

The Road to CRM Riches

accenture

High performance. Delivered.

• Consulting • Technology • Outsourcing



The Road to CRM Riches

As the global economy lurches unsteadily through the early part of the 21st century, companies around the world are searching for ways to restore the growth and profitability they enjoyed in the buoyant 1990s. For many of these organizations, customer relationship management (CRM) is seen as a particularly attractive proposition.

Indeed, better management of the customer base offers great potential for companies to improve their top and bottom lines – especially given how difficult it's become for businesses of all types to attract and retain loyal customers. However, as many companies have discovered, adopting the right CRM capabilities – and generating significant business benefit from those investments – is not as easy as they first thought. In fact, many industry observers and analysts are quoting failure rates as high as 60 percent for recently completed CRM projects, and are equally bearish on initiatives currently under way.

As the cost of a typical CRM implementation continues to grow – and the pressure to address the shortcomings in customer management operations intensifies – organizations will have to become more vigilant in: identifying which CRM capabilities will provide the greatest financial benefit; building a bullet-proof business case for the project; gaining executive and stakeholder support; creating an intelligent and comprehensive execution plan; and using the new system to develop customer insights that will fuel more effective strategies and programs for marketing, sales, and customer service.

The Customer Challenge



In the past decade, it has become increasingly difficult for companies to connect with existing and prospective customers, for a variety of reasons. These include: the commoditization of brands and products, with the number of items on offer to consumers expanding significantly in the past 20 years; tougher and more numerous competitors; explosion in the amount of market 'noise' following the huge jump in the number of messages that bombard consumers on a daily basis; proliferation of customer interaction channels, especially with the advent of the Internet and wireless devices; and ever-rising customer demands and expectations, driven by their increased ability to evaluate offers and prices as never before through the Internet plus their experiences with value and service leaders such as Virgin, FedEx, Wal-Mart, and Siemens.

With such stiff challenges facing them, it's no wonder that companies are increasingly under pressure to come up with better ways to manage their customer relationships. The stakes truly are high. A misstep in a key marketing, sales, or customer service activity today can be disastrous, even to healthy company – and possibly fatal to a weak one.

CRM to the Rescue?

In the face of this "customer revolution", many companies have sought to address their shortcomings in key customer-facing activities via CRM initiatives (Figure 1). In fact, according to a report from The Conference Board, some 52 percent of the 96 global companies the organization surveyed have implemented a CRM solution, while Forrester Research estimates that 45 percent of companies are considering or piloting CRM.

Some companies' efforts could be characterized as the "first wave" of CRM: bolstering the effectiveness of call centers and sales forces. The goal of such projects is to increase customer satisfaction by improving the efficiency of the existing channels used for customer interaction. These initiatives typically result in more convenient transactions for customers, e.g., shorter hold times for customers calling for assistance, or a sales associate's ability to access instantly customers' buying histories and product pricing information.

Hoping to do more than enhance their call center and sales force activities, other companies are focusing on how they can improve their customer interactions – with the goal being to not only increase customer satisfaction, but also to create compelling reasons for customers to continue to patronize the organization. During this "second wave" of CRM, companies seek to provide customers with multiple ways of interacting with the company and gather valuable data on customer transactions, preferences, and behavior from activity at those contact points. The Internet, in particular, has proved to be a powerful tool for creating new lines of communication with existing and prospective customers.

Having focused their CRM efforts on realizing benefits from their sales and service functions, the most forward-thinking companies are now turning the spotlight on marketing – the last bastion of CRM benefit realization. They are using deep customer insights and analysis, drawn from individual (yet integrated) customer interactions, to understand and predict customer

behavior and fulfill customer needs as completely as possible. This "third wave" of CRM, which will bring about the ultimate transformation of the customer experience, is geared towards improving customers' brand loyalty and creating lifetime customer value. By integrating customer communications and brand across all channels, a seamless, integrated customer experience is created – regardless of how an individual chooses to interact with the company.

Unfortunately, CRM efforts of all types are either foundering or are likely to fall short of their goals. Gartner Group predicts that during the next five years, 55 percent of all CRM projects will fail to meet their objectives. Furthermore, the Data Warehousing Institute recently noted that 41 percent of CRM projects are "experiencing difficulty" or are "potential flops". And, a study by crmindustry.com revealed that 56 percent of US-based companies have not achieved a measurable return on their CRM investment.

Figure 1
The Three Waves of CRM

	CRM Wave 1 Call Center/ Sales Force Effectiveness	CRM Wave 2 Multi-Channel Interaction	CRM Wave 3 Reinvention of Marketing Transforming CRM
CRM Goals	Improve channel efficiency Increase customer satisfaction	Improve customer interactions Increase customer retention	Predict customer behavior Build brand and lifetime customer value
Investment Strategy	Provide more efficient means of customer interaction	Provide customers with multiple points of contact; gather insights	Integrate communications and brand across channels
Resulting Customer Experience	Customers enjoy more convenient transactions, but channels are not integrated	Customers have more options to interact with the company, but the experiences are fragmented across contact points	Customers are given a seamlessly integrated experience across all channels
Outcomes	Customer acquisition Product sales	Customer retention Cross-selling	Customer value Brand value

CRM Pitfalls



Why are analyst groups such as Gartner bearish on the ability of today's CRM projects to be successful? What's behind the arguably chequered track record of many recent initiatives? What's to blame for the fact that, while CRM projects have improved some aspects of companies' customer-facing operations, few have generated the type of significant company-wide benefits that CRM proponents tout as possible?

There are several critical factors behind CRM's underperformance (Figure 2). One of the most prevalent is the failure of many companies to **obtain and maintain executive support** for the CRM project. Consider the typical scenario. A group within a company decides that it could benefit from new CRM capabilities. It begins to study the issue, momentum builds, and soon there's strong grassroots support for the effort. Unfortunately, when the time comes for senior management to sign off on the sizable investment required, no executive is willing to do so. Too many times, a group planning

a CRM effort fails to ensure – early in the process – that executives understand the initiative and the business case for it; are clearly convinced of the need for CRM; and are willing and able to proactively support the initiative, especially at critical junctures of the project (e.g., securing funding).

Companies have also struggled with **aligning key internal functions or business units** affected by the CRM initiative. Functional misalignment is a very complex issue that often takes the form of a battle between IT and the company's customer-facing functions or a disagreement among sales, marketing, and customer service on the right priority for competing CRM recommendations.

In the former situation, a company's IT department may want to implement a particular CRM solution, but hasn't secured agreement from the functions that will have to use it. This almost always results in a waste of resources because, although the company may end

up with a good technology tool, it most likely will never fully realize the potential benefits of the tool because the changes in business processes, strategies and organization structure necessary to leverage the technology were not made. An HR services firm discovered this the hard way. After spearheading the implementation of a call center system, the company's CIO found that call center employees were refusing to use it because they were never fully coached on how the system could help them improve the way they did their jobs. On the other hand, if marketing, sales, and service decide to push ahead with a CRM initiative without IT's support and resources, the effort often stalls or gets derailed when it comes time to implement the supporting CRM technologies.

Alignment discord among business units is also a common cause of CRM project failure. For instance, if sales wants to adopt sales force automation software, customer service wants new productivity tools for its call center, and marketing is

pushing for new campaign management capabilities – and all three efforts move forward without consensus – a collection of “one-offs” that don’t work well together will be built. The result is more money spent than necessary; clumsy – or worse, non-existent – technological integration; redundant or conflicting customer data gathered; and a fragmented customer experience from one interaction channel or touchpoint to another.

A third area that has proved a problem is accurately **linking the CRM project to higher-level business strategies** – in other words, identifying short- and long-term business objectives and how CRM will support them. Many companies have fallen prey to the “sexy technology” trap – becoming so enthralled with a particular CRM technology that the organization loses sight of whether the tool will actually support how the company goes to market. A simple example is the company whose marketing department wants to implement a campaign management tool to improve the efficiency and effectiveness of direct marketing. Yet, the company generally takes a mass-marketing approach to customer acquisition and uses call centers as the primary vehicle for customer and prospect communications. In this instance, an investment in direct-marketing CRM tools wouldn’t support the company’s principal customer activities, and such an investment rightly would be deemed a failure.

A focus on “capability building” instead of ROI creation also plagues many CRM initiatives. In fact, it’s not uncommon that a sponsor of a CRM project “knows” intuitively that a capability is needed and will create value, but doesn’t spend enough time thinking through how that value will be generated. For instance, one global hospitality company was considering implementing a system featuring a hand-held device that would help check guests in as they pulled up to the front door – similar to the one

Figure 2
Principal CRM Project Problem Areas

- Failure to obtain and maintain executive support for the project
- Failure to align key internal functions or business units on goals and mission of the project
- Inability to accurately link the CRM project to higher-level business strategies
- Focusing on “capability building” instead of ROI creation
- Lack of an integrated plan for project implementation
- Failure to achieve successes early in the project

car-rental companies use to process customers returning cars. On the surface, the idea was attractive, but when executives were finally pressed to quantify the tangible value of the new system to the hotel – i.e., if it would increase the number of room-nights booked or justify higher room rates – it became clear that the project couldn’t be economically justified.

A fifth problem area concerns **having an integrated plan for project implementation**. Many companies are juggling several CRM projects at once, all competing for the same limited pool of resources rather than being executed as part of an integrated CRM implementation program that ensures capabilities are built in an order and timeframe that makes sense to the organization at large. Without such an integrated plan, IT often becomes overloaded and unable to keep up with the demands of the various projects.

Furthermore, such a disjointed approach can result in the implementation of a specific capability before there’s a solid understanding of the key dependencies that must be in place for the company to generate value from the capability – e.g., building a campaign management system before a customer database is fully functional.

Finally, many CRM projects are considered failures because they **don’t achieve early successes** that help shorten the payback time and create momentum for the projects. Instead, they are executed in such a way that the companies can’t begin to realize a payback on the new systems for two or three years. This not only makes it difficult to justify the investment in the projects, but also gives the efforts the appearance of “black holes” that are consuming valuable corporate resources. In some cases in the past, these projects have been aborted well before they were finished – resulting in a substantial waste of time, money, and opportunities.

Avoiding the Pitfalls: CRM Strategy and Roadmap Development

How can organizations learn from the mistakes of others and avoid these common pitfalls? To ensure that they address these critical CRM elements – and, thus, improve the chance that their projects will generate true business benefits for them and avoid becoming “one of the statistics” – companies must identify, prioritize, and build the right CRM capabilities for creating customer and company value.

This approach – which we call the CRM Strategy and Roadmap – is appropriate for these typical CRM situations:

- For a company that's struggling to reconcile competing requests for CRM investments – often from different business units or departments – and must determine which requests should be funded and how each initiative will affect not only a business unit or department, but also the company as a whole.
- For a company that lacks executive alignment behind a CRM strategy and plan.
- For a company that's interested in proactively designing a “greenfield” CRM capability and has to pinpoint which capabilities are appropriate for their specific business requirements.

The CRM Strategy and Roadmap is a distinct alternative to traditional approaches to CRM capability development. It focuses on business outcomes, not capabilities alone. It is analytically rigorous, relying on an ROI focus instead of subjective considerations. Its emphasis on revenue and cost drivers links the CRM investment directly to a company's income statement. And, it provides a value-based, prioritized plan for CRM implementation to ensure that the most important areas are addressed first.

There are four key steps to a CRM Strategy and Roadmap project: strategic context identification, capabilities assessment, business case development, and implementation plan creation.

Strategic Context

The first step is to understand how CRM fits into the context of the company's overall business strategy. This entails first confirming the company's vision for the CRM project as well as the project's business imperative – taking into consideration the existing business environment and the company's corporate strategic priorities.

- Is the company's market growing, stagnant, or declining?
- Is cutting costs the organization's most pressing immediate concern or is boosting revenues the priority?
- What's the relative emphasis between customer acquisition, development, retention, and cost-to-serve?
- Which channels are most critical for interacting with and serving customers?

- What's the balance between product focus and customer focus?
- Who does the company see as its most valuable customers and why?

Answering questions such as these helps determine which CRM capabilities the company pursues.

At this stage, it is vital to understand how the CRM project will fit with the priorities of key stakeholders. To ensure that the project has strong backing from the right people – and that the views of these individuals are in sync – the company must understand what key sponsors believe are the project's objectives. Similarly, the views of managers responsible for marketing, sales, and service – as well as their direct reports – must be considered to ensure that everyone is "pulling for the same team" as the project progresses. One technique used to help achieve such alignment and consensus is the "war room," in which key stakeholders are graphically plotted on a board along several dimensions – e.g., their

understanding of the project, "buy-in" of the initiative, willingness to take proactive action to support the effort, etc. This helps the project team know, at a glance, which stakeholders are in their camp and which need special attention or additional information. Alternatively, a large, cross-functional "input team" can be created comprising numerous representatives from all functions affected by the project to ensure that views of executives, managers, and line employees alike help shape the project and the system that's ultimately created.

Capabilities Assessment

Next, the project team conducts a comprehensive assessment of the company's current CRM capabilities – such as marketing program execution and management, customer interaction management, and brand/message alignment.

This exercise helps the company understand how current performance on these capabilities stacks up against benchmarks from other CRM practitioners – i.e., whether the company is lagging, performing at parity with its competitors, or leading its industry – and identifies “stretch goals” for future improvement. The team also reviews the CRM capabilities to determine which ones are most germane to the company’s particular situation, and assigns a “weight” to each capability based on how much or little it contributes to the company’s ability to create customer value. The result of the assessment, weighting and scoring process is a comprehensive report showing areas of strength and opportunity across relevant CRM capabilities – and highlighting specific gaps between current and potential performance.

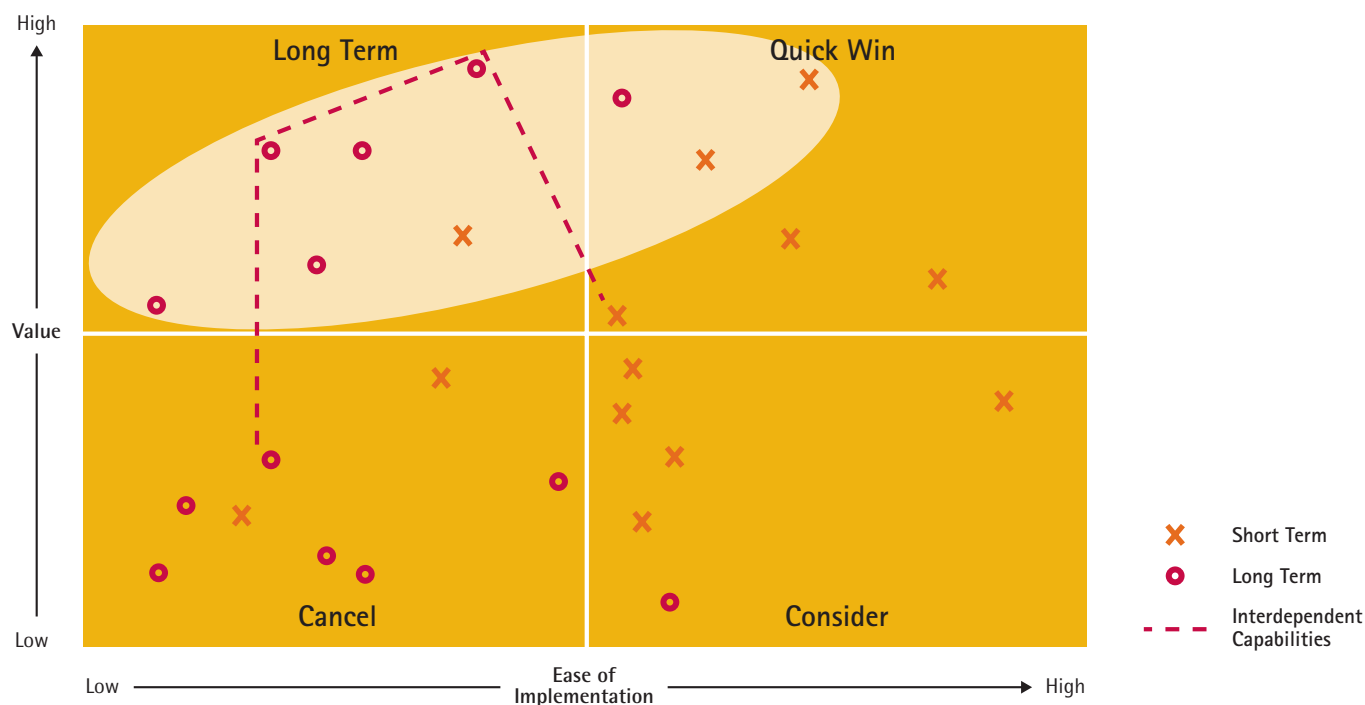
Business Case Development

The third step involves building a sound business case to support the CRM investment. This effort begins with estimating how the company could improve its financial position by enhancing its performance on key “drivers” of revenue and costs. Such drivers include customer retention, new customer acquisition, and sales per customer on the revenue side, and average length of call center “call-handling time”, total number of calls handled, and direct-mail expenses on the cost side. By understanding how the company performs on all revenue and cost drivers, benchmarking this performance against industry standards or new performance goals, and quantifying the gap between current and potential performance, the company can determine where it should focus its CRM efforts to achieve maximum financial benefits.

A simple example is a company that handles 98 percent of its 10 million customer calls with live agents – at a cost of \$5 per call. If the company could reduce this percentage to just 94 percent by shifting more calls to customer self-service options, it would save \$2 million. Clearly, this makes a strong case for the company to invest in increasing its customer self-service capabilities to achieve quantifiable financial benefits.

With a solid understanding of where it can generate the greatest improvements in financial performance – i.e., increasing revenue and reducing costs – the company must next identify which CRM capabilities are necessary to bring about such improvement. For example, if improving the effectiveness of direct marketing is seen as a way to significantly increase revenue, two CRM capabilities – Predictive Modeling and Marketing Program Execution – would be critical to achieving that revenue goal. By conducting this exercise for every revenue and cost driver, the company can easily

Figure 3
 Prioritizing CRM Targets



identify which CRM capabilities are critical to improving its financial performance – and then map these capabilities against their ease of implementation to create a picture that clearly shows which capabilities should be pursued in the CRM project and in what order.

As illustrated in Figure 3, prioritizing capabilities in this way helps management identify which ones may represent a quick win, which require a longer-term investment, and which – because of low value and implementation difficulty – should not be pursued. With the capabilities thus prioritized, the company can then group the capabilities into logical initiatives – e.g., implementing marketing automation software and improving marketing processes could be grouped into a Direct Marketing Effectiveness initiative, or adopting a customer self-care capability and improving call-handling could be bundled as a Call Center Optimization initiative.

As the illustration shows, the team can also identify interdependent capabilities i.e. those capabilities that rely on the previous implementation of others.

To complete the business case for the project, the company must tally how much additional profit each CRM initiative can realistically generate for the company (using the revenue-enhancement and cost-reduction estimates developed earlier in this phase), and map these estimates against the high-level costs associated with completing the respective initiative (including hardware, software, training, third-party resources, and maintenance). The results of this exercise will help the company demonstrate that the project can be economically justified and secure the funds necessary to execute it. More important, it significantly reduces the company's chances of embarking on a project that will result in little or no payback.



Implementation Plan Creation

The final step involves creating the roadmap that clearly defines "how to get there": the technical, process, and organizational elements that must be addressed to complete the CRM initiative.

These include the following:

- Interdependencies between new and existing systems and processes
- Resources needed and available
- Organizational alignment
- Executive alignment
- Necessary new or redesigned processes
- Key technology infrastructure and applications
- Execution plan
- User training

The CRM Strategy and Roadmap approach can help the company determine financing and sourcing options for the project as well. If, for example, the company has a high demand for capital, it may opt to explore alternatives to outright capital expenditures – such as co-sourcing or outsourcing arrangements with strategic partners. These can reduce the amount of money the company has to spend to complete the CRM initiative in exchange for some percentage of the financial gains the project generates for the company. On the other hand, a company for which CRM is a core competency may prefer to build capabilities itself.

Case Study: Hotel Operator

One company that is using this approach to guide the design and implementation of its CRM initiative is a large North American hotel operator. In its role as a franchiser of several well-known hotel brands, the company provides a number of shared services to its properties, including a central reservations center, e-commerce support, brand marketing, and a frequent-guest loyalty program. Although the company's historic performance in delivering these services was good, there was a growing perception internally that several CRM-related enhancements were needed to improve the effectiveness of its customer interactions. Company executives – confronted with numerous uncoordinated, independent CRM investment requests from various areas of the company – realized that a cross-functional, integrated approach to CRM would provide the company with the best capabilities for enhancing their shared services organization, optimizing their customer relationships, and improving franchisee business performance. Accenture was asked to help the company develop a CRM strategy and implementation plan.

The first order of business was to develop the company's enterprise-wide CRM strategy and identify and prioritize its CRM initiatives. As part of this effort, the project team first conducted a "touch point analysis" of the company's operations to identify the key points of customer interaction and help the company focus its attention on those areas with the greatest impact on customers. Customer touch points were grouped into four areas: Establishing the Relationship; Pre-Trip Experience; On-Property Experience; and Maintaining the Relationship. The specific CRM capabilities that related to each of these touch points also were identified.

Next, the project team conducted an assessment of existing CRM capabilities. Through this assessment, it became clear that the company was an industry leader in developing insights into its customers' needs and behaviors and running an efficient call center, but could benefit from enhancements in direct marketing execution, call center effectiveness, and sales.

After assessing its existing CRM capabilities and identifying areas for improvement, the project team conducted a comprehensive analysis of what financial impact improvements in its "lagging" capabilities could have on the organization.

This effort led to a dramatic conclusion: the company could generate an estimated \$65 million in additional net profit over five years by focusing on 15 to 20 key capabilities in its direct marketing, sales, and call-center operations.

The team grouped these capabilities into four distinct initiatives:

- **Direct Marketing Effectiveness**, which sought to improve the company's campaign management efforts and its ability to provide offers more closely tailored to individual customers
- **Call Center Optimization**, which involved building robust capabilities for more "intelligent" handling of customers' incoming calls and better

access by call-center representatives to customer records

- **Sales Effectiveness**, which included sales force automation capabilities and an integrated channel sales approach
- **IT Infrastructure Enhancements**, which focused on creating more robust customer data models and enhanced guest profiles

When the CRM project is completed, the company will have in place capabilities to generate incremental improvements in business results across direct marketing, its call center, and sales. As one example, the new campaign management software and related marketing processes will allow the company to more effectively leverage its industry-leading customer analysis capabilities by creating more timely, targeted, and relevant direct-marketing campaigns.

Conclusion

Undoubtedly, CRM has generated value for many companies in the past several years. However, the value that's been delivered pales in comparison to what is possible. As economic uncertainty continues and customers become more demanding, organizations simply must find ways to improve the chances that their new CRM initiatives succeed.

A major step in this direction involves adopting an ROI-based approach to CRM. This ensures that the capabilities built in a CRM project are not only the right capabilities – i.e., they are consistent with the company's mission – but are also the ones that support the key activities that enable the company to realize its business goals and, thus, have the greatest potential to provide the highest return to the company in the form of reduced costs and enhanced revenue.

But building the right CRM capabilities is only the first part of the CRM journey. Once these capabilities are in place, it is incumbent upon the organization to take the necessary steps to ensure that the new CRM capabilities are leveraged most effectively. These steps include: creating a high-level customer strategy that builds upon the new CRM capabilities to improve the way the company interacts with customers and prospects; developing a better understanding of existing customers' needs and profitability, and grouping customers into logical segments; creating strategies for each segment to maximize the value of those groups of customers; and identifying and building the processes, organization structures and measures necessary to implement these strategies and optimally serve each customer segment.

By following this approach, companies can realize a significant return on their CRM investments – and, subsequently, attract the attention, loyalty, and business of their most valuable customers for years to come.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills, and technologies to help clients improve their performance. With more than 83,000 people in 47 countries, the company generated net revenues of US\$11.8 billion for the fiscal year ended Aug. 31, 2003. Its home page is www.accenture.com.

Contact Information:

Brian Crockett

brian.k.crockett@accenture.com

© 2002 – 2003 Accenture. All rights reserved.
Accenture and its logo, and Accenture High Performance
Delivered are trademarks of Accenture.