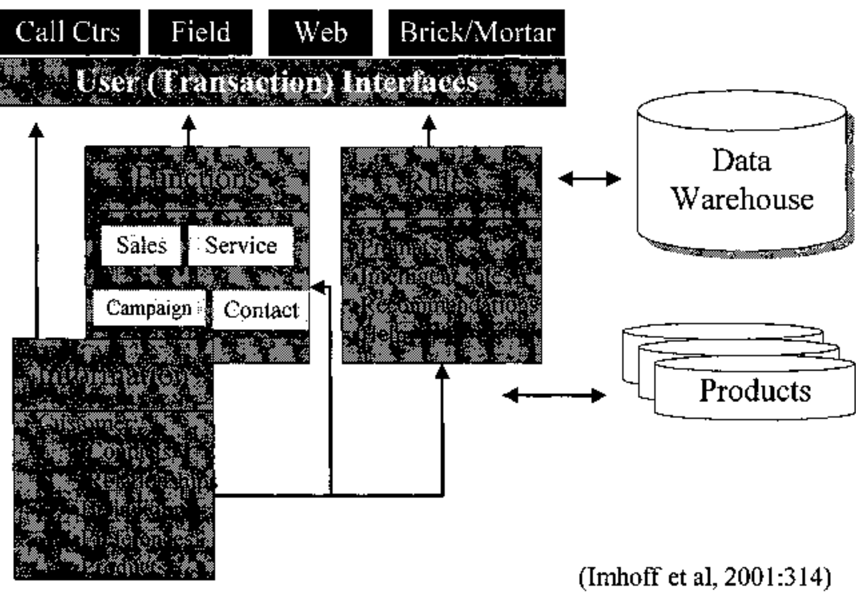
- It must be detailed enough to support all queries. For example, all the "what ifs" that data analysis and experimentation brings with it.

Imhoff et al describe a '*Customer and Corporate Information Factory*' that is the technical architecture that enables organisations to build an integrated technology environment, supporting the CRM business through the application of customer-orientated tools (2001:31-32). Much of this architecture revolves around the collection, cleansing, storage and management of customer data. Or, the ODS (operational data store), which supports functions in the customer touch zone by supplying integrated customer data (2001:309).

The ideal customer ODS is described by them in the following way (Inhoff et al 2001:313).

- It is simply a database that houses customer information, however it is,
- Integrated with other components of the corporate customer technology architecture
- Built for intuitive use and with user-friendly access mechanism's for users to view and modify
- Combined with toolkits that enable users to make the most of the information
- And has close and ongoing attention is paid to the quality of the information

Ideal Customer ODS



(Imhoff et al, 2001:314)

Buttle (2004:156-159) correlates these concepts where he writes about population and maintenance of the data warehouse and then with his comments on data integration.

Data Mining

Textbook Buttle (2004) chapter pages 161 to 168

Buttle (2004:110) defines data mining as *the creation of intelligence from large quantities of data.* As we noted earlier the creation of wisdom or intelligence from data is in fact the end of the analytical process. To do this effectively, businesses often need to approach data mining with an open mind, because sometimes the results can be unexpected. Having said this, Buttle (2004:163) contends that the business must have a clear goal in mind before data mining, quite often it is the "what if" questions that can provide some real insights that become the intelligence for the business to act on. Experimental data mining is often seen as the start of a CRM programme within a business. Once a business begins to analyse its customer data, typically only then does it start to gains insights, such as (1) the potential value from its customer base (2) the poor quality of its data (3) that it needs more and relevant customer information that it has now and (4) that a CRM programme starts to gain merit (Anon, 2003).

Data mining tools can go through large sets of data to uncover hidden patterns and identify new clusters of customers. These tools assist the business decision-making process at both the strategic and tactical level (Zingale and Arndt, 2001:161).

These data mining capabilities for a business are built upon data warehouses and data marts. In addition to Buttle's (2004:160-161) descriptions, Imhoff et al (2001:461) provide the following insights.

- ***Data Mining Warehouse*** – is an environment created so analysts can test their hypotheses, assertions and assumptions developed in the exploration warehouse. Specialised data mining tools containing intelligent agents are used to perform these tasks.
- ***Data Mart*** – is customised and/or summarised data that is derived from the data warehouse and tailored to support the specific analytical requirements of a given business unit or business function. It utilises a common enterprise view of strategic data and provides business units with more flexibility, control and responsibility. The data mart may or may not be on the same server or location as the data warehouse.
- ***Exploration Warehouse*** – is a data mart or database whose purpose is to provide a safe haven for exploratory and ad hoc processing. The technologies used may be, in-memory processing, parallel processing, specialised server platforms and specialised database optimisers to provide fast response times with the capability to access the entire database.

Data Mining Strategies

Tesco

Tesco is a large grocery chain in the UK and was the first to introduce a national supermarket loyalty scheme. The scheme was introduced to develop relationships between local shops and their customers. Whilst this kind of relationship used to exist 50 years ago, Tesco wanted to develop these relationships and use technology to help achieve it. By March 1995 over 5 million people had joined the Clubcard scheme and sales for Tesco now surged ahead of its competitors. The Clubcard scheme provided Tesco with a wealth of self-renewing data on its current customer base. Some operational benefits were that Tesco could refine its stock selection, display and staffing levels. However the primary benefit came through the facilitation of micro-marketing activities. The constant stream of data – what they purchased; how much they spent; when, how often and product combinations – revealed a great deal about the lifestyle of the shoppers themselves. This analysis allowed marketing activities based on *real* purchase behaviour and they built loyalty through tailored, value-based offers made direct to the customers.

Whilst other grocery retailers soon introduced their own loyalty card schemes, they approached the loyalty cards as a tactical marketing response, rather than a data capturing exercise. Tesco had utilised the services of a specialist data consultancy to help manage the data and measure the effectiveness of campaigns. Late in 1996 Tesco, based on learnings it gained from its database, successfully launched its own credit card. From there the data provided a leading edge for the launch of Internet grocery shopping in 2001, making Tesco the largest Internet grocery business in the world (2001). Eventually Tesco purchased a controlling stake in the data consultancy and then created a business selling anonymous data about how different on-line consumer behaviour differed from in-store behaviour. Adapted from Christopher and Peck, 2001 – See also the Marks and Spencer Case in Buttle (2004:163) and further Tesco information on page 119 (Buttle, 2004).

Lead Generation

Regardless of what our personal opinions of Banks may be, they have been pioneers in the CRM space for some years. One practice that they have excelled at is data mining to generate leads for the frontline people to action. Korea First Bank, for example used this strategy as the prime driver and return-on-investment for their CRM programme. They overcame initial resistance to the campaigns in their 350-branch network by providing coaching and feedback on the effectiveness of the campaigns. After a period of one year the bank was outperforming the system, in terms of new business growth and reduced credit risk.

Segmentation Effectiveness

A large bank in Canada incorporates data mining are part of its marketing programme and uses the mined data to formulate segmentation tactics and the alignment of both the banks values with those of the chosen segments.
Step 1 – Data mining team places each customer into one of fifteen behaviour segments
Step 2 – Focus groups marry attitudinal behaviour segments; identify four loyal segments that consider the bank, "their bank".
Step 3 – The bank then aligns the goals with the needs of four loyal segments. This results in improved focus for the bank in customer service, retention and growth of deposits.
For example, part of this data mining activity (run by a handful of analysts within corporate marketing) has shown that once a loyal customer responds to an offer, they do not receive another offer for three months. Customers themselves saw this level of marketing activity as a value. (Anon, 2003).

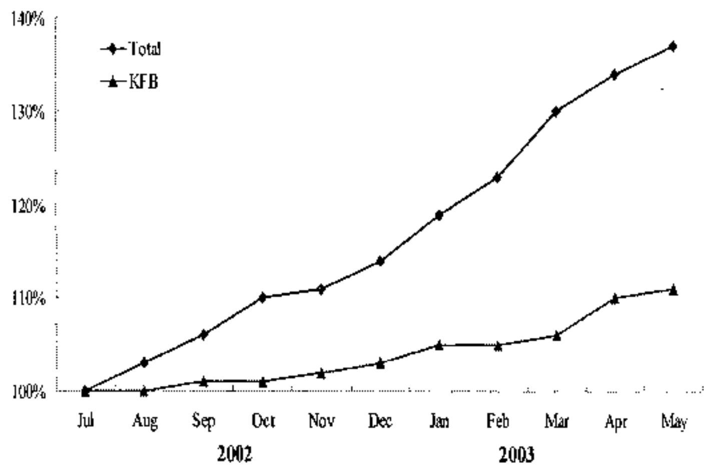
Propensity Modelling

Propensity or next-best-offer, or next-purchase data mining is often seen as being quite detailed analysis and attempts to determine the next-purchase a customer is likely to respond positively to. These concepts are critical, particularly in service-based industries where customers do not respond well to 'junk-mail' from organizations that claim to know them and their needs. On the other hand, offers that are made to customers that seem to be relevant to their current needs, display to the customer that the organisation can deliver some value by meeting their future and upcoming needs.

Credit Risk Reduction

Many banks have used data mining to help improve the credit risk exposure to their loan portfolios, but businesses are also using the these same practices to identify businesses that may be a poor credit and therefore reducing the bad debts incurred by the business, and sales effort to these poor risks.

Korea First Bank (KFB) implemented an analytical CRM programme during 2002 that, among other tactics, aimed to reduce the credit risk to the bank. The chart to the right shows how KFB outperformed the banking system on bad credit through the application of data mining strategies.



Telecommunications

Mobile phone and phone plan providers are using data mining to aevelop specially designed phone plans with unique pricing arrangements for customers that are at risk of not renewing their mobile phone plan. To track the success of these programmes, analysts are using control groups and measuring the customer's change in spend and their loss rate. One company has discovered that if it can retain one particular segment of customer – small to medium sized businesses with 50 to 200 phone lines – profit for each customer retained in the following year will double (based on no acquisition costs) (Anon, 2004).

Reducing Churn

Similar to the example above we can look at an insurance industry example of reducing churn or more precisely, predicting churn and then having a person act on a lead. AXA Financial used sophisticated modelling capabilities to determine which customers were more likely to surrender their policies based on, among other things, their previous payment history. This information is then distributed to the sales representative who takes action in an endeavour to save the business rather than let it go. For large organisations, predicting churn can aid the business in prioritising front line activity that produces the maximum return.

4.3 Customer Accounting

Resource 4.1 Blattberg, R.C. & Thomas, J.S. (2001) 'Valuing, Analysing and Managing The Marketing Function Using Customer Equity Principles'

The principles of customer accounting differ from to those of product accounting, in the following ways;

- Customer accounting looks at the customer, not only from a historical perspective, such as profitability, but also from a potential future perspective – life time value
- It looks not at a product line, but at a customer and their individual purchasing habits, lifestyle, needs and behaviours
- Customer accounting carries the difficulties of cost allocation, rather than the simpler direct product costs associated with production and delivery.

These above points pick up some of the key elements in Reading 4.1 around the Customer Equity equation, fortunately described in both verbal and mathematical terms on pages 304 and 305 (Blattberg and Thomas, 2001). Likewise the three components of the customer equity equation of Acquisition, Retention and Add-on Selling, give an appreciation of the more detailed complexities of customer based accounting.

The objective of customer based accounting is for the business to understand the key economic drivers supporting business performance, based on customer profitability. Customer based accounting also looks at the customer as an asset, attributing revenues and expenditures to them as an asset (Gupta and Lehmann, 2005). The definition of CRM we have used points out that CRM is a customer-centric business strategy that is enabled through change leadership and technology tools (Hocknell, 2004). Customer based accounting provides another perspective to this definition. Firstly, the business needs to centre its new strategies on the customer, based sound customer analytics – not product based numbers. Secondly, change leadership is needed to align all parts of the business around the central goals of the customer-based strategy– including finance, data management etc.

Activity Based Costing

Activity Based Costing (ABC) has been around the industry for quite a few years and is now a proven method for determining costs associated with a product or service by calculating the resources used in activities in the process that creates the product or service. As such the process view of a cost transcends traditional department structures and arrives at a cost of the service or product based.

The key steps for determining a cost based model involve (a) identifying a core process (b) map the process (c) build a cost model of the process, to measure activity costs, costs of quality etc. From here a business can set targets for improvement, then implement solutions, measure and refine the process on an ongoing basis.

Buttle (2004:124-127) gives us the essentials of ABC, which gives us a model for cost allocation in customer accounting for acquisition, retention (servicing) and add-

on selling activities, as Gupta and Lehmann (2005) put it, allocated expenditures to the customer asset.

Customer Lifetime Value

Customer Lifetime Value (CLV), as Buttle (2004:127) says, is an important theme for CRM. In Module 1 we talked about the goals of CRM, with the primary goal being to increase business performance through the increase of customer profitability. To achieve this goal, businesses cannot look at a customer's profitability only. Customer profitability, as a measure, looks back into the history of the customer, the products/services they use and the channels they use to access them. Whilst this historic information is useful, CLV looks forward to the future to understand the profit potential of the customer. By understanding CLV, businesses can accurately direct the acquisition, retention and add-on selling activities of their marketing, sales and service people to ensure the profitability of each target customer. Generic examples of these strategies are listed by Buttle (2004) on pages 132-133; the data mining strategies, previously in this module provide further pragmatic examples (see also the small case study on the bottom of page 19 Buttle, 2004) .

Likewise this model from Egan (2004) shows several basic strategies aimed at various customer segments, based on a matrix of profit contribution and profit potential. Putting CLV analysis behind this matrix would make it more meaningful for a business.

High ← *Profit Contribution* → *Low*

High – *Potential* – *Low*

Potential \ Contribution	1	2	3	4	5	6	7	8
1								
2								
3								
4								
5								
6								
7								
8								

Key

LargeShare of Big Wallet	*Retention strategy*
Small Share of Big wallet	*Key Target*
Small Share of Small Wallet	*Discourage*
Large Share of Small Wallet	*Reactive Strategy*

Egan (2004:75)

Gupta and Lehmann (2005) state that firms have faced enormous challenges implementing the CLV concept primarily due to the following three reasons.

1. ***Data requirements***. The data to calculate CLV is likely to be a combination of the following (a) a customers tenure, relative to other customers acquired at the same time, or the typical tenure of a customer cohort, (b) profit patterns over time for these customers within the cohort,

not only historical, but also profit predictions, (c) retention and defection rates over time.

2. ***Complexity***. The discussion above about data requirements hints at the complexity required. But collecting, analysing and integrating data across many channels is only part of the complexity. Product views of the metrics make it even more difficult get hold of the right data, so the complexity also comes from the organisational structure itself.

3. ***Illusion of Precision***. Even with the most detailed and sophisticated data and modelling, estimating CLV still requires a large amount of assumptions and subjective decisions that actually make CLV far less precise that it may appear.

Gupta and Lehmann (2005:24-26) suggest a simple but approximate method for calculating CLV. Their research shows that the typical lifetime value of a customer is simply 1 to 4.5 times the annual dollar margin (profit) that is generated from this customer. This depends on three assumptions (1) profit margins remain constant over the life of the customer, (2) the retention rates stays constant, and (3) CLV is calculated over an infinite horizon.

$$\textbf{CLV} = m\left[\frac{r}{1+i-r}\right]$$

Where
m = margin or profit from a customer per period (e.g. per year)
r = retention rate – for example 0.8 or 80%
i = discount rate – for example 0.12 or 12%

CLV is equal to the margin (m) multiplied by a factor r/(1+I-r). Gupta and Lehmann (2005) believe that the CLV formula will convey to any business as the retention rate relates to the product quality, price, customer service etc. Likewise, discount rate relates to the company's cost of capital. Fortunately, they have translated this factor into the following table.

Margin Multiple = r/(1+I-r)

Retention Rate	***Discount rate***			
	10%	***12%***	***14%***	***16%***
60%	1.2	1.15	1.11	1.07
70%	1.75	1.67	1.59	1.52
80%	2.67	2.5	2.35	2.22
90%	4.5	4.09	3.75	3.46

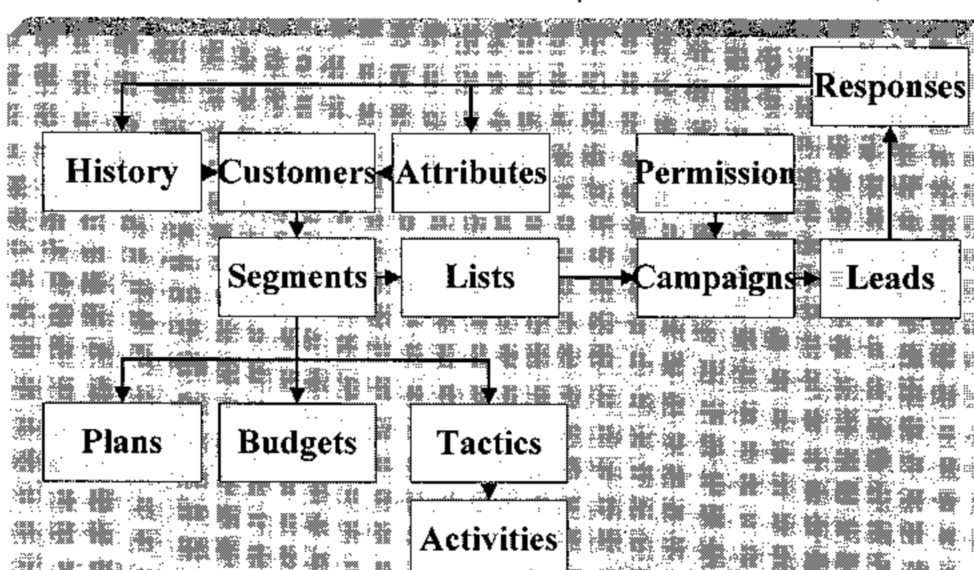
This means that if the business has a discount rate of 12% and a retention rate of 80 percent, the margin multiple is 2.5. So, if the customer has an annual margin of $100, the CLV is $250. But if the retention rate is 90%, then the CLV is $409, which means retention rate has a more meaningful impact on the CLV of each customer than the discount rate of the business. Future projected growth rates over time can be added to this formula.

4.4 Analytical Applications

In this section we will consider some of the functionality and tools associated with analytical CRM. Turnbull (in Buttle 2004:86-87) comments briefly on the marketing processes and says, '*in all cases, the CRM focus on segmenting and personalising the marketing effort is made possible by the sophistication of the underlying applications and availability of customer data*'. Below is his model on page 86, that has been adapted, primarily because effective analytical processes collect and use the responses from campaigns and leads in an effort to better understand the customer and the effectiveness of campaigns.

Analytical Marketing Processes

Adapted from Turnbull in Buttle, 2004:86



Between pages 90 and 93 Turnbull (in Buttle, 2004) discusses CRM analytics and says there are three levels of analysis (1) standard reporting (covered in Module 6) (2) online analytical processing (OLAP) and (3) data mining.

One of the most important factors for CRM implementations is that the graphical user interfaces (GUI), that is, the screens that people use to access the systems and processes, must be easy and intuitive to use. As Turnbull points out (in Buttle, 2004:92) if the user interfaces are easy to use, sales people can analyse their territory information to determine revenue and perhaps profitability per customer. Service people could be able to analyse call response rates and times. Analytical tools need to be available to marketers and frontline people to slice and dice the data in multiple ways: to segment customers according to specific parameters (product/service, purchase frequency etc) or top build clusters of customers with similar purchasing patterns. Online analytical processing (OLAP) tools allow users to perform complex queries and drill into the detail (Zingale and Arndt, 2001:161).

Imhoff et al (2001:38) provide the following summary of applications for analytical CRM.

Product and Service Profitability. This studies the historical performance of products, their costs and revenues. The results are used to determine whether to continue or modify a product or service.

Customer Demographic Profiling. This is used to consolidate and study customer demographics, such as, age, gender, marital and family status, income levels, home ownership, education achievement and preferences. This profiling can be used to understand profitable customer profiles, for targeting purposes and endeavouring to get closer to one-to-one marketing.

Campaign Management Tools. Allows products and services to be packaged and then offered to targeted customers. The tools should also allow for capture of responses to the campaigns and sales results from the offers to ensure finetuning of the offers and the goals are being achieved (McKenzie, 2000:272).

Campaign Analysis. Used to compare historical trends of different campaigns. This analysis collects the responses from each campaign and then provides key insights to the marketers developing the campaigns. This analysis can also determine the return on investment for the analytical tools and for the campaigns themselves.

Loyalty Analysis. Measures the customer loyalty with reference to the duration, repurchasing behaviour and the activity of the customer relationship (Kelly, 2000:264).

Customer Buying Behaviour. This studies the historical interactions and purchases of customers. The results determine which products and services specific customers are likely to purchase or use in the future. The Tesco case study, we considered earlier in this module, showed how Tesco used this information and then created a revenue stream for itself by selling this intelligence.

Sales Channel Analysis. Used to study the various channels of the business (web, call centre, branches, field force, agents etc). This analysis is likely to use activity based costing and determine which channels are the most effective for various types of customers.

Sales Analysis. This application is used to study the overall sales of products through all sales activities. This gives the business a solid understanding of the products/services that are selling the best, in what regions, to which customer types and with what effort. This process can also be used to determine cannibalisation of various product or services groupings.

Market Segment Analysis. This is used to determine the appropriate customer and market segmentation and to study activity within those segments. These results are used to better understand markets and customers; which are profitable, which are not; which campaigns work, which do not; which sales processes and channels work, which do not and so on.

Web

Using your favourite search engine, type in the words, "analytical CRM". Most likely you will find a range of technology vendors appear. Select a couple and have a look at

- The functionality of the tools
- The benefits promised to prospective customers

Make sure you at least visit, www.epiphany.com and www.sas.com . These providers offer some of the more detailed analytical systems.

Search the website/s for a case study on a business that has used the technology and answer the following questions.

1. What was the core reason the business invested in analytical CRM tools?

2. How was the intelligence used that was gained from the tools?

3. What were the results claimed in the case study?

4. Try to categorise the benefits from the technology.

Cost reduction	
Customer profitability improvement	
Improved cross-sales to existing customer	
Customer satisfaction improvements	
Segmentation definitions	

Sales Force productivity increase	
Improved level of sales to new customers	
Improved up-sell to existing customers	
Increased customer loyalty	
Resource prioritisation	

5. Does the case study say that the business had a business case to support the investment?

6. If so, did the business achieve results in the expected area or did they come from somewhere else?

Summary

Analytical CRM provides the processes that enables a business or organisation to turn raw data pertaining to the customer into information and knowledge. This information can finetune the activity of the sales and service people, improve direct marketing efforts, loyalty programmes and so on. Customer lifetime value was also introduced and is important to businesses as it provides a method of measuring the value of the customer relationship over time. CLV then, is important for businesses to make the long-term transition from product based accounting to establishing forecasts based on the customer – that is the number of customers acquired in a given period will produce a definable revenue stream over time – likewise the number of customers retained will generate a predictable revenue stream. Gupta and Lehmann (2005) even suggest that CLV should be used to establish the market value of businesses that are service and customer based.

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Module 5: Operational CRM

Introduction

Reading Buttle (2004) Chapters 8 and 9

Reading 5.1 – Imhoff et al. (2001) 'Automating the Sales and Service Process', Chapter 11 of *Building the Customer-Centric Enterprise*, pages 329 to 360

Our last module looked at analytical processes, the back-end functions of CRM. In this module we move to the front-end operations, the functions and processes of the front line people and their interactions with customers. While the analytical and operational functions and processes of CRM can work independently (and are often implemented separately) they work best as interdependent parts of the one, holistic process. The analytical processes work best when supplemented by information from the operational systems; such as detailed customer information, responses from campaigns, localised and detailed information directly input by the sales and service people. Operational CRM systems and processes work more effectively when supported by analytical intelligence to drive improved frontline activities, such as, targeting of prospects, efficient lead generation, marketing and campaign information.

In this module we will consider the customer lifecycle and the processes of operational CRM. Then we will briefly consider two key business decisions related to technology decisions. When it comes to deciding on the right technology tools for the business, considerations of whether to make or buy, and to purchase licensed software or use an application service provider (ASP) are two common challenges.

Topics

5.1 Managing the Customer Lifecycle

4.5 Automating the Sales and Service Process

4.6 Make or Buy Decisions

4.7 BYO or ASP

Objectives

To gain an understanding of

1) The lifecycle of the customer
2) Customer acquisition and retention elements of the lifecycle
3) The automation of the frontline processes of selling and service
4) Make or buy decisions for CRM technology tools
5) The arguments for and against ASP's

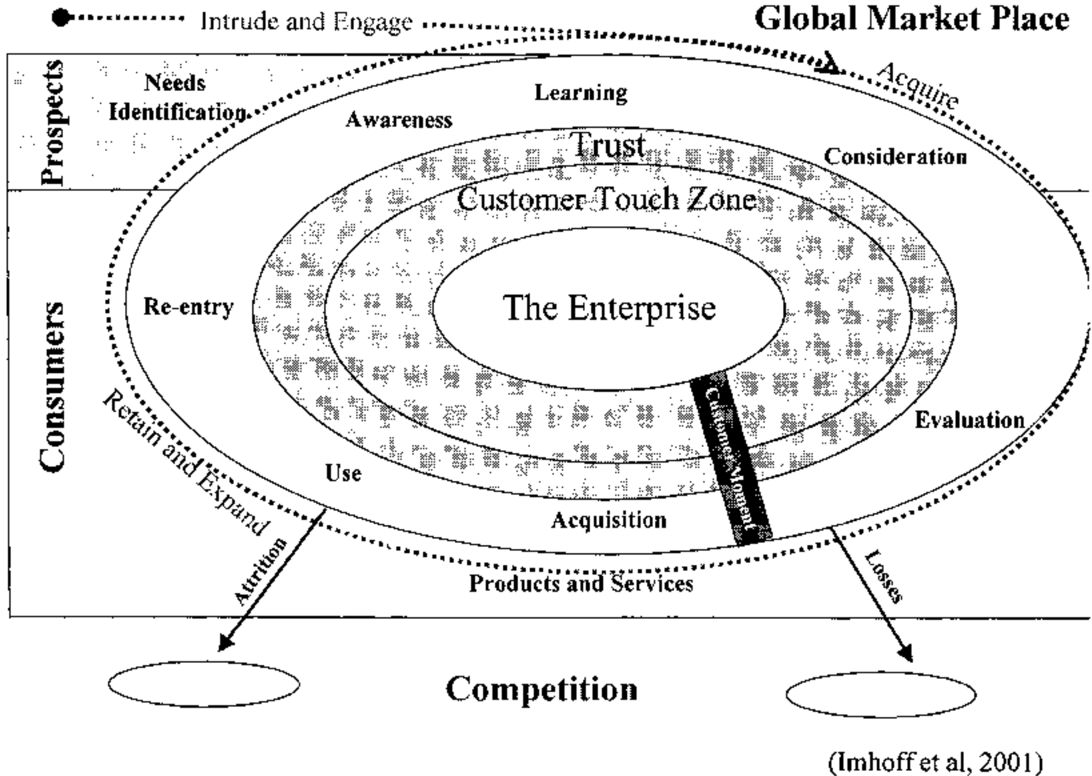
5.1 Managing the Customer Lifecycle

Textbook Buttle (2004) chapter 8

Managing the customer lifecycle is the fifth primary stage in Buttle's (2004) CRM value chain and he devotes three chapters to this concept and the management of the customer lifecycle. The core elements of the customer lifecycle are (1) acquisition, (2) retention and (3) development.

The Customer Lifecycle is about understanding the stages through which a customer progresses when considering, purchasing and using products. When a business understands how its profitable customers go through this lifecycle, it can then identify and manage customer interactions more effectively and efficiently to maximise the value from the lifecycle of the customer (Imhoff et al, 2001)

Imhoff et al (2001:64-66) describe the customer lifecycle with the following diagram. On the outside is the global market place, within that the consumers and then prospects. The outer circle is how they describe the customer lifecycle and in this model it follows the buying and adoption process of the customer. The next circle in is trust, on which all relationships begin (as discussed in Module 1). The Customer Touch Zone represents the interaction between the business and the customer – what McKenzie (2001) refers to in reading 1.1 as 'conversations'. Around the customer lifecycle revolves the actions of the business, Intrude and Engage, acquire, Retain and Expand. During the acquisition phase prospects can be lost to competitors, similarly following acquisition customer attrition takes place.



(Imhoff et al, 2001)

The customer buying or adoption process from the Imhoff et al (2001) Customer Lifetime model.

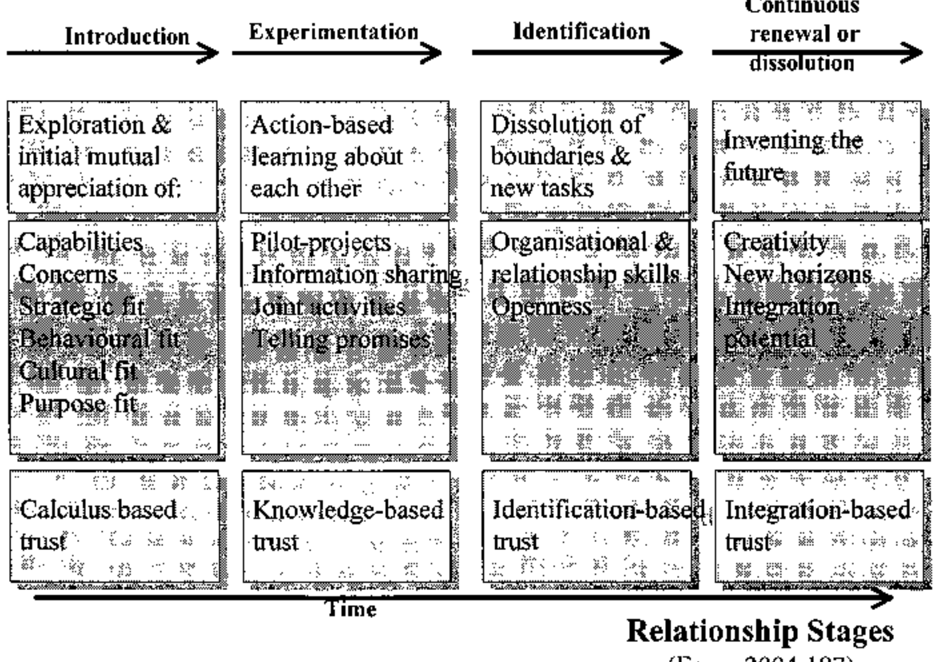
Needs identification – first of all the customer recognises that they have needs or wants that they desire to be filled by a product or service from a business.

Awareness – the next step is that the customer develops an awareness of the businesses that may fulfil that want. This may be customer driven or from an approach by the business (e.g. sales force, direct marketing etc).

From awareness the customer (or prospect at this stage) begin to ***learn*** more about the business that meets its needs. During this the customer will then give ***consideration*** about how the products or services offered by an organization may or may not meet its exact needs or wants. Through this enquiry process the customer conducts an ***evaluation*** of the various suppliers products against their requirements. When the customer makes a decision between suppliers, Imhoff et al (2001) call this the ***customer moment***. The successful business then moves from acquisition to engagement, focusing on service, customer satisfaction and relationship nurturing.

Following the customer moment, ***acquisition*** takes place and is typically the first interaction the customer has with the business after the purchase decision. The customers then ***use*** the product or service for the life of the product or service. ***Re-entry*** (Imhoff et al, 2001) refers to the customer behaviour and decision to do additional business with the organisation.

In the business-to-business (B2B) context of the acquisition the process is similar and again we see the relationships being developed upon trust.



Relationship Stages
(Egan, 2004:197)

Intrude and Engage

In Imhoff et al's (2001) customer lifetime model, the upper left-hand quadrant correlates to the Intrude and Engage ideas and within are the processes of Needs Identification and Awareness. This connects well with Buttle (2004) pages 275 to 287 where he discusses prospecting. Prospecting, he says, is an outcome of the segmenting and targeting processes we looked at in Module 4. There are differences for B2B and B2C prospecting that Buttle (2004) takes us through in the pages mentioned above.

Intrude and Engage is essentially the effort the business puts in to getting the attention of a prospect, making that prospect aware of the business and its products and services, and then engaging the prospect in dialogue designed to move the prospect into the customer lifecycle. This dialogue is often left up to the frontline people, as many businesses do not take enough effort in planing and refining its person-to-person sales messages. As Imhoff et al say, "*every interaction with the customer or prospect is an opportunity to build trust. One way to build trust is to accumulate knowledge about your customers, and to judiciously use this knowledge to tailor your subsequent interactions to better meet their needs. This holds true whether you are interacting with a long-time customer or with a consumer that has yet to move into the customer lifecycle*" (2001:81). The ideas of one-to-one marketing (discussed in Module 1) fit nicely with using information to ensure the most relevant dialogue is made with the right customer (or prospect) at the right time.

For CRM, the key applications used at this stage are the analytical tools described in the last module that generate leads for the frontline people and deploy them through campaign management tools. The lead generation can be for either prospects in the market or opportunities for existing customers based on needs analysis.

Acquisition

In the model of the customer lifecycle we are using, the acquire stage takes the two left-hand quadrants. Acquire picks up all the business processes up to the Customer Moment (Imhoff et al, 2001:82). Buttle (2004) considers acquisition on pages 288 to 292, where he starts by saying the three most important measures are

1. How many customers are acquired
2. What is the cost per acquired customer
3. What is the value of the acquired customer

The objective then is clear – acquisition is about the creation of a profitable customer base. Quite often with the management of the sales force, these are not the key performance indicators, but rather dollar sales volumes or units sold. This is another area where the business needs to modify its existing business to align the goals of each person and process in the company around the common customer goals.

Similarly, Imhoff et al (2001:83) point out that prior to CRM the acquire process was often considered more important than the rest of the customer lifecycle, because the emphasis in a product-focused organisation is often on selling more products. Whereas today, with the sophistication of the consumer and increased competitive rivalry, businesses are learning that it is more likely to gain a greater yield by opening relationships, than closing sales.

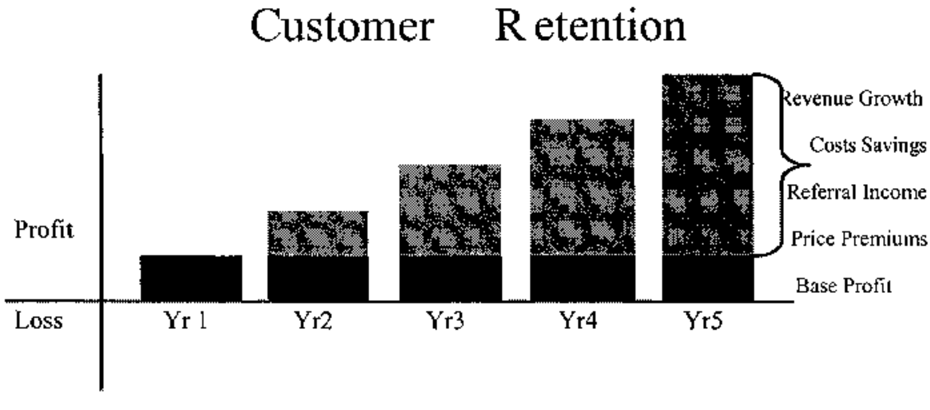
Various tools that can collect and distribute customer information support the 'acquisition' customer steps of, learning, consideration and evolution. Sales force automation tools, for example, give sales people the capability to collect information about the prospects, ensure follow-up is conducted in a timely manner and in many cases support the sales person in offering the prospect the most relevant solutions. The learning stage comprises of the first meaningful two-way conversations between a customer and an organisation. Effective customer-centric businesses recognise the value of this information and ensure that the information is collected within systems (and then databases) to enable better understanding of the customer/s, manage future interactions and offers. Consideration and evaluation can likewise be supported by technology to not only collect the future customers' preferences and future needs, but also provide illustrations of how the product or service may help them. For example, home loan providers are offering scenario planning where the prospect can test assumptions about how much they can borrow, or if they paid a certain amount when the loan would be paid off. Whilst this information adds value for the customer, it is often kept so the business understands the customer a little better.

Customer Retention

Textbook Buttle (2004) chapter 9

In the model of the customer lifecycle the left-hand lower quadrant is concerned with 'Retain and Expand'. In chapter 9 of the textbook, Buttle (2004) initially defines customer retention and then provides us with some of the complexities about customer retention. Indeed, customer retention is where many businesses in the last twenty years have focused their efforts. The market is awash with loyalty schemes, repeat purchasing discounts, lock-in clauses and plethora of other mechanisms to hold the customer within the grips of the business and not let them go to the open market and their competitors. Buttle (2004) then provides us with three effective measures for retention on page 300.

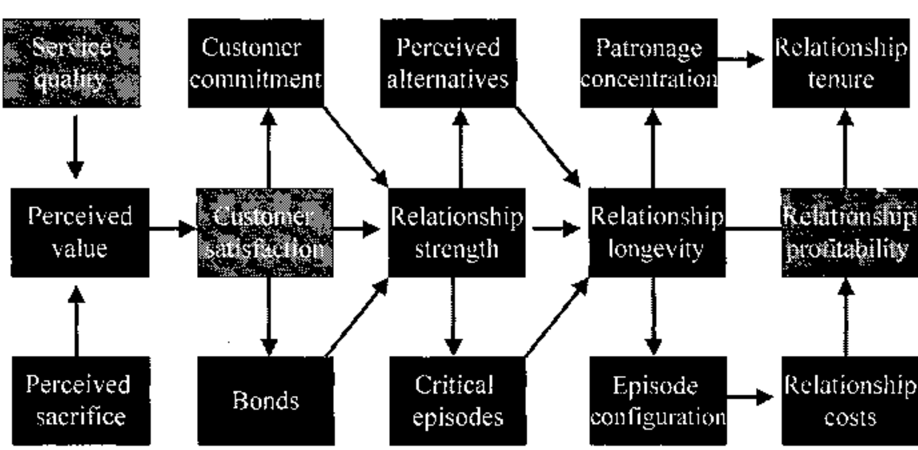
Reichheld (1996) provided insight through his research into customer retention and determined that in most businesses customer spending and profitability grows over time.



(Reichheld , 1996)

The value from retaining the customer is clearly accepted these days, however for most businesses the model is not as simple as the one above. For example, a customer that buys a mortgage, the bank takes at least two years to recover the acquisition and set up costs. Likewise, many organisations that set up loyalty schemes disbanded them after their analysis showed that the cost of maintaining the scheme was greater than extra profit it was to generate. This does mean that loyalty programmes are not valid, only that they should be well thought out prior to implementation and form part of an overall strategy. Buttle (2004) articulates the economics of customer retention on pages 301-302. The model from Egan (2004) below, shows that relationship profitability is not as simple as *service quality* drives *customer satisfaction* that equals *profitability*.

Return on Relationship Model



(Egan, 2004:146)

One of the key and proven drivers for business attention being paid to customer retention is the fact that the cost of acquiring a new customer if far higher than selling to an existing customer. Whilst, if a business can improve the repurchase rate of a customer and gain an increase in the customers' share of wallet, then the relationship is far more profitable. Buttle (2004) takes us through a number of these strategies on pages 303 to 318.

Reflection

Are you the 'member' of a loyalty programme...? Is it a frequent flyers club, discounts at your local pharmacy, special benefits as an owner of a prestige car...? Answer the following.

Do the benefits of belonging to the 'club' keep you repurchasing?

Calculate how much money or time it actually saves you?

Do you tell others about the programme?

What do you think it costs the business to run the programme?

Would you recommend to the management of the business to keep the programme going?

5.2 Automating the Sales and Service Processes

Reading 5.1 Imhoff et al. (2001) 'Automating the Sales and Service Process', Chapter 11 of *Building the Customer-Centric Enterprise*, pages 329 to 360

The reading for this section takes us through the challenges for businesses today in meeting the sales and service needs of customers. As the sophistication of the customer has increased, along with the wide range and simplicity of communication and information channels, managing the relationships with customers has become a difficult task for all businesses. When we consider meeting the needs of the 'interactive age' customer and gaining their commitment to retain and grow their business, the expectations of a customer are uncompromising. They want a business to know how they like to do business, that they are busy and do not want businesses to waste their time, whilst at the same time customers expect businesses to offer them value service and products when they need it. Peppers and Rogers (2000:243) claim, "*Customers are accustomed to having their needs met immediately, conveniently and expressly. That's why, for many people, contacting a customer service representative can be and excruciating experience. Between navigating lengthy menus of push-button options, waiting on hold for what seems an eternity, never getting a reply to an email, and not having you or your problems remembered the next time you call back, it's no wonder many customers think customer 'service' is a cruel joke.*" Fortunately, businesses have been listening and the pace of technological change has been frantic with development unfolding quickly to meet the needs of the customer (Egan, 2004:207).

The objectives of automating the sales and services processes are to arm the frontline people with the information and know-how to best service the customer, and then improve productivity. As Calvin (2001:225) points out, automating weak sales and service processes will not improve productivity, so the processes themselves must first be efficient and customer-centric, then automation will achieve its objectives.

In terms of the development of relationships, technology will never fully replace the personal contact that happens between people - it is perhaps the greatest danger to think that technology can. Effectively used technology can enhance the customer contact and improve frontline efficiencies, however, used ineffectively the technology can detract from the customer experience (Egan, 2004:209).

Automating Service

Imhoff et al (2001), take us through the key elements of service automation on pages 334 to 346. Starting with workflow management and working their way through tools for a call centre environment. The keys to service automation can be summarised in the following applications.

- Post-sales fulfilment is measured and managed
- Inbound customer messages are tracked, such as email management tools, faxes and letter can be scanned and entered into workflow management tools
- Information about the customer, their needs and preferences is collected
- Ensuring that all important customer service requests are managed and tracked from 'cradle to grave'
- Complaint management processes are in place and tracked

- The technology aims to add value from the customer perspective, typically saving them time, money, hassle or providing information
- Development is guided by customer choice with the option to use technology, or not (may not apply to all segments)
- Cross-selling activity is driven from campaign management tools that ensure the relevance of the offer

Automating Sales

This section of the reading starts from page 346. Calvin (2001:224) says that sales force automation is about increasing sales force productivity and capacity, and does not replace the sales person but makes them more effective. He then summarises the objectives by stating that sales managers should see improvements in the following areas (2001:226).

- Shorter sales cycles
- Improved prospecting and closing ratios
- Easier preparation of proposals
- Increases in the number of sales calls in a given period
- Error reductions
- Improved customer satisfaction
- Less administrative paperwork
- More selling time available to the sales person

Sales force automation tools are available independently and are essentially operational CRM systems as long as they integrate with the rest of the CRM programme. Below is a short list and description of some of the functions of sales force automation (Calvin, 2001:207).

- Customer account management – to collect and analyse information about the customer account, mainly with reference to B2B and often provide account management planning tools
- Customer needs analysis
- Presentation preparation from proven formats and messages within the business, including document management
- Business case analysis, preparation and creation
- Knowledge management solutions
- Email management tools – for distribution of offers to customers or prospects
- Improved profiling and segmentation of targeted prospects
- Allocation of sales leads
- Pricing and quoting tools
- Providing relevant marketing and market information to the sales person
- Improved budgeting and forecasting tools
- Access to the inventory management system to commit to delivery times (Kotler, 2004:137)

Integration of Sales and Service Applications

Imhoff et al (2001) from page 353 provide some very useful advice and information on the integration of sales and service applications and finally return to our customer lifetime model on page 359 with the business operations being added into the chart.

5.3 Make-or-Buy Decisions

The next two sections are to deal with two of the most fundamental decisions for a business in choosing technology solutions. Section 5.4 will consider the pros and cons of using hosted CRM or an application service provider, and this section will look at the make-or-buy decision.

Economists tell us (on one hand) that if a business decides to purchase a product from a supplier it is using the market, if it chooses to build that product itself, it is said to be vertically integrated in that particular market (Besanko et al, 2000). So then, for a business that has an IT team with capacity and capability, the make-or-buy decision can be a little more testing. For businesses with little IT capability, it may be better to buy rather than build.

Benefits and costs of using the market (Besanko et al, 2000).

Benefits

- Market firms can achieve economies of scale that in-house departments producing only for their own needs cannot. For CRM this means that vendors bring a range of business and process knowledge to the table, normally built within their product and the knowledge of how to implement.
- Market firms are subject to the discipline of the market and must be efficient and innovative to survive. Overall corporate success may hide the inefficiencies and lack of innovativeness of in-house departments. Whilst an in-house IT team may say it can develop an system similar to a CRM vendor, what experience does it have in executing that skill? CRM vendors that have survived the last few years in a tough market are there, most likely because they are market efficient and effective.
- For CRM these two benefits of using the market translate to using a supplier that is competitive in the market and has developed over time in the CRM marketplace to a mature product with business knowledge applicable to the organisation.

Costs

- Coordination of workflows through the vertical chain may be compromised when an activity is purchased from an independent market firm rather than performed in-house. The project team usually carries the coordination costs for a CRM implementation with additional coordination activity and, post-implementation, the formal management of service level agreements.
- Private information may be leaked when an independent market firm performs an activity. For CRM implementations using a supplier, the supplier will generally use the knowledge gained from the implementation to improve its product. Some businesses may see this loss of intellectual property as a cost, particularly if the product is then sold to a competitor.
- There may be costs of transacting with independent market firms that can be avoided by performing the activity in-house. Such as the costs of perhaps lodging computer code in escrow and developing contracts to mitigate the business risk of opportunistic behaviour.

So let's come back to the definition we are using, CRM is a customer-centric business strategy that is enabled by change leadership and technology tools (Hocknell, 2004). The technology is then part of a toolkit that the business uses to gain CRM advantage and customer-centricity. Approached this way the business can break down CRM into its three core disciplines (1) strategic (2) analytical and (3) operational. With these three disciplines the business can conduct an assessment on the market maturity for products within their industry.

Within each of the three core disciplines of CRM, the business can ask itself a few questions to make the decision a little clearer.

- Which parts of our business process do we consider as key differentiators and how do we use technology to maximise our competitive advantage?
    - The answer requires the business to make business decisions before making technology decisions (Anon, 2000). The business decisions are about discovering the critical elements of its workflows and processes that make a difference, how proprietary are these processes? What is the most efficient and effective way to exploit these advantages? Are products readily available?

- Do we see our IT skill as a key differentiator or simply an enabler?
    - The answer here will help a business firstly decide on whether to build or select an off-the-shelf application, and secondly, whether to use internal or external resources for the CRM initiative. This is particularly important for the use of project resources, system integrators or even software development.

- Is speed to market more important than the protection of intellectual property? (Anon, 2000)
    - The question again asks the organisation to make a business decision about how long it can wait for an implementation. Clearly to build will take longer and if time to market is critical, then off-the-shelf applications may hold the key.

Other considerations are;

- What is the balance of functionality richness against user friendliness
- What is the best use of my investment – economic profit speaks to the relative profitability of different investment decisions, and therefore it is more useful, than accounting profit when making business decisions (Besanko et al, 2000).

The CRM landscape is a vast one and is populated with a variety of approaches, tools, vendors, consultants and service providers. Defining a business strategy, focusing on the business objectives contained therein, and selecting technology (partners) as an enabler for business processes that realise the strategy is the prudent approach for organizations establishing their CRM or augmenting an existing one alike. Having done that, implementation of that technology will become a lot less challenging. (Anon, 2000).

5.4 BYO or ASP

This section considers the other fundamental question for the technology decision and that is whether to 'buy your own' (BYO) software application or use an application service provider (ASP). With the former model, businesses purchase and implement licensed software onto their own servers to achieve their business goals, with the latter, a service provider holds the software application and deploys the service to the business to meet their needs.

The application service provider is often referred to as "software on demand", delivered in a similar way to utilities that can be purchased on a monthly basis. The ASP model adoption has generally followed the widespread adoption of the internet and ecommerce (Sundra, 2001). The ASP market for CRM applications is split into two different delivery models. Firstly the one-to-many ASP that delivers one software application to many businesses, sometimes referred to as out-of-the-box services. The second is one-to-one, where the application service provider delivers a customised application, integrated to other enterprise systems within the client business. These models appeal to different size businesses, offer different benefits and incur different risks and therefore imply a fundamental choice between ASP models (Anon, 2003).

The main criticism's of ASPs is that the business risk is increased, generally grouped into the following areas,

(1) ***Data availability and security***. A business will typically become nervous over having its customer data reside on someone else's database. The issue of arms length management of data comes into play and businesses will always see this as a greater risk. Additionally, a business needs to determine how the data will be returned to it if or when the relationship ends (Greenberg, 2003).

   a. ASPs try to overcome this by developing strong service level agreements, convincing the business that their database is well constructed, back-up systems are in place and it provides business continuity and disaster recovery plans. In an ASP model the service level agreement is the businesses lifeline and guarantee, it may even include penalty clauses (Greenberg, 2003).

(2) ***Security***. How secure is the data, can it be hacked into by competitors or malcontents? Having the business systems, processes and data hosted by another party increases the perception of risk.

   a. ASPs will endeavour to overcome this by proving the full encryption of data, world-class security, multiple firewalls and other security devices.

(3) ***Vendor stability***. The notion of on-demand software also means that if there is no demand there is no business. Some ASPs were the early casualties of the dot-com bust of a few years ago.

   a. ASPs will provide information about their viability, long-term strategy, customer references and the number of customers using their service.

(4) ***CRM capability***. There are two sides to this issue. First, the business will have a desire to develop a core competence of managing its customers as an investment. This includes the data and the know-how associated with effective CRM, therefore there could be a strong reluctance to outsource this capability (or part of it) to a service provider. Second, the in-house people are likely to want to develop marketable CRM skills themselves and they are to be reluctant to outsource (Anon, 2003).

   a. ASPs are likely to offer a range of ideas to manage this perception within a business, as the business may well be able to develop the same skills and competencies, even if the software and data is held elsewhere.

Therefore after analysing the business requirements gap, businesses need to take a risk assessment approach with ASPs to determine if they are prepared to accept and manage the risk associated with an ASP model. The next step is to look at the costs and benefits.

On the buyer side of the equation, there are some cost advantages. The initial cost of a CRM implementation will most always cost less in the first period with an ASP. The ASP provides the software and the service (at a fee). Therefore the development of business processes, data management, security, system administration etc is all wrapped up in one subscription fee. Additionally, the ASP will wear the cost of hardware that a business would otherwise need to purchase for the implementation. The business then pays for licenses, either for the whole business, per seat, per named user and a subscription fee. It is very rare for the ASP model to cost more that a buy/build-your-own model within two years. Therefore, businesses need to adopt a total-cost-of-ownership (TCO) approach for ASP models, to clearly understand the long-term financial implications of using an ASP.

Having said that, Robe Kane (2004), an ASP advocate points out research that indicates;

- Hosted CRM is the biggest trend in CRM software industry
- Predictions include that licensed software will decline at a rate of 4.8% per year
- On-demand software subscriptions will grow six-fold from 2003 to 2008

Likewise, McCabe (2005) says that those businesses that have used an ASP are allowed to focus on their business processes, needs and change rather than technology implementation and projects, which provides for a more effective initiative.

ASP CRM is regarded as a valid option, it is up to each business to determine how appropriate it is for them.

Web

www.salesforce.com is an ASP model for sales force automation. The service is offered around the globe and it is probably the most widely used ASP sales force automation tool. Go to the website and analyse some of the business examples that are available. Consider the benefits that are being stated, some of the productivity and sales improvements are extraordinary.

- Take close interest in the arguments to use an ASP over buying your own software. Over what period of time is the total cost of ownership calculated? Do you think this is realistic?

Take the plunge and register for the 30-day free trial. This will give you access to your own version of the software for 30 days.

- Enter in some made up client information and work through some of the functionality.

If you were to implement salesforce.com into a business you know well;

- What would be the concerns of management?

- What would be the concerns of the sales people?

- Describe how you would approach the change management effort within the business;

- Whose buy-in would you need for the implementation?

- How would you measure the success of the implementation?

  What benefits do you think may be achievable in the business you are familiar with?
  - Cost reductions:

  - Sales force productivity improvements

  - Are their any customer advantages…?

Summary

The key principles to emerge from this module are those of the Customer Lifecycle, the relationship marketing tactics discussed in the reading from the textbook and recognising the effort and challenges required to achieve the effective automation of these concepts. Detailed planning, thoughtful consultation with sales and service people, communication and change leadership are critical to the execution of operational CRM. We need to constantly remind ourselves that operational CRM means that we are requiring people to interact with the technology. These people must be engaged in the redevelopment of business processes that support the targeted activities that are operational CRM.

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Module 6: Achieving CRM Success

Resource 6.1 Hocknell, M. (2004), *Pragmatic CRM: The Process of CRM Success*, February, unpublished

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Resource 6.2 Agarwal, A., Harding, D.P. & Schumacher, J.R. (2004), Organizing for CRM, *The McKinsey Quarterly*, Number 3

Resource 6.3 Collins K. & Marcus, C. (2003), *Top-10 Marketing Processes for the 21st Century*, 24 July, Research Note, Gartner

Introduction

This final module draws together the threads of the last five modules and presents the model for achieving CRM success within the business. We have discussed so far the objectives of a CRM programme, the business case, processes for realising the benefits, strategic, analytical and operational functions of CRM, and Buttle's (2004) CRM Value Chain. This module then looks at CRM from an organisational perspective and discusses the operational dependencies to making CRM happen within a business and ensuring it continues to happen successfully. The final sections look at the future of CRM.

Topics

6.1 The Process of CRM Success

6.2 Post Implementation Management

6.3 CRM Roadmaps and Measures

6.4 The Future of CRM

Objectives

To gain an understanding of

6) The key stages of successful business implementations for CRM
7) Organisational dependencies for effective CRM, planning and measures
8) Current and potential trends for CRM
9) A successful customer-centric business

6.1 The Process of CRM Success

Reading 6.1 Hocknell, M. 2004, *Paragmatic CRM: The Process of CRM Success*, February, unpublished

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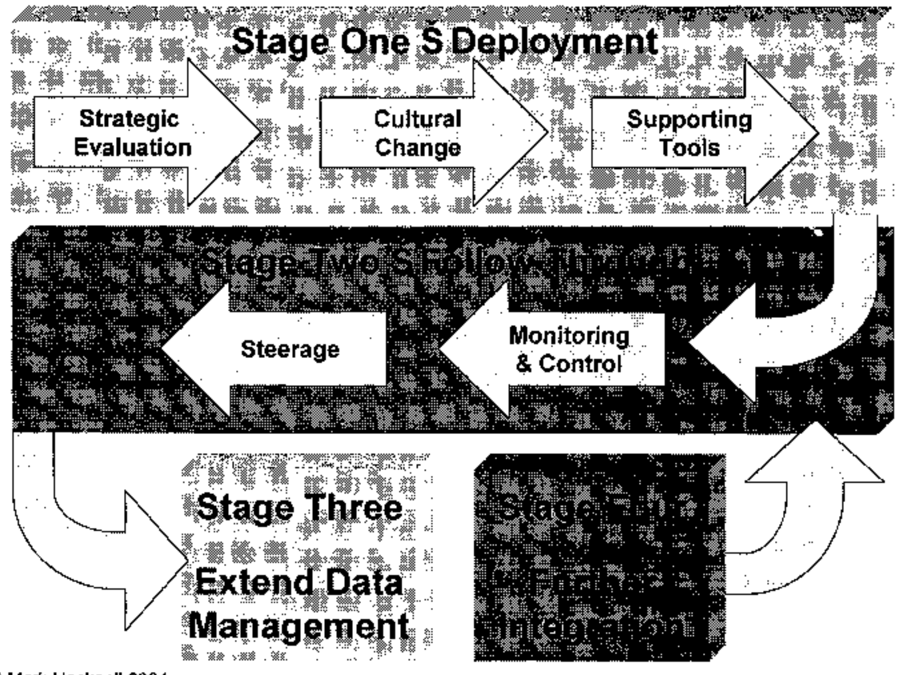
In the above reading, the author contends that achieving CRM success is not only about having a CRM programme that deploys change and technology, but rather it is the process that completes the business transformation from product-centric to customer-centric. The key point in this is that businesses often deploy CRM as a project. Projects, by definition, have a start date and an end date. CRM starts, but does not have an end date. As a business strategy, CRM is the continuous process of evolving customer-centricity within a business. Therefore, post implementation of the tools and the change, the process of improving the customer centricity within the business continues.

"Stage One – Deployment".
This stage is what many refer to as the implementation of CRM. It relates to the development of strategic CRM, igniting the cultural change, and deploying the chosen tools to support the business initiative. Once stage one is complete, the business will remain in stages two, three and four in a continuous, iterative loop.

"Stage Two – Follow Through"
Post deployment, the business needs to maintain its focus on CRM. Typically this can be achieved through the use of reporting and performance management processes. Once the goals of the CRM initiative are set, they need to be measured and then monitored within the business to follow through on the goals and ensure that the CRM goals do not get lost in the 'business-as-usual' activities (similar to the 'confusion about roles, responsibilities and accountabilities' in Agarwal et al 2004). Additionally, the business is likely to be deploying further initiatives/projects, so there needs to be a leader within the business to maintain the focus on the customer and the long-term goals of CRM.


Stage One S Deployment
Strategic Evaluation
Cultural Change
Supporting Tools
Stage Two S Follow-
Steerage
Monitoring & Control
Stage Three
Extend Data Management
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"Stage Three – Extend Data Management"

Stage three forms part of the continuing and iterative drive to improve the way customer data is managed and then utilised within the business. This stage often takes the form of further projects and initiatives to extend the capability that the business has to manage the data – capture and utilise.

Stage Four – Further Integration

Stage four similarly takes the form of projects and business initiatives, and finds the business aspiring to integrate further key business activities into the new customer-centric processes. These will typically be business processes that were not changed with the initial CRM programme and now need to be addressed – often these processes become clear after CRM has been deployed and were not seen as a 'problem' prior to the initial deployment.

Lucas (2003) points out that CRM is more critical now than at any other time, particularly with the heightened business attention to cost cutting, revenue generation and customer retention. He suggests that there are five categories that a business should focus on to 'reap the rewards' from CRM.

1) Value – the primary goal must be to create value for the firm. Then there is a 'delicate balance' between offering service to customers and maintaining the bottom-line, similarly, a brilliant strategy may falter in the execution.
2) Focus – CRM is about long-term goals. Customer profitability is a long-term measure. Lucas states that businesses must maintain a 'strict focus' on CRM projects and start with a 'common sense approach to seeking value and returns'. Start by ceasing any 'random acts of marketing', he says.
3) Approach – the business must maintain a well-defined approach to CRM. CRM implementations are an 'interactive process' that requires periodic evaluation and reconsideration of the tactics being deployed.
4) Change – 'change management is the cornerstone of any enterprise initiative, but people need to change first'. The change does not only affect the organisation and its people, but also customers, suppliers, partners and broader stakeholders.
5) Vision – CRM is about the business constantly improving its value through improving the value it creates for its customers. This is not achieved by 'keeping up with competitors or keeping customers satisfied'; this success is achieved through setting a vision, goals and clear, consistent execution.

The ideas of Lucas (2003) and those contained in Resource 6.1 can be coupled together to gain a clearer picture of the post implementation management challenges.

- For a business to follow through on its initial CRM deployment, the business must have a clear idea of generating *value* for the firm from customers, consistent *focus* and *vision* to guide the business decisions and activity over the long-term.
- A well-defined *approach* to CRM is definitely needed during deployment, followed up by periodic evaluations and finetuning of the tactics being deployed. This typically needs business steerage or leadership.

- *Change* occurs throughout the 'Process of CRM Success'. During deployment, follow through and continually during stages three and four where the customer-centric organisation pushes product-centric ways of doing business and interacting with customers out of its cultural designation.

6.2 Post Implementation Management

Reading 6.2 Agarwal, A., Harding, D.P. & Schumacher, J.R. (2004), 'Organizing for CRM', *The McKinsey Quarterly*, Number 3,

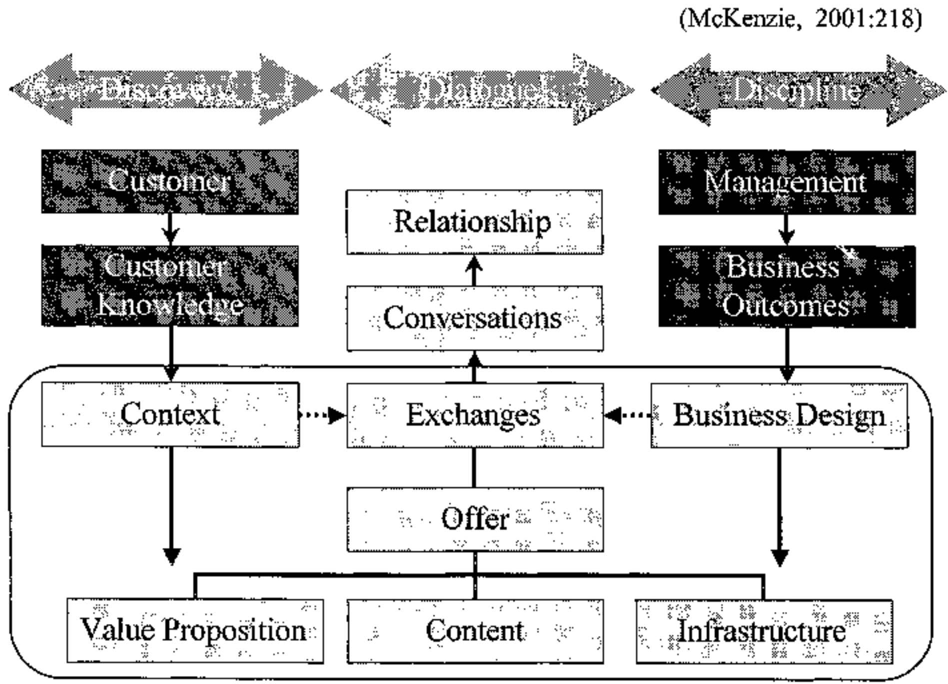
As the authors of Reading 6.2 say, '*too few companies are paying enough attention to the organisational challenges inherent in any CRM initiative*'. In this section we will discuss some of the key issues and challenges facing a business that takes on the mantel of becoming customer-centric, having previously discussed implementation or deployment of CRM, we now need to look at the post implementation challenges.

Imhoff et al (2001:96) believe that there are five critical success factors for CRM.

1) Implement a coordinated, customer-focused business strategy
2) Create a CRM-friendly organisation structure
3) Establish a CRM-savvy organisational culture
4) Implement an integrated customer information environment
5) Ensure executive commitment and support

Returning to McKenzie's (2001) model of discovery, dialogue and discipline, we can see how various components and functions of the business come together to deliver a 'relationship-based enterprise'.

(McKenzie, 2001:218)

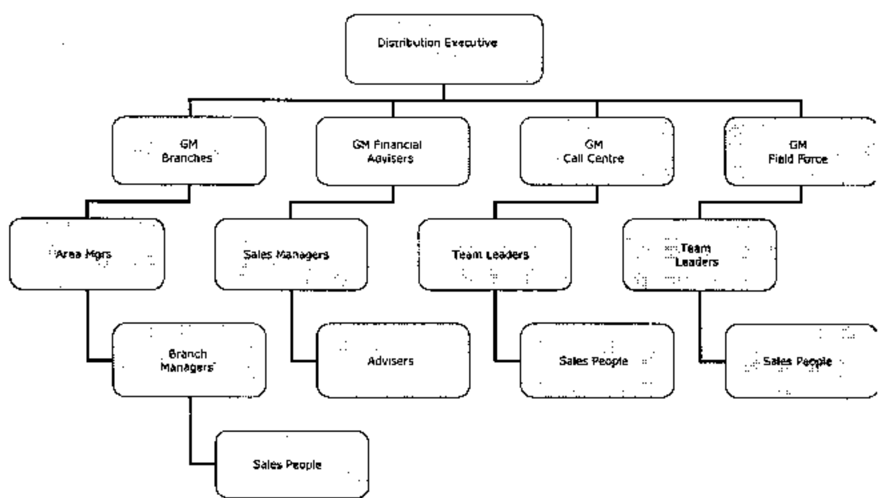


Business Structure

Buttle (2004) on pages 332 to discusses some of the options for business structures that are focused on delivering value to the customer and value to the firm by achieving its strategic goals. He puts forward five alternative structures.

1) ***Functional Structure***

In this financial services example below, the customer touch points are grouped together by function. The idea is that one executive manager provides the customer focus and ensures that all functional groups work collaboratively together for the common good of value – to the customer, to the business.

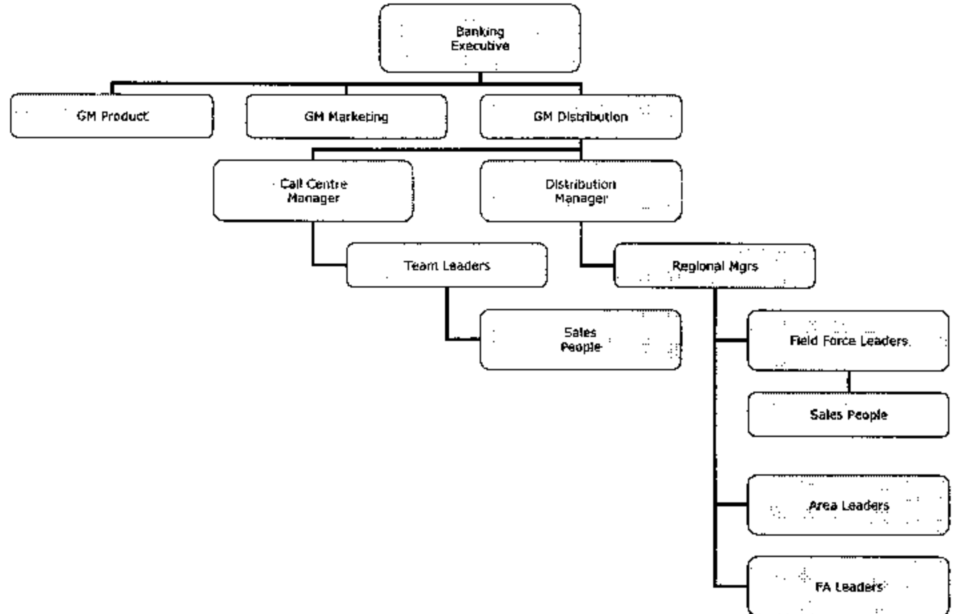


Buttle (2004:333) says that the functional groups could be split by the core functions of sales, marketing and service. For CRM to have a better chance of success in these types of structures, it is preferable that each touch point uses the same operational CRM system with a single view of the customer. One of the challenges with this structure is that some key customer-based decisions will be made elsewhere in the business. For example, marketing or product managers may make decisions about products or pricing that adversely affects customer retention. In this situation there must be a communication forum for distribution managers to feed information through to the support teams. Even at an operational level, for example the collection function may make decisions to send demand letters to customers who may be profitable at a group level.

2) **Geographical Structures**

These structures seem to make a lot of sense for most organisations that have customers geographically spread. The best way to meet the customer service needs and be in the right place at the right time for sales opportunities is to be in the market place itself. As Buttle (2004:333) mentions, call centres and self service on the web can help reduce the costs of being in the market place. Additionally, he suggests that a disadvantage could be the lack of business ability to respond to various customer segments and needs at a regional level. The other risk for businesses with this structure is that each region may start

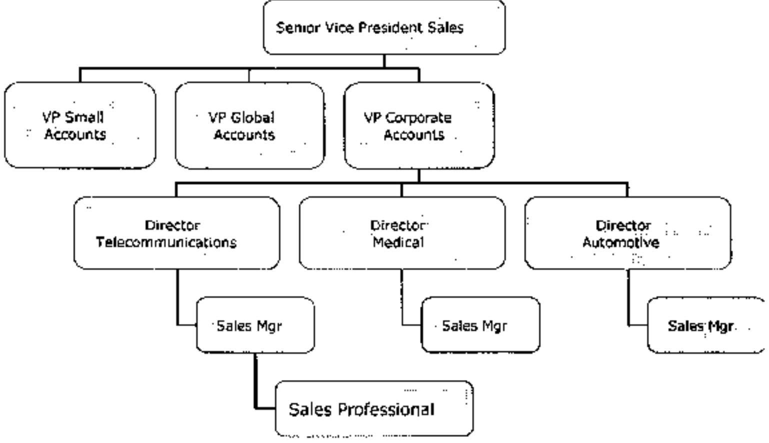
to do things its own way. Now this may not be a bad thing and could actually be an advantage of a regionally based structure – as long as each region is contributing to the same strategic goals of CRM, and that if any region finds a more effective way of achieving the goals, that they share this information.



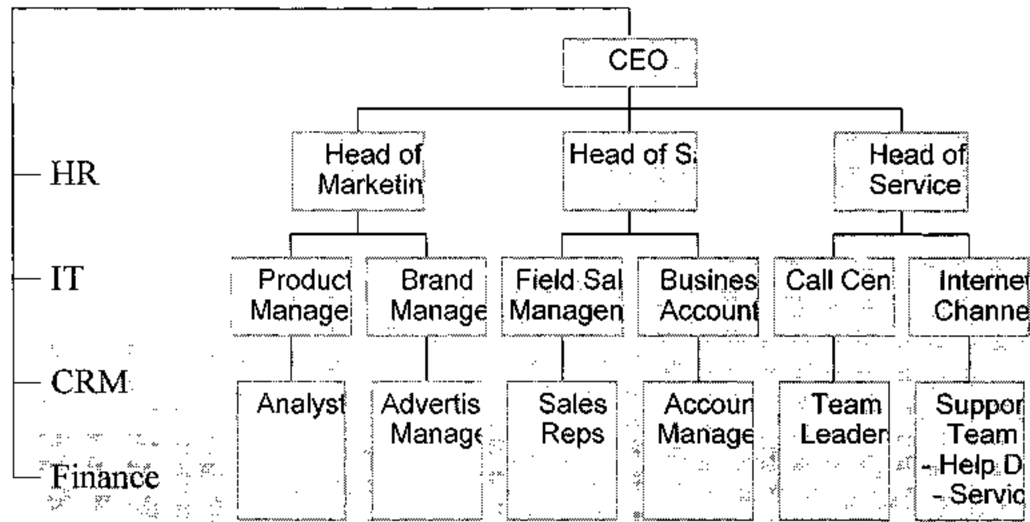
3) ***Product, Brand or Category Structures***
On pages 334-335 Buttle (2004) discusses this type of structure. The risks of these structures are defined by Buttle (2004) and a similar example is IBM.

In 2003 IBM Australia was structured on product lines. Each of these product lines had sales and service people calling on customers. Larger clients started to become annoyed that they had a number of IBM representatives calling on them and started to demand that IBM change. "*The enterprise group had account managers facing the customers and services had service principals facing the same customer...customers were telling us to get our act together...it has to be seamless to customers, it's about making sure the right people are facing customers*" (Kennedy, 2003). IBM restructured around the customer, allowing for one account manager supported by specialists, this gave the customer a single point of contact for IBM for any need or issue (similar to a 'bow-tie' structure in Buttle 2004:343).

4) ***Market or Customer Structure***
The IBM instance above and Buttle's (2004) comments on page 336 support the idea that these structures often form in businesses with distinct segments or markets to operate in. For example, the model below is of a technology business that has split its market firstly into the type of account and then into the industry sector. In this situation businesses must ensure that knowledge and best practice is shared between the various Vice Presidents or segment directors.



5) ***Matrix Structure***
(Buttle, 2004:336-337) Matrix structures are designed to superimpose a business discipline onto multiple departments. For example, finance or IT can be imposed onto sales, service or marketing. The matrix teams coordinate and influence teams of employees from other departments in an effort to have the functional teams support a multiple-command structure (Davidson and Griffin, 2000:414-415). The example below shows how this can work with CRM applied as a matrix team.



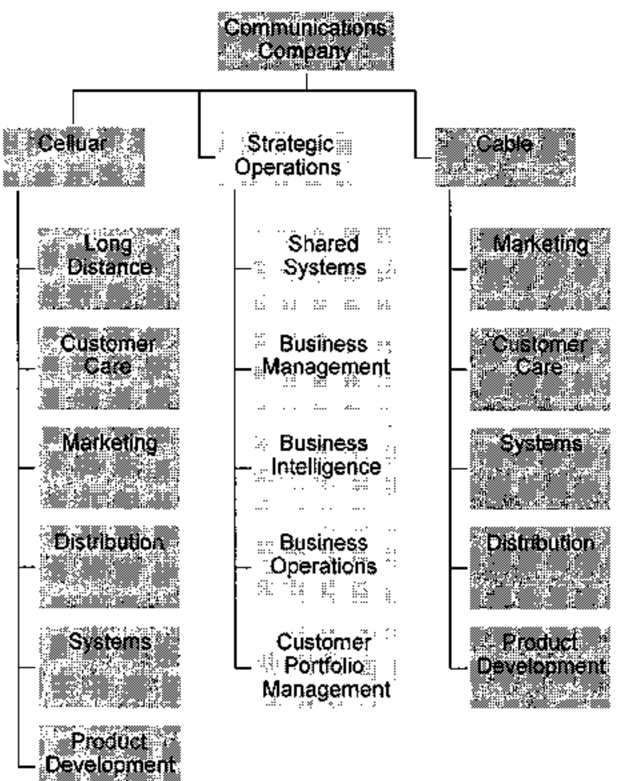
Matrix Structure for CRM

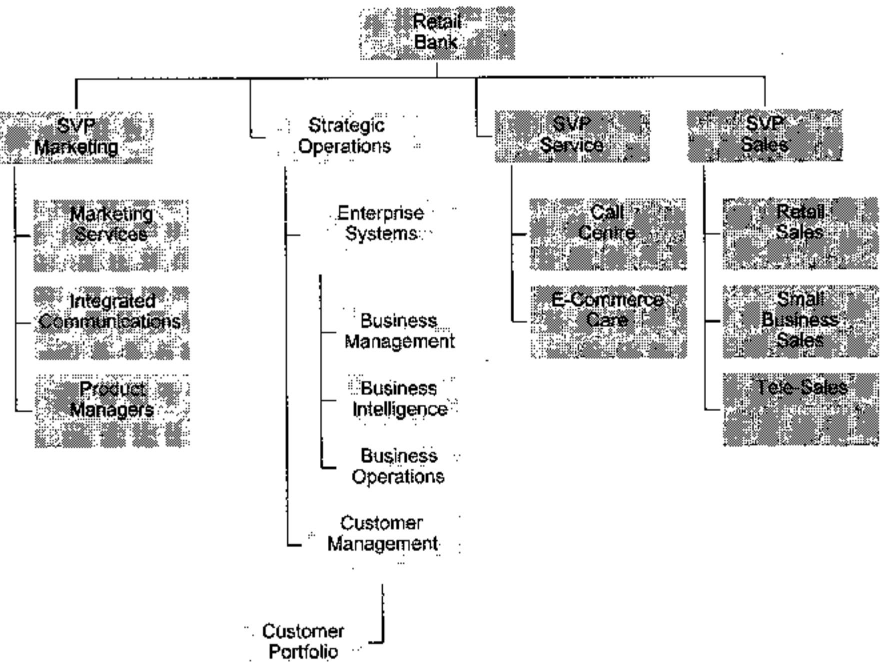
With CRM in a matrix structure the unit would need to influence departments across the business to ensure sound CRM practice and process was being deployed throughout. Davidson and Griffin (2000:416) describe these relationships as 'lateral' and are challenging to execute well. What would be needed is the visible support from the CEO and that the department teams recognise the challenge of potentially trying to serve two masters.

6) Decentralised and Centralised

Imhoff et al (2001:101-106) put forward two types of CRM organisations, Decentralised and Centralised.

The chart to the right is their example of a **decentralised** *CRM organisation for a communications company that has two primary business units, cellular and cable. These two business lines perform their own marketing, sales, service functions and systems development, common in business today. The difference with the decentralised CRM organisation is that the CRM function has been formalised into a strategic operations group. This group is responsible for operations that cross business lines and is a single point for coordination that provides resources, funds and processes to enable the CRM initiatives (Imhoff et al, 2001:105)*





The above model shows a **centralised** *CRM organisation. Imhoff et al (2001) say that in this model campaigns can be developed from the marketing area as well as from the branch offices – which raises the risk of over solicitation – emphasising the need for coordination. Each functional area of the business (sales, service and marketing) will be focused on achieving their own objectives, sales volume, increase in products sold, customer satisfaction etc – without a group looking at the next-best offer for a group customer. The objectives of the strategic operations area is to provide the coordination of activity and information (collection and dissemination) by using the enterprise business systems.*

7) ***Conclusions***

For a 'CRM-friendly' structure, Imhoff et al (2001) describe a criteria set that is optimal for businesses to improve customer-centricity.

- The structure must promote cross-functional cooperation – this favours a centralised structure
- Customer processes must be coordinated and quality needs to be measured across business lines
- Customer technology needs to be deployed at an organisation-wide level rather than departmental or along business lines – to share customer information and coordinate activity

The above criteria for the organisational structure are likely to reduce the impact of the three obstacles identified by Agarwal et al (2004).

- Lack of commitment, communication
- Confusion about roles, responsibilities and accountability
- Lack of participation and motivation

However, Agarwal et al (2004), contend that a temporary centralised team will not achieve long-term success. If there is to be a centralised team it must be seen as permanent (as the CRM strategy is) and that accountabilities for CRM are across the organisation.

CRM Business Integration

As a customer-centric business strategy CRM, to gain full alignment, needs to be completely adopted or absorbed by the entire business. Agarwal et al (2004) believe that CRM should be treated as a product or service and 'infused' into the business. Imhoff et al (2001) provide the following contingencies for achieving a greater level of CRM success.

Customer Information Environment

This section describes the coordination, planning and standards that must be present to provide shareable and integrated customer information. In other words, can the business answer three questions (Imhoff et al, 2001:109).

1) *Can our technology area recognise duplicate, interdependent, or complimentary systems projects and combine or coordinate these if necessary?*
2) *Does the organisation have a plan governing all CRM systems development?*
3) *Does the business have a standard set of customer definitions and customer information requirements that are used for all customer systems development?*

Coordinating Technology Efforts – as there are often multiple systems development taking place, coordination across these initiatives is critical (Imhoff, et al, 2001:109-110), Hocknell (2004) refers to this as 'Steerage' during the 'Follow Through Stage'.

Integrated Customer Information – implementing the chosen technology tools is the first step. Deciding how these systems will share customer data and then planning for further integration of data is the next step. A plan of this nature will achieve three objectives (Imhoff et al. 2001:111).

1) Prioritised projects form the actual CRM development plan
2) The prioritisation exercise is a necessary forum for communication and coordination about the need for shared customer information
3) The plan becomes an instrument for communication within the business and a facilitation point for disputes of priority.

Customer Information Standards – customer data quality was discussed in Module 2. The role of customer information standards is to provide a constant definition of customer information. For example, various parts of the business will define a customer differently, and accordingly, they will maintain different types of customer information in different formats. The customer information standards, facilitates a common dictionary of customer information so that the business can coordinate the collection and use of data.

Ensuring Executive Commitment

An executive mandate is one of the most important factors for CRM success (Imhoff et al, 2001; Lucas, 2003; Agarwal et al 2004). We discussed (at some length) CRM leadership in Module 2, Imhoff et al (2003:113-114) describe, three qualifying criteria that are critical for effective executive commitment.

1) The executive must be an active and knowledgeable sponsor. Active, in that they believe in CRM for the business, and knowledgeable in that they understand the key drivers for CRM, the expected business results and what it will take to make CRM successful within the business.
2) The executive sponsor must have influence, amongst their peers, managers, and frontline people. Actively communicating, influencing and persuading the people of the business that the CRM initiatives will bring long-term value to the business.
3) The executive sponsor needs to take on the role of educating the executive and management team in CRM, the progress of the programme, and gain participation in the identification, prioritisation and funding of CRM.

"The role of senior executives is vital. CRM's impact on the frontline employees is so significant and potentially jarring that clear forceful messages from the top are critical to enforcing accountability and motivating change. Senior executives can dramatically improve the likelihood of success by explaining in detail what a CRM initiative will accomplish and when, who will be involved and which trade-offs will be necessary – and by taking corrective action against pockets of resistance." (Agarwal et al, 2004)

Activity 6.1

In Resource 6.2, Agarwal et al (2004) contend that the best way to develop and deploy CRM is to use "*Sending and Receiving Team Structures*". Think of a business you know well and put names or roles into the following teams:

Sending Team		***Receiving Team***	
Business	IT	Business	IT

Consider the tasks that Agarwal et al (2004) allocate to each team. Now, describe the business environment that would make this team structure a success.

1.
2.
3.
4.

What may some of the roadblocks to CRM success be?

6.3 CRM Roadmaps and Measures

The three primary business areas for CRM are marketing, sales and service. To create a new business with the critical success factors described at the beginning of section 6.2, these three areas of the business will need a CRM friendly roadmap for the future and some new measures.

Imhoff et al (2001:115) used their experience to create five best practices for managing towards the five critical success factors mentioned early in section 6.2.

1) Coordinating activity within marketing, sales and service
2) Adopting CRM plans and success measures
3) Identifying and managing potential cultural issues as they relate to marketing, sales and service
4) Cooperation across marketing, sales and service
5) Integrating other business units

Marketing

Roadmap

Marketing will typically form the brainpower behind the CRM strategy. Marketing will be the consumer of customer information and also a customer information disseminator (Imhoff et al 2001). In these core customer-based activities the marketing team will form the backbone of the CRM operation and the intelligence for the CRM strategy decisions.

Gupta and Lehmann (2005:153-154) contend that the marketing team have the greatest change to make. For example, the research teams need to make at least four changes.

1) They need to measure new metrics and disseminate within the business. Customer acquisition costs, retention rates/costs, customer lifetime value etc.
2) The link between marketing action and customer satisfaction, retention – needs to be extrapolated across to the new customer metrics and the financial performance of the business.
3) Collection of the right data at the right level of aggregation. Customer based analysis requires micro-data (revenues and costs) to be tracked over time to determine (as best is possible) customer lifetime value, share of wallet etc. Essentially, customer based analysis needs different types of information and analysis than product based research.
4) Customer-based research, particularly as the business develops this competency, will require frequent experimentation.

Effective coordination and communication will form a critical competency for marketing and the team will need to develop protocols. Firstly, to protect customers from over solicitation – that is, rules applied to campaign development to ensure customers do not receive too many offers. In reality these rules should cause the marketing team to prioritise which offers to put forward to the customer. The second coordination activity is around the use of the advertising mediums available to the business and using these to support the customer value proposition and current campaigns (Imhoff et al, 2001:116). Thirdly, the communication and coordination needed to effectively encourage the sales and service teams - primarily to collect

customer information, and then also in the coordination efforts of campaign delivery and closing the loop.

Gupta and Lehmann (2005:154) describe the change in the marketing plan outlines in the following way.

Product-Based Plan	*Customer-Based Plan*
1) Executive Summary	1) Executive Summary
2) Situation Analysis	2) Situation Analysis
a) Category/competitor definition	a) Customer analysis/CLTV
b) Category analysis	b) Competitor analysis/share of wallet
c) Company & competitor analysis	c) Product analysis
d) Customer analysis	d) Planning assumptions
e) Planning assumptions	
3) Product objectives	3) Product objectives
4) Product/Brand Strategy	4) Product/Brand Strategy
5) Supporting marketing programs	5) Supporting marketing programs
6) Monitors & controls	6) Monitors & controls
7) Contingency plans	7) Contingency plans

Measures

From this change to customer-centricity comes a change in measures, what follows below are examples of CRM based marketing measures (adapted from Imhoff et al, 2001:117-119).

- Identification of target customer segments and CLV
- Growth in CLV and chosen or new customer segments (Anon, 2004)
- Contribution to the increase in customer retention rates
- Delivery of closed-loop, customer-based cross-selling campaigns and offers
- Feedback from customers and frontline sales and service people is used to improve acceptance rates
- High acceptance rates of offers
- Customer surveys to include share of wallet information, propensity to re-purchase and other customer based micro-data
- Increase in the number of targeted customers
- Marketing works proactively & effectively with sales and services functions
- Campaign information is effectively communicated to frontline people
- Customer information and strategy is communicated and 'sold' throughout the business
- Revenue per marketing dollar, marketing expenditure as a percentage of sales

Activity 6.2

Jot down the typical key measures for a product-centric marketing business – how do they compare with the above list?

1.
2.
3.
4.
5.

Sales

Roadmap

The sales people are the frontline who generate new customers and sell products and services to existing customers. In this role their criticality to CRM is clear. In terms of CRM then, the sales people play an important part in, setting the scene for the ongoing relationship, targeting the preferred customers and collecting customer information. Therefore the sales team cannot act as a maverick group, it must be well coordinated with the marketing and service teams, and with the organisational CRM goals. Gaining commitment from sales people may actually be one of the key challenges, so the message has to be sold to the sales people, stating the clear benefits of changed behaviour to them (Agarwal et al, 2004).

Examples of key activities:

- Moving to customer based activity rather than product based
- Focusing on customer needs and the next best offer
- Using specialists as required
- Accurately recording customer, and sales information
- Actioning marketing campaigns in a timely manner and providing feedback
- Using relationship or account managers to maintain and/or grow customer relationships, conducting account reviews and plans with customers
- Planning relates to customer growth and needs
- Training is focused on solution-selling and relationship development skills
- Rewards and incentives recognise an increase in product holding by customers, increases in profitable customers, higher conversion rates, timely action from internal referrals etc
- Periodic coordination meetings take place with marketing and service (Imhoff et al, 2001:125)
- Sales is about opening relationships, not closing sales (Rackham, 1988)

Measures

From the move towards customer-centric selling comes a change in measures, what follows are examples of CRM based sales measures.

- Growth in chosen customer target groups (in addition to sales units and dollar value)
- Low, if not zero, new business lapse or cancellation rates
- High levels of customer satisfaction
- Strong referral rates from existing/new customers
- Growth in customer tenure
- New customers are established as per the protocols of establishing a new relationship
- Sales people turnover does not exceed industry average
- Costs of customer acquisition are measured and managed

Reflection 6.3

Have you ever received a "Dear Valued Customer" letter? How did it make you feel to know the organisation did not seem to know your name, or that it matters if they do or don't?

Or how about when you ring a call centre and they do not want your name, but a number to identify you!

What measures do you think are needed to motivate business teams to create meaningful relationships?

Service

Roadmap

The service people and processes are the primary interface with existing customers and in this role they play a key part is achieving CRM success.

> "*Customer service is a tremendous opportunity to positively influence the customer's feelings about the organisation and to increase customer satisfaction and loyalty. It is an effective and non-intrusive way to collect information about the customer that can be used in all aspects of CRM analysis and strategy development.*" (Imhoff et al, 2001:119)

Gupta and Lehmann (2005:159) quote research that dissatisfied customers decrease their spending 10percent per year, while very satisfied customers increased their spending by 24percent per year (based on Harrah's Entertainment Inc.). Customer-focused service activities are clearly important to the overall CRM strategy.

Key activities for the Roadmap.

- Service centres may be structured along product lines, however customer information is stored centrally and transactions, like for example changing the address, can be done centrally, simply and easily
- Customer service processes are coordinated across all areas that impact the customer
- Customer information is collected and used
- The customer information standards are used uniformly
- A single-customer-identifier can be used within the CRM system, but customer records can be accessed through using any information the customer can supply
- Valuable customers (current and potential) can be identified at all service points
- First call or enquiry resolution
- Service people are empowered to impact customer satisfaction levels by undertaking retention activities and solving problems
- Service people see themselves as relationship managers
- Service representatives have the skills to recognise and react to retention signals, and are skilled in cross-selling
- Correlating to the use of a customer service index

Measures

Measures for service in a CRM-friendly organisation must have metrics that are focused on the customer (Imhoff et al, 2001:122). For example, call centres will often give the customer service representatives (CSR) a target for average handle time. However, this measure may not be in the interests of a customer, especially if the customer has some concerns and the CSR is trying to get them off the line.

Additionally, measuring customer satisfaction on its own may not tell a business much at all, other than how satisfied the customer was at the last point of contact. One effective tool is the customer service index (CSI). The CSI uses the three or four critical elements of a service delivery process and creates an index across the three or four measures (Christopher and Peck, 2003:36-37).

We could take the following three elements as an example.

1) On—time delivery
2) Order completeness
3) Error-and-damage-free delivery

1) On-time delivery is the number of deliveries in a period that meet the customer's original request, divided by the total number of orders received. Multiplied by 100 gives a percentage. Orders delivered on time/total orders received x 100.
2) Order completeness is the percentage of orders shipped complete with the first shipment, and is calculated by dividing the total original order shipped complete by the total orders received. Orders delivered complete/total orders received x 100.
3) Error-and-damage-free delivery can be assessed using invoice adjustments/credits as an indicator of the overall accuracy and quality of the order management and logistics process. It is calculated by dividing the number of 'clean' invoices by the total number of invoices raised. Clean invoices/total invoices x 100.

The CSI is then an aggregate of these measures. Using an aggregate means that all factors in the service delivery have an affect on the overall result – which is how the customer sees it. Often businesses only focus on one or two measures, and miss the holistic customer experience.

Other measures may include.

- Improvement in CSI
- Accuracy of information, orders, delivery etc
- Growth in customer tenure
- Growth in targeted customers
- Cross sales and retention saves
- The ability to handle all customer issues in one call (Imhoff et al, 2001)
- Referrals to the sales channel
- For self-service on the web, consider ((Zingale & Arndt, 2001)
    - Search criteria success
    - How often customers read emails or messages
    - How often self service features are used
    - Surveys to discover how the web services compare with others

The focus on customer service measures must facilitate a continuous improvement approach to service delivery. Customer expectations never remain constant, but are raised by great service experiences.

6.4 The Future of CRM

Resource 6.3 Collins K. & Marcus, C. (2003), *Top-10 Marketing Processes for the 21st Century*, 24 July, Research Note, Gartner

The future of CRM as a key business discipline seems certain. Riding on the groundswell of consumerism with the increasing demands from customers for businesses to treat them like individuals and deliver value, CRM, as the customer-centric business strategy, seems highly likely to be the answer. Additionally the customer relationship complexity is growing – Relationship is a function of (f) = (number of segments) x (number of products/services) x (number of channels) x (number of competitors). This complexity will drive greater sophistication within the business to be competitive by delivering improved value to the relationship (Collins and Marcus, 2003).

To facilitate the discussion on the potential future of CRM we will break this section into three parts, the business, marketing and technology.

The Business

In this section, the bullet points below raise key ideas or trends relating to the core discipline of CRM development, deployment and management within a business.

- Greater focus of customer value creation and extraction, as opposed to product centric planning and execution. This includes a mature approach to seeing the value of customers over their lifetime. This does not mean that businesses that have been successful with product-based strategies disband their competencies, but that they re-orient themselves more towards the customer (Gupta and Lehmann, 2005:162-164).

- A greater value placed on the referral value of customers – that is, that a delighted customer would build brand and value through word of mouth referrals.

- CRM will be driven more by the CEO than in the past. The strategic shift (discussed by Agarwal et al, 2004) that is taking place in many firms, toward customer intimacy and away from product excellence or operational efficiency, will be CEO led. One of the outcomes from this is likely to be an improved understanding of CRM budget allocation and benefits expectation.

- It is likely that there will be a formalisation of governance for Customer Relationships, particularly regarding company structures and accountabilities. Many enterprises may describe themselves as customer-centric, but very few involve a customer advocacy role on the leadership team.

- A greater need for communication and coordination across business units, and as discussed by Agarwal et al (2004), CRM development and deployment teams will take a mixed discipline appearance.

- Small-to-medium sized businesses will significantly increase their uptake of CRM technology, due to competition, low prices and subscription-based models (Anon, 2005).

Marketing

There is a nexus between the future of CRM and the marketing function of a business. Marketers will be the enablers of business decision making for CRM. Collins and Marcus (2003) predict that "*by 2007, marketers that devote at least 50 percent of their time to advanced, customer-centric marketing processes and capabilities will achieve marketing ROI that is at least 30 percent greater than that of their peers, who lack such emphasis (0.8 probability). By 2007, fewer than 20 percent of marketing organizations among Global 1000 enterprises will have evolved enough to successfully leverage customer-centric, value-added processes and capabilities (0.8 probability).*" This statement should be a wake up call to most businesses, the CEO and those accountable for marketing and sales.

Additionally, Gartner analysts predict that marketing departments will take more of a strategic role in CRM than they have in the past. Business process automation (including prospect improvement) and customer data integration are likely to be the top priorities (Anon, 2005).

Collins and Marcus' Top-10 processes are summarised here.

1) Improved ***marketing operations management*** is needed to deliver on the complexity required by customers of the 21st century.
2) ***Marketing visibility, accountability and value measurement*** must improve from where it is today to certify coordination and alignment of resources and therefore ensuring a greater return on investment.
3) ***Customer and market insight generation*** as discussed in earlier modules, this process is driven by improved capture and use of customer data.
4) ***Customer-value-based segmentation*** enhancement by using CRM principles and CLV. "*The key to customer-value-based segmentation is to understand if, when and how a customer is likely to derive value, and whether the enterprise can effectively orchestrate its resources to provide that value and achieve a desired return.*"
5) ***Portfolio and capacity-based resource allocation*** to enhance cross-department coordination and communication, and augment company resources.
6) ***Product development and introduction*** will need to be driven by customer's needs and preferences, with products/services being introduced in shorter timeframes.
7) ***Customer-needs-based trigger identification*** – "*marketing communication processes must shift their mind-set from "waves" of programs to the identification and implementation of life-event and interaction driven marketing strategies and tactics*".
8) ***Orchestrated customisation*** that uses all resources and processes internal and external to the business, to enhance the one-to-one experience for the customer.
9) ***Orchestrated cross-channel dialogues*** – customers view their relationships with the organisation, not a call-centre or branch, or an Internet service. Whilst each one of these channels may loose the customer for the business, each plays a part in the symphony that the customer hears from the organisation.
10) ***Customer-value-based network management*** discussed in Module 2.

In the first Module we looked briefly at Kotler's Ten Deadly Marketing Sins (2004). As the 'guru' of marketing we can probably accept that his condemnation of marketing practice will have some influence on marketing managers. Here then, are what Kotler (2004:145) believes are the ten commandments of marketing practice for the near future.

1) *The company segments the market, chooses the best segments and develops a strong position in each chosen segment.*
2) *The company maps its customers' needs, perceptions, preferences and behaviour and motivates its stakeholders to obsess about serving and satisfying the customers.*
3) *The company knows its major competitors and their strengths and weaknesses.*
4) *The company builds partners out of its stakeholders and generously rewards them.*
5) *The company develops systems for identifying opportunities, ranking them, choosing the best ones.*
6) *The company manages a marketing planning system that leads to insightful long-term and short-term plans.*
7) *The company exercises strong control over its product and service mix.*
8) *The company builds strong brands by using the most cost-effective communication and promotion tools.*
9) *The company builds marketing leadership and a team spirit among its various departments.*
10) *The company constantly adds technology that gives it a competitive advantage in the marketplace.*

Activity 6.4

Compare and contrast the ten practices from Collins and Marcus with those of Kotler's ten commandments.

Is there a complete overlap of the two lists?

How many of these practices are dependent on technology?

How many of these practices do you think are purely about people and process?

Create your own ten key activities for the marketing function in a CRM/customer-centric business

1)
2)
3)
4)
5)
6)
7)
8)
9)
10)

Technology

Having said from the outset that CRM is not all about technology, this final section will (however) look at some of the trends appearing for CRM technology. Adapted from Beal (2005) and Rainier (2005).

- When CRM technology first became available, the concept and potential benefits were so attractive that business took what the software vendors offered. Today what the customer thinks is far more important, so software providers are listening to businesses and providing solutions in various ways.

- There is likely to be a shift from mass production software to more customisation products and services. Businesses are asking for a precise fit to their requirements. Customisation provides an answer to this demand for both products and services.

- The evolution of CRM software will feature more vendors moving away from client/server architectures to Web-based applications. This would also pickup on the trend for the use of web-services and extensible mark-up language (XML).

- In the near future CRM vendors are likely to be offering both licensed and hosted CRM solutions. This is also likely to see a rise in organisations using hosted solutions (Shermach, 2005). This rise in CRM-software-as-a-service is likely to be the most disruptive long-term trend to affect vendors (Anon, 2005).

- There is likely to be an increase in wireless capabilities, potentially emerging with real-time analytics on the service or sales side of the business. Some analysts believe that by 2007 all CRM applications will be available on wireless.

- We are likely to see the development of marketing resource management (MRM) applications that improve the organisations ability to plan, coordinate execution and measure the impact of marketing efforts. These systems may well be the next generation analytical/operational CRM systems (Lauchlan, 2004).

- Vendors are also paying attention to process-oriented architecture, such as Siebel's Universal Application Network or AIT's Portrait system, that essentially builds architecture around the processes of the business.

- IT departments will need to realign themselves with the growth initiatives of the business and the agendas of sales and marketing departments (Anon, 2005).

- *"The standalone CRM vendor will not be a factor in business planning in the next five years. Companies will either be acquired by ERP (enterprise resource planning) or other companies, or will re-emerge looking very different than they do now. CRM vendors are under pressure from all markets. To survive they will become much more niche-oriented. On the other hand, ERP vendors with no CRM solution will also begin to look different. They will need to offer functionality that allows them to partner with other vendors, or will have to build their own integrated solutions to be a factor in business planning."* (Rainier 2005)

Epilogue

The successful CRM Organisation of the future (Imhoff et al, 2001:435-436).

- *The enterprise leader will have a consolidated 360-degree view of the customer, the customer's interactions with the enterprise, and the customer's relevant interactions with other customers.*
- *The enterprise will deploy a technology infrastructure that will enable it to focus on the customer. The customer does not care about the technology per se; the customer cares about his or her experiences with the organisation.*
- *The enterprise will adjust to fulfil customer-managed relationships, recognising that customers will control their own destiny.*
- *Successful companies will get their customer to invest in the relationship. As the differences between goods and services provided by companies' decreases, investment by the customer in the relationship raises the cost of switching to another organisation. The more the customer has invested in the organisation, the higher the cost for a competitor to acquire that customer.*
- *The enterprise will be able to deal with information consistently across all channels and will be able to turn analysis into action.*
- *The enterprise will participate in managing relationships between customers and will use knowledge gained to improve its relationship with the customers.*
- *The enterprise will serve its customers with personnel and systems dictated by the customer's preferences and the customer's value.*
- *Customers will have a good feeling about the enterprise. The customers will have invested in the enterprise by willingly participating in increasing the company's knowledge about their habits, preferences and relationships, and they will appreciate the superior service, which represents the return on that investment.*
- *Customers of successful CRM organisations will spread the word.*
- *CRM activities facilitated by a single view of the customer will become part of the business planning process and will be considered in the budgets and business plans. Business plans will be defined in terms of Customer Life Cycle Management, and business decisions will be made based on customer lifetime value, not quarterly results.*

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READING 1.1

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the Relationship-Based Enterprise

Powering Business Success Through Customer Relationship Management

Ray McKenzie

Toronto Montréal Boston Burr Ridge, IL Dubuque, IA Madison, WI New York
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London Madrid Mexico City Milan New Delhi Santiago Seoul
Singapore Sydney Taipei

1 CHAPTER

The Relationship-Based Enterprise

Ah, but a man's reach should exceed his grasp,
Or what's a heaven for?
—Robert Browning,
"Andrea Del Sarto," 1855

Companies, like people, strive for perfection. And companies involved in Customer Relationship Management (CRM) initiatives are no different. But what if the perfect CRM initiative lies forever beyond their grasp? What if CRM "heaven" doesn't exist?

Perfect information about customers is a major tenet of CRM. To obtain this information, companies invest in computer and information systems that are specifically aimed at assembling, refining, and honing large, integrated customer databases. This investment, involving millions of dollars, is supposed to enable dramatic improvements in marketing, such as the targeting of individual customers and the tailoring of products and services to meet these customers' specific needs, thereby turning them into long-term loyal customers. And a complete, 360-degree view of

customers is supposed to deliver the capability to cross-sell and up-sell, giving companies an increased share of their customers' wallets, minimizing the cost of acquiring new customers, reducing churn, and thus fueling growth.

A new breed of companies, moving toward an emerging organizational model—the Relationship-Based Enterprise—has begun to question whether CRM by itself can deliver these benefits.

Characteristics of the Relationship-Based Enterprise

Imagine an organization unconcerned about whether or not it has perfect information about its customers. An organization that doesn't focus on customer loyalty and that is not concerned about accurately targeting a particular market segment. That accepts it will never have the perfect product or service. That is just not interested in the perfect process for dealing with each customer.

Such an organization might seem disconnected from reality and bound for failure.

But the truth is things change. For example, five years ago, who knew that new companies without profits—the dotcommers—would be worth billions? Or, that a corporate giant with nearly a century of experience, such as the *Encyclopaedia Britannica,* would be brought to the brink of bankruptcy? While the owners of *Encyclopaedia Britannica* spent time and energy improving an already excellent product, their customers were buying computers that not only came with free encyclopedia software, such as Microsoft Encarta, but that also provided access to a whole new world of on-line information. The *Encyclopaedia Britannica,* one of the best paper-based references in the world, suddenly seemed old-fashioned—and very expensive.

The new economy is dominated by incredible competition, where customers can choose from a wide variety of suppliers, products, and channels. The Internet allows individual consumers, and not just large multinational companies, to shop the world

over for a supplier that meets their needs. And when consumers change the way they choose products and services, institutions like *Encyclopaedia Britannica* suffer. Out of touch with what their customers really wanted, and perhaps lulled into complacency by the brand loyalty of days gone by, they were slow to recognize a new reality—that customers today are playing a much stronger role in business relationships.

The most successful new companies—the Amazons, the eBays, the Yahoos, and many others—deeply understand this new reality. They are not just "enabled" by the Internet; they "get" it. And in aggregate, they exhibit characteristics of an emerging organizational model—the Relationship-Based Enterprise. Its characteristics are not yet fully formed, so a rigorous and formal definition of this model would be premature. However, certain characteristics already stand out clearly.

The Relationship-Based Enterprise is Conversation-Centered

Rather than striving to acquire perfect information about customers, or to produce perfect goods and services, or to build perfect processes, the Relationship-Based Enterprise engages its customers in *conversations,* as detailed in Chapter 3, "The New Language of Relationships."

This concern with conversations, as opposed to transactions, distinguishes the Relationship-Based Enterprise from the traditional enterprise. Unlike a transaction-centered enterprise, the Relationship-Based Enterprise knows that it must do more than focus on each "moment of truth" or each individual transaction. It knows that its customers are constantly changing. And it knows that conversation is the only way that it will be able to discover who its customers are, what they want, and what they expect. Instead of delivering a monologue to its customers, it engages its customers in conversations that are true dialogues.

All Relationships are Handled as Conversations

The Relationship-Based Enterprise also recognizes that to provide products and services that meet the demands of its customers, it must engage its suppliers and partners in this same kind of conversation. And so it treats all relationships as if they were conversations. The Relationship-Based Enterprise deals with every relationship —whether it is with a customer, supplier, regulator, stakeholder, partner, or employee—in the same way. And this approach entails changing the very nature of all communications.

Conversation has always been a part of a business relationship. But for many years, customers could only converse with sales people or assistants in stores. Now, fueled by the technologies of the communications revolution, interactive exchange is both technically feasible and affordable. Customers can converse with agents in call centers, with each other in Web-based user groups, with e-mail partners, with chat room participants, with affinity-group members, with Web masters, and with "intelligent" software agents that operate on portals and Web sites. Given customers' new capabilities, it is even more important that organizations treat their relationships with customers as conversations.

Customer Interactions Can Occur Anytime, Anywhere, and Anyhow

The most widely recognized benefit of Internet usage and e-commerce has been to provide businesses with the ability to deliver information and service anytime and anywhere. It has allowed organizations to overcome the traditional barriers of time and geography. But another major benefit is the ability to interact with customers in ways that better serve the needs of those customers. For the Relationship-Based Enterprise, this means adding "anyhow" capabilities to "anytime and anywhere."

Today's demanding customers decide where, when, and how they deal with their suppliers, reversing the control that organizations

had over delivery channels and business hours. Static relationships, in which customers primarily act as buyers with limited conversation at a few points in time, are being replaced by dynamic relationships, in which customers play many different roles, including buyer, user, self-server, and co-designer of a product or process.

The overall trend is from monologue to dialogue, from the one-way communication used in the mass market to two-way communications between individual customers and business. The new standard is interactive and conversational.

The Value is in the Conversation

The Relationship-Based Enterprise recognizes that it is conversations with customers that create value. It takes responsibility for ensuring that these conversations are occurring and that value is created in each and every exchange that is a part of the conversation. As a result, the enterprise has the mechanisms it needs to remember and recall conversations with customers.

How did this shift come about?

Commerce used to be simple. Companies produced, distributed, sold, and delivered products and services to customers. Customers played the role of buyer. They were the last link in a sequential supply chain. Value was "delivered" to the buyer along with the product or service. The market determined the price and it measured the value of the product. The buyer bought. End of story.

Many approaches toward customer relationships are based on this simple model. The role played by the customer in value creation is minimized. This model can be called *value delivery.*

Now, as customers begin to converse more freely with enterprises, the roles of both parties in the creation of value are starting to change. Customers are even becoming involved in the design, development, production, and delivery of products and services. In such cases, they act more like employees, business partners, or suppliers rather than traditional customers.

Under this emerging model, especially in markets such as software where technological change is rapid, there are major impacts for both suppliers and customers. Some customers may prefer to act only as buyers. But others may be early adopters of a new product who want to participate in prototyping and testing. Still others may be experts who are opinion leaders in the field. Or there can be customers whose opinions help evolve a product and improve its quality. When customers play these roles, the boundaries between enterprise and customer become blurred. They become co-designers and co-producers of products and services. Are they buyers or are they partners in a supply chain? They are both. If the prior model was about *value delivery*, the emerging model is about *value creation.*

Perfection is Not the Focus

The Relationship-Based Enterprise knows that value no longer comes in a box. The old value-*delivery* model, in which the enterprise offers products and services for consumption by customers, links value exclusively to the quality of products and services. The more perfect the products and services are, the greater the value delivered.

In contrast, the new value-*creating* model employed by the Relationship-Based Enterprise is about both parties *exchanging* value through conversations, as well as products and services. The Relationship-Based Enterprise engages its customers in working with the enterprise to produce value. The more customers it can involve in its processes, and the more that it can move that involvement upstream toward design, the greater the value that is created—for both parties. Consider, for example, the customers of Dell. They are more than prepared to work with Dell to define the configuration of a computer. Value is not in the computer itself, a standard commodity, but instead is in the conversation that creates the configuration of the precise computer that they will purchase.

For the Relationship-Based Enterprise, even the best information in the world about any particular customer or group of customers has a shelf life. Customer information is perishable. The only reasonable and practical approach to knowing who customers are and what they want and expect is an ongoing conversation—a conversation that will allow the enterprise to continue to discover its customers. Through conversation, it can learn the exact nature of its customers' needs, and it can learn how to adjust and adapt its business processes to support those needs. The Relationship-Based Enterprise is not only open to a dialogue with its customers but is also prepared to allow them to have access to its processes and to share control over those processes, sharing information, knowledge, and expertise.

The Relationship-Based Enterprise is not interested in perfect information about its customers. It knows that its customers are constantly changing in response to their own needs, as well as the pressures and opportunities of their environment.

The Hunted Become the Hunters

Like a traditional company, the Relationship-Based Enterprise recognizes the importance of defining market segments and targeting those customers with messages, products, and services. But it also knows that in the new economy, the rules of the game have changed. In the old economy, the company was the hunter. It developed programs to segment and target its customers.

Traditionally, companies broadcast messages and delivered products for sale to market segments (usually demographic and geographic). The key to success was accurate targeting in a relatively stable marketplace, where the segments were big enough to hit and did not move very often or very quickly. In the emerging model, companies want to become conversation partners with individual customers or small groups of customers (often groupings such as affinity groups, clubs, or professional groups). The

challenge is not to target them but to engage them in a dialogue and then exchange the information (or personalized messages, as defined in Chapter 13) that they want to hear. The most effective solution is not to target these customers, but to become their target. Web sites, stores, even call centers, must line themselves up in the cross-hairs of their customer's sights: becoming targets that can start conversations. The customer hunts for the best deals and information from a sea of suppliers and Web sites, some owned by companies, others by consumer groups, and still others by special interest groups. The hunted have become the hunters.

Conversations are Conducted in Real Time or Near Real Time

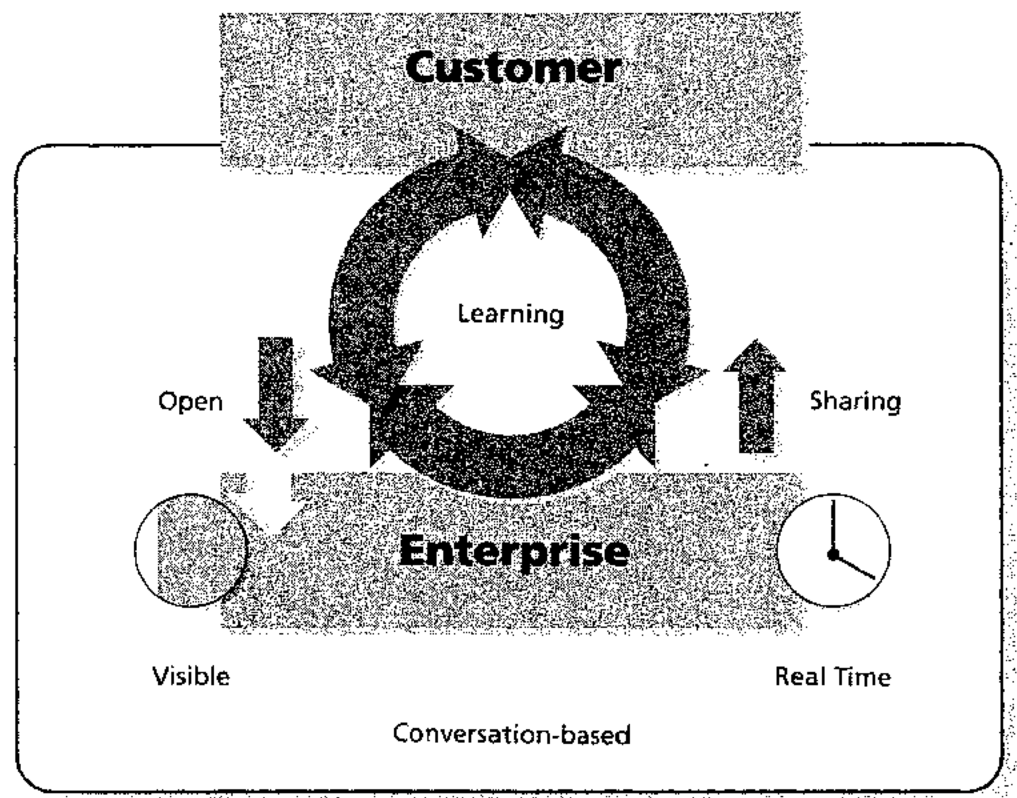
The Relationship-Based Enterprise is passionate about response time. Where possible, it conducts all conversations in either real time or near real time. The immediacy of dialogue is what matters, in part because the customer is only a click away from going somewhere else and partly because information is such a significant part of every product or service. Immediacy is a key factor in the quality of the conversation, as well as the value obtained from that conversation.

Playing chess long-distance by snail-mail was fun—but a lot more long-distance chess gets played in real-time over the Internet.

Near-instantaneous communication with anyone, anywhere in the world, characterizes the current communications revolution. Interestingly, this communications revolution can be viewed as being less about technology evolution than about human pursuit of communication. Companies obsessed with real-time communications are leaders of the communications revolution and are the staging ground for the Relationship-Based Enterprise.

Figure 1-1 illustrates the characteristics that have been identified so far.

Figure 1-1: *The Relationship-Based Enterprise*



Child of the New Economy

To reiterate, the Relationship-Based Enterprise, a child of the new economy, recognizes that it is not possible to have perfect information about customers, a perfect product, or a perfect organizational structure. Instead, it focuses its efforts on continuous learning, which is only possible when it engages its customers in conversations. Being conversation-based and externally focused are the principle characteristics of this emerging organizational model. It is very easy for an enterprise to consider spending time and energy trying to get the "perfect information" about its customers, in the hope that this information will allow it to anticipate its customers' every need, to provide just the right product at just the right time and place. It is also easy for any organization to become focused on spending time and energy to get the "perfect

offering" in the hope that this perfect offering will take the market by storm and launch the enterprise on a path of unparalleled growth and prosperity. And it is easy for an organization to consider spending time and energy trying to get the "perfect organizational structure" and management processes so that it may continually respond to the changes in the environment.

In the new economy, these are elusive—and dangerous—illusions, disconnected from the new reality of business relationships. To fully understand this new reality, the Relationship-Based Enterprise, and where this is all going, it is worth looking back in time to trace how companies began to evolve beyond the Integrated Enterprise model.

A Step Back in Time—Evolving Beyond the Integrated Enterprise

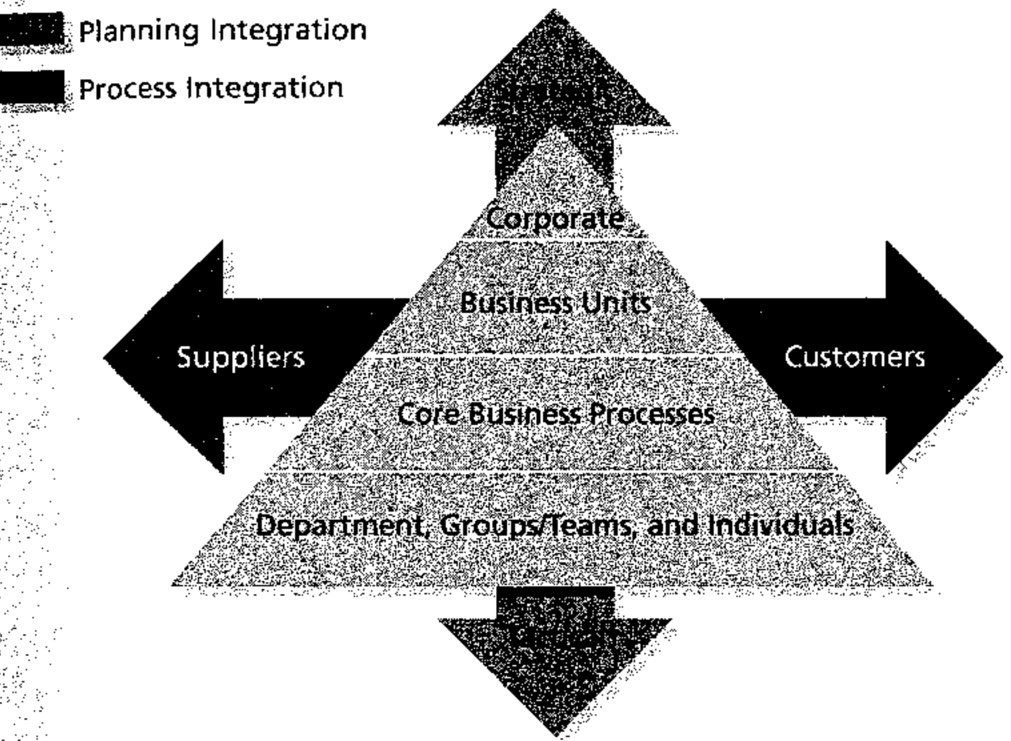
For more than a decade, through re-engineering, downsizing, and rightsizing, organizations have spent enormous amounts of time and money improving every aspect of their internal operations. Lower operating costs and higher quality were seen as the path to providing customers with increased value, and as the keys to profitability and growth. The focus of much of this effort was at the boundaries between functions, processes, departments, divisions, and workgroups. These boundaries were seen as barriers that lessened the effectiveness and efficiency of business operations.

Integration of all aspects of the business was a central theme of such programs. As illustrated in Figure 1-2, business processes and information systems were integrated horizontally, from supplier to customer. Management and planning processes were integrated vertically, from the corporate level down to the task or job level, in some cases including measurement systems for each division, department, work group, or individual. Such initiatives ensured that:

- all aspects of a business were synchronized with strategic plans

- the cycle time from "concept to cash" was reduced
- employees had the opportunity to make improvements to the process before the quality of the products and services could decline
- costs were reduced
- value was added to the products and services at every step along the way.

Figure 1-2: *The Integrated Enterprise*



Over the years, attention shifted from the "white spaces" within organizations to the "white spaces" between organizations. The white space between an organization and its customer is the "place" where business exchanges occur. Initial efforts to address these new white spaces followed the same pattern that was employed to address the internal white spaces—the integration of information systems and business processes.

Then came the re-engineering boom, which changed many investors' and employees' views of a successful business organization. The models of success were the product and service "factories" that were engineered and integrated to be lean and mean. These

factories featured a streamlined hierarchy that often included the outsourcing of non-core functions. And they interfaced with both customers and suppliers using private information networks, such as those associated with electronic data interchange (EDI). Reengineering solidified integration as the approach toward the white spaces that exist between the enterprise and its customers.

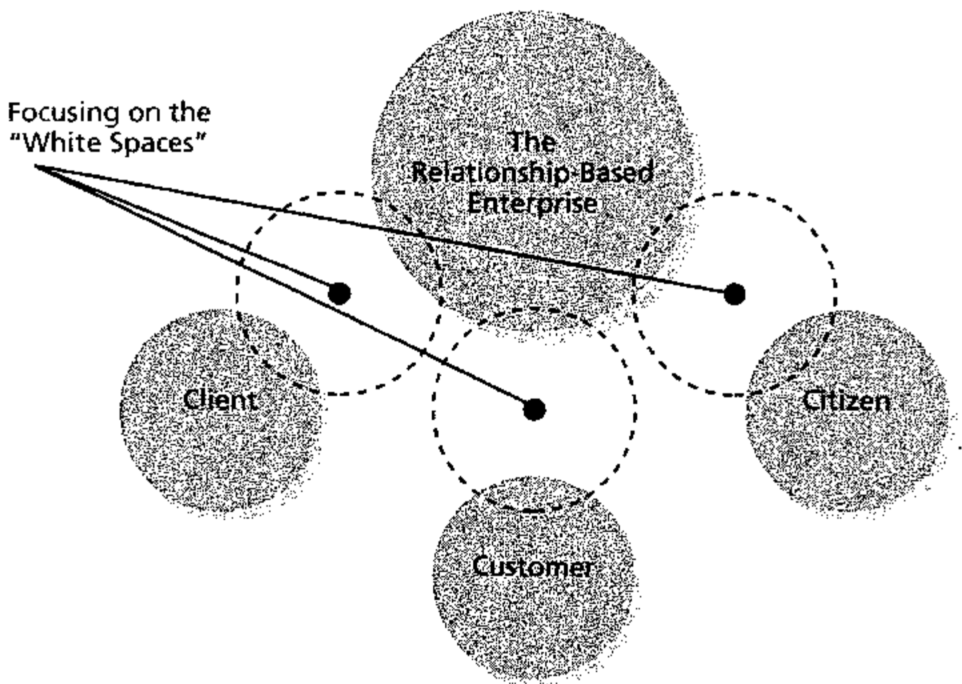
The next step was to extend the concept of the networked company much further. The first dot-com companies used the power of the Internet to create business networks—completely flat networks—of agile, entrepreneurial enterprises that form, dissolve, and re-form to meet changing customer needs. The non-hierarchical, loosely coupled partnerships established by Amazon.com early on are an example of these networks. They were designed for rapid growth.

The introduction of the Internet as a vehicle for conducting business profoundly affected the very nature of the white spaces between an enterprise and its customers (see Figure 1-3). This is because the Internet is vastly different from any other technology. Its single most distinguishing characteristic is the ability to support an interactive dialogue. As a result, these white spaces become more than just another place to conduct business-as-usual.

Enterprises that have led in this area are those in the e-commerce space, and e-tailers in particular. They focused much of their energy on the conversations that occur in the white space between themselves and their customers and, as a result, engaged and captivated their customers. This type of customer focus in the new economy marks the emergence of the Relationship-Based Enterprise, which is more than a "customer-centered" enterprise, more than an "integrated" enterprise, more than an "extended" enterprise, and more than a learning organization. Unlike these traditional enterprise models, many of which did well in the external white spaces but not so well in their internal white spaces, the Relationship-Based Enterprise is about balance.

Another way of thinking about a Relationship-Based Enterprise is as a "recombinant" enterprise, like a strand of recombinant DNA, produced when segments of DNA from different sources are

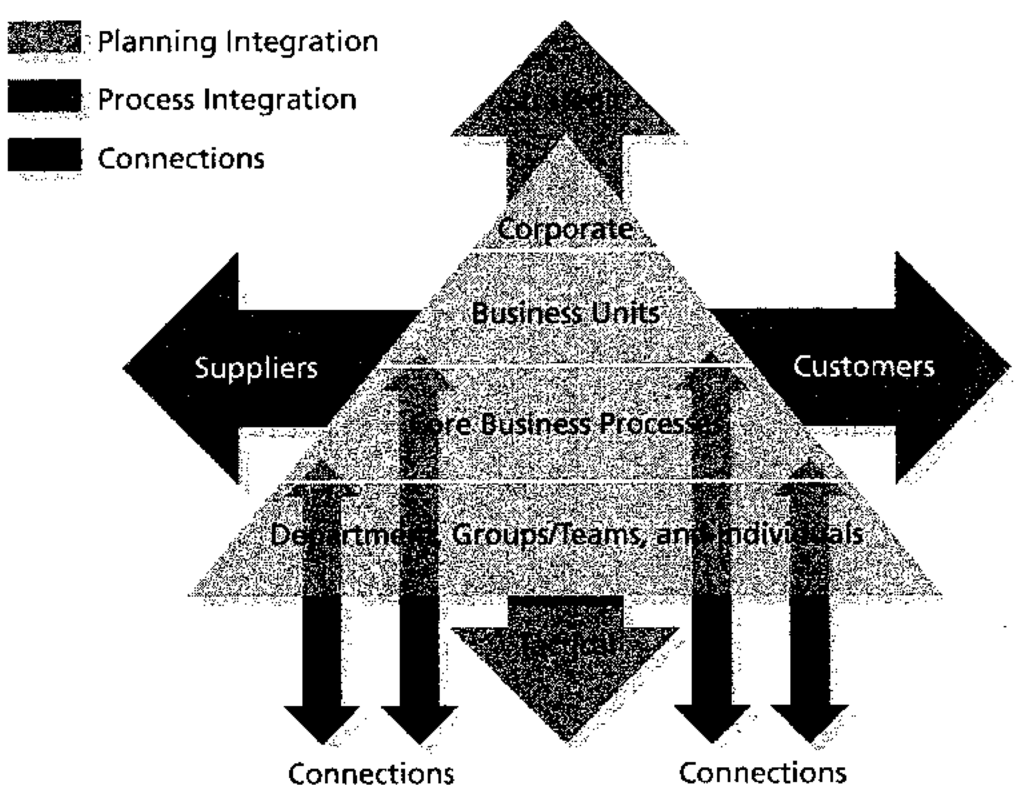
Figure 1-3: *The White Spaces*



joined to produce new genetic material. A Relationship-Based Enterprise has the ability to attach and detach as the needs demand, creating new business forms. Such connections are not necessarily aimed at integrating the processes of production and delivery, but at all of the other kinds of support required to facilitate the relationship. The Internet provides a standard platform to give the enterprise the freedom to attach to any other enterprise.

While CRM depends on the integrated environment, it alone is simply not enough. To be successful in its relationships with customers, today's enterprise must become both fully integrated and fully connected. Being fully integrated and being fully connected are not the same. Integration is done from the point of view of the products, services, and processes of the enterprise. Connection is from the point of view of the customer. Full connection implies that every aspect of the business of an enterprise is accessible to a customer. Figure 1-4 illustrates this distinction. The arrows labeled "connections" illustrate how deeply these customer connections must penetrate the enterprise, providing access not just to departments, groups, and individuals but to the core processes of the business.

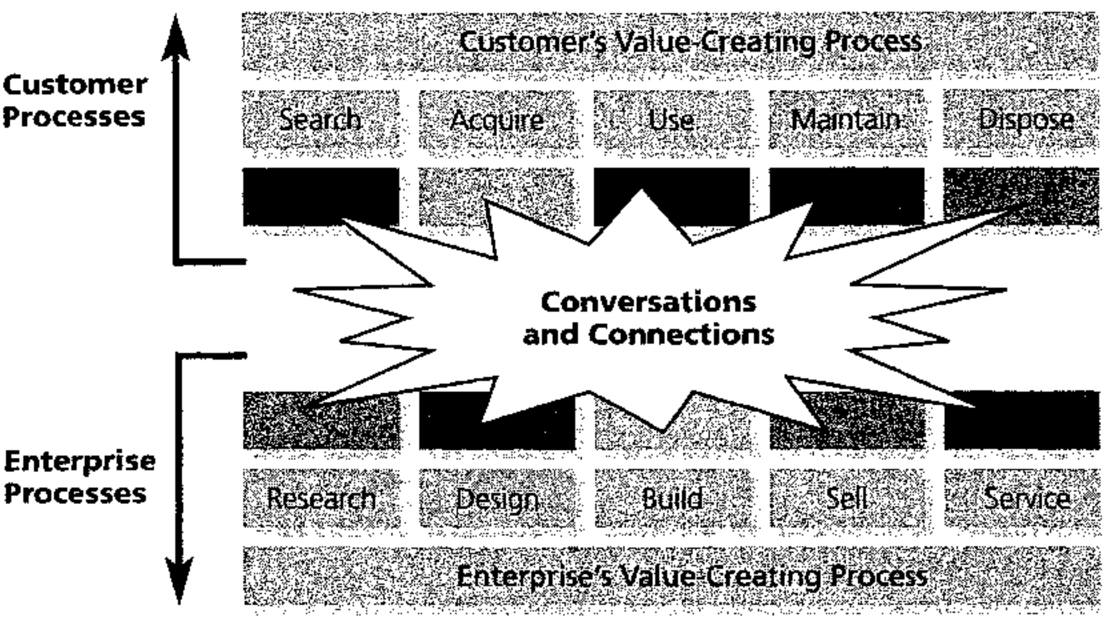
Figure 1-4: *Integration and Connectivity*



These connections traverse the "white spaces," as were seen in Figure 1-3. The white spaces are where both connections and conversations occur. As shown in Figure 1-5, both the customer and the enterprise have their own value-creating processes. The customer's value-creating process is represented as Search, Acquire, Use, Maintain, and Dispose. The enterprise's value-creating process is represented as Research, Design, Build, Sell, and Service.

The challenge faced by the emerging Relationship-Based Enterprise and its customers is to dynamically connect their processes so that each may realize the value they seek. Some have suggested that the best way to connect these separate value-creating processes is to recast one or the other so that both are identical. For example, if the enterprise were to recast its processes as attract, transact, fulfill, service and retire, then their processes would more closely resemble the processes of their customers. This approach is not the approach taken by the Relationship-Based Enterprise. First, it would be relatively expensive. And secondly, it would limit its flexibility—each customer may have a different set of value-creating processes.

Figure 1-5: *Value-Creating Processes*

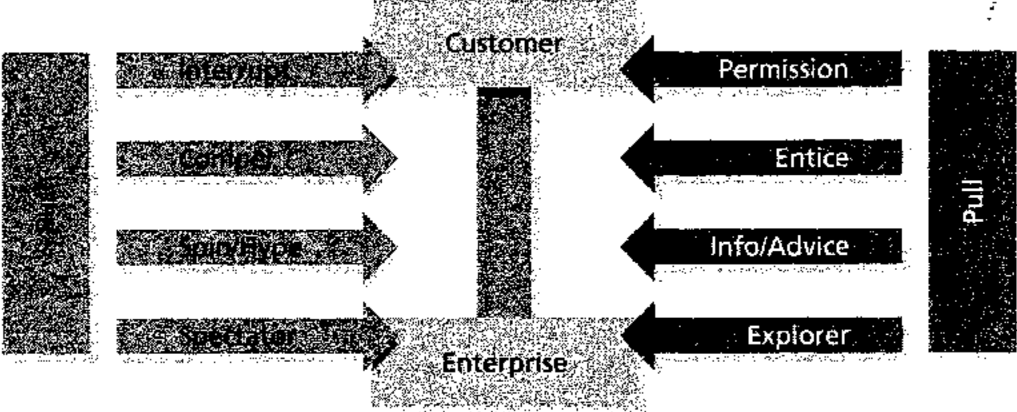


In the new model, Relationship-Based Enterprise uses conversation to dynamically join its processes with those of its customers. As a result, it can create just the right process for the right customer and the right situation. For example, when one customer approaches a lender for a mortgage, the conversation may involve a dozen exchanges, while a different customer may only require one or two exchanges to complete a similar conversation. It may be pointless and tiresome to force the second customer through the same dozen exchanges. At the same time, it may be too risky to allow the first to secure a mortgage with only one or two exchanges. Dynamically connecting business processes when and where required provides the greatest degree of freedom, and the vehicle for this dynamic alignment is "conversation."

Finding the Right Balance

The fact that the enterprise must now become the hunted affects management's choice of not only the e-commerce and CRM technologies they employ, but also their choice of business and organizational designs.

Figure 1-6: *From Push to Pull: Changing Customer Roles*



Associated with this power shift is a move from monologue to dialogue. This move changes the nature of marketing. The traditional "push" methods are being replaced by "pull" methods more appropriate to a marketplace where customers take the initiative—in searching for information, in shopping around, and in negotiating personalized prices and services. Figure 1-6 contrasts the characteristics of a relationship that is dominated by a push approach versus one that is dominated by pull. The shift from push to pull is evidenced by the following changes:

- marketing by interrupting the customer is giving way to permission-based marketing
- compelling the customer to listen to advertising is giving way to enticing the customer to listen to messages
- spin and hype are giving way to information and advice.

Going forward, both enterprise and customers have new roles to play. The balance is shifting, from "push" to "push *and* pull." As organizations engage their customers in more and more conversation, the goal is not to do away with push advertising. Mass marketing is still an effective method of creating a target, and building traffic on a company's Web site. At the same time, there is no substitute for a sticky, conversational site that keeps surfers clicking their way back, or an enterprise that engages its customer in a dialogue.

Window on the Real World:

Centrica

No one understands changing customer expectations better than companies like Centrica, a new holding company for British Gas in the U.K.'s deregulated energy industry. With the Centrica Group, British Gas is responding to a completely new situation: suddenly, their customers have a choice. Instead of being captive "spectators" they are now explorers with their own energy agenda. The customer role—and the role of British Gas—changed dramatically.

British Gas looked at their assets, and decided that customer information and customer ownership was probably their true "competitive advantage" for success in the deregulated environment. To leverage this advantage, British Gas identified a diversification strategy articulated around its customer base—in effect, a Customer Relationship Strategy. In a bold move, management decided to go from simply selling gas to selling household services—including electricity, maintenance of gas central heating, financial services (including credit card), automobile roadside assistance, and home security systems. Its new business vision was solving household-related problems, i.e., taking the inconveniences out of running a home.

The bold move into electricity and other household services worked. Centrica enabled a business (the old British Gas), whose assets were 19 million gas consumers in 1996, to evolve within three years into a completely new business with 15 million customers purchasing gas, appliance servicing, plumbing services, insurance services, credit card services, and vehicle repair and recovery services. In addition, Centrica entered the electricity market and acquired over two million customers and nearly 15 percent of the

market within its first year. Centrica now has over 3 million electricity consumers and over a million credit card customers. Centrica has also entered the telecommunications market, offering a fixed line, mobile and Internet services on one bill.

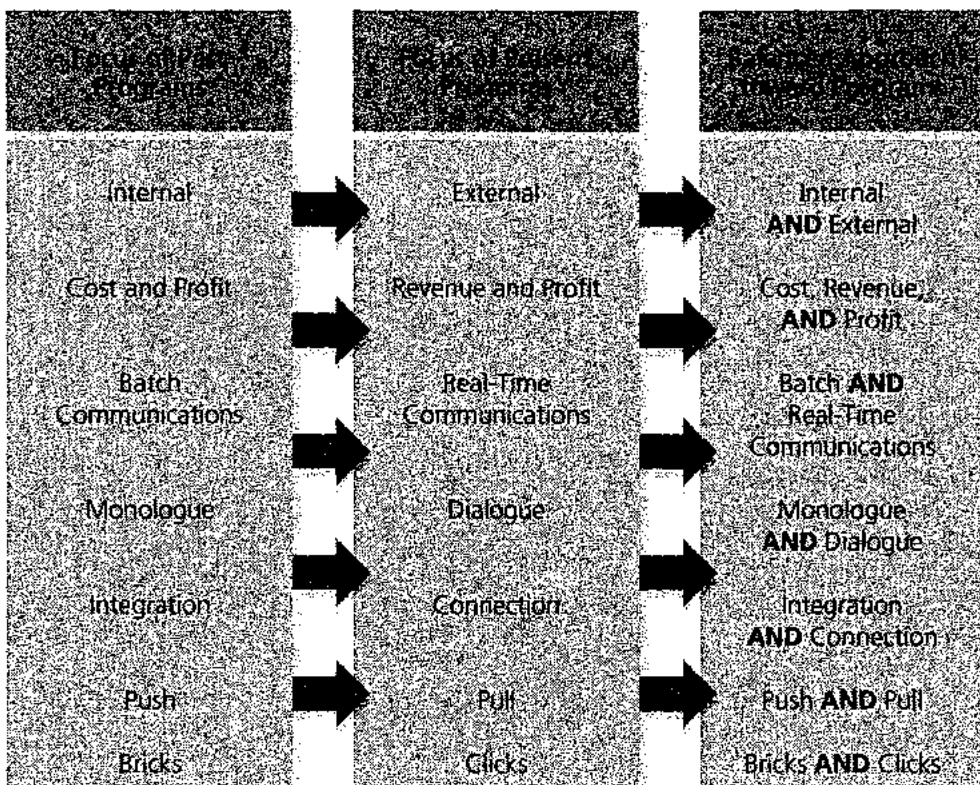
Thanks to management's clear perception of changing customer/enterprise dynamics, British Gas has evolved into Centrica —a new kind of company whose share price has trebled in the two and a half years since its de-merger.

In 2000, Centrica acquired Direct Energy Marketing Limited, the Canadian natural gas retailer, and Avalanche Energy, a Canadian gas and oil producer. These are the first steps in Centrica's plans to build a North American energy business with at least five million customers using the now well-established Centrica business model.

Summing Up the Zeitgeist—Patterns of Change

New technologies have enabled organizations to change the way that they communicate with customers, as illustrated in Figure 1-7. The result is a shift in the focus of major improvement programs. Internally focused improvement programs absorbed billions of investment dollars over the last decade. Total Quality Management focused on getting better quality products into the hands of customers. Service Quality Programs focused on increasing customer satisfaction through a variety of measures—not just better products. Customer Loyalty Programs used discounts and points in an attempt to buy customer loyalty. Business Process Redesign focused on improving the products and services to everyone in the value chain, including the customers within the organization itself. And finally, Customer Care Programs took an integrated approach to improved service, often through the use of call centers. Business managers invested because they expected to improve their company's competitive position, and because they assumed programs would contribute toward the growth of a loyal customer base.

Figure 1-7: *Patterns of Change*



Each of these programs yielded its share of successes and disappointments. The success rate, as presented in *The Information Paradox*, hovered between 40 and 60 percent. This was a typical—but unacceptably low—success rate. "Implementation problems" were blamed for the disappointments. Nearly all the stories follow a similar pattern. The improvement programs were:

- often fragmented and not adequately sponsored by senior management
- not linked to the organization's overall business strategy
- not tied to specific financial and business objectives, leading to inadequate performance management and measurement
- stymied by requirements for major organizational changes to which management may not have been fully committed
- not properly enabled by information technology, which was sometimes poorly applied or not fully integrated with the business

- subject to everyone raising the bar at the same time when, in some industries and markets, everyone improved service across the board, giving no single company the expected competitive advantage.

Seeking to avoid these problems, and driven by the Internet, enterprise improvement programs changed focus: from internal to external. Organizations moved beyond the narrow internal focus that was a fixture for a decade and shifted their efforts toward an external focus—from the enterprise itself to the connections it has with its environment. But, as dramatically exemplified by the dot-com phenomenon in late 1999 and early 2000, some organizations overshot the mark. They became overly focused on what was "external" to the enterprise.

Most recently, a new pattern of change is unfolding, driven by intense competition, increased customer choice, new business models, greater customer expectations, and the availability of new technology. As a function of the Relationship-Based Enterprise organizational model, improvement programs are focusing on both the external and the internal. Marketing programs, as illustrated earlier in Figure 1-6, are moving from a "push" strategy toward one that includes both "pull and push." Rather than creating an integrated enterprise, they are moving toward creating the "connected and integrated" enterprise. They are moving from a focus on "costs and profit" toward a focus on "revenue, costs, and profit." In the Relationship-Based Enterprise, improvement programs seem to be striking a balance between business strategies and change programs. They are leaving behind the "or" mindset of paradigm shifts because there are just too many such shifts to count. They are replacing this mindset with "and" thinking.

CHAPTER

What is Customer Relationship Management, Anyway?

Everything that is hard to attain is easily attempted by the generality of men.
—Ptolemy, c. 100–178 AD, "Tetrabiblos"

In baseball, you don't know nothing.
—Yogi (Lawrence Peter) Berra, 1925–

CRM, it turns out, is easy to attempt and hard to attain—as discovered by many clients of DMR Consulting. Looking back, with much experience and hindsight, they might paraphrase Yogi Berra: "In CRM, you don't know nothing." Looking ahead, they definitely want better answers.

The following scenario typifies their experience.

Undertaking a Major CRM Initiative

Daytimer Entry—April 1, First Quarter:
"Executive committee votes to invest in CRM software package. Package appears to support most operational details. Predicted benefits compelling. Stronger customer relationships, customer loyalty, better customer information, and a stickier Web site. Should see an increase in profits by fourth quarter."

The decision for CRM is cut and dried. Only the brave would have stood up at this point and seriously questioned the wisdom of proceeding.

Daytimer Entry—July 1, Second Quarter:
"Need to realign CRM objectives. Call center, sales force, and Web master on different tracks. Call center wants to generate simple customer profiles that provide up-to-date records covering services provided and complaints received. Sales force wants sophisticated household profiles that provide key demographic, psychographic and family budget information. Web master only wants to analyze 'trail of clicks' left by browsers."

Each group wants to shape this new system to meet its own objectives. Coordination is becoming difficult. At times over the last few months, voices have been raised.

Daytimer Entry—October 1, Third Quarter:
"Executive Committee meeting to review CRM progress. Realignment of CRM objectives still underway. Many issues, big and small. A lot of overlaps and confusion between organizations. Responsibilities for issues hard to pin down. What's going on here?"

More than one CRM solution is being developed, and the scope of the entire program is now a lot less clear than it seemed in the original presentation.

Daytimer Entry December 31, just prior to close of Fourth Quarter:
"Executive Committee meeting to review increase to CRM budget. Question: What do we mean by CRM anyway? Silence all around the table."

This pattern of events seems typical for CRM programs. The difficulties can be characterized as vision versus reality, simplicity versus complexity, and unclear language.

Vision versus Reality

Many in the industry present CRM as a competitive weapon, the next silver bullet, the priority solution, the thing that must be implemented today. If all of the promises were to materialize, one would expect every organization to have:

- Wal-Mart's product selection
- Priceline's prices
- DeBeer's quality
- Domino's speed
- FedEx's information
- 7-Eleven's convenience
- Nordstrom's customer service
- Amazon's anticipation.

It is only a slight exaggeration to claim that "the perfect company" is the vision for CRM. But to realists, particularly those who have attempted major CRM initiatives, the perfect company sounds like the punch line to an old joke. A huge credibility gap exists between vision and reality.

Where does this gap come from, especially when the basic premise of CRM sounds so right and true? Even the three words—Customer Relationship Management—have a compelling ring. After all, there is nothing more important to any organization than its relationships with customers. And everyone wants loyal customers, customers who through their purchases vote again and

again for the same company. In the chaotic, ever-changing business environment of the new economy, product and technological innovation no longer provide sustainable competitive advantage. And so CRM seems like an obvious way to achieve customer loyalty, business stability, and growth.

To deliver these loyal customers, CRM initiatives promise customer information systems that provide a 360-degree view of the customer. This means that the company can determine the product and service preferences of any customer and remember all interactions. Building on this all-encompassing customer profile, a company will organize all of its interactions with a customer into a "seamless experience." This seamless experience will allow customers to buy, get service, negotiate a contract, and inquire about delivery without being aware that they are dealing with a large and complex organization. And certainly without being shuffled from one department to the next, which in the past seemed almost to be expected in dealing with large organizations. Customers become dazzled by the experience and locked into a relationship for a long time, ideally a lifetime. The benefits are stated dramatically—"owning the customer," "erecting exit barriers," "surrounding the customer," "increasing share of mind," and "increasing share of wallet."

The expected financial results of this 360-degree view are alluring. They are described as long-term revenue and profit streams from customers locked into a relationship. In many cases, that revenue is to be generated with minimal costs for conventional marketing and advertising because lock-in would drive repeat purchases, related purchases, and referrals.

Now here's the reality.

Without exception, managers in the telecommunications, financial services, and energy sectors have found that the promises of CRM are compelling. But none of those who participated in the interviews for this book had come close to making all these promises pay off. The vision of building a "perfect company" with CRM initiatives is still a long way off. What these managers said, in no uncertain terms, was that CRM is hard to achieve because of its unanticipated complexity.

Expecting simplicity and finding complexity is what creates the credibility gap for CRM.

Simplicity versus Complexity

The basic concepts of CRM really are simple, and it's easy to see the benefits. After all, who wouldn't want a 360-degree view of customers or a seamless set of interactions across all channels and product lines? This is part of CRM's appeal. And for a small business, where everybody knows everybody, seamless interactions and a 360-degree view are fairly simple to implement. It's CRM on a small scale.

But in a large-scale enterprise, integrating customer information across many business units creates a long list of "things to do." How many databases are involved? How easy it is to change their design? How many channels, processes, employees, and profit centers are involved? How many bosses must lend their support?

Managers of large organizations find it hard to develop an integrated perspective on customers that can be shared by all employees. It is hard to "redefine a business" and customer groups without using a product or service lens. It is also difficult to implement the organizational and cultural changes required by CRM. And while many experience technology integration problems, these problems are seen as secondary when compared to the hurdles of business transformation.

In many cases, managers had to deal with a complex brew of inter-related problems. Front office functions—marketing, sales, product management, and customer service—have traditionally operated as separate departments with distinct goals, budgets, business processes, and work cultures. They are often supported by separate software or technology "islands." Integrating the processes and software applications of these units is not easy. In some cases, these processes and applications need to be completely replaced to make an enterprise-wide CRM solution profitable. In addition, there is the challenge of integrating front office with back office processes, ordering, delivery tracking, and production scheduling.

Finally, CRM is not the only initiative that is being undertaken; it is a part of a larger pattern of change in most organizations.

It must be integrated with existing customer-focused systems. This adds yet more levels of complexity to any CRM program. In large-scale organizations, the simplicity of the vision quickly collides with the complexity of the management issues involved. Herein lies the contradiction. The idea of lifetime customer loyalty, or of conversing with customers, is simple. But how do you design the program and the organization to make it happen?

The complexity of CRM contributes to a variety of management problems that are often associated with CRM initiatives. These problems formed the context for the daytimer entry described at the beginning of this chapter:

- *Lack of clear program scope:* The basic problem is to identify the business units participating in a shared CRM program (as distinct from individual initiatives). Does the program or software implementation project apply to call centers, the sales force, stores, and branches? Does it apply to the entire enterprise? What about suppliers and business partners?
- *Lack of clear objectives:* CRM solutions can be designed to achieve many different objectives, both soft and quantifiable. Soft operational objectives include increases in loyalty and customer satisfaction. Quantifiable operational objectives include increases in customer-retention rates, product cross-sold per customer, or revenues per customer. Financial goals might be to increase sales of a specific unit, or to help meet revenue and profit goals for a division or the whole enterprise. What are the objectives? Are they competing or complementary? Are there too many objectives?
- *Lack of shared understanding:* Lack of clear scope and objectives does not help to promote shared understanding of the program. Do the business units involved in the programs share an understanding of the program's scope and objectives? How about CRM? And what about the linkages to other change programs?

These kinds of management problems are not new. They have been encountered in past change programs. Just think back to the rush to build Web sites, or the move toward e-commerce, or the implementation of an Enterprise Resource Planning (ERP) package. These change programs seemed simple when they began but they became complex—and risky—and more costly—faster than anyone could have anticipated. The same is true of CRM. And so even before organizations can begin to test how loyal their customers are, they begin to struggle with these kinds of problems. And after a period of months, the complexity of CRM and of customer relationships becomes visible. Managers then ask: "What are we really trying to achieve? How fast can we really go? What do we mean by Customer Relationship Management?"

Window on the Real World:

AT&T

AT&T by any measure is large-scale. In fact, with 120 million customers, AT&T is the largest telecommunications company in the United States and a worldwide leader in communications services. It has five different lines of service—each with its own CRM strategy, channels, and touch points. Talk about complexity. What AT&T needed was an enterprise-wide CRM strategy based on integrated customer systems that ensured "the left hand knew what the right hand was doing" and supported cross-selling. Their goals were to:

- Increase customer loyalty
- Increase profitability
- Decrease time-to-market for new services
- Reach customers with targeted offers in the most cost-effective way
- Reduce costs per transaction, customer service costs, and customer service time.

Amazingly, AT&T has made excellent progress in meeting these goals. How did they do it? Well, one thing they didn't do was build an enterprise-wide customer information database across all five service lines. That would have been a huge undertaking, costing far too much, and taking too much time. Instead, they opted for a more gradual approach. They decided to build a software layer on top of two key customer information systems, one from marketing and the other from billing. This approach enabled AT&T to move fast and make excellent progress toward their CRM goals. Today, AT&T agents get a single view of key customer information across all service lines from a single window, as opposed to retrieving information from five different information systems.

But it wasn't easy, and there are still many outstanding issues.

According to Maryann Collyer, Director of Customer Service Systems at AT&T and a member of the CRM integration team, CRM is powerful in theory but troubled in practice. It can take a long time to implement and quickly become very expensive. It requires strong executive support and requires considerable downstream administration. And although a central owner for CRM is desirable, it requires significant re-engineering of business processes, roles, responsibilities, and measurements as it affects several functions within an organization. Information technology (IT) is secondary as a critical success factor. The key is getting departments to sit down together—and work differently. There is no easy resolution to this key issue.

Both field experience and client interviews confirm that CRM initiatives are sweeping in scope and business impact. They can become mired in complexity, touching every process in the enterprise. Managers end up with the impression that CRM is not a single, unified solution, but rather a complex puzzle. It is not surprising that managers and the literature report that approaches to CRM implementation are often fragmented—reducing the "bang for the buck."

Unclear Language

One of the contributors to the management problems experienced by large-scale organizations is unclear language. This is as true of Business Process Re-engineering (BPR) and ERP as it is of CRM. Too often these acronyms substitute for clear language. In the process, they add to the complexity of CRM.

The terminology of CRM is rich and it has evolved quickly. Because of this, neither business managers nor experts seem to agree on a common definition of CRM. The lack of a universally agreed definition is not just a theoretical problem for marketing experts, it is a practical problem for business and technology managers who are involved in financing, designing, implementing, or managing complex business solutions that are focused on customer relationships.

One sign of the problem is that the experts offer very different definitions of Customer Relationship Management. In his book, *Loyalty.com: Customer Relationship Management in the New Era of Internet Marketing*, Frederick Newell defines it as:

> A process of modifying customer behavior over time by strengthening the bond between the customer and the company.

Martha Rogers and Don Peppers, in *Enterprise One to One: Tools for Competing in the Interactive Age*, say the idea behind CRM is to:

> Establish relationships with customers on an individual basis, and then use the information you gather to treat different customers differently. The exchange between a customer and a company becomes mutually beneficial, as customers give information in return for personalized service that meets their individual needs.

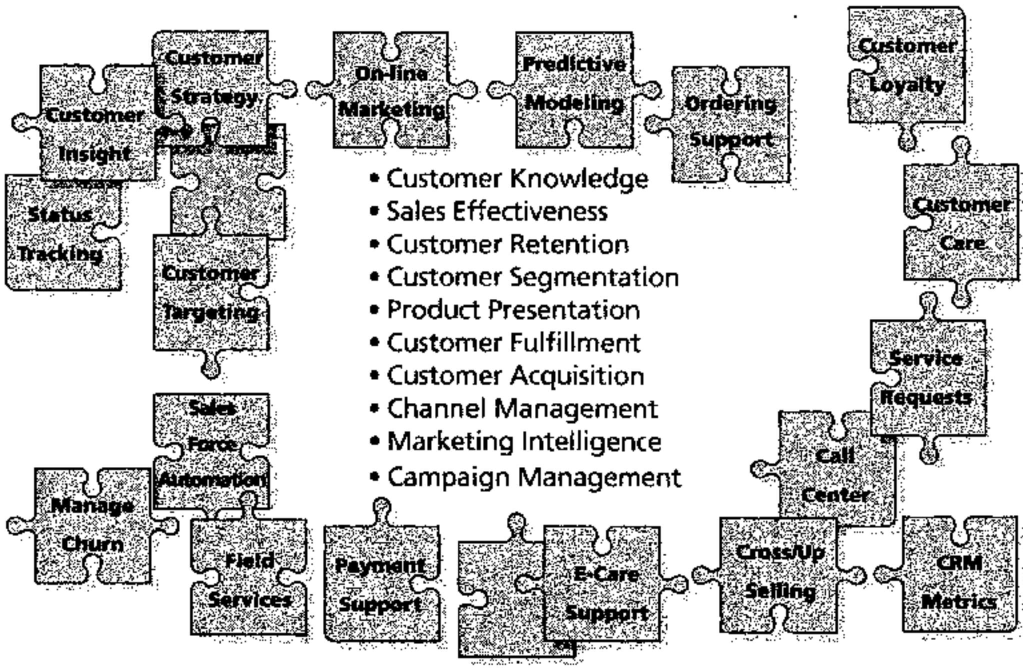
Other experts give more sweeping definitions of CRM, describing it as a business and technology discipline that helps

companies acquire and retain their most profitable customers. Or they describe it as the implementation of customer-centric business strategies that drive re-engineering of work processes. In this case, CRM is seen as supported, not driven, by CRM technology. And of course many vendors still present CRM primarily as a software tool.

These experts are not fighting or even disagreeing; they are merely emphasizing different aspects of a multi-faceted phenomenon. This adds to the complexity confronting managers—instead of cutting through it. It adds to the confusion.

There's more. Besides expert definitions, there are rich descriptions of CRM in the industry that identify a host of CRM applications and functions (see Figure 2-1) that may need to be addressed as part of a CRM program. There are also a wide variety of models available that describe the data and information platforms that are required for full implementation (see Figure 2-2).

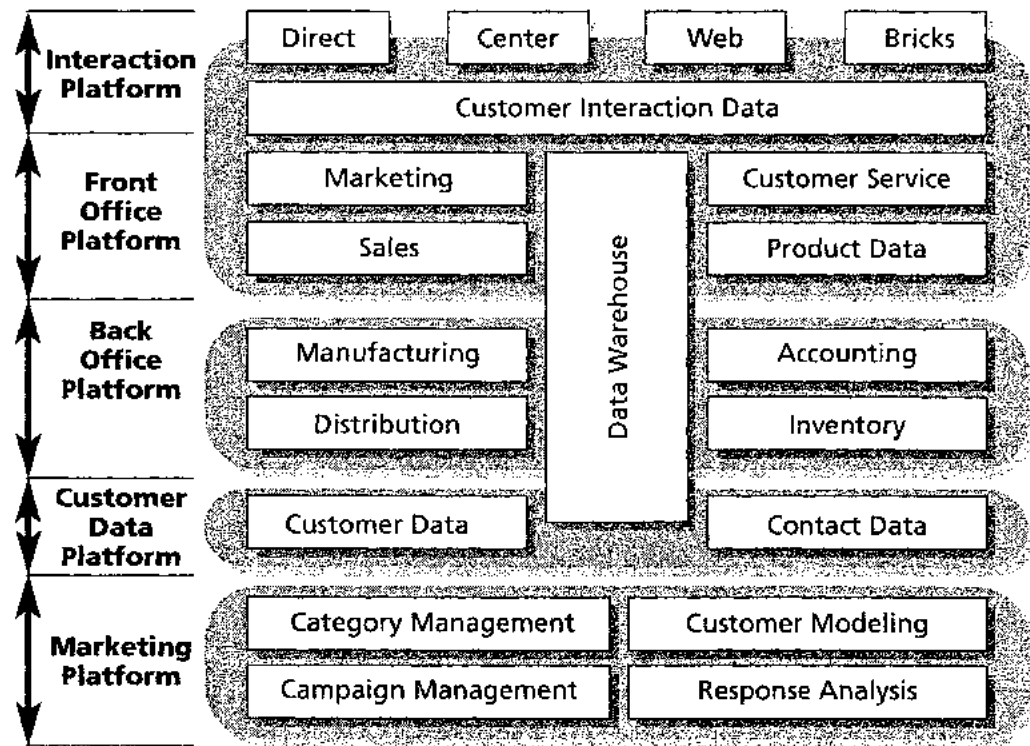
Figure 2-1: *CRM Applications*



Shared vocabulary may be less important in small organizations doing simple things, but it is important in large-scale organizations. Clear language helps people develop a shared conceptual framework for getting the job done, especially when that job is complex.

The term Customer Relationship Management also overlaps with terms used to describe other programs. Figure 2-3 illustrates just a few of these overlapping terms and the potential for ambiguity. For example, how is Customer Relationship Management different from Relationship Marketing? Or Relationship Management? And what about Value Chain Management or Demand Management? What are the linkages between Customer Relationship Management, Partner Relationship Management, and Supplier Relationship Management? Like the Ancient Mariner surrounded by saltwater, managers are more likely to be frustrated than sustained by all these terms and definitions.

Figure 2-2: *CRM Data Platforms*



All these terms are in current usage and describe real programs in many organizations. Mapping this ocean of terms drives home the need to define the boundaries of Customer Relationship Management and the linkages that connect it to all these other programs—past, present, and future.

As CRM initiatives begin to reach critical mass, emerging from individual business units and getting applied across the entire enterprise, or merging with broader programs such as e-commerce,

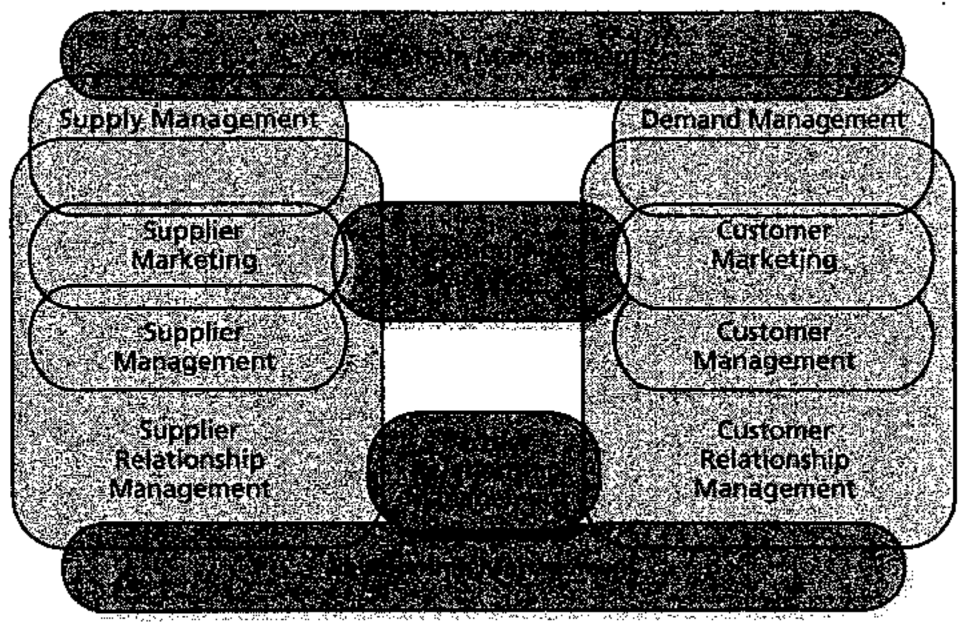
then clear language—and a clear conceptual framework—become increasingly important. Large groups of people need to share an understanding of terms and how they may contribute to the solutions described by those terms.

And the Answer is...

The "Relationship" part of CRM consists of conversations, which are made up of economic exchanges and everything that goes with them. CRM is easily defined as a way of handling these conversations. This simple idea, which forms the underlying theme of this book, leads to fresh perspectives, clear language, and actionable frameworks. It reduces all definitions of CRM to their basic essence, enabling managers to build shared understanding of the broad objectives for CRM and guide the details of CRM initiatives. Managers need only ask, "What is this investment of resources doing to improve our conversations with customers?"

Viewing relationships as conversations—and CRM as a way to build those conversations—cuts through the complexity of CRM program management. It helps improve CRM program design and achieve the ultimate objective of the Relationship-Based Enterprise—bridging the white space between itself and its customers with strong, dynamic relationships.

Figure 2-3: *The Ocean of Terms*



READING 2.1

Lee, T. (2004), Cultural Change Agent: Leading Transformational Change.

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2

CULTURAL CHANGE AGENT: LEADING TRANS-FORMATIONAL CHANGE

Terry Lee

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Culture and corporate performance

Strategy or culture?

Alignment

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Cultural stages

Transformational pathways

Leading cultural transformation

Conclusion

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Acknowledgments

Notes

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Terry Lee is the director of Leadership Psychology Australia.

He was formerly Head of Leadership at the Mt Eliza Business School in Melbourne, where he ran their flagship program—the Advanced Management Program (a four week residential for senior leaders from around the world). He is now an associate of the business school and conducts the Strategic Leadership Program and the Mt Eliza Business Leadership Program, which he also directs in association with the University of Queensland.

Terry has worked with a wide range of senior leadership executive teams on vision and values workshops, senior leadership team effectiveness, values-driven culture change projects, and culture and strategy alignment projects. This has included work with senior teams from Cisco Systems (recent winner of 'Best Employer to Work for in Australia 2003'), Bunnings Warehouse (acknowledged culture leaders), CSL (on global leadership, coaching and culture issues), Computershare (culture change), ASIC (building leadership and culture), McDonalds (culture change), Wesfarmers (vision and values at the top) and Freehills (partners, retreats on leadership, vision and culture).

To find out more about Terry and his work, and to read selected articles, visit <www.leadership.com.au>

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Executive summary

It is now well established that the performance of any organisation is, in large measure, a reflection of its culture. And it can be shown that the most significant determinant of that culture will be the leadership style of the managers at all levels of the organisation.

In a highly competitive, rapidly changing and increasingly unpredictable world, organisations with a traditional (hierarchical and bureaucratic) culture no longer produce anywhere close to the results required. It is also clear that such cultures are extremely resilient and, in fact, highly resistant to change. Leaders who attempt to change a traditional culture often find it to be a difficult and highly frustrating process.

In traditional cultures, it is possible to produce incremental change (for example, through a continuous improvement or traditional change management program). For dramatic change and dramatic performance improvement, however, something more substantial is required—a *transformational* process.

A transformational process will change mind-sets, target values and build a culture which can truly support new strategies and organisational aspirations. However, it can only be driven by passionate and persistent leadership at the top.

This chapter outlines the transformational process and identifies the steps leaders can take to revitalise their organisations and to achieve significantly different outcomes.

Introduction

The organisations of today are more like the organisations of the past than the organisations that are yet to come. Basic organisational models have not changed greatly over the last century. That this is so is a testament to the enduring power of the hierarchical and bureaucratic organisations that were introduced at the beginning of the industrial revolution. These organisational models have stood the test of time and have resisted change. It is remarkable that methods originally designed to handle the influx of low-skilled workers into the workforce over 200 years ago are still prominent, despite the dramatic changes in the economic, social and political environment of the past 50 years.

In 2002, the researchers Bartlett and Ghoshal analysed the challenges facing modern corporations. They found that, although the strategic challenges today are more complex and occur more frequently than ever before, these challenges are 'acted on faster than the transformations needed to sustain them. And however hard it is to change the corporation, it is even harder to change the orientation and mind-set of its senior managers.'[1] In other words, the strategic landscape has changed dramatically. It is increasingly turbulent and uncertain, and although challenges are coming with greater frequency, organisations have struggled to respond. Generating the urgency required for change has been difficult and most organisations are still trying to come to grips with transforming, realigning and revitalising themselves to face these challenges.

At the heart of the problem lies the ability to change the mind-sets of senior leaders. The message is clear:

Transformational change begins with transforming the mind-sets of managers.

So, in many organisations the way managers go about their work hasn't changed all that much. As Bartlett and Ghoshal observe: 'Today's managers are trying to implement third-generation strategies through second-generation organisations with first-generation management'.[2]

Hierarchical organisational models have proved remarkably stable and resilient, but have also under-performed significantly. They are strong on supervision but very poor at getting the best out of people. Historically, to deal with a low-skilled, uneducated workforce, such organisations enshrined control through close supervision, clear rules and procedures and rigid reporting structures. Managers built a culture of fear and risk aversion because they were dealing with a workforce they did not trust. This, in turn, produced inertia and great resistance to change.

This approach to people management squashed initiative and promoted compliance. Not only was it bad for the human spirit, it left a legacy that is beyond the scope of the conventional change management program to address. The extent of change required by most companies means that only a truly transformational process can have the impact required in today's highly competitive world.

The new performance standard

In a highly competitive world, where performance standards have soared, organisations can no longer afford to deploy people who give only the required effort, do only that which is necessary and do only what they are told to do. This is a significant under-utilisation of human potential. No team of players can compete successfully if its members contribute only that which they are required to. Today, our organisations are like sporting teams with salary caps; we can no longer put more players in the team and on the field. Instead, we must get more out of the people we have by finding ways to develop their potential, by helping them to play more effectively as a team, and by confronting whatever it is that limits their performance.

Success comes when people give discretionary effort; that is, effort above and beyond that required by their job description. High performance organisations secure discretionary effort from their people by securing high levels of commitment to the vision and to the values of the organisation.

Commitment levels increase markedly when an organisation transforms its culture to one where people are valued and respected; where leaders challenge and inspire; and where all people, irrespective of their positions, feel that they can make a difference through their work. The old cultures did not seek

discretionary effort; the new cultures are designed to secure it. The magic lies in values alignment.

It is accepted wisdom today that real motivation comes from within; that we are all driven to satisfy our own needs and values. We all observe that when our children are passionate about doing something (for example, organising a party) we don't need to motivate them, and yet when we, as parents, are passionate about them doing something (for example, taking music lessons), no attempts on our behalf to motivate them will do the trick. Translating this into the workplace, the lesson is that when there is alignment between what the organisation needs and what the people who work in it love to do, then you have motivation that is intrinsic and is self-sustaining. The message?

- If the organisation needs to provide outstanding customer service, then recruit people with a passion to serve.
- If you require high levels of quality in goods and services, then recruit people with a commitment to excellence.
- If performance is important, then find people with a passion to achieve.

The findings of a team from McKinsey's Consulting, in Sydney, back this up.[3] They reported that when the heart of a strong culture is shared values, performance is affected in three ways. Shared values:

- provide a stable base for guiding employee decisions and actions in an otherwise rapidly changing workplace
- form an integrated part of an organisation's value proposition to customers and staff
- energise people to go the extra mile for their company, thereby creating a source of competitive advantage that is hard to replicate.

The long-term legacy of traditional, hierarchical and bureaucratic cultures is an entrenched mind-set that is very difficult to shift. This challenge has confronted organisations from all industry sectors and from both the private and public sectors. Some have made great progress, some have barely scratched the surface of change, yet most have embarked upon the journey. Why? Because the world has changed, expectations have increased and higher performance outcomes are demanded by all stakeholders (investors, employees and customers).

The workforce has changed, the customers have changed, the technology has changed and the competitive environment has changed . . . but most of all, we have changed. Our aspirations are significantly different. We expect more, we want to contribute more, we want to be successful and we want to work for organisations that we truly admire and where we can make a real difference. This is the new workforce—people who want to be treated with respect and who want to be inspired by their leaders. People don't crave managers, but they do yearn for real leaders.

The lack of connection between us and the organisational models we have created and work within has never been greater. John McFarlane, the charismatic leader of the ANZ Bank sees it this way:

The toughest challenge is not organisational change but changing mind-sets. The older people who have been locked in their ways don't change fast enough. It's not their age. We need older people with younger minds.[4]

McFarlane embarked upon a transformational change program when he took on the challenge of shaking up bank structures, changing management attitudes and pushing empowerment down to the front line. Five years ago the challenge, as he saw it, was thus:

If [ANZ is] to become a truly great company, widely admired, where customers are real partners, we have to create a company inside that is so attractive that people want to be there.[5]

McFarlane now talks about energising people and he challenges his managers to imagine what could be achieved if all of their people were energised and passionate about customers and performance. He sums up his personal philosophy as: 'Basically, I want to put great people in place and leave them alone'.

McFarlane is not alone in his assessment of the contemporary challenges our organisations face. Louis Gerstner, in his recent best-seller, *Who says elephants can't dance*, describes in detail the

transformational process he unleashed at IBM to change it from a product-centric to a services-oriented company over ten years.[6] Gerstner reported that:

> *I came to see in my time at IBM that culture isn't just one aspect of the game—it is the game. In the end an organisation is nothing more than the collective capacity of its people to create value.*

Culture and corporate performance

Corporate culture and cultural change are hot topics in business today. The issue of culture has risen to prominence because of the considerable body of evidence that now firmly establishes the relationship between culture and performance outcomes. Over the past decade, substantial evidence has accumulated demonstrating that, although strategy might create opportunity and the point of difference for an organisation, it is culture that will deliver on strategy's promise.

Much of the contemporary interest in corporate culture and performance was kick-started by the work of Kotter and Heskett[7] from the Harvard Business School. In the early 1990s, they presented compelling evidence that organisations that have strong and adaptive cultures—that is, cultures that are highly inclusive, where people feel strongly that they are part of a team, and yet at the same time are adaptable and amenable to change—significantly outperform those that do not. Their report, based on a decade of research into the best and worst performing firms across a range of industries, established that organisations with strong cultures outperform those with poor cultures. What was truly surprising was the extent of the performance difference. The organisations with the best cultures dramatically outperformed those with poor cultures, across a wide range of measures. Kotter and Heskett's work highlighted the impact of shared values and unwritten rules and the role that leaders play in stimulating culture.

In 1994, Jim Collins and Jerry Porras, from Stanford University, released their classic text, *Built to last*.[8] It compared not the best and the worst performers, but rather the best and their prime competitors (that is, the second best) across a dozen industries. They sought to discover the secrets of those firms that built long-term success and generated exceptional long-term value. They compared these exceptional firms with those whose track records, although far better than the market average, still fell a long way short of the industry leaders. Collins and Porras demonstrated that exemplar companies had a sense of stewardship, vision and discipline, all of which were required for building for the long term. They also had leaders who understood that the essence of the firm (its vision and values) must be strengthened on a daily basis by aligning strategy with culture and aligning values with behaviour.

Further research by Daniel Denison, from the University of Michigan, isolated the culture traits that are associated with success.[9] He showed that the best performing organisations are strong on four specific traits: mission, consistency, involvement and adaptability. His research showed that:

- Cultures with the traits of mission and consistency produce the best financial returns.
- The cultural traits of involvement and adaptability correlate with innovation.
- Consistency and involvement correlate with quality and staff satisfaction.
- Adaptability and mission line up with market growth.

So, there is a growing body of evidence, both anecdotal and research-based, which establishes the key role played by culture in organisational performance.

Strategy or culture?

But what of strategy? And which is more important, strategy or culture?

If you take research by Mike West[10], from the UK's Aston Business School, comparing the impact of strategy and culture on both performance and productivity, then the key variable for improving both is clearly culture. Over an eight-year period, West examined 100 firms, mostly from the manufacturing industry. He reported that 17% of the variance in their performance was

attributable to culture, while strategy accounted for a mere 2% of the variance. What this means is that merely having a great strategy will not improve business performance much. What really increases both performance and productivity is a culture that will deliver on the strategy. Sure, there are factors such as market conditions and competitive pressures that affect outcomes, but of the factors that we can control, the evidence shows that culture is a major contributing factor in competitive performance.

In his recent best-seller, *From good to great*, Jim Collins identifies great companies as those which address the people and culture issues first.[11] First, get the right people (starting at the top) on the bus . . . then, when you have the right team in place, decide where you want to go.

The implications for business performance in a highly competitive global marketplace are clear. Strategy alone will not enable you to outperform your competitors. Certainly, success requires a clear focus and, without question, requires distinctive capabilities. But outstanding results will flow only to those who build a culture that aligns with and supports their strategies (more about alignment later).

So, senior leaders have two levers to use in moving towards the future:

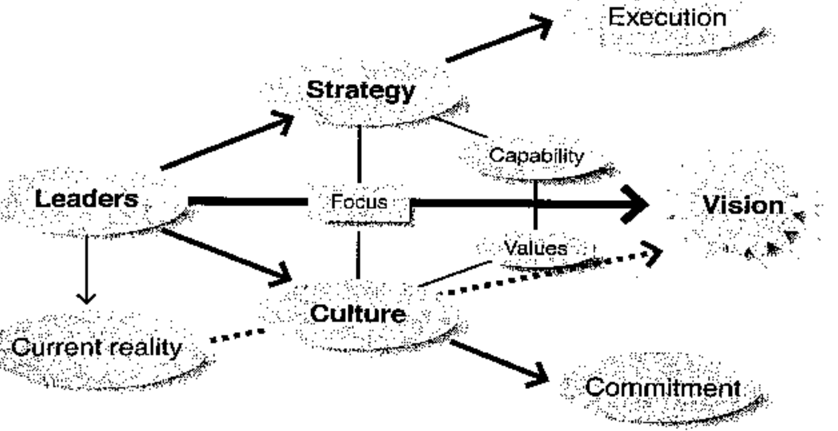
- *the strategy lever*—capabilities, planning and resource allocation. The focus is on execution.
- *the culture lever*—people, values and behaviour. The focus is on building commitment.

The astute leader uses both of these levers through the establishment of daily priorities, which should be equally divided between:

- *strategy* and doing that which is required to execute the strategy. Usually these are externally focused priorities. The leader concentrates on meeting customer needs and delivering what the organisation has promised.
- *culture* and building commitment from the people. Usually these are internally focused priorities. The leader concentrates on building the team, winning hearts and minds, and engaging people.

This means that leaders at all levels have the responsibility to have one eye on strategy and the other on culture; half of their daily priorities on their customers and the other on their teams. It is in this way that leaders are constantly fine-tuning both strategy and culture to increase performance and to stay aligned with the vision. This is illustrated in figure 2.1.

Figure 2.1 How leaders drive towards the vision



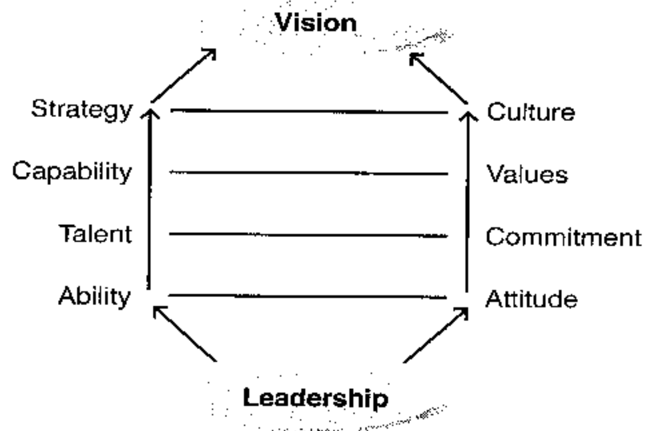
Alignment

If an organisation's vision is to be realised, then its strategy and culture must be aligned. They, in turn, must align with the attitudes and abilities of the individual employees who are deployed to implement strategy.

The men and women who provide the goods and services to customers and clients must translate strategy and culture into meaningful action throughout the organisation. For example, a customer service strategy is fairly meaningless without service people who are skilled in service delivery and passionate about being of service. This is illustrated in figure 2.2.

The high-level strategic view must be consistent with the view on the ground. For the vision to become a collective aspiration that provides direction at both the macro and the micro levels, it must be powerful enough to provide guidance to the group as well as to the individuals in the field.

Figure 2.2 Alignment model



Patrick Lencioni, in his article, 'Make your values mean something', put it well when he said:

> *If they are really going to take hold in your organisation, your core values need to be integrated into every employee-related process—hiring methods, performance management systems, criteria for promotions and rewards, and even dismissal policies. From the first interview to the last day at work, employees should be constantly reminded that core values form the basis for every decision the company makes.*[12]

Leaders at all levels must transform individuals' attitudes and abilities so that they align with the organisation's strategy and culture:

- It is the responsibility of the executives and senior-level leaders to identify strategy and culture, and thus to position the organisation for success.
- It is the task of the recruiters to find people with the right attitude and the right abilities to implement strategy and support the culture. (It is important to note that since attitude and ability are related, but not correlated, it is necessary to select for both.)
- It is the responsibility of the front-line leaders to take those recruits and to develop the talent and commitment that, en masse, will feed into organisational capability and values and ultimately impact on the strategy and culture.

By way of example, let's look at the operations of Bunnings Warehouse, a clear winner in the Australian hardware industry.

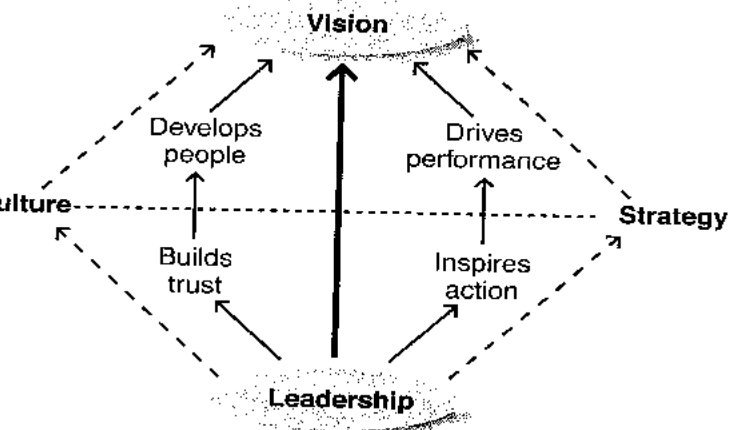
BUNNINGS WAREHOUSE

Bunnings has created a high-performance culture that has given it a decisive advantage over its national rival, BBC Hardware House.

Based on a wide range of measures, Bunnings established a superior culture. The flavour of its culture can be discerned from its approach to recruitment: people are invited to become 'team members' in a business where teams have the autonomy to make decisions and people have the chance to make a difference 'free from destructive politics'.[13]

Bunnings has a clearly articulated leadership model that shows the alignment between its strategy and its culture (see figure 2.3). The model outlines how Bunnings' leaders, at all levels, drive both sides of the equation (strategy and culture) towards the vision via their behaviour. Leaders use this model throughout the business as a template for behaviour and action.

Figure 2.3 Bunnings' leadership model



The challenge for team leaders in Bunnings is, in the first instance, to build trust and inspire action, and then to move towards developing people and driving performance. Each leader personalises these generic leadership

behaviours in a way that has meaning for them and their specific situation. For example, leaders build trust by leading by example, demonstrating fairness and consistency, or providing honest and accurate feedback. Leaders inspire action through speaking with conviction and passion, setting strategic goals or acting with enthusiasm. Team leaders establish these behaviours in consultation with their own leaders and then commit to action and follow through.

Another company that is skilled at alignment and building culture is The Flight Centre, which in 2003 was awarded a place on the list of 'The Best Employer to Work for in Australia' (convened by Hewitt Associates).[14] The aim of The Flight Centre is to build a culture that will enable them to become 'the planet's fastest growing travel company'. Hewitt Associates noted that 'senior management believes in giving employees the freedom to manage themselves and believes in empowering and inspiring them to work towards fulfilling company goals'. The Flight Centre Chief Executive, Graham Turner, believes that 'the stronger [our] culture becomes, the more it attracts those who will make it even stronger'.[15]

So what is it that sets apart those organisations that really build great cultures from those that just pay culture lip service? There is no doubt that 'talking the talk' is the first step, but 'walking the talk' is the real driver of significant cultural change.

Another company recognised as one of the best employers in Australia is the global Internet company Cisco Systems.[16] Under the leadership of Australian Managing Director, Terry Walsh, and with the support of the entire executive team, Cisco took up the challenge of culture building. Hewitt Associates reported that: 'Cisco has a unique workplace culture characterised by strong leadership and open communication between employees and senior management'. In a highly turbulent economic environment, and during a particularly savage downturn for the technology sector, Cisco established a culture that engendered the respect of their workforce, despite uncertainty, restructuring and downsizing.

At Cisco they believe that how they treat people makes a difference. This is summed up by the words of Alec Bashinsky, the Human Resource Manager during that period:

One of the key things I've found is that a lot of organisations talk about their vision and their culture, but it tends to be a plaque on the wall. Cisco is one of the few organisations that I've worked with that actually walk the talk in terms of demonstrating behaviour that supports the culture.[17]

The message comes down strongly from the top when the senior leaders and the executive team take up the challenge to practise what they preach. It's about moving from direction to engagement and about finding a new way to engage the hearts and minds of all people in the organisation.

We know that this happens best when there are shared vision and values, and where the culture, rather than the dictates of the boss, sets the tone and the style.

Transformational change

Transformational change seeks substantial changes in outcomes in the areas that today are critical for success—performance, commitment, retention, enthusiasm, initiative and accountability.

In general, there is an acceptance (at least at the intellectual level) that, when it comes to running our organisations and managing our people, 'more of the same' is not sustainable in a world of rapid change and steep learning curves. It is clear that traditional organisational models must be replaced, but it is also clear that these models are strong, resilient and difficult to change.

Over the last few decades, many change initiatives achieved very little in the way of increased sustainable performance. Change management did little more than tinker at the edges and restructuring invariably failed to affect the performance or commitment of the individuals concerned. Although the strategy was often clear (for example, lift customer service, boost innovation or increase knowledge-sharing), in reality it was easier said than done.

We discovered that, if people don't value a task, then they have little incentive to do it well and they will not put in the energy required to change old ways and habits. The only way to bring about significant change is to:

- change the way people think about their work
- ensure that there is alignment between the things employees value and the things that the organisation needs to have done.

If strategy is to be effectively executed, then the people must be passionate about it and have a stake in the outcome. Successful implementation will happen when the culture engenders people with a sense of ownership and personal responsibility.

The central point is that the impetus towards excellence no longer comes from the orders of the boss, but from the hearts and minds of those who must deliver the service. This means moving from leadership by direction to leadership by engagement and influence, on the basis that people will only seek to excel when it comes from the heart, not simply because they are instructed. Most of us will put in the effort to be adequate at what is necessary, but not the effort required to be excellent, unless we are passionate about it.

The transformational change process seeks to bring values to the fore and put values at the heart of the culture, and to ensure that the culture truly supports and aligns with the strategies for success. In this process the leaders might set the strategy, but it is really the culture which delivers it. It means recruiting people who align with the culture, developing those who have at least a spark of the values required, and parting company with those who are motivated by conflicting values.

In the end we are seeking not merely to change organisations and their structures, but to truly transform them into places that provide the opportunity for each and every one to excel. Transformational change works primarily in the realm of mind-sets, values and emotions.

By contrast, incremental change works in the realm of skills and behaviours. This type of change is sufficient in a low-turbulence environment where the gap between current reality and the vision is not large. However, it is totally inadequate in a highly turbulent environment where the gap between current reality and vision is large and the pressure for change is high.

Only through transformational change can an organisation achieve rapid change and significant boosts in performance and commitment.

Cultural stages

I see transformational cultural change as a journey with four stages; the end result being a revitalised organisation. All organisations are at one or other of the stages (for some, different

parts of the organisation are at different stages of the process). I describe them as:

- Stage 1—the Administrative Culture
- Stage 2—the Performance Culture
- Stage 3—the Learning Culture
- Stage 4—the Unique Culture.

The strategies and characteristics of each are summarised in table 2.1.

Table 2.1 The four cultural stages

Stage	Administrative	Performance	Learning	Unique
Strategy	more of the same	better	smarter	different
Characteristic	rules	goals	knowledge	ideas
Values	compliance	achievement	innovation	imagination
Leadership	directive	coaching	inspiring	visionary

So where do these cultures come from and what are the constituents that need to be changed to enable the organisation to revitalise itself by moving through the stages?

The Administrative Culture

In the past strategies didn't change greatly and, as a consequence, cultures were often locked in place for a long time. The classical bureaucracies and hierarchical organisations of the last 100 years had generic strategies that can best be described as 'more of the same' or 'business as usual'.

In a low-change, low-turbulence external environment an organisation needs a culture that enshrines the status quo. The best culture to do this is an *administrative culture* with:

- prime characteristics—rules and procedures
- underpinning value—compliance.

In an administrative culture, people are required to follow orders, avoid risk and respect standard operating procedures. As a consequence, the culture builds great resistance to change.

This strategy–culture alignment was the dominant model brought in through the industrial revolution and it proved to be very durable. It is still effective for monopolies and those in highly protected markets where there is little competition. It also has a role in areas of the organisation where we want little variation and where compliance is vital (for example, health, safety, quality or standardised procedures). As an example, the part of Qantas that is involved with aircraft safety and maintenance may well benefit from an administrative culture.

The Performance Culture

During the 1980s, most Western markets moved towards deregulation. Issues such as outsourcing and corporatisation came into vogue. As the forces of globalisation began to gather pace around the world, organisations quickly discovered that in a more competitive environment, 'more of the same' strategies were a recipe for disaster.

In a world where standards are rising, expectations increasing, and more is expected for less, what is needed is a strategic shift from 'more of the same' to 'better'. This strategic shift involves the creation of a *performance culture* with:

- prime characteristics—goals, objectives and measures
- underpinning values—achievement and teamwork.

Transforming a culture locked into an administrative mode is a great challenge. It requires people who have been trained and rewarded for being resistant to change (as a consequence of having been socialised into an administrative mind-set) to embark upon radical transformational change.

Over the past 20 years almost all organisations attempted to move onto a performance footing. It is not surprising that many people found it difficult to cope with the rapid pace of change and with the shift from the certainty of the past to the uncertainty of higher expectations and new performance outcomes. Many managers also struggled to make the shift from the command and control methods of the past to the empowerment approach expected by the new leadership competencies.

As an organisation shifts to the Performance Culture, the language in the organisation will also change. Senior leaders begin to use the language of performance. They talk about stretch targets, key performance indicators, performance management systems, performance appraisal and pay for performance.

New fast-growth companies (such as Starbucks, The Flight Centre, Cisco Systems and Bunnings), without the baggage of administrative cultures, were born in performance mode. This has given them an agility and speed advantage over their slower incumbent rivals. It can be seen from organisations such as Telstra, Australia Post and a host of other privatised or corporatised former government entities, that the dominant thrust over the past decade has been the shift from Administrative to Performance Cultures.

The Learning Culture

Performance Cultures have their limits; efficiency and effectiveness can only be taken so far. Although it is true that most organisations still have room to move in performance building, eventually the gains achieved from a single-minded focus on performance begin to decline.

An organisation must begin to harness the collective intelligence, knowledge, innovation and ability to learn of all of its people. Once an organisation has lifted its performance so it can survive in a competitive world, it must then apply its collective intelligence to winning in an environment where knowledge is the most valuable asset, and where advantage comes from bringing innovative products and services to the marketplace. At the same time, the organisation will begin to utilise its knowledge more effectively to customise its goods and services to meet specific customer needs.

In order to implement the 'smarter' strategy, the organisation must create a *learning culture* with:

- prime characteristics—knowledge and systems for collaboration
- underpinning values—innovation and respect for others.

A Learning Culture focuses on finding out who has what knowledge and then stimulates innovation and learning by bringing together people and teams from across the organisation.

A shift to a Learning Culture will be reflected in the language used in the organisation. Senior leaders begin to talk about

knowledge management, customer relationship management, and learning and development. Managers refer to themselves as facilitators.

Most of the major banks reflect this shift. For example, the ANZ Bank recently changed the name of its Human Resources Department to Human Capital and established a unit entitled 'Restoring Customer Faith'. The US army has its famous Department of Lessons Learnt. Probably the best example of a Learning Culture is General Electric, with its now renowned Workout Program, where thousands of managers are brought together each year to remove impediments to change and to learn from best practices from across GE's array of businesses.

The Unique Culture

The next shift is to a strategy that is 'different'. The prime focus is for the organisation to differentiate itself from its competititors; to stand apart from the rest by becoming something truly different. The organisation must create a truly distinctive, *unique culture* with:

- pime characteristics—ideas and home-grown systems
- underpinning values—imagination and relationships.

In a Unique Culture, ideas are paramount, the focus is on the future and the race is on to be first to market. People are encouraged to bring their imagination to work and, in so doing, continually create an environment that is truly distinctive and a source of competitive advantage.

If the smarter strategy is about customisation or applying knowledge to improve products and services, then the different strategy is about personalisation or making things personal. This entails understanding the vision, values and desires of individual customers in such detail that the organisation can develop highly individualised solutions and enter into longer term strategic partnerships. Most organisations develop a Unique Culture through their highly individualised relationships with their customers or clients, or because they operate in a niche market segment where the organisation's main purpose is to effectively interface with the target market. Examples of the former can be found throughout the professional services sector—from financial advisers to hairdressers, clubs and sporting groups.

For corporations or government sector organisations, distinctiveness stems from concentrating on specialised value statements, imaginative ways to connect with customers and a strong emphasis on stakeholder partnering.

Starbucks, the international chain retailers, was so distinctive in its approach that it changed the nature of coffee retailing in the USA. It moved from a focus on the commodity (coffee) to a focus on the experience (just like sitting on the back porch) and the relationships (taking the time to get to know the customer). In Australia, we have seen car dealers seeking to personalise their relationships through the installation of coffee shops and gymnasiums, and we have seen all sorts of hybrids in retailing that combine coffee and books, cars and restaurants, and even health drinks and pharmacies.

A shift to a Unique Culture will be reflected in the language used in the organisation. Senior leaders begin to talk about being the first to bring new services to customers, being trail-blazers, changing the nature of the game, being visionaries and having radically different corporate structures (for example, tribes, families, communities).

Leadership styles for each stage

Each stage is driven by a particular style of leadership or management:

- *Administrative Cultures* benefit from a directive style that is more managerial. In this culture people will expect and accept a directive and authoritative approach.
- *Performance Cultures* require a blend of management and leadership that is focused on coaching. The coach's task is to help people to develop the capabilities necessary to achieve set targets.
- *Learning Cultures* require a more inspirational style of leadership, where the leader confronts the team with new information and challenges, and seeks to stimulate their thinking and learning.
- *Unique Cultures* are created by visionary leaders who engage in 'blue sky thinking' and ask 'what if' questions with their teams.

Most managers will have some aspects of all of the cultures in their work, depending upon the task at hand. For example:

- for compliance-focused tasks the work might be 60% directive, 30% coaching and 10% inspiring and visionary
- for new business development it might be 40% visionary, 30% inspirational, 25% coaching and 5% directive.

The desired cultural mix will dictate the amount of time the manager must devote to each style of leadership. This will be reflected in different approaches to interpersonal interaction and most noticeably in different approaches to conducting meetings. For example, an inspirational style at meetings is very different to a directive style and will use different processes and produce different outcomes. Similarly, a coaching interaction is very different to a visioning exercise.

The leader's style will determine the type of culture which emerges, and in turn will be dictated by the type or mix of cultures that is required.

It is my view that the majority of organisations are in transition, moving from the performance to the learning stage. My observation is that they currently are 80% performance-driven and about 20% learning-driven. When performance has become the norm and an established part of all leaders' work, then more of the focus will turn to learning. After all, the real value to customers, and thus the true benefit to organisations, will be investing in knowledge initiatives and quickly bringing innovative products and services to meet the needs of customers.

For the present at least, this means that the role of many leaders is a mix of coaching and inspiring, with the emphasis on coaching.

Transformational pathways

The majority of organisations seem to progress through this sequence of change. For most, establishing a Performance Culture comes before the innovation of a Learning Culture, and both are a precursor to the highly distinctive Unique Culture.

It should be noted that some organisations, such as entrepreneurial and start-up businesses, may progress through the stages in the opposite direction. That is, they start with a Unique Culture and progress through the stages to an Administrative Culture. For example:

- A visionary starts a new enterprise or team. She attracts adherents and harnesses their imagination and ideas (Unique Culture).
- However, she struggles to operationalise her vision and so passes it on to the innovators in her enterprise (Learning Culture). They refine the vision and find ways to bring it successfully to market.
- They in turn pass it along to the managers in the team who will improve efficiencies and effectiveness (Performance Culture).
- Finally, the vision is passed on to the traditional managers who standardise the process and procedures (Administrative Culture). This is where the business may well stall and die if it cannot revitalise itself and progress back to the Unique Culture stage.

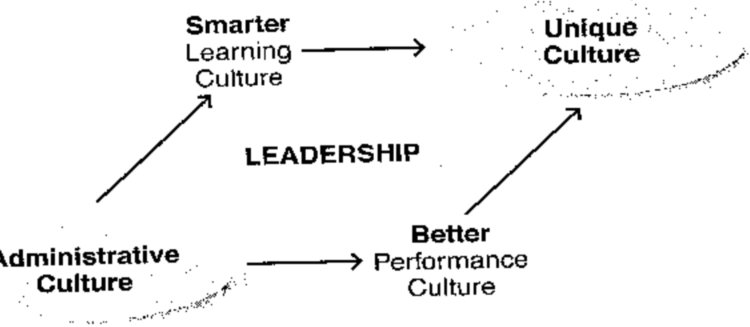
There are some organisations that are trying to leapfrog competitors who have already developed highly differentiated strategies and cultures. For them, a radical transformational agenda is required, as they attempt to move straight to the end game.

In essence, there are two pathways for radically transforming cultures (illustrated in figure 2.4):

- *The performance pathway* usually focuses on either improving the top line (for example, by becoming more effective at meeting customer needs) and/or improving the bottom line (for example, by becoming more efficient through reducing costs, waste and time). Importantly, building a true Performance Culture always requires:
  - –people who are passionate about achievement
  - –leaders who adopt a coaching style of leadership where their focus is on assisting their people to hit stretch targets
  - –customers who are demanding higher levels of performance (for example, in the areas of price, quality, accuracy, accessibility, service and so on).
- *The learning pathway* usually focuses on collective intelligence, throwing more brains at the problem and bringing new ideas to the marketplace. However, a true Learning Culture cannot be built unless the organisation has:

–people who are passionate about innovation, learning and sharing knowledge
–leaders who adopt an inspirational style of leadership where the focus is on stimulating thinking and facilitating discussion
–customers demanding customisation of goods and services.

Figure 2.4 Pathways to transform cultures



Sometimes frustration with the rate of change (or, more often, with the demands of the changing strategic context) results in senior managers trying to push faster with the transformational process. In their desire to accelerate the process, many executives open up both pathways to the future in the hope that they can address multiple strategies and drive more quickly towards their vision of creating a Unique Culture. That is, they attempt to move simultaneously along the learning and performance pathways. This is a difficult act to pull off because of the resultant conflicting priorities.

Leading cultural transformation

Organisations tend to move through the various stages of culture as their strategies shift in response to, or in anticipation of, changes in their external environment. The speed of this process is related to the degree of turbulence in the environment, the nature of the competition they face and the expectations their stakeholders have. Usually the urgency for change, and the complexity of the issues addressed, leaves it beyond the scope of a mere change exercise and puts it into the province of transformation, with all of the associated implications for leadership, culture and values.

What type of leader can successfully take on the challenge of transformational culture change? It certainly needs a leader with courage and persistence, but it also requires a leader who has what I call 'reciprocal openness'. This is a leader who is open with others, candid and tells it like it is. This is also a leader who is open *to* others, can be influenced, shows a genuine interest in others and who is astute enough to recognise he or she doesn't have all of the answers.

Transformational leaders are driven by challenge, are passionate about learning and have the skills of emotional engagement required to take others with them. They are leaders who are comfortable with the four leadership styles required by the transformational process. They can be directive, can coach and inspire, and can be visionary. They are comfortable to select from their leadership repertoire and can exhibit the leadership style required by the situation and the culture they are trying to drive at any particular time. Transformational leaders don't do things by chance or lead by default; they lead by their intent and by the impact they are trying to have on others.

But all of this will amount to nothing if the leader cannot build trust. At the heart of the transformational process lies the integrity of the leader, the example set by the leader and the trust established by the leader. To lead people on a challenging journey of change is a major undertaking. It means taking them out of their comfort zone, confronting anxiety, lifting aspiration and generating higher levels of commitment and personal responsibility. It may often mean making people vulnerable. This requires enormous goodwill, and trust and belief in the integrity of the leader.

Specifically, it requires leaders who can meet three challenges:

1. the *intellectual challenge* of change—building the business case and creating the urgency for change
2. the *emotional challenge* of change—creating the ownership and the buy-in of everyone in the organisation, and thereby harnessing the energy required for change
3. the *transformational challenge* of change—realising that the leaders must change their own behaviour first before they can secure the commitment of others to change

The leader's personal example and passion for the cause create a powerful model for change. Gordon Cairns, the CEO of Lion Nathan, talks about taking over the company when it was at a low ebb and performing badly. He reflects that:

> *[I] realised something quite simple about changing corporate culture. If you expect the people who work for you to change, then you must also. And it has to be real change and not just rhetoric. It's about changing the nature of the organisation, and that can only happen if the person at the top changes.*[18]

If we want to bring out the best in people, we need to build cultures where people feel valued; where they feel important and powerful; and where they feel confident and appreciated. At the same time, the culture must support the business strategy that, in turn, follows the best pathway to achieve the vision.

To achieve this, our leaders must become more astute and more professional in their approach to management. They will need to be acutely aware of the powerful impact that they have on culture and thus adopt a leadership style that is appropriate for the outcome they seek. They also need highly developed skills in communication and influence. (The popularity in contemporary management literature of the construct of emotional intelligence is evidence of this trend.)

Embedding the changes

Finally, leaders must appreciate that to sustain transformational change, the new processes and behaviours must become institutionalised and become the new organisational reality. This means embedding into the organisational fabric new ways of working; new ways of relating to and serving customers. Some of the areas for change include:

1. *Recruitment.* Organisations cannot allow just anyone to enter their culture. They must be careful to recruit only those whose values align clearly with the values of the culture required.
2. *Reward and recognition.* Rewards must be aligned with the new desired cultural outcomes and people must receive recognition for appropriate behaviours. For example, a teamwork culture rewards team effort over individual performance.
3. *Performance management.* Key result areas and the performance indicators should be aligned with the strategic drivers. Managers should provide coaching in support of these targets.
4. *Training and development.* Training and development programs will be critical for teaching new skills, bolstering commitment and lifting capabilities.
5. *Succession and promotion.* You can tell a lot about the culture by the nature of the people who are promoted. Successful cultures take great care to ensure that only those who are exemplars of the desired culture are promoted. Such organisations are also disciplined in identifying the talent that will be the next generation of leaders.
6. *Termination.* Just as induction processes are critical, so too are effective methods for removing those who don't display the values sought. There is nothing that undermines a new culture more surely than tolerating a senior leader who does not align with the values and does not model the culture.

Conclusion

Today there are great expectations placed on leaders to transform cultures. Apart from strategic necessity and competitive reality, much of this is driven by the new workforce and, most particularly, by the talented workers who are so keenly sought by global companies. Starting with Generation X, but now generally demanded by large and growing sections of the workforce, employees no longer respond to the management techniques so long tolerated by the baby boomers.

Members of the new workforce are more willing to leave when their basic needs are not met, and are much less likely to perform for leaders whom they do not respect. They want to work with inspiring leaders who share knowledge. And they want to work for organisations that are genuinely admired and successful.

The expectations of all stakeholders, whether they are investors, customers, employees, the government or the community, have risen dramatically. Today, there is a clear realisation that, although

it is strategies and brands which offer promise, that promise is delivered only through leadership and culture.

In the final analysis, an organisation is the sum of the skills and attitudes of the entire workforce, as reflected in the culture. The ultimate potential of any organisation is the realisation of the collective aspirations of its entire workforce. We can no longer afford cultures that limit human potential and there is no place, finally, for managers who seek simply to control.

Transformational change is a liberating process. Although born of necessity, it is a process which is finally about to deliver to us organisations that will be both good for business and good for people.

Some tips for thinking about transformation

1. *Only transformational change has the power to fundamentally change the nature of our organisations and have a truly significant impact on outcomes.*
2. *Organisational change is the easy part; changing ourselves and helping others to change is the real challenge.*
3. *Strategic thinking without a culture to support it is in effect wishful thinking.*
4. *If you do not create the culture that you need, you will end up with a culture by default, and it may not be one that you want.*
5. *Transformation is driven by leaders who bring out the best in people and have a deep-seated belief in their potential.*
6. *Today, people at work want to be successful but they also are looking for personal fulfilment, and if they cannot achieve both then they will eventually leave.*
7. *The more talented the people you recruit, the higher will be their expectations of your leadership. The easiest people to lead are those who have no expectations.*
8. *Integrity is the basis of all leadership, because if you cannot trust your leader then nothing else matters.*

>

9. *Integrity is built on trust and that occurs when what you say matches what you do. The greater the gap between what is said and what occurs, the greater the credibility gap and the lower the level of trust.*
10. *The best indicator of an organisation's culture is the example set by the leaders who make it to the top.*

For further exploration

- M Buckingham & C Coffman, *First, break all the rules*, Simon & Schuster, New York, 1999.
  Buckingham and Coffman are from the Gallup Organisation. This is a refreshing look at organisational culture and the leadership that drives it.
- J Collins & J Porras, *Built to last*, Harper Collins, New York, 1994.
  Collins and Porras are from the Stanford Business School. This book stimulated much of the debate about culture and performance and is a classic text.
- S Ghoshal & C Bartlett, *The individualized corporation*, Heinemann, London, 1998.
  The authors are from the London and Harvard Business Schools. This book provides a transformational framework and a number of case studies.
- G Hubbard, *The first eleven*, John Wiley & Sons, Brisbane, 2002.
  Hubbard is from Mt Eliza Business School. This is a well-written and comprehensive research report into what are described as 'winning organisations' in Australia.
- M Seligman, *Authentic happiness*, Random House, Sydney, 2002.
  Martin Seligman is a noted researcher and author in the field of optimism and positive psychology. This book explores the issue of human fulfilment and happiness. It refers specifically to culture in law firms and will be of interest to those wanting to broaden their understanding of human motivation and intrinsic human needs.
- V Frankl, *Man's search for meaning*, Pocket Books, New York, 1984.
  In many ways, Victor Frankl initiated the discussion on the

distinction between success and fulfilment. His writings still resonate today and provide a framework for thinking about personal fulfilment, which is a powerful driving force in the transformational process.

- www.leadership.com.au
  My own web site. It contains a collection of my material on leadership and transformational change.

Acknowledgments

The following appear with the kind permission of Terry Lee & Associates Pty Ltd:

- Figure 2.2: Alignment model
- Figure 2.3: Bunnings' leadership model
- Table 2.1: The four cultural stages.

The following appear with the kind permission of Leadership Psychology Australia:

- Figure 2.1: How leaders drive towards the vision
- Figure 2.4: Pathways to transform culture.

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READING 3.1

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451 White Paper

Business Case Series

Building a business case for CRM

1st Quarter 2005
Version: Draft Final

Audience: CEO/Director General, Executives, Marketing & Sales Executives & Project Managers

451 Consulting Pty Ltd has a commitment to clients and other key business people to keep them informed on topics that can improve their ability to convert Strategy Into Action and achieve organisational goals sooner.

Introduction

Over the last decade many organisations have invested heavily in Customer Relationship Management (CRM) only to have it fail to deliver the expected results. In fact, some studies suggest that up to 7 out of 10 CRM projects fail to deliver.

The complexities associated with multiple stakeholders, enterprise wide processes, system integration and organisational change management provide some clues as to what must be considered in a CRM project or program.

Industry research does however confirm that there is overwhelming proof of the benefits of CRM initiatives where companies measure the effectiveness of the strategy against preset organisational targets. (Gartner Inc: "The Three Year Total Cost of Ownership for CRM Software for MBS" April 2004)

A solid business case is one of the four failure points why CRM does not to live up to expectations...

The four points of failure

Research by 451 Consulting suggests the inability of CRM to live up to expectations can generally be attributed to one or more of the following points of failure:

- Lack of a clear business strategy for CRM that is aligned with the organisation's objectives and performance targets,
- Poor stakeholder engagement and commitment resulting in failure to assign clear accountability for benefit realisation,
- Too much focus on technology and not enough on staff, customers, information and processes,
- A poor quality Business Case that fails to address the full scope, benefits, costs and risks of the project.

This White Paper addresses the last point above. However, each of the four points are considered in the business case. It is also not surprising that project delivery failure often has its origin at the business case stage.

The business case must be more than a document; it must be a syndicated view by the key stakeholders with emotional commitment...

At 451 Consulting we place a heavy emphasis on the business case process as it provides the seeds for success for any project, and it is a foundation stone in converting your strategy into action. We believe the output of this stage is not just words in a business case, but more importantly, it must be a syndicated view by all key stakeholders with emotional commitment.

The challenges in developing a CRM business case

A business case must provide a clear and compelling argument, which in turn guides investment decisions, priorities and resource allocations. Our experience has shown there are three key attributes for a solid CRM business case:

1. Business outcomes are clear (How will success be judged?);
2. Scope covers people, process and technology (and it should not be driven from a computer systems perspective); and
3. Strong 'emotional contract' with the Benefits Guardian(s) to committ to the benefits documented in the busines case.

(1) Business outcomes are clear

The initial challenge in developing a CRM business case is to find an owner (Sponsor) for the program at an executive level. This person will be charged with overseeing the business case development, and more importantly, will need to be the on-going champion for CRM within the organisation.

CRM has touch points in many parts of the organisation. Finding a sponsor is often the first challenge

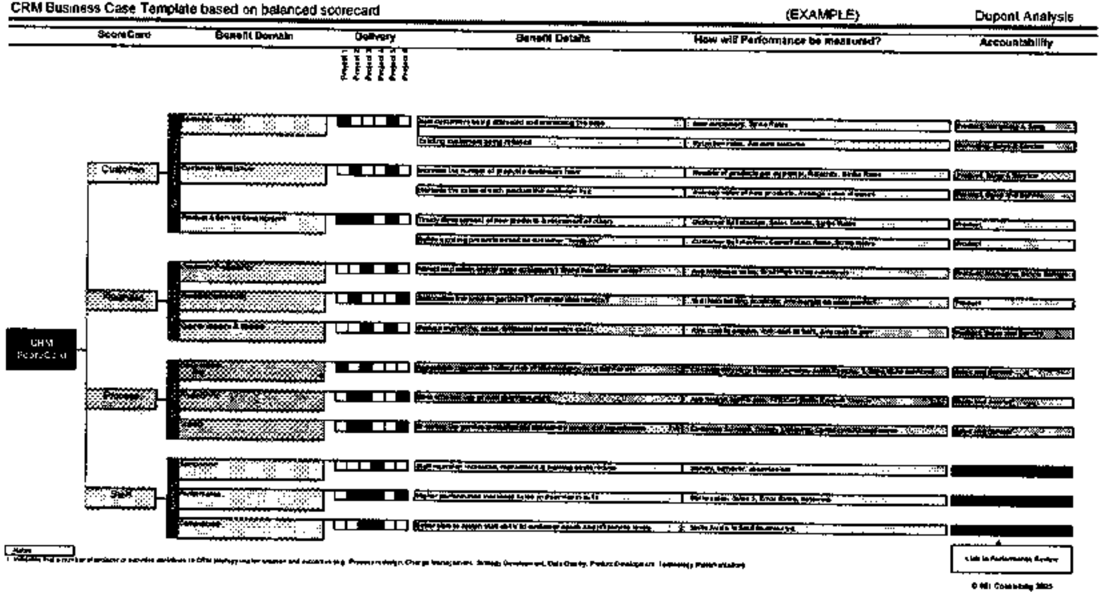
This is not as easy as you may think, as CRM can have a significant impact on many functional areas including Strategic Planning, Marketing, Sales, Customer Contact Centre, Branch Staff, and Corporate Services. Facing this dilemma, you realise that the only area where CRM is linked to one accountable officer is either the Chief Operating Officer (COO) or Chief Executive Officers (CEO).

This is not to say the Sponsor must be the CEO or COO, but the Sponsor must be empowered to work with other functional areas and must be able to truly act in the best interests of the organisation.

451 Consulting highly recommend using a balanced scorecard (not necessarily The Kaplan and Norton Balanced Scorecard) with the visual display tool shown below to identify the business outcomes and accountability for delivery. This quickly demonstrates:

- Linkage to the corporate strategy;
- Provides an integrity check to ensure key areas are not omitted;
- Identifies the performance measures, and their targets; &
- Clearly assigns accountability for each benefit type.

In our experience, this is also a very powerful communication tool which is readily understood. (The example below is reproduced in full size at the end of the paper).

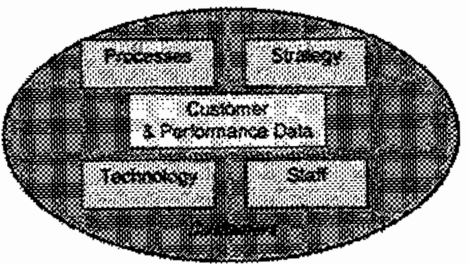


451 Consulting recommend piloting the CRM approach on a small process/area to provide a learning experience before ramping up for the main program. This also assists in calibrating the performance targets.

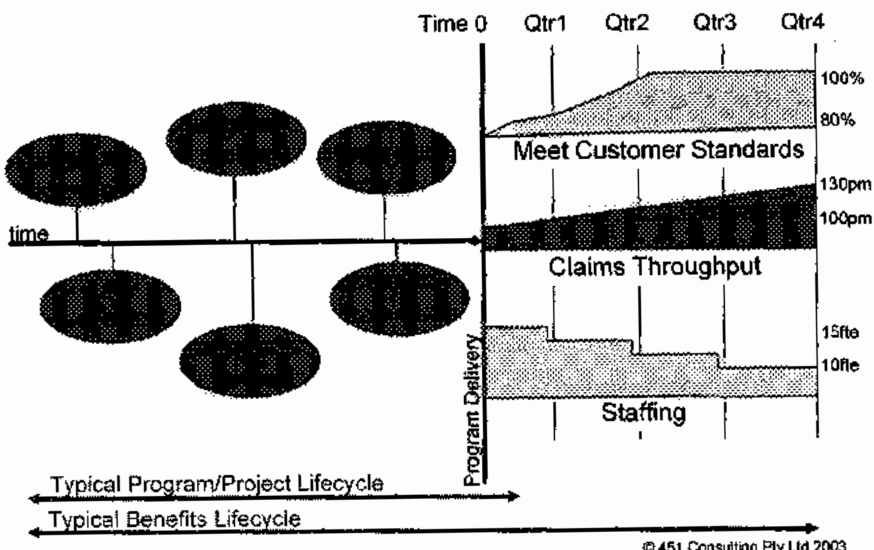
(2) Scope covers people, process and technology

In all cases the scope for the CRM business case should include people, process, and technology dimensions and how they will impact Strategy, Customer & Performance Data, and Customers (see model below). In fact, a very common reason why CRM fails is it is too heavily focused on technology.

CRM Scope ⇨



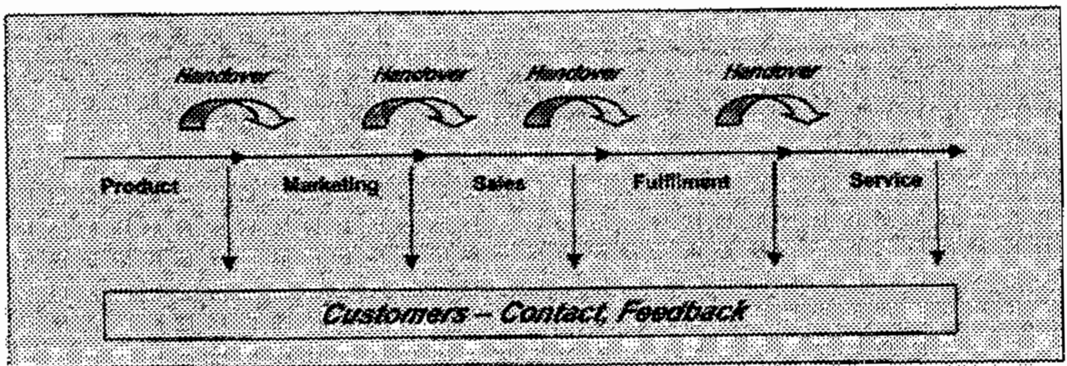
It is fundamental the Scope includes the benefits lifecycle as well as the program/project lifecycle as shown below ➾:



The scope for your business case will also be influenced by your…

Customer lifecycle;
CRM readiness;
CRM maturity; &
Appetite for risk.

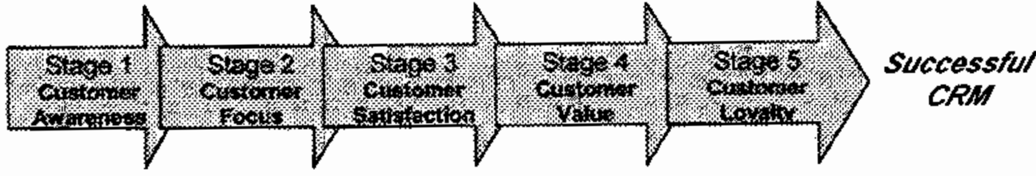
The CRM business case scope should consider the entire customer lifecycle and ensure end-to-end processes are optimised. A useful model to assist in understanding how each stakeholder has different needs, drivers and expectations is shown below.



With respect to CRM readiness, industry analysts and vendors have developed a number of models to explain CRM maturity to help organisations align their initiatives with this journey. One such model (below) describes an organisation's evolution from:

> "Customer Awareness" focus – where organisations tends to be product rather than customer centric and struggle to even define who their customers are, to
>
> "Customer Loyalty" focus – where organisations enjoy high level of customer demand, repeat business and effectively price products to maximise customer satisfaction and company profitability.

The level of maturity will influence the CRM Strategy and the scope, sequence and timing of CRM initiatives. This will determine when and how outcomes are achieved and how the outcomes are presented in the Business Case.



With respect to risk, a "bite at a time" approach is strongly recommended to minimise risk and ensure sustainable outcomes. This approach enables the organisation to:

- Deliver quick wins
- Progressively build CRM capability
- Ensure outcomes are sustainable
- Minimise and effectively manage risks
- Increase buy in and commitment across the various functional areas and at Executive level
- "Test" proposed benefits and refine the strategy as needed
- Identify and apply learning to the strategy and subsequent initiatives.

(3) Strong 'emotional contract'

The need for an 'emotional contract' is explained in detail in the Benefits Realisation White Paper Series. In essence, it states that an emotional contract is needed from business case stage by the accountable officers (Benefits Guardians) who will be charged with realising the benefits.

This is not to say that benefits identified in the business case will be 100% accurate, as studies show benefit estimates are more likely to be +/-40% at this stage.

However, from the concept stage which culminates in the business case, through to the end of the development stage, the project planning is improved and tolerances for project budget, timing and benefits are significantly tightened. Accordingly, the benefits should be within about a 15% tolerance immediately prior to implementation where the last readiness checkpoint (go/no go) decision is made.

Conclusion

As stated by Gartner, "there is overwhelming proof of the benefits of CRM initiatives". However, more organisations fail than succeed. We propose four attributes why organisations fail in this area, one being the CRM business case which also touches on the other three points, which we explore in this White Paper.

The development of a CRM business case creates many touch points across an organisation and identifying a suitable Sponsor is often the first challenge.

The method used to develop the business case requires consideration of a number of perspectives and linkage back to your strategic objectives. It is important to think of the business case as not just a document, but it must also represent a syndication of views of all key stakeholders and a commitment to deliver benefits.

Essential ingredients for success include quantified business outcomes, clear scope, and a strong emotional contract with the people empowered to realise the benefits.

Authored by Carol-Ann Gough and Edited by: 451 Consulting Management Team

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3. *"CRM: The Essential Guide"*, PIVOTAL.

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CRM Business Case Template based on balanced scorecard

(EXAMPLE) Dupont Analysis

ScoreCard	Benefit Domain		Delivery (Project 1 – Project 6)	Benefit Details	How will Performance be measured?	Accountability
Customer	Sales Effectiveness	Customer Growth		New customers being attracted and increasing the base	New customers, Strike Rates	Product, Marketing & Sales
				Existing customers being retained	Retention rates, Account closures	Marketing, Sales & Service
		Customer Walletshare		Increase the number of products customers have	Number of products per customer, Referrals, Strike Rates	Product, Sales & Service
				Increase the value of each product the customer has	Average value of new products, Average value of upsell	Product, Sales and Service
		Product & Service Development		Timely development of new products & retirement of others	Customer Satisfaction, Sales Trends, Strike Rates	Product
				Refine existing products based on customer "feedback"	Customer Satisfaction, Cancellation Rates, Strike Rates	Product
Financial	Profitability	Customer Profitability		Attract and retain higher value customers? Transition out low value?	Ave customer value, % of High Value customers	Product, Marketing, Sales, Service
		Product Profitability		Rationalise the product portfolio? Terminate loss makers?	% of loss making products, Ave margin on each product	Product
		Cost to Acquire & Service		Reduce marketing, sales, fulfilment and service costs	Ave. cost to acquire, Ave. cost to fulfil, Ave cost to serve	Product, Sales and Service
Process	Efficiency	Consistency		[illegible]	[illegible]	Sales and Service
		Productivity		Most efficient use of available resources	[illegible]	Sales and Service
		Quality		Ensuring the service matches the customers needs and expectations	Customer Surveys, Quality Listening, Complaints/Compliments	Sales and Service
Staff	Capability	Satisfaction		Staff retention increases, recruitment & training costs reduce	Survey, turnover, absenteeism	
		Performance		Higher performance increases sales and service results	Strike rates, Sales $, Error Rates, Referrals	
		Competency		Better able to match staff skills to customer needs and fill service levels	Skills Audit, % Staff Multiskilled	

CRM ScoreCard

Link to Performance Review

Notes

1. Indicates that a number of projects or activities contribute to CRM strategy implementation and outcomes (e.g. Process redesign, Change Management, Strategy Development, Data Quality, Product Development, Technology Implementation)

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READING 3.2

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451 White Paper

Benefits Realisation Series

Part 1: What is benefits realisation and why is it important?

1st Quarter 2005
Version: Final

Audience: CEO/Director General, Executives, Project Sponsors, Program and Project Managers

451 Consulting Pty Ltd has a commitment to clients and other key business people to keep them informed on topics that can improve their ability to convert Strategy Into Action and achieve organisational goals sooner.

Introduction

What is Benefits Realisation? Why has it attracted so much attention in the last few years? Is there something valuable in it, or is it just another management fad?

Let's start with a definition: "Benefits Realisation is the active process designed to increase the 'hit rate' between espoused benefits in a Business Case and those benefits that actually materialise from implementing a project or initiative."

Investment Theory

Whether we are considering buying a lottery ticket, investment property, equities or in an organisational setting considering a M&A, launching a new product or undertaking a project, we need to weight up the (opportunity) costs against the benefits and understand the risks. For a financial investment this is often distilled to a NPV (Net Present Value), IRR (Internal Rate of Return) and/or Payback Period.

This detailed analysis and rational approach provides confidence we are making a sound decision. However, reality later bites when many projects do not yield the benefits espoused in the Business Case.

Let's round up the usual suspects

Research is awash with literature stating the major reason why projects tend to fail is due to "people factors". Much of this literature then assumes the corrective action is Organisational Change Management activities to better understand and address people factors.

There is little doubt "people factors" is the main cause of failed projects (i.e. the usual suspects), but given all projects are undertaken by people, and are likely to influence people, is this really surprising? It is like saying the main reason an athlete failed to win the race was "people factors" (physical and mental)! So, we need to understand more specific reasons why projects fail to deliver benefits.

There is little doubt "people factors" are the main reason why projects fail, but given all projects are run by people, and are likely to influence people, is this really surprising?

At 451 Consulting we also subscribe to the "people factors" doctrine, however we do not believe that organisational change management by itself is likely to provide the silver bullet. Our experience has demonstrated that understanding the *benefits* to be *realised* AND providing clear *accountability for harvesting the benefits* greatly assists in the "people factors".

Houston, we have a problem

In the last ten years there has been a major increase in the size of corporate projects globally from Y2K, e-Commence, and locally in Australia with the introduction of GST. This initially created a massive increase in demand for project managers which could not be met. Ultimately, supply was increased as many professionals drifted into this area as big incentives were offered to highly experienced project managers. This wave also had a secondary impact by what we call the "Plus One Theory" which proposes many competent project managers were given projects one category higher than their previous experience as this was a way to meet the demand.

It was understandable with Y2K and GST which had absolute Drop Dead Dates for project delivery, that Executives, Sponsor's, and Project Managers alike focused on bringing in projects on-time and within budget. In this environment both Executives and Project Managers were heavily conditioned to focus on milestones and budget, often reinforced by promises of promotion and bonuses.

451 Consulting believe the last 10 years has 'conditioned' many Executives, Sponsors, and Project Managers to focus on milestones and budget which has contributed to a REDUCTION in benefits being realised!

However, **451** Consulting believe this 'conditioning' has reinforced a number of poor habits that undermine benefits where the projects require organisational change! This is of particular concern for CEO's and Director Generals.

Enter the stereotypical Project Manager - John

John is a hypothetical person who prides himself on being a good project manager. He frequently boasts that he has successfully managed a large number of projects and they have always come in on-time and within budget. The Sponsor likes John because he can be depended upon to get the job done according to his budget. We need more blokes like John, right?

Not necessarily. Ask John how he manages to repeatedly accomplish this miracle and he says tight scope management. Having got your attention, you ask how do you do that? After a lengthy response from John, who now looks a little less confident, you have surmised that he has two tools at his disposal. Firstly, he continually crimps (reduces) scope during the project to jettison work, and secondly, he doesn't fully complete all tasks.

This gets you thinking that managing a project successfully creates a natural tension between Scope, Costs (including time and resourcing) and Quality. You also realise your project reporting is only covering one of the three dimensions (Costs) and that it is fairly easy to bring in a project on time and budget, if it is at the expense of Scope or Quality. Or more generally, if you can compromise any one of the three dimensions of Scope, Cost, or Quality, it is not too difficult to meet objectives with the other dimensions. At 451 Consulting, we include a fourth dimension to project management which is Organisational Change Management. A common metaphor is there is little point performing a technically brilliant brain operation if the patient dies. Organisational change projects typically require a sustained change in behaviour in order to produce on-going benefits.

The natural tension between Scope, Cost and Quality must be kept in balance... Scope defines the potential for benefits and Quality can erode this potential.

Going to sleep that night you wonder how benefits realisation fits into the model of Scope, Cost, Quality, and Organisational Change. By morning you have it solved as you realise *Scope provides the potential for benefits, and therefore reducing scope undermines benefits*. Secondly, poor Quality can manifest itself in rework (affecting time and cost) and/or erosion of benefits. Finally, insufficient organisational change is unlikely to produce changes in behaviour and again erode benefits.

After you have shared your new knowledge with John, he agrees he will try to manage all four dimensions in future, but he cannot now guarantee he will deliver on-time and within-budget.

You then ask how John how does he tell if something is in-scope or not during a project as there is always a grey area. He says he refers to the signed-off scope document, which is quite specific. Unfortunately, this makes John's success based on having

100% clarity in the scope document of everything that will be needed to undertake the project. This too is an issue as we never know all of the things that will be needed in a project at the start.

The answer to the scope dilemma above as practiced by 451 Consulting is to define scope by those activities that are needed in order to realise the benefits. This avoids the need to assume the original definition of scope of 100% perfect, and can be readily applied by John and Sponsor to test if an activity is in or out of scope.

The challenge for organisational leaders

The discussion so far has focused on experience by 451 Consulting which suggests many Executives, Sponsors and Project Managers have been 'conditioned' over the last decade to focus on Time and Cost dimensions of projects, and how this can be detrimental for projects involving organisational change. {It is also no coincidence that Time (Milestones and Deliverables) and Costs are the easiest to track.}

There are three key reasons why CEO's and Boards have increased their interest in Benefits Realisation.

(1) An issue of governance: The collapse and financial distress of a number of international and local organisations believed to be 'blue chip' over the last few years has placed the spotlight on Directors to be fully knowledgeable about all material aspects of their business. This is also true for government bodies and government owned enterprises. However, why is it Directors and CEO's know customer numbers, branch locations, employee numbers, P&L and Balance Sheet – yet it is rare to be able to answer two other questions?

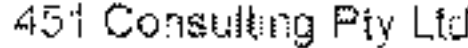
1. What was your aggregate spend on projects/initiatives last year? AND
2. What quantified benefits did those projects deliver?

There is a governance obligation for Directors and CEOs to be able to answer these questions if the total spend on projects is material.

(2) Converting strategy into action: The second perspective is about how we translate organisational strategy into future reality. We believe "An organisation's total portfolio of investments (business and IT projects, financial investments and operational improvements) must collectively deliver your strategy and meet your KPI targets" (Source: AICD Editorial December 2002 by 451 Consulting Pty Ltd).

If you accept the above statement, it has a profound effect on how you manage your business and portfolio of investments. Therefore, it is imperative to tease out the benefits from projects into your organisational scoreboard, and perform an integrity check to see if the aggregate portfolio will deliver your strategic objectives.

(3) The need for 'bankable projects': The final perspective is that the Directors and CEO want to have confidence that if they spend $x on a project, they will receive y benefits with a z% probability. Unless the CEO is confident in x and y, why would they want to continue to invest in projects? As one prominent financial institution CEO said, "I want bankable projects".



Conclusion

Very few organisations can lay claim to fully understanding their aggregate project spend and the benefits that actually accrue. Although this has historically been considered acceptable, future governance requirements are likely to focus on this area.

This situation is exacerbated as observations by 451 Consulting suggest many Executives, Sponsors and Project Managers have been 'conditioned' over the last decade to focus on Time and Cost dimensions of projects, and how this can be detrimental for projects involving organisational change.

Benefits Realisation is important as it helps address the imbalance and restore the natural tension between Scope, Cost, Quality and Organisational Change Management to increase the potential for benefits being realised. It is a missing piece in the puzzle towards performance improvement.

Authored by Gerard O'Hara and Edited by: 451 Consulting Management Team

Part II on the Benefits Realisation Series will discuss managing projects for benefits.

If you would like to receive future copies of this White Paper Series please contact 451 Consulting on tel 07-3255-0457 or email info@451consulting.com.au

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451 White Paper

Benefits Realisation Series

Part 2: Managing projects for benefits

1st Quarter 2005
Version: Final

Audience: CEO/Director General, Executives, Project Sponsors, Program and Project Managers

451 Consulting Pty Ltd has a commitment to clients and other key business people to keep them informed on topics that can improve their ability to convert Strategy Into Action and achieve organisational goals sooner.

Introduction

The first paper in this Series has demonstrated the need to focus on benefits realisation. This is a young project discipline that specifically targets what is needed to raise the 'hit-rate' between the benefits documented in the business case and those that actually accrue.

What is the challenge?

The reality is that many organisations that implement formalised benefits realisation processes fail to achieve a significant and sustained improvement in projects. However, these organisations often spend a significant amount of time and money trying to improve project performance, but end up stifling innovation, and increasing bureaucracy.

Many organisations that implement formal benefits realisation fail...

Why do many organisations fail?

The team at 451 Consulting has over 100 people years experience in project and program management. Our experience suggests the primary reason for failure is a lack of clear ownership by the people empowered to realise the benefits (who we call Benefits Guardians) to deliver specific benefits from the early stages of the project. This 'emotional contract' is fundamental to success. A second emotional contract is required between the Benefits Guardian and Steering Committee.

Emotional Contract #1: If the project manager delivers x, the Benefits Guardian commits to realise benefits y and z and....

Emotional Contract #2: If the Benefits Guardian uses his/her best endeavours throughout the project to maximise the potential for benefits, but that these do not fully materialise for reasons outside their control, the organisation will be supportive.

Our experience suggests the primary reason is a lack of an 'emotional contract' with the Benefits Guardians from an early stage in the project.

A formal benefits realisation process is typically implemented as part of the establishment of a Program Office (or Value Management Centre or Investment Management Centre). A catch 22 soon emerges as the disciplines and competencies needed to systematise a Program Office are quite distinct from the skills needed to foster the ownership in the business to understand and accept the 'emotional contract'.

Another way of making this point is that the Program Office often has an internal focus on templates and tools with the customer being the CEO or Executive Team. The key to establishing the 'emotional contract' requires an external focus with strong organisational change management skills, with the customer being the operational managers who will be assigned the accountability for realising the benefits (Benefits Guardians).

What problem are you trying to solve?

It is fundamental to understand that benefits realisation requires a change in behaviour by project people and operational managers (who will need to deliver benefits). If this sounds like cultural change, you are right, and we all know cultural change is not easy and has never worked when driven by template based solutions.

The Top 7 points of failure and what to do

The real world experience of 451 Consulting has found a number of common points of failure where organisations miss opportunities to create an environment conducive to realising benefits. {This excludes the basics of managing the natural tension between Scope, Cost, Quality and Organisational Change Management discussed in Part 1.}

We have observed seven points of failure that relate to either the emotional contract or the underlying benefits realisation methodology

1. Lack of benefits clarity & accountability in the business case. (emotional contract)
   Many projects do not have a chance of producing benefits as they are not clearly defined in the business case stage. This is not to say they need to be 100% accurate at that stage, but rather the benefit areas need to be defined and a guestimate of benefit targets are needed.

   The degree of confidence in the actual benefits will increase as the numbers are refined from the concept stage through to the end of the development stage. At that point, the final cost benefit equation is confirmed and 'locked in'.

   An ideal way to commence the emotional contract is to identify each Benefits Guardian and physically ask them to sign the business case next to the benefits metrics to demonstrate their commitment. If the Guardian will not do this, it is a good idea to challenge if the project should continue.

2. Perceived inability to measure the benefit. (emotional contract)
   The transition to implementing a benefits management process is typically accompanied by comments from the business and project people alike saying they agree on the benefit measures, but as they are not currently measured, how can we set targets and how will we measure if they are achieved?

   It is important to acknowledge it will take quite some time and investment to establish a measurement regime. The first step is to agree the performance measures which should be positively influenced from the project and negotiate with the Benefits Guardians the % change relative to current performance. This allows the business case to be evaluated and the project to continue.

   A stream of the project is then devoted to analysing how to estimate the current level of performance for the metrics and then to translate the targets into actual levels. For example, if a 10% reduction in staff turnover was specified in the business case, and the analysis shows turnover is currently 12% for the area, then a 10% reduction translates to 10.8% at a specific point in time.

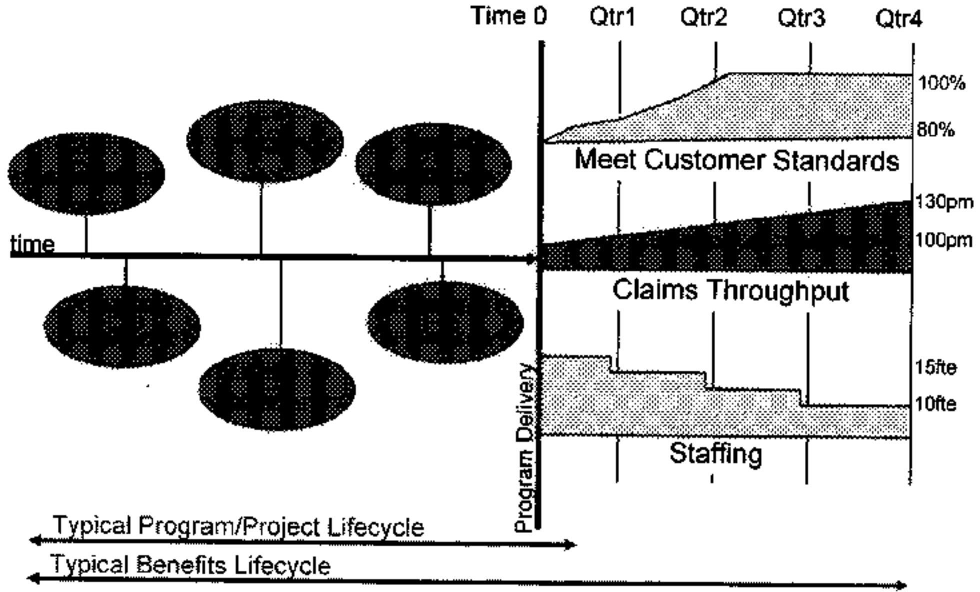
   The other consideration is that all performance metrics should be aligned under the organisation's balanced scorecard to demonstrate how it will contribute towards strategic goals.

3. Lack of support by Executives if targets are not achieved. (emotional contract)
   It is all too easy to allocate blame if a benefit target is not achieved. However, this is probably the quickest way to disengage with Benefits Guardians and kill off new ideas as operational managers will be fearful of failure, rather than empowered and supported for innovation and success.

Also, it should be acknowledged that benefits realisation is a new skill which will take a couple of years to become embedded in an organisation with realistic expectations for benefits. That is, the initial portfolio of projects pioneering the benefits work will not be perfect, but rather will provide a great source of learning to recalibrate future project benefit expectations.

4. Failure to understand the benefits lifecycle extends past the traditional project lifecycle. (process omission)
   It is not realistic to expect project deliverables (outputs) to directly and instantaneously produce outcomes. (If this were the case there would not be a need to focus on benefits realisation.) Accordingly, a benefits map is needed which shows a time based flow of how benefits will be measured until 100% of each benefit type has been achieved. A simple example follows showing six projects (P1..P6) within a program of work must all deliver (time = 0) and an active process is needed by the Benefits Guardian to produce the benefits:

The benefits lifecycle extends past the project lifecycle.



5. Not differentiating between notional and harvestable benefits. (process omission)
   It may be stating the obvious, but it is frequently impractical to harvest parts of positions. For instance, a project may result in a 20% reduction in workload for 5 similar positions located in different offices. This is a notional benefit of one full time equivalent (FTE). However, it may not be practical or realistic to turn those 5 full-time positions into 5 part time positions of 4 days per week. Accordingly, this notional benefit of 1 FTE is real, but will not be realised (as a reduction in staff costs). However, if an organisational restructure can follow that redistributes the workload over 4 positions, the fifth position can be harvested and a reduction in on-going staff costs will follow.

   Therefore, in the business case stage each benefit should be tagged as either notional or harvestable to create similar expectations between the stakeholders.

Freeing up a proportion of people's time does not in itself produce a harvestable benefit

6. Double dipping of benefits between projects. (process omission)
   Organisations constantly evolve by acting and reacting to internal and external stimulus. Multiple internal projects are carried out at the same time as other initiatives such as continuous improvement activities (including 6 Sigma, Business Excellence Framework), Business Process Reengineering (BPR), and other operational improvements. Accordingly, it is not uncommon for more than one change to impact the same area, and this creates the potential to double dip on benefits. That is, a number of initiatives making a claim on the same benefit.

   Double dipping is much more common than you might think, and it can become very heated when people's bonuses and other rewards are involved. Real world experience has also shown that in some cases the operational manager may not be able to attribute which project made the primary contribution to the benefit!

   The potential for double dipping is greatly reduced if the business case defines the performance targets up front and operational managers are kept informed.

7. Not managing project scope by benefits (process omission)
   Very few sponsors and project managers define and manage scope by those activities which are needed to deliver the benefits. Project scope is defined and refined from concept through to the end of the development phase with lots of words covering all streams of activities. This is a prerequisite, but not in itself sufficient. The Sponsor and Benefits Guardian (who are sometimes the same person), need to consider all changes to scope in terms of the potential to erode benefits. The Project Manager must also be cognizant of the hundreds of operational decisions he/she makes to ensure benefits are not jeopardised.

Conclusion

The value for organisations from focusing on realising benefits is massive. We all understand the project lifecycle has a number of stages: Concept, Development, Implementation and Finalisation. The benefits lifecycle is similar and needs to be synchronised to the project lifecycle in order to underpin the attainment of benefits.

However, like many other management approaches, the implementation of the new paradigm is frequently underwhelming, with very modest increase in performance.

The experience of 451 Consulting suggests the seeds for success can be distilled into two factors: establishing an 'emotion contract' to realise benefits and ensuring your methodology (including processes) does not miss key areas.

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CHAPTER 13

VALUING, ANALYZING, AND MANAGING THE MARKETING FUNCTION USING CUSTOMER EQUITY PRINCIPLES

ROBERT C. BLATTBERG and JACQUELYN S. THOMAS

The marketing function is changing rapidly. Over the last 10 years it has become much more customer focused as evidenced by the numerous books and articles written about customer relationship marketing (CRM), retention marketing, and one-to-one marketing.[1] While the 1980s was characterized by concepts such as brand equity, the 1990s and the 2000s were and are focused on the customer. The growth of Internet marketers such as America Online (AOL) and Amazon.com have shown the world that a strong customer-centric focus can generate extremely high market capitalization. While not the only measure of success, the markets are recognizing that firms who understand how to maximize the value of their customer bases have greater long-term value than firms that are simply product focused. This is not to argue that products and services offered by the firm are not important, but the true long-term value of a firm is being driven more and more by its customer base, not its "tangible assets" and products.

Firms that rely only on products without recognizing the importance of the value of its customer may be making a serious error. Dell Computer, one of the great success stories of the last decade, has shown that while product is important, it is more important to understand the customer and the relevant distribution systems. Dell was able to surpass giants like Compaq and IBM who had a greater product focus than Dell. Dell recognized that the product was important, but customers could buy comparable megahertz, internal RAM, and hard drives from a number of competitors. As long as the product met basic standards, Dell could compete on other

dimensions such as service and delivery times and at the same time focus on creating a long-term loyal customer. Ultimately the industry giants flinched and began imitating the new breed of PC companies, exemplified by Dell.

In many of the industries in the new economy, we see a similar model. While again products/services are important, it is the focus on the customer that is paramount. Learning to maximize the value of the existing customer base is at the core of this type of marketing.

This chapter recognizes this changing marketing environment and provides a model of the consumer that we will call the *fundamental customer equity equation*. This equation is intended to capture the basis for valuing, analyzing, and managing the marketing activities of the firm. Any firm can use this equation as the basis for its marketing strategy and tactics. But it fits best for those firms that develop integrated and detailed customer databases and who have learned how to utilize these databases to create a model of the customer that is superior.

Examples range from Citicorp, American Express, and America Online to direct marketers who have lived in this environment for the last 30 years. Firms such as Procter and Gamble and Kraft are less likely to use this model because they are far from their end consumer. The historically great marketing companies who generally were in consumer packaged goods are likely to continue to have to rely on mass channels and mass communications in an era that is evolving to detailed customer information and highly targeted communications to the customer. Ironically, their worst nightmare, the retailer/distributor will be better suited to develop these types of marketing programs than will the firms being forced to rely on 1970s marketing technology and approaches.

The remainder of this chapter focuses on what we call the fundamental equation of customer equity and its applications. The first section covers the fundamental equation of customer equity, then we describe the impact of marketing strategy on critical measures derived from the fundamental equation. Next, we explain how to link segmenting, targeting, and the marketing mix with the fundamental equation. We end with a discussion of how to analyze the effectiveness of the marketing mix.

THE FUNDAMENTAL EQUATION OF CUSTOMER EQUITY

The fundamental equation of customer equity captures the major parameters that need to be modeled and linked to marketing activities:

$$CE(t) = \sum_{i=0}^{I} N_{i,t}\alpha_{i,t}(S_{i,t} - c_{i,t}) - N_{i,t}B_{i,a,t}$$
$$+\sum_{k=1}^{\infty} N_{i,t}\alpha_{i,t}\left[\left(\prod_{j=1}^{k}\rho_{i,t+j}\right)\rho_{i,y+k}\left(S_{i,t+k} - c_{i,t+k} - B_{i,r,t+k} - B_{i,AO,t+k}\right)\right]\left(\frac{1}{1+d}\right)^{k}$$
$$CE = \sum_{t=0}^{t} CE(t-k)$$

where

$CE(t)$ = Customer equity value for customers acquired at time t
$N_{i,t}$ = Number of potential customers at time t for segment i
$\alpha_{i,t}$ = Acquisition probability at time t for segment i
$\rho_{i,t}$ = Retention probability at time t for a customer for segment i
$B_{i,a,t}$ = Marketing cost per prospect (N) for acquiring customers at time t for segment i
$B_{i,r,t}$ = Marketing costs in time period t for retained customers for segment i
$B_{i,AO,t}$ = Marketing costs in time period t for add-on selling for segment i
d = Discount rate
$S_{i,t}$ = Sales of the product/services offered by the firm at time t for segment i
$c_{i,t}$ = Cost of goods at time t for segment i
I = Number of segments
i = Segment designation
t_o = Initial time period
k = Time since acquisition

This seemingly messy expression, particularly for those who are not comfortable with mathematics, captures many crucial concepts. We will translate it into a verbal description. Customer equity equals:

	The profit from first-time customers which is the number of prospects contacted times the acquisition probability times the sales minus the margin.
Minus	The cost of acquiring the customers which is the number of prospects times the acquisition cost per prospect.
Plus	Profits from future sales to these newly acquired customers which is the retention rate in each future period times the profit obtained from the customer in that period summed across all future periods.
Divided by	The discount rate which transforms the future profits into current dollars (or any currency).
Summed	Across all customer segments.

The fundamental customer equity equation can be broken into three components: (1) Acquisition, (2) Retention, and (3) Add-on selling (A-R-A). In each component (A-R-A) of the fundamental equation, there are important subcomponents. These are discussed briefly here and in more detail in the section discussing linking the marketing mix to the fundamental equation.

Acquisition

In the equation, the acquisition rate, α_t, is the probability that a prospect becomes a customer. This variable has a major impact on the firm's investment strategy in acquiring as well as retaining customers. The number of prospects, $N_{i,t}$, is also a very important determinant of the number of customers acquired per period. The other critical acquisition variable is the amount that must be spent per customer for acquisition $B_{i,a,t}$. Clearly, $\alpha_{i,t}$ depends on the spending for acquisition or mathematically, $\alpha_{i,t} = f(B_{i,a,t})$.

Retention

The retention rate, $\rho_{i,t}$, is time specific, partly because the retention rate usually varies by period but more importantly because it varies overtime as the customer duration with the firm increases. Just as in acquisition, the amount spent to retain customers is a critical factor that influences retention rates or $\rho_{i,t} = f(B_{i,r,t}, B_{i,r,t-1}, \ldots)$.

Add-On Selling

This is rarely discussed in most customer relationship management articles or books but is an important element of customer-oriented marketing. It is captured in the model by $S_{i,t}$ which is the sales at time t. Add-on selling is determined by the number of offers made per period ($O_{i,t}$) and

the response rate per offer, $r_{i,t}$. The response rate is affected by the quality of the firm's product line as well as the relationship it has developed with its customers. The higher $S_{i,t}$, it is believed, the higher the retention rate or $\rho_{i,t} = f(S_{i,t}, S_{i,t-1} \ldots)$.

IMPACT OF MARKETING STRATEGY ON THE CRITICAL MEASURES

As part of the analysis of critical measures (acquisition, retention, and add-on selling rates), it is hypothesized that industries have baseline levels for the critical measures. Prior to Federal Express and other entrants in the air express industry, customer reliability was low. This, no doubt, led to low customer satisfaction levels and low retention rates. Federal Express was able to rethink the logistic strategy through the use of hubs to significantly improve reliability to "absolutely guarantee overnight." This then led to high customer satisfaction levels and likely higher retention rates.

Whether it is Lexus through a superior dealer network which increases customer satisfaction (and hence increased retention rates) or Federal Express increasing reliability (and hence most likely increase retention rates) or it is firms who recognize that if an industry under invests in acquisition marketing, the opportunity exists to determine how the firm's marketing strategy affects one or more of the critical measures in the fundamental equation. This therefore leads to a general principle regarding marketing strategy: Firms who are able to change baseline levels for critical measures greatly increase customer equity relative to competition.

Traditional marketing strategies such as unique products also fit this model. For the firm to be successful with a new product (or service), it must be able to acquire customers at a low enough costs so that future sales will pay for the initial investment. But more importantly, firms are betting on certain retention rates to justify the initial customer acquisition costs. Firms often do not make these assumptions explicit.

The literature on competitive entry can be restated using the fundamental equation. As markets mature, the firm is no longer able to acquire customers ($B_{i,a,t}$ increases) at the same cost it once did (more competitors targeting the same customers) or at the same rate ($\alpha_{i,t}$ decreases). If there are repeat purchases associated with the product/service, similar products/services may steal the firm's current customers resulting in declining retention rates ($\rho_{i,t}$) . If the strategy is to sell more to the customers, competitors will be able to target these same customers, often with a lower

priced product. The result is that add-on sales (S_{it}) may be below projections causing lower customer value.

By framing marketing strategy in terms of the parameters used in the fundamental equation of customer equity, we force firms to assess how sustainable their strategy is and where it is vulnerable. If the acquisition costs double when competitors enter, can the firm sustain a positive customer equity? What happens to retention rates as similar products enter the market? Can the firm develop a strategy that will allow it to compete when new entrants arrive? How will it manifest itself in terms of the customer equity measures? The fundamental equation serves as a framing device to make marketing strategy less qualitative and more rigorous.

LINKING SEGMENTING, TARGETING, AND THE FUNDAMENTAL EQUATION PARAMETERS

One of the primary marketing methods is segmenting and targeting the firm's customer base. How is this related to the fundamental equation? If one looks at the purpose of segmenting and targeting, it is to reduce the universe of potential customers to a smaller number but those that remain are much more likely to respond to the firm's offerings. Thus, segmenting and targeting affect N, the number of prospects, and α, the acquisition probability. By segmenting and targeting, N is reduced but α is increased which then leads to greater efficiency because total spending, NB_a, is reduced and the cost to acquire a customer, $NB_a/N\alpha$, is also reduced. Thus, segmenting and targeting are critical elements of efficient marketing.

Segmenting and targeting can also affect ρ, the retention rate. If the firm effectively segments and targets, it is more likely that the customer will respond favorably in the longer run to the firm's offerings causing retention rates to increase. In some circumstances, the acquisition rate may be lower but the retention rate higher because the target segments have greater expected loyalty.

Segmenting and targeting can also affect the sales level. Determining the market potential of customers and then segmenting and targeting has two effects: (1) higher sales per customer and (2) more efficient marketing. More efficient marketing evolves because if a segment has low sales potential, in order to generate a payout, it is necessary to lower the acquisition spending for the segment, $B_{i,a,t}$.

In summary, segmenting and targeting can easily be linked to the fundamental equation. The fundamental equation makes explicit the impact of segmenting and targeting. The firm can determine which segments are increasing and which are decreasing the customer value of the firm. The firm can then readjust its customer investments.

LINKING THE MARKETING MIX AND THE FUNDAMENTAL EQUATION'S PARAMETERS

One of the goals of this chapter is to show how the fundamental equation of customer equity is relevant to marketers by showing how to link the parameter values (A-R-A) to the marketing mix. This is the main purpose of this section which contains some mathematical equations to show explicitly how some of the links work. In all cases, the equations are translated into words.

Acquisition

In the fundamental equation, there are three variables that affect acquisition: (1) N (the number of prospects), (2) α (the acquisition probability), and (3) B_a (acquisition spending). There is very little research that focuses directly on acquisition but there are studies and conclusions that are applicable. They come primarily from the literature on new durable goods forecasting models and nondurable goods sales.[2] This literature focuses on the size of the market, how marketing mix affects trial, and the rate of product sales diffusion.

Number of Prospects. Generally the size of the market is determined by the type of products/services being offered and the industry of the firm. In some cases, firms try to find new markets for its existing products. Marketing variables also affect the number of prospects available to the firm. These include: the size of the market (industry and firm's products/services), the channel of distribution being used, the firm's targeting strategy and the prospective customers' awareness of the product or service being offered. Most of the marketing variables are controllable by the firm such as the channel being used, awareness which is determined by advertising and the targeting strategy.

Acquisition Probability (α). Marketing can have a significant effect on the acquisition probability[3] which is determined by many well-documented

marketing variables. Pricing influences the value offered by the firm. Promotions are used to generate trial (acquisition). Advertising is used to position the product and to create expectations among prospective customers. Word-of-mouth can create awareness and expectations. The channel determines the availability of the product and the types of service outputs offered.[4] Finally the type of targeting and segmenting used affects the acquisition probability if the firm is able to find likely purchasers versus less targeted prospects.

A noncontrollable variable that affects the acquisition probability is the *industry effect*. Some industries have lower response rates than others. Direct marketing insurance historically has a very low response rate in the range of 0.2 percent but typical direct mail has a 1 percent to 2 percent response rate. This baseline acquisition probability can be affected by a change in the strategy of the firm but generally it is more dependent on the type of product/service being offered than the specific marketing being used. This leads to a maximum acquisition probability (k_a) for an industry.

Acquisition Spending per Prospect (B_a). This is an endogenously determined factor based on a number of considerations. This means B_a can be determined mathematically through optimizing the fundamental equation. Certain factors determine the efficiency of acquisition spending per prospect. We can characterize the relationship mathematically as

$$\alpha = k_a\left[1 - \exp\left(-\lambda B_a\right)\right]$$

where α = Acquisition probability
k_a = Maximum acquisition probability
B_a = Acquisition expenditure
λ = Rate at which acquisition expenditures affect the acquisition probability

Stated in words, there is a maximum acquisition probability determined for any given industry, k_a. The coefficient λ in the equation in front of B_a determines how great an impact acquisition spending has on the acquisition probability. The large λ, the higher the acquisition probability for a fixed spending level.

Marketing efficiency determines λ or how effective each dollar is in generating a higher acquisition probability. For example, targeting greatly affects the effectiveness per dollar spent per prospect since it will be much

higher if the firm can identify high sales potential prospects. The types of communication vehicles also influence the marketing efficiency. Determining λ by expenditure type allows the firm to allocate its marketing budget more efficiently.

Mathematically, we decompose the prior equation into

$$\alpha = k_a\left[1 - \exp\left(-\sum_{j=1}^{J} \lambda_j B_{a,j}\right)\right]$$

where

a = Probability of acquisition
k_a = Maximum acquisition probability
λ_j = Efficiency of marketing category j
$B_{a,j}$ = Acquisition expenditure for category of expenditure j

In some industries, firms track relative effectiveness of different types of marketing vehicles (e.g., magazine publishers such as Time-Life). Internet firms must decide between banner ads and traditional media based on the cost effectiveness of generating customers.

Table 13.1 summarizes the relationships just discussed. It shows how each marketing mix element affects the acquisition probability (α), size of the market (N), and marketing efficiency (λ).

Table 13.1
Link between Acquisition and Marketing Mix

Marketing Mix Variable	*Acquisition Probability (α)*	*Acquisition Efficiency (λ)*	*Size of Market (N)*
Advertising			
Awareness	x		x
Positioning/expectations	x		x
Word of mouth	x		
Segmentation/targeting	x	x	x
Pricing	x		
Promotions	x		
Product quality			
Quality	x		
Type	x		x
Channel of distribution	x	x	x
Sales force	x	x	
Database marketing		x	

Retention

Within retention we will address the determinants of the retention rate, ρ, and the retention spending level, B_r.

Retention Rate. The only key parameter of the fundamental equation for which there is a large published literature is the retention rate. Even then the literature is highly fragmented and confused. We will describe how different variables affect the retention rate.

Before proceeding, it is important to mention briefly that retention is different from loyalty. One commonly used definition of loyalty implies that a customer makes a significant percentage of his or her purchases from one firm or one brand. Retention does not require loyalty. A customer could make only 20 percent of his or her purchases each period from the same firm but is still retained. Retention focuses on continual purchasing from a given firm.

The primary focus of most of the retention literature is on how service quality (defined many different way) affects retention rates. It is generally believed that the higher the service quality, the higher the retention rate. Zeithemel describes the literature on this topic and concludes her article with the following statement: "While some progress has been made in the past 10 years in investigating service quality, profitability, and the economic worth of customers, much research remains to be done to validate this early evidence and to build a coherent and integrated body of knowledge."[5] Thus, while it is well accepted that service quality and customer satisfaction should be determinants of retention rates, there are many intervening factors that affect the links between retention rates and service quality and customer satisfaction.

Within the marketing mix, pricing is intriguing because it can actually be used to lower the retention rate but may lead to higher profitability. Blattberg and Thomas[6] show that in many cases it is optimal to charge your best customers more. This may seem counterintuitive but best customers often have much greater value for the product or service and hence are willing to pay more. The increased value is based on the knowledge that those firms or consumers that are long-term customers are often "locked-in" to the firm's technology and hence have higher switching costs.[7] Thus, the optimal price path may be to decrease retention rates while increasing profits.

Contrary to a large but confused literature which states promotions adversely affect retention rates,[8] promotional programs can be used to reward

long-term customer buying. Frequent user programs can provide incentives to customers to be retained by rewarding continuous purchasing. A typical reward system uses last period's purchasing behavior to offer a reward in this period. If the firm or customer misses one period, it loses the benefits. Hence, it is advantageous to be a "retained" customer.

Advertising is believed to affect attitudes, which in turn affect retention. This link has been difficult to establish in the real-world. The difficulty is linking advertising spending to changes in attitudes to changes in retention. Without a specific relationship, it is difficult to determine if advertising pays out as a vehicle for increasing retention levels. This needs to become a research focus. However, typically advertising agencies do not use the fundamental equation to relate advertising spending to retention. In fairness it is extremely difficult to make this link explicit but it is crucial if one wants to determine the comparative economic payout of marketing mix variables on increasing customer equity.

Acquisition methods also affect retention. The source of the customer, the offer made and the expectations created all influence retention. If the firm over promises through its advertising to acquire a customer, then when the customer uses the product/service it is more likely to be disappointed. This then leads to lower retention rates.

Another common acquisition tactic is to use aggressive promotional pricing to acquire a customer. The lower the promoted price, the more "price shoppers" that are acquired. This then leads to lower retention rates. While this may bother those that believe high retention rates are good, it may be optimal for the firm to acquire more "triers" and then let those who do not find the product/service provides enough value at the regular price defect. This leads to an important rule: The firm should not try to maximize retention rates but rather maximize customer equity. High retention rates may not be advantageous without understanding all of the trade-offs.[9]

Two other marketing mix variables need to be mentioned: product quality and channels of distribution. Obviously, product quality is viewed as one of the major determinants of retention. However, it is also important to recognize, price also affects retention and if the firm produces a higher quality product but has to charge a higher price, this may not lead to higher retention. Value is the appropriate metric but it is difficult to link the quality of the product to its value. Techniques such as conjoint analysis may help us understand this trade-off and then be linked to retention rates.

Channels of distribution also affect retention rates because they provide availability of the product and service outputs which assist customers/

end-users. These service outputs (e.g., customer service, supplying efficient quantities of the product) as mentioned earlier are very important and if a poor channel partner is chosen, it can negatively affect retention rates. Little research exists linking channel decisions to retention rates, yet it is very important to develop these links.

The final factor affecting retention rates which is emerging as very important is customer knowledge. Customer knowledge, called by some customer intimacy,[10] can greatly affect retention rates as well as add-on selling. By having an understanding of the customer's buying patterns, needs, and problems, the firm can better service the customer and provide the "right product/service to the right customer." Customer databases improve the firm's ability to match customer needs.

Retention Spending per Customer. Generally, the amount spent on retention is determined by similar variables to those computed for acquisition spending. It is an endogenously determined variable which means that given retention rates and other variables, one can determine the optimal retention spending.[11]

One can represent the impact of customer spending on retention rates by the following equation:

$$\rho_{i,t} = k_r\left[1 - \exp\left(-\gamma B_{i,r,t}\right)\right]$$

where

exp = Universal constant 2.7
$\rho_{i,t}$ = Retention probability
k_r = Maximum retention reached
$B_{i,r,t}$ = Retention spending level for segment i at time t
γ = Rate at which retention spending affects the retention rate

Gamma (γ) represents the effectiveness of the retention expenditure level $B_{i,r,t}$ on the retention rate. The higher the value of γ, the faster ρ reaches the value of k_r. Much of what is written about in database marketing is designed to increase the value of γ. For example, the efficiency of the marketing system, the efficiency to service customers, advertising effectiveness and the ability to reach customers efficiently through the use of databases all affect the magnitude of γ.

The maximum retention, k_r, can be industry specific and represents the maximum retention rate the firm can reach. For certain industries, the

Table 13.2
Link between Retention and Marketing Mix

Marketing Mix Variable	*Retention Rate* (ρ)	*Retention Spending* (B_r)	*Retention Efficiency* (γ)
Advertising			
Awareness		x	
Positioning	x		
Word of mouth	x	x	x
Segmentation/targeting	x	x	x
Pricing/value	x		
Promotions	x		
Product quality			
Quality vs. expectations	x		
Type		x	
Channel of distribution		x	x
Sales force		x	x
Database marketing	x	x	x

maximum may be relatively low (e.g., used cars) and for others it can be very high (e.g., traditional banking).

Table 13.2 shows the relationship between elements of the marketing mix and the retention rate (ρ) and the efficiency of retention marketing (γ). These links are based on the existing literature where possible. However, there is little quantification of these links as has been discussed.

Add-On Selling

Very little has been written in marketing about add-on selling but many of the concepts are well known. We will divide add-on selling into three parts: (1) efficiency of add-on selling, (2) number of add-on selling offers given to existing customers, and (3) the response rate to new offers. Mathematically,

$$S_{i,t} = \sum_{j=1}^{J_{i,t}} O_{i,j,t} r_{i,j,t}$$

$$B_{i,AO,t} = \sum_{j=1}^{J_{i,t}} O_{i,j,t} C_{i,j,t}$$

where

$B_{i,AO,t}$ = Total expenditure on add-on selling to segment i at time t
$O_{i,j,t}$ = Offer j made to segment i at time t
$r_{i,j,t}$ = Response rate to offer j made to segment i at time t
$C_{i,j,t}$ = Cost of making offer j to segment i at time t
$J_{i,t}$ = Total number of offers made at time t to segment i

Add-On Selling Expenditures **($B_{AO,i,t}$).** The efficiency of add-on selling is based on how efficiently the firm can make offers to its customers. The easier it is to make add-on selling offers, the greater the number of offers. Credit card companies use their monthly statement mailings to customers to make offers. The incremental cost of making an offer is very low. Firms with regular communications with customers generally have low incremental cost of add-on selling. Other firms who may not communicate often with the customer (e.g., a durable good manufacturer who does not provide service) may have infrequent communications. This increases the cost of communicating add-on selling offers.

Number of Add-On Selling Offers **($J_{i,t}$).** The other factor that affects the number of offers is the breadth of the firm's product/service offerings. Those firms with a broad product line or who have the capability of adding to the product line can make more offers to customers. For those firms that have a low cost of communicating offers to customers, broadening the product line becomes very appealing, even if the firm does not own the product or service. Sears is an ideal example because they have "lease" departments which may even be named Sears "something" (e.g., driving school) to sell to their installed customer base.

Response Rate to Offers **($r_{i,j,t}$).** The response rate to an offer is an important element of the add-on selling parameter. Factors that affect the response rate include price of the item or service, overall satisfaction with the firm, promotion, advertising, affinity with the firm, and number of prior purchases. Most are obvious, but affinity with the firm needs some discussion.

Affinity is a combination of the relationship the customer has with the firm and the expertise the customer believes the firm possesses. Can a clothing cataloguer sell Jaguar cars? The customer may have a strong relationship with the cataloguer but does not believe the firm has any expertise in car sales or maintenance. Relationship is also important because if

Table 13.3
Linking Add-On Selling and Marketing Mix

Marketing Mix Variable	*Add-On Selling Expenditure (B)*	*Number of Offers (J)*	*Response Rate per Offer (r)*
Advertising			
Awareness			
Affinity		x	x
Word of mouth			x
Segmentation/targeting	x	x	x
Pricing			x
Promotions			x
Product quality			x
Quality			x
Type	x	x	
Channel of distribution	x		x
Sales force			x
Database marketing	x	x	x

the customer does not have a relationship, he or she is less interested in purchasing from the firm and has a lower affinity with the firm.

Number of prior purchases is also an important indicator of future behavior. If the customer has purchased several times from the firm, it is more likely that the customer will make another purchase. This follows from discussions of RFM which shows that customers who have made more past purchases are more likely to make another purchase.[12]

Table 13.3 summarizes the effect of the marketing mix on add-on selling variables, total expenditures (B_{AO}), the number of offers (J) and the response rate (r). Because of the lack of literature in this area, we have relied upon direct marketing experience to assess how different marketing mix elements affect add-on selling.

ANALYZING THE EFFECTIVENESS OF THE MARKETING MIX

Historically, the primary metrics used to assess the firm's position were sales and profits. By using the fundamental equation to maximize customer equity, it forces the firm to measure and analyze other metrics at the segment level. Based on the prior section, it becomes fairly clear what types of metrics need to be developed. We will divide these into two types: (1) statistics computed from traditional measurement and (2) statistical model parameter estimates.

The obvious measures are acquisition probabilities and retention rates by segment and response rates to add-on selling offers. Other measures include the cost of acquiring a customer, the size of the market and market potential by segment, and customer satisfaction by segment. These and other measures are summarized in Table 13.4.

The statistical model measures are more complex but not necessarily less important. The two that are critical in understanding the relationship between acquisition spending and acquisition probability as well as retention spending and retention rates are based on statistical models. These are acquisition efficiency (λ) and retention spending efficiency (γ). To estimate these parameters one needs to use a statistical model based on the two equations given earlier that relate spending to acquisition and retention.

$$\alpha_{i,t} = k_a\left[1-\exp\left(-\sum_{j=1}^{J}\lambda_j B_{a,i,j,t}\right)\right]$$

$$\rho_{i,t} = k_r\left[1-\exp\left(-\gamma B_{i,r,t}\right)\right]$$

Table 13.4
Sample of Metrics Generated by Fundamental Equation

Acquisition	*Retention*	*Add-On Selling*
Acquisition probability (α)	Retention rate (ρ)	Response to offers (r)
Acquisition marketing efficiency (λ)	Retention marketing efficiency (γ)	Promotional responsiveness
Response to pricing	Customer expectations versus product/service delivery	Affinity with the firm
Response to promotions	Advertising effectiveness in maintaining retention	Cross-buying behavior
Awareness	Customer service scores	Profitability of offers
Consumer expectations regarding product/service quality	Price elasticities	Total add-on selling per customer
Cost of acquiring a customer	Promotional effectiveness	
	Profit of retained customer	
	Cost of retention marketing	

By determining λ and γ, the firm is able to evaluate the efficiency of their marketing spending. While many academics and practitioners discuss the need for this, it is unlikely that anyone has related marketing efficiency to retention rates and acquisition probabilities. We believe that this will become an important part of marketing academic research in the next several years.

SUMMARY

This chapter provides a model-based approach to valuing, analyzing and managing the marketing function using customer equity principles. Its purpose is to provide what we called the fundamental equation of customer equity and then show how the fundamental equation focuses marketers on how the elements of the marketing mix affect the long-term value of the firm's customer base (customer equity). By doing so, we believe this will shift the goals of marketing from sales and short-term output measures to new measures related to acquisition, retention and add-on selling.

Many of the elements of marketing can be linked through the fundamental equation. Specifically, marketing strategy affects the levels of key parameters such as the maximum acquisition probability and the maximum retention rate for an industry. Segmenting and targeting are designed to increase response rates and to improve marketing efficiency, both captured in the equation. In addition, several hypothesized relationships are given demonstrating how the marketing mix affects the critical parameters of the fundamental equation. This paper also identifies the links between marketing mix variables and the model parameters. Additionally, it specifies measures that can be used to evaluate marketing efficiency and effectiveness.

By having a quantitative model, which serves as the basis for customer marketing, some of the qualitative and often incorrect concepts offered into customer relationship marketing can be assessed to determine their validity. Concepts such as maximizing customer retention which seems to be commonly believed but does not meet the standards of economic theory need to be analyzed through a more rigorous filter. The fundamental equation of customer equity provides that more rigorous filter which allows marketing academics and practitioners to develop a greater understanding of how customer equity can be maximized.

Notes

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READING 5.1

Imhoff et al. (2001) 'Automating the Sales and Service Process', Chapter 11 of Building the Customer-Centric Enterprise, pages 329 to 360.

Building the Customer-Centric Enterprise

Data Warehousing Techniques for Supporting Customer Relationship Management

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CHAPTER 11

Automating the Sales and Service Process

We opened the previous chapter with an example of Bob changing his address on the Web, initiating a fax-back service, and speaking to a telephone sales representative, all within the span of a few minutes. With these activities, Bob touched both the Sales and Service organizations of his bank. The bank, recognizing the importance of keeping its good customers happy, had already invested in the integrated technology required to make Bob's experience satisfactory.

Although Bob is a sophisticated (and demanding) individual, he is not that different from many of your own customers. Customers are increasingly requiring choices on how, where, and when they receive sales and service. Companies are scrambling to oblige for several reasons. First, competitive markets and technology advances are working together to change the dynamics of how organizations interact with their customers. Ten years ago, Bob could buy banking services only from a bank. Today he can purchase many of these same services from a bank, from an insurance company, from an investment company, or even from a non-traditional provider like GE Capital. Combining this competitive environment with today's sophisticated technology lets your customers access the competition with unprecedented ease.

Second, organizations are recognizing the growing importance of long-lasting and profitable customer relationships. Most organizations acknowledge that it costs more to gain a new customer than it does to sell an additional

product to an existing customer. As a result, a higher importance is being placed on activities designed to retain and expand existing customers. Companies routinely develop specialized strategies for customers in the "acquire, use, and re-enter" stages of the Customer Life Cycle (refer to Chapter 3, "Understanding the Customer Life Cycle," for details on the Customer Life Cycle). Many of these strategies focus on cross-sell, up-sell, and customer satisfaction.

Third, products provided by competing organizations are frequently indistinguishable. A six-percent, two-year CD provides the same value regardless of the institution issuing it. When one company introduces a new product, most of the others follow suit shortly after. This "commoditization" of products and services is causing companies to search for other ways to differentiate themselves.

Enter the attempts to differentiate through sales and service. In addition to understanding the customer's demands for how, when, and where, companies are increasingly aware of the need to "know thy customer" and "apply this knowledge to all contacts." Many organizations are turning to systems in the business operations realm to assist them in these activities. This chapter discusses the automation of two business operations processes: sales and service. First, we look at why companies are automating these processes. We focus on both the myriad contact options that must be coordinated and the benefits that justify expenditures on these systems.

Next, we focus on the features required in an automated solution. First, we discuss the technology to automate customer service focusing on three primary components: workflow management, Computer Telephony Integration (CTI), and workbench capabilities. We also look at the difference between traditional service and help-desk support, and highlight additional automation requirements that are specific to each. Next, we highlight capabilities required for sales force automation. After covering the functionality of the individual components for sales and service, we examine the growing trend toward integrating these individual applications and functions, both with each other and with the rest of the Corporate Information Factory (CIF). Finally, we look at the role of these systems, and business operations in general, in the Customer Life Cycle.

A quick note on the role of the Internet in all of this: we consider the Internet to be simply another channel for customer communications. As with any other emerging channel, it comes complete with its own specific opportunities and challenges. As many companies are discovering, this is a channel that they have little choice but to adopt. Once adopted, it must be coordinated with all the other customer touch-points in the organization. Any discussion of the automation of sales and service processes must include the Internet as a possible contact point. The good news is that most technology solutions accommodate this contact point. For more detail on the role of the Internet and e-commerce in CRM, see the next chapter, Chapter 12, "Interacting with Customers Online."

Why Automate?

As Figure 11.1 illustrates, an organization must be able to touch its customers and prospects in a myriad of ways.

Sales or service activities happen through any of the following channels:

Internet. The Internet is clearly changing the way we interact with our customers. Take the hype away though, and the Internet is simply another customer touch-point. We will use Bob as our example. Throughout the course of this book, he has initiated and received service on the Internet (banking

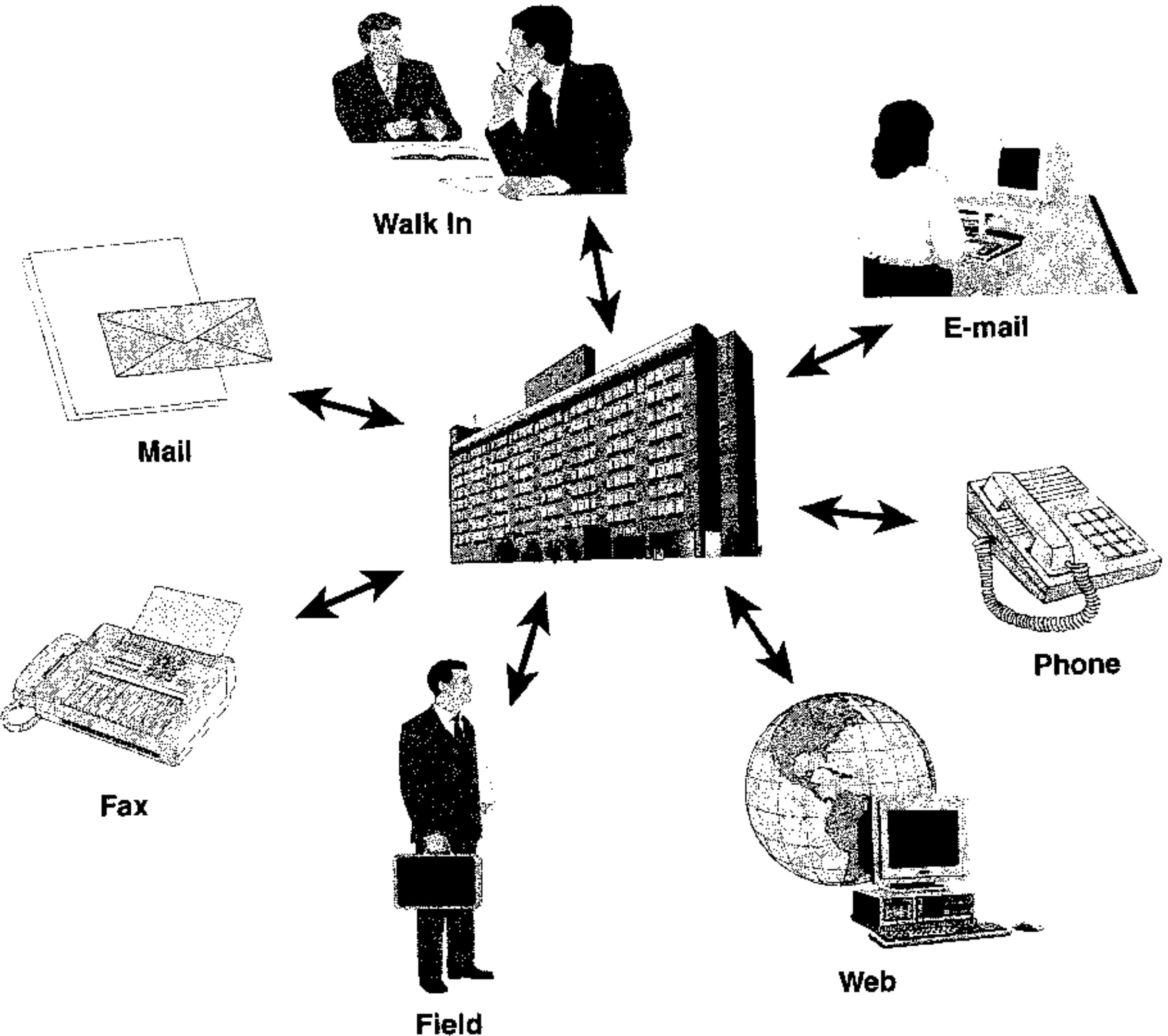

Figure 11.1 Sales and service environments of today.

transactions, change of address, and notification of new investment possibilities), he has been the target of marketing on the Internet (travel service promotions), and he has participated in sales on the Internet (the purchase of travel products and investment products). These are all examples of standard sales and service customer touches; they simply bypass more traditional media and use the Internet instead.

Walk-In. Despite the rhetoric of some of the dot-com companies, traditional brick-and-mortar sales and service facilities are not going away. Bob's parents use their local bank branch for most of their service transactions. In accordance with their stated preference, this is also the vehicle the bank uses to sell most new products to them.

Field. Field sales and service is common in some industries. Cable and phone line installations are good examples of field service. The investment advisor that visits Bob's parents at home is conducting field sales, as are insurance agents that come to your home.

Mail. Sales and service activities also happen through the mail. When you order from the Internet and the product is delivered to your home, you have experienced service through the mail. (Remember the acquisition stage in the Customer Life Cycle?) Service centers and sales organizations must also expect to receive requests through the mail. Product registration and warranty cards still routinely come through the mail; this is a service activity. Many manufacturers provide customers with the ability to make purchases through the mail. Catalogs almost always provide a mail-order option.

Fax. Fax-back services, such as the one Bob used to get vacation details, are common for both sales and service. Many product help facilities provide the option to fax problems or requests. Bob's travel service provides him with the option to fax in his travel requests, and to receive the resulting confirmations via the fax as well.

E-mail. E-mail is now a popular way to reach customers for both sales and service. Bob's investment advisor uses e-mail to notify him of new investment opportunities. Many retail organizations ask customers for their e-mail addresses and use these in sales and marketing. As with the fax, product help facilities often provide e-mail addresses as a way to submit questions and receive replies.

Phone. Call centers and telesales organizations still rely on the phone as the primary means of communication with customers and prospects. These telephone sales and service contacts can be either inbound, where the customer calls into the organization, or outbound, where the service or sales representative initiates the call. Bob uses the telephone banking system whenever the Web is not convenient for him. Although we may not like them, we all receive the occasional (or not-so-occasional) telesales call!

The number of touch-points available to the customer today has exponentially increased the complexity of providing sales and service. Organizations must be able to coordinate activities and information across all available touch-points. When Bob changed his contact information on the Web, he fully expected the telephone service representative and the fax-back service to know of this change. Had the bank not known this, Bob could have easily taken his business to an organization that would know. The good news is that technologies available to automate your sales and service processes accommodate all these contact points (including the Web). Along with the customer ODS (detailed in the previous chapter), these technologies provide the key to coordinating activities across all points in the customer touch zone.

Automating Customer Service and Sales

The technology for managing customer touches includes some components that are used exclusively for service, some that are used exclusively for sales, and some that are used for both functions. For clarity, in this chapter, we will look first at service, next at sales, and last at the integration of the two into a

Justifying CRM Automation

Many organizations invest in CRM technology, including sales and service automation, as a way to increase customer satisfaction, loyalty, and longevity, with the ultimate objective of increasing revenue. Table 11.1 highlights 12 justification factors identified as popular reasons for investing in CRM technology.[1] The justification factors are what investing organizations hope to achieve through the technology, while the impacts represent the expected effect on bottom-line profitability for each achievement.

Increasing satisfaction, improving loyalty, and increasing revenues by improving customer profitability are all goals of organizations that focus on activities in the retain and expand section of the Customer Life Cycle. Improvements in the sales and service business processes will assist in the achievement of these goals. As shown in Table 11.1, decreasing costs is also an important benefit of these CRM technologies. Improving productivity, decreasing transaction costs, reducing errors and support personnel requirements, and increasing speed to market are all other viable reasons to automate your sales and service processes.

[1]Justification factors taken from "Leadership Strategies in Customer Relationship Management," Meta Group, January 2000.

Table 11.1 CRM Technology Cost Justifications and Impacts

JUSTIFICATION FACTOR	IMPACT
Increase Customer Satisfaction	Increase Revenue
Increase Customer Loyalty/Retention	Increase Revenue
Improve Productivity	Decrease Cost
Increase Revenue from Existing Customers	Increase Revenue
Acquire New Customers	Increase Revenue
Develop New Products/Boost Market Share	Increase Revenue
Reduce Transaction Costs	Decrease Cost
Increase Speed to Market	Decrease Cost
Reduce Customer Contact/Support Requirements	Decrease Cost
Reduce Fulfillment/Customer Response Errors	Decrease Cost
Increase Brand Perceptions	Increase Revenue
Displace Costs	Decrease Cost

comprehensive operational CRM product suite. We will also discuss the role of these operational CRM suites in relation to the customer ODS and the Corporate Information Factory.

Automating Service

Not long ago, customer service was provided through two primary means. The customer walked into a brick-and-mortar facility (a bank branch, a retail store, or an agency) or they used the telephone to connect to a call center. As organizations realized the need to facilitate the multitude of contact options described in Figure 11.1, they adopted a new label for their call centers and brick-and-mortar facilities: customer care centers. The emergence of the Internet and self-service has yielded yet another term, customer contact centers. In the course of responding to a customer contact, a service request is generated. These requests can arrive in any media, from a phone call to an e-mail to a piece of paper.

Regardless of media, the key to a successful customer service experience lies in your ability to receive the request, route it to the appropriate provider, track the activity, update the correct databases, issue the necessary documentation, and, ultimately, to fulfill the service request to the customer's satisfaction. Automating this process requires the integration of several components: work-

flow management, CTI, and desktop management. Used together, these components can help your organization provide quality service at the time and place of the customer's choosing. Immediately following is a discussion of the functions you should look for in the technology you choose to automate your customer service environment.

A distinction is made in many organizations between traditional service and help-desk support. Traditional service focuses on the completion of transactions such as purchasing a product, while help-desk support exists to resolve problems and answer questions. Automating both traditional service and help-desk support requires the integration of workflow management, CTI, and desktop management. However, an additional requirement exists in help-desk support that is not typically needed in traditional service environments: the integration to problem resolution databases; while the traditional service organization requires a feature that is not needed in the help-desk environment: an integration to legacy product applications. This section ends with a description of the differences between traditional service and help-desk support and it highlights the additional technology functions required in each environment.

Workflow Management

The service requests described earlier are the basis of workflow management applications. A service request may be resolved with a single activity, or it can require a number of activities and involve several individuals or service teams.

Workflow management applies business process modeling and computer technology to automate specific business tasks or service request activities (such as transferring funds from Bob's savings account to his checking account). Workflow management applications aid in moving multiple requests through an organization and are particularly useful when the tasks touch many individuals or have multiple complex steps. In the example of Bob's funds transfer, the workflow application would bundle all the necessary steps to complete the transfer into a single work unit and forward it to the appropriate service representative(s). In some instances, the workflow application may simply enact the activities without ever requiring the intervention of a human being.

The workflow application engine contains all the business rules associated with the process and can perform tasks based on these rules: escalating the issue if not completed within a specified period of time, issuing reminders, tracking deadlines, and even generating letters or e-mail notices to customers. In creating and monitoring the service request from Bob (to transfer funds), the workflow engine understands the business rule that stipulates that the amount of funds to be transferred from an account cannot exceed the amount of funds available within that account. If this occurs, the workflow application can then generate a

notification to a service representative to contact Bob prior to canceling the transaction.

Some workflow applications provide the capability to categorize requests into simple and complex customer interactions. Simple interactions require less functionality to automate. With these, the request may flow through multiple service representatives with varying levels of seniority or expertise, but the interaction is generally satisfied within the course of one contact. These can require the transfer of the contact information to multiple individuals but have no requirement to manage the interaction over time.

For example, Bob calls into the telephone-banking center with a request to transfer funds from one account to another. During the course of the call, he determines that he also wants to transfer funds into his brokerage account and purchase a stock. The service representative who takes the call can initiate the funds transfers but does not have the proper license to execute the stock trade. The representative completes those activities that he or she can and then transfers the call to another group for completion. Bob stays on the line until the request is complete. It takes several service representatives to process Bob's transactions, but the transactions are completed during the course of a single contact. The workflow application that is creating the tasks required to complete Bob's request has to create several tasks and associate each with a different service representative. It does not, however, have to monitor an outstanding task or check for ultimate completion at a future date, because the request will be completed (and the work unit closed out) when the call is terminated.

Complex requests can require that communication be initiated multiple times during the course of a request, either by the customer or by the service representative (or response mechanism in the case of an automated response). Status updates and problem escalations may take place, additional information may be required from the customer to satisfy the request, and several individuals may handle the request before it is completed.

Consider the following example. Bob's credit card is stolen and several fraudulent charges appear on his next bank statement. He calls the contact center and reports the charges to a service representative. The representative agrees to look into the matter and contact Bob with the results of the investigation. After Bob disconnects, the service representative uses the workflow application to initiate a process that includes the following steps:

- Retrieve the charge slips from the merchant.
- Compare the signatures to Bob's signature on file.
- Assess the validity of each disputed charge.
- Issue an e-mail notification to Bob informing him that his request is in-progress.

- Develop a recommendation to credit all disputed charges and drop the traditional $50 minimum charge to Bob based on his VIP status.
- Pass the recommendation to a supervisor for signoff.
- Finally issue a notification to Bob informing him of the good news.

Here the workflow application must monitor multiple tasks, each assigned to different individuals, over the course of several days. The workflow application must monitor the completion of each task and ensure the initiation of the next task in a timely fashion. The entire work unit cannot be completed and closed out until all tasks have been finished. The capability to satisfy complex requests takes longer to implement and requires more sophisticated functionality from the workflow management application.

If your workflow application will be used to facilitate complex interactions such as Bob's stolen credit card, it must contain robust functionality. A comprehensive workflow application should support all of the following activities:

- Create and relate entitlements to purchased products to help in the maintenance of service level agreements (SLAs). Entitlements represent the level of service or support the customer is entitled to receive based on customer value or the purchased service package. Bob, as a VIP customer, qualifies for an elevated level of service, one in which his requests take priority, and his entitlement is VIP.
- Receive new requests. The application must receive requests from all media including phone, e-mail, mail, Internet, Customer Service Representative, and so on.
- Validate new requests. This validation must include customer identification and validation of the entitlement of the customer, if appropriate.
- Receive and validate updates or changes to requests including entitlements.
- Issue automated responses to both customers and service representatives.
- Route the request to the next process step or activity when ready.
- Distribute the requests and workload across service teams. Also distribute activities to the appropriate resources based on workload and skill set.
- Submit and accept business documents to and from all media.
- Ensure the process step completion and ensure the overall work unit completion prior to closing the request.
- Notify the internal, responsible party of changes to the request.
- Issue notifications when a task is due or overdue for completion.
- Automatically escalate requests when service level agreements are missed.

- Submit or transfer requests to other systems of business partners to incorporate the extended enterprise.
- Return a completed request notification to the customer.

These workflow applications work together with the CTI functions to seamlessly handle a customer contact from the initiation of that contact to the completion of the resulting service request (CTI is described in the next section). Some workflow applications are industry-specific and are tailored to handle certain types of transactions, requiring only minor customization to make them specific to your company. Others come equipped only with basic tools and require that you build the work units from scratch. Determining which type of workflow application is best for your organization is a matter of measuring the complexity of your business processes against the functionality of existing industry or vertical applications.

Computer Telephony Integration (CTI)

In its simplest form, CTI is the seamless integration of telephone hardware with the computer. Complex CTI solutions provide the capability to link many different software applications, including workflow management, with various databases (customer, contact, and transaction information) and with other telephone hardware components. CTI, sometimes referred to as softphone, enables the service representatives to control the telephone using a computer. All the functions that can be performed on a regular telephone, including placing calls, answering calls, transferring calls, and hanging up, are enabled by CTI with the use of a keyboard, mouse, and headset. In addition, CTI enables calls to be routed to the appropriate service representatives, captures and maintains statistics on calls, and provides extensive call qualification and customer identification services.

A comprehensive CTI solution should contain the following functions or capabilities:

Automatic Number Identification (ANI). This technology enables the computer to recognize the number from which the call is being dialed (the customer's number). This number can then be compared to a database of customer information. Matching customer information can be retrieved and passed to the service representative's desktop at the same time the call is routed there. This capability enables the service representative to view basic customer information as the call is answered. When Bob calls the bank's telephone-banking center, the ANI feature can retrieve the number from where he is calling and use it to initiate a search in the customer database. If

Bob happens to be initiating the call from a number known to the bank, such as his home or office number, his customer information can be retrieved from the database and passed to the service representative along with the call. If Bob is calling from an unknown number, such as a hotel, he will be asked for some additional qualifying information prior to retrieving his customer information. This feature is also sometimes used as a security measure for activities such as activating new credit cards. Here you are asked to dial an activation number from your home phone, which the credit card company has on file. When you initiate the call, the ANI feature can read the number you are calling from. This number is matched against a database, and your account information is retrieved.

Dialed Number Identification Service (DNIS). This technology enables the recognition of the number that the caller has dialed. This is quite useful when a contact center services multiple products or provides various levels of service based on customer value, packages purchased, and so on. The number dialed can be compared against a database containing information on where to route the call based on the incoming number. The relevant information about the number called, (for instance, the call came in on the VIP preferred service number, rather than on the general help line) is passed to the service representative along with the call. This enables a single representative to service multiple lines while making it appear to the caller as if the service representative is dedicated to the particular type of service about which he or she has called. As a frequent traveler, Bob is given a special number to dial when seeking to make travel reservations. Within the call center is a group of representatives that is dedicated to serving the frequent travelers. When Bob's call comes in, the DNIS feature can retrieve the number he has called, compare that number to a database containing incoming lines and their characteristics, and route his call to the dedicated group of service representatives. The service representative answering the call knows that bob has called on the frequent traveler line and can answer the call accordingly.

Automatic Call Distribution (ACD). This technology works in conjunction with the ANI and DNIS services to qualify the call and route it from the telephone switch to the appropriate group of service representatives. It works with the telephone hardware to pick up the call, invokes ANI or DNIS, and chooses where to route the call based on the results. These technologies can be used to recognize when one group of representatives is utilized to capacity and can make intelligent decisions, based on skill sets and availability, on where to route an incoming call instead. If Bob calls the frequent traveler service line at a time when all the dedicated representatives are busy, the service center does not want him to wait on hold for very long. Instead, his call can be routed to a representative who only handles frequent traveler calls in an

overload situation. The information about the number dialed will alert the representative that it is a frequent traveler calling, and the phone can be answered accordingly.

Predictive dialer. Predictive dialers read telephone numbers from input lists and automatically dial these numbers for outbound calling. They can recognize busy signals, no answers, and answering machines, and only pass the calls to a service representative if the calls are answered. They can also recognize signs that an ongoing call is about to be terminated and can initiate the next call while the representative is still on the phone closing out the current call. This ensures that the representatives are always busy and are not losing time waiting for the phone to be dialed. This technology is used frequently in outbound calling and telesales, as it frees the service representative from dealing with calls where no contact is made.

Interactive Voice Response (IVR)/Voice Response Unit (VRU). These technologies provide an automated interaction with the customer so that he or she can listen to menu choices and respond by pressing the appropriate keys on the telephone. Less complex service requests can be completed entirely with the VRU or IVR and never require the intervention of a service representative. The VRU can guide Bob through the transfer of funds from one account to another by simply providing him with the appropriate menu options and asking him to key his account numbers and other required information into the phone. Many contact centers route all incoming calls directly to the VRU/IVR systems as a first step, allowing the customer the choice of performing the transaction entirely through this technology, or keying out at various points to speak to a service representative. Although these applications can offload large volumes of work from the service representatives to the computer, it is important that the menus are easy to navigate and offer frequent options to transfer to a service representative. Listening to exhaustive lists of options, getting lost in a menu system and having to begin the call again, or never having the ability to talk to a human being can have a negative effect on customer satisfaction.

Speech recognition. This is an emerging technology that is being used frequently in contact centers today. It is commonly used in conjunction with a VRU/IVR and enables the computer to solicit spoken responses, rather than requiring the customer to key the information into the phone. Here the VRU/IVR can ask simple questions such as, "If you know your account number, say it now." The system can then recognize the spoken responses and take the appropriate action as if these responses had been keyed into the telephone. In more sophisticated applications, the systems can verify a caller's identity by mapping the spoken response against a database of past

stored responses. If a match is found, the computer can identify the customer and retrieve customer information based on this identification. See the following sidebar for an example of an organization that is using this complex application of speech recognition technology to improve the customer ordering process.

Automated character recognition. This technology provides functionality similar to the VRU, including the capability to handle incoming customer contacts in an entirely automated fashion, except that it works with e-mail rather than with the telephone. The technology can read e-mail messages, identify key words or phrases, and compose and send a stock reply to the sender. It can also route the e-mail to the appropriate service representative if human intervention is needed.

Contact-specific repository. This function consists of the capability of the CTI components to access a common contact-specific repository that contains all the information about the contact. These contacts have traditionally been phone calls, but the growing need to deal with interactions on different media is expanding the uses of the contact repository. These repositories provide comprehensive information about the contact to any service representative who may deal with a customer request. At a minimum, the repository eliminates the need for the customer to repeat information, such as an account number, if the request is passed from one representative to another. At a maximum, the repository keeps the history and statistics on past contacts and provides a comprehensive view of all contacts with a particular customer, regardless of the type of contact mechanism. The customer ODS may also have contact information. If the contact information housed within the customer ODS is comprehensive enough, it may replace the need for a contact-specific repository. Some organizations use the customer ODS to house only summary contact information and keep detailed contact records in a repository, such as the one named here. Detailed contact information is key, regardless of where it is housed.

Customer information repository. Contact center solutions must also have the capability to interact with the database that contains information about the customer and all the products and services owned by that customer. This is where the customer information passed to the service representative is housed. Some of these applications provide their own integrated customer databases for this purpose. Others can be integrated to central databases such as the customer ODS. See the section entitled "Integrating Sales and Service Applications" for more details on the ideal integration options that provide a consistent and comprehensive customer view to all contact center personnel and applications.

Advanced Speech Recognition Technology in Use[2]

The Home Shopping Network has deployed sophisticated speech recognition technology for customers who call its contact centers to order products. The company had over five million repeat customers and was looking for ways to increase customer satisfaction, streamline the process of ordering merchandise, and collect additional customer and contact information for analysis. It had previously tried to give first-time callers a personal identification number (PIN) to use on subsequent orders, but customers had trouble remembering their PIN and this did not work as well as they had hoped.

The technology is employed by asking callers to speak their phone numbers. The application then matches the spoken number against a database of past callers. Matches are used to pull customer information, which is forwarded, along with the call, to a service representative. This technology enables the Home Shopping Network to recognize different callers from the same phone number or the same caller from different phone numbers and select the appropriate customer information. When receiving the call, the representative can simply verify customer identity from the information routed with the call. The representative can take the order without having to ask for all the customer information again. This has substantially speeded up the ordering process and contributes to increased satisfaction for repeat customers.

Desktop Management

The service representative desktop, also called a workbench, is the application that integrates the CTI functions with workflow management applications and displays the results on the desktop. The desktop provides a common front-end that enables the service representative to access all contact center components. The service representatives log into the desktop to initiate and perform all their assigned tasks. The contact and customer information is retrieved by CTI and Workflow and is displayed on the desktop through what is commonly referred to as a screen population or screen pop. If the sales and service components are integrated (see the following section) the desktop looks the same for each business area.

In addition to facilitating the request management and call management services, this application also provides other important capabilities such as name

[2] Peppers and Rogers Group. *Inside1to1*. August 5, 1999.

and address look-ups (access to the transaction interface for the customer ODS), calendar functions, access to online documentation, security, scripting services, access to internal corporate facilities such as an intranet, corporate directories, and so on. This is also where service representatives can access the contact center data marts for reporting and analysis capabilities. Many organizations provide updated lists containing relevant competitive offers, current promotions, and current product information through the workbench as well.

As organizations begin to share customer information across the organization, the need for a facility such as the desktop will become an important part of the integrated technology architecture. Enterprise Portals (EPs) are an emerging technology designed to tie together information and applications from all parts of the Corporate Information Factory into a single view. These Enterprise Portals will provide a service similar to the desktop described here, only the capabilities will be much more robust. As Enterprise Portals are developed, they may take the place of the desktop components currently used in automating services, or they may be used in conjunction with these components. See Chapter 13, "Putting It All Together," for a detailed discussion of Enterprise Portals.

Traditional Service versus Help-Desk Support

Most of the features discussed earlier are required regardless of whether you are providing traditional service or help-desk support in your customer contact centers. Help-desk support environments also require integration to a problem-resolution facility of some sort, and traditional service environments require integration to product or transaction systems. The rest of this section describes the differences in the two environments and explains the additional functionality you should look for when automating each type of service.

In a traditional service environment, the activities are typically focused on conducting a business transaction, purchasing a product or placing an order, lodging a complaint, or making some sort of non-product related request. Most of Bob's banking activities on the Internet fall into this category. He transfers money between accounts, pays bills, purchases investment and travel products, and occasionally voices customer complaints or compliments. In this environment, the goal of Bob's bank is to increase the quality of the interaction. Regardless of the mode of contact (phone, Internet, mail, or walk-in), the bank wants to ensure that the transaction is completed efficiently and effectively, that the interaction continues the dialog and furthers the relationship, and that Bob walks away highly satisfied.

Contrast this with the help-desk support environment. Help-desk support organizations exist to answer questions about products and services and to identify

and resolve problems that customers encounter with these products. When Bob experiences difficulty logging on to the bank's Internet site, can't get a feature to work, or has a question about how to use the service, he calls the bank's help-desk support department. Rather than focusing on completing transactions, this environment focuses on answering questions and resolving problems.

In the support environment, the bank's goal is still to ensure that Bob has a quality interaction. However, this goal is augmented with several others: reduce the time it takes to resolve his problem (which will in turn increase his satisfaction level), increase the volume of problems that can be handled by the organization, and oftentimes ensure that the organization is generating revenue. Support is often charged back to the customer directly (through a maintenance contract) or indirectly (it is built into the product price).

Another important goal of the help-desk support environment is to learn from Bob and other customers and use that learning to improve the products and services offered. For example, many customers may call because they do not understand how to use an Internet transaction. The help-desk will collect statistics on these calls and, when the calls reach a certain volume, decide to rework the transaction.

In the traditional service environment, the number of transactions to be delivered (opening an account, transferring funds, or closing an account) is finite. A lot of complex transactions may take place, but most organizations have reference documentation on how to complete each possible transaction. Systems can be built around the business process documentation for each transaction, and service representatives can consult the documentation to learn the steps to follow. Help-desk support is a different story. The potential combinations of symptoms, problems, and solutions can be infinite. The ability to quickly resolve a customer's problem can depend largely on the subject matter expertise of the support representatives. The more products supported by the organization, the more knowledge the support representatives must have to function efficiently.

Effective help-desk support systems must address the issue of the knowledge required to provide comprehensive support, which is described earlier in the chapter. A key component of any automated solution for help-desk support (not typically required for traditional service) is the capability of the system to link into one or more problem resolution or knowledge management databases. A comprehensive knowledge management infrastructure can have a significant impact on the ability of the support organization to achieve its goals. Knowledge management can help the support representatives resolve problems without requiring them to be experts in all products supported. These problem resolution or knowledge management databases take several forms:

Question and answer databases: These are repositories of frequently asked questions (FAQs) and the answers to those questions. The questions, along with common variations, are loaded into a database. To resolve a problem, the support representative fashions the problem in the form of a question (How do I change my e-mail alias?) and submits this to the database. The search mechanism uses a combination of keyword and full-text search to return all similar entries, along with their associated answers. The representative can then guide the customer through the possible resolutions as returned by the database. Organizations sometimes post these databases on the Internet and let the customers access them directly as well.

Decision trees: Decision tree solutions consist of a series of questions pertaining to a particular problem. Each question in the tree is formed as an if-then-else scenario (Is option A turned on? If yes, check the next setting. If no, turn option A on and see if problem is resolved). These solutions are typically built by experts and entered into the database. Questions and answers can also be entered independently, and an inference engine tool can be used to lead the support representative from one question to the next. The inference engine tool can be programmed to understand which sets of questions and answers are related. This tool can then use the answer to one question to identify the next possible questions that should be asked. The answers to one question lead the representative to the next question, systematically eliminating possible solutions to the problem and ultimately arriving at the correct answer.

Solutions databases/case-based retrieval: In this instance, problems, symptoms, and solutions are loaded into the database. The data can be unstructured (text, documents, and so on) and the current problem or question does not have to match the cases or solutions exactly. The support representative simply searches for similar problems, reviews the closest results, and works with the customer to ascertain if any of the loaded cases match to his or her problem. Close matches can also be located and returned by an inference engine, which has the capability to search large numbers of solutions and return potential matches. As with the use of inference engines in the decision tree example, related problems are linked as they are entered into the database, and the inference engine understands how to find these matches.

Artificial intelligence: Most of the previous solutions rely on purchased knowledge databases or on databases that are built by tapping the expertise of existing support representatives as well as others who understand the products, such as product engineers, developers, and manufacturers. This knowledge is then applied to the appropriate format and is entered in the database. Additions to the knowledge base come only when someone formulates a new solution and enters it into the repository. Artificial intelligence solutions look at the steps required to arrive at existing solutions, compare

them to new problems, and use a form of deductive reasoning to develop solutions to new problems. Support organizations are beginning to rely on these concepts to grow existing problem-resolution databases.

The second difference in the automation requirements for traditional service and help-desk support deals with the integration of product or legacy applications. These legacy systems are described in Chapter 1, "The Customer Becomes the Center of the Business Universe," and Chapter 2, "The Customer and the Corporate Information Factory (CIF)." This requirement is found in traditional service environments and is not typically required for help-desk support.

Take Bob's bank as an example. Verifying an account balance, transferring funds, depositing a check, or opening a new account all require immediate access to the systems that perform the day-to-day accounting for these bank products. When Bob deals with the telephone-banking center, the service representative starts with the customer service or customer care system but transitions frequently to the detail product applications. Automating the traditional service processes requires that the customer service application provide a single point of access to multiple, often different, product applications. Note that in organizations with a robust customer ODS, some of this integration may already exist and can be utilized for this purpose as well. See the section, "Integrating Sales and Service Applications," for more details.

Automating Sales

The push on CRM organizations to know their customers and apply that knowledge to each interaction applies to sales contacts as well as to service contacts. Sales force automation software provides a toolkit of capabilities that can ensure that your sales force is well informed, coordinated, and diligent in its lead management and sales follow-up activities. These applications facilitate the sharing of sales activity and prospect information across multiple sales individuals or teams within an organization. They also provide facilities to help your sales force interact with multiple prospects within a single customer organization. Although these packages are implemented in organizations where the selling is business to consumer (B2C), they are most frequently found in the business to business (B2B) world in which coordination of the selling effort is key to success. Figure 11.2 illustrates the typical distinctions in the B2B world that make sales force automation a necessity.

Organizations who sell to other businesses usually have fewer customers than their counterparts selling directly to consumers, and the volume of information about any single customer in the B2B world can be quite large. As we have men-

Differences	B2C	B2B
Number of customers	Many	Few
Decision makers	One	Multiple
Purchase consideration	Consumption	Value creation
Touchpoints/Channels	Many to one	Many to many
Transaction frequency	Occasional	Frequent, on-going
Transaction value	Low	High
Ultimate consumer	Customer	Customer's customer
Interaction	Periodic	On-going
Decision process	Informal	Formal

Figure 11.2 The selling process–B2C versus B2B.

tioned in other chapters, a number of providers, such as Dun and Bradstreet, sell information designed to augment your knowledge of these business customers and prospects. Sales to business customers are distinctly relationship-oriented, with ongoing and frequent contacts between sales personnel and customer contacts. Typically, multiple contacts exist within any single organization, and the chances are good that your organization will have multiple sales personnel calling on a given large company at the same time. It is essential to coordinate sales efforts across multiple individuals, and to ensure that the prospect is not receiving duplicate or conflicting offers from your organization. It is equally important to ensure that each person dealing with a prospect understands all the other offers or conversations that take place. More than one company has lost a sale (or worse, lost a customer) because two sales people called on the customer in the same day and did not realize the overlap in visits. These sales generally follow a formal decision-making process within the customer organization, and the decisions are frequently made by a committee of people or, at the very least, influenced by several individuals.

Bob's bank is a good example of the complexity of selling to businesses. The bank has approximately 10 million retail or individual customers as compared to about 400,000 corporate customers. A single service representative or branch teller can deal with most of the products sold to the retail base. The corporate products are much more complicated, requiring in some cases entirely

different business units within the bank to sell and administer them. Cash management products are sold and administered by the bank's cash management group, credit products by the corporate lending group, and group investment products by the 401K business unit. Adding to the complexity, these products are often sold to entirely different areas within the customer organizations, requiring the bank to track contacts with many different individuals at each customer. Human Resources may buy the 401K products, while the CFO may obtain loans for expansion of the business. One thing is certain though, the business customers will understand exactly what they buy from the bank and, like Bob, will demand a level of sales and service that demonstrates the bank's understanding of them.

If you have a complex selling process, or a team sales approach, it is important to choose a sales force automation application that facilitates the type of coordination and consistency required to deal with the environment described previously and pictured in Figure 11.2.

A comprehensive sales force automation application package can include many components. Many of the package vendors offer the ability to pick and choose from a large variety of components to ensure that you purchase only the functionality you actually need to automate your sales process. For clarity, we will group the available functions into the following categories: desktop management, telesales and campaign management, sales configuration, and mobile access. The remainder of this section provides an overview of these categories and associated functionality.

Desktop Management

Sometimes called account or workflow management, these capabilities are similar to those described in the workflow and desktop sections discussed in service automation. As with the service workflow component, workflow in sales automation also focuses on automating a unit of work into a set of activities, which can then be routed to the appropriate sales individual for follow-up. Depending on the complexity of your sales processes, and the degree of repetition involved, you may not require the same level of formal workflow capabilities that you employ for service automation. Rather than defining specific steps, associating business rules to each step, and expecting the sales person to follow each predefined step exactly, many sales organizations use the desktop activity management capabilities in a less formal way. In this instance, sales professionals may have some predefined activities forwarded to them for action. They may also be expected to make their own entries into the workflow or activity management system for everything they do with a particular customer, including phone calls, letters and other correspondence, meetings, and

presentations. This option enables other members of a sales team, including sales managers, to track activities for particular customers and for particular sales team members. These applications also contain contact management capabilities including the ability to view contact lists by salesperson, by customer, by product, and so on.

These desktops also have some or all of the following capabilities:

Calendar management. Calendar management enables sales professionals to schedule and track activities on a calendar in daily, weekly, and monthly views. Other customizable views, such as activity by customer or sales person, are sometimes available as well. The activities can be linked to customers and also to activities in the workflow management application. Calendars can be shared across sales teams, and the capability to view and schedule appointments on each other's calendars can be granted.

Contact management. The common contact repository described in service automation is also required for recording the details of all sales contacts with a customer. This enables the entire organization to view contacts with a particular customer during the life of the sales process and during the life of the relationship with the customer.

Customer information. As with service automation applications, the sales applications must have access to a common repository of customer information. Sales people must be able to access this information, modify it, and add new customers. Some packages contain their own customer component, while others enable integration into an enterprise customer file such as the customer ODS.

Sales reporting and analysis. This includes the capability to generate and distribute predefined reports that can be qualified by including selection criteria as a key to any sales automation effort. These reports can track sales activity and sales results by any number of criteria, including sales person or team, geography, customer, product, or campaign. The capability to create and customize the reports may also be provided to executives and sophisticated users.

Sales forecasting. Many applications also include forecasting components. Here leads can be entered and assigned an estimated probability to close, an estimated revenue figure and an estimated closure date. Typically, these components generate several types of reports from the entered forecast including the capability to track forecasted revenues by product, customer, sales person, geography, and opportunity.

Product catalogs/literature. Many of these applications also provide the capability for a sales organization to develop and maintain online catalogs of product features, competitive product feature and price comparisons,

discount rates, and so on. The popularity of the Internet is also giving rise to a new feature in sales automation. This is the ability to use electronic engines that search the Internet for news of customer organizations, industry happenings, and items of interest to the sales personnel. The results of these daily or weekly searches are bundled into a Web page or downloadable newsletter and are distributed to the appropriate sales people. This capability enables sales professionals to keep in touch with what is happening in their customer base or industry without having to do the research themselves.

Telesales and Campaign Management

The telesales and campaign management category includes three basic functionalities: telesales, campaign management, and the automatic generation of e-mail, mail responses, and solicitations. Again, these can be implemented as needed or can be purchased as an entire package. Basic functionality is as follows:

Telesales. Many sales force automation packages facilitate inbound and outbound telesales activities. These are typically used for inside sales forces and for marketing organizations. Inside sales forces are those that conduct much of their activity on the telephone, as opposed to actually visiting customers. These groups are used to qualify new leads, to cross and upsell existing customers, and to do market research. Predictive dialer, automatic call distribution (ACD), and the capability to screen pop the associated customer information to the telesales representative while transferring the connected call are some of the common CTI functions found in the telesales components. The capability to create and easily modify call scripts for the telesales representatives to follow is another feature to look for as well.

Campaign management. Many of these applications provide the capability to create sales campaigns and track the results. Here you can generate lists of customers to receive a mailing or telemarketing call, tag the activity in the activity management component as part of a particular sales campaign, and schedule automatic or manual follow-up activities. Many of these components also provide rudimentary capabilities for campaign tracking and results analysis. Most do not, however, approach the robust functionality found in the data warehouse and data mart structures described in detail in Chapter 9, "Business Intelligence: Technologies for Understanding Your Customers."

Automated character recognition. This capability was described in the service automation section. The capability to create and distribute automated

e-mail messages and regular mail pieces, both in response to incoming e-mails and from input lists of customers or prospects, is found in sales automation applications also.

Sales Configuration

A sales configuration consists of two related capabilities: the automatic generation of proposals and sales quotes, and the automatic configuration of technical product specifications for the customer's environment. Similar to the other component categories, these can be implemented singly or in an integrated fashion. The basic functions to look for follow.

Proposal generation. This capability enables you to automate the generation of sales proposals, sales quotes, and sales contracts. Typically, these contain revision history, past proposals, discount terms, and so on. Often, these applications integrate with proposal templates and with e-mail or letter generators to facilitate the automation of much of the proposal generation and delivery process.

Product configuration. Product configuration components work in conjunction with proposal or quote generators to ensure quality in complex product environments. These are useful in situations in which the products can be configured in various ways, and the customization of existing products to fit customer specifications is common. These systems assist in the three steps associated with product configuration. The first is to understand the customer needs and environment, and map these to the technical specifications of the products they are going to purchase. Next, the technical information of the products (programmed into the application) is used to determine if the suggested configuration is a technically viable solution (can the suggested machine work within the customer's existing factory configuration). The third step is to automatically calculate the final pricing structure for the configured solution. This component for technical sales environments eliminates the possibility of selling products that will not work together or within the customer's environment.

Mobile Access

If you have a mobile sales force, you will require the capabilities needed for mobile access. Remote users, third-party offices, virtual offices, and field sales personnel all require access to the functions and customer data within the sales automation package. A field sales person may visit many customers in the course of a day or week. This sales person will require the same access to components such as activity management, calendar management, and product

catalogs as the sales people who are in the corporate offices. Most vendors facilitate remote access, using wide area networks (WANs) as well as the Internet.

Some important issues to evaluate when considering remote access include the data replication and data capabilities of the application. Remote users may need to have the system functions loaded on their mobile computer for continuous use, but they may be able to connect to the central site only periodically. When they establish this connection, however, they will be doing so to download data and to send their updates to the central application. The remote user must have a replicated copy of the database(s) loaded on his or her computer in order to facilitate this type of use. The application must be able to deal with the data issues if the mobile sales person can make changes to the data on his or her computer. If multiple users can change the same data, the application must be able to identify changes on the mobile computers, update those changes to the central application, and reconcile situations where the same data may have been changed in more than one location.

Several issues must be considered in a mobile computing environment. One is the length of time it takes to download and upload data. The more complex the issues, the longer the process can take. Data volumes and line speeds also affect the transfer time. Lengthy data transfer processes can discourage mobile use of the application. The second issue to consider is the data integrity of these systems once mobile computing is introduced. The synchronization process must be well thought out to ensure that data on the central site and data on the mobile computer is not corrupted. If a salesman enters customer information onto his or her mobile computer only to have it wiped out during the upload or download process, he or she will be reluctant to hook into the central site again.

Security is another issue to consider in mobile access decisions. Chapter 14, "Preserving Customer Trust—The Role of Privacy," talks about establishing security procedures as a method to safeguard the privacy of your customers. As you establish privacy and security measures, you must evaluate the security options available in these mobile access components to ensure that it adheres to your corporate policies.

Although laptop computers have been the traditional vehicles for empowering remote users with the sales automation capabilities, new highly mobile devices are becoming more popular. These devices are small, hand-held devices such as the Palm Pilots and newer pocket PCs that use the Windows CE operating system. As the capabilities of these devices to carry extended software increase, many organizations are beginning to equip their mobile users with these devices. Many vendors facilitate the same data synchronization and replication capabilities for these devices as they do for the laptops. Many also enable their application software components to run on these devices. If your organization

is considering the use of these devices, it is advisable to look at the compatibility of your sales force automation software with the devices available.

Integrating Sales and Service Applications

The lines between sales and service are beginning to blur. As the myriad ways our customers can contact us (listed at the beginning of the chapter) demonstrates, it is harder to differentiate between sales and service customer touches than it used to be. Many touches that begin as a service opportunity end with an up-sell or cross-sell, and it is not uncommon for a sales person to receive a service request during the course of a pitch. When Bob's parents go to the branch to make their regular deposit and end up considering the purchase of a cruise from the travel company, a service customer touch has migrated into a sales opportunity. Likewise, when the investment advisor comes to their home to sell them a new investment product and departs with instructions to change the beneficiary on existing products to Bob's newborn son, the sales touch has resulted in a service request.

Although organizations generally use different applications to automate sales than they use for service, many also realize the benefit to be gained from integrating these technologies. Prior to calling on Bob to sell him anything new, his investment advisor always checks to see if he has any outstanding service requests or complaints. Thus, the advisor can determine if the timing is right to make the pitch or can inform Bob of the status of his request or complaint. Conversely, when fulfilling requests, the service representatives also know which marketing and sales promotions have been pitched to Bob. Armed with this knowledge, they can then remind Bob of the outstanding offers and possibly close a new sale.

Vendors of these automation products are responding to the need to share information between sales and service by offering integrated product suites in addition to the traditional stand-alone modules. The Meta Group predicts that through the end of 2001, these sales and service CRM products will have shifted into two distinct categories: stand-alone point solutions and integrated suite solutions.[3] The stand-alone solutions will focus on targeted, single-function applications with lots of functions and capabilities. The suites will focus less on extended functionality in each application and more on offering a pre-integrated interoperability and underlying architecture. The dynamics of the integrated suites are illustrated in Figure 11.3.

[3] "Leadership Strategies in Customer Relationship Management." Meta Group. January 2000.

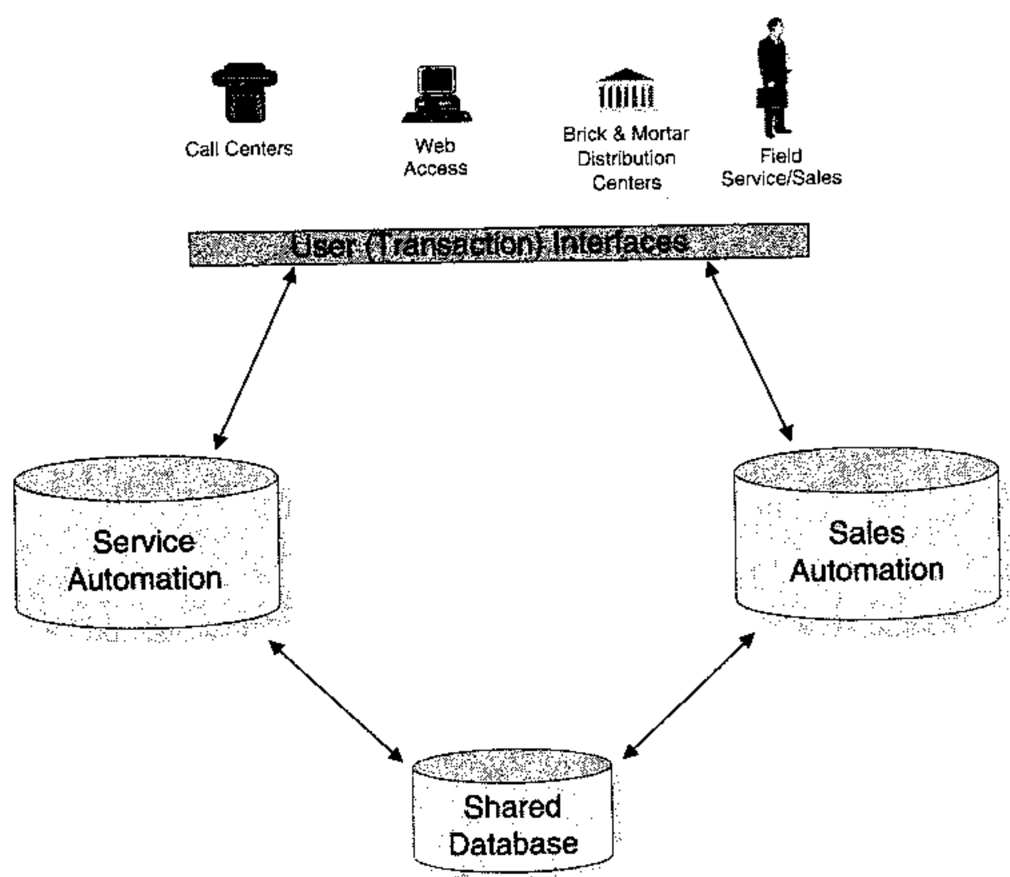

Figure 11.3 Integrated automation suites.

In Figure 11.3, the sales automation application and the service automation application share the same database of customer and contact information. This may not preclude each application from also containing its own database of application-specific information, but generally the information common to both is housed in a separate repository that can be accessed by all integrated applications. The sales and service applications can be accessed from various locations including the Internet, call centers, brick-and-mortar locations for walk-in sales or service, and from the field. Access to these systems can be controlled by a common set of user interfaces that are separate from the sales and service applications, as shown in Figure 11.3 (see sidebar for additional detail on access mechanisms).

In an integrated environment such as the one illustrated in Figure 11.3, sales personnel preparing for a call would view the customer contact information through the sales application prior to the call. Because the shared database contains common information, the sales people can view service contacts as

Access Mechanisms

The common access mechanism illustrated in Figure 11.3 is another form of the transaction interface described in Chapter 10, "Facilitating Customer Touches with the Customer ODS." As with the customer ODS, most users accessing the sales and service applications are interested in one customer record at a time and want to see all the details associated with that particular customer. Additionally, most users require this information to be provided very quickly, usually within a second of the request. The transaction interface is designed to provide this type of single customer access very quickly. As with the customer ODS, this single customer access need has some exceptions. Sales professionals routinely want to see lists of their customers for a simple analysis. The transaction interface can also handle these pre-defined list queries as well.

Note that many sales and service applications have their own user interfaces that can provide direct access. This can be useful if your organization does not have a common user interface layer or transaction interface. It can be expedient to bypass the common user interface layer completely and use only the access mechanism that comes with the application. This certainly shortens the installation time. However, a common user interface has distinct benefits. These include the provision of a common look and feel across many different applications and the capability to reuse the transaction interface when integrating other applications in the Corporate Information Factory (such as the customer ODS and the data warehouse and data marts). If you purchase one of these sales or service applications, you may want to consider implementing some combination of their canned access mechanisms with a common transaction interface.

well as sales contacts for the customer they are going to see. The service solutions operate in a similar way. For daily activities, service representatives use the service module, which provides access to sales and promotional contacts from the common database.

Integrating your sales and service applications is a clear step closer to facilitating CRM strategies. Your work does not stop here, however. Your organization must take another step: the integration of these modules to the rest of the Corporate Information Factory. Figure 11.4 illustrates this integration.

Integrating these applications into the customer ODS enables you to take advantage of the its substantial benefits. The customer ODS provides the integrated enterprise view of customers and is designed based on an extended customer definition that has been agreed on by all groups within the organization.

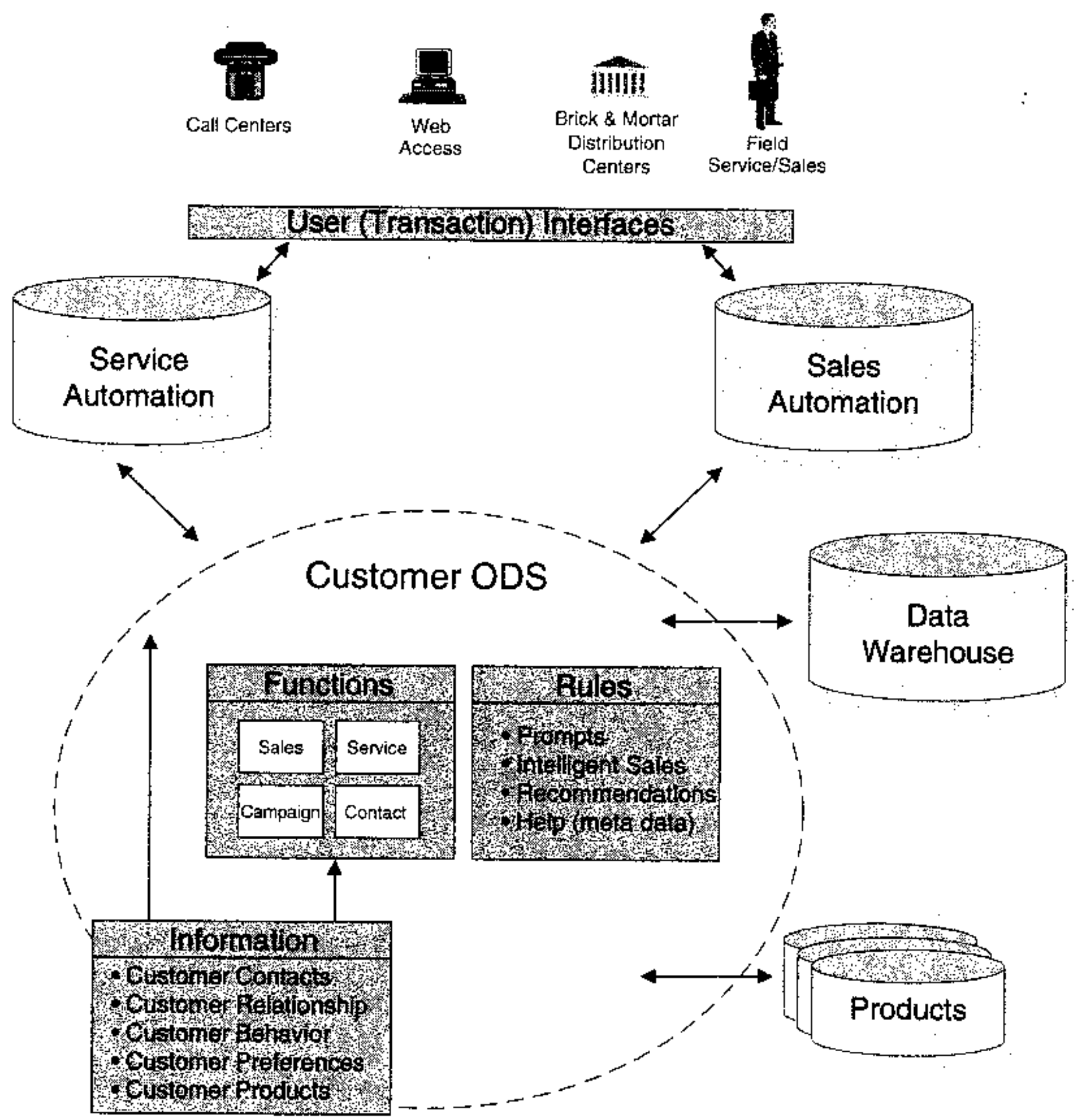

Figure 11.4 Operational CRM and the customer ODS.

Because the customer definition is embodied in the customer ODS, integrating these applications to the customer ODS ensures that your sales and service applications are using the same customer definition and associated information as the rest of the organization.

The customer ODS is the primary source of consolidated customer information for the data warehouse and data marts. It is also the primary recipient of strategic analysis results and is where these results are made actionable to the customer. Pointing your sales and service applications to the customer ODS

ensures that your sales and service personnel benefit from this valuable information. Predictive engines, intelligent sales prompts, and meta data used in conjunction with the customer ODS can also yield high benefits to the sales and marketing applications. As we will see in Chapter 12, the customer ODS is the facilitator for implementing most types of Internet personalization technologies and strategies.

Again, let's use Bob as our example to demonstrate the role of the customer ODS in sales and service automation. Bob is a VIP customer for the bank, and information about him resides in various systems throughout the bank. He owns many products, so information about him exists in multiple legacy product applications. He belongs to one of the most profitable customer segments, and information about his profitability, and that of his customer segment, resides in several data marts. The bank also uses these data marts to develop customized Internet banner advertisements, which are housed in an Internet content server and displayed when he logs onto the Internet banking site. The customer ODS is the database that consolidates all information about Bob into a single profile. The ODS contains Bob's profitability figure and customer segment, which were calculated from the data marts. The ODS also contains Bob's customer identifier, which is used to point to the appropriate banner advertisements on the content server. The ODS links to all the legacy product systems where Bob has products or service transaction information. Finally, the ODS is where anyone who deals with Bob can add new information to his profile, thus increasing the bank's knowledge of Bob. Because this serves as the central repository of all information about Bob, directing your sales and service applications here ensures that your sales and service personnel are using the same comprehensive knowledge base on Bob as the rest of the organization.

These are several ways to achieve integration to the customer ODS. The most comprehensive way, shown in Figure 11.4, is to redirect the sales and service applications to use the ODS database, rather than using their own databases or the shared data pictured in Figure 11.3. This may require extensive customization to these applications but will also ensure that they benefit from all the data acquisition and data hygiene processes described in prior chapters. Some vendors, recognizing the need for enterprise integration, are designing these applications with independent customer components, which makes this redirection easier to accomplish.

A second alternative is to allow these applications to continue to use their own databases but develop a process to exchange information between the customer ODS and the sales and service applications. This can be done in a near real-time mode (for a class I or II ODS), or in a more relaxed mode (for a class III ODS). The decision you make depends on the nature of your ODS, the number of applications to integrate, and the existing transaction interface. Many

organizations approach this integration in phases, starting first with a manageable project and progressively integrating the more complex pieces.

One additional point of integration is emerging: the integration of sales and service applications to other operational solutions such as Enterprise Resource Planning (ERP) systems. Linking these disparate systems opens a window of information that starts with the customer and extends all the way back to the manufacturing source. This total view of both the supply and demand chain helps organizations to truly understand and manage the extended enterprise. Organizations can look backward to their suppliers, forward to their customers, establish tighter relationships on both sides based on better information, and in some cases recognize and eliminate unnecessary steps in the chain. Partnerships between ERP vendors and sales and service automation companies are frequent today. Soon, purchasing an integration component and plugging it into both systems might link these packages.

Summary

Many organizations are looking to their sales and service business areas to play a key role in the building and maintaining of long-lasting and profitable customer relationships. Automation is one way to facilitate increases in customer satisfaction, improvements in customer loyalty and retention, and increases in customer profitability. Automation can also help to reduce fulfillment and production errors, decrease the cost of providing service, and increase the efficiency of sales and service personnel, thus freeing them up to concentrate on the mechanics of relationship building.

Organizations typically focus on automating sales and service independently, although the benefits of implementing an integrated solution across these two business organizations are becoming increasingly apparent. Many vendors now offer integrated solutions that tie sales and service into a single software package, which enables the capability of selecting from a large variety of available functionality. The functions for automating your customer service processes typically come in the following categories: workflow management, CTI, and desktop management. The functions for automating your sales processes are categorized as follows: desktop management, telesales and campaign management, product configuration, and mobile access. The modularity of many of the most popular packages today affords a good deal of choice when selecting the combination of technology components and associated functionality that best fits your organization.

The systems required to automate your service and sales processes fall into the business operations section of the Corporate Information Factory. Business

operations consist of those systems that perform most of the day-to-day operations of your business. In addition to service and sales automation packages, these systems include legacy product applications, billing systems, and accounting systems. Business operations systems play an important role in CRM. As Figure 11.5 illustrates, business operations systems work throughout the Customer Life Cycle.

In the retain and expand section of the Customer Life Cycle, these systems perform the following tasks:

- Facilitate the fulfillment of goods and services.
- Facilitate the billing and invoicing processes.
- Enable the product configuration and customization of mass-produced products and services.
- Provide the capability to collect and update customer information.
- Provide the capability to expand the share of wallet for existing customers.
- Provide opportunities to build the customer relationship.

In the intrude and engage, and acquire sections of the Customer Life Cycle, these systems perform the following tasks:

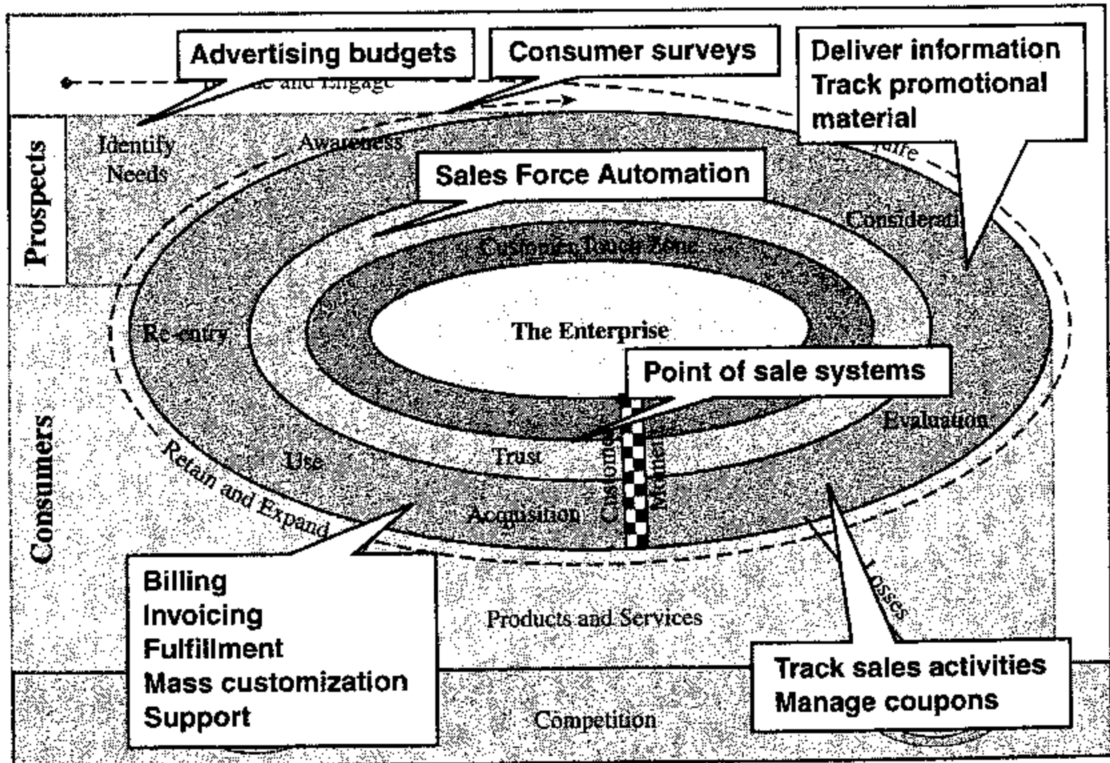

Figure 11.5 Business operations and the Customer Life Cycle.

- Provide the customer and prospect information required to perform sales activities.
- Provide the tracking and coordination essential to effective sales teams.
- Provide the capability to collect information on prospects and customers.
- Provide the capability to educate prospects and customers about the organization.
- Enable the tracking of sales campaigns, customer satisfaction surveys, and other promotions.

Facilitating customer choices for how, where, and when contacts occur is key to the successful CRM organization of the future. As organizations position themselves to provide this choice, while also providing consistent sales and service across all available channels, the automation of sales and service and the integration of these automated solutions into the rest of the Corporate Information Factory will become increasingly important. Chapter 12 examines the role of the Internet and e-commerce in CRM.

READING 6.1

Hocknell, M. (2004), Pragmatic CRM: The Process of CRM Success, February, unpublished.

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Mark Hocknell
February 2004

Pragmatic CRM – The Process of CRM Success – A Case Study

Introduction

The purpose of this article is to describe the process of customer relationship management (CRM) success by using the Suncorp (Australia) CRM case study.

Firstly, let's define CRM as a customer centric business strategy that is enabled through change management and the effective use of technology tools. As a business strategy CRM is about increasing customer profitability, through improved customer management, retentive and share of wallet. The strategy is then enabled through change management – primarily because most businesses have been structured around products. Therefore, change management is needed to shift the business from being centred on products to being customer-centric. The second enabler is technology – tools that support the analytical and operational business processes.

Whilst we have attempted to define CRM here, it must be noted that as a *Customer-Centric Business Strategy*, that definition then stresses that each business must determine what CRM means for itself.

To get a clearer picture of CRM, business often find it beneficial to break CRM down into three core components.

1. Strategic CRM. Developing the customer centric strategy.
2. Operational CRM. The business processes, automating the sales, service and marketing processes.
3. Analytical CRM. Essentially about developing the organisational capability to use customer information in both a strategic and tactical way.

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Case Study Background

Suncorp is an Australian Financial Services Group based in Brisbane Queensland. The company was created in December 1996 from a three-way merger between,

- Suncorp – A government owned insurer and building society.
- Metway – publicly listed regional bank
- QIDC – a government owned rural and business lender.

These three companies were major companies in the Queensland economy which has been growing strongly over the last 15 years. Following this government initiated merger in 1996, Suncorp acquired GIO (a NSW state insurer) in 2001 to create Australia's second largest insurer and sixth largest bank, a financial services group focused on an allfinanz strategy[i].

Stage One - Deployment

Following a few years of internal focus as the newly formed group transformed itself into a single entity, then Suncorp CEO, Steve Jones initiated the Allfinanz Program early in 2001. This program of work was to create the CRM initiatives for Suncorp.

Customer Measures and Strategy

Steve Jones' interpretation of the Allfinanz strategy was to improve the profitability of the Group customer franchise – a customer-centric strategy. The first step for the program was then to develop customer centric measures. Roy Morgan Research had shown that Suncorp had the highest products per main financial institution in Australia at 3.55 (December 2001). However, products are only one dimension of a customer relationship and the Allfinanz Program developed a model of desired customer relationships that was finetuned over the next 12 months. This model had four points[ii].

1. Product holdings – not only the number of products but also the breadth of product ownership (i.e., across banking and insurance).
2. Understanding customers' needs – not only today but also in the future.
3. Elements that effected the cost to serve, (ie, IVR and Internet banking) and
4. Value added services for the customer that also reduced costs.

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During this period the Allfinanz Program was also investigating the tools to support the customer-centric allfinanz vision. These tools fell into two categories, operational and analytical, and will be discussed later.

Cultural Change

The strategic decisions were made, Allfinanz was the goal and the way to achieve it was to create committed and enduring customer relationships, with the four elements described above.

The vision was formulated and now needed to be communicated throughout the organisation, to every employee. The vision of the way to interact with customers, the types of relationships to create, the high level tools, a phased-plan on how to get there and a suite of employee incentive schemes to promote the desired behaviour were deployed over the next 18 months. The commitment from the CEO demonstrated a long term strategy and with dedicated, focused action and investment of resources (mainly people at this stage). So the process communication and of organisational change began.

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Supporting Tools

Figure 1 depicts the CRM technology model used by Suncorp. The model describes business processes under the headings of operational and analytical, technology tools can then be overlaid against the model to support the business processes. This model allows a business to divide the CRM tools into categories that allows a program or portfolio approach to CRM and focused project delivery and deployment[iii].

Figure 1

CRM Technology Model

Operational	Analytical
• Tools for use in customer interactions	• Tools for analysing customer knowledge - back-end systems
• Customer-centric view, contact management	• Attempts to determine the most effective activity for marketing & sales campaigns
• Collection of customer data	
• Front end customer systems for the automation of sales, service and marketing processes	• Uses tools such as data warehouses, data mining and online analytical processing (OLAP) to understand customer profitability, propensity to buy products and services, promotional preferences
• Sales Effectiveness - needs based, lead allocation, pipeline reporting	
• Delivery of campaigns	• Campaign tools

On the analytical side of the model Suncorp deployed the following systems.

- RTM. Suncorp deployed the E.piphany Real Time Marketing system through its retail banking system and Internet banking. 500 users across braches and call centre use RTM to deliver targeted campaigns to customers real time. RTM was released in January 2002[iv].
- CIS. A customer information system that sourced customer information from 13 product systems and through using matching and merging software created a single customer profile for the two million Suncorp customers. The system was created in-house with some outsourced develop through Infosys. CIS was

deployed in July 2002. CIS may be considered an operational CRM system, however from a business perspective it was key to clearly identifying a single customer view.

- Suncorp also created a group data warehouse and has been investigating best-of-breed analytical software solutions.

From the operational perspective Suncorp deployed the Onyx Employee Portal v3 in April 2002. The Onyx system provided the complete suite of functionality required by Suncorp and was deployed across all workstations in the Group. Core users were all customer touch points and numbered around 2,500. There were also around 2,500 non-core users (back office support, management etc) that also gained access to the system. At the time of release there were around 600 concurrent users of the system[v].

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Stage Two – Follow Through

Many organizations feel that CRM is finished when the systems are deployed. The CRM program must continue on because it is the customer-centric business strategy, therefore the business must *follow through*. This second stage of the CRM process includes monitoring, control and steerage. Upon implementation there are virtually no benefits realised. For the business to extract the benefits the CRM process needs to be managed and the CRM strategy followed through to allow it to mature in the business. Suncorp established a small team of professionals (leaders, coaches, business and reporting analyst, 9 FTE) to take the lead for the business with CRM[vi].

Monitoring and Control

This management function focused on the creation of measurement systems and processes to support the business. Suncorp had a small team that was focused on the initial development of reporting tools for the CRM systems and then the ongoing development of this capability. It is important for a business to realise that the change to being customer-centric is ongoing and needs to be driven now, post implementation, by all levels of management. Reporting tools are a key support for business leaders in their endeavour to sustain the change management efforts.

Suncorp also created two management coaching roles to support the business in the transition to using the CRM tools. The coaches identified the early adopters and innovative users of the CRM systems and recognised their efforts and shared the best practice across the business. Likewise, some business groups (the laggards) will require assistance, the management coaches performed the role of supporting the slower adopters into improved usage. This coaching also involved the reengineering of business processes to be more customer centric. One important point here is that the focus was on management coaching – not end user training – as it is the managers who must lead their business groups to improved usage and activities that result in the realisation of benefits.

Steerage

Because the "projects" are over there is a tendency for the business to slip back into the old ways and business-as-usual. Steerage is about customer-centric leadership – a dedicated business leader to provide the thought leadership on customer management,

customer centric offers and processes. Additionally the business leader needs to provide the steerage on any initiatives involving the CRM program, have the influence to clear obstacles and safely guide the program of work towards the CRM vision. This of course is easier said than done, however, many CRM implementations fail right here. The technology may have been implemented well, but the change has not yet taken hold well enough[vii] to ensure an ongoing evolution of the capabilities and functionality. Suncorp created a business leader role to perform this function[viii].

CRM is not a one-time project that leads to business capability, it is an iterative development of strategic execution, and as such requires business leadership to provide a corporate CRM conscience.

Stage Three – Extend Data Management

When moving from product-centricity to a more customer focused orientation, CRM systems can often suffer from an identify crisis. That is, they are not a product system, they contain customer information, facets of sales force automation, ERP, work flow and other components, but what are they exactly…? The answer, I believe, is to make the CRM system the *customer system*. It is still possible to use the existing product systems to do what they do best – manage products. The CRM system then becomes the customer system that gives it an identity and a purpose within the business, and this is what Suncorp did. The CRM systems became know as the *customer* systems.

In this next stage the objective is to extend the customer data management through the CRM system into the product systems. The integration work is critically important and likely to be complex; the business process redesign is likely also to be tricky and will require visionary, influential leadership to make it work.

To compliment the customer data quality work at Suncorp, a few months after the implementation of the Operational CRM system (Onyx) another project was initiated to integrate the customer system (Onyx) with the product systems. This initiative effectively gave the frontline people a single system that allowed them to accurately maintain customer contact information quickly and easily. The project delivered the functionality in June 2003 and established the operational CRM system as the customer management system in Suncorp[ix].

Stage Four – Further Integration

The challenge for Suncorp is to maintain the commitment to the CRM journey. The next steps are to continue the integration efforts with the goal of automating the sales, service and marketing processes end-to-end so the customer-centricity flows through and seems effortless to the people that interact with customers.

Imagine the change leadership has embedded a culture so each person in the organisation is looking through the customer lens, examining the business from the perspective of profitably adding value for the customer. Imagine the CRM tools have provided the business process support needed and with this culture:

- The products start with the customer's problem and end in a solution,
- The sales force are driven to create enduring customer relationships that add value for the business and the customer, and
- The service people are single-minded in their need to solve problems with priority and courtesy.

Results and Return on Investment

The Allfinanz Program for Suncorp was initiated with strategic imperative. The financial investment was made prudently with releases needing to justify themselves operationally and strategically. The results of the program, at the end of 12 months, can be summarised in the following way.

- A growth in concurrent usage of the Operational CRM system from 600 to greater then 1,000.
- A 32% increase in sales opportunities – leads – with a 10% increase in strike rate[x].
- Roy Morgan Research showed Suncorp had the highest cross-selling rate of any financial institution in Australia and that products per household had grown to 3.7[xi].

The difficulty for all CRM programs is claiming the results. The achievements above were clearly enabled by the efforts of the CRM program, however, the efforts of so many other people and initiatives contributed.

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In September 2002, CEO Steve Jones, left Suncorp and returned to the America to become Dean of the Business School at the University of North Carolina. His successor was John Mulcahy who came to Suncorp from an Executive position at the Commonwealth Bank of Australia. At each analyst and press briefing since his appointment, Mulcahy has made the comments about the operational CRM system:

> *"The Enterprise system puts Suncorp five-to-six years ahead of its competitors in Australia...The CRM technology, Enterprise, provides Suncorp with an excellent platform to further leverage the cross-sell capability..."*[xii]

Clearly the strategic goals of the CRM program were achieved.

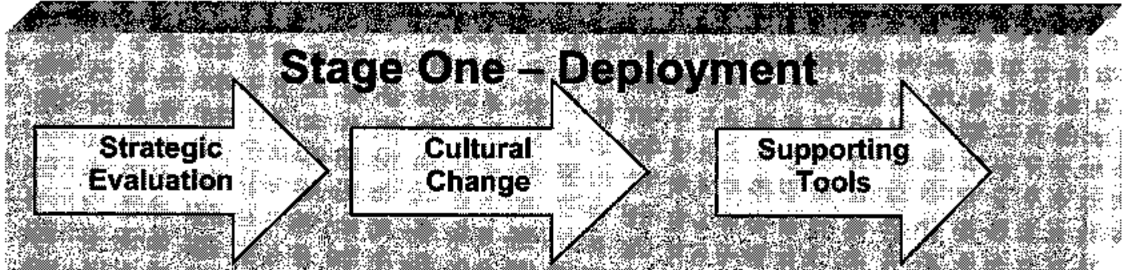
Additionally the CRM program delivered measurable benefits in the following categories of strategic advantage.

- Cost advantage – productivity improvements were found particularly with the deployment of the third stage and the management of customer information.
- Focus advantage – through use of the CRM systems Suncorp was able to focus the activities of its frontline people on profitable customer segments, relationship building and improve sales effectiveness.
- Speed and manoeuvrability advantage came through the CRM systems with the capability to deliver and adapt to changing conditions faster than competitors.
- In terms of the value-added advantage that came from the leads management functionality, some internal measures reported a greater than 100% ROI, however proving the incremental value of this was impossible.

Post implementation evaluation shows that the initial strategic goals were achieved, in addition to the foreseeable benefits from the CRM systems. Additionally there were benefits realised that were not predicted, such as the significant increase in lead generation and strike rate[xiii]. One surprise result may be in the unconditional support of the CRM systems given by the incoming CEO.

Summary – The Process of CRM Success

In summary we can see that Suncorp has experienced success with CRM, its continued success relies on the executive commitment to the ongoing process and journey of CRM. The model below pictorially depicts the deployment stage – stage one.



The critical components to CRM success in Stage One are:

- Creating a customer centric strategy, or describing the business strategy in terms of the customer.
- Create customer measures. This can be products per household, or more importantly a measurement of the number and growth of customers with relationships in the model the business is pursuing.
- Drive cultural change around the customer centric measures.
- Culture is created by all leadership roles in the organisation and management must actively create a culture through communication (verbal and non-verbal).
- Employee incentives schemes can be helpful in establishing frontline behaviour. At Suncorp the measures under the incentive schemes became KPI's.
- Cultural change also means taking a serious look at the business processes and bureaucracy in the organisation.
- Supporting tools requires the development of analytical and operational systems to support the cultural change and customer-centric strategy.
- Once these tools have been determined, at a high level, the vision and plan for the implementation of these tools needs to be communicated to the business. Never underestimate the cultural impact of communicated commitments from the leadership of the business on the frontline people.
- Deploy the tools, and make sure they work.

The business then moves immediately into Stage Two.

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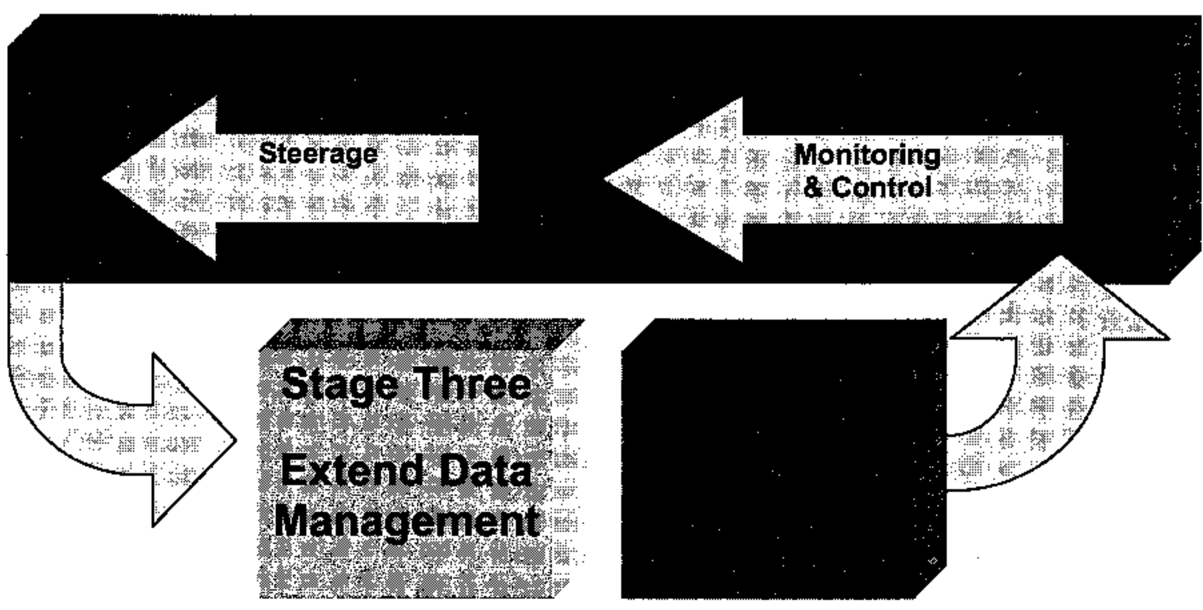
The critical components of Stage Two are;

- Executive commitment and leadership to follow through after deployment.
- Development and usage of management reporting on the customer measures and the key activities utilised in the customer systems.
- The creation of business leadership and steerage to be the CRM conscience within the business to reduce the desire slip to back into the "old ways" and the provision of CRM thought leadership in the business.

Part of this follow through necessitates the business moving into Stages Three and Four - facilitating the move to customer management systems and further integration into the business processes of the organisation.

From here a successful customer-centric business will remain in Stages Two, Three and Four, and so the journey of CRM continues in the iterative development of customer centric strategic execution.



Endnotes

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[i] See company records, annual reports etc; Gallagher, Julie (2002), 'Suncorp Obtains Single Customer View', *Insurance and Technology*, December 20, http://www.insurancetech.com/it2/story/ist20021220s0004

[ii] Lawson, Mark (2002), 'Suncorp sees system as key to allfinanz strategy', *The Australian Financial Review'*, July 18, page 20

[iii] Anonymous, (2003), 'Focus on the Customer', *Windows in Financial Services,* Winter, Flatiron Group, New York

[iv] Epiphany Press Release, April 2001, http://www.epiphany.com/news_events/press_releases/2001/2001_04_11.html

[v] Hines, Matt (2002), *CRM Vendor Onyx Wraps up Hefty Financial Services Project*, August 14, SearchCRM, http://searchcrm.techtarget.com/originalcopntent/0,289142,sid11_gci844504,00

[vi] Cameron, Fiona (2003), 'Sales Force', *HR Monthly*, February, pages 21-25

[vii] See, Kotter, John (1996), *Leading Change*, Harvard Business School Press, Boston, on institutionalising change pages 131 to 158

[viii] Collins, Kimberly (2003), *Suncorp Delivers on Allfinanz Strategy Through CRM,* GartnerG2 Case Study, June

[ix] Riley, James (2003), 'Suncorp boosts CRM cross-sell', The Australian, IT Alive, July 22, page 7

[x] See reference at note eight

[xi] Moullakis, Joyce (2003), 'Banks to Cross-sell for Growth', *The Australian Financial Review,* July 4, page 72

[xii] Refer to Suncorp website for Analyst and Investor Briefings between June 2003 and January 2004

[xiii] See reference at note eight

READING 6.2

Agarwal, A., Harding, D.P. & Schumacher, J.R. (2004), Organizing for CRM, The McKinsey Quarterly, Number 3.

Organizing for CRM

Companies should treat a customer-relationship-management solution as a product or service and its users as internal customers—by making it valuable, pricing appropriately, advertising, and providing after-sales support.

Anupam Agarwal, David P. Harding, and Jeffrey R. Schumacher

The McKinsey Quarterly, 2004 Number 3

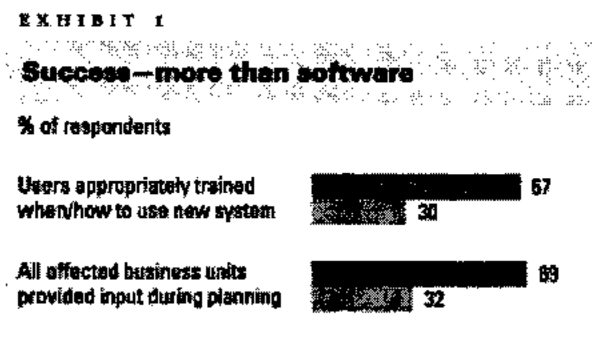
What's left to say about customer-relationship-management (CRM) solutions?[1] Business commentators have spilled oceans of ink describing the gut-wrenching rise and fall of these programs' reputations. Most large companies have implemented some form of CRM, and many have followed their early disappointments with full-scale CRM remediation efforts.[2]

Indeed, more than half of all companies investing in CRM consider it a disappointment, according to several recent surveys. What's wrong? It's not that companies are spending wildly; many of them build robust business cases before making their investments, which at this point are likely to be incremental. Nor does the fault lie with the technology itself—most systems provide the required features. Companies have lavished attention on business and technology issues because both were glaring early impediments to CRM's effectiveness.

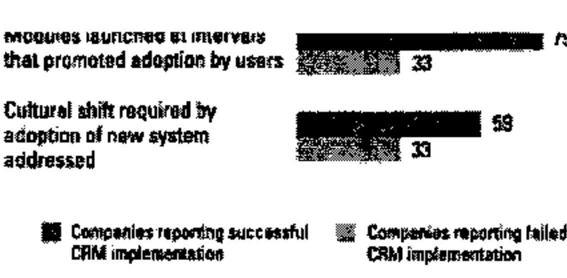
The core of the problem now is that too few companies are paying enough attention to the organizational challenges inherent in any CRM initiative, whether it involves delivering a new solution, fixing a foundering application, or tweaking a functioning CRM capability. These challenges stem from the wide variety of people—frontline sales and service providers, business analysts, IT professionals, and a broad array of managers, to name just a few—who must collaborate to ensure that a CRM program is defined, delivered, and deployed. This diversity creates accountability issues and complicates the challenge of persuading employees to embrace CRM.

Solving these organizational problems requires a company to go beyond the vigorous exhortations and heavy-handed rollouts that many have relied on—understandably, in view of the money invested and the opportunity costs of failure. Instead companies should view CRM as a product or service targeted at internal customers. Like any product or service, it must be infused with clearly defined value, priced appropriately, advertised, and provided with after-sales support.

In our experience, no temporary centralized team, however competent and well intentioned, gets everything right. What's needed to achieve long-term business results is an infrastructure grounded in accountability, as well as supporting initiatives to motivate, train, and track the many employees in diverse positions throughout the organization who make or break the CRM program. Attention to these perennial organizational challenges, which are easy to overlook in the rush to fix the technology and business-alignment issues, correlates strongly with success in CRM (Exhibit 1).[3]



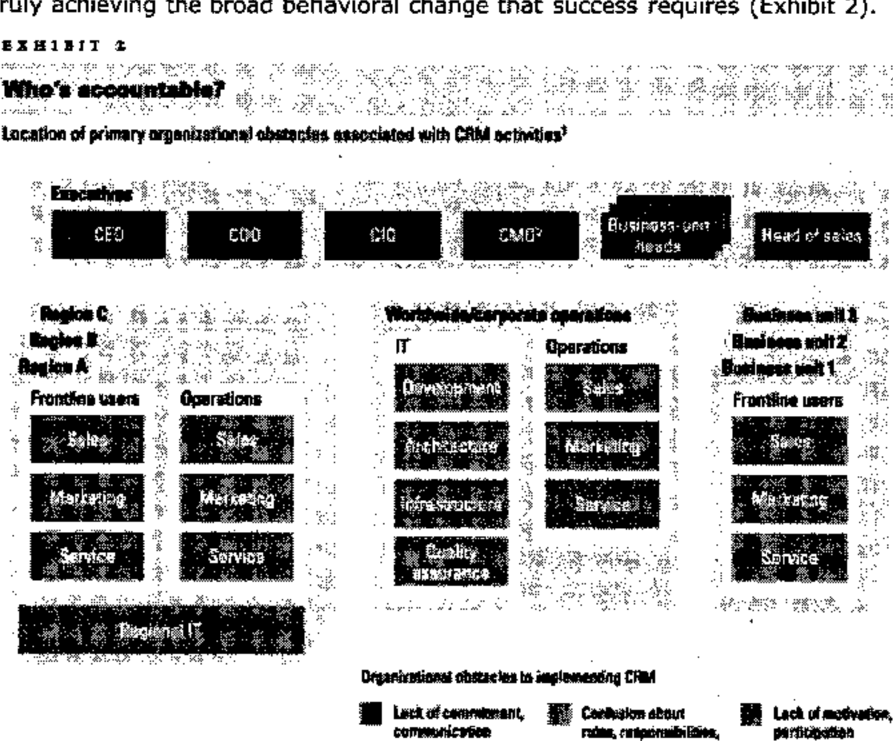
The role of senior executives is vital. CRM's impact on frontline employees is so significant and potentially jarring that clear, forceful messages from the top are critical to enforcing accountability and motivating change. Senior executives can dramatically improve the likelihood of success by



explaining in detail what a CRM initiative will accomplish and when, who will be involved, and which trade-offs will be necessary—and by taking tough corrective action against pockets of resistance.

The organizational challenge

Building, modifying, or running a CRM solution involves a large cast of characters. It can include systems experts; business analysts; backroom operations specialists; managers who use customized reports to fine-tune sales, marketing, and customer service strategies; and frontline sales and service people, who are responsible for inputting much of the data the CRM initiative needs to yield rich insights and for acting on them. The breadth and scope of these constituencies create two organizational problems: identifying who is accountable for which results and truly achieving the broad behavioral change that success requires (Exhibit 2).



Fuzzy accountability

Put yourself in the shoes of the typical IT or business manager who is involved with a CRM initiative. You know that your long-term career advancement has less to do with its success than with your performance in your ongoing role. If you're an IT manager, you also recognize that as long as the project comes in on time and on budget and the software actually works, you will be judged a success, even if it doesn't deliver all of the promised results. Equally, if you're a business leader, you are not accountable for delivering the required features; that's an IT problem.

When the responsibility for different aspects of the solution rests in different places, it's often hard to muster the organizational resolve to pull in the right people, unclog bottlenecks, and make effective decisions. At worst, companies wind up with the kinds of problems that plagued Soviet-style planned economies: a lack of ownership, a failure to choose the right features, and an inability to meet performance goals. One large computer manufacturer's CRM program, for instance, foundered because no one could free up the time of the end users who were needed to help define the solution's requirements. Business operations personnel who served as the end users' proxy lacked the right kind of frontline expertise. As a result, the solution didn't meet the needs of the

business.

The computer manufacturer's experience probably sounds familiar. Excessive reliance on technology specialists who didn't really know what would make CRM solutions valuable to businesses helped sink many early CRM initiatives. In the past few years, some organizations have overcompensated so much that many capabilities are now defined by the business side, without enough participation from IT. Too often, the results resemble those experienced by one large media company that developed a strong business case with limited participation by its IT organization, took several months to realize that achieving its goals with the chosen technology would take more than a year, and ultimately abandoned its original plans and began redefining the program. Unfortunately, the fuzziness of organizational accountability for CRM means that such frustrating experiences are common.

Resistance to change

The large number of stakeholders involved with CRM doesn't just complicate accountability; it also magnifies the difficulty of effecting behavioral change in managers, salespeople, and business analysts—all groups whose recalcitrance can cripple an initiative. Consider the problem of sales-pipeline management. CRM helps managers to see quickly when salespeople are not hitting their targets and remedial action is necessary. But management can act only when salespeople input timely, accurate information and analysts generate the right reports. If management doesn't augment the underlying performance metrics, frontline employees are likely to go on behaving in the old way.

Yet it's easy to see why salespeople and managers might drag their feet. The former are inherently skeptical because they think that information flows only in one direction (which it often does) and is therefore unlikely to benefit them, even if it helps the company. Salespeople also fear that new systems and bureaucracies will bog them down. Managers, by contrast, often recognize the potential long-term benefits of a successful CRM program but worry that they will be penalized if short-term results suffer during implementation. (Productivity often drops during deployment periods, but few operating plans take this reality into account.) When midlevel managers hedge their bets, they aren't likely to infuse the deployment with energy or to modify the metrics for evaluating frontline employees.

Training—often involving just a day or two of classroom immersion —**overwhelms users**, who complain that it is too abstract

The predictable result is that CRM systems are used little or not at all. In the insurance industry, for example, more than a third of the CRM modules developed during the past three years in areas such as marketing-campaign management, data analysis, and opportunity management lie dormant. Many companies have responded by punishing salespeople who don't "get with the program." Heavy-handed approaches such as docking commissions or circulating internal blacklists of nonadopters may bump up compliance, but only in a grudging and mechanical way that isn't likely to exploit the initiative's full potential. Training—another typical response, often involving just a day or two of classroom immersion in the new features—overwhelms users and they often complain that their training is too abstract. Many become discouraged after valiant attempts to use the new system and revert to their old ways despite management's exhortations. Fortunately, these problems can be solved.

Frontline solutions

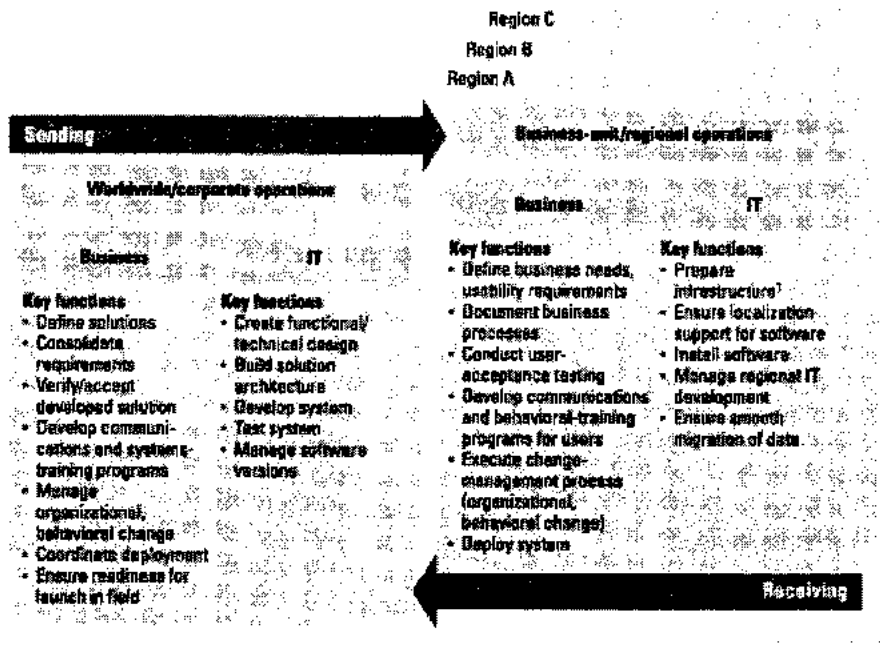
Overcoming organizational roadblocks requires a more elegant approach than pressuring uncooperative business and IT personnel into building a solution and then forcing skeptical employees to use it. A better way is to establish an organizational structure that mimics a market in which constituencies alternately take on the role of buyer and seller or, in this case, "sender" (delivering the solution) and "receiver" (implementing it). This approach creates accountability and lays the groundwork for later efforts to motivate employees to embrace the initiative.

Sending and receiving

In our experience, a simple but powerful structural solution can help organizations overcome the accountability issues that bedevil CRM efforts. Instead of holding businesspeople accountable for determining the requirements of a CRM solution and IT personnel for developing it, companies should make both parties responsible for all of its aspects, from designing process shifts to managing change to implementing technology. At the same time, companies must carefully delineate the responsibility for sending and receiving the solution as a whole (Exhibit 3).

EXHIBIT 5

Mixing business with technology



[1] Includes determining hardware requirements and consolidation, if necessary.

The sending team's function is to define a solution that meets the objectives specified in the business case, to estimate the level of effort required to implement the solution, and then to deliver it. "Delivery" includes establishing the architecture of the system, building and testing it, and supporting its deployment, particularly the systems-training programs that help launch it in the field. When all the elements of this broad mandate show up in a sending team's cost assessments, executives get fewer surprises later on.

As for the receiving team, it provides the business case and the usability requirements. Then it leads the rollout by communicating to internal customers the goals and likely implications of the program, assessing how the behavior of end users must change to take advantage of the proposed solution (and therefore what behavioral training is necessary), and implementing the sending team's systems-training plans. When an initiative involves placing new technology in the field, the receiving team also ensures that the infrastructure is ready for use, that support is available for customizing software to local needs, and that data can be moved to the new system. All this has a cost, and the receiving team, like the sending team, should estimate the effort required to carry out its work before getting started.

The sending-and-receiving infrastructure addresses accountability issues in two critical ways. First, each team's cost estimates make clear to the sponsoring business executive what he or she is signing up for while also clarifying the teams' responsibilities. Of course, if the estimated benefits of the business case appear too small or squishy to justify the cost, executives have a solid reason for backing off from weak initiatives.

Second, since each team includes both IT and businesspeople, it becomes harder for either side to define its scope of accountability too narrowly. Finger-pointing by senders or receivers is of course possible, but the likelihood of it is diminished by the two teams' dovetailing responsibilities. Employees sending new features know that the program's success depends on their usefulness to the receiving team. Moreover, nobody can ensure that they really are useful better than a member of the receiving team who has local-deployment responsibilities. As a result, individuals on each team have a powerful incentive to coordinate their activities. And when problems arise, it is always possible to hold teams accountable for them by checking whether the receivers were unprepared, the senders failed to deliver, or both.

When a large global technology company whose executives coined the sending-and-receiving terminology adopted this structure in its CRM program, it overcame the weak accountability that had engendered budget overruns, slipping delivery dates, "scope creep," and, ultimately, disappointment. Its teams—which included members from the Americas, Europe, and Asia—began

READING 6.3

Collins K. & Marcus, C. (2003), Top-10 Marketing Processes for the 21st Century, 24 July, Research Note, Gartner.

Strategic Planning, SPA-20-0671
Research Note
24 July 2003
C. Marcus, K. Collins

Top-10 Marketing Processes for the 21st Century

The marketing function must evolve to support advanced, customer-centric marketing processes. There are 10 processes that will deliver the greatest value to customers and the enterprise.

Core Topic
Customer Relationship Management: Business Strategies, Technologies and Applications for Marketing

Key Issues
How can the marketing function better focus on value creation by leveraging technology in its operations?

How will enterprises drive profitable loyalty while satisfying increasingly demanding prospects and customers?

How will marketers fill the gap between data and insights that are acted upon?

How will marketing communications evolve to craft optimal dialogues with consumers?

Strategic Planning Assumptions
By 2007, marketers that devote at least 50 percent of their time to advanced, customer-centric marketing processes and capabilities will achieve marketing ROI that is at least 30 percent greater than that of their peers, who lack such emphasis (0.8 probability).

By 2007, fewer than 20 percent of marketing organizations among Global 1000 enterprises will have evolved enough to successfully leverage customer-centric, value-added processes and capabilities (0.8 probability).

Enterprises are recognizing that stronger and more-enduring customer relationships are critical to long-term profits. Most marketing organizations are at least conceptually well-situated to drive customer centricity, via a more-strategic approach that is focused on delivering value around customers and customer segments. To be effective, however, the marketing function must evolve from focusing on products and transactions into placing more emphasis on customers and relationships that are aligned with enterprise goals and strategies. However, most marketing organizations face several critical challenges:

- More-demanding customers who expect offerings and communications to be increasingly aligned with their needs, preferences and lifestyles.
- The ability to support a growing number of marketing activities to drive the customer-centric enterprise. This ability, however, should have a limited impact on other parts of the enterprise — or the extended enterprise, where execution is critical (for example, call center, store or branch, Web site, partners) — while concurrently facing increasing pressure to justify marketing resources and expenditures.
- Dealing with a variety of loosely coordinated marketing silos (for example, corporate, communications, products, customers, channels, fields, markets) that lack sufficient focus on collaboration around key, high-value processes.

If marketing is to lead the customer-centric enterprise, it must first lead by example and break down functional silos to create a more-strategic and customer-centric enterprise approach. By 2007, fewer than 20 percent of marketing organizations among Global 1000 enterprises will have evolved enough to successfully leverage customer-centric, value-added processes and capabilities (0.8 probability).

Gartner

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Marketing organizations must move away from a tactical focus on day-to-day activities and place more emphasis on high-value business processes that add value to customers, enhance brand equity and produce stronger, more-predictable return on investment (ROI). There is growing evidence of a set of 10 high-value marketing processes that the marketing function of 21st-century-leading enterprises will have to master. The specific processes that will prove to be most valuable to an enterprise will vary, depending on the development stage of the marketing function, as well as the enterprise's business model or vertical market. Listed in order of increasing sophistication and, hence, required mastery, these marketing processes are:

1. *Marketing operations management:* Due to increased competitiveness, product and channel proliferation, and greater market, media and interactive channel fragmentation, the complexity of marketing operations has increased. As such, the marketing function must strive for higher degrees of process standardization and automation to drive greater efficiency and productivity, as well as better alignment of resources and activities with corporate objectives. Higher levels of efficiency and productivity are essential so that marketers can dedicate more time and effort to higher-value marketing processes. However, driving internal and external adoption and use will mean supporting dynamic processes that reflect diverse requirements across business units and geographies, as well as changes over time. Without these processes, many users in the marketing function will continue to resort to unstructured and often-chaotic operational behaviors.

2. *Marketing visibility, accountability and value measurement:* As the sheer number and complexity of marketing efforts have increased, the ongoing visibility of marketing activities across the entire enterprise and all its distribution channels has become a significant challenge. Although some individual tactical elements (such as direct marketing or e-marketing activities) have improved in terms of measurability, marketing efforts remain mostly tracked at a tactical level, using a variety of spreadsheets and uncoordinated tactical applications. Also, although interest in marketing demonstrable ROI continues to rise among senior executives, the marketing function in large enterprises remains largely unaccountable. Achieving greater visibility and accountability of marketing efforts requires enterprises to develop and deploy formal, standardized processes and systems for the planning, budgeting and tracking of marketing efforts. Also, measurement must evolve from evaluating specific programs into identifying the best timing, combination and sequence of targeted communications or interactions, and assessing the overall impact on customer value.

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3. *Customer and market insight generation:* Beyond traditional competitive analysis, market research and customer surveys, enterprises must be able to capture and leverage vast amounts of customer and market information. Doing so requires a methodical approach to data capture and quality management, analytics skills and the ability to transform data into meaningful insights. It also requires the ability to distribute these derived insights for use in strategic planning, tactical program development and interactive management.

4. *Customer-value-based segmentation:* The practice of segmentation is not uncommon, but among many enterprises, it remains mostly product-centric, focusing on demographic or "firmographic" (that is, demographics related to business statistics) characteristics that align products to market segments. Aligning resources with potential returns requires a shift to customer-centric segmentation, where the focus is on customer behaviors and attributes as they pertain to: 1) the broader relationship between a customer and the enterprise, and 2) the associated lifetime value potential. This evolution must go beyond focusing on the customer's value to the enterprise and become truly customer-centric, giving at least equal weight to the value that the enterprise provides to the customer. As a process, the key to customer-value-based segmentation is to understand if, when and how a customer is likely to derive value, and whether the enterprise can effectively orchestrate its resources to provide that value and achieve a desired return.

5. *Portfolio and capacity-based resource allocation:* Beyond a conventional assessment of capabilities, enterprises must be able to use their resources effectively to acquire, develop and retain customers. This requires a systematic approach to understanding, developing and managing capabilities and resources, relative to a portfolio of value-based customer segments. The ultimate goal is optimal resource allocation, relative to the potential value that will be provided to each customer segment as well as the expected risks and returns that will be associated with doing so. Although marketing is likely to be responsible for overall customer segment portfolio and capacity-based allocation, the associated resources go well beyond marketing and include such things as sales, service, production and channels. As such, it is critical for business processes to be highly cross-functional, and to leverage effective knowledge and information management.

6. *Product development and introduction:* As the emphasis changes from product-driven markets to customer-focused segments, the core value proposition of new offerings must become increasingly fine-tuned around customers' evolving needs and preferences. Doing so also requires more-flexible and

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dynamic approaches to pricing, bundling, packaging and migration between offerings. Also, as clients and consumers become more demanding and product life cycles continue shrinking, there is a need for more-targeted and timely product offerings, which means that the time-to-market for new product introductions becomes even more critical.

7. *Customer-needs-based trigger identification:* As changes make customer requests less-predictable, strategic leverage shifts to processes that enable enterprises to sense unanticipated changes earlier, so they can make proper and timely responses. As such, marketing communication processes must shift their mind-set from "waves" of programs to the identification and implementation of life-event and interaction-driven marketing strategies and tactics. Understanding such "moments of truth" in a relationship depends on suitable data captures and quality management, and the ability to derive market and customer insights. These capabilities, along with sound customer-value-based segmentation, are foundational elements for processes that support just-in-time marketing interactions, which will become increasingly necessary to establish more-meaningful and valuable customer relationships.

8. *Orchestrated customization:* The marketing function often relies on supply-chain partners such as advertising, research and promotion agencies in support of marketing efforts. Such partners, along with internal functions, must be better aligned to serve evolving customer needs, preferences and behaviors. Enterprises must enable processes that further leverage customer and market insights into the creation, development and delivery of integrated marketing efforts. Identification and use of business rules, metrics and workflows will become essential to supporting increasingly automated processes that aim to efficiently deliver the benefits of one-to-one relationship marketing.

9. *Orchestrated cross-channel dialogues:* Customers fundamentally view their relationships as being with *enterprises,* not with individual business units or interaction channels. As such, beyond the coordination and optimization of individual communications and interactions, enterprises must be able to prioritize and align marketing efforts at individual or customer segment levels — regardless of the outbound or inbound channels involved, or the lines of business involved. For most large enterprises, even a simple customer address change can present considerable challenges, due to the many silos of information. The challenges often are greater when it comes to sharing key customer information and derived customer insight. Enterprises must recognize that without pulling this information together, it is practically impossible to truly understand individual

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customer value, channel usage or contact preferences. Processes that enable enterprises to understand, map and execute multichannel dialogues with customers, in a largely automated fashion, will become more critical. The ultimate goal is to leverage predictive models of customer behavior — along with models and business rules that represent the market environment and enterprise objectives — to dynamically orchestrate and monitor ongoing communications and interactions with individual customers across multiple and distributed channels.

10. *Customer-value-based network management:* In this increasingly networked world, enterprises depend on supply-and-demand network partners to reach and serve their customers. Enterprises must envision a competitive environment, composed of value networks of partners, that link together to deliver value — sometimes in an enduring manner and, at other times, in a more-opportunistic, dynamic fashion. Doing so requires a solid understanding of the comparative advantages and the complementary roles and capabilities that partners bring together — relative to the needs, preferences and behaviors of each client or customer segment. As such, marketers must begin to develop and implement processes that facilitate the coordination and management of resources across an extended enterprise or value network. Examples include increasingly aligned and more-collaborative distribution channel partners, alliances that help to deliver relevant content around key life-stage events, and coalition loyalty programs that provide greater value to customers. Extended-enterprise marketing processes must be dynamic enough to support various workflows and business logic that may change, depending on the customers and partners involved. These processes also must be sufficiently standardized to be manageable, and to provide broad and dependable visibility of the demand network performance.

Each of these high-value processes can leverage a variety of traditionally tactical, technology-enabled marketing components that support key marketing functions (that is, customers, resources, brands and products, as well as demand network management, data and analysis). The difference is how these components are redefined and brought together to create more-strategic business processes that are focused on delivering customer value. These processes are not mutually exclusive — rather, they are interactive. For example, being able to leverage contact and complaint histories from multichannel dialogues improves the ability to identify and leverage key event-triggers. Also, including customer information from the extended demand network, as well as effective customer and market insight generation, improves overall customer understanding. Therefore, as the enterprise evolves toward greater sophistication via these

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10 key customer-centric marketing processes, those processes can be continually enhanced and improved, making the enterprise better.

Bottom Line: Although traditional value-added marketing processes will continue to play a role in the evolution of the marketing function, marketers need to focus their attention on new processes and capabilities. Enterprises must find time to develop and master more-advanced marketing processes by improving the efficiency of the marketing function and by shifting resources, to be better aligned and to produce greater value. By 2007, marketers that devote at least 50 percent of their time to advanced, customer-centric marketing processes and capabilities will achieve marketing return on investment that is at least 30 percent greater than that of their peers, who lack such emphasis (0.8 probability).

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