

## **CRM: promise unfulfilled, or failure in perception?**

*Why CRM hasn't worked for many companies yet, and what they can do to change that*

by Robert F. Lauterborn

James L. Knight Professor of Advertising

The University of North Carolina at Chapel Hill

“Whatever happened to the promise of CRM?”

That's a question beginning to be asked more and more in management journals about Customer Relationship Management, just as it was asked about MBO (Managing By Objectives), TQM (Total Quality Management), Re-engineering and all the other management-ideas-of-the-moment that flared and faded over the past few decades.

The easy answer is, they went out of style.

The true answer is that having picked all the low-hanging fruit, companies got bored and went looking for a new money tree.

An IBM advertising campaign currently running in the U.S. lampoons fad-dy management “solutions” and makes the point that none are substitutes for the diligent pursuit of knowledge about your customers and their businesses and the application of that knowledge to the management of your own business.

But hey, that's hard work.

It's also the premise of CRM.

Nothing happened to CRM, except that too many companies thought all they had to do was to plug in some software program and voila! – all their problems would be solved. Just like they thought that with MBO all they would have to do is do is devise some forms, do a little employee training, and bingo! – everybody would live happily ever after. The same sort of wishful thinking followed by disillusionment happened in the case of Re-engineering, which too many interpreted as a way to shift the responsibility for taking cost out of their processes to suppliers.

The truth is, every new idea works for a while. There is a famous bit of research from the 1960's where companies piped canned music into factories and offices to see if that would improve productivity. It did, for a while. Productivity went up, then flattened out. So they took the music out – and productivity went up again, then flattened out!

People respond to change, until the novelty wears off. So almost any new program, even if it's half-heartedly implemented, will initially produce some sort of results. But lasting benefit? That's a different story.

There is no “magic bullet,” no black box, no software you can plug in to solve all your problems, no consultant who will come in and give you all the answers. The only way to manage your business better and improve your profitability is to manage your business better and improve your profitability.

CRM isn't a substitute for the hard work of management, it's a process that actually makes you work harder (although smarter). It's a way of thinking that doesn't come easily for most senior managers, in that it challenges the assumptions most never realized they were making.

Start, for example, with the very name: Customer Relationship Management. That suggests some Frederick Taylor-ish view of the customer as a manageable object. Given that most senior managers come not from marketing but from engineering or production or financial backgrounds, they expect that a solution once implemented stays implemented, a problem once solved remains solved. Perhaps that works on a production line, where most variables are controllable and the object being worked on is inanimate. It doesn't work in marketing, however, where the variables are unpredictable and the customer is alive and kicking!

So CRM is far more dynamic than the processes they are used to.

This reflects itself in the common misperceptions of what a database means, for example. The CRM process begins, of course, with a database. But in many companies, what they call a “database” is actually little more than an electronic version of the old Addressograph/Multigraph plates – names, addresses and phone numbers, 20% of which are out-of-date at any given time. In companies like that, “CRM programs” consist of little more than quarterly one-size-fits-all mailings, or maybe a monthly newsletter. Measurements are non-existent; not least because objectives for the “program” are fuzzy, if they exist at all. Is it any wonder that companies quickly become disappointed with the results and begin to wonder if CRM has any value?

But they never had a true CRM program in the first place.

A CRM database is not some static list; it's a living, breathing, real-time adjusted record of everything you know about a customer – who makes which decisions in a customer organization, what your history with each person is, what their behavior in your category is, what their personal and company ambitions are, what they've responded to in the past and far, far more. What it's used for is to do what the U.S. consultants Don Peppers and Martha Rogers who coined the term call “one-to-one marketing” – shaping your behavior in order to meet each customer's needs in a very specific way. That requires a flexibility that is anathema to most senior managers, who were taught that standardization and predictability are the keys to profitability. Mass marketing was easy for them to grasp, because it smacked of efficiency. The one-to-one marketing that a proper CRM program exists to enable seems extravagantly inefficient to them. It also goes against their protectionist instincts about data; the idea that information should only be made available on a need-to-know basis within the organization, tied closely to rank. A true CRM

program makes that data available to everyone within an organization who interacts with the customer in any way.

In fact, CRM requires a 180° shift in most commonly accepted corporate management thinking, beginning with a repositioning of marketing itself from a cost to an investment. If senior managers think of marketing as a cost, their natural inclination will be to try to reduce that cost, and here come the “efficiency experts” with their tendency to treat all customers as though they were of equal value. This results in ludicrous situations such as this: One U.S. marketing executive calculated that his company had wasted \$58 million in the previous year marketing to customers whose behavior contributed negatively to the company’s profitability. However, because his department had reduced its overall marketing spending, he received a bonus!

If instead senior management perceives marketing as an investment, this leads to expectations of a return on that investment and a whole different set of questions, objectives, behaviors, incentives and results. That’s the kind of thinking a real CRM program facilitates.

Take for example the concepts of segmentation, targeting and positioning. Based on what you know about your customers, which of them are most profitable to you? What is their estimated lifetime value? (This will tell you what level of investment may be justified.) How can you not only sustain the behavior that is making you money, but improve upon it? What specific, measurable objectives can you set relative to your relationship with these customers? How can you aggregate their motivations to build sets of discrete communication programs that yield measurable returns on investment? Going back to your database and doing some data mining, which of your current customers look like your most profitable customers but don’t behave like them – yet? What would it take to change that, what do they need that they are not yet experiencing from you, and how can you build CRM programs with these customers to move them into the most profitable segment? Taking that template from your database and looking outside, who are the prospects who might become members of that most profitable segment and what do they need that can become the basis of a mutually beneficial relationship with you? And so on.

Note also that we are talking about “communicating” with customers, not “promoting” to them – another 180° shift in management thinking that is required for CRM programs to work.

Is it any wonder that some companies have already given up on the idea of Customer Relationship Management – without ever having really tried it?

And yet the future will belong to the companies whose enlightened managements recognize that the world is forever changed from the model they learned in business school or were taught by their Old School mentors. We have gone through a period management guru Peter Drucker describes as “a great divide.” Once competitive advantage could be derived from technology or cost management or some other exploitable internal management skill. No longer. Technology is globally accessible

and cost control is a survival strategy, not a path to profitability. Now the only sustainable competitive advantage is superior understanding of your customers and the will to use that knowledge to (as another U.S. consultant advocates) ARM your own organization: Acquire the right customers, Retain them, and Manage your relationship with them for mutual profitability.

That's what a true CRM program is all about, and if that's not what you've been doing, you've never had a CRM program.

Whatever happened to the promise of CRM? It's still out there waiting for most companies to experience it.