Successful CRM – The External Implications

By Russ Richmond

PART II

(Link to Part I http://www.crmcommunity.com/news/openarticle.asp?ID=1139)

In the first installment of this series we examined the marketing culture in many organizations today and the challenges they present for any CRM initiative.

We also explored the concept of CRM and the implications from customer, company and competitive viewpoints. We ended with a series of questions to help you determine your intestinal fortitude for pursuing a CRM initiative.

In this segment we will explore the external ramifications of such a strategy. While your external CRM strategy will have to be within the framework of your business model, there are certain critical similarities that you must master for a successful initiative.

What are these truths that apply universally?

Four Pillars of CRM

The place I want to start is to focus once again on the concept of relationship and what I believe is the right governing paradigm.

In some organizations there is a sales representative or equivalent who has a tremendous amount of perceived professional information that the customer needs. In these situations the customer has developed *trust* with the individual that in many cases transcends the corporate name on the door.

Should this person leave, the business with the firm either ends or is placed in jeopardy (a significant problem in the brokerage, real estate and mortgage industries to name just a few.)

This relationship definition is fundamentally different than ones in which, for example, the customer comes into contact with various employees, buys through the mail or over the Internet.

For the purposes of this installment, let's focus on the latter situation:

- Many contacts in the company
- Little human contact
- Contacts that don't require professional knowledge *and* personal relationships to make the commercial relationship successful.

Whether computers, groceries, pharmacy items or office supplies, customers spend significant amounts of money and companies engaged in these categories (and most others) all seek a dominant share of customer and a stable, longitudinal relationship.

But face it; within this context the customer has the upper hand. He knows how much he is spending, where he is spending it, his future needs and purchase expectations. For most companies this is just too dynamic an environment in which to lead customers. Thus CRM initiatives seem relegated to technology or reactionary contact and/or modeling scenarios at best.

Furthermore, many CRM models advocated today are isolated and focus on improving the relationship within a competitive vacuum. True, superior CRM is developed and operated within the context of the overall competitive market.

In order to develop a winning CRM strategy in this context, you must build a model with the following four pillars.

1. Pillar #1: Servant Relationship.

   Your paradigm must be one of servant, NOT a personally equal relationship. There are four key dimensions of a servant relationship:
   a. You have to know who you are serving
   b. You have to lead those you are serving
   c. You have to prove that you are really a servant to them and not just out to get money from them. Further, this servant mentality must be heartfelt throughout the organization and be a real part of the corporate culture. [More discussion in part III of this series.]
   d. You have to be willing to fight off predators to protect those you are serving which may sometimes be painful or costly.

2. Pillar #2: CRM is NOT a strategy that should be an umbrella model for all customers!

   Perhaps this is a shocking statement for some – and others may strongly disagree. However, here's why I believe this to be a fundamental truth for those undertaking a CRM initiative.
   a. CRM is costly and virtually all companies will find an all-inclusive CRM strategy prohibitively expensive. Further, such an approach will produce lackluster results because it develops a model that has little relevance for you critically important customers because it was built for *all* customers.

      Thus although all customers will benefit from a CRM initiative, not all customers should be targeted for CRM activities. (We will discuss this in greater detail later.)

b. The Pareto Principle applies here quite nicely. How many companies generate 90% of their revenue from 10% of their customers or as Pareto concluded, 80% of revenues from 20% of your customers. Or even 70% from 30% of your customers. Learn what the dynamic is in your company and you will begin to put this CRM concept into context. Focus CRM on those who are critical to the franchise. My metaphor is: if your corporate ship comes under attack, which customers do you want to put in the lifeboats first? In other words, it is the largest volume, most profitable customers who sustain the business that should be the focus of CRM.

3. CRM is part of a competency continuum, not a revolution.

I could retire if I had a dollar for each time I worked with a company that thought it could make all of its problems go away by adopting the latest business insight or marketing tool revealed by a revered guru. CRM is no different. You *cannot* abandon your current activities [hoping existing problems will go away] and jump to a CRM strategy. If you do, your prospects of success are bleak.

The fact is that CRM is an evolutionary process that is built on an *already* successful model. It is an extension of that model. It is a significant enhancement, if you will, to better serve and protect your best customers.

Organizational and/or marketing problems *must* be solved before a successful CRM initiative can be successful.

4. CRM is driven by CVM.

If you agree to proceed with your CRM initiative, based on the first three pillars above, then you come face-to-face with **the** fundamental issue of CRM. How do I know what to implement that will be competitively superior in the marketplace and result in increased market share, greater profitability and greater share of customers' wallets?

I believe the answer is grounded in CVM: Customer Value Management. CVM is the one positive finding from the Baldridge Award process [sorry if that sounds negative but I know a few winners who went through the process to satisfy their ego, not to really improve their business] that is a true revelation on how to be competitively superior in the marketplace. And it is the bedrock of sound CRM strategy.

CVM is a process that identifies, monitors and adjusts your offerings to meet the needs of your prime segments in the marketplace.

It requires knowing your customers at a micro level. It requires a serving paradigm. It requires excellence across the enterprise. With these attributes, I hope you can see why I believe CVM is both the glue and the insight for a superior CRM strategy.

CVM is the process of monitoring and managing your strategy based on the competitive dynamic in the marketplace through understanding how the customer decides to buy, adjusting to those parameters, *and/or* proactively changing the factors or weighting of factors that go into the purchase decision process.

Knowing your customers means developing a segmentation scheme that identifies them demographically, attitudinally and financially in “small” subsets of the overall customer base that exhibit similar purchase criteria and characteristics.

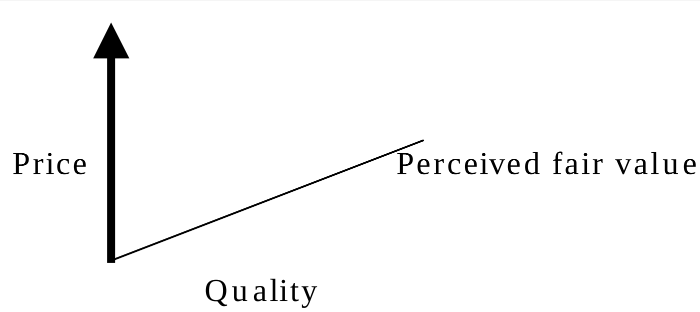
Once you know your customers, you conduct primary research to identify what they believe about the product/service category on a competitive basis across two key dimensions---quality and price.

Quality does not merely refer to physical product quality but to augmented product quality. For those of you who are confused by this term, augmented product is the total perceived offering including service, brand perceptions, reliability, ease of use, features/functions, knowledge of sales personnel, response time, follow-up, repair policies, return policy and performance, fast repairs, keeping customers informed of corrections, fixing things right the first time, accurate billing, resolving billing problems fast and the first time, easy to understand bills, installed on time, delivered as promised and replacement cycle.

Each competitive set will have its own unique product quality criteria. A list is first developed internally, validated externally and then measured. These lists can be 100-200 attributes long if you want to drill down and understand the nuances of the decision process.

The pricing attributes follow a similar construct. They transcend the purchase price and include such dimensions as credit options, finance rates, resale or trade-in value, sales, special offers and the like.

Once these lists are developed the primary research is fielded. Within each category, quality and price, statistical tools are used to identify the importance and ranking of each factor within quality and price. The technique is used again to weight the factors between quality and price resulting in an equilibrium line between quality and price showing what the customer deems a fair value.



Customer Value Map

Within each competitive set, the company with the best value wins.

As you can see, the slope of the line is critical to your CRM strategy. If you happen to be in a category that has destroyed the importance of quality and brand [creating a steeply sloped perceived fair value market], it is a commodity, a price game, and unless you change the way your targeted customers weigh the factors, nothing but the lowest price will win.

Knowing this helps you construct a winning CRM strategy.

CRM within this developmental framework is a winner. Within any other framework, it could be a grand waste of time.
Think about your own company. I'm sure you do customer satisfaction surveys and the scores are rather high. Yet, ever notice that these scores have little predictive value in terms of customer retention and prospect conversion. That's because they are done in a silo, your customer base, and not within the competitive context.

That is exactly what CVM does and it is **the** foundational piece for a well-designed, enterprise-wide CRM initiative that produces superior results.

When CVM is in place you will know where to make the investments that will produce the greatest results.

Finding someone who can help you through this maze is not easy. But actual results show that companies who make the effort achieve superior competitive customer satisfaction, superior growth, increasing market share and competitively superior profitability. All within about 6 months! And that's what it is all about!

The Role of Technology

Few would argue that CRM software and technology is front and center in application selling today.

There are many different applications and implementation costs and considerations.

And many sound good and may in fact improve company customer performance. But the key question is within what context?

Knowing what is important to the customer and what is critical for making you a success in the marketplace is the key to CRM investments in the organization.

Therefore, once you have CVM in place the role of technology and the necessary investments are clear. You know what you have to do; you know what technology you need, its cost, how to use it and the added short-term and longitudinal value it will bring to your operation.

Determine the answers via segmentation and CVM, then look to technology to support the CVM/CRM initiative. Context, benefit, returns are the keys to using technology wisely and to the greatest leverage for the firm.

One of the biggest mistakes you can make is to pursue enhancements because they are logical or may improve your performance. The answer lies in your customers and competitive environment.

Summary – Successful External CRM = S^4

Go into CRM with an attitude of having an enterprise-wide culture of being the good **S**ervant. Both understand your customers and serve them as they require. Protect them from competitive hostilities.

Be **S**elective. Focus on those customers who are [or have the potential to be] the bedrock of your enterprise. Do not go into a CRM initiative thinking and planning for an egalitarian methodology that treats all customers and prospects equally. If you do, you will serve no one well and the impact of your initiative will not support your investment. And that outcome does not lead to a good place for you or the organization.

Be sure you have a **S**olid foundation. Remember, CRM is not a marketing breakthrough that cures existing corporate ills. In fact it is just the opposite. If your auto's tires are out of balance giving you a rough ride, don't speed up to 150 miles per hour hoping the ride will smooth out; a lot of bad things can happen. Clearly, you need to slow down and get them repaired before you speed up. The same is true for CRM. You absolutely must build from strength. If you don't, an extraordinary negative event is in your not-too-distant future.

Be **S**ound in your knowledge of the marketplace. Be sure you know what consumers' in <u>each</u> segment think about you and each competitor in the competitive set. CVM is the tool that gives you the definitive answer to this question and it is the basis for an emotionally rewarding and financially successful CRM initiative.

Installment Three

In the third and final installment we'll spend time discussing the *internal* implications of CRM. (Most organizations spend their money and energy focusing externally on CRM.) We will discuss the importance of vision, mission, values, competencies, processes and overall business strategy on your CRM initiative and how to bring the internal organization into alignment with the reality of the competitive marketplace.

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