The Patterns of Successful CRM:
More Than Just Software

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ABSTRACT

This paper is illustrates the patterns of successful Customer Relationship Management. CRM, much hyped during the Dot Com Bubble, has always been about more than just software. As the CRM industry matures, tainted by high profile missteps in the corporate world (Susannah Patton, 2001), the business world must begin to understand CRM as a mindset that combines the integration of both technology and operational improvements. With the ability to dialogue across all customer contact points, CRM must be treated as an organizational process that integrates information from disparate channels (sales, marketing, customer service contact via phone, text chat, or web) to better serve customers (Day and Van der Bulte, 2002). This paper examines CRM's fundamentals, its goals and common pitfalls, and its prerequisites for long-term and successful implementation.

INTRODUCTION

There is little doubt that the nascent field CRM will become a 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 that some are optimistic about its future growth.

Insert Figure 1 Here

Although the CRM market has arrived, the development of CRM as a business strategy has been a challenging endeavor. Some liken the evolving CRM field to the early Enterprise Resource Management (ERP) field of the 1980s and 1990s (Patton, 2001), including similar success rates (Larry Dignan, 2002). The silver lining in this seemingly dour comparison, however, means the CRM's current growing pains will dissipate as the field matures just as the ERP industry has matured.

Beyond the Hype

CRM's first (and perhaps last) heyday occurred from the late 1990s up until the Dot Com Crash and many industries believe its tainted reputation still carries over. InfoWorld's CTO network survey from December, 2001, showed that CRM was the biggest blunder/most hyped technology of 2001(ManMohan Sodhi, 2002) and *CIO* Insight's recent survey indicated that 43% at 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 (M. Lynne Markus, 2000), the CRM field (for both vendors and customers) is an often misunderstood entity. This implies that before success rates and satisfaction with CRM as a business strategy take hold, there will be "a chaos of experimentation as new approaches are developed and tried" (Ibid., p. 22).

What is CRM?

There are as many definitions of CRM as there are business articles on the subject. Winer tackles the question of what is CRM by stating that CRM means different things to different companies and customers and then shows how the factors of direct versus indirect customer interaction and interaction frequency vary from industry to industry (2001).

This paper assumes the reader has some familiarity with the subject of CRM but will delve into the subject's lesser known parts. The consensus is that CRM is more than just CRM software (also called CRM); 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 in the Challenges of Successful CRM Implementation section, p. 7. For now, it is enough 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 set 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, etc.) 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, however, the total cost is: 28 percent is for buying software, 38 percent is for services such as software customizations, 23 percent is for hardware, and 11 percent telecommunications (Patton, 2001).

Insert Figure 2 Here

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" (Jason Compton, 2003, p. 1). As described in class, these legacy systems are a drain on IT resources but are too valuable to scrap all together. The CRM industry, still in the earliest stages of its evolution, is still experimenting with standard procedures on how to integrate legacy systems and more advanced CRM software. Developing industry-wide standards or norms 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 Information Technology (IT). Computing power now allows companies to gather all of the information associated with its customers in new and meaningful ways and yet this power comes with responsibility. While IT allows departments to track is customers based on the groups' needs, there is no guarantee that

these groups (sales, marketing, customer service, etc.) realize or are willing to share this valuable customer knowledge among themselves. CRM prevents companies from falling into the content silo trap (Ann Rockley, 2003) by consolidating customers' information into a single system that gives Sales, Marketing, and Customer Service a view of the customer's contact with the entire organization, not just the contact within their respective department. This centralization allows the company to present a uniform face to its customers and reduce bouncing a customer from one department to the next when searching for the appropriate support area.

A driving force behind CRM, besides rapidly increasing computing power and importance of IT, is that competition (in part, a result of the two factors above) in the marketplace is as fierce as ever. Globalization is spurring increased interdependence and competition around the world as more and more companies are able to enter the marketplace. As a result, the business world is seeking ways to reduce costs and increase revenues through increased efficiency in daily 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 (Phillip E. Pfeifer and Paul W. Farris, 2004). One of CRM's advantages 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 can yield 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, they 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" (Ibid, 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 (Ibid., 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.

Proactive and Reactive Services – 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, CRM enables different departments to be more proactive because they have that 360° view of the customer. Most companies have systems for reactive services like billing questions or technical support which is processed through 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 four 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" (Alice Dragoon, 2002, 1). For Customer Service departments that have the ability to engage in both reactive and proactive service, technology can drastically reduce the costs for both types of service.

Insert Table 1 Here

While these numbers look promising for more proactive and self-service models of service, 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 (Jon 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, 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 (Lee 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 (George S. Day and Katrina J. 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

In developing any CRM strategy it is important to plan and forecast for potential pitfalls that may arise. 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 projects it makes more sense to focus on those constraints that can actually be overcome (challenges).

Business Strategy or Strategic Software?

All of 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.

Just as with other IT buzzwords like ERP or SCM, the idea of CRM as a panacea is completely short-sighted and taking that position truly misinterprets CRM. Just as there are no magic solutions 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.

> "…but 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" (Stewart
>
> Deck, 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 monetary 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; without every level of the company grasping CRM as a concept rather than turn-key solution,

everyone think CRM is a silver bullet for their 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 honest

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 imitative 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 (Meredith 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, 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" (John Sviokla and Audris 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 ever 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 has marred the CRM landscape, a possibly

endemic 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 mindset. 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 fell 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 (Alison 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.

Insert Figure 3 Here

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 of 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 strategies, CRM is moving past its rocky, developmental stage. The heavy focus on CRM as a quick or as a uniquely software-based solution, however, still lingers in the business community. This ill-conceived notion must be changed because some 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 Buelte, 2002, p. 27). The exact role or importance of CRM as 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 from end-users and a realistic idea of how the corporate culture truly integrates with a CRM system, companies can achieve real economic benefit from implementing CRM.

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FIGURE 1
CRM Software and Services Market Worldwide (in billions)
Source:
http://www2.cio.com/metrics/2002/metric401.html?CATEGORY=5&NAME=Customer%20Relationship%20Mana
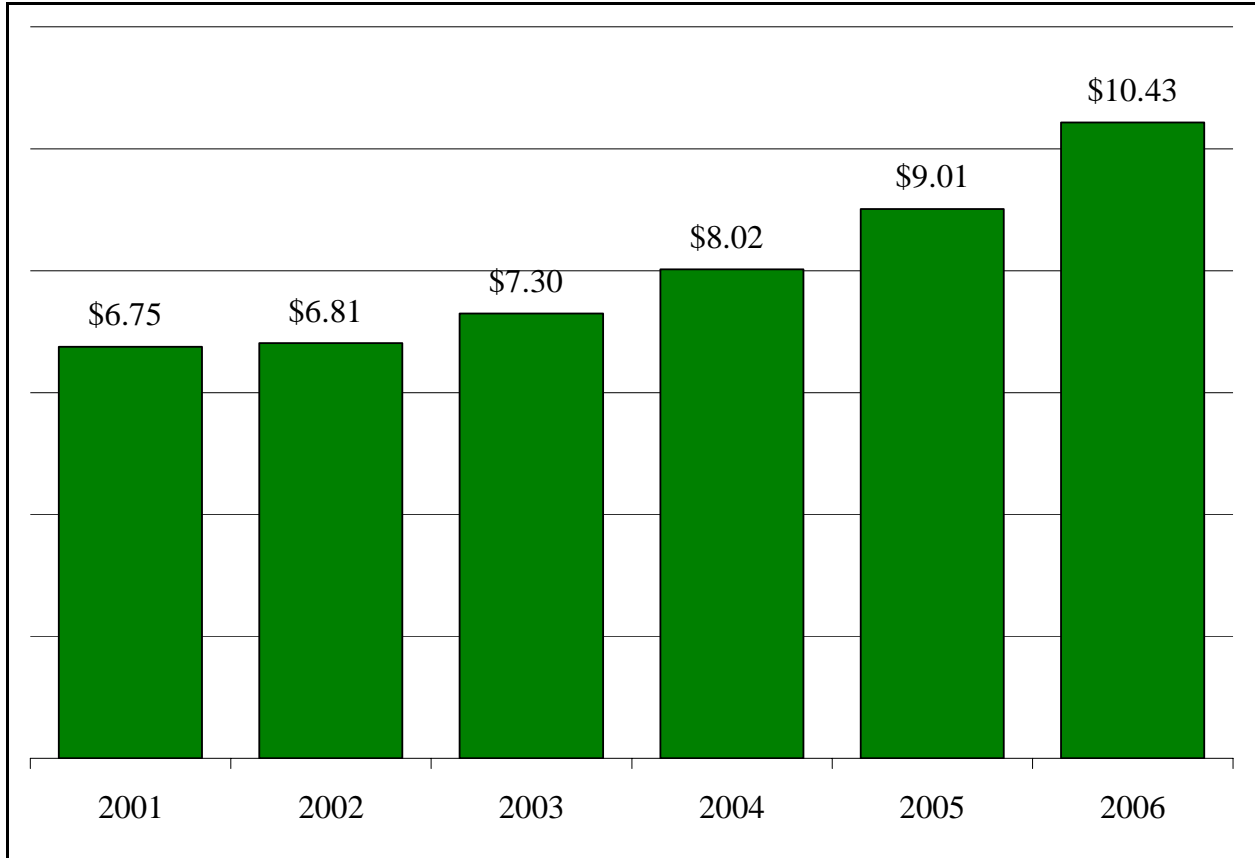gement

FIGURE 2
Total Cost of Ownership for Typical CRM Implementation
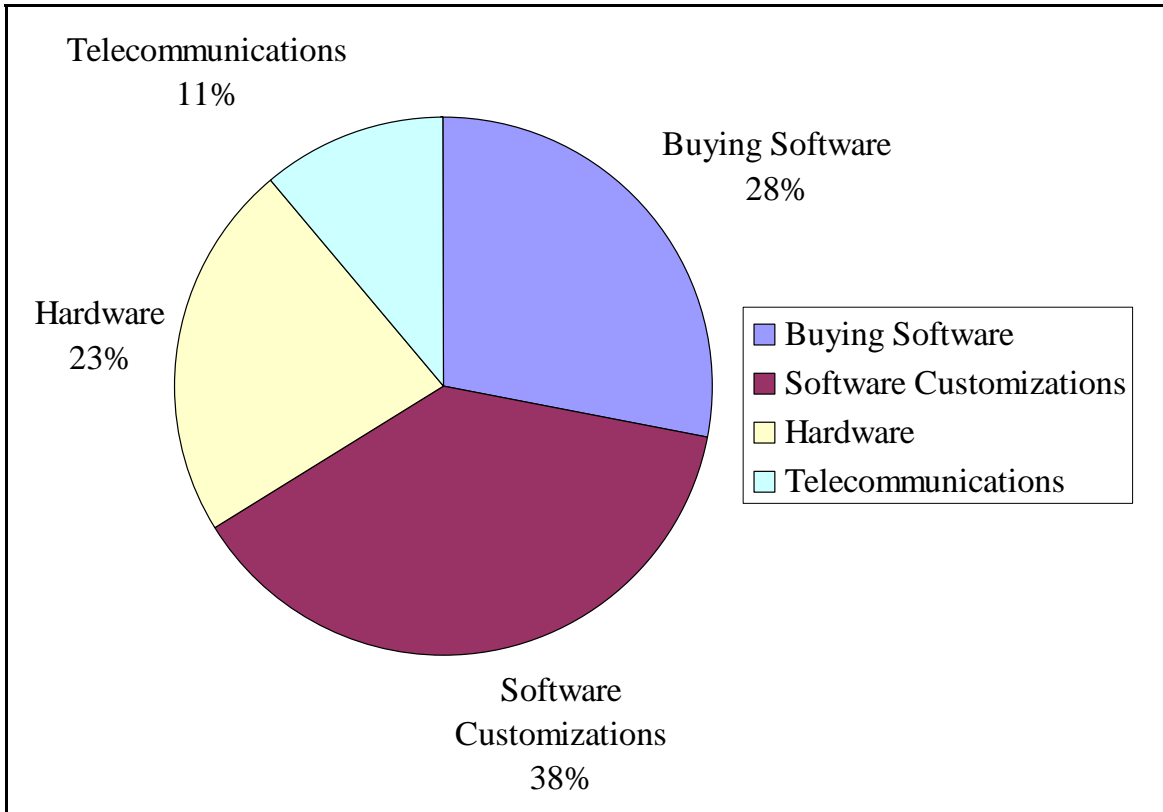Source: (Patton, 2001).

TABLE 1
The Costs of Customer Service
Source: (Dragoon, 2002).

	average cost per session
SELF-SERVICE	
Interactive voice response (IVR)	$ 0.45
Web self-service	$ 0.24
ASSISTED SERVICE	
E-mail	$ 5.00
Phone	$ 5.50
Text chat	$ 7.00

FIGURE 3
Faster CRM Implementation:
How many months in total will be required to implement your CRM?
Source: (Patton, 2002).