

CRM Forum Resources

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CRM Investments Finally Ring True

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Andersen Consulting

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Once a regulated, network-focused business, the communications industry today is embracing a more prevailing truth: the customer really does rule.

Market forces are sustaining this truth. Emerging competitors, like Excel Communications, are raising the service bar. Innovative technology, such as Internet telephony, is offering consumers more alternatives. And, customers are simply expecting more from their providers. As such, communications executives are compelled to do a better job at identifying, attracting and retaining customers. They must develop deeper customer relationship management (CRM) capabilities that lead to a more profitable approach to reaching those most valuable customers.

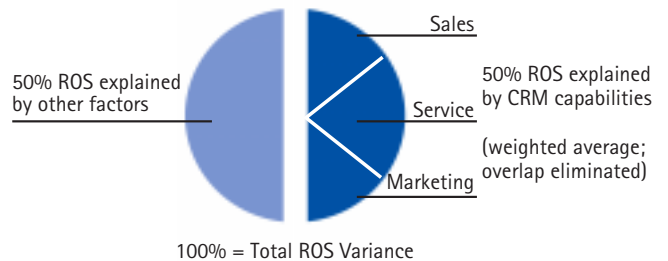
Most senior communications executives know that in a service business, managing the customer relationship is an important competitive dimension, as much of the growth for communications providers will come from their embedded base. The stumbling block is determining which CRM capabilities will yield the best return. Given finite resources, how do you prioritize one CRM capability investment over another? Which one will produce the greatest financial impact for you?

Until now, answers to such questions were intuitive at best. To help communications executives blend intuition with clear, reliable knowledge, Andersen Consulting conducted a study which quantifies the impact of CRM capabilities on financial performance. The study provides a unique, practical tool for identifying CRM opportunities, prioritizing CRM initiatives, and focusing resources where they will have the greatest positive effect on business performance.

The study surveyed 94 executives from 42 communications companies, including long distance, local, wireless and cable firms that collectively represent 72 percent of industry revenues in North America. Responses found that those

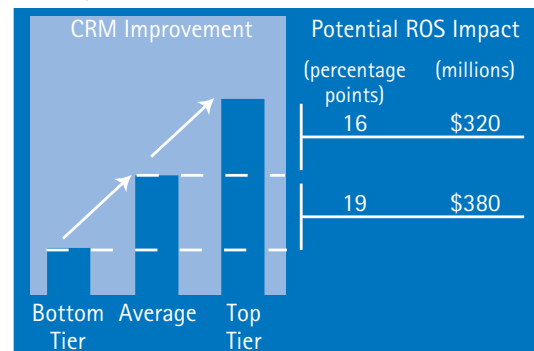
communications companies that excel at specific CRM capabilities enjoy better financial performance. More specifically, that CRM performance accounts for 50 percent of the variance in companies' return on sales.

Figure 2: Contribution of CRM in Explaining Variation in Return on Sales



In other words, a typical \$2 billion communications business unit that improves its overall CRM performance from average to top-tier can increase its return on sales by 16 percent, or some \$320 million.

Potential ROS Impact of Improving CRM for a \$2 Billion Communications Business Unit



However, not all CRM capabilities perform equally. Of the 54 marketing, sales and services capabilities surveyed, 11 were found to differentiate the strongest performers. Investments in these capabilities have a greater impact on business performance than others, with each having the potential to

add \$20 million or more to return on sales:

Marketing. In the communications industry, the marketing function has traditionally been underfunded in comparison to other industries. At one large communications company, for example, researchers found that the size of the marketing staff was less than 20 percent of what a lean consumer company would consider adequate. Four marketing capabilities account for 54 percent of marketing's impact on performance:

- Pricing products to maximize returns
- Effectively sharing customer information
- Developing effective partnerships and strategic alliances
- Executing effective marketing plans

Sales. In the area of sales, people are key. One Sprint PCS executive expressed that this translates to having the right person who knows the right thing at the right time to add value at a customer's doorstep. Four sales capabilities account for 74 percent of sales' impact on performance, and three of these focus on attracting, developing and retaining top talent:

- Effectively developing the skills of sales personnel
- Developing effective sales plans
- Fairly compensating and rewarding sales personnel
- Attracting and retaining the best sales talent

Service. The service area presents the communications industry with some of the best opportunities for achieving competitive advantage. In this arena the billing process is crucial. By some measures, 30 percent of calls to customer service centers are related to billing. Indeed, Ameritech's decision to overhaul its billing format for customers received front-page treatment in the *Chicago Tribune*. The study found that just three customer service capabilities account for 43 percent of service's impact on performance:

- Building an effective billing system
- Attracting and retaining the best service talent
- Measuring customer service effectiveness

Just as crucial as knowing which CRM capabilities have the most impact on performance is determining which ones mean the smartest business choice for you. Executives should begin by

systematically developing a thorough understanding of their company's specific situation. This can be done using a three-step process:

1. **Conduct a self-assessment**—Assess your organization's current CRM performance, and estimate the potential improvement value based on potential performance impact.
2. **Review current investment**—Review current capabilities, measuring initiatives against their anticipated value (e.g., potential return on sales impact) and costs (e.g., capital and human resources) and rationalize your CRM investments.
3. **Identify additional investment and prioritize programs**—Assess high-impact capability gaps consistent with the company's strategy, identify initiatives to fill the gaps, determine the value and costs of those initiatives, and prioritize current and future investments

Creating best-performing CRM capabilities is increasingly critical to the survival of communications players. A successful CRM effort requires the support of the entire enterprise, not just the marketing, sales and service organizations. It requires commitment and behavior changes across the company. It calls for a concerted effort that combines the right strategy with the process, technology and human performance programs needed to implement the vision.

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The Andersen Consulting Customer Relationship Management study surveyed 536 executives across five industries—Communications, Chemicals, Pharmaceuticals, Electronics/Hi Tech and Retail—to find out the impact CRM has on financial performance.