CIMA

Technical Briefing

DEVELOPING AND PROMOTING STRATEGY

JUNE 2001

Customer Relationship Management

IN THIS BRIEFING...

Part 1 –
General FAQs on CRM

Part 2 –
Practical guidance on using CRM

Part 3 –
Useful websites and references for further reading

Competition is forcing many companies to restructure so that customers rather than business processes become the focus of their organisation. Whether customers use telephones, fax, e-mail or websites, each contact point allows the company to capture information that is fed into the system. The goal is to offer a personal approach, to support one-to-one marketing.

Customer Relationship Management (CRM) has emerged from the networking technology revolution of the 1990s. The CRM movement is based on the business truism that it is more expensive to acquire new customers than it is to retain old ones. With this in mind, the world's leading companies are pioneering new strategies to improve customer intimacy and establish lucrative, long-term relationships. Today's cutting-edge CRM tactics focus on strengthening a company's relationship with customers through better information and improved service.

The business world has moved away from the old thinking that customers should accept whatever product quality and service level a vendor supplies. Powerful customer relationship management (CRM) tools allow vendors to make the most effective use of customer data.

Yet most organisations do not yet know enough about their customers' needs and aspirations. This lack of knowledge stems partly from an absence of relevant data and also from the absence of powerful modelling and analytical systems. CRM systems are somewhat regarded as experimental by many organisations, even though their utility is widely accepted.

The introduction of customer relationship management (CRM) has triggered much discussion and opinion. Most of this focuses on the value to the business of an improved database of customer information and on better customer service. Implementation can be difficult, and costly. The idea behind CRM is by engaging in 'smarter' relationships, a company can learn customers' preferences and develop trust. Every contact point with the customer can be seen as a chance to record information and learn

For further information please contact:
Technical Services:
Tel: +44 (0)20 7917 9237
Fax: +44 (0)20 7580 8956
techservices@cimaglobal.com

The Chartered Institute of Management Accountants
63 Portland Place
London W1B 1AB
Tel: +44 (0)20 7637 2311 Fax: +44 (0)20 7631 5309
www.cimaglobal.com

preferences. Complaints and errors must be recorded, not just fixed and forgotten. Contact with customers in every medium, whether over the Internet, through a call centre, or through personal contact, is recorded and centralised using CRM software.

Operating in real time, CRM in contact centres marries telephony and computing systems. Intelligent networking, CTI (computer telephone integration) and IVR (interactive voice response) systems route calls to agents most qualified to take the call, simultaneously present relevant data on PCs (screen popping), process enquiries from web sites or e-mails, and facilitate immediate response or actions.

Customer relationship management (CRM) involves a significant change in corporate culture and its success largely depends on top-level commitment.

By learning customer preferences and focusing on long-term relationships, managers can provide products and services that fit customers' needs. They can also do this in a way that ensures loyalty. If a company earns a customer's trust and if, as a result of that trust, customers share strategic information about their preferences and needs, it will be difficult for competitors to duplicate the relationship.

As relationships develop, customers will tend to buy more from the company. Further, the more a customer buys, the more likely he or she will be to buy from that company again. This virtuous circle is reinforced because the more a customer buys from the trusted company, the less likely he or she is to turn to another supplier. Finally, the regular customer is more likely to switch to a premium product or service.

Although price strategies may be effective in the short-term, they rarely come out best in the long run. A better strategy to transform customers into advocates is to try to meet the needs of each customer more precisely. Learning customers' preferences can not only help meet their needs better than the competition, but can also help marketers forge an enduring relationship.

Part 1 – General FAQs

So what is CRM, and how is it defined?

According to the website www.crmguru.com CRM is defined as:

> 'Customer relationship management (CRM) is a business strategy to select and manage the most valuable customer relationships. CRM requires a customer-centric business philosophy and culture to support effective marketing, sales and service processes. CRM applications can enable effective customer relationship management, provided that an enterprise has the right leadership, strategy and culture.'

CRM is the mastering of all marketing, campaign management, sales and service functions using technology to provide a holistic approach to satisfy customer needs more efficiently.

Unfortunately, the gap in the total customer satisfaction equation can be too big for current CRM tools and this is being addressed by a new generation of applications, referred to as e-CRM.

What is e-CRM?

E-CRM applies e-business concepts to existing processes. They use e-technology to provide the scale and flexibility demanded by e-businesses and are able to handle the high volumes, intensive data, high transaction rates and random usage peaks encountered by internet firms.

Is it just another management fad?

Research published by Cap Gemini Ernst & Young (11 September 2000) has revealed that the Customer Relationship Market (CRM) will double in size over the next two years, with the biggest potential for future increases in CRM applications from European companies.

Of the 500 companies surveyed, 44 per cent already have CRM programmes in an operational phase – a major increase of 32 per cent compared to 1999. Thirty-three per cent of companies surveyed in 2000 are in a planning or implementation phase, and 23 per cent are in a study or evaluation phase of the project.

Datamonitor research shows that the North American market for CRM tools exceeded $6bn in 2000 and will more than double in value by 2004. Recent IDC research estimates that by 2003 there will be about 500m people online world-wide and the volume of e-commerce will be about 2000 times greater than in 1998. The estimated value of e-commerce will have risen by then to $1,300bn.

Source: Financial Times 26 Feb 2001 'The drive to market for an audience of one' by Jonathan Forrest

Market analysts squabble over the exact figure, but all agree that in the next few years companies will pour vast sums of money into CRM solutions.

So why is CRM worth so much, as an industry?

Power has shifted to customers, and:

- Enterprise resource planning (ERP) systems which have transformed the back office are insufficient in themselves to ensure competitive advantage.
- Customers have an abundance of vendors to choose from thanks to the ever-increasing pace of innovation.
- Internet-surfing customers have a far easier time collecting information about competing suppliers, and can switch to a competitor in a click of the mouse.

CRM technology offers the promise of improved customer service and satisfaction for large scale organisations.

What are the underlying principles?

Customer relationship management is a technology term that grew out of mass telecommunication services. CRM started with Computer Telephone Integration (CTI). CTI arrived with the large telephone call centres. Individual phone operators needed a way of giving each caller a sense of identity and CTI programs gave the operator a computer screen of information on each caller. This allowed call centres to move quickly and keep the customer involved.

How are CRM and ERP linked?

Although first developed before e-business overwhelmed the corporate world, ERP systems are now seen as the backbone for business in the internet age. Not only can they make companies more efficient by automating and linking the accountancy, manufacturing, marketing, sales and other functions, but they can also be extended into customer relationship management (CRM) systems.

ERP applications bring together back-office, operational systems such as administration and accounting. CRM is in the front-line. It demands integration of a broader range of technologies such as telephony and the Internet – in addition to links to ERP systems. CRM systems must also be easy to use and require minimal training.

By linking ERP and CRM, companies can use huge flows of customer information to target sales efforts more effectively.

Part 2 – Practical Guidance on CRM

The CRM Excellence Model

A CRM excellence model has been developed by benchmarking research carried out by Best Practices, LLC's Global Benchmarking study (http://www.best-in-class.com/). This can be used as a simple tool for evaluating a company's progress in establishing a world-class CRM strategy.

Preliminary research has shown that advanced companies embrace a simple process model to integrate Customer Relationship Management strategies and technologies into everyday business

I. Align CRM with corporate strategy

Successful CRM strategies begin by assessing corporate needs and designing CRM systems around specific business goals. Once these strategies have been established, companies establish organizational buy-in by communicating a clear rationale for the CRM initiative.

II. Consolidate customer data

Successful CRM strategies require companies to have a comprehensive record of customer interactions and customer preferences for existing and future products. Today's CRM pioneers have replaced legacy customer databases with new technology that collects customer information over his or her lifetime. This new technology supports enterprise-wide customer databases that integrate data gathered from multiple customer touchpoints. Today's CRM tools incorporate call centers, e-mail, FAQs, fax, and artificial intelligence agents into a single "service center" to instantaneously funnel sales and service leads to the appropriate resources.

III. Segment customers

Many CRM managers have found that similar demographic segments do not necessarily imply similar customer behaviors or purchasing habits. Consequently, they have developed psychographic segments that consider purchase indicators including age, likes and dislikes, family composition and past purchase patterns. Once companies have identified common customer purchase drivers, they can develop new products and services designed specifically for targeted customer segments.

IV. Personalize customer interactions

The final stage in the CRM evolution is the ability to communicate one-on-one with customers. Customized customer interfaces engender the trust and loyalty needed to develop long-term relationships. Cutting-edge CRM tools also empower customers by automating customer interfaces so that they can search the company's product and services offerings at their leisure.

V. Re-evaluate and recalibrate CRM strategy

Even the best CRM managers are constantly improving their CRM systems by learning from others. Don't miss this opportunity to join the Global Benchmarking Council to discuss these critical CRM issues and more!

Why should we implement CRM?

Implementing CRM is hard. It starts with new customer-centric business strategies, which require redesigned departmental roles and responsibilities, which require re-engineered processes, which require expensive CRM technology. Why should you implement CRM?

The answer, unfortunately is that you have to, or at least your customers may force you to. CRM solutions promise:

- *Competitive advantage.* Those that implement CRM will attract more customers.
- *Simplified internal organisation.* The knock-on effect of becoming customer-centric is the elimination of unnecessary internal work and information flows.
- *Bigger bottom line.* More customers, and more efficiency.

What are the mistakes that companies have made with CRM?

Not all change is technical. CRM is more than redesigning roles, re-engineering processes and installing software. Don't:

- forget the importance of human contact in servicing your customers;
- place value efficiency over customer satisfaction;
- forget that low-margin customers are often high-potential customers, and low-margin transactions often come from high-margin customers.

Most of today's methodology for implementing CRM has to do with managing the external and technical aspects of change, but, to repeat, not all change is technical. People within the organisation must accept and welcome the introduction of CRM. Therefore it is important for management to:

- think through the changes that implementing CRM will force on your staff;
- hold regular meetings and allow concerns to be aired and considered;
- provide information and clarity about what is happening;
- support management in their implementation of change.

How do I ensure successful implementation of CRM?

When choosing the right CRM package to suit their marketing strategy, customers are failing to step back and examine their business in sufficient detail, or to analyse the precise benefits of CRM before putting it into practice.

Companies must undertake a forensic examination of their activities and core advantages before buying a CRM system. A company may enjoy a product leadership, a price advantage or a reputation for service excellence and customer intimacy. If it does, this should determine what type of customer relationship management system is introduced, and how much money is to be spent on it.

Organisations must set out a specific strategy objective to capture customer information throughout their organisa-

tion. This information should then be used to analyse, plan, measure and respond to changing customer requirements and business dynamics.

A company must be realistic about their attitude to customers. How do they want to be perceived by their customers, and how feasible is this? Building relationships makes most sense for customers whose lifetime value to the company is the highest. Thus, building relationships should focus on customers who are currently the most profitable, likely to be the most profitable in the future, or likely to remain with the company for the foreseeable future and have acceptable levels of profitability.

Finally, a company should examine where it is placed in its life cycle. Is it in a growth phase, survival mode, diversifying out of past activities or delivering a new paradigm?

When the core strategy has been aligned with the CRM process it is vital to ensure that the vocabulary and tone of communication with customers are set just right.

The ability to manage all relationships seamlessly has become the Holy Grail for CRM software authors. Not surprisingly, the complexity of these relationships, and the inability of CRM to cope with such demands, have disappointed many with the results so far achieved.

The future of CRM lies in the adoption of a system that stretches far beyond the company – to encompass external suppliers, associate stakeholders such as academic institutions, and the ability to put customers in controlled touch with any of these parties.

Which CRM software product is best?

Currently, no CRM package offers all of the solutions.

For companies planning to adopt CRM, there are 400 systems to choose from including products from Siebel, Vantive, Clarify, SalesLogix, Baan and many more.

For an independent review of twelve leading software vendors, go to the CRM guru website:
www.crmguru.com/content/answers/solutions2.html

Richard Bohn is heralded as an independent expert in this field. His site contains useful reviews and information on software selection and should be visited.
www.sellmorenow.com

Investment in CRM systems is rising, according to a report from London-based research company Business Intelligence. It predicts that between dollars 5bn and dollars 7.5bn will be spent during 2003 on hardware, software and services for CRM.

Financial Times June 7, 2000,
Wednesday section: FT-IT Review, pg. 24.

ROI and CRM ?

Payback is difficult to calculate for CRM, since CRM implementations don't really end, unless you happen to be in a static market. As markets change, the front line interface with the customer also has to change. Hence the continual need for CRM systems to be constantly updated. The evidence that CRM systems are profitable can be concluded from the fact that companies keep investing in CRM.

> 'Many CRM systems wrongly measure ROI as simply the incremental revenue or margin return from implementing a technology CRM solution. This has limited applicability, as it doesn't give sufficient operating insight to make ongoing decisions that improve the customer relationship. It approaches the problem from the point of view of the business, and leaves out the point of view of the customer, except as a source of revenue.'
>
> Mei Lin Fung 'Measuring the value of CRM'
> *The Customer Relationship Management Primer*, crmguru.com

There is a paper published on the web by Microsoft commission Hewson Consulting Group called 'Making a Compelling Business Case for CRM' which is a pdf available on the Microsoft UK site. It's quite a comprehensive paper and vendor independent.
www.hewson.co.uk/roirequest.htm

What are the keys to CRM success for small and medium-sized enterprises (SMEs)?

- Don't reinvent the wheel. Visit the websites in Part 3 as they contain free articles, case studies and pointers, seminars and conferences.
- Decide on your CRM processes before you decide on a CRM system.
- CRM won't work unless your whole company is customer focused.

Part 3 – Useful websites and references for further reading

On the Internet

Most of these sites contain discussion groups, or offer facilities for answering specific queries and are well worth a visit.

www.crmguru.com
Useful site containing articles, panel of experts, reviews of software, weekly bulletins and newsletters, discussion bulletin board.

www.best-in-class.com/crm/
A leading edge project capturing cutting edge practices in CRM.

www.crmproject.com
Many articles, and search facility to explore aspects of CRM.

www.crmcommunity.com
Wealth of information on CRM.

www.crm-forum.com
Independent resource centre for CRM. Articles, discussion, directory.

www.sellmorenow.com
Richard Bohn's CRM site. Useful independent review of software.

www.customermarketing.com
Help for small businesses looking to implement CRM.

www.best-in-class.com/research/bestpracticespot-lights/customer_relationship_management.htm
CRM excellence model.

Ordering books from CIMA publishing can be easily done via www.cimaglobal.com (via the store).

A selection of recommended reading

Rust, R.T., Zeithaml, V.A. and Lemon K.N. (2000), *Driving Customer Equity: How Customer Lifetime Value is Reshaping Corporate Strategy*. New York: Free Press.

Wayland, R. and Cole, P. (1997), *Customer Connections*. Boston: Harvard Business School Press.

Gordon, I. (1997), *Relationship Marketing*. Chichester: John Wiley.

Peppers, D. and Rogers, M. (1996), *The One-to-One Future*. London: Piatkus.

Curry, J. and Curry, A. (2000), *The Customer Marketing Method: How to implement and profit from customer relationship management*. New York: Free Press.

CRM feature article in CIMA's magazine *Financial Management* November 2000, p34, Steve Downton FCMA.

Technical Advisory Service

Further references can be obtained from CIMA Technical Advisory Service – tel: +44 (0) 207 917 9259.