



# Achieving Excellence in Customer Relationship Management

Cranfield School of Management

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## 1. Executive Summary

This report covers the work of the Cranfield CRM Research Forum for the first year of its operation. Directed and funded by a group of organisations across many sectors, the goals of the Forum are to enable excellence in Customer Relationship Management (CRM) by defining and understanding this important management process.

The work of the Forum is based upon a research programme that includes both primary and secondary research. The secondary research was used to synthesise a generic model of CRM which broadly but accurately describes the management process better than previous models. This model allows practitioners to understand and create the necessary preconditions for successful CRM in any organisation. It also makes explicit the inputs, outputs and connectivity of the four sub-processes of CRM.

The primary research involved the in-depth, qualitative study of eight exemplar companies in B2B and B2C sectors, in both products and services. This phase revealed that effective CRM operates within a CRM eco-system defined by both market and organisationally based factors. Awareness of this eco-system allows organisations to avoid wasteful investment in CRM when it is not appropriate to their business situation. The primary research further revealed the evolution of the basic CRM process into five sub-species, each of which was optimally adapted to its particular place in the CRM eco-system. Understanding of this differentiation allows practitioners to define the optimal CRM process for their own situation.

This report is in two parts: Firstly, a management report summarising the results of the research; secondly a manual based upon the work. The manual, including software tools, facilitates the development of a CRM process optimised for the particular market and organisational conditions of the reader.

## 2. Introduction

CRM is at a crucial point in its development. It is emerging from its embryonic stage of hype and unfulfilled promise into, potentially, a management tool of great strategic importance. Whether CRM 'grows up' or becomes yet another discredited fad depends on turning its early promise into a practical procedure, with clear steps, actionable methods and measurable inputs and outputs. The future development of CRM depends not simply on more investment in IT, but on understanding how CRM really works; building transferable knowledge and turning it into effective practice.

This is the goal of the Cranfield CRM Research Forum, a group of leading organisations with an interest in the development of CRM, hosted by Cranfield School of Management. This report describes the work of the Cranfield CRM Research Forum from its foundation in May 2001 to October 2002. The report consists of two sections:

- An explanation of the work of the forum, describing its membership, research objectives, methodology and results.
- A practitioner manual, to provide step-by-step guidance for the development of an effective CRM process in a real world environment, derived from the results of the Forum's Research.

As will become clear, the original research carried out by the Cranfield CRM Research Forum has contributed greatly towards understanding and developing CRM as a practical management tool. However, there remain several areas where best practice has yet to be completely defined and understood. These areas will form the continuing research agenda of the Forum.

*Practitioner Points: Throughout the report, boxes like this will be used to illustrate points of key importance to practitioners. They will include a learning point and supporting quotes from the executives interviewed during the course of this work. For reasons of confidentiality, companies are only identified by code letter and the quote may be slightly edited to disguise the identity of the contributor.*

### 3. Part A: The Work of the Cranfield CRM Research Forum

#### 3.1. *The Cranfield CRM Research Forum*

##### 3.1.1. *Membership*

The Cranfield CRM Research Forum consists of eight organisations united by a desire to become excellent at CRM. The Forum membership includes:

Castrol BSS  
Dow AgroSciences  
Fulham Football Club  
JCB Sales Limited  
Legal & General Group plc  
London Symphony Orchestra  
Sainsbury's Supermarkets Ltd  
The Marketing Organisation

Each member company contributes its expertise, its research needs and funding to the research programme. In return, Forum members attend quarterly meetings of the Forum to hear of the latest results of the research and contribute to the direction of the research programme.

##### 3.1.2. *Research Objectives*

The CRM Research Forum developed a coherent set of research objectives based upon the pragmatic requirements of its members. These were condensed into 5 key research objectives:

- To clarify the definition of CRM from the mass of contradictory ways in which the term is currently used. In particular, to understand what CRM means in exemplar organisations and how it is distinct from existing definitions of marketing or customer management processes.
- To understand the process of CRM in practice; what inputs and outputs are involved, what sub-processes go on and what, if any, are the common factors that underlie successful CRM.
- To understand the means by which CRM systems are financially justified and implemented in the context of competing investment requirements.
- To understand the way in which CRM is successfully adapted, if at all, to the particular conditions of an organisation.

- To understand the key steps required of an organisation to move from conventional processes to excellent CRM.

These research objectives formed the basis of the Forum's research design and were subsequently used to evaluate the success of the research.

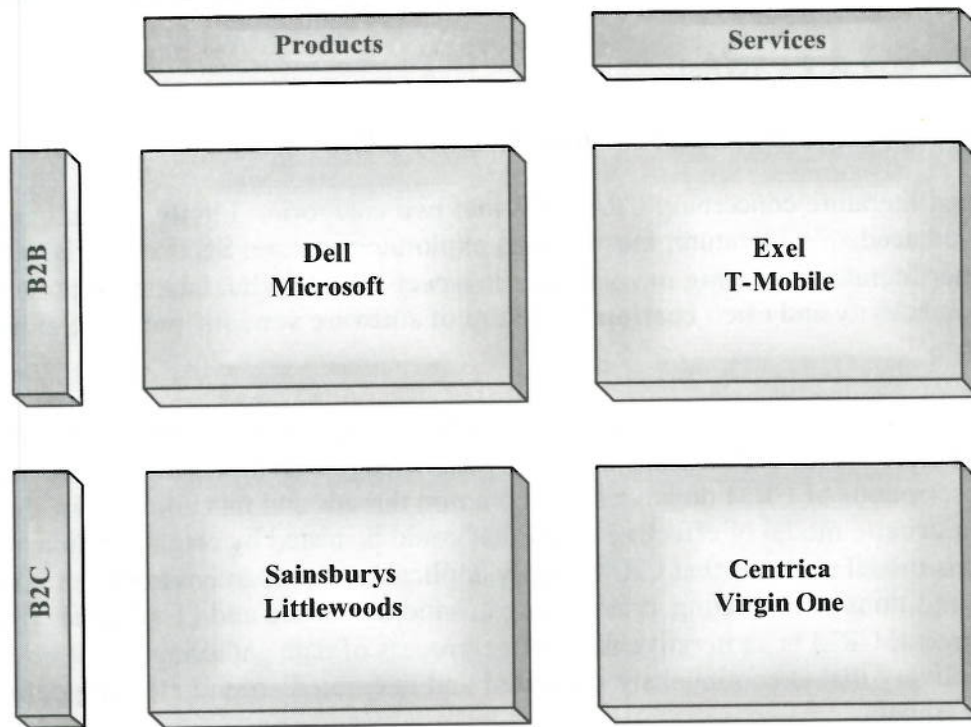
### *3.1.3. Research Design and Methodology*

In order to meet the stated research objectives, a two-phase research design was established:

- Firstly, secondary research, consisting of the structured collection and analysis of all available previously published research about CRM.
- Secondly, primary Research, involving the methodical examination of CRM practice in eight leading companies.

The initial secondary research phase was carried out by computerised database searching of all significant publications over the last three years (i.e. since 1998). Both academic (peer-reviewed) and practitioner publications were searched, as well as conference proceedings and the work of consultancies and IT vendors. This published work was read and assessed for common themes, consensus and, importantly, gaps in existing knowledge. These knowledge gaps, together with the Forum's research objectives, formed the basis of the research aims for the subsequent phase of primary research.

The primary research phase was designed to reflect the variety of approaches to CRM that had become evident during the literature search phase. In particular, the sample frame for the research incorporated the literature indications that CRM differed significantly between Business to Business (B2B) and Business to Consumer (B2C) markets, as well as between predominantly product and predominantly service markets. Hence, eight companies were recruited to be exemplar case studies, as shown in Figure 1.



Source: Dr M Clark & Mr B Smith

**Figure 1: Research Sampling Frame**

Within each company, a standard qualitative research method was employed (i.e. a structured research interview). A qualitative method was used in order to gain depth of insight and detailed examples of CRM development and implementation. A standardised, structured, method was used to ensure consistency and comparability between cases. In each company, between one and three respondents were interviewed, depending on the complexity of the organisation and its CRM system. Each was interviewed by an experienced researcher with detailed knowledge of CRM processes; the interview was then transcribed and corrected by an experienced marketer, to avoid the errors associated with using a transcriber unfamiliar with the subject matter.

Each interview (or set of interviews) transcript was then analysed using the NUDIST software package. This is the market-leading package of its type, used to analyse large amounts of qualitative data in such a way to draw out common themes and evidence to test prior hypotheses. By using NUDIST, and a research analyst different from those involved in the interview or transcribing, the risks of interviewer or analyst bias were minimised. The results of the analysis were then used to develop, test and improve models of exemplar CRM, as reported in the following section.

## **3.2. Results & Conclusions**

### **3.2.1. A Review of the Current Knowledge of CRM**

The published literature concerning CRM falls into two categories. Firstly, a small amount of peer-reviewed academic literature, mostly of an exploratory nature. Secondly, a large amount of practitioner literature covering many different aspects of CRM but lacking somewhat in rigour and objectivity and often bearing the stamp of software vendors' public relations activity.

In overview, the literature review revealed that CRM is poorly defined, but did allow for the creation of a more useful definition. The existing knowledge also indicated that the mass of differing descriptions of CRM do have some common threads and this allowed for the creation of a generic model of effective CRM that could be tested by original primary research. This model suggests that CRM is only applicable within an environment bounded by certain conditions of marketing strategy, organisational culture and IT systems. Within that environment, CRM is an iterative three stage process of data gathering, value creation and value delivery that is continuously measured and integrated around evolving definitions of market segments.

Both the definition and model of CRM are explained in the following sections.

### **3.2.2. Definitions of Customer Relationship Management**

Despite the current vogue for CRM, there exists no single and widely accepted definition of the term. The definition of a management technique or process is of more than semantic importance. By defining CRM, research into how it works and what it results in is directed and made more effective. Without a functional definition, research into CRM risks diffusion into other areas and thus failure to improve management practice.

Instead of a single definition, there exist many different and differing descriptions of CRM. Many of these current descriptions contain elements of a useful definition but none of them meet the tests of a useful definition. In order, therefore, to construct a definition of CRM, it is important to consider what properties a strong definition should have. Briefly, these are:

- Inclusive (It should cover all cases of the subject)
- Exclusive (It should exclude all cases which are not the subject)
- Descriptive (It should facilitate recognition and understanding of the subject)
- A priori or non-circular (It should not depend on other terms, the definition of which depend on the original definition)

Unfortunately, the existing published definitions of CRM all fail one or more of these tests.



Papows (Papows 2001), for instance, defines CRM as:

*“An effort to create the whole picture of a given customer, bringing together consistent, comprehensive and credible information on all aspects of the existing relationship, such as profitability information, risk levels and cross sell potential”*

Whilst this describes some components of CRM, and places due emphasis on the comprehensiveness of customer data, it does not exclude traditional cases of sales management or KAM that are not CRM. Nor does it include broader cases that address large numbers of customers and operate at segment, rather than customer level. Finally, it relies on definitions of relationships that are vague and hinder clarity. Similarly, Curley (Curley 1999), provides an alternative definition of CRM:

*“A sales and service business strategy where the organisation wraps itself around the customer, so that whenever there is interaction, the message exchanged is appropriate for that customer; this means knowing all about that customer and what the profitability of that customer is going to be”*

This seems limited to marketing communications, excluding cases of mass customisation for instance, whilst not providing any basis for excluding traditional, non-CRM based marketing. Using this definition, CRM and marketing are almost interchangeable, which clearly does not help direct the research. A similar criticism can be made of Hobby (Hobby 1999), who quotes an untraced Ovum report defining CRM as:

*“A management approach that enables organisations to identify, attract and increase retention of profitable customers by managing relationships with them”*

With many of these definitions, therefore, it is hard to see where CRM is distinct from marketing or the business process overall. They are also quite narrow in the type of organisations they apply to, restricting the consideration to simple profit optimisation in purely commercial situations. A more robust definition of CRM is given by Fletcher (Fletcher 2001):

*“Customer Relationship Management is a business strategy for improving profitability by focusing on customer needs and creating an attentive relationship with the customer. It involves a personalised and interactive approach for the entire customer lifecycle. Successful implementation of a CRM approach requires changes in organization structure, culture, and skills, as well as front- and back-office information systems.”*

This definition contains much that delimits Customer Relationship Management, although it carries implicit assumptions about Information Technology use that may be made clearer.

Much of the literature side-steps the definition issue and merely states or assumes the components or differentiating characteristics of CRM. Whilst failing to meet the ideal properties of a definition, this descriptive literature and the previously discussed definitions do provide the basis for constructing a more useful working definition. A summary of the literature, therefore, provides a list of six defining characteristics of CRM:

- The use of individual (rather than sample or consolidated) customer information
- The gathering of customer data across many customer contact or 'touch' points
- The use of information and telecommunications technology as an enabler
- Selective resource allocation between customers
- The creation or adaptation of a tailored value proposition at an individual level
- The direction of that value proposition towards the achievement of organisational goals.

Using these common themes taken from the breadth of the CRM literature suggests that a functional definition of CRM is:

*"Customer Relationship Management is the management process that uses individual customer data to enable a tailored and mutually valuable proposition. In all but the smallest of organisations, Customer Relationship Management is characterised by the IT enabled integration of customer data from multiple sources."*

This was taken as a working definition of CRM for the Cranfield CRM Research Forum, allowing the work to be focused and the process of CRM in exemplary companies to be studied.

Practitioner Point: It's important to see past the labels created by the software companies to understand that CRM is not synonymous with buying an integrated software package. CRM is about using individual customer data to create advantage; IT is merely an enabler.

*"I think the first thing to say is that we would never call it CRM. That is not a term we use in any of our conversations, internally or externally. One of our absolute fundamentals is honestly and truly putting the customer at the heart of everything we do. That sounds like a glib statement, but we launched to provide the consumer with a better alternative to the traditional way of doing things." Executive A*

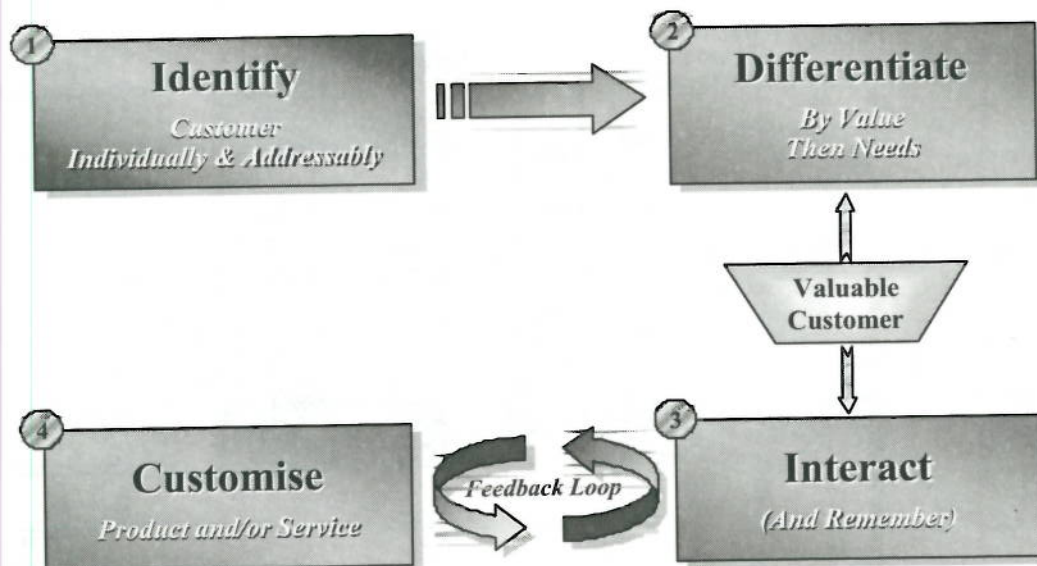
### **3.2.3. Existing Models of Customer Relationship Management**

Models of management processes facilitate application of that process by explicating its components and any connectivity between them. Due, presumably, to the relative novelty of CRM, the literature concerning the process by which CRM is implemented is comparatively embryonic and offers several competing models, none of which are a complete functional model of CRM application. Much of the literature in this area is anecdotal and case-specific, offering little generalisable knowledge (see for instance Couldwell (Couldwell 1998)). Other literature focuses on the IT part of the task rather than the overall business process. (for example Shaw (Shaw et al. 2001)) However, there has recently developed a stream of literature that attempts to identify and connect the key steps in the implementation of CRM.

One of the earliest, and perhaps best known models of CRM, is that developed and employed by the CRM specialist consultancy Peppers and Rogers (Peppers, Rogers, & Dorf 1999). This sub-divides CRM into 4 broad, sequential stages, as follows:

- Identify customers
- Differentiate amongst customers
- Interact
- Customise

This model is shown in Figure 2.



Source: Peppers & Rogers Group

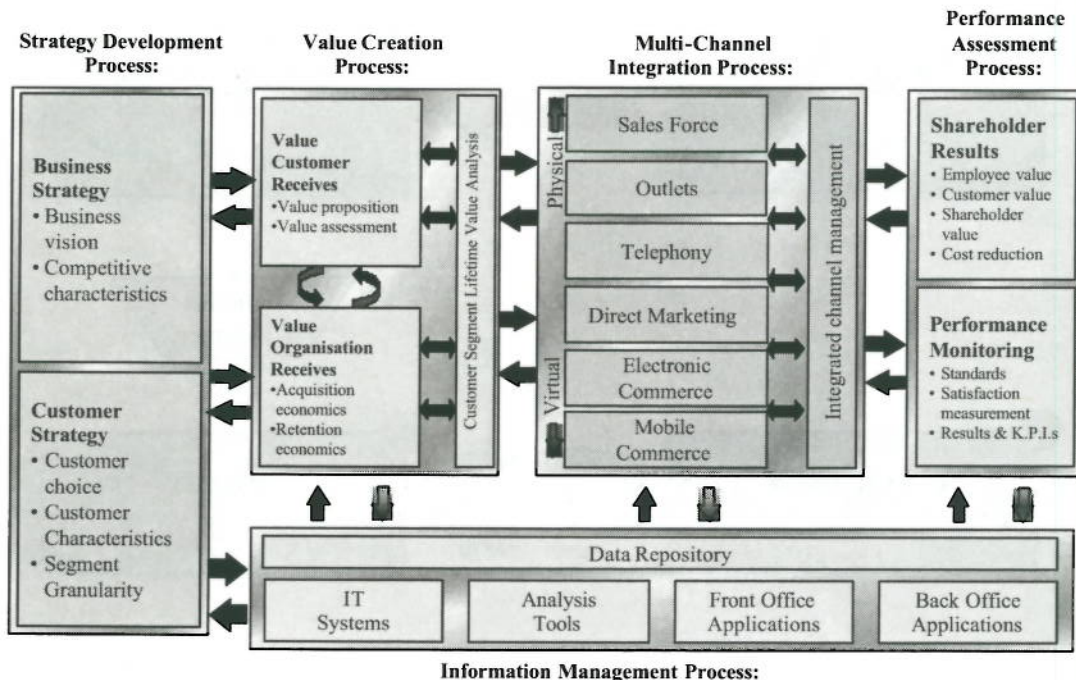
**Figure 2: Four 1to1 Principles: IDIC**

This model makes a useful contribution, but obviously lacks detail. In their various publications, the same authors elaborate on the model with case studies, examples and auditing tools. However, the model remains sparse and difficult to transfer to other cases without the specific help of those who developed the model. In particular, little reference is made to the outputs and inputs of each stage and how re-iteration is intended to improve the value proposition. Further, this stream of literature assumes the applicability of CRM and has little to say regarding the conditions under which CRM may and may not be applicable.

A more recent and rigorous piece of work investigating the CRM process by Payne, (Payne 2001) places CRM into a strategic framework and proposes that there are five key sub-processes:

- The strategic development process
- The value creation process
- The multi-channel integration process
- The information management process
- The performance assessment process

This is shown in Figure 3.



Source: Professor Adrian Payne

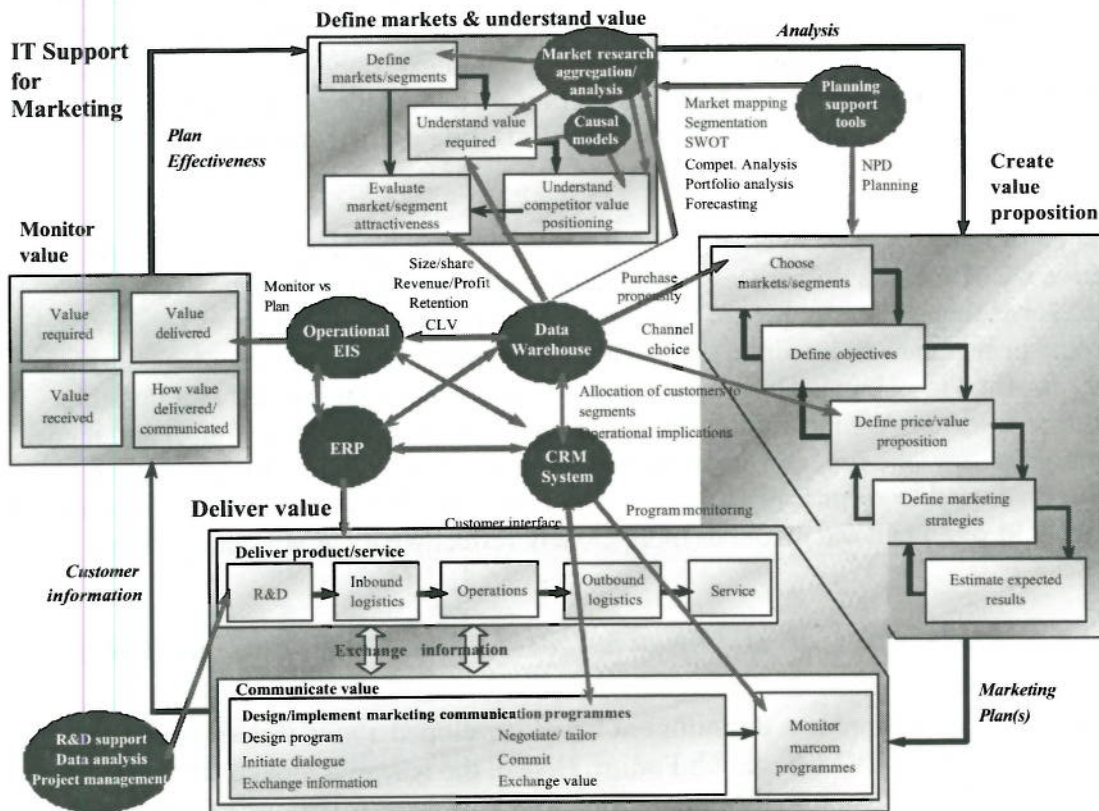
Figure 3: CRM Strategy Framework

In this work, these five processes are closely inter-related. This model therefore goes far beyond the Peppers and Rogers model and allows much greater generalisability. It provides clear guidance for where existing elements of the marketing communications mix fit into CRM. However, the model is again linear and, although much more detailed than its predecessor, offers little guidance concerning the specific inputs and outputs of each component part of the model. Further, it is biased towards customisation of the marketing communications mix and offers little guidance for the development of other parts of the value proposition.

The third significant model, by McDonald and Wilson, developed to aid CRM implementation uses some of the same concepts whilst building in more detail from the strategic marketing management field (McDonald, Wilson, & Daniel 2001). This model proposes four key stages in an iterative process:

- Define markets and understand value
- Create the value proposition
- Deliver value
- Monitor value

This is shown in Figure 4.



Source: Professor M McDonald, Dr H Wilson & Dr E Daniel

Figure 4: IT Support for Marketing

Further, it places CRM processes, along with other IT systems, in the centre of this iterative loop. This model is characterised by viewing CRM systems as an enabler of the four stages of strategic marketing. The strength of this model undoubtedly lies in the contextualisation of CRM within the overall marketing process. However, it gives little guidance to how CRM might be applied and lacks in detail what it adds in context. In short, this model is more one of CRM as a component of marketing and less one of the functionality of CRM itself, as was indeed its intention.

All three process models use some common components, albeit using different terminology, but differ in the degree to which they explicate the process of CRM process and the extent to which they interlock with strategic marketing planning.

The literature base for CRM can therefore be said to contain some useful models that may be useful in designing an enterprise-wide system for a given company. However, none of the three current models discussed offers the level of detail necessary to make implementation of CRM reproducibly effective. In particular, whilst each model offers something in terms of either process outline, process connectivity or strategic context, none of the models provides all of these things well. In this respect, the extant models are analogous to the extant definitions, offering useful contributions but not yet offering a fully functional and generalisable model for practitioners to follow.

Further, none of the current models are fully validated. That is, there is no empirical proof that effective CRM follows this process and that all necessary components have been described. Nor is there much empirical work describing the implementation of these models, at least in the peer reviewed literature. The extensive consultant-led literature lacks in rigour as much as it offers in volume. This clearly points to gaps in our knowledge and possible areas of future research. We need to understand what CRM is (and what it is not) and then create a model of how the process works that can be used by practitioners to design their own system. We then need to empirically test that model, to prove that it is a realistic depiction of exemplary CRM or amend the model to more closely reflect what CRM is in excellent companies.

### ***3.3. A Synthesis of Current Knowledge: A Model of Exemplary CRM***

The broader management process definition of CRM developed above was used to guide the research of the Cranfield CRM Research Forum. Hence, the research looked far wider than simply the use of IT systems, into the entire process of how market data was used to refine and tailor value propositions. This research showed that the characteristics that differentiated effective and ineffective CRM processes fell into two categories:

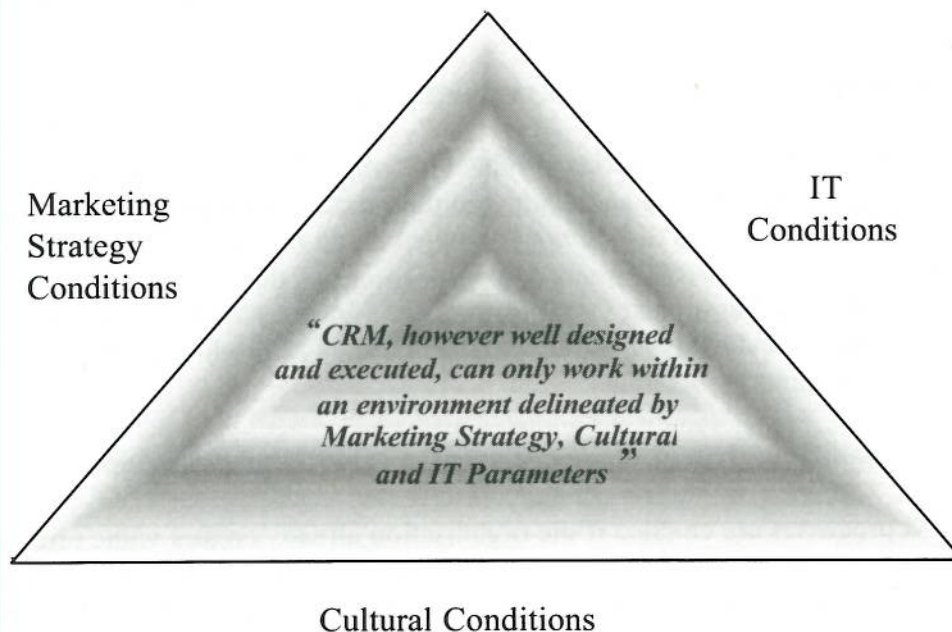
- Firstly, the CRM space; a set of preconditions necessary for a CRM process to be effective. It was found that even heavily resourced CRM processes failed without the existence of these preconditions (see Figure 5).

- Secondly, an iterative process containing four distinct sub-processes. Although differing in detail, it was found that all effective CRM processes contained these sub-processes in some form. This pre-conditioned iterative process is shown in Figure 6.

### 3.3.1. The CRM space

When researching the use of CRM processes, a number of features recurred as enabling or inhibiting factors. These factors were each necessary but not sufficient preconditions for the effective working of a CRM process. Further, their effects were cumulative so that the presence or absence of these conditions did guarantee or preclude CRM, but their *combined* presence or absence increased or decreased the likelihood of the CRM process being effective.

These preconditions clustered naturally into three categories, as detailed below, so that the presence of each contributed to the creation of a three-dimensional space in which CRM was viable (See Figure 5). As discussed below, large CRM spaces, defined by the presence of many positive factors in all three categories, were a characteristic of organisations using CRM effectively, whilst small CRM spaces, defined by the absence of many positive factors in all three categories, were a characteristic of failing CRM processes.



Source: Dr M Clark & Mr B Smith

Figure 5: The CRM Space

Further, the CRM space concept provides a guide for corrective action and the focusing of resources. Since it is easier to move the preconditions from very unsatisfactory to average, than from average to excellent, the identification of wholly or mostly absent conditions clearly suggests actions that would provide the most improvement of CRM effectiveness per unit of resource or management effort.

The three groups of pre-conditions that define the CRM space, and the sub-components of each identified in the research, are:

### **Marketing Strategy Conditions**

Marketing strategy is that set of management decisions concerning the definition and selection of target customers and the propositions made for them. CRM is a process for enabling and refining that set of decisions. However, it is necessary that the marketing strategy meet certain quality criteria in the first place. A marketing strategy that is fundamentally flawed cannot be put right by CRM. Further, weak marketing strategies are characterised by inefficient resource allocation. This has the effect of distorting responses to propositions, the analysis of which leads to misleading and spurious associations.

Although there are many criteria against which marketing strategy might be evaluated, the most important are:

- That the marketing strategy defines real target segments

Effective CRM begins with target markets defined in terms of true segments (that is, groups of customers that are homogeneous and distinct in their motivations and who react similarly to propositions). CRM processes that do not have the benefit of well-defined target markets struggle to elucidate more valuable targets and propositions as the organisation of data in sub-process one (Data Gathering and Organisation, see Figure 6) leads to conflicting and confusing results. Statistical analysis of false segments, such as product categories or channels, leads to spurious associations.

- That the marketing strategy defines segment-specific value propositions

Effective CRM processes are enabled if the organisation already creates value propositions that are specific or part-tailored to target segments. Such propositions lead to relatively consistent responses, the analysis of which reveals segment fine structure. By contrast, propositions built around heterogeneous targets (such as channels or product-defined groups) lead to inconsistent responses and their analysis leads to uninformative or spurious associations.



- That the marketing strategy allocates resources differentially by segment or market

Linked to the need for homogeneous segments and specific propositions, appropriately allocated resources appear to support CRM. This is usually based upon some form of portfolio analysis based upon relative market attractiveness and competitive strength. Without this, over- or under resourcing of targets distorts the response patterns of those segments, leading to misleading associations.

- That the marketing strategy aligns to the market via SWOT

The alignment of internal strengths and weaknesses to external opportunities and threats is fundamental to marketing strategy quality. In effective CRM processes, internal competencies and constraints (strengths and weaknesses) are assessed against objective frameworks. Similarly, external opportunities and threats are evaluated and the two assessments connected via correct use of SWOT analysis. By contrast, subjective and ad hoc listings of SWOT factors lead to inappropriate resource allocation and distort segment responses and misreading of motivations.

- That the marketing strategy is significantly different from that of major competitors

The final and most demanding test of marketing strategy is the degree to which the organisation's marketing strategy (specifically, the target definition and specific propositions) differs from that of its principal competitors. Effective strategies avoid direct competition by defining targets and propositions differently. Where this does not happen, customer responses are much more sensitive to competitive action, leading to inconsistencies in CRM data and false indications of customer motivations.

Practitioner Point: Effective CRM builds on an existing well defined strategy with different propositions for each segment. Each segment is clearly defined in terms of motivations or behaviour, not simply descriptors such as age, gender and locations.

*"We have segments with different propositions and have had for a number of years..... it's defined by a scoring system..... to do with their buying behaviour."* Executive B

*"What we have is about 10 corporate segments....customer segments based on transactional data, but these segments are not used to target people in terms of tactical knowledge, they're strategic in terms of their direction and then the tactical stuff comes on top of that."* Executive C

## Organisational Culture and Climate Conditions

Organisational culture is that set of commonly held beliefs and assumptions and the organisational habits that arise from them (Schein 1991). Organisational climate, however, is the atmosphere that employees perceive is created in their organisation by the policies, practices, procedures and rewards of the firm. Organisational climate can impact on employee satisfaction and behaviour and is therefore related to customer satisfaction and retention (Clark 2002). Organisational climate arises from the organisational culture. Together, these two aspects of the internal environment form the second important dimension of the CRM space. Organisational culture is persistent and pervasive (Drucker 1993) and its impact on CRM is as powerful as it is implicit. Whilst it is possible to identify the interaction between CRM and the surface artefacts of organisational culture, it is much harder to understand the underlying causal assumptions beneath that. Despite this complexity, four fundamental attributes of organisational culture and climate seem to contribute towards the creation of a CRM space.

- Positive organisational climates

There is a proven relationship between positive organisational climate, customer satisfaction and customer retention. Similarly, the Cranfield CRM Forum research showed that positive organisational climates were necessary prerequisites to cross-functional team working and the cross-site project management that is usually a part of most CRM projects. Conversely, negative employee attitudes were implicated in failures of CRM process development via hindered internal information flows and higher internal transaction barriers.

- Market-oriented cultures

Market oriented cultures are those in which the core assumptions and their resultant artefacts are in line with the market. Whilst all companies in the research would claim to be market oriented, there was a clear division between those that focused on the external situation rather than on internal factors. This was exhibited in features such as customer based performance metrics, rather than simply product based financial metrics. Where internally oriented cultures were present, an imbalance was seen between seeking organisational value over customer value.

- Strong cultures

Strong cultures are those in which the fundamental assumptions and beliefs are held commonly throughout the organisation. By contrast, weak cultures are those in which different parts of the organisation hold different values and this is shown in different structures, systems and management styles. Weak, fragmented cultures hindered CRM process by leading to inconsistent resource allocation between functions and hindered cross-functional working.

- Learning culture

Learning cultures are those in which the fundamental assumptions are open to change, in the light of changing market conditions and business experience. Learning culture characteristics exhibited in effective CRM processes included detailed, lead-indicator, measurements of effectiveness, tied to clear review and change processes. Less learning oriented cultures showed a deficit in feedback information and a reluctance to measure outcomes other than complex lag indicators such as sales or contribution.

Practitioner Point: Effective CRM depends on having certain customer-oriented assumptions at the root of the organisational culture and climate. Without these, persistent and pervasive organisational habits will hinder or prevent effective CRM implementation.

*“Because any significant sequence (of marketing activities) involves a number of departments co-operating to a common plan. The fact of the matter is that we have spent the last (year) recruiting people to be entrepreneurs. Team playing with a bunch of entrepreneurs is fine but getting them to play with another team... (is more problematic).” Executive C*

## IT System Conditions

IT systems were defined by effective CRM companies to include rather more than the software and hardware systems employed directly to perform the CRM process. They were taken to include all other data and information processes connected to customer contact and proposition delivery. They were also taken to include organisational structures and systems that supported the IT process, such as internal intranets. Five key characteristics of IT systems were found to be common in supporting effective CRM processes:

- IT system design goals are derived from the organisation’s marketing strategy

As an adjunct to cross-functional, non-silo working, IT systems that effectively supported CRM were usually the result of very clear goals that were derived from marketing objectives rather than IT system goals. For example, these were characterised in terms of customer grouped data concerning customer behaviours and descriptions. By contrast, IT based goals were typically based on processing of product and channel data. Marketing based goals were typically more demanding, involving the gathering of new types of data and new types of analysis

- IT system development has top management team support

Comparisons of effective and ineffective IT systems for CRM process support showed a marked difference in the degree of involvement of top management team members. Typically, effective IT projects had the direct involvement of a senior manager and the commitment of his/her peers. As a corollary, the CRM process would have full agenda status for the top management team and high internal visibility. By contrast, failing projects were

characterised by low-level leadership and rapid relegation to minor project status. Senior management involvement was seen as especially important in resolving implementation problems concerning resource allocation across functional borders and reconciling conflicts of priority.

- IT system development is adequately resourced

Resource allocation to IT systems for CRM was markedly different in companies that showed success with CRM. Both financial and non-financial resources were allocated more generously. Dedicated human resources and access to staff in other functions were common factors. In addition, budgets were clearly hypothecated and protected. By contrast, less effective processes were characterised by inadequate allocation from existing budgets and human resources.

- IT projects are managed flexibly

The incremental nature of CRM process development, arising from the unknown results of each process iteration, was found to be difficult to manage using conventional IT system project management tools. Instead, project management was often carried out more fluidly, but based around carefully defined, marketing oriented, goals. This leads to relatively flexible definitions of system specifications but relatively tight monitoring against system outputs and goals.

- IT projects are managed cross-functionally

Commensurate with top management support and open cultures, cross functional management was one of the key contributors to an enabling CRM space. This often involved dedicated teams, selected from relevant departments. Importantly, the workload demands of individuals were adjusted to allow effective contribution to the team, and training and support given. By contrast, less effective IT projects were characterised by simply adding the CRM project to the task list of over-burdened managers in nominally involved departments.

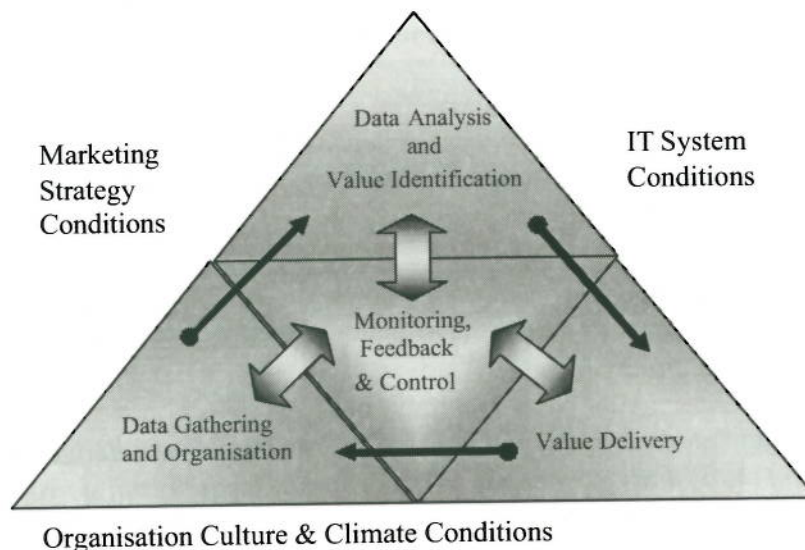
Practitioner Point: Cross-functional working, as opposed to silo project management, is a common theme found in all successful CRM implementations. Importantly, this means that CRM projects are managed against commercial objectives rather than technical specifications.

*“The project’s run by a steering committee, chaired by (Marketing Director) with the business project manager and the IT project manager working alongside, and they have identified where the benefits are going to come from and how we’d move forward.” Executive D*

The concept of the CRM space is important to practitioners seeking to develop an effective CRM system for two reasons. Firstly, it allows them to assess their organisational readiness for CRM and thereby avoid premature investment in systems that can not work, however well implemented. Secondly, for those organisations that do not yet have an appropriate CRM space, the concept allows managers to focus their efforts on the weakest elements of that space, thereby gaining the greatest improvement per unit of investment of financial or management resources. These ideas are expanded upon in Part B of this report.

### 3.3.2. The four sub-processes

Within the pre-requisite CRM space, effective CRM processes consist of four sub-processes. More correctly, they consist of a three stage iteration and an accompanying monitoring and control process that acts on all three of the other processes. The four sub-processes are shown in Figure 6 and they are broadly, as follows:



Source: Dr M Clark & Mr B Smith

**Figure 6: The Generic Model of Effective CRM**

#### 1) Data gathering and organisation

In this process, individual customer data is gathered and organised for analysis in the next sub-process. The primary input to the sub-process is customer data from all touch points, both historical and current. However, effective CRM processes are characterised by the use of two 'constraints' on this data.

- Firstly, in order to reduce data overload problems, only data that meet one of two criteria of usefulness is used. Data seen as indicative of customer motivations or needs-satisfying behaviour are prioritised. Examples of this are purchasing patterns, customer-service contact frequency etc. Data not indicating customer motivation is only used if they provide a useful correlation to motivation. Examples of this include post-code or industry sector data. However, effective CRM processes focus tightly on useful data and avoid the temptation to use data simply because of availability.
- Secondly, the data is organised on the basis of customer segments, taken from the marketing strategy. Effective CRM is characterised by this connection to marketing strategy. By contrast, weaker processes are 'led-astay' by the apparent power of IT system analytics and organise the data simply around descriptor categories such as product or channel. Effective CRM bases its analyses on data organised around true market segments that meet the classic tests of segment homogeneity and distinctiveness.

The outputs of this process are therefore various sets of data that describe and characterise the motivations of the organisation's targeted market segments. This far into the CRM process, this data has not been analysed.

Practitioner Point: Gathering data, although a large task, was perceived by exemplary customers as the 'easy' part of the task. The major challenge lies in organising the data to avoid data overload and allow insight.

*"We have customer referencing by product. One of the biggest challenges is to find a level of match (of data) that accommodates the needs of each brand, across brands, across individuals....subject to data protection constraints and timelines."* Executive E

## 2) Data analysis and value identification

In this sub-process, the data is analysed to create better insights into customer needs and identify possible value from satisfying them. The primary input into this sub-process is therefore the filtered and segment-organised data from the first sub-process. However, effective CRM is characterised by the combination of this data with other sources of insight. Typically, this includes both qualitative and quantitative market research. Importantly, however, this sub-process involves, in effective CRM, the use of intuition and creativity in addition to rational analysis. As a result, this sub-process looks to find three types of patterns in the combined data:

- Segment granularity. The power of CRM is most often shown in revealing that initially identified segments contain two or more groups whose behaviour and motivations are usefully different from each other.

- Segment overlap. As well as identifying new segments or individual motivations, CRM often reveals the opposite. For example, the segments previously seen as distinct may have useful overlap and similarity of motivation. The combined result of identifying segment granularity and overlap can be a 'picture market structure' that is usefully different from the initial, strategy derived, segment definition.
- Satisfaction deficit. By comparing, often simply qualitatively, the current propositions offered by the organisation to the newly enhanced picture of market structure, CRM indicates shortcomings in the current strategy. Similarly, it can reveal strengths and weaknesses of competitor offerings too. This naturally suggests an outline for improving the targeting and positioning of the current strategy.

The outputs of this sub-process are indications of segment granularity, overlap and satisfaction deficit. More usefully, the value analysis part of this process results in clear suggestions for changes to target market definition. Finally, this second sub-process suggests changes to the marketing mix to better fit each target and so create competitive advantage. At this stage, however, the details of those changes are not yet clear.

Practitioner Point: Drawing customer understanding and value out of the organised customer data involved both analysis and synthesis; identifying new patterns in data but also combining this with other, often qualitative data sources to create new insights. Do not expect valuable ideas to print out of the computer.

*"Our product marketing guys are always out there working with customers, running customer clinics, running customer forums, and using that feedback to tailor the services we offer." Executive F*

### 3) Value creation and delivery

In this sub-process, the new suggestions for targets and propositions, which come out of the preceding data-analysis sub-process, are translated into actionable changes in the activity of the organisation. The primary inputs to this sub-process are those new targets and propositions. However, effective CRM is characterised by the setting of those suggestions into the context of current organisational competencies and constraints. In particular, this sub-process interacts closely with the monitoring and control process described next. The value creation and delivery sub-process involves three overlapping activities:

- The translation in detail of the new suggested targets and propositions into detailed changes in all aspects of the marketing mix. This detailed translation, results in a target-related list of activities needed to deliver the intended value to that target, be it a refined segment or individual.

- The co-ordination and rationalisation of the several activities into a manageable action plan. It is significant that, in effective CRM, this inevitably involves a degree of compromise and optimisation between the various activities as dictated by the resources, competencies and constraints of the organisation.
- The implementation of the rationalised action plan in order to deliver the intended value. At this stage, the CRM dictated activity flows into the activity dictated by other management processes, such as new product development, supply chain management and so on.

The output of this third sub-process is therefore a new set of delivered, targeted propositions, seen by the customer as changes to product, service, pricing, promotion etc. The degree to which the new activity differs from the old is of course a function of the shortcomings of the previous strategy and the capacity of the organisation to change it. CRM may therefore create a very large, or very small, proposition change.

Note that any changes in target definitions and in touch-points now affect data gathering and organisation. Effective CRM requires that these changes be reflected in subsequent iterations of the process, so the outputs of the third sub-process become part of the inputs to the first sub-process and hence the whole CRM process reiterates.

Practitioner Point: Exemplary value creation and delivery arises from multiple, interconnected, changes to the proposition rather than simple, single changes to one part of the marketing mix.

*"If (our customer) has 52 people making decisions (concerning our service), we have a better view (of their needs than they do, because they look at it in silos, whilst we look at it in total." Executive G*

#### 4) Monitoring, feedback and control

This sub-process sits at the centre of the other three processes and ensures that the CRM process is consistent with the objectives of the organisation. The inputs of the monitoring and control process are the inputs and outputs of each of the other three processes. In particular, the monitoring and control process compares the resources allocated to each of the other three processes to their value-creating outputs. The financial significance of this control increases as more resource is required, so the three sub-processes are usually subject to ascending levels of scrutiny:

- Data gathering and organisation is frequently the least resource demanding of the three sub-processes. Despite this, capital expenditure for IT systems and human resource costs are incurred and are justified and controlled by relatively traditional means. The most noticeable characteristic of effective CRM organisations in this respect was the combination of a wide variety of considerations when justifying expenditure. Since, at this early stage, it is hard to know what benefits the CRM



system will deliver, traditional return on investment considerations are supported by more qualitative factors. Typically, this is based on a fundamental strategy and cultural desire to create value by differentiation rather than cost reduction. Notwithstanding this, the monitoring and control process compares the planned resource allocation and outputs against those realised and uses data usefulness criteria (see above) to prevent data analysis going beyond prudent levels.

- Data analysis and value creation is the sub-process with most potential to run amok. The potential for new target and proposition suggestions to outrun financial sense is almost limitless. To prevent this, effective CRM uses variants of portfolio analysis in which new segments are assessed for attractiveness (based on value to the organisation) and new propositions are evaluated for competitive strength (based on value to the customer). This process requires accurate costing systems and, importantly, allowance for synergy between segments. This involves consideration of both internal resource sharing (internally derived synergy) and segment interaction (externally derived synergy).
- Value creation and delivery is the sub-process that usually involves most expenditure and risk and is consequently the most heavily controlled. Fortunately, the costs and benefits of this stage are more tangible than those of the other sub-processes. Hence, control is usually achieved via traditional accounting systems. However, this does assume and require an accounting system capable of attributing costs and returns on a segment or target customer basis.

Practitioner Point: Cost justification and financial monitoring of major CRM investment is often a mixture of hard analysis and more visionary beliefs. Both are needed to ensure a balanced management decision.

*"I mean, there is a detailed approval process we go through but...effectively it is (partly) a leap of faith. Let's be clear what we are talking about here. The customer comes in, we'll start having a discussion....we've got something to offer here, we've got a good relationship, the vibes are working well, you know I will invest my time and the management team's time in developing a solution for him."* Executive H

This generic model of effective CRM is useful to practitioners in two ways. Firstly, since most CRM processes necessarily absorb parts of existing business processes, the model allows managers to see where the various parts of the current business process fit into the CRM process. Secondly, the model makes explicit the connectivity, inputs and outputs of each stage of the process, providing the beginnings of a design template for CRM in most organisations.

To summarise this section of the report, the early stages of the research showed that a generic model of effective CRM existed and that this was a good, if broad, description of how CRM works in practice in exemplar companies. However, there were clearly differences in the way that the model was applied between the exemplar companies. The nature of those differences, and the organisational and market conditions which drove such evolution, are describe in the next section.

### ***3.4. Context Specific CRM: How CRM is Adapted in Exemplar Companies***

One of the recurring themes in the research interviews was that some of the most effective companies initially denied using CRM. On investigation, this was found to be a misunderstanding arising from the way in which the term has been adopted, almost hijacked, by the software vendors and consultants in this field. Some companies, understandably, equated using CRM as synonymous with acquiring a dedicated, proprietary CRM package from one of the major vendors. In fact, several of the participating companies had deliberately created their own package, either from scratch or by integrating other existing systems. This difference in approach to IT systems was only one of several major differences in the way the companies applied the basic concept of CRM.

The research carried out by the Cranfield CRM Research Forum showed that the basic elements of the model (described above) applied in all cases of effective CRM. However, it was also clear that the exact manner in which the process was applied varied considerably between organisations. Importantly, this context-specific optimisation was not a function of industry type or organisation size. Instead, it was a function of market conditions and organisational flexibility. To use a metaphor, the basic CRM process seemed to evolve within its environmental context or eco-system, creating a number of sub-species of CRM. As described below, these sub-species of CRM all retained common features described in the model, but varied in the detailed implementation of sub-process.

#### ***3.4.1. The CRM Eco-System: How Organisational and Market Factors Determine the Optimal CRM Process***

Each of the participating companies operated in rather different markets and it was clear that successful adaptation of the basic CRM process to these different conditions was important to their success. In addition, each company clearly differed in its structure and the way its value chain operated, and this played a part in the way the companies were able to use CRM information. Hence, although the research initially looked for differences according to company size, industry sector or other obvious difference, these turned out to be less important. Gradually, two complex factors emerged as those that drove the evolution of the basic CRM process into an adapted sub-type optimal for the particular circumstances of the company. These two factors, which characterise the environment in which the CRM process operates, are:

- Proposition Flexibility

Proposition flexibility is the degree to which the value proposition may be tailored to the needs of the target market, segment or customer. It can range from very limited, in which the core product is fixed and only very small components of the proposition can be varied, to very high, in which the proposition is almost completely specific to an individual customer. Proposition flexibility is a function of two, related, elements. Firstly, the nature of the product or service. In some cases (e.g. pharmaceuticals), the degree to which the product can be tailored is severely limited by technical considerations. In others (consultancy services for instance), almost no technical limitations impact on proposition flexibility. Secondly, the resource flexibility of the organisation. In some cases (for instance, those with large fixed capital assets), the degree to which organisational resources can be adjusted around customers is limited. In others (usually those dependent on human resources), organisational resources are almost infinitely flexible.

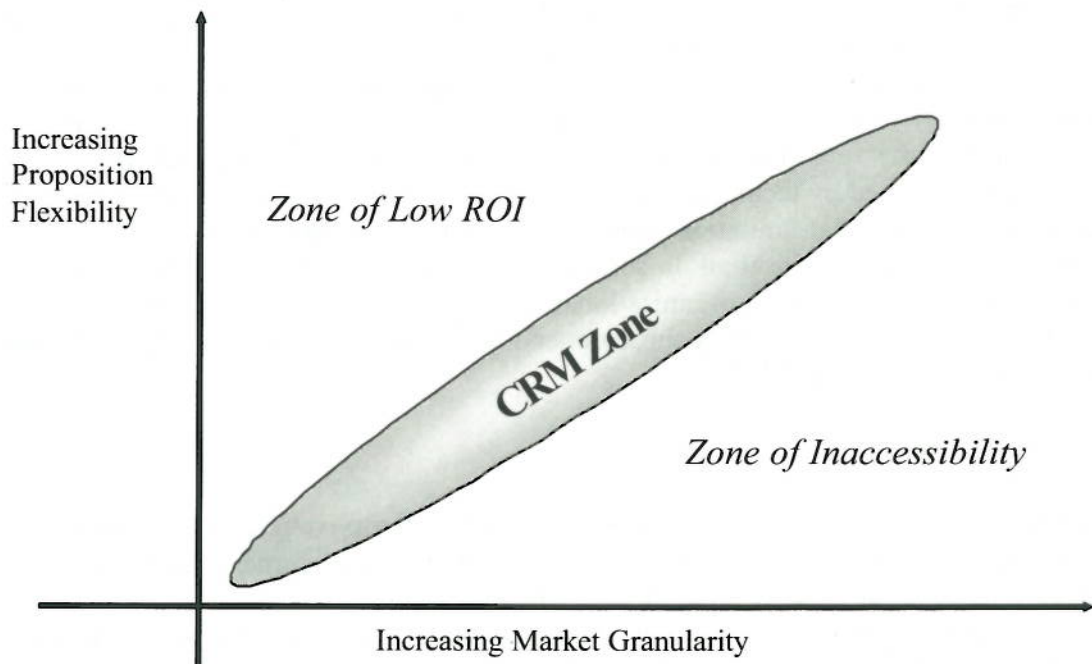
- Market Granularity

Market granularity is the degree to which customer needs and motivations differ within a defined market. It can range from near homogenous, in which all customers share very similar needs and motivation, to heterogeneous, when the opposite applies. Market granularity is a function of need complexity and customer heterogeneity. Need complexity can range from very low (basic commodities and some simple services) to very high (technically complex product/service amalgams). Customer heterogeneity can range from low (in the case of already well-defined segments or niche sectors) to very high (in the case of some broad consumer markets or complex, pan-sector business-to-business markets).

These two dimensions therefore create the parameters of the CRM eco-system, by which the viability of a CRM process and its optimal form are dictated. The Cranfield CRM Forum research found that there were three primary areas within this eco-system, as defined in Figure 7.

Practitioner Point: Clearly, CRM is not a 'one-size' fits all approach to business, but types of CRM process are not characteristic of industry sector or company size. Instead, the optimal type of CRM process is determined by how fragmented the market is and how adaptable the organisation is.

*"Oh no, the customer base isn't homogenous....but we're in the strong position of having a single product that can mould itself and be used in infinite different ways."* Executive 1



Source: Dr M Clark & Mr B Smith

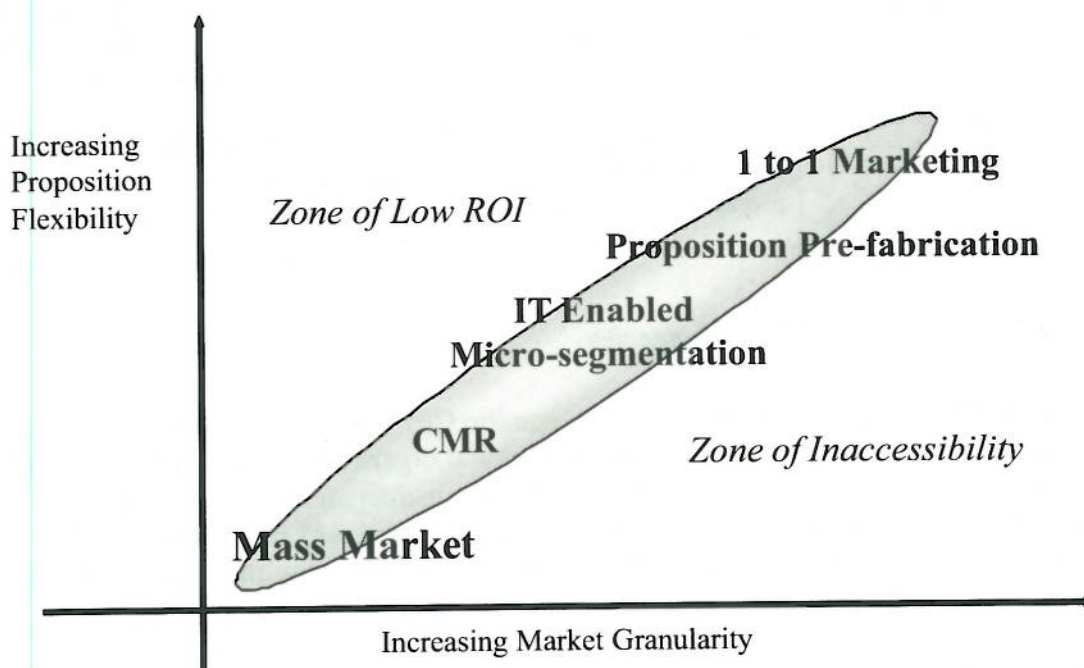
**Figure 7: The CRM Eco-System**

- Zone of low return, in which the proposition flexibility is greater than the market granularity. In this context, CRM processes were possible but unlikely to generate viable returns, as customer needs would not be sufficiently different to drive purchase behaviour sufficiently strongly to justify CRM investment. Markets in this context are likely to remain non-viable unless the environment changes significantly.
- Zone of inaccessibility, in which the market granularity is greater than proposition flexibility. In this context, there exist unmet needs and motivations that are beyond the capacity of the organisation to address. Markets in this context are likely to remain non-viable unless the organisation or proposition changes significantly.
- Zone of CRM viability, in which the market granularity and proposition flexibility are approximately equal. In this context, there exist unmet needs and motivations are within the capacity of the organisation to address. Markets in this context are likely to be susceptible to CRM processes, although the appropriate sub-species of the process will vary with conditions.

This concept of the CRM eco-system is critical to the success of CRM for two reasons. Firstly, it provides a means by which firms might consider the suitability of any CRM approach for their situation and therefore avoid wasted investment. Firms with homogenous markets or those with inflexible propositions are more likely to benefit from investment in parts of the value chain other than CRM. Secondly, for those organisations within the Zone of CRM viability, it suggests a way of understanding how to develop a CRM process that is well adapted to the particular level of market granularity facing the company and proposition flexibility that is realistically possible within current resources. These adaptations of CRM are more fully described in the following section.

### 3.4.2. The Five Sub-Species of CRM

Within the zone of CRM viability, the generic model of CRM describes, in broad terms, what effective companies do. That is, the four sub-processes function within the CRM space. However, their detailed nature varies with the CRM eco-system. The optimal approach to gathering, analysing and using customer data, and how the overall process is controlled, is different for different market conditions and in different organisations. In particular, there is a continuum of proposition tailoring from the very limited to almost customer-specific. This continuum is shown in Figure 8 and summarised in Table 1 (CRM Sub-Species).



Source: Dr M Clark & Mr B Smith

Figure 8: The Five Sub-Species of CRM

<b>Table 1: CRM Sub-Species</b>	
<b>CRM sub-species</b>	<b>Description</b>
Mass market	Used in markets with little proposition flexibility or market granularity. Little or no customer differentiation or customisation; data used to optimise Supply Chain Management (SCM) processes rather than CRM.
Customer managed relationships	Used in relatively homogenous niches where proposition flexibility is technically limited. Customisation via 'opt-in' proposition components to allow self-tailoring by customers from 'proposition buffet'; data used to provide design components.
IT enabled micro-segmentation	Used in markets with clear segmentation and moderately flexible propositions. Modification of the most flexible components of basic segment proposition, such as price and promotion; data used to modify basic segment propositions.
Proposition prefabrication	Used in fragmented markets where proposition flexibility is high but expensive. Proposition customised by assembly from economically made components and 'wrapped' in personalised packaging.
1 to 1	Used in heterogeneous markets where proposition flexibility is high and inexpensive. Proposition individually tailored; data used to design proposition and ensure quality and synergy across targets.

### *3.4.3. Comparing the 5 Sub-Species*

The research did reveal distinct variants of the generic CRM process, each of which was better adapted to its particular environment (market and organisation) than either the generic model or the other sub-species. However, they are not distinct and show considerable overlap. Further, organisations may operate in more than one CRM eco-system simultaneously. Both the market sector and the proposition flexibility may vary within an organisation. In this case, multiple or hybrid CRM processes are the optimal solution.

The following table (CRM sub-species comparison Table 2) illustrates the research findings about the primary differences between the forms of CRM process adapted for a particular eco-system. This comparison is useful in two ways. Firstly, when used in conjunction with the CRM eco-system concept, it allows a management team to design a CRM process appropriate to their particular organisational and market context. Secondly, by comparison of the optimal outline system to whatever existing systems operate within the company, the outline of an action plan for CRM process development can be created. Both of these steps are considered in part 2 of this report.

**Table 2: CRM sub-species comparison table**

CRM sub-species	Data gathering and organisation	Data analysis and value identification	Value creation and delivery	Justification, monitoring and control
Mass market	Basic quantitative data gathered concerning product or service performance, volume requirements and customer descriptors. Organised only at product and channel level.	Data analysed to reveal value in proposition expansion or rationalisation. Value identified in terms of changes to core proposition or service levels to optimise supply chain management processes.	Value created by changes to product range or distribution processes. Delivery achieved by product management and supply chain management.	Investment justified in terms of cost savings, derived from supply chain management efficiencies, or from revenue optimisation, based on product portfolio management. Monitoring against financial criteria based on internal measures only.
Customer managed relationships	Data gathered concerning customer motivations, buying behaviour and descriptors. Organised only at market sector or niche level.	Data analysed to reveal unmet, often ancillary needs, amongst target niche. Value identified in terms of optimising 'proposition buffet' by addition or removal of items.	Value created by adding to, or deleting components from 'proposition buffet' Delivery achieved by product management and optimising synergy across components.	Investment justified in terms of cross-selling of components and customer retention by tying in effects. Monitoring and control by evaluation of cross-selling profitability and customer retention.
IT enabled micro-segmentation	Data gathered concerning customer higher motivations, contextual buying behaviour. Organised at true segment level.	Data analysed to reveal sub-segments within existing segmentation. Value identified in terms of optimising proposition to sub-segments by changes in proposition or by better targeting of small mix variations such as direct mail, channels or product mix.	Value created by changes in the flexible components so as to better fit sub-segments and minimise wastage. Value delivery by product portfolio management and better targeting of promotional activity.	Investment justified by greater efficiencies and reduced waste in both product management and promotional activity. Monitored and controlled by segment and sub-segment share, profit and retention.
Proposition prefabrication	Data gathered concerning customer higher motivations, contextual buying behaviour. Organised at individual customer level.	Data analysed to reveal in-depth needs of individual customers. Value identified in terms of extensions to the value proposition up and down the customer's value chain.	Value created by extension of the proposition along customer's value chain. Value delivery by building competencies in new areas (by M&A or alliance) and integrating of previously fractured value chain.	Justified by sharing of newly created value with customer via larger per-customer contribution and greater retention. Monitored at customer level by activity based costs against targets for life-time value and share of spend.
1 to 1	Data gathered concerning customer higher motivations, contextual buying behaviour. Organised at individual customer level.	Data analysed to reveal in-depth needs of individual customers. Value identified in terms of value proposition variation against context specific needs.	Value created by continual variation of the proposition in the light of changing customer needs. Value delivery by the establishment of highly flexible organisation, using partnering where appropriate.	Investment justified by necessity of flexibility to customer needs. Monitored and controlled at customer level by activity based costs against targets for life-time value and share of spend.

### **3.5. Conclusions**

Surrounded as it is by hyperbole and the selling activity of many consultants and software vendors, CRM has until now been ill-defined and therefore difficult to manage. This work defines CRM, distinct from other business processes and describes its preconditions, sub-processes and context. In doing so, it identifies that the key to excellent CRM is the adaptation of the basic process to the particularities of the market and organisational context. This work describes and differentiates the five adapted forms of CRM in order to enable their implementation. Further, to this practical end, the second part of this report provides and describes the use of a structured process, the output of which is a detailed action plan towards development of an effective CRM Process.



## 4. Part B: A Practitioner Manual

### 4.1. *Introduction and Overview of the Manual*

This manual is an aid to developing and implementing a CRM process that is appropriate to your organisation and market situation. Based on the original research of the Cranfield CRM Research Forum practice at leading companies across various sectors, the manual will help you develop an outline CRM process and an action plan for its development. By following the steps detailed in this manual, you will be able to:

- Assess whether or not the preconditions necessary for successful CRM exist within your organisation, and identify the specific actions necessary to create those conditions.
- Assess the dimensions of the market situation your organisation is in, as they relate to CRM processes, and understand the type of CRM that is most appropriate to your market situation.
- Set out the key parameters of a CRM process appropriate to your market situation and explicate the actions required to develop that process.
- Develop an action plan for developing your CRM process, including consolidating the actions needed, prioritising them and anticipating implementations problems and their resolution.

#### 4.1.1. *Contents of this manual*

This manual has four principal sections, intended to be followed sequentially after this introduction. The final section summarises the work carried out in using this manual and makes suggestions for further reading. The sections are:

- Creating the Right Environment for CRM

This section is a guide to assessing whether or not the necessary preconditions exist in your company and for explicating the implications of your current situation. This part of the manual is intended to help you prepare your organisation for CRM. The high reported failure rates of CRM are often due to attempts to use CRM as a cure-all for other, more fundamental, weaknesses in the organisation. This section provides a valuable diagnostic tool for assessing the current state of those conditions, and therefore the size of the CRM space, in your organisation. Finally, it uses that diagnosis to create a practical list of actions towards enlarging that CRM space and therefore creating the necessary preconditions for effective CRM in your organisation. This section is a necessary precursor to the design and implementation steps described in the following sections.

- Determining the Right Form of CRM for Your Organisation.

This section is intended to ensure that you aim towards creating a CRM process that is most appropriate to your company. It begins by explaining that the requisite type of CRM process is not the same in all situations, and that internal and external factors create a CRM eco-system in which the basic model of CRM must mutate and adapt to create optimal results. It then compares and contrasts those adapted species of CRM so as to allow you to design the species, or hybrid species, of CRM process needed by your organisation

- Designing your CRM Process

This part of the manual is intended to act as a guide to designing a CRM process that is most appropriate to your company, given its unique market and internal conditions. This section is based upon a diagnostic tool to help you locate your organisation's position within the CRM eco-system. It then allows you to compare your current business process to the CRM species appropriate to your internal and external environments. Comparison of the two, leads to a clear set of actions needed to develop your own CRM process specific to your business context.

- Developing an Action Plan

Included in this section of the manual is a template for developing an action plan to develop your CRM system. This section consolidates the outputs of sections 3 and 5, respectively the actions for creating your CRM space and constructing your CRM process. It then puts the consolidated action plan through two screening grids to enhance practical implementation. The first predicts and pre-empts likely implementation problems, the second prioritises the actions. Finally, the template then aids allocation of timings, responsibilities and resource implications.

- End Notes

This section provides for a summary of the work done, a final reference of the outputs to the realities of your business and makes recommendations for further reading related to each section of the manual.

#### ***4.1.2. How to use this manual***

This manual is one of a set of three tools provided to you. The others are the Cranfield CRM Research Forum Report (part A of this document) and the accompanying disc, which contains some software tools. The manual is designed as a working tool, not a textbook, with practical exercises based upon the conditions prevailing in your market and within your organisation. To make most use of the manual, we suggest that you follow it in sequential order, ensuring that you have completed each section and exercise before proceeding to the next. The final output of this process is an action list of the most important activities needed to create and implement a CRM process in your organisation.

Although the manual is directive and guides activity closely, please remember that CRM is a complex business process. It is not possible to create a complete, effective, process in a simple, checklist, manner. The main value of this manual therefore is to help guide the collective, thoughtful, efforts of the management team responsible for CRM. It will work best, therefore, when used as a basis of discussion and an aid to, rather than a substitute for, management thought.

## ***4.2. Creating the Right Environment for CRM***

### ***4.2.1. A Self Diagnostic Tool for your CRM Space***

The assessment and development of an organisation's CRM space is a necessary foundation for developing and implementing an effective CRM process. To facilitate this process, the findings of the Cranfield CRM Research Forum have been summarised in the form of a self-diagnostic questionnaire. This questionnaire is in the form of an Excel spreadsheet. The instructions below refer to the administration of this spreadsheet.

1. Open the electronic (Excel) workbook called CRM Space Self Diagnostic. It contains 3 worksheets:
  - One for data input (questionnaire), which is the only one you need enter data on.
  - One for display of the results (our CRM space), which is for viewing only.
  - One for collating data (calculation sheet), which you do not need to use for data entry, but which automatically adds the entries you make.
2. Using the questionnaire worksheet, read each statement carefully and allocate a mark according to how well that statement describes the situation in your organisation. A mark of 0 means that the statement is a very poor description of your organisation, a mark of 5 means that the statement is a very good description of your organisation. Use the comments (revealed by moving your cursor over the red triangle) to guide you. You should also use the notes in section 3.2 of the preceding report (Part A) to inform your marking.
3. Look at the chart showing your CRM space. The pink line indicates your organisation; the blue line is the ideal for comparison purposes.

### ***4.2.2. Implications and Actions Arising from your CRM Space Self Diagnosis***

The CRM space self-diagnostic is a useful guide to thinking about your organisation. It is, of course, limited by the objectivity and quality of the data entered. However, it provides useful direction for future action.

Firstly, the overall size of the space is significant. The closer to the ideal it is, the more conducive your internal environment is to effective CRM. Note that none of the companies studied in this research, including those with very effective CRM, had ideal CRM spaces. However, the larger the CRM space, the more likelihood that the CRM process will be well supported by the organisational context.

Secondly, the overall shape of the space is significant. The research suggested that a law of diminishing returns applied to the dimensions of the CRM space. Hence, increasing any dimension from a low score to a medium score was easier than moving that dimension from a medium score to a high score. This has important implications for action. If any of the dimensions of an organisation's CRM space is significantly shorter than the other two, that organisation's space might be most easily improved by concentrating on improving that, shorter dimension.

Finally, low scores on specific sub-components of each dimension suggest actions for the improvement of the overall CRM space. A list of actions to correct low scores for each of the 15 questions is given in Table 3 (Corrective Actions for CRM Space) below. Use this table, in conjunction with the CRM Space Spreadsheet, to create a list of actions required to increase your CRM Space. This list of actions will be used later in the manual.

<b>Table 3: Corrective Actions for CRM Space</b>	
<b>CRM Space Component</b>	<b>Suggested Corrective Action in the Event of a Low Score</b>
We have defined and tested real target segments	Develop segmentation based on customer motivations and test for homogeneity, distinctiveness, accessibility and viability.
We have defined segment-specific value propositions	Research the needs of each segment and carry out a review of the full marketing mix (four or seven Ps) against those needs.
We allocate resources differentially by segment or market	Carry out a portfolio analysis (for instance, directional policy matrix) and re-direct resource allocation to segments accordingly.
Our strategy aligns our distinctive competencies and constraints to the market	Carry out a true SWOT analysis based on a valid market audit
Our strategy is distinct from that of the competition	Compare current targets and propositions to that of major competitors and incorporate the results into your strategic planning.
The goals for our IT system design are derived from our marketing strategy	Clarify the IT system requirements of the marketing strategy in terms of customers, data and outputs. Build these requirements into IT process development.
Our top management team fully supports our IT system development	Allocate CRM process development to a member of the top management team and have it added to the agenda of that team
Our IT system development is adequately resourced	Compare the resources currently available (financial and other) to those required to meet the marketing strategy dictated IT system requirements and correct accordingly.
We manage IT projects flexibly	Change the IT project management system to reflect goals and outputs and be flexible on system technical specifications.
We manage IT projects cross functionally	Create cross-functional management teams and ensure that they are allocated adequate resources in terms of human and financial resources.
We test our the current validity of our cultural assumptions	Assess current cultural assumption (using a cultural web or other method) and test these against current market conditions
Our organisational structure is designed for CRM	Compare the principal tasks involved in the CRM process (usually process and market oriented) with the structure of the organisation (often product or function oriented) and adjust the structure.
Our organisational climate is positive	Measure current climate and instigate actions to manage positively
Our HR policies reflect CRM	Audit the knowledge, skills and attributes needed by the CRM process, compare against current human resources and adjust recruitment, training and retention policies accordingly.
We have a strong culture	Measure the degree of cultural homogeneity across the organisation. If needed, establish an internal communication process to communicate core assumptions.

### **4.3. Designing your CRM Process**

#### **4.3.1. A Self Diagnosis Tool to Determine Your Optimal CRM Process**

The underlying principal of the CRM eco-system is that CRM is not viable process if there is a large mismatch between proposition flexibility and market granularity. If they are approximately equal, then the CRM process is viable, although it may take different forms.

Use the CRM eco-system self-diagnosis questionnaire Excel spreadsheet (on the accompanying disc) as follows:

1. Open the electronic workbook. It contains 1 worksheet that automatically adds the entries you make.
2. Using the questionnaire worksheet, read each statement carefully and allocate a mark according to how well that statement describes the situation in your organisation and market. A mark of 0 means that the statement is a very poor description of your organisation or market, a mark of 5 means that the statement is a very good description of your organisation. Use the comments (revealed by moving your cursor over the red triangle) to guide you. You should also use the notes in section 4 of this manual to inform your marking.
3. Look at the numbers showing your market granularity and proposition flexibility. Use the notes below to judge where you are in the eco-system.
  - a) If the market granularity and proposition flexibility ratio is greater than 1.2, this suggests you are in the zone of inaccessibility.
  - b) If the market granularity and proposition flexibility ratio is less than 0.8 this suggests you are in the zone of low return.
  - c) If the market granularity and proposition flexibility ratio is 0.8 to 1.2, this suggests you are in the zone of CRM viability
  - d) If market granularity and proposition flexibility are both less than 5, the recommended CRM sub-species is mass market
  - e) If market granularity and proposition flexibility are both between 5 and 10 the recommended CRM sub-species is customer managed relationship
  - f) If market granularity and proposition flexibility are both between 5 and 15, the recommended CRM sub-species is IT enabled micro-segmentation
  - g) If market granularity and proposition flexibility are both between 15 and 20, the recommended CRM sub-species is proposition pre-fabrication

- h) If market granularity and proposition flexibility are both more than 20, the recommended CRM sub-species is 1 to 1.

Note, however, that this self-diagnostic is a guide to your thinking and its results should always be used to aid thinking, not replace it.

**4.3.2. An Outline Design for Your CRM Process**

Given that the previous section has helped you to focus on the form of CRM that is most appropriate to your organisation and market, the next step in this process is to translate that broad description into a form understandable to your organisation. This is the aim of the following template table (Table 4).

**Table 4: An Outline Design for Your CRM Process**

	CRM Sub-species	Data gathering and organisation	Data analysis and value identification	Value creation and delivery	Monitoring and control
Generic Form					
Your company Form		What data? How organised?	What analysis? What value?	How created? How delivered?	How justified? How monitored? Against what criteria?

The following instructions will help you complete this template (this is also provided on the disc for electronic completion).

- a) Use the results of your work in section 4.3.1 to suggest the CRM process sub-species most relevant to your CRM eco-system, bearing in mind this may take more than one form or may be a hybrid. For instance, Customer Managed Relationships.
- b) For your chosen sub-species of CRM, consider the nature of each of the four sub-processes (use the CRM sub species comparison table (see Table 2, in Part A Section 3.4.3, also available on the disc to allow you to cut and paste.). Enter this into the first row (labelled: CRM sub-species derived from Table 2). The top row of Table 4 should now contain a broad description of each of the four sub-processes in the CRM sub-species that is optimal for your situation.
- c) Translate the top row of the table into language accessible to you using the guidance notes in the table. The bottom row of Table 4 should now contain an approximate description of the CRM sub-species optimal for your situation, but expressed in terms relevant to your business.

**4.3.3. Implications and Actions for your CRM System**

The individual outline design of the CRM process developed in section 4.3.2 enables the identification of actions towards developing that process. The following table, (Table 5) CRM process development actions, is a template for explicating those actions.

**Table 5: CRM process development actions template**

	Data gathering and organisation	Data analysis and value identification	Value creation and delivery	Justification, monitoring and control
<b>Current process</b>	What data? How organised?	What analysis? What value?	How created? How delivered?	How justified? How monitored? Against what criteria?
<b>Target outline process</b>  (From section 4.3.2, Table 4, bottom row)				
<b>Actions needed</b>  (By comparison of the top two rows)				



To use this template (which is also provided on the disc):

- a) For your current process, list the activity that is currently undertaken in each sub-process, using the guide questions provided.
- b) Enter into the second row the activities needed to execute your desired outline CRM process. These were the output of the outline process design template in section 4.3.2 and can be copied from that template.
- c) Compare the two rows and identify the actions needed to move from the present to the outline design process.

#### 4.4. Developing an Action Plan

##### 4.4.1. Consolidating the Action List

The preceding work in this manual should have provided you with two lists of actions:

- a) Actions to create and enlarge your CRM space, derived in section 4.2.2
- b) Actions to develop your outline design CRM process, derived in section 4.3.2

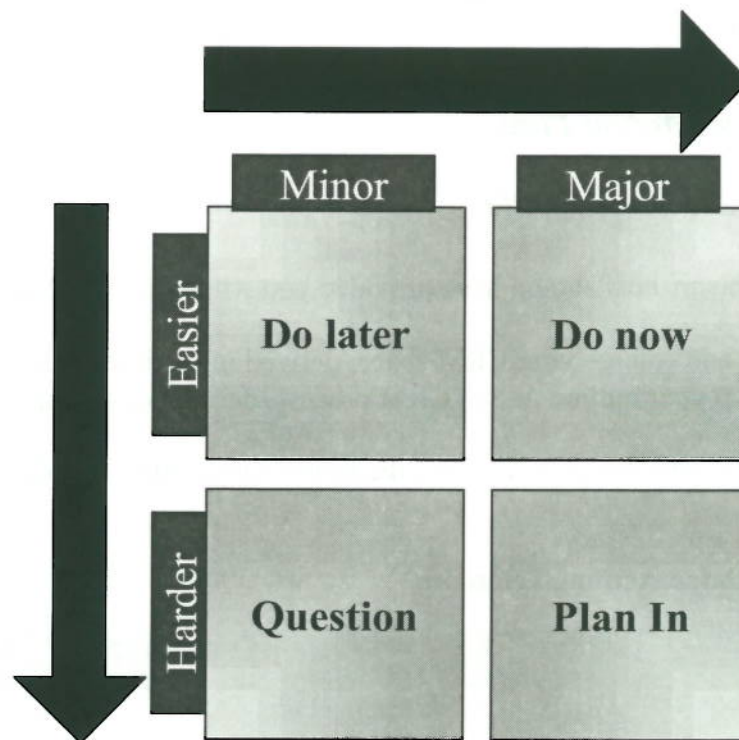
Enter each of these actions into the left column of the following template (Table 6), CRM Consolidated Actions.

**Table 6: CRM Consolidated Actions Template**

Action	Responsibility	Timing	Priority	Control Action	Resource Implications

#### 4.4.2. *Prioritising Your Action List*

For each of the actions listed, consider its impact on the customer and the difficulty of implementation. Use Figure 9 below to allocate a priority to each action.

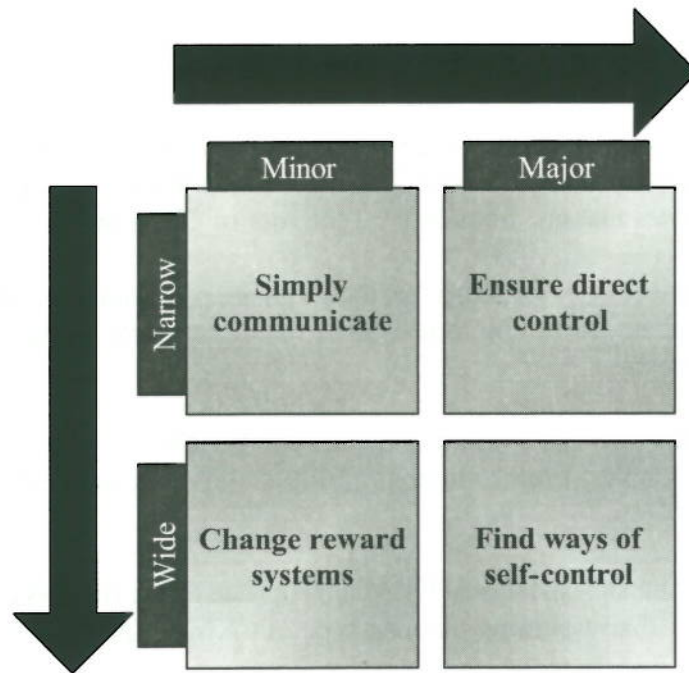


Source: Dr M Clark & Mr B Smith

**Figure 9: Prioritising Your Action List**

#### 4.4.3. *Anticipating Implementation Problems*

For each of the actions listed, consider the degree of change from current practice needed, and the span of control involved (i.e. how far from direct control, and across how many management boundaries). Use Figure 10 below to allocate a control action to pre-empt implementation failure.



Source: Dr M Clark & Mr B Smith

Figure 10: Pre-empting Implementation Failure

#### 4.4.4. *Compiling the Action Plan*

Complete the action plan by giving each action:

- a) An approximate timescale
- b) A named individual responsible
- c) Approximate resource implications (i.e. what, if any, change in resource allocation is needed).

This should result in a completed action plan for developing the outline of an effective CRM process.

## 4.5. End Notes

By following this report and manual, the reader should be able to create a practical action plan for the development of an effective CRM system. Moreover, that action plan should address three key issues that are frequently at the root of CRM project failure by

- Creating the necessary CRM space, the requisite preconditions needed for CRM to work, rather than attempting to use CRM to correct more fundamental flaws in the business process.
- Assessing the CRM eco-system to determine if CRM is an appropriate part of the value chain to invest in prior to committing major resources, rather than assuming CRM is a panacea.
- Determining the sub-species of CRM appropriate to the organisational and market context rather than assuming that one type of CRM is appropriate to all business contexts.

However, CRM remains as complex as it is valuable and the real value in this report and manual is the degree to which it stimulates and facilitates considered debate by the management team. To support this debate, some additional reading is suggested in the next section.

### 4.5.1. Further Reading

The following reading is recommended to support this report and manual:

Clark, M. 2002, "The Relationship Between Employees' Perceptions of Organisational Climate and Customer Retention Rates in A Major UK Retail Bank", *Journal of Strategic Marketing*. Vol. 10, p. 93-113.

McDonald, M. H. B. 2002, *Marketing Plans: how to prepare them; how to use them*, Butterworth Heinemann.

Smith, B. D. & Clark, M. 2002, "Beyond the Hype", *Marketing Business* no. 108.

Smith, B. D. & McDonald, M. H. B. 2001, "Improving the Effectiveness of Strategic Marketing Planning: Towards a Theory of Congruent Strategy Development", *Forthcoming*.

Wilson, H. N., Daniel, E., & McDonald, M. H. B. 2001, "Factors for Success in Customer Relationship Management", *Forthcoming*.

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