Research Note

CRM Update: Part 1 — Back to Basics

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Note at a Glance: Many CRM systems are "live," though far fewer are raging successes. User adoption, lack of demonstrable ROI, and escalating maintenance and support costs plague those firms that have effectively over-invested in technology at the expense of solid CRM business strategies . Organizations must get back to customer relationship management basics to correct this investment imbalance. They must retrofit existing CRM implementations into a best-practices model to actualize the promise of CRM: improved customer profitability (via reduced costs and enhanced revenue) aligned with IT and business strategies.

The Take-Away: It is important to recognize that the CRM endgame is customer life-cycle management (CLCM), consisting of the customer life cycle, its underlying business processes, and the enabling technology ecosystem. Ultimately (and through multiyear iteration), organizations will transform from product-centricity to customer-centricity and should plan for the journey to take three to seven years. Businesses will optimize customer lifetime value by applying cost-appropriate CRM treatments to customer segments based on their strategic value.

Many organizations are now feeling the pain of their unfettered CRM buying binges of the late 1990s and early 2000s. Back in the day when enterprises had been buying CRM technology suites with nary a business case or customer strategy in sight, it was enough justification to have CRM feel "good in the tummy," to say "we love our customers," and to believe "the customer is always right" in order to apply capital budget to technology projects for "delighting the customer." As post "dot-bomb" reality sinks in, there is disappointment in benefits attained, usability, and the lack of a promised panoramic customer view, all of which are contributing to a (perceived or actual) lack of value. Indeed, from some customers' perspectives, things are getting worse. Escalating customer annoyance with the increasing number of unsolicited (and unwanted) interactions has resulted in zealously reactive legislation (e.g., Do Not Call, CAN-SPAM) prescribing new marketing rules of engagement. As 2004 brings us new insights and new opportunities, organizations must finally eliminate their irrational exuberance for technology "quick fixes" and embrace time-tested and fairly basic CRM best practices to positively effect customer profitability.

CRM Basics

The "mental model" for end-state CRM looks like this: customers are so well understood that customer life cycle (engage/transact/fulfill/service [ETFS]) treatments can be differentiated based on the customer's strategic value to the organization. The organization manages according to customer profitability indicators in addition to other business metrics. Yet the new role of customer segment manager is added to work with product and brand management, but holistically manage the customer segment in terms of the portfolio of segment-specific offers and ETFS treatments. Thus, the panoramic view of the customer is achieved. This end-state mental model implies that customer segmentation strategies evolve beyond the use of demographics and psychographics to include cross-channel interaction and buying behaviors, interaction preferences, predictive behavior modeling, and the segment's strategic value. "Value" is not just about financial value; it is also about how well a particular customer type supports the organization's business strategy. Finally, the notion of a one-to-one customer relationship (especially in business-to-consumer businesses) has experienced a reality check (as diminishing returns abound) and has been replaced by a one-to-many (segment-based) relationship. The intimacy of one-to-one is not lost; it is provided through "mass personalization" techniques, where the ETFS treatment strategy is determined at the segment level, but the interaction is personalized on delivery.
CRM value is predicated on a philosophy of continuous and incremental ROI delivery. This is an important tenet, since the CRM "end game" is in a reality a five- to seven-year journey, where the goal is not a "one and done" technology solution, but instead a philosophical transformation from product to customer-centricity. Without an iterative methodology and time-boxed approach toward deliverable creation, maximum CRM value will continue to be elusive.

CRM Design Principles

Achieving the CRM end game requires creating a three-domain business system called customer life-cycle management (CLCM), in which the customer technology is the design point rather than a particular line of business, organization, or product. Constructed much like a balanced three-legged stool, the domains are:

- **The customer life cycle:** Consisting of the ETFS process steps, the customer life cycle represents the process steps through which a customer moves. Over time, organizations will differentiate ETFS treatments by segment. ETFS is effectively a segment-specific abstraction layer.
- **CRM business processes:** The customer life cycle is enabled by customer-facing business processes in sales, customer service, marketing, offers (product or service),

and channels. The ETFS steps abstract the various combinations of these processes from the customer, enabling great process flexibility without exposing inner process workings.

- **The CRM technology ecosystem:** The CRM technology ecosystem is a technology environment recognizing that CRM will remain a multi-vendor/product/domain effort for the foreseeable future:

Operational CRM
Operation CRM is the automation of business processes involving "front office" customer touch points — sales, marketing, and customer service — via multiple, interconnected delivery channels and integration between front office and back office. Essentially, these are the systems employees use to automate processes and interact with customers.

Collaborative CRM
Collaborative CRM refers to the application of collaborative interfaces (e.g., e-mail, conferencing, chat, portal) to facilitate interaction between customers and organizations as well as between organizational entities dealing with customer information (e.g., customers to sales, sales to marketing, community building). Essentially, these are the systems that customers use to interact with the organization and that provide a panoramic view of the organization!

Analytical CRM
Analytical CRM is the analysis of data created in the operational and collaborative environment for the purpose of customer analysis and business performance management. It is inextricably tied to a data warehouse architecture and is most often manifest in analytical applications that leverage data marts.

CRM Technology Integration
CRM integration is the linchpin of the ecosystem, providing the requisite balance. There are four types of integration to be implemented:

- ***Front-office/back-office integration:*** Connecting customer-facing and internal-facing systems for the purpose of, for example, exposing inventory availability to a customer over the Web
- ***Inter-enterprise integration (IEI):*** Integrating among enterprises that participate in a supply or demand chain to provide a seamless process view
- ***Cross-channel integration:*** Integrating the multiple channels through which a customer is touched for experience parity among disparate channels
- ***Pan-ecosystem integration:*** Balancing the "three legs of the stool" via integration among operational, analytical, and collaborative CRM

Getting Started

As previously discussed, the end-state CRM value proposition is about economically optimal ETFS treatments differentiated based on segment value (see Figure 4). In mathematical terms, CRM value
equals segment-specific ETFS treatments (e.g., one treatment plan for gold customers, another less-expensive plan for bronze customers). It is important to note that CRM value is not based simply on customer profitability. Instead, it balances financial and strategic elements to determine the right ETFS treatment via quantitative elements (e.g., profitability, CLTV) as well as qualitative value elements (e.g., fit with the business strategy). Yet a CRM initiative should not start with differentiated ETFS treatments based on value. Applying pragmatic CRM design principles (e.g., iteration, time-boxing), CRM initiatives that need to build credibility (and most of them do) must start with quick-hit technology projects "linked" to the CRM business plan. This requires unwavering commitment to metrics and iteration, program coordination, and a repeatable methodology. To effectively manage this somewhat complex approach of "tactical strategy," organizations must be sensitive to potential pitfalls and apply a "sense and respond" approach to CRM implementation red flags and early warning signs. Learning to detect and react to red-flag warnings is critical to CRM success. Therefore, organizations must understand their CRM capabilities to predict program weak spots and create risk mitigation strategies. Indeed, paying careful attention to the CRM program environment provides critical predictive information that must not be ignored.

Conclusion

It is important to recognize that the CRM endgame is customer life-cycle management (CLCM), consisting of the customer life cycle, its underlying business processes, and the enabling technology ecosystem. Ultimately (and through multiyear iteration), organizations will transform from product-centricity to customer-centricity and should plan for the journey to take three to seven years. Businesses will optimize customer lifetime value by applying cost-appropriate CRM treatments to customer segments based on their strategic value.

About the Author

Liz Roche is an industry recognized expert in the design and delivery of comprehensive, high-value customer relationship management (CRM) business systems. Liz has 20 years of IT experience managing strategic enterprise technology and business programs, and has worked in the CRM field for the past 10 years. A leading authority on CRM business principles, enabling technologies, and related technology architectures, she is a frequent industry keynote speaker and author.

About Customers Incorporated, LLC

Customers Incorporated is a business and technology consulting firm with a singular passion — to help our clients maximize their customer equity. We start with a very simple premise: a business and technology strategy should be designed around the customer rather than an individual department, a particular product line, or a specific technology. Using a customer lifecycle lens (engage, transact, fulfill, service [ETFS[SM]]), we help our clients compete and win by balancing their investments in customer relationships with optimizing the return on those relationships; investing in the right products with the right feature set in the right market. Our business experience is proven. And so are the results we bring to our clients. We've helped them unlock value in areas such as sales, marketing, customer service, sell-side commerce, order management and fulfillment, enterprise architecture, application provisioning and procurement, and CRM business strategy. We've shown them how to transform their business, their thinking — and their bottom line.

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