

Unlocking the Value of Your CRM Initiative

The Strategy Plus Technology Dynamic

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ABSTRACT

Implementing a CRM strategy is much more than a technology initiative. Companies that view buying CRM technology as “implementing CRM” will fail to realize the significant ROI to be gained from effective CRM. Their efforts will under-perform or fail– not because the technology didn’t work, but because they did not establish any or all of the following: (1) a well-planned CRM vision and strategy supported by executive leadership; (2) actionable customer insight based on customer needs and value; (3) customer-focused processes; (4) measures to ensure adoption, such as training, incentives, and metrics.



Executive Summary

CRM Strategy and Technology

For an organization to declare victory with their CRM initiative, it is important to focus on the two key components of strategy and technology. CRM strategy is the sum-total of all planning, development and adoption activities needed to achieve a company’s customer-related goals. CRM technology is the systems-based application(s) and integration that facilitates and supports the customer interaction. In order to ensure the highest likelihood for CRM success, critical up-front investment is required to gain deep insight into what is aspirational and what is realistic. Companies that fail at CRM do so because they believe technology alone is the “silver bullet.” Companies that don’t manage the customer base as a dynamic asset cultivated over time will not capture short and long-term wins with ROI from the overall CRM initiatives.

A proper strategy must be put in place in order to correctly implement and deploy technology, utilize that technology to enable customer-focused processes and generate meaningful returns for both the company and the customer. This white paper will outline the critical steps that must be taken to establish a CRM strategy, manage the customer base as an asset, utilize technology and unlock the maximum value of a CRM plan.

Gartner asserts that through 2005, CRM initiatives focused only on technology are three

times more likely to fail than those that focus first on process, then design and deploy technology to automate the process (*CRM Business Transformation: More than Just Technology*, Gartner Group, June 2003). On the other side of the coin, Meta Group's research found that companies are three times more likely to be successful if they have a consulting partner to help them devise a strategy, assess business process needs and leverage technology based on that plan. (*Mid-Market Comes of Age*, *1to1 Magazine*, April 2003). To increase likelihood of success, again it is evident that companies must establish the CRM strategy and processes first, before implementing the supporting technology.

Viewing the Customer Base as an Asset

The customer base is not traditionally listed as an asset on balance sheets and financial reports. CRM requires a change in mindset, in that the customer base is in fact the most important asset of the company. As an asset, the customer base and a company's established customer relationships cannot be taken lightly. Customers recognize when an enterprise does not value their business or care about their needs. An example is a sale of customer data which destroys existing trust or loyalty.

Gartner's strategic assumption is that through 2004 up to 80 percent of companies will not have a CRM strategy that details how to turn customers into a "company asset." By omitting this concept from their strategy, these companies will allocate time and resources to implementing customer strategies, without a clear view of which customers to focus on and how to build the greatest value from this asset (*The Importance of Developing a CRM Strategy*, Gartner Group, October 2003).

There are several key factors necessary for a successful CRM implementation that go well beyond technology. Implementing CRM technology is often incorrectly equated to "implementing CRM." In actuality, CRM is a business strategy that is enabled by technology. At

Peppers & Rogers Group, we refer to CRM simply as the ability to "treat different customers differently." CRM can be defined using Peppers & Rogers Group "IDIC" methodology, which serves to:

- **Identify** customers individually and addressably
- **Differentiate** customers or customer groups based on their needs and value
- **Interact** with customers in a way that benefits them and the company
- **Customize** the relationship over time based on the company's understanding of the customer's needs and value

Companies with a winning CRM strategy examine customer interactions through the "eyes of the customer," and build customer-focused strategies and

processes to establish and maintain long-term profitable customer relationships. Effectively leveraging technology to enable the CRM strategy and processes is important, but one must keep in mind that the technology is a tool to support the strategy, and

is not CRM itself.

Research studies cite high CRM failure rates, such as a Gartner Group statistic stating that 55 percent of all CRM projects do not produce results. All companies, and particularly small and mid-market companies that may not have been involved in the first wave of CRM implementations, can learn from and avoid past CRM mistakes. Typically, many of these corporations spent significant amounts on technology without first developing the necessary CRM vision, strategy, and processes.

In understanding why certain CRM initiatives fail to achieve their objectives, it is evident that the reasons lie not in the technology but rather in a lack of focus on the key CRM foundational elements required for success. These elements are centered on four areas:

CRM vision and strategy – A clearly defined CRM vision and strategy with executive and cross-function-

Companies with the most effective CRM strategy examine customer interactions through the "eyes of the customer"

al leadership and support is imperative for success.

Customer information – Companies must analyze the customer base to differentiate customers by their needs and value, in order to turn the data into action and “treat different customers differently.”

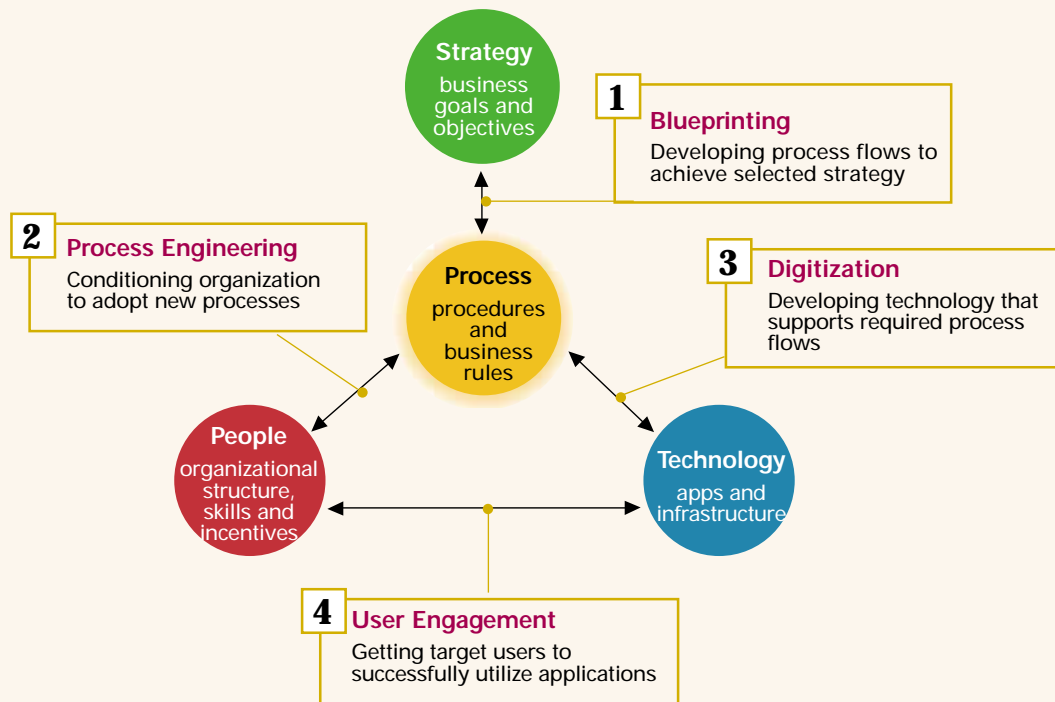
Customer-focused process design – Designing processes from the customer point of view is critical in order to enhance the customer experience.

Adoption – Key aspects of change management must be addressed to ensure adoption, including a customer-focused organizational design, training, incentives and metrics.

When these elements are addressed and supported

by technology, CRM is a strategy that will produce significant ROI and competitive advantage. As shown in the following chart, synchronized deployment is the key to effective implementation. According to a January 2003 PricewaterhouseCoopers “Trendsetter Barometer” survey, 81 percent of the fastest growing U.S. companies have initiated CRM programs over the past three years, and the majority are significantly expanding their customer-focused efforts this year. These firms have achieved 46 percent faster revenue growth than their competitors over the past five years (fueled by an expected 60 percent faster revenue growth rate for 2003).

Synchronized Deployment of a CRM Initiative



The effective implementation of a CRM initiative requires a synchronized deployment of customer strategy, process design, technology implementation and change management.

Source: Forrester Research, Inc.

1 CRM Vision and Strategy

Executive Vision and Support

A carefully constructed vision and strategy, supported by the executive team is the most important foundational element for a CRM initiative. According to Gartner, 75 percent of initiatives that do not deliver measurable ROI fail due to lack of executive involvement. In a May 2002 study of 197 U.S. marketers' opinions on the "single biggest" reason for a firm's CRM success, the responses "marketing strategy" and "executive commitment" garnered the highest percentages with 32 percent and 26 percent of the responses respectively (Reveries.com, May 2002, www.eMarketer.com). As with any cross-functional initiative, a critical foundational element is that vision and strategy are understood and clearly communicated to the entire organization by the executive team. Strategy and executive commitment are cited as "make or break" areas, much more so than technology. This may seem obvious; however many companies that believed that CRM was a technology initiative or that thought CRM only affected a certain function like sales or marketing learned a hard lesson by leaving the CRM strategy up to one function, such as IT or marketing.

Executives must uphold and communicate the vision that CRM is a critical initiative that will build a competitive advantage and generate significant ROI for the company. They need to understand and convey that CRM is not only about the technology, but instead about exceeding customer expectations to develop long-term, profitable relationships. Executives must be "customer champions" who help the organization maintain a customer focus, reinforce CRM goals and objectives and emphasize the benefits to the customer, the company and the employees.

Given that many past CRM initiatives have underperformed or failed, executive leaders must be willing

to take risks and face tough opposition, try out new concepts and learn in order to make improvements. Executive leadership must believe in CRM, provide support and funding, communicate successes and be persistent in overcoming obstacles.

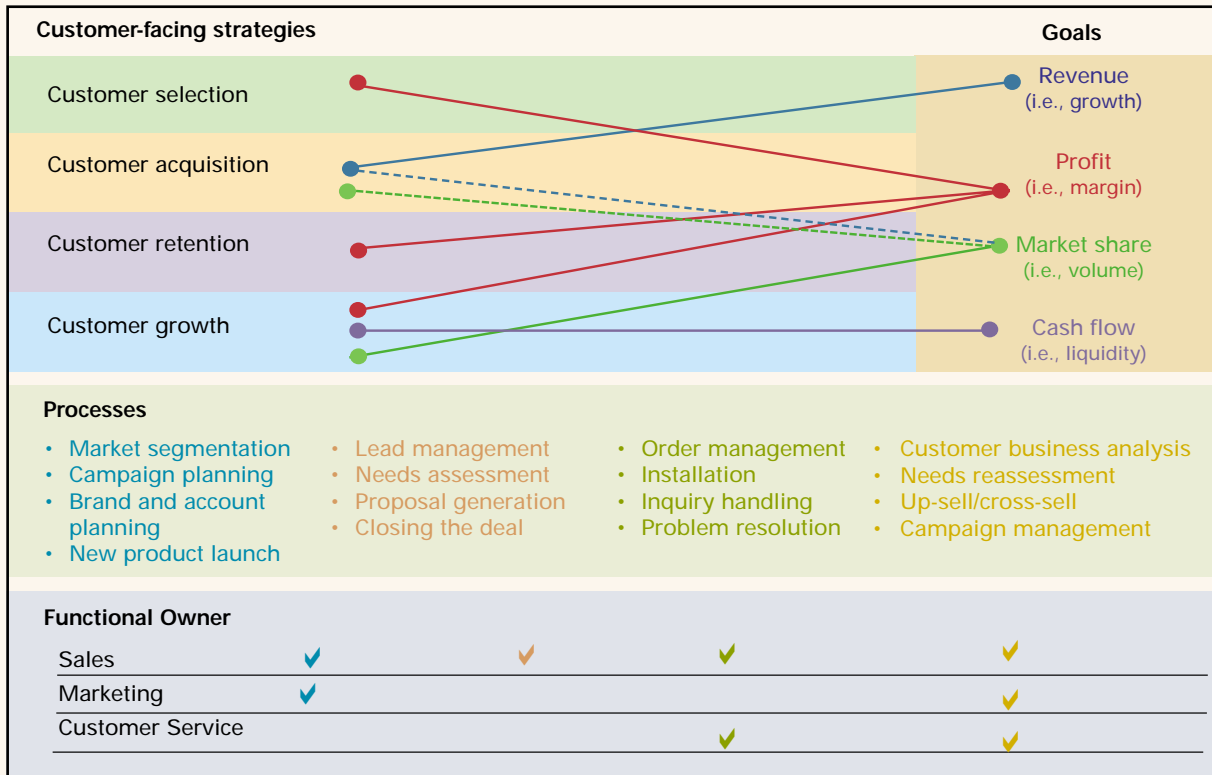
It is important for the organization to understand that CRM is a journey and not a destination. In other words, companies will never be able to declare that they have perfected their customer relationships, and that it is time to stop focusing on CRM. Instead, executives must portray a customer focus / CRM as a fundamental ongoing aspect of the overall company vision. As well, the CRM vision and strategy must be kept current, ensuring that it is aligned with overall corporate objectives and that it evolves, as customers change, in order to produce the greatest value for the customers and the company.

Executive leadership must believe in CRM, provide support and funding and communicate successes

Cross-Functional Strategy With Measurable Objectives and Roadmap

CRM does not pertain to only one function or only customer-facing employees; it is an enterprise-wide strategy that involves any group that interacts with the customer either directly or indirectly. CRM involves creating a seamless experience between the customers and all areas of the organization. Therefore, a cross-functional team must be created and empowered to develop and implement a cross-functional CRM strategy. Establishing a cross-functional team with a cohesive mission that encompasses all of the customer touchpoints will also assuage some of the internal politics and siloed objectives that can derail a CRM initiative. In addition to internal team members, ideally the team should include customers and channel partners.

The CRM Business Transformation



Winning enterprises know which strategies support enterprise goals, and understand which business processes must be optimized to support the strategy.

Source: Gartner Research

The cross-functional team must take the high level vision and strategy to a more detailed level, developing the comprehensive strategy and specific ROI objectives. The objectives must be clearly defined and measurable, tying into the CRM vision. The team should develop short- and long-term CRM objectives along with the implications and benefits for each stakeholder. The team will also need to develop a clear project plan and roadmap depicting the tactics, responsibilities and timeline that each team member is expected to adhere to throughout the CRM implementation. With a cross-functional team, each group will play a role in developing the CRM strategy engendering greater understanding and acceptance when the time comes for the functional

areas to implement and adopt the new customer-focused strategies, tactics and processes.

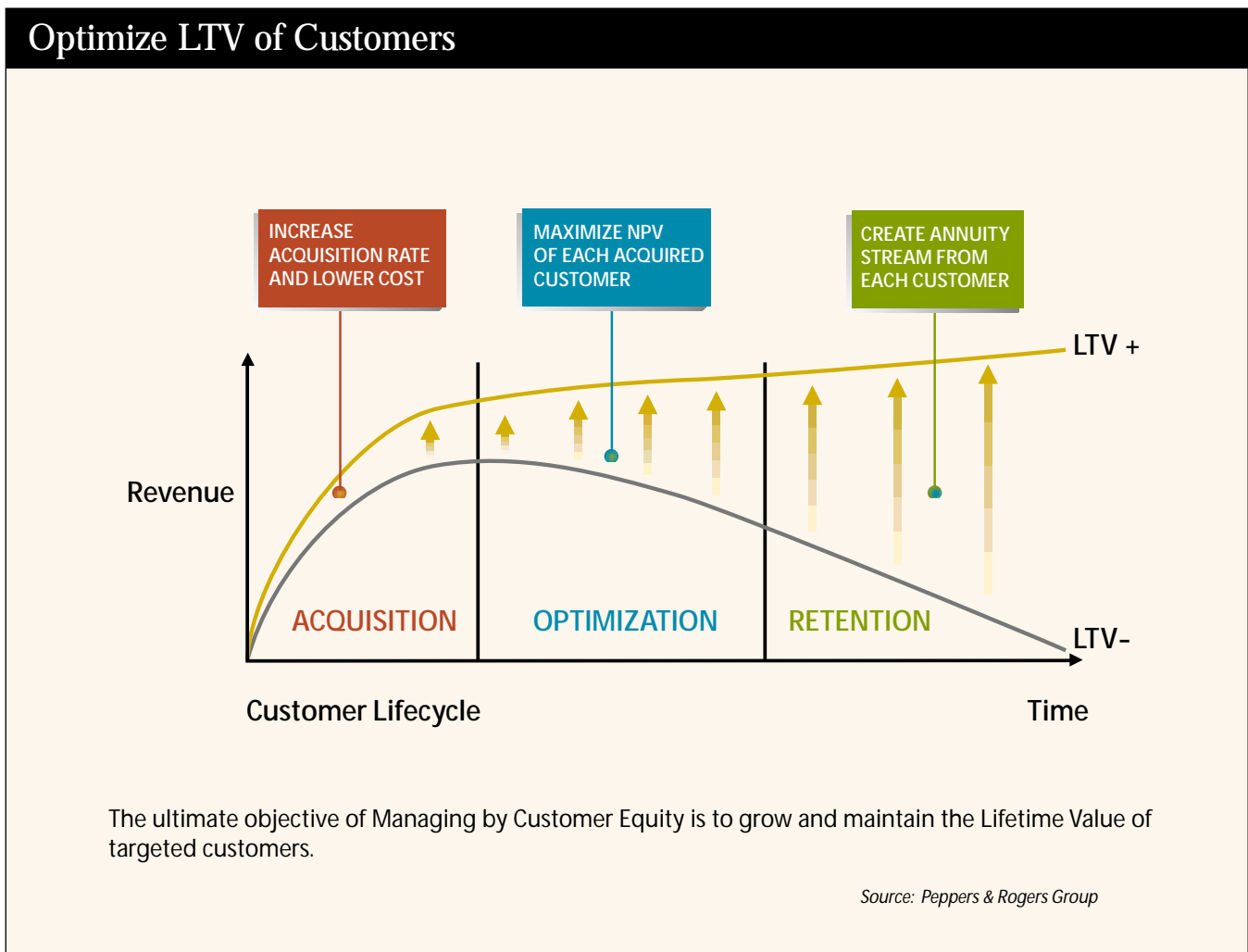
Viewing the Customer Base as an Asset

The customer base is not traditionally listed as an asset on balance sheets and financial reports. CRM requires a change in mindset, in that the customer base is in fact the most important asset of the company. As an asset, the customer base and a company's established customer relationships cannot be taken lightly. Customers recognize when a company does not value their business or care about their needs, such as when companies sell lists of their information, destroying any existing trust or loyalty.

Gartner’s strategic assumption is that through 2004 up to 80 percent of companies will not have a CRM strategy that details how to turn customers into a “company asset.” By omitting this concept from their strategy, these companies will allocate time and resources to implementing customer strategies, without a clear view of which customers to focus on and how to build the greatest value from this asset (*The Importance of Developing a CRM Strategy*, Gartner Group, October 2003).

CRM requires that a company develop strategic initiatives to grow the value of the asset. In other words, companies must customize or improve some aspect of

their products or services to create value for their customers, in turn, building customer satisfaction and loyalty. To do this, the company must understand how customers differ from each other in terms of their value to the company and their needs from the company. Customers that have similar value and needs should be grouped into “Customer Portfolios.” Like financial asset management, “Managing by Customer Equity” (MCE) involves focusing resources and creating accountability for growing and retaining the value of the portfolio. The diagram below depicts the objective of MCE to grow and maintain the Lifetime Value (LTV) of customers.



2 Customer Information

Who to Build Relationships With?

As previously stated, considering the customer base as an asset should be a fundamental aspect of any CRM strategy. To understand that asset and identify customers that the company wants to build relationships with, the company must identify, capture, retain, analyze and best utilize customer information. In doing so, companies are focusing on the “I” and “D” of Peppers & Rogers Group’s IDIC methodology:

- **Identifying** customers individually and addressably, and
- **Differentiating** customers or customer groups based on their needs and value.

Before implementing any CRM initiative or enabling technology, a company must first have a clear understanding of how its customers differ in value to the company and in their needs from the company. To implement CRM technology without first analyzing and segmenting the customer base would equate to building a system or buying tools without knowing how you were planning to use them.

Knowing customers’ value assists a company in its resource allocation decisions, whereas knowing customers’ individual needs facilitates customization of its interactions, products or services to build one-to-one relationships with customers. The intersection of customer value tiers and needs clusters creates the customer portfolios to be managed by the company. Managing by Customer Equity (MCE) involves recognizing which customers are the most valuable or have the most potential, understanding their needs to provide value to them and develop mutually beneficial relationships.

Customer Value Differentiation

Companies should begin by segmenting the customer base by value, both Actual Value – the customer’s current value to the company, as well as by Potential Value – the unrealized potential of a customer. This approach enables a company to then focus its relationship-building efforts on its Most Valuable Customers (MVCs) – customers with high Actual Value, and its Most Growable Customers (MGCs) – customers with high Potential Value, while divesting resources from customers with limited or negative Actual or Potential Value.

Companies often do not realize that many of their large customers who they consider to be their best customers, since they provide a significant amount of revenue, are actually unprofitable because the costs associated with serving them are greater than the value they provide.

Customer value differentiation enables a company to deliver targeted programs, services and relevant messages to customers that provide the greatest growth and value, instead of scattering its marketing and sales efforts. Companies that proceed down the “technology-first” path typically end up with a scattering effect, serving unprofitable customers, neglecting the profitable ones and losing money in the process. By concentrating on customers with the greatest value and growth potential, finite resources can be allocated and aligned accordingly to generate the highest return on investment (ROI). Customer value differentiation provides unique insight by identifying:

- Most Valuable Customers to retain
- Growth opportunities
- Opportunities for cost reduction

A company must have an understanding of the value and needs of their customers

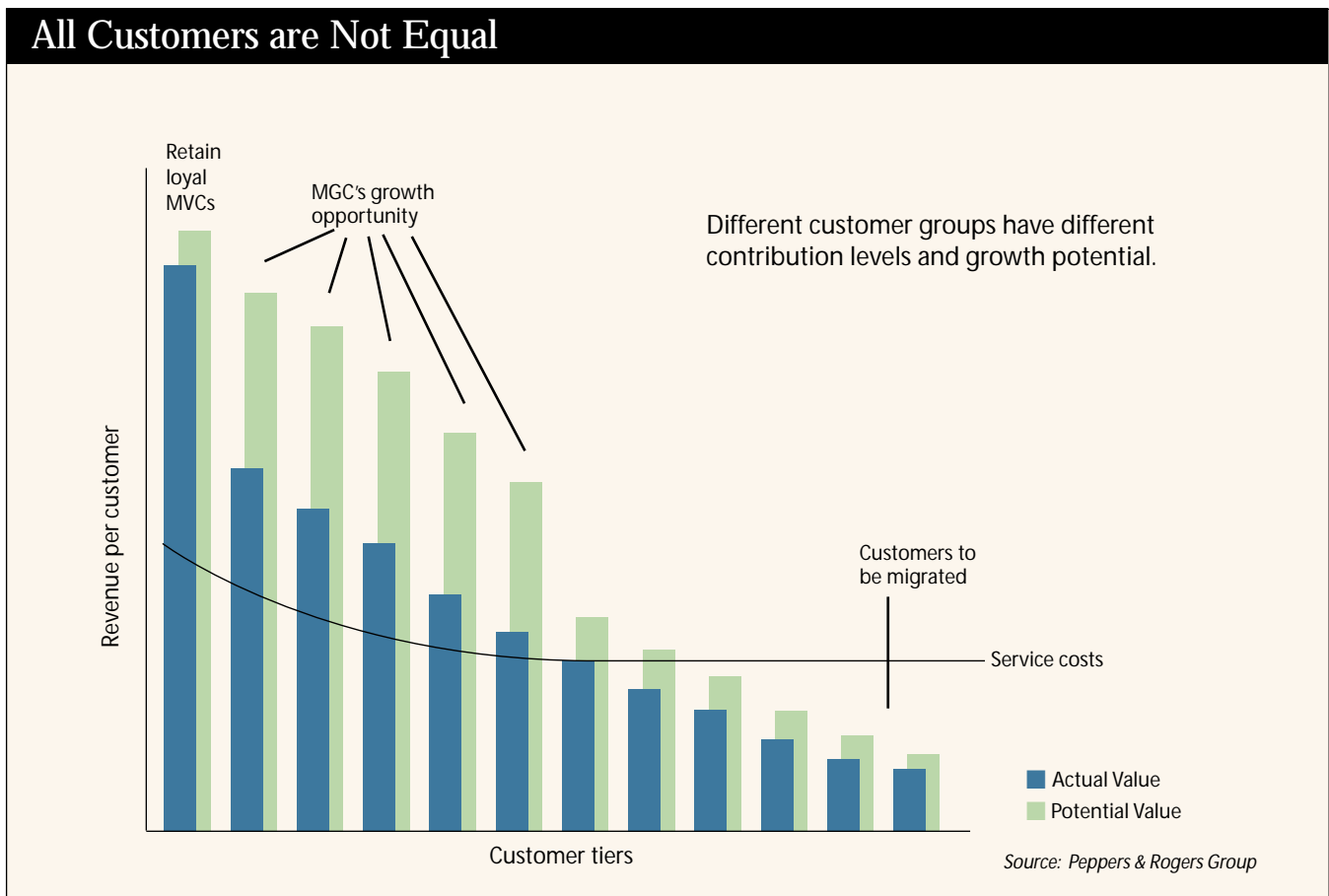
As mentioned, the two primary components of customer value are Actual Value and Potential Value:

Actual Value is defined as the customer's expected Lifetime Value (LTV), calculated as the net present value of a customer's expected stream of future contribution. Actual Value is the Lifetime Value of the customer if there is no change in the way the company treats the customer and the way the customer responds. Understanding Actual Value enables companies to align resources with their Most Valuable Customers (MVCs) and identify customers that have low or negative contribution (barely cover their attributable costs).

Potential Value is defined as a customer's potential growth based on share of customer analysis.

Unrealized growth potential is defined as the percent of dollars not spent with the company, but rather with the competition. Understanding Potential Value helps a company identify which customers have the greatest potential to be Most Valuable Customers in the future.

Considering both a customer's Actual and Potential Value assists in determining whether the focus should be on growing share of customer (customers with relatively high Potential Value) or on retaining existing business (customers with relatively high Actual Value). However, looking at only Actual or Potential Value provides only part of the picture. The diagram below illustrates how customers differ in opportunities for growth and retention.



Customer Needs Differentiation

In addition to understanding customer value, companies must also understand how the needs of their customers vary. They can then utilize this information to deepen their knowledge of customers and customize solutions to meet their needs. Companies should view customer needs and value information together to form customer portfolios. This helps the enterprise allocate more time and resources customizing solutions to meet the needs of customers with the highest Actual and Potential Value.

The goal of customer needs differentiation is to identify clusters of customers with similar needs around which companies can build customized strategies and relevant treatments. The ultimate objective is one-to-

“Customer Needs” are a function of why the customer buys, not what the customer buys

one customer relationships with these customers. *“Customer Needs” refer to why the customer buys, not what the customer buys.*

Customer needs are the internal conditions or motivating desires behind a customer’s purchase or usage of a product or service. Customer needs are complex and involve many dimensions and nuances including beliefs, motivations, preferences, life stages, decision-making styles and more.

Analytics Enables CRM

Of course, the analysis of the customer database and the creation of customer portfolios around customers with similar value and needs is useless unless the information is acted upon. The ability to turn customer information into insight and then turn insight into action is essential to implementing CRM.

Customer analytics is a specialized capability or function necessary for a company to conduct the data analysis and customer-modeling activities required to develop the customer needs and value differentiation described previously. Customer analytics is a complex function that requires mining all available customer data from multiple sources, and running statistical and financial algorithms and models to understand customers’ value, behavior, profiles, preferences and characteristics. The goal is to predict future customer behavior.

The output from customer analytics is customer portfolios that can then be used to define specific treatment strategies, or to customize products, services or interactions for customers in each portfolio. The information is converted into a greater understanding of which customers are the most valuable to the business, and what those customers need, prefer and want from the company. It is at this point that it becomes actionable customer insight. This insight enables the organization to “Treat Different Customers Differently.”

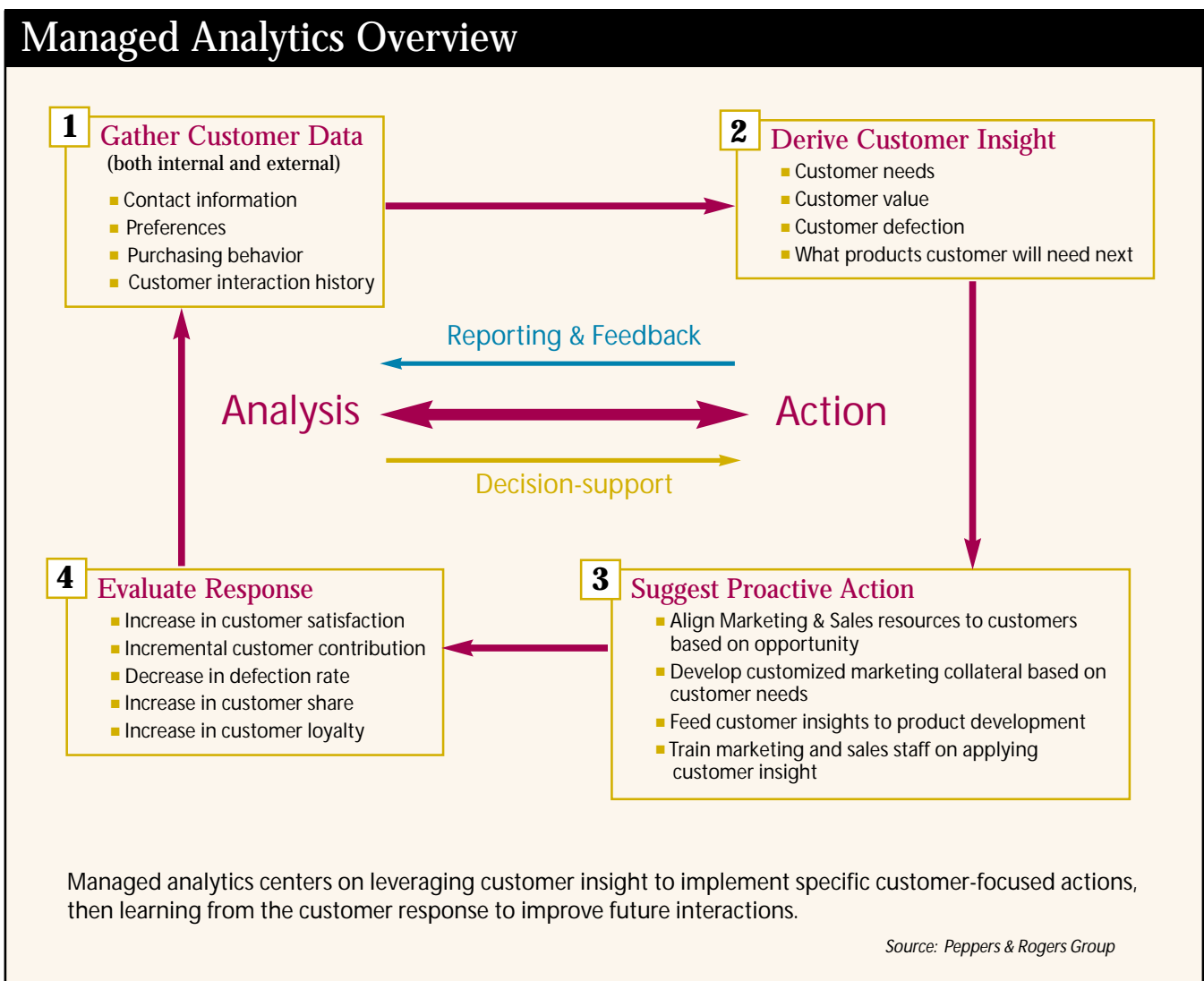
The Benefits of Customer Needs Differentiation include:

- Increasing the company’s credibility with customers and customer loyalty by improving the customer experience, understanding customers’ needs and providing relevant offerings that exceed customer expectations
- Increasing efficiency and maximizing the effectiveness of customer-focused efforts by allocating time and efforts in areas that are most relevant to the customer
- Realizing positive financial impact by maximizing short- and long-term customer value and improving cost-efficiency through improved customer targeting

The diagram below outlines the process, data elements and resulting benefits of using customer insight and analytics to drive competitive advantage.

A management plan should be developed for each customer portfolio that utilizes customer analytics to define the goals, objectives, expectations and treatment strategies for customers in each portfolio. This plan should be developed with the appropriate channels or functions to define the customized treatments

for different types of customers, applying the customer value and needs information. As shown in the diagram, it is important to leverage customer insight to implement specific customer-focused actions, and learn from the response to improve future customer treatments. Companies that leverage customer insight to improve the customer experience will better compete and win in today's customer-focused marketplace.



3 Customer-Focused Process Design

Processes that Facilitate Relationship-Building

Clear customer-focused processes and business rules must be established in order to implement the strategies and tactics customized to meet different customer needs. Customer-focused process design addresses the second “I” and “C” of the Peppers & Rogers Group’s IDIC methodology, establishing the ability to:

- Interact with customers in a way that benefits them and the company and
- Customize the relationship over time based on the company’s understanding of the customer’s needs and value

A key aspect of CRM is developing or revamping key business processes using a holistic customer-centric approach. In taking a customer perspective, processes will be built to improve the customer experience and support relationship building. Internally driven initiatives that, for example, aim to increase efficiency can actually worsen customer relationships, such as a process to increase efficiency by reducing customer talk time. Gartner’s strategic assumption is that “companies that give the highest priority to business processes that deliver the greatest customer-defined value and measurable business outcomes, will gain greater customer loyalty” (*CRM Business Transformation: More than Just Technology*, Gartner Research, June 2003). For companies that have based their current and future business growth strategies on customer-centricity, the need to effectively balance internally and externally focused activities is paramount. While the investment to implement may be deemed costly, so long as there is offsetting measurable value creation that delivers against the CRM objectives, the company should proceed.

Companies must take the time to identify and design customer-focused processes in alignment with CRM strategy in order to achieve their CRM objectives.

Designing new approaches or revamping existing ones involves establishing specific steps and business rules, links to other processes and touchpoints, responsibilities and associated metrics for each process, before implementing technology. In this way, the company can ensure systems are built according to the requirements of the new customer-centric focus, saving systems development time and expense by avoiding rework.

Connectivity

In addition to approaching process design from a customer point of view, the processes required to implement a CRM strategy must be developed in a way that provides connectivity between touchpoints. Internally, front- and back-end processes must be integrated so that customer information can be shared across channels. Successful CRM initiatives permeate virtually all areas of the organization, utilizing customer insight to drive action in areas such as the supply chain, product development cycle, financial systems and service delivery. All aspects of the business and associated processes should be centered on the customer, thus connectivity and coordination between all touchpoints, departments and business units are essential.

Additionally, the creation of a comprehensive CRM information strategy is necessary to ensure that appropriate customer information is captured, shared and managed across touchpoints to enable the appropriate execution of the customer-focused processes. Customer insight must be available quickly and at the right time to support a smooth execution of the processes.

To illustrate, when a customer interacts with a company, whether it be with billing, customer service, the retail associate, their account manager or the CEO, he should feel like he is having a continuous conversation with the company and that each person at the company understands his individual needs and situation. Customer expectations are continually increasing while

their tolerance for fragmented experiences is decreasing. For example, customers expect:

- Companies to value them and know who they are, their needs and preferences, regardless of contact channel
- High-quality, speedy interactions regardless of the channel
- Companies to respond via the customer's preferred contact channel
- Real-time access to their own and company data
- Self-service and 24/7 service
- Immediate and useful responses to inquiries

Customers should not be aware of or negatively affected by a company's integration or CRM implementation efforts that are designed to meet these expectations. All interactions should be seamless to the customer.

To take connectivity a step further, processes not only need to be customer-focused and internally connected, they also need to be coordinated with external stakeholders such as third-party vendors that interact with customers and handle customer information. This added dimension of connectivity assists all of the touchpoints, internal and external, in being more responsive to customer needs.

Integrated Communications With Customers

The connectivity described above establishes the foundation for integrated communications with customers. Companies should demonstrate to customers that they understand their needs and preferences by providing them with customized solutions. A firm should not send information to customers about every product in its product line using uncoordinated messaging that confuses the customer as to the value it provides.

Communications, campaigns and loyalty programs should be:

- Integrated and coordinated across all applicable channels, such as catalog, retail, Web, sales and customer service

- Executed using the customer's preferred channel
- Clear and consistent showing the benefits to the customer, meeting individual needs

Communications should also enable the company to learn more about the customer over time so that it acts upon that information to better meet customer needs in the future. This is what is known as building "learning relationships" with customers, a fundamental CRM concept. A feedback loop must be built into the process so that the company can continually learn more about customers and their needs in order to improve the relevancy of its communications and offering in the future.

Eliminate Work, Don't Create It

Processes should be designed so that they eliminate work for the customer and for the company, rather than create it. Ideally internal and external stakeholders, including customers, should be involved in process design so that the new processes and tools make their jobs and lives easier.

In many cases, both in B2C and B2B, there are customers who prefer "Do-It-Yourself" or self-service options. In these cases, processes can be designed so that they are convenient for the customer, while also eliminating employee tasks that may in fact be the most repetitive or least rewarding aspects of a position. For example, it may be more convenient for a customer to find out a store's hours via its Web site rather than talking to a representative. In developing these types of processes, with an understanding of customer needs and preferences, the company provides value to the customer, while deploying a cost-effective solution.

When reviewing potential solutions that could increase efficiencies for the company, it is important to continually refer to the customer needs and value information to ensure that the processes being developed are, above all, the best solutions for the customer.

4 Adoption

This section discusses the appropriate steps to ensure adoption of the CRM vision, strategy, customer insight and processes. According to a survey conducted by CRM Forum, when asked what went wrong with their CRM projects, 4 percent of the managers surveyed cited technology problems, 1 percent cited bad advice, but 87 percent said the failure was due to a lack of adequate change management. Change management involves a comprehensive approach to foster adoption including organizational design, training, incentives and measurement. A change management plan to align behavior with the CRM strategy must be designed with the same degree of precision and importance as a technical project management plan.

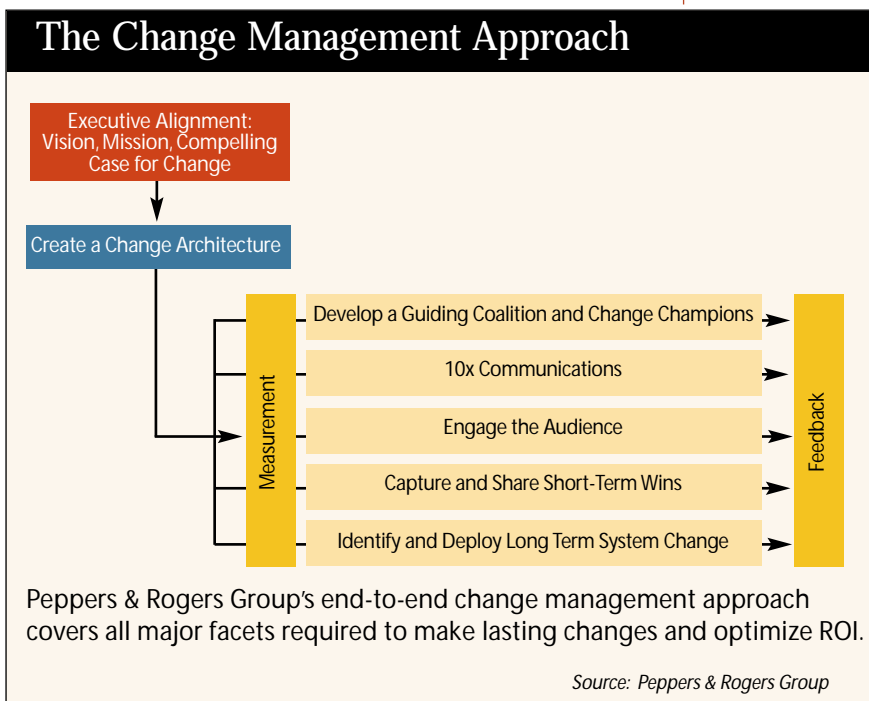
adjustments will differ according to a company's current structure; however the following points illustrate adjustments that may need to be made.

Essentially there are three main organizational areas that may need realignment to focus on the customer: Managing by Customer Equity, Channel Management and Product Management. As depicted in the diagram on page 15, these three areas hold distinct and integrated roles in the execution of a CRM initiative.

Managing by Customer Equity – Our prior discussion of customer information underscored the importance of MCE. In some companies, this function may be known as customer segment management. For CRM to take hold in an organization, clear responsibilities and resources must be established for Customer Equity Managers who understand the needs and value of customers in their portfolios. Then, they must develop customized treatments to meet customer needs. This may require creating a new department or revising the roles of an existing department to ensure that this function is well positioned in the organization.

Gartner's strategic planning assumption is that through 2006, 75 percent of companies will still be organized primarily around product lines vs. customer segments, causing customer satisfaction to remain less than optimal. Additionally through 2006, 75 percent of organizations will describe themselves as in the middle of a CRM trans-

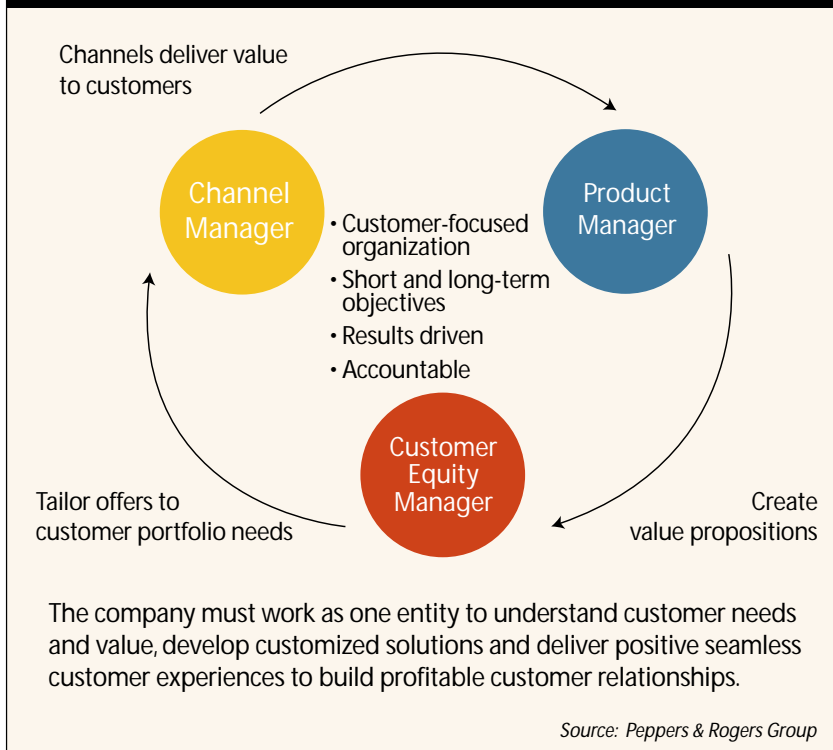
formation, although only 25 percent will have organized around customers and customer segments (*CRM Business Transformation: More than Just Technology*, Gartner Research, June 2003). A lack of organization



Customer-focused organizational design

A key step to adoption is to implement organizational changes required to align roles and responsibilities with the CRM strategy. The necessary organizational

Customer/Channel/Product Management Integration



around customers or customer segments, but only by product or function, impedes a company's ability to maintain a customer-centric view.

Channel management – The channels, such as Web, retail, catalog and customer service are the frontline to the customers, and therefore must be organized to deliver customer-focused solutions utilizing the most effective and efficient processes. The channels must be aligned with the product and customer equity managers, particularly so that customer needs information is conveyed and updated, which in turn should drive product development and messaging.

Product management – In some cases, product management is the area requiring the biggest shift, not necessarily in organization, but in mindset. Depending on the company culture, criteria other than customer needs may be driving product design. For example, ideas from the CEO or simply the desire to be cutting-edge may be the greatest influence on product development as opposed to customer needs and preferences.

Where organizational changes are required, a company should not change the structure too quickly but try out the customer-focused adjustments in one department or function first, then expand to other business units. Additionally, the three areas described: MCE, channel and product management, must all focus on the customer and realize that one group or touchpoint does not “own” the customer. Instead, the company must work as one entity to understand customer needs and value, develop customized solutions and deliver positive seamless customer experiences to build profitable customer relationships.

Change Management Requirements Defined by Business Unit

There are many facets to change management, all of which must be addressed

to increase the adoption levels of the CRM strategy and processes. To ignore the need to manage change and the need to establish the appropriate training and incentives required to create acceptance is a recipe for failure. Employees will not simply adopt whatever strategy or processes are presented if the benefits to them and to customers are not clear. Employees in all companies have undergone significant changes, reorganizations and “the next big thing” numerous times. In general, they are “change weary” and “change wary.” Companies are asking employees to absorb change at an unprecedented pace. Therefore, it is even more critical to teach employees to be change-adept and implement sound practices.

In knowing their particular situation, function and past experiences, each business unit within an enterprise should determine their specific change management requirements and the appropriate approach to their business unit (BU). The BU should evaluate current skills and capabilities and gaps between those and

the new skills and capabilities required to implement the new customer strategies. This assessment will enable the business unit to define their training needs, incentives and rewards that would encourage and reinforce the new customer-focused behavior. Gartner asserts that through 2005, CRM initiatives that aggressively leverage first-line managers for communication, training, coaching and assessment will increase CRM adoption by 75 percent while reducing transition time by 50 percent (*CRM Business Transformation: More than Just Technology*, Gartner Research, June 2003).

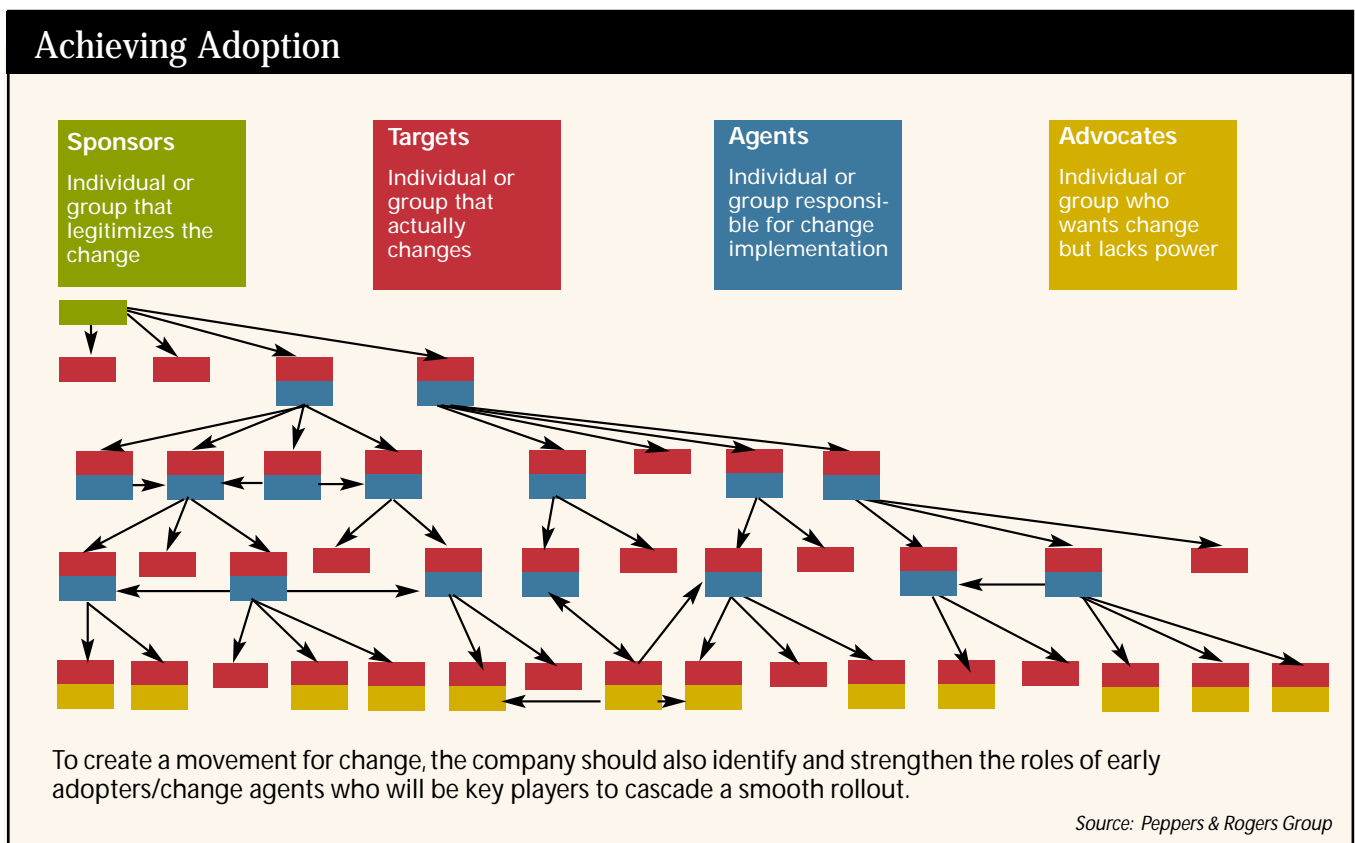
A well-designed incentive program with a variety of rewards and recognition is extremely important to motivate employees to implement the CRM strategy. Incentive programs should include rewards that can be given by management, peers and customers and include both team and individual rewards. Ideally, the compensation program should also be revamped to encourage significant changes in employee behavior in

alignment with the new CRM strategy, objectives, processes and metrics. Gartner's strategic planning assumption is that through 2005, CRM initiatives that align compensation with individual, enterprise and customer metrics will increase adoption rates by 50 percent. (*CRM Business Transformation: More than Just Technology*, Gartner Research, June 2003).

Additionally, by establishing a cross-functional CRM team from the outset, each business unit should have had opportunities to provide input throughout the strategy and process development stages, which should also assist in creating a greater understanding and acceptance of the change by the business unit.

Change must be incremental

In order for change to be embraced, it must be implemented in an incremental fashion. The new strategy must first "prove itself," before it can be rolled out. To create a movement for change, the company should



also identify and strengthen the roles of early adopters/ change agents who will be key players to cascade a smooth rollout.

To foster change, the impact of CRM strategies and initiatives must first be demonstrated through initial “Quick-Hits.” Quick hits are relatively easy-to-implement actions that can realize results in a short time-frame, helping gain support for a larger CRM rollout. From implementing quick hits, the next step is to implement a pilot or a few pilots, to continue to gain momentum. Once the results from the pilots are in and there are supporters of the CRM strategy throughout the organization, the next step is to implement a wider, more comprehensive rollout of the CRM strategies and processes. For example this might occur across multiple locations, functions and customer groups (or even on a national or international scale). CRM strategies and processes must be developed and tested in quick hits and pilot programs, before being rolled out on a wider scale and in a cyclical fashion so that improvements can be identified and incorporated.

Training

Training programs must consider what new skills and capabilities are required for implementing the CRM strategy and processes. Training should be designed according to the business units’ defined needs, the rollout schedule and additional specifics of the CRM initiative. CRM strategy and process training must be a core component, although additional types of training such as technical training on any new supporting technology may be required. Technology-only training without training on the customer strategies and processes will result in low adoption.

Overall, companies must demonstrate the importance of employee satisfaction and exhibit this commitment through employee training, resources and empowerment. The training should ensure that employees understand why CRM is being implemented and the benefits to them, as well as the processes and tools to support them in implementing CRM practices.

Training must be comprehensive and clear, providing resources to participants such as e-Learning tools, a user hotline and reference materials to support them as they move from the training to implementation. The training and support materials should provide opportunities for refresher and advanced courses in order to create sustained behavior change. Employees receiving insufficient training can be a liability to the organization as they may damage customer relationships through, for example, inappropriate customer interactions or handling of customer data.

User councils should be established so that employees can test and provide feedback on the new strategies, processes and tools. Ideally users would be involved from the outset in the process design; it is important to continue this involvement well beyond the training program. The councils are conducive for users to provide feedback and influence future improvements. User councils can also be utilized to understand whether employee training and support needs are being met.

Communications

Clear and consistent communications are essential to create awareness and acceptance of the CRM vision and strategy internally, and to convey the benefits to customers via external communications. Internal communications should create an enterprise-wide understanding of the CRM vision, goals, strategy, expectations, benefits and business reasons for CRM. Enterprises often underestimate the necessary frequency and volume of communications by a factor of ten. Therefore, it is important to ensure the appropriate level, frequency and timing of each communication.

Internal communications – These need to be in the form of an internal campaign to all departments and users to create understanding of CRM benefits and encourage adoption. Internal communications should highlight benefits and successes of quick hits to create excitement, and tailor the message to the interests or “What’s in it for me?” for each department. The internal campaign should not be viewed lightly; it needs to

be comprehensive including brochures, internal broadcasts from the CEO, executive presentations, Web site development and other media.

External communications – Any external communications to customers and/or public relations should be handled very carefully. For example, it is not appropriate to let customers know where they rank in their value to the company. However, depending on the timing and readiness of the company, it may be appropriate to let customers know that the company is taking steps to better meet their needs. A carefully constructed communications plan should define the messaging that will go out to each internal and external stakeholder group, as well as the timing and mode for each message.

Measurement

Although it is the final component described here to enable a successful CRM implementation, metrics should be developed early on and aligned with the strategy and processes as they are being formulated. Metrics must be designed to show how the initiative is performing in meeting its objectives. Specific metrics should be developed to measure gains in customer satisfaction, loyalty, value and other customer-specific metrics according to the company's CRM objectives. Metrics for each process should be established to create an understanding of results and progress and to identify the necessary adjustments.

Different types of CRM metrics should be developed including corporate metrics to support corporate, financial and market goals; customer-specific metrics; operational metrics for measuring the customer processes; and infrastructure metrics for monitoring efficiency and inputs, such as data accuracy.

Examples of CRM metrics include:

- **Customer satisfaction**–number of complaints, suggestions and accomplishments
- **Customer loyalty and retention**–retention rate per customer portfolio, lost profitability based on lost customers

- **Actual Value and Potential Value**–customer Actual Value and Potential Value by portfolio, number of customers in each value tier (e.g. Most Valuable Customers, Most Growable Customers), migration between portfolios, transactions per portfolio
- **Campaign results**–feedback per campaign, sales per campaign and profitability increase per campaign, tracked at the portfolio and customer level
- **Share of customer**–account value per customer, product usage by customer, frequency of usage

The above represents just a few examples of CRM metrics. A company will need to carefully review its CRM objectives to define its specific CRM metrics.

A measurement plan and tools, such as a scorecard, should be developed in order to recognize successes and pinpoint areas of improvement, while also establishing accountability for results. Clear documentation of the measurement procedures, tools and responsibilities are required to ensure stakeholders understand how to use the tools and their role in the measurement process. Measurement systems and tools assess progress, customer impact, ROI and other CRM results, providing facts and insight that can be used to continually improve the customer-focused strategies and processes.

Conclusion

Past retail business assumptions no longer provide a sustainable competitive advantage. Today's retail experience is built around the customer and measured by the value of those relationships. Retailers that effectively utilize customer insight to drive the customer experience will ultimately win in today's customer-focused marketplace. Building this kind of sustainable business advantage in a highly competitive retail environment is not easy. The process begins with a well thought out vision and strategy for effective CRM deployment. Your best customers are eager to help you succeed. The key to execution is get the right team assembled, never stop focusing on the needs of the customer and investing in the planning process before technology selection. ■

About the Author

Bob Langer, Partner

As a partner in Peppers & Rogers Group, Bob Langer brings over 20 years of leadership experience in all aspects of sales, business, new market development, and Internet and Web personalization technologies. He has applied his skills to market-leading global organizations as well as early-stage venture-backed companies.

Bob has a unique perspective to the challenges organizations face in the application of technologies to specific customer-facing groups. His understanding of strategic selling techniques, customer empowerment and valuation, self-service efficiencies, and partner leverage has given Bob insight to what is realistically achievable.

During his career, Bob has led numerous customer-based initiatives spanning direct and indirect channels. Through the development of pertinent tools, program and strategies, he has initiated new customer interactions that routinely exceeded assigned goals and produced highly profitable, multi-year relationships.

Recently, Bob served as the Director of Online for Dell Computer Corp. In this role, he was responsible for the overall transformation of Dell's business from an offline process to an Internet driven online environment. Central to this effort was the development of Dell's extremely successful Premier Page platform providing customized and unique experiences for the business customer. This highly scalable platform has been delivered to and is utilized by over 100,000 business customers. Additionally, Bob led the development of complimentary Web services and properties designed to enhance the overall customer relationship with Dell.

Earlier in his career at Sun Microsystems, Bob was responsible for the development of the financial services line of business. His vision for the application of leading edge technologies combined with the re-engineering of handling information distribution in a real-time environment was instrumental to establishing this market into the leading vertical for the company. Over the next seven years Sun Microsystems' financial services market generated in excess of \$1B in annual revenue.

Bob has served on several Boards of Directors and Technology Advisory Boards, and holds a Bachelors degree with honors from Fairleigh Dickinson Univ. in NJ.

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Unlocking the Value of Your CRM Initiative

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About Peppers & Rogers Group

Founded in 1993 by Don Peppers and Martha Rogers, Ph.D., Peppers & Rogers Group is a management consulting firm recognized as the world's leading authority on customer-based business strategy. It is dedicated to helping companies compete and win by identifying differences within the customer base and using that insight to maximize the value of each and every customer relationship.

Recognized by the World Technology Network as having played a significant role in developing the field of CRM, Don Peppers and Martha Rogers, Ph.D., are the co-authors of the revolutionary *The One to One Future* and a series of business books that further develop the unique one-to-one methodology espoused by their firm. Peppers & Rogers Group is a Carlson Marketing Group company, headquartered in Norwalk, Connecticut. For more information about Peppers & Rogers Group, visit their web site at www.1to1.com.

About Carlson Marketing Group

Carlson Marketing Group, a recognized leader in Relationship Marketing, helps global Fortune 1000 clients increase their ROI by designing integrated marketing strategies that build better relationships with the audiences that clients depend on for their success: employees, channel partners and consumers. Ranked by Advertising Age magazine as the largest marketing services agency in the U.S., Carlson Marketing also has an extensive global presence with offices in Europe, Asia-Pacific, Canada and South America. Carlson Marketing Group is one of the major operating groups of Carlson Companies, which is recognized as one of the top 100 companies to work for by Fortune and Working Mother magazines. The National Women Business Owners Corporation (NWBOC) recently certified Carlson Marketing Group as a woman-owned and controlled business.

Carlson Marketing Group's corporate headquarters is located in Minneapolis. The company has a presence in the following major North American business markets: Atlanta, Bloomington (Ill.), Boston, Chicago, Dallas, Dayton, Denver, Detroit, Houston, Los Angeles, Minneapolis, Montreal, New York, Norwalk (Conn.), Philadelphia, San Francisco, Toronto and Union (N.J.). www.carlsonmarketing.com

