Then, Now And Tomorrow: The Transformation Of Customer Relationship Management

Defying The Limits has traced the evolution of customer relationship management for half a decade – a period of success and set-backs, of learning and change. As its growing pains fade, CRM is now poised to assume a broader, more strategically vital role than ever, as an enabler of growth.

John G. Freeland  Accenture

“Other hot-growth software automates and manages communication with customers through Web sites, call centers and salesforces. This is Siebel’s specialty – so-called customer relationship management (CRM) programs. It has turned Siebel into a $500 million company – and one that’s growing at a blistering 80 percent per year.”

BusinessWeek, Oct. 25, 1999

With the publication of volume 5 of our Defying The Limits series, Accenture and Montgomery Research mark their fifth consecutive year of exploring and documenting the practice of customer relationship management.

Given the extreme changes and dramatic upheavals we’ve experienced in that time, a five year anniversary is a considerable achievement. It is also an occasion to reflect on how CRM has evolved and what it’s likely to become. As the philosopher George Santayana said, those who cannot remember the past are condemned to repeat it.

Fortunately, experience is a good teacher, and what we call CRM has been largely demystified. Companies today are much smarter about CRM, and more pragmatic. They no longer demand quick-fix solutions or expect easy answers. Yet they are also more optimistic about CRM, because they understand – after a few disappointments – that it can deliver real value.

Our way of thinking about CRM, consciously or unconsciously, has also changed considerably since Defying the Limits, Vol. 1. We’ve been forced to rethink – more than once – what the term means and what it doesn’t mean, to reconsider what matters most and what matters comparatively little. In fact, these five years not only taught us a lot about managing customer relationships, but also that this is an area
that is continuously evolving – and those who fail to change with it will fall behind.

**Early Years, Lasting Lessons**

“But the goal goes beyond simply satisfying customers. While providing customer service, clever companies are also gathering data on their customers’ buying habits and needs, then storing and analyzing that data and using it to improve products or services as well as management policies.”

_CIO, Aug. 15, 2000_

In the beginning, CRM essentially meant salesforce and service automation. Early implementations focused on streamlining transactions and lowering operating costs, and the impact on customer service was an added bonus. CRM was, in effect, a tactical tool focused on efficiency – and many companies saw real results in that area.

Soon, however, it became clear that CRM could be much more and that, indeed, it must become more. An increasingly empowered and disloyal customer base demanded more.

Companies expanded their call center infrastructure and implemented more complex tools for storing and tracking customer data.

In turn, customers grew to expect even more – yet did not necessarily grow more loyal. In a kind of arms race with their customers, companies continued expanding their sales and service capabilities, adding people, facilities and applications. Many of these investments were technology-oriented rather than customer centric, however, and were made independently of a cohesive customer strategy.

As a result, customer operations became more complex and more costly, without the immediately expected return on investment. With the downturn in e-commerce, the CRM industry entered the “valley of disillusionment” typical of technology fads after the initial hype fades.

“There’s no market for CRM,” said Siebel. “It’s not there. There are a lot of companies trying to get into the space, and they’re building generic sales force automation, customer service or marketing software. But they are going after a market that doesn’t exist.”

_The Siebel Observer, Oct. 4, 2002_

Organizations that continued investing in CRM capabilities reduced the scope of their projects dramatically. They learned to be more disciplined about developing the case for investment and calculating probable returns. In time, the market even learned to think of the customer relationship as an ongoing conversation rather than a series of transactions.

From these early experiences, three key insights emerged that challenged initial CRM conceptions and eventually became the new conventional wisdom.

- CRM is a way of doing business, not a technology. Managing customer relationships is about more than technology enablement.
- CRM succeeds when it is rooted in a clear, fact-based strategy and addresses a broad range of operational considerations: processes, people, organizational structure, culture.
- CRM is sales, service and marketing. Proliferating channels, fragmented messages, incomplete and inconsistent data – the customer relationship could never be optimized until marketing strategy and operations were integrated along with sales and service as the CRM core.
- CRM is a journey. Customer relationships are living things; they change as the business context changes and as customers themselves change. Successful, enduring companies are sensitive to these changes and remain willing and able to respond by renewing their strategic vision and refreshing their operational capabilities.

**Growing Pains**

“‘Analytics is part of a natural evolution of the total solution set,'” says John Grozier, vice president of CRM product marketing for SAP. ‘People are trying to figure out in this down economy how to become more effective. They want to use all things they’ve already bought, but use it in the most effective way.’”

_InformationWeek, Sept. 9, 2003_

The organizations that first embraced these lessons helped CRM re-emerge from the shadows. Among other things, they demonstrated the enduring importance of CRM: in a weak economy, being able to maximize the economic value of existing relationships by cost effectively increasing retention and share of wallet is invaluable.

Building on earlier efforts – data warehouses, call centers and so forth – the advance guard for the “new CRM” enabled a closed-loop flow of customer information throughout the enterprise. Harnessed to advanced analytical methods, customer data became customer insight: the ability to identify customer preferences, predict customer behavior and shape customer interactions accordingly – with predictable, cost-effective outcomes.

Cross-selling and upselling, however, can contribute only so much to the top line. Over time, an extreme focus on cost containment may actually destroy value, allowing poor execution to weaken the emotional bonds between company and customer. These issues remain important, of course. If not balanced by growth objectives, however, they form a recipe for stagnation.

**Return Of The Growth Agenda**

“‘Looking further ahead, the most likely scenario for the next two years is one of sustained growth in the United States and progressive recovery in Europe and Japan,’ [Organization for Economic Cooperation and Development] Chief Economist Jean-Philippe Cotis said in the report.”

_MSKC, Nov. 26, 2003_

Now operating in a brighter economy, companies are again turning their attention to acquisition and focusing less on cost containment while continuing their quest for customer retention. Today, CRM capabilities...
should be cultivated as vital resources for reaching new customers and new markets. And once again, some will need to rethink their customer strategy and focus their operational capabilities on new outcomes.

After advocating the imperative to integrate marketing with sales and service, we came to recognize the power of the marketing discipline to catalyze CRM as a growth agent. Simply put, superior marketing capabilities have an impact beyond improving the return on advertising or direct-marketing campaigns. They increase and accelerate cash flow, lower the volatility and variability of sales, and contribute to the enduring brand value of the business.

Brand value derives from distinct promises made to the customer, which are then executed well and consistently. The “branded customer experience” is the proactive management of each customer interaction, to produce a consistently satisfying, consistently profitable set of rewarding experiences.

Using the practices and tools that comprise what we call “high performance marketing,” companies can unify the two dimensions of CRM, the strategic and the operational, and define and deliver a distinctive, compelling brand promise.

High performance marketers accomplish this by first mastering a broad range of capabilities, which work together in a cohesive fashion. Not only to develop and deliver a branded customer experience, but also to create and shape demand, increase marketing productivity, measure market performance and maximize the impact of talent and technology.

We have found that companies that have unleashed the full potential of marketing display certain characteristics:

- **Integration.** Marketing is present throughout the organization, wherever the organization touches the customer.
- **Targeting.** High-performance marketers know how to identify and reach specific, diverse segments – defined not just by demographics but by customer values, preferences and behaviors.
- **Discipline.** They practice marketing as a science rather than an art, taking a data- and analytics-driven approach to forecasting future demand, allocating resources more effectively, optimizing marketing spending and measuring the ROI of marketing programs.

### The End Of CRM As We Know It

The CRM market finally rebounded in 2003, with revenue growing by 4 percent over 2002, according to the omnibus CRM report recently issued by AMR Research. The report projects even greater expansion this year …

CRM Magazine, July 14, 2004

When rapid, unpredictable change is, well, predictable, it may not truly be possible to forecast with complete accuracy the major forces and trends that will define CRM five years from now. We will, however, make some educated guesses.

As CRM capabilities become increasingly important to the growth agenda, they will become ever more deeply embedded into the core business: closely linked with finance, manufacturing and supply chain systems but transcending business units. In time, the notion of

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“customer centricity” – for the most part, still an aspiration to companies today – will become best practice. (How companies will create competitive advantage with customers at that stage is still anyone’s guess.)

The days of the best-of-breed solution are numbered. Specialized capabilities now usually stitched together from niche providers will fuse into an integrated, enterprise-wide platform for predicting and shaping demand and then meeting demand profitably, with precision and speed. The most sophisticated CRM users and the largest CRM providers, in fact, are already thinking in these terms.

As customer management grows increasingly sophisticated and increasingly strategic, doing it right requires more extensive – and expensive – skills and resources. That reality will continue driving organizations to consider alternative means of acquiring advanced capabilities for marketing, sales and service, such as outsourcing and Net-sourcing.

As these trends converge, the capital-intensive, technology-centric concept of CRM will, we believe, finally be retired. The term itself is already falling into disuse, an outmoded relic of an earlier era. Today’s executives tend to increasingly express their needs and objectives using the language of outcomes – such as growth, for example, or differentiation – rather than terms of enablement.

Still, human nature is what it is: Irrespective of what they say, many executives will continue to focus instinctively on the mechanics of managing customers rather than on strategic intentions, creating a gap between a vision and its execution. Consequently, we continue to caution our own clients to “mind the gap” and develop not only a customer strategy but also a separate roadmap for acquiring the new or enhanced CRM capabilities needed to realize this strategy.

Regardless what changes the future brings, George Santayana offers one other piece of sound advice: The wisest mind has something yet to learn. Accenture and Montgomery Research anticipate having many more opportunities to learn, with our readers, as the evolution of CRM continues.