Chapter 3

Planning and implementing customer relationship management projects

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Introduction

In the first chapter you were introduced to strategic, operational, analytical and collaborative CRM. You also learned that although CRM projects generally involve technology implementations, people and processes can also play a large part. Indeed, we said that IT cannot compensate for bad processes and inept people. Most CRM projects involve consideration of all three components.

You may have sensed from this discussion that CRM projects can vary considerably in their scope. An organization-wide CRM project that automates selling, marketing and service processes might involve process reengineering, people re-skilling and implementation of a comprehensive range of technology applications from a CRM suite vendor like SAP. The project might span several years and cost many millions of dollars. A small CRM project might involve rolling out an off-the-shelf contact management system such as GoldMine or SAGE to a sales team. This might take a couple of months to implement and cost less than a thousand dollars to complete.

CRM implementation

In this chapter we'll look at the five major phases of a CRM implementation, and the processes and tools that can be used within those phases to ensure that CRM projects deliver what is expected of them.[1] Depending on the scope of the project some of these phases, processes and tools may not be required. The key phases, as shown in Figure 3.1 are:

1. develop the CRM strategy
2. build the CRM project foundations
3. specify needs and select partner
4. implement the project
5. evaluate performance.
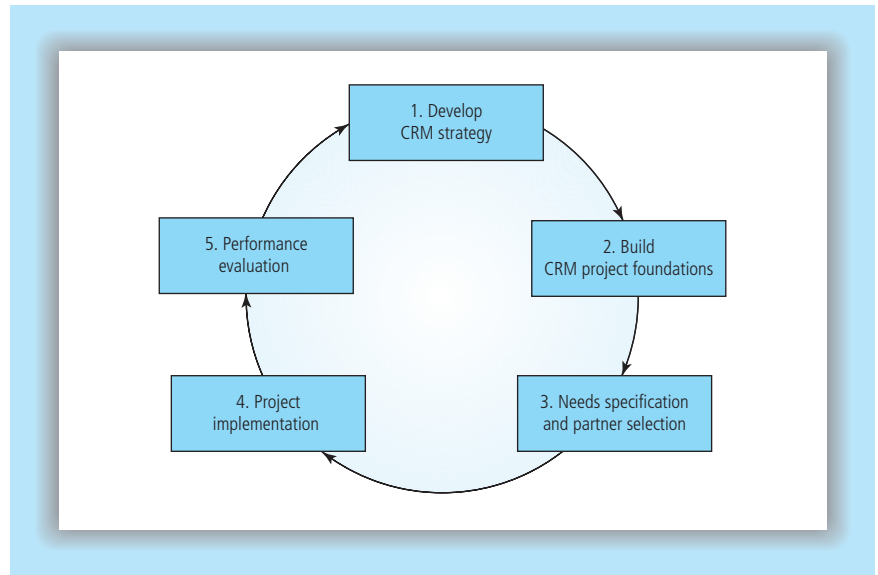
Figure 3.1
CRM project design
and planning
process

Embedded within each of these five key phases are a number of decision-points and activities, as follows:

1. Develop the CRM strategy:
   - situation analysis
   - commence CRM education
   - develop the CRM vision
   - set priorities
   - establish goals and objectives
   - identify people, process and technology requirements
   - develop the business case.
2. Build the CRM project foundations:
   - identify stakeholders
   - establish governance structures
   - identify change management needs
   - identify project management needs
   - identify critical success factors
   - develop risk management plan.
3. Specify needs and select partner:
   - process mapping and refinement
   - data review and gap analysis
   - initial technology needs specification, and research alternative solutions
   - write request for proposals (RFP)
   - call for proposals
   - revise technology needs identification
   - assessment and partner selection.
4. Implement project:
   - refine project plan
   - identify technology customization needs
   - prototype design, test, modify and roll out.

5. Evaluate performance:
   ● project outcomes
   ● business outcomes.

The rest of this chapter will add further detail to the CRM project design and planning process.

Phase 1: Develop the CRM strategy

CRM strategy can be defined as follows:

> CRM strategy is a high-level plan of action that aligns people, processes and technology to achieve customer-related goals.

Situation analysis

Development of the CRM strategy starts with a situation analysis. This analysis sets out to describe, understand and appraise the company's current customer strategy. It helps to have an organizing framework to guide your analysis. The comprehensive models of CRM that are described in Chapter 1 might be helpful. Another useful framework is the customer strategy cube. This is a three-dimensional analysis of your company's served market segments, market offerings and channels (routes to market). The situation analysis answers the questions, 'Where are we now?', and 'Why are we where we are?' in terms of the three dimensions of the cube.

Figure 3.2 illustrates the customer strategy cube of a company that sells four different offerings to five different market segments though
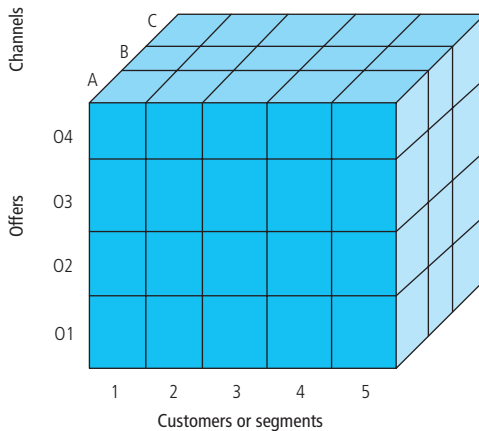
Figure 3.2
Customer strategy cube

three different channels. Each block in this cube (there are 60 ($5 \times 4 \times 3$) of them) might be a potential business unit that would be subject to a situation analysis. In fact, most businesses do not operate in all potential business units of their customer strategy cube. They operate selectively. For example, AMP sells financial products through a network of independent and tied financial planners. They do not sell direct to the consumer. Not all offerings are sold to all market segments through all channels.

The situation analysis examines the three dimensions of the customer strategy cube independently and jointly. Questions such as the following are asked.

Customers or segments

Which segments do we target? Which segments do we serve? What are our customer-related marketing and sales objectives? How much do we sell to customers? How satisfied are they? What is our market share? What is our share of customer spending? How effective are our customer acquisition strategies and tactics? How effective are our customer retention strategies and tactics? How effective are our customer development (cross-sell and up-sell) strategies and tactics? What are the customer touchpoints? What do our customers think about their experience of doing business with us? Which customer management processes have most impact on our costs or customer experience? Which technologies do we use to support our marketing, selling and service functions, and how well do they operate?

Market offerings

Which products do we offer? What is our branding strategy? How well known are our offerings? Who do we compete against? What advantages or disadvantages do we offer vis-à-vis our competitors? How do we augment and add value to our basic product offer? What benefits do customers experience from our offerings? How do our prices compare with our competitors? What are our margins?

Channels

Which channels do we use to distribute to our customers – direct and indirect? Which channels are most effective? What level of channel penetration do we have? Which channels are becoming more/less important? Where do our competitors distribute? What do channel partners think of their experience of doing business with us? What margins do channel members earn? Which channel management processes have most impact on our costs or channel member experience?

The goal of this audit is get a clear insight into the strengths and weaknesses of the company's customer strategy. Data can be collected from executives, managers, customer contact people and, importantly, customers. Business plans can be studied. One of the outcomes might be a customer interaction map, as in Figure 3.3, that identifies all customer touchpoints and the processes that are performed at those
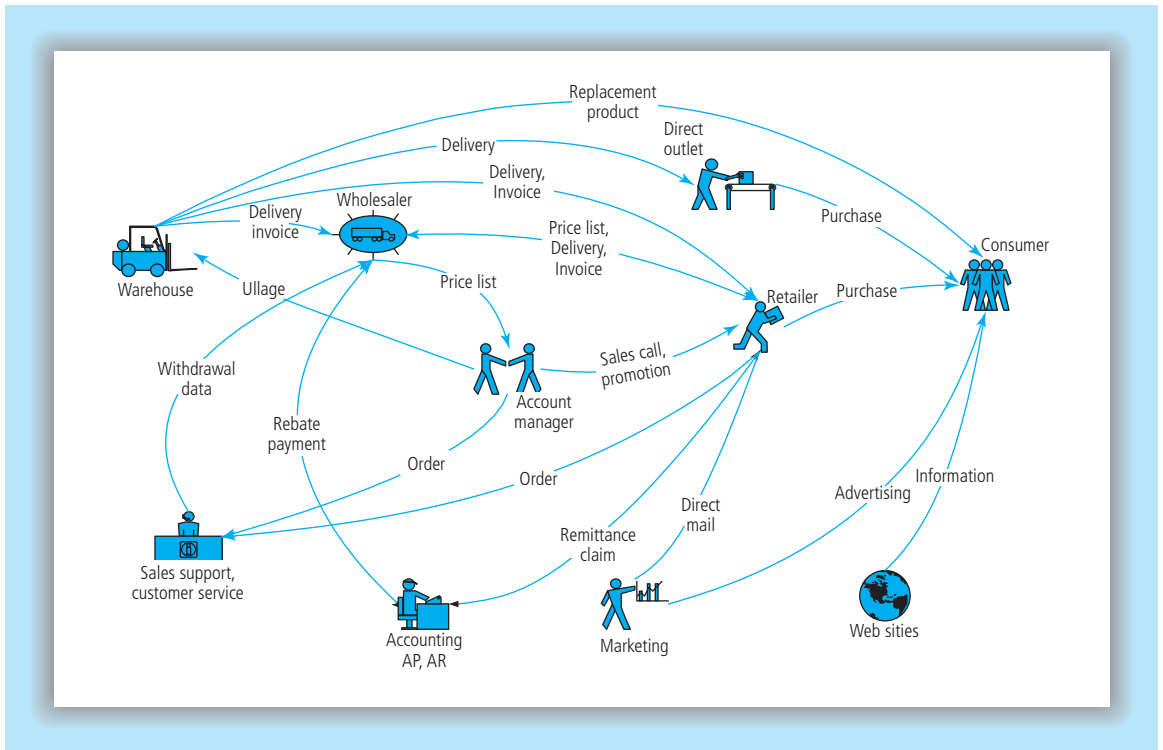
Figure 3.3 Customer interaction map[2]

touchpoints. Normally, the interactions that have important impact on customer experience or your own costs become primary candidates for reengineering and/or automation. The audit will serve as the start point for thinking about what you want to achieve from a CRM implementation.

Commence CRM education

CRM, as you have read in Chapter 1, is a term that means different things to different people. There is considerable misunderstanding about it. If you are about to embark on a CRM implementation, it is important that all stakeholders have a clear understanding of what CRM denotes. Your IT people might think that it is a technology project. Your marketing people might think it is something to do with a new approach to market segmentation. Your sales people might think it is about a new centralized database for customer records. Education has the twin benefits of allaying any fears that people might have, based on their misunderstandings, and encouraging participation from people whose jobs might be impacted. Education enables stakeholders to identify opportunities to improve their workplace.

There are very few educational programmes available. The Institute of Direct Marketing offers a suite of introductory study materials,[3] the American Marketing Association publishes a narrow range of tutorial

materials, but the Chartered Institute of Marketing offers nothing.[4] Some of the richest resources are to be found in online CRM communities – self-help groups organized around a shared interest in CRM. Some of the better websites are www.customerthink.com (formerly www.crmguru.com), www.mycustomer.com (formerly www.insightexec.com, and before that www.crm-forum.com), www.sharedinsights.com, www.eccs.uk.com, searchcrm.techtarget.com, www.crm2day.com, www.crmdirectory.com and www.intelligententerprise.com. CRM vendors publish case histories which can give you a good idea of what is possible. Alternatively, you could use this book!

Develop the CRM vision

Your CRM vision is a high-level statement of how CRM will change your business as it relates to customers. The software-as-a-service (SaaS) company, salesforce.com, provides a number of examples of CRM visions.[5]

- We will work with our members in a trust-based relationship to represent their interests and to satisfy their needs for high value, security and peace of mind in motoring, travel and home.
- Nurturing relationships one cup at a time. Deliver a customer experience that consistently develops enthusiastically satisfied customers in every market in which we do business.
- Build and maintain long-term relationships with valuable customers by creating personalized experiences across all touchpoints and by anticipating customer needs and providing customized offers.
- Nothing is more important than making every user successful. (This is salesforce.com's own CRM vision.)

The CRM vision gives shape and direction to your CRM strategy. The CRM vision might be senior management's perspective, based on what they learned from the education process, or it could be the product of a wider visioning process that engages more members of your company, perhaps even customers and partners. The vision will eventually guide the development of measurable CRM outcomes.

Set priorities

CRM projects vary in their scope and can touch on one or more customer-facing parts of your business – sales, marketing or service. Clear priorities for action, normally focused on cost reduction or enhanced customer experience, might fall out of the situation analysis, but more time and debate is often necessary. Priority might be given to projects which produce quick wins, fast returns or are low-cost. Longer-term priorities might prove more difficult to implement. For example, you may want to prioritize a new segmentation of customers based on their potential profitability. An impediment to that outcome would be your company's inability to trace costs of selling, marketing and service to customers. You may need to prioritize the implementation of an activity-based costing system before performing the new segmentation.

Establish goals and objectives

Goals and objectives emerge from the visioning and prioritizing processes. Although the terms 'goals' and 'objectives' tend to be used synonymously, we use the word 'goal' to refer to a qualitative outcome and 'objective' to refer to a measurable outcome. For example, a CRM goal might be to acquire new customers. A related CRM objective could be to generate 200 additional leads by the fourth quarter of the next financial year.

Figure 3.4 reports data from Gartner Inc.[6] Their research shows that CRM goals generally cluster into three broad areas: enhancing customer satisfaction or loyalty, growing revenues or reducing costs. The bars in the chart show the percentage of respondents to their survey reporting each CRM goal. It is clear from this information that CRM strategies often pursue several goals. Among the most frequently cited goals are increased customer satisfaction and retention, reflecting the satisfaction–profit chain introduced in Chapter 2.
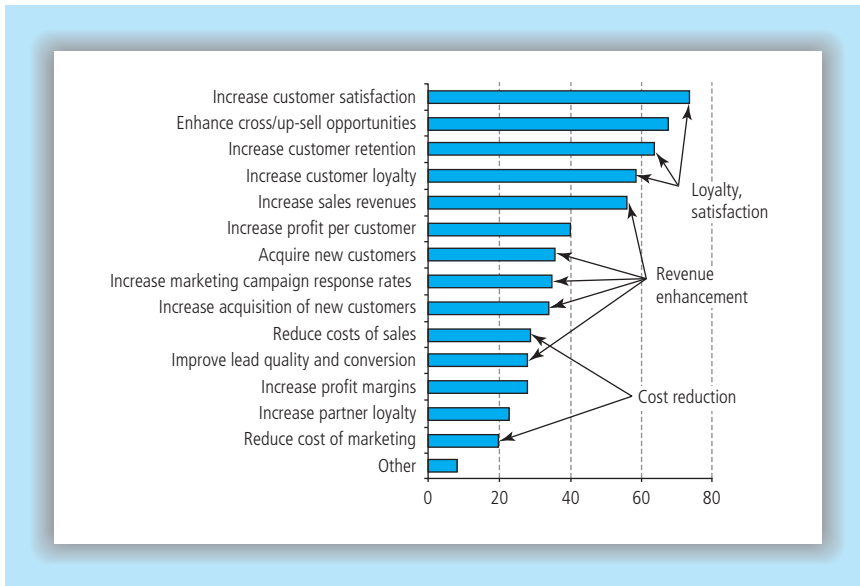
Figure 3.4
Strategic goals for CRM

Measurable objectives created at this time will later serve to evaluate the performance of the CRM implementation.

Identify people, process and technology requirements

The next step is to begin the process of identifying the people, process and technology requirements for the goals and objectives to be achieved. You'll return to these matters repeatedly as the project unfolds, but at this stage you need a general idea of the changes that are necessary so that you can begin to identify costs and construct a business case. If your goal is to enhance cross-selling opportunities you might need to invest

in training sales people to ask the right questions, engineering a new opportunity management process and acquiring sales-force automation software.

Develop the business case

The business case is built around the costs and benefits of the CRM implementation and answers the question: 'Why should we invest in this CRM project?' The business case looks at both costs and revenues. CRM implementations can generate additional revenues in a number of ways:

- conversion of more leads from suspect to prospect to opportunity
- more cross-selling and up-selling
- more accurate product pricing
- higher levels of customer satisfaction and retention
- higher levels of word-of-mouth influence
- more leads and/or sales from marketing campaigns
- incremental sales from more effective selling processes.

Costs can be reduced by:

- improved lead generation and qualification
- lower costs of customer acquisition
- more efficient account management
- less waste in marketing campaigns
- reduced customer service costs
- more efficient front-office processes.

However, these benefits need to be assessed against the costs of the CRM implementation. The costs of a CRM project may extend well beyond the costs of CRM software. Additional costs may be incurred from systems integration, infrastructure costs, new desktop, laptop or handheld devices, software configuration, data modelling, beta-testing, helpdesk support, change management, project management, process reengineering, software upgrades, training and consultancy services, let alone the opportunity costs of diverting your own staff members from their routine work. For a simple CRM project IT costs may represent one quarter of the total project cost; for a complex project IT costs may be as low as one tenth of the total project cost.

Some business cases are able to ignore technology costs. Many companies using enterprise software from Oracle and SAP are already paying for CRM modules in their inclusive licence fees. A licensed SAP user, for example, might be using enterprise software only for back-office functions. However, the licence fee permits the company to use the enterprise suite's CRM modules. No additional licence costs are incurred though there may be substantial customization and implementation costs associated with switching on the unused CRM modules. Other companies that elect to deploy CRM through the SaaS approach, rather than installing software on their own hardware, treat CRM software as an

operating expense. They simply treat software costs, based on a per-user monthly fee, as an operational expense that can be allocated to marketing, sales or service budgets.

Many of these costs and benefits are measurable, but there are also likely to be some important strategic benefits that are much harder to value, for example, development of a customer-centric way of doing business, better customer experience, improved responsiveness to changes in the market or competitive environments, more information sharing between business silos, improved customer service, more harmonious relationships with customers and the development of an information-based competitive advantage.

The business case should span a period equivalent to the economic life of the proposed solution. This is particularly important when comparing different implementation models such as on-premise CRM and SaaS (software–as–a–service). While the upfront costs of these two approaches are vastly different, the total cost of ownership can even out over a 3–4 year period.

The result of this analysis may be summarized in a range of statistics including total cost of ownership, payback period, internal rate of return and net present value, as shown in Figure 3.5.
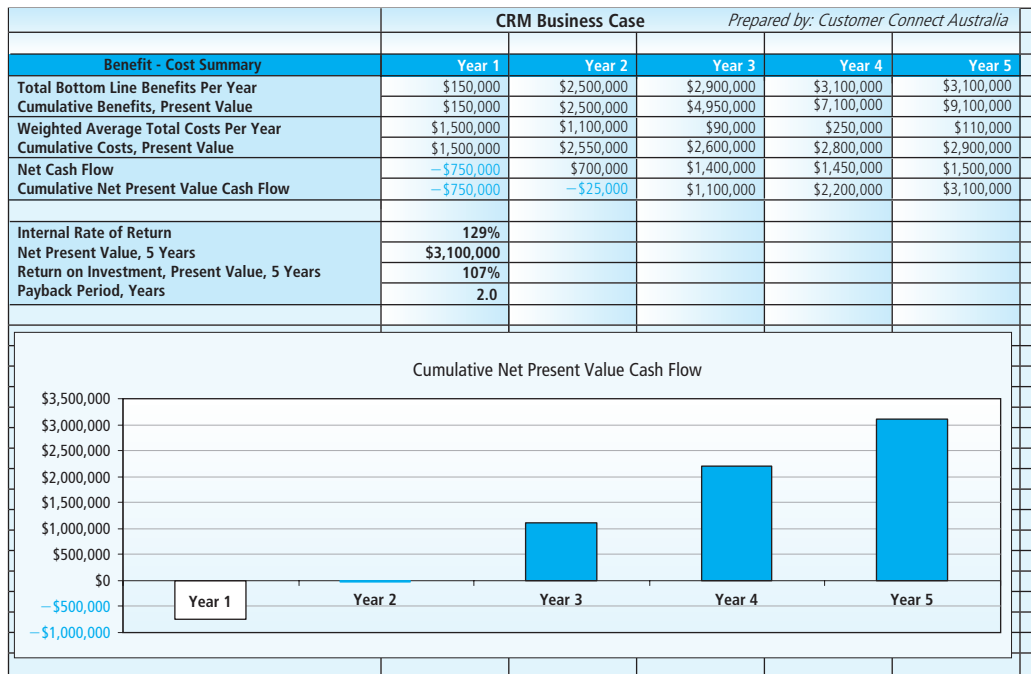
	CRM Business Case		*Prepared by: Customer Connect Australia*		
Benefit - Cost Summary	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Total Bottom Line Benefits Per Year	$150,000	$2,500,000	$2,900,000	$3,100,000	$3,100,000
Cumulative Benefits, Present Value	$150,000	$2,500,000	$4,950,000	$7,100,000	$9,100,000
Weighted Average Total Costs Per Year	$1,500,000	$1,100,000	$90,000	$250,000	$110,000
Cumulative Costs, Present Value	$1,500,000	$2,550,000	$2,600,000	$2,800,000	$2,900,000
Net Cash Flow	−$750,000	$700,000	$1,400,000	$1,450,000	$1,500,000
Cumulative Net Present Value Cash Flow	−$750,000	−$25,000	$1,100,000	$2,200,000	$3,100,000
Internal Rate of Return	129%				
Net Present Value, 5 Years	$3,100,000				
Return on Investment, Present Value, 5 Years	107%				
Payback Period, Years	2.0				

Cumulative Net Present Value Cash Flow

**Figure 3.5** Business case summary data[7]

Phase 2: Build CRM project foundations

Having created the CRM strategy the next phase involves building the foundations for the CRM implementation.

Identify stakeholders

The first step is to identify stakeholders. Stakeholders include any party that will be impacted by the change – this could include senior management, users of any new system, marketing staff, salespeople, customer service agents, channel partners, customers and IT specialists. Their participation in the CRM project may be required at some future point. Research suggests that the early involvement of parties affected by change helps pre-empt later problems of resistance. Vendor experience indicates that the early involvement and participation of senior management is likely to promote a more successful implementation.

System users are important stakeholders. The importance of involving system users in the implementation of new technologies is reinforced by research conducted by Fred Davis and others. Davis found that intention to use a new technology is predicted by the perceived ease-of-use of the technology and the perceived usefulness of the technology. This is expressed in the Technology Acceptance Model which has been subjected to considerable testing and validation since Davis's initial work.[8] Early engagement of user stakeholders can help ensure that the technology is perceived as both easy-to-use and useful by users.
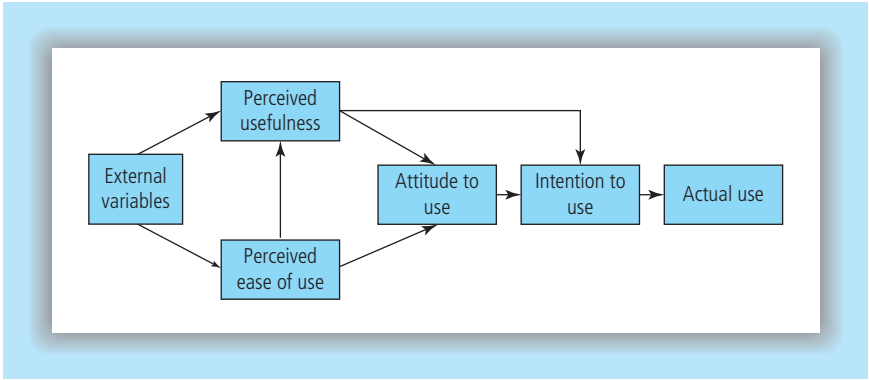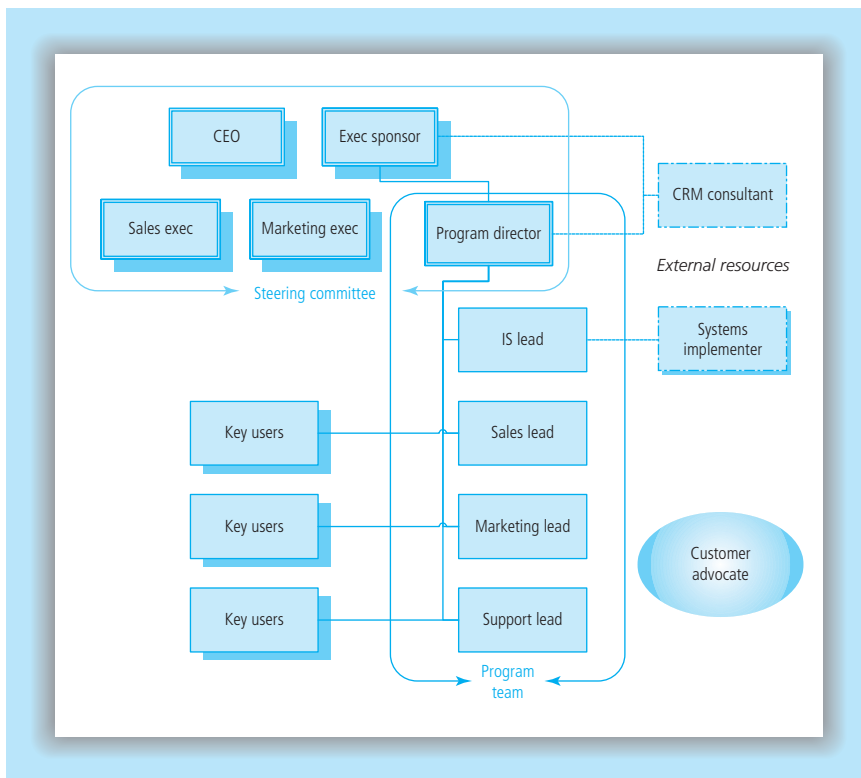

Figure 3.6
The Technology
Acceptance Model

Establish governance structures

CRM projects are designed and implemented by people. Governance structures (see Figure 3.6) need to be put in place to ensure that project roles and responsibilities are properly defined and allocated.

The programme director (PD) plays an important role in this structure. Ultimately, the PD has responsibility for ensuing that the project deliverables are achieved and that project costs are controlled. In larger projects the PD will be a full-time appointment. The PD has a boundary-spanning role – one foot is in the CRM steering committee, the other is in the programme team. Another key member of the steering committee is the executive sponsor. This is typically a board level senior executive who commits real time to the project and ensures that resources are made available. The steering committee makes policy decisions about the CRM implementation – for example, which technology to buy, which consultants to hire – and ensures that the implementation stays on track and within budget. Other senior executives may sit on the steering committee to ensure that the project remains business-focused and does not slide into becoming an IT-dominated project.

The programme team is composed of representatives from the major stakeholders (shown in Figure 3.7 as 'Lead' roles). They have the responsibility of implementing the project successfully. The Leads may have their own advisory groups that ensure that stakeholder needs and concerns are known and brought to the programme team. More importantly, the Leads are responsible for ensuring that the right people are brought in for specific project activities. For example, if the selling process is being reviewed, the sales Lead would ensure the participation of highly regarded sales representative and sales managers. CRM

Figure 3.7 Governance structure[9]

implementations can impose considerable demands on your company's own internal IT resources which might be called on to perform several project-related roles. The lead developer role ensures that the CRM software is customized to meet the needs of users. The database developer role ensures that customer-related data held in disparate databases is made available to end-users in the form required for operational and analytical CRM applications. The front-end developer role ensures that the user interface is easy to understand and use.

It is not uncommon for CRM projects to import resources and talents to help deliver the project. This governance structure will have a CRM consultant working with the steering committee. It is unlikely that an inhouse steering committee will have sufficient experience of CRM project implementation. An experienced consultant can help the steering committee overcome problems as the project progresses. A systems implementer is also shown in this governance structure as an important external resource. For an installed CRM system, vendors generally supply technical help to ensure that the system is properly implemented. The implementer has a boundary-spanning role, being an employee of the vendor but working onsite as the client's advocate.

A systems integrator may also be needed to align disparate systems into a coherent whole to support the project objectives. Systems integration can be defined as follows:

> Systems integration is the practice of aligning and combining system components such as people, processes, technology and data for the achievement of defined outcomes.

Very often desired CRM outcomes are impeded by the poor interoperability of IT systems. For example, the IT system that supports web operations may be incompatible with the IT system that supports the call centre. The result is that there may be two different databases containing important customer-related information. A systems integrator might be needed to programme the interface that links the two systems.

Finally, the governance chart shows that the voice of the customer has to be heard in the project team. Customers of companies that implement CRM are important stakeholders, because their experience of doing business will change. Some CRM projects fail to deliver optimal outcomes because the project team fails to ask 'What would the customer think?'

Identify change management needs

Even small CRM projects can prove challenging in terms of change management. A sales-force automation project might involve centralizing data that is presently kept on individual representatives' computers and making that information available to everyone in the team. Representatives will need to learn to share. In a distributed sales-force, these representatives may not have even met each other. If they also have to change their selling methodology, record keeping and reporting habits, there might be some worries, if not outright resistance.

According to consultants Booz Allen & Hamilton, 'Leadership teams that fail to plan for the human side of change often find themselves

wondering why their best-laid plans go awry'.[10] They describe change both in terms of top-down leadership and bottom-up buy-in, as does John Kotter whose eight-step approach to managing change is widely cited and deployed.[11] The eight steps are as follows:

1. create a sense of urgency so people begin to feel 'we must do something'
2. put together a guiding team to drive the change effort
3. get the vision right, and build supporting strategies
4. communicate for buy-in
5. empower action by removing organizational barriers to change
6. produce short-term wins to diffuse cynicism, pessimism and scepticism
7. don't let up, but keep driving change and promoting the vision
8. make change stick by reshaping organizational culture.

Kotter emphasizes that successful change management programmes adopt a see–feel–change approach. To bring about change it is necessary not only to get people to see the need for change, but also to feel so emotionally engaged that they want to change. He stresses the importance of emotional engagement with the programme's vision and strategies.

Organizational culture

The idea of organizational culture has been around for many years. In everyday language, organizational culture is what is being described when someone answers the question 'what is it like working here?' More formally, organizational culture can be defined as:

> A pattern of shared values and beliefs that help individuals understand organizational functioning and thus provide them with the norms for behavior in the organization.[12]

Essentially, organizational culture is understood to comprise widely shared and strongly held values. These values are reflected in patterns of individual and interpersonal behavior, including the behavior of the business leaders, and expressed in the norms, symbols, rituals and formal systems of the organization.

A number of studies indicate that organizational culture affects business performance.[13] Recent research has also shown that organizational culture is a predictor of CRM success.[14] Adhocracy, one of four organizational cultures identified in the Competing Values model (Figure 3.8), shows the strongest association with CRM success. Adhocracies are highly flexible, entrepreneurial, externally-oriented organizations. Their core values are creativity and risk-taking.

Cameron and Quinn have developed a process for companies wishing to change their culture, as indicated by the Competing Values model.[15] They suggest that cultural change may involve adjustment to the organization's structure, symbols, systems, staff, strategy, style of leaders and skills of managers, but emphasize that individual behavioural change is the key to culture change.

Figure 3.8
The Competing Values model of organizational culture[16]
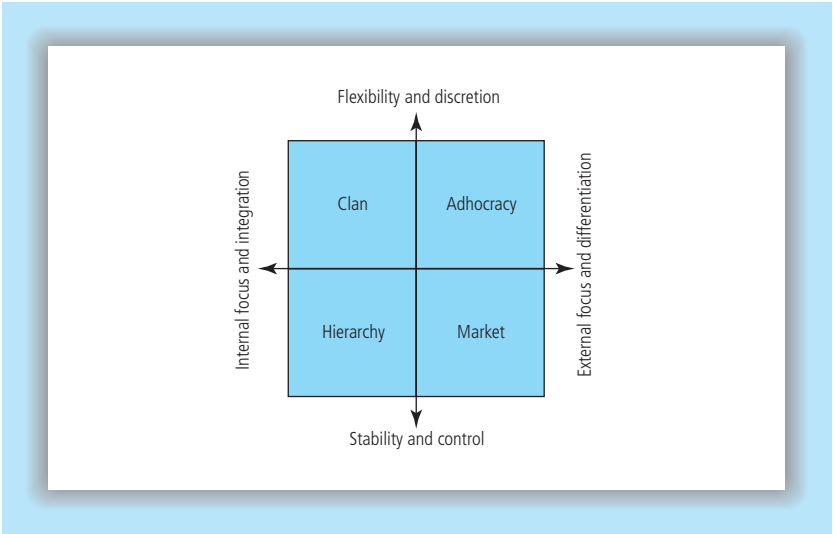
Buy-in

As noted by John Kotter, buy-in operates at an emotional or intellectual (rational) level. Intellectual buy-in is where people know what has to be changed and understand the justification for the change. New technologies are adopted more quickly when users believe that the system will be easy to use. Emotional buy-in is where there is genuine heartfelt enthusiasm, even excitement, about the change. The matrix in Figure 3.9 shows the possibility of four employee segments, reflecting the presence or absence of emotional and rational buy-in. Champions are emotionally and rationally committed. Weak links are neither emotionally nor rationally committed. Bystanders understand the changes being introduced, but feel no emotional buy-in to the change. Loose cannons are fired up with enthusiasm, but really don't understand what they have to do to contribute to the change. All these segments will be found in major change projects such as a CRM implementation.
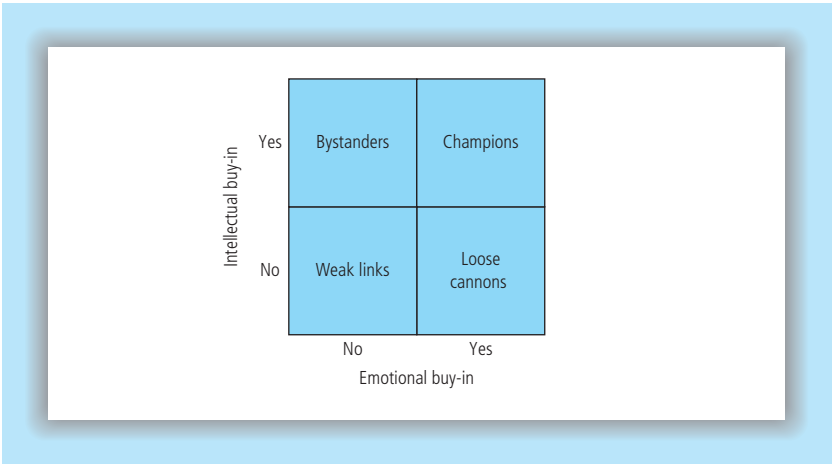
Figure 3.9
The buy-in matrix

The CRM project needs to be marketed to each of these groups in different ways. The programme team's challenges are to stir-up bystanders to become passionate about the project's goals, and to educate loose cannons on the reasoning behind CRM. Weak links can be truly problematic if they are in customer-facing roles or impact on customer experience. It has been said that it takes many years to win a customer's confidence and trust, but only one incident to break it. If efforts to win them over fail, weak links may need to be reassigned to jobs where there is no customer impact.

Identify project management needs

CRM implementations can place considerable demands on project management skills. A CRM project plan spells out the steps that will get you from where you are now (customer strategy situation analysis) to where you want to be (CRM vision, goals and objectives), on time and within budget. The CRM programme director generally performs the project management role, but sometimes it is outsourced to a consultant. A project plan sets out the tasks to be performed, the order in which they are to be executed, the time each will take, the resources required to perform the tasks (including people and money) and the deliverables from each task. Tools such as Gantt charts (see Figure 3.10), critical path analysis (CPA), programme evaluation and review techniques (PERT)
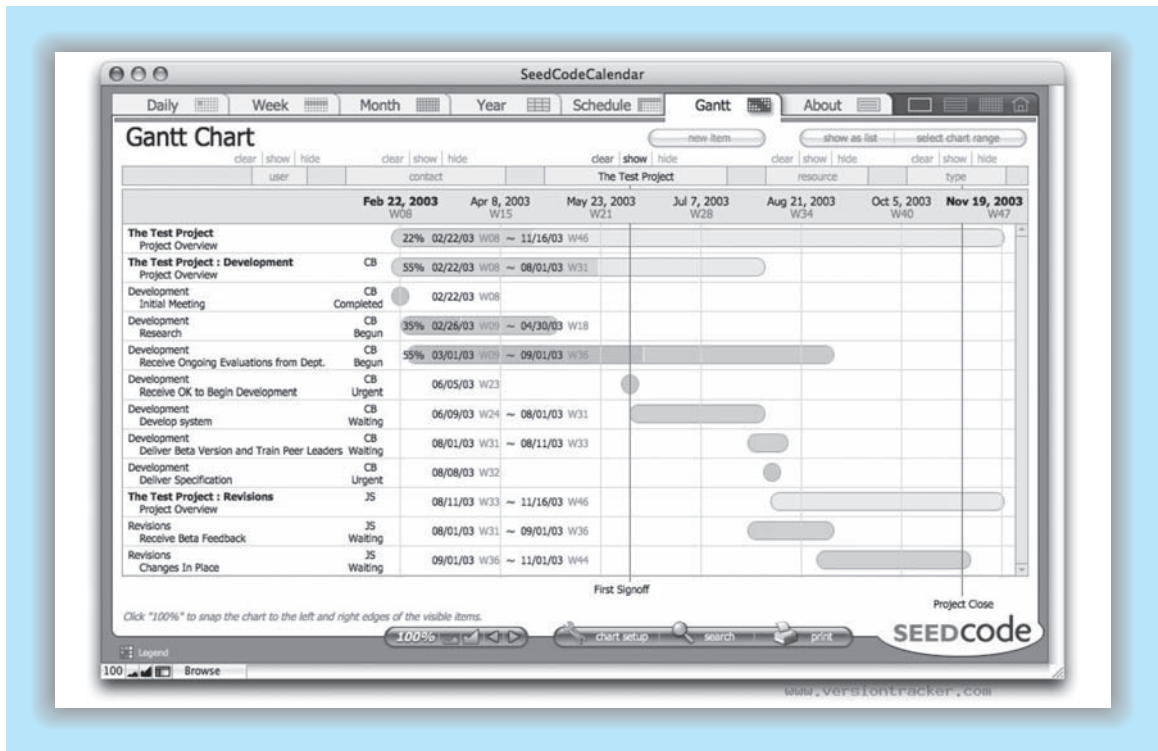

Figure 3.10 Project Gantt chart[17]

or network diagrams are useful tools for project managers. Some tasks will be performed in parallel, some in sequence. As the project rolls forward there will be periodic 'milestone' reviews to ensure that it is on time and on budget. A CRM project that has the goal of improving the productivity of marketing campaigns might be made up of a number of tasks or mini-projects, each with its own deliverable, including the following: market segmentation project, database development project, creation of a new campaign management process, management reports project, technology search and selection project, and a staff training project.

Identify critical success factors

Critical success factors (CSFs) are the 'must haves' that underpin project success. Critical success factors can be defined as follows:

> CSFs are attributes and variables that can significantly impact business outcomes.

CRM consultants and vendors offer a range of opinions on CSFs, mentioning the following: a clear customer strategy that defines your company's offers, markets and channels; an organizational culture that promotes coordination and information-sharing across business units; an agreed definition of what counts as CRM success; executive sponsorship of the CRM programme's objectives; availability and use of pertinent, accurate, timely and useable customer-related information; a clear focus on people and process issues, not only technology; starting small with quick wins that are then promoted within the company as success stories; focus on automating processes that have major implications for costs or customer experience; engagement of all stakeholders, including end-users and customers, in programme planning and roll-out.

There have been very few independent studies of CRM CSFs. Luis Mendoza and his colleagues conducted a qualitative study of CSFs that involved a panel of eight expert judges identifying 13 CSFs and 55 associated metrics covering people, process and technology aspects of CRM strategy.[18] The CSFs and their alignment with people, process and technology appear in Table 3.1, the most important being highlighted in bold.

Da Silva and Rahimi[19] conducted a single CRM case study test of three CSF models that had originally been developed in the context of enterprise resource planning (ERP) implementations. They found that CRM CSFs could be categorized as strategic and tactical. Strategic CSFs are encountered at the beginning of the project, while tactical CSFs become important later. Strategic CSFs include a clear CRM philosophy (we prefer the term 'vision'), top management commitment and project management expertise. Tactical CSFs include trouble-shooting skills, good communications and software configuration.

Croteau and Li conducted an empirical assessment of CRM CSFs in 57 large Canadian organizations.[20] Focusing only on the technology element – therefore ignoring people and process issues – they collected data about CRM's impacts on customer satisfaction, retention, loyalty

Critical success factor	People	Process	Technology
1. Senior management commitment	X		
2. Creation of a multidisciplinary team	X	X	
3. Objectives definition	X		
4. Interdepartmental integration	X	X	
5. Communication of the CRM strategy to staff	X	X	
6. Staff commitment	X		
7. Customer information management			X
8. Customer service		X	X
9. Sales automation		X	X
10. Marketing automation		X	X
11. Support for operational management	X	X	X
12. Customer contact management	X		X
13. Information systems integration			X

(Note: more important CSF's are bold typeface)

Table 3.1 Critical success factors for successful CRM strategies

and market share, and looked for associations with a number of predefined critical success factors. They conclude that the CSF most strongly associated with CRM success is an accurate and well-developed knowledge management system. This has to be supported by a suitable IT infrastructure which can capture, manage and deliver real time customer, product and service information in order to improve customer response and decision-making at all customer touchpoints. They also found that another important CSF is top management support.

Develop a risk management plan

It has been claimed that a large number of CRM projects, perhaps as many as two-thirds, fail.[21] Of course, there can be many potential causes of failure, ranging from inadequate project management to resistance of end-users to the adoption of new technologies. At this stage, you'll be trying to identify the major risks to achieving the desired outcomes. Once identified, you can begin to put risk mitigation strategies and contingency plans in place. As you'd expect, some risks reflect an absence of the CSFs identified above. Gartner names a number of common causes of CRM failure: management that has little customer understanding or involvement; rewards and incentives that are tied to old, non-customer objectives; organizational culture that is not customer-focused; limited or no input from the customers; thinking that technology is the solution; lack of specifically designed, mutually reinforcing processes; poor-quality customer data and information; little coordination between departmental initiatives and projects; creation of the CRM team happening last, and the team lacks business staff; no measures or monitoring of benefits and lack of testing.[22]

Risk mitigation strategies are your responses to these risks. Let's take the risk of management having little or no customer understanding. How might you respond to this? There are a number of things you could do – management could work in the front-line serving customers (McDonalds' executives do this), listen in to call centre interactions for at least one hour a week or mystery shop your own and competitor organizations.

Phase 3: Needs specification and partner selection

Having built the CRM project foundations, the next phase involves specifying needs and selecting suitable partners.

Process mapping and refinement

The first task of Phase 3 is to identify business processes that need attention – making them more effective or efficient or flagging them as candidates for automation. Business processes can be defined as follows:

> A business process is set of activities performed by people and/or technology in order to achieve a desired outcome.

Put more simply, business processes are how things get done by your company. Processes can be classified in several ways: vertical and horizontal; front and back-office; primary and secondary.

Vertical processes are those that are located entirely within a business function. For example, the customer acquisition process might reside totally within the marketing department.

Horizontal processes are cross-functional. New product development processes are typically horizontal and span sales, marketing, finance and research and development functions.

Front-office (or front-stage) processes are those that customers encounter. The complaints handling process is an example.

Back-office (or back-stage) processes are invisible to customers, for example, the procurement process. Many processes straddle both front and back-offices: the order-fulfilment process (see Figure 3.11) is an example. The order taking part of that process sits in the front-office. The production scheduling part is back-office.

A distinction is also made between primary and secondary processes.

Primary processes have major cost implications for companies or, given their impact on customer experience, major revenue implications. The logistics process in courier organizations – from picking up a package, through moving the package, to delivering the package – constitutes about 90 per cent of the cost base of the business, and is therefore a primary process. Customers may have a different perspective on what is important. They typically do not care about back-office processes. They care about the processes that touch them. In the insurance industry these

are the claims process, the policy renewal process and the new policy purchase process. In the courier business they are the pick-up, delivery and tracking processes.

Secondary processes have minor implications for costs or revenues, or little impact on customer experience.

Strategic CRM aims to build an organization that is designed to create and deliver customer value consistently better than its competitors. Designing processes that create value for customers is clearly vital to this outcome. 3M's mission is 'to solve unsolved problems innovatively'. It does this in part through new product development processes that are designed to identify good ideas and bring them to the market quickly.[23] For 3M, the innovation process is a primary process that enables the company to differentiate itself from its competitors.

Operational CRM involves the automation of the company's selling, marketing and service processes, and generally requires the support of analytical CRM. Figure 3.12 shows the campaign management process for a particular customer offer made by First Direct, a UK-based telephone bank. It shows that the propensity of a customer to open a high interest savings account is determined by a scoring process that considers both demographic and transactional data. The propensity
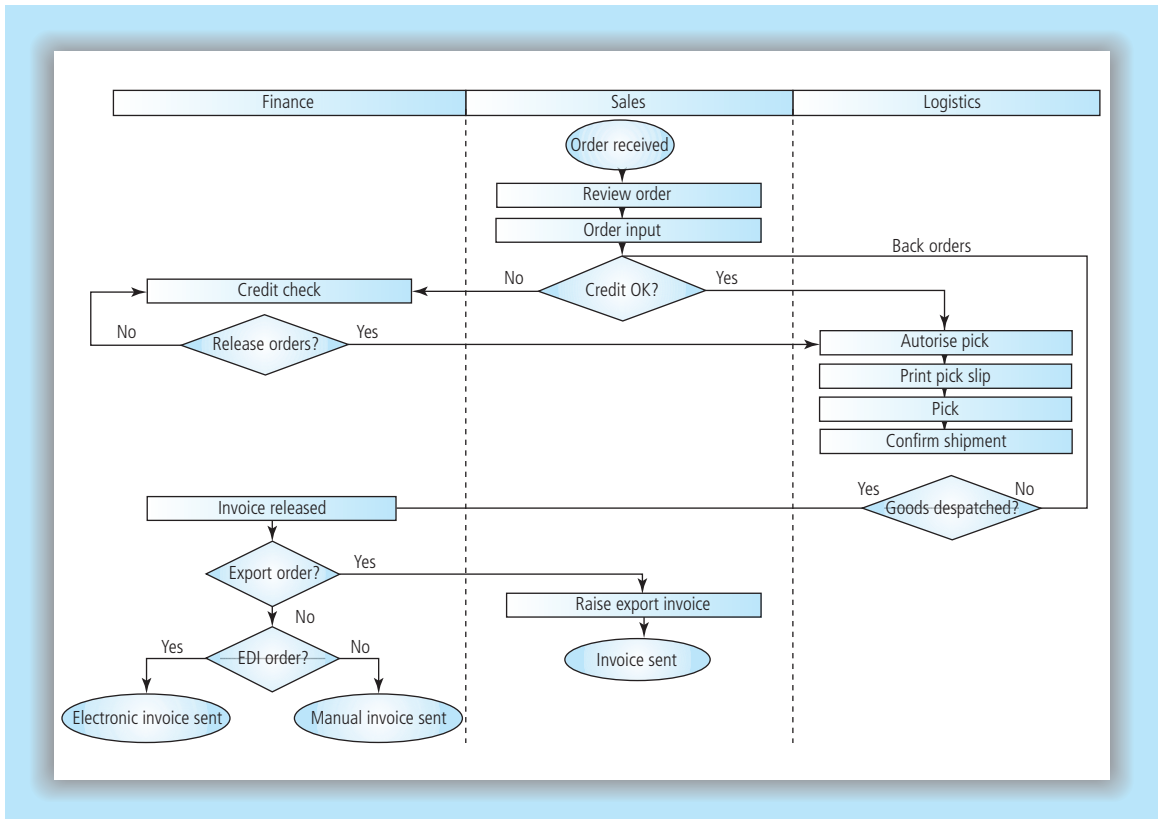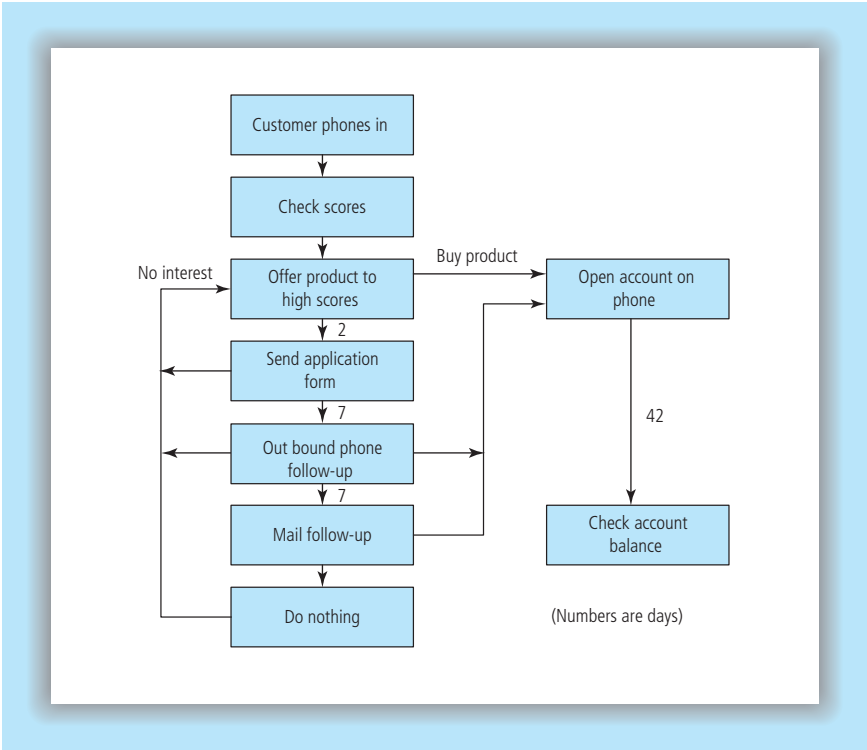

Figure 3.11 Order fulfilment process

Figure 3.12
Campaign
management
process for high
interest savings
account

modelling process is an illustration of analytical CRM. If a target score
is reached an offer is made, either by the customer service agent during
a phone call or at a later time by mail. This automation of the selling
process is an example of operational CRM.

Flowcharting, which is also known as blueprinting and process
mapping, is a tool that can be used to make processes visible. The
flowchart sets out the steps involved in performing the process. It may
also identify the people (or roles) that contribute to the process, and the
standards by which the process is measured, such as time, accuracy or
cost. Processes always have customers, who may be either internal or
external to a company. Customers receive process outputs. Figure 3.11
shows the order fulfilment process for an exporter. The flowchart shows
that the process is cross-functional and is completed by a number of
internal supplier–customer relationships in series.

Software such as Microsoft Visio, ABC Flowcharter and ConceptDraw
is readily available to help generate process flowcharts. Major vendors
and consultants may use their own proprietary applications. Oracle,
for example uses Oracle Designer which allows them to model
processes and generate the associated software code. Flowcharts can
be used to identify fail points where a process frequently breaks down,
redundancies and duplications. They can also be used for induction and
training of new people and for illustrating internal customer–supplier
relationships. Processes can be rated according to the degree to which
they can be improved. It has been suggested, for example, that processes
be rated according to the criteria in Table 3.2.

	Process rating
Best practice (superiority)	The process is substantially defect-free and contributes to CRM performance. Process is superior to comparable competitors and other benchmarks
Parity	A good process which largely contributes to CRM performance
Stability	An average process which meets expectations with no major problems, but which presents opportunities for improvement
Recoverability	The process has identified weaknesses which are being addressed
Criticality	An ineffective and/or inefficient process in need of immediate remedial attention

Table 3.2 Evaluating processes[24]

Data review and gap analysis

Having identified processes that require attention, the next step is to review the data requirements for the CRM implementation and to identify shortfalls.

Strategic CRM uses customer-related data to identify which customers to target for acquisition, retention and development, and what to offer them. Operational CRM uses customer-related data in the everyday running of the business, for example in handling billing queries in the contact centre or mounting campaigns in the marketing department. Analytical CRM uses customer-related data to answer questions such as 'who are our most profitable customers' and 'which customers are most likely to churn'?. Collaborative CRM uses customer-related data to enable channel partners to target their communications more precisely. The fundamental issue companies have to ask is: what customer-related data do we need for strategic, operational, analytical and collaborative CRM purposes?

Members of the programme team should be well placed to answer the question 'what information is needed?' For example, the programme team's marketing lead would be expected to appreciate the information needs of direct marketers running event-based campaigns. Typically, these marketers want to know response rates to previous mailings broken down by customer group, the content of those offers, sales achieved by the mailings and the number of items returned unopened. They would also want to know the names and addresses of selected targets, their preferred method of communication (mail? e-mail? phone?), their preferred form of salutation (first name? Mr? Ms?) and the offers that have been successful in the past. In a globalized business world, it is important to respect cultural connections.

At this stage of planning the CRM project, you are identifying the data that is needed for CRM purposes and creating an inventory of data that is available for these purposes. The gap between what is available and what is needed may be quite significant. A useful distinction can be made between 'need-to-know' and 'like-to-know' that is, between information needed for CRM purposes and information that might be useful at some future point. Given the costs of developing and

maintaining customer-related databases, companies need to be rigorous in screening data requirements.

Initial technology needs specification and research alternative solutions

Earlier in this process you began to consider technology requirements. Now you can return to this question with a clearer focus on the process and data issues. There are a huge number of software applications that fall under the heading of CRM. They are shown in Figure 3.13. You need to decide what applications will deliver your CRM vision and meet the business case requirements. You can learn about these applications by visiting vendor websites, joining online communities such as www. customerthink.com, or attending physical or virtual (online) exhibitions. There is more coverage on IT issues in Chapters 13–16 of this book. Chapter 13 presents an overview of IT for CRM, and Chapters 14, 15
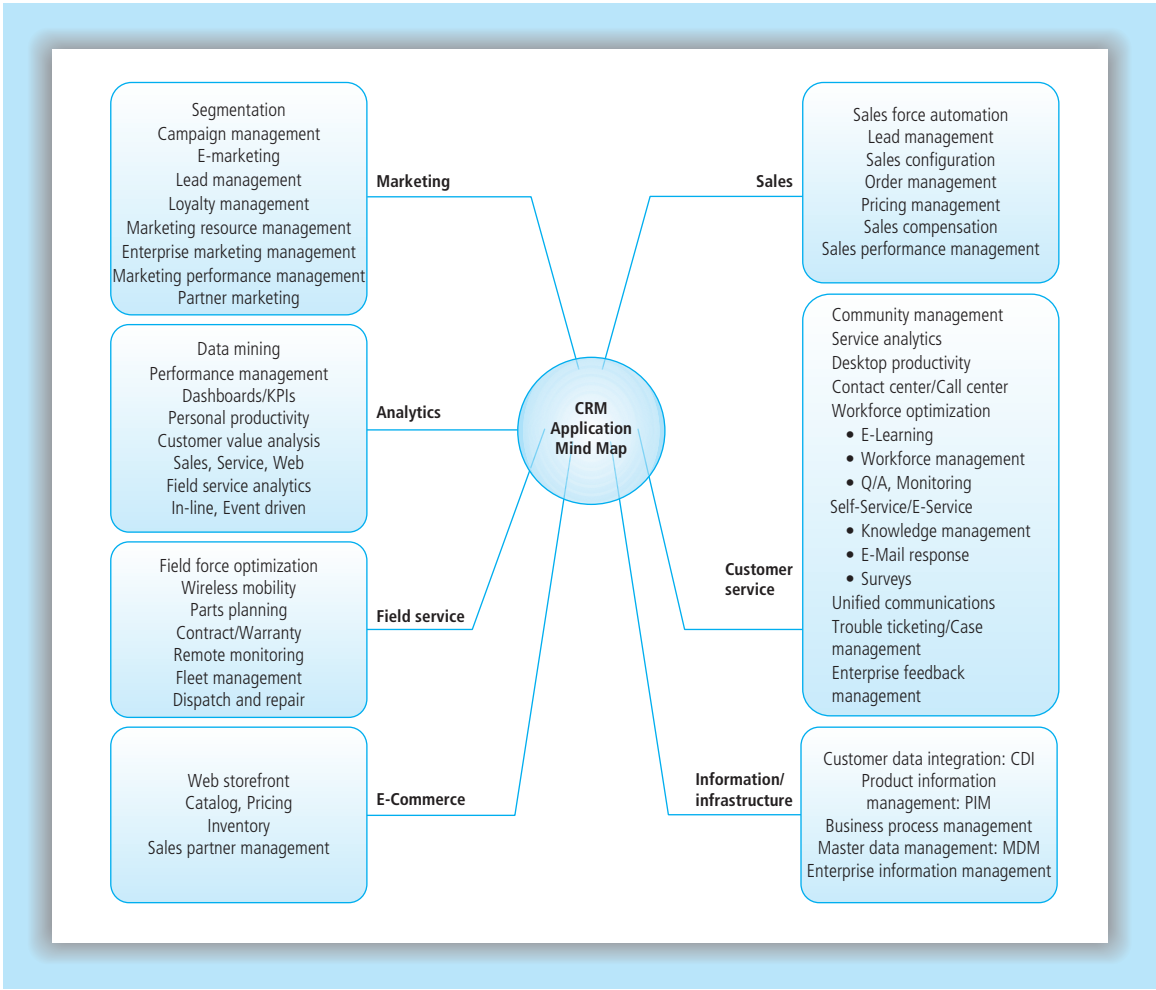

Figure 3.13 CRM applications (Source: Gartner Inc)

and 16 review sales-force automation, marketing automation and service automation respectively.

A decision has to be made about whether to build, buy or rent the CRM applications that are chosen. Your options are to build your CRM applications from scratch, to buy an on-premise site licence or pay a monthly per-user charge for an on-demand solution. If you opt to build from scratch you may find that some open source modules provide much or all of what you need. Open source software is peer-reviewed software that gives CRM application developers the opportunity to view and evaluate source code. Open source advocates suggest that being able to modify source code leads to improved software with fewer bugs, and that free distribution leads to more developers working to improve the software. The second alternative is to license CRM applications. Yearly licence fees typically vary according to the number of users. Licence fees give you the right to use the CRM software, but additional costs may be incurred for CRM application support and maintenance, training, customization, integration, IT infrastructure and end-user support. The final alternative is to pay a monthly per-user cost for an on-demand solution which generally includes implementation, maintenance, training, support and application management services delivered directly by the application vendor. Most companies opt for either hosted (on-demand) or installed (on-premise) solutions.

Hosted or on-premise CRM

One important decision is how to access CRM functionality. CRM software is distributed in two ways. It can be installed on your company's own servers or it can be accessed from another party's servers via the Internet. The former is known as on-premise, offline or installed CRM, an option that has been the preferred mode for many large-scale enterprises and early adopters. The alternative is known as hosted or online CRM, web-service, the ASP (Application Service Provider) model or the Software-as-a-Service (SaaS) model.

The hosted option is becoming more popular as CRM solutions are adopted by mid-market and smaller enterprises. Some larger organizations are also opting for online CRM solutions particularly for tactical or departmental-level issues, and many enterprises are using a hybrid mix of hosted and on-premise solutions, which is feasible when the underlying data model is the same.[25]

SaaS vendors deliver and manage applications and other services from remote sites to multiple users via the Internet. The software is installed on the ASP's servers or those of their partners. For example, Siebel's hosting partner is IBM. Access is on a pay-as-you-go or subscription basis. Some vendors offer a variety of options for their software. Oracle sells both on-premise and hosted versions of siebel CRM. Stayinfront sells on-premise owner-operated, on-premise hosted (whereby the software is on your site but managed by Stayinfront) and off-site hosted versions. Some vendors offer a 'peppercorn' arrangement whereby, after several years of rental, the software can be purchased for a token sum.

In the early days, hosted CRM applications offered much less functionality than their on-premise competitors. Currently, the gap is

closing. Some SaaS vendors are providing advanced functionality for competitive intelligence, pricing, content management, data warehousing and analytics, and workflow design.[26]

There are a number of players in hosted CRM, some of whom are shown in Table 3.3.

Hosted CRM vendor	url
Salesforce.com	http://www.salesforce.com/
Siebel Systems	http://www.crmondemand.com/
Red CRM	http://redcrm.com/
Sugar CRM	http://www.sugarcrm.com
Entellium CRM Solutions	http://www.entellium.com/
SalesLogix	http://www.saleslogix.com/home/default.php3
Soffront Software Inc.	http://www.soffront.com/
RightNow Technologies	http://www.rightnow.com/
NetSuite	http://www.netsuite.com/portal/products/crm_plus/main.shtml
Oracle	http://www.oracle.com/ondemand/ebso.html
Aplicor Inc.	http://www.aplicor.com/

Table 3.3 Hosted CRM vendors

It is widely claimed that there are significant cost advantages to the hosted model. Costs are fixed and known. Companies pay a per-user monthly fee. If you have 50 users, and the monthly fee is $100 per user, you can expect annual user fees of $60 000. Upgrades are performed by the vendor away from the users' premises. On-premise implementations, in contrast, can impose significant burdens on in-house IT staff and budgets. There can be upfront investments in IT hardware and infrastructure, software purchase and customization, and training. Implementation costs can be significant. User support and software upgrade costs are additional to initial software licence costs. Essentially, the hosted model converts capital expenditure and fixed costs into variable costs. Hosted CRM costs have fallen to US$50 per user per month, and are expected to fall further as the growth in the market attracts new vendors.

One analysis has compared the total costs of ownership (TCO) of installed and hosted sales-force automation, using a hypothetical 500-user installation.[27] The TCO of the installed solution was eight times that of the hosted solution in year one (Table 3.4); in subsequent years the relative costs appear to even out, largely because the hosted solution requires clients to pay monthly or annual subscription fees based on the number of users.

Additional research by the Meta Group indicates that hosted CRM has a cost advantage in the first three years, but thereafter the annual charges incurred make on-premise solutions a more attractive proposition. They conclude:

'for a typical mid-market on-premises CRM application, total first year costs are nearly 50 per cent more than for a typical first year hosted application. However, a different picture emerges when costs

Cost item	On-premise CRM	Hosted CRM
Number of users	500	500
Application licence/subscription	$1 250 000	$750 000
Implementation and customization	$6 250 000	$187 000
Training	$150 000	$75 000
IT infrastructure/hardware	$500 000	$0
IT personnel	$500 000	$0
Support/upgrade costs	$225 000	$0
Year one expenditure	**$8 875 000**	**$1 012 500**

Sources: Triple Tree; Software & Information Industry Association (SIAA); salesforce.com; Yankee Group. Table originally appeared in eMarketer 2005.

Table 3.4 Hosted versus installed CRM – first year costs for a 500-user deployment

are projected over a few years … When long term costs are analysed, hosted products approach an equivalent total cost of ownership (TCO) to that of on-premise products in approximately three years. Beyond this time, a hosted TCO will exceed an on-premise TCO'.[28]

A contrary analysis, conducted by the Yankee Group, estimated that the TCO of an on-premise solution is almost 60 per cent higher over a five year period.[29] These conflicting results point to the need for CRM adopters to conduct their own TCO analysis.

You will also need to consider hardware issues. What types of hardware are required by sales, service and marketing users? Perhaps salespeople need a personal digital assistant (PDA) for easy portability, whereas marketing people will be satisfied with a desktop computer. Mobile road warriors in remote locations may require both a laptop in their home office and a PDA on the road. Table 3.5 offers a comparison of PDA and laptop attributes.

You now need to finalize your thinking about systems integration. For example, you might want your CRM system to 'talk to' or share data with back-end systems for finance, inventory management and order processing. You might want it to integrate with other third-party systems that provide added functionality for sales, marketing and service staff. For example, your marketing people might want integration with a mapping system, while salespeople might want integration with a global positioning system.

Write request for proposals (RFP)

Before calling for proposals you need to write a detailed RFP. This document becomes the standard against which vendors' proposals are evaluated. It summarizes your thinking about the CRM programme and invites interested parties to respond in a structured way. Typical contents of the RFP include:

1. Instructions to respondents
2. Company background

Attribute	Laptop	PDA
Content	Full	Narrow
Size	XXXX	X
Portability	Moderate	High
Start time	Moderate	Fast
Speed of input	Fast	Slow
Dialogue barrier	Yes	No
Stickiness	Moderate	High
Walk and use	No	Yes
Presentations	Excellent	Good
Replacement cost	High	Moderate
Synchronization	Good	Excellent

(Source: Customer Connect Australia)

Table 3.5
Comparing laptops
and PDAs

3. The CRM vision and strategy
4. Strategic, operational, analytical and collaborative CRM requirements
5. Process issues:
   a. customer interaction mapping
   b. process re-engineering.
6. Technology issues:
   a. delivery model – SaaS, on-premise, blended
   b. functionality required – sales, marketing and service
   c. management reports required
   d. hardware requirements and performance measures
   e. architectural issues
   f. systems integration issues
   g. customization requirements
   h. upgrades and service requirements.
7. People issues:
   a. project management services
   b. change management services
   c. management and staff training.
8. Costing issues – TCO targets
9. Implementation issues – pilot, training, support, roll-out, timeline
10. Contractual issues
11. Criteria for assessing proposals
12. Timeline for responding to proposals.

Call for proposals

The next step is to invite potential partners to respond to the RFP. You'll
see from the RFP contents that CRM projects sometimes require input
from several process, people and technology partners. On the technology
side, if your company is already paying for CRM modules as part of its
enterprise IT system, you'll certainly want to add this technology vendor
to the list of those invited to respond. Between three and six potential
technology vendors are typically invited.

Revised technology needs identification

Proposals from technology vendors will sometimes identify opportunities for improved CRM performance that you may not have considered. Perhaps there is some functionality or an issue that you had not considered. For example, you might not have considered the need to provide implementation support to sales representatives in the field. A vendor who indicates that they'll be able to help representatives learn the new technology in remote locations might be very attractive.

Assessment and partner selection

The next stage is to assess the proposals and select one or more partners. This task is generally performed by an evaluation team formed for this purpose and reporting to the steering committee. Assessment is made easier if you have a structured RFP and scoring system. There are two types of scoring system – unweighted and weighted. An unweighted system simply treats each assessment variable as equally important. A weighted system acknowledges that some variables are more important than others. These are accorded more significance in the scoring process.

Evaluation and selection should involve more than just the written vendor proposals. Short-listed vendors should be invited to demonstrate their solutions in relevant scenarios. Vendors may be required to provide proof-of-concept for technical solutions such as e-mail integration or mobile synchronization. Finally, preferred vendors should be subject to reference checks. The results of all these inputs are then scored to support the final decision.

Phase 4: Project implementation

By now, you have developed the CRM strategy, built the CRM project foundations, specified your needs and selected one or more partners. It is now implementation time!

Refine project plan

The first step of Phase 4 requires you to cooperate with your selected partners in refining the project plan. Remember, this was originally defined without consideration of the needs and availability of your partners. You may find that your partner's consultants are already committed to other projects and that you'll have to wait. Your partners will be able to help you set new milestones and refine the budget.

Identify technology customization needs

It is very common that off-the-shelf technology fails to meet all the requirements of users. Some vendors have industry-specific versions of their CRM software. Oracle, for example, offers a range of CRM suites for banking, retail, public sector and other verticals. Even so, some

customization is often required. The lead developer, database developer and front-end developer, in partnership with vendors, can perform these roles.

Customization needs are typically specified using a gap analysis approach. The required business process is supplied to the vendor, who (after some preparation) presents how this process is supported in the software. Any gaps are highlighted for subsequent analysis and action. This continues until all business processes have been examined. The resultant gap register is then assessed, priorities are established and customization of their software and/or modification of the business process begins.

Customization raises problems of ownership of Intellectual Property that both vendors and clients will want to reslove. Vendors have invested millions, perhaps billions, of dollars to create, code, test and protect their product. The view of most software companies is that they will maintain the rights to any customized code and the right to incorporate it into future releases of the software. It is not unusual for a client's legal team to contest this position.

Prototype design, test, modify and roll-out

The output of this customization process will be a prototype that can be tested by users on a duplicated set, or a dummy set, of customer-related data. End-user tests will show whether further customization is required. Final adjustments to marketing, selling and service processes are made at this stage, and further training needs are identified and met. After a final review, a roll-out programme is implemented. In larger companies this often is a phased roll-out. For example, a new sales-force automation system might be rolled out first to the 'champions', those identified earlier as buying in both emotionally and rationally. A new service automation solution might be rolled out to newly acquired customers first, before the existing customer base is imported. The idea is to iron out any problems before company-wide adoption.

Phase 5: Evaluate performance

The final phase of the CRM project involves an evaluation of its performance. How well has it performed? Two sets of variables can be measured: project outcomes and business outcomes. Project outcomes focus on whether the project has been delivered on time and to budget. Your evaluation of the business outcomes requires you to return to the project objectives, your definition of CRM success and the business case, and ask whether the desired results have been achieved.

If your single goal was to enhance customer retention rates, with a measurable lift from 70 to 80 per cent, and this is accomplished then your CRM project has been successful. Congratulations! However, most projects have multiple objectives and it is common for some objectives to be achieved while others are not. Lead conversion by the sales team might rise, but lead generation by campaign managers might fall

short of objectives. A critical issue concerns the timing of any business performance evaluation. It can take users several months to become familiar with new processes and competent in using new technology. Periodic measures of business outcomes can be taken over time, to ensure that the programme outcomes are achieved. Ongoing training, timed to coincide with software upgrades, can enhance business outcomes.

Summary

In this chapter, you've learned about the five major phases of a CRM implementation, and the processes and tools that are used to ensure that CRM projects deliver what is expected of them. The key phases are:

1. Develop the CRM strategy
2. Build the CRM project foundations
3. Specify needs and select partner
4. Implement project
5. Evaluate performance.

CRM projects vary in scope, duration and cost, but it is always important to be clear about what business outcomes are desired and to measure the performance of the CRM implementation accordingly.

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