

## How to Develop a CRM Strategy

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Almost every company that has benefited from a customer relationship management initiative has done so after developing a coherent CRM strategy. This document offers guidance on creating such a strategy.

## TABLE OF CONTENTS

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1.0	Developing a CRM Strategy .....	4
2.0	Set the Destination .....	5
2.1	The Definition of CRM .....	5
2.2	CRM Objectives and Goals .....	5
2.3	The CRM Vision and Inspiration.....	6
2.4	Executive Leadership and Governance .....	7
3.0	Audit the Current Situation .....	8
3.1	Re-evaluate Past CRM Failures.....	9
3.2	Broaden the Inputs Into CRM Strategy .....	9
3.3	Assess the Strength of Customer Relationships.....	10
3.4	Discover What Customers Value Most.....	11
3.5	CRM Capability Assessment.....	12
4.0	Map the Journey.....	13
4.1	Aligning the CRM Strategy With the Business Strategy.....	13
4.2	The Differences Between the Marketing Strategy and CRM Strategy.....	15
4.3	Segmentation and Customer Value .....	16
4.4	Segment-Based Resource Allocation.....	17
4.5	Brand Models .....	18
4.6	The Customer Life Cycle .....	19
4.7	Case Study 1 .....	20
4.8	Case Study 2 .....	21
4.9	CRM Objectives.....	22
4.10	CRM Metrics.....	24
5.0	Taking the Future Into Account .....	26
6.0	Conclusion.....	27
Appendix A.	Acronym Key .....	27

## LIST OF FIGURES

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Figure 1. A CRM Vision Must Take the Customer Viewpoint and Answer: Why and How? .....	6
Figure 2. Creating the CRM Vision.....	7
Figure 3. Knowledge Transfer Between Board and CRM Team.....	8
Figure 4. Internal and External Inputs Into CRM Strategy .....	10
Figure 5. Customer Value Relationship Matrix.....	11
Figure 6. Relationship Investment Guide .....	12
Figure 7. CRM Internal Capability Assessment.....	13
Figure 8. Comparing the Elements of Marketing and CRM Strategies .....	15
Figure 9. Segmentation and Customer Value .....	16
Figure 10. Segment-Based Resource Allocation .....	18

Figure 11. Brand Models: Linking Customer Experience With Required Internal Change ..... 19  
Figure 12. Customer Life Cycle: A CRM Strategy Must Encompass All Stages..... 20  
Figure 13. CRM Strategy: Case Study 1 ..... 21  
Figure 14. CRM Strategy: Case Study 2 ..... 22  
Figure 15. April 2004 Survey: Primary Objectives of CRM Initiatives ..... 23  
Figure 16. CRM Metrics..... 25  
Figure 17. Scenarios Affecting CRM Strategy..... 26

## ANALYSIS

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### Management Summary

Gartner has run a CRM Excellence Award since 2001 and has examined what made the finalists stand out from the other entries. We found that the most successful had a coherent, simple, widely understood strategy with associated metrics that were well defined. The finalists' strategies were backed by senior executives and most had laid out a governance structure to ensure their strategies succeeded. In many other cases, the CRM strategies either did not exist, had ceased to be relevant to the organization, had no leadership support or were not understood outside a handful of executives' heads. Therefore, getting the CRM strategy right is clearly a prerequisite for a successful initiative.

This report is designed to aid the CRM project manager, executive sponsor or operations executive who is seeking help in building a CRM strategy. It is not intended to provide a template for a strategy document, because all organizations are unique and no two strategies are alike. Instead, this report provides guidance and help by providing successful models and frameworks alongside case studies and examples. It has four main sections.

- Setting the destination
- Auditing the current situation
- Mapping the journey
- Taking the future into account

To help businesses create a CRM vision and strategy, the following Key Issues are addressed in this report:

- What is a CRM strategy?
- How does a CRM strategy fit in with other business strategies?
- How will companies effectively manage increased service and communication to build real customer loyalty?

### 1.0 Developing a CRM Strategy

A CRM strategy should outline where the destination is, summarize the current situation and show how the business will get from where it is to where it wants to be, gaining what benefits and at what cost.

A CRM strategy should comprise three sections:

- *Set the destination:* The vision of the company and the goals derived from this vision are the intended destination of the CRM strategy. The vision will be heavily dependent on the leadership of the company and on which definition of CRM is used.
- *Audit the current situation:* Skills, resources, competitors, partners and, of course, customers all need to be consulted in assessing the start point.
- *Map the journey:* The journey may take many years, and the map will change along the route. It is important to plan for this before starting.

*Action Item: Setting the destination, auditing the current situation and mapping the journey is an iterative process that may require several revisions before a final CRM strategy is developed. The challenge is to avoid rushing the strategy development, as the company may be committed to many years of change.*

## **2.0 Set the Destination**

### **2.1 The Definition of CRM**

Gartner defines CRM as a business strategy in which the outcomes optimize profitability, revenue and customer satisfaction by organizing around customer segments, fostering customer-satisfying behavior and implementing customer-centered processes. Every vendor, consultancy, university and business-management guru has a different definition of CRM, and all have their merits and limitations when applied to an individual organization. Yet the definition of CRM and a vision for CRM are tightly linked, so getting the right definition of CRM cannot be underestimated. The definition will bind *what* CRM relates to and what it does not relate to. More importantly, it will define *who* a customer is and is not. Thus, developing a company-specific CRM definition is the first step to creating a CRM vision. There are several benefits in creating a unique definition, although the process may be laborious and tortuous.

- A collective understanding between multiple departments for the first time
- The creation of boundaries for CRM, so that it does not encompass everything and anything to do with customers
- Buy-in from those involved in its creation and, ultimately, its execution
- An acceleration in the process of defining a CRM vision, because the definition and the vision are inextricably linked

Gartner recommends collecting several definitions of CRM, particularly from organizations within the same industry, from those with similar goals; or from those that are seen as successful at CRM, to draw inspiration and identify common characteristics. However, it is important not to take an "off the shelf" definition and then proceed to create a unique one for your company. Once the definition has been fixed, the CRM vision can set out *who* the customers are and *why* CRM needs to take place. The strategy can then determine *how* it will happen. Moreover, once a definition of CRM is reached, the expression of a CRM vision is far easier to establish.

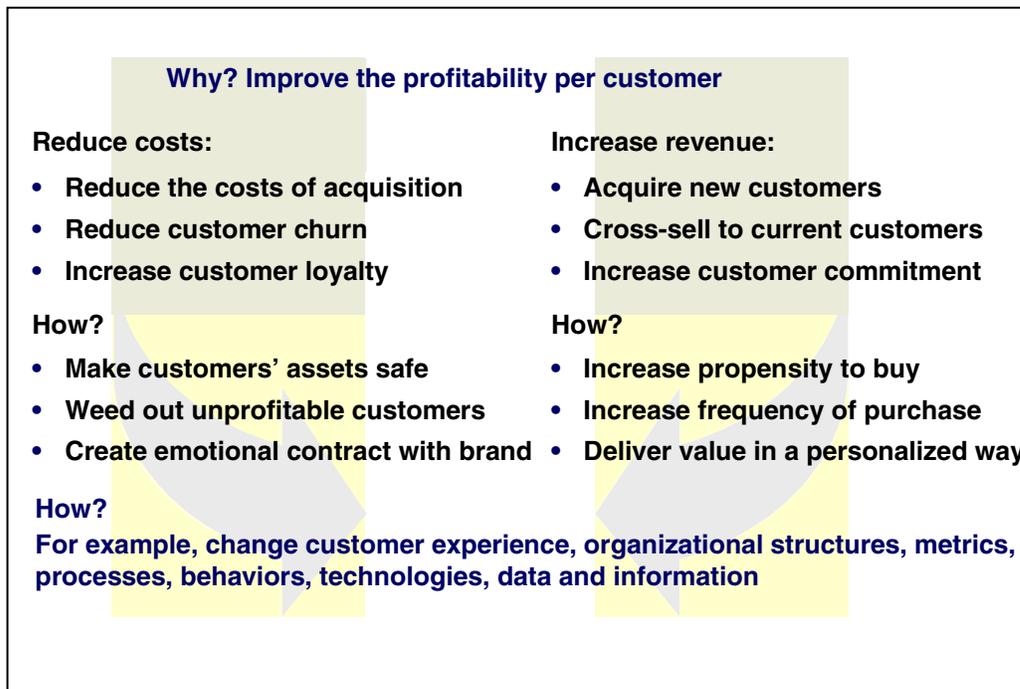
*Action Item: Companies should examine as many definitions of CRM as possible but should create their own definition to gain buy-in and cohesiveness from those involved in the initiative.*

### **2.2 CRM Objectives and Goals**

*Strategic Planning Assumption: Through YE06, more than 80 percent of CRM strategies will fail to articulate the future customer experience in the CRM vision. Therefore, the benefits will be at least half those expected for these organizations (0.8 probability).*

Most goals for CRM initiatives are built around improving profitability. Most visions are short term. Sometimes, the focus is on cutting costs (such as reducing customer churn or improving retention rates). Other times, the focus is on increasing revenue, by improved targeting to acquire the correct mix of new customers, or increased cross-selling and up-selling into the installed base (see Figure 1).

**Figure 1. A CRM Vision Must Take the Customer Viewpoint and Answer: Why and How?**



Source: Gartner Research (December 2004)

The focus can be subtler with customer-centered goals like increased customer commitment and loyalty, which will feed back to greater profitability over a longer period of time. These goals are more difficult to measure. Usually, there is a mix of cost-reduction and revenue-enhancing goals in the vision.

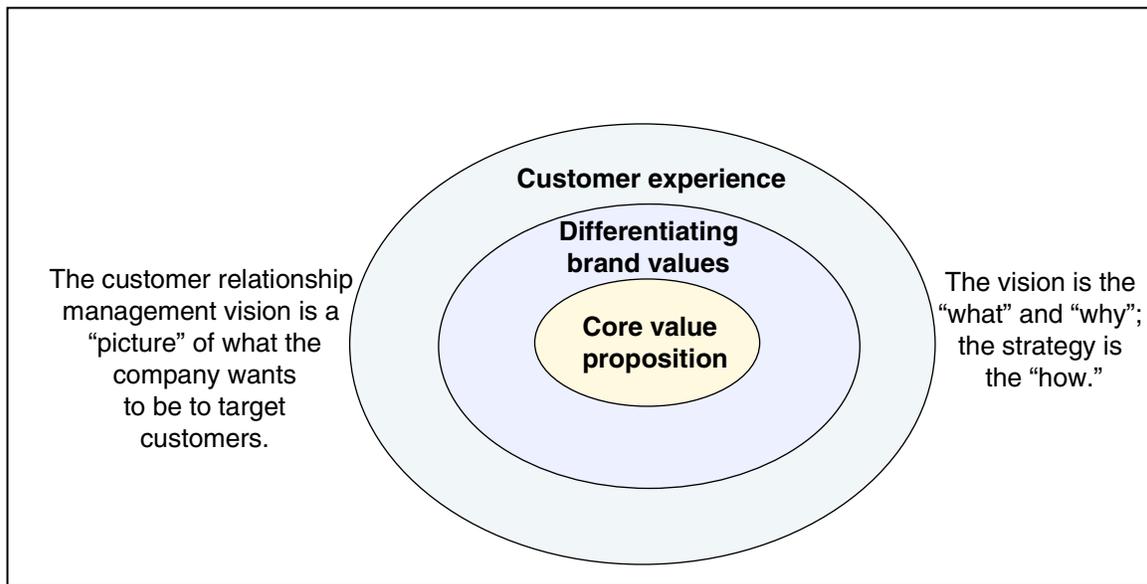
However, a true CRM vision should consider the future state from the customer's perspective: What will the customer gain from the CRM strategy? How will the customer's value proposition differ from the current situation?

*Action Item: A CRM vision should be able to articulate the future environment for the organization in terms of profitability and also the future customer experience.*

### **2.3 The CRM Vision and Inspiration**

Although a CRM vision needs to define CRM and set out goals, it also has a more important purpose — inspiration. The CRM vision needs to reflect the "enterprise personality." Without it, customers will not have a clear image of what the organization offers vs. the competition, leaving expectations unmanaged and at the mercy of market forces. Employees need a vision of what to deliver to customers. The vision should motivate them and enable them to work together, generate customer loyalty, gain greater "wallet share" and turn target customers into advocates. A vision starts with understanding market demand, as well as the company's market position, and then creating a core proposition to target customers; one they will value and which stands out from the competition (see Figure 2). This core proposition should be a declaration of intent around which a customer value proposition (CVP) or culture can be built. Next comes a set of competitively differentiated brand values that the customer rates (for example, innovation, independence, quality, expertise and involvement).

**Figure 2. Creating the CRM Vision**



Source: Gartner Research (December 2004)

These values should be determined from the customer's viewpoint. Too many organizations think they know what customers want, but instead discover, through costly mistakes, that they do not. They overinvest in services that customers do not want or value, and they do not invest enough in the elements of service delivery that would generate real value and loyalty. Finally, there is an outline of what the customer experience should be for different situations and segments.

*Action Item: Examine the current core value proposition for customers: Is there one? Is it different from that of competitors? Is it understood by, and motivating for, employees? And do customers associate the organization with it?*

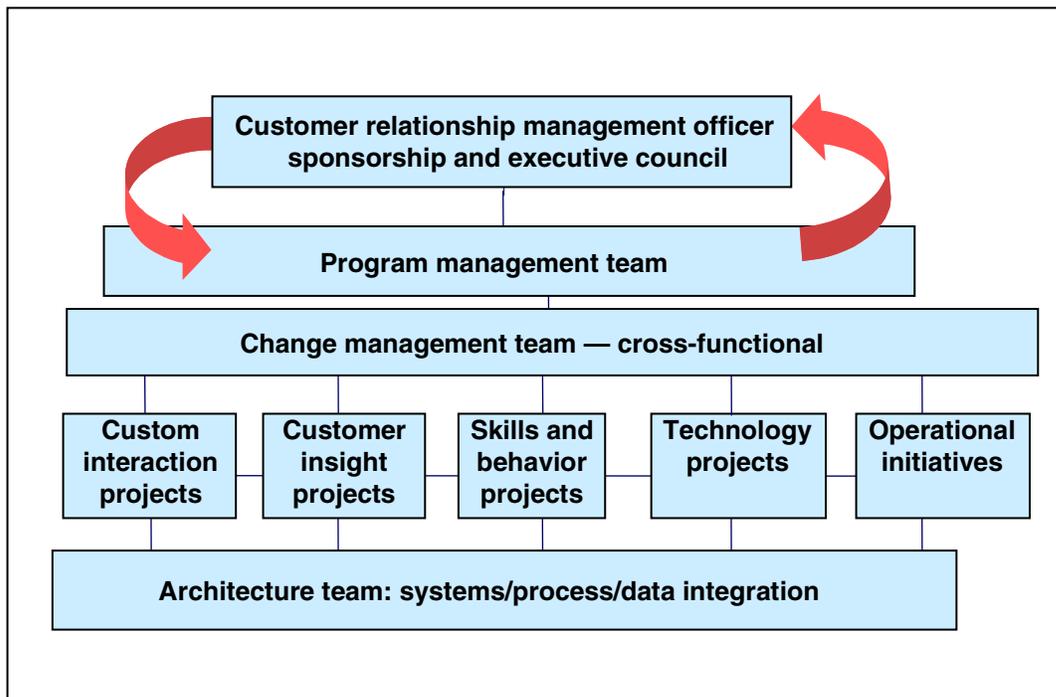
## **2.4 Executive Leadership and Governance**

*Strategic Planning Assumption: Through 2008, for a CRM program to be successful, 45 percent will typically depend on the right executive leadership, 40 percent on implementation management and 15 percent on the technology choice (0.8 probability).*

Executive understanding, sponsorship and leadership are essential when commencing a CRM initiative. Although full board-level support is crucial, in reality, an executive council, which may have non-board members, will need to drive the process forward (see Figure 3). Day-to-day implementation will require a program management team, including input from the IT organization, to refine the CRM vision laid down by the board, prioritize work, manage benefits and seek synergies between projects.

An important part of program function is the change management team. Although other programs can succeed with far lower levels of business management involvement, a CRM program is fundamentally about behaviors, relationships and employee actions; so change management becomes the most critical success factor.

**Figure 3. Knowledge Transfer Between Board and CRM Team**



Source: Gartner Research (December 2004)

A key factor in the early stages of an initiative is the mutual education of the main board or executive council, and the program management team. The board/executive council must be educated on the changes required as part of CRM. However, the program management team must know what the board is thinking and how the business strategy may evolve.

*Action Item: During the initial stages of the CRM initiative — while the CRM vision and strategy are being developed — the program management, executive council and board-level sponsors must commit time to mutual education workshops.*

### **3.0 Audit the Current Situation**

Several types of audit are possible before pressing ahead with developing the CRM strategy.

- Examine past CRM failures.
- Seek input on the current causes of pain from multiple external customers and partners, and internal sources like frontline employees from different business functions.
- Measure the state of current relationships and the experiences of customers.
- Find out what matters most to customers in dealing with the organization.
- Assess the organization's own capabilities to deliver on a CRM initiative. This will include assessing the state of customer data, mapping customer-facing processes, collating and assessing the metrics used to measure customer-facing departments and the level of focus that the organization is placing on its customers. Use the assessment to evaluate the organization against equivalents in the same or similar industries.

Ultimately, companies should use as many of these assessment types as possible in preparation for setting out the strategy.

### 3.1 Re-evaluate Past CRM Failures

*Strategic Planning Assumption: Through 2005, companies that neglect to examine the causes of their own and others' past CRM failures are twice as likely to face problems with the next strategy, compared with those that investigate and take note (0.8 probability).*

Before starting to plan, companies should examine their past internal failures, and those of others, to avoid repeating the same mistakes. In order of frequency and impact, the top 10 causes of CRM failure are:

- *Lack of understanding at board-level:* "We want it done by Christmas." The board has little customer or CRM understanding or involvement.
- *Lack of adjustment to compensation structures:* "I'm not paid to do that." Rewards and incentives tied to old, non-customer objectives.
- *Employee culture does not change:* "So what do I do differently? It's all a load of hype!" Staff culture does not have a relentless focus on the customer.
- *Customer input is nonexistent or limited in developing the strategy:* "We know what they want." Limited or no input from the customers' perspective.
- *Thinking that buying a software package will create CRM, and forgetting that architecture and integration issues are bigger and more expensive:* "Send someone to that exhibition for brochures."
- *Independent or inappropriate processes:* "I have to have your date of birth again." Lack of specifically designed, mutually reinforcing processes (that is, strategy).
- *Poor-quality data on customers, leading to poor analysis and decision making:* "We need to collect all our data on all our customers and 'data mine' it."
- *Weak coordination and communication between departments, divisions or projects:* "My job is to sell life insurance. I don't care what claims handling is doing."
- *The CRM team focuses too much on IT or back-office functions and with short-term project time scales, while ongoing business operations do not get involved:* "Whom can we send on the CRM project that we can live without for six months?"
- *No measuring or monitoring:* "I think CRM is a waste of time. Prove me wrong." No measures or monitoring of benefits and lack of testing.
- Often, past CRM projects and initiatives failed to meet expectations, but still delivered a positive return on investment. Outright failures are rare; occurring less than 15 percent of the time. Before rejuvenating a CRM initiative, companies should spend time measuring what has gone before, wherever possible. It is also important to spend time interviewing past participants on what they thought went wrong. In many cases, the assumptions, business case and goals of past projects remain valid, even if the execution was not as successful as hoped.

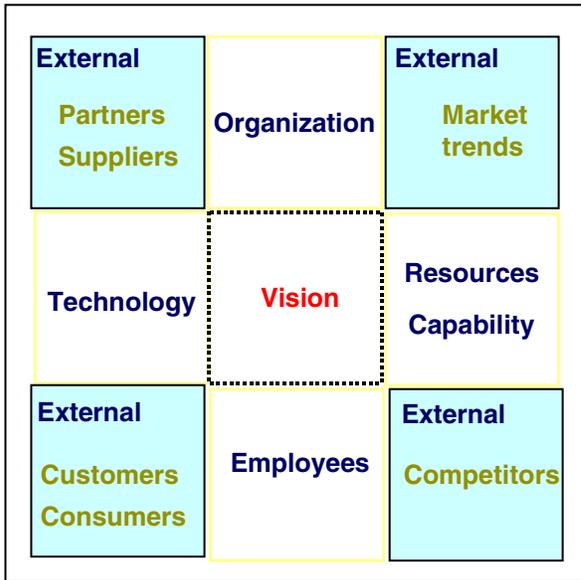
### 3.2 Broaden the Inputs Into CRM Strategy

In developing the CRM strategy, many organizations do not use sufficient external sources of information when defining the current situation. Often, customers and consumers are not

consulted. But the net, for sources of relevant information, should be cast even wider to include competitors, partners, suppliers and market research to determine the latest market trends.

Once external sources have been tapped, internal sources of information can also be used. In particular, employees are a good source of anecdotal and statistical information (see Figure 4).

**Figure 4. Internal and External Inputs Into CRM Strategy**



Source: Gartner Research (December 2004)

Without internal and external information sources, there may be serious miscalculations in the CRM strategy, not only about customer and consumer needs, but also about the internal capabilities to deliver to those needs. Customer and consumer information must be weighted highest. However, to set new standards of service, it is sometimes critical to override customer perceptions, as they are bound by past experiences. Therefore, customer feedback cannot be used as the only input.

Beware generic discussions about the relationship between customer and supplier, and focus on the highest pain points. The more specific the problems, and the better the examples given by customers and frontline staff, the more immediate the understanding of those approving businesses cases.

*Action Item: Beware of short cuts in information gathering when assessing the current customer relationship situation. Seek information from external sources first, and weight customer and consumer feedback highest.*

### 3.3 Assess the Strength of Customer Relationships

The next thing to establish is the strength of the relationship with customers (see Figure 5).

**Figure 5. Customer Value Relationship Matrix**

<b>Customer potential (value to company)</b>	Key	Protect position	Invest to protect	Invest to win over	Damage limitation
	Large share of wallet	Counter competition	Invest to build	Win the opportunity	Careful management
	Some potential	Manage for profitability	Build selectively	Manage for revenue	Manage for revenue
	Transactional	Manage for profitability	Manage for profitability	Manage for revenue	Consider divesting
		Highly secure	Secure	Vulnerable	Fragile
<b>Strength of relationship (value to customer)</b>					

Source: Gartner Research (December 2004)

The result is a customer value relationship matrix that combines the supplier's view of customer value segments — which can be derived by examining current profitability or expectations of future potential (such as lifetime value) — with a measure of the current strength of the relationship from the customer's perspective (that is, derived by looking at satisfaction and loyalty). The intersection will then determine the objectives and strategies by segment. Measurements of current and future profitability should be one of the first things companies consult when estimating relationship value, even though the allocation of fixed costs across customers may be difficult. However, understanding the strength of the relationship from the customer's perspective is equally important, and this is where primary research is usually required.

### 3.4 Discover What Customers Value Most

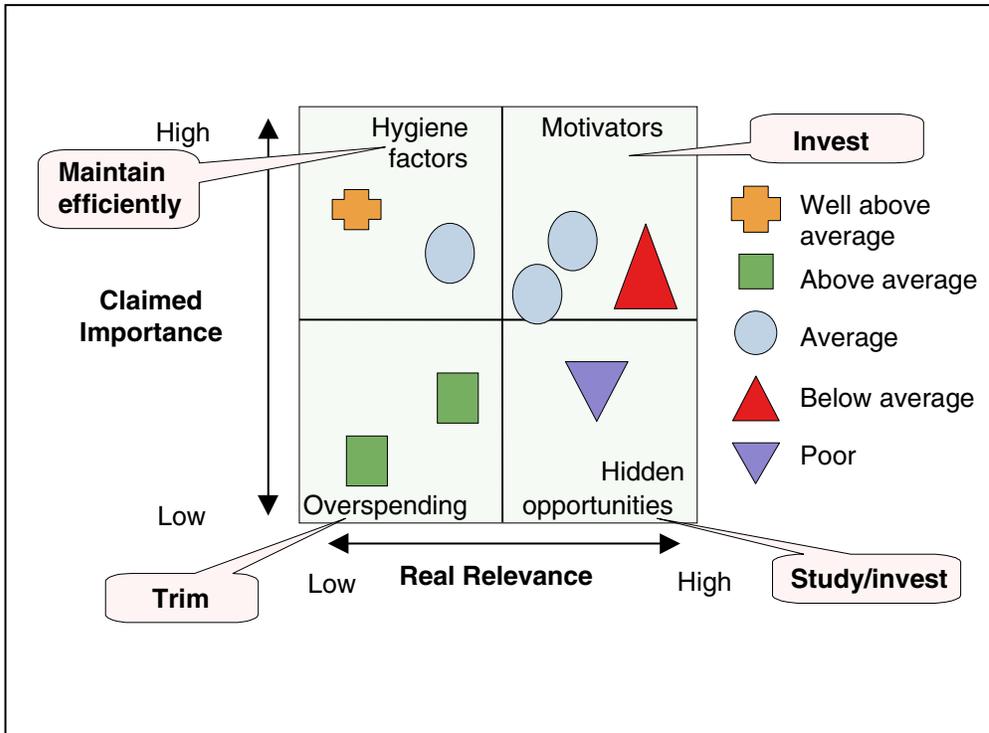
It is important to establish exactly what customers value most from the current relationship. What satisfies customers and, more importantly, what generates the "feel-good factor" and trust that engenders loyalty? An organization can generate satisfaction without any loyalty, and many do, but understanding what motivates loyalty is still very important. To do this, a company has to measure rational factors against need, as well as the more emotive and subjective factors of brand image, values and service quality (for example, the style of communication and the amount of customer care shown). Once everything else is satisfactory, delivering on the emotive factors is what makes customers more committed and loyal. This can be related to Maslow's hierarchy of needs: once the organization satisfies the basic needs for the customer, it is able to move on to higher-order needs.

Establishing satisfaction and loyalty can be done through market research that produces a relationship investment guide (see Figure 6). This guide will show the presumed importance of a range of rational and emotional service delivery factors (for example, brand values and satisfaction and quality contact time with account managers). And it will show how relevant these factors are in influencing customers' behavior. The result reveals the factors that:

- Engender satisfaction, so they only need to be done to a certain "hygiene" level
- Really do not matter, and show where costs can be cut
- Were hidden and which the company had not realized were important

All of these factors can be compared with those of competitors and detailed by customer segment.

**Figure 6. Relationship Investment Guide**



Source: Gartner Research (December 2004)

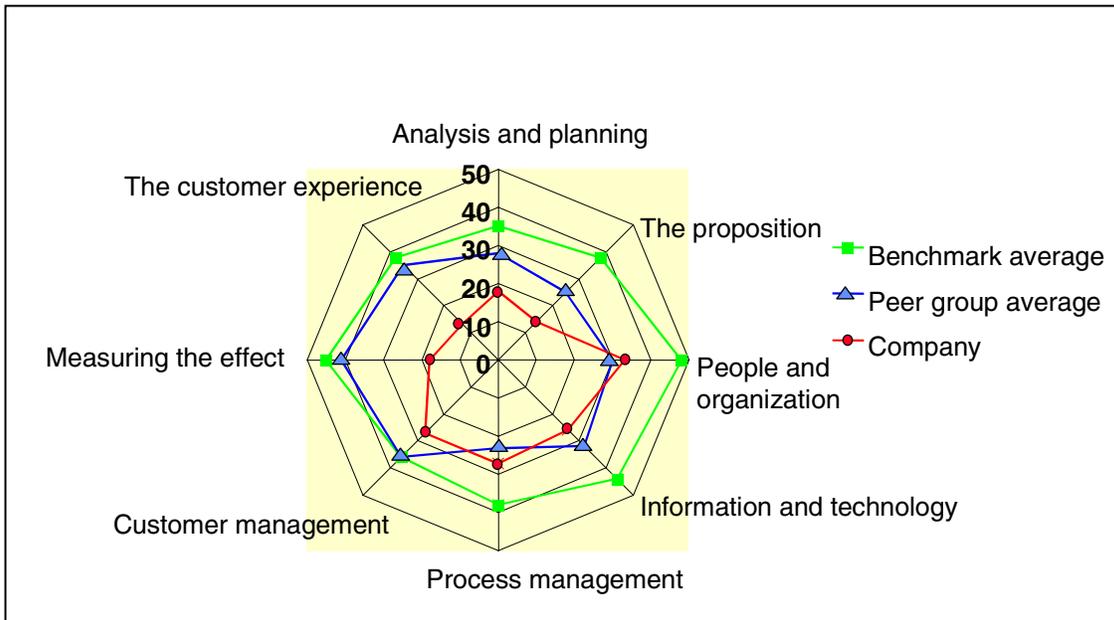
### 3.5 CRM Capability Assessment

*Strategic Planning Assumption: Through 2008, less than 10 percent of large companies will have tested their CRM capabilities against the competition (0.8 probability).*

Many organizations will perform a rudimentary analysis of their internal capability to achieve the goals of the CRM vision. Few will effectively analyze all the areas of change that may be required. Even fewer will measure themselves against the competition.

An internal assessment of CRM capability allows a company to understand where most problems will arise, before they arise. By comparing internal capabilities with those required to support the CRM strategy, an organization can prioritize which areas to focus on first. If peers, competitors and comparable organizations in other markets are also evaluated, then a more substantial gap analysis can take place (see Figure 7).

**Figure 7. CRM Internal Capability Assessment**



Source: Gartner Research (December 2004)

Such models should include an examination of people and organizations, process management, analysis and planning capabilities, measurement, the value proposition, customer experience, applications and the supporting technology infrastructure. Gartner's version of this holistic view of internal capabilities is called the Gartner CRM Maturity Model. It focuses on capabilities for organizational collaboration and a valued customer experience.

*Action Item: Perform a gap analysis on internal capabilities before starting the initiative, and perform benchmark tests against other companies where possible.*

## 4.0 Map the Journey

*What is a CRM strategy?* A CRM strategy is the blueprint for how the organization will achieve the ideal customer base. To do this, it must revisit the marketing strategy. What products or services is it going to sell, to whom, at what price and through which channels? In a CRM strategy, this is extended to how the company will build customer loyalty once it has its target customer. How will it connect with a customer to get that feel-good factor, and gain a belief in its proposition and brand? That feel-good factor means the customer stays longer, buys more, recommends the company to others more often and is willing to pay a premium price.

### 4.1 Aligning the CRM Strategy With the Business Strategy

*Strategic Planning Assumption: Through 2007, more than 60 percent of CRM strategies will be developed in isolation from a company's business strategy, and more than two-thirds of these independent strategies will fail because of a lack of support (0.6 probability).*

Often, companies are confused about the differences between business strategy, CRM strategy and marketing strategy. In all cases, the overall business strategy must drive the CRM strategy. Too often, the CRM strategy is defined and developed in isolation from the leadership of the company and away from the active business strategy. Without this connection, the CRM strategy is viewed as an academic exercise and is quickly abandoned.

Ultimately, a CRM strategy and program will not succeed if it is developed in isolation from the company strategy. Organizations may not have a documented strategy, but they all have strategic goals and plans for reaching them. Some plans are sketchy and others more formal. The many styles of strategic planning can be categorized into four main ones:

- *Rational*: A structured, formal approach to planning that sets out to find and implement the optimal strategy in a given market. The result is a style in which organizational and political constraints are to be overcome, not accommodated.
- *Pragmatic*: Another formal approach to strategic planning, but one that accommodates the various constraints, rules and procedures governing the organizational units involved in execution.
- *Political*: A consensus-based approach to planning, which uses a loose collaborative structure to gain support from various stakeholders, each of which has its own goals and resources.
- *Opportunistic*: An approach that views the world as too complex and uncertain to be captured by a formal, strategic planning process, which would be unreliable and slow. Opportunistic strategy is a mixture of instinct and exploitation of events, without reliable rules. Strategy can be imposed by decree, or built through ad hoc collaborations.

Many organizations use the political and opportunistic models for planning. And they offer no clear, up-to-date and explicit plan for the CRM strategy to attach to. Failing to anchor a CRM strategy to company one may mean that the people that develop it lose their jobs, because it is perceived to be out of touch with business reality.

The main challenges in developing a CRM strategy without a company strategy are:

- *Executive whim*. Less formal styles of strategic planning are more dynamic and prone to the whims of senior executives. Managers developing a CRM strategy must stay close to influential individuals or be left behind. CRM senior executives must be quick to change course if required.
- *Lack of executive consensus*. One executive may sanction actions without the agreement of others. If that executive is replaced, there may be a backlash against CRM because it is seen as his or her personal foible. The head of a CRM strategy must verify individual executive thinking with other executives.
- *Business units or regions filling the planning void*. Business units may implement their own strategies without interference from headquarters because they can act to achieve their own local or personal goals (for example, specific profit, revenue or volume targets).
- *Need for faster paybacks*. Managers must understand the economic payoff from the CRM strategy. This is critical because enterprise-level strategy is more likely to change in the short term. Thus, the CRM strategy must justify its investment more rigorously to senior executives and business unit heads. The CRM team should recruit from the finance team.
- *Ad hoc inputs*. CRM strategies have many different inputs, including marketing, sales, operations, business units, market research, customers, external agencies and consultancies. Senior executives provide key inputs, yet there may be no formal process for channeling and auditing this input.

- *Long lead times in CRM planning.* The long lead times for developing a CRM strategy often compel the CRM team to plan further ahead than the rest of the organization. Shortcomings in the company strategy may be identified first by those developing the CRM strategy, yet the CRM initiative must not appear to drive senior executive thinking.

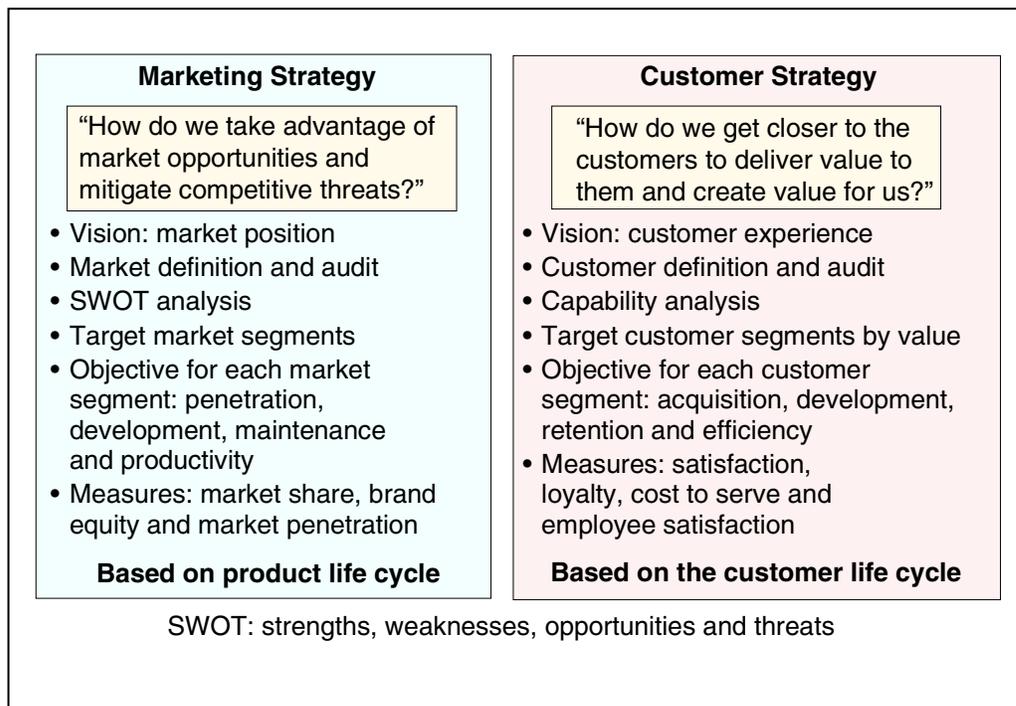
To ensure the survival of the CRM strategy in this environment, the head of the team developing it must engage leaders personally to validate the connections between company and CRM strategies, and create a process that connects company objectives to the CRM goals.

## 4.2 The Differences Between the Marketing Strategy and CRM Strategy

The first part of a CRM strategy audits where the organization is and what its objectives are. Many companies have a marketing strategy — or should have — that needs to be revisited to develop the CRM strategy (see Figure 8).

Since its rise as a business discipline, the aim of marketing has always been to put the customer at the front of the "production function." So instead of "produce-sell-customer," the business process is "understand customer needs-produce-sell-customer." However, as companies grew, they could only do this at an aggregate, mass-market level at best. What has changed now is that technology is enabling businesses to do this at a far more granular or even personal level (if required). In addition, customers are demanding more value, and service is increasingly the key to sales. The technology is there, but business practices and strategy are not making the most of it.

**Figure 8. Comparing the Elements of Marketing and CRM Strategies**



Source: Gartner Research (December 2004)

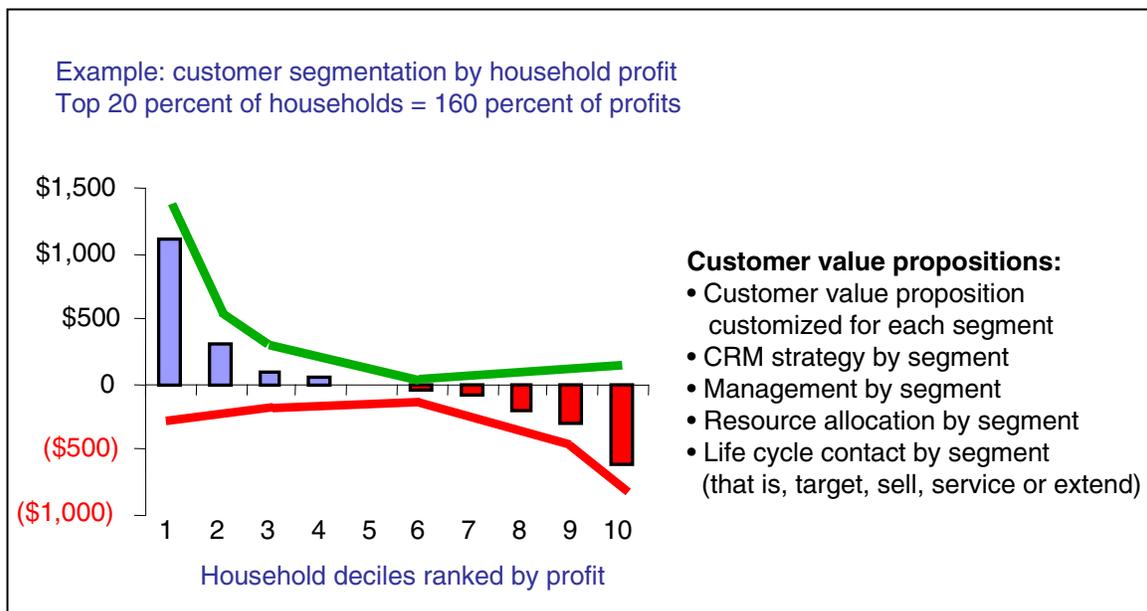
The development of the CRM strategy from the marketing strategy is outlined in Figure 8. The biggest difference between the two is that the marketing strategy is concerned with placing the organization in its chosen field in relation to competitors, while the CRM strategy is concerned

with placing the organization in a good standing with its customers. In a few organizations, the CRM strategy has superceded the marketing strategy. In other cases, the marketing organization is moving to focus more on segmenting customers according to their value. As such, the marketing strategy is evolving to become more like a CRM one.

### 4.3 Segmentation and Customer Value

Segmentation of customers by current and potential value is a necessary, but not sufficient prerequisite to an effective CRM strategy. A customer value proposition (CVP) is the unique mix of a supplier's capabilities that will attract the customer to buy. The required CVP needed to get a customer to buy differs from customer to customer. In theory, the objective is to meet each customer's requirements with a personalized, compelling CVP. In practice, one-to-one marketing is still in its infancy, and CVPs tend to be developed for broader customer segments. Consequently, segmentation of customers is critical to the development of a CRM strategy (see Figure 9).

**Figure 9. Segmentation and Customer Value**



Source: KPMG

The most common segmentation types are by:

- Product line
- Region
- Frequency of purchases
- Current profitability

All these measures are valid; but, increasingly, future profitability is also being used as a better measure of attractiveness to the supplier. Since 1997, banks in particular have started to segment by current and future profitability, and then mapped CVPs, resources, management and a customer life cycle contact strategy onto each segment. However, agreeing definitions of profitability are difficult. If there are large fixed costs to be allocated, they can swamp any profit

calculation, and allocation can be seen as arbitrary. Even if some, or all, fixed costs are excluded, variable costs have to be allocated to each customer, which requires some form of activity-based costing approach.

Future profitability usually involves an attempt to measure lifetime value and is based on a net present value calculation of future revenue streams. But are these revenue streams just for the customer's established products or for future potential purchases, and should the influence of the customer be accounted for? Moreover, household profitability may be more valuable but, in general, it is still an elusive metric. And profitability is not the only measure of value. The customer's influence may be more important. Consequently, it is critical to refine the definition of value before embarking on customer segmentation by value.

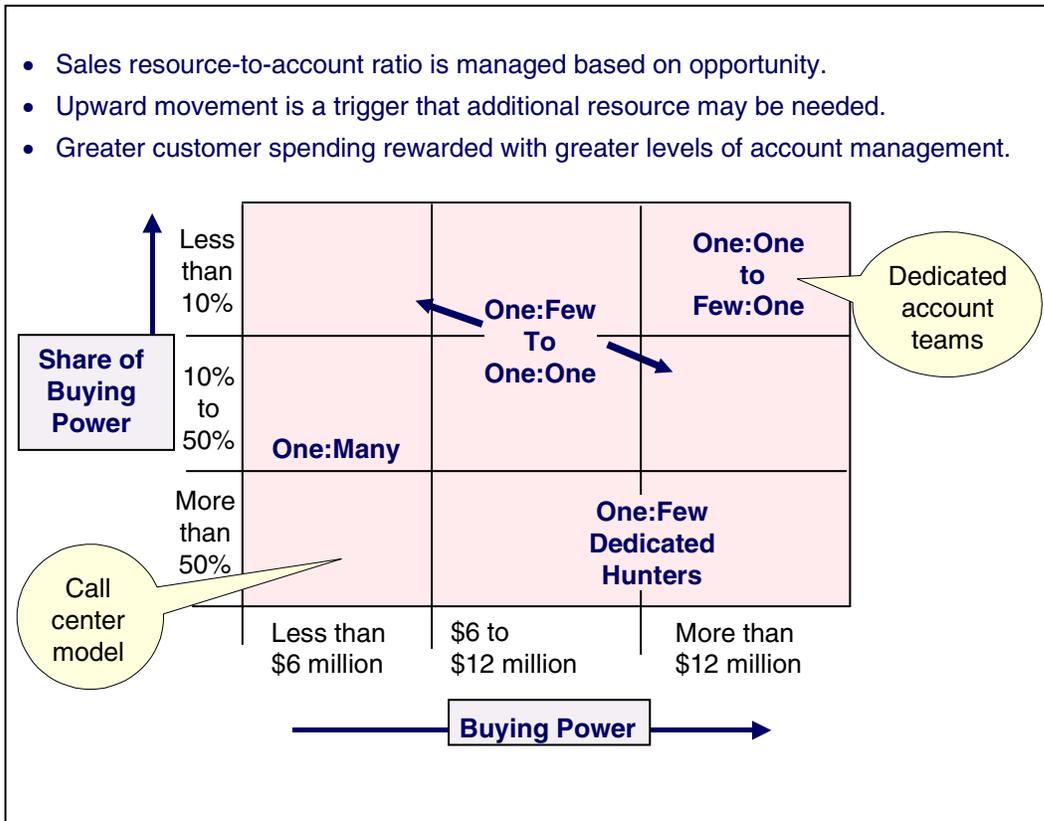
*Action Item: Learn from the banks: Segment by current and future profitability, develop CVPs and strategies and allocate resources for each segment accordingly. Learn from those making use of customer segmentation by value. Agree on a definition of profit or lifetime value, start using it rather than debating the pros and cons of 15 potential metrics, and refine the metric in three to five years' time.*

#### **4.4 Segment-Based Resource Allocation**

Strategies for customer segmentation require goals, resources and a management structure for each segment. But the key to success in the long term will be the ability to reallocate resources dynamically and cost-effectively among segments.

Those businesses that have fully embraced segment-based CRM strategies have found that these strategies require changes to organizational structure, management structures and budget allocation (see Figure 10). One insurance company described the organizational structure changes to be the most slow-moving. It anticipated that, with two layers of management adjusting to the new customer-centered structures per year, it would take five years to adjust.

**Figure 10. Segment-Based Resource Allocation**



Source: Gartner Research (December 2004)

It is easy to visualize the benefits of changing sales resources-to-account ratios, so that the largest customer accounts have the most support; and greater customer "spend" is rewarded with greater attentiveness — if this is what the customer wants. The hidden danger is that customer movements across segments are more dynamic than product changes in many vertical sectors. Therefore, the real challenge of segment-based strategies and resource allocation is to dynamically alter budgets, behaviors and management attention as individual customers move between segments.

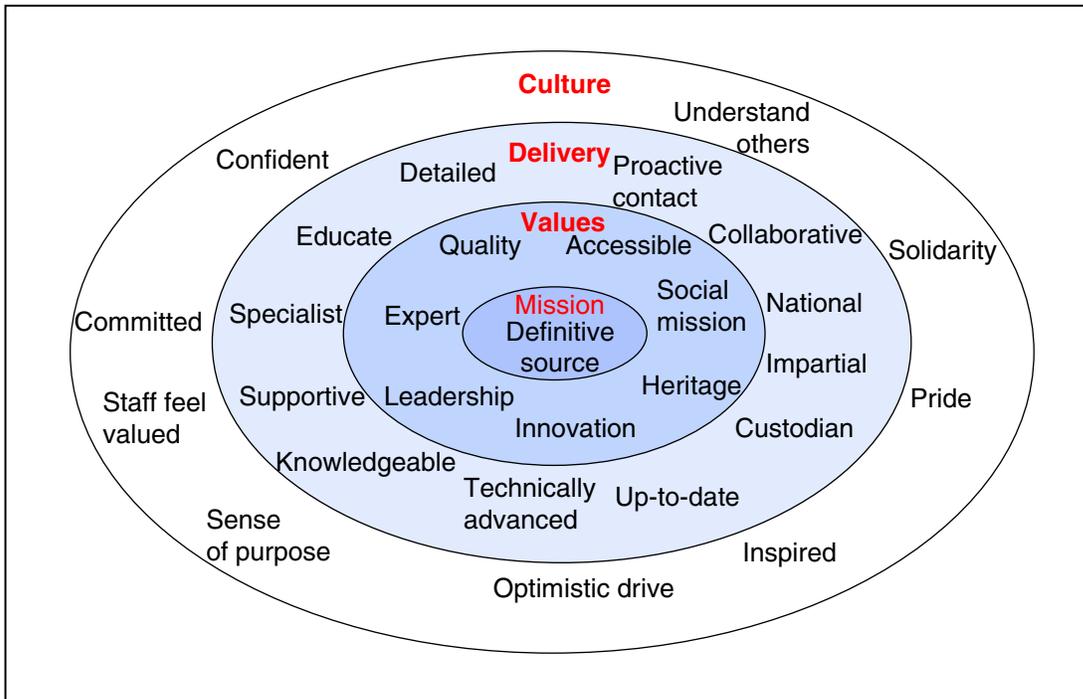
*Action Item: Focus on building processes and systems that can be altered rapidly and dynamically as individual customers move between segments.*

## 4.5 Brand Models

Creating a brand model is a critical success factor in developing a successful CRM strategy. Figure 11 gives an example of a brand model in development for a European business-to-business (B2B) organization.

The organization decided that its end goal, or *mission*, was to be the "definitive source" for its services. If customers were looking for this type of service, they would try this specific company first. It set out to learn from current and potential customers what *values* it had to ensure it built up customer loyalty and became the definitive supplier. It found it had, for example, an aptitude for innovation, accessibility, a perception of expertise and a sense of social mission.

**Figure 11. Brand Models: Linking Customer Experience With Required Internal Change**



Source: Gartner Research (December 2004)

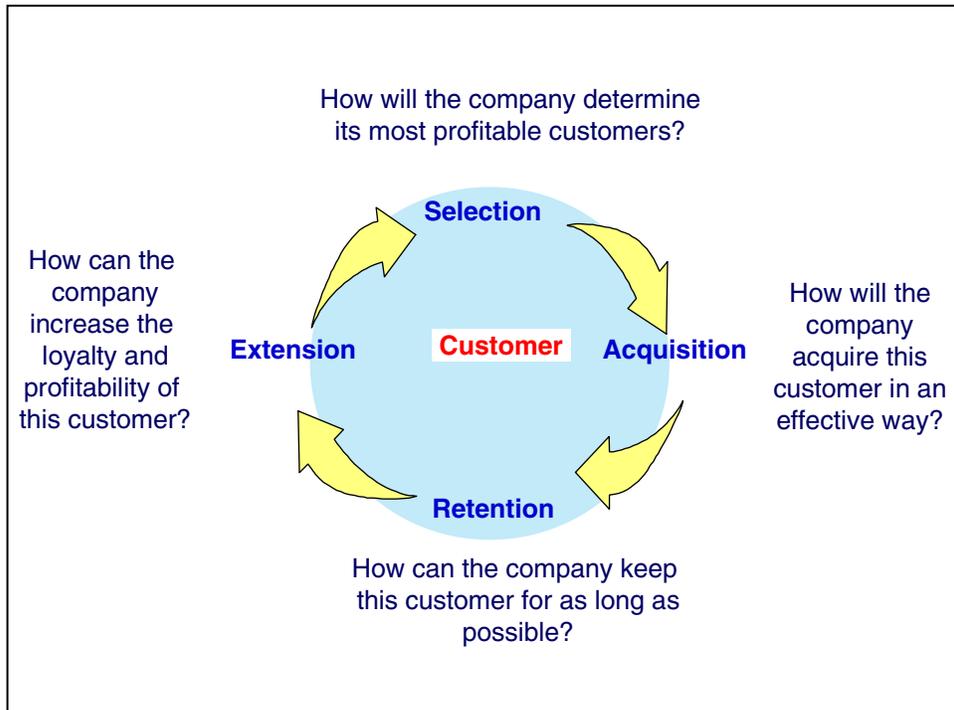
At the *delivery* level, it set out to find more detailed information on how those values would need to be delivered to customers. Service delivery had to be knowledgeable, up-to-date, impartial, collaborative, proactive and technically advanced. Finally, it examined the type of *culture* it would require to ensure the values were met and the brand position achieved. It then set about influencing and changing its existing culture to match, and supporting the delivery mechanisms that, in turn, support the customer values that were in demand.

*Action Item: Brand-value model development should be used to help develop a CRM strategy.*

#### 4.6 The Customer Life Cycle

A CRM strategy must encompass the entire customer life cycle, through selection, acquisition, retention and extension (see Figure 12).

**Figure 12. Customer Life Cycle: A CRM Strategy Must Encompass All Stages**



Source: Gartner Research (December 2004)

When using a life cycle approach, marketing organizations must first make tough decisions about which customers will truly be the most profitable and will receive more focused attention. After customers are identified, a sales channel and field marketing or trade promotion strategy must be developed. The strategy will determine which products will be most suitable for each customer.

Once customers are acquired, salespeople need to work in tandem with customer service to improve or maintain retention and renewal rates. The result is that the days of the marketing, sales and customer service organizations working in isolation are gone. A CRM strategy will affect these organizations and many others within the company, including billing and finance. As such, companies will be required to:

- Define a CRM strategy that takes a customer life cycle perspective from the start
- Implement changes to organizational structures, training programs and compensation plans that reinforce the life cycle view

*Action Item: Businesses developing a CRM strategy must encompass a customer life cycle view, especially when articulating the CRM vision for the future customer experience.*

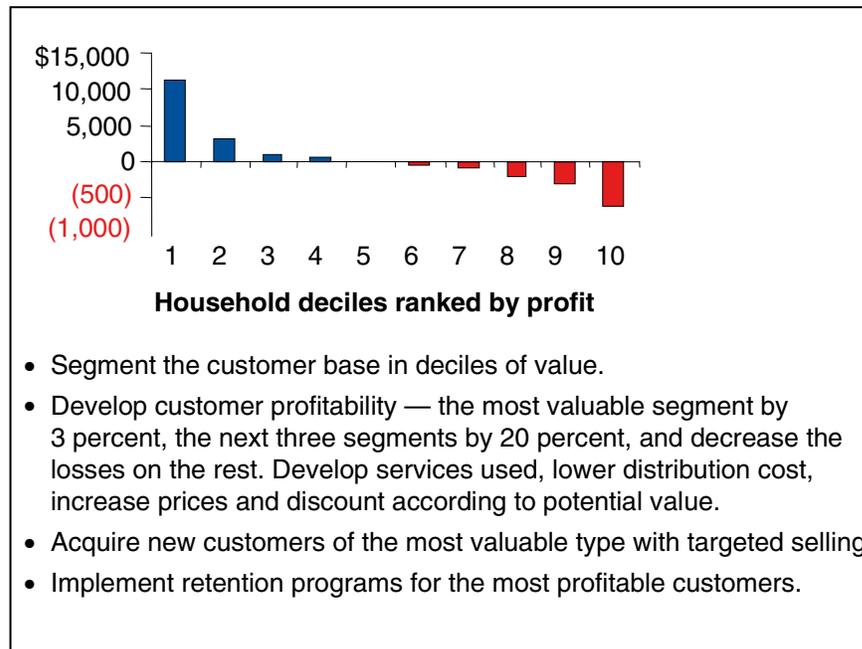
## **4.7 Case Study 1**

A question often asked is: "How detailed should a CRM strategy be?" Starting with an outline is sufficient, as long as it is easily understood and gives clear statements about what is to be achieved, and how. A strategy evolves and develops as more is learned about customer requirements and the marketplace, and as capabilities are built up. A strategy should be the "life force" of the company. Information and feedback should be taken in from the front line and used

in an organized way to nurture a sense of well being, and at the same time getting rid of anything that is not needed and no longer works.

The graphic in Figure 13 is an outline strategy for a B2B telecommunications company. It states the strategic objectives by segment, with some indication of how this is to be achieved, leaving the detail to be worked through. This is a good start to developing an asset base of value, but it still appears quite inwardly focused. There is too little vision regarding what value is to be delivered to the customer.

**Figure 13. CRM Strategy: Case Study 1**



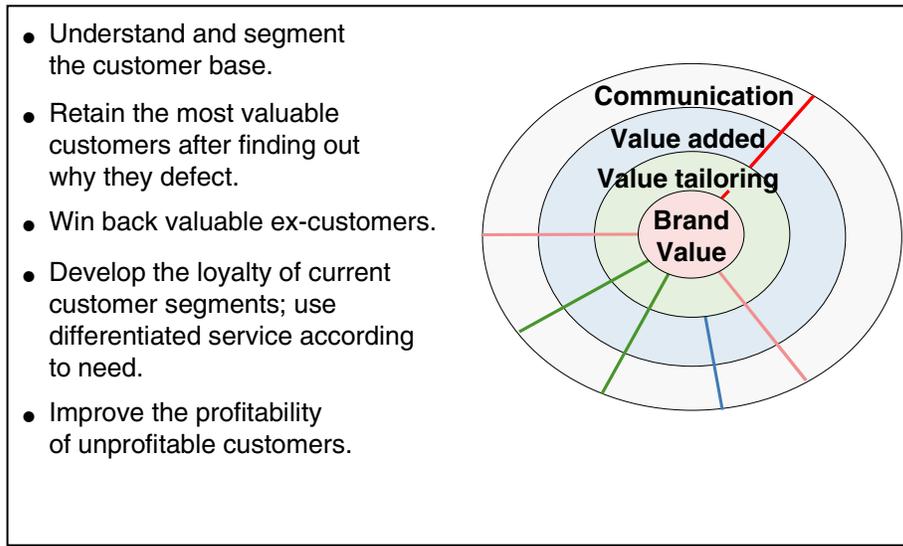
Source: Gartner Research (December 2004)

With a more complete vision, the job of filling in the strategy's details — and the tactics to be used to develop the customer — will be easier and more coordinated. When the detail is done, the capabilities that the company needs to deliver the strategy will become clear. Understanding this will mean that building a capability can be prioritized in the infrastructure road map. The strategy and tactics also aid in building relevant customer processes.

## 4.8 Case Study 2

A second strategy — for an airline company — although still at the outline level, starts to recognize that the company needs to deliver customer value, see Figure 14. Like the previous example, this company needs more vision about the brand values and customer proposition. This should happen via an understanding of the customer base — as long as it goes hand-in-hand with an understanding of the market.

**Figure 14. CRM Strategy: Case Study 2**



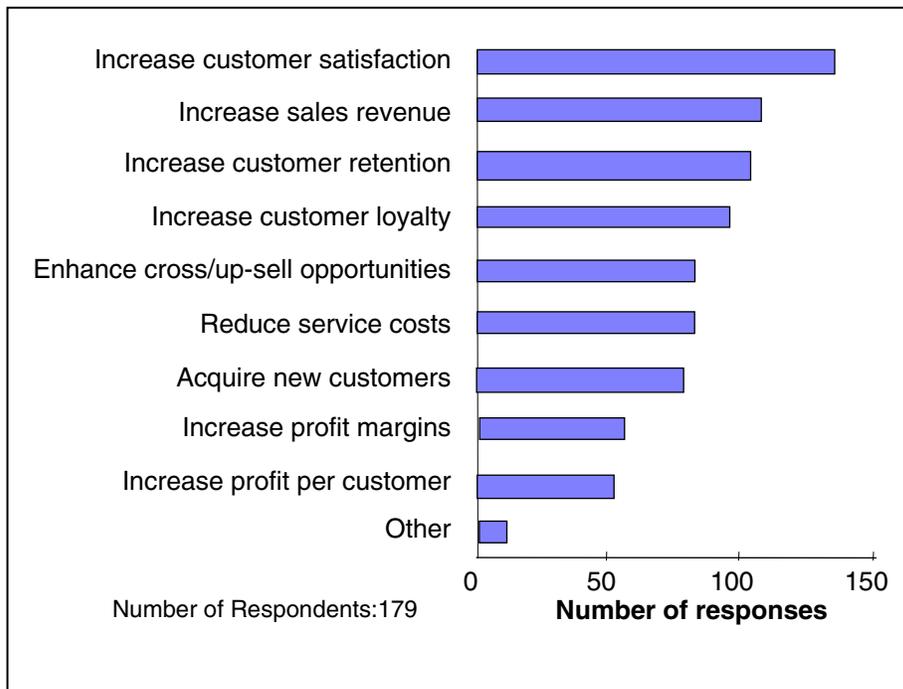
Source: Gartner Research (December 2004)

## 4.9 CRM Objectives

*Key Issue: How will companies balance the financial demands of their organizations with the increasing demands of customers, consumers and constituents?*

Not surprisingly, during an economic downturn, the objectives underpinning CRM often change. Acquiring new customers was far less important between 2001 and 2003 than retaining current customers. The result is that investments are made *less* in field sales applications and *more* in areas such as complaint management, call management, e-service and field service. However, Gartner's most recent survey shows that, as economic confidence improves, growth objectives like increased sales revenue and acquiring new customers are becoming more important (see Figure 15).

**Figure 15. April 2004 Survey: Primary Objectives of CRM Initiatives**



Source: Gartner Pre-Conference Survey, CRM Summit, 2004

Most organizations that Gartner speaks with have multiple objectives behind their CRM initiatives. Typically, one objective dominates, but there are several others. The average number of objectives in the survey in Figure 15 was six.

Not all objectives are mutually exclusive; many are subsets of each other. For example, enhanced cross-sell can be seen as contributing to enhanced profitability per customer, although the connection between these objectives is not guaranteed.

*Action Item: Beware of having too many top-line objectives for CRM initiatives — three to five is sufficient.*

Real examples of CRM objectives include:

- Return retention to the industry average, and then improve it by 3 percent
- Measure the propensity to churn, expected lifetime value, and propensity to accept discounts and special marketing offers
- Empower customer service representatives to decide whom to keep, according to specified criteria
- Build a customer information culture to increase customer advocacy
- Improve communication with customers and partners
- Reduce staff turnover in the call center
- Introduce an effective global sales process

- Find the CRM initiative with the highest payback, and use it to fund others
- Retain the most valuable customers to gain revenue in the short term
- Establish the customers' optimum potential for selective development
- Acquire strategically important customers in the new market

These examples cover large global organizations, government departments and even a football club. And they come from companies that have B2B and business-to-consumer (B2C) operations. These objectives are not static — they are iterative (for example, some will remain, some will go away and new ones will emerge over time). It is important to emphasize that objectives will change over time, particularly with economic circumstances. Therefore, ongoing monitoring of the objectives is needed to ensure that they are still synchronized with the senior executives' goals.

The scope of the objectives is broad ranging, from specific performance-related goals (such as reducing turnover of call center staff) to building a customer information culture in an effort to increase customer advocacy. Ultimately, most companies require multitiered and interlinked objectives so that each employee and management layer can see how they link back to larger company objectives. Without this linkage, employee involvement will be minimal, and success in meeting objectives less likely.

Critically, most of the objectives listed above have no defined means of quantification. Therefore, measuring progress and achievement will be difficult. Fewer than 5 percent of those organizations that are currently engaged in a CRM initiative, and with whom Gartner has spoken, have metrics directly associated with CRM.

#### **4.10 CRM Metrics**

*Strategic Planning Assumption: Through 2008, organizations with an established balanced scorecard initiative for business metrics will have a 12- to 18-month lead in developing a successful CRM strategy over those that have not (0.7 probability).*

Organizations must set measurable, specific CRM objectives and should monitor indicators if they are to become customer centered. CRM metrics not only allow the level of success to be gauged, but also provide the feedback mechanism for iterative development of strategy and tactics (see Figure 16). In addition, they can act as a great tool for change management and are vital for changing the ways employees' incentives are structured. CRM metrics must follow and measure the company's own CRM strategy — which means they will be unique.

**Figure 16. CRM Metrics**

<b>Enterprise</b>	<ul style="list-style-type: none"> <li>• Overall and key segment – acquisition, development, retention (ADR)</li> <li>• Key efficiency and effectiveness</li> <li>• Brand salience and awareness</li> </ul>	<ul style="list-style-type: none"> <li>• Customer loyalty or commitment</li> <li>• Market segment share and penetration</li> </ul>
<b>Key measures to support corporate financial and market goals</b>		
<b>Customer strategy</b>	<ul style="list-style-type: none"> <li>• Lifetime value</li> <li>• Customer profitability</li> <li>• Customer satisfaction by segment or key account</li> <li>• Staff satisfaction</li> <li>• Share of wallet</li> <li>• Cost to serve</li> <li>• Brand image against competition</li> </ul>	<ul style="list-style-type: none"> <li>• Number of products held or purchased</li> <li>• Persistency</li> <li>• Win back</li> <li>• Acquisition costs</li> <li>• Recommendations</li> <li>• Measure of staff knowledge</li> </ul>
<b>Key measures for monitoring the customer strategy</b>		
<b>Operational</b>	<ul style="list-style-type: none"> <li>• Complaint levels</li> <li>• Response levels</li> <li>• Propensity accuracy</li> <li>• Interaction costs</li> <li>• Event and area satisfaction measures</li> <li>• Product usage or enhancement rates</li> <li>• New product development times</li> <li>• Measure of staff training</li> </ul>	<ul style="list-style-type: none"> <li>• Supplier responsiveness</li> <li>• Lead times or sales cycle</li> <li>• Revenue per sale</li> <li>• Returns levels</li> <li>• Research response rates</li> <li>• Conversions</li> <li>• Staff turnover</li> <li>• Individual measures of ADR</li> </ul>
<b>Key measures for monitoring the customer processes</b>		
<b>Performance</b>	<ul style="list-style-type: none"> <li>• Call answering times</li> <li>• Response times</li> <li>• Staff sickness</li> <li>• Customer data accuracy and coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Staff qualifications</li> <li>• Process and procedure audits</li> <li>• Level of “do not mail” markers</li> </ul>
<b>Key measures for monitoring efficiency and inputs</b>		

Source: Gartner Research (December 2004)

CRM metrics should not be viewed as an amorphous whole. There is a hierarchy of metrics required, depending on their purpose and who is using them. Gartner proposes four levels of metrics:

- Corporate
- Customer-strategic
- Operational
- Performance

Examples are outlined above. There are two primary challenges to developing CRM metrics:

- Understanding the linkage points between the levels
- Avoiding too much complexity or too much simplification

Organizations that have embarked on a corporate performance management (CPM) initiative will recognize that there is room to use the work that they have already done. For additional information, see other Gartner research on CPM including "Customer Profitability Is Key to Value in a CRM Strategy," COM-20-0116.

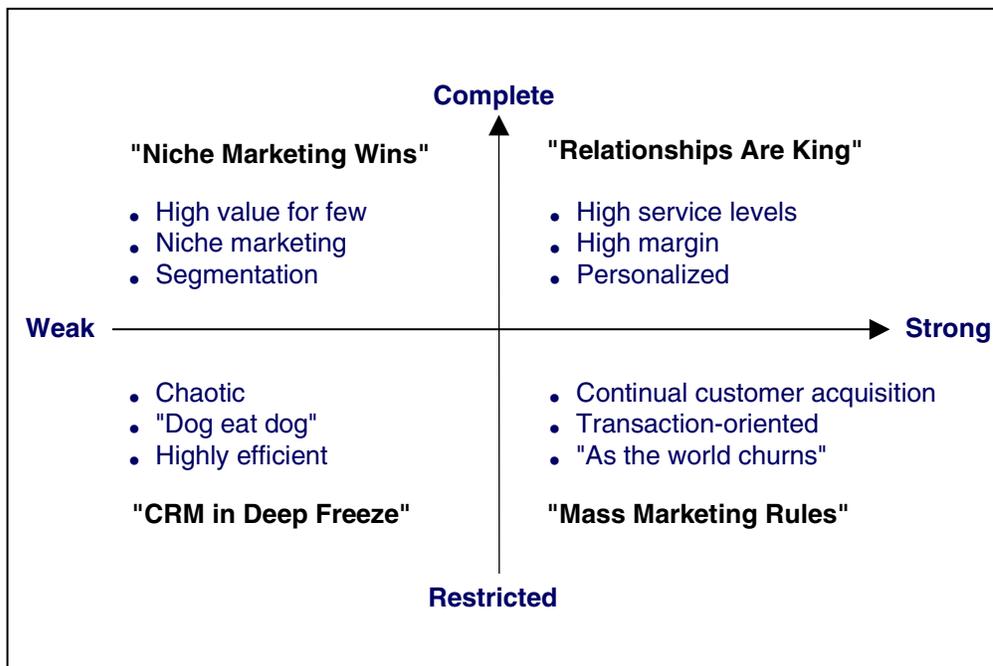
*Action Item: Seek out any other business metrics initiatives in the company (such as CPM work), and incorporate key individuals in the CRM initiative to cut short the learning process.*

## 5.0 Taking the Future Into Account

The path of CRM is not a forgone conclusion. There are events on the horizon that may severely affect companies' CRM strategies. These events are outside the control of companies, but they can be planned for.

To stretch the perspectives on how customer relationships may change beyond the two- to three-year planning period, Gartner has studied possible scenarios and described the potential impacts on the key stakeholders in the CRM market — companies, consumers and vendors. Many factors influencing customer relationships were considered. The two factors around which Gartner built possible scenarios for CRM planners to consider were: "the economy" — with a continuum spanning weak to strong — and "customer disclosure" — from complete to restricted disclosure by customers of their values, buying habits and value proposition (see Figure 17).

**Figure 17. Scenarios Affecting CRM Strategy**



Source: Gartner Research (December 2004)

In a strong economy and with restricted access to customer information, "Mass Marketing Rules" best describes the scenario. Where access to customer information is restricted and the economy is weak, a chaotic "dog-eat-dog" world prevails, and the scenario is "CRM in Deep Freeze." The next "Niche Marketing Wins" scenario is a weak economy, and companies have complete access to customer information. Customer segmentation is an imperative because highly profitable customers are few. Gartner's final scenario, "Relationships Are King," is the networked world

where no one is in control. Here, service levels have to be high, personalized solutions are the norm, and loyalty is scarce. Businesses will find themselves competing in regions or markets that can be described by several of the above scenarios.

*Action Item: Develop separate CRM strategies for the above four scenarios and assign their probabilities.*

## 6.0 Conclusion

To assist organizations in their efforts to create CRM vision and strategy, Gartner offers these recommendations:

- Answer the following questions when developing a CRM strategy:
  - Where is the company heading? Articulate the desired result of the initiative.
  - Why is the company going there? Describe the benefits to the organization and its customers.
  - Who will lead the company? Appoint a leader.
  - What is the company's start point? Audit internally the current capabilities of the organization and the current customer experience.
  - Which customers does the company want? Segment the customer base by current and future value, and set objectives for each segment.
  - How is the company going to get there? Show the steps that must be taken to achieve the vision.
- Establish the company's market position against requirements and competitors. Define a "valued" and different customer proposition.
- Make the brand part of the company culture to deliver the proposition.
- Segment the market for share of wallet and lifetime value.
- Value the company on the potential of its customer base — not just on current profit.
- Establish the motivating factors for customer loyalty. Where does the company need to excel, and where can it cut costs? Are there any "gems"?
- Develop skills in the new areas of customer relationship building (such as service, contact strategies and relationship models). Understand what technology enables the company to do.

Ultimately, a CRM strategy should:

- Set the destination and describe its benefits
- Audit the current situation
- Map the journey to the destination and measure the costs

### Appendix A. Acronym Key

<b>B2B</b>	business-to-business
<b>B2C</b>	business-to-consumer

<b>CPM</b>	corporate performance management
<b>CRM</b>	customer relationship management
<b>CVP</b>	customer value proposition

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