



What is CRM ?

Introduction

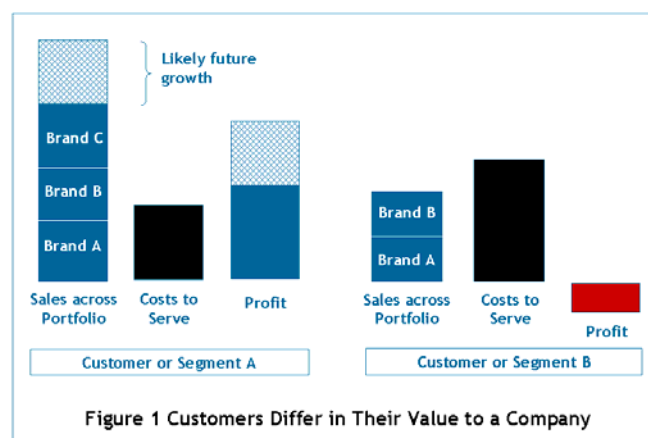
If one took all the articles that have been written about CRM in recent years and laid them out on the ground, one could be confident of covering most of a medium sized Latin American country. However, although people generally recognise that CRM is important, there remains a great deal of confusion as to what it actually is. For example, is it about sales force automation and targeting ? Is it about integrating databases to provide a single view of a customer ? Or is it about organisational learning and knowledge management ?

The purpose of this article is to provide a clear overview of what CRM is ultimately about and the breadth of issues it involves.

The Goal of CRM

It is a truism to say that customers are the source of all of a company's profits. They are the source of all purchases and revenue and it is in serving them that a company incurs its costs. They are thus possibly the most important assets a company has.

However, customers are not created equal. They differ in their value to a company. As illustrated below, some may generate extensive sales across a company's product portfolio, be poised for major future growth and generate substantial profits for a company once one deducts the costs incurred in serving them from the revenue they generate. In contrast, others may produce far fewer sales, have little prospects for growth and actually cause the company to incur a net loss in its dealings with them.

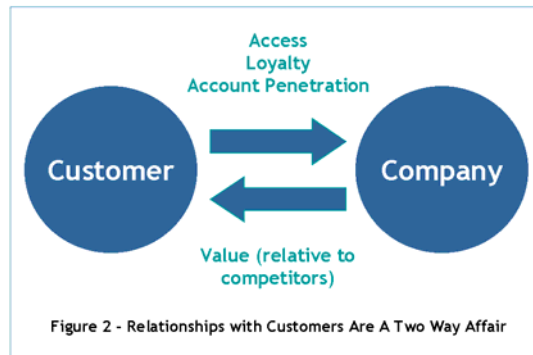


A company will thus maximise shareholder value if it focuses particular effort on attracting and retaining the more lucrative business of the most profitable customers in a market.

However, in a competitive market, customers will inevitably compare alternative suppliers. Consequently, as shown in Figure 2, a company's success in attracting and retaining such

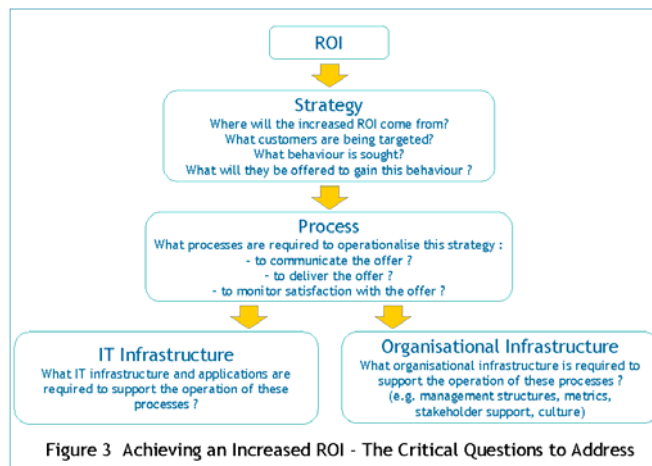


customers will rest in the degree to which it offers them greater value than its competitors.



The Scope of CRM

CRM is thus fundamentally a business strategy concerned with how a company will compete for the business of the most valuable customers in a market. As such it entails addressing a series of questions in different areas of the business.



Strategy Development

As well as determining which customers a company is targeting in its CRM programme, a company also needs to consider what it will offer them to secure and retain their business. In addition, if the company is to set investment in the project at an appropriate level it needs to gauge the financial pay-off this course of action may bring and set financial objectives for the project accordingly.

Process Design

Having ascertained the customers the company is targeting and what it will offer them, the company then needs to address what operational processes will be required to deliver this strategy in practice. In particular, it needs to determine how it will communicate the company's offer to the targeted customers, how it will deliver its offer to them and how it will monitor its performance in generating value for them to identify any improvements needed in the future to keep it ahead of the competition.



Organisational Infrastructure

With new processes come new ways of working. If the company is to succeed in securing their adoption, it needs to ensure that the fundamental drivers of behaviour in the organisation (such as performance metrics, management structures and organisational culture) are aligned to encourage the behaviours desired. Moreover, unless those with power in the organisation are won over to the strategy and the changes required, the project has little chance of becoming part of the everyday operational life of the business.

IT Development

Finally, the company needs to determine the technical support these new processes will require to form the basis for the development of the necessary IT applications and infrastructure. In addition, the company needs to examine the process by which these will be developed, who needs to be involved at what stage and the role they are required to play.

Causes of Failure

It is impossible to read about CRM without becoming aware of the staggeringly high failure rates of CRM programmes. There may be debate about whether the exact proportion of CRM programmes failing to generate a satisfactory ROI is 80% (Gartner), 70% (MetaGroup) or 60% (Nucleus Research). However, it is difficult to disagree that companies are having problems implementing CRM effectively.

CRM is fundamentally a simple concept – attracting and retaining the business of the most profitable customers in a market by delivering greater value to them than is available from competitors. However, as we have seen, implementing it is a complex affair impacting on many different aspects of the business. In practice, the high failure rates observed tend to result from companies failing to address the full range of issues involved in CRM.

For example, many companies have viewed CRM as primarily concerned with installing an IT system to capture and share data about customers. They subsequently proceed with their programmes without determining precisely which customers they are targeting and how the programme will generate increased value for them. As a result, their programmes fail to lead to any significant change in customer behaviour and so fail to attract the increased level of business needed to justify the hefty investments made in them.

Similarly others have sought to introduce CRM without making corresponding changes to performance metrics and job roles to align them with the new ways of working involved. Unsurprisingly, the new processes fail to be adopted within the organisation, the CRM strategy fails to become genuinely operational and little benefit is subsequently gained.



Conclusion

CRM offers companies a powerful means of increasing shareholder value. However, if a company does not address the full breadth of issues involved, CRM can also be an equally effective way of destroying shareholder value too.

This article is the first in a series looking at the different questions involved in developing an effective CRM programme. Together they are meant to provide a guide to help companies capture the benefits CRM offers and be amongst the success stories and not the failures.

About White Whale

White Whale assists companies in the development and implementation of customer management strategy. Through its work with blue chip clients, it has developed a range of practical tools to support companies introducing customer management to ensure they achieve the business benefits they are seeking.

If you have a problem with your customer management programme and would like to discuss how White Whale could help, please call our Customer Management lead Chris Bebbington on 0800 058 8158 or contact him by email at chris.bebbington@whitewhale.co.uk.