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CRM SOFTWARE IN AUSTRALIA

Lawrence Ang
Macquarie Graduate School of Management
Macquarie University
Tel: (02) 9850-9135; Fax: (02) 9850-9019
Email: lawrence.ang@mgsm.edu.au

and

Francis Buttle
Macquarie Graduate School of Management
Macquarie University
Tel: (02) 9850-8987; Fax: (02) 9850-9019
Email: francis.buttle@mgsm.edu.au

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Abstract

Customer management software is an important component of both analytical and operational CRM implementations. Demand for CRM software appears to be rebounding in the Australian marketplace, after a period of decline at the turn of the century. Our research shows that a large proportion of Australian companies are undeveloped in terms of their application of software to support customer management. Less than 40% of companies use CRM software to support their customer management strategies. When it is used, software more commonly supports customer retention and development than customer acquisition. Companies that do employ software are generally satisfied with its return on investment. The performance of the software in meeting companies' expectations of customer retention is a statistically significant predictor of profitability. We conclude that the intelligent adoption and deployment of CRM software can yield improvements in profitability.

Introduction

Customer relationship management (CRM) is a business practice that has been defined as follows:

> CRM is the core business strategy that integrates internal process and functions, and external networks, to create and deliver value to targeted customers, at a profit. It is grounded on high quality customer data and enabled by IT (Buttle, 2004)

The application of IT is a distinguishing attribute of CRM, particularly in its operational and analytical forms (Knox *et al*, 2002). Operational CRM relies on software to automate selling, marketing and service processes. Software applications include sales force automation, campaign management, event-based marketing, opportunity management, product configuration and contact management solutions, *inter alia*. Analytical CRM is enabled by engines such as Enterprise Miner from SAS Institute and 7*i* Business Intelligence from MicroStrategy. These allow companies to explore their customer-related data intelligently and deliver opportunities to market, sell and service customers more effectively and efficiently.

Much of the current research into CRM has focussed on its alleged failure to deliver against expectations, and the conditions that enable CRM to succeed. Sweat (2002), for example, reported failure rates of between 25% and 80%. Independent analysts, The Gartner Group (2001) noted that many businesses had experienced CRM implementations that failed to meet expectations. They also forecast that to 2004, 'businesses will continue to view the discipline of CRM as a critical component of corporate strategy, but their disillusionment over early investments in CRM systems will cause them to retreat from enterprise-wide CRM investments.' Overly expensive investment in technology – both software and hardware - is cited as a significant cause of CRM's failure to deliver value (Paas & Kuijlen 2001).

The Gartner Group (2003a) claimed that companies could increase the likelihood of future CRM success by concentrating on change management, skill sets, streamlined processes and selling strategies, rather than IT.

The market for CRM software seems to be rebounding. The Gartner Group (2003b) reported that CRM software licence revenues had fallen 15% in 2002. Although they were forecasting a further 8% fall in 2003, they estimated that it would recover to 5% CAGR through to 2007, driven by economic recovery and increased competition. McCoy (2002) reported that International Data Corporation, the technology researcher, was estimating the total Asia-Pacific CRM software market, outside of Japan, to be worth US$1.8 trillion in 2002. The same research estimated the Australian CRM market at US$719 billion. The Australian market is 40 percent of the entire Asia-Pacific marketplace, exclusive of Japan, but inclusive of China.

We recognise that CRM is about more than technology alone (Yu, 2001; Wilson *et al*, 2002), but we are also aware of no academic study that has been undertaken into the deployment of CRM software by Australian industry. Our aim is to fill that knowledge gap.

Research goal and questions

Our primary goal is to investigate the deployment of, and contribution of, CRM software in Australian companies. The following are our specific research questions:

1. How extensive is the use of CRM software in Australian companies?
2. How satisfied are companies with the returns generated by their investment in this software (ROI)?
3. What customer management activities – acquisition, retention, development - does the CRM software support?
4. To what extent does the software contribute to the fulfilment of expectations of customer acquisition, retention and development?
5. Are improvements in company profitability predicted by the use of CRM software?

This paper reports our preliminary findings.

Methodology

Sampling.
Our population of interest is Australian industry and commerce. A stratified random sample of 732 companies was contacted from the Dun and Bradstreet database of the top 1000 companies in Australia. The population was stratified into 3 annual turnover groups: $50 to $99 million, $100 to $500 million, and above $500 million. The invitation to participate was addressed to the person in charge of customer relations. The incentive was a summary report of the study, which has now been fulfilled.

Data collection.
A mail questionnaire was developed. Following an initial telephone solicitation to participate, the instrument was mailed to the sample. Follow-up calls and reminders were issued to lift response rates.

Instrument development and data analysis.
Items in the instrument were developed from a literature review, and piloted and refined over several iterations. Some of the questions measuring independent variables were nominal in nature. These focussed on the use of CRM software to support three customer management activities - acquisition, retention and development. Overall satisfaction with the ROI of the software was measured using a 7-point Likert scale, as was the extent to which the software met respondent expectations in supporting the three CRM activities in the last 12 months. The ultimate dependent variable was whether the CRM software had made a critical improvement in company profitability, again measured on 7-point scale with 7 anchored as 'a critical contribution' and 1 as 'no contribution'. Data were analysed using procedures within SPSS_PC version 10. Analysis employs uni-variate, bi-variate and multi-variate procedures as appropriate to the research questions.

Results

Response rate
One hundred and seventy responses were obtained (23% response rate). Forty-three reported annual turnover between $50-$99 million, forty-six were between $100-$500 million, and forty-two were above $500 million. Thirty-nine companies declined to divulge their annual turnover. Participants represented all major standard industrial classification (ANZSIC) codes. Dominant sectors were manufacturing (43 companies); wholesale and retail (24); and health, community services, accommodation, cultural/recreation, personal and other services (23).

Research questions
Q1. How extensive is the use of CRM software in Australian companies?
A1. Only 39% of companies use CRM software

Q2. How satisfied are companies with the returns generated by their investment in this software?
A2. As shown in table 1, 40% reported they were satisfied (above the midpoint 4) with the ROI the software generated, 24% were lukewarm (midpoint), and 20% were dissatisfied (below midpoint 4). The mean across the sample (n = 67) was 4.5 (s.d. =1.54). A two-tailed, one-sample t-test reveals that this mean to be significantly above 4, the midpoint ($t = 2.4, p < .05$), indicating a generally positive reporting of ROI.

Q3. What customer management activities – acquisition, retention, development - does the CRM software support?
A3. 35% used CRM software to support their customer retention strategy; 31% to support their customer development strategy; 29% to support their customer acquisition strategy.

Q4. To what extent does the software contribute to the fulfilment of expectations of customer acquisition, retention and development?
A4. As shown in table 2, 48% of companies (n = 60) using CRM software to support customer retention reported that it had exceeded their expectations (points 5-7 on the 7-point scale); 42% of companies (n = 52) using CRM software to support customer development reported that the

software exceeded their expectations; 33% of companies (n = 49) using CRM software to support customer acquisition reported that the software exceeded their expectations. Overall, the sample reports that CRM software is more effective for supporting customer retention (mean = 4.5, s.d. =1.26) and customer development activities (mean = 4.6, s.d. =1.29) than customer acquisition (mean = 4.1, sd = 1.27). A two-tailed, one-sample t-test for the three means (4.1, 4.6 and 4.5) against the midpoint, '4', reveals significant differences for customer retention ($t = 2.8$, $p<.05$) and development ($t = 4.6$, $p <.05$) only. There is no significant difference between retention and development ($t =.72$, $P>.05$). Correlating overall satisfaction with the ROI from CRM software against expectations shows a stronger association between ROI satisfaction and customer retention expectations ($r = .65$) and customer development ($r=.69$) than with customer acquisition ($r=.55$), although they are all statistically significant ($p<.05$).

Q5. Are improvements in company profitability predicted by the use of CRM software?
A5. To answer this question, we analysed the associations between improvements in company profitability, satisfaction with the software's ROI, and the performance of the software in meeting the various expectations identified in question 4. First, we converted all 4 independent variables (ROI satisfaction ratings, and expectations ratings for customer acquisition, retention and development) and the dependent variable (company profitability improvement) into z-scores. We then employed step-wise regression, thereby reducing multi-collinearity. The results show that that the only significant predictor of company profitability is the performance of CRM software in meeting companies' expectations of customer retention ($t = 3.62$, $p<.001$). All the other independent variables were insignificantly correlated with improvements in profitability. This single-factor model is significant ($F = 13.1$, $p<.05$) and accounts for about 30% of the variance of the dependent variable (adjusted R-square = .295).

Table 1: Percentage satisfied with the ROI of their software

	Satisfaction with ROI (n=67) %
Satisfied	40
Neutral	24
Dissatisfied	20
Don't know	16
Total	100
Mean	*4.5*

Discussion

Only 40% of Australian companies use any form of CRM software to support their customer management activities. This seems consistent with the early stage of growth in the Australian CRM market. CRM technologies first rolled out into the large corporate market, with telecommunications and financial services companies, particularly banks, as early adopters.

Most Australian companies are SME's and do not met the standard definition of a large company (ABS, 2004). CRM vendors such as PeopleSoft and Siebel have traditionally targeted the larger corporations, but are beginning to develop offerings for the SME sector, motivated, in part, by Microsoft's recent market entry. Pivotal and Salesforce.com have long been present in the mid-market.

We found that CRM software is not equally applied across all 3 customer management activities – acquisition, retention and development. Australian companies use CRM software more extensively to support their customer retention and development, rather than customer acquisition activities. Furthermore, they are also more satisfied when the software for these purposes. Software applications normally associated with customer acquisition are lead generation, lead qualification, market segmentation and customer profiling applications. It appears that these have limited adoption. However, applications which enable companies to focus on the retention and development of their customer base are more widely adopted.

Table 2: Percentage reporting that the software met, exceeded or fell short of expectations

	Acquisition % (n=49)	**Retention % (n=60)**	**Development % (n=52)**
Exceeded Expectations (5-7)	33	48	42
Met Expectations (4)	25	17	21
Below Expectations (1-3)	28	17	15
Don't know	14	18	22
Total	100	100	100
Mean	*4.1*	*4.5*	*4.6*

Finally, the most significant finding is that of all the variables investigated in this study, satisfaction with the contribution of CRM software to companies' customer retention expectations is the sole predictor of improvement in company profitability.

Conclusions and limitations

The deployment of CRM software in Australian industry is far from mature, whether employed for customer acquisition, retention or development purposes. Companies seem more satisfied with the ROI from their software's contribution to retention and development-related activities than customer acquisition. What is not clear from this research is whether companies have investigated the potential contribution of CRM software to business performance and concluded that it is of little value, or simply not got around to considering its potential. We suspect that the bad news stories of CRM's performance have inhibited careful consideration of the potential that CRM software has to offer. The upturn in licence revenues from CRM applications seems to indicate that this lack of confidence is in retreat.

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