

Getting the Most Out of CRM

It's not unusual to hear about a company that has failed in its attempt to establish a Customer Relationship Management system. After a few months, expected benefits fail to appear and the investment seems to have been for nothing. In most cases, the reason for failure can be found in the design process or in the implementation of the system.

Executive Summary

As a basis for their article, the authors outline their research on successful companies that have implemented Customer Relationship Management (CRM) systems. Through their analysis, they conclude that success hinges on the correct design of the CRM strategy based on the mission and values of the company, and communication to the client. In this way, the relationship established between both parties surpasses that of a mere exchange and becomes something deeper.

For this reason, any relational marketing initiative, and the definition of the resources necessary for carrying this out, should be identified after the mission of the company has been formulated. Failure to do so will invariably lead to a wasted effort and investment.

The poor or even non-existent return on investment shown by a significant number of Relational Marketing programs and CRM (Customer Relationship Management) solutions is a matter of concern for senior management and the people most directly responsible for designing and implementing such strategies. The poor results achieved would seem to indicate that there is still a long way to go in improving their effectiveness as an instrument for ensuring greater satisfaction and loyalty among a company's customer base, while at the same time increasing sales and profits.

In recent years, a number of studies and articles published in various academic journals has attempted to identify the reasons for this failure. They cite the following as the most common: implementing a relational marketing program without first designing a customer relationship strategy; communicating too much and too frequently with customers; taking it for granted that customers will want to maintain a relationship; implementing a CRM solution without taking sufficient account of the changes that have to be introduced in order to correct an organization's weaknesses (such as the absence of a customer service mentality among employees, a lack of training, a corporate culture directed towards short-term results and inadequate personnel selection and payment systems); and finally, that more technology brings better results, with the consequence that a large part of the program budget is allocated to the more technological elements.

In spite of this situation, an analysis of the different Relational Marketing programs that we have examined at **Hewlett Packard (Designjet Online)**, **Imaginarium**, **Spainsko**, **DHL** and IESE's own **Alumni Association** has shown that when these programs are properly designed and implemented, they can really bring great benefits (in the broadest sense, and not just in purely financial terms), both for the businesses themselves and for their customers.

We believe that the design and implementation of a good Relational Marketing program should consist of three stages:

Stage 1

Define Your Company's Mission, Values and Culture

In recent years, many efforts to ensure customer loyalty have begun with the introduction of points and discounts programs, which offer customers purely financial incentives to remain loyal. However, it is worth asking whether a company can maintain a customer's loyalty if it is not clear about its mission as a company and what it is offering its customers. The first logical step must therefore be to define your company's mission, values and culture.

Ideally, the definition of a company's mission should include a certain combination of the extrinsic (to obtain certain tangible results or material rewards), the intrinsic (satisfaction at a job well done, learning and the acquisition of know-how), and the transcendent or altruistic (helping to satisfy the real needs of the customer, contributing to professional and human development).



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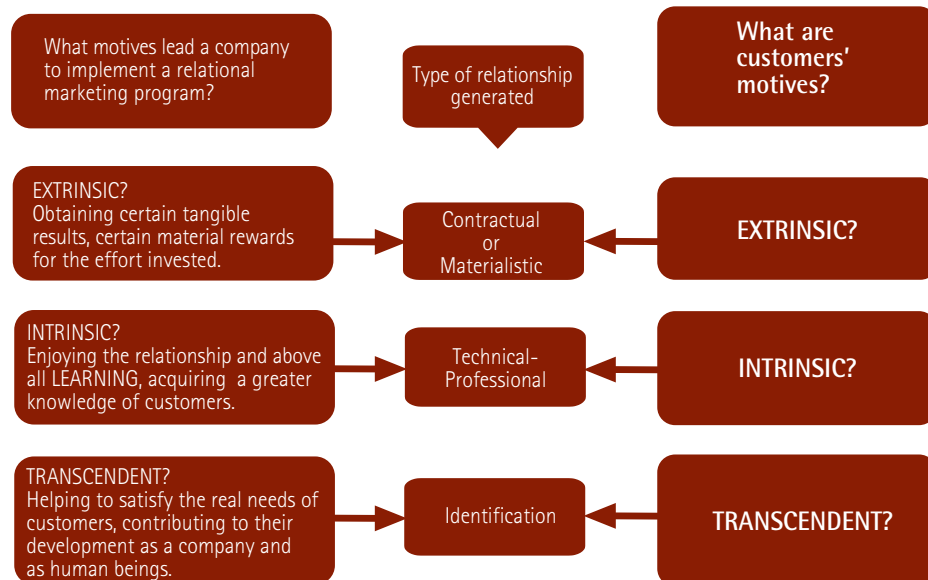
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Figure 1.

Analysis of the Motives Behind Relational Marketing



The motivational quality of a Relational Marketing program will therefore be higher as more weight is placed on the transcendent or altruistic motives involved. Figure 1 shows the motives that both customers and company may have for creating and maintaining a functioning relationship.

If both parties merely act on the basis of extrinsic motives, a relationship will be formed, but it will be relatively fragile and the kind of poor quality relationship that we call contractual or materialistic. Either party can break it up if it perceives that entering into a relationship with another party could bring a greater number of tangible advantages or benefits. It is possible that many loyalty programs based on the accumulation of points will result in this kind of relationship.

If both parties offer a greater quality of motivation and base their actions on a combination of both extrinsic and intrinsic motives, the relationship that will emerge will be more solid and consistent. It is now not solely based on the fact that each party can gain materially from the other (sales volumes, points, etc.), but also on the fact that both parties enjoy their relationship, finding a certain aesthetic or gratifying pleasure in maintaining it and, above all, learning and developing through it. This is known as a technical-professional relationship.

Finally, if both parties base their actions on a combination of extrinsic, intrinsic and transcendent motives, their relationship becomes even deeper and more solid, with greater levels of trust and commitment. We can then begin to talk about an "identifying relationship," in the sense that Herbert Simon uses the term in his book *Administrative Behavior* (1997 edition, The Free Press): "A person identifies with a group when, in making a decision, he assesses the various alternatives while bearing in mind their consequences for the group in question."

Research carried out in the area of Relationship Quality would seem to indicate that a customer's trust in a company, and the mutual satisfaction of the needs of both customer and company, are the most typical bases for a successful or valuable relationship. Similarly, other authors indicate that customers value a company more highly when they perceive it to have a greater degree of integrity, reliability and trust, and when they believe that the company in question is more concerned with attending to their real needs.

Stage 2

Design a Relational Strategy

This stage involves designing and implementing a series of relational activities that go beyond the basic transactional model and allow the development of a deeper and higher quality relationship with one's best customers over the course of time.

It is easy to point out to readers of the *Alumni Magazine* that the IESE Alumni Association offers its members up to 31 different services or relational activities, which include this magazine, the Continuing Education Program, the Annual Alumni Reunion, the Directory, the Membership Card, short consultations with professors, use of the library, etc.

Putting these activities into practice involves a series of costs and investments. The ultimate aim is to create and maintain a long-term relationship that will generate sufficient added value, both for the business and for its customers. In other words, the benefits (in the broadest sense of the term) that both parties gain from the relationship must be greater than the costs involved in maintaining it.

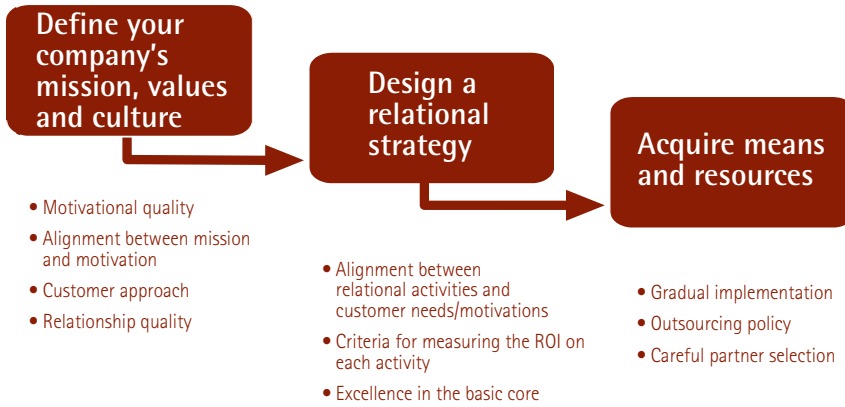
Relational strategy, and each of the relational activities that it involves, must be consistent with the company's mission, values and culture, as defined in Stage 1.

In any relational program, it is important to define the relational activities that are to be implemented, group them together into families and establish the desired level of quality and efficiency. Each group of relational activities must provide a response to the different needs of the customer, while at the same time taking account of the various reasons why the relationship between the company or institution is being established and maintained.

For each relational activity, it is necessary to define what is involved, which customers it is to be offered to, the conditions in which these customers can access or participate in it, and whether it is to be paid for or offered free of charge. If we are to measure the success or failure of each of these activities, we must establish criteria to assess their effectiveness and whether the return on our investment is positive or negative.

Figure 2.

Three Stages of CRM



Stage 3

Acquire Means and Resources

Having defined the company's mission, values and culture and set out the range of activities that will make up its relational strategy, the third step is to acquire the means and resources required in order to implement these activities effectively and successfully. More specifically, one must identify, select and set up the human team and technological media (CRM, websites, intranet or extranet, business intelligence programs, data mining, loyalty cards, etc.) required in order to pursue one's chosen strategy. Special attention should be paid to the future scaling-up of the whole system as a result of the increase in both users and relational activities that will occur over time. The system should be expanded step by step with the introduction of flexible modular applications.

It is essential to have the human team required in order to implement and manage the entire relational strategy, and particular attention should be paid to the areas of customer service, support and quality. In some cases, individual activities can be outsourced where the nature or cost of the activity in question means that it would be better handled by sub-contracting it out to another company.

It is often possible to identify a group of associated outside companies or "partners" for the program that may offer additional benefits for customers. For example, some car-rental companies and hotel chains offer points to Iberia Plus card holders or offer services free of charge in exchange for points awarded in other points programs. A number of companies offer benefits and discounts to IESE members. These "partners" help to increase and enrich the attraction of a company's relational activities (including loyalty cards) and the perceived value of the relational program in question.

It should also be pointed out that relational strategies should be introduced gradually. It is not advisable to offer a high number of relational activities from day one. It is better to begin by offering the relational activities that are potentially the most attractive to customers and the most beneficial to the company. We would also point out that there is probably no perfect and everlasting relational strategy. In other words, a company must be willing to add and discontinue relational activities over the course of time, as its customers' needs and preferences change.

Our research indicates that careful adherence to these three stages contributes to the successful design and implementation of Relational Marketing strategies. First of all, define the company mission. Once this is defined, design a strategy that is in line with both the company's values and the motivations of its customers. It is then, when you are clear on these two issues, that you can begin to acquire means and resources.

However, many companies do not follow this sequence and would appear to begin by purchasing a CRM solution, i.e. a complex computer program that is "capable of doing everything," without having first defined the company mission and strategy as regards its customer relations. Furthermore, some relational marketing strategies would appear to be highly one-sided, i.e. solely aimed at "squeezing the most" out of customers and turning them into objects to be "milked" by the company. This ignores the fact that they are intelligent and willing human beings with the capacity for positive, negative and evaluative learning, i.e. capable of seeing through to the real intentions and motivations of the company in question.

The reality of recent years has shown that Relational Marketing is a gradual process in which one must follow the logical process of initial design and subsequent implementation, while constantly checking the degree of alignment between relational strategy and tactics and monitoring customer reaction to each relational activity introduced.

Gaining the support of general management, both at the beginning and as the chosen Relational Marketing program is implemented over time, has been shown to be key, given the strategic influence that Relational Marketing projects exert, the length of time they may continue and the implications for all of a company's departments. It is therefore the responsibility of the company's general management to create relational programs that will complement company strategy and respond to the motivations of its customers.