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Chapter 1

# Introduction to customer relationship management



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# Chapter objectives

By the end of this chapter, you will be aware of:

1. **four major perspectives on CRM: strategic, operational, analytical and collaborative**
2. **several common misunderstandings about CRM**
3. **a definition of CRM**
4. **the six constituencies having an interest in CRM**
5. **how important CRM issues vary across industries**
6. **five generic models of CRM.**

## Introduction

The expression customer relationship management (CRM) has only been in use since the early 1990s. Since then there have been many attempts to define the domain of CRM, a number of which appear in Table 1.1. As a relatively immature business or organizational practice, a consensus has not yet emerged about what counts as CRM. Even the meaning of the three-letter acronym CRM is contested. For example, although most people would understand that CRM means customer relationship management, others have used the acronym to mean customer relationship marketing.<sup>1</sup>

Information technology (IT) companies have tended to use the term CRM to describe the software applications that automate the marketing, selling and service functions of businesses. This equates CRM with technology. Although the market for CRM software is now populated with many players, it started in 1993 when Tom Siebel founded Siebel Systems Inc. Use of the term CRM can be traced back to that period. Forrester, the technology research organization, estimates that worldwide spending on CRM technologies will reach US\$11 billion per annum by 2010.<sup>2</sup> Others with a managerial rather than technological emphasis, claim that CRM is a disciplined approach to developing and maintaining profitable customer relationships, and that technology may or may not have a role.

Some of the differences of opinion can be explained by considering that a number of different types of CRM have been identified: strategic, operational, analytical and collaborative, as summarized in Table 1.2 and described below.

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CRM is an information industry term for methodologies, software and usually Internet capabilities that help an enterprise manage customer relationships in an organized way.<sup>3</sup>

CRM is the process of managing all aspects of interaction a company has with its customers, including prospecting, sales and service. CRM applications attempt to provide insight into and improve the company/customer relationship by combining all these views of customer interaction into one picture.<sup>4</sup>

CRM is an integrated approach to identifying, acquiring and retaining customers. By enabling organizations to manage and coordinate customer interactions across multiple channels, departments, lines of business and geographies, CRM helps organizations maximize the value of every customer interaction and drive superior corporate performance.<sup>5</sup>

CRM is an integrated information system that is used to plan, schedule and control the pre-sales and post-sales activities in an organization. CRM embraces all aspects of dealing with prospects and customers, including the call centre, sales-force, marketing, technical support and field service. The primary goal of CRM is to improve long-term growth and profitability through a better understanding of customer behaviour. CRM aims to provide more effective feedback and improved integration to better gauge the return on investment (ROI) in these areas.<sup>6</sup>

CRM is a business strategy that maximizes profitability, revenue and customer satisfaction by organizing around customer segments, fostering behaviour that satisfies customers and implementing customer-centric processes.<sup>7</sup>

**Table 1.1**  
Definitions of CRM

Type of CRM	Dominant characteristic
Strategic	Strategic CRM is a core customer-centric business strategy that aims at winning and keeping profitable customers
Operational	Operational CRM focuses on the automation of customer-facing processes such as selling, marketing and customer service
Analytical	Analytical CRM focuses on the intelligent mining of customer-related data for strategic or tactical purposes
Collaborative	Collaborative CRM applies technology across organizational boundaries with a view to optimizing company, partner and customer value

**Table 1.2** Types of CRM

## Strategic CRM

Strategic CRM is focused upon the development of a customer-centric business culture. This culture is dedicated to winning and keeping customers by creating and delivering value better than competitors. The culture is reflected in leadership behaviours, the design of formal systems of the company, and the myths and stories that are created within the firm. In a customer-centric culture you would expect resources to be allocated where they would best enhance customer value, reward systems

to promote employee behaviours that enhance customer satisfaction and retention, and customer information to be collected, shared and applied across the business. You would also expect to find the heroes of the business to be those who deliver outstanding value or service to customers. Many businesses claim to be customer-centric, customer-led, customer-focused or customer-oriented, but few are. Indeed, there can be very few companies of any size that do not claim that they are on a mission to satisfy customer requirements profitably.

Customer-centricity competes with other business logics. Philip Kotler identifies three other major business orientations: product, production, and selling.<sup>8</sup>

**Product-oriented** businesses believe that customers choose products with the best quality, performance, design or features. These are often highly innovative and entrepreneurial firms. Many new business start-ups are product-oriented. In these firms it is common for the customer's voice to be missing when important marketing, selling or service decisions are made. Little or no customer research is conducted. Management makes assumptions about what customers want. The outcome is that sometimes products are overspecified or overengineered for the requirements of the market, and therefore too costly for many customers. However, marketers have identified a subset of relatively price-insensitive customers whom they dub 'innovators', who are likely to respond positively to company claims about product excellence. Unfortunately, this is a relatively small segment, no more than 2.5 per cent of the potential market.<sup>9</sup>

**Production-oriented** businesses believe that customers choose low-price products. Consequently, these businesses strive to keep operating costs low, and develop low-cost routes to market. This may well be appropriate in developing economies or in subsistence segments of developed economies, but the majority of customers have other requirements. Drivers of BMWs would not be attracted to the brand if they knew that the company only sourced inputs such as braking systems from the lowest-cost supplier.

**Sales-oriented** businesses make the assumption that if they invest enough in advertising, selling, public relations (PR) and sales promotion, customers will be persuaded to buy. Very often, a sales orientation follows a production orientation. The company produces low-cost products and then has to promote them heavily to shift inventory.

A **customer or market-oriented** company shares a set of beliefs about putting the customer first. It collects, disseminates and uses customer and competitive information to develop better value propositions for customers. A customer-centric firm is a learning firm that constantly adapts to customer requirements and competitive conditions. There is evidence that customer-centricity correlates strongly with business performance.<sup>10</sup>

Many managers would argue that customer-centricity must be right for all companies. However, at different stages of market or economic development, other orientations may have stronger appeal.

### Strategic CRM at Boise Office Solutions

In 1998 the CEO of Itasca, Illinois-based Boise Office Solutions, decided that the only way to escape the bruising price competition and razor-thin margins of office supply superstores such as Staples and Office Depot was to provide greater value through superior customer service, with the support of a CRM system. Three years and \$20 million later, the \$3.5 billion subsidiary of Boise Cascade switched on a CRM system that differentiated them from other competitors in the office supplies industry. The company can now share customer data across five business units, 47 distribution centres and three customer service centres. This has allowed Boise to cross-sell, retain and service accounts much more effectively. One of the CRM system’s many features is web collaboration which allows representatives to co-browse and chat with customers online while making recommendations.

Source: Greenguard (2002)<sup>11</sup>

## Operational CRM

Operational CRM automates and improves customer-facing and customer-supporting business processes. CRM software applications enable the marketing, selling and service functions to be automated and integrated. Some of the major applications within operational CRM appear in Table 1.3. Although we cover the technology aspects of operational CRM in Chapters 14, 15 and 16, it is worth making a few observations at this point.

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- Marketing automation*
  - Market segmentation
  - Campaign management
  - Event-based (trigger) marketing
  
  - Sales force automation*
  - Account management
  - Lead management
  - Opportunity management
  - Pipeline management
  - Contact management
  - Quotation and proposal generation
  - Product configuration
  
  - Service automation*
  - Case (incident or issue) management
  - Inbound communications management
  - Queuing and routing
  - Service level management
- 

**Table 1.3**  
Operational CRM

## **Marketing automation**

Marketing automation (MA) applies technology to marketing processes. Campaign management modules allow marketers to use customer-related data in order to develop, execute and evaluate targeted communications and offers. Customer targeting for campaigning purposes is, in some cases, possible at the level of the individual customer, enabling unique communications to be designed.

In multichannel environments, campaign management is particularly challenging. Some fashion retailers, for example, have multiple transactional channels including free-standing stores, department store concessions, e-tail websites, home shopping catalogues, catalogue stores and perhaps even a television shopping channel. Some customers may be unique to a single channel, but most will be multichannel prospects, if they are not already customers of several channels. Integration of communication and offer strategies and evaluation of performance requires a substantial amount of technology-aided coordination across these channels.

Event-based, or trigger, marketing is the term used to describe messaging and offer presentation to customers at particular points in time. An event triggers the communication and offer. Event-based campaigns can be initiated by customer behaviours or contextual conditions. A call to a contact centre is an example of a customer-initiated event. When a credit-card customer calls a contact centre to enquire about the current rate of interest, this can be taken as indication that the customer is comparing alternatives and may switch to a different provider. This event may trigger an offer designed to retain the customer. Examples of contextual events are the birth of a child or a public holiday. Both of these indicate potential changes in buyer behaviour, initiating a marketing response. Event-based marketing also occurs in the business-to-business context. The event may be a change of personnel on the customer-side, the approaching expiry of a contract or a request for information (RFI).

## **Sales-force automation**

Sales-force automation (SFA) was the original form of operational CRM. SFA systems are now widely adopted in business-to-business environments and are seen as 'a competitive imperative'<sup>12</sup> that offers 'competitive parity'.<sup>13</sup>

SFA applies technology to the management of a company's selling activities. The selling process can be decomposed into a number of stages, such as lead generation, lead qualification, needs identification, development of specifications, proposal generation, proposal presentation, handling objections and closing the sale. SFA software can be configured so that it is modelled on the selling process of any industry or organization.

Automation of selling activities is often linked to efforts to improve and standardize the selling process. This involves the implementation of a sales methodology. Sales methodologies allow sales team members and management to adopt a standardized view of the sales cycle and a common language for discussion of sales issues.

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Sales-force automation software enables companies automatically to assign leads and track opportunities as they progress through the sales pipeline towards closure. Opportunity management lets users identify and progress opportunities to sell from lead status through to closure and beyond, into after-sales support. Opportunity management software usually contains lead management and sales forecasting applications. Lead management applications enable users to qualify leads and assign them to the appropriate salesperson. Sales forecasting functionality generally use transactional histories and salesperson estimates to produce estimates of future sales.

Contact management lets users manage their communications programme with customers. Computerized customer records contain customer contact histories. Contact management applications often have features such as automatic customer dialling, the salesperson's personal calendar and e-mail functionality. Quotation and proposal generation allow the salesperson to automate the production of prices and proposals for customers. The salesperson enters details such as product codes, volumes, customer name and delivery requirements, and the software automatically generates a priced quotation.

Product configuration applications enable salespeople, or the customers themselves, automatically to design and price customized products, services or solutions to problems. Configurators are useful when the product is particularly complex, such as in IT solutions. Configurators are typically based on an 'if ... then' rules structure. The general case of this rule is 'If X is chosen, then Y is required or prohibited or legitimized or unaffected'. For example, if the customer chooses a particular feature (say, a particular hard drive for a computer), then this rules out certain other choices or related features that are technologically incompatible, too costly or too complex to manufacture.

### Case 1.2

#### Operational CRM (SFA) at Roche

Roche is one of the world's leading research-based healthcare organizations, active in the discovery, development and manufacture of pharmaceuticals and diagnostic systems. The organization has traditionally been product-centric and quite poor in the area of customer management. Roche's customers are medical practitioners prescribing products to patients. Customer information was previously collected through several mutually exclusive sources, ranging from personal visits to handwritten correspondence, and not integrated into a database or central filing system, giving incomplete views of the customer. Roche identified the need to adopt a more customer-centric approach to understand their customers better, improve services offered to them and to increase sales effectiveness.

Roche implemented a sales-force automation system where all data and interactions with customers are stored in a central database which can be accessed throughout the organization. This has resulted in Roche being able to create customer profiles, segment customers and communicate with existing and potential customers. Since implementation Roche has been more successful in identifying, winning and retaining customers.



## Service automation

Service automation allows companies to manage their service operations, whether delivered through call centre, contact centre, web or face-to-face.<sup>14</sup> CRM software enables companies to handle and coordinate their service-related inbound and outbound communications across all channels. Software vendors claim that this enables users to become more efficient and effective by reducing service costs, improving service quality, lifting productivity and increasing customer satisfaction.

Service automation differs significantly depending on the product being serviced. Consumer products are normally serviced through retail outlets, the web or a call centre as the point of first contact. These contact channels are often supported by online scripting tools to help diagnose a problem on first contact. A number of technologies are common in service automation. Call routing software can be used to direct inbound calls to the most appropriate handler. Technologies such as interactive voice response (IVR) enable customers to interact with company computers. Customers can input to an IVR system after listening to menu instructions either by telephone keypad (key 1 for option A, key 2 for option B) or by voice. If first contact problem resolution is not possible, the service process may then involve authorizing a return of goods, and a repair cycle involving a third party service provider. This process is used to service mobile phones and cameras.

Service automation for large capital equipment is quite different. This normally involves diagnostic and corrective action to be taken in the field, at the location of the equipment. Examples of this type of service include industrial air conditioning and refrigeration. In these cases, service automation may involve providing the service technician with diagnostics, repair manuals, inventory management and job information on a laptop. This information is then synchronized at regular intervals to update the central CRM system.

Many companies use a combination of direct and indirect channels especially for sales and service functions. When indirect channels are employed, operational CRM supports this function through partner relationship management (PRM). This technology allows partners to communicate with the supplier through a portal, to manage leads, sales orders, product information and incentives.

## Analytical CRM

Analytical CRM is concerned with capturing, storing, extracting, integrating, processing, interpreting, distributing, using and reporting customer-related data to enhance both customer and company value.

Analytical CRM builds on the foundation of customer-related information. Customer-related data may be found in enterprise-wide repositories: sales data (purchase history), financial data (payment history, credit score), marketing data (campaign response, loyalty scheme data) and service data. To these internal data can be added data from external

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sources: geodemographic and lifestyle data from business intelligence organizations, for example. With the application of data mining tools, a company can then interrogate these data. Intelligent interrogation provides answers to questions such as: Who are our most valuable customers? Which customers have the highest propensity to switch to competitors? Which customers would be most likely to respond to a particular offer?

### Case 1.3

#### Analytical CRM at AXA Seguros e Inversiones (AXA)

Spanish insurer AXA Seguros e Inversiones (AXA) has revenues of over €1.8 billion (US\$2.3 billion), two million customers and is a member of global giant The AXA Group.

AXA runs marketing campaigns in Spain for its many products and services. The company wanted a better understanding of its customers, in order to be able to make more personalized offers and implement customer loyalty campaigns.

AXA used CRM vendor SAS's data mining solution to build a predictive policy cancellation model. The solution creates profiles and predictive models from customer data which enables more finely targeted campaign management, call centre management, sales-force automation and other activities involved in customer relationship management.

The model was applied to current and cancelled policies in various offices, to validate it before deploying it across Spain. Moreover, the model was used to create two control groups (subdivided into high and low probability) that were not targeted in any way, while other groups, similarly divided into high and low probability, were targeted by various marketing actions. The outcome was that the auto insurance policy cancellation rate was cut by up to nine percentage points in specific targeted segments.

With the customer insight obtained from the model, AXA is now able to design and execute personalized actions and customer loyalty campaigns tailored to the needs and expectations of high-value customers.

Source: SAS<sup>15</sup>

Analytical CRM has become an essential part of many CRM implementations. Operational CRM struggles to reach full effectiveness without analytical information about customers. For example, an understanding of customer value or propensities to buy underpins many operational CRM decisions, such as:

- Which customers shall we target with this offer?
- What is the relative priority of customers waiting on the line, and what level of service should be offered?
- Where should I focus my sales effort?

Analytical CRM can lead companies to decide that selling approaches should differ between customer groups. Higher potential value customers may be offered face-to-face selling; lower value customers may be contacted by telesales. Furthermore, the content and style of customer communications can be tailored, perhaps for a particular

segment, using customer analytics. This enhances the probability that a given offer will be accepted by the customer.

From the customer's point of view, analytical CRM can deliver timely, customized, solutions to the customer's problems, thereby enhancing customer satisfaction. From the company's point of view, analytical CRM offers the prospect of more powerful cross-selling and up-selling programmes, and more effective customer retention and customer acquisition programmes.

## Collaborative CRM

Collaborative CRM is the term used to describe the strategic and tactical alignment of normally separate enterprises in the supply chain for the more profitable identification, attraction, retention and development of customers.<sup>16</sup> For example, manufacturers of consumer goods and retailers can align their people, processes and technologies to serve shoppers more efficiently and effectively. They employ practices such as co-marketing, category management, collaborative forecasting, joint new product development and joint market research. Collaborative CRM uses CRM technologies to communicate and transact across organizational boundaries. Although traditional technologies such as surface mail, air mail, telephone and fax enable this to happen, the term is usually applied to more recent technologies such as electronic data interchange (EDI), portals, e-business, voice over internet protocol (VoIP), conferencing, chat rooms, web forums and e-mail. These technologies allow data and voice communication between companies and their business partners or customers. Collaborative CRM enables separate organizations to align their efforts to service customers more effectively. It allows valuable information to be shared along the supply chain.

Some CRM technology vendors have developed partner relationship management (PRM) applications that enable companies to manage complex partner or channel ecosystems and reduce the costs of partner or channel management. PRM applications are often used to manage partner promotions. A manufacturer of consumer goods might have a dozen or more different cooperative advertising programmes running simultaneously. PRM allows companies to manage the distribution of funds, plan and control promotions and measure outcomes. Sometimes the term collaborative CRM is used to describe the application of these same technologies to internal communications, for example across sales, marketing and service functions.

### Case 1.4

#### **Partner relationship management at Segway**

The Segway® Personal Transporter (PT) is the world's first two-wheeled, self-balancing, electric transportation device; a product that has gained worldwide attention. Since the

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Segway PT first went on sale in 2002, the company has enjoyed 50 per cent annual growth as commercial and consumer customers adopted it for its versatility, energy efficiency and ease of use.

Based in Bedford, New Hampshire, Segway has a worldwide distribution network of more than 250 outlets in 62 countries. About 90 per cent of Segway's business comes through this network of dealers and distributors.

The company wanted to deploy an integrated solution that could manage both direct and indirect sales activities in a cohesive way. The solution was the development of the Segway Partner Portal, a secure website that allows Segway employees and channel partners to manage sales processes effectively. The portal has two major functions:

1. Delivering and managing sales leads from the Segway.com website, tradeshow, advertising campaigns and various other sources.
2. Reporting retail sales for participation in Segway incentive programmes.

Segway has about 120 dealers in North America, more than 75 per cent of which have already adopted the PRM solution. Each dealership has its own account and login information, with access to the data that concerns it. Segway's regional managers can roll up the data to obtain a comprehensive view of sales and forecasts.

Source: Salesforce.com<sup>17</sup>

# Misunderstandings about CRM

Given its recent emergence, it isn't surprising that there are a number of common misunderstandings about the nature of CRM. These are described below.

## Misunderstanding 1: CRM is database marketing

Database marketing is concerned with building and exploiting high quality customer databases for marketing purposes. Companies collect data from a number of sources. These data are verified, cleaned, integrated and stored on computers, often in data warehouses or data-marts. They are then used for marketing purposes such as market segmentation, targeting, offer development and customer communication.

Whereas most large and medium-sized companies do indeed build and exploit customer databases, CRM is much wider in scope than database marketing. A lot of what we have described above as analytical CRM has the appearance of database marketing. However, database marketing is less evident in strategic, operational and collaborative CRM.

## **Misunderstanding 2: CRM is a marketing process**

CRM software applications are used for many marketing activities: market segmentation, customer acquisition, customer retention and customer development (cross-selling and up-selling), for example. However, operational CRM extends into selling and service functions.

The deployment of CRM software to support a company's mission to become more customer-centric often means that customer-related data is shared more widely throughout the enterprise than by the marketing function alone. Operations management can use customer-related data to produce customized products and services. People management (Human Resources) can use customer preference data to help recruit and train staff for the front-line jobs that interface with customers. Research and development management can use customer-related data to focus new product development.

Customer data can not only be used to integrate various internal departments, but can also be shared across the extended enterprise with outside suppliers and partners. For example, Tesco, the international supermarket operation, has a number of collaborative new product development relationships with key suppliers. Tesco also partners with Royal Bank of Scotland to offer financial services to Tesco customers. Both these activities require the sharing of information about Tesco customers with supplier and partner. Clearly, there is more to CRM than marketing process.

## **Misunderstanding 3: CRM is an IT issue**

Many CRM implementations are seen as IT initiatives, rather than broader strategic initiatives. True, most CRM implementations require the deployment of IT solutions. However, this should not be misunderstood. To say that CRM is about IT is like saying that gardening is about the spade or that art is about the paintbrush. IT is an enabler, a facilitator. Improvements come about in the way customers are managed through a combination of improved processes, the right competencies and attitudes (people), the right strategies and the right enabling technologies.

The importance of people and processes should not be underestimated. People develop and implement the processes that are enabled by IT. IT cannot compensate for bad processes and unskilled people. Successful CRM implementations involve people designing and implementing processes that deliver customer and company value. Often, these processes are IT-enabled. IT is therefore a part of most CRM strategies.

That said, not all CRM initiatives involve IT investments. An overarching goal of many CRM projects is the development of relationships with, and retention of, highly valued customers. This may involve behavioural changes in store employees, education of call centre staff, and a focus on empathy and reliability from salespeople. IT may play no role at all.

### Misunderstanding 4: CRM is about loyalty schemes

Loyalty schemes are commonplace in many industries, such as car hire, airlines, food retail, hotels. Customers accumulate credits, such as airmiles, from purchases. These are then redeemed at some future point. Most loyalty schemes require new members to complete an application form when they join the programme. This demographic information is typically used, together with purchasing data, to help companies become more effective at customer communication and offer development. Whereas some CRM implementations are linked to loyalty schemes not all are.

Loyalty schemes may play two roles in CRM implementations. First, they generate data that can be used to guide customer acquisition, retention and development. Secondly, loyalty schemes may serve as an exit barrier. Customers who have accumulated credits in a scheme may be reluctant to exit the relationship. The credits accumulated reflect the value of the investment that the customer has made in the scheme, and therefore in the relationship.

### Misunderstanding 5: CRM can be implemented by any company

Strategic CRM can, indeed, be implemented in any company. Every organization can be driven by a desire to be more customer-centric. Chief executives can establish a vision, mission and set of values that bring the customer into the heart of the business. CRM technology may play a role in that transformation. Some companies are certainly more successful than others. The banking industry has implemented CRM very widely, yet there are significant differences between the customer satisfaction ratings and customer retention rates of different banks.

Any company can also try to implement operational CRM. Any company with a sales force can automate its selling, lead management and contact management processes. The same is true for marketing and service processes. CRM technology can be used to support marketing campaigns, service requests and complaints management.

Analytical CRM is a different matter, as it is based on customer-related data. At the very least, data are needed to identify which customers are likely to generate most value in the future, and to identify within the customer base segments that have different requirements. Only then can different offers be communicated to each customer group to optimize company and customer value over the long term. If these data are missing then analytical CRM cannot be implemented.

## Defining CRM

Against this background of four types of CRM and the misunderstandings about CRM, it is no easy matter to settle on a single definition of CRM.

However, we can identify a number of core CRM attributes, and integrate them into a definition that underpins the rest of this book.

**CRM is the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high quality customer-related data and enabled by information technology.**

CRM is a 'core business strategy' that aims to 'create and deliver value to targeted customers at a profit'. This clearly denotes that CRM is not just about IT. CRM 'integrates internal processes and functions'. That is, it allows departments within businesses to dissolve the silo walls that separate them. Access to 'customer-related data' allows selling, marketing and service functions to be aware of each other's interactions with customers. Furthermore, back-office functions such as operations and finance can learn from and contribute to customer-related data. Access to customer-related data allows members of a business's 'external network' – suppliers, partners, distributors – to align their efforts with those of the focal company. Underpinning this core business strategy is IT: software applications and hardware.

Historically, most companies were located close to the markets they served, and knew their customers intimately. Very often there would be face-to-face, even day-to-day, interaction with customers where knowledge of customer requirements and preferences grew. However, as companies have grown larger they have become more remote from the customers they serve. The remoteness is not only geographic; it may also be cultural. Even some of the most widely admired American companies have not always understood the markets they served. Disney's development of a theme park near the French capital, Paris, was not an initial success because they failed to deliver to the value expectations of European customers. For example, Disney failed to offer visitors alcohol onsite. Europeans, however, are accustomed to enjoying a glass or two of wine with their food.

Geographic and cultural remoteness, together with business owner and management separation from customer contact, means that many, even small, companies do not have the intuitive knowledge and understanding of their customers so often found in micro-businesses, such as neighbourhood stores and hairdressing salons. This has given rise to demand for better customer-related data, a cornerstone of effective CRM.

Our definition has a strong for-profit sense. If the not-for-profit community were to replace the words business, customers and profit with appropriate equivalents, such as organization, clients and objectives, it would apply equally well in that context.

In sum, we take the view that CRM is a technology-enabled approach to management of the customer interface. Most CRM initiatives expect to have impact on the costs-to-serve and revenues streams from customers. The use of technology also changes the customer's experience of transacting and communicating with a supplier. For that reason, the customer's perspective on CRM is an important consideration in this book. CRM influences customer experience, and that is of fundamental strategic significance.



## CRM constituencies

There are several important constituencies having an interest in CRM:

1. **Companies** implementing CRM: many companies have implemented CRM. Early adopters were larger companies in financial services, telecommunications and manufacturing, in the USA and Europe. Medium-sized businesses are following. There is still potential for the CRM message to reach smaller companies, public sector organizations, other worldwide markets and new business start-ups.
2. **Customers and partners of those companies:** the customers and partners of companies that implement CRM are a particularly important constituency. Because CRM influences customer experience, it can impact on customer satisfaction ratings and influence loyalty to the supplier.
3. **Vendors of CRM software:** vendors of CRM software include names such as Oracle, SAP, SAS, KANA, Microsoft and StayinFront. There has been considerable consolidation of the CRM vendor marketplace in recent years. PeopleSoft and Siebel, two of the pioneering CRM vendors, are currently owned by Oracle. Vendors sell licenses to companies, and install CRM software on the customer's servers either directly or through system integrators. The client's people are trained to use the software.
4. **CRM application service providers (ASPs):** companies implementing CRM can also choose to access CRM functionality on a subscription basis through hosted CRM vendors such as salesforce.com, Entellium, RightNow and NetSuite. Clients upload their customer data to the host's servers and interact with the data using their web browsers. The ASP vendors deliver and manage applications and other services from remote sites to multiple users via the Internet. This is also known as SaaS (Software as a Service). Clients access CRM functionality in much the same way as they would eBay or Amazon.
5. **Vendors of CRM hardware and infrastructure:** hardware and infrastructure vendors provide the technological foundations for CRM implementations. They supply technologies such as servers, computers, handheld devices, call centre hardware, and telephony systems.
6. **Management consultants:** consultancies offer clients a diverse range of CRM-related capabilities such as strategy, business, application and technical consulting. Consultants can help companies implementing CRM in several ways: systems integration, choosing between different vendors, developing implementation plans and project management as the implementation is rolled out. Most CRM implementations are composed of a large number of smaller projects, for example, systems integration, data quality improvement, market segmentation, process engineering and culture change. The major consultancies such as Accenture, McKinsey, Bearing Point, Braxton and CGEY all offer CRM consultancy. Smaller companies sometimes offer specialized expertise. Peppers and Rogers provide strategy consulting. DunnHumby is known for its expertise in data mining for segmentation purposes.



# Commercial contexts of CRM

CRM is practised in a wide variety of commercial contexts, which present a range of different customer relationship management problems. We'll consider four contexts: banks, automobile manufacturers, high-tech companies and consumer goods manufacturers.

- **Banks** deal with a large number of individual retail customers. Banks want CRM for its analytical capability to help them manage customer defection (churn) rates and to enhance cross-sell performance. Data mining techniques can be used to identify which customers are likely to defect, what can be done to win them back, which customers are hot prospects for cross-sell offers, and how best to communicate those offers. Banks want to win a greater share of customer spend (share of wallet) on financial services. In terms of operational CRM, many banks have been transferring service into contact centres and online in an effort to reduce costs, in the face of considerable resistance from some customer segments.
- **Automobile manufacturers** sell through distributor/dealer networks. They have little contact with the end-user owner or driver. They use CRM for its ability to help them develop better and more profitable relationships with their distribution networks. Being physically disconnected from drivers, they have built websites that enable them to interact with these end-users. This has improved their knowledge of customer requirements. Ultimately, they hope CRM will enable them to win a greater share of end-user spend across the car purchase, maintenance and replacement cycle.
- **High-tech companies** manufacture complex products that are generally sold by partner organizations. For example, small innovative software developers have traditionally partnered with companies such as IBM to obtain distribution and sales. However, companies like Dell have innovated channels. They go direct-to-customer (DTC). CRM helps these DTC companies to collect customer information, segment their customer base, automate their sales processes with product configurator software and deliver their customer service online. They have also developed automated relationships with suppliers, so that they carry no or low levels of inventory, which are replenished frequently in rapid response to order patterns.
- **Consumer goods manufacturers** deal with the retail trade. They use CRM to help them develop profitable relationships with retailers. CRM helps them understand costs-to-serve and customer profitability. Key account management practices are applied to strategically significant customers. IT-enabled purchasing processes deliver higher levels of accuracy in stock replenishment. Manufacturers can run CRM-enabled marketing campaigns which are highly cost-effective.

## The not-for-profit context

Most of this chapter has been concerned with CRM in the for-profit context. However, CRM can also be found in the not-for-profit context. Some of the basic skills of database development and exploitation, and customer lifecycle management, are equally relevant to not-for-profit organizations.

The Salvation Army uses CRM capability to manage donor relationships, over time, using event-based fundraising. The Army also knows the value of different donor segments, and works at retaining their high value donors and at migrating first-time donors up the value ladder towards regular or long-term donor status.

Universities have deployed CRM to manage their student and alumni relationships. Today's students are thought to represent considerable potential lifetime value to Universities. For example, students who enjoy their experiences at a graduate school of business may return there for executive education. They may recommend the institution to their personal networks, or when they reach an appropriate level of seniority commission the school to consult or deliver customized training and management development. Schools as eminent as Harvard Business School have been hugely successful at fundraising from their alumni networks.

### Case 1.5

#### Not-for-profit CRM at the city of Lynchburg

The city council of Lynchburg, VA, USA, sought to improve the levels of information and services that it provided to its 69 000 citizens. Named the 'Citizens First Program', it involved the design and implementation of an operational CRM strategy to open the lines of communication and to automate many services between the city council's 1100 employees, municipal departments and the citizens of Lynchburg. The project comprised the establishment of a website to provide citizens with 24/7 access to information concerning the city's services and facilities, in addition enabling citizens to make requests for information, inquiries and complaints. Supporting the website was CRM software and a linked call centre, providing personalized follow-up and ongoing support.

Since implementation, many benefits have been seen, namely:

- a 50% reduction in time taken to respond to citizen inquiries
- citizens can track the progress of requests for service, inquiries, etc.
- the city council can measure and report on organizational performance
- levels of communication within the city council and between municipal departments have improved.

## Models of CRM

A number of comprehensive CRM models have been developed. We introduce five of them here.

## The IDIC model

The IDIC model was developed by Peppers and Rogers, the consultancy firm, and has featured in a number of their books.<sup>18</sup> The IDIC model suggests that companies should take four actions in order to build closer one-to-one relationships with customers:

- **identify** who your customers are and build a deep understanding of them
- **differentiate** your customers to identify which customers have most value now and which offer most for the future
- **interact** with customers to ensure that you understand customer expectations and their relationships with other suppliers or brands
- **customize** the offer and communications to ensure that the expectations of customers are met.

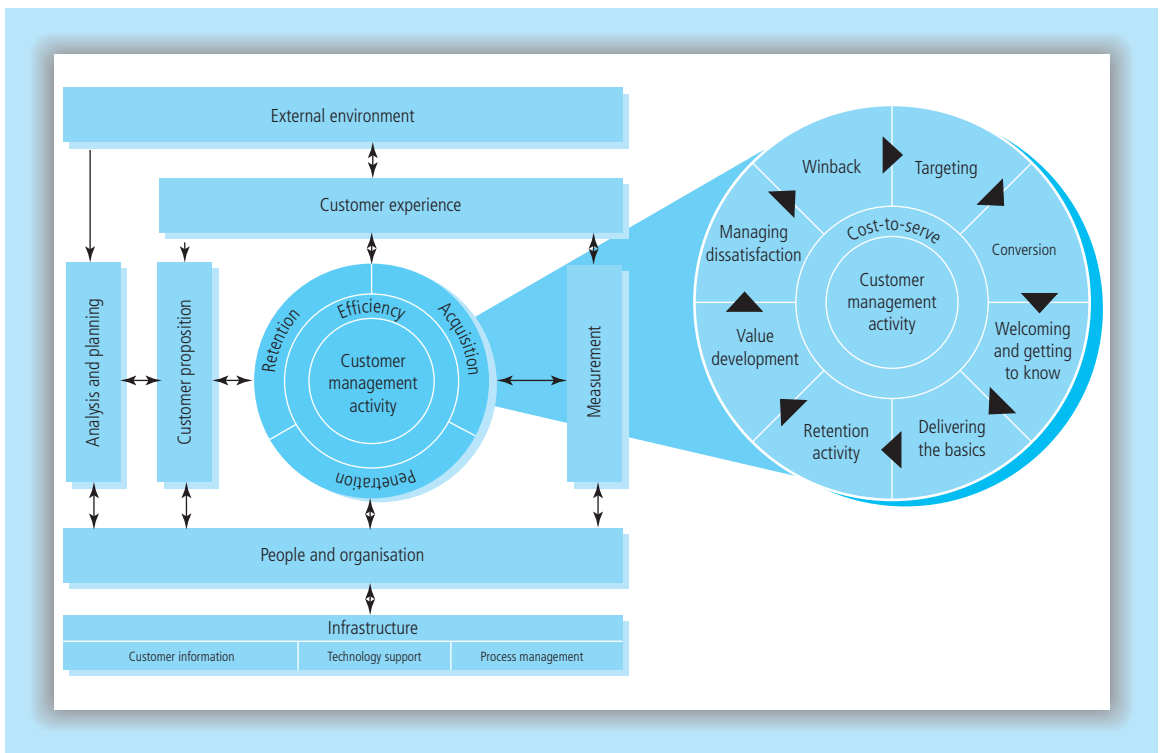


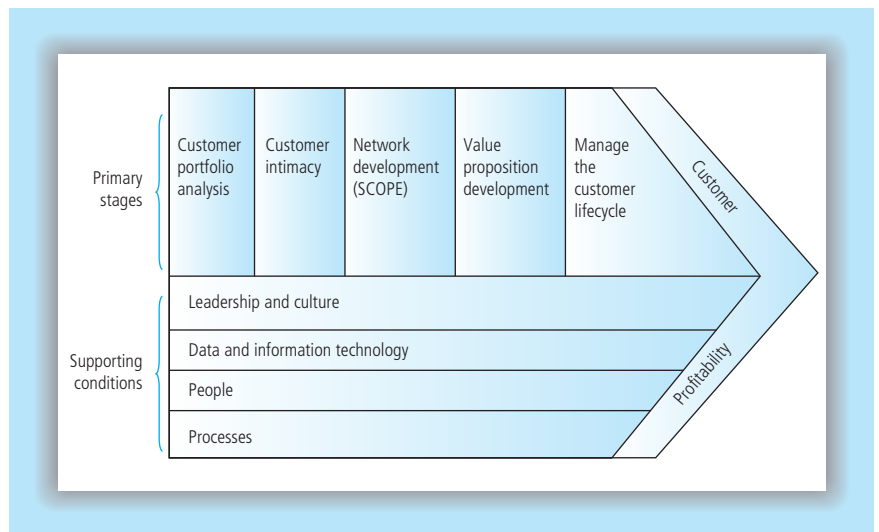
Figure 1.1 The QCi customer management model

## The QCi model

The QCi model shown in Figure 1.1 is also a product of a consultancy firm.<sup>19</sup> The model's authors prefer to describe their model as a customer management model, omitting the word 'relationship'. At the heart of the model they depict a series of activities that companies need to perform in order to acquire and retain customers. The model features people performing processes and using technology to assist in those activities.

## The CRM value chain

Francis Buttle's model was the subject of a recent book.<sup>20</sup> The model, as shown in Figure 1.2, consists of five primary stages and four supporting conditions leading towards the end goal of enhanced customer profitability. The primary stages of customer portfolio analysis, customer intimacy, network development, value proposition development and managing the customer lifecycle are sequenced to ensure that a company, with the support of its network of suppliers, partners and employees, creates and delivers value propositions that acquire and retain profitable customers. The supporting conditions of leadership and culture, data and IT, people and processes enable the CRM strategy to function effectively and efficiently.



**Figure 1.2**  
The CRM value chain

## Payne's five-process model

The fourth comprehensive model was developed by Adrian Payne.<sup>21</sup> This model (Figure 1.3) clearly identifies five core processes in CRM: the strategy development process, the value creation process, the multichannel integration process, the performance assessment process and the information management process. The first two represent strategic CRM; the multichannel integration process represents operational CRM; the information management process is analytical CRM.

## The Gartner competency model

The final comprehensive CRM model comes from Gartner Inc. Gartner Inc. is a leading IT research and advisory company that employs some 1200 research analysts and consultants in 75 countries, and has a significant place in CRM research. Figure 1.4 presents Gartner's CRM competency model.

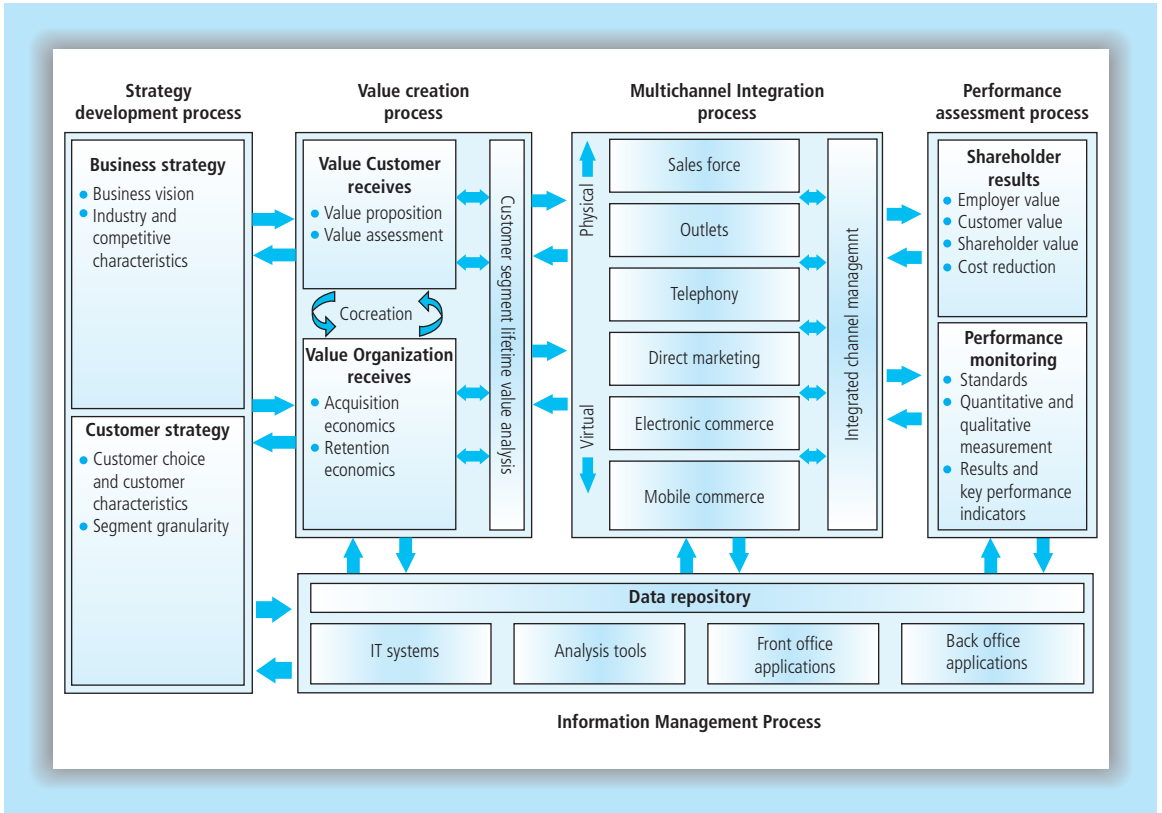


Figure 1.3 Payne's model of CRM<sup>22</sup>

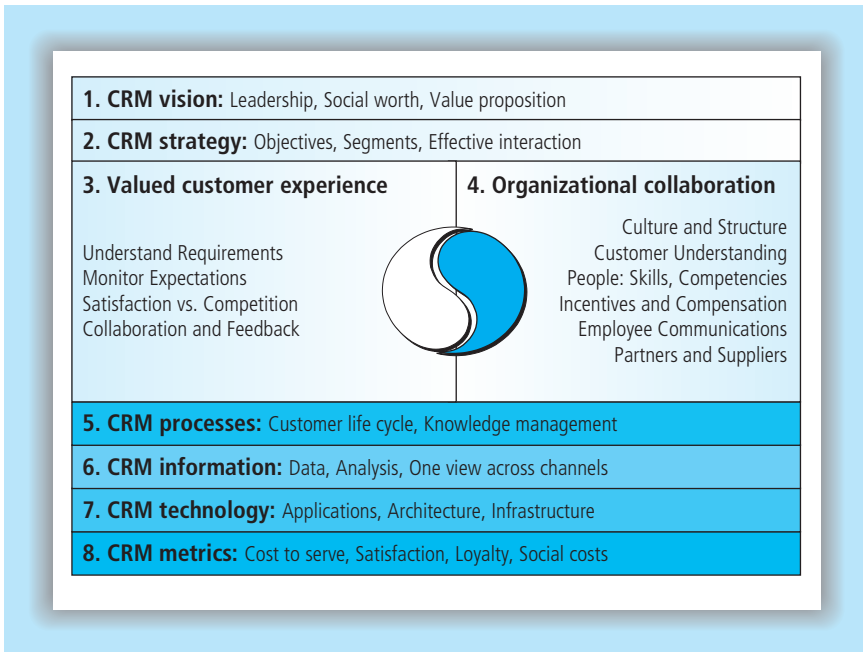


Figure 1.4 Gartner's CRM model

The model suggests that companies need competencies in eight areas for CRM to be successful. These include building a CRM vision, developing CRM strategies, designing valued customer experiences, intra and extra-organizational collaboration, managing customer lifecycle processes, information management, technology implementation and developing measures indicative of CRM success or failure.

## Summary

In this chapter you have learned that the expression CRM has a variety of meanings. Four types of CRM have been identified: strategic, operational, analytical and collaborative. There are many misunderstandings about CRM. For example, some people wrongly equate CRM with loyalty programmes, whereas others think of CRM as an IT issue. Although CRM is generally thought of as a business practice, it is also applied in the not-for-profit context. A number of different constituencies have an interest in CRM, including CRM consultancies, CRM software vendors, CRM application service providers, CRM hardware and infrastructure vendors, companies that are implementing CRM and their customers. A number of different models of CRM have been developed.

Finally, we have produced a definition that underpins the rest of this book. We define CRM as the core business strategy that integrates internal processes and functions, and external networks, to create and deliver value to targeted customers at a profit. It is grounded on high quality customer-related data and enabled by information technology.

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