

{ New Strategies }

POPI!



# Left Behind Expectations

## HOW TO PREVENT CRM IMPLEMENTATIONS FROM FAILING

*Jan U. Becker, Goetz Greve and Sönke Albers*

This article discusses performance drivers of CRM projects and is particularly relevant for managers seeking to optimize their companies CRM efforts. Despite the billions of dollars that have been spent on the implementation of customer relationship management (CRM) systems, many of the adopting companies are unhappy with the results. This can be due to two reasons: first, either the CRM projects are poorly implemented and thus do not perform accordingly, or, second, companies expect too much from CRM systems. This research examines how technological and organizational implementations as well as internal support affect the objectives of CRM with regard to initiating, maintaining, and retaining customer relationships. The results indicate that internal support is an important factor for the performance of CRM implementation. Further, it helps to have a clear focus for a CRM system to specifically address diverse functions such as the acquisition, maintenance, and retention of customers and to tailor implementation effort to the needs of the major functions.

### **Not Up to Managements' Expectations!**

Over the past two decades, customer relationship management (CRM) has become one of the most promising yet controversial concepts in business. Considered to be an effective means of managing and nurturing the interactions of enterprises with extant and prospective customers, companies have invested billions of dollars in CRM implementations. For example, in 2008, the worldwide revenues for CRM software solutions were \$9.15 billion (Gartner Group, 2009). Since this figure does not include investments in CRM consulting or in-house solutions, one can assume that the total CRM-related investments are, in reality, much higher.

The prospects are also quite promising: CRM implementations are supposed to analyze and organize sales activities, foster marketing automation, and facilitate customer service and support. Consequently, CRM enables

companies to boost revenues and reduce costs of marketing and client services. Lately, however, companies have become increasingly displeased with CRM implementations, as the majority of them are falling short of performance expectations and are therefore considered failures. More specifically, studies report that only one third of all CRM projects experience significant improvements in performance. That means that two thirds of the companies that started a CRM initiative either suffered losses or had no bottom-line improvement in company performance. Even worse, one in five CRM initiatives damaged long-standing customer relationships.

### **Why Can CRM Implementations Fail?**

How can initiatives involving so many resources with regard to financial and intellectual capital and offering so much potential deviate from expectations and leave the CRM project managers so utterly disappointed?

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There are two possible reasons: either CRM projects are poorly implemented, or the managers' expectations were too high to begin with. These possible reasons are investigated in more detail below.

#### Reasons behind Poor Implementation of CRM Projects

Given the common definition that CRM requires a cross-functional integration of processes, people, operations, and marketing capabilities that focuses on initiating, maintaining, and retaining long-term customer relationships and is enabled through information, technology, and applications, there are obviously many possible reasons for CRM implementation failure. Here, we present two of the most prevalent ones:

##### Limited Scope

Most obvious, and for many synonymous with CRM, are *technological implementations* involving IT systems and software solutions that organize, automate, and synchronize marketing processes. When set up and configured correctly, such IT systems provide for the acquisition, storage, and accessibility of customer information, as well as its analysis. These technologies are readily available and easily implemented by specialized software and consulting firms. However, investments in soft- and hardware are not sufficient since technological implementations must be accompanied by changes in organizational structures and processes as well. For ex-

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ample, customer-facing departments might need to be restructured to specifically serve certain customer segments. Such organizational changes are equally important for the success of CRM implementations since technological systems often involve customer databases with information that is used for different management functions — e.g., marketing, sales, or service. In order to disseminate customer knowledge and customer orientation within the organization, *organizational implementations* need to provide whatever changes are necessary to the organizational structure, such as relevant training and rewards for employees who engage in CRM-related activities. However, in contrast to technological implementations, the return on investment in organizational changes is much harder to predict. Consequently, if companies are too reluctant to pervade the CRM strategy and initiate necessary changes, CRM projects are likely to fail.

##### Limited Support

The definition also conveys that CRM implementations rely on compliance at both the managerial and employee levels, since CRM success does not come from the sum of single activities, but rather from interactions between activities. This especially applies to interactions between support activities within the company — i.e., top management providing strategic support and employees' actually using CRM systems.

One role of management is to support CRM implementations by creating a corporate environment that embraces CRM as a vital element of business strategy and engaging in activities that demonstrate their commitment to CRM implementation. Therefore, top management needs to effectively communicate that CRM is the company's strategic orientation, and not merely a fad. Knowing that *top management supports* the CRM strategy will most likely affect employees' behavior as well. This is crucial as *employee support* is not only regarded as a key driver of organizational success but also of CRM technology success. Unfortunately, studies indicate that despite the fact that CRM technology would increase individual performance, employees are often reluctant to adopt it; especially sales persons are often sensitive in regards to their tacit knowledge about customers and are therefore unwilling to feed personal knowledge into a company database. In such cases, neither top management nor employees actively engage in the CRM strategy, and CRM projects are likely to fail.

### Could Managers' Expectations be Wrong?

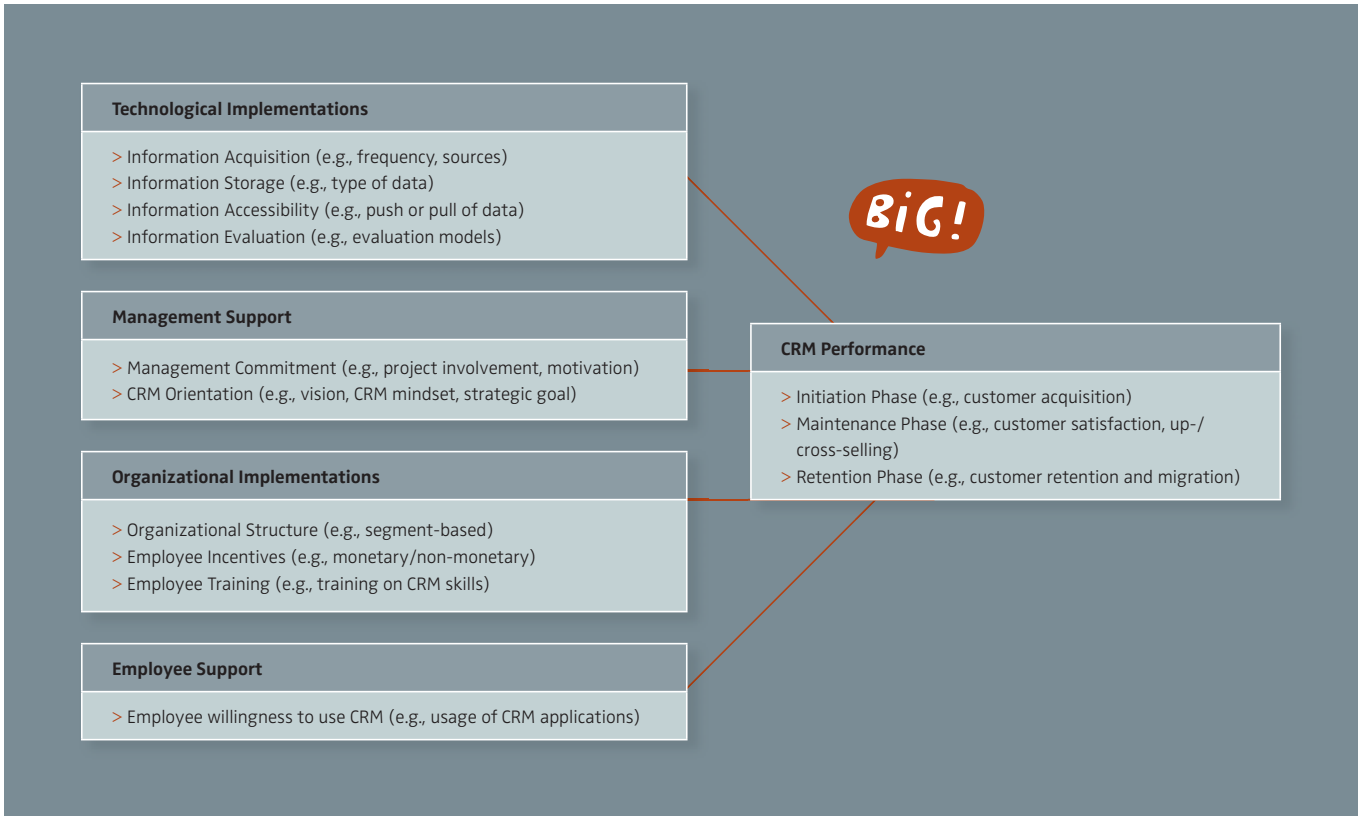
Even companies that implement proper technological systems, initiate appropriate organizational changes, and have all employees onboard with the CRM strategy may experience disappointments if the expectations placed on CRM implementations are too high.

Provided that CRM is a cross-functional process that focuses on initiating, maintaining, and retaining long-term customer relationships, CRM implementations need to capture the different objectives of each of the process phases. More specifically, in the *initiation phase*, CRM implementations are designed to help companies acquire new customers. In the *maintenance phase*, companies expect to develop and intensify customer relationships such that they result in higher customer satisfaction, expanded relationships (e.g., through cross- and up-selling activities), and increased customer revenues. However, relationships show decreasing returns at the end of the customer life cycle. Therefore in the *retention phase*, companies need to identify previously profitable but currently inactive customers and initiate appropriate activities to reactivate those customers. Considering that customers are not homogeneous with regard to the relationship stage, the evaluation of a CRM project's performance is likely to depend on a company's customer base and on the CRM system's ability to serve the objectives to initiate, maintain, and retain long-term customer relationships.

Since CRM systems consist of the implementation of technological systems that acquire, store, and evaluate customer information and the alignment of companies' organizations and structures (see Figure 1), it is not obvious that those systems serve all phases' objectives identically. Hence, companies' expectations are not met if CRM implementations do not match the customer base's specifications. For example, since the knowledge base of customer information increases with the length of the relationship, and the effectiveness of CRM systems is heavily reliant on the quantity and quality of the data input, technological implementations should perform better in the maintenance and retention phases. Also, organizational implementations should have their maximum impact in the early stages of the customer life cycle since the existence of appropriate organizational structures and well-trained, motivated sales personnel should facilitate the acquisition of customers.



**FIGURE 1:**  
Performance Drivers of CRM Systems



**FIGURE 2:**  
Impact of CRM Implementations and Support on Performance

	Initiation Phase	Maintenance Phase	Retention Phase
Technological Implementation	●	●	●
Organizational Implementation	●	●	●
Management Support	●	●	●
Employee Support	●	●	●
Organizational Implementation & Management Support	●	●	●
Technological Implementation & Employee Support	●	●	●

○ strong impact   
 ◐ moderate impact   
 ● insignificant impact

Obviously, there are many reasons why CRM implementations can fail to meet expectations. Depending on the company's strategic goal to acquire, maintain, or retain customers, companies run the risk of selecting the wrong type or degree of implementation (technological and/or organizational), or providing insufficient management and employee support.

### Study and Data Source

In order to understand what factors influence the success of CRM implementations, we collected data with the help of an international consulting company, which is well known for conducting CRM projects (including the implementation of technological systems and executing organizational changes) for clients. We randomly selected 400 companies with substantial experience in CRM in ten European countries from the consulting firm's client database. Addressing a questionnaire to the responsible CRM project managers of the selected companies, we collected a total of 90 usable responses. Altogether, the respondents were mainly large companies with more than 5,000 employees where either top management or the marketing and sales division were responsible for CRM issues. In more than 69 % of the cases, senior executives from top management or the marketing and sales departments responded to the questions addressing which CRM systems were actually implemented, and assessed the company's performance development with regard to the CRM process-related aspects.

### Drivers of CRM Performance

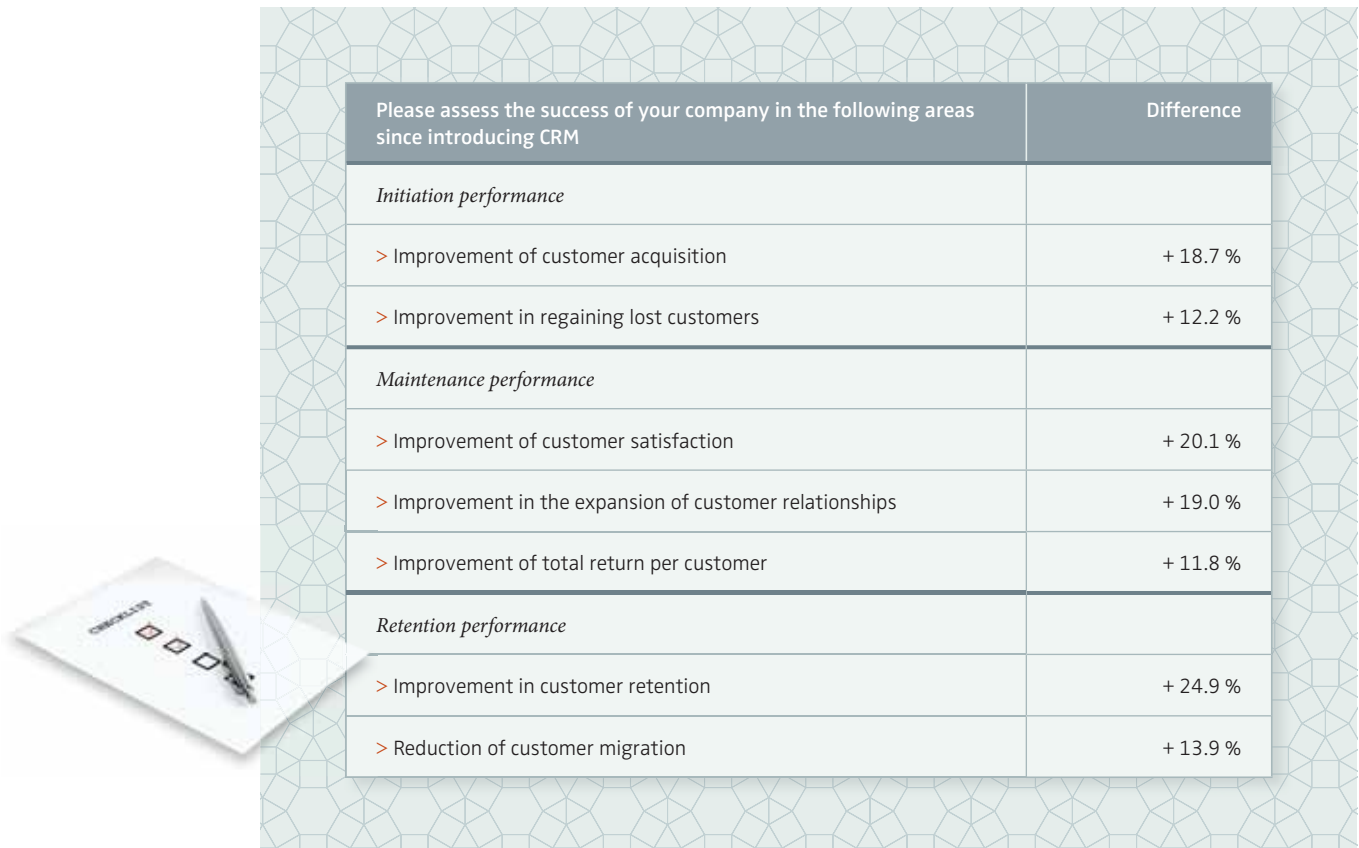
Based on the magnitude of technological and organizational changes that the companies experienced (e.g., degree of applications to analyze and evaluate customers or provision of employee training) and their outcome (e.g., degree of improvement with regard to customer acquisition, maintenance or retention), we examined whether CRM implementations are able to meet the phase-specific objectives. Furthermore, we analyzed what impact employee and management support have on CRM performance. The analysis provides insights as to what kind of implementations influence performance in which phase and, therefore, what companies can realistically expect from CRM systems. Figure 2 shows the results and demonstrates the impact of the key factors on performance.

Whereas technological implementations moderately impact initiation (i.e., customer acquisition) and maintenance performance (i.e., customer satisfaction, up-/cross-selling), the components of organizational implementations do not significantly influence performance in any phase. However, appropriate organizational structures, and motivated, well-trained sales personnel do in fact affect performance if managerial support for CRM exists. Similarly, technological implementations unfold a much stronger impact when employees accept and support the CRM systems. However, neither kind of implementation shows any significant impact for customer retention.

» Judging from the results, it is the combination of poorly implemented CRM projects and overly high expectations that may result in (perceived) failures of CRM systems. «



**Table 1:**  
PERFORMANCE OF CRM IMPLEMENTATIONS



Please assess the success of your company in the following areas since introducing CRM	Difference
<i>Initiation performance</i>	
> Improvement of customer acquisition	+ 18.7 %
> Improvement in regaining lost customers	+ 12.2 %
<i>Maintenance performance</i>	
> Improvement of customer satisfaction	+ 20.1 %
> Improvement in the expansion of customer relationships	+ 19.0 %
> Improvement of total return per customer	+ 11.8 %
<i>Retention performance</i>	
> Improvement in customer retention	+ 24.9 %
> Reduction of customer migration	+ 13.9 %

#### WHAT CAN MANAGERS LEARN?

##### CRM Systems Cannot Merely be “Bought Off the Shelf”

Judging from the results, it is the combination of poorly implemented CRM projects and overly high expectations that may result in (perceived) failures of CRM systems. First, with regard to the quality of implementations, the study shows that CRM systems cannot merely be “bought off the shelf”. Hence, the mere implementation of CRM activities of organizational and/or technological nature and hoping for effects on the acquisition, maintenance, or retention of customer relationships is insufficient and unrealistic. Interactions between people and processes need to be considered as well since they represent the degree to which management and employees embrace CRM and support its implementation. This finding helps firms understand that successful CRM projects depend on support from within the companies and stresses the need to actively and intensively involve employees and management in the implementation process.

##### Specify the Focus of CRM and Adapt Resources

CRM implementations are not capable of equally serving customer initiation, maintenance, and retention goals. In order to avoid overly high expectations and the resulting discontent, companies should carefully consider the aspects for which CRM implementations may be efficient. For example, many companies still emphasize the acquisition of new customers over developing existing customer relationships and, therefore, align employee training and incentives accordingly. Consequently, changes in organizational structures only affect initiation performance and have no effect on the objectives regarding the maintenance and retention of customer relationships. The role of technological implementation across the CRM process remains quite constant — systems and information used to acquire new customers work as well as those employed for the purpose of cross- and up-selling activities. Judging from the moderate impact of technological implementations alone, one apparently does not need the most sophisticated technological systems

to perform successfully. Hence, the majority of responding companies operate with one-dimensional models for customer analysis and evaluation (e.g., customer satisfaction analyses) using only socio-demographic characteristics to distinguish between their customers.

The finding that neither technological nor organizational forms of implementation are able to fulfill all CRM process-related objectives gives companies an indication of what to expect from CRM projects: whereas companies whose customer portfolio management strategy focuses on initiating customer relationships may well be advised to allocate their CRM investments to technological and (especially) organizational implementations, those investments alone would not have an effect on customer retention. However as shown in Table 1, a common strategic vision shared by management and employees can lead to similar increases in performance levels for customer retention. •

## FURTHER READING

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### KEYWORDS:

Customer Relationship Management, CRM Implementation, CRM Process, CRM Success, Customer Life cycle