Chapter 3:
Strategic CRM
Overview

Topics discussed:

- CRM perspectives
- The components of strategic CRM
- Steps in developing a CRM strategy
- Case Study: CRM implementation at International Business Machines, Inc. (IBM)
CRM Perspectives

**CRM at the functional level**
- Set of processes to execute marketing functions like sales force automation or marketing campaign management

**CRM at the customer-facing level**
- Set of activities that provide a single-view of the customer across all contact channels
  - Customer intelligence obtained is available across all customer-facing functions

**CRM at the organizational level - strategic CRM**
- Knowledge about customers and their preferences have implications for the entire organization
Strategic CRM

- Successful strategic CRM is a complex set of activities that together form the basis for a sustainable and hard-to-imitate competitive advantage.

- Strategic CRM shapes interactions between companies and customers to allow the maximization of customers’ lifetime value.

- Recognizes differences between customers with respect to their economic value to the firm as well as their expectations from the firm.
Components of CRM Strategy

1) Customer-management orientation

2) Integration and alignment of organizational processes

3) Information capture and alignment of technology

4) CRM Strategy Implementation
Customer Management Orientation

- Defined as the set of organizational values, beliefs, and strategic actions that enable the implementation of customer management principles

- Characterized by a top management belief and commitment that the customer is at the center of activity

- Recognizes that customers are heterogeneous in needs and value to the firm and reflects a readiness to treat different customers differently

- Considers the fact that a longer-term view of revenues from customers needs to be taken into account
Case Study: CRM Business Model - Capital One

Capital One in Falls Church, Virginia, one of the fastest growing financial corporations in the U.S., was founded in 1988 and has witnessed phenomenal growth. How?

- Business model founded on the premise that
  - Every customer carries a specific and unique credit risk and potential revenue profile, which determines his risk-return profile from the company’s point of view
  - The better the company can understand and assess a customer’s specific risk, the better it can manage it
Case Study: CRM Business Model - Capital One

- The better the company understands the customer, the more it can tailor its products to his needs

- Thus, low risk and high returns for the company on the one hand, and high satisfaction for the customer on the other hand can ideally go hand in hand

- Management and employee evaluation is, amongst others, tied to customer retention and customer profitability measures
Integration and Alignment of Organizational Processes

- Comprises organization wide creation and synchronization of processes and systems enabling the implementation of customer management principles

- Firmly incorporates needs of the customer and goals of the firm into product and service delivery

- Strategic CRM works best for organizations that are organized around cross-functional processes rather than functional silos
Integration and Alignment of Organizational Processes

- Characterized by an understanding that **value provided to target customers** should be what drives all processes.

- Individual processes work in sync with common goal of **attracting and retaining target customers**.

- **Customer management** compatible **incentives** drive employee and organizational goals simultaneously.

- Processes are designed in such a manner that they **automate a feedback**.
Inter-functional Alignment Example: Capital One

- Strong alignment of organizational processes with the customer-focused strategy forms the backbone of CRM success
- The “Operations Department” cooperates closely with the “Marketing and Analysis” department in the new product introduction process
- Information on customers used to craft strategy is obtained from the front-end people
- Information from “Operations” is used to improve the NPV (Net Present Value) models that serve as decision-making aids
Information Capture and Alignment of Technology

- Comprises all necessary technology and processes to collect, store, and process relevant and timely customer information
- Characterized by the capability of leveraging data to actionable information
- Makes customer management processes not only more efficient but also more effective
- Helps to create entirely new processes and channels based on online and mobile applications
- Firms that are able to generate intelligence and act on it will derive a competitive advantage
CRM Implementation Matrix

<table>
<thead>
<tr>
<th>Management Dimension</th>
<th>Customer dimension</th>
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<tbody>
<tr>
<td></td>
<td>Acquisition stage</td>
</tr>
<tr>
<td></td>
<td>Growth and retention stage</td>
</tr>
<tr>
<td></td>
<td>Decline and exit stage</td>
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</table>

Each cell in the matrix corresponds to a specific implementation activity or process

Customer dimension: captures influences of changing phase of a customer-firm relationship

Management dimension: constitutes analytical and operational aspects of CRM
Characteristics of Marketing-Driven CRM Implementation

- Activities and processes that constitute **analytical** CRM
- Activities and processes that constitute **operational** CRM
- A firm’s ability to understand the **value of the customer** to the firm and the variety of needs different customers have
- An **acquisition and retention** process that continuously **aligns the offering** with customer needs and values
- An ability to **continuously improve** what the company offers by learning about its customers
CRM at Work: Capital One Testing New Products

- Credit card business - uses “poking the bear” approach
  - Learns what customer characteristics might be a predictor of their risk profile
  - Adjusts its product offering to the customer’s risk

- Offering higher credit line might make customers with higher default risk respond more favorably thereby revealing their higher risk

- Hypotheses on customer characteristics are developed and used to run experiments to test what characteristics best correlate with utilization and risk profiles.

- Response rates and behavior during first months of using the card are carefully monitored - this data is used to determine the value of each mailing
CRM at Work: Capital One Testing New Products

- As soon as the results of tests are clear, the viability of new products is assessed and the potentially successful ones are rolled out.

- As product development is based on customer data and feedback, final products are mass customized.

- Test results are integrated into the databases and used again to initiate the process of idea development and product design.

- Result: This strategy led to an innovative product portfolio of more than 600 credit card products which are very well aligned with diverse customer needs.
Steps in Developing a CRM Strategy

Developing a CRM strategy

1. Gain enterprise-wide commitment
2. Build a CRM project team
3. Analyze business requirements
4. Define the CRM strategy
Step One: Gain Enterprise-wide Commitment

- Budget allocation for the solution
- Bottom-up buy-in from system users
- Dedicated full-time project team
- Top down management commitment

Enterprise-wide Commitment
Step Two: Build A CRM Project Team

Obtain active representation from:

- **Management** - Provide leadership, motivation and supervision

- **Information services/ technical personnel** – Ensure that CRM system is compatible with existing software applications

- **Sales, marketing and services groups** - Evaluate usability of CRM system based on effectiveness, efficiency and satisfaction

- **Financial staff** - Provide critical analysis for assessment of increased sales productivity, evaluation of operating costs, estimated cost of system expansion and ROI projections

- **External CRM expert** - Provide a valuable source of objective information and feedback
Step Three: Analysis of Business Requirements

Gathering information to:

1. Identify the services and products that are being supported
2. Map current workflows, interfaces, and inter-dependencies
3. Review existing technologies, features and capabilities
4. Discuss the vision for the business and the operational plan
5. Define business requirements
6. Develop enhanced business workflows and processes
7. Identify gaps in technology functionality
8. Map functionality to business processes
9. Develop a new technology and functionality framework
10. Develop a conceptual design and prototype plan
Step Four: Define the CRM Strategy

Characteristics of a defined CRM strategy

A defined CRM strategy

- Value Proposition
- Business Case
- Customer Strategy
- Enterprise Transformation Plan
- Other Stakeholders
The Value Proposition

- Multi-faceted package of product, service, process, price, communication, and interaction that customers experience in their relationships with a company

Areas to be addressed:

- What the customers value – what the company should focus on
- What the company promises to offer the customers
- What the company actually offers the customers
Business Case

- Directly links delivery of customer value with creation of shareholder value
- Ensures acceptable ROI
- Addresses:
  - Planned increase in economic value of customers over the duration of their relationship with the company
  - Reference and referral effects-increased investment in customer satisfaction resulting in increased customer acquisition
  - Impact of learning and innovation- reduce cost incurred through higher marketing effectiveness and improved products and services
## Customer Strategy

- Defines how the company will build and manage a portfolio of customers
- Covers:

<table>
<thead>
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<th>Customer understanding</th>
<th>Customer competitive context</th>
<th>Customer affiliation</th>
<th>Customer management competencies</th>
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<td>&gt; Customers benchmark expectations against past experience and best-in-class standards</td>
<td>&gt; Awareness of competitor’s services and how to increase customer share</td>
<td>&gt; Primary factor affecting ability to both retain and extract greater value from customer through cross-sell and up-sell efforts</td>
<td>&gt; Providing customized offers including customized products, services, communication, prices, etc</td>
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Enterprise Transformation Plan

Covers:

- Business process
- Organization
- Location and facilities
- Data flows
- Application architecture
- Technology infrastructure
Relationship Management of Other Stakeholders

Practice of Strategic CRM: Framework

- Customers
- Partner
- Employees
- Suppliers
- Environment
- Competitors
- Management
- Product
Relationship Management of Other Stakeholder

- **Relationships** with all stakeholders need to be effectively managed.
- Management needs to be committed to CRM.
- Product provides link between the customer and the company.
- Importance of each stakeholder depends on the industry.
- **Customers** are the major focus of every CRM strategy as customers are mostly the only source of revenue.
Suppliers

- All those who contribute to a company’s value chain, including suppliers of:
  - Raw material
  - Components
  - Technologies
  - Money
  - People
  - Knowledge

- For **total quality management**, companies build long-term, and more interactive relationships with fewer suppliers
Suppliers

- Benefits of *relationship-oriented* supply chain management
  - Improved communication, quicker problem resolution and closer cooperation
  - Reduced purchase costs due to elimination of cost for search of new suppliers
  - Reduced cost per transaction because of aligned information management system and simplified transaction process with strategic and long-term suppliers
  - More cooperation between companies and suppliers in terms of information sharing and development of new products
Owners/investors

- Options to increase long-term oriented investors:
  - Educate current investors
  - Shift investor mix toward institutions that avoid investment churn
  - Attract the right kind of core owner
  - Take the company into private ownership
Employees

- Increased employee satisfaction results in increased customer satisfaction

- Internal Marketing (IM)-treating employees as if they were customers- involves:
  - Improving management style
  - Improving recruitment practices
  - Integrating all employees into the planning cycle
  - Refocusing training on interactive and service skills
  - Open communication lines and empowerment of front-line staff
CRM Implementation at IBM

- Objectives:
  - Share information and collaborate easily internally and across the entire value chain
  - Focus on core capabilities while shedding less profitable or non-strategic business activities
  - Build a fully integrated IT infrastructure to support the business vision and reduce the total cost of operations
  - Streamline and integrate customer facing operations - sales, marketing and customer service
  - Strengthen the brand image across all lines of business
  - Offer full-scale solutions for the client, instead of multiple products
Implementation Stages

- **Initial Stages –**
    - Development of in-house application
  - Starting point: opportunity management in customer acquisition phase of a sales cycle
  - Company developed ‘Virtual Machine’-a host-driven IBM application
  - Identification of opportunities, ways of tracking them and storing information of winning conditions
  - Storage of data, such as pricing, inventory, and customer master record, provided by the marketing department
  - Customer segmentation based on size of the company and industry, and customer needs and geography
  - Collected information used to drive marketing campaigns
The modules of Siebel CRM software that IBM has implemented and is planning to implement are Sales, Call Center, Marketing, Field Service, Service, e-Channel, e-Marketing, e-Service, and General e-Business.
IBM Case Summary

- Creation of an On-Demand Operating Environment: competitive advantage facilitated by CRM
- Integrated process management through CRM: allows instant updates about inventory levels, customer complaints and latest recommendations
- Pricing and revenue data are integrated in Siebel: assesses each customer’s revenue generation potential
IBM Case Summary

- IBM estimates that its internal CRM implementation has delivered benefits of $2 billion cost reductions, 22% productivity improvement, significant IT cost avoidance, reduced sales staff requirements, and improved management reporting.

- In 2004, IBM has implemented the world’s largest CRM application with 60,000 users linked with Siebel.

- In 2005, it is expected that more than 80,000 employees, thousands of business partners and millions of IBM customers, will use the system.
Key Lessons From IBM

- Genuine top-level support within the organization is essential
- Without the cooperation of each business unit, an enterprise-wide implementation like CRM is not possible
- Data cleansing at the initial stages of an implementation is crucial
- CRM training time should be planned well in advance, and managed carefully
- CRM implementations come with extensive business process reengineering and change management initiatives
Summary

- Strategic CRM focuses on shaping the interactions between the firm and its customers in a way that facilitates maximizing the lifetime value of the customer to the firm.

- Business case for CRM determines whether an investment in CRM meets its expectations by linking the delivery of customer value with the creation of shareholder value, or ROI.

- CRM strategy calls for a transformation in business process, organization, location and facilities, data flows, application architecture and technology infrastructure.