Four reasons CRM still disappoints…

…and how to avoid them.

When Monster.com rolled out its first customer relationship management system ("CRM") way back in 1998, it was sure it had a new money-making strategy on its hands. The job-listings company had invested over $1 million in customised software and integrated all its computer systems in an attempt to boost sales force efficiency. Their CRM applications had been specially developed to allow Monster's sales rep's instant access to data for prospective customers. However, the new system proved to be frighteningly slow—so slow, in fact, that salespeople in the field found themselves unable to download information from the company's databases onto their laptops. Every time they tried, their machines froze. Eventually, Monster was forced to rebuild the entire system, losing millions of dollars along the way, not to mention the goodwill of both customers and employees.

Roll forward to 2019 and the promise of CRM is as captivating today as it was then. But in practice it remains just as problematic. When it works, CRM allows companies to gather and disperse customer data swiftly, identify the most valuable customers over time, and increase customer loyalty by providing customised products and services. It also reduces the costs of serving these customers and makes it easier to acquire similar customers in the future. But when CRM doesn't work—which is still more often than note—it lead to monster-sized problems.

Why after so long, do CRM initiatives still fail so often? We have spent the last ten years trying to understand this, from our work with hundreds of companies across a wide range of industries.

Our experience and research suggests that one reason CRM backfires is that most executives simply don't understand what they are implementing, let alone how much it costs or how long it will take. If you find that hard to believe in 2016, try asking five of your managers to define CRM. You'll almost certainly get at least six different answers. The right answer: CRM aligns business processes with customer strategies to build customer loyalty and increase profits over time. Note the presence of the words "business processes" and the conspicuous absence of both "technology" and "software". Then try quizzing those same managers about the cost of implementing a CRM solution. You'll almost certainly arrive at, "How long is a piece of string?" The right answer: anything from $5-10K to $100 million, according to Forrester Research. And if you still don't believe, ask them how long it generally takes to implement a CRM - properly. The best estimate: at least 12 months on average, even though many vendors we know "offer" CRM in 90 days and aggressive Cloud providers promise them in a few weeks.

We see most organisations stumble into the same one or more of four CRM potholes. Each of these potholes is a consequence of a single flawed assumption—that CRM is a software tool that will manage customer relationships for you. Or even magically produce more revenue! It will do neither. CRM is the bundling of customer strategy and processes, supported by the relevant software, for the purpose of improving customer loyalty and, eventually, corporate profitability. Even though CRM is now such a mature business concept, this subtle yet critical distinction remains lost on so many CEO's and executives, and still underpins the failure of so many CRM projects.

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Pothole 1:
Implementing CRM without a clear (or even any) customer strategy

Any new management tool can be seductive, but there's something particularly captivating about software that promises to make a perennial problem go away. Many CRM products do just that, claiming they will automate the delicate and mystical process of repelling low-margin customers and luring high-margin ones. CRM can indeed do that, but only after—and we repeat, only after—a traditional customer-acquisition and retention strategy has been conceived of and implemented. (For more on that, click here to read our white paper on "Starting with Customer Strategy.")

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The reason? Effective customer relationship management is based on good old-fashioned segmentation analysis; knowing who your good customers are and what makes them good. Moreover, it is designed to achieve specific marketing and sales goals. To implement CRM without conducting segmentation analyses and determining marketing goals would be like trying to build a house without engineering measures or an architectural plan. And yet, executives who quite frankly should know better still confuse CRM with marketing strategy. They in effect allow software vendors to drive their approach to customer management. Or, just as often, they retrofit their customer strategy to match the CRM they've just purchased. Then to guarantee failure they delegate CRM to IT. It's mostly technology, isn't it? Well, it is, partly—and therein lies the problem. Technology that affects customers must be aligned with marketing and sales and an overarching strategy if it is to work. Which of course, is why it doesn't.

As so often, history is a great teacher if only people listen. Way back in the early 1990's, the *New York Times* was trying to break through a circulation plateau, a team of senior executives set out to determine what it would take to gain more market share.

The first clues from market research were worrisome. They indicated that the only road to higher circulation lay in dumbing down the articles, adding cartoons, moving to a tabloid editorial style, and taking other such steps that would radically alter the newspaper's editorial approach. Clearly, that didn't fit with the *New York Times*' traditional values, and so the company commissioned more targeted research of core and potential customers.

The research led to the discovery that every major city in the US had a cluster of subscribers similar to the core base on the east co and that these potential subscribers wanted earlier home delivery and better newsstand availability. The company immediately moved to address these customer demands, installing high-speed networks to link 18 print sites around the country. In addition to upgrading its distribution capabilities, the company also set up automated telephone-based systems so that at any time of day or night, customers could change subscriptions or reschedule deliveries. The newspaper's New England and Washington editions even offered customized weather forecasts and television listings.

These initiatives proved to be an all-around win. Customers could get their favorite newspaper tailored to their needs with early and reliable delivery. Editors could continue to sharpen the journalistic quality and integrity of their newspaper. And the *New York Times* became one of the few national newspapers in the world with a growing circulation (in 2000, its circulation rose 2% while the average circulation for national newspapers fell 0.4%). What's more, the paper's customer-retention rate rose to 94% in an industry that averages 60%.

While the case study is nearly 30 years old, the *Times*' is an outstanding and enduring example of how to properly plan for CRM. The company wasn't considering any CRM software applications when it was trying to break through its circulation plateau; it was simply trying to solve customer-related problems in the most intelligent way it could.

Only in 2003, more than a decade later, did the New York Times even start to install CRM technology—including a national data warehouse to store information by customer - to support its customer strategy. CRM eventually became an invaluable part of the solution, but it didn't drive the strategy or the process. It came later – much, much later, to enable that. But it didn't drive it.

Pothole 2:
Doing CRM before aligning the business processes and organisation – first.

Installing CRM before creating a customer-focused organisation is probably the deepest and most dangerous pothole. If a company wants to develop better relationships with its most profitable customers, it needs to first revamp the business processes that relate to customers, not only customer service and fulfillment, but marketing and sales also. Having a strategy is not enough: A CRM rollout will succeed only after the organisation and its processes—collateral, pricing, job descriptions, performance measures, compensation systems, training programs, and so on—have all been aligned around customers and their needs.

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It's usually also worthwhile evaluating existing departmental, solution and geographic structures. Because they so often believe that CRM affects only customer-facing processes, executives often don't recognise the need for changes to internal structures and back-office systems before throwing the switch on CRM. But that's like repainting your house without sanding the walls first; it's bound to look worse than before. A wealth of independent research reinforces our point. According to a survey conducted recently by on-line resource center CRM Forum, when asked what went wrong with their CRM projects, 4% of the managers cited software problems, 1% said they received bad advice, but 87% pinned the failure of their CRM programs on the lack of adequate change management.

The most successful companies we have worked with and seen over the last 11 years, first invest in getting their processes, structures and people right before embarking (or re-embarking) on CRM. Consider ABT (not their real name), a 100-year-old maker of electrical and industrial equipment that began its CRM initiative six years ago. Acquired by France's Schneider Electric in 2001, the Sydney-based company completed its integration in 2003, capturing the resulting cost synergies. The company was poised to grow—in a hurry. Its objectives were to multiply revenues, double return on capital, and boost sales per employee by 33% before 2010. To accomplish those goals, ABT's then CEO, David Sanders, knew that the company would have to focus on the customer as never before.

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But Sanders didn't make any knee-jerk investments in CRM software right away, He realised that ABT would first have to reorganise itself around customer segments. The company's three basic business units—electrical distribution, industrial control and automation, and transformers—did just that, eventually organising themselves around four main markets: industrial, residential, construction, and original equipment manufacturing. The company's remaining functions were then reorganised to support these four divisions. ABT also altered its performance-measurement and incentive systems; incentives were no longer based on the number of units sold but on the number of customers acquired and retained and on both revenue and profit per customer. The changes took three years to accomplish and were championed straight from the big chair.

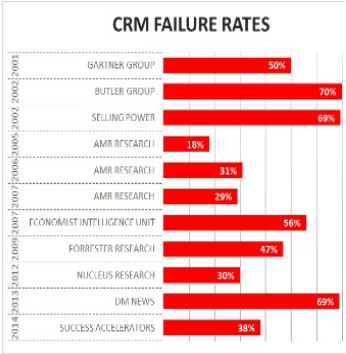
Only after its processes and internal systems had been refocused on and around the customers did ABT start using marketing and sales applications to upgrade its customer-facing processes. For instance, in 2006, the company invested heavily in an order-management system that let sales engineers create proposals for customers based on what the factory floor could deliver. Again, the software implementation was given high priority from top management. Don Stewart, ABT's Marketing Director, says that for three years, managers were taken out of line jobs for months at a time to understand the issues involved in implementing the software. But at all times, the effect on and alignment with the customer was paramount.

At Sema Group, executives changed key organisational practices and alignment around the customers' buying journeys before investing in CRM. Sema, one of the largest providers of marketing communication solutions in Australia, began its CRM initiative by asking, "What aspects of our existing processes frustrate customers and managers?" The answer, managers found, was the "looping" that occurred as each order was processed. Customers would fill out forms but leave some elements blank, so the rep's would have to send or sometimes personally take the forms back to be completed. Customers would then change the specs, and the requested elements wouldn't be available. So the forms would go back and forth, again and again.

Automation was, obviously, always going to be an important part of the solution. But before investing in software, the CEO launched an effort to realign and improve the customer-facing processes and simplify the interface. Managers followed through, pushing their rep's to adopt the new system by making their use of it a performance metric directly linked to compensation. The biggest change that eventually resulted was not in the use of the software but rather in employees' increased sensitivity to customer needs, which eventually paved the way for a highly effective CRM implementation. Again, technology followed as an important enabler, but did not lead.

13 years of research consistently shows that CRM projects fail between 30% and 60% of the time.

And failure rates have not been improving.



Like all successful users, ABT and Sema realised early that CRM requires companies to adopt truly customer-centric philosophies, change their structures and processes, and alter their corporate cultures accordingly. Unless this work is done before-hand, it is unlikely that a CRM technology project will get off the ground. Sure, such changes could take months, even years, to accomplish, but they must precede a CRM rollout if it isn't to end in a costly disaster.

Pothole 3:
Assuming technology will be the answer

Many people still automatically assume that CRM is about technology. It isn't. Customer relationships can be managed in many ways – many of which even in our age of technology and social media, don't involve technology at all. Many of the core objectives of building and managing customer relationships (remember what CRM stands for) can be fulfilled without huge investments in technology simply by, say, motivating rep's and other customer-facing staff to be more aware of customer needs. Merely relying on a technological solution, or assuming that a technology solution is necessarily better than a low-tech one, is a costly pitfall. In fact, companies with well-functioning CRM programs dot all points of the technology spectrum: low-tech, mid-tech, and high-tech. Sometimes even no-tech.

Several clients we've worked with have ended up with healthy and pragmatic hybrid approach to the CRM. For example, AMI, a US-based company that manages a stable of smaller tour operators, started its CRM project by identifying the low-tech activities that were already working well and could be replicated across the company. They discovered, for example, the effectiveness of handwritten thank-you notes that one of its tour operators was sending clients days after their excursions ended. And hard cover books on their client's birthdays. Customers loved these personal touches, and Alex Kaye, the CEO, realised that this was an effective—and simple—way that the whole company could strengthen relationships in an industry where customer-acquisition costs are high and clients are very risk-averse. Only when the continuous study of such practices was under way did the company start evaluating software solutions that could build on its existing abilities to build relationships with customers.

Some customer strategies however, eventually cry out for more sophisticated technology. Take ABT, for example. Not only has the company streamlined the process of addressing customer queries—in 2000, it consolidated 18 far-flung call centers into one customer information center—it is also designing products that virtually repair themselves. The company's engineers have patented a technology to build Web servers into their equipment, which, in the near future, will identify problems almost as they happen. For example, if a monitor at a petrochemicals plant detects a power surge and automatically kills the utility feed, the Web server linking the equipment will sense damage to any drives (even if a backup generator has taken over). The server will then send an e-mail to the plant engineer's mobile phone to signal the problem. It will also send an e-mail order to ABT for replacement drives and another to the contractor requesting that an engineer

to be present at the plant the following day to install them. By the time the plant engineer arrives the next morning, the drives will be ready for installation, and an ABT manager will be present to discuss the event.

The question then, is, "Where do your CRM needs actually fit on the technology spectrum?" Depending on your customer strategy and processes, you could be any one of these companies, or something uniquely in between. To find out, start simply - by vetting the lower-tech alternatives first—you may not need more. A deliberate and considered ramping up of technology will allow people to sequence individual software solutions so that each step reinforces the last one. It also will allow them to experiment so that they can discover what they should really be doing to strengthen relations with your best customers—independent of technological "bias".

Pothole 4:
Stalking your customers

If your best customers knew that you planned to invest $100 million to increase their loyalty to you, what advice do you think they might give you on how to spend it? Would they want you to create a loyalty card or would they ask you to open more cash registers and keep enough product in stock? Or something else? The answers depend on the kind of company you are and the kinds of relationships you and your customers want to have with each other. Relationships are bi-directional after all. And they vary across industries, across companies in an industry, and across customers in a company; even across products within a customer. Unfortunately, managers tend to ignore these considerations while using CRM, with disastrous consequences. They often end up trying to build relationships with the wrong customers, or trying to build relationships with the right customers the wrong way.

Relationships are two-way streets. You may want to forge more relationships with affluent customers, but do they want them with you? Fail to build relationships with customers who value them, and you are bound to lose them sooner or later. Try to build relationships with disinterested customers, and you will be perceived as a stalker, annoying potential customers and turning them into vociferous critics who pound you on social media.

That is what most loyalty programs seem to lapse into, as any hapless customer who has registered with most CRM-equipped retailers will tell you.

Just because you can contact customers doesn't mean you should; it depends on the customer strategy, not the CRM program.

Learning from failure

Even if you've been unsuccessful so far at implementing CRM, there's still hope. Companies can recover from their failures. Consider the case of BMC Software, a systems-management software provider based in Texas that was forced to abandon its entire CRM program and start over again—twice! After two failed attempts at implementing a CRM system, the company finally succeeded the third time around. What went wrong during BMC's first two stabs at CRM?

Many of the pitfalls described above. No research into what customers wanted; they only asked themselves what processes they could perform faster. They assumed that a CRM initiative did not require much top-management involvement and that it could be handled by IT. They believed that the software would sell itself to employees and would automatically generate the organisational changes required. The results were sadly predictable.

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Eventually realising that the CRM project was a cross-functional undertaking, BMC's leadership finally tapped the vice president of sales for North America and the manager of marketing programs for North America to head up the initiative. The marketing duo's commitment to defining the program's requirements up front and articulating its benefits to employees proved to be critical. They carefully aligned every change with buyer behaviors and budgeted sales targets to show how CRM would help the sales force attain its goals. And they involved many more employees, with as many as 175 people helping to develop the new program's configurations and serving as its early champions.

CRM eventually became mandatory at BMC, its benefits being carefully communicated to every employee to ensure buy-in. This time, the implementation strategy worked. The CRM system was relaunched; six months later, 80% of the marketing and sales staff were up and running on the system—and 95% a year later. Sales rep's were able to access data in seconds, compared with what was once days and even weeks. When the inside sales team used the software to research contacts for a product sales blitz, one sales rep was able to close a lucrative deal in a few days whereas previously it had taken months. It took failed attempts and cost millions of dollars, but eventually they got it right.

Management tools and app's come and go, but CRM is here to stay. It is a powerful, valuable concept, albeit still a remarkably difficult one to implement properly. Its pitfalls explain why everything that is presently being done in the name of CRM often seems to be driving companies away from, rather than closer to, their customers. But CRM is by no means impossible; it's no more difficult than any other organization-wide initiative. If you remember the principles on which it is based and avoid the pitfalls in its execution, your CRM project doesn't need to end up disaffecting employees, damaging customer loyalty and costing you millions of additional dollars.

Successful CRM depends more on strategy than on the amount you spend on technology. Strategy is about allocating scarce resources to create competitive advantage and superior performance. The only way you can make CRM work is by taking the time to calculate your customer strategy, which helps employees understand where they are going and why, and to align your business processes before implementing the technology

You'll need to effectively lead and manage change, showing CRM support teams how to achieve their goals through new processes. Employees must be equipped with the tools necessary to succeed—whether it's stationery and pens to send thank-you notes or software to create self-service options for customers. Indeed, while technology is a powerful enabler in the process of customer relationship management, that's all it is—an enabler. And the moment companies forget that, CRM turns into a tool that, instead of building loyalty, does just the opposite.

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