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Customer Relationship Management: 10 Steps to Success

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Defining Customer Relationship Management

What is CRM?

Customer Relationship Management, or as it is more commonly known 'CRM', is one of the most widely-used yet misunderstood terms in today's technology-enabled corporate environments. Put simply 'CRM' is a catch-all term that is most commonly used to describe software and related technologies that manage customer-facing business functions (most notably Sales, Customer Service and Marketing), business processes and data.

Done right, CRM allows companies to increase both their revenues and profits while lowering the cost of marketing, selling to and servicing their customers. The payoff is clear - by better aligning business processes and managing customer data *across* all customer-facing functions, companies can build successful, profitable and long-term customer relationships.

Unfortunately, however, CRM has also gained a bit of a mixed reputation – and one of the most-often-cited statistics regarding CRM is how often these solutions *fail* to meet their objectives. There's no denying it – getting CRM 'right' – and making it successful – is a significant challenge. A CRM strategy is about much more than merely selecting the right technology - rather, it is a *business* strategy that may very well necessitate that you completely reinvent how your company does business.

Yet while CRM is not without challenges, it also cannot be avoided – because after all CRM is ultimately about your *customers*. Despite the challenges, the fact remains that *many* companies – and that includes many Small and Medium Businesses (SMBs) – have seen *tremendous* success with CRM. This report will explore the key success factors of CRM, and describe a set of steps that *your* company can utilize to make CRM succeed – for your company, and for your customers.

A Brief History of CRM

The term 'CRM' first emerged in the mid-1990's, created with the intent of describing how Sales, Marketing and Customer Service technologies needed to work not just within each department but also *together.* For instance, prior to the advent of CRM, some companies had begun to deploy Sales Force Automation (SFA) applications to automate the selling process and track prospect data, but that data often didn't *leave* the sales department – thus when the customer called to complain the Customer Service department would be unaware of any interactions with Sales.

This led to many situations where, from the customer's perspective, the company was acting in an incompetent and/or uncoordinated fashion. The result – the 'right hand doesn't know what the left hand is doing' syndrome –often would result in a frustrated customer departing for the competition.

Early customer-facing applications – SFA, telemarketing, marketing campaign management, help desk and others – served their individual purposes, but were unable to provide the integration that allowed companies to serve their customers with a 'single face'. In response, CRM 'suites' were developed that promised to automate not just one but (purportedly) *all* customer-facing departments and functions.

Unfortunately, while the idea made sense, the implementation proved much more difficult. Many early CRM initiatives became bogged down by companies trying to do *everything* at once. Particularly in larger companies, there are many stories of companies spending millions of dollars and years of time in attempts to replace their *entire* sales, marketing and customer service infrastructures – and becoming overwhelmed by the challenges (sometimes technological, but more often organizational) in doing so. The '360 degree view of the customer' so often-promised as the result of CRM implementations became, for many, an unattainable goal as CRM initiatives became needlessly complex and prohibitively expensive.

Finding a Balance—Supporting Change

CRM is neither a simple nor a risk-free proposition – but it is also not *not* an option. Markets continue to get more and more competitive, and the margin between success and failure ever more narrow. Companies that are able to better manage customer data and customer-facing processes have a clear advantage over their competitors. Those that fail to automate and integrate will see both revenues and margins decline.

So if you're just getting started with CRM – or even if you're just thinking about it – what *can* you do? The goal of this report is to provide some general ideas as to how CRM can help you improve your operations, and some specific tips on how to put these into practice in *your* company – and with *your* customers.

Getting CRM right is about striking a *balance* between tactically solving problems within specific areas and managing customer-facing processes and data across them. In other words, for CRM to be successful – at both strategic and technological levels – it must be *integrated*. Many companies will deploy a Sales Force Automation (SFA) initiative – or develop a new call center application - and believe that they are

'done' with CRM. Nothing could be further from the truth.

As a matter of fact, CRM is *never* really 'done'. It will evolve – and continue to do so – as long as customer relationships themselves evolve. In other words, CRM strategies need to be flexible enough to accommodate customers' needs and desires in a business environment that requires constant change – and to do so in an integrated fashion so that the company is presenting a single face to the customer, regardless of what communications channel (live in-person, the phone, e-mail, the website, etc.) they are communicating through.

It's About the Customer—and ROI

While assigning internal responsibility is key, CRM of course also needs to be about the *customer*. As I'll discuss later in this report, the acronym 'CRM' is in many ways *backwards.* Today's information-aware customer both desires and possesses an ever-increasing amount of control over the relationship – to the point where the customer is often managing the relationship with the company – rather than the other way around.

Companies that succeed with CRM recognize this dynamic, and take advantage of it, by using 'CRM' to open up the resources of the organization and enable the customer to do business they way *they* prefer. Yet this often requires a quantum leap in thinking for business executives who are wary (if not terrified) of 'turning over the reins' to customers and yielding 'control'.

Finally, CRM success cannot be discussed – or gained – without addressing financial return. There's no denying that CRM requires an investment of both time and money – and it's equally clear that corporate and financial executives will only approve CRM initiatives when these investments are justified by hard financial benefits. Companies who wish to succeed with CRM must understand and implement financial and business models that provide these benefits.

How Does CRM Apply to Small and Medium Businesses (SMBs)?

The earliest adopters of CRM (at least in the broadest sense) were the largest companies – because as a relatively unproven and high-cost proposition, most Small and Medium Businesses (SMBs for short) simply couldn't or didn't want to make the investment, and because large organizations are often the *least* integrated in terms of 'one hand not knowing what the other is doing'. Thus, the need for integration was seen to be greater – and the high costs of CRM could be more easily afforded and justified.

These days, however, SMB's are aggressively and successfully deploying CRM – as the technology has become both proven and understood – and as the risks have dramatically decreased. As a matter of fact, in my experience I have witnessed that *many of today's most innovative and successful CRM initiatives are happening within small to midsized businesses.*

CRM can deliver tremendous value to Small and Medium Businesses – and those benefits are being recognized by more and more companies. Some of these include:

- Sales and marketing opportunities can be identified more effectively and efficiently – leads can be measured early, and reacted to appropriately

- Support issues can be resolved by customer profile type, and prioritized by value

- Response to web and telephone inquiries can be accelerated and more consistent communication with customers delivered, through *all* channels of interaction (telephone, e-mail, web site, in-person, etc.) Customer data can be used intelligently, such as demographic information, sales and customer service histories, and marketing preferences

- Internal and external sources of leads can be better leveraged, better return on marketing expenses delivered, and compliance with privacy legislation (Do Not Call, CAN-SPAM) insured

- Customer feedback and data can be more easily accumulated as well as built into future product/service offerings

- Field sales and service personnel can be connected 'live' using laptops and 'smart' mobile phones to keep field sales connected, and work in remote, home and field offices with real-time data access

- 'Real-time' reporting can be disseminated throughout the organization- for management as well as for front-line employees.

Smaller companies are these days able to gain the benefits of CRM without it becoming the 'boil the ocean' exercise it can become in a larger firm – with vague goals (like the infamous '360 Degree View of the Customer') and turf battles between squabbling political factions. SMB's have the best opportunity to simply 'get CRM done' – and get it right – than has existed for quite some time.

CRM – both the term and the market – have been through a rough few years. But that CRM is about to enter a golden age of productivity – as the successful companies

learn from the mistakes made by others. And as the market forecast below indicates, it will be smaller – not larger – companies who will lead the way.

CRM Spending by Company Size
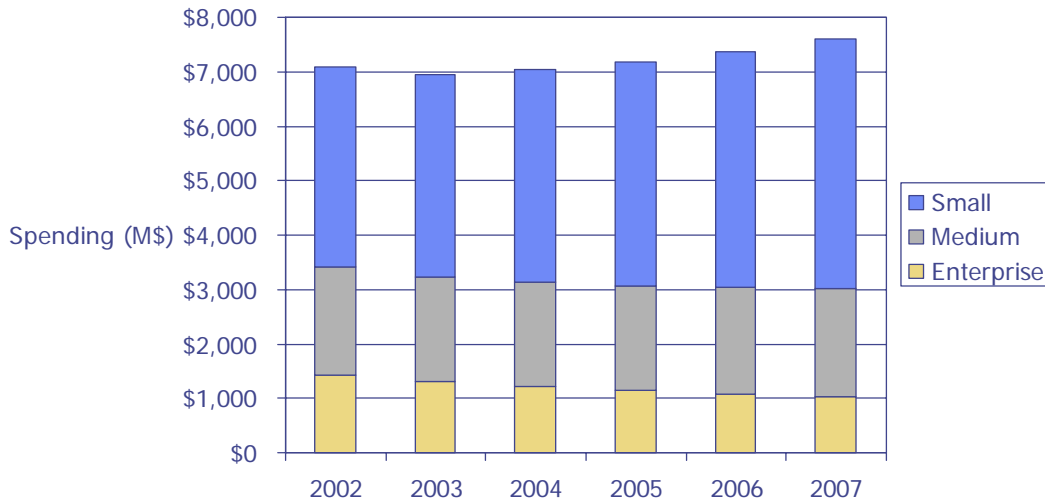
Source: Reservoir Partners, LP

10 Steps to Success

So what *are* they keys to CRM success? Having spent the last 10+ years of my career looking at and working with countless implementations – many successful but quite a few not – the following points rise to the top of the list.

I) Recognize the Customer's Role

As mentioned earlier in this report, the phrase 'Customer Relationship Management' is backwards. Truly successful firms don't succeed because of how well they 'manage' their customers – rather they use technology to allow the customer manage the relationship with *them*. Think about it from a customer's perspective (and fortunately, we're *all* customers). The companies that most customers most enjoy doing business with are those that let *them* pick and choose how the relationship works.

CRM isn't about trying to control or manage the relationship with the customer so much as it is about *providing options to* the customer to choose how they'd like to do business with you. In simplest terms, **companies that have effective CRM efforts become *easy to do business with*** – customers return because they *want* to. Beginning *any* CRM initiative with this mindset is absolutely critical.

II) Build a Business Case

Another key is figuring out the business case for CRM – or to use a less consulting-speak phrase 'where's the money?'. How *exactly* is CRM going to pay off for your firm? Will it lower the cost of selling/marketing/servicing? How much? Will it increase the effectiveness of your selling efforts? If so, how do you quantify this, and what is the specific financial return you can expect? What are the specific cost savings? What's the revenue benefit? How will it be measured and accounted-for?

So-called 'soft' metrics (Customer Satisfaction is a good example – as is the oft-cited '360 degree view of the customer') that may be real but can't be (accurately) measured should not be ignored. But for CRM to be both successful and embraced across the company – and particularly in those parts of the organizations expected to pay for it – hard-dollar financial returns need to be both demonstrated and recognized. Some specific examples of 'hard' and measurable metrics are discussed in steps V (Sales), VI (Marketing) and VII (Customer Service).

Some general examples of what to include in a business case are:

- True total cost of the project, including people costs such as training, implementation, customization, integration and other services

- Expected revenue gains and cost reductions, and Return on Invesment (ROI) percentages and timeframes – how will the initiative pay for itself, and how quickly?

- Total cost of the technology, and whether it will be treated as a capital investment or an expense (see point VIII – Choose the Right Tools and Approach - for more on this topic)

- Specific customer metrics (satisfaction, loyalty, service cost, etc.) to be improved, and the financial gains expected

- Timeframe for change management, the costs of user adoption and training, and the expected impact on current and future staff.

The good news is that CRM has gotten – and continues to become – ever more affordable. Specific to smaller businesses, the new affordability of CRM solutions allows you to implement key strategies that were – until recently – only possible within larger organizations.

III) Gain Buy-In—From End-Users to Executives

CRM is an investment – and like any investment it will only pay off if it's used. Would your company invest in new office space if they did not expect any employees to occupy it? Of course not – yet far too many CRM (and other related technology) investments have been deployed without taking the necessary steps to make sure they're *utilized.*

And what is the key to utilization? It's simple really – it helps people do their jobs. If CRM doesn't help (or worse, if it hinders) it won't be utilized, and it won't pay off. At every stage of the CRM planning and implementation process, the users of the solution(s) must be consulted – and their buy-in assured.

This doesn't necessarily mean that you need to take your sales team off the road to deploy SFA (for example) – but it *does* mean that at least a few selected representatives/advocates from the sales team should be part of the implementation team. See step IX (Who's on the Implementation Team) for more detail.

Also keep in mind the context of who the application is for. Since management normally budgets for and approves CRM, *their* needs are generally fulfilled. However, it is not uncommon to see situations where the needs of the actual *users* in Sales, Marketing and Customer Service are given less of a priority – or none. (This is particularly common with SFA deployments – see step V for more). The bottom line is that management needs CRM but so does your staff, and keeping those respective needs appropriately considered and balanced when making your decision will have a

huge impact on your likelihood of success.

IV) Make Every Contact Count

Another common mistake made by companies is focusing exclusively on the CRM applications while at the same time ignoring the data infrastructure that sits below them. Remember, customer data can be found in just about every corner of every application within a company's IT environment – and most certainly *not* just within the CRM application.

The benefits of integrated data are many:

- Smarter Marketing: by using ideal customer profiles, you can target prospects that look like your best customers – and recognize them when they make inquiries

- Sales Effectiveness: by targeting ideal prospects and keeping the sales force focused on the right opportunities, you can increase overall close rates as sales maximizes their time with qualified leads (and minimizes with unqualified 'suspects')

- Proactive Service: by understanding your customers' needs and preferences – not just for what they purchase but how they prefer to be serviced, you can both dramatically reduce cost(s) of service while at the same time enhancing quality – and gaining loyalty as well as promoting cross- and up-selling opportunities.

What's most important is to be able to properly utilize *all* customer data – not just that which resides within the CRM application. This is the most critical role for the IT department – insuring that this integration takes place right from the initiation of the project. CRM cannot be a 'stovepiped' application – rather when it is embraced as a business philosophy (as it should be) it becomes clear why this integration is absolutely critical to success.

V) Drive Sales Effectiveness

As noted previously, the term 'CRM' generally applies to applications developed for customer-facing employees, and specifically 3 groups – Sales, Marketing and Customer Service. Also as previously discussed, the goal of CRM is to not simply automate each of these areas independently, but to *integrate* those efforts such that customer data and processes are handled in a coordinated, consistent manner.

Nonetheless, the specific needs of each department must be independently considered as well. Regarding Sales in particular, CRM efforts must drive *Sales Effectiveness* – which while it is often labeled a 'soft' metric is critically important

to making Sales-related CRM investments pay off. Put more concretely, Sales Effectiveness is seen in more granular metrics including close rate, win rate, order size and other metrics which measure how *much* revenue sales brings in, not how *little* sales efforts cost.

Many early SFA and CRM applications were not necessarily designed to improve Sales Effectiveness – but Efficiency instead. While increasing the efficiency – and lowering the cost – of Sales has a positive economic return, it generally *does not provide any benefit to the sales force.* In addition, many SFA tools offer the 'benefit' of helping Sales management track the activity of the sales force – again an organizational benefit, but no benefit to the actual salesperson.

It should be obvious that if the application does not benefit the salesperson, they have little to no incentive to *use* it. Having personally witnessed many instances where management has forced an SFA application upon a sales force (sometimes forcing reps to discontinue use of personal contact management applications that had been working well for them) based on vague promises of 'helping' – it was discovered that the application did not help and sometimes actually hindered sales efforts. The result? Salespeople refused to use the application – and the investment failed.

The perception that CRM has 'failed' is most often a result of this dynamic – misguided metrics and unrealistic expectations resulting in low (or no) utilization. To be successful, it is absolutely critical to focus on helping sales – and specifically helping them sell.

VI) Measure—and Manage—the Return on Marketing

Marketing must also benefit from CRM – but in a much different way than Sales does. Specifically Marketing's biggest problem in this day and age is that they are regularly asked by management to provide evidence that they are providing *tangible* value to the company. This isn't the type of intangible value (a stronger brand, enhanced product positioning) that marketers have long promoted as the value of marketing, but rather requires **evidence of real financial return** delivered to the corporate bottom line.

While this in no way devalues the intangible benefits of marketing, it does force Marketing to work more closely in particular with both Sales and Customer Service executives to determine how their expenditures and efforts are resulting in higher sales revenue, and increased customer loyalty, profitability and lifetime value.

In particular, CRM systems should allow Marketing executives to manage the overall marketing/mailing list, directly contribute to the lead flow into the organization, to

allow them to participate in managing that lead flow as well as the movement to and from the 'prospect pipeline' (such as keeping potential leads 'warm' via, regular, multi-channel communications so that Sales can focus on 'hot', ready-to-buy-now opportunities), and to provide the product, competitive and market information that will provide the key to success in front of the customer.

VII) Leverage the Loyalty Effect

Have you ever heard the saying 'It's 10 times more expensive to get a new customer than it is to keep an existing customer'? While it's perhaps oversimplified, it's also true.

It also points to how CRM initiatives can help enhance Customer Service – and to how Service can provide measurable value to the organization. But before implementing technology, a different view of Customer Service and its value to the organization must be put in place.

Today most (although not all) customer service departments are both treated and compensated as cost centers, rather than profit centers. They are managed on metrics such as cost of service and call volume per service rep – and both management and service personnel are compensated based entirely on their ability to lower service costs.

There's nothing inherently wrong with this – it always makes sense to both measure and manage cost of service – but a *purely* cost-based approach can work at counterpurposes with the broader goals of CRM. While customer profitability is affected by *both* revenue and cost factors, there is no doubt that the larger impact and goals of these initiatives are to increase the former, not reduce the latter.

Thus, for Customer Service to play a larger role in CRM – and for them to work more proactively and effectively with Sales, Marketing and other parts of the organization, a new mindset around how to manage service – and how to incent service personnel and deliver supporting application – must be in place. Again, metrics are key – good examples include the rate of cross- and upselling which takes place on service requests, and the correlation between satisfaction and repeat business. In other words, *all* functions (Sales, Marketing and Customer Service) must work together for CRM initiatives to be successful – and that success is measured by the holistic value of customer relationships – both from a revenue and profitability standpoint.

VIII) Choose the Right Tools & Approach

As suggested earlier, probably the most critical success factor driving CRM success is having CRM strategies decided by the business executives who manage customer interactions – more specifically Marketing, Sales and Customer Service. Yet, as obvious as this statement may seem, the fact remains that many companies still make decisions within their IT departments – treating CRM as they would other technology purchases (such as security and infrastructure management). The IT department will, of course, need to *support* the CRM application(s) – and for this reason needs to be fully involved in the selection process – but IT absolutely should not *lead* CRM initiatives.

Choosing the right approach to CRM – and defining the business drivers - provides much of the definition for what the 'right' CRM tools should be. CRM technology providers will often (although not always) map their technologies to specific business processes and objectives, which can help guide you toward a short list of appropriate technology vendors.

One of the factors most affecting the increased interest in CRM among SMBs is the reduction in investment risk that has been created by advances in CRM technology – and much of the credit for this risk-reduction has been a result of the advent of new delivery models for CRM. In particular, the 'hosted' CRM model, under which CRM applications are delivered as hosted web services via a web browser (and managed from a third-party data center) has become quite popular as an alternative to traditional 'premise' models.

Hosted CRM expands the CRM opportunity and has also had the positive impact of causing companies to evaluate CRM investments (or in the case of hosted solutions, expenses since there are no technology assets to capitalize) on the basis of their business benefits rather than solely on their technical capabilities.

Yet for all hosted CRM's advantages, it must be remembered that this is essentially a 'buy vs. lease' discussion – and that the delivery model can easily be separated from the business case. Hosted solutions are not for everyone – and their benefits must be weighed alongside the advantages that more traditional 'Premise-based' solutions still hold. Some of the pros and cons of each approach are listed in the following chart.

Advantages of Hosted Solutions	Advantages of Premise-based Solutions
Faster deployment	Easier to customize
Lower up-front cost	Easier to integrate with other applications and data
Reduced upgrade/maintenance requirements	Generally less-expensive long-term—generally treated (capitalized) as an investment rather than an ongoing expense
Simpler remote/field support	Easier to use with more complete functionality in disconnected/remote environments

There is no doubt that hosted solutions have added options to corporate CRM decisions, and provided companies with new opportunities to evaluate CRM and to 'test it out' at a lower upfront cost (although hosting can also represent a much *higher* long-term cost since the annuity cost can overwhelm any short-term savings in as little as a year – and sometimes even less). At the same time, the benefits and drawbacks of hosted solutions must be weighed against other delivery models – and by no means are these solutions a panacea nor are they right for *all* companies. For many businesses, the inherent flexibility, adaptability, integration and economies of scale delivered by more traditional 'premise' models remain both more attractive and appropriate.

IX) Build the Team

The key to making the best choices is having the right team driving the decision. You should notice that this implies that you must **assemble the team before you select the technology!** Many companies, unfortunately, do just the opposite – and find themselves with technology decisions that are inappropriate and/or unsuitable to meet their business and technical requirements, and a frustrated team of people trying to retrofit an investment that never should have been made in the first place (or was at least made far too early).

Begin with leadership – a CRM project will have a much higher probability of success if there is an overall owner of the implementation, technology and strategy, who serves as the primary internal advocate for CRM and a rallying point for organizational momentum. That owner/leader should then look to supplement his or her requirements with a cross-functional team that encompasses needs and perspectives from other business-critical areas.

Overall, that team should include at least one representative from each of the following areas:

- Sales

- Marketing

- Customer Service

- Finance and/or Executive Management

- IT

While leadership is important, it is also critical that none of these concerns become *too* dominant. For instance, in an SFA-centric deployment, Sales would no doubt lead the project (with support from IT) but both Marketing and Customer Service should at least be aware of the project at a detail level – so that they are able to tailor and integrate any future efforts in their departments to utilize and work with the application(s) and the data they produce. Without this participation, the '360 degree view of the customer' – and more importantly successful CRM (even if it is implemented in phases) will not happen.

In addition, involvement from finance and/or executive management is critical to make certain that financial issues are considered and factored into CRM decisions. Of course, this also has the added benefit of insuring that investments are subject to approval, and that tangible financial benefits are agreed upon beforehand and incorporated into the investment approval criteria.

Finally, while IT, as previously stated, rarely (and I would suggest never) should be *leading* the CRM process, they should absolutely be included on the team – as it will be their responsibility to support the application and integrate it with other key business systems.

X) Seek Help—Think Local <u>and</u> Global

Last but most definitely not least, companies who succeed with their CRM initiatives leverage outside expertise in making the critical decisions necessary to gain perspective on what other companies are doing successfully (and not), to facilitate agreement and overcome internal obstacles and disagreements, and to provide advice and perspective that simply is not present within the company itself.

Having the advice of someone who's 'been there and done that' can be invaluable. Far too often, however, companies believe that they must obtain this advice directly from the CRM technology provider/software vendor. In reality, excellent assistance and advice can often be found much closer to home.

For most Small and Medium-Sized Businesses, a large and growing number of Value-Added Resellers (VARs) and consultants can provide the localized, industry- and business-specific advice that makes the difference between success and failure. In addition, these partners can help your company sort through the competing options, provide investment protection (especially in a market where mergers and acquisitions between software companies are happening on practically a daily basis) and align your organization to surmount internal obstacles and succeed.

In Conclusion

When FrontRange Solutions asked me to put this report together, we mutually decided that it needed to be simple enough to cut through all of the mystery and fear that surrounds the term 'CRM', yet detailed enough so that you can take action. Hopefully we've accomplished that goal, and I personally invite your questions, feedback and responses.

To summarize the 10 steps, they are:

1. Recognize the Customer's Role

2. Build a Business Case

3. Gain Buy-In – From End-Users to Executives

4. Make Every Contact Count

5. Drive Sales Effectiveness

6. Measure – and Manage – the Return on Marketing

7. Leverage the Loyalty Effect

8. Choose the Right Tools and Approach

9. Build the Team

10. Seek Help – Think Local <u>and</u> Global

So get your team together, get to know your local reseller and/or consultant – and get going. Good luck!

About the Author

Chris Selland is the Managing Director of Reservoir Partners, a CRM/enterprise software advisory & consulting firm which he founded in October 2001. In addition to his work at Reservoir Partners, he also serves as Principal Analyst at Covington Associates, an Investment Bank specializing in Mergers & Acquisitions in the enterprise software and services industries.

Earlier in his career, Mr. Selland served as Vice President of Marketing at eSupportNow, a venture-funded eCRM service provider. Prior to eSupportNow, he was Vice President of e-Business Strategies at the Yankee Group, a technology research and consulting firm and subsidiary of Reuters, where he became a leading market authority in the areas of CRM and customer-facing e-Business strategies. Mr. Selland has also held senior management positions at the Aberdeen Group, Primix Solutions, ON Technology, Computer Associates and Ingersoll-Rand.

Mr. Selland is past President of the Customer Relationship Management Association (CRMA). He is frequently quoted in major business and industry publications, and is a member of the CRM Magazine Editorial Advisory Board and an advisor for Greater China CRM (www.gccrm.com). He is a regular speaker at a number of leading industry conferences, and has served as Chairman of DCI's CRM Leadership Summit & Linkage's Sales & Marketing Leadership Summit.

He holds a Bachelor of Science degree in Operations Research & Industrial Engineering from Cornell University and an MBA in International Business & Economics from New York University Stern School of Management.

Further Reading

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CRM Consolidation: Enterprise Software RIP?. Reservoir Partners, May 2003.

Next-Generation Self-Service. Reservoir Partners, June 2003.

Proactive Service: Outbound Customer Communications. Reservoir Partners, August 2003.

Hosted CRM: Beyond SFA. Reservoir Partners, October 2003.

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