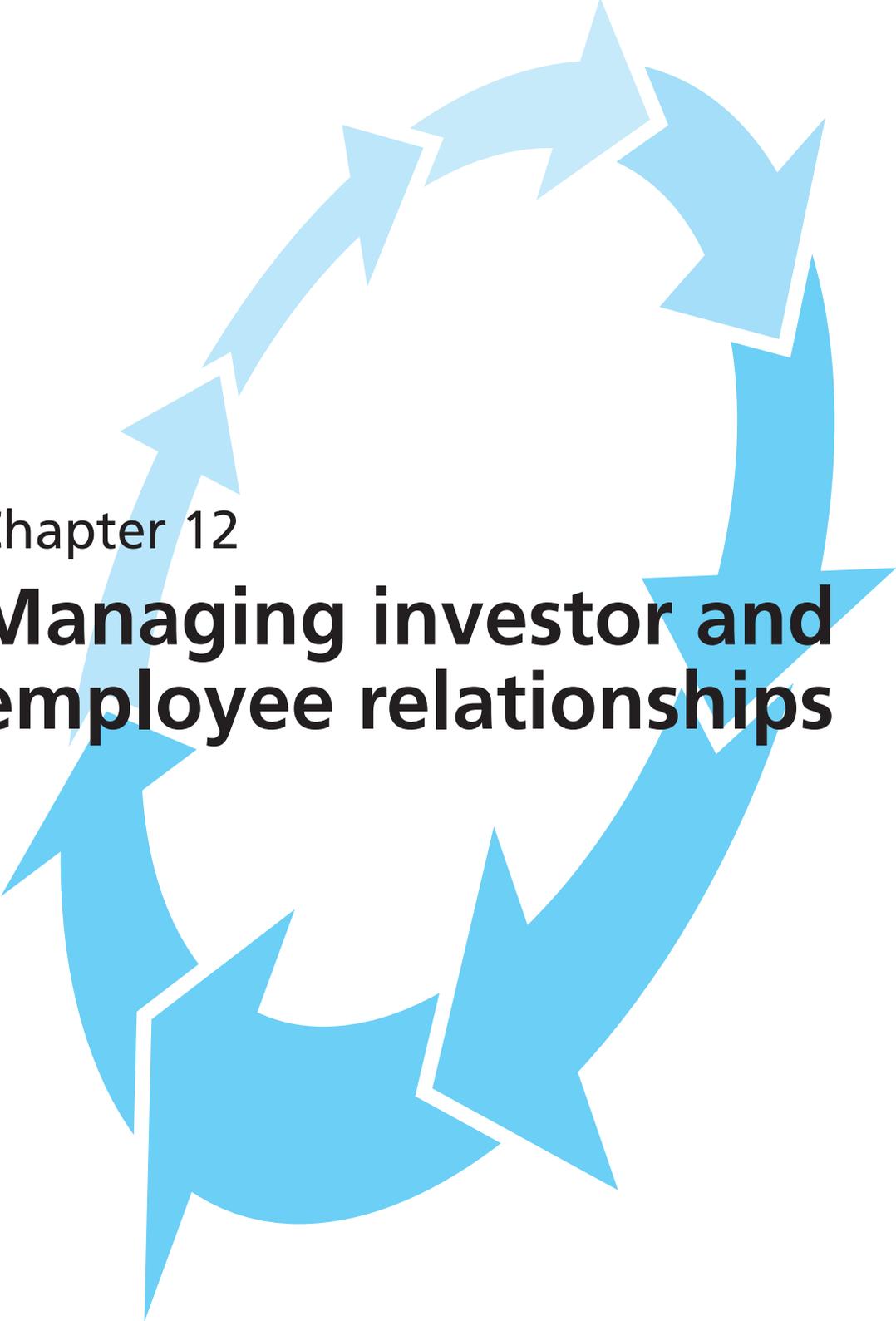


---



Chapter 12

# **Managing investor and employee relationships**

# Chapter objectives

**By the end of this chapter, you will understand:**

- 1. why investors should understand what is involved in a CRM implementation**
- 2. that the return from an investment in CRM can vary from immediate to long-term**
- 3. how to respond to high levels of investor churn**
- 4. the importance of people to the successful roll-out and operation of CRM technology**
- 5. the concepts of internal marketing, empowerment and service profit chain.**

## Introduction

In the last chapter we looked at the role of suppliers and partners in the achievement of CRM outcomes. In this chapter we examine two other constituencies and their contribution to CRM success: owners or investors and employees in the business.

Owners and investors can be an important source of capital, in return for which they expect growth in shareholder value. Given that CRM does not always yield an immediate return, their expectations may need to be managed. Employees are critical to the successful deployment of CRM. People design and implement the CRM strategy, and they use technology tactically. CRM cannot succeed without the ongoing commitment of people to the CRM vision, strategy and objectives, and their willingness to use the CRM toolkit.

## Owner/investor relationships

Owners and investors are significant stakeholders in businesses. They are an important source of capital that allows businesses to be established, to operate and grow, and in return they expect the value of that capital to grow. In other words, they want shareholder value to be created. Shareholder value can only be created if the business makes a return on investment that is greater than the weighted average cost of the capital invested in the business (WACC). If the WACC (determined by the relative weight and cost of equity and borrowings) is 10 per cent, and that capital is invested in the business earning a return of 20 per cent, there has been a significant increase in shareholder value. On the world's stock markets, shareholder value is measured by dividends and increases in the company's share price. If you buy a share at \$40, and in the course of the year the share rises in price to \$50, and you receive a dividend of \$5, there has been a \$15 increase in shareholder value.

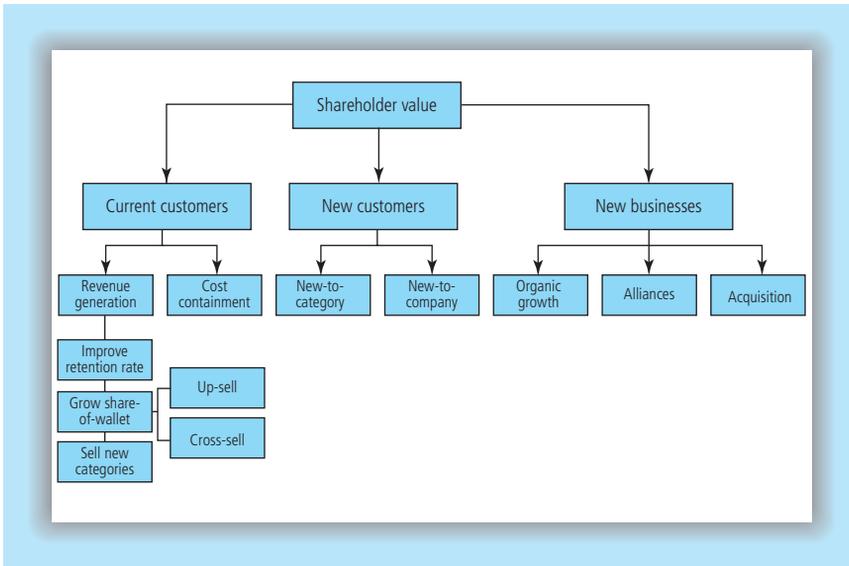
Peter Doyle points out that managers are agents whose task is to act in the interests of the principals, the shareholders with financial rights over the business. Managers, he suggests, have a primary responsibility to maximize shareholder value over time.<sup>1</sup>

What, then, is the link between CRM and shareholder value? The value of a business is the present day value of all margins that will be earned from sales to customers in the future. In earlier chapters, we have discussed the idea of customer lifetime value (LTV). The value of a business is equal to the LTV generated by its customers. CRM, therefore, can have a huge impact on shareholder value. It does so by creating and retaining profitable relationships with customers. A number of specific CRM competences influence shareholder value:

1. **Target market selection:** target markets vary in their attractiveness. Where demand is falling or static, or there is intense competition, margins come under pressure, with negative consequences for shareholder value. Shareholders prefer markets that show signs of both margin and market growth.
2. **Customer acquisition:** effective and efficient customer acquisition reduces the costs of acquisition, but grows the numbers of new customers acquired.
3. **Customer retention:** focused and effective customer retention means that strategically-significant customers are retained, as is their lifetime value.
4. **Customer development:** effective cross-selling and up-selling grows share of wallet and the value of retained customers.
5. **Value proposition development:** a key component of strategic CRM is the development of value propositions that customers prefer over competitors and want to buy.
6. **Technology implementation:** CRM systems enable companies to manage the customer lifecycle more effectively and efficiently. Sales-force automation ensures that opportunities are identified, tracked and moved to closure. Marketing automation ensures that campaigns and events are more effective. Service automation ensures that customers' service requirements are satisfied cost-effectively.
7. **Database management:** customer-related data is an important intangible asset that can be exploited to grow customer value and therefore shareholder value. CRM applications need appropriately high-quality data to be effective.
8. **Network management:** successful companies are excellent at identifying and building relationships with partners who can help create and deliver customer value.

Shareholder value, as delivered by CRM expertise, works as shown in Figure 12.1. The basic CRM disciplines of managing the value of current and new customers are shown to the left and centre of the diagram. At the right is a third source of growth that can power shareholder value: the creation of new businesses.

The two fundamental approaches to growing shareholder value through current customers are to sell more and/or reduce the cost-to-serve. Unless



**Figure 12.1**  
Shareholder value through CRM

there is a massive re-engineering of sales and service channels (e.g. moving from a branch network to an online presence), cost containment is unlikely to add significantly to shareholder value. Revenue generation through current customers offers greater potential. There are three core strategies: increase customer retention rate, grow share of category spending (share of wallet) by up-selling or cross-selling, and introduce new product categories to current customers. New customer acquisition offers another route for revenue growth. Customers can be new in two senses: either they are new to the category or they are new to the company, having been won from competitors. The third CRM-related strategy for growing shareholder value is to develop new businesses – either by growing them organically, by forming alliances with other organizations or by acquiring new businesses.

As already noted, investors and owners expect to experience enhanced shareholder value through dividend receipts or rising share price. Generally, Western investors, whether institutional or individual, take a rather short-term view of their investments. They expect to see a speedy, if not immediate, return. This short-termism is responsible for hot investment money racing from one money-making opportunity to another.

The period of time that it can take for CRM to show a return on investment varies according to the type of CRM that is being implemented.

A strategic CRM implementation demands investments in technology, processes and people. These projects often involve major changes in corporate culture and restructuring of the business around customer groups, and may take three to five years to return a profit. Even then, the evidence of a return may differ from the financial indicators normally preferred by investors. Success at strategic CRM may be reflected in higher levels of customer satisfaction and customer retention or in a greater share of customer spend. You might also find that employees'

attitudes to customers have changed, or that the business acquires, shares and uses customer information more intelligently.

Over a three to five year term it may be impossible to prove that any shift in sales or profit is due to CRM or, for that matter, any other type of programme. Business performance is influenced by many conditions, a large number of which are beyond the control of any single enterprise, for example, business cycles, exchange rates, international relations, government regulations, competitor action and technological advances. Changes in these conditions over a three to five year term may serve to promote, counterbalance or reduce the impact of a CRM programme.

An operational CRM project, such as sales-force automation, might yield a return within 12 to 24 months. Computer infrastructure and software has to be installed, the selling process modelled, and current data transferred onto the new system. Then salespeople need to be trained to work the new system. The returns on such an investment might include higher levels of salesperson productivity, such as calls made, proposals written or enquiries handled. An operational CRM project for 3Com, the company behind Palm handheld computers, involved shifting customer service from call centre to web self-service. 3Com enjoyed \$16.8 million savings over a two year period as fewer calls entered the call centre, talk times fell, call transfers fell and training costs fell. It is not reported whether customer satisfaction was influenced.

An analytical CRM implementation can show results almost immediately, as long as the right type of customer-related data is available to be able to run campaigns. Even a more complex project, in which internal data from several databases is integrated and enhanced with bought-in data, can show a return within a year. However, if a data warehouse needs to be created from scratch, the time-to-return can be much lengthier. Figure 12.2 shows how a UK-based business-to-business catalogue company used CRM analytics to target more precisely prospects for a particular mailing. The company ran an experiment in which their conventional approach to direct marketing was contrasted with a CRM-enabled approach. The numbers show that under the CRM

	CRM	Traditional
Number of catalogues mailed	1000	5000
Mailing cost	£3,000	£15,000
New customers obtained 2003	65	45
Conversion rate new customers	6.5%	0.09%
Initial sales per new customer	£180	£120
Total new initial sales revenues	£11,700	£5,400
Acquisition cost per customer	£46.15	£333.33
Average customer sales 2003–2006	£7,500	£2,200
2 year gross margin (40%)	£3,000	£880
2003 customers still active in 2006	80%	35%

**Figure 12.2**  
Analytical CRM at  
Business Direct

approach fewer catalogues were mailed, conversion rates and initial sales per new customer were higher, customer acquisition costs were lower and two-year sales and margins were higher.

It is possible to conduct many such experiments on subsets of customers, to generate evidence that there is a return on CRM investment. You can prove CRMs value by reference to specific data, such as customer acquisition costs, sales per customer, customer retention rates and customer tenure.

A collaborative CRM project might take two or more years to reap benefits. A manufacturer that wants to introduce portal-based self-service to its customers faces the challenge of raising customer enthusiasm for the change. There might be significant levels of resistance from customers who prefer the current service model, whether that is face-to-face sales representation or telesales. Collaborative CRM implementations align the people, processes and/or technologies of two or more organizations and therefore have the potential for major delays.

Fred Reichheld claims that 'just as there are customers and employees who are right for your business there are investors who are right'.<sup>2</sup> The typical investor, focused on the short-term, is not the right investor for companies that are in pursuit of high levels of customer retention, which generates long-term increases in shareholder value. He suggests that even if you are a publicly-owned company you can pursue one or more of four ways to create a stable group of long-term oriented investors: educate current investors; shift the investor mix to institutions that avoid investor churn; attract the right kind of core owner and operate as a privately owned company.

## Educate current investors

Investors are justifiably sceptical of new business models. In recent years they have been promised improved profitability from BPR, ERP and TQM (business process re-engineering, enterprise resource planning and total quality management). Many investors have been disappointed. Why should their response be any different to another three letter acronym, CRM, particularly when various reports suggest that upwards of 60 per cent, and perhaps as many as 90 per cent, of CRM implementations have failed?<sup>3</sup>

Investors need to understand that CRM, well implemented, does have an influence on shareholder value. Many vendors provide case illustrations for cautious or sceptical investors. One notable success story is the Royal Bank of Canada (RBC), which won the first international award for CRM excellence in large corporations. RBC started their CRM initiative in 1995. They have invested well over \$100 million in their transition to being a CRM-driven company. The bank's vice president for CRM claims:

'we no longer view CRM as a programme ... (It) is our core strategy. We absolutely conclude that CRM is paying us back in spades. It has

enabled us to grow both top of the house revenue line and at the same time achieve huge cost savings’.

Revenue growth is running at 10–15 per cent per annum and profit growth at 25 per cent.

Investors need to understand that CRM, when well implemented, influences both sides of the profit equation: costs and revenues. CRM is very much about recruiting and retaining the right customers. These are customers who generate long-term value for the business. The long term may be several years, particularly if the repurchase cycle is extended. General Motors reckons its customers are worth \$276 000 over a lifetime of being GM customers, during which time they purchase 11 GM vehicles.<sup>4</sup>

Finally, investors need to understand that CRM yields long-term benefits. There may be short-term results, but the true benefits may take years to deliver. Failure at CRM is indeed still an option ... but it is not a requirement.

### Shift the investor mix towards institutions that avoid investment churn

Most investors routinely churn their portfolios in search of a better return. However, some institutions are more stable investors than others, preferring to buy and hold for the long-term. Low churn investing appeals to a limited number of investment houses. Once you have identified them, it is suggested that you market your stock to them in much the same way as you market your products and service to your customers. This means segmenting the institutional investor market, targeting particular investors and positioning your stock against other stocks competing for the buying power of those chosen investors. Nike is one company that has pursued this strategy in order to maintain a stable shareholder base.

### Attract the right kind of core owner

This approach is based on finding an institutional or individual investor who understands your CRM goals and is prepared to take a controlling position, and be patient for the long-term benefits. Reichheld cites Warren Buffett as the archetypal controlling investor. Buffett runs the investment company Berkshire Hathaway, where portfolio turnover is below 10 per cent. He has bought stock in very few companies over the last twenty years, and has remained loyal to those companies. He looks for companies that show high return on equity, a strong customer base, a simple business idea and an undervalued market position. Buffett is not the only investor taking the long view. Japanese and German investors typically take a much longer term view of their investments than most of their Western counterparts.

## Go private

Companies that are privately owned do not need to dance to the tune of the stock market. They can take a long-term view of investments in customer management. However, private ownership is not for everybody. The level of debt that is needed to fund a CRM-based approach to business development can be very high. In fact it may be too high a risk for most private business owners to bear.

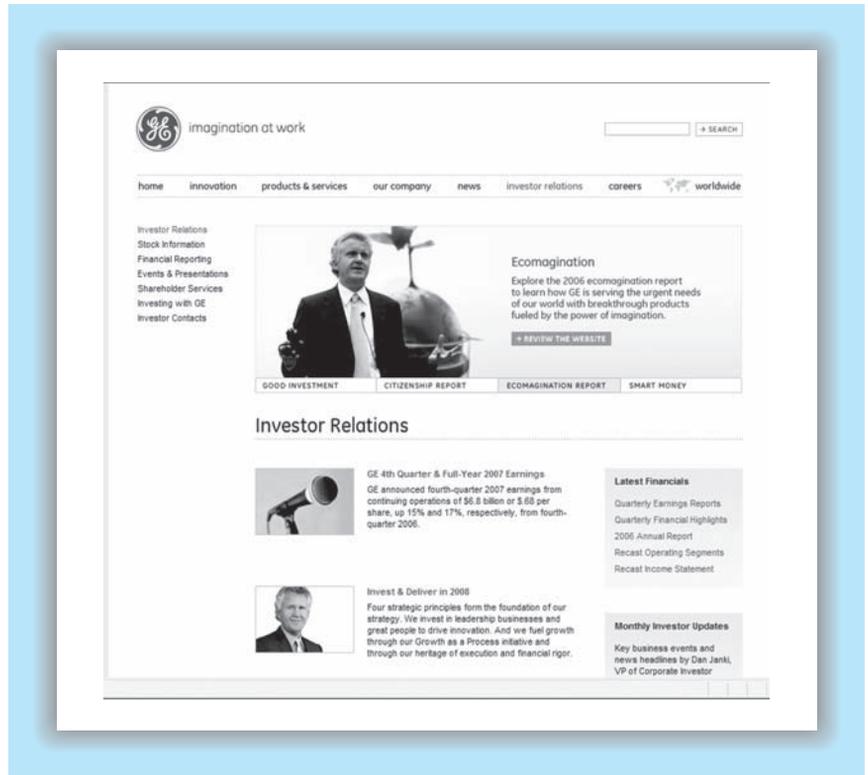
The entrepreneur Richard Branson floated the Virgin Group on the London stock market in 1986. By October 1988 he had bought back all the distributed shares, at huge personal cost. He had been unable to run the businesses under the Virgin umbrella in the way he wanted. His entrepreneurial approach to management, he felt, was incompatible with the institutional demands for immediate returns on investment. The institutions would not have tolerated the results achieved by his airline, Virgin Atlantic. Established in 1984, it was in only 1995 that the airline showed a return on capital employed that would have been positive enough to please an institutional investor, 27 per cent. Just three years previously, the airline recorded a negative 29.7 per cent return. Branson was able to keep to his strategy of 'happy employees + customer value = business performance'.

## Investor relations portals

Just as web technologies have allowed customers, suppliers and channel partners to operate as an extension of an organization's CRM system, so too have investor portals led to unprecedented levels of access for investors (see Figure 12.3 for an example of an investor portal). Many organizations today operate an investor website, allowing access to important information, such as company overviews, mission and vision, strategy, financial reports, publications and presentations, statutory filings, analyst views and market assessments. Investors are able to register with the website, request information, sign up for mailing lists and provide feedback. Sometimes the website offers search engine enabled access to an investor-relevant knowledge base.

## Employees

It is hard to overestimate the importance of people to the success of CRM. People design and implement the CRM strategy, they use CRM software to help them run campaigns and events, and to sell to and service customers. Further, basic human skills such as showing empathy and responding are vital to delivering excellent experience in interaction with customers.



**Figure 12.3**  
General Electric's  
investor portal

Many companies intuitively recognize the importance of their people in creating value for customers and company alike. Some explicitly acknowledge the importance of people. The PepsiCo 2006 annual report, for example, says:

Our people represent PepsiCo's ultimate competitive advantage ... Our 'ownership culture' empowers our associates. We are a big company that thinks like a small enterprise. Our associates fundamentally see their jobs as finding solutions for customers and consumers and doing what it takes to exceed their expectations.<sup>5</sup>

Companies need to be able to identify, recruit, develop and retain high-quality employees who can contribute effectively to the achievement of the company's CRM goals. Employee turnover is a huge cost in some industries. In food service, for example, frontline staff can turnover at 200 per cent or more each year. Turnover in senior positions can also be high. Nearly 20 per cent of managing directors change position each year. When an employee departs companies incur the direct costs of replacing that person: search costs, interviewing costs, relocation costs and so on. There may also be indirect costs, such as business lost when customer accounts are not properly serviced. In extreme cases, employees may take customers with them when they depart. This is common in the advertising industry. When creative staff leaves an established agency to set up on their own, they very often take clients with them.

Companies need to define the competencies that are needed to work successfully in defined CRM roles. Employees who are responsible for managing an important strategic alliance will need different competencies from employees working on the analysis of customer data using data mining tools. They in turn will need different competencies from those who work in the frontline, interfacing with customers, perhaps in a call centre. We review some important CRM roles in Chapter 17.

Whatever their role, it is important that employees buy into the CRM mission and vision, understand their role, and appreciate what the company is trying to achieve in its served markets. The importance of obtaining employee buy-in to the CRM vision was emphasized in Chapter 3. It is often necessary to market the CRM project's vision, strategy and objectives to employees to achieve initial buy-in and ongoing commitment. This deployment of marketing strategies and tactics to the workforce is known as internal marketing.

## Internal marketing

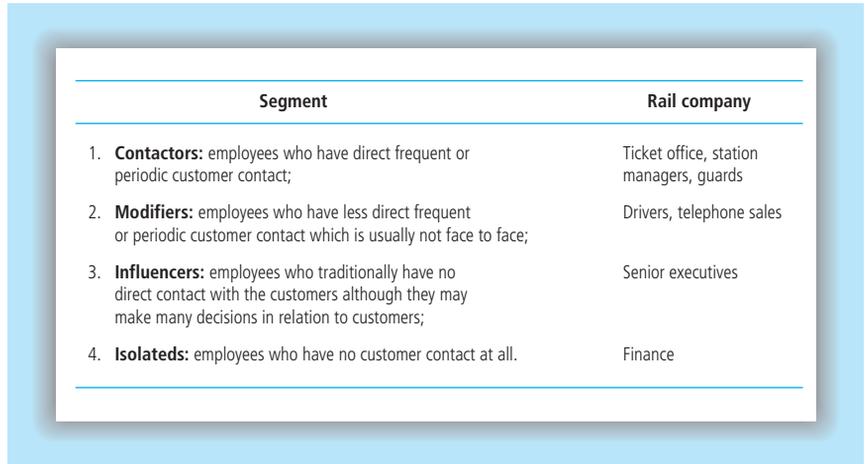
The concept of internal marketing has been in existence since the 1980s, when Len Berry suggested that it made sense to apply marketing-like strategies to people management.<sup>6</sup> Winning and keeping good employees was thought to be much like winning and keeping good customers. Furthermore, to win employees' commitment to your CRM strategy, you were advised to market that strategy to them as if it were a product they were expected to buy. Internal marketing can be defined as follows:

Internal marketing is a planned effort to overcome organizational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and functional strategies.<sup>7</sup>

There isn't much evidence of companies writing internal marketing plans along the same lines as their external marketing plans, but it is possible to employ the same architecture to think in a structured way about how you would win your colleagues' commitment to your CRM strategy. Most marketing plans address a number of core issues: marketing objectives, market segmentation and targeting, market positioning and marketing mix. We'll explain each of these briefly in the context of internal marketing of your CRM strategy.

- **Marketing objectives:** these might include broad qualitative goals, such as winning commitment to the CRM strategy, motivating employees to adopt new work practices or developing a culture in which the customer's voice is central. Equally, objectives might be readily quantifiable, for example, training 100 per cent of employees to understand the concept of customer lifetime value.
- **Market segmentation and targeting:** segmentation involves dividing the internal market into homogenous subsets so that you can target each group with a different marketing mix. You might, for example,

segment by the employee's degree of customer contact.<sup>8</sup> This has been done by a European Train Operating company, as shown in Figure 12.4. They identified four segments of employees, varying in levels of customer contact and therefore with varying levels of influence on customer experience.



Segment	Rail company
1. <b>Contactors:</b> employees who have direct frequent or periodic customer contact;	Ticket office, station managers, guards
2. <b>Modifiers:</b> employees who have less direct frequent or periodic customer contact which is usually not face to face;	Drivers, telephone sales
3. <b>Influencers:</b> employees who traditionally have no direct contact with the customers although they may make many decisions in relation to customers;	Senior executives
4. <b>Isolateds:</b> employees who have no customer contact at all.	Finance

**Figure 12.4**  
Segmenting the internal market by level of customer contact

- **Market positioning:** positioning is concerned with how you want CRM to be perceived by each internal market segment. For senior management it may make sense to position it as a sound strategic move that will make their shareholdings more valuable, for others the positioning may be about job enrichment, work satisfaction, process simplification or anything else that the segment values. One positioning will not suit all segments.
- **Marketing mix:** the marketing mix is the set of tools that marketers use to bring about the results they want in their target markets. Figure 12.5 shows how the 7Ps of the marketing mix, first introduced in Chapter 7, can be used for internal marketing purposes. Key elements in the internal marketing mix are communication and networking.<sup>9</sup>

## Empowerment

Many strategic CRM implementations make a virtue of creating a culture and climate in which the customer's voice is heard, valued and acted upon. Consequently, they give their customer contact staff a higher level of authority to meet, and even exceed, customer requirements. Some companies make heroes out of employees who have 'gone the extra mile'. However, empowerment is not just a matter of telling employees they are now responsible for managing the customer relationship. Empowerment means equipping employees with the knowledge and skills to match that authority. For example, they need to know how to

- Product
  - Employees 'buy' the CRM strategies they must implement, changed work processes or other related initiatives of senior management
- Price
  - Psychological cost of adopting new work practices
- Promotion (internal communications)
  - Face-to-face briefings, corporate newspapers, employee portals, corporate videos, trial runs (c.f. sampling), incentive plans, corporate TV network (e.g. FedEx), road-shows, conferences
- Place
  - On-site/off-site meetings, virtual locations
- Physical evidence
  - Memos, briefing notes, training manuals, job descriptions
- Process
  - Training, coaching, direction, negotiation
- Participants
  - Colleagues, team-members, supervisors, CEO, trainers, consultants

**Figure 12.5**  
Using 7Ps as the  
internal marketing  
mix

deal constructively with a customer complaint, particularly one that is objectively unjustified. This may involve scripting the dialogue in advance, providing information from a knowledge database on known problems and how they can be resolved, or providing diagnostics tools.

Empowerment ranges from total authority to do what it takes to satisfy and retain a customer, to bounded empowerment where the employee has more limited discretion to act. The boundaries may be financial (e.g. no more than \$200 per customer) or product related (e.g. domestic appliances but not financial services).

Empowerment helps create an environment in which employees feel trusted and valued, leading to greater job satisfaction and motivation, which in turn can improve customer satisfaction and retention.<sup>10</sup> However, empowerment is not always an appropriate strategy. Michael Tracey and Fred Wiersema found that successful companies excelled at one of three basic value-delivery disciplines: operational excellence, product leadership and customer intimacy.<sup>11</sup> These are discussed in more detail in Chapter 7. The role of empowerment must be limited in businesses founded on operational excellence. Too much empowerment might slow down and impede the operational processes that create excellence. Empowerment is much better suited to organizations dedicated to customer intimacy.

## The service–profit chain

In the section above, you read about the link between satisfied employees and satisfied customers. Many companies believe that happy employees make happy customers make happy shareholders. Among them are

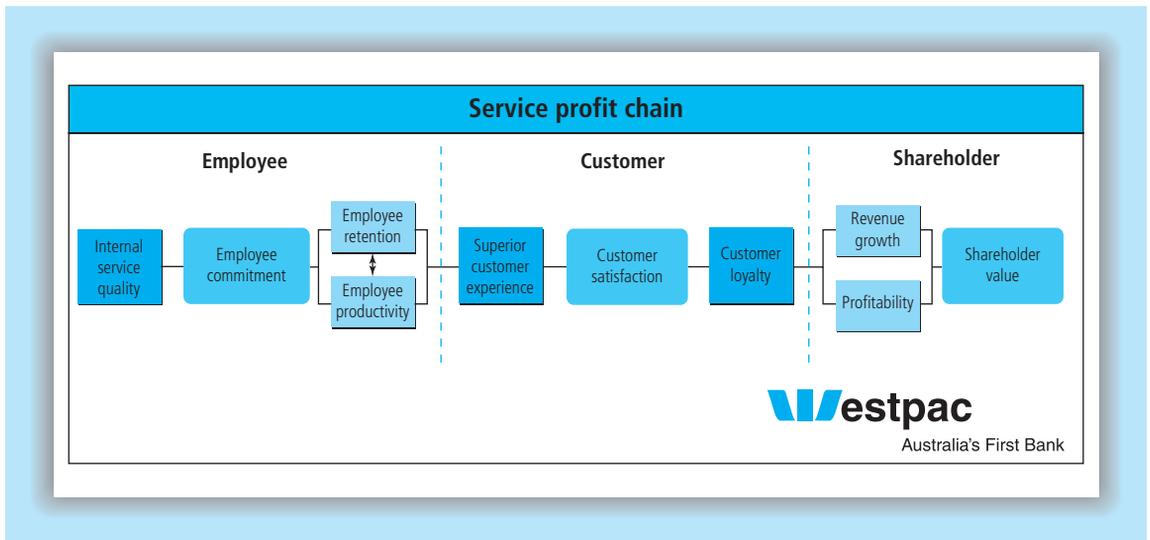


Figure 12.6 The service–profit chain at Westpac Bank

Marriott Hotels, Virgin Airline, Westpac Bank (see Figure 12.6), Taylor Nelson SOFRES (a market research company), Sears Roebuck and Volvo. They believe that if employees are satisfied at work they will deliver excellent experience to their internal and external customers. This in turn will drive up customer retention rates and improve business performance.

The connections between business performance, customer satisfaction and employee satisfaction were first spelt out in the service–profit chain, a model developed by a group of Harvard professors.<sup>12</sup>

As originally specified, the model suggests linkages between internal service quality (the quality of service we receive from our colleagues in the workplace), employee satisfaction, value delivered to customers, external customer satisfaction, customer loyalty and business performance. The model does not claim cause and effect relationships between these variables. It simply finds evidence of correlation. Businesses like AC Nielsen, the international market research company, for example, find the model very attractive. It provides them with an organizing framework for running their business. They claim:

‘We live and breathe the service–profit chain, understanding our customers are fundamental to our success – satisfied employees make satisfied clients, make happy shareholders’.<sup>13</sup>

There is some evidence to support this claim. Some is generated by practitioners and consultants, some by academics.<sup>14</sup> Ben Schneider and David Bowen have found that a climate for service and a climate for employee wellbeing are highly correlated with customer perceptions of service quality. Put another way, the experiences that employees have at work are associated with the experiences of customers. Sears Roebuck, the retailer, has found a high inverse correlation between customer satisfaction

and employee turnover. The stores with highest employee turnover had the lowest customer satisfaction, and vice versa. The research also found that increases in employee attitude correlated strongly with increases in both customer satisfaction and revenue growth.<sup>15</sup>

Sears has developed a measurement model linking employee experience to customer experience to business performance. They call this the TPI (Total Performance Indicators) model. They report:

‘We use the TPI at every level of the company, in every store and facility; and nearly every manager has some portion of his or her compensation at risk on the basis of non-financial measures ... (I)n the course of the last 12 months, employee satisfaction on the Sears TPI has risen by almost 4 per cent and customer satisfaction by 4 per cent ... if our model is correct – and its predictive record is very good – that 4 per cent improvement in customer satisfaction translates into more than \$200 million in additional revenues in the past 12 months’.

Elsewhere, research on the linkages between components in the service–profit chain has met with mixed results. For example, one grocery retailing study found no correlation between employee satisfaction and customer satisfaction, and worryingly reported a negative correlation between employee satisfaction and profit margin!<sup>16</sup> Other banking industry research concluded: ‘Branches with favourable employee attitude and climate scores have elevated levels of customer satisfaction and sales achievement, and branches with higher levels of customer satisfaction also have stronger sales’. However, the effect was small and barely significant.<sup>17</sup> Another study by the Institute of Employment Studies found that employee commitment was connected to company profitability in three ways:

1. directly through employee behaviours
2. indirectly through customer satisfaction
3. indirectly through a reduction in staff absenteeism and turnover.<sup>18</sup>

Although research continues, the service–profit chain is proving to be a useful framework for many businesses.

## Employee relationship management (ERM) software applications

A number of leading CRM application vendors also offer employee relationship management (ERM) modules. Other terms for ERM are human capital management and talent management. ERM involves the application of CRM-like concepts, processes, tools and technologies to

the internal market, i.e. the workforce. An Oracle white paper describes ERM as follows.

Employee relationship management (ERM) provides applications, content and services that enhance the value of the employee to the organization and directly affect the activities by which employees create value for the customer. Companies today are realizing that, just as they need a single, comprehensive view of their customers (such as that provided by customer relationship management (CRM) solutions) they would also benefit from having a single view of their employees and from providing that view to the employees themselves.<sup>19</sup>

Just as CRM strives to build long-term relationships with valued customers, ERM strives to build long-term relationships with valued employees. ERMs two main internal user groups are employees and managers. Managers can use ERM to help them with a number of people management tasks: recruitment, training, performance management and remuneration, for example. ERM enables managers to communicate with their teams, align employees with the overall goals of the business, share information and build a common understanding. ERM also offers support to employees through workflow modelling that depicts how tasks should be performed, provision of job-related information and collaboration with colleagues.

A key technology for many ERM applications is the employee portal. Employee portals are one stop shops that provide access to all the role-relevant resources employees need to do their jobs effectively and efficiently, whether they are managers or reports. As with many commercial websites, portals often allow employees to customize their own homepage so that role relevant information is readily accessible. See Case 12.1.<sup>20</sup>

## Case 12.1

### ERM in the US Navy

Traditionally, the US Navy's sailors have been motivated by the desire to serve their country and have a rewarding career. Nevertheless, the military is always concerned with sailor morale, due in part to the unique circumstances of its 'employees' being separated from their families for extended periods of time. The happier the Navy can keep its sailors, the more effective it believes they will be and the less likely they are to quit for civilian life. As the complexity and technical nature of military equipment has increased, the return on the investment of recruiting and training qualified sailors has become more critical. This translates directly into the issue of sailor retention. For the Navy to spend large amounts of time and money to recruit and train sailors for increasingly technical jobs, only to watch them leave the military for the civilian sector after a few years, is clearly counterproductive, very expensive, and a serious issue in terms of military readiness. The US Navy has

therefore embarked on building a relationship with its sailors that fosters improved morale, maximizes job satisfaction, and promotes sailor retention.

Family communications	1.76
General interest information	3.17
Career and training information	3.25
Job-related information	3.95
Health and fitness information	4.58
Military news	5.12
Shipmate news	6.16

(1 = high preference; 7 = low preference)

### Sailor preferences for personalized communications

One part of the solution has been to use technology to create sailor-specific, personalized, web pages on a Navy Internet portal. This was expected to create an environment in which each sailor felt that the Navy knew and cared about him or her personally. Researchers investigated what kinds of personalized communications would be of interest to sailors. Top of the list of preferences, as shown in the inset table were family communications, such as e-mails and birthday reminders, and general interest information, such as hometown news, favorite sports teams' scores and quotes of particular stocks.

## Summary

In this chapter you have learned about the importance of managing relationships with owners/investors and employees. Owners and investors are an important source of capital, in return for which they expect growth in shareholder value. Any expectations that they will enjoy a fast return on their investment in CRM may need to be moderated because strategic CRM implementations may not earn a return for between three and five years, and operational CRM might have a payback horizon of one to two years. Companies that have high levels of investor churn because of dissatisfaction with returns on CRM investment can pursue one or more of four ways to create a stable group of long-term oriented investors: educate current investors, shift the investor mix to institutions that avoid investor churn, attract the right kind of core owner and operate as a privately owned company.

Employees are critical to the successful deployment of CRM. People design and implement the CRM strategy. They use technology tactically. Many companies recognize the importance of their people in creating value for customers and company alike. It is often necessary to market the CRM project's vision, strategy and objectives to employees to achieve initial buy-in and ongoing commitment. This deployment of marketing strategies and tactics to the workforce is known as internal marketing.

A growing number of companies give their customer contact the authority to meet, and even exceed, customer requirements. This is known as empowerment, and it involves equipping employees with the knowledge and skills to match the authority.

Many companies, particularly in the service sector, believe that employee satisfaction is a necessary precondition for customer satisfaction and excellent business performance. They believe that if employees are satisfied at work, they will deliver excellent experience to their internal and external customers. This in turn will drive up customer retention rates and improve business performance. These connections between business performance, customer satisfaction and employee satisfaction are spelt out in the service–profit chain.

## References

1. Doyle, P. (2000) *Value-based marketing: marketing strategies for corporate growth and shareholder value*. Chichester: John Wiley.
2. Reichheld, F.F. and Teal, T. (1996) *The loyalty effect: the hidden force behind growth, profits, and lasting value*. Boston, MA: Harvard Business School Press.
3. Ang, L., Buttle, F. (2002) ROI on CRM: a customer journey approach, ANZMAC Annual Conference, Melbourne
4. Ferron, J. (2000) The customer-centric organization in the automobile industry: focus for the 21st century. In: S. Brown (ed.). *Customer Relationship Management. A strategic imperative in the world of e-business*. Toronto: John Wiley, pp. 189–211.
5. [http://www.pepsico.com/PEP\\_Investors/AnnualReports/06/PepsiCo2006Annual.pdf](http://www.pepsico.com/PEP_Investors/AnnualReports/06/PepsiCo2006Annual.pdf). Accessed 18 November 2007.
6. Berry, L.L. (1981) The employee as customer. *Journal of Retail Banking*, Vol. 3 March, pp. 25–28.
7. Ahmed, P.K. and Rafiq, M. (2002) *Internal Marketing: tools and concepts for customer-focussed management*. Oxford: Butterworth Heinemann.
8. Judd, V.C. (1987) Differentiate with the 5th P: People. *Industrial Marketing Management*, Vol. 16, pp. 241–247.
9. Gilmore, A. and Carson, D. (1995) Internal marketing: the missing half of the marketing programme. In: W.J. Glynn and J.G. Barnes (eds.). *Understanding services management*. Chichester: John Wiley.
10. Bowen, D.E. and Lawler, E.E. (1992) The empowerment of service workers: what, why, how and when. *Sloan Management Review*, Spring, pp. 31–39.

11. Treacey, M. and Wiersema, F. (1995) *The discipline of market leaders: choose your customers, narrow your focus, dominate your market*. Reading, MA: Addison-Wesley.
12. Heskett, J.L., Jones, T.O., Loveman, G.W. Sasser, W.E. Jr and Schlesinger, L.A. (1994) Putting the service-profit chain to work. *Harvard Business Review*, March–April, pp. 164–174; Rucci, A., Kirn, S.P. and Quinn R.T. (1998) The employee–customer profit chain at Sears. *Harvard Business Review*, January–February, pp. 82–97; Loveman, G.W. (1998) Employee satisfaction, customer loyalty and financial performance. *Journal of Service Research*, Vol. 1, August, pp. 18–31.
13. For more details refer to <http://www.acnielsen.com.au/>
14. Dennis McCarthy's 1997 book *The loyalty link: how loyal employees create loyal customers* (New York: John Wiley) is an example of the consultant's approach. He writes 'the abstract nature of these terms (customer loyalty and employee loyalty) makes it difficult to prove empirically that such a link exists, but there is a preponderance of indirect evidence'. He then cites many examples of associations between employee satisfaction, employee retention and customer loyalty.
15. Rucci, A., Kirn, S.P. and Quinn, R.T. (1998) The employee–customer profit chain at Sears. *Harvard Business Review*, January–February, pp. 82–97.
16. Silvestro, R. and Cross, S. (2000) Applying the service-profit chain in a retail environment. *International Journal of Service Industry Management*, Vol. 11(3), pp. 244–268.
17. Geladel, G.A. and Young, S. (2005) Test of a service profit chain model in the retail banking sector. *Journal of Occupational and Organizational Psychology*, Vol. 78, pp. 1–22.
18. Barber, L., Hayday, S. and Bevan, S. (1999) From people to profits. Institute of Employment Studies Report 355.
19. Linking Employee Relationship Management to Customer Relationship Management. Oracle White Paper, 2006. <http://www.oracle.com/applications/crm/siebel/resources/erm-white-paper.pdf>. Accessed 18 November 2007.
20. Gillensen, M.L. and Sanders, T.C. (2005) Employee relationship management: applying the concept of personalization to US Navy sailors. *Information Systems Management*, Winter, pp. 45–50.