



CRM in a Down Market

What you do next will determine your market share

Vince Kellen

*Adjunct Faculty, DePaul CTI
President, CRM Strategy, Blue Wolf*

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Agenda

1. What is CRM?
2. War stories
3. Strategies for a down market



What is CRM?



What is customer relationship management (CRM)?

A business strategy that seeks to improve the company's profit and revenue generating ability by better understanding its customers and delivering value to them.

A shift away from product-centrism towards customer-centrism.



The universal conservation of value theorem

$$CV = BV$$

Customer Value (Independent Variables)

Implicit

- Brand values
- Customer service
- Price
- Quality
- Information
- Value added services

Explicit

- Transactional behavior
- Recency
- Frequency
- Monetary value
- Product breadth



Business Value (Dependent Variables)

Revenue / Profit Growth

- Increased Share of Customer
- Increased Customer Lifetime Value
- Improved Customer Retention and Loyalty

Increased Operational Efficiency / Effectiveness

- Reduced customer acquisition cost
- Communication Channel Mix Efficiency
- Maximized cross-channel / cross-product synergy

Product / Service Innovation

- Customer insights, new product ideas



CRM components

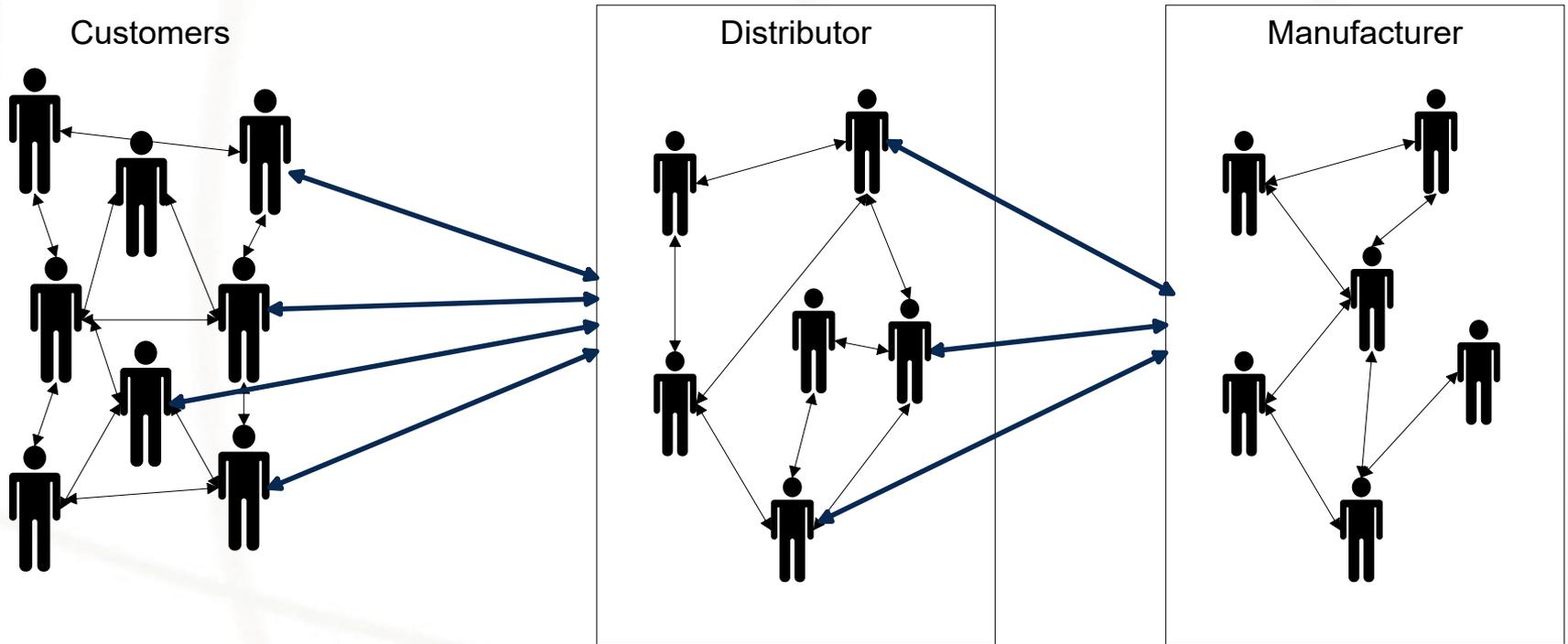
- R&D
 - Product and service design
 - Customer research
- Marketing
 - Marketing automation
 - E-Marketing
- Sales
 - Sales force automation
 - Call center – sales
 - E-Sales
- Service
 - Field service
 - Call center – service
 - E-Service (web, email, chat, IM)
- Analytics
 - Data warehousing, OLAP, ETL, MOM
 - Data mining, statistics, AI



LARGE PROBLEM



How is CRM bounded?



1. Marketing (broadcast, targeted, 1:1)
2. Customer service, field service, sales force, call centers
3. Community management
4. Supply chain management, partner relationship management
5. Demand chain management
6. Business process design, organizational development
7. Knowledge management/collaboration

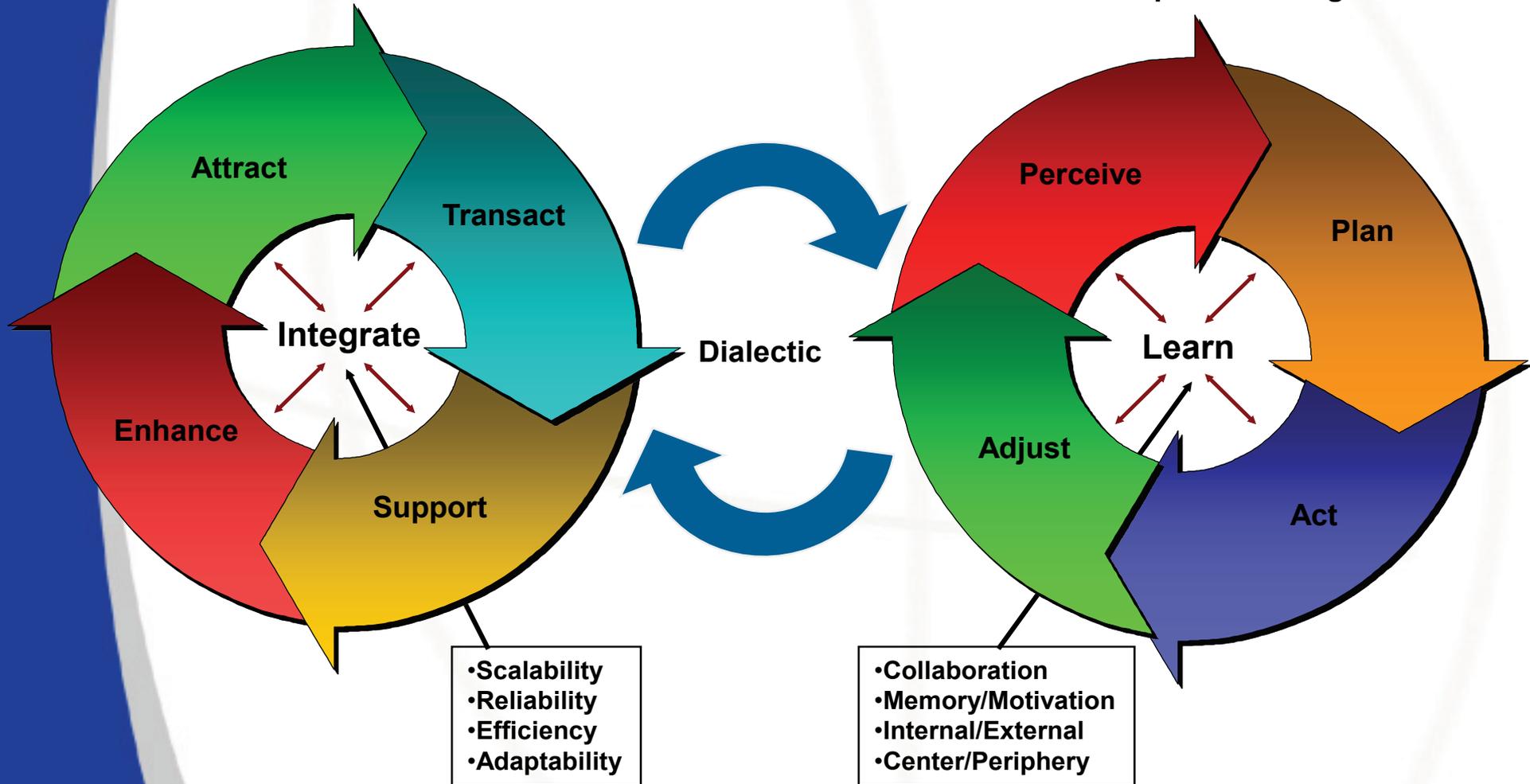
Understanding human behavior is key!



Another look at CRM

Interaction Management

Business Response Management





War stories



Beware the tar pits...

- More than 50% of all CRM implementations through 2006 will be viewed as failures from the customer's point of view. *Gartner, Sept. 2001*
- Of 25 kinds of popular management tools, CRM was ranked in the bottom three in terms of management satisfaction. *Bain's 2001 survey of management tools.*
- CRM costs between \$60 and \$130 million and takes about 24 months to implement. *Avoid the Four Perils of CRM; Rigby, Reichheld, Schefer; HBR On Point.*
- “Companies are shying away from the CRM acronym all together,” Jill Dyche, author of “CRM Handbook” interviewed by CIO magazine.



One glaring trend... Growth for CRM!

- CRM spending likely to rise 15% in 2002 and 86% between 2002 and 2006, according to Dataquest, Inc.
- CRM revenue is forecast to increase at a compound annual growth rate of 19.9% percent through 2005, according to Aberdeen.
- AMR research shows a 16% growth in world-wide CRM market in 2003
- A survey of 150 executives by Accenture revealed that customers are the number one priority this year.
- More U.S. businesses will spend \$500,000 or more on customer relationship management (CRM) technology (26%) 2002-2003 than they will on other large-scale infrastructure initiatives such as supply chain management (19%) and content management (23%), according to Jupiter Media Metrix.
- Microsoft... Microsoft... Microsoft...



Current constraints

- Large scale and long time horizon implementations are in question
- Vendor market downturn, mergers and acquisitions
- Organizational impact is a concern
- Provable ROI. Speculative payoffs are off the table
- Some think CRM means “Can’t Really Measure”
- Converting traditional marketing to 1:1 concepts can be difficult
- Multi-channel integration, especially service, is a technical hurdle



Why is CRM hard?

- **Dynamic complexity**
 - Increasing marketing efficiency requires more sophisticated models
 - Information changes customer behavior (e.g., retail furniture)
 - Business have complex, evolving or quickly changing structures
- **Fragmentation**
 - Customers exhibit multiple personalities. Predicting behavior is hard
 - Businesses also have split personalities. Presenting a unified, coherent front is difficult. Customers are good at detecting a company's fragmentation while mastering their own. Are businesses?
- **Uncertainty**
 - Changing market conditions, new competitors, technology advances
 - Market transparency can remove value from friction-laden sectors
 - Customer defection can occur very quickly



Imagine a bike race...





Strategies For a Down Market



Two approaches

- What most do
 - Batten down the hatches and stop all spending
 - Hold all decisions
 - Pull back on training and learning
 - Look for cost savings
- What the confident and brave do
 - Exploit relationships
 - Aggressively prey on weaker competitors
 - Look for market share growth
 - Enhance market/customer-sensing capabilities



The best strategy

- During the upswing, companies should have invested in sustainable, long-term relationships with customers.
 - Avoid slash and burn customer acquisition binges
 - Avoid corporate mergers and acquisitions that alienate customers
 - Improved customer retention and satisfaction
- Where would these companies be today?
 - Perfectly poised to compete in a down market



Customer relationships – what are they good for?

Relationship marketing versus traditional acquisition based marketing

- Fact 1: Relationship marketing is one of the fastest, cheapest marketing techniques
- Fact 2: Relationship selling is a source of long-term selling advantage



Two forms of CRM ROI

1. Automate calories and standardize processes (cut costs).
2. Improve the business' ability to respond to dynamic market conditions through the use of knowledge (increase sales).
 - Acquire customers
 - Retain customers longer
 - Sell more to existing customers

*Which is more important in a down market?
An up market?*



What are we missing?

- Some are arguing that adopting new customer relationship management techniques now, in a down market, is a smart move. Why isn't it ripe for an up market?
 - CRM, when done incrementally uses cash more efficiently? Wouldn't this help in an up market when cash to fuel growth is an issue?
 - Relationships are a source of short-term and long-term revenue. Building relationships is like planting bulbs: they will bloom later.



What's at work in a down market

- Two basic effects of a down market:
 1. The ability to conserve cash is stressed. Efficiency weaknesses (cost of capital, operational efficiency) become more apparent.
 2. Your market share relative to your competitor can change more quickly. This is accelerated by #1
- Down markets remove weak companies from the playing field. Strong companies have strong relationships with their customers. This “annuity” or “rent-generating” asset conserves capital at the expense of competitors.

This gives the “illusion” that CRM (especially incremental CRM) is good in a weak market. The reality is the seeds for CRM in a down market are sown in an up market. CRM is a universal strategy that works in both up and down markets.



Your mileage will vary...

- In deciding your strategy, consider the following:
 - How many bona fide “new” customers are out there?
 - How many customers can you “steal” from competitors (defection, switching)
 - How many of your customers are being “stolen” (defection/switching) by competitors/substitutes?
 - What is your share position in the market?
Leader? Small player?



So what should we do in a down market?

The same thing you would do in an up market!

- Proceed incrementally and adaptively, including with technology
- Continual improvement: apply what you learn to future iterations
- Short time frames for all solutions
- Strong focus on correlated measurement
- Attention to culture, motivation, communication
- Relentless focus on what *creates both business value and customer value*
- Carefully plan for and monitor the business value extracted. Don't assume it all comes quickly



CRM Critical success factors

- Executive leadership
- Bite-sized chunks
- Understanding clearly what customers value
- Integration of data
- Collaborative culture
- Strong measurement skills
- Continuous improvement

Sources: Gartner, Jill Dyche, CRM Daily, IntelligentCRM, Meta Group



Even if you had all the money in the world...

Would you “do” CRM any other way?

- Would you spend more money instead of thinking smartly?
- Sooner or later, if you don't think smartly, you may run out of money!



Imagine a car race...

Just ahead there is a big crash. Cars are careening everywhere. What do you do?

- Brake hard, swerve and hope you don't get taken out?
- Find a hole in the wreckage and punch through it?



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The truth is out there!

