CRM, from the Traditional Shop to Modern Marketing
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The meaning of the three letters, CRM(customer relationship management), is hotly contested. For some, CRM is simply a way of using IT to target marketing efforts more precisely. For others CRM is a business strategy to select and manage customers to optimise long-term value.

The idea of CRM isn’t new. Take the proprietor of a small business such as a neighbourhood grocer. He probably knows a lot about his customers, their likes and dislikes, their buying patterns, and whether or not they are long-term profitable customers. This personal approach to business can be very effective in retaining and getting value from customers. The problem is that the information is in the proprietor’s head. The approach doesn’t scale to larger businesses with multiple customer interfaces. With large organisations there is no collective memory unless the information is stored somewhere and shared with the right people at the right time.

Computer systems changed all of this - they enabled even the largest organisations to develop a collective memory of their customers. However technology alone does not make for successful CRM solutions. A successful CRM strategy requires commitment from the whole organisation. Dick Lee of CRM Guru says that CRM is "the implementation of customer-centric business strategies, which drives redesigning of functional activities, which demands re-engineering of work process; and which is supported, not driven, by CRM technology." CRM is therefore a cross-function, customer focussed business strategy.

The adoption of CRM is being fuelled by a recognition that long-term relationships with customers are one of the most important assets of an organisation, and that "customer ownership" needs to be fostered. Successful customer ownership creates competitive advantage and results in improved customer retention and profitability for the company. Research shows that a 5% increase in customer retention yields a profit, in net present value terms, of between 20% and 125%.

A survey by Harte-Hanks of the major US companies found that one third of businesses have a CRM programme or project in place, or will have by the end of 2001. And CRM is now the fastest growing software applications market in the US, which analysts estimate will reach US$9 billion this year. However CRM comes at a cost. A study by Forrester Research put CRM costs for large organisations with diverse multi-channel CRM requirements at US$60 million to US$130 million over 3 years. Companies can keep costs down and make the most of
their investments by focusing on key problems and using CRM applications to help them throughout the customer relationship life cycle.

**The CRM market**
The first wave of CRM solutions surfaced in the late 1980s and early 1990s. Most were packaged software solutions, from vendors such as Oracle and Onyx Software, that were focused on automating and standardising the internal processes associated with capturing, servicing and retaining customers. But although these applications addressed a pressing need, they were expensive and onerous to implement and maintain. When, in the mid-1990s, the Internet became a reality for businesses, the customer-related business requirements of all sizes of companies changed completely. The Internet meant that existing and potential customers had yet another channel to communicate and interact with organisations. Furthermore, as companies upgraded their legacy systems to focus on interoperability, the client/server architecture behind these original CRM applications became obsolete.

This left the gate open for some enterprising start-ups that understood the Internet and eCRM. The first products from these new vendors, companies such as eGain, Octane (now E.Piphany), and Talisma, mostly helped companies to deal with customer service requests via email. But the market has progressed rapidly and many of these vendors now offer product suites that allow businesses to integrate multiple communication channels, including voice.

But although these eCRM players have made impressive gains, the traditional CRM vendors are fighting back - they are upgrading their systems to allow for personalisation and a range of CRM applications. Clearly, both segments of the CRM market are pushing hard on the notion of integrated CRM suites, but these suites are for the most part only now becoming available. Companies still have to make the decision whether they should get their CRM needs filled by one vendor, which may mean waiting for pieces to become available, or look to buy best-of-breed solutions and deal with the integration issues later.

"**What opportunities for differentiation does CRM present to companies?**"

**Fernando Millán, Senior Manager, PricewaterhouseCoopers**

In the short-term, the opportunities which CRM provides for differentiation are centred on the areas of marketing, R&D, sales and service. Within the marketing sphere, it allows for greater knowledge of the customer, since it improves segmentation capacities and achieves greater effectiveness for companies.

From the point of view of investigation and development, the fundamental contribution of CRM to the R&D departments is based on the speeding up of the maturity of products and/or services.

In the areas of sales and service, the processes are improved through the use of tools orientated towards the automation of sales forces, the systematisation of cross-referenced sales transactions, the identification of greater opportunities for the same customers and the monitoring of the quality of service.
In the long-term, the opportunities for differentiation are those of retaining customers (loyalty), maximising their value in the long-term and improving profitability.

**Luis Mª Huete, Professor of IESE**

Companies are more successful when they are capable of creating service experiences greater than those of their competitor and with similar costs. They do not sell products or services, they sell experiences which people wish to repeat and which are difficult to find elsewhere. In order to achieve this, apart from having imagination, one must use customer information unavailable to competitors.

A quality service experience cannot be merely entrusted to the abilities of the person carrying it out. A process and work tools are needed. This procedure has five steps. The first step is to listen to the customer. The second is to design strategic service models which create a sustainable logic and which give personality to the service experience. The third step is to design a differentiated service for each of the company's customer segments.

The final two steps are the implementation and control of the previous stages. For each of these stages, the CRM is an extraordinary computer tool.