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PATTERNS OF SUCCESSFUL CRM: MORE ABOUT SOLUTIONS THAN SOFTWARE

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Abstract

Customer Relationship Management (CRM), much hyped during the dot com years, has always been more than software. The CRM industry was tainted by high profile missteps, partly due to its focus on software, rather than solutions (Patton, 2001). However, managers must understand that CRM is a solution, not software that integrates both technology and operational improvements. With the ability to coordinate across all customer contact points, decision makers must recognize that CRM is an organizational process that integrates information from previously disparate channels (sales, marketing, customer service via phone, text chat, or web) to better serve customers (Day and Van der Bulte, 2002). This paper examines the fundamentals of CRM, its goals and common pitfalls, and its prerequisites for long-term, successful implementation with the goal of extracting patterns of successful CRM deployments.

Introduction

There is little doubt that the nascent field of CRM will become an operating requirement for all but the smallest companies. Figure 1 shows the projected growth of the CRM software and services market from 2001 to 2006, demonstrating optimism about its future growth.

Figure 1

CRM Software and Services Market Worldwide (in Billions)

The development of CRM as a major component of a business strategy has been a challenging endeavor. Some liken the evolving CRM field to the early and problematic days of Enterprise Resource Management (ERP) systems (Patton, 2001), which even share similar success rates (Dignan, 2002). The silver lining in this seemingly unkind comparison, however, is that the current growing pains associated with CRM will dissipate as the field matures.

**Beyond the Hype**

CRM’s first and perhaps last heyday occurred from the late 1990s up to the dot com crash of 2000. Many industry observers still believe CRM’s tainted reputation still carries over to the present. InfoWorld’s Chief Technology Officer (CTO) network survey from December 2001, showed that CRM was the biggest blunder/most hyped technology of 2001 (Sodhi, 2002). CIO Insight’s recent survey indicated that 43% of large companies that have deployed CRM say it deserves the bad press (Research: CRM 2004, 2004). Whether comparing the evolution of CRM to the evolution of Supply Chain Management (SCM) (Sodhi, 2002) or to ERP (Markus, 2000), the CRM field is often misunderstood. This comparison implies that before successes and satisfaction rates with CRM as a component of a business strategy increase, there must be “a chaos of experimentation as new approaches are developed and tried” (Markus, 2000, p. 22).

**What is CRM?**

There are many definitions of CRM. Winer (2001) states that CRM means different things to different companies and customers. The factors of direct versus indirect customer interaction and interaction frequency vary from industry to industry, thus influencing how companies define CRM. CRM is more than just CRM software. It is a business concept that aims to develop and foster customer relationships as a more productive, long-term strategy for business success. The importance of these two inter-related activities should not be overlooked and will be further discussed later when challenges of successful CRM implementation are examined. For now, it is sufficient to know that CRM means tracking and understanding all of the contacts and access points that a customer has with the company and trying to customize specific responses to customers based on defined criteria (e.g., how valuable is a customer or what is the health of the customer’s relationship with the company).

Types of CRM. Just as the topic of CRM is two-fold (a business strategy and a software solution), there are different types of CRM applications: operational and analytical. Operational CRM covers the actual business or software solutions that encompass the customers’ contacts or the channels (phone, email, Web, and so forth) used by the customers to interact with the company. Analytical CRM encompasses business or software solutions that use data from Operational CRM to help create projections or strategies for improving the company’s service to its customers.

Total Cost of Ownership (TCO). The TCO for CRM depends on the size of the company and whether or not the company is implementing its CRM initiative as a single, large project or has broken it down into smaller, more manageable mini-projects. For a typical CRM implementation (see Figure 2), however, the total cost is 28 percent for buying software, 38 percent for services such as software customizations, 23 percent for hardware, and 11 percent telecommunications (Patton, 2001).
One factor for underestimated or high TCO estimates for CRM projects is “the failure for new CRM technologies to fully replace legacy systems—something both software companies and adopting companies need to be aware of as they plan costs and ROI, and a ripe target for improvement in the future” (Compton, 2003, p. 1). These legacy systems are a drain on IT resources but are too valuable to scrap all together (Cook, 2004). The CRM industry, still in the earliest stages of its evolution, is experimenting with standards on how to integrate legacy systems and more advanced CRM software. Developing industry-wide standards will enable companies to garner the full, potential advantages of CRM.

Advantages of CRM

The impetus behind the pursuit of CRM, as well as the difficulties associated with it, rests in the hands of IT. Computing power now allows companies to gather customer information in new and meaningful ways, yet this power comes with responsibility. While IT allows a department to track customers based on its unique needs, there is no guarantee that different departments realize the need to share this valuable customer knowledge among them or are willing. CRM prevents companies from falling into the content silo trap (Rockley, 2003) by consolidating customers’ information into a single system that gives sales, marketing, and customer service a common view of the customer’s contact with the entire organization, not just with a single department. This centralization of information allows the company to present a uniform face to its customers and prevents bouncing customers from one department to the next when searching for the appropriate contact.

A driving force behind CRM, besides rapidly increasing computing power, is that competition in the marketplace is fierce, in part due to increased opportunities created by IT. Globalization is spurring increased interdependence and competition around the world as more companies are able to enter the marketplace. As a result, businesses seek ways to reduce costs and increase revenues through increased
efficiency of activities. CRM allows companies the opportunity to differentiate themselves and develop long-term, mutually beneficial relationships with customers.

From a company’s revenue perspective, CRM helps nurture relationships by the following (Sodhi, 2002, p. 1):

1. Designing better, more customized offerings to improve market segmentation.
2. Preventing customer attrition through improved service and selection.
3. Higher average prices through revenue management.
4. Up-selling and cross-selling.

The simple, yet difficult, aim of consolidating this information under the umbrella of CRM is to transform these relationships into greater profitability by increasing repeat purchase rates and reducing customer acquisition costs (Winer, 2002).

**Acquisition Versus Retention**

The widespread belief on customer relationships dictates that retaining current, valuable customers is more efficient than trying to acquire new customers, who may or may not develop into valuable clients. The oft quoted Reichheld and Sasser statement (RSS) from their 1990 *Harvard Business Review* article states that reducing defections by 5% boosts profits 25% to 85% (p. 105-111) is often used to bolster arguments for increasing investments in CRM (Pfeifer and Farris, 2004). One of the advantages of CRM is its drive towards retaining customers by giving companies a single, 360° view of their customers. For companies with a proclivity towards developing long-term relationships with their customers, CRM yields real benefits by increasing customer retention rates.

In Day’s 2001 paper on CRM, which discusses the role of traditional metrics (profitability, market share, profit margins) and more customer-centric metrics (brought on by increased attention to CRM), he examines the value of attraction and retention activities as a way to bolster the importance of CRM. Day cites a 1990 McKinsey & Co. report that used an e-commerce firm as an example, and the increase in value derived from retention activities is 5.8% - 9.5% versus only 0.7% - 3.1% for attraction activities and 0.8% - 4.6% for conversion activities (2001, p. 26). While these numbers paint a rosy picture of CRM’s affect on acquisition and retention, it is problematic to apply across-the-board standards, like RSS, to CRM implementations without giving prudence to the particular environment.

Pfeifer and Farris, while echoing that customer retention yields lower costs and stronger returns compared to customer acquisition, also warn that companies must use specific data that is beyond the general scope of the RSS when making CRM investments (2002). “Managers need to know which of the reported percentage increases apply to their customer relationships. They also need to recognize to what customer-value metric the reported increases apply” (Pfeifer and Farris, 2002, p. 17). Their paper focuses on elasticity retention, which can be tailored to any individual or group of customers, allowing any firm to quantify the economic benefit of increased retention rates for that set of customers (Pfeifer and Farris, 2002, p. 4). While actually generating elasticity retention rates are well beyond the scope of this paper, Pfeifer and Farris demonstrate that a company must thoroughly examine how it specifically measures retention rates rather than rely on broad statistics like the RSS. As with many popular statistics or metrics in the CRM industry, it is important to factor in a company’s specific metrics and goals when researching a CRM project.
Closely related to the costs of acquisition versus retention are the costs associated with proactive versus reactive forms of customer relationships. By consolidating all of a customer's contact with the organization into one system, essentially creating a 360° view of the customer, CRM enables organizations to be more proactive. Most companies have developed processes and systems to react to billing questions or technical support, processing such customer-initiated queries through many different communication channels like phone, fax, email, Web, or interactive voice response (IVR). For proactive services like anticipating a new customer's needs or training for a new product or service, however, many companies are underdeveloped. “Gartner estimates that it costs 4 to 10 times as much to capture a new customer as it does to provide good service to an existing customer...68 percent of customers who defect do so because of poor service” (Dragoon, 2002, p. 1). Technology can drastically reduce the costs of engaging in both reactive and proactive services (see Table 1).

### Table 1

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Average Cost Per Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interactive voice response (IVR)</td>
<td>$0.45</td>
</tr>
<tr>
<td>Web self-service</td>
<td>$0.24</td>
</tr>
<tr>
<td>Assisted Service</td>
<td></td>
</tr>
<tr>
<td>E-mail</td>
<td>$5.00</td>
</tr>
<tr>
<td>Phone</td>
<td>$5.50</td>
</tr>
<tr>
<td>Text chat</td>
<td>$7.00</td>
</tr>
</tbody>
</table>

Source: (Dragoon, 2002).

While these numbers look promising for more proactive and self-service models of customer interaction, these price reductions rest on efficient use of the appropriate technology. A Gartner analyst said that inefficient e-mail or chat can raise costs per call to levels higher than phone assistance—up to $40 per e-mail and $8 per chat session in some cases (Surmacz, 2001). A 2001 study by the Incoming Calls Management Institute found that “workload actually increased for 57 percent of contact centers with self-service websites; workload also increased for 65 percent of centers with e-mail and for 65 percent of those using interactive voice response technology” (Dragoon, 2002, p. 1).

Whirlpool had two call centers that became more intertwined after implementing a new CRM system. The new CRM system allowed calls formerly assigned to one group or the other to be forwarded to either call center, which meant that Whirlpool had to implement a cross-training program that would teach both centers how to handle the more diversified requests they would start receiving (Hollman, 2002). Creating seamless integration of a company's different customer channels is a requisite challenge of any CRM implementation because customers prefer a choice of channels, but to achieve this synchronization means starting with a deep understanding of what customers want from the channel system (Day and Hubbard, 2002). A CRM system may consolidate all of the customer's information, but it does not guarantee that the most effective channel is used for that customer's particular needs.

After understanding these facets of CRM, it is critical to examine the business assumptions and prerequisites to completing successful CRM initiatives. As with any business decision, a lack of research
and preparation on the given topic can be a recipe for disaster. Expensive mistakes at the corporate level (Patton, 2001) litter the CRM world and offer business schools a wealth of case studies on what not to do when implementing CRM.

Challenges of Successful CRM Implementation

It is important to anticipate potential pitfalls that may arise when developing a CRM strategy. This section of the paper explains the potential hazards of CRM implementation but frames these problems not as disadvantages but as challenges. There are many constraints and cultural shifts necessary to the success of CRM, and those topics are discussed; but in developing a successful CRM project it makes more sense to focus on those constraints that can actually be overcome (challenges).

Business Strategy or Strategic Software?

Of all the underlying assumptions and prerequisites of a successful CRM implementation, none is more important than the distinction between CRM as a business strategy and CRM as a technical or software system. The difference was illustrated earlier but its importance, and subsequent implications on CRM projects, demands an in-depth explanation.

Like other IT buzzwords like ERP or SCM, the idea of CRM as a panacea is completely short-sighted and misguided. Just as there are no magic answers to managing a business, besides planning, intelligence, hard-work, and determination, it would be foolish to believe that a pure software-based CRM solution would solve real customer problems.

According to Deck,

...thinking about CRM in primarily technological terms is a mistake. The more useful way to think about CRM is as a process that will help bring together lots of pieces of information about customers, sales, marketing effectiveness, responsiveness and market trends...It doesn't happen by simply buying software and installing it. For CRM to be truly effective, an organization must first decide what kind of customer information it is looking for and it must decide what it intends to do with that information (2004, p. 1).

By firmly establishing this distinction, it becomes readily apparent how difficult it can be to achieve CRM success because it requires such a large time and financial investment. Time is perhaps the most precious and scarce resource in the business world today, and it explains why many CRM projects are doomed to fail; every level of the company must understand CRM not as a turn-key solution but as an overarching concept and part of the company’s core values. CRM is not a silver bullet for customer satisfaction problems.

Strategy is First. Another aspect of the cultural shift that extends beyond buy-in from the top (the executives) and from the bottom (the end users in sales, marketing, and customer service) is to honestly decide if the organization is properly suited to CRM. This important point has come up before in this paper but not in this context. The earlier discussion surrounded the idea of doing CRM homework and understanding how CRM initiative would apply to the specific organization. Now the discussion is more strategic and disciplined than earlier; the company first identifies a business need and then goes about developing the system (Levinson, 2004). In moving beyond the CRM hype (that it is solely a software or technical solution), which consultants pushed on the business world up until 2002, it is important that organizations carefully and honestly evaluate themselves for CRM initiatives. The fundamental question at this level of analysis is whether the idea, strategy, and philosophy of CRM truly align with the
organization's core values and mission statement. Of course CRM can benefit a company, but is the company's culture truly customer focused in so much that the corporate culture naturally compliments and is complimented by CRM (both the strategy and the software/technical sides)?

*Good to Great* discusses Technology Accelerators as part of the overall toolset of great companies. Collins summarizes that good to great companies avoided technology fads and bandwagons and yet became pioneers in the application of carefully selected technology (2001). Many failed CRM initiatives were heavy on implementation and light on planning because companies jumped on the CRM bandwagon without doing any proper research or analysis of real business needs. In applying the concepts from *Good to Great*, an organization transcends the primary level of analysis (do we need this?) and enters a more fundamental level of analysis (does CRM align with the company's mission statement and core values?). Miles beyond the planning, designing, and politics stages that accompanies any new business initiative, especially ones as large as CRM, must originate from an honest evaluation of the organization.

Collins discusses what drives a company's economic engine, some metric or dominator like the number of product suites owned per client, as a characteristic of good to great companies. "What ratio (profit per X), where X has the greatest and most sustainable impact on your economic engine, would you choose" (Collins, 2001, p. 104)? Fidelity Investment shared this same foresight when contemplating its CRM initiative and reaped long-term benefits, even if it may have cost the company more in the short term. The following excerpt highlights the idea of developing a new economic equation, and it reviews the necessary elements of a successful CRM implementation: personal evaluation of the organization and its business needs, strategy and research, planning, and finally buy-in and implementation. While lengthy, this quotation succinctly summarizes what readers of this paper should understand about CRM:

Fidelity didn't begin by purchasing CRM technology; the company started with an extensive analysis of customer needs as they related to a fund supermarket. Then Fidelity changed the very basic concept of customer from that of "fund owner" to "household." Fidelity switched its metrics as well...In order to support this cultural and customer shift, Fidelity drove extensive systems design and building down to the frontline level. The goal was to provide those employees with an integrated view of the customer. Fidelity also created service teams that were tiered by household wealth; representatives on the phone knew the total customer relationship...Fidelity's effort was not driven initially by the desire to acquire a hot technology; it began with a customer need. Fidelity then followed up with analysis and the creation of the necessary technology infrastructure to enable an information flow to support the new view of the customer. Finally, the company demonstrated a willingness to change the organization and implement internal controls to cement its new orientation (Sviokla and Wong, 2003, p. 2).

...And Buy-in is After. As Pfeifer and Farris emphasized the importance of applying a company's specific data and metrics to any study of retention and acquisition costs, successful CRM approaches almost always includes prior research and understanding of the CRM landscape before consultants are even brought in for help. Research from 2002 showed that "Type A" or leading-edge businesses were the companies engaged in CRM installations, not "Type B" or "Type C" enterprisers (late adopters) (Dignan, 2002, p. 2). Once the executive team has decided to move ahead with CRM because it strategically aligns with the company culture, there must be sustained support from those same executives, which for smaller firms often includes the CEO as a strategic driver ("CIO Research Study," 2004). Not only must they sustain the CRM project's energy, they must generate enthusiasm for the project at the end-user level.

Lack of user support from the organization's trenches taints many CRM projects, a problem for any new business strategy or software implementation. Change is often feared, loathed, or ignored; and CRM-induced changes are no different. Having support from the users is important because CRM requires a fundamentally different approach to customers, and this dictates that the entire organization supports this
minds. The corporate culture must support how CRM loosens the reins of control and actually empowers employees rather than use CRM as a control tool on salespeople (Sviokla and Wong, 2003). By specifically allowing sales, marketing, or customer service to have a full 360° view of customers means that many departments will affect the ultimate success or failure of CRM. If the users do not use the system because they feel it is too cumbersome or time consuming, a company will learn an expensive lesson on CRM. “A large telecommunications company rolled out a major CRM application to more than 1,000 sales reps in late 1999, at a cost of $10,000 per user, only to find a year later that fewer than 100 were using the system, according to one CRM consultant” (Patton, 2002, p. 2).

**Deploying CRM**

Successful CRM implementation must factor in what kind of deployment best fits the company, a small, modular approach or a large, enterprise-wide approach. Both styles have distinct advantages and disadvantages. The large CRM companies like Siebel or SAP push large-scale CRM implementations as a way to gain the most ROI for the organization, but deploying a company-wide CRM system in a single chunk can cause company-wide disruptions if anything goes awry. Given the number of negative CRM experiences associated with enterprise-wide approaches, many companies are looking at smaller, modular approach to CRM (Bass, 2004). By taking a modular approach, companies can usually experience faster implementation schedules and faster ROI because a smaller CRM project can start being used sooner than a larger rollout would allow. Lastly, a modular approach allows for best of breed purchasing (Patton, 2004). Figure 3 shows the time frames for implementing CRM initiatives.

**Figure 3** Faster CRM Implementation: How Many Months in Total will be Required

To Implement your CRM?

![Pie chart showing time frames for implementing CRM initiatives.](image)

*Source: (Patton, 2002).*

Another factor affecting a CRM rollout schedule is the company’s size and levels of bureaucratic and information systems (Dignan, 2002). With CRM’s aim of creating a comprehensive view of the customer, independent of whether an employee is in sales, marketing, or customer service, the amount of current systems directly influences decision of CRM deployment. For companies that have legacy systems or individual department systems used to manage their own sets of customer information, the challenge of
integrating all systems without alienating the separate departments’ end users can be daunting. The modular approach alleviates some of the issues by breaking down the entire CRM initiative into smaller, more manageable projects.

Conclusions

Considering the post-Dot Com Era, the future of CRM looks promising because the industry is maturing and becoming more focused on tangible results. Just as initial industry buzzwords like ERP or SCM are now recognized as full-fledged business processes, CRM is moving past its shaky developmental stage. The strong focus on CRM as a quick or as a uniquely software-based solution, however, still permeates the business community. This ill-conceived notion must be changed because research shows that “the information component comprising databases and customer information systems is a necessary condition for CRM but otherwise contributes little to either relational advantage or performance” (Day and Van den Bulte, 2002, p. 27). The role and importance of CRM depends on the individual organization and successful implementation of CRM requires strategic foresight and planning. Combined with buy-in from executives (who have the time and resources to move the process through the challenging stages) and end-users, along with realistic ideas of how the corporate culture aligns with a CRM system, companies can achieve real economic benefit by implementing CRM.

REFERENCES


