Developing CRM Strategy

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Introduction

Like the sirens of Homeric legend, CRM continues to attract legions of companies only for them to find their dreams of increased ROI dashed against the rocks.

With up to 80% of current programmes forecast to fail to produce a satisfactory return on investment, introducing CRM is clearly difficult. This article examines the critical issues companies need to address when developing their CRM strategy and some of the common errors made.

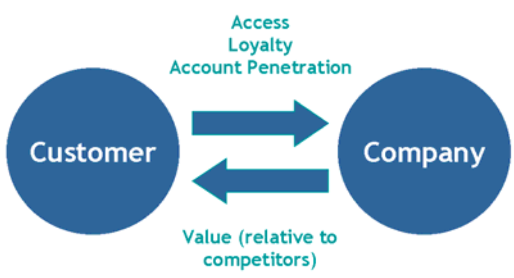
The Logic of CRM

Acquiring customers is an expensive business. Taking a customer from ignorance of a product through to actively using it involves a huge amount of effort. Consequently, the longer a company can retain the business of such hard won customers, the greater the return it will achieve on the typically sizeable investment it made to acquire them originally.

This is the underlying logic of CRM. Moreover, the potential returns can be great. Repeated cross-industry studies reveal that increasing the number of customers a company retains each year by just 5% can increase contribution to shareholder value by between 40% and 95% - depending on the industry concerned.

Key Issues in Developing CRM Strategy

However, relationships are by nature two-way affairs. As illustrated below, if companies want increased customer loyalty and the financial benefits that brings, they need to offer customers something in return.



Relationships with Customers Are A Two Way Affair

In other words, when developing CRM strategy, one needs to address two key issues :

- the value the CRM programme will offer to customers to retain their business for longer
- the value the company will gain from increased customer loyalty

The Value Offered to Customers

All too often, companies give little attention to how their CRM programme will generate additional value for customers and secure their increased loyalty. Instead they focus largely on automating existing sales processes, sales force targeting and sharing intelligence between sales representatives. Yet with such programmes not delivering increased value to customers, they invariably fail to effect any significant change in customer behaviour and to attract the increased level of business needed to justify the hefty investment they have entailed.

Moreover, the need for customer facing activities to be designed to generate value for customers has never been greater. Across most industries, the volume of advertising, direct mail and sales calls aimed at the customer continues to escalate whilst the time customers have available to attend to them becomes scarcer. Coupled with this, the pace of new product development now means that the time for which any company's product enjoys substantial superiority over those of competitors is becoming ever shorter.

In this environment, even if a company succeeds in identifying the best customers to target, unless the company's contact with them generates genuine value for them, the company is increasingly unlikely to be able even to gain their attention let alone influence their behaviour and increase their loyalty.

The Value to the Company of Increased Customer Loyalty

As observed earlier, CRM seeks to increase shareholder value by retaining the business a company derives from its customers for longer. However, customers are not created equal and a company needs to be selective in the customers it targets if it is to maximise the returns it achieves from its CRM programme.

For example, as shown below, one set of customers may generate extensive sales across a company's portfolio, be poised for major growth and produce a substantial profit for the company once one deducts the costs incurred in serving them from the revenue they generate. In contrast, another group may produce far fewer sales, have limited growth prospects and actually cause the company to make a net loss in its dealings with them.

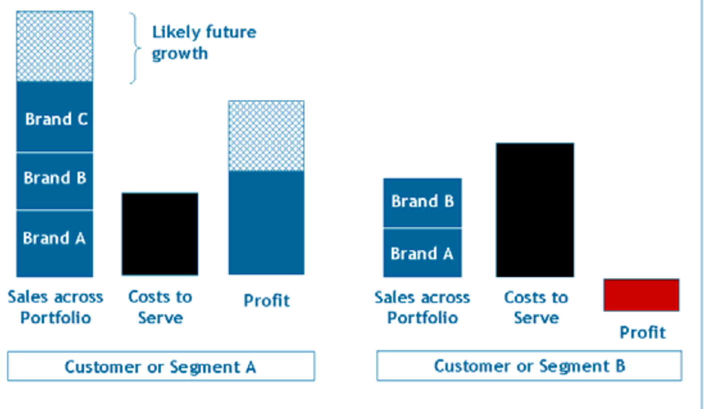


Figure 1 Customers Differ in Their Value to a Company

If a company is to maximise shareholder value, it clearly needs to ensure that its efforts are focused on capturing and retaining the business of the most profitable customers. However,

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all too often companies develop their CRM programmes without such discrimination, targeting customers equally across the board rather than focusing on delivering increased value to the company's most valuable customers.

As a result, their CRM programmes inevitably lead to additional resources being diverted to serve lower value customers, decreasing their value to the company still further and consuming resources that could otherwise be used to target customers offering far greater potential returns. The net effect is to seriously undermine the returns achieved by such programmes.

Setting Financial Objectives for the Programme

The basis upon which financial objectives are set for a company's CRM programme can also present major problems. Using prior small scale trials of the planned programme enables a company to judge the results it would be likely to achieve if fully implemented, so providing a sound basis for determining the financial objectives with which the final programme should be tasked and the level of resourcing the project warrants. However, many companies are failing to follow this path and are instead basing their programmes' financial objectives on other factors such as the cost of the IT system plus some targeted rate of return or the achievement of an arbitrary increase in sales.

Such approaches not only risk the objectives set for such programmes proving unrealistic in practice. With no empirical basis on which to assess the market's likely response to a programme, it becomes impossible to determine the appropriate level of investment to make in it. Thus, if a company underestimates the market's response, it may invest insufficient resources in its programme to capture the full benefit. Similarly, if a company overestimates a programme's potential, it may invest more than is merited. Either way, shareholder value will be destroyed.

Conclusion

Too often companies approach CRM as principally concerning the implementation of an IT system. Technology's information processing power may be a key enabler of CRM but it remains fundamentally a matter of business strategy. Unless a company specifically addresses which customers it is targeting, what it will offer them to effect the desired change in their behaviour and the financial objectives this will achieve, it is unlikely to succeed in reaping the significant financial benefits CRM offers.

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.

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