

The Disciplines of CRM

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Introduction

In 2000, the following prediction was made by IDC and reported by PR Newswire: “According to the CRM Market Forecast and Analysis prepared by IDC, the world's leading provider of information technology data and analysis, the total CRM market will reach \$12.1 billion by 2004, representing an annual growth rate of 29.9%.”(1) Hindsight is such an eye opener and although we have not completed 2009 data, it is highly unlikely that the customer relationship management (CRM) market will reach anywhere close to \$12.1 billion dollars in 2009, much less 2004. In a recent study available by Gartner Group it was concluded that “Most CRM initiatives fail to deliver the expected value because enterprises have not mastered this rapidly evolving business competency at a strategic level.” (2) CFO.com reported in 2003 that in 85% of all cases, CRM users could not show any quantifiable results and 12% of all CRM installations were complete failures.(3) CRM is extremely challenging and to justify CRM's multi-billion dollar price tag users of CRM will need to treat CRM as both a “discipline” and as a predictive tool.

CRM in the Beginning and “Middle Ages”

Customer Relationship Management is as old as business itself. Legend has it that Herbert Marcus of Neiman Marcus once said, “There is never a good sale for Neiman-Marcus unless it's a good buy for the customer.” In order to understand the current shortcomings of CRM, we need to evaluate the strengths of previous incarnations of CRM systems. One story from what some of us would consider the Middle Ages (the 1960's), regarding CRM will show how history puts the capacities of CRM today to shame. Consider this case analysis from the personal observations and experience of one of the authors:

The setting is a shoe department in a large successful retail store of upscale clothing. There were no computers. The store had no electronic databases. Inventory was taken on paper. The salespersons kept small notepads which had information on their best customers. The notepads included rudimentary information including name, address, phone number and shoe size.

Every few weeks a new style of shoes would arrive. The shipments of 36, 48 or 64 pairs of a style only included a few pairs per size/width in order to allow the shoe to stock as many styles as possible. When the shoes came to the store, the shoe salespersons, who had state of the art customer relationship management systems in their little notepads, did the following:

They studied the product (often they were not told in advance what was ordered by management or when it would arrive)

They looked over their list of customers in their little notebooks

They decided which customers from their list might like this pair of shoes

They pulled the size from the shelf (or even pulled it while the shoes were still in the carton from the factory or shipper and before the shoes were put into “inventory”)

They called the customer and told them about the shoes and asked if they could personally deliver the shoes to their house

They put a slip of paper with their own name on it in the place where the shoe would go into inventory that stated that the shoe was being “shown” to a customer

They did not charge the shoes at this time to the customer

They drove the shoes to the customer and left them there for a few days

They called the customer and asked if the customer wanted the shoes and if she said no, they arranged to pick up the shoes the next day. If the customer said, yes, they asked if the customer wanted to put the shoes on “lay-a-way,” pay cash, or charge the shoes to the company credit account (This was before the days of bank credit cards).

Then, the shoe salespersons either booked the sale or put the shoes back into inventory

That was CRM in the 1960's. Now you can see one reason the CRM of today is greatly inferior to the CRM of the 1960's. The CRM of the 1960's was all about direct service. Today, it is more about management analysis. Analysis does not sell anything, never did and never will. Service sells. Analysis can predict what will be sold, but in the 1960's it was very rare to be able to do predictive analysis with customer data, especially individual customer data, since it was impossible to compile the data or run mathematical formulas on the data.

While this 1960's CRM system was great in terms of service, it had severe shortcomings, especially from management's perspective. First, only the salesperson was deploying CRM. Management had no idea what was going on at the customer interface level. Second, management did not use the knowledge of the salespersons in figuring out what shoes to order, since in the 1960's management did not ask the salespersons what kinds of shoes their customers wanted or in what quantity. Third, the retail store level management, above the shoe department level of management, was totally clueless about the knowledge the sales people had and thus, they could never predict accurately what the sales figures would be for the shoe department in upcoming months for particular styles of shoes.

This led to substantial waste and when shoes could not be sold, even at half-off sales prices, they would be jobbed out at less than 10 cents on the dollar of their cost. And, at the corporate level, above the retail store level, no information from a CRM system like this was of any use in determining how to allocate resources across stores. All in all, while this CRM system was great for the shoe salesperson and their lucky customers, it was useless for management in making buying and financial decisions. And since all of the information in this CRM system was in the heads of the salespersons and their little notepads, it was what we call “wetware,” that knowledge that exists only in people’s minds. (Wetware is the grey matter between our ears). No surprise, then, that when the salesperson left the company, the customers followed the salesperson to the next shoe store.

From Wetware to Software

One of the goals of the current versions of CRM is to change valuable customer related data from wetware to software and from software to corporate knowledge. This knowledge can only now exist in a written, stored, accessible and analyzable format that allows management and the sales teams to use it to understand more fully the past and current business environment and to shape and predict future business results. CRM today is so much more than the tool that one buys off the shelf or the tool that one develops using expensive software consultants who integrate it into an enterprise wide data collection and analysis system.

CRM software when used properly helps create a playing field for good business practices. In order for CRM to be an integrated part of a very successful business model it requires serious players, just like any other winning game played at the professional level. This human component needed to plan, design, tweak, deploy, organize and analyze CRM software and generate data requires a discipline.

CRM systems can never be just an “add-on.” Management’s involvement in bringing a CRM software system to a company, or large non-profit, must start well before any “go/no go” decision is made to buy the software tool. Management must understand what it takes to use technology to increase profits and change the business paradigm. Months before the decision to integrate a CRM system is made, management must agree on the exact results it wants the CRM system to produce.

Management must quantify these results. Management must know exactly where it wants the company to expand sales. Management must know exactly what the company’s niche is or will be. Management must carefully carve out the description of the most ideal customers, those customers worthy of tracking and analyzing through a CRM system.

Without a regular reassessment of a company’s profit zone and ideal customers, management’s views of the market become stale and no CRM system will lead them to the current set of “top tier” customers or suggest the best and most timely offerings to improve the chances of getting a company’s customers to buy the exact product at the exact price the company wants to sell them.

Thus, a CRM system, in the planning stage, must be based on accurate answers to such key questions as:

Who can best benefit NOW from the special skills, services and products that the company has to offer?

What is the best way to approach them?

These questions, in addition to the questions listed below, must be precursors to any successful deployment of multi-million dollar CRM systems, require strategic planning and high level buy in to achieve a state of the art successful CRM roll out.

Defining Your Customer – The Key Questions

Who are your ideal customers? Who are your ideal prospects? How big and numerous are these customers or prospects? How many offices do these customers or prospects have? What is the management team's style? When were they last in the press? Do you get their company newsletter? Who are their customers and what products do they offer? What are their pain points? What are their business goals? Who is their ideal customer? What does their strategic plan (either written or still stuck in wetware) suggest they will buy from you in the foreseeable future?

Training – The Key Questions

What training and appreciation for CRM will be required by our sales persons and management in order to maximize the likelihood of a CRM system implementation contributing positively to the organization's bottom line? How will our sales persons, armed with this system, know how to approach a client or potential client and bring back the data we need find to put into the CRM system and at the same time do what it takes to close the sale? How will the added duties of putting all potential clients and their data into our CRM system impact our employee's workload and how can we prevent it from overwhelming them? How will the need required by many CRM systems for all of our employees to log all sales and service be met? What about related scheduled appointments, impromptu meetings, input written comments on all appointments and the "status" of all clients and potential clients? How will all of this new data entry work impact the "real job" of selling and servicing the client or prospect? How do we get the "buy in" of all key users of the system? How do we insure that the system rapidly dispenses information to all key users that is a 5x or 10x return on the time, energy and pain that a CRM system causes them to deploy in the name of "working for the system".

How do we properly train employees to use and benefit from the CRM system and what is the right budget for this training? How will the CRM system we deploy compare with the system our competitors will be using in six months or a year? How will our customers

be impacted if we ask them for significant data for input into our CRM system? Will our customers or clients require training and does our company have either the market power or relationship capital to get our customers to comply with our requests rather than merely going to a competitor with less onerous “customer requirements?”

CRM – Data Requirements

It is essential for an organization planning to use a CRM system, to determine exactly what data constitute the most important inputs into the CRM system. The answers to this question will vary across industries, companies, customer sub-segments, and salespersons. The answers will also vary across products that have different sales cycles and require different sales approaches.

For example, one of the authors learned some time ago that the Lane Furniture Company in the 1960’s used a unique analytical system to predict future sales of furniture. With its stable and growing market share, the Lane Company needed to predict the overall level of sales of furniture in the US market six months in advance. Through “data mining” of data on many industries that it purchased and obtained from publicly available sources, the company’s statisticians (the data miners of their day) figured out that the strongest predictor of furniture sales six months in the future was the current month’s national, regional and local new car sales figures. The relationship was a negative one. That is, the lower the car sales were for the current month, the higher furniture sales would be in six months. Armed with these data properly interpreted, Lane consistently make the right moves about what to stock in inventory, when to buy other companies with excess supply or capacity and when to advertise to a receptive market. Lane used data that would comprise part of a comprehensive and well thought out CRM system, broadly defined, as a predictive tool that gave it an “insight advantage” over their competitors. By Lane feeding this data analysis to employees and managers, their sales force had the intelligence to know when to hit the pedal pushing sales with advertising and sales force expansion and when to hit the brakes with their sales efforts. This information was critical to a company like Lane, because it could not get customer level data that allowed it to predict which customers would be buying furniture in the next six months or allow it to predict, using customer level data, how much furniture would be bought in the aggregate in the coming six months.

Conversely, EMC, the data storage company, is able to get significant customer level data. EMC gets the proposed IT budgets of some of its major customers three years in advance. This allows EMC to know, or at least accurately predict, exactly what each of its major customers is planning for IT and storage requirements over the next three years. This gives EMC a strong advantage over other data storage companies who are not able to get their hands on such intelligence from their customers. And, while Wal-Mart does not ask for any data from its shoppers, it demands huge amounts of data from its “real customers,” the vendors who think they are selling to Wal-Mart, but who are actually buying a sales opportunity from Wal-Mart. Both EMC and Wal-Mart have significant market power. Lane had great statisticians analyzing national sales data from every conceivable vantage point, well before other furniture companies were contemplating

augmenting their sales force with national level sales predicting analysis. CRM augments the sales force with predicting analysis.

CRM Today

CRM today is about tracking and analyzing explicit information about current customers and sales prospects. The software products require a hard cash investment and significant time, as shown above, which must be budgeted accurately over several years. Unlike many other software products, CRM software needs to be deployed in a rigorous, disciplined, coordinated manner to achieve any promised potential. The collection of data and the storage of such CRM data are not beneficial unless the data collected are accurate and the right data, collected at a reasonable cost, analyzed diligently, reported in a clear and timely manner, and kept secret from the competition. The value of the CRM generated data is like the value of any intelligence the CIA might get. The data and their analysis are worthless unless one has the capability to develop and execute winning strategies based on the data analysis.

Thus, an organization must, at the outset of considering using a CRM system, decide whether the main goal of the CRM system is to guide future behavior of the employees of the organization to shape the future (increase sales, number of satisfied customers, number of new leads generated, reduced turnover of key sales personnel, etc.) or to predict future sales so that the company can position itself appropriately to meet the expected demand. For a CRM system to provide both types of services (predicting the future and helping shape the future) to a company or large non-profit a huge undertaking must take place and one that understands that these two uses of CRM are separate. Using CRM in both of these ways at once, (predicting and shaping the future of sales for the organization) may even require separate, but integrated planning teams to pull off this type of “daily double.”

CRM – At Midlife

Once a CRM system has been implemented and is being used with some success in an organization, there is no “cruising.” Like in car racing, there are walls and opportunities to crash at every turn. Once CRM has reached a midlife, which may be three years from conception and two years from the original implementation of a major CRM package, the entire CRM software and processes need to be reassessed.

Some companies at this stage have run utilities to clear fields of certain data within a CRM database and start over in the clean collection of such data because of misunderstandings and changes around the definition of a given field. Certainly user defined fields are the most susceptible to miscommunication and are important to check, but other fields can also be interrupted differently by different people. There is a tendency of data to become more and more corrupted and inaccurate as the process gets older and employees learn how to cut corners and cut the data input costs of the onerous system. Without rigorous oversight over data input, a CRM system can easily go awry

and lose its power either to predict the future or help a company use this strategic intelligence to shape the future.

CRM - Examples of the State of the Art

Hallmark used its CRM system to track credit card purchases by shoppers. When a shopper purchased a product on March 15th of any given year using their credit card, this purchase was recorded. In the following year as March 15th approached a note was sent to the customer thanking that shopper for last year's purchase. This note gave Hallmark an additional sales opportunity to offer similar products to that specific shopper using appropriate timing. Many people who shop at Hallmark have annual needs to purchase date sensitive gifts. This predictive model allowed Hallmark to predict these annual buying sprees as well as help push potential customers into the actual customer category. This system of CRM shows a thorough understanding of both uses of high level CRM systems using easily available customer level data.

Another example of using customer level data includes a large insurance company that had a corporate rule preventing customers from changing agents. This rule was developed to avoid fostering a culture where there was competition among insurance agents within the same company over current clients. This insurance company was extremely good at cross reference data. Then they had a need to review "failure to renew" rates when they noticed that their renew rate trend was way below industry norms. The company looked through its CRM data to find any relationship it could to understand more fully why customers were leaving their agents and buying insurance with another company. The company found, to its great surprise, that the best predictor of whether a customer would renew or not was the age difference between the customer and the agent. The wider the age difference, the more likely the customer would not renew the policy.

Armed with this knowledge, the insurance company then developed a number of new policies. These policies were sensitive to age discrimination laws and were designed to find the best ways for the company to match customers and agents of similar ages. This newly found knowledge also supported creating age specific marketing messages and marketing placement based on age specific niches.

CRM - Uses beyond Tracking and Promoting

CRM systems can give companies much more power for forecasting future sales and for promoting product and services. CRM systems must be able to show companies that if they do "2X", then a successful, predictable result will occur. CRM systems can help identify these levers that a company can deploy to increase business. In many businesses, including the real estate sales market, there are formulas for sales prediction. These include calculating the number of cold calls made versus how these translate into a number of sales. Detailed sales processes, studied over time statistically and supported by sophisticated CRM systems, can show that when a sales force functions in a certain way, the sales results hit a certain level of return which will be higher than if the company invests in other ways to promote it's products. This analytical function is critical as the

cost of salespersons and sales materials that do not add value to the company are no longer tolerable in this hotly competitive marketplace.

Predictive Capability

For large companies, millions of records can be processed in the blink of the eye and sophisticated analytical formulas can be run in mere seconds. Storage and retrieval technology including data warehousing and OLAP routines are providing analysis on a daily basis to companies with offices or stores all over the world. Newer technologies are moving to instant or real time analysis. Data access at remote locations and 24x7 time frames now yield insights at an ever accelerating rate. Technology is now available so that years of data properly analyzed can yield patterns and trends that were not available to the human mind just a decade ago. Such patterns are being used in the music industry to predict hits and are especially important when a sales period for a product can be merely months, if not weeks. Fewer mistakes are being made in predicting sales forecasts by the state of the art firms because of CRM technology. This is the true potential of state of the art CRM systems -- forecasting based on years of pattern and unknown, but predicted variables.

CRM as a Discipline

It is well known that the development of every hour of stand up training or education, properly done, takes 40 hours of development time. And for e-learning systems properly created, (not talking heads or simple PowerPoint or word presentations that offer little over giving a student a book), it takes 125 hours of development time for each hour of an e-learning presentation. This is the discipline that is behind state of the art training.

A similar level of discipline must lie behind each CRM application. CRM is an easily corruptible, hard to maintain, focused approach to information gathering and analysis. CRM can have opponents who will actively seek to destroy not only its value within a company, but its entire basis for validity. It will cause dissension within every organization that tries to deploy it. And, unless an organization is capable of mustering and sustaining the discipline to spend millions and wait for months or even years to see positive results, then high level CRM software may not be right at this time for your organization.

CRM's Potential Impact on Users

When purchasing a CRM system beware of the "OBNU" phenomenon -- "Owned But Not Used." There may be numerous elements of any CRM system that are irrelevant to your organization; however, OBNU is a warning sign that you may be buying more horsepower than you will ever use. A court recently upheld a \$50,000 license fee charge by PeopleSoft to a customer who never opened the software or installed it and informed PeopleSoft a day after the software arrived that it did not meet its needs.

Plans for CRM systems must be comprehensive. They must chart the move of every person in the organization who will touch or will be touched by the data going in, the information coming out and the customer who is the ultimate beneficiary of such a system. In fact, each CRM system must have the customer's interests in mind. It does not do any good to identify the customer who might buy the shoes as soon as they arrive at the store, if there is not a salesperson or delivery service able to get the shoes to the customer's house the same day as the phone call comes from the salesperson. Without a marriage of a customer service system to a customer relationship system, a company could easily have great insights and no ability to act on them with the speed required in our fast-paced world today.

Conclusion

There are success stories to CRM system implementation. CRM Software is but a tool and the implementation and use of a good tool is as important as good equipment in any professional endeavor. As with most endeavors, this particular tool requires a total immersion from management down through all the players on the team and a discipline that produces winning results.

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