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Technology

Relationship results

Many companies invested in customer relationship management in 2001, but the benefits didn't always match the expectations

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Illustration by Claudia Newell

How to serve, and retain, good clients is what customer relationship management (CRM) is all about - and that holds true whether the technique involves a low-tech friendly greeting at the front of the store or an ultrasophisticated information technology system designed to track customer preferences and buying patterns.

CRM technology is built to understand individual tastes and preferences and to provide customers with a more personalized experience. It should not be designed to push more products at a mass market. Rather, the aim is to foster customer loyalty and trust for more lasting and meaningful relationships. Nonetheless, only a handful of companies seem to be implementing CRM in an effective way. For example, Meridien Research, which monitors a large number of financial institutions, has found only three companies that meet its criteria for highly evolved CRM strategies: USAA, Royal Bank of Canada, and Charles Schwab & Co. That trio, noted in a recent Banktech report, stands out from the crowd, because of their ability to respond to customer-initiated efforts with precisely targeted personalized service.

Richard McLaughlin, the Royal Bank's Toronto-based vice-president of customer management, says, "At RBC Royal Bank, customer relationship management is our strategy, not a project. Using a disciplined business-case approach to evaluate and prioritize each release has resulted in an impressive return on investment. But anyone who views CRM as just a project or a technology is destined to throw good money after bad."

In different sectors, companies like Mercedes-Benz, Amazon.com, Dell, Travelocity and Bell Canada have won acclaim for focusing on customer needs. Others still have a long way to go. For example, one consumer products company (which shall remain nameless on compassionate grounds) spent \$20 million on CRM - only to see its customer loyalty rating continue to lag behind the industry average and revenue growth slow down to a standstill. For three grueling years, the company lived through implementation delays and cost overruns. Even after the project went live, customer histories took more than two months to generate because of processing bottlenecks.

Recent reports indicate that this company is not alone. Gartner Group, a well-known analyst of the technology sector, predicts that more than 50% of CRM projects will fall short of their goals over the next five years. And research relating to the financial services industry in 2000,

conducted by Cap Gemini Ernst & Young, indicates that fewer than 30% of companies implementing CRM reported an increase in customer profitability, while nearly 10% reported a decrease. The firm's 2001 survey shows more of the same. A study by crmindustry.com reveals a similar story, with 56% of executives surveyed observing no measurable return on investment from implementing CRM. As well, a Data Warehousing Institute 2000 study shows that more than one-third of CRM projects were experiencing difficulties.

Relationship building blocks

If it's done well, however, CRM can deliver an impressive payback. As Hewson Consulting Group reported, an IDC study shows successful CRM programs yielding an almost immediate 8% increase in revenue; and IconMedialab research hints at large rewards for the successful few - the 21% of CRM projects that "met all expectations." This minority saw revenue increases of up to 42%, cost of sales reductions of as much as 35%; sales cycles shortened by 25%; margins improved by 2%, and customer satisfaction ratings boosted by as much as 20%.

Harrah's Entertainment Inc., one of the better known CRM stories of recent years, was cited in *Information Week* as enjoying a 60% after-tax annual rate of return from its Total Rewards customer loyalty system. The system is understood to be one of the keys to Harrah's success - which is due in no small part to its ability to recognize customers (and their many likes and dislikes) no matter which Harrah's facility they visit.

To achieve comparable success, many companies must first discover (or rediscover) sound investment discipline - the business case, not the technology, should shape purchasing decisions. For the majority of first-time users, CRM will involve trying to target sales messages with a contact management system. Such a system might show previous contacts with a customer and make purchase suggestions based on prior sales. Typically, a company will acquire customer contact software for use on a desktop computer system. Databases that are capable of storing individual customers' product histories and demographics help to inject a modicum of personalization.

Following that, companies are likely to analyze Web-based buying trends to predict individuals' possible interests. For example, when I select an item to buy from an online store, the store's system will often alert me to other items that I might be interested in, based on previous buyers' purchasing patterns. This might cause me to feel that I am receiving individual attention, even if the message is not based on any knowledge of my particular purchasing habits.

These are certainly important aspects of CRM. On their own, however, they can fall short of what's needed. Too often, the company must still seek out additional clues as to individual customers' tastes, preferences and life events. This sort of information can be tracked only by sifting daily through detailed customer transactions to feed sophisticated database models. Best-in-class CRM implementers rely heavily on this sort of back-end analysis: they prioritize and optimize communications for individual customers consistently across all channels. Their analysis also provides the raw material for calculating the return on investment (ROI) of implementing a CRM system.

Re-establishing investment discipline

Calculating CRM returns is complex. measurement systems are generally not designed to associate margin lift with factors like cross-selling, increased customer retention rates, faster and smarter responses to customer requests, or identifying behavioural changes that may indicate an individual customer's changing needs.

Nonetheless, many organizations are dipping their toes in the ROI waters. Several CRM vendors have developed their own online ROI tools, but customers so far remain skeptical. To date, ROI

efforts have focused on cost savings. My own approach, based on my work with several large banks, estimates CRM returns across four business dimensions:

1. The service dimension: loyalty measures such as response and conversion rates.
2. The market dimension: revenue growth and product mix changes to increase share of wallet.
3. The people dimension: employee satisfaction, organizational culture and so on.
4. The financial dimension: cost containment and risk management (recognizing that CRM-related savings such as reducing process inefficiencies have proved to be much less significant than revenue growth benefits and will likely continue so).

From this, I focus on quantifying margin increments for various scenarios, always setting objective criteria for a given strategy. Since these dimensions can overlap, care must be taken not to double-count benefits.

Looking for business value in such detailed data can often yield unforeseen rewards. At the Bank of Montreal, for example, a talented statistical modeling group uses a customer knowledge database to calculate monthly customer economic profit. When the group built a "profit opportunity cube" that relates customer loyalty to spending potential in order to identify potential new customers, the bank discovered there were strategic benefits attached to "growing" existing customer relationships. David Moxley, the vice-president overseeing the bank's customer knowledge management operation, notes, "We were pleased at how many additional wallet opportunities existed within our existing customer lists. In most cases, we found that we needed to acquire our own customers."

CRM - the bottom line

It's important to keep in mind that effective CRM is first of all a business phenomenon - the technology should follow, not lead. After all, a thoughtless customer service representative can undo all the benefits of CRM technology by inadvertently demonstrating in word or deed that an organization does not understand or value its customers.

As the sidebar below indicates, CRM spending can be expected to grow in the years to come. According to IDC, CRM spending worldwide, which was hovering around US\$60 billion in 2001, will grow by 25% a year over the next four years, about twice as fast as IT industry growth. Significant growth will come from e-based CRM applications (processes designed to advance customer communications on the Net). These will range from purchase suggestions based on customer buying patterns to real-time analysis of "clickstreams" (the sequence of clicks by which a customer navigates around the website's pages) that look for clues to the customer's interests and characteristics. Substantial growth will also come from increasingly powerful analysis of individual transactions and histories that will deliver in-depth results in near-real time (instead of next day or month).

By applying basic investment discipline (using a business case approach) to any CRM technology purchase, companies can avoid \$20-million mistakes like the one outlined earlier. As with any other technology investment, the purchase must meet a business need - not be an end unto itself.

Vendor wars

Until recently, customer relationship technology was the preserve of big companies, due to its multimillion-dollar price tags. Now the technology and costs are being scaled down to meet the budgets of mid-sized organizations, and a relatively mature range of desktop productivity tools is still available for smaller organizations.

While the number of vendors has increased in the past few years, signs point toward increasing consolidation. Gartner Group research conducted in mid-2001 indicated that only 20% of today's e-based CRM vendors will still be in business by 2004. Over time,

the shape of CRM is likely to change as well, but the following list highlights some directions and vendors now available.

Operational CRM

Built around desktop automation (for call centres, Internet sales and sales agents), this is where many companies begin to improve their points of interaction with the customer. Here, as in other areas, CRM should work seamlessly across the enterprise; the Internet is really just one more channel available to the customer. Many operational applications include their own analytical capabilities, albeit at a somewhat generic level because of the need for speed (companies still need to be able to respond to customer interactions in real time).

Vendors include: Siebel Systems Inc., Onyx Software, Pivotal Software Inc., PeopleSoft, SAP AG.

Web-specific CRM

Tools are being developed to enable personalized interaction between company and customer on the Internet. Customers can customize company websites for their own needs (and even pull in data from other websites). Companies can use "clickstream" analysis (for example, to put a personal "face" to an anonymous customer) to offer tiered treatments based on the depth or extent of the relationship.

Vendors include: BroadVision Inc., E.piphany, Vignette Corporation, Avaya Inc.

Analytical CRM

The back-office functions of heavy-duty modeling and analysis are integral to personalizing operations. Here is where knowledge is built up based upon individual customers' histories of decisions and purchases. Business intelligence and "decisioning" functions typically require large amounts of data (the more data points, the better the understanding of the customer), which means that data processing must be carried out in the background. As processors become increasingly powerful (relative to today's already powerful technology), these functions will merge with operational processes online.

Vendors include: Teradata, Oracle Corporation, IBM, Microsoft Corporation, SAS Institute, Cognos.

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