THE CUSTOMER MANAGEMENT SCORECARD
Managing CRM for Profit

Introduction

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INTRODUCTION

This book has two main aims:

1. To stimulate further debate on the subject of Customer Management (CM)
2. To provide practical guidance about how companies can create more value from CM.

CM is a critical subject for many businesses. Many companies, especially large ones, have spent big budgets on new systems, strategies and channels for managing customers. However, this book shows that large businesses are performing poorly in this area and that businesses generally may not be adding value through their customer management activities. However, some businesses have obtained significant benefits from improving their CM. This book also shows that companies that are performing poorly in CM are foregoing the significant benefits that arise from managing customers well.

The authors, together with colleagues from our own companies and the many partners who use QCi's Customer Management Assessment Tool (CMAT) diagnostic process, have carried out over 300 global assessments of blue chip companies. We have worked on many CRM projects in all sectors, across the world. We have learned much about what works and does not work. Our research into the relationship between customer management and business performance is leading edge and practical. It is carried out by trained consultants and follows a well-defined and rigorous methodology.

We would welcome your feedback (positive or negative) on this book. Please use it to discuss with us or tell us what you think of the findings. You can do this through the contact area on QCi's website (www.qci.co.uk).

This book is in five parts. Part 1 documents the findings of QCi's global research into the state of customer management. Parts 2-5 consist of papers exploring various aspects of customer (relationship) management. In the first half of this book, the term Customer Management is used more commonly, rather than CRM, because CMAT does not assume that customers of the companies assessed are necessarily being managed in a relationship. In Parts 2-5, the term Customer Relationship Management is used more commonly, as these chapters focus on situations in which customers are being managed within relationships.

PART 1

The problem

Part 1 documents the results of our new research on Customer Management (CM). The figures from our CMAT™ assessments across the world show that companies are not improving how they manage customers. In fact, it seems they are getting worse. CMAT-Results correlate strongly with business performance, so we can be fairly certain that this means business performance is declining and economic value is not just being wasted, as before, but may actually be destroyed. Our work also shows that despite this, many companies do get positive returns from CRM, but that pay-back and risk depend on a company's CM competencies i.e. where it is starting from. Companies that perform poorly in CM must construct and manage their CM projects much better if they are to get the returns they desire.

There are many reasons why CM is not working in many businesses today. The two key reasons are

- A lack of **authoritative leadership**
- A lack of **education** about how CM can deliver value.

Most senior managers do not see CM as supporting the working of their company's value chain, such that value can be created at each stage of CM and built on in the next stage. Most companies still work in silos. Different departments do things that affect customers in different ways, and co-ordination is often weak. Senior managers must demonstrate more practical CM leadership. They must show their organizations how to build on strengths and fix what is broken. However, senior managers often do not know what their company’s strengths and weaknesses actually are, in terms of how they are managing customers today. Our CMAT assessments show a wide gap between perception and reality. When they determine strategies and investment priorities, senior managers could do much more to access the experience of front line staff. This should lead to more practical plans for development and use of their CM capabilities, resulting in a much lower failure rate.

Improving performance to emulate best practice

For companies that are prepared to re-examine their approach to CM, the prize is large. Although CM performance does differ between sectors and between geographies, the characteristics of companies that perform best in CM differ little. From our work we have identified characteristics that define best performing companies. This list of characteristics should be a key focus for senior managers and stimulate debate about the situation in their own companies.

Scope of the research

Our research base is already one of the largest of its type and is developing fast. This research covers most key countries. We show that customer management performance differs remarkably between countries. The research appears to confirm what many have observed; that larger companies find it more difficult to manage customers competently than smaller companies.

QCi and its partners have conducted over 300 CMAT assessments in many sectors in the following countries: Australia, Austria, Belgium, Canada, China, France, Germany, Hong Kong, Ireland, Israel, Korea, Japan, Luxembourg, Malaysia, Netherlands, Singapore, South Africa, Spain, Switzerland, Taiwan, UK , USA.

Industry sectors covered include:

- Automobile
- Charities
- Distribution
- Dot.com
- Energy (oil, utilities)
- Financial services, including general retail banking, mortgage banks, credit cards, insurance of all kinds, private banking, investment management, wealth management,
- Industrial
- Logistics
- Manufacturing
- Marketing services
- Petrochemical
- Public sector
- Publishing and media
- Retail
- Retailing
- Telecommunications
- Travel
- Utilities

The primary findings in this book, apart from the detailed geographic analysis in Chapter 3 and the new IBM-sponsored Netherlands insurance study and the Acxiom-sponsored US study focusing on the management and use of customer data (included at the end of the empirical research section as Chapters 13 and 14, as their results have not been included in the preceding analysis), are analysed from full CMAT benchmarks we have on the database.

This book was produced just a little too early for us to show the results of a new South East Asian CMAT study, sponsored by Ogilvy One and carried out with the help of IBM’s clients. Preliminary analysis of these studies is confirming what our CMAT work in Korea, Malaysia, Singapore and Taiwan had already shown, that all the issues encountered elsewhere in the world are just as relevant in this region. However, we seem to be encountering much greater variability in results – so we shall explore this aspect in detail in the special report to be issued on these studies. The variability may be in line with the maturity of each market in terms of for how long companies in different countries have been working to improve customer management. We would expect Singapore to be more advanced than Malaysia, which in turn would be slightly more advanced than Thailand, and so on. However, within-country variability is likely to be large, with best-practice companies showing the way for others, irrespective of the general level of performance in that country.

In field at the time this book went to press were two major IBM-sponsored studies in North America, one focusing on banking and one on insurance.

The early results of an Ogilvy One-sponsored Japanese study have been included as a section in Chapter 3. Although its results do not form part of the general analysis of that chapter, they are placed in that chapter so that comparisons can be made easily.

The extensive CM experience of the authors and their colleagues supplements these findings with comment.

A full CMAT assessment takes 2-4 weeks to complete. It typically involves interviewing around 30 individuals within a business unit of a company from senior management to front-line customer-facing people, to seek **‘hard evidence’** for the answers to 260 best practice questions that form the full CMAT assessment. We stress the word evidence, because time and again we witness the difference between what top management honestly believes happens within their organisation and the reality. We call this the great ‘Customer Management Illusion’. A full CMAT assessment involves a significant commitment from the company in providing executive time and in paying for it. The sponsor always signs off the assessment results.

The geographic and sector analysis (Chapter 3) was carried out via research studies in various countries and sectors. A CMAT-R research project involves interviewing 30-75 organisations, across a number of industry sectors or around 25 organisations within a single industry sector. A CMAT-R assessment involves a 2 –3 hour in depth interview with 1 to 3 senior executives and covers approximately 50 of the key questions within the CMAT model. Although a 2-3 hour interview cannot gather the extensive evidence that a CMAT provides, assessors probe interviewees to justify the answers given. Because research assessments are not evidence based, intention versus reality cannot be verified. This results in scores being in the order of 15-20% higher than a full assessment, but adjustment is possible for consistency of analysis. A CMAT-R project is usually sponsored by QCi or one of their partners and can involve an investment of up to $400,000. Another essential element is the involvement of academics from a university Business School. The process involves academic partners to ensure academic validation of the results and so that the publication of research results is disseminated to a wide audience including trade magazines and academic journals.

The time series analysis of the CMAT data used the CMAT question-set covering the following periods:

- Period 1: 27 full CMAT assessments carried out in July 1998 to December 1999
- Period 2: 33 full CMAT assessments carried out in January 2000 to June 2001

We can only draw comparisons over time if the sample dataset for each period is similar. The companies assessed in each period were very similar. They were all large (>500 employee), blue chip (all instantly recognisable company names) companies from different sectors. The periods had a similar sector composition. In each period more than two thirds of the companies were from Europe. The companies in each period were similar in terms of how long they had been involved in CRM and the value they obtain from it.

All chapters in Part 1 except 13 and 14 are written by Neil Woodcock of QCi, Michael Starkey of De Montfort University and QCi and Professor Merlin Stone of IBM and QCi. Sarah Boussofiane of Ogilvy One contributed the Japanese section to Chapter 3.

The sequence of chapters more or less follows the CMAT model. It is as follows:

Chapter 1 explains how the CMAT model works.

Chapter 2 summarises the overall results.

Chapter 3 explores comparisons of results between countries and regions.

Chapter 4 introduces the idea of the customer management value chain and identifies the main areas of customer management in which companies seem to be creating and/or destroying value.

Chapters 5-12 consider the results by area of CMAT model – analysis and planning (5), proposition (6), customer management activity (7), people and organisation (8), IT (9), process management (10), measurement (11) and customer experience (12). Each chapter follows the same format, analysing the scores, extract and analysis of some key facts and figures from the research, followed by examples of good practice.

Chapter 13 describes the recent Acxiom-sponsored US study, focusing on data management. Its authors are Dave Irwin of Acxiom Corporation, Professor Clarke Caywood of Northwestern University and Iain Henderson of QCi US Inc.

Chapter 14 describes the recent IBM-sponsored study of the Dutch insurance industry. Its authors are Hans Neerken of IBM Netherlands and Roland Bushoff, formerly of IBM Netherlands and now at Twijnstra Gudde. This work was carried out with the active co-operation of BSn, a Dutch Business School that has as one of its main foci the education of insurance industry managers.

Chapter 15 identifies some key trends in the development of customer management.

Chapter 16 explores the issue of developing a business case for improving customer management.

Chapter 17 proposes guidelines to ensure successful implementation of improvements to customer management.

PARTS 2 TO 5

These parts document some of the latest thinking from IBM, QCi and their business partners concerning the management of CRM

PART 2

This continues the strong measurement theme established in Part 1. It explores some approaches to measurement and the infrastructure needed for measurement (including systems selection and integration and data warehousing and advanced analytic techniques.

Chapter 18 explores the idea of e-CRM (where the e may be enterprise or electronic) and the return on investment that can be achieved. Its authors are Mark Cerasale and Julie Abbott of IBM and Professor Merlin Stone of IBM and QCi.

Chapter 19 describes some recent IBM-sponsored research on the use of business intelligence and then presents a case study of the use of business intelligence in managing retail CRM. Its authors are Julie Abbott and Tony Dobbs of IBM and Professor Merlin Stone of IBM and QCi.

Chapter 20 describes the use of advanced business intelligence analytics to improve the returns from CRM. It is written by David Selby and Julie Abbott of IBM.

Chapter 21 ranges widely over systems aspects, not just measurement, but provides an overview of many of the issues faced by companies in choosing and integrating systems to support CRM, as well as a quick guide to the process of selecting CRM systems, and an overview of future technologies that will be used to manage customers. Its authors are Bryan Foss, Thorsten Gorchs, Juergen Uhl, Divya Verma and James Richie of IBM and Professor Merlin Stone of IBM and QCi.

Chapter 22 focuses on the difficult issue of how data about the customer experience (usually one of the weakest areas in CMAT assessments) can be brought into the systems and processes for managing customers. It is written by Raymond Pettit of ERP Associates.

PART 3

This focuses on new sector material, with chapters on public sector CRM, telecommunications, and business to business.

Chapter 23 is a composite chapter, in which we have tried to put together the knowledge of many different parties on CRM in the public sector. It covers everything from an overview of the main issues involved in CRM strategy and implementation in the public sector to three case studies of the use of measurement and segmentation in the public sector. Its authors are Alison Bond of ABA Associates, Roger Clarkson of IBM, Peter Hayes of Quadrant, Clare Traynor of Spelthorne, Peter Lavers, David Williams and Neil Woodcock of QCi, and Professor Merlin Stone of IBM and QCi.

Chapter 24 is also a composite chapter, discussing aspects of CRM in telecommmunications, starting with analysis of the main CRM issues facing telecommunications companies, and concluding with several case studies of CRM implementations, focusing mainly on the business intelligence aspects. Its authors are Rob Mattison, Julie Abbott, Andy Brown and Rob Mattison of IBM, Professor Len Tiu Wright of De Montfort University, Dave Cox of Swallow Information Systems, Mike Faulkner of the Customer Management Journal and Professor Merlin Stone of IBM and QCi.

Chapter 25 provides an overview of business-to-business CRM. It explores how CRM is increasingly seen as an integral part of supply chain management, and some of the systems and measurement implications of this. Its authors are Mark Cerasale and Genevieve Findlay of IBM and Professor Merlin Stone of IBM and QCi.

PART 4

This focuses on channel and media issues, with a chapter on multi-channel customer management followed by two chapters on the use of e-mail in customer management, and one on ensuring customer-usability of new media.

Chapter 26 explores the new area of multichannel customer management. It defines the topic, explores the reasons for taking a multichannel approach, the benefits and problems of the approach, and concludes with a checklist of questions companies should pose before rushing into large projects in this area. This chapter is by Matt Hobbs and Mahnaz Khaleeli of IBM and Professor Merlin Stone of IBM and QCi.

Chapter 27 describes new research on the extent to which companies are in control of their CRM practices in the e-mail channel. The international research shows significant variability in performance. This chapter is by Teresa Waring and Antoine Martinez of the University of Newcastle upon Tyne.

Chapter 28 focuses on some of the issues discussed in the above chapter – how companies can manage the escalating volumes of e-mail contacts and with customers and associated data volumes. Its authors are Jane McCarthy of Detica and Professor Merlin Stone of IBM and QCi.

Chapter 29 examines the issue of usability of new media, why it is important – with a case study of the public sector - and how it can be measured. It is by Vanessa Donnelly, Emma Reeves and Lada Gorlenko of IBM.

PART 5

This focuses on implementation and the future, with chapters on customer and staff loyalty, customer service standards, programme sponsorship and governance, followed by a review of the major CRM issues likely to be the focus of much CRM work in the future.

Chapter 30 gives an overview of the main issues involved in managing customer and staff loyalty and gives the results of a survey exploring the relationship between the two. Its authors are Colin Livingstone and Julie Abbott of IBM.

Chapter 31 gives the result of a recent study assessing the quality of customer service in the UK. It highlights the problem of declining service standards. Its authors are Alison Bond of AB Associates and Professor Merlin Stone of IBM and QCi.

Chapter 32 covers sponsorship and governance of CRM and related programmes. It focuses particularly on the role of senior managers and on organisational issues. Its authors are Peter Floyd and Bryan Foss of IBM.

Chapter 33 identifies some of the main CRM issues that companies will be focusing on in the future. Its authors are Bryan Foss of IBM and Professor Merlin Stone of IBM and QCi.

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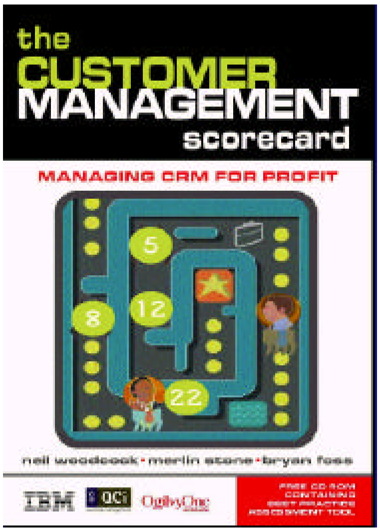

KEY POINTS

- CRM is one of the biggest areas of IT spend and a major focus of corporate change programs
- Based on extensive research and consulting carried out or commissioned by QCi, IBM and their business partners over the last five years
- Numerous international studies
- Endorsed by IBM and many of IBM's business partners and the CIM

READERSHIP & MARKET

- Managers and directors in organizations from all sectors, including the public sector, in marketing, information technology and customer service, and their suppliers of marketing services and IT systems and data

DESCRIPTION

CRM has been one of the strongest areas of management focus in most business sectors for the last few years. But many companies are struggling with their CRM programs. Typically they have rushed ahead with the purchase of new CRM systems, and have not done the work to ensure that these systems will be deployed effectively. Many CRM books focus on what companies should be trying to do, leaving companies with the problem of how to ensure success. This book differs from other CRM books in that it concentrates on how to ensure that CRM initiatives are profitable. The authors' work, on which the book is based, has shown that companies can use CM techniques to achieve up to 50% increase in turnover over three years and that well-managed projects can get a 400% return on investment. CRM has come in for a lot of criticism recently, largely because of the mismanagement of CRM projects and the consequent poor return. This book shows companies how to reduce failure rate and so improve value, focusing on areas such as market analysis, marketing strategy, distribution channel management, program planning, people, processes, data management, understanding the customer's perspective, measurement. The book also continues new thinking about implementation of CRM in several sectors, and also covers some of the latest areas of focus of CRM initiatives, such as multi-channel customer management and e-mail marketing. The book is written by topic experts from all over the IBM world, and gives many ideas about how to improve CRM and how to avoid the main problems

AUTHOR INFORMATION

Neil Woodcock is Chairman and Founder of QCi Ltd, the OgilvyOne company specializing in assessing, benchmarking and improving CRM. Bryan Foss and Merlin Stone are two of IBM's leading experts on CRM, and Merlin is also a Director of QCi Ltd, as well as holding directorships in other CRM implementation companies - Swallow Information Systems Ltd, ViewsCast Ltd and The Database Group Ltd. He is also IBM Professor of Relationship Marketing at Bristol Business School. This authoring team has worked together on several publications, including *Up Close and Personal, Customer Relationship Marketing*, *Successful Customer Relationship Marketing* and *CRM in Financial Services.* Merlin is also an internationally known figure in CRM, with over 20 books to his name including *Up Close and Personal*. He has worked on CRM topics with Bryan for 8 years and many of IBM's strategies in this area are based at least partly on their thinking.

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