CRM Summit 2002:
Moving From Disillusionment to Real Value
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GartnerG2 — Developing a CRM Vision and Strategy

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Key Issues

- What is a CRM vision?
- What is a CRM strategy?
- How does a CRM strategy fit in with other business strategies?
- How does CRM create value for an enterprise?
- What CRM techniques will enterprises use to build real customer value?
What is a CRM Vision?

Customer relationship management (CRM) vision is the “company personality.” Without it, customers will not have a clear image of what the enterprise offers vs. the competition, leaving service expectations unmanaged and at the mercy of market forces. Employees need a vision of what to deliver to customers. The vision should motivate staff and enable them to work together, generate customer loyalty, gain greater wallet share and turn target customers into advocates. A vision starts with understanding market demand as well as the enterprise’s market position, then creating a core proposition to target customers — one they will value that stands out from the competition. This core proposition should be a declaration of intent around which a customer value proposition (CVP) /culture can be built. Next comes a set of competitively differentiated brand values that the customer values — for
example, innovation, independence, quality, expertise and involvement. These values should be determined from the customer’s view rather than the company’s. Too many enterprises think they know what customers want, but instead discover through costly mistakes that they don’t. They overinvest in services that customers don’t want or value, and they don’t invest enough in the elements of service delivery that would generate real value and, thus, loyalty. The final part of the vision is an outline of what the customer experience should be for different situations and segments.
What is a CRM Vision?

The vision can then become a brand proposition which in turn becomes the company DNA. Using the brand proposition (or customer value proposition) in achieving customer objectives of acquisition, development and retention) is what the CRM strategy sets out to do. However, the company must be unified in its values to deliver a consistent CVP - especially in a multi-channel environment.

In the past, “brand” has simply been an logo, an expression of a product or company image. However, brand now needs to play a greater role in setting customer expectations and creating organisational collaboration. Increasingly, companies are moving to corporate-unifying brands rather than a mass of product brands. Therefore, a brand:
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Should define the promise to customers and potential customers regarding the likely customer experience they will get by dealing with that enterprise, especially in relation to the competition.

Should act to unify the enterprise’s operations in delivering a consistent customer experience. For example, if the brand promises to deliver innovation, then everything the company does should demonstrate that it is innovative; this directs people across the enterprise as to what is expected of them by the customers.
What Is a CRM Strategy?

This is a common question and it does not help when answers differ. There is a lot of confusion between a CRM business strategy and a CRM implementation plan. A CRM strategy is the blueprint for how an enterprise is going to turn its customers into an asset by building up their value. It is based on an understanding of the vision and how an enterprise's competencies can be used to create value propositions for customers, the market segments that offer the most value potential and then systematically developing that potential. In other words it looks at how you can build better value for customer and thus valuable customers.

To achieve this, it is highly likely that new capabilities will be needed in analysis, metrics, knowledge management, collaboration and service. New technology will be required, customer contact processes will need revamping,
staffs will be asked to act in different ways and data will need managing to a much greater degree. However, a plan for building these is not the customer strategy; it’s the road map for building enabling capabilities. The one supports the other, and an enterprise should write the top-level road map into the CRM strategy — but not confuse them.

The customer base needs to become an asset that delivers corporate financial goals. Understand the link between customer asset value and financial goals is the way CRM ROI is achieved. In addition the customer base then becomes a company asset which financial analysts are starting to value.
A CRM Strategy: Developing the Customer Asset Base

- How do we create awareness of what we offer to potential customers of value?
- How can we retain or win back valued customers?
- How do we acquire valuable customers who will value us?
- How do we develop the customers’ loyalty and value to us by developing our value to the customer?
- How do we do this efficiently?

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What is a CRM Strategy?

Developing a CRM strategy is not just a matter of developing and automating current sales, service and marketing capabilities and processes. Rather, it necessitates understanding how an enterprise is going to achieve financial goals by efficiently targeting, acquiring, developing and retaining customers of value. This is a CRM strategy. Once done, relevant processes can be put in place.

A CRM strategy must look at the customer from a life-cycle (business-to-business [B2B] or business-to-consumer [B2C]) perspective — not a sales, service or marketing capability perspective — that leaves out the rest of the company. Processes that support the customer life cycle take center stage in delivering the CRM strategy objectives. This means all areas of the company play a part. “If you are not serving a customer, serve someone who does.”
Organizational structures, training programs, attitudes, behavior, metrics and compensation plans all need to change to reinforce the life cycle view. These are some of the capabilities needed to support the CRM strategy.

A customer base only becomes an asset when it has a degree of behavioral and attitudinal loyalty, and the only way to do that is to acquire customers who value your proposition. Welcome them (a key point in a relationship); get to know them and develop all-around value (enterprise to customer, customer to enterprise); manage problems (another key relationship point); understand when they might defect and stop it, or win them back if they do. Loyalty and value are achieved by delivering through a strategy that is supported by the right enterprisewide capabilities and processes.
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CRM Strategy: Case Study No. 1

- Segment the customer base in deciles of value.
- Develop customer profitability — the most-valuable segment by 3 percent, the next three segments by 20 percent, and decrease the losses on the rest. Develop services used, lower distribution cost, increase prices and discount according to potential value.
- Acquire new customers of the most-valuable type with targeted selling.
- Implement retention programs for the most-profitable customers.

Household Deciles Ranked by Profit

$15,000
$10,000
$5,000
0
(500)
(1,000)

1 2 3 4 5 6 7 8 9 10

What is a CRM Strategy?

A question that is often asked is, “How detailed should a CRM strategy be?” Starting with an outline is sufficient, as long as it is easily understood and gives clear statements about what is to be achieved and how. Too many thick, strategic “tomes” sit on shelves unused. A strategy evolves and develops as more is learned about customer requirements and the marketplace, and as company capabilities are built up. A strategy should be the living, breathing lung of the organization. Information and feedback should be taken in from the front line and used in an organized way to nurture the company’s well-being — at the same time getting rid of anything that is not needed and no longer works.
The above is an outline strategy for a B2B telecommunications company. It states the strategic objectives with some indication of how this is to be achieved, leaving the detail of the tactics to be worked through. This is a good start to developing an asset base of value, but still appears quite inward-focused. There is too little vision regarding what value is to be delivered to the customer.

With a more complete vision, the job of filling in the strategy's details — and the tactics to be used to develop the customer — will be easier and more coordinated. When the detail is done, the capabilities that the company needs to deliver the strategy will become clear — understanding this will mean that building a capability can be prioritized in the infrastructure road map. The strategy and tactics also aid in building relevant customer processes.
CRM Strategy: Case Study No. 2

- Understand and segment the customer base.
- Retain the most-valuable customers after finding out why they defect.
- Win back valuable ex-customers.
- Develop the loyalty of current customer segments; use differentiated service according to need.
- Improve the profitability of unprofitable customers.

What is a CRM Strategy?
This second strategy for an airline company, while still at the outline level, starts to recognize that the company needs to deliver customer value. Again, it needs more vision about the brand values and customer proposition. This should happen via an understanding of the customer base — as long as it goes hand-in-hand with an understanding of the market.
What is a CRM Strategy?

In the third case study from a B2B information provider, customer objectives have been linked to broad tactics and the build up of new skills and capabilities required. They start with understanding their customer base and keeping all customers for cashflow purposes, then gradually build up the customer asset base via:-

Stage 2 - improving contact and integrating contact channels (operational CRM)

Stage 3 - starting to differentiate service and product by customer value using information management across the whole organization (analytical and strategic CRM)

Stage 4 - improving their business model to deliver greater customer value, collaborating across the product supply chain (collaborative CRM)
It can be seen from this how a strategy starts to integrate the whole organization around the customer and in delivering the CRM vision.
How Does A CRM Strategy Fit In With Other Business Strategies?

Successful companies know precisely what value they are delivering to whom, and how. They have a vision; know the differentiating market position they are aiming for against competitors; and what their brand proposition is. Then they implement a corporate strategy to achieve this. The goal being to achieve stakeholder value and build competitive advantage. To support goals there will be a business model for how they are financed, the type of organizations and the way they will work with suppliers, partners and other stakeholders. From the vision in the corporate strategy comes the brand proposition.

To achieve the corporate strategy, a number of operational strategies are needed. The detail of the corporate strategy, becomes the objectives of the operational strategies. If the corporate strategy wants to increase profitability
by creating a customer asset base, then it has to weave a customer management into its marketing strategy to ensure the extra emphasis on customer. This must then be supported by other operational strategies (for example, human resources and IT) to create the right customer centric environment. The marketing strategy is about building the market position against competition. The customer strategy is about building the customer asset base. Below the operational strategies then sit an operating model from which detailed customer processes can be designed.

Today a strategy must be constantly evolving with changes in the environment, constantly looking at how it creates value for customers. This means that developing the strategy itself is a process which should be mapped.
How Does A CRM Strategy Fit In With Other Business Strategies?

How Does A CRM Create Value For An Enterprise?

The first part of a CRM strategy audits where the enterprise is and what its objectives are. Many companies have a marketing strategy (or should have) that needs to be revisited to develop the CRM strategy. If the strategy is not specifically marked “marketing,” then the relevant “bits” are usually somewhere in the organization — for example, as part of a sales or product strategy — and need to be brought together.

The aim of marketing since its rise as a business discipline has always been to put the customer at the front of the “production function,” so instead of “produce-sell-customer,” the business process is “understand customer needs-produce-sell-customer.” However, as companies grew, they could only do this at an aggregate, mass-market level at best. What has changed now is
that technology is enabling us to do this at a far more granular or even personal (if required) level. In addition, customers are demanding more value, and service is increasingly the key to sales. The technology is there, but business practices and strategy are not making the most of it.

The development of the CRM strategy from the marketing strategy is outlined above. The marketing strategy is concerned with placing the organization in its chosen field in relation to competitors. The customer strategy is concerned with placing the organization in a good standing with its customers. The marketing strategy audits the market position, and then defines objectives based on this and the product life cycle. The customer strategy audits the customer base, and then defines objectives based on this and the customer life cycle. The outcome of the customer audits should show the situation with regard to the customer base, as well as the company’s CRM capabilities.
How Does A CRM Create Value For An Enterprise?

The first thing to do for the customer strategy is establish exactly what customers value and what the CVP is going to be. What will satisfy the customers and, more important, what will generate the “feel-good factor” and trust that engenders loyalty? A company can generate satisfaction without any loyalty, and many do; but understanding what motivates loyalty is still very important. To do this, a company needs to examine its customers by using a range of factors about itself and its service delivery. It has to look at rational factors against need, as well as the more emotional and subjective factors of brand image, values and service quality (for example, the style of communication and the amount of customer care shown). Once everything
else is satisfactory, delivering on the emotional factors is what makes customers more committed and loyal.

Establishing the key factors of satisfaction and loyalty can be done in a market research study that produces a relationship investment guide (RIG). This guide will show the presumed importance of a range of rational and emotional service delivery factors (for example, brand values and satisfaction with account manager contact time) and plot this against the relevance of the factor on customers’ behavior. The end result shows the factors that will motivate loyalty where investment is needed; factors that engender satisfaction, so they only need to be done to a certain “hygiene” level; factors that really don’t matter and where costs can be cut back; and finally any hidden factors that the enterprise had not realized were important. All of this can be shown against competitors and detailed by customer segment.
How Does A CRM Create Value For An Enterprise?

The next thing to establish is the state of the customer asset base so that customer objectives can be set. This means building a customer asset segmentation.

The result is a customer asset portfolio that combines the supplier’s view of customer value segments (which are derived by combining current profitability and expectations of future potential) with a measure of the current strength of the relationship from the customer’s perspective (derived by looking at satisfaction and loyalty). The intersection then determines the customer objective and strategy by segment, and the detail from the RIG allows you to determine the tactics of how to achieve it.

Measurements of current and future profitability are often the first things companies consult when estimating relationship value, even though the cost
allocation may be difficult. However, understanding the strength of the relationship from the customer’s perspective is equally important, and methods to do this are increasingly available and rigorous.
Real Examples of CRM Objectives

- Return retention to the industry average and then improve to 3%.
- Measure the propensity to churn, expected lifetime value, and propensity to accept discounts and special marketing offers.
- Empower CSRs to decide who to keep according to specified criteria.
- Build a customer information culture to increase customer advocacy.
- Improve communication with customers/partners.
- Reduce staff turnover in call center.
- Introduce an effective global sales process.
- Find CRM initiative with highest payback and use it to fund others.
- Retain our most valuable customers for revenue in the short term.
- Establish our customer's optimum potential for selective development.
- Acquire strategically important customers in the new market.

How Does A CRM Create Value For An Enterprise?

The above examples are real CRM objectives from a variety of different companies. They cover large global organizations, government departments and even a football club. They come from B2B- and B2C-focused enterprises. The scope of the objectives is broad-ranging, from specific performance-related goals such as reducing turnover in a call center to building a customer information culture to increase customer advocacy. In reality, most enterprises require multitiered and interlinked objectives so that each employee and management layer can see how they link back to larger corporate objectives. Without this linkage, employee involvement will be minimal and success in meeting objectives less likely.

Critically, the majority of the objectives above have no defined means of quantification and, therefore, measuring progress and achievement will be
difficult. Less than 5 percent of those enterprises that are currently engaged in a CRM initiative, and with whom Gartner has spoken, have metrics directly associated with CRM.
How Does A CRM Create Value For An Enterprise?

Companies must set measurable, specific CRM objectives and metrics if they are to become customer-centric. CRM metrics not only allow the level of success to be gauged, but also they provide the feedback mechanism for iterative development of strategies and tactics. In addition, they can act as a great tool for change management, and are vital in changing the way employees' incentives are structured. CRM metrics must follow and measure a company’s own CRM strategy, which means they will be unique to that company.

CRM metrics should not be viewed as an amorphous whole. There is a hierarchy of linking metrics required, depending on their purpose and who is using them. Gartner proposes four levels of metrics: corporate, customer...
strategic, operational and infrastructure. Examples are outlined above. Two primary challenges exist in developing CRM metrics: 1) understanding the linkage points between the levels; and 2) avoiding overcomplexity and oversimplicity.

The figure above shows how the customer objective metrics for acquisition, development and retention (in the customer strategic layer) link the financial targets to the rest of the company’s key performance indicators. This is one of the benefits of having a CRM strategy, and it makes the company more customer-centric.
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What CRM Techniques Will Enterprises Use to Build Real Customer Value?

The next part of the marketing and customer strategy details how the objectives are going to be achieved, and what tactics will be used. When it comes down to tactics, the customer strategy supersedes the old marketing strategy. Not only does it customize what were previously mass-marketing techniques, but also it draws on new skills and tools to do the job. The customer strategy also focuses more heavily on the service, contact and management aspects of the relationship. Added value service and customer care over the customer’s life cycle is a much greater part of the CVP. It cannot be stressed enough that technology is enabling enterprises to do a lot more by way of CRM than was ever possible before.
Whereas in the past, there were only one or two channels to deal with, now there are many and the number is growing. These are the new customer touchpoints. They need to be used advantageously, and service delivery must be consistent across all channels. Customers will no longer use just one channel; now they will want to use a variety of channels — for example, awareness may be created by broadcast media; inquiries may then come via the telephone or Web; the sale may be clinched face-to-face; developing the relationship may be via all of these and more, such as Short Message Service messaging and interactive TV.

Resource management over these channels needs to be scrutinized carefully if service delivery is not to become prohibitively expensive.
### Tactics for Retention and Building Loyalty

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<tr>
<th>Loyalty Scheme Behavior</th>
<th>CRM Strategy Attitude and Behavior</th>
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<td>• Rational value</td>
<td>• Rational and emotional value</td>
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<td>• Creates loyalty</td>
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<td>• Makes sales</td>
<td>• Creates relationships</td>
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<td>• Retention, attraction, increased sales</td>
<td>• Retention, attraction, customer share, recommendations, lower costs, wider margin</td>
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<td>• Products &amp; price</td>
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### What CRM Techniques Will Enterprises Use to Build Real Customer Value?

If an enterprise wants to develop customer loyalty, it has to have a CRM strategy including factors that will engender loyalty over the customer life cycle — i.e., knowing, communicating, respecting and caring for customers. Many companies try to encourage loyalty via a scheme or pricing. This can certainly render *seemingly* loyal behavior — but for real, lasting, effective *attitudinal* loyalty and retention, the best course of action is a CRM strategy. Only use a scheme when an enterprise must retain customers in the short term and can afford the cost. Long-term customer loyalty is driven by: A company having clear brand values with which customers associate, as well as a CVP that is delivered.
Proactive contact with customers in an appropriate way, both for the relationship and the product.

A company that shows, through service, that it cares and is not simply trying to make a sale at any cost.

Five times more people defect from companies because they feel they have been pushed around and badly treated, rather than because of poor products. Loyalty schemes, on their own, are expensive and will not encourage feelings of loyalty; some enterprises have already learned this and pulled out. Other schemes have been revamped to be used as part of a CRM strategy. Enterprises have capitalized on the valuable data that these schemes produced, and used it to direct their strategies and improve their customer care and contact, to great effect.
What CRM Techniques Will Enterprises Use to Build Real Customer Value?

Two tactics that really improve the customer relationship are a contact strategy over the life cycle to get to know the customer, and customer service or customer care. This will be used far more in the future.

Build Communities: Understand and support the different value groups in the customer base.

Anticipate the Crisis: A crisis is a moment of truth for a lot of customers. Anticipate what crises might arise so that employees are ready to handle them with care. Encourage people to complain to you first.

Advice and Information: A U.K. pharmaceutical company set up a customer care center that listened to what doctors wanted and acted; this included staff training so that the company could help doctors rather than just sell. Many
companies are setting up Web sites that give personalized advice and information.

**Collaborate and Involve:** When Felix cat food re-branded, it included customers in the relaunch, informing them that Felix had gone on holiday but would return “changed.” This generated a lot of ideas and involvement, as well as a great feeling of “my brand.”

**Understand and Empathize:** Novartis found that menopausal women taking hormone-replacement therapy felt isolated, so it formed a self-help group that led to a 25 percent increase in the use of its product. Finally, entertain, be imaginative, understand psychology, and keep an eye on costs and benefits.
What CRM Techniques Will Enterprises Use to Build Real Customer Value?

One example of customer care that more companies are looking into are communities. These take advantage of value groups and may arise organically or they may be engineered. Businesses can use both types. They are valuable in both B2B and B2C.

Organic communities emerge out of the social sense of a group of people who share common values and long-term goals, and who also believe they will mutually benefit from the affiliation. Organic communities coalesce around a goal. From an enterprise perspective, you need to look for organic communities in the market that share the enterprise’s strategic direction. Then you need to target them. Successful companies target specific groups. How many do you have in your customer base? However, organic communities
exist exclusive of any technology and formulate their own management processes. Examples of organic communities include Yahoo groups, Motley Fool, car buying, antiques swapping, trade magazine readers.

Engineered communities are created when a sponsor/owner builds a management or technology environment to encourage community formation and sustain its ongoing activities. Such communities exist because of engineered management processes, technology processes or both. They coalesce around a sponsor-created purpose. They focus their work by confirming or adapting the purpose. Work communities often focus on norms or guidelines of behavior, such as quality circles. The sponsor defines a work-related purpose. The participants validate the purpose, have some stake in it and gain personal benefit from it. Examples include Amazon, eBay, loyalty scheme, user groups, consultative committees, consumer panels.
Relationship Models: Resource Allocation by Segment

- Upward movement of wallet share is a trigger for additional resources.
- Greater customer spending rewarded with greater levels of account management.

![Diagram](image)

What CRM Techniques Will Enterprises Use to Build Real Customer Value?

Those enterprises that have fully embraced segment-based CRM strategies have found that it requires changes to the organizational structure, management structures and budget allocation. One insurance company described the organizational structure changes as the “most slow-moving.” They anticipated that with two layers of management adjusting to the new customer-centric structures per year, it would take five years to adjust.

It is easy to visualize the benefits of changing sales resources to account ratios, so that the largest customer accounts have the most support and greater customer spending is rewarded with greater attentiveness (if this is what the customer wants). However, the hidden danger is that customer movements across segments are more dynamic than product changes in
many vertical sectors. As such, the real challenge of segment-based strategies and resource allocation is the ability to dynamically alter budgets, behavior and management attention as individual customers move between segments.

The chart above shows some of the relationship models that enterprises are using when allocating their resources to improve customer service.
What CRM Techniques Will Enterprises Use to Build Real Customer Value?

The final part of the CRM strategy guides the other operational strategies about their objectives, if they are to support the customer strategy (which is central to the business strategy). Initially, this will include the implementation plan for new customer capabilities. However, we can now see that this, in itself, is not the customer strategy.
Recommendations

- Establish your market position against requirements and competitors. Define a “valued,” different customer proposition based on competencies.
- Make the brand the company DNA to deliver the proposition.
- Value your customer base potential — not just on current profit - build a customer asset portfolio.
- Establish the motivating factors for customer loyalty: Where do you need to excel and where can you cut costs? Any gems?
- Develop skills in the new areas of customer relationship building - knowledge management, service, contact, collaboration, and relationship models. Understand what technology enables you to do.
- Build a process for evolving the strategy from operational feedback, so that it provides a business integration point in a changing environment.