Redefining Customer Relationship Management

Pragmatic CRM for small and mid-sized businesses

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Executive summary

While Customer Relationship Management has made headlines – good and bad – in the enterprise space, it's failed to make significant headway among small and midsized businesses (SMBs). This Briefing Paper examines the reasons for the low take-up of CRM practices and IT systems, and argues that the conditions are right for a new approach in this sector, which we call Pragmatic CRM.

In particular, it concludes that:

- The market has been held back by a backlash against CRM failures in the enterprise space, a lack of suitable products, and the new challenges that "front-office" applications present compared to "back-office" applications like finance or HR
- The lessons learned from the first generations of CRM initiatives will result in significant shifts in the way that the key components of customer management are approached by SMBs, from initial customer acquisition to long-term customer retention. CRM may be an established business philosophy – but in the SMB market, it will break new ground
- SMBs should concentrate on quick wins in their CRM projects, isolating the pain points or opportunities that will make the biggest difference to their business. This pragmatic approach may not satisfy CRM purists – but it will impact the bottom line
- CRM vendors are paving the way for this kind of selective approach by providing more targeted functionality for the SMB sector. Vendors are increasingly aware that the product needs of SMBs differ from the enterprise sector, and that full-blown enterprise applications offer more functionality than many SMBs initially require

Part One: The changing CRM landscape

1.1 Why CRM matters to small and mid-sized enterprises

Having failed to deliver on the hype of the late 1990s, customer relationship management (CRM) has suffered a fierce backlash in recent years. Once regarded as the driving philosophy of a new, customer-centric economy, it's now associated with poorly-executed, large-scale IT projects. Inevitably, while many organisations have improved their sales, marketing and customer service operations through CRM initiatives, these successes have been overshadowed by the failures.

Few small and mid-sized businesses (SMBs) jumped on the CRM bandwagon at the beginning, and they've had little incentive to do so since. It's not just the horror stories of wasted investment that have held them back – as we outline below, there are a number of factors, including the lack of IT industry focus.

But fundamentally, CRM is as relevant to SMBs as it is for every other business. At heart, it's about understanding who your customers are, what they want, and how best to meet their needs. It recognises that different customers generate different levels of revenue or profit, and emphasises the need to acquire and retain the most valuable of them. It requires companies to rethink the way they operate, shifting from the narrow focus of individual departments to a collective focus on the customer. And above all, its aim is simple: to increase profitability and shareholder value.

These issues are top priorities for SMBs. As well as generating new clients in their target markets through sales and marketing initiatives, customer retention is a major concern, not least because of the recurring revenues it offers in the shape of service contracts or opportunities for upselling. If there is a difference between the high-end enterprise space and the SMB market, it simply comes down to scale – SMBs tend to operate on tight budgets, have little room for error and need to see quick results.

1.2 The barriers to adoption

It's difficult to get an accurate measure of adoption levels in the SMB sector, since many organisations have experimented with small-scale customer-based applications like contact management systems. But quantitative research surveys typically indicate that penetration of full-blown CRM applications is in the low single percentage points.

There are several factors behind this. To begin with, "front-office" applications for sales, marketing and customer service are very different in nature than back-office applications like finance, payroll and HR. Most back-office applications are rooted in process: the initial driver for investment is typically the need to deal with operational requirements, such as generating management reports and meeting regulatory requirements. The business intelligence functionality contained within back-office applications is typically leveraged in the second phase of an initiative once process automation has bedded down.

While front-office applications also handle process needs and workflows, in many instances business intelligence is a key driver from the outset. There may be an overriding need to provide sales staff, for example, with a unified view of a customer's interactions with the business, from their credit history to the service problems they've experienced. But quantifying the impact of better quality data is not always easy – it's certainly not as clear cut as establishing the savings that come from automating something like HR administration.

In addition, back-office processes are well-established and predictable, and take place within a defined set of parameters and a regulatory framework. Front-office environments are less structured and more dynamic.

Secondly, software vendors must take their share of the blame for low levels of adoption. Many of the offerings available in recent years have been ill-suited to this sector, either because they're too focused on one specific component of CRM, such as contact management, or because they contain too much functionality for the typical SMB needs. The basic components of an SMB CRM system are outlined in Appendix One.

Thirdly, the experiences of enterprise customers who poured money into CRM projects for little tangible return have sent out the wrong signals to the SMB market. Many of these projects entailed high levels of business re-engineering and extensive software customisation, and the cost of applications was magnified several times over by high consultancy fees. This has helped fuel a widespread assumption that CRM must necessarily involve extensive upfront investment.

As we demonstrate below, however, the reality is that users can generate significant benefits from CRM rollouts through manageable, tactical investments. The key is in taking incremental steps – highlighting a pain point or an opportunity, reaping the benefits and moving on.

Part Two: Redefining CRM for the SMB market

2.1 A pragmatic approach to CRM initiatives

Every organisation has its unique pain points and latent opportunities, but a number of principles underpin a pragmatic approach to CRM:

- **Step-by-step implementations are critical**. Market conditions, business objectives and user requirements are all subject to change at short notice, and the large-scale rollouts that have come to characterise the enterprise space are not as responsive to change as a series of shorter implementations. Large implementations are also inherently difficult to manage – smaller initiatives are easier to project manage. In addition, from a cultural perspective, the faster that CRM implementations are seen to provide value to users, the quicker sceptics will be convinced
- While this step-by-step approach is important, each component should be carried out under the umbrella of a **company-wide CRM strategy**. CRM is underpinned by the effective dissemination of data across an enterprise and the degree of business process integration. That means that each separate initiative must be carried out with an understanding of how it fits into one coherent whole
- Organisations should **leverage their existing investments**. CRM is an iterative process – it builds on the processes and systems that already exist within an organisation. Most salespeople, for example, are familiar with desktop applications such as Outlook® – it's important that these tools are integrated with the new CRM applications
- **Return on Investment** is relatively easy to measure when it involves improved process efficiencies. Not all benefits, however, are quantifiable in financial terms. Softer benefits – such as providing a salesperson with better customer data – may also be justification in their own right for investment. Rather than attempting to define complex metrics for these kinds of benefits, pragmatic CRM focuses on the practicalities, such as whether new tools can demonstrably improve employees' *ability* to generate revenue
- All benefits must be made **clear to senior management**. Senior management will seek justification for investment, both from the perspective of financial outlay and in terms of the resource applied to selecting and implementing applications. Buy-in is critical to a step-by-step approach to CRM, as it safeguards investment in future projects
- Benefits must also be **sold to end-users** in a language they understand. In the first wave of CRM implementations, lack of user buy-in thwarted numerous projects, particularly in the sales arena. If employees are being asked to change their working patterns to accommodate a new system, there must be a tangible benefit to each individual, not just a collective benefit for the organisation. Some upfront research will need to be carried out into individual expectations - many organisations pilot rollouts and use early adopters as evangelists

2.2 The practical requirements

CRM applications, like other IT systems, have grown out of pockets of automation or business analysis, spawning a multitude of products that in many cases are still relatively immature. Many vendors have emerged on the back of strengths in particular spheres, fleshing out their applications in other areas to provide suites that cover each component of the front-office. Inevitably, they will be stronger in some areas than others - the demands placed on a helpdesk system, for example, are very different to those of contact management, which are very different again to marketing automation. These shortcomings are compounded in the SMB market where the choice of applications is significantly lower.

Users therefore face the choice of tying together best-of-breed applications from a number of specialist suppliers, or of adopting a single suite from one provider. The former approach may be attractive where users have very specific needs for deep levels of functionality. The latter typically offers better integration between the application components, which is a significant factor in supporting the cross-functional business processes that underpin CRM. It also ensures that all front-office applications feed off the same database out-of-the-box, providing a single view of customer data.

Users need to ensure that the underlying product architectures fully leverage Internet-based applications, providing flexibility to meet the needs of fast-changing businesses. Ease of navigation is important. Applications should also be easily configurable, so that fields and screens can be set up in a way that users will buy into.

Above all, it's essential that front-office applications can be easily integrated with existing software, whether that's a back-end system such as finance or a desktop application. In part this is important for effective CRM – as we explain below, financial data is a key element in establishing customer value. But it's also important for buy-in. End-users already deploy desktop applications for managing contacts, task lists and calendars, and will want to continue using these proven systems. Integration should be carried out using standard-based technologies rather than specialist, proprietary connections.

2.3 A new perspective on the six pillars of CRM

While there were many failures in the first generation of CRM projects, the lessons learned have contributed to a better understanding of the principles of CRM. In addition, several new priorities have emerged that enhance CRM for SMBs. We categorise these core principles as the six pillars of CRM:

- Intelligence
- Acquisition
- Retention
- Satisfaction
- Operational management
- Service

Intelligence

The foundation for effective customer management is intelligence – an understanding of who customers are, what they need, how effectively that need is being met, and how much value the customer is generating for the business.

The ability of an organisation to carry out this kind of analysis is dictated by two factors – the quality of analytical tools, and the quality of data they work from. In terms of the former, CRM application vendors provide different levels of capability bundled with their own applications, and typically support leading third-party business intelligence tools. This capability – whether built-in or provided by third-party suppliers – is a key factor in the purchasing equation.

Gathering high-quality data has long proved a problem in larger enterprises, where users have struggled both to extract data from different proprietary systems and to collate it in a central datawarehouse. These kinds of problems are scaled down for the smaller footprint of SMB sites, but it's still important to standardise on one database platform and ensure that it's fed from front-office applications and other relevant systems (particularly finance).

Three key lessons have been learned for the SMB environment. Firstly, the value that derives from data gathering is incremental, and it's surprising how much market intelligence can be gained from relatively small amounts of information. There's enormous value for both the sales and marketing function in simply knowing which customers purchased products, and what induced them to do so (be it a specific marketing campaign, local brand awareness, personal recommendation or any other factor).

Secondly, from a pragmatic perspective, it's important to bear in mind that data is fed by process: the more front-office functions that are automated, the more data is captured. As we outlined in Part One above, this requires users to approach CRM implementations from two perspectives simultaneously – process improvement and business intelligence.

Finally, CRM is not egalitarian – it's about acquiring and retaining the *most valuable* customers. So customer intelligence must include an element of financial insight, which will require some degree of integration with finance systems.

Acquisition and retention

From a business process perspective, customer acquisition is the most costly element of the CRM equation. Once you combine the direct and people-related costs associated with sales and marketing and allocate them per customer gain, it's apparent that vast amounts of overhead are required to bring new business through the door.

By contrast, once a customer has been acquired, the costs of repeat business drop dramatically, primarily because marketing efforts can be better tailored. The opportunities for upselling and cross-selling, combined with the repeat revenues generated in some industries by customer service and support contracts, are the main reasons why customer retention is a fundamental objective of effective CRM.

Successful customer acquisition is in part a product of both salesforce automation (SFA) and marketing automation. Uptake of marketing applications, such as campaign management, has historically lagged the sales and customer service arenas. SFA applications, by contrast, have been available for over a decade in the enterprise space, and much of the functionality is relatively mature. It's important to bear in mind that SFA is far more than contact management: full-blown applications include key management functionality such as lead tracking.

In terms of customer acquisition, scale actually counts in favour of SMBs compared to their larger counterparts. In many smaller organisations, sales and marketing functions are managed within the same department, which allows for far closer integration between the two activities – it ensures, for example, that marketing campaigns support sales priorities. For that reason, SMBs are advised to plan sales and marketing implementations simultaneously, even if rollouts are staggered.

Satisfaction

Customer satisfaction has always been a difficult concept to pin down, and has long exercised the minds of CRM management theorists. Perhaps the most overblown concept in CRM was that of customer delight, advocated, among others, by Sir Tom Farmer, former chairman of Kwik Fit. He engendered it in the Kwik-Fit business, trained staff in customer service and developed the Kwik-Fit System for delivering delight, consisting of five elements including advanced IT systems. But even Mr Farmer admitted that customers were not really looking to be delighted when they were purchasing the exhaust systems his company sold.

For CRM pragmatists in the SMB market, neither delight nor total customer satisfaction is necessarily the goal, particularly in commodity markets. Customers must be satisfied that they received the goods or services they needed for a price that reflects their value. Anything beyond that – such as providing excellent service – has a cost attached to it that requires some kind of return. It may be that top-quality service is a differentiator that generates sales: but it may also be that customers are content with average service.

In addition, satisfaction should only be pursued among certain elements of the customer base. It's primarily important to ensure that *valuable* customers are satisfied – or at least that the 20 per cent of key accounts which make up 80 per cent of the business never get upset enough to switch to another supplier.

Some companies are being forced to put their theories about customer satisfaction into practice as they move to a new version of global quality management systems standard ISO 9001:2000, the transition period finishing at the end of the year. The new standard insists that companies not only measure customer satisfaction but also show continuous improvement.[1]

Operational customer management

Like every other IT implementation, automation provides businesses with an opportunity to cut costs. As we indicated in Part One, however, front-office processes are more fluid and less structured than in the back-office.

Many of the earliest CRM implementations focused on automation over the web as a means of cutting costs. Encouraging customers to find answers to their queries over the web, for example, greatly reduces the costs of telephone support. In an ecommerce environment, it's now possible to automate the entire transaction process over the web, from the visitor's initial interaction to credit card payment.

The problem, however, is that online interactions of this kind are only suitable for part of the customer base, part of the time. Effective customer management requires support for multiple "channels" that allow the customer to interact in the way they choose – be that over the web, through live web chat with an agent, by email, fax, telephone or face-to-face.

The reality for SMBs is that this level of service will usually be prohibitively expensive. Pragmatic CRM dictates that they view the processes that support customer management from two perspectives: which ones will keep the *majority of valuable customers* content, and which of those will reduce or contain costs?

Customer service

Whether it's a full-blown call centre or a two-person helpdesk, service centres are typically seen as overheads. While they can be costly to maintain, however, they're also critical components of the customer retention equation, and in addition provide an opportunity for both upselling and cross-selling.

[1] Customer satisfaction and improvement is for the first time a quality issue. The ISO standards are administered by the International Organization for Standardization. See http://www.iso.org/iso/en/iso9000-14000/iso9000/transition.html

Internal service implementations are best viewed from three perspectives. Firstly, cost-reduction will always be a priority, particularly where web-based applications allow for self-service. The key here is not just to install the technology – it's also to develop a transition programme that encourages customers to try to help themselves before they pick up the telephone.

Secondly, the levels of service must be enough to ensure that the customer experience is not negative. Anything above that should be justifiable in terms of the return it generates. Thirdly, customer service should not just be viewed as a cost centre – it also has the potential to be a profit centre.

Conclusion

Pragmatic CRM is an approach that brings together a wide range of tactics to make CRM more manageable for the SMB, under the umbrella of a coherent long-term strategy. By helping organisations focus on achieving a series of short-term tangible gains, it allows them to build towards long-term business goals.

In this paper we have demonstrated how some of the perceptions of CRM, perpetuated in the adoption of IT projects at the enterprise level, are unfounded. CRM does not have to be expensive, time-consuming and resource intensive. But to achieve the best results, organisations need to:

- Look for quick-wins to demonstrate immediate success
- Take an incremental approach based on business priorities
- Gain user buy-in by demonstrating gains for the individual employee
- Sell benefits of a long-term vision to senior management
- Select the most appropriate product for their business
- Leverage existing desktop/back-office applications

If companies are to change the way they approach customer acquisition, retention, satisfaction and service and bring greater intelligence to their management of customers, they need to act today. But they should stay practical and focused and above all, make the most of the resources already at their disposal.

Appendix One: Key components of a CRM system

Less is more when it comes to CRM systems for the mid-market. They should offer the key components that enable organisations to build on the six pillars of CRM, together with the potential to implement more sophisticated functionality as the business grows.

The challenges that stop SMBs implementing sophisticated campaign management, for example, are as much about resources as technology. The benefits won't be realised until an outbound campaign can be monitored and followed up – so before a campaign management application is installed, organisations need to put the tools in place to track sales leads and report on conversions. Similarly, in customer service, organisations can phase in different channels of communication by order of business priority, beginning with the approaches that matter most to the most valuable customers.

The essential entry points to a CRM system for SMBs are:

- Sales automation including lead management, order tracking and sales support, plus integration with desktop applications to share contacts, send email and manage calendars
- Service management including basic helpdesk functionality, case management, escalation with basic workflow, problem ticket tracking and FAQs
- Marketing automation to manage a database of prospects. Further down the line more sophisticated campaign management can be brought into play to track the origin and status of prospects and monitor marketing effectiveness
- Management reporting, including easy to understand graphical views of different slices of the data such as by territories or order status
- The above should all be focused around building a single view of the customer. Integration should initially be sought between key modules

End Notes

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