The Challenges of Implementing CRM in the Financial Services Industry

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ABSTRACT

Customer Relationship Management means great opportunities and great challenges for those who want to pursue a broad implementation.

Despite investing millions of dollars in CRM initiatives, many companies are facing the frustration of failure. After considerable efforts, many financial services companies are simply not getting back the return they expected when they initiated CRM projects.

We believe that blaming technology, project managers or simply characterizing CRM as "treacherous illusions" is not the answer.

We discuss the challenges of implementing CRM under a strategic and managerial approach, focusing on relevant issues and showing that CRM can deliver value to financial services companies. After analyzing some reasons for CRM failures, we provide some recommendations to increase chances of implementation success.

Technology plays a secondary role when it comes to finding reasons for CRM failures. Strategic alignment, organizational change and clear understanding of CRM goals seam to play a much important role to guarantee the success of CRM initiatives.

The study was based on the experience of the authors, who had considerable experience in the financial services industry and with CRM implementations, on literature reviews and interviews with professors and professionals from the financial services industry.

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To my wife, Cris

Luis Bittencourt

To my father, Bueno

Johann Sellmeister

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Chapter One INTRODUCTION

1.1. PURPOSE OF RESEARCH

The purpose of this study is to provide recommendations to increase chances of success of Customer Relationship Management (CRM) implementations. Our focus is mostly on the financial services industry, but this study may provide useful insights about the challenges of implementing CRM in other industries.

Customer Relationship Management means not only great opportunities, but also considerable challenges for enterprises willing to implement it. However, despite investing millions of dollars in CRM initiatives, many companies are facing the frustration of failure. After considerable efforts, many financial services companies are simply not getting back the return they expected when they initiated CRM projects.

We will discuss the challenges of implementing CRM under a strategic and managerial approach, focusing on relevant issues and we intend to show that CRM can deliver value to financial services companies.

Technology plays a secondary role when it comes to finding reasons for CRM failures. Strategic alignment, organizational change and clear understanding of CRM goals play a much more important role to guarantee the success of CRM initiatives.

This study is based on thorough research, on the experience of the authors (who have experience in financial services and with CRM implementations), and on interviews with Sloan professors and executives from the financial services industry.

1.2. Document Organization

Chapter Two provides a brief overview of the consumer market, financial services industry and CRM. Some effects of the advent of the Internet are discussed as well.

Chapter Three discusses how CRM may add value to a financial services company through CRM applications and programs. Many CRM initiatives are covered, from simple ones aimed at enabling a company to begin to understand its customers, to more complex ones aimed at customer retention or estimating the lifetime value of customers.

Chapter Four provides a brief overview of the infrastructure required for an enterprise-wide CRM implementation, covering aspects of Analytical and Operational CRM.

Chapter Five identifies the major difficulties and challenges of implementing CRM in large financial services companies, mostly in financial services. The data presented was gathered from specialized publications, a brief case study and interviews.

Chapter Six discusses in detail the major challenges identified in Chapter Five. The analysis focuses on strategic, organizational, integration and technological challenges.

Chapter Seven provides recommendations to address the challenges presented in Chapter Six. A managerial approach is provided, in order to help managers in their efforts to implement CRM.

Finally, Chapter Eight provides a brief conclusion for the thesis.

Chapter Two MARKET AND CRM OVERVIEWS

2.1. THE CONSUMER MARKET

Until recently, companies were more concerned about the number of products to be introduced in the market rather than the number of clients interested in buying these products. The search for an even more powerful, well designed and with more features product was the name of the game. Companies produced products based on their vast market experience and the adding of new functions, to these products, was a priority. To support this line of reasoning, mass mailing, television ads and selling campaigns were always deployed in conjunction with the new product being offered to the market. With the increase and development of the business market, not only from the consumer side but also from the industry side, more and more products were launched and competition became fierce. People gained access to products even more sophisticated and in with more variety. Therefore, with the increase in competition, companies started to be more interested in reducing costs and providing value to shareholders.

The game has been changing during the years and now competition is now omnipresent and constant. Competition has increased not only in the number of players in the market but also in the number of products available to each consumer. Consumers can painlessly choose from a wide array of products, from different providers and with different features. The purchasing power shifted even more to the hands of the consumers and led businessmen to search for alternatives to not only keep their existing costumers but also attract and develop new ones. With the increase in the variety of products available to each consumer, customers began to realize that they had the opportunity to choose more, compare more, try more and, unfortunately for the company's side, switch more. Customers became more educated and demanding persons. So, competition today is not merely based on product performance but in people's real needs and desires. Through the enhancing freedom and opportunity to choose and to switch, every single customer has transformed itself in a valuable asset to every single company around the world.

Today, competition has not developed inside a particular region or market, competition has been transformed from a regional competition to a global one. Examples for this situation are everywhere. Newspapers issued in different languages around the world can be accessed by a simple click in a web browser. News that was distributed every morning can be known every minute through various channels. This is a simple example where customers are no longer willing rely on a single source of information. There is no need to read only one source of information when different opinions from different places and different minds are available and fresh every minute.

Another example of this era of fierce competition can be found in the airline industry. First, having a fleet of jets from various sizes to fit different needs is no longer a differentiation factor. Many large airlines offer the same type of aircraft to the same locations and almost through the same schedule. Hence, every customer can choose and compare more. This same customer that once had no option or only one single company offering state of the art machines can now choose among three, four, five different companies to bring him to his finale destination. To make this scenario looks a little sadder, price competition can be added to it. Several web based companies offer a very good comparison, among all major airline companies, in terms of schedule and prices. Therefore, having a large client base is not key for a company anymore. Keeping these clients loyal to the company is utmost important for any company that envisions a long business cycle life. Matching the customer's knowledge with today's strong competition is what every well established enterprise, in any segment, is struggling for.

Unfortunately, technology is no longer a strong differential among many companies acting in the same market segment. With the wide spread of information around the world, new discoveries can be rapidly copied and introduced in the market. This situation is happening across several industries. Today almost everything can be copied, from products to services. The fear of having its products commoditized is among all well established businesses around the world. The only way out of this trap is by facing every customer as part of a company rather than a mere buyer of the company's product or service.

Product life cycles are becoming increasingly shorter. State of the art technologies from today will be completely obsolete tomorrow. Product developments are becoming on one hand faster, mainly due to the technological advances available today, but on the other hand this same technology enables competition to catch up fast and to introduce even better cloned products. With the availability of technology, the only requirement is capital. With enough capital at hand, any company can reproduce a competitor's product.

2.1.1. Competition through the Internet

The web is reshaping the way of doing business around the world. Although a burden for some companies, the Internet is a huge advance for others. Traditional companies committed to the 'face to face" business lost part of their competitive advantage to more flexible and faster "new economy" companies. From the consumer point of view, the web has turned out to be a purchasing tool rather than a hobby. Consumers have so many product options in so many different locations around the world that deciding for a brand is not just a matter of price anymore. Consumers are able to compare different products from different suppliers in so many ways that the right product can be found at the right time for the best price available. In some cases the product offering is so huge that even experienced consumers can get lost.

To offer consumers a different way of doing business, some web sites offer not only a list of products with their individual prices but also give the customer the option to bid for products in auctions. This is the ultimate stage of fierce competition. Customers are not buying anymore, they are defining the prices.

Of course, this stage has not reached every market segment but in some segments, consumers may by a product or service through auctions. An example of this trend is in the airline industry where through the bidding process, tickets can be purchased for 60% less of their original price. Many web sites provide the costumer the choice of buying or bidding.

In the banking business fees and services can also be compared to each other easily and painlessly, giving the customer more purchasing power.

The Internet shifted even more the balance of power to the consumer's hands. Consumers, in some cases, are establishing the prices. This situation would have been unbelievable some years ago.

Consumers are not only capable of buying from around the world for the most affordable price but also of comparing products from different brands. Some specialized sites provide comparisons between any product or service offer. These sites are capable of not only telling the buyers which product from which brand is the optimal one but also providing the best payment and delivery options.

The web has also become a threat for many businesses as many shoppers, specialized in web offers, turned themselves into the so called "cherry pickers". These are shoppers whose only interest is to find special promotions and who normally avoid buying products on sale. This particular type of consumer can be a real problem for many companies and even result in losses for many companies.

2.1.2. The Benefits of a Closer Interaction with Customers

Unfortunately, until today, many companies when facing a drop in sales or in market share deploy a massive marketing campaign as the ultimate solution. These campaigns are usually massive and have no direct focus. Companies make large investments that yield disproportionately small results. The only expectation is that sales resume and everything goes back to normal again. In some cases, some previous research for the marketing campaign is done but this research is seldom accurate. Even when new products are being considered, almost no effort is put on the existing client base. Everyone inside the company is looking for new customers, new markets and new exposures.

If the new product is a success, the market is considered to be "normal". If not, advertisement agencies and consumers take the burden for it.

Although well-known by most of the companies, the "closer interaction" with clients is normally forgotten. With "closer interaction" we mean knowing each of our customers in a way that enables companies to understand and fulfill their needs. When we are considering huge client bases, it is impossible to know each single client but client clusters, with very similar consumer behavior, can be well defined. Throughout these clusters, clients can be treated differently and with more respect in terms of their needs. Clients are different from each other. Commoditizing a set of clients is the most common mistake huge companies, particularly in the service industry, are still doing. These companies simply ignore the differences that make each client unique. Companies are thus trapped in the commodity view.

Another important aspect of knowing well each client is that not every client is beneficial for the company. Some are even undesired in terms of profits. But corporations that cannot identify their most profitable customers treat everyone in the same way. By identifying who is who in its client base, a company may separate profitable customers from unprofitable ones and focus its efforts on good clients. With a closer interaction with its good clients, a company may deepen its relationship with these clients and assure that they would not consider transferring their business to another company. From the client's point of view, it is more convenient to stay with the same service provider than to make frequent changes. From the company's point of view maintaining a client inside the company is cheaper than to acquire new ones. This law is not only for the business side of the coin but also for the consumer side. It's also monetarily beneficial for a client to keep on doing business with the same service provider than to start jumping around.

Hence, the question: How to develop and maintain this closer interaction with the client?

The answer is on the Customer Relationship Management. The objective is to know each single client very well. Is to know its needs and aspirations and to be able to anticipate these wills. Of course, this objective would not be reachable without today's technology. But another important issue besides technology is to make an enterprise think differently and act differently. This new way of doing business, of getting closer to the clients is a long path to be pursued all clients will be considered in this new way of thinking because it is impossible, for big companies, to treat all clients as if they were premium clients. Clients should be segmented into different categories and only those who are really loyal and profitable for the company should receive a separate and premium treatment.

Another aspect that we found in the service industry is that once clients are segmented, the second tier should not receive a worse treatment than it received before the segmentation. Indeed, a closer interaction with a client means also to offer a better service package to this client who is important to the company and to keep the same level of service to the other tiers. It is important that the premium clients receive separate product offers and separate advertisements. This may place challenges to large companies where some clients are considered premium clients for one customer segment but average clients for other customer segments. To maintain a proper and successful communication link with this customer, a special and unique way of communication should be established and kept along time.

One way of developing this unique channel of communication is to keep in mind to each client is different from each other even if they are members of the same cluster. Combinations of various products or simple exclusive products should be developed to attend these customers. It is not simply lowering prices. Premium clients should perceive a real difference in terms of products and communication. One example of adapting products to clients is what most mobile telephone companies do. There is a base product which is the ability to communicate via wireless phone but a long list of special features can be added to this product, making each customer's service offer unique. This is easily accomplished in the service industries that can offer a base product and then add special options to that product. This also occurs in the financial service industry, where the base product is a simple account held at the branch office. Once this account is established a long array of products with different features can be offered to different clients. Through this way, clients with different needs and that are part of different clusters can be awarded a unique service.

Unfortunately, in the financial services industry, it is not so ease to separate the communication. Many times clients from different layers receive or get to know products or services that are not designed for them and in many cases these products may have a different price structure. To solve this question, the service industry has to invest even more in technological systems to be able to separate different clusters from each other. But, even with state of the art information services, companies such as banks face another problem which is the communication spread out through word of mouth and through their branches. The visual communication inside the branches is often designed to the basic layer of clients but some slightly better products are also offered to push standard clients to these products. To qualify for these products, clients have to develop their relationship with the bank. This means more investments, products and services. It is, of course, a two way road.

When the level of a closer interaction with the client is achieved, companies start looking more to the share of customer and less to the share of market. This is a very important distinction since companies around the world still look at increasing market share and forget about the number of clients that it may be losing on the other side. The closer interaction with the client will give companies the opportunity to sell more to same client and at the same time sparing the money that would otherwise be spend in attracting new customers. Companies that are still focused on market share are in the opposite direction of getting closer to client. These companies normally release mass market products to enlarge their client base but forget to look at the customers needs. Once the mass market product is released and competition catches up, the only solution is to start a price war where everyone loses. On the other hand, when each client is the main focus and therefore her needs are well known and addressed, this client will still remain loyal to its service provider even if a premium price is paid.

Through this strategy, the company is also able to have a clearer view of what are their customers' needs and therefore develop systems or services to fulfill these needs. With more services or products, more can be charged from this client and the same time transforming this client into a loyal one. The development of these additional services may include services that are not core to the company and even services that were never offered.

To sum up, a closer interaction with the client means a closer way of doing business that can only be achieved by listening to the customer. The more attention is given to a client, the more this client will respond and therefore the more interesting the relationship becomes. It is common knowledge that today the most important asset of a company is its clients. Loyal clients are of utmost importance to develop a sustainable growth for a company in a competitive market. CRM is a strong tool to help not only servicing but also manufacturing companies achieve this growth.

2.1.3. The Financial Services Industry

The financial services industry is primarily based on a set of commoditized products and its main revenue comes from fee-based services. This industry has been facing a merger and acquisition period for a long time. According to *Bryan Foss & Merlin Stone*[1], over the next five years, 75% of the lines of businesses within the finance sector are subject to explosive market–based reinvention. This means that new values have to be developed and put into action to keep on with the current revenues. One example is the mutual funds industry where the traditional fees applied for management services are dropping constantly. Through the many channels nowadays available for offering and selling this type of investment, the consumer is able not only to compare fees but also to compare profitability and the so called "professional management". This leads to increasing competition among banks that offer this kind of service. As a result, customers are able to keep their investment in one bank while doing their daily transactions through another different institution.

The most sophisticated investors have now the option to choose. In the near future, many business models, available only in top retail banks, will be a click from the ordinary customer and today's portfolio management advantages will turn out to be a commodity. Hence, today's organizations will have to reinvent themselves in order to stay ahead of the competition and the most feasible solution is an internal structural change. This transformation has to take place not

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[1] BRYAN FOSS & MERLIN STONE. *CRM in financial services*, Kogan Page, 2003.

only inside the company, in terms of organizational structure, but also in terms of how to focus on the customer.

Retail financial institutions interact with customers through many different channels, such as traditional branches (this includes not only the account manager but also the teller), electronic channels (ATM's - Automated Teller Machines), phone (automated or telemarketing), Internet (on-line banking), mail and wireless devices (cellular phones, PDA's and so on), as shown in Figure 2-1.

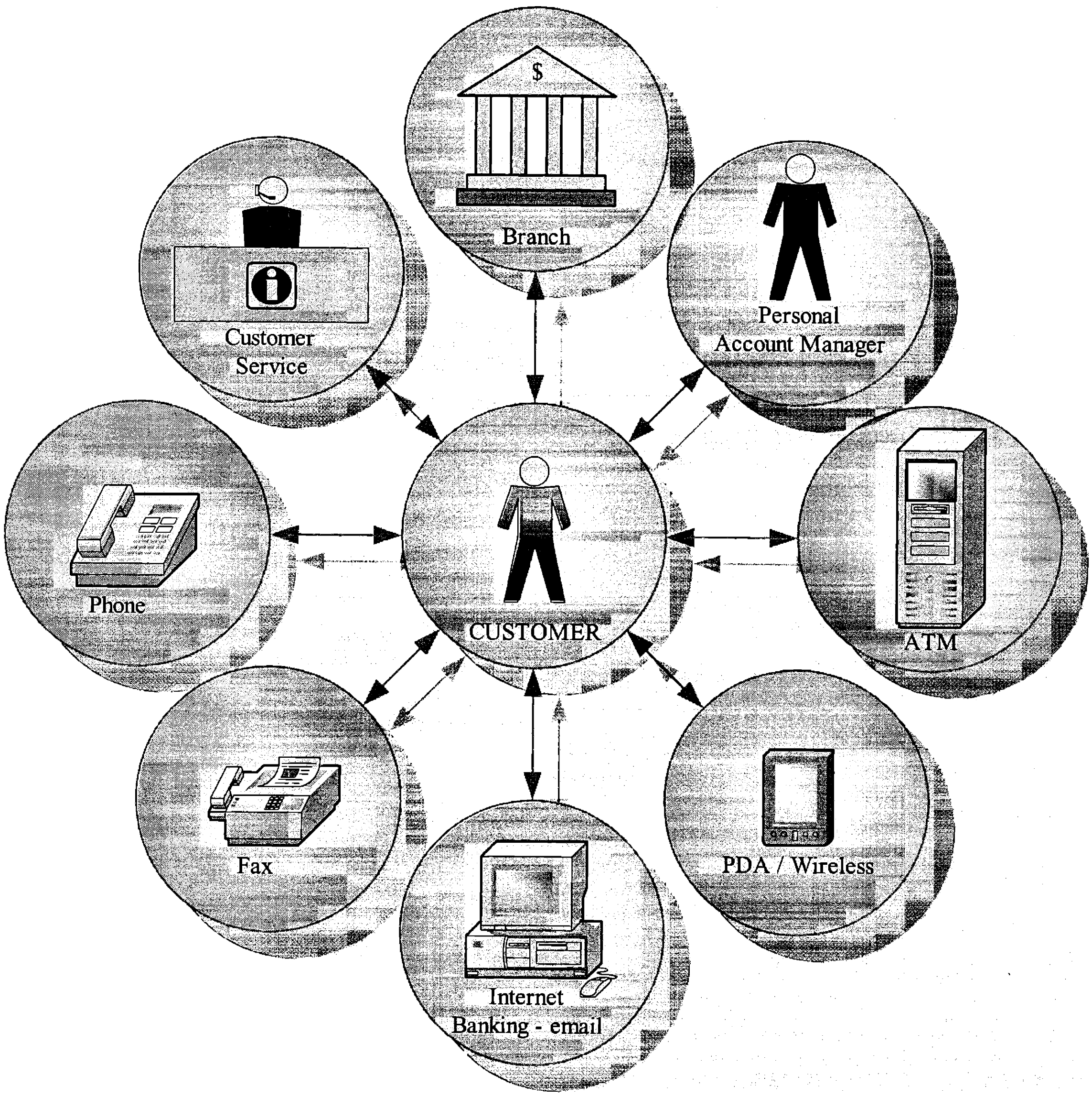

Figure 2-1 Multiple Contact Channels

The frequency of interaction is very high, since most customers tend to use financial services in a daily or weekly basis. On one hand, this combination of multiple channel and high frequency provide great opportunities for improving financial services through CRM initiatives.

On the other hand, it makes the CRM initiatives in financial services more susceptible to difficulties and failures due to the high complexity involved.

Figure 2-2 shows the evolution in the core services in the financial services industry. More and more services and products have been added as the industry evolves due to tough competition and increasingly demanding customers. At the same time that this trend increases industry complexity, it creates great opportunities for companies that want to have tighter, durable and more profitable relationships with their customers.

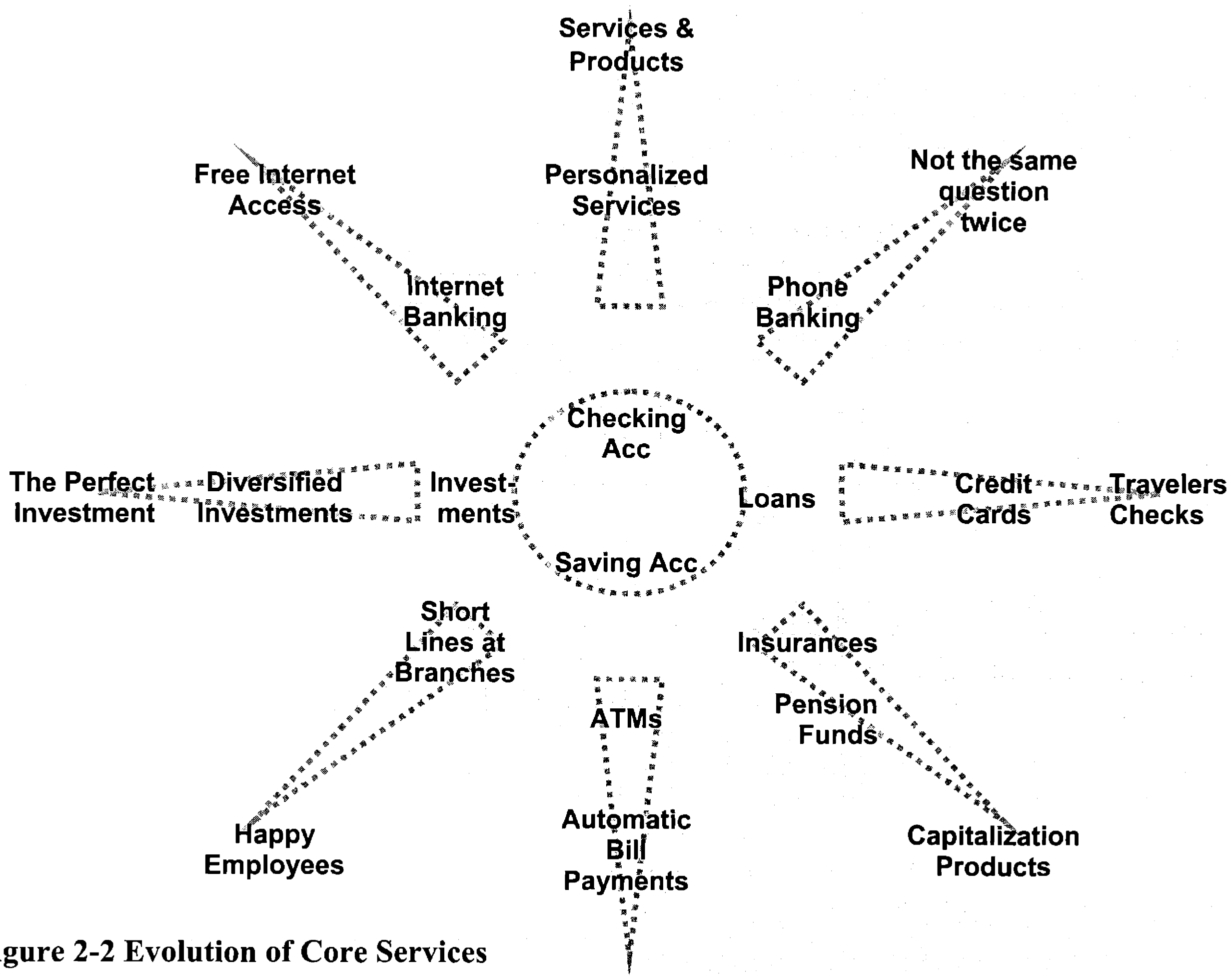

Figure 2-2 Evolution of Core Services

The improvement of financial services through the usage of multiple channels can be achieved by delivering the right message to the right client at the right time. Due to the many types of customer interaction offered by large financial institutions, banking customers may choose from only electronic communications to a closer relationship with a branch manager. Understanding the way these interactions take place and how often, is just one step in the complex CRM process inside financial services providers.

The importance of CRM in the financial service industry is also easy to be noticed. According to *The Meridien Research Center,* spending on CRM in the global financial services market has reached $6.7 billion in 2001.

A new report by the *Aberdeen Group* [2]predicts that total CRM spending for 2003 will be $15.4 billion, an increase of 14 percent over 2002. Fifty-two percent of the research participants say they will spend more on CRM this year, but not until the second half of the year. Sixteen percent of respondents say they will decrease their spending this year.

CRM is the most important area in terms of technological growth for banks in 2002. Almost 42% of retail banks are still increasing their expenditures on CRM (*Data Monitor).* To corroborate the importance of CRM for the banking industry, according to *KMPG and Goldman Sachs,* the top 20% of a bank's customer base, ranked by profitability, generate 1.6 times more profit than the rest of the bank. *Morgan Stanley* estimates that there are between 17 and 20 interactions for every transaction with a customer of a bank.

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[2] http:// www.aberdeen.com

The Meridien Research Center found that twenty percent of the banks customers generate 150% of profitability, 30% contribute zero percent and fifty percent cost 50% of the bank's profitability.

The profitable customers must be known and acknowledged. These customers have to be understood through more than a simple marketing view. The profitability numbers also ask the financial industry to aim more precisely in their marketing campaigns and to try to move more towards retention programs rather than market share programs.

The numbers above make clear the importance of CRM in the financial industry. It is essential to find out the reasons why these customers stay with the bank and why they are so far satisfied with the bank's services.

Nonetheless, these retention programs, through the use of CRM techniques, are extremely difficult to implement and measure, especially in big retail banks. In the next chapters we will analyze the major concerns that not only affect the implementation of CRM in financial institutions but are also key for avoiding an unrealistic and unsuccessful CRM project.

2.2. CRM Overview – A Competitive Advantage

2.2.1. The Roots of CRM

The roots of CRM are found in the late 1980's, through publications emphasizing the importance of customer satisfaction and customer relationship management. One of the first books that specifically focuses on this topic is *The Customer is Key: Gaining an Unbeatable*

Advantage Through Customer Satisfaction, by Milind Lele and Jagdish Sheth[3]. The authors claim that in terms of long-term advantages, it is very difficult to keep customers satisfied. The main advantages are:

- inventions (may be copied);
- technology (studies indicates that 60% to 90% of all learning leak to competitors in a very short period);
- lower costs (there is always someone willing to work for less), regulations (temporary and often ineffective barrier against competitors);
- size (GM had more than 50% of the U.S. market share in early 1960's, back in 1987 it's share was under 40%, and 28% in 2001[4])

In *Customer is Key*[5] we found many precursors ideas, considering relationship marketing, which would be developed in the future through other publications.

Concepts such as: the importance of tight feedback loops, managing customer expectations, dealing with the issue that "customers don't complain" and corporate culture are explained in accessible language and supported by data and examples.

Jagdish Sheth summarized many concepts on his recent book[6], where he explains in detail the evolution of relationship marketing.

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[3] LELE, MILIND & SHETH, JAGDISH. *The Customer is Key*, Wiley, 1987

[4] Japanese muscle in on Detroit's power struggle, USA Today, July 12, 2001. ISSN: 0161-7389

[5] LELE, MILIND & SHETH, JAGDISH. *The Customer is Key*, Wiley, 1987

Another relevant publication we found about relationship marketing was written by Regis McKenna in 1991[7]. This was the first book to develop the term "Relationship Marketing". In addition to introducing the term, McKenna proposes a genuine customer involvement by "communicating and sharing the knowledge", in opposition from a marketing role of customer manipulation ("telling and selling").

Our conclusion is that many important concepts and ideas, which are the underlying foundations of CRM, are missing in many recent publications about the subject[8]. Some literatures show CRM as a means to reduce costs, optimize overall performance, integrate and automate processes, but the customer is still missing. Goldemberg's[9] definition of CRM is: "*CRM is a comprehensive approach that provides seamless coordination between all customer-facing functions*".

Bryan Bergeron[10], defines CRM as: *"The dynamic process of managing a customer-company relationship such that customers elect to continue mutually beneficial commercial exchanges and are dissuaded from participating in exchanges that are unprofitable to the company".*

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[6] JAGDISH, SHETH. *Handbook of Relationship Marketing*, Sage, 2000.

[7] McKENNA, REGIS. *Relationship Marketing: Successful Strategies for the Age of the Customer*, Addison Wesley, 1991

[8] MUTHER, ANDREAS. *Customer Relationship Management: Electronic Customer Care in the New Economy*, Springer, 2001

[9] GOLDEMBERG, BARTON J. *CRM Automation*, Prentice Hall, 2002

[10] BERGERON, BRYAN. *Essentials of CRM: A Guide to Customer Relationship Management.* Wiley, 2002.

On the other hand, some authors choose to emphasize a narrow area of CRM, as for example the optimization of customer contacts through the telephone (call centers) or the Internet (eCRM). Usually these authors tend to focus on technological aspects, eventually showing a brief analysis of the CRM market, technology vendors and renowned "CRM gurus"[11].

It seems that CRM is being seen by many as just a means for optimizing the way companies do business, not for changing the way they do business. Here, again, we found the origin of an important conflict: How do managers inside the company see CRM goals? Sell more? Reduce costs? Increase number of contacts? Retain customers? This conflict is covered by authors that advocate metamorphosing the whole organization into a Customer Centric Enterprise, or Relationship Based Enterprise.

Ray McKenzie[12] says that "*IT and CRM offer significant opportunities for organizations to better understand and serve their customers, and in doing so, increase their return on existing and future ventures*". McKenzie also emphasizes that, "*in the darker side, CRM offers opportunities to squander critical resources with no resulting benefit and in doing so, to put the very survival of the organization at risk*".

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[11] GREENBERG, PAUL. *CRM at the Speed of Light: Capturing and keeping Customers in Internet Real Time.* McGraw-Hill, 2001

[12] RAY MCKENZIE. *The Relationship-Based Enterprise.* McGraw-Hill, 2001

A very well organized book, aimed to define the CRM concept we found, is *The CRM Handbook, by Jill Dyché* [13]. The book is aimed at business people who want to have a broad and pragmatic understanding of CRM value proposition, without focusing only on technology issues or e-commerce solutions.

2.2.2. CRM as a Competitive Advantage

In fact, CRM is not a simple tool or system that can be found in a software house. CRM is rather a concept than an application. It is a business strategy whose main goal is to preview the customer needs and to be able to offer a customized solution which is easy to use and quick to be implemented. To achieve this strategy, a thorough data mining and data analysis should be made in conjunction with an integration of all business levels inside the company.

Some value propositions of CRM are the costs of acquiring customers, understanding customer needs, increasing customer satisfaction and increasing marketing campaigns results. Although retail banks claim to have been doing CRM long before the term was invented, our study clarifies that banks were at the forefront of relationship marketing, which is a subset of CRM.

Through our research, we realize that the CRM term was used to describe many different initiatives, processes and technology solutions. Many companies seem to think that CRM is a magic solution which, powered by an expensive technology infrastructure, would result an

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[13] DYCHÉ, JILL. The CRM Handbook: a Business Guide to Customer Relationship Management, Addison-Wesley, 2002.

increase in sales and profitability with low costs. With this approach, the basic foundations of relationship marketing are forgotten, where customer needs and customer satisfaction must come in the first place.

The CRM concept means a disruption in the services industry, asking for a change from the main short-term "sell, sell and sell" orientation towards a long-term "please your customers without bothering them offering products they don't want".

It is clear that many banks entered the CRM wave with the objective of increase sales no matter what and without knowing what customers really wanted. As we mentioned before, CRM is much more than that, it's a whole new way of thinking, new organizational structures, new incentive plans, and new trade-offs and sacrifices.

Maybe when some companies start to show great customer satisfaction advantages as a result from broad CRM initiatives, competition will start to notice that a disruption is happening. Given the complexity and changes required to turn a company into a customer centric enterprise, some solid industry leaders will notice that they had waited for too long.

For an organization to evolve from a traditional product-focused enterprise to a customer-focused, customer-driven enterprise, it will need a new infrastructure to support these new processes and behaviors. The most difficult part of making this transition is not acquiring or installing the technologies required, but changing the company's way of thinking towards its customers.

Chapter Three CRM PROGRAMS – ADDING VALUE TO THE COMPANY

In this chapter we will briefly discuss how CRM may add value to a company. We use the widely adopted term "CRM Program" to represent programs aimed at achieving specific business goals such as acquiring new customers, developing the current customer base, reducing customer attrition (and consequently customer turn over), increasing the performance of market campaigns, improving channel management, and others.

We will cover some of the most well known CRM Programs, with the intent to show how CRM may bring value to a company's strategy. Companies may choose to implement any of these programs independently, in parallel or in sequence. Having a clear picture of the "CRM Roadmap" is a critical factor to ensure the long-term success of a CRM strategy. We will not discuss data mining techniques used to reach specific results, as there is an extensive literature about the subject for those who wish to know more.

3.1. BEGINNING TO UNDERSTAND THE CUSTOMER

Many financial institutions have consolidated data about their financial performance, and most of them are able to track their performance by some dimensions such as regional, departmental, products, services or business units.

However, when senior managers ask simple questions such as

"Who are our best customers? How do they look like? How many products do they have? What are these products? Are they profitable for us? How much? And our worst customers?"

Managers struggle analyzing data from different sources, and in most cases come up with unsatisfactory answers or no answer at all.

The ultimate goal is not only to understand the customers, but also to predict their future behavior and try to influence this behavior. A simple example is to determine when a particular customer is more susceptible to buy one product. For example in the investment services, one institution could identify clients who have already achieved high managerial positions in their careers and are now looking for their future insurance after retirement. This would be a specific moment where this customer could be influenced to buy one investment product at this bank instead of investing in real estate, for example. The idea is to focus not only on the actual customer but also on her family and businesses. These customers could develop more businesses with the bank not only on their behalf but also through spouses, friends and their business environment.

In the highly competitive financial sector, good clients are the most desirable asset. To find them and to keep them loyal is every manager's dream.

Very rarely companies embark into CRM initiatives only to automate independent and isolated processes, such as call center operations or campaign management. Companies that are large enough to have sufficient budget for a CRM initiative (hardware and software) usually have reasonable strategic thinking and marketing vision. Financial institutions usually fit into this category.

Hence, we will briefly discuss some basic CRM applications that help companies to obtain a basic and important understanding about their customer base, which may support business decisions that yield great financial returns.

3.1.1. Customer Segmentation

A good advantage for financial institutions is that they posses information about all products and services that a specific customer owns or utilizes. Their challenge is to transform this information into knowledge. Through some simple reporting or advanced data mining techniques, it is possible to identify cluster of clients that buy similar products, prefer to use specific channels, or belong to some demographic group.

Some simple segments are defined when customers are grouped accordingly to the following categories:

- Geography
- Household demographics
- Psycographics[14]
- Number of products owned
- Life stage (teenager, begging at work, recently married, pre-retirement…)

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[14] "Psycographic"segments define groups of customers with similar interests, opinions and preferences, for example which magazines, soccer teams, TV channels they like.

Drawing relationships between customers' segments and their purchasing behavior may help managers devise new approaches for marketing campaigns. Additionally, when a new segment is identified the company may decide to develop a new product to match its needs.

More advanced customer segmentation criteria are:

- Profitability (to the company)
- Lifetime value
- Channel preference (how customers prefer to interact with the company)
- Tenure (risk of leaving the company)

3.1.2. Customer Valuation

Identifying the most profitable customers is critical for a financial services company. Usually, in the financial services industry a small portion of a company's customers is responsible for most of the profits (as seen in page 25). Therefore, companies need to know who their best customers are in order to serve them better and try to keep them. Knowing what customers are generating losses is important as well, since the company can adjust the way it is serving these customers in order to lower costs and reduce losses, and even turn these non-profitable customers in profitable ones. Ultimately, this valuation may result in customer segmentations, and the company may offer differentiated products and services accordingly with the profitability of each segment. Personalized services, exclusive channels and special offers may be reserved for the most profitable segment.

Ideally, the valuation of a customer's profitability should take into account every event that generates revenues and costs, similar to an ABC (Activity Based Cost) approach. Since determining costs in a broader sense is already difficult, determining costs and revenues for all events, products and services for each customer is an even greater challenge.

The extensive processing and detailed data required to calculate customer profitability combined with the high cost of profitability-modeling tools kept this task out of reach even for larger and well managed financial institutions.

One hypothetical customer valuation leading to customer segmentation and service differentiation for a retail bank is presented in Table 3-1:

↓ Valuation ↓

Segment:	**Average Profitability (per year):**	**% of Customers:**	**Major Characteristic:**	**Services:**
Platinum	Greater than $1000	5%	Income > $ 200K	Personalized account manager
Gold	$200 to $1000	10%	More than 5 products	Account manager + discount fee
Silver	$50 to $ 200	30%	Average income $ 60K	Special fees and offers
Blue	Less than $50 (including negative)	60%	Only uses checking account	Discount on fees for Internet, ATMs

Table 3-1 Example of Customer Valuation

In this example, the valuation model estimated the customer profitability, and this value is used as a criterion for customer segmentation. For example, customers with profitability greater than $1,000 are allocated to the segment Platinum. The valuation model also indicates major characteristics of a customer with such profitability. In this simplified example, customers with profitability greater than $1,000 have as a common characteristic income greater that $200K. This is important for allocating new customers into segments, since it not possible to calculate a valuation for them.

Ideally, a periodic assessment of the customer base should be done, in order to identify customers that are in the wrong segment, and try to upgrade, downgrade or even induce them to leave the company. Once the customer valuation is done, careful consideration is needed before taking any actions, balancing short-term and long-term goals, in order to avoid losing good customers and keeping bad ones.

With recent technology advancements companies are finally being able to uncover some counterintuitive facts. For example, they may find out that some price-sensitive customers may never result in profitable relationships even if they have high-volume transactions, while low-volume customers may be very profitable.

The valuation should also take into account events like marketing campaigns (call center, mail and other sale efforts), channel usage (Internet, ATM, phone banking and contacts with account managers or customer service). With a good analytical CRM infrastructure in place, integrated with systems that monitor financial performance (costs and revenues) of products and services, it is possible to develop good valuation models.

3.1.3. Customer Lifetime Value

While customer valuation focuses on the actual value of each customer to the company based on events that have already taken place, customer lifetime value aims at a more audacious goal by measuring the value of customer throughout his tenure with the company, in other words, considering not only the present but the future as well. Accurate models that predict the lifetime value of a customer does not exist, but it is possible to develop some models that may yield good estimates.

The goal of customer life cycle is to generate a benchmark through which companies can see if they are extracting the adequate value of their relationships with customers. For example, a retail bank may find out that a specific group of people with similar profiles (behavior, demographics, etc) tend to generate a specific profit amount through 5 or 10 years of relationship. As a consequence, these people are assigned a specific lifetime value. When a customer that fits in that profile is not generating the expected value, this may be an indication that this customer is also doing business with competitors or that the bank is not exploring all his potential.

Lifetime value is also important to signal to companies' employees that even if a customer is not profitable today, he may be profitable in the future. Therefore, it is in important to serve this customer well. Lifetime value models are usually built with similar information used on customer valuation, and with important additional information about customer's demographics and psychographics. For example, knowing that a customer is pursuing a graduate degree would be significantly valuable.

The greater barrier for lifetime value models is less the techniques used to build them than the availability and reliability of the additional information required.

3.2. Customer Acquisition

One important CRM program is devoted to acquiring customers. Usually a company does not have a lot of information about non-customers because it has not established a relationship with them yet. Therefore, the company has to rely on data sources from outsiders, as bureaus, marketing companies that sell prospects lists, publishing firms that sell subscribers' lists of magazines and newspapers and others.

The main idea is to gather enough information to build a model to indicate whether these prospects are a good match for the company. Simply targeting all prospects may be disastrous, costly and the company may acquire unprofitable customers. When the goal is to regain customers that the company lost, the task may be a little easier. The company already has some information about the customer, having only to update his profile.

Privacy issues have to be taken into account very seriously. When buying a prospect list from an outsider, it is important to verify if the prospect had authorized this share of information for commercial use, avoiding legal issues in addition to hurting a company's image.

3.3. Customer Development

In order to extract more value from the relationship with its customers, a company must develop its customer base. Selling more services and products to an existing customer not only increases revenue but tends to increase chances that this relationship will last longer. Additionally, selling to an existing customer tends to be easier and less costly.

3.3.1. Cross-Sell and Up-Sell

The promise of increasing cross-sell and up-sell opportunities accounts for much of the popularity of CRM marketing automation technologies. A cross-sell is a purchase resulted from another one. A common example of cross-selling is parents buying diapers for their babies and beers for themselves at the same grocery shop. Aware of this trend, groceries started organizing shelves in a suitable way to increase cross-sells.

Companies are always trying to sell more profitable products to customers, through upgrade opportunities. An example in financial services is upgrading a customer to a Gold Credit Card from a standard one.

Key for a successful cross-selling program is to understand which offers will increase rather than decrease a customer's overall profitability. Simply selling more products to a customer does not mean that his profitability will increase. Actually, it might decrease significantly. Therefore, it is important to understand which products should be offered to which customers.

Aggressive up-selling and cross-selling campaigns may backfire in the short or long-terms. Bad sales or wrong upgrading offers may actually result in early product cancellations, preventing the company from recovering even initial costs and, in extreme cases, may result in customers leaving to competitors.

Coming back to the credit card example, let's get the hypothetical case of a customer that in a "split second" decision decided to accept the offer for upgrading to a Gold Credit card. After some time, he hasn't perceived the value added of the upgraded, simply because he never needed it (he does not travel abroad so he does not need special assistance outside US, he never rents a car so he does not use the additional insurance coverage, and so on). However, he is paying higher fees to keep the card. During this same period, he receives an offer from competitors offering him a credit card very similar to the one he had before upgrading. He easily decides to leave for the competition, which is offering a better match for his needs.

3.3.2. Behavior Prediction

Predicting customer behavior is the dream of every marketing department. Behavior prediction helps marketing departments to estimate what customers are likely to do in the future, using historical customer behavior and sophisticated modeling and data mining techniques. Therefore, rather than being a CRM program with definite goals, behavior prediction may be considered as an accessory tool to support other programs and marketing initiatives.

Some of the most common analyses are:

- Propensity-to-buy: estimates which products and services a customer is likely to acquire;

- Best next offer (or next optimal product): estimates what is the best sequence of offers to a customer;
- Market basket analysis: estimates which products and services are likely to be purchased together – this is the basis for cross-selling efforts;
- Price sensitivity (or dynamic pricing): estimates the best price a specific product and a specific customer.

Companies can make important decisions by understanding how customers are likely to behave. That's why in the beginning of this section we stated that prediction behavior is an accessory to CRM programs. Some examples of marketing actions are:

- Improving marketing campaigns performance through better targeting (using propensity-to-buy, best next offer or market basket analysis, for example);
- Creating products bundles that increase overall customer profitability;
- Offering discounts or fee waivers to customers that are likely to leave to the competition (this is one aspect of a anti-attrition or retention program, that will be discussed in more detail next);

Prediction behavior also helps companies to understand customers' life cycles. It is important for a company to be aware that customers migrate through different life cycles, and even if this customer is not very profitable today, he may have good potential to be profitable in the future. With this understanding, a company may be able to offer products and services that match customer's needs accordingly to his life cycle, avoiding terminating customers with good future potential.

3.4. Customer Retention

Acquiring, developing and retaining customers – this is the virtuous cycle that all companies pursue. However, with increased competition and commoditization in financial services, retaining customers has become one of the most challenging tasks.

Unsatisfied customers usually terminate their relationship with a company without ever filing a complaint or expressing their dissatisfaction. There are many reasons why people don't complain: they don't have time, they believe their complaints will never be addressed, or they think going to the competition is faster and easier.

This fact makes it a challenge to identify which customers are in risk of churning. Customer retention programs aim at building models to identify these customers, and determine which are the reasons triggering the dissatisfaction. Bad customer service, denials for loan or mortgage requests, high fees, unclear communication, lack of specific services or better competitor's offers – many reasons alone or combined may be triggering customer dissatisfaction.

A CRM program devoted to increasing customer retention involves not only data analysis, but also improving the capacity the company has of listening to its customers. Ideally, all interactions of a company with its customers may provide clues about a customer's satisfaction level towards a company. These interactions may be formal or informal, and may be between the customer and an employee or a machine (ATM, Internet or automated response phone).

In a more audacious sense, the company should be able to monitor the value of a customers' experience: "Is he liking to use the ATM?"; "How was his experience with the use of the Internet Banking?"

While focus groups and interviews may provide valuable information about customer's receptiveness to a company's offering, when trying to increase customer retention it is important to identify those customers who are likely to leave the company.

In Figure 3-1 we represent the "Complaint Iceberg" for a large retail bank that prepared a study to estimate customer dissatisfaction. After some through historical data analysis about churning, the bank estimated that only 6.4% of dissatisfied customers where actually calling the customer service toll free number to communicate their complaints. The remaining 93.6% of dissatisfied customers were either informally complaining to employees (for which there were no data records), or not complaining at all.

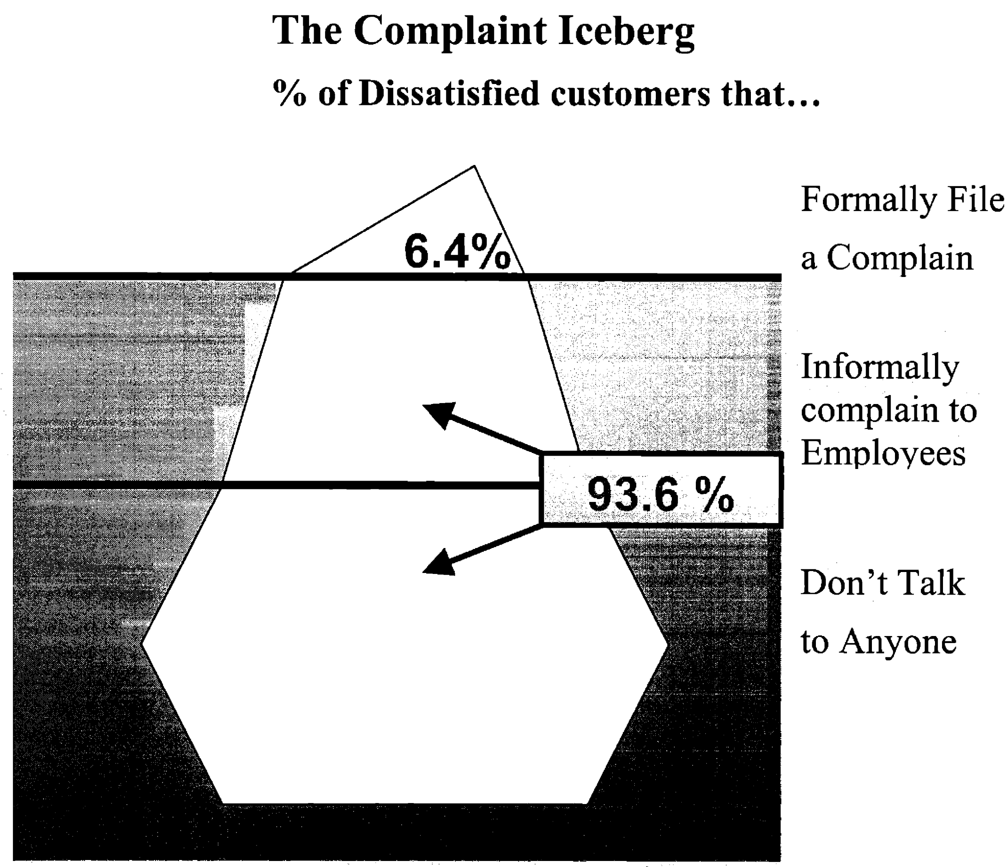

Figure 3-1 The Complaint Iceberg – Example from a Retail Bank[15]

A fact very interesting was that among those customers who contacted customer service to complain the retention was higher than among those who never called. With this knowledge, the bank initiated a campaign to interview customers that a data mining model determined as having high risk of churning in order to understand their motives. The bank is also considering increasing the ways a customer's complain can be registered, in order to store informal

[15] Source: Adapted from British Airways HBS Case 9-395-065

complaints. There are some potential conflicts of interest, for example there is no incentive for an employee to register that a customer complained about his performance.

Despite sophisticated churn prediction (likelihood for a customer leave), most financial institutions don't know what to do to keep these customers and at the same time extract positive value from the relationship. Simply giving high discounts or free offers does not help, since the profitability will certainly go down. And there is always the possibility of offering these benefits to a customer who was not on risk of churning, but was wrongly classified by the data mining model.

3.5. CHANNEL MANAGEMENT

Financial services companies interact with customer through many different channels: the traditional branch with account managers and tellers, ATMs, call centers, Internet and wireless devices. A CRM program devoted to channel management is aimed at identifying which channels customers prefer to use and which channels the company should use to contact the customer. For example, a customer who is a heavy Internet user and likes to use Internet Banking is receptive to offers via email, whereas a retiree might enjoy visiting the neighborhood branch to do simple transactions that could easily be done over the phone or at ATMs.

Financial institutions may find good opportunities in channel management for reducing costs and increasing customer's profitability. Redirecting customers to lower cost channels such as the Internet, call centers or ATMs may help to turn unprofitable customers into profitable ones. It may also help to increase the performance of marketing campaigns, through a better campaign design that not only determines the right customers, the right products and the right time, but also how to contact these customers (through which channel).

3.6. Communication and Personalization

Personalization is the ability to provide customized communications to individual customers based on knowledge about preferences and behaviors. Amazon (www.amazon.com) is a well-known user of personalization. When the customer "surfs" Amazon's pages, he is constantly bombarded with information and offers about products that match his interests. Personalization shows the customer that the company knows him and eventually understands his preferences.

In financial services, opportunities for personalizing communication exist in all channels showed in Figure 2-1. For example, when customers are using Internet banking the interface can adjust itself highlighting the most used menus and options. Similar menu personalization may be done with phone banking and ATMs. Even when the interaction occurs through people (branch teller, customer services, account manager), it's possible to provide these employees with important information so that they can interact with customers in a more personalized way.

3.7. Event Based CRM

Event based marketing is a traditional way of offering products or services to customers based on something that happened earlier. For example, sending an insurance application for customers that requested a loan to purchase a new car. However, companies now want to go a step further, reacting in near real-time, soon after the event occurred. This means a more creative, agile communication supported by behavior prediction and profile analyses.

For financial institutions, an example of event based action may be triggering a "preemptive retention procedure" for customers that had high value withdrawals or transfers to other banks.

Event based campaigns are very efficient when a small set of easily identifiable events call for straightforward actions. There was a lot of hype about event based actions, but the real opportunities are not so numerous. The high cost of maintaining a large organization, alert to everything that happens and ready to respond, is simply too high when compared to the marginal benefits.

The major goal of an enterprise wide CRM architecture is to enable an effective learning loop, based on analysis of customers' feedback.

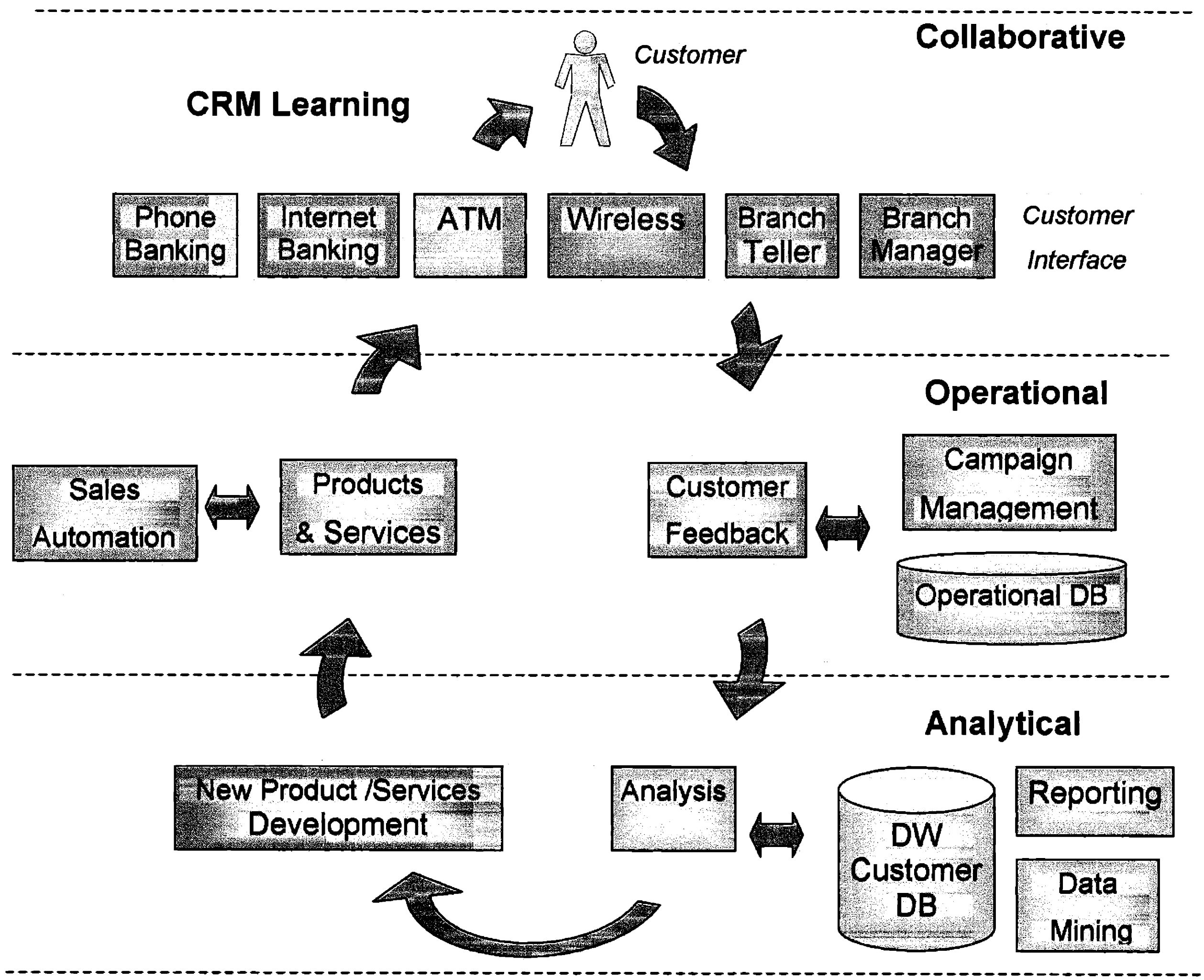

Figure 4-1 CRM Learning Loop[16]

[16] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

Figure 4-1shows a simplified overview of the Learning Loop for a retail bank.

The underlying idea is that the bank offers products and services to its customers through a customer interface consisting of different channels (branches, phone, Internet or ATMs). By carefully studying customers' profiles, and monitoring customers' feedback to bank's offers and services, product and service managers may identify opportunities to design new products, improve or discontinue current ones.

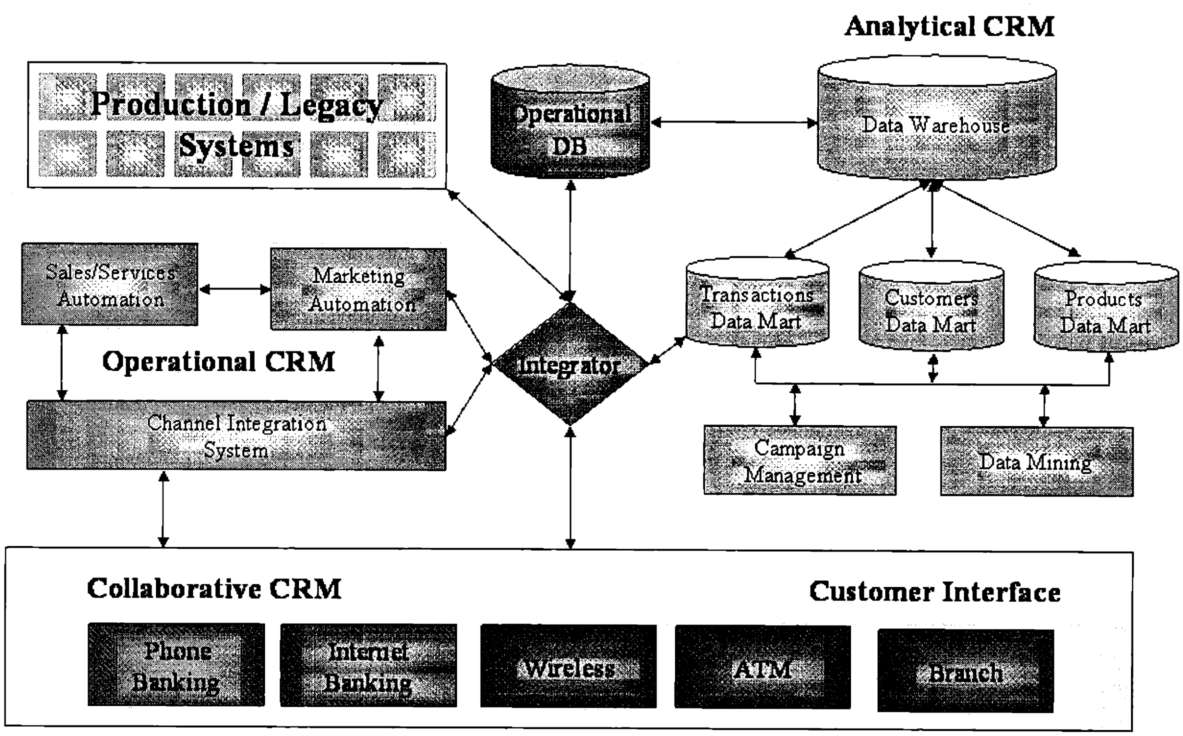

Figure 4-2 Overview of Operational and Analytical CRM [17]

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[17] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

On Figure 4-2 a typical CRM Architecture is shown. It is important to notice the different components presented in this architecture, forming blocks with distinct objectives such as Analytical CRM, Operational CRM and Collaborative CRM, which are interconnected among them and with legacy systems as a general Integrator and supported by an Operational DB.

4.1. ANALYTICAL CRM

The goal of Analytical CRM is to capture, centralize, store and analyze customer data in order to help companies to understand customers' behaviors and needs.

Hence, we may say that Analytical CRM is the "brain" of a CRM project, enabling companies to better understand and target their customers, and it is crucial to enable the CRM Learning Loop that we previously cited (Figure 4-1).

Major IT components of Analytical CRM are:

- **Data Warehouse**

The Data Warehouse is a collection of data about customers, their products, balances, transactions and any other information that may help to understand customers. The Data Warehouse stores information that comes from many different systems within the company.

- **Data Marts**

Data Marts are data bases specifically prepared to support studies from a specific business unit, such as Marketing, Product Managers, Finance and others. Data Marts are optimized for reporting, OLAP (On-Line Analytical Processing) analysis or data mining, providing the infrastructure needed for business intelligence.

- **Business Intelligence tools for data mining and reporting**

BI tools provide an easy and friendly way for non-IT-experts to extract and process information from Data Warehouse and Data Marts. Data mining tools such as SAS Enterprise Miner, OLAP tools such as DSS OLAP, and query builders such as Cognos Impromptu are some examples. Major users of BI tools are business analysts from Marketing, Finance and Products.

4.2. Operational CRM

The goal of Operational CRM is to enable a fast responsive and intelligent interface between the company and its customers, regardless of which channel the customer is using.

The customer interacts with a retail bank, for instance, through different channels, realizing different actions:

- Acquiring a new product or service;
- Realizing transactions with already owned products (transfers, withdrawals, deposits)
- Making inquiries about products or services;
- Making suggestions or complaints about products, services and employees;
- Canceling a product or service;

Operational CRM tools may help companies to effectively handle the operations above, capturing relevant information and at the same time executing CRM tasks such as targeting customers for marketing campaigns.

Ideally, Operational CRM tools should reduce the lead time for deploying marketing campaigns and make it easier to develop and maintain systems, therefore resulting in increased overall performance.

Collaborative CRM is a set of systems or tools that enable channel integration and collaboration. The goal is to make all channels aware as soon as possible of relevant information about customers. With the system in place it is possible to avoid embarrassing situations such as the following: in the morning, a customer acquires a credit card at a branch, offered by his account manager. After that, he goes to an ATM and receives an offer to acquire the same product, which he denies. When he arrives home after work, in the afternoon, he receives a call from his bank's call center offering him the same credit card he had already acquired in the morning.

Operational and Collaborative CRM tools and systems may be developed in-house or acquired from major vendors such as Oracle, Siebel, IBM and others. It is easier to acquire "commoditized" modules such as those designed for call centers and wireless devices, but for other channels such as branches, ATMs and Internet, choosing a product out-of-the-shelf, even if highly customizable, becomes a challenge due to specific needs of different companies.

Chapter Five DATA GATHERING AND INTERVIEWS

During our research we were able to find many papers about the most common mistakes when implementing CRM projects. These papers not only helped us to focus our thesis in the most important CRM implementation issues but also ratified our knowledge about the major challenges faced by every large organization undergoing a CRM project. We complemented the research with interviews of executives from financial institutions and Sloan professors.

5.1. SPECIALIZED PUBLICATIONS

The *CXO Media Group*[18], publisher of the *CIO Magazine*[19], stated that CRM projects fail primarily due to a lack of communication among the CRM management team. Poor communication may result in improper technical specification and sales incentives. One of the common development problem due to lack of communication is that the sales department does not embark in the same effort of putting the CRM project into operation. This occurs mainly because the sales department (or commercial department in some financial institutions) has its own vision of the client and is unwilling to share this information with the rest of the company.

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[18] http://www.cxo.com

[19] http://www.cio.com

The *UNISYS Company*[20] also refers to the most deadly mistakes of CRM users. Some of the most important ones are:

- *The vision of implementing CRM coming from solutions providers outside the company.* What these vendors do is to try to teach their customers (financial institutions) to use their systems and force them to do business the way they want. These vendors are not interested in first understanding the customer's needs and then implementing a thorough solution for the main issues. Instead their customers have to follow what these vendors think is best.

- *A recently UNISYS research study reveals that only 28% of the CRM users interviewed had a previous detailed business plan before the implementation process started.* This may indicate a lack of alignment with business goals;

- *Lack of vision and understanding about CRM by marketing and sale departments.* Normally these departments think that listening to one customer's complaining is meaningless since they are the only ones who truly know what the customer wants. This is also another example of lack of communication and strategic determination inside the company;

- *Lack of strong project leadership.* In about 60% of the companies surveyed, a person responsible for overseeing the entire process, distributing and calling for major tasks is missing. The responsibility is shared among different departments and people, without formal ownership;

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[20] http://www.unisys.com

- *The technology trap.* About 30% of the companies surveyed thought that technology is key for a CRM implementation project. These companies believed that a state of the art technology would solve all CRM and would soon generate the desired revenues and customer retention figures. This in fact is one of the most common views we found during our research.

- *Companies do not do a thorough market research in order to find out what is really necessary to a successful CRM implementation.* They normally base their decisions on research conducted inside their own marketing and sales departments.

- *Lack of strategic alignment between the front and the back offices.* This a common mistake where the front people, who interact directly with the customer, are normally ahead of the back office group, responsible for the campaigning support. In this case the same customer receives different offers from the same company.

- *Lack of metrics.* After the implementation process is over, CRM projects have to be measured in a simple and efficient way. Many companies consider only the implementation phase and forget how to measure the entire process after its implementation. Without measurement tools, the company will have difficulty assessing project success;

In *CRM in Financial Services*, by Brian Foss and Merlin Stone[21], we found a great collection of articles covering implementation challenges of CRM on financial services. The most common reasons for CRM failures as:

- *Failure to think through the business strategy and model;*
- *Not dealing with the basic problems of the organization (e.g. listening to employees);*
- *Too much focus on technology, too little on data and skills;*
- *Objectives unfounded on knowledge of the organization today, its capability to change, and receptiveness of customers to different ways of being managed;*
- *Absence of skills to deliver CRM Programs;*
- *Not having done it before, so no knowledge of how and where to start;*
- *Choice of wrong partners (CRM vendors, solution providers, consultants) to support the project;*
- *Failure to integrate the different aspects of CRM in a "joined-up" approach – partly because senior management does not view the idea holistically, and because organizational structures create problems;*

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[21] BRIAN FOSS & MERLIN STONE. *CRM in Financial Services – A Practical Guide to Make CRM Work*, Kogan Page Ltd, 2002

- *Setting aggressive time-scales or "Big Bang" projects that seek to move as rapid as possible to implement CRM principles across the business.* In general success is very rare, and only on less complex companies, which is not the case of financial services companies.

The *FINEOS Corporation*[22], a leading European innovator in banking and insurance software, describes the main failure reason for CRM project as:

- *Lack of support from the upper level management*
- *Lack of a thorough analysis of the actual situation*
- *A poor technological infrastructure*
- *Lack of commitment and knowledge of the people involved in the process.*
- *There is no "head" to guide the project*
- *There are not well defined ways to measure the project after its implementation.*
- *The huge difficulty to change the preexistent culture of the company.*

At *Realmarket Inc.*[23], a CRM news specialized company, many references are made to the main reasons for CRM project's failures. The most important one which summarizes almost

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[22] http://www.fineos.com

[23] http://www.realmarket.com

the entire failure concept is that the vast majority of companies involved in CRM projects think that they can buy a “CRM solution”. In other words, that CRM is a tool that can be acquired at any time and that will work smoothly once installed. Other failure reasons are also pointed out, such as the lack of understanding by the senior management of what is really a CRM project. Other important reasons are the failure of integrating the entire company under the CRM view and, again, the lack of a strategic alignment in terms of well defined objectives and goals.

The *Tech Target Company*[24], a diversified media company specialized in targeted media for enterprise IT professionals found, during an ample research, that CRM projects will fail most likely because of the lack of strategic alignment.

In their research they found that most CRM projects are not aligned with the enterprise strategic business and marketing and sales management are also left behind. This structural failure leads to a poor CRM implementation since the management teams will not fund or sponsor the project accordingly throughout the company.

Another reason for CRM projects to fail was that these projects were not supported by fact based business cases and value propositions. As a result, the CRM proposition is not able to compete with other internal projects due to scarce support and funding throughout the long time needed to have an effective CRM structure showing concrete results.

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[24] http://www.techtarget.com

The number of employees involved in such initiative was also pointed out as a strong reason for failure. Many CRM initiatives are based on one single area of the company such as technology, customer care or marketing. Therefore, these initiatives are most likely to fail because other important areas of the company are not involved and therefore the results will be not satisfactory, turning the whole CRM idea into a vicious cycle.

The *Tech Target Company* research also found out another important aspect of CRM's lack of performance is the lack of well established metrics to measure the results of the CRM initiative and the fact that this initiative takes time before it can show concrete results. Many times senior management does not want to wait too long, losing their interest and stopping their support of the project.

Another good source of data was the *CGI Group Inc.*[25] Founded in 1976, CGI is the largest Canadian independent Information Technology (IT) services firm and the fourth largest in North America, based on its headcount of more than 21,000 professionals. As main reasons of why CRM projects fail they found:

- *CRM projects are launched without a clear strategy to support its implementation inside the company.* Normally, the missed points are defined "where, how and by whom" will the project be guided.

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[25] http://www.cgi.com

- *CRM projects are not part of the company's overall strategy and therefore lose strength since their début.* The customer's relationship is, in most cases, not viewed as an important ally to the company and to the success of any CRM initiative.

- *CRM projects miss some of the customers' touch points along the business cycle.* In the vast majority of the cases, CRM projects are well executed in the beginning but after certain time they fail to provide consistent communications to the customers.

- *Lack of knowledge of clients' needs.* In many cases, CRM is implemented without listening to the customers in the first place. In these cases, as we have already stated, the internal departments are those in charge for providing all the data necessary, and actual customer's needs are underestimated;

- *CRM is considered a technological issue.* We also found this issue earlier. In this case, the CRM project is considered an isolated initiative from the IT department as though it could be handled without the interaction of all other departments inside the company. CRM is not seen as a business model, only as a new and expensive tool;

Jason Bloomberg[26], a Senior Analyst at XML and Web Services industry analysis firm ZapThink LLC who has a diverse background in eBusiness technology management and industry analysis, including serving as a senior analyst in IDC's eBusiness Advisory group, as well as

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[26] http://www.rhodes.com/newsletter/issue4.html

holding eBusiness management positions at USWeb/CKS (later marchFIRST) and WaveBend Solutions (now Experio Solutions), on the other hand, found that there are several ways a CRM project can fail. The most important ones are:

- *Here we have again the technology issue.* Companies think of CRM as a simple tool that will solve all their customer's relationship problems, instead of given the CRM initiative an enterprise wide weight;

- *Many companies still think that a reliable and thorough customer care service is not so important.* With this view, it is no wonder why single CRM initiatives do fail. The customer in many cases is still identified more as a burden than as a solution;

- *The communication method between the customer and the company should be decided by each customer and not by the company.* Customers should be allowed, after identified by a CRM methodology, to choose when, where and by which means they want to interact with the company. The majority of the cases we studied showed that this initiative is not a common practice. In fact, what happens is that companies believe that a determined method is the best way to interact with their customers and simply put this method in practice;

- *An interesting item found in this survey is the supply chain issue.* Any company that has a good CRM methodology implemented can fail to keep customer satisfaction by a simple issue: shortage of a product. In these cases, even good CRM implementations will have tremendous difficulties smoothening the relationship with a customer that is waiting for a product to be delivered;

- *The CRM project is a company project.* This issue has appeared earlier, and it is restated here. It is a very important issue though, since companies involved in CRM projects consider it a separate tool inside the company. Only after a long time of implementation, the company realizes that all other sales, marketing and product development tools should be interconnected with the CRM initiative. All these business units are part of the same strategy and should, therefore, be considered.

Another source of data was CRM Today[27], a company established as the first business community and resource center for CRM and Customer Economy that provided a unique focus on Southern, Central & Eastern Europe. This company is smoothly being transformed into a global independent CRM resource center, which covers all the aspects of Customer Relationship Management and aims to become the pre-eminent meeting place for professionals and companies that provide CRM-related products and services or implement CRM strategies and applications. Throughout their research they developed a checklist towards a successful CRM project:

- *The CRM initiative has to be looked at as a business solution.* CRM is a continuously evolving initiative that has to have a strong focus inside the company. CRM is a learning loop through which data is refined by each passage. Therefore, a strong commitment inside the daily business is totally necessary.

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[27] http://www.ebizq.net

- *Initiatives to be implemented as a result of a CRM project have to be fast.* There is no room for long and complicated data analyses that will result in a late response to the client. Many business opportunities have to be identified, analyzed and solved at the exact time that the customer is interacting with the company. To match this strategy is sometimes very difficult, even more in large corporations.

- *CRM tools have to be user friendly.* Their interface with each user has to be simple and has to be clear. If the end users do not understand how to deal with this new tool or find it somehow complicated, the entire project will be worthless. Therefore, it is of no help to have a thorough system developed when it is not easy to extract understandable data from it. This item links directly with the first one, where we stated that CRM is a continuous learning loop. To make it work, it must ease the way people interact with it.

- *The data has to be collected through all possible ways when an interaction between the company and the customer is detected.* This means that the data collection process has to be a smooth and fast task. This will enable the company to react fast to every new customer interaction with it.

- *The data analysis has to be not only fast but also understandable.* Analysts have to figure out different ways to deliver the same picture to senior management. Is not only a case of having enough, reliable and clear data available, it is a matter of having the message, extracted from the data, delivered in a concise and understandable form. Senior management has to be fully capable of understanding what the real issues are when it comes to customer relationship, in order not only to respond after the fact but also to be proactive.

5.2. A Brief Case Study

During our research we were fortunate to study and have contact with the Capital One Company. Based on an HBS case study and on interviews, it turned out clear for us why this Company is succeeding, year after year, in the highly competitive financial services industry.

Capital One was created to exploit the relationship between the credit card users and their providers through the use of scientific models. The two founders of the company saw a huge business opportunity through the analysis of the data and characteristics of each credit card user. Considering the credit card market as the most direct market product, they built a company based on gathering data, analyzing this data and offering different products for different customers. One key element of their strategy was their main view of an ordinary credit card holder. They viewed a credit card holder as a source of information and as an enormous field to test new tailor made products. To implement this view and to have the power to customize new products, an increase in computer speed, storage space and enhanced data analysis was extremely necessary. This entire package is, in other words, the basic structure necessary to implement the CRM concept.

Another element for their differentiation was the concept of analyzing the customer through a complex statistical data model instead of using the common credit analysis. This was an important distinction between their way of doing business and their competitors. Hence, the main idea was to eliminate the usual credit filters and rely solely on the statistical data. In this case, if their model were built based only on one type of credit card holders (without taking the usual credit card filters away), they could be misled into bad results. The idea of running a completely new data analysis without any kind of previous filters was key for a reliable outcome. Of course, some errors would appear and some adjustments would be necessary during the period of enhancement of their data mining.

Capital One also differed from their competitors in the use of tests. These tests were performed with a previously selected set of customers with the objective of proving the capacity of their data mining and to offer a product differentiation to their customers. These tests were a valuable hand in better understanding their customer's behavior after a new offer or the adaptation of an existing one.

There was also another key element in their success. Normally, all credit card companies were used to rely on credit bureau information to build their credit scores for each client. Capital One, on the other hand, saw this as a major mistake because these data were based on a large sample of credit card holders without prior filters. So, many of existing customers on these data file could, for example, have completely different risk profiles among each other in a way that could seriously jeopardize any marketing action. In this particularly case, Capital One's strategy was to supplement such data with internal data acquired from their own customers and, of course, correlate their data with the purchased one to have a more reliable picture in hands.

Another key element for their success, is the feature of tracking changes in the behavior of their clients. This means that each card holder was separated according to the tests that he or she went already through and to when he or she has acquired the product. In this case they had a perfect track of each group of customers and were able to make different tests to different groups. Here we have another example of the CRM structure taking place through the learning loop concept.

They also invested heavily in technology as a means for their success. But this investment applied not only to their own data processing systems but also for the training and supporting of their customer service representatives. Their idea was to support the customer service department. This was in fact a tremendous idea not only for their internal departments (integrating more IT people with marketing and risk people) but also for their direct contact with their clients. At that time, they had 30 million card holders inquires per year and were able, with 70% accuracy, to predict what that particular customer on the phone would ask before he or she actually spoke with the representative. This is a cutting edge on direct marketing and customer satisfaction.

In order to better understand their business model, we analyzed Capital One's structure through Porter's five forces model, shown in Figure 5-1. Through his model, Porter argues that the value creation for an industry is determined by five forces: the intensity of rivalry among existing competitors, the threat of potential new entrants, the threat of potential substitutes, the bargain power of buyers and the bargain power of suppliers. Let's see what forces were used and their results in the Company's value creation.

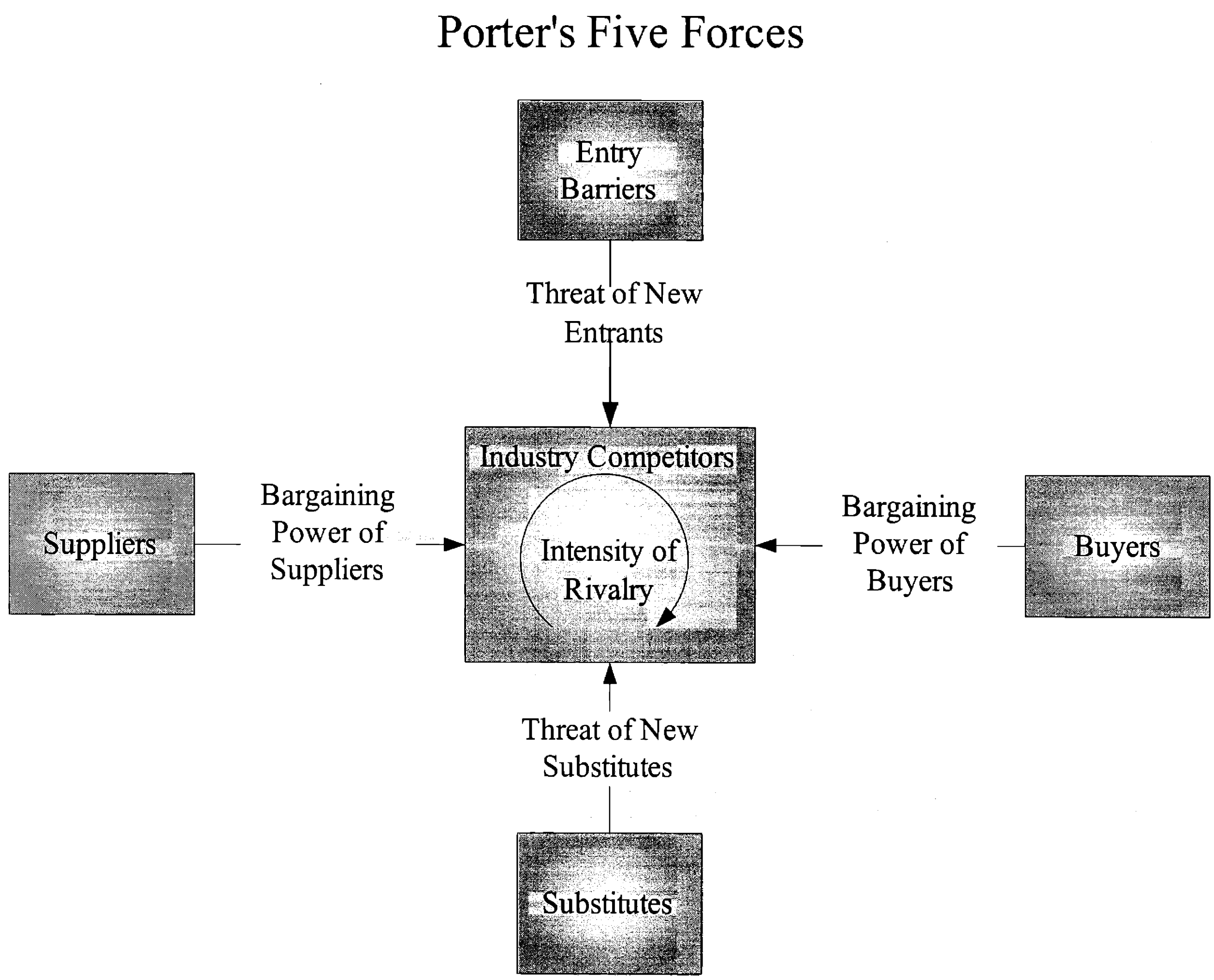

Figure 5-1 Porter's Five Forces

Looking at the possible substitute force, although there are many other players in the market, Capital One has a unique position in this segment. This position was gained through their heavy investment in data mining and in customer satisfaction. Its competitors can try to imitate their way of doing business but this would be costly and time consuming. As Capital One has the advantage of being an innovator, even if the other players in the market decided to copy Capital One's way of doing business, they would always be one step behind.

Considering the threat of potential new entrants, the credit card industry through its two major players (Visa and MasterCard) developed a system that by itself creates a strong barrier against new entrants in the market. Of course new members can and will enter the market but new associations are almost impossible to appear. This scenario is easy to be understood, since from more than 475 million cards held by Americans,75% of them were issued by Visa and MasterCard and 24% were issued by American Express and Discover. Hence, with this scenario in hands, a strong barrier against new potential entrants is already in place.

In terms of rivalry among competitors, this specific segment is dominated by four major associations as explained before. There is a strong rivalry against each other but they do not compete against each other in all segments. The two other smaller players (American Express and Discover), are mostly concerned with smaller parts of the market. These smaller segments consist of higher income clients and more sophisticated merchants. While Visa and MasterCard are accepted almost everywhere and are also offered to almost everyone. On the other hand, there is a strong rivalry among the members of the associations and this particular force affects Capital One directly. So, Capital One must always stay one step ahead of its competitors to maintain its competitive advantage gained throughout the years. Here, Capital One's competitors can drop annual fees or even lower interest rates on loans. This strategy may work for new card holders as such customers tend to be more price sensitive than those already accustomed to Capital One's services.

Regarding the last two forces, the bargaining power of buyers and the bargaining power of suppliers, both major issuers, Visa and MasterCard, have already this power in their hands. As they were focused, since the beginning, in gaining market share through low price and huge offer, besides large investment in advertising and marketing, they are nowadays accepted in the majority of merchants around the world.

When we think in terms of the Delta Model (see Figure 5-2), Capital One has positioned itself, in the beginning of its business, on the bottom side of the triangle as a mix of best product and total customer solutions. They moved rapidly to the left side of the triangle due to their willingness to achieve a deep customer understanding and relationship that could allow them to propose new offers and to create a customer bonding. Their strategy was to develop a set of customer designed products in order to give their customers the ability to create their own economic value. This strategy was key for their success since many other close competitors focused their strategy in commoditizing the customer and with almost any value creation.

Capital One's strategy was also successful in terms of linking them with their suppliers and customers. This strategy allowed them to move towards their customers and to enhance their product offering. In other words, their strategy was "love" with their customers.

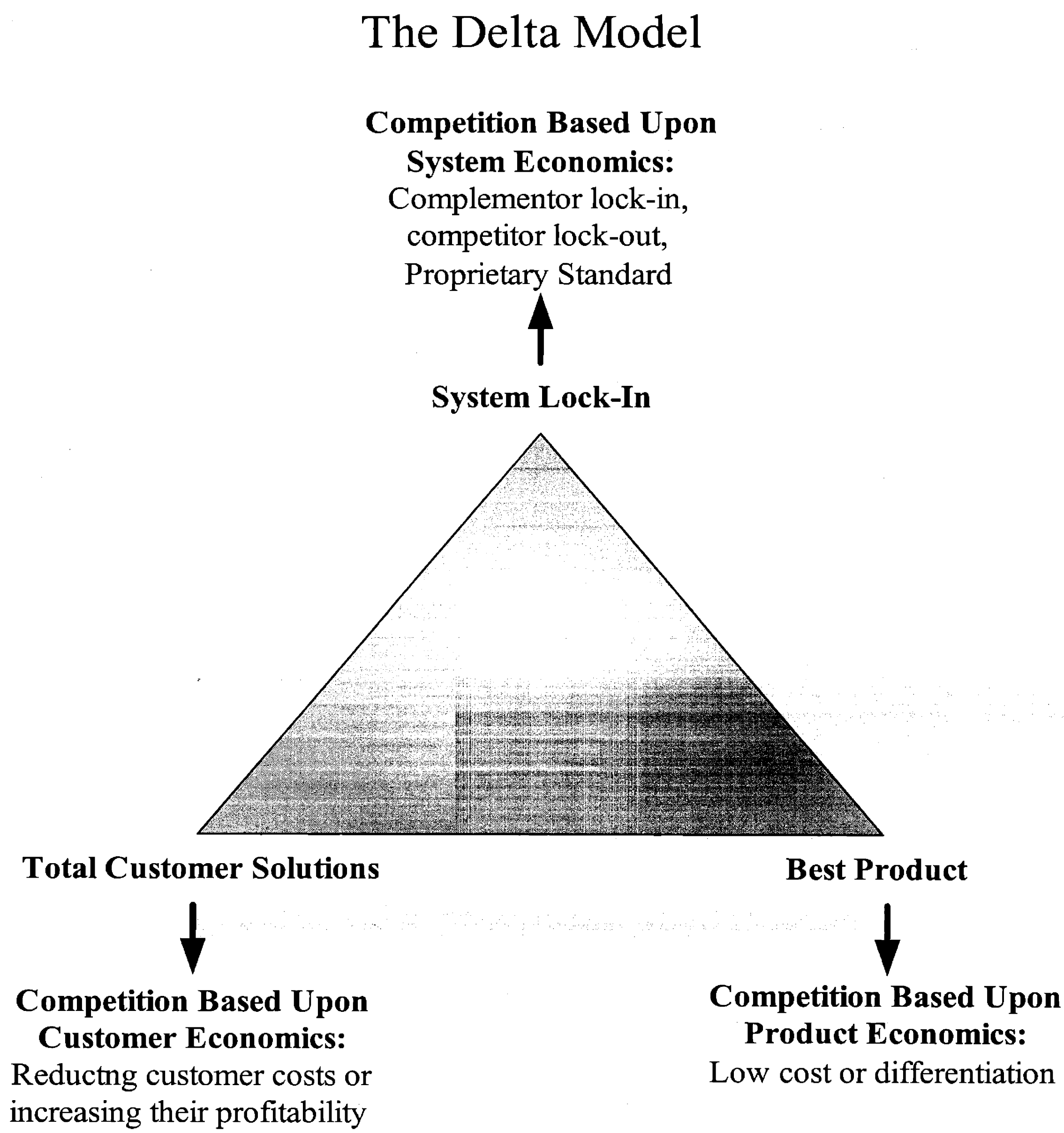

Figure 5-2 The Delta Model

5.3. INTERVIEWS

We conducted a series of interviews with executives from financial institutions and professors. A summary of the outcomes of these interviews is provided next.

As expected, senior management involvement is important. However, the interviews revealed that senior management role is simply the most important factor for CRM's success.

When senior management strongly believes in the core idea of customer relationship management, (i.e. using information to understand customer's needs and matching these needs with adequate products and services), they will, consequently, mobilize all necessary efforts to achieve the desired results.

It is important to note that this involvement is desirable and efficient only when senior management has a good understanding about CRM's strategic implications and a fair assessment of the current competitive environment (company advantages and disadvantages, the market and the competition opportunities and threats), and a clear vision of where the company wants to go.

When senior management, ideally the CEO, is personally involved and committed to make CRM happen, the chances of success increase considerably. However, having power and understanding of what need to be done is not enough: it is necessary to have good interpersonal skills to get people involved, to clearly communicate goals and to have an outstanding understanding of the company's internal processes, organizational structure and development cycle as well.

Senior management commitment to CRM drives organizational and cultural changes. In the case of new companies, created from scratch, or of well established ones, that need to change to a customer focused approach, senior management provides the spark of energy necessary to make things happen.

Mr. Thomas Anderson, current CEO of AmeriFee and previous executive at Capital One[28], described us how senior management commitment and personal involvement was crucial to build Capital One's success, which is based on its IBS (Information Based Strategy) proprietary strategy. IBS is an endless and obsessive search for insights about customers' needs and behavior, driving the development and tests of new products and services tailored to meet customers' needs. The clear goal is to generate the highest value possible to customers and to the company. In other words, IBS is a form of enterprise-wide CRM implementation.

Mr. Anderson emphasized that at Capital One the whole company was driven by CRM beliefs, and no new product or service was ever launched without previously establishing the procedures to enable the necessary learning: Was the product successful? If yes, why? If no, why not? In either case, what could be done to improve it or design a new one?

Now, Mr. Anderson faces the challenge of transforming AmeriFee into a CRM-driven company that follows Capital One's IBS directives. Here, again, he emphasizes the importance of senior management, which in this case means his personal involvement. The new company appears to be experiencing a "shock of CRM reality", and many internal departments are

[28] AmeriFee (www.amerifee.com) is a health insurance company that was recently acquired by Capital One.

learning that CRM means more requirements, through integration and through having everything done in a fast and endless cycle.

This new reality generates a great level of stress and uncertainty and the secret appears to be keeping people motivated and focused in this stressful environment. By internally selling the new vision, changing incentives and mobilizing the resources needed, senior management may reduce uncertainty, helping employees to adapt to the new reality with confidence.

Our interviews also indicated that technology plays a secondary role in CRM's success. However, a close interaction between business and IT departments is essential. Having CRM processes in place would inevitably result in much faster processes cycles, which are heavily dependent on IT. Some of these processes would eventually be based on new CRM tools acquired as a consequence of the project, but other processes will be dependent on legacy systems that will have to adapt to a faster "clock speed". Not to mention that everything has to be efficiently integrated not only internally (within IT boundaries) but also with business processes.

Our interviews showed that a company cannot rely solely on IT for CRM. On the other hand, involvement of business units without the total commitment of IT does not produce the desirable results either. In this situation, senior management involvement from both business and IT units is essential to guarantee a thorough alignment.

Interviews with executives of a large Latin American retail bank confirmed the importance of senior management in building and propagating the CRM vision. Providing the sponsorship required facilitating the integration efforts and to getting people involved and committed was also an aspect emphasized. Another difficulty cited was training people to perform CRM tasks, as well as retaining these people.

The issue of project ownership and accountability is also solved by a close senior management involvement. In successful cases, either the CEO or other high level executive is personally in charge of the CRM project.

Executive committees are also a useful management tool, however only when well-defined project managers are in place. Shared and disperse accountability among members of a large executive committee appears to be ineffective.

Strategic alignment seems to be a consequence of the senior management commitment to CRM goals. In fact, everything may derive from senior management's vision. In contrast, very rarely do bottom-up or isolated CRM initiatives enjoy a successful faith. This is explained by the fact that given the complexity of CRM, it is rare that an initiative that lacks upper-level support be able to achieve the desirable level of integration and coordination, overcoming not only procedural difficulties but also political battles and conflicts of interests.

An important success factor for financial institutions, also derived from our interviews, appears to be the alignment of credit and marketing efforts towards CRM. Traditionally credit departments and marketing departments are independent units, with different missions: credit focuses on avoiding customers with bad credit records and marketing focuses on targeting customers to sell products. The fact is that the IT infrastructure and the analysis techniques used for both, credit and marketing departments, are pretty similar and, most importantly, the customer is the same. Successful institutions coordinate marketing and credit efforts and any customer is prematurely discarded because of his level of risk. Instead, the company determines the right price (in terms of fees or interest rates) to charge each customer according to his individual risk level.

We also interviewed Sloan Professor Nitin Patel, from Sloan's Operations Research Center, a specialist in data mining techniques and in the financial services industry. Professor Patel emphasized that it is not rare that an "us versus them" attitude takes place between departments that must collaborate with each other to build analytical models to predict or understand customer behavior. This pernicious attitude results in lack of communication that deeply compromises development efforts. For example, the sales people avoid sharing, with data mining specialists, their insights about what may be driving customer behavior, what data variables may be interesting and so forth. In this case, an effective and close project management is essential to perceive and overcome these communication difficulties.

Another important outcome form the interview with Prof. Patel was that there is a lot of hype surrounding advanced data mining tools and techniques, which in some cases leads to disappointments from senior managers. The misleading belief that these tools are miraculous and will identify hidden behavior patterns still exists. Actually, Mr. Patel emphasized that these new data mining tools are really useful and productive, but having people with good knowledge of the market, the company's products and the customer's data (variables) is essential. He also emphasized that using a new meaningful data variable may give better results than using expensive data mining tools, leading us to the conclusion that having a rich and continuously evolving data warehouse in place is important.

The lack of an efficient benchmark for data mining models was also discussed. Most data mining specialists compared their models' performance against the performance of random selection. Comparing the models against a selection made by a product or sales specialist appears to be more realistic providing some useful conclusions:

On one hand, if the selection determined by the specialist results in comparable or higher yields, it indicates that the data mining models are not adding any value to the company. On the other hand, if the data mining models perform in a much better way, it will show that the product "specialist" may have outdated biases that are affecting his judgments.

5.4. SUMMARY

This section provides a summary of the major challenges on implementing CRM. The challenges were classified in the following categories: Strategic, Organizational, Integration, Project Management and Technology[29]:

Strategic Challenges

- Lack of vision and understanding about CRM by marketing and sale departments.
- Vision of implementing CRM coming from solutions providers outside the company.
- Lack of detailed business plan before the implementation process started.
- Objectives unfounded on knowledge of the organization today, its capability to change, and receptiveness of customers to different ways of being managed.
- Lack of strategic competitive analysis - Lack of a thorough analysis of the actual situation.
- Too much focus on technology. Belief that technology is key. Belief that CRM is an IT tool rather than a business model.
- Lack of support, sponsorship and commitment from the upper level management.
- Lack of strategic alignment.
- Projects were not supported by fact based business cases and value propositions.
- Trying to implement CRM without listening to and understanding customer's needs (Operational CRM without the correct Analytical CRM) - underestimation of customer needs and preferences.

[29] A specific challenge may appear in more than one category, however the context in which it is discussed may be different.

Organizational Challenges

- Lack of communication and/or unwillingness to share information.
- Lack of commitment and knowledge of the people involved in the process.
- The huge difficulty to change the preexistent culture of the company.
- Not dealing with the basic problems of the organization (as for example listening to employees).

Integration Challenges

- Lack of communication and/or unwillingness to share information.
- Poor performance of the supply chain, leading to shortage of products and services.
- Lack of involvement of important areas inside the company.
- Failure of integrating the entire company.
- Isolated initiatives that do not cover all customers' touch points.
- Underestimation of the importance of involving other departments in the project (customer care, supply chain, etc).
- Lack of alignment between front and back offices.
- Slow overall "clock speed" – Slow learning loop process.

Technology Challenges

- Choice of wrong partners (CRM vendors, solution providers, consultants).
- Lack of user friendly interface.
- Lack of customer data.
- Poor technological infrastructure.

Project Management Challenges

- Choice of wrong partners (CRM vendors, solution providers, consultants).
- Setting aggressive time-scales, complex "Big Bang" projects.
- Slow clock speed.
- No knowledge of how and where to start by lacking experience.
- Missing a broad overview of the entire project (A head of the project is missing).
- Lack of communications.
- Lack of metrics - well defined ways to measure performance – long-term benefits may drive people's interest away.
- Absence of skills (management and staff) to deliver CRM Programs.
- Data analyzes have to be not only fast but also understandable – what is the message?

Chapter Six MAJOR CHALLENGES

In this chapter we will discuss in greater detail the challenges that our research revealed to be the most critical to CRM projects. Recommendations to address these challenges will be later provided in Chapter Seven.

The present chapter is divided in three parts:

- Strategic & Organizational Challenges;
- Integration Challenges;
- Technological Challenges;

Project Management challenges are straight forward and will be directly addressed in Chapter Seven.

6.1. STRATEGIC AND ORGANIZATIONAL CHALLENGES

Strategic and organizational challenges were grouped together due to their intrinsically correlated nature. We believe that covering these challenges together facilitates a meaningful discussion, since in many cases strategy drives organizational culture and structure.

6.1.1. Lack of Understanding about CRM

Given the broadness of CRM's concepts and ideas and the confusion generated by the increasing number of software vendors, solution providers and consultants, understanding CRM is not a simple task.

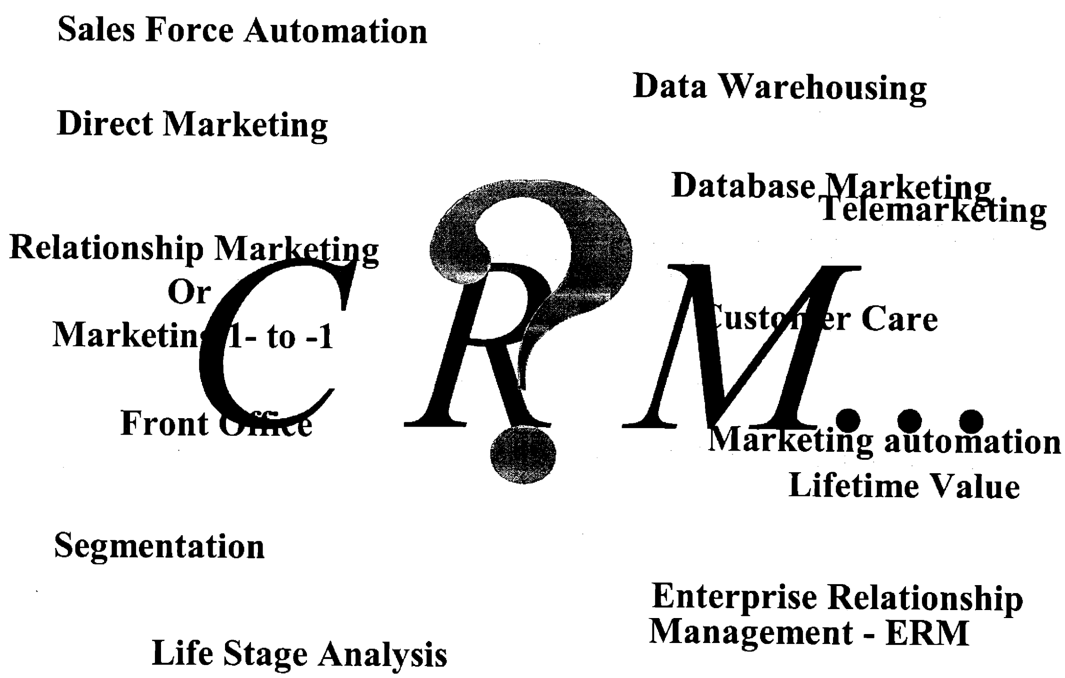

Figure 6-1 Lack of Understanding about CRM [30]

Figure 6-1 depicts a small set of buzzwords surrounding CRM. This confusion may lead, even senior management, to wrong directions.

CRM's major goal is to understand customers' needs, provide them better products and services and extract the highest value possible from the relationship between a company and its customer. However, many companies believe that they are "doing CRM" simply because they installed a new "CRM call center module".

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[30] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

As a consequence of this misunderstanding about CRM, many companies don't achieve their business goals of increasing market share, improving market campaigns or reducing customer churn.

6.1.2. Lack of Strategic Alignment

Strategic alignment is one of the most important success factors in CRM implementations. This alignment is important because of the following major reasons.

First, it assures that when successfully implemented, the CRM initiative will help the company to pursue its business objectives, which will translate into financial benefits, competitive advantages, improved customer services, and any other benefit depending on the original business goal driven by the strategy.

Second, strategic alignment is very important to assure involvement and commitment from different areas involved in the CRM initiative, facilitating integration efforts.

Third, strategic alignment helps vision building and communication efforts, which are very important to engage employees towards the new initiative. Ultimately, good communication efforts may lead the company to successfully change its culture towards a more customer centric enterprise.

Finally, strategic alignment requires direct involvement and sponsorship of senior management by defining accountability and responsibility for the implementation process and the business results measures. The involvement of senior management also facilitates reengineering of other processes not directly involved with CRM initiatives, in order to adapt to the new reality.

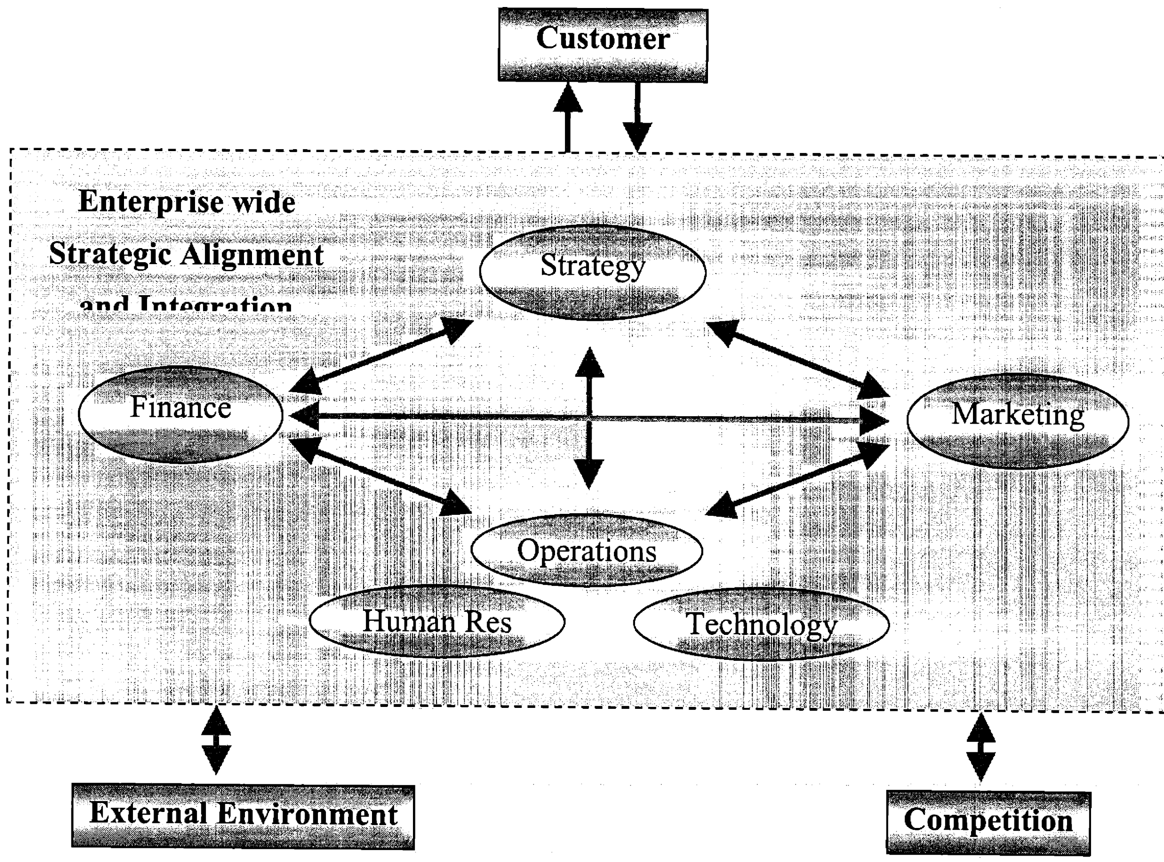

Figure 6-2 Enterprise Wide Strategic Alignment

6.1.3. Organizational Structure Focused on Products

Most financial institutions have their organizational structures based on a functional orientation, which means its internal business units are defined according to functional goals.

As a result, a financial institution such as a bank, for example, will be formed by many different business units, each one devoted to individual goals. Business units are also called revenue centers, because they are responsible for functions that bring revenue to the company, such as developing and/or offering products and services to customers.

Traditional organizational structures for business units are divided according to:

- Products: Checking Account, Loans, Investments, Credit Cards, Insurances and others. Product managers are responsible for implementing strategies for individual products;
- Functional goal: Marketing, Finance, Human Resources, Strategy, and others. Specialists in each discipline are responsible for supporting other areas;

Departments in charge of customer interface channels (Internet, ATMs, Call Centers, Branches, etc) have strong relationships with other business units cited earlier. For example, a retail bank may offer Credit Cards and Loans through all its channels.

The major goal of these units is to develop and operate channels. Some of these units are especially dependent on IT, such as Internet (online banking) and ATM units (or departments). Because of their mixed missions (sales and operations), in some companies these units are considered revenue centers while in others cost centers.

Hence, in most financial institutions the following channel departments may be found:

- Branch, Internet, Call Center, ATMs and others;

IT departments, on the other hand, are organized in order to:

- Guarantee operational effectiveness for all products and services offered;
- Provide the required infrastructure (hardware, software, systems, tools and information) for meeting needs of all business and channel units;

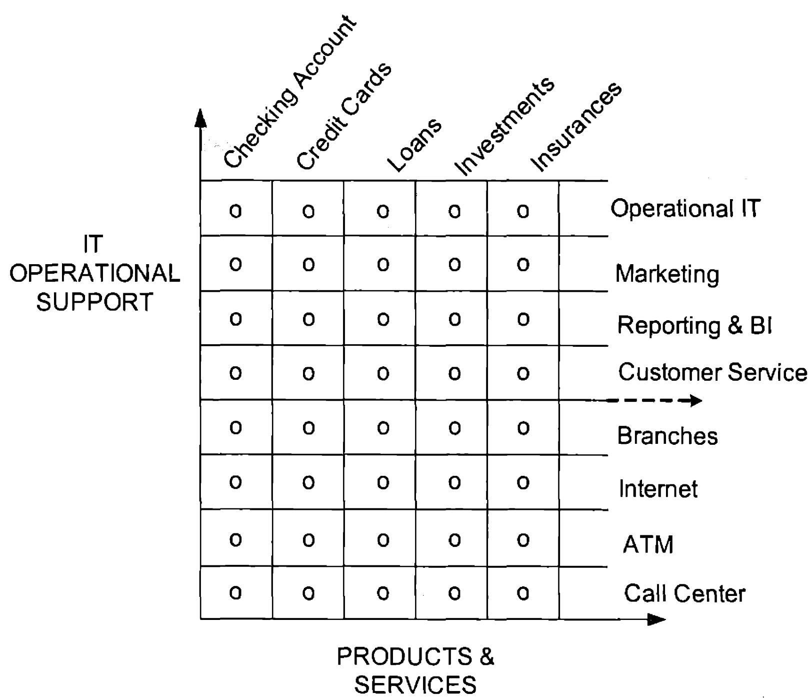

Figure 6-3 Traditional Organizational Structure [31]

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[31] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

This traditional organizational structure results in a complex pattern of interactions among business, channel and IT units. This structure is represented in Figure 6-3.

For example, the Credit Card product manager will hold independent talks with the Internet department to develop a new web page offering credit cards and with the Call Center department to determine details of a new campaign to offer credit cards. The Credit Card product manager may hold talks with the Operational IT group as well, in order to have the new product supported by operational systems. Talking with the Marketing Department, Customer Service and other Channel Units may be needed as well.

When other product managers (Loans, Investments, etc) need to run a marketing campaign, the whole cycle begins again, following the management style of each individual product manager.

This traditional organizational structure operates with a strong product focus, and it is a natural consequence of the evolution of offerings in the financial services industry. The first core products were checking and saving accounts offered solely through branches. As the industry evolved, more products, services and channels were added to the offerings portfolio. New independent business units and departments were created in order to manage these new products and services, resulting in a poorly integrated structure.

As a consequence of this traditional organizational structure, a financial institution used to operate as a set of different companies, each one focused on selling its own products. From the customer's perspective, the company was targeting her without much coordination, as represented in Figure 6-4.

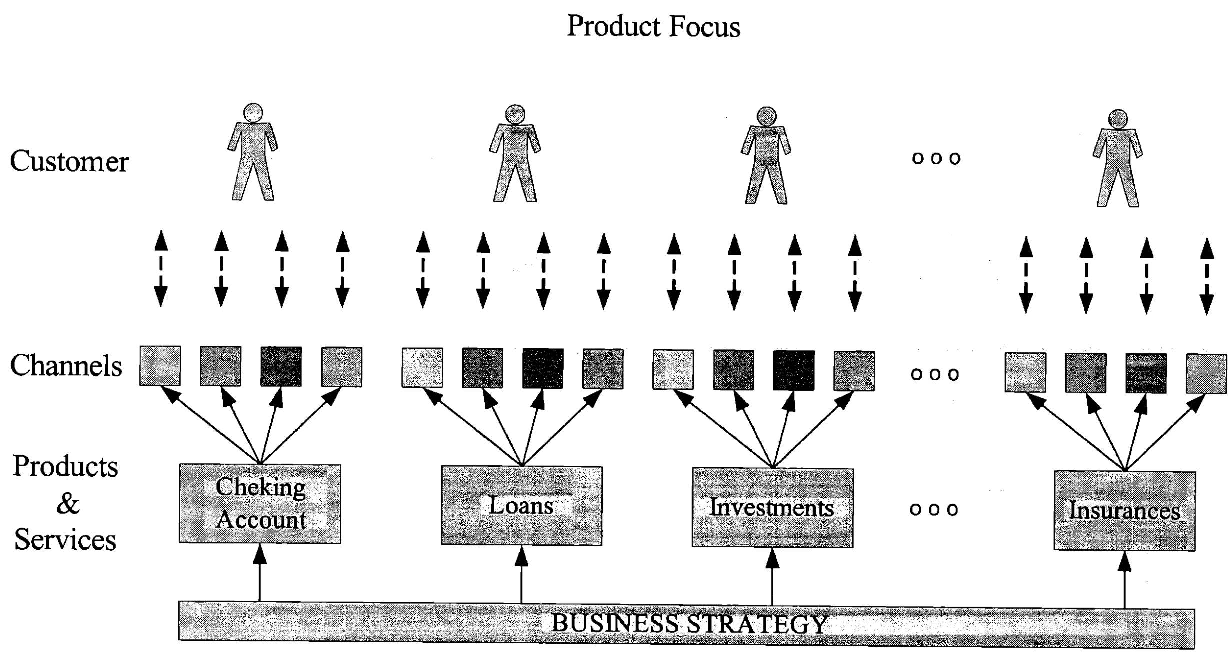

Figure 6-4 Product Focus [32]

In this scenario, the customer may receive inconsistent contacts and offers (offers of Loans, Credit Cards and Investments, for example) in a short period of time. From the customer's perspective, the company does not seem to understand his needs, and does not seem to learn about him (the customer may be required to answer the same question many times, etc).

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6.1.4. Measuring the Benefits of CRM

Another major challenge in implementing the CRM concept is to measure its benefits throughout the entire company. This issue is, in many CRM implementations, forgotten or overruled. The basic idea here is to continuously evaluate the CRM project in order to refine its requirements. The major challenge is how to do it.

Financial institutions already have a large number of separate systems which not only provide the actual service to the client but also measure if this service is delivered in a consistent way. Although these systems are reliable and generate useful deliverables, they were developed before the CRM concept was introduced in the company and therefore, besides not having any kind of linkage among them, they also have distinct measure and response times. These different measurements and response times place an enormous challenge in how to link everything to have a unique client's picture throughout the company.

For instance, the call center was developed to attend and provide services to the customers and its basic measurement for quality service was the length of each call. This time measure forced the call center employees to focus on delivering a concise and fast response to the customer all times. Another example is the measurement developed for the sales staff. In this case, all evaluation systems are focused on the number of new clients or on the number of new services provided. For the overall banking services, the main measurement was on the efficiency of these services, in other words, the faster the better.

As we can see, all these measurements were developed to those particular areas and are perfectly suited for them but, with the introduction of the CRM concept, these measurements have to be adapted not only in terms of "what and how" to measure but also in terms of linking all these systems in order to have a single view of the customer.

This challenge becomes also difficult because this integration process is normally not only hard to be implemented but also consumes time and is very expensive.

Another important aspect of measuring returns on CRM projects is that besides the technological and managerial challenges we described before, customer satisfaction is extremely difficult to measure. The ROI on CRM projects is hardly known since no actual system inside the institution was developed to perform this task. The ideal solution involves the measurement of customer satisfaction not only through cost savings. Additional inputs have to be developed such as the level of success in marketing campaigns, the retention of existing customers, the retention and/or evolvement of customer's assets, the result of cross-sell and up-sell customers, the increase in the customer's total satisfaction and in the total share of product.

6.2. INTEGRATION CHALLENGES

Integrating CRM processes with legacy systems and processes is a major challenge, and the complexity level is even higher for financial institutions that operate in many different segments by offering a great variety of services and products and by communicating with customers through different channels.

We are using the expression "integration challenges" to address not only difficulties resulting from integrating different computer systems, but also from integrating different business processes and tasks inside the company.

As represented in Figure 6-5, integrating CRM into a company poses the challenge of integrating different computer systems and internal processes. Examples of computer systems to be integrated with CRM would be:

- Product systems (checking account, loans, investments, credit cards and others);
- Cost systems, accounting and financial systems;
- ERP systems (in financial services industry these systems play a secondary role, differently from the manufacturing industry);
- Channel systems (Internet, call center, ATM and others)
- Customer service systems;
- Performance measurement and employee rewarding systems;
- Any other internal system, such as HR, training and internal communication tools, etc;

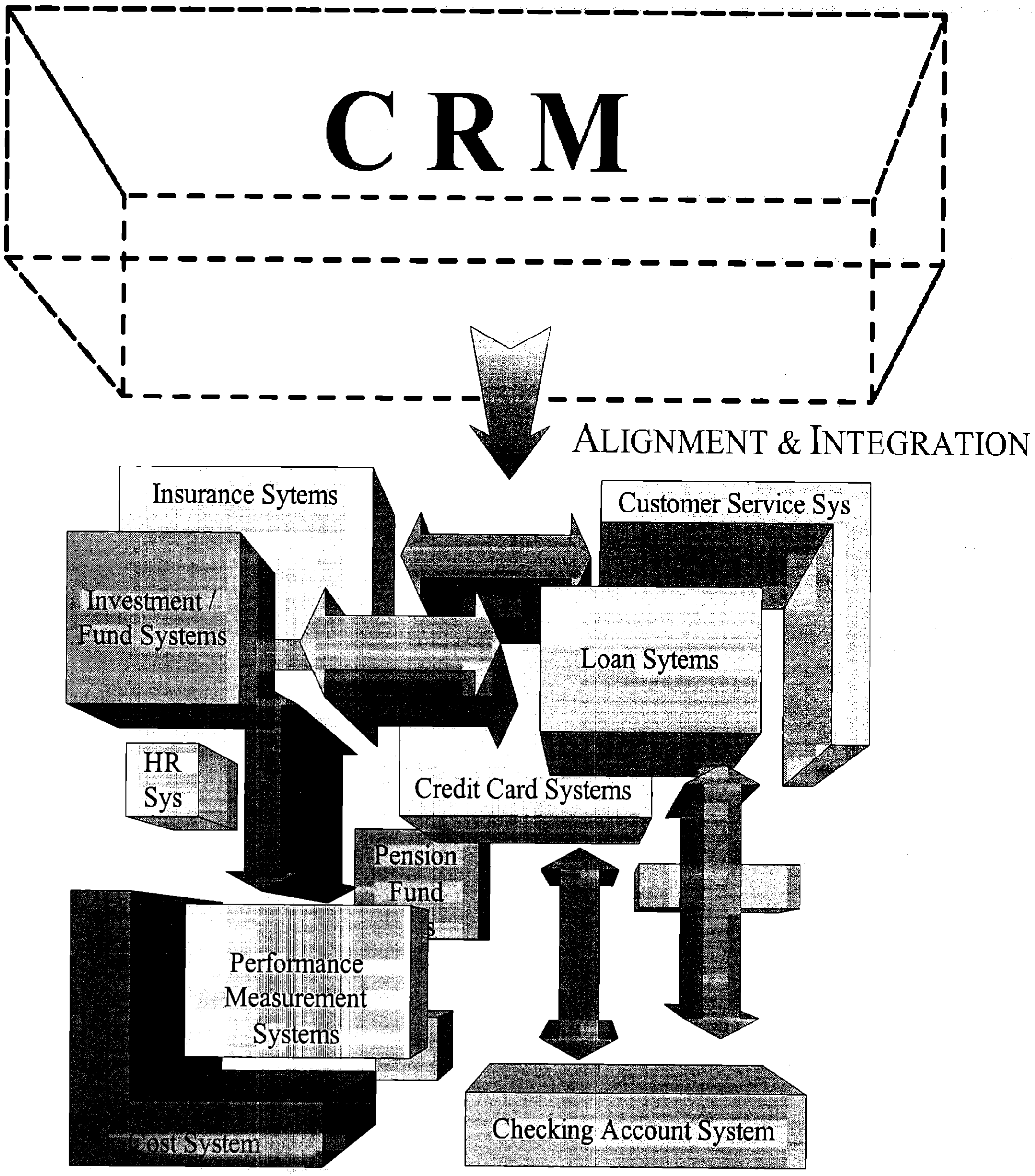

Figure 6-5 Integrating CRM into the Company [33]

These systems are intrinsically linked to all critical processes of a company:

[33] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

- Product management processes (design, deployment, improvements);
- Marketing processes (campaigns, advertisement, segmentation, etc);
- Financial processes (revenue and expense management, cost control, etc) ;
- Work force management (incentives, variable payment, performance measurement);
- Performance measurement and employee rewarding systems;
- Any other internal system, as HR, training and internal communication tools, etc;

Therefore, implementing a broad CRM initiative poses incredible integration challenges that ultimately require realignment of traditional internal processes, increasing the complexity of CRM initiatives even further.

6.2.1. Front-Office and Back-Office Processes

Integrating CRM processes with the company's current processes (legacy processes), is a major challenge. Customers' perception about the quality of a company's service is impacted by every operation that directly or indirectly relates them. Since CRM goals are to have a positive impact on these relationships, the integration of CRM processes with legacy systems is a critical requirement.

Processes may relate to operations conducted at the front-office, which usually involve interaction with customers, or at the back-office, which don't necessarily involve interaction with customers.

We define systems and processes not only as computer or information technology systems, but as "ways of accomplishing, supporting or conducting an operation inherent to the business". For example, an employee at a bank's branch, opening a checking account for a customer, is a front-office operation. All subsequent operations of registering this new account on IT systems, preparing check books and magnetic cards, sending this material to the customer's address, preparing all branch channels to "see" this person as a new client, and innumerous other triggered processes are considered back-office operations. Despite the fact that they affect directly the customer, there is not direct interaction with them.

One important difficulty is that many integration requirements are not easily perceived upfront, resulting in surprises through project implementation or even after the implementation efforts are finished.

Of course, in major retail banks, the front and back office areas have to be well integrated to perform their activities as a team, always seeking that the customer receives a simple but precise service at this stage.

6.2.2. Localized versus Enterprise Wide Initiatives

Good examples of localized CRM initiatives are found in call center and telemarketing services. A financial institution seeking to reduce operating costs in its call center, may implement a new call center system featuring an Audio Response Unit (ARU)[34], a device that

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[34] BandwidtMarket.com - http://www.bandwidthmarket.com/resources/glossary/A8.html

provides synthesized voice responses to customer's dialed inputs. ARU are used to increase the number of information calls handled while providing consistent quality. The customer continues to have the option to talk to a representative, but the most common needs such as knowing the account balance, last transactions or making transfers, can be handled by such systems.

The initiative described above has great chance of implementation success, even without the commitment from the whole organization, because it is relatively narrowly localized within the boundaries of the call center department.

However, there is another example of a call center initiative that may seem to be localized, but in fact it depends on other parts of the organization to be successful.

Customer segmentation is a well known technique used to understand customer's needs, in order to provide different services and products to each customer segment. Modern call center systems, provided by renowned CRM suppliers such as Siebel and Oracle, have a feature called Automatic Call Distribution (ACD). This feature distributes incoming calls to a specific group of attendees specialized in approaching customers of different segments. The call center system may provide plentiful information to the attendees about the customer's background, overall product portfolio and behavioral patterns and leads about products and services to offer. However, all this information flowing to the attendees has to come from many other parts of the organization, which may involve numerous departments. Despite the fact that most call center systems are capable of handling information and transforming it into actions, these systems are as smart as the information provided to them. If there is no integration among different areas to provide reliable information about customers, even the most modern and efficient call center system will be useless. Therefore, even initiatives that may appear localized and not to demand an enterprise-wide commitment may, in fact, be interdependent with other areas inside the company. These initiatives need considerable integration efforts that require commitment and diligence from managers of other areas not directly involved with the process.

Enterprise-wide CRM initiatives are more complex because they may involve many different areas inside the company, with great interdependence among them. An example of an enterprise-wide initiative is the Anti-attrition or Retention Program aimed at reducing the number of customers that leave the company toward other competitors due to bad service or unpleasant experiences. For a retail bank, interacting with customers through many different channels, it's easy to understand that the level of coordination and integration needed among all channels is extremely high in order to increase the chances of success in such an enterprise wide initiative.

6.3. TECHNOLOGICAL CHALLENGES

CRM solutions are evolving at a very high pace. This evolution is giving banks the possibility to move from a product focused strategy to a customer focused strategy. Better CRM systems permit to create a unified view from the costumer along the institution and therefore to understand his or her needs. Through the use of highly developed software, banks can offer products to customers at the exact time the customer is interacting with the bank. In financial services the most important part of the relationship between customer and institution is to understand what makes the customer loyal to a particular institution and then leverage this relationship. To achieve this, state of the art software has to be used in a simple and understandable way.

6.3.1. It's not just about IT

Financial institutions usually start using their own IT division to setup the requirements that they think are necessary to achieve their goals, organizing IT departments according to a functional structure.

Financial institutions have been very successful in the use of technology and communications network. This means that many institutions believe that a well designed and expensive software in conjunction with their own IT department may transform the CRM implementation process in another successful activity. However, CRM systems are complex and difficult to implement, and even if technological challenges are overcome there are other strategic, organizational and managerial barriers to a successful implementation.

CRM technology, besides its own specific features, has to be integrated to the entire IT process already in use by the bank, as discussed in 6.1.3 .

Many companies fool themselves with the belief that IT is the most important factor to guarantee success for CRM initiatives. In fact, IT plays a secondary role in achieving success. This misbelieve may result in lack of communication between the IT department and the rest of the company, which will worsen integration efforts.

6.3.2. Develop or Buy?

Financial institutions have to decide whether to buy a new software and implement it inside the company or to develop their own software. The time to develop this complicated structure is a constraint for an industry where time is money. Therefore, institutions normally go directly to software vendors.

While in-house development may result in applications with a better fit for the company, they usually it require more human resources and result in a long period of development. There is always the risk that in-house developments miss the target, producing applications of features that are poorly implemented or integrated, or more commonly, that are not a good match for applications developed by major CRM vendors.

However, acquiring a solution provided by major vendors poses some difficulties as well:

First, the new package is not easy to understand and even more to adapt to the hundreds of different systems that are in place in large financial services providers.

Second, since the new software is sold as a package, it may not have all the necessary requirements that the company's managers would like to see.

Third, these software packages are normally very expensive and therefore a tension is built around the departments involved in the purchase to make it work. The CEO will also be pushing towards results and therefore putting even more pressure on the IT department for quick results.

6.3.3. Building the Right IT Portfolio

Another important challenge for IT senior management concerning CRM implementations is to determine the suitable IT Portfolio to successfully support the initiative.

The IT Portfolio concept, by Weill & Broadbent[35], provides a useful managerial approach to understand how a company structures its IT investments by classifying investments in the following categories:

- IT Infrastructure: investments to provide shared base IT capabilities;
- Transactional: investments to reduce cost of doing business (may also be seen as operational);
- Informational IT: investments to provide better information to managers (covering not only information about customers, but company performance as a whole);
- Strategic: investments to gain competitive advantage or foster innovation;

These categories are represented on Figure 6-6. The underlying idea of IT Portfolio is the complementary aspect of IT investments. One category of investment support and complement the other: IT Infrastructure and Transactional IT investments provide the basics layers for a company to operate internally and interact will external customers. Informational IT and

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[35] WEILL & BROADBENT. *Leveraging the New Infrastructure: How Market Leaders Capitalize on IT*, Harvard Business School Press, 1998

Strategic IT are very well related to each other, and depend heavily on Transactional IT and Infrastructure.

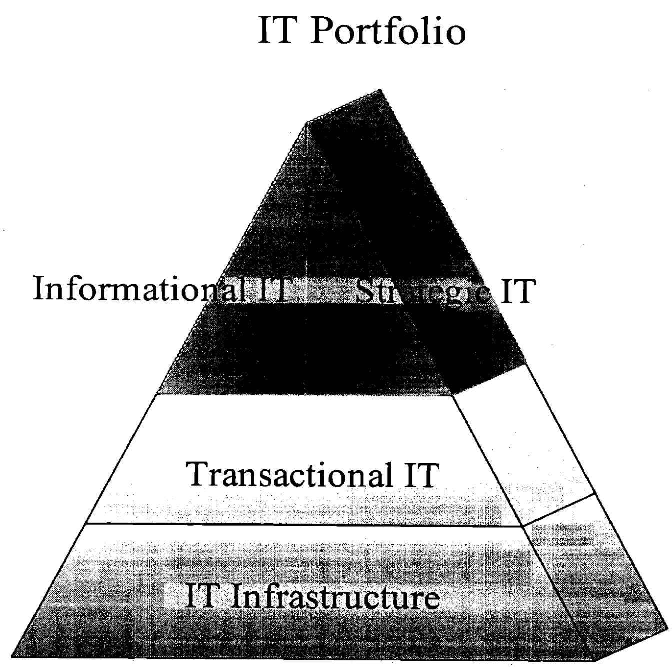

Figure 6-6 IT Portfolio Concept [36]

Companies may pursue various goals related to CRM, and this represents a challenge for IT managers that need to structure the correct IT Portfolio.

For example, a CRM initiative mainly devoted to reduce the costs on operation may focus on channel automation (call center, ATMs and Internet Banking), resulting in an IT Portfolio strongly focused on transactional IT, represented on the left hand side of Figure 6-7

[36] Extracted from Prof. Peter Weill's Sloan 15.964 MIS course – Spring 2003

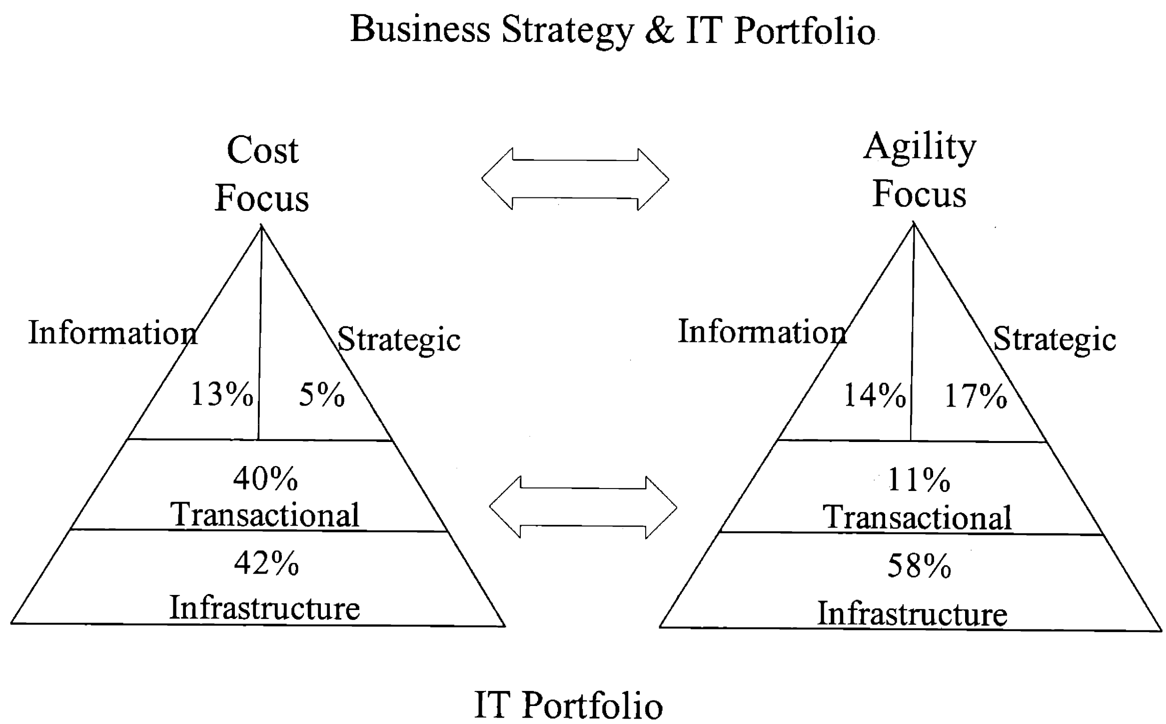

Figure 6-7 Business Strategy & IT Portfolio [37]

A CRM initiative devoted to enable a truly customer centric enterprise, which would require broad innovative tools and procedures to build a competitive advantage, may result in an IT Portfolio similar to that represented on the right hand side of Figure 6-7.

In summary, it is a challenge for IT management to correctly match IT investments to efficiently support CRM initiatives. Without compatible investments in infrastructure or transactional IT, a company may face incredible difficulties on implementing CRM even with high investments in informational and strategic IT, and vice-versa.

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[37] Extracted from Prof. Peter Weill's Sloan 15.964 MIS course – Spring 2003

6.3.4. Attaining a Fast Clock Speed

An important goal of any CRM implementation methodology is to understand customer behavior in time to have a reaction towards that behavior. This pace has to be such that the reaction is done in time before the opportunity is lost. If the correct reaction speed is not attained, companies may have a thorough analysis of each customer but will not be able to induce or even react to a product sale opportunity.

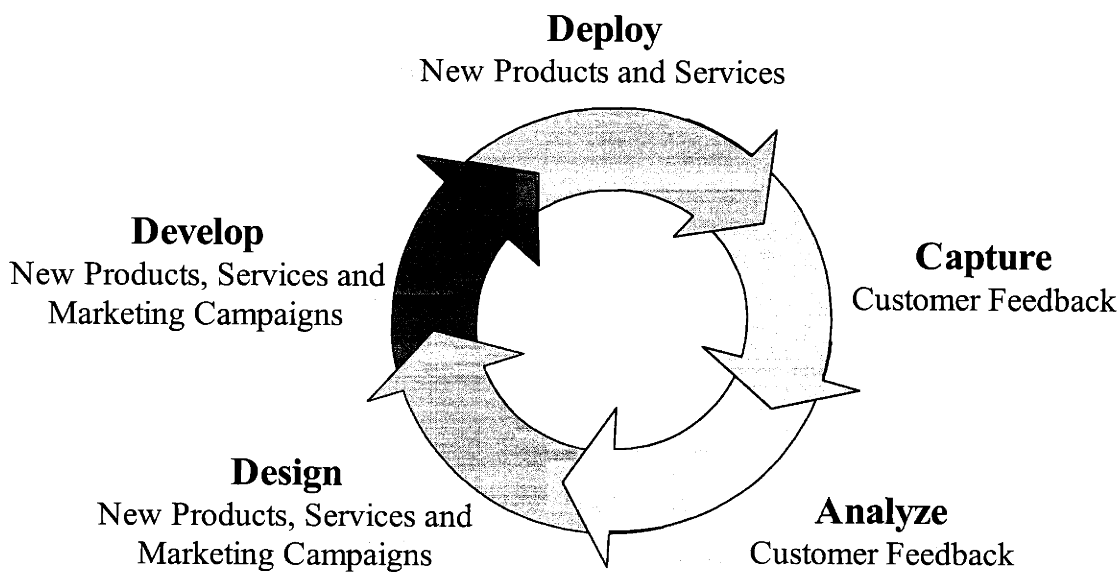

Figure 6-8 The Need for a Fast Clock Speed [38]
As represented on

Figure 6-8, the cycle of learning and improvement involves different interdependent stages, and for attaining a fast clock speed for the whole cycle all stages have to completed in a short period of time.

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[38] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

This fast reaction to customer's behavior changes has always been any CRM team's dream. With today's technology, large amounts of data from different sources can be analyzed and a response handed out. The theory of fast response is an important aspect of CRM projects since it assumes that all systems have already been integrated and that no data from each customer is missing. In huge retail banks, this concept is more of a dream than a reality. The challenge exists, of course, but it is far more a dream than a performing system. In theory each customer, interacting with the bank through every single channel available should be identified during the transaction, analyzed and a response should be given before the communication ends. An example for that is what already occurs in many web based retailers. The moment the customer logs in, the previous purchases are shown and suggestions of new goods are offered. When we mentioned the term "dream" we do not mean that no attempt in this direction was made by the banking industry. Many banks, especially through on-line communication's channels, are starting to identify their clients and show some interaction with these clients. But the system is not analyzing what the client is doing and delivering a prompt answer. Therefore, these actions are far from being considered a CRM response.

To perform these "on-line" and "real time" responses, is not an easy task as we have already stated, but there are other issues to be considered that make this "on-line" challenge even more difficult.

To deliver a quick response to a client during its transactions with the bank, huge data processing has to be made in conjunction with the implementation of some sophisticated algorithms that, at the end of the day, will have swallowed precious processing time from the bank's mainframes. This is an important issue to be considered when implementing this kind of strategy. This new procedure cannot rely solely on the existing data processing capability of the bank. They will surely slow down all the bank's major activities and may even jeopardize the bank's reputation in terms of service quality.

Not all data performing analysis are machine time consumers. Simple tasks, already under the CRM vision, can be performed without interfering with the bank's main daily operations. But the question that arises, with this argument, is how much value, if any, will be added to the consumer experience. Fast on-line answers, when implemented, bring another problem to the company. Different departments will have to be extremely flexible and coordinated to promptly respond to the customer's needs. This means that marketing campaigns with a national reach must have also a narrow strategy for these cases. Not to mention that all branches and branch managers will have to be informed about all possible offers that a client may see during his interaction with the bank. Another impact of this strategy is that no marketing campaign can be performed over a long period of time because the responses to the campaign will be fast. Through the daily analyses of each customer's feedback, actions can be made to avoid a problem or to simple boost a product. On one hand, such a tool is the dream of every marketing professional acting in a big company, but on the other hand it can be an enormous burden. The work load that such a strategy will impose is huge and the decisions applied to it very difficult to be made. Real-time analyses require also fast responses that match each customer's desire every time the same customer enter the system.

To sum up, it is important to make clear that even with a system running smoothly throughout the days and providing simple and quick answers, the design team must be reshaping it every time as long as the system is on line. There is no way of keeping the system running without constant human interaction. Not only customer way of thinking changes but also its relationship with the company is sometimes closer than others.

In fact, it is paramount to decide how to balance these actions within a CRM project, not only in terms of expenditures but also in terms of sales and marketing strategies. The actions towards an on-line response system have to be made, though the way to achieve it is debatable.

The pace in CRM projects is key and cannot be ignored but, it is a huge challenge for any institution and even more for banks, with hundreds of different products and clients.

7.1. STRATEGIC AND ORGANIZATIONAL ALIGNMENT

7.1.1. Commitment to Change to Customer Focus

A successful CRM implementation will transform the company in a homogenized entity, where the customer interacts with the company in a smooth and transparent way.

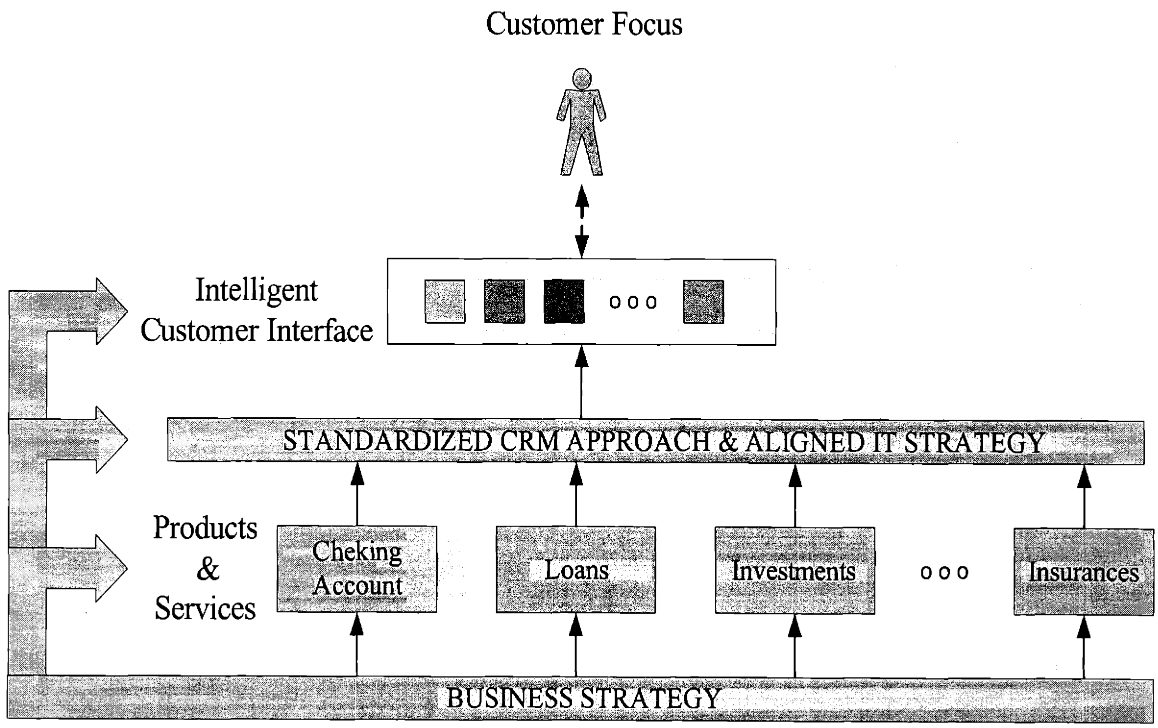

Figure 7-1 Customer Focus [39]

[39] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

Figure 7-1 depicts one ideal scenario for a company wanting to become customer centric. In this scenario, Business Strategy drives not only Business Units but the whole organization in a unified and integrated effort to acquire and keep customers.

Independently of the product and service that the customer is utilizing, he sees the company as a unique and strong entity. The company remembers him, and does not ask his address or birth date when he opens a Credit Card account, because this information was already provided when he opened his Checking Account.

Ideally, implementing CRM would be a natural consequence of a company willing to become a customer-driven enterprise.

Every company has its main strategic goals which define, in general terms, the way the company will compete, the customer segments it will serve and which products and services it will offer. Business strategy also defines competitive advantages companies want to acquire or maintain, in order to successfully operate.

Ultimately, these strategies will reflect in the way companies compete:

- Compete on price: offering the lower prices, operating with lower costs;
- Compete on value: offering premium services with higher prices;
- Compete on price and value accordingly with customer segments: targeting different customer services with different pricing strategies and operating cost structures;

Independently of which competitive strategy the company wants to purse, changing the focus from products to customer with CRM definitely help companies to extract higher value from their interactions with customers.

7.1.2. Obsession with Learning and Improvement

Companies that have been successful in implementing CRM have demonstrated an obsession with learning about customer's needs and improving their offers to match these needs.

These companies know that it is virtually impossible to launch new products and services that will always be successful. However, these companies believe that it is almost always possible to learn why a product was or wasn't successful.

In order to enable this continuous learning, companies have included CRM needs as part of requirements for a new product or service, as represented on Figure 7-2.

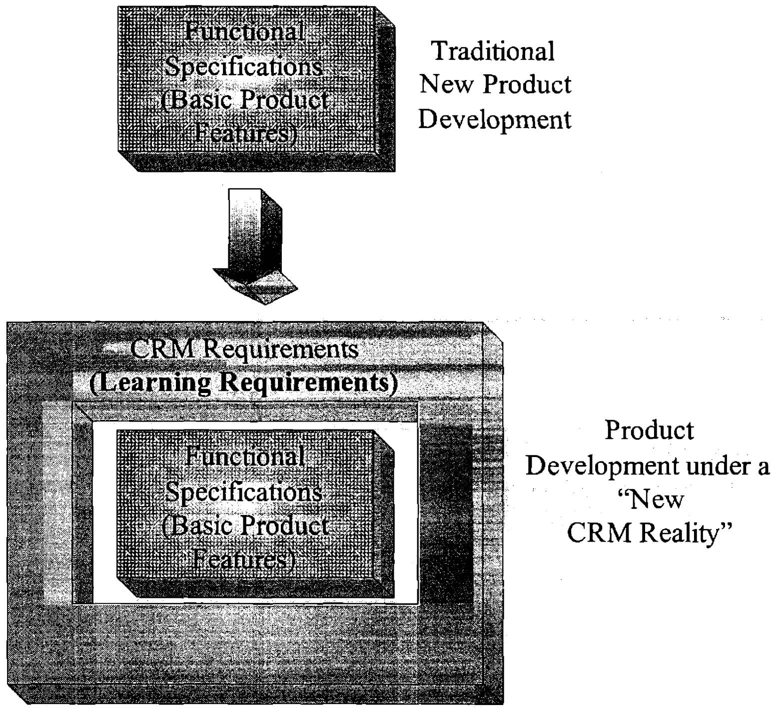

Figure 7-2 Product Development under a "New CRM Reality [40]

In this new "CRM Reality", the definition of a product and service to be implemented by IT systems and to be rolled out by the whole company does not include only basic functional features necessary to guarantee product functionality, but includes also CRM needs to guarantee company's learning about customer's feedback and perception about the customers.

Obsession with learning about customer needs and behavior is deeply spread in the internal processes of companies that are really successful in focusing on customers. It is unacceptable that a new product be launched without the necessary means for capturing customer feedback.

[40] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

7.1.3. CRM Management and Coordination

In order to successfully achieve a broad strategic and operational alignment, companies may create a department in charge of the coordination of CRM implementation efforts, as represented in Figure 7-3.

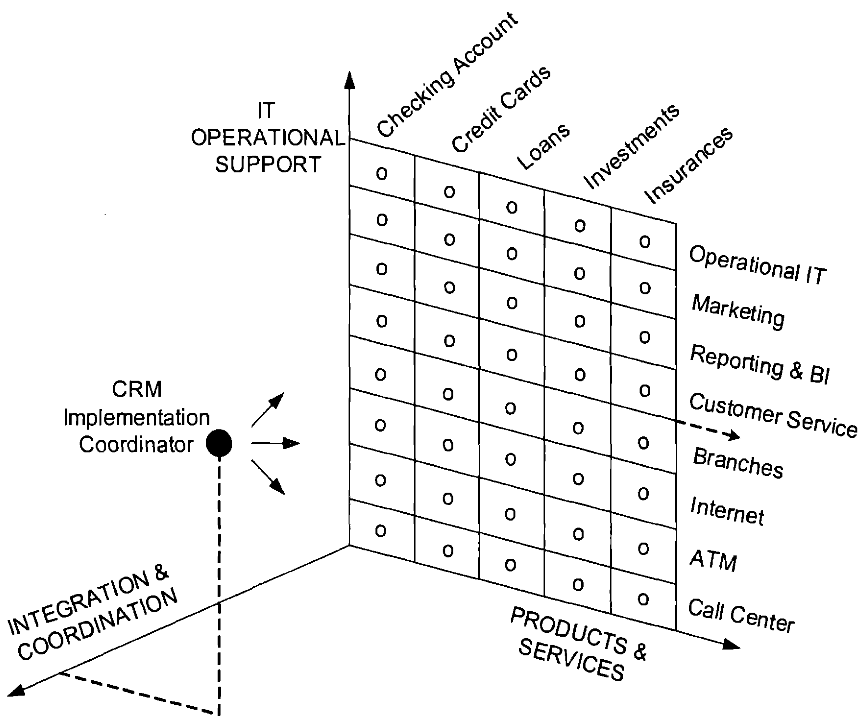

Figure 7-3 An Additional Organizational Dimension: Coordination [41]

This department would help to coordinate efforts, standardize procedures and foster cross-functional improvements. Many cost saving and/or value-creating opportunities may result from this coordination. Ideally, this department should not be hierarchically superior to others;

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[41] ©2003 Luis Guilherme M. O. Bittencourt, Johann Sellmeister de O. Bueno

instead, it should be at the same hierarchical level of other important business units, but with a close relationship with senior management. Another very important aspect is that this department should be involved with senior management from both business and IT, in order to guarantee shared accountability for CRM results.

With this new entity overseeing CRM implementation efforts, IT investments and decisions may be more efficient.

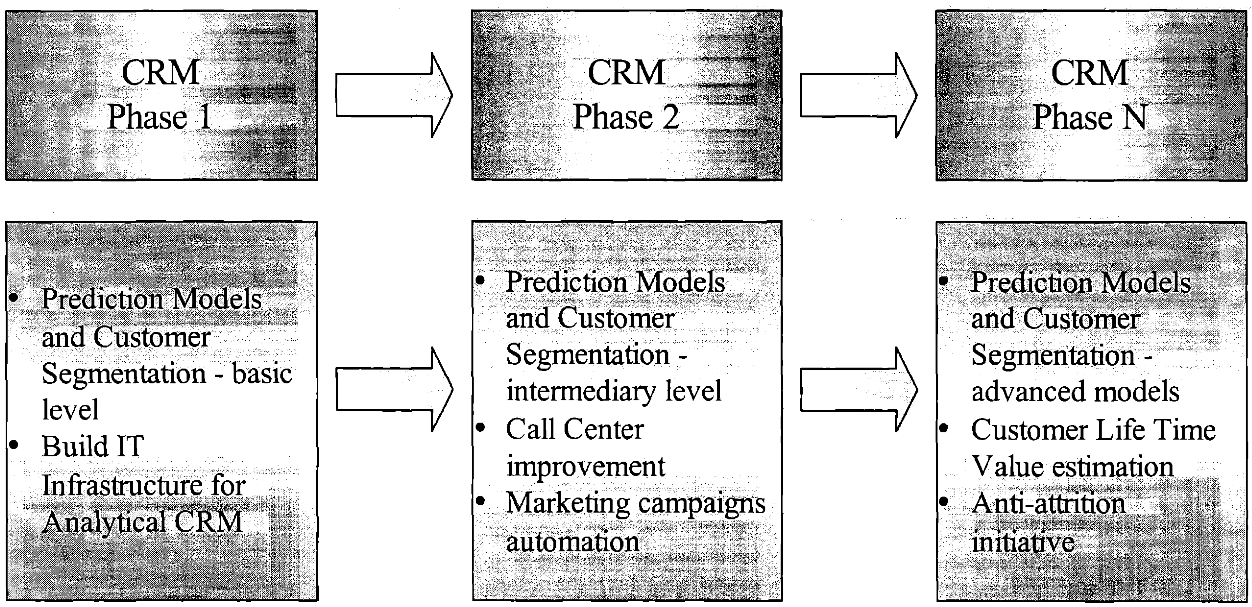

Figure 7-4 CRM Roadmap

The department responsible for coordinating the enterprise-wide CRM efforts must have a clear vision of CRM goals and objectives for the short and long terms. A very useful form of representing this vision is drawing a CRM roadmap, as represented in Figure 7-4. This is very helpful for investment planning, evolution tracking and managing expectations and communicating.

7.1.4. Marketing and Credit Alignment

Many of the problems in implementing CRM in financial institutions are the way that these companies are organized and therefore have been following their own business model for years. The financial business model is developed in a way where areas are functionally well defined such as IT departments, Credit Analysis departments, Marketing, Human Resources and so on. For each of these departments there is a customer business model already in place. The challenge is to integrate all these departments under a single customer view. In fact, customer management is an issue across many departments inside the same company. Unfortunately, based on the pre-existing business model that we mentioned before, each one of these departments has its own view of the customer.

In the financial retail market, the marketing department usually strives to get new customers, by offering many kinds of products and different levels of service, throughout broad marketing campaigns. When the customer is finally convinced that this service provider is attractive and files an application form, he or she is denied the service by the credit analysis department. At this point the company turns itself into not only a conflict generator but also a money waster. This situation although easy to be figured out, is very common. To solve this matter, companies have to determine the relative importance of each of these departments inside the institution and establish well defined criteria to avoid this type of embarrassment. This is easier said than done.

Most of the CRM problems among different departments are political. The very nature of CRM threatens people in different departments since its main goal is to have a unique and effective way to relate with the customer. One of the possible solutions is to map key departments and their respective employees, in order to have a big picture of where these people are and what is needed to develop and put in place a conflict resolution program. This strategy has to be backed up by workshops and gatherings with members of these departments. It is imperative to convey the message that the company must have a unique and focused approach to the customer and that connections among different departments inside the company are key for a CRM project to thrive.

7.1.5. Incentives Realignment

The cost of acquiring new customers is higher than the cost to develop the existing ones. This simple concept, although it is not new, is not put into practice by the majority of the companies and, principally, in the financial institutions. Once the customer has signed in for the first time with the bank, every effort has to be done not only to keep this customer but also to have him buy more products and upgrade the existing ones. To achieve this "new" way of doing business inside the company, a complete incentive structure has to be developed and deployed. It is common knowledge that only nice talks by the upper management group are not enough to involve the entire company in this crusade.

What normally happens is that some companies already have a compensation scheme in place but, these schemes only create incentives for new business sales as opposed to customer satisfaction and/or product upgrades. The goal is to develop incentive programs that are value not only customer acquisition but retention as well.

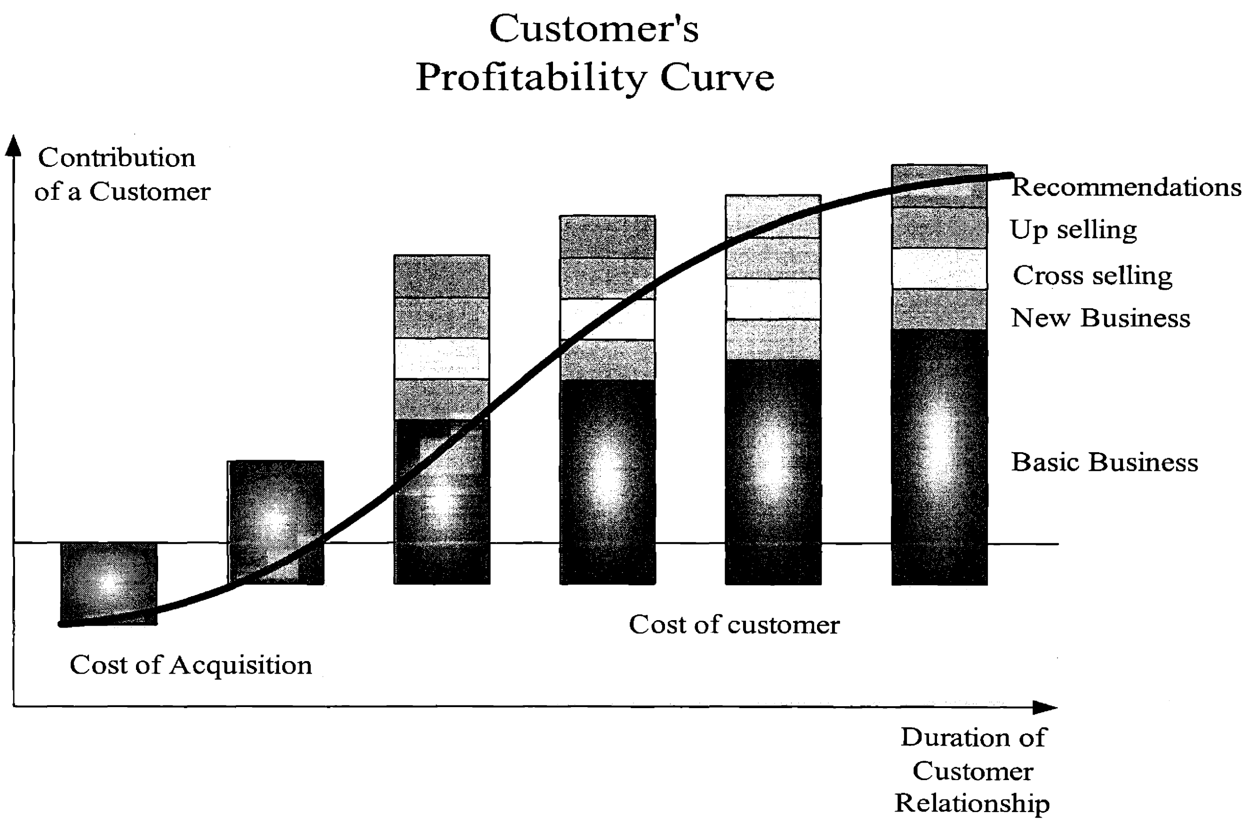

Figure 7-5 Customer's Profitability Curve [42]

Figure 7-5 shows the importance of customer development and retention for a company's profits. The cost of acquiring a new customer is higher than keeping a current customer. As the

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[42] FOSS, BRYAN & STONE, MERLIN. *CRM in Financial Services.* Kogan Page, 2003

customer stays with the company, she may provide direct revenues from new sales, up-selling and cross-selling, and indirect revenues from recommendations as well.

In order to realign incentives, employee rewarding must be based in new metrics, such as:

- Increasing customer retention
- Achievement of cross-selling & up-sell goals
- Rewarding for not only new customers acquisitions but also new niche developments

7.1.6. Aligning IT and Business Goals

A CRM implementation should be aimed at achieving clear CRM and IT goals, which are in turn derived from clear business goals. These business goals are determined by enterprise strategies defined by senior management with help from business units.

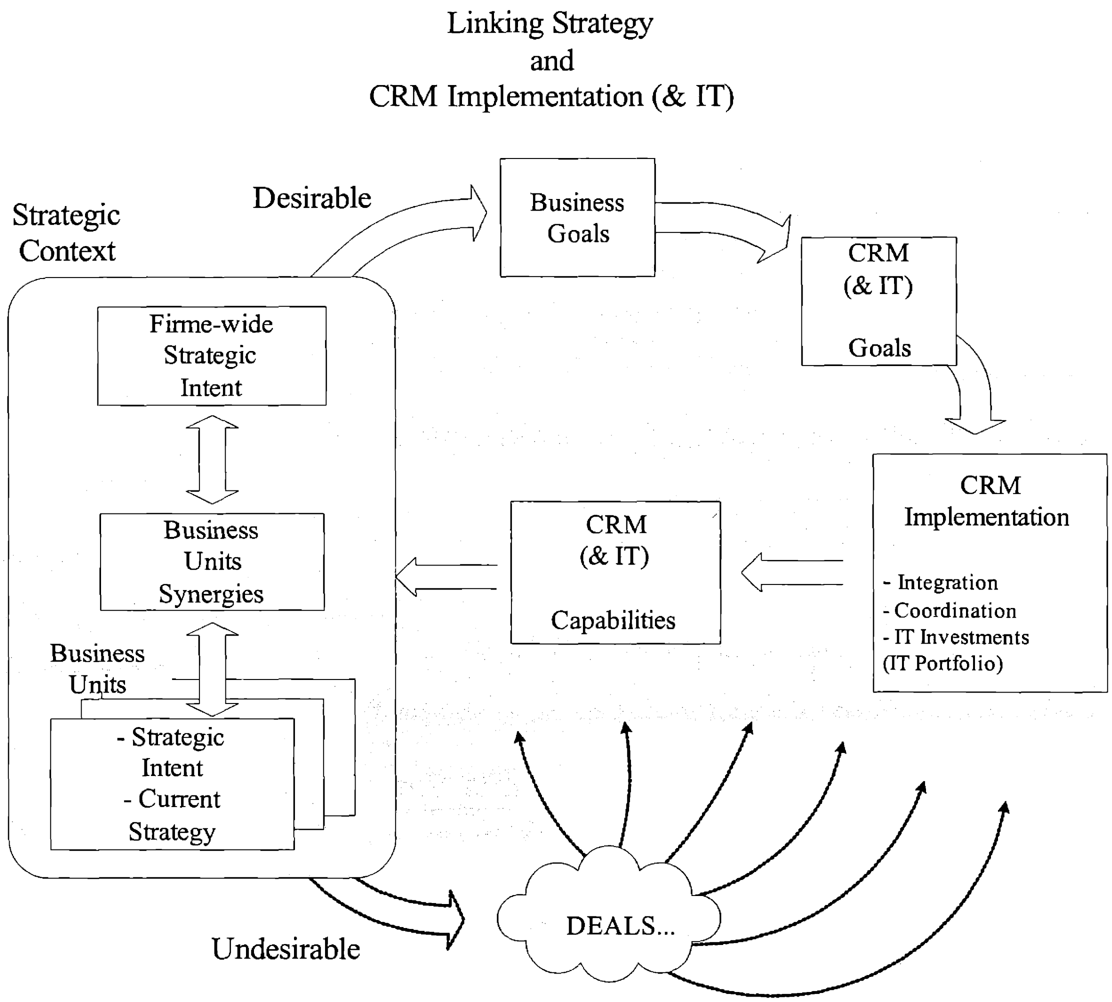

Figure 7-6 Linking Strategy and CRM Implementation (&IT) [43]

In companies where the necessary strategy alignment is not in place, IT investments and decisions are based on "deals" accorded between business and IT units, independently from others units inside the company. This undesirable behavior is represented in the lower cycle of Figure 7-6.

[43] Extracted from Prof. Peter Weill's Sloan 15.964 MIS course – Spring 2003

Business units with leaders that have greater negotiation abilities or hold more power tend to be more successful in convincing IT to pursue specific projects. Usually, these business unit leaders act in self interest, and the results are non-integrated and isolated CRM initiatives that may compromise other broad enterprise wide initiatives.

Companies should seek good alignment between business strategy and IT departments, overcoming political forces that may result in "deal" agreements, which tend to benefit individuals in detriment of companies' interests. Only a perfect alignment of business and IT will result in successful CRM implementations. This flow is represented in the upper cycle of Figure 7-6, which was adapted from M. Broadbent & P. Weill.

7.2. Efficient CRM Project Management

Managing the implementation of a CRM initiative or project poses many different challenges to managers. We discuss most common challenges faced by managers, independently of specific characteristics of these initiatives. These CRM initiatives may be localized ones, such as installing a new CRM system for the call center, or broad initiatives aimed at transforming the organization in a customer centric enterprise.

7.2.1. Sponsorship from Senior Management

CRM projects usually involve many different areas inside a company, with different degrees of commitment and accountability for results.

It's very important that the managers in charge of the CRM project have sufficient support and sponsorship from senior management. Many CRM projects undergo great difficulties because their managers don't have the desirable degree of senior management support. Without this support, managers usually don't get the necessary collaboration of other internal areas.

The lack of commitment from other areas that are not directly accountable for the final results is one common reason for project delays.

7.2.2. Avoiding Unnecessary Complexity

Clear scope definition for CRM project is of extreme importance. Given the broad range of CRM concepts and goals, many projects begin with a general goal of "understanding customer's needs" or "improving customer satisfaction".

Clearly, implementing a project with these broad goals can take a long time, and may never reach an end, since one may say that improving ways of "understanding customer's needs" is a continuous task.

Scope definition is more complex in CRM projects than in other types of projects. For a design project whose goal is to design a product, or for a construction project whose goal is to construct a new building, the scopes are relatively clear, and have well defined boundaries.

For CRM projects scopes the scope is not as easily defined. When implementing a CRM system, it is common that requirements not previously foreseen be generated by other systems and areas, increasing the project scope. When requirements must be fulfilled by other areas, the manager has his level of control over the project reduced, since he does not have control over all resources necessary to meet the project's goals.

7.2.3. Managing Expectations

Managing expectations is an important dimension for all kinds of projects, but for CRM initiatives it seems to have an even greater importance. Given the broad range of concepts and ideas that CRM comprises, people very easily develop and overestimated expectations.

As soon as people get to know that a new CRM project is under development, they may begin to believe that their problems or issues will be addressed in one way or another. Another pernicious possibility is that people begin to criticize the project, stating that the company decided to invest in another project that will never solve their problem.

As a company begins its CRM initiatives, most projects look toward addressing specific or localized goals. As these first initiatives succeed, other more complex CRM projects may be undertaken, as we explained in the CRM roadmap in 7.1.3 (CRM Management and Coordination).

Therefore, it may take a long time until some internal departments have their issues addressed. Even if an issue is addressed the effectiveness of the solution provided by the new CRM initiative may vary extensively. A product manager may easily expect that the CRM project will help him to acquire new customers, deeply understand customers' behavior and beat the competition, without requiring too much effort from him. On the other extreme, a pessimistic product manager may say that CRM project will never solve his issues. In either case, the CRM manager must manage expectations in a broader sense, communicating CRM goals in clear and objective terms for as many internal departments as possible.

It is very important to define level of expectations for CRM goals, transforming a broad goal as "providing understanding of customer's preferences and behavior" into specific and narrower goals, which may be mapped into different CRM programs as the ones we cited in Chapter Three CRM Programs – Adding Value to the Company.

7.2.4. Communicate to Integrate

Given the great challenge of integrating CRM into a company's systems and processes, as explained in 6.2 (Integration Challenges), project managers must have assure that efficient communication is in place.

For example, it may not be obvious for the account manager responsible for opening a new checking account that he has to adapt or improve his procedures due to the new CRM initiative. The account manager may not understand why he has to capture additional information such as many children the customer has, or their gender and ages. Therefore if the manager doesn't understand the purpose, or if he is not motivated to improve, or even if his IT system has not been modified to be able to register the new information, the seamless integration with CRM system is compromised.

7.2.5. Balancing Short-term and Long-term results

Project managers should balance short-term and long-term goals, defining project scopes properly aligned to business goals.

It is a broadly accepted idea that projects should avoid long development cycles without providing intermediary results. For these projects, management tasks such as budget control, expectations management, motivation and scope control become more difficult.

For example, a CRM initiative with a 2-year development cycle should be split in phases with no more than 6 months each. In a phased approach, it easier for managers to identify overdue tasks and seek solutions to them.

When hiring an external consultant, the hiring company should seek for incremental contracts instead of closing a deal for a 2-year project. This will increase the company's negotiation power in a crisis situation in which the goals for a specific phase were not achieved.

Defining clear short-term goals helps to keep scope under control. During long projects, it is very common that project managers lose focus and seek to implement improved solutions or include additional features that were not part of the initial scope. This lack of discipline in scope control may result in increased complexity, compromising delivery deadlines and undermining the whole project.

7.2.6. Sharing Accountability with Business & IT

When strategic goals are correctly understood, IT management can correctly envision the suitable IT Portfolio.

Therefore, there is a clear need for shared responsibility between business and IT people, which will help to assure alignment and effective communication between business units and IT, increasing chances of success for CRM implementations, which are strongly dependent on IT.

Chapter Eight CONCLUSIONS

The CRM concept is valid, valuable and doable. Figure 8-1 summarizes the goals of companies pursuing effective CRM implementations:

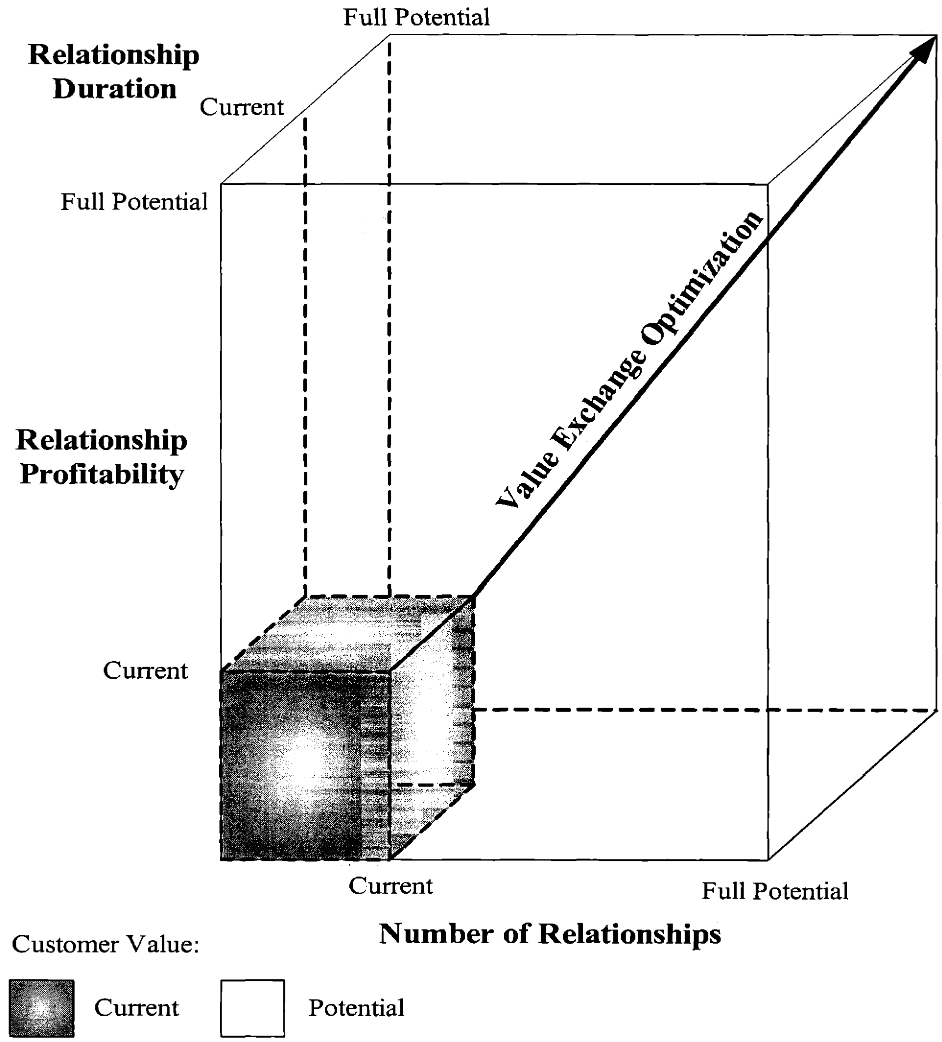

Figure 8-1 Relationship between Current and Full Potential Performance in CRM [44]

[44] Source: HESKETT, JAMES & SASSER, W.EARL. *The Service Profit Chain*, The Free Press, 1997

Companies pursuing CRM seek to:

- Increase the duration of their relationships with their customers;
- Increase the number of relationships with their customers;
- Increase the profitability of their relationships with their customers;

In summary, companies want to explore the full potential of their customers, extracting the highest value possible while generating the highest value possible.

CRM is a philosophy that requires total commitment from senior management and all employees in order to transform the company in a customer-centric enterprise. CRM is not a software application or an IT tool that can be acquired in a software house or through a partnership with a well established solution provider. Although there are many challenges to implementing CRM, it is possible to succeed. Few companies have gone through this radical change and have been successful.

To sum up, the way of dong business is changing radically over the years and is an endless process. Companies that see understanding and satisfying their customers as the ultimate goal are the only ones that will be able to survive in the future.

Bonding is the name of the game!

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