How to "Do" CRM Without Spending Big Bucks

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It will take big bucks. It will take lots of time. It's real, real hard.

That's the conventional wisdom around Customer Relationship Management (CRM). And it's wrong. Dead wrong. The truth of the matter is actually quite the opposite, as we will explain in detail. But this and other myths around CRM linger because many vendors and companies are understandably but wrongfully approaching CRM very much like they did Enterprise Resource Management (ERP) systems. And that is a mistake too.

CRM Myths

Let's clear away some misconceptions around CRM one at a time. First, the easy ones.

CRM is new.

CRM is not new. In its modern form (using computer technology), it has been around for more than 20 years. As soon as computers where brought to bear upon call centers and customer billing systems, companies have had access to important customer information. And since laptops hit the corporate work force in the late 1980s, sales force automation software has been helping mobile workers with access to customer information.

Mankind has practiced the ancient form of CRM (the art of pleasing customers by knowing them better) since the first commerce transaction was completed. There is not much new (outside of statistics, advanced math and relational algebra) in modern CRM systems that a clever merchant in Syria in 55 B.C. didn't practice. One could argue that as businesses grew in size and complexity in the 20th century, companies have slowly lost touch with their customers because they physically see them less and less.

In fact, we contend that the rise in popularity in CRM both as a practice and as a set of software is because business are realizing that the only way to effectively manage lots of customer relationships when you can't "touch" and "see" every customer is to capture data about the customer and convert that data into actionable insight. Conceptually this sounds easy, and for the most part it is in practice, provided companies can "think" about CRM correctly, as we will explain.

CRM is software.

Ugh. This one really rankles us because it causes so many companies to start out on the wrong foot. CRM is not just software. CRM is a set of techniques (a.k.a. business strategies) that help organizations manage its customer-facing activities in a way that maximizes value for the business while simultaneously maximizing value for the right customers. Simply put, CRM software is a tool to a) help manage more customer interactions faster b) consolidate customer information for analysis and viewing c) turn massive amounts of data into insight via several clever analysis and data mining approaches. In other words, CRM software really is a set of applications that manage data (and hopefully knowledge) about customers.

Many companies hear the acronym "CRM" and immediately start looking at software, see the costs and either get sticker shock or purchase the tool without knowing precisely what to do with it. To "do" CRM properly, companies need to first think precisely about what business value (a.k.a., profit, revenue increase, productivity improvement) needs to be created and then how building customer value through better relationship management will realize the business value. Only after the company has clearly thought through these two parts should it proceed with software selection. Our own process for doing this (called the CRM Value Tree) goes like this:

1) Identify key business drivers needed for survival and success. Is this profit growth? Is it top-line revenue growth? Is it increased product innovation? Is it employee productivity? When we was these questions of executives, we usually get a yes to all of the above. So, we phrase it this way: If you were on a desert island and could only select one business driver, which one would it be? These business drivers must be prioritized. Why? Because when it comes to customers, a company can implement virtually an unlimited number of CRM programs. But which ones?
2) After identifying key business drivers, review what CRM programs are in place or brainstorm some ideas on new programs *that will positively and measurably affect the business driver.* Each program needs some specific set of measures so that the company can monitor program progress.
3) For each CRM program, identify the tactics (the applications, software, media channels) that are needed to execute the CRM program. This should be the *last* step in the planning process.

Rather than proceed 1,2,3 through the steps, many companies dive right into #3 which is a mistake for several reasons. First, and the most obvious, CRM activities need to be clearly linked into corporate strategic objectives. Without doing so, a CRM tactic can be implemented perfectly but totally fail to generate any real business value. Secondly, and perhaps more practically, it is important to have the right conversation with the right people regarding CRM. Sometimes we see executive staff wrangling over details around the tactics and forgetting to attend to the key business drivers and how they link to CRM programs. Tactics is best left to the marketing, service and technical staff to debate and implement, not the executive staff. In addition, debates around tactics among executive staff often become roadblocks to achieving consensus and quick action. Given the changing dynamics of customers and markets, inaction can be fatal.

In other words, if you are going to buy a Ferrari, you better know where you want to drive and more importantly how to drive it. Too many companies buy the Ferrari and on the first drive around the block crash it into a tree and call the car useless. At least these companies found something to which they can direct their anger.

CRM software will manage customer relationships for us

While CRM software can alleviate the hard work companies would otherwise encounter in manually combining data or integrating systems, it cannot (except for a few examples), by itself, make the customer experience a better one. Since customers and their behaviors as well as the competitive landscape changes over time, CRM software will most likely always need human beings to detect that change and adapt the company's response. The one notable exception is those software systems that use adaptive dynamic personalization techniques for e-commerce web sites. In these systems, the software "detects" changes in customer behavior and automatically adapts by making new recommendations or otherwise changing the user interface and the user's experience.

One of the most compelling concepts in modern CRM is the use of technology to help the company improve its ability to sense changes in environment and enhance the company's ability to quickly adapt and respond. This moves much beyond simple integration and managing customer interactions. For as far out in the future as we can see, human beings and human organizations will be involved.

To us, the great companies of the future will use CRM systems to help build more intelligent and adaptive human communities.

CRM is hard and will take long

This assumes that CRM is over. As long as there are customers to interact with, CRM will never be over. But that does not make it expensive nor a lengthy process. This "long and hard" myth comes out the ERP implementation experience in which companies spent millions and often several years automating business processes and integrating all their back office functions in one ERP solution. It also comes out of those companies that implemented CRM just like ERP, using the “do it all now” approach.

CRM, however, is not the same as ERP. First off, for many companies, the customer is largely unknown, at least in data. In ERP systems, processes such as procurement, billing, financial accounting and payroll management are not at all unknown. In addition these internal process, while evolving and changing, do not normally change as drastically as customer behavior can and often does change.

For this reason, we advise companies to proceed incrementally to improve their knowledge of the customer and to learn what forms of interactions drive both customer and business value. The business needs to learn from customers and to continue to learn faster. Hence, the real advantage in CRM is not simply managing customer interactions but in learning how to interact with customers better. This learning process has more to do with how human beings learn and collaborate amongst themselves and less to do with the actual technology used to manage customer interactions. The question isn't “How do we use technology to manage customer data” but “How do we design a learning organization that can more quickly produce sophisticated actionable customer insight that drives business value?” Notice the absence of any technology in the second question.

In a sentence or two, owning the Ferrari is not the competitive advantage. Driving the car expertly and improving that ability over time is.

CRM is not a form of competitive advantage

The corollary to this is that CRM does not generate sufficient ROI. Many companies that fall into this trap are thinking about the problem from a product, not a customer perspective. For these companies, competitive advantage is found in proprietary or patentable technology, exclusive supply chain relationships or significant distribution deals or the inability of a major player to break into the company's market and take market share. In this view, the product and the means of production are considered sources of advantage. For the vast majority of businesses, these are unattainable sources of competitive advantage. In addition, this views the customer as a captive or hostage, unable to select from other sources of supply or without information to make better choices.

We feel that one of the last and purest forms of competitive advantage derives from expertly managing customer interactions and building customer loyalty. This “steals” competitive advantage at the source: the point of demand or consumption. When customers would rather purchase from a company, despite competitive advantages of another product, who has the advantage? The company with the “superior” product or the company with the superior relationship? Even in the price sensitive world of commodity products (such as consumer goods) superior product features and lower manufacturing or selling price does not ensure advantage. Pleasing customers does. In a period of increased product commoditization and new forms of global competition, those who can retain customers better own a significant form if not the most significant form of competitive advantage.

The undoing of many a CRM initiative is often found in the lack of a compelling ROI. Many companies look to CRM for process improvement and hence some form of incremental productivity improvement. Companies need to look deeper. Improving customer loyalty and reducing customer churn can not only lower customer interaction costs but can generate significant improvements in top line revenue growth. Between operational efficiency improvements and top-line revenue growth due to reduced customer defections, enough ROI can be found to justify nearly any well-aligned CRM program.

While many CRM systems promise this kind of ROI and some even fulfill on it, another ROI model, while more speculative, is still compelling.

If a company could build a learning organization that can generate actionable customer insight faster and better *than anyone else*, would that not be a form of advantage? What would be the ROI model for building a set of internal processes for understanding a company’s set of interactions with the customer? In essence, this is akin to establishing a research and development group focused on the customer, not the product. What insights can come out of this group that can enable a company to achieve paybacks beyond the mechanical ROI drivers of improving loyalty and operational efficiency? While R&D groups are common in product-focused companies, we have seen very little in the way of a similar established and strong focus on customer R&D.

Impediments

For many companies, the CRM promise remains unfulfilled for a variety of reasons.

1) The company proceeded with a tactical or technology implementation without clearly linking it to strategic business objectives.
2) The company failed to address the human element in implementing CRM programs. Since “minding the CRM store” requires knowledgeable managers, how are these managers retained within the organization? How is customer knowledge retained and more importantly consumed by others within the organization? Compensation systems and values around the use of technologies and information sharing are critical aspects in managing customer information. Companies that fail to retain human knowledge have “ever evaporating intellectual capital.” These companies continually reinvest in customer knowledge activities but fail to “remember” from year to year key pieces of knowledge. Due to mergers, spin-offs, restructurings and a nomadic workforce, companies suffer from terminal amnesia.
3) The company failed to understand how loyalty is generated *for their brand and their customers.* This is a proprietary problem. Learnings from a competitor are often not transferable because the way the competition brand plays with customers is significantly different. In addition, many companies look at loyalty as only a points or rewards program. Designing a suite of CRM programs to engender the right kind of loyalty with the right kind of customer requires some dedicated deep thinking. And one problem for many companies is the inability to think a deep thought for any length of time. A company first needs to understand customers better to determine which customers respond to enhanced service, which ones respond to a points program, which ones need little intervention, which customers should be jettisoned and so on.

Is There Hope?

Of course there is. The real problems with implementing CRM have little to do with technology (although we’re not underestimating the hurdles here) and have everything to do with people. Here is our prescription for success:

1) Define, in priority order, the key drivers for organizational success. With the executive staff, this can usually be a short exercise since it is usually well known.
2) Establish a list of existing and potential CRM programs that can affect these drivers.
3) Examine how the company collects, retains and consumes knowledge about customers. Begin to build the right organizational structure and compensation system to break down barriers between functional units so that communities of people can get smarter faster.
4) Begin understanding precisely how customers determine value. Quantitative (surveys, data analysis) and qualitative (focus studies, interviews, call center logs) all are important sources of knowledge. Usually more sophisticated and fine-grained the understanding gives better results.

5) Cleverly select technology that supports each tactic. The “buy it all now” approach, while ensuring a higher level of data integration long-term, does not at all address the need to begin learning about customers immediately and incrementally. It is very unlikely that the entire company can make use of an entire suite of CRM applications.
6) Iterate, iterate, iterate. Learn from mistakes, don’t threaten to fire people or otherwise create an environment of fear. A company can’t play the CRM “game” perfectly, but it can win most of the time. In addition, as the company builds long-term experience in establishing a learning organization, that advantage is not easily replicated and rarely is it done faster. Since key learnings around customers are specific to the company’s brand, another company will have to go through roughly the same learning cycles to build their competitive advantage. Through effective iteration, if you have a 2-year jump on your competitors regarding CRM capabilities, you may always enjoy a 2-year jump on your competitors. The real question you need to answer is “Can they (the competition) learn faster than you?”

Fortunately, smaller, more collaborative companies are highly favored here, especially those that excel and retaining those employees who manage customers. When it comes to effectively managing customer relationships, being big is not an advantage. In fact, it’s a disadvantage that all smaller competitors should exploit.

To summarize, “doing” CRM is a source of several kinds of benefits:

1) Reduced costs around serving customers due to less customer churn and optimized customer relationships management.
2) Significant top-line revenue growth due to the long-term effect of keeping customers longer.
3) Additional price premium that can be generated due customers perceiving additional value in the relationship.
4) The ability to extract customer knowledge from collecting customer data.
5) The ability to improve the customer knowledge extraction and business response process (improving the continuous learning process).

Most companies are just starting to realize some benefits in item #1 and a few have excelled in item #2 and #3. To sustain these advantages will require investing time and effort in items #4 and #5. The good news is that technology is not the gating factor.

Next we will discuss a specific example of how to “do” CRM on a tight budget.

CRM Service Example

Here’s an idea we have to all the airlines out there who are trying to fill the plane as full as they can while worrying about fuel prices. With so much to worry about, who has time to think of the passengers? All right, we’ll stop being cynical. But clearly the in-flight experience has been a tough one for most of the airlines to handle. Some airlines, like Midwest Express try to really differentiate themselves by providing a superior in-flight experience. Others have added a few more inches of legroom in coach class. Others try to create a festive atmosphere in the cabin.

The truth of the matter, for most of the major airlines, the in-flight experience is often lacking and is not a perceived differentiator for most passengers. To ensure loyalty, the airlines have had good success with points programs, but rival point programs offered by credit cards can work with any flight ticket and are eating away at some of that loyalty. To fight back, other airlines have worked hard on their web sites to make the ticket purchasing experience easier and better. Some airlines in Europe are working on making the airport experience (as in parking) more convenient. It is evident that every airline is trying to differentiate itself in the customer service axis, but not enough is done to improve the time spent in the air.

Here's what we propose:

1. In each airplane, place two or three wireless PDA such as a Palm Pilot or a Handspring Visor.
2. Before the plane takes off, load the passenger list onto the PDA.
3. Allow flight attendants to review passenger records and add notes.
4. When the plane lands, allow the notes to update the airlines passenger database once the PDA is connected to the Internet via the wireless modem.

Here's how this setup can improve the in-flight experience.

Imagine the following conversation between a passenger who is on a long flight with a stop in another city and a plane change ahead and the flight attendant on the passengers first leg of the flight:

> Passenger: "You know, this coffee was weak. I like my coffee much stronger."
> Flight attendant: "I'll have to make a note of that to remember that for next time."
> Passenger (sarcastically): "Yeah right."
>
> Now imagine the following conversation between the same passenger and another flight attendant on the second leg of the passenger's flight:
>
> Passenger: "Oh great. Here comes more of that weak coffee!"
> Flight attendant: "Well, actually, Bob, I heard that you like your coffee very strong. I've made this one just for you."
> Passenger (suspicious): "Really? Well… Thanks."

If one of us were that passenger, we'd immediately get up and start looking for the device used to record passenger preferences.

Clearly you can see the power of a little technology to help a company remember is customers and improve the relationship as time goes by. How much would this cost? Here's our version of the price tag for a small airline with 20 planes:

- 40 PDAs with wireless internet access: $22,000 ($550 each)
- Wireless internet fees (12 months): $16,800

- Programming changes in the airline information systems to let the PDA view and update passenger information and employee training: between $200,000 and $700,000 (depending on the flexibility of the airlines back office systems).

Total cost: $238,800 - $738,800.

Price per passenger (assuming about 2 million passengers in a year): between 11 and 36 cents per passenger ticket.

Would spending about 25 cents per ticket in this manner improve customer loyalty in a way that is cost effective? Let’s assume that improving the in-flight experience would result in a 0.5% drop in defection. Does this sound believable? (Ask yourself!) If so, then about 10,000 passengers each year would choose not to defect. Assuming that these passengers spend approximately $500 per year, that means an additional $15,000,000 in lost revenue over a 3-year period and an accompanying amount of gross profit, say $3,000,000. The solution can pay for itself within a year.

Conclusion

In each industry, opportunities for implementing quick-hit CRM programs that deliver value quickly abound. Instead of thinking big with CRM programs, think quick, small, measurable. Establishing a series of sustained and incremental efforts with an emphasis on learning before, during and after each iteration, will ensure that your CRM activities continually drive business value while delivering customer value.