
Four elements of Customer Relationship Management

Customer Relationship Management is defined by four elements of a simple framework: Know, Target, Sell and Service.

▲ Know: understand your markets and customers

Detailed customer intelligence is critical to pinpoint the most profitable customers and identify those no longer worth targeting. Customer segmentation thus plays a crucial role. Knowledge of the customer is obtained through IT systems such as Customer Value Management or Data Warehousing and Data Mining.

▲ Target: develop the offer

This tackles the question of which customer segments to target and which products and services to sell through which channels.

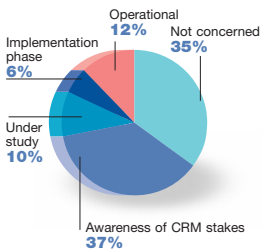
▲ Sell: acquire the customers

Sales processes can be optimised and harmonised (or even revolutionised) by the use of Sales Force Automation Systems that address every stage of the sales cycle (for instance making appointments, sales proposals, choosing products through electronic catalogues, customer follow-up, etc.). At the same time, you can use Campaign management to increase your marketing department's effectiveness.

▲ Service: retain the customers

Servicing customers in the best way so as to gain and retain their loyalty. Supporting them with call centre and help desk services.

Sample corporate awareness of CRM stakes in US and European enterprises



65% of large European and North American companies are aware of CRM

Source: IDC and Cap Gemini, 1999

What CRM really has to offer

CRM is a two stage concept. The first step is to master the basics of building customer focus. The challenge is to move from a product-orientation toward a customer-orientation and define market strategy from outside-in and not from inside-out, that is: centred around customer needs rather than around product features. Needs-based market segmentation, measuring customer satisfaction and loyalty, using activity-based costing to understand customer profitability, and setting up customer service infrastructure like call centres, toll-free numbers, etc. are the building blocks for achieving customer focus. Dataquest estimates indicate that up to 75% of the CRM investment made by companies so far has gone into basic call centre applications.

Advanced companies are moving beyond the basics toward the next stage of CRM. They are the companies that do not rest on their laurels but push the envelope of customer-orientation further by integrating CRM across the entire customer experience chain, by leveraging technology to achieve real time customer management and by constantly innovating their value proposition to customers.

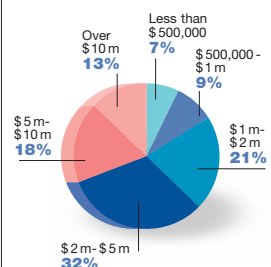
Integrated CRM across the entire customer experience chain: the customer experience chain is the process a customer goes through when searching for, buying, using and eventually replacing a product. It lies at the heart of CRM and determines customer satisfaction and loyalty. What good is it to build expectations through advertising while being unable to deliver or service the product? Excellence in one part of the chain is often offset by mediocre performance in another part. The key idea of CRM is to manage the customer interface across the entire chain as one coordinated process. CRM is not the exclusive task of the customer service department. Rather it requires breaking down the silo mentality of marketing, sales, and service functions.

Real time customer management: the traditional approach to understanding customer needs is to employ quantitative and qualitative market research techniques such as surveys, focus groups, etc. Although this does yield a deeper understanding of needs and buying behavior, it remains a snapshot picture. Sophisticated data warehousing and data mining techniques enable companies to constantly extract knowledge about their customers from operational systems and external sources and predict likely customer behaviour - not on a segment basis but for each individual customer. That information is then distributed to all likely customer contact points throughout the organisation and updated in real time as a customer interacts with a sales rep, a telesales rep, an e-commerce channel, etc.

Constant value innovation: innovating the value provided to customers is an integral part of CRM, since the product or service is what the customer is ultimately interested in. Customers' needs change and the competition is either copying the value you invented or developing innovations themselves. The key to a constant and systematic reinvention of the value proposition offered to customers lies in looking beyond existing industry boundaries and thinking beyond what customers expect today. No customer data base will generate insights about what users cannot imagine today, and breakthrough innovations can turn the competitive landscape upside down. However, in most cases it will be incremental innovations that increase the value offered to customers. Gaining

What good is it to build expectations through advertising while being unable to deliver or service the product?

Total budget allocated to the CRM project by US and European enterprises



One-third of the companies (31%) intend to spend in excess of \$5 million on a CRM project

Source: IDC and Cap Gemini, 1999

a thorough knowledge of your customers' business can be a powerful generator of new ideas. You can then adapt them to suit customers' requirements, bundling your products with complementary ones and value-added services to help optimise your business' performance. The trick is to use the entire CRM process to collect indicators for possible value innovations, rather than being forced to rely on some lone genius down in the research lab.

Adhering to these principles will take customer focus to a new level and yield substantial benefits for companies.

Why now?

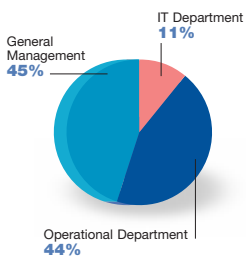
Why is CRM becoming such a hot issue now? The benefits of achieving customer focus are hardly new insights and many companies have invested in customer service departments, call centres, etc.

The reason is that the technology to go beyond the basic step of customer-orientation only recently became available and the companies that offer these 2nd generation CRM technologies are experiencing breathtaking growth rates. Currently the majority (75%) of technology investments are funneled into basic call centre applications. Dataquest expects to see a strong uptake of the technology behind 2nd generation CRM such as advanced data base technology, World Wide Web integration, sales force automation, and multimedia-based front office applications. The European market for professional services to implement these technologies is expected to grow from \$ 1 billion to \$ 7 billion in 2003, achieving a compound annual growth rate of 44%. Eventually CRM functionality will be an integral part of ERP systems.

The trend towards CRM technologies becomes increasingly evident as companies have implemented their solutions regarding Y2K and the euro and can refocus their IT budgets. ERP will continue to grow, especially as vendors such as SAP are expanding their product range to include industry-specific solutions, revamp their user interfaces and roll out methodologies to accelerate implementation of ERP systems. At the same time ERP vendors know that they cannot achieve this high growth rate by concentrating on back office (supply chain) applications alone. Over recent years companies have reengineered their supply chain and administration processes such as product planning, logistics, warehousing, accounting, finance and human resources. They reaped the benefits in the form of reduced costs, greater productivity and reduced production times. However, marketing and sales organisations have not yet been transformed by

CRM - A top management issue

Initiators of CRM projects within US and European enterprises



Source: IDC and Cap Gemini, 1999

technology, while the marketing and sales environment has changed dramatically. Just consider the effects of the growing complexity of product ranges through customisation or the impact of e-commerce on traditional sales channels.

From product-led business to customer-led business

Two essential management processes are required to implement a customer focus in the organisation: programme management to ensure that the necessary cultural and organisational changes really take place on a lasting basis and architecture management to ensure the coherence between the architecture of processes and systems.

A further six clearly defined management steps are needed to bring about the change of emphasis from a product-led business to a customer-led one, from a distribution mentality to a consumer mentality:

- Developing the strategy

What specific business benefits are expected from the Customer Relationship Management strategy?

- Analysing information

Examining information flows between front and back office will provide information on customers.

- Identifying needs

The process of thinking about how to obtain the specific types of information that will tell you about your customers' needs and expectations.

- Defining change

Moving from reactive to proactive involvement with customers. This cultural shift can entail quite a corporate revolution.

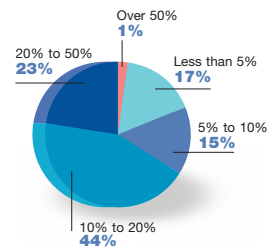
- Building the future

Constructing and deploying the business and technical structures that will deliver the expected benefits.

- Measuring results

Building in value-added benefit measurement systems to check the performance of the Customer Relationship Management system and improve it.

Estimate of the benefits in the next two years by US and European enterprises



One quarter of US and European enterprises (24%) estimate the benefits over the next two years to be turnover increase of above 20%.

Source: IDC and Cap Gemini, 1999

The benefits: more profitable customers that stay loyal to your company.

Considering all the noise on the market about the customer relationship, one could ask: is CRM a new buzzword or a new marketing paradigm? The answer is: neither! It is far too substantial to dismiss as a fad since winning and keeping profitable customers turns out to be an important strength in today's highly competitive markets. Marketing, sales and service were formerly a number of separate and distinct processes and indeed separate worlds; however they are now being integrated through information technology just as the distinct functions of warehousing, supplies, production planning and distribution were aligned in the integrated supply chain management concept.

Is CRM a new marketing paradigm? Hardly, since the paradigm shift happened long ago when marketing managers and academics coined the term relationship marketing. What CRM offers is to walk the talk, to implement relationship marketing throughout the organisation and to realise those long awaited benefits: more profitable customers that stay loyal to your company. ■