Opportunities for Action in Consumer Markets

The Antidote to Mismanaged CRM Initiatives

THE BOSTON CONSULTING GROUP

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Most companies don't know who their best customers are. They enjoy the profits that accrue from those customers, but they don't take full advantage of the information generated in the transactions. Customer relationship management (CRM) can remedy that situation by helping companies use their data to increase the profitability of individual customers, one at a time. Done right, CRM radically transforms customer relationships and expands the business. It helps companies concentrate on the small group of customers who contribute a disproportionately large share of revenues. Successful CRM is about focus, understanding, and the surgical strike.

Unfortunately, most CRM efforts fail. Typical initiatives start in the IT department with high hopes and expensive software but very little in the way of clear business objectives. Once the projects are under way, they are delegated, dissected, and then neglected. It's not surprising that two-thirds of them crash. In many companies, CRM is the fastest-growing segment of IT spending. Yet because of the way most programs have been conceived, they carry as much risk as the enterprise resource planning (ERP) software that proved so disappointing a few years ago.

We believe there is another way to approach CRM. It calls for CEO involvement and senior management direction. It requires an understanding of customer economics, a plan for capturing a greater share of customers' purchases, a focused process from pilot to launch, and a sequence of manageable modules. When it is executed correctly, CRM helps companies establish clear hurdles and checkpoints, as well as generate creative insights to increase the value of the best customers.

An Approach That Works

Successful CRM programs start by gathering such information as

- the net present value of each customer segment
- the cost of serving each segment
- the opportunities for increasing the value of each segment
- the levers available to tap those opportunities

In addition, companies need to develop rigorous metrics for customer acquisition and retention, and for cross-selling opportunities. The objectives are to set goals that the company can achieve and then to extend those wins to other customer segments.

To prove the value of CRM, the first wave of activities should be technically simple yet productive. After companies have established realistic financial projections and goals, they can begin with a modest IT budget to capture the most accessible opportunities. Most important, they should refrain from launching generic programs with indefinite goals, such as "improving our customers' experience."

Once CRM is set in motion, all interactions with customers are touch points for learning more about their unmet needs. The best pattern, we have found, is to build, launch, and improve, and then build, launch, and improve, rather than spend months in preparation before an initial launch. CRM begins with small investments and then leverages financial gains and insights to fuel further product development and marketing.

Finally, senior managers must get onboard early, and line managers and functional heads should be ready to collaborate and share services, as well as manage timelines, checkpoints, and hurdles. As the program continues, each iteration should pay for itself in only 6 to 12 months. Eventually, a company can expect to increase its return on investment at least ten times over. Companies that approach CRM as a process and not an isolated effort understand that they are embarking on a journey of at least five years that will lead to dramatic gains in market share and profitability.

CRM at Work

To appreciate how a well-run CRM program can produce results in a relatively short time, consider the experience of a national sporting-goods retailer we have been working with. The company had been running its three customer channels—catalog, Web site, and store—as separate business units and had not been actively tracking its customers. The senior managers believed they served their “average” customer only once or twice a year. But the team that dug into the customer files found that 20 percent of the customers accounted for 85 percent of the sales volume and more than 100 percent of the profits, considering that some customers are a drain on profits. These best customers ordered more than once a month and bought from six categories of merchandise.

The company's goal for CRM was to develop an integrated, cross-channel view of its customers in order to increase their lifetime value. The first step—establishing a database to see how customers behave in various channels—yielded a number of important insights. The company found that customers who buy through all three channels not only produce the most profits but also spend two to five times more than customers who shop through only one channel. The most profitable customers also have the greatest regard for the brand and can speak with authority about category performance, service quality, and appropriate inventory levels. Our client also found that its best customers were purchasing only half of their category needs from the company.

Armed with these findings, the company issued its first business objectives for CRM:

- Increase customer spending through cross-channel and cross-category programs
- Strengthen marketing programs
- Improve the ease with which customers move across channels
- Focus on understanding the best customers
- Change the game from prospecting for customers to managing relationships with the best ones

Important insights into customer behavior surfaced within a few months, but encouraging customers to change their behavior will take considerably longer. Companies tempted by the 90-day miracles that some CRM programs promise are certain to be disappointed. Our approach will generate significant improvements in only a few months, but large-scale change requires more time.

So far, our client's pilots indicate the likelihood of a greater than 1,000 percent return on investment in the first targeted segment. Over the next three years, the CRM initiative is expected to contribute 8 points to the company's sales-growth rate and deliver a cumulative increase in profitability of more than $300 million.

A Winning Approach to CRM

Our approach to CRM begins with strategy—not technology—and focuses on customer economics and business objectives. It entails the following three steps:

Audit and Strategy Design. Review existing CRM efforts to determine the additional capabilities the company needs, the rate of spending required, and the expected gains.

Program Design. Analyze the economics of customer segments. Assess customers' needs and purchase drivers, and untapped sources of value. Prioritize opportunities; identify appropriate levers, metrics, and milestones; and establish a time frame for results.

Pilot Implementation. Create a plan for launching a pilot or redirecting current initiatives. The pilot should incorporate best-practice learning from past CRM work in such areas as data mining, direct marketing, channel orchestration, sales force automation, and customer service.

To ensure that the above steps are carried out successfully, companies must develop two platforms before launching their programs:

Systems. Despite what many vendors promise, the ability of CRM software to offer end-to-end solutions is still years away. To avoid software quagmires, companies should first establish IT requirements for data storage, analytic systems, and various customer touch points. Instead of "global" CRM efforts, companies should focus on one or two components at a time, such as sales force automation, marketing campaigns, or customer service. This is the only way to make sure that new systems are fully integrated with current ones within a reasonable time.

People. The soft side of CRM must not be underestimated. Before companies start a CRM project, they should bring current organizational structures up to speed, align incentives, and establish a training program for employees who deal directly with customers. Such steps are particularly important for multichannel retailers in companies with many divisions, as well as for companies that offer multipoint services. Unless all service reps and more than half of a company's customer reps use the CRM tools, the program will fail. Finally, organizations must decide what the role of the center will be, how it will enhance cross-divisional cooperation, which parts of the organization will pay the costs, and which ones will get credit for improvements.

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The trick in this business is to understand everything there is to know about market segmentation and customer value, and then envision a new way of doing business. As one of our clients put it, "If you don't do that, you're just putting lipstick on a pig."

A successful CRM program is dedicated to the 20 percent of customers who drive 80 percent of the business. Companies shouldn't let horror stories about failed efforts scare them away or delay their decision to start CRM. There's a genuine first-mover advantage in getting the best customers to give you a larger share of their business. CRM is a huge opportunity for a committed company with the right approach—and a huge problem for its competitors.

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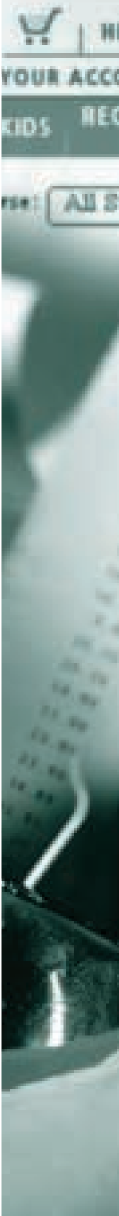

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