Why CRM

CUSTOMER RELATIONSHIP MANAGEMENT

DOESN'T WORK

How to Win by Letting Customers Manage the Relationship

FREDERICK NEWELL

FOREWORD BY **SETH GODIN**, author of *Permission Marketing*

Why Doesn't CRM Work? 1

Does the customer really want to be managed?

I'm not stupid. I read about what you guys call customer relationship management. Why doesn't it work for me? Companies ask for my preferences and I tell them what I want from them. Still, each offer is more meaningless than the last. Why doesn't your so-called CRM make my life easier?

MARKETERS HEAR THIS from so many customers that the question becomes, who's the enemy? Is the customer the enemy or was Pogo right: "We have met the enemy, and he is us"? Our customers are crying out for us to understand their individual needs. They tell marketers what they want, but we keep bothering them with irrelevant offers.

In the preface to *loyalty.com* (McGraw-Hill, 2000), my book about CRM and Internet marketing, I said: "CRM is now moving to the center of corporate strategy as a process of learning to understand the values that are important to individual customers and using that knowledge to deliver benefits the customer really wants and making it easier for the customer to do business with the company."

No one would question the fact that CRM has since moved to the center of corporate strategy. A Jupiter Media Metrix study reports that 74 percent of U.S. businesses spent more money on CRM infrastructure in 2001 than they did in 2000, with a majority increasing their spending by 25 to 50 percent. A Gartner Dataquest survey forecast that CRM services revenue would increase 15 percent in 2002.[1] A similar Gartner, Inc. survey reports 52 percent of respondents rated CRM as their highest business priority.[2] The same is true in Europe where a Cap Gemini Ernst & Young and Gartner survey of 242 senior marketing executives from 145 firms reports that 67 percent of respondent companies launched a CRM initiative between 1999 and 2001, and over one third consider CRM a top priority.

Taken together, what do these statistics mean? The acceptance of CRM has been confirmed. The enthusiasm for CRM has been proven. The investment in CRM has been quantified. But why have so many firms that have embarked on CRM initiatives failed to realize the kind of results they anticipated? In 2001 only one in five of all CRM solution providers actually realized a profit. As a group, solution providers lost $8.8 billion dollars, spending three dollars for every two dollars in revenue.[3] CRM has obviously not been the panacea many had hoped.

Is CRM Really About the Customer?

One reason CRM practice is at a standstill and why so many companies are failing to see a return on their CRM investment is that, because of its celebrity, the label "CRM" has been loosely (and often incorrectly) applied to anything that suggests customer-centricity. It is almost impossible to hear a common definition of CRM from industry experts, even among executives within the same company.

Some think CRM is a matter of technology. Some still believe it's just the process of segmenting customers. Some think it's a matter of selling efficiency. Many marketers still think CRM is just an advanced stage of database marketing—using your customer database to find which customers would be the right ones for a specific product offering. They don't yet understand that relationship building must start with an understanding of the customer's needs. They talk about "share of wallet" but fail to realize that you can't get access to the customer's wallet if you don't first have access to the customer's heart and mind. As our customer said in the beginning of this chapter, CRM ought to be about making her life easier. Do that first, and then you'll gain access to your customer's heart and mind.

CRM Practice at a Standstill

Industry consultant David Raab says, "Customer relationship management has now reached the awkward stage in its adoption cycle. The concept and its benefits are widely accepted, but few complete implementations are in place. What's lagging is CRM practice." It may just be that we're going about customer relationship management in all the wrong ways. Len Ellis, executive vice president of enterprise strategy, Wunderman, New York, says all the talk about CRM reminds him of what Voltaire said about the Holy Roman Empire:

> It's not holy, Roman or an empire. There's a certain degree to which CRM is not about the customer nor is it about relationships—at least not how it's practiced now. Marketing automation is fine, but it's not about the customer. Most marketing automation is about costs and speed. Selling efficiency is not about the customer, it's just about leveraging your resources. Value maximization, in terms of figuring out which of your customer segments are going to deliver the most top or bottom line, that's not about the customer. So a lot of the benefits that are claimed for CRM are really benefits that accrue to the enterprise, but have nothing to do with the customer.[4]

Handing Over the Car Keys

The fact that marketers must recognize the power of the customer is not a new concept. As far back as 1936 the American Marketing Society began publishing the semiannual *Journal of Marketing*. In the first issue John Benson, then president of the American Association of Advertising Agencies, talked about looking ahead after difficult days. Except for his outdated use of the personal pronoun, this excerpt could have been written today:

> As a form of commercial intelligence advertising must keep abreast of this fast moving world. One has to run pretty fast these days to keep from falling back.
>
> The depression undermined much that we had thought was solid as a rock. Seven lean and desperate years put all tradition to the test; billions of property lost; millions of people without jobs. Such a collapse could not occur without business itself being put to a drastic test. Our ideas of doing business have been challenged and are being weighed in the light of a new point of view as to what is economically sound.
>
> ...The common man is out for an equal chance to win; the buyer, be he large or small, wants full value for his money as much as anybody gets; and as you well know, the consumer is king.
>
> Perhaps hereafter we shall use less ingenuity in the way of fanciful appeal and more in finding out what people really want. The consumer himself is boss.[5]

Today new technologies have given even greater power and freedom to customers. Customers, not companies, control the purchasing process today by having access to more information, and having it in real time. The Internet has given them unprecedented research tools. A customer shopping for a car today may enter a dealership with more knowledge about models, options, and price than the salesman on the showroom floor may be aware of—if she hasn't already made the purchase on the Web. What does this mean for marketers? That we need even greater ingenuity in finding out what people really want—and giving them control—than we did sixty-some years ago when John Benson gave us this advice.

People are more comfortable when they feel they are in command. We see this in simple things. For example, when I feel the first sign of a cold coming on, I start taking cold pills. For some reason I don't feel comfortable with the promise of the extended twelve-hour tablet. If I use the four-hour version, I feel more empowered to control the dosage. In a similar manner, customers want to determine the channels and dosage of marketing they receive. In a recent Yankelovitch study of marketing channel use, the need to control channels was constantly in the background of consumers' responses.[6] Larry Kimmel, chairman and CEO of Grey Direct talks about this consumer desire for control, giving his belief why both direct mail and catalogs remain in such high favor with consumers, even though responding via telephone and online or e-mail channels requires less effort.

Direct mailings and catalogs can be viewed when convenient, or easily ignored by a customer. "They're controllable," Kimmel says. "In the phone situation there is a possibility of being talked into upgrading. Some consumers don't want to engage in that."[7]

Moving Toward CMR

Customers have shown they don't want to be hunted like prey. They don't want to be managed; they just want companies to make their lives easier and less stressful. They're not removing their names from mailing lists for defensive reasons. Rather it's an offensive lifestyle management tactic aimed at reconfiguring and improving—not severing—their connection with marketers.[8]

The time has passed for customer relationship management, which has been trying to make business better for the company. It's time to recast the discipline of CRM as one of greater customer empowerment. Customer management of relationships (CMR) makes doing business better for the customer. As a business strategy, CMR requires management change, not change management. CMR also requires operational and process changes that will allow the company to respond to individual customer's needs. Within your enterprise, CMR will touch every business and cultural area, every human relationship, and every technology.

CMR is not about launching yet another campaign, and it is not about formulating one more promotion. It is much more, even, than the sum of database marketing, targeted advertising, collecting information about customers, and offering new services. It is about creating an experience, personalizing the interaction with individual customers in ways directed by the customer, and thereby developing relationships.

Paul Greenburg, executive vice president of LiveWire Inc., talked about this customer empowerment in *CRM at the Speed of Light:*

CRM	CMR
The company is in control	The customer is in control
Makes business better for the company	Makes business better for the customer
Tracks customers by transaction	Understands customer's unique needs
Treats customers as segments	Treats customers as individuals
Forces customers to do what you believe they'll want	Lets customers tell you what they care about
Customers feel stalked	Customers are empowered
Organized around products and services	Organized around customers

Capturing and Keeping Customers in Internet Real Time (McGraw-Hill, 2001): "What is empowering is not forcing customers to do anything they don't want. Let the customers tell you what they care about." The new CMR is a process of turning power over to the customer: allowing the customer to tell us what she's interested in and not interested in, what kind of information she wants, what level of service she wants to receive, and how she wants us to communicate with her—where, when, and how often.

And customers will tell us what they care about. According to a 2001 survey sponsored by Teradata, a division of NCR, 80 percent of Americans are willing to share personal information with companies if it means getting more personal service. Sixty percent of those surveyed said companies that provide personal offers combining online and offline information about their shopping preferences offer an advantage that "makes life easier."[9] But customers will be disappointed if they never see a benefit from the information they give. If you are asking customers for sensitive information and aren't putting that information rapidly to use to make their lives easier, stop asking those questions. Collecting information that may some day prove useful is not just bad CRM; it is the opposite of what CRM should be.

Updating the Concept

Corporate boards have been swept away with enthusiasm for CRM because customer relationship management appeared to meet three of business's fundamental needs:

1. Understanding customers' buying behavior for better targeting of offers
2. Spreading customer information across the enterprise to allow customer-facing personnel to be more efficient
3. Creating greater operational efficiency to reduce expense

CRM still meets the three fundamental needs listed above, but the model has lost its luster. Companies that have failed to achieve benefits from CRM are beginning to realize their efforts have failed to meet the fundamental needs of the customer. David Bradshaw, an analyst at Ovum, likens CRM to a fashion industry. "Last year it seemed that CRM was all the rage. It was the hottest solution and companies spent millions to get a piece of it. Now, about one year later these same companies have a high-priced outfit that barely fits. But I tend to agree with the analysts, authors, and other industry pundits—CRM is not an outdated leisure suit. It's merely stumbled on the catwalk and with a little time it will prove to be as essential as the little black dress."[10]

Fulfilling Bradshaw's forecast will require more than just a little time. It will call for a re-examination and re-evaluation of the CRM concept. Finding ways to empower the customer in the adoption cycle of a new CMR suggests a reappraisal of objectives. Companies that started CRM efforts to improve efficiency are now looking for ways to increase effectiveness. They are seeking new ways to do the right thing rather than just doing things right.

Common Causes of Failure

Before starting on the new journey to CMR it will be a helpful exercise to review some of the causes of companies' failures to achieve benefits from existing CRM initiatives. Though the goal of the new CMR takes relationship building to a new level, the process relies on many of the same disciplines required for the old CRM, and we can learn a lot from past failures.

Too often executives want these initiatives deployed quickly and broadly because they want to see a prompt return on their investment. They see CRM as an easy solution to their business problems. It is only after the initiatives begin to unfold and become tangible that these individuals begin to realize the gaps in their expectations.

It's Not About the Technology

Sure, CRM means obtaining customer information, understanding what different customers are worth, treating different customers differently, and improving efficiency. But none of these goals should define the route to success.

In 1998 three professors, Susan Fournier, Susan Dobscha, and David Glen Mick, wrote an article called "The Premature Death of Customer Relationship Management." They said in part:

> Companies profess to do relationship marketing in new and better ways every day. Unfortunately, a close look suggests that relationships between companies and consumers are troubled at best. When we talk to people about their lives as consumers, we do not hear praise for their so-called partners. Instead, we hear about the confusing, stressful, insensitive and manipulative marketplace in which they feel trapped and victimized. Companies may delight in learning more about their customers than ever before and in providing features and services to please every possible palate. But customers delight in neither. Customers cope.[11]

In the four years since that article appeared little has changed. One of the reasons that so little has changed is that businesses continue to try to implement CRM as a technology, not as a marketing practice—a one-dimensional exchange of money for goods that one writer described as luring marketers ever further down a cul-de-sac. This is, all too often, due to the automation of obsolete processes and people believing that technology alone can change results without having to change what they really do or what they really believe.

For results to change, there needs to be a change in the process and the philosophy behind it.

The Challenge of Management Culture

In many companies, product-based management is so entrenched in management culture that the switch to anything different is a significant challenge. More than half of CRM failures have been blamed on the challenges of company politics, inertia, and implementing organizational change—not software and not budgets.

A study by CRM-Forum detailed the significance of nine different causes of failures for CRM initiatives:[12]

Organizational change	29%
Company politics and inertia	22%
Lack of CRM understanding	20%
Poor planning	12%
Lack of CRM skills	6%
Budget problems	4%
Software problems	2%
Bad advice	1%
Other	4%

None of these causes suggests external reasons for CRM failure. With 29 percent of failures caused by problems with organizational change, it's clear that the most difficult step for customer-based initiatives is the cultural change required.

In most companies, parts and pieces of the customer information base are sequestered in separate departmental silos, and department heads can be like tribal chieftains. The marketing tribe has its culture, IT another, and financial, operations, merchandising, human resources, and product managers still more. Turf wars have been the undoing of CRM, and will prove to be even more of an obstacle for CMR initiatives.

Remaking a company to be genuinely customer-centric is new and uncharted territory for many, and as with anything new, there is always resistance to change. CMR requires new ways of thinking for everyone. It's not something that can happen in a vacuum; it will affect the whole business. Companies must encourage the exchange of information, not just with customers but within the enterprise, yet it has been reported that only 5 percent of investments being made into CRM are going toward change management.

Sounds easy, and might be were it not for politics. In companies, politics polarize people and groups as people feel they may lose power, or even their jobs. Change often forces people to regress to what they know, and protect what they have always been comfortable with.

CRM Misunderstood

Even when companies survive the challenges of organizational change, company politics, and inertia, another fifth stumble on their understanding of what CRM is all about. Some think it's all about technology and fail to align technology with strategy. Some think it's all about targeting customers and customer groups for special offers. They see CRM as a simple matter of capturing names and addresses and linking this identification to customer transactions to cross-sell and up-sell. They don't understand the importance of the customer in the process. META Group has reported that many of the CRM initiatives in the largest companies are in "serious risk of failure" because few are using applications that enable proper collaboration with customers. Gartner Group reports that although CRM will remain a key initiative within many enterprises, 65 percent will fail "to align senior executive, IT, management, functional/departmental management and customer outcomes."

Lack of Planning

Poor planning is often the result of fuzzy strategy. The first question a focused strategy must address is who are the right customers for your business. Who are the customers that can provide you with the business rewards you need to grow, and which are the ones you can successfully serve? Where can you find them and what activities will you require to capture and keep them? Can you align CMR with your profitable growth objectives and company goals?

Goals are the broad statements about what you want your company to be when it grows up. Objectives are the specific measurable actions that will support your strategies. Financial objectives might include: increase incremental revenue, reduce operating costs, improve profitability, and provide a quantifiable process improvement. Sales and marketing objectives might include: increase sales and marketing efficiency and effectiveness; increase average customer purchase dollars; increase customer purchases; increase number of products per purchase; increase customer profitability; increase customer loyalty, retention, and lifetime value; and gain and sustain competitive advantage. Specific objectives translate the larger goal into measurable tasks. For example, if the goal is retention, the specific objective might be to reduce attrition by 15 percent in the most profitable customer segment.

Poor planning affects the company's view of its interaction with customers and increases the opportunity of implementing an initiative that addresses the wrong issues. Planning for CMR must be based on creating new initiatives that will make doing business better for the customer. As you will see in Chapter 18, CMR planning includes taking small steps to reach the larger goal. The only good thing that can be said about poor planning is that without a strategy and a plan, failure comes as a surprise, saving you fear and worry.

Lack of Skills

The lack of CRM skills is understandable. Sales managers, product managers, sales personnel, and others interacting with customers have all grown in their jobs selling whatever the company wants to sell to as many customers as possible. Many companies are creating sophisticated customer relationship management technology without realizing that such sophisticated tools require sophisticated users and that their users will need training. For CMR they must develop new skills to create offerings based on customer needs and to develop customer-centric service strategies—a giant leap. To make the leap successfully, the right tools must be in the hands of line-level personnel who have been trained to use the tools for the customers' benefit.

A recent study of 400 CRM implementations worldwide concluded that 25 percent of the explained variation between successful and unsuccessful CRM initiatives is due to variations in line-level training and support.[13]

Inadequate Budget

Budget problems are only 4 percent of the causes of CRM failure. Six or seven-figure budgets, multiyear implementations, and swelling IT staffs are not inevitable. A study by the Seattle, Washington–based Data Warehouse Institute shows that 13 percent of companies surveyed spent over $10 million on CRM solutions, but 40 percent spent less than $500,000 and 16 percent of the companies studied are spending under $100,000 to realize measurable benefits.[14]

Inefficient Software

So much progress has been made in recent years that we now see the software issues as a very small part of the challenge. Still some failures come from companies asking the in-house IT team to reinvent the wheel—creating a proprietary query tool that often ends up as an extension of transaction processing and fails to provide the analysis and intelligence that deliver the real value. With so many tried and true solutions available in the market today, good out-of-the-box programs exist for companies of almost any size. The few software problems we see today are not coming from faulty software but are a result of attempting to automate faulty processes. Most often it's the process that needs to be fixed, not the software.

CRM-Forum's Richard Forsyth likes to say, "If a company's fundamental premise is that the customer is a bleeding nuisance, then all the software packages in the world are not going to improve the situation. All that's going to happen is that the lousy customer service stance will become more automated so that companies can be indifferent to their customers more easily."[15]

ROI Expectations

There are more than enough elements with which to build an ROI (return on investment) model: incremental improvement in "share of wallet," customer retention, increased margin, or expense savings. Telecom companies will want to reduce customer churn that can be up to 40 percent, and to sell more data and other communication services. Financial services companies will want to cross-sell more products, and reduce transaction costs. Insurance firms will want to increase customer retention. Retailers will want customers to increase their basket value. Yet, a study that interviewed CRM heads at fifty companies reported that 90 percent of them have no ROI model in place.[16] This may be because so many CRM vendors tout their solutions as "plug and play." In any event, the lack of measurable metrics—a lack of definition of what return on investment is expected—established at the start has been the cause of many failures. The importance of establishing metrics for the ROI model is discussed in detail in Chapter 17.

Lack of Commitment

Without a solid and total commitment from the most senior management, any CRM project will fail. The company must change its core strategy to focus on customer-centricity if the shift is to be made to customer control. This means the program must have a dedicated senior executive with the strength to sell the program throughout the organization as its champion, assuring the company's commitment.

Profit from CMR will grow over time. CMR will require patience and a belief in the durability of the customer-centric concept. Without a champion to sustain this belief, the project will fail.

A Look at CRM Initiatives

Companies in almost every industry are trying to use customer information to manage relationships. The proliferation of loyalty programs is one example. More recently the ease of customer communication through the use of e-mail has spawned a torrent of attempts to develop what some marketers consider CRM dialog. Few of these efforts have been developed with an understanding of their CMR potential.

Loyalty Programs

The airline industry provides the best and the worst examples of current initiatives. It introduced the concept of loyalty cards long before anyone talked about CRM or database marketing. When American Airlines launched its AAdvantage Program in 1981 the term *frequent flyer* was born and loyalty marketing was changed forever.

In the earlier days of the airlines' loyalty programs, American and United and the others who soon followed tracked little more than flight miles customers could accumulate for free award flights. Over the years as they have captured more and more knowledge about their millions of customers, the airlines have adopted the fundamental rules of CRM:

- Obtain individual information about customers
- Understand what different customers are worth
- Treat different customers differently

They have done this in outstanding fashion with the creation of valuable perks for the best customers. This year I will complete five million miles with American Airlines, and American knows it. Like other Executive Platinum AAdvantage members I get to board early while there is still room in the overhead for my roll-a-board, and I get frequent upgrades. I save time at check-in with the Executive Platinum line, and since 9/11 American has added VIP Executive Platinum lines at the security checkpoints at some airports.

Beyond Executive Platinum status my multimillion-mile history earns special surprise gifts sent personally by Michael Gunn, American's senior vice president of marketing: ice-cream toppings, interesting books, even crystal glassware from Tiffany, all greatly appreciated. This is neat stuff and certainly indicates American's desire to manage customer relationships (CRM), but it's not yet customer management of relationships (CMR).

As beguiling as these perks are, they have not been personalized. All Executive Platinum members get the same early boarding and upgrade privileges, and it is safe to assume that whatever percentage of flyers are selected for the special gifts, they all receive the same books and glassware. Going one step further—with CMR—would mean delivering services that address my personal desires. I enjoy a drink now and then on long flights, but I don't care for Bombay Sapphire or Tanqueray. How thoughtful would it be for American to stock Beefeaters, my favorite gin, when they know I will be on a flight, just as they already can provide me with a vegetarian special meal? Or for them to include the current issue of *Yachting* magazine aboard my flights because they know I am a sailing fanatic.

Please believe me, I'm not picking on American Airlines. My flying experience makes me believe American Airlines is the best. I've logged over a million miles on several other airlines and they, too, offer perks that show me they are treating different customers differently. But the industry's customer differentiation is still designed around their product and their services, not around individual customer needs. Customers don't want to be treated equally. They want to be treated individually.

It's as if companies believe the technologies that allow them to capture customer data will allow them to change results without having to change what they do. They haven't, yet, invited customers to be part of the process, understanding that the customer can add value to the product.

They ask if I'll need a rental car (a purely generic offer). Why can't they know my limousine preference and book my limo right along with the flight? Why can't they know my first hotel choice is Hilton and offer to reserve my preferred room near the elevator as part of the airline reservation—maybe even include the wake-up call? In the true sense of CMR, they should be able to allow me to manage my complete travel experience, with their help, with a single phone call or mouse click. Some could argue that this is asking the airlines to function as travel agents. Since all of the airlines have now reduced or, in many cases eliminated, travel agents' commissions, forcing agents to charge service fees, perhaps the airlines could even add a small charge for this extra customer service. As the

Teradata survey indicated, customers would be willing to answer questions and give personal information in order to get these more personalized services.

This is the magic of bringing the customer into the process to help manage the relationship—added value for the customer and added value for the company. The customer's life is made simpler and the company develops new revenue streams.

E-Mail

I really shouldn't pick on the airlines when there are firms in many other sectors that are worse offenders. I don't spend as much at Neiman Marcus as I do with the airlines but I do have a relationship with them. When I open my e-mail in the morning I really don't care about the "new sunny looks" from the N/M resort collections. I don't think any of the hot swimwear, straw totes, fresh fashions, or romantic sandals are right for me. I wonder why someone at Neiman's thinks they are, and wish they would ask me what I am interested in.

There are folks who do just that. And some do it badly. For example, one bookseller I deal with sent the following request:

> Hello, Fred Newell
>
> Hmm. We were unable to find any titles to recommend after looking at your purchase history.
>
> Help us create useful recommendations for you by telling us about your interests with the Recommendations Explorer.

I did what they asked, and the next screen said,

> WELCOME TO
> Your Recommendations

> Exploring products or interests that you are familiar with and clicking "I own it" or "not interested" will help us generate recommendations personalized for you. To refine your results, click "more like this."

I did exactly as they asked, checking off my preferences for several categories of business books and some on sailing. I have gotten several offers since that dialog but all have been offers for Tea of the Month, *Snow White and the Seven Dwarfs*, *The Mummy Returns* DVD, *The Best of Martha Stewart Living*, and the latest Diana Krall CD—none of which match preferences on my list!

For all their good words about wanting to create useful recommendations for me, this company is not letting me manage the relationship. They still come across as trying to do more for their sales curve than trying to do more for their customer. If they are asking customers for sensitive information and aren't using that information to the customer's benefit, they should stop asking those questions.

It Won't Be Easy

If all of this sounds like CMR is hard, that's because it is. The problems inherent in implementing a customer relationship management project pale in comparison to the challenge of achieving benefits from customer management of relationships. It's a giant step from CRM with its goal of making business better for the company to CMR, trying to make life better for the customer. It will require a clear understanding of what CMR is and a willingness for companies to change the ways they interact with customers.