The new challenge of CRM: getting value out of the customer base

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Expansión
30/04/04

The great challenge facing the sector is to search for a balance between the value given to users and that which they provide for the company.

It is no secret that Customer Related Management applications (CRM) did not live up to their expectations in the past. In fact, a study by Gartner, the consulting firm, points out that more than half of those projects do not fit the needs of companies while, for consultants Bain & Company, CRM is one of the 25 most popular management tools on the market that gives least satisfaction.

One of the most frequent mistakes in CRM projects has been to forget that relationships always involve two sides; in this case, the company and the customer. If the relationship is to last, it is essential to make profits that exceed the costs for both sides.

Traditionally, CRM initiatives centred on boosting the profits, both economic and psychological, that the customer receives (Customer Value), forgetting the value the customer base creates for the company (Customer Equity; CE).

However, companies have started to realise the importance of the latter. Actually, the value of a company coincides with that of its customer base, which is the sum of the value of the company’s present and future customers. The Customer Lifetime Value (CLV) is calculated by subtracting its cost from the present value of future income. The profit provided by a customer base may be transactional – amount and frequency of the purchases made by the customer- and non transactional, such as recommendations made to acquaintances, interaction and participation in communications and activities.

Usefulness
The usefulness of CRM tools is depends on them obtaining an increase in the value of the customer base. This means firstly that its functions are enlarged. CRM must be a support tool in the analysis of Customer Equity, both quantitatively (purchasing history and forecast of future purchases) and qualitatively (degree of commitment, participation and trust). It is necessary to introduce customer segmentation CRM applications according to the customer lifetime value, create a dynamic profile of customers that detects changes in value, make financial reports on return of investment and devise actions to increase it.

Secondly, a point of balance must be found between the customer’s perspective and that of the company. This requires the development of a more dynamic vision of CRM and the implementation of analyses of the equilibrium between the value given to the
customer and that which customers give to the company, preventing either of them from receiving more profits than the other. This exploration has to be able to be done with all the different products and services in the company as well as with the different interactive channels with customers. At the same time, a point must be achieved where these values are above those of your most direct competitors.

Thirdly, apart from the data and the applications, an organisational change in many companies is long overdue. One must wonder whether all the relevant marketing actions increase the value of the customer base. For this, the departments that manage customers and take marketing decisions must be co-ordinated to insure that all the investments are directed at increasing Customer Equity. There is also a need for a data analysis and campaign design department that is spacious and manned by highly professional people. It is surprising to see how some companies spend millions of euros on their CRM tools cut back on hiring the best professionals. Finally, a large injection of creativity is needed. The data, the models and the tools are all important, but very often the creativity of how things are said and what things are said to customers are more important than the science of CRM.

All in all, the potential of CRM lies more and more in its capacity to recognise the value of the customer base of the company, achieve equilibrium between this and the value contributed by customers, and turn it into a support tool of the marketing department in the definition of its strategies. In this way, it satisfies the growing demand of shareholders for a better return on investment.

Will the consideration of the value of the customer base in CRM improve the efficiency of these applications?

Clear and achievable goals
Javier Vello, Senior Manager PwC
Many implementations of CRM solutions have failed due to the fact that they were carried them out from a purely technical point of view without setting up achievable goals when adopting this type of initiative. The results expected from these applications will be in keeping with the clarity with which the company defines the main points of this new focus centred on the profit contributed by the customer. Setting up clear, quantifiable, shared and achievable aims will help the organisation adopt this new philosophy and will enable it to measure the return on the technological investment. Furthermore, determining the value of our relationship with our customers, both present and future, will allow us to make a more appropriate segmentation and design personalised actions to increase that value. The CRM applications help the following up of these actions and their impact, but what we cannot demand from CRM applications is that they design or revise our marketing strategy.

Increase the value of the customer
Julían Villanueva, IESE professor
CRM applications aim at increasing the value of the customer and, therefore, the value of their customer base for the company (Customer Equity; CE). For this it is necessary to optimise processes for the acquisition, retention and growth of the customer base, while the applications themselves are mere tools at the service of the company.
The CRM tools contribute to amassing data and designing segmented campaigns apart from implementing campaigns and gathering and analysing the results. These applications must allow the manager to conclude whether a certain campaign has increased or decreased the value of the customer base. For this, if we can use the applications and the good judgement of managers to build marketing strategies that increase CE, then the value of the company will increase and consequently improve the efficiency of the applications.