

The Evolution of CRM

By Teresa Harris, Elektra Associates

The value of the Customer Relationship Management (CRM) market is growing at an astonishing rate. According to CRM analysts and consultants, Hewson, the global market increased in value from \$5.7bn last year to \$11.4bn this year, rising to \$20bn in 2002.

Although increasingly discerning customers, globalisation, the Internet, deregulation and increased competition are fuelling CRM market growth, which other factors are influencing its development? Is the evolution of CRM itself increasing the value of the market?

Relationships with customers

Cultivating long-term relationships with customers has been standard in small businesses for years. Usually small businesses know their customers by name and what, when and how they buy. But, once a business starts to grow, the personalised service so valued by customers can diminish.

As it is more costly to attract new customers rather than retain existing ones and minor improvements in customer defections can dramatically improve profitability, the economic argument for nurturing relationships with customers is strong.

Relationship Marketing (a precursor to CRM) came to the fore in the 1980s as the principles underpinned many customer care and quality programmes. The concept held that long-term relations should be built with key parties - customers, employees and business partners - in order to retain their long term preference and business. Getting closer to customers meant that companies could be more reactive (or proactive) to customer needs and, as a better level of customer service should result, then the chances of retaining customers and increasing revenue would improve.

At the same time that Relationship Marketing programmes were being adopted, software vendors developed Sales Force Automation (SFA) technology. SFA allowed for automated workflows to route, notify and escalate sales information and critical customer issues. Good use of this 'customer memory' meant that sales pitches were more effective so the chances of winning business improved.

But other functions, such as marketing and customer service, regularly interacted with customers too. And, although software vendors developed programs to automate some marketing and after sales processes, it soon became clear that greater benefits could be achieved when the processes of all three customer-facing, 'front office' functions – marketing, sales and customer service - were automated and integrated. Thus CRM was born.

Although CRM technology can offer a range of functionality, most traditional CRM vendors provide, for example, campaign management, lead tracking and telemarketing tools for marketers, SFA functions for sales people and problem resolution software for after sales staff.

The CRM database

The essence of a CRM system is that customer data is collected from all touchpoints and deposited into one central data pool, thereby scrapping the need for individual customer databases to be held by different departments (see Figure 1a). Clearly, the use of multiple customer databases containing duplicate records makes for gross inefficiencies.

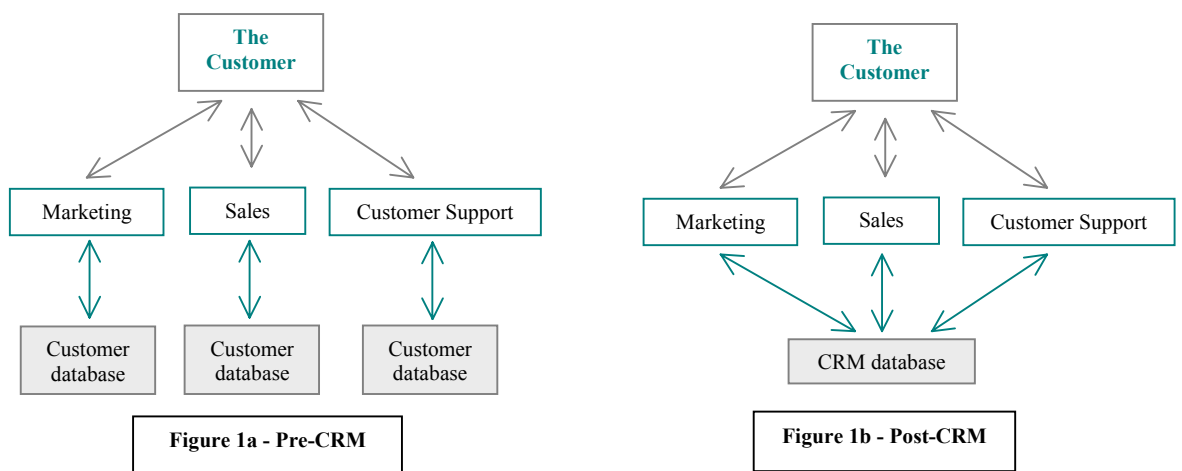


Figure 1a/b

The customer database: pre- vs post-CRM

Once a central database is used (see Figure 1b) and accessed by relevant staff, then business processes are much improved and staff are more efficient and effective as they have accurate customer profiles at their fingertips. Thus marketing campaigns are better targeted and more effective, sales people make better sales pitches to prospective ('prospects') and existing customers whom are most likely to buy, and service levels improve. As the standard of service improves, the chances of locking on customers are better so revenue should increase.

Business Relationship Management

But greater benefits can be extracted when the CRM database is linked to 'back office' functions such as finance, order processing and production or, externally, business partners, thus creating Business Relationship Management (BRM). As Nick Siragher, Director/End User Consulting at Hewson, explains: 'Whenever a customer touches an organisation, either to make an enquiry or place an order, certain processes are activated – this is the Customer Journey through an organisation. The more that processes can be linked to the central customer

database, then the more efficient the business becomes. Processes and staff throughout the organisation are more efficient as the technology allows them to be continually in tune with customer needs’.

CRM and Internet technology

The development of Internet technology in the mid-1990s had a significant impact on the evolution of CRM. The fusion of eTechnology with traditional CRM applications meant that disparate users could share data easily and, as Internet-based technology is easier to deploy, manage and modify, so the total cost of ownership is reduced, particularly in terms of servicing individual PCs. Not only can customers use the Internet to see and buy an organisation’s wares, the underlying technology can be used to connect employees via internal intranets or business partners via secure extranets, thus allowing for a greater sharing of knowledge, particularly about customers. So eCRM and eBRM were born.

Demand Chain Management

More recently, Demand Chain Management (DCM) has come to the fore. Built upon the foundation of eCRM and eBRM, DCM posits that, as all internal and external functions that are activated whenever a customer touches an organisation are networked – customers, employees, business partners – customers can pull through their desired products, services and solutions, configured to their own specification. Not only do customers receive what they want, but business processes are more efficient as manufacturers do not hold unnecessary stock and suppliers only provide goods that consumers actually need.

As Bob Runge, Chief Marketing Officer at Pivotal Corporation, suppliers of Microsoft-centric DCM software, explains: ‘There are six aspects to the demand chain. The first three aspects – understanding, engaging and personalising - are marketing orientated and are necessary to fully understand the market and customers before products can be built. The last three steps – transacting, fulfilling and servicing – refer to transacting in the way that customers prefer via the channel they choose, fulfilling their needs efficiently and cost-effectively and servicing customers well to ensure that they come back for more’.

CRM and channels

The unrelenting development of technology means that now, more than ever, customers can touch an organisation via a number of different channels (and vice versa). For example, customers can use telephone, email, Internet, Wireless Application Protocol (WAP), Personal Digital Assistants (PDA), interactive tv, fax, post, distributor outlet or face-to-face contact with a direct sales person. Use of these multi-channels increases business complexity as customer information from each channel must be synchronised, captured and deposited in the CRM database. If not, the efficiency of the CRM system could be compromised. As Steve Sydee, Head of Sales & Marketing at Touchstone, suppliers of CRM and financial management software, explains: ‘It’s essential to look at your own situation and

prioritise. Analysis could show that a significant volume of business or higher value customers, come via a website or call centre so it would be better to integrate these channels first. Companies often say that, as we have six different channels, let's build a system for all of them. But it's much more effective to integrate the most important channels first to get a quick Return on Investment – the system can then be augmented over time'.

CRM: how will it evolve?

Pundits agree that one-stop-shop technology that covers the full range of End-to-End operations will continue to emerge. As Nick Hewson, Director of Strategic Planning at Hewson, explains: 'The boundaries of CRM have widened dramatically. No longer can we look at traditional CRM functions in isolation without considering other areas of business such as the back office and business partners'.

The introduction of third generation (3G) mobile telephony will almost certainly trigger a large increase in Internet and mobile usage. 'The advent of 3G will open up the whole mobile channel', says Hewson. 'The introduction of broadband will allow for more traffic, improved usability and better transactional quality so, if usability is better, then more people will use the facilities – it's a case of cause and effect'.

Indeed, boosted by the arrival of 3G telephony IT analysts, Gartner Group, predict that, by 2003, more mobile devices will be connected to the Internet than PCs. Clearly the fusion of customer-savvy technology with mobile telephony offers endless possibilities, particularly for companies using remote sales forces. As Steve Sydee of Touchstone predicts: 'Mobile phones and PDAs will continue to develop. Although laptops have freed people, users will want to trade off functionality for portability'.

Interactive TV will continue to have an impact. Bearing in mind that three-quarters of UK homes do not have access to the Internet, the bulk of British customers are more receptive to 'Couch Commerce' – the ability to trade via interactive tv without leaving the comfort of their sofa.

Clearly, the convergence of computer, telephone and television technology will continue to have a significant impact on CRM systems and the way that customers are served but at what cost to business?

The value of the CRM market is growing not just because organisations are clamouring for technology to serve discerning customers better or to keep ahead of competitors, but because 'traditional' CRM projects are becoming more complex. As more organisations realise that increased business efficiency will result from not only linking channels to the customer database but other parts of the value chain too then, as project complexity increases, so too will implementation costs and the value of the CRM market.