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Earning a Positive ROI on Your CRM Initiative

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Eric Stern was the first expert at Customer Relationship Management (CRM) I ever knew. Here are some interesting things about Eric Stern (my father) you may not associate with a CRM expert.

- He never went to college
- He never used or owned a computer
- He never used the Internet; in fact, he passed away in 1984, years before the Internet made its way into society.

So why was my dad an expert at CRM? Here's why. My dad owned a men's clothing store. Following is a typical customer encounter.

- He would politely greet the customer, either by first name or last name, depending on the relationship.
- He would briefly excuse himself, go to his office, and open a small metallic box (his CRM "hardware").
- He would sort through the index cards (the CRM "datamart") and pull the index card he had filled out - in pen - for that particular customer (the "customer record").
- He would then analyze the information ("content") in that record. That data would include purchase history, "customer demographics" (i.e., birthday, spouse's name, etc.) and any other information.
- With this intelligence, he would return to the customer. He would engage the customer, drawing out his needs. He would remind the customer of his recent purchases (which would impress the customer). Then, based on the customer's needs and his knowledge of past purchases, he would put together the "solution" the customer needed.
- He would back this with excellent service, including free alterations, delivery, etc.

Although he never even heard the term CRM, what Eric Stern did captured the essence of what you need to do to achieve a positive return on your CRM investment: combine the intelligent use of information with a true caring for the customer. Twenty years later, CRM is a buzzword. Everybody says they are in the CRM business:

- Companies that sell sales automation and other types of technology (part of CRM, certainly, but certainly not the total package)
- Companies that sell demographic and behavioral data (again, an important piece of a total CRM solution, but not CRM itself)
- Even companies that sell gift baskets and premiums such as pens and T-shirts have claimed to be in the CRM business.

Small wonder, then, that when organizations are being barraged by an ever-increasing number of CRM solutions, peoples' eyes glaze over. The purpose of this article is to provide some simple facts about what CRM is (and isn't), to explain why many CRM initiatives don't work, and to provide some tips so that you can achieve a positive return on investment on your CRM initiative.

What is CRM?

The term "CRM" is trendy. Everybody says they are in the CRM business. Therefore, an important starting point is to explain what CRM is. Not surprisingly, there are several definitions. Peppers and Rogers accurately defines it at its most basic level:

"CRM is a way of thinking about your business that puts the customer at the center – it's about focusing resources and retaining valuable customers and acquiring more like them."

Gartner Group provides a detailed, more process-oriented definition of CRM:

"CRM involves capturing customer data from across the enterprise, consolidating all internally and externally acquired customer-related data into a central database, analyzing the data, distributing results to various customer touchpoints and using the information when dealing with customers through any touchpoint."

The key elements of both these definitions are worth discussing.

The Peppers and Rogers definition drives home a critical point – CRM will fail in an organization that is not customer-centric. You need both customer-centric people and processes (having nothing to do with technology) before you can even begin thinking about CRM.

Once those are in place, it is possible to investigate the Gartner definition.

First, it is essential to capture customer data from across the enterprise, and the more the better in terms of points of contact and information. In fact, great data is the fuel that powers a successful CRM program. How can you manage customer relationships if you don't have the information to know your customers?

For a hospital, for example, that means capturing information from clinical points of contact (inpatient, outpatient, physician office), as well as from the call center and even the gift shop and cafeteria. It also means capturing information when people attend health fairs, wellness classes and screenings. This enables the hospital to provide even more personalized service, resulting in a customer that is more satisfied, likely to come back, and likely to refer others.

The depth of information also is important. For clinical encounters, this means not only the type of encounter, but also the financial information associated with it. Because of vastly different reimbursement rates, a particular procedure may be highly profitable for customers covered by Preferred Provider Organizations, but unprofitable for customers covered by Medicaid. While the hospital would not and should not turn away Medicaid customers, they don't have to spend precious marketing dollars on programs directed to attracting them.

Second, it is important to supplement internal data with "externally acquired customer related data." This includes information such as demographics (age, income, marital status, etc.), behavioral information (often taken from warranty cards) and even psychographic information. Automobile dealers, for example, want to understand this knowledge about their current customers so they can find other people who look like those customers.

Third, it is important to compile all this information into a single database. A distributor of industrial products, for example, will have revenues from several sources. They have a sales force that goes out and sells. They may sell some products through direct mail, and may also sell products over their Website. If these systems sit separately, there is no way to understand the most efficient way to sell to each customer. It is also impossible to determine overall customer profitability

Fourth, it involves analyzing the data. Analyzing the data will answer a variety of questions. Who is a profitable customer? Who isn't? What are the most effective strategies to deepen customer relationships? What new products and services can we offer? Many supermarkets are sophisticated users of this type of analysis. Those cards that you swipe at the store are used for a lot more than discounts. They help determine what coupons you receive in the mail, what products to order and not to order, and where to place them on the shelf.

Fifth, it means making sure everybody in the organization has access to the information. How frustrated are you when you call the customer service area of a company you do business with, and they don't have the most updated information on your account?
Compare that to the experience you have when you check into your favorite hotel, and they not only know the type of room you want, but also what newspaper you read and your wine preference? That's the difference between good and bad customer relationship management.

Finally, it means using the information. The information from a good CRM system can drive virtually every business decision an organization needs to make. Product strategies, sales strategies, marketing strategies and operations strategies all can be driven off the information to be culled from a CRM program.

Notice some words which were not included: words like technology, software, data warehouse.

Remember the example above. Before the days of computers, relationship managers were able to take advantage of the technology of their day: index cards, binders, etc., to collect information about their customers, track results and establish long-term relationships. They understood the essence of CRM. It's not about the technology.

Of course, technology can add power to the CRM program. If information is the fuel, technology certainly is the accelerant. Imagine your favorite airline frequent flier program trying to figure out what offers to send you and its millions of other members without computers and powerful models to analyze segmentation and profitability. But, again, this accelerant is nothing without the wise use of relevant information and a true caring for the customer.

Why Do CRM Programs Fail?

According to Gartner Group, 55% of CRM initiatives are doomed to fail in the next five years. This is consistent with other findings.

There are many reasons for this.

There is no plan. First, too many organizations do not clearly think through why they are undertaking a CRM initiative. The CRM initiative must be based on solving one or several business challenges…increasing customer retention, increasing market share, etc. It should not be technology-driven. Yet too many organizations say: "We have to have a CRM initiative because everybody else is doing it." Then they go out and buy the latest and greatest technology, with no idea of what they want to do with it. Then, after they figure out what they want to do, they realize the technology they have invested in won't support that application.

The wrong people own it. This is a related problem. If the process is a technology-driven process, then frequently the Information Systems department owns it. While these are undoubtedly people with a keen understanding of technology, they do not have the business perspective required to lead a CRM initiative. The Marketing Department is the logical place for the CRM initiative to reside..

There is no corporate buy-in. While the marketing department should own the CRM initiative, this ownership is useless without strong executive-level endorsement. Successfully implementing it is an enterprise-wide undertaking that requires a strong endorsement at the highest level of the organization. After all, the initiative will touch every corner of the organization on several levels. First, and most critically, a successful CRM initiative "puts the customer at the center," in the words of Peppers and Rogers. So the executive team must endorse the customer-centric philosophy, and the processes and cultural shifts needed to create it.

On a more technical level, the successful CRM program will link databases from around the organization – operations, sales, marketing, customer service, finance. So representatives from all these units must be included in the process. And since legacy systems will be involved, the IT area also needs to be included. The CRM system will only be as strong as its weakest link, and one weak link can render the system useless.

In order to make sure there is enterprise-wide support, executive backing for the initiative is imperative. To make sure that happens, the Marketing Department should work with other departments to put together pro forma Return on Investment models that can be used to sell the investment. This is no trivial task, and will require an understanding of costs and revenues throughout the organization.

Before You Start

Before you even start implementing a CRM solution, as mentioned, you need to be sure you have a customer-centric organization, with customer-centric people and processes. There are several companies that will guide an organization through their CRM customer-focused strategy and business goals, redesigning the core business processes to be customer focused..

A CRM Framework

A proper CRM program entails a closed-loop process. This closed loop process allows organizations to do the following:

- Identify the best targets for acquisition, upsell and retention
- Segment these targets
- Quantify the value of these segments
- Profile these segments
- Execute strategies
- Track responses
- Track return on investment
- Refine strategies

Each of these is discussed in greater detail below.

Identify the Best Targets

Once the CRM database has been created, the first thing to do is identify who your customers are, and which ones present the greatest opportunity. Several methods can be used for this. For example, lifetime value can be calculated to identify which customers are most profitable over time. This is done by discounting the monthly profitability of a customer over the expected life of the relationship, and subtracting the acquisition cost. This is an ideal, pure way of finding out who your most profitable customers are. Knowing this, you can then try to find prospects who look like them.

Note that this analysis does not have to be restricted to best customers. For example, a health plan may want to identify unprofitable customers for the purpose of identifying ways to make them profitable (i.e., health education programs to keep them out of the emergency room).

Segment The Targets

A group of "best customers" is not homogeneous. For example, a mutual fund company's best customers could include both households aged 55-64 saving for retirement, as well as younger households with children saving for college education. One needs to segment these "best customers," because you obviously cannot attract both with the same services, products and communications methods.

There are several types of segmentation systems. These include the following:

- Geographic: a division of the market according to discreet geographic units
- Demographic: a division of the market based upon consumer characteristics such as age, income, etc.
- Geodemographic: a division of the market based upon geography and demographics
- Psychographic: a division of the market based upon consumer lifestyle or personality
- Behavioral: a division of the market based upon consumer knowledge, attitude or product use

Any of these are acceptable methods of segmentation. The critical thing, though, is that the system has to be "tied to the ground," i.e., you have to be able to use those attributes and find them on a marketing list.

Quantify the Value

Once you have identified the segments, you prioritize your opportunities by quantifying the value of retaining best customers, upselling current customers who look like best customers, and acquiring prospects who look like best customers. There are several methods:

- For acquisition, which current customer segments provide the greatest lifetime value. You'll want to find noncustomers who look like them.
- For retention, what is the impact on lifetime value of extending the tenure of specific segments? At some point, the cost of maintaining a relationship will exceed the expected revenue from the relationship. For example, an insurance company might know that the average tenure of an automobile insurance policy is seven years. By projecting the remaining revenues expected from that particular customer, the insurance company can make investment decisions as to how much it wants to spend to retain that customer at different points in the relationship.

Profile the Segments

Upon identifying and prioritizing the segments, one next needs to find out all they can about those segments, and even individuals within those segments, to design the best products and communications strategies. For travel agents, for example, pieces of information that are helpful include, but are not limited to:

- Recent trips taken
- Preference of airline, hotel and rental car companies
- Customer demographics
- Leisure activities enjoyed (to plan side trips)
- Media preferences (for advertising purposes)
- Preferred communications method (direct mail, telemarketing, e-mail, etc.)

Execute

The above encompasses the strategic component of CRM: the use of information to identify the best product, sales and communications strategies targeted to the most appropriate segments.

With this information, one can then develop the most effective products, and create and execute the most appropriate sales and marketing programs. This should entail development of a multi-channel strategy to optimize the value of all sales and marketing channels. For example, a company may discover that its customers prefer buying over the phone, but may want to be communicated with via e-mail.

In executing marketing programs, it is always important to include a control cell of people you do not market to. This way, you cannot only analyze which segments perform best, but also the overall impact of the marketing program.

Track Responses

Once a marketing campaign has been executed, the first step is to track the immediate effectiveness of the campaign. This simply entails finding out how many people, by segment, creative cell, etc., responded to your call to action (how many people signed up for your pre-approved credit card offer, etc.). While this is only an interim step and not a substitute for ROI, it is important. A key requirement here is the ability of the organization to actually capture those responses. This must be thought through up front, which is why early buy-in from all operational areas is required.

Track Return on Investment and Other Key Metrics

Tracking return on investment allows you to identify the true effectiveness of a campaign and of the total CRM initiative. For example, for companies that sell technology business to business, this entails capturing the downstream revenues generated from a particular sales or marketing effort, as well as acquisition costs and costs for maintaining the account. Here is what return on investment analysis will do.

- Identify the best performing segments in terms of return on investment, lifetime value, etc.
- Identify the impact of the marketing campaign, by analyzing the results from people marketed to vs. results from people not marketed to (the control cell).

Additionally, other metrics can be examined, such as productivity metrics, cost reduction metrics, etc.

Refine Strategies

This is the piece that closes the loop. After analyzing return on investment, organizations can refine their strategies to make their following activities even more effective.

Build vs. Buy

Now that you understand how to generate a positive return on your CRM investment, the final question is the technology question. What is the best CRM technology solution?

The first decision is the build or buy decision. The natural inclination is to build the system internally. Your IT department will tell you they can do it cheaper. And since this is a major initiative, they will want to do it.

A few words of caution, though. First, you can probably get it done more quickly using an outside supplier. Your IT department is constantly facing shifting priorities and responding to crises. Chances are, despite the best of intentions, conflicts will arise and the project will take significantly longer than expected.

Second, putting together a CRM system is hard. No single vendor has developed a technology suite that satisfied the enterprise CRM technology needs, despite multiple years and billions of dollars of engineering investment. How can an IT department even think they can come close, in addition to providing a flexible, scalable, upgradable solution.

Selecting the CRM technology partner can be an arduous process. It should involve the following steps.

- Begin by putting down in writing what your vision of your CRM program is. Write down exactly what business issues you are trying to address, and your expectations as to how the CRM solution will address them.
- Research the various alternatives. Use the Internet, read trade journals, attend conferences, talk to colleagues. Begin to put down a list of the possible companies you might want to talk with.
- Perform an initial telephone screen with a common, written list of questions. To the extent you have already identified what capabilities you are looking for, you can quickly eliminate companies that don't provide those capabilities.
- Based on those telephone screens, invite several companies to meet with you and to present their capabilities. Provide a written agenda of topics you expect to cover. Expect to see a product demo, but do not settle for a feature-fundtion product demo. You need to be sure your business process can be enabled through the technology, so demand to see a business-process oriented demonstration. For example, ask to see how to initiate a marketing campaign all the way from targeting to execution to measurement. At this point, initial pricing discussions also are appropriate.
- Plan onsite visits to those companies still in the running so you can get a better handle on their people and processes. You will definitely want to meet with the people who will be handling your account. Make sure that, in addition to the technology, you have confidence in their project management expertise. That will be a big part of making the initiative suc-

cessful.

- Check references. Have a detailed list of questions for the references. Ask about product performance, service, expertise, etc. Make sure to ask the question: If you had to do it all over again, would you select them? If possible, actually visiting clients at their sites so you can see in person how they use the solution is strongly recommended.
- Negotiate the contract.

Conclusion

Establishing a CRM initiative requires a long-term commitment over several years. You cannot expect dramatic results from a CRM program overnight. The program itself takes months, if not years, to set up. More importantly, profitable customer relationships are usually built over several years. But if you build the program right from the start, and carefully maintain it, it should quickly generate a positive return on investment, and be a positive force in your organization for years to come.

Additional Resources

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