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Making CRM work

By Darrell Rigby & Fred Reichheld

What's going on when everybody wants something that disappoints most users? Customer Relationship Management, or CRM, which harnesses Internet and other technology to build customer loyalty, has just such a dilemma swirling about its applications.

By many measures CRM is the hottest growth tool to hit management techniques. Books on the topic have surged from one in 1989 to 14,000 in 2000. Bain's global Management Tools 2001 Survey of senior executives found usage expected to double this year—from 35% of respondents to 72%. Who wouldn't want to adopt a tool that promises—in hard times—to quickly winnow out your most profitable customers and then target them with campaigns to increase their purchases and strengthen their bonds of fidelity to your brands, while lowering the cost of interactions? Indeed, one CRM provider offers "CRM in 90 Days," and another, in just nine. It's almost as seductive as weight-loss advertising.

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Yet few CRM users are skimming off the cream. The Gartner Group finds that 55% of CRM programs are failing to pay back on programs that typically cost $60 million to $130 million. And CRM, among 25 tools evaluated by 451 senior executives, placed fourth to last in satisfaction ratings on the Bain survey. Indeed, a fifth of CRM users had abandoned the tool altogether.

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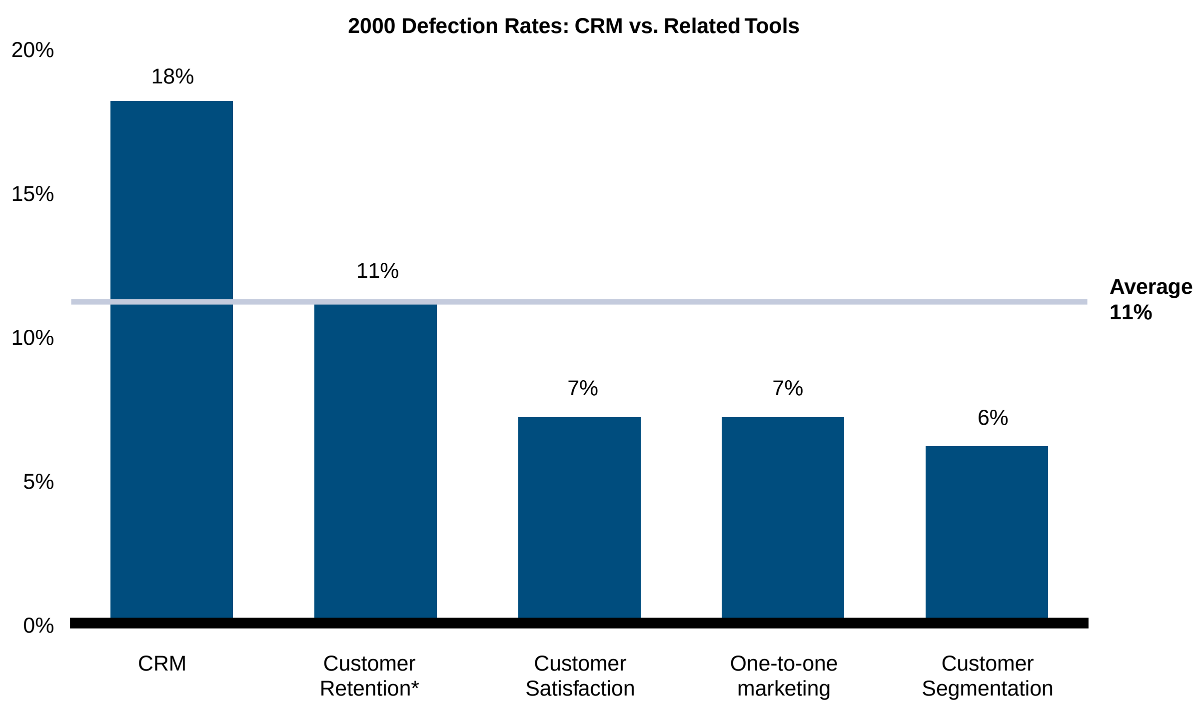
So how do you fix the problem?

The problem starts with CRM's definition. If you log on to CRMguru.com, the most commonly asked question is: "What is CRM?" The truth is CRM is not so new and slippery. It draws on the tried-and-true management technique of customer segmentation, the starting point for figuring out which customers you want to CR—create relationships with—and which you want to CM—cost manage. ***(See Figure 1: Abandoning CRM)*** With CRM, as with good old-fashioned loyalty leadership, the win-win economics lie in segmenting the attractive, profitable clients—with whom you can broaden and deepen relationships—from the cherry pickers who you need to serve at low cost. So CRM starts with customer strategy.

Indeed, many successful CRM programs, like The *New York Times'*, don't even look like CRM at the outset. The *Times* spent years last decade targeting research of core customers to find similar pools in cities outside of New York. Then it set about understanding what it would take to appeal to those pools, and, by way of response, upgraded its local distribution system and customized local content like weather and TV listings to meet the market. The upshot? The *New York Times* is growing in a relatively flat industry, and it has a customer retention rate of 94% in an industry that averages about 60%. All this, long before acquiring new CRM technology, which it is just now implementing to automate some processes.

***Figure 1*:** **Abandoning CRM**



*1999 result: Customer Retention was replaced by CRM in this year's survey.

The *Times* example leads to a second fix—realigning business processes with strategy. In a recent CRM Forum survey of senior executives, *87% pinned the failure of CRM on leadership and change management issues.* Only four percent cited software problems. The *Times* invested in upgrading its printing and delivery processes and subscriber call-handling procedures before it invested in Internet-based software to speed these processes and reduce costs. Insurance company USAA, another loyalty leader, provides further evidence that process change must precede technology in getting CRM right. The company—the premier insurer of military personnel and veterans—was historically organized into six regional units, each comprising large functional departments (claims, underwriting, policy holder services, etc.).

Today, in response to a greater understanding of what customers value, those six units have been broken into 110 teams, each of which focuses on the specific needs of smaller and more uniform segments of customers. Within these teams, the thousands of phone reps are divvied up even further into groups of 10 to 12. The members of each group work out their own schedules and vacations, solve problems together, and are evaluated together.

Team members know the regional idiosyncrasies of the insurance business. They also know their customers—and each other—better than they did in the old system. Customers value the "small company touch." And USAA's former CEO, Bob Herres, believes the small-team structure is a key reason USAA has been able to grow and maintain one of the highest retention rates in the industry, while simultaneously shrinking its bureaucracy. (For more on the links between employee loyalty and customer loyalty, see **www.loyaltyrules.com**, and participate in Bain's Loyalty Acid Test Survey.)

Grand Expeditions capitalized on a list of customers who hadn't traveled for more than three years. One-to-one marketing to those customers yielded three times the average conversion of a typical mailing, a key contribution to the company's 30% increase in bookings in a flat industry.

When your customer strategy is at the center, and your processes are aligned, you can make wise decisions about where software technology can help—and where low-tech solutions make more sense. Loyalty leader Enterprise Rent-A-Car, in the wake of the World Trade Center disaster, gave its branch managers latitude to except the firm's "no one-way rental" rule, which allows it to keep costs down. Enterprise waived all drop-off fees across the US until September 21st, to ensure that all of its customers could make it home. That no-tech move bought Enterprise a lifetime of loyalty from travelers stranded at airports and train stations, even as other rental car companies were charging one-way penalties of $1000 and more.

A low-tech tool related to CRM comes to bear, too—customer satisfaction measurements. Consider the technology decisions loyalty leader Harley-Davidson made after quizzing its customers. Harley-Davidson's CEO, Jeff Bleustein, turned down a proposal for a centralized Web site that would have offered Harley's full line to anyone with access to a computer. Why? Customers wanted to shop Harley on the Internet, but Bleustein knew that such a site would undercut dealers and, understanding the importance of dealer relationships to the company's strategy, sent the Web experts back to the drawing board.

Today, Harley's central Web page asks customers to choose from a list of Harley's participating e-commerce dealers, or to enter their zip code to find the nearest one. A click on the dealer name routes them to the local dealer's own Web page.

Customers win because they now have Web access to a wide range of Harley merchandise. Dealers are happy because they earn the retailing profits from all Web sales; Harley isn't encroaching on their territory. And, they establish connections with new local customers who found them via the Web. Harley wins because it has successfully established a Web presence that provides customers convenience at low cost, and its dealer relationships have emerged stronger in the process. Too many companies venturing onto the Web have alienated such partners. (Levi Strauss had to pull its award-winning Web site that let consumers buy jeans online because the Web site bypassed and angered Levi's retailers.) By starting with customers, Bleustein knew when to "Say When."

For the segment of customers that want a deeper, broader relationship, there's another tested tool that CRM software can speed and refine—one-to-one marketing. Travcoa, a luxury tour provider purchased by Grand Expeditions, had built its reputation on pleasing customers across destinations around the world in an industry where customer acquisition costs are very expensive, and clients are risk averse: If they can afford to spend $40,000 on a vacation, they want to ensure it's the trip of a lifetime. After Grand Expeditions acquired several tour operators, it set out to benchmark CRM techniques and opportunities at all its acquisitions. At luxury tour company Travcoa it found opportunity in an old list of customers who had not traveled with the tour operator for more than three years. Tailoring its CRM effort with one-to-one marketing to that list of customers, Grand Expeditions yielded three times the average conversion of a typical mailing, a key contribution to the company's 30% increase in bookings in a flat industry.

So how do you achieve the promise of CRM profits? Start with customer strategy, realign your business processes to fit the strategy, and tailor your technology selection to enhance your processes. It's not simple, and it takes a lot more than a 90-day technology deployment. But it works.

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