

the vsente white papers



CRM OR C3i?

WHY 80% OF ALL CUSTOMER RELATIONSHIP MANAGEMENT (CRM) INITIATIVES FAIL

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This white paper examines reasons why 80% of all CRM initiatives fail and presents Chief Executive Officers with four benchmarks to guide a successful CRM initiative. A companion briefing ranking the top five CRM vendors according to their C3I adaptability is also available via e-mail request only.

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The Genesis of CRM

Competitiveness can be described by the following three statements:

- Capture the most valuable market share
- in the shortest period of time
- using the fewest resources

Distilled to the critical factor -

drive revenue

Generate as much revenue as you can, as profitability as you can. More revenue should deliver more market share, which delivers enhanced com-

petitiveness. Organizations that can sustain substantial and profitable revenue growth are your leading competitors.

When you're a market share leader, your position is constantly under attack. It is a case where imitation is not flattery - it's war. You want to create a competitive formation that's hard to duplicate, and highly defensible.

Yet managements of some of the world's most competitive companies are led astray, distracted by philosophical notions of competitive behavior based in theory not in reality.

In the sixties the theory was to form conglomerates - supposedly the way to establish defensible competitive formations.

In the seventies, the theory was "follow the Japanese." With it was unleashed the modern day management author, each with a new methodology to attain economic nirvana - competitiveness.

In the eighties it was restructure, and break up the conglomerates of the 60's. This led to concepts of reengineering and "creative destruction."

In the nineties we had new rules and economies, justified by the emergence of the Internet. And a whole genre of business models based upon no revenue.

The point is that executive business leaderships, in their frantic pursuit of competitive advantage, become ripe targets for all manner of "pop" strategic and tactical initiatives - willingly provided by armies of predatory vendors and consultants.

The problem with much of this "advice" is that it distracts managements from their key tactical

objectives: Generate Revenue, Capture Share and Defend Position. At the end of the quarter, the proof is in the financial statements.

And yet companies keep falling prey to the "next big thing." Consider one of the more popular initiatives today in sales and marketing circles:

Customer Relationship Management

Somewhere along the way someone made the observation that an element of competitiveness included the ability of organizations to retain their customers long-term. This was predictably followed up with evidence of the value of these customer relationships. And this fit nicely into discounted cash flow models based on the *promise* of future revenues.

Together, this proved sufficient to convince executive leaderships to "blink" once again, and divert their collective attention away from critical tactical maneuvers directly associated with gaining and sustaining competitive advantage.

What was left out of the *promise* were the specific maneuvers necessary to:

build strong and sustainable relationships,

then

leverage those relationships into enhanced and measurable competitive advantage.

This is the genesis of the Customer Relationship Management industry. A broad collection of technologically based processes that were supposed to deliver on the *promise* of establishing durable customer relationships.

The Promise of CRM

And what exactly is CRM supposed to do? According to leading technology industry researcher Gartner Group:

"CRM is a customer-focused business strategy designed to optimize profitability, revenue and customer satisfaction."

Does this mean that to become superior competitors managements need to spend millions of dollars with Siebel Systems? Is it really possible to extract competitive advantage from a CD ROM and pile of manuals? And wasn't this the same general promise of ERP the last time around?

The simple fact is that any relationship worth having must be fought for, won, and then defended - perpetually! Technology may be an enabler in the cycle, but it isn't a *solution* to the age old problem of acquiring and retaining customers.

CRM as a tool to enhance levels of customer interaction, service and customer data flow is understandable, maybe even justifiable and competitively valuable. But when a software application, or any other grandiose replacement for good old-fashioned "blocking and tackling," is allowed to hijack the essence of your competitive strategy then it's time to start worrying. Look at it this way. Who understands your business better - you or the army of 28 year old Big Five consultants who do the implementations of most CRM initiatives?

Consider a typical CRM initiative. For medium to large companies, prices start in the millions, and enormous quantities of organizational bandwidth are tied up - sometimes for years - contending with yet another monster IT initiative.

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But executive leadership often sustains the greatest cost - the opportunity cost related to the time and energy spent implementing the new system. These are the generals of competitive maneuver. They are men and women who must orchestrate the strategies and maneuvers necessary to sustain a competitive edge - to allow the organization to survive and thrive. To the extent that their attention is diverted away from defending the organization's competitive position, a vital organizational resource is lost - permanently!

But suppose you do go ahead with a full-scale CRM initiative. At the end of the day what do you end up with? Will your people use it? If the technology isn't used, you've just blown a bundle of company assets for nothing. And if the resistance is strong, as the mandate to share information typically is, how many additional resources are you willing to devote to policing the troops? What will it do to morale?

CRM at its very heart is a sales information management system, but largely constructed around a customer-centric focus. To this end, many CRM implementations do a pretty good job.

But how do they build relationships, especially the durable kind that delivers long-term revenue streams? What exactly is the "clutching mechanism" that allows CRM to become the centerpiece in an organization's long-term competitive advantage?

The common wisdom is that by knowing your customer better, and being able to deliver the right information, to the right person, and at the right time, the customer will be so "delighted" that long-term, defensible relationships will be established.

Challenging the Promise of CRM

There are some major assumptions in this proposition. Three in particular fundamentally challenge the entire argument.

1. Will CRM applications actually cause or facilitate the formation of "relationships" between customers and vendors?
2. Will these so-called relationships actually result in enhanced competitive advantage, largely defined as revenue?
3. Are these relationships sustainable over sufficient time frames to realize meaningful ROI on the resources needed to launch and maintain the initiative?

CRM provides a wide range of tools to manage customer data, and provide information to both the organization and the customer. Aside from the direct advantages to the organization (better customer intelligence, forecasting, etc.), CRM may establish enhanced levels of customer service. To the extent that customer service is a core element of an organization's value-proposition (which defines most companies), CRM may extend the frontier of a competitor's customer service.

But whether this enhanced customer service actually results in the formation of meaningful relationships remains highly arguable. What will happen when CRM-like initiatives are institutionalized as minimum acceptable levels of customer service? Where's the sustainable differentiation then?

We've let loose a legion of sales reps schooled on the notion of "delighting" the customer...

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doing what ever it takes to make the customer happy. These relationships are blindly formed on the belief that customer delight converts into profitable relationships, which results in enhanced competitive advantage.

Simply put, customer delight is not measurable. You can't quantify it. Because you've delighted the customer, will that customer pay you more money? More importantly, will the "delight" translate into loyalty? Or will the customer go to the next lowest price - despite the delight?

A customer relationship is comprised of many complicated and interrelated needs and issues. Delight is the end result. Delight is preceded by all sorts of nuts and bolts issues related to acquisition, price, quantity, alternatives, value, fit, delivery, emotion, history, etc. You don't *manage* a customer relationship. You *fight* for it. You *battle* for it. Quite often you battle your own customer who's demanding something you don't want to give.

Can current CRM packages directly link the soft notion of relationship with the hard metric of revenue? No.

In fact there's an uneasy comparison evolving between other recent management fads called "branding" and "first mover advantage" and the seductive capabilities promised by the CRM industry. Each "fad" was/is rationalized on the basis of massive up-front investment without a solid short term return potential.

Why "Delight" is a Fundamentally Flawed Strategy

The customer isn't always right.

You will go out of business attempting to "delight" the customer.

The "relationship" between customer and vendor is based upon *tension*.

Customers want to purchase as ***much*** as they can, for as ***little*** as they can.

Vendors need to sell as ***little*** as they can, for as ***much*** as they can.

Until they change the rules of capitalism this tension will always exist between buyers and sellers.

A customer delight strategy releases the tension on the sellers side of the relationship.

Sales reps rewarded on delight and not profits become the customers advocate.

Which leads most CEO's to ask - who's side is my sales rep on?

Your sales reps need to be your advocate, not your customers advocate.

Your sales reps need to fight for your profit. Not your customers profit.

They need to sell a higher price. Not the lowest price.

They need to fight the competition as if they are the enemy... not their next employer.

And you need to motivate and compensate them to drive this behaviour.

Think about how you motivate your reps - is it based upon customer delight? Or customer profitability?

At the end of the day relationships are not line items on your income statement. Revenue is.

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Until you can bring CRM home to that tactical level you need to be very careful of any strategy or initiative with customer delight as its' core element.

We are in an era of unprecedented competition. Markets are saturating. Marketing tools are state-of-the-art. The Internet is rapidly accelerating competitive cycles. Assuming you can both establish quantifiable relationships, and then connect revenue back to them, you now need to consider how long you can sustain them. At a time where relationships can be broken and reformed with a few mouse clicks, the core value-proposition of CRM becomes highly questionable.

What CRM Should Be

So where does this leave CRM? As it turns out there is likely a place for CRM in your organization. It's just not likely where the vendors would like to see it. Specifically, it is not as the backbone of your competitive formation.

Think of your competitive formation as a battlefield. You're a general. Your top managers are lieutenants. They execute your orders, and provide feedback from the "front." The employees are the troops. Weaponry includes intellectual property, messaging, reputation, value-proposition, and resources - in cash, weapons, and troops. You need to establish and implement systems, structures, methodologies and ideals that are directly linked with revenue growth. It should be a formation that allows you to command and control massive competitive undertakings, yet consistently out-maneuver your competition.

You require the ability to visualize your competitive terrain, including the relative positioning of yourself and your competitors.

You require models and techniques to allocate

resources across the competitive terrain. Your goal is to deploy the right resources, in the right place, and at the right time. How do you attack with the right strength, at the right weakness in your competitor's formation, and at the critical moment?

What maneuvers do you adopt for specific tactical engagements? Do you engage in combat, and risk an out-and-out war? Or do you logistically exploit their weaknesses without causing a direct engagement? Do you engage your competitors head-on where you pit your resources against theirs? Or do you deploy a series of artfully executed raids, thereby inflicting damage to your competitors at critical points?

You require a discipline for identifying and implementing an endless stream of discrete executions in a timely and relevant fashion. Maneuvers must be consistently executed on-target.

To identify exploitable opportunities and competitor weaknesses you need 24/7 competitive intelligence systems that deliver condensed, real-time and actionable knowledge to HQ.

You need to be able to reconcile your organization's core competencies with a constant stream of opportunities. This is called positioning, and it needs to be regularly calibrated. Ultimately, you need to be able to reconcile where you are with where you want to be.

All this needs to be communicated to the "front." There must be an unbroken exchange of intelligence between HQ and the troops. How else can commands be executed properly, and competitive intelligence make its way back to HQ? The military calls this process Command, Control, Communications and Intelligence, or C3i. Superior competitors have superior C3i.

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This is the type of formation that results in superior competitors, with competitiveness measured by revenues - not relationships.

Current CRM offerings cannot begin to accomplish this, although most industry vendors have positioned it as being able to. However, the intensity of contemporary competitive maneuver necessitates that organizations' constantly intensify their aggressiveness.

What you need to move toward is CRM that looks less like Customer Relationship Management, and more like a Command, Control and Communication backbone.

Consider the definition of Battle Command as written by the USMC:

Battle Command is the art of decision making, leading, and motivating soldiers and their organizations into action to accomplish missions: includes visualizing current state and future state, then formulating concepts of operations to get from one to another at least cost; also includes assigning missions, prioritizing and allocating resources, selecting the critical time and place to act, and knowing how and when to make adjustments during the fight.

Replace a few words in the above definition like "Battle Command" with "Sales Command" and "fight" with "campaign" and you have the root description of a functional CRM application that needs to become an integral part of your organization's competitive arsenal.

Traditional CRM solutions are well positioned to become the "glue" that binds your competitive formation together. They may even provide part of the communications mechanism. Just don't let

CRM replace superior leadership and tactical maneuver. That's the job of executive management.

So CRM may have a place in your organization, possibly playing an important role. But before you commit a substantial portion of company resources on the popular premise of CRM, think long and hard how it will impact your competitive strategy. Keep your eye on the foundation of competitive advantage - revenue. Measure all promises - whether internal or external - by how well they generate revenue. Revenue, not relationships, is the key to your competitive advantage.

Four Benchmarks for a Successful CRM Initiative

Here are four benchmarks a Chief Executive Officer should use for any CRM initiative:

1. Revenue not Relationships. Focus on quantifiable revenue, share and margin metrics for any CRM initiative. *Customer delight* and *relationship management* are not quantifiable concepts. Wiring together all customer touch points is fine as long as the data is actionable and accountable.
2. CRO not CIO. Your CRM initiative needs to be driven by your Chief Revenue Officer and universally accepted by your sales and marketing team. Beware of any initiative spearheaded by your IT department. Do not delegate the leadership to a consultant or a vendor. And steer clear of any initiative that's part of a global ERP strategy.
3. Methodology not Technology. Most CRM vendors today are technology driven and operate business models fueled by the sale of site licenses. Most solutions are "out-of-the-box", shrink-wrapped, off-the-shelf "apps" and bear little or no resemblance to your business model. While the

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technology may be cutting-edge, the benefits you derive from the technology itself will likely not be in line with the pain and expense you'll go through in adapting your model to fit *their* technology.

4. C3i not CRM. Because you spend millions of dollars to wire together every customer touch point doesn't mean that you now have customers for life. Gathering customer input and data is part of the equation. It's a start. Winning and retaining customers is the battle - driven by strategy, tactics, execution and the ability to command and control your battlefield.

Bottom line...

-if-

you focus on revenue generation,

-and-

you build a solid C3i backbone,

-and-

your Chief Revenue Officer
leads the initiative,

-and-

their technology adapts
to your methodology,

-then-

then your CRM initiative
will succeed.

FREE 10 PAGE BRIEFING
vSente Ranks the Top Five CRM Vendors
According to Their C3i Vision

vSente, has prepared a 10 page executive briefing for CEO's considering a CRM initiative. This is an unbiased look at the capabilities of each offering relative to the issues described within this white paper. (vSente has no relationship with any vendors)

E-mail vSente at info@vsente.com to receive your copy via PDF.

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About the Authors

Mike Smock is a Managing Director and founder of vSente. Prior to vSente he was the founder of Darwin's Crucible and the Silakhan Route, both strategic marketing firms, and Hunters & Gatherers - a full service advertising and public relations agency. Prior to that, he spent several years as a Chicago based investment banker and operating principal. In his early career Smock worked for AFG Industries later sold to Asahi Glass and Allied Tube and Conduit now part of Tyco. He was also the Co-Founder of Dynaquest Corporation an early artificial intelligence pioneer and led the successful leveraged buyout of Associated Piping and Engineering from Johnson Controls. As an advisor his clients have included GTE, Marshall Industries, Jacobs Engineering, Texas Instruments, SyQuest, Christensen Boyles Corporation and Lockwood Greene. Over the past twenty-five years Smock has executed more than 500 marketing campaigns in highly competitive, commodity-driven, global markets and has negotiated and closed more than 100 - complex transactions including licensing, distribution, manufacturing, fabrication, financing, merger and acquisition deals. Smock is the author of Heavy Weather... A Sales Manual and The Guru Red Manifesto. He studied Urban Planning while attending Michigan State University and graduated from the Elmhurst College Executive Management Program.

Rod Watkins is a Managing Director and Founder vSente. Prior to vSente he was Managing Director of Darwin's Crucible, a San Francisco based strategic marketing consultancy. Rod joined Darwin in 1999 from his position as Senior Business Planning Analyst in the office of the President of NEC. While at NEC, Watkins' was responsible for market monitoring and research dissemination covering the global semiconductor industry. Prior to NEC, Watkins was a Dataquest industry analyst and specialized in profiling competitive environments, analyzing industry trends, and articulating business models within various computer hardware categories. Mr. Watkins began his Silicon Valley career in the early 90's as a marketing professional for several successful start-ups. Watkins is a well-regarded media spokesperson respected for his hard-hitting reality driven analysis. He graduated summa cum laude from the University of Colorado with a major in business and a minor in Asian studies.

About vSente, Inc.

vSente is a San Francisco based strategic services group. We build and operate revenue engines for the Global 10k. A revenue engine integrates and orchestrates fundamental sales and marketing competencies in order to maximize top-line revenue.

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