ACADEMIA DE STUDII ECONOMICE - Bucureşti

Acadmy Of Economic Studies - Bucharest

FACULTY OF BUSINESS ADMINISTRATION

(Facultatea de Administrare a Afacerilor cu predare în limbi străine)

Informatics for Business Administration

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Chapter 3 CRM – Customer Relationships Management

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- suport de curs destinat studenţilor de la sectia engleză - master aprofundat-

(lecture notes for 1st year students of english division – Master in Business Administration)

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Bucureşti 2008

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3.1 Introduction

A customer requires three things from a company:

- The products on offer must fulfill his requirements;
- The products must be available in the required quantity and quality;
- The products must be available at an acceptable price.

Until very recently, business was more concerned about the "what's" than about the "who's" or, in other words, companies were focused on selling as many products and services as possible (in a product-centric view), without regard to who was buying them. In 1960s and 1970s corporate America bet their profits on classic marketing tactics—primarily television ads, mass mailings, and billboards—and then sat back and waited for the customers to pour in.

Later some baby boomers came of age and competition burgeoned. Consumers had more choices than ever before about where to do their banking, their grocery shopping, and their vacationing. Deregulation increased competition even further as it drove prices down. Companies were forced to invent new methods of interacting with customers to reduce costs and gain market share. Use of automated teller machines (ATMs) and interactive voice response (IVR) systems increased. But customers weren't necessarily more satisfied than before.

Nowadays, the competition is just a mouse-click away. Embattled companies are slouching toward the realization that without customers, products don't sell and revenues don't materialize. They have been forced to become smarter about selling, and this means becoming smarter about who's buying. Companies are reading the competitive writing on the wall and looking to technology for a leg up. This, combined with the oft-quoted factoid that it costs a company several times more to sell a product to a new customer than it does to sell to an existing one—the old "bird in the hand" thus coming to roost—has motivated businesses to try to maximize existing customer relationships. And the main ways to squeeze every drop of value from existing customers is to know who the best customers are and motivate them to stay that way.

3.2 Definition

A starter definition of customer relationship management (CRM) is ”*The infrastructure that enables the delineation of an increase in customer value, and the correct means by which to motivate valuable customers to remain loyal - indeed, to buy again*[1].”

CRM is about more than simply managing customers and monitoring their behaviors. CRM has the potential to change a customer's relationship with a company and increase revenues in the bargain. One CRM promise is to help companies get to know their customers well enough to understand which ones to keep and which ones they should be willing to lose—and why—and how not to overspend in the meantime. CRM also means automating many of the business processes and accompanying analysis and saving precious time in the bargain. CRM lets companies design, manage, and execute strategies for interacting with customers (and potential customers). CRM can be applied to the complete customer life-cycle, from acquisition, to ongoing account management, to cross-selling, to customer retention and attrition. The goal of CRM is to allow marketing organizations to tune the customer interaction strategies to the specific needs of each individual, giving customers what they want, when they want it. Instead of interacting with large numbers of customers en masse (consider billboards or magazine advertisements), the new role of marketing is

[1] CRM Handbook, The: A Business Guide to Customer Relationship Management, by Jill Dyché, Addison Wesley Professional,2001

to interact with individual customers. This involves identifying and understanding unique customer patterns as well as being able to create customized offers for small customer groups that correspond to those patterns.

”The purpose of CRM is to enable businesses to track and manage all of their customer interactions over the lifetime of the customer relationship. CRM is a business strategy, and companies typically use a CRM software system as a technology platform to help implement their CRM strategy, processes, and procedures.[2]”

The emergence of the Internet, as an environment of zero latency, offering real-time information and often on-demand product delivery, adds a new opportunity for customer relationship building:

- search engines made easier for customers to find online merchants and interact with them;
- a simplified bidirectional communication offering a better way for consumers to relay personal information to the merchant online (a shorter delivery time, improved accuracy, and a higher positive perception).

Internet users appreciate not having to go out of their way to buy what they want, and the simpler the process, the higher the potential for customer satisfaction. Web offered customers options unavailable with other delivery channels, such as:

- 24-hour access;
- Up-to-the-minute information (on, for example at least, stock levels, product features, and prices);
- The ability to research a product or merchant during a shopping trip;
- Online customer support;
- Online self-service;
- Personalized content.

During CRM evolution a lot of terms used from which some are:

- eCRM (alternatively, e-CRM) - refers to "electronic" customer relationship management or, more simply, CRM that is Web-based;
- ECRM - somewhat confusingly, many experts and publications are using ECRM, alternatively coined "ERM," to refer to "enterprise" CRM, meaning a CRM program that spans an enterprise-wide view of a customer;
- PRM - "Partner relationship management" allows a company to manage its alliance partner and reseller relationships to provide customers with the optimal sales channel while streamlining the sales process;
- cCRM - "Collaborative CRM" denotes situations in which customers can interact directly with the organization, usually through the Web;
- SRM - "Supplier relationship management" resembles PRM in that it focuses on keeping external vendors happy, but SRM limits its focus to actual suppliers;
- mCRM - "Mobile CRM" suggests the provision of data to customers, suppliers, and business partners via wireless technologies;
- xCRM - You're bound to see other letters preceding the CRM acronym, and the "x" is simply used as a placeholder for other CRM hybrids to come;

3.3 Operational and Analytical CRM

An important distinction must be realized between two CRM categories "*operational*" and "*analytical*" CRM. This kind of distinction is important because refers to the tactics a company is taking when implementing its CRM strategy.

Operational CRM (touching the customers), or "front-office" CRM, involves the areas where direct customer contact occurs. These interactions are referred as customer "touchpoints." A touch-

[2] Working with Microsoft Dynamics™ CRM 4.0, Second Edition, by Jim Steger; Mike Snyder, Microsoft Press, March 10, 2008

point can be an inbound contact - e.g., a call to a company's customer support hotline - or an outbound contact - e.g., an in-person sales call or an e-mail promotion. The majority of self-described CRM products on the market today fall into the operational category. The operational CRM enables and streamlines communications to and from customers, but this doesn't necessarily mean optimizing service. Figure 3.1 illustrates the various levels of both operational and analytical CRM.

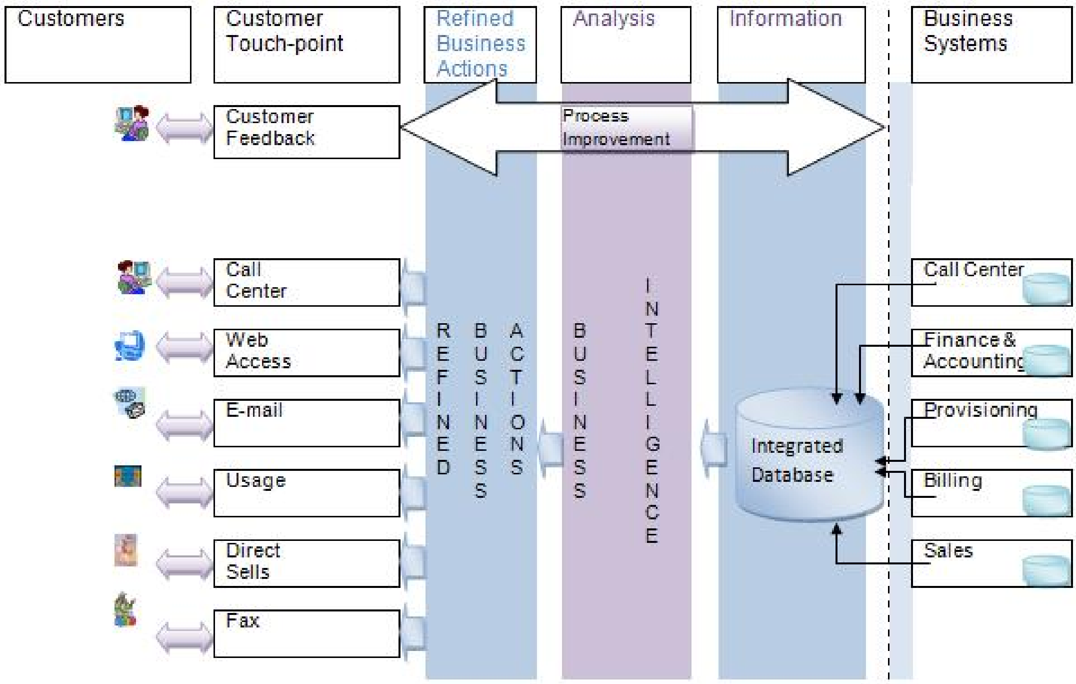

Figure 3.1 Operational and Analytical CRM

Analytical CRM (understanding the costumers), also known as "back-office" or "strategic" CRM, involves understanding the customer activities that occurred in the front office. Analytical CRM requires technology (to compile and process the mountains of customer data to facilitate analysis) and new business processes (to refine customer-facing practices to increase loyalty and profitability). Under pressure from analysts and industry experts, most of today's CRM vendors are either creating analytical CRM capabilities or partnering with business intelligence (BI) vendors to incorporate analysis into their offerings. Figure 3.1 shows how the data and processes combine to refine business actions. Analytical CRM, when done right, involves large amounts of cross-functional data and a continuous learning about customer (figure 3.2). This data is often stored on a data warehouse, a repository of corporate data from various sources intended to facilitate business analysis. Such source systems include any of the following:

- Billing systems;
- Order and provisioning systems;
- Enterprise resource planning (ERP) systems;
- Human resource systems;
- Point of sale (POS);
- Web servers;
- Marketing databases;
- Call center systems;
- Corporate financial packages;
- External data providers (data from third party outside the company).

Data from data warehouse moves to and from to provide an integrated view of the customer. Customer data means a collection including: purchase data, billing and payments, campaign responses, web activities, returns, call center contacts, survey responses, and demographics. Data warehouse contains current or operational data together with a large amount of historical data. Data warehouses continue to deliver critical knowledge in a range of industries, generating returns on investment in the hundreds of millions of dollars. The practice of using data warehouses to analyze business performance is known as business intelligence. The major difference between BI and CRM is that CRM integrates information with business action.

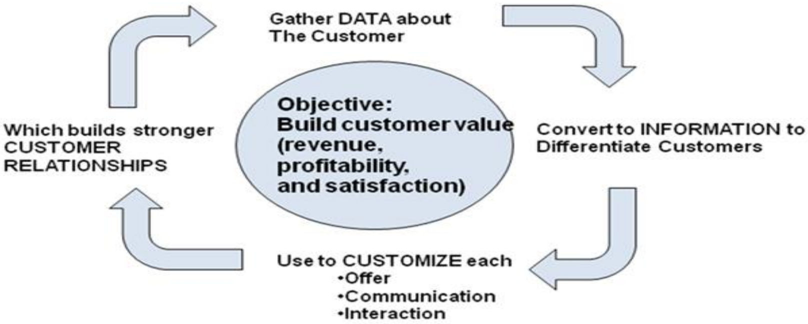

Figure 3.2 Learning CRM (Source: CRM Handbook, The: A Business Guide to Customer Relationship Management, by Jill Dyché, Addison Wesley Professional, 2001)

The main difference between operational and analytical CRM is that analytical CRM is the only means by which a company can maintain a progressive relationship with a customer across that customer's relationship with the company. This means being able to track a range of customer actions and events over time, using data from operational CRM systems as well as from other enterprise systems, as shown in figure 3.3.

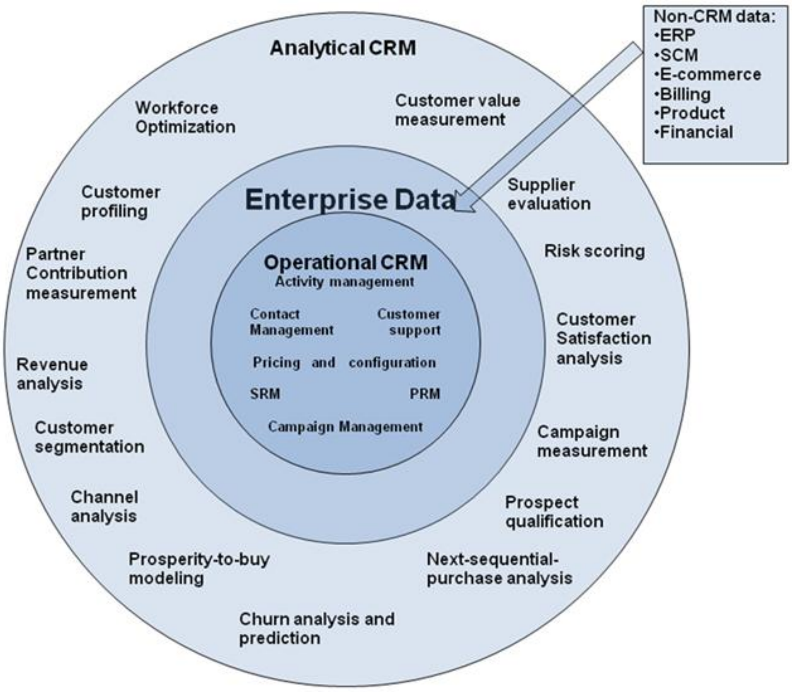

Figure 3.3 Analytical CRM as sum of its parts

Analytical CRM's 360-degree view (figure 3.3) emphasizes communicating with customers across channels based on the optimization of relevant two-way and personalized interactions, be they through a new marketing campaign or from a caller's complaint history. This offers the ability to transcend more broad-brush customer segmentation and deploy customer communications that are truly one-to-one. Companies with both operational and analytical CRM capabilities are changing business strategies to:

- Reward customers with personalized discounts and perks for using lower-cost channels;
- Proactively offer products and services that fit a given customer's needs based on what the customer has already purchased;
- Increase purchase rates by dynamically personalizing content based on the Web visitor's profile;
- Adjust per-customer marketing expenditures based on lifetime value scores;

- Analyze combinations of touchpoints across channels to predict a customer's next likely purchase;
- Relate high Web traffic to individual visitors and customer segments to better understand Web use and improve Web design;
- Tailor commissions and incentive programs for sales partners based on the value of the customers they bring;
- Prevent a customer from churning by offering incentives based on individual preferences;
- Provide customers in the highest value tier with personal representatives who understand their history and preferences.

The CRM is a business strategy and it involves much more than information technology. The CRM best-practice company is the one that understands how to improve business practices and customer relationships by using CRM technology and customer data as part of a program that involves process and organizational changes, with the ultimate aim of differentiating itself through superior customer relationships.

As consumers began purchasing and using products, more data became available about them. Data analysts began associating products to the customers who were buying them and that companies began to understand that their (usually inert) customer data could be as valuable as the product data they were busy probing. Thus evolved the term "target marketing" (figure 3.4) the practice of promoting a product or service to a subset of customers and prospects. Technically, the size of a target market can range from the sum of all customers to a single individual, but during the early days of target marketing when companies began using information technologies in creative new ways, market segmentation was the most widely adopted approach.

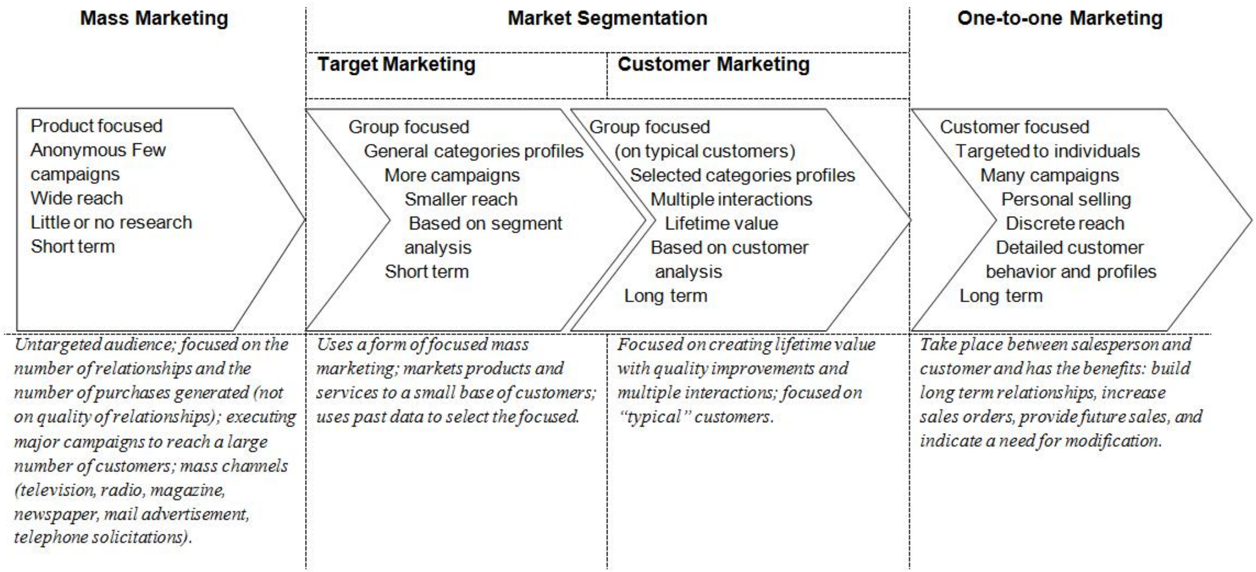

Figure 3.4 Marketing Evolving - Marketing tiers.

CRM products offering campaign management present savings of time, labor, and cost and often demonstrate quantifiable returns on investment.

Successful marketing tactics use the results from customer interactions to improve future interactions, paving the way for high-impact decisions such as these:

- Shifting marketing dollars toward campaigns more likely to generate high responses
- Understanding the characteristics of high-value customers, finding such characteristics in customers who have a high value potential, and changing interactions accordingly
- Improving the effectiveness of high-cost channels (such as face-to-face sales) to maximize their revenue streams
- Institutionalizing personalized communications for specific customer segments
- Understanding research and purchase patterns and further delineating segmentation criteria to improve future interactions or stimulate one-to-one marketing

The goal of CRM in marketing is to move C-level customers up to B-level customers and B-level customers up to A-level customers and to motivate A-level customers to stay that way—indeed, to buy more.

3.4 CRM applications and processes

CRM applications and processes are critical to achieving enterprise objectives. CRM applications are externally focused, unstable, unpredictable, driven by customers, and used for capturing and analyzing information generated from interactions between internal resources, such as employees, and external parties, such as prospects, customers, and partners. CRM applications and processes require usage from all customer-facing employees and, therefore, transcend the boundaries that exist across functions, departments, units, and geographies—just as customer interactions cut across functional, product, channel, and regional silos. CRM applications and processes are critical to understanding customer needs and improving customer experiences through shared customer knowledge.
CRM applications and processes two key points are:
• CRM applications and processes are strategically important to achieving corporate objectives.
• Improving efficiencies and optimizing operations is not enough to achieve customer satisfaction, unless knowledge of the customer is effectively captured and used to deliver competitively superior products and services.

3.4.1 The Core Processes of CRM

The notion of achieving a higher level of customer satisfaction and creating lasting customer relationships requires robust processes and efficient linkages between **company and customer** (CRM), **company and employees** (ERM), and **company and partners** (PRM).
CRM—CRM success requires effective marketing, sales, and service to customers. The goal is to share a single view of the customer across all touchpoints and interactions before, during, and after the sales cycle. The table below lists the key CRM process steps for each of these three customer functions:

Marketing	Sales	Service
Customer Segmentation	Sales Force and Forecast Management	Service Delivery
Campaign Management	Account Management	Inquiry and Service Resolution
Marketing Content Management	Opportunity Management	Customer Satisfaction Measurement
Customer and Transaction Analysis	Order Management	

ERM—Employee relationship management (ERM) allows a company to align the behavior and initiatives of its employees to achieve increasing levels of customer satisfaction. In the process, employee satisfaction increases due to improved awareness of how their jobs contribute to corporate objectives and the attainment of higher rewards for delivering superior results. The table below lists the four key ERM processes and related steps:

Planning and Management	Training and Development	Communication and Information	Support
Performance Management	Training Management	Content Design	Project Management
Compensation Management	Competency Management	Content Delivery	Employee Help Desk Support
Departmental Budgeting	Hiring and Recruiting		Employee Management
			Time and Expense Management

PRM—When executed effectively, partner relationship management (PRM) allows partners to operate as an extension of the company. For the customer, the expectation is that the partner is part of the company and the interaction should be as smooth and efficient as it would have been with the company directly. To ensure PRM success, the company must provide the partners with the same vision and information it gives its own customer-facing employees. The tools, training, incentives, and performance measurement should allow partners to act precisely and effectively when dealing with customers. The table below lists the four key PRM processes and related steps:

Partner Relationship Management	**Marketing**	**Sales**	**Services**
Partner Lifecycle Management	Channel Marketing, Planning, and Analysis	Opportunity Management	Service Delivery
Market Development Fund Management	Collaborative Campaign Management	Account Management	Customer Satisfaction Measurement
Partner Incentive Programs	Hiring and Recruiting		Employee Management
Performance management			Time and Expense Mgmt

3.4.2 CRM software

The requirements for CRM software applications are represented by:

- Gather and manage customer data;
- Offer a standardized view for all area;
- Be easy to understand and use;
- Be adaptable to current market conditions;
- To can be integrated with other applications;
- To support evaluations.

CRM systems are designed to find and build a relationship with present and potential customers. One function is to manage help desks and call centers that work with phone, fax, the web and email. Call center software can be a separate package or combined with the CRM package. CRM packages also include sales and marketing functions, and often a CRM package seems to provide total front-office processing. In addition, CRM systems can often interface with back-office systems such as manufacturing and financial applications, and provides new functionality over the Internet.

One of the biggest functions of most CRM software is website personalization. The software will track a visitor's movement through a web site, record the activity in a database, and be prepared to present information that would interest the visitor when he or she returns. Analysis of customer activity keeps track of people likely to "churn" (choose another vendor) so individualized offers and enticements are used to try to build customer loyalty. The web personalization software works with content management functions and can, e.g., recognize that a customer has put slacks into a shopping cart. If the customer says "yes" when invited to return to shopping, he or she will next see sweaters—on sale. The customer is directed to sweaters because analysis of shopping behavior has shown that people who purchase slacks are likely to buy sweaters. The sweaters are on sale, because this web visitor has already purchased one thing. This makes them a likely candidate to buy something else (called cross-selling). And the sale is for this buyer only. If another visitor goes to this web site and goes directly to sweaters, sweaters will not be on sale. The content management software added the sale to the web page when web personalization told it to do so because a likely buyer was going to that page.

Call Center

Call center software started out managing telephone call centers including telemarketing, help desks, and service functions. Call centers still reflect any or all of these activities, but now provide a centralized source for customer support and have to work with phone, email, fax, and website communications. Much of the support is automated through either voice or web menus, and most systems record all contacts and build a knowledge base of interactions. Because one of the most important functions of customer support is handling complaints and returns, companies try to reach a balance between automating common actions and getting the customer directly to a person. For example, automated banking which allows people to check balances, search for canceled checks and even pay bills online, works perfectly well with no human interaction, but the minute a banking customer finds an error in a statement, they need to speak with someone. Web systems are now including web call-backs or instant messaging support to let customers reach a person.

Marketing

Marketing software automates marketing campaigns and interfaces with sales systems to report on the success (or not) of a campaign. Most marketing software today includes web email campaign management, and programs to analyze web activity to a corporate web site, corporate ecommerce site, and/or Internet advertising through banner ads, pop-up windows, and various links.

Sales and Distribution

Systems in this category include bar code processing, order entry, order processing, sales and marketing, sales management, sales force automation, distribution management, warehousing, freight and trucking, import/export, mail order, point of sale and wholesale trade.

Sales Force Automation (SFA)

Sales software is often referred to as SFA (Sales Force Automation) systems and allows sales people to check inventories, delivery dates, etc. online to completely process an order. This allows remote sales people to have up to date information on sales calls, as they can check the status of an order for a client, or input a new order while in the client’s place of business. These systems can also schedule sales calls, forecast potential business, and do some client management. For example, if a sales person knows his client coaches little league soccer, he or she could use an Internet spider to search for articles on soccer for children to forward to his client/coach. Another name for this software is Contact Management Systems.

3.4.3 Web changes

For one thing, the Web has simplified information availability. Instead of being resident on each salesperson's laptop, SFA functionality now rests on a headquarters Web server running CRM software, and the salesperson can access that server remotely. Information local to a single server is consistent across geographical regions and multi-person teams. Cumbersome synchronizations between the client laptop's data and the headquarters database are a thing of the past.

The intranet infrastructure also eliminates the traditional support costs of managing communications, instead delineating the work to the company's chosen Internet service provider (ISP). Resource expenses are dramatically less than those needed to support the old client/server model, which involved expensive modem banks, numerous dedicated phone lines, and the capacity planning that accompanied them. The Web simplifies access by allowing a company to outsource remote access to the ISP and focus instead on running the application and maintaining the data, arguably its core competencies. Laptop configuration and support costs are also reduced. Salespeople no longer need act as systems programmers, setting up their communications options, modem settings, and the like.

Most important, browser-based technology shields the company's data asset—one of its key competitive weapons. Instead of the account rep having to ensure security, experienced IT staff now manage and protect critical customer data in a central location at headquarters. The data is no longer propagated, but remains in one place. The risks of deleted files, smashed laptops, or lost sales reps are thus dramatically reduced.

Handheld device technology is evolving at a fast clip. Personal digital assistants (PDAs), cell phones and Web phones, two-way pagers, tablet PCs, and any other device with a display screen and the appropriate communications features can support anytime/anywhere access via wireless networking.

Web based CRM (sub)systems are part of the value chain strategies for gathering customers data. Companies that web based CRM systems must consider three important factors:

- **Strategic vision** – a clear idea of what the company want achieve with in terms of their own particular customers, culture, products, and objective;
- **Operational process** – examine and evaluate all company processes on the basis of customer focus, consistency, and effectiveness;
- **Technology and infrastructure** – evaluate the current state of the company’s used to support it for its ability to deliver and support effective web technology.

3.5 A CRM Implementation Roadmap

Development approaches can differ according to a company's approved development lifecycle, staff expertise, and IT standards. Within the three main project phases—planning, construction, and deployment—the CRM roadmap features steps that contain a number of fixed and variable tasks.

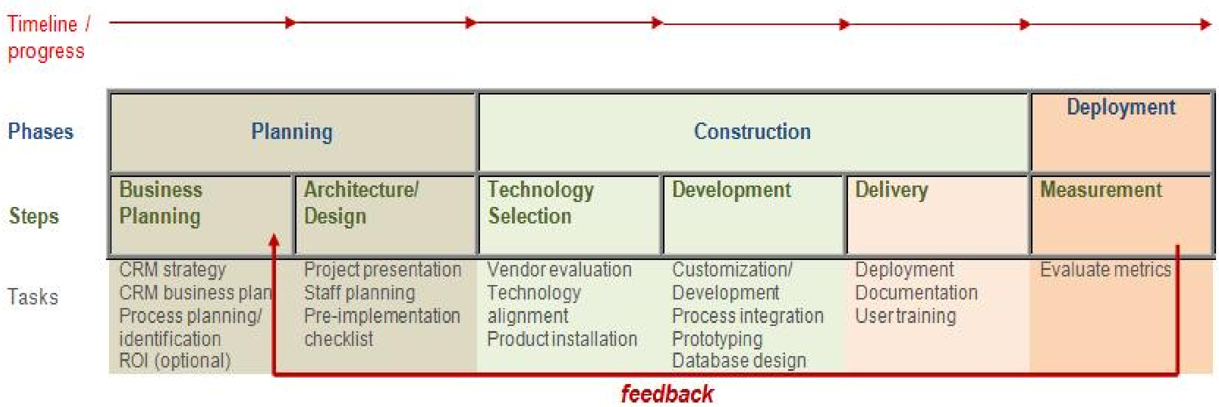

Figure 3.5 CRM roadmap: phases, steps, and tasks

I. Planning

Business Planning

CRM business planning involves many steps from which the most critical activity is defining CRM's overall objectives (at the department or enterprise level) and delineating the requirements of each one. At the enterprise level, CRM business planning can involve the documentation of a

corporate CRM strategy and the definition of the corresponding programs within it. At the department level, it can simply mean establishing the boundaries of a new CRM application.
At minimum, the business-planning phase should include the documentation of high-level CRM business goals in the form of a strategy document or business plan. It will be useful as a focal point for requirements-driven development and—after the CRM project has deployed an application—as a way to measure its results.
Depending on funding and sponsorship requirements, CRM business planning might optionally include ROI estimation or cost-savings projections.

Architecture and Design
The need to plan CRM architecture and to design an implementation strategy is what makes business sponsors and project leaders shudder and go straight to technology selection hoping for a miracle. The architecture and design step is painful, but it's worth it.
This step identifies the business processes the CRM product will support. It involves listing the specific functions that will need to be implemented—and how—ultimately giving you a good idea of CRM's impact on the organization and various technologies.
At the end of this step you should be able to answer the following two questions:

1. What technologies and processes do we have in place that will be impacted by CRM?
2. What do we need that we don't have today in order for CRM to work?

Impact analysis can mean listing current systems—for instance, you might need to know a bit about your company's existing call center operational system before you can understand how candidate CRM technologies will link to it. Indeed, a range of existing technologies, from ERP systems to current marketing automation technologies to handheld computers, are likely to be touched by CRM.
After the system impact of CRM is well understood, an IT architect can draft a CRM architecture illustrating the appropriate linkages and integrating corporate systems that exchange data, even if the data isn't formatted consistently.

II. Construction

Technology Selection
CRM technology selection can be as simple as choosing an off-the-shelf product or as complex as a comprehensive evaluation of various CRM systems integrators or ASPs. If you've bitten the bullet during architecture and implementation design, understanding CRM's impact on existing systems and its requirements for new functionality, you should be in good shape to align any candidate CRM product to your existing IT environment.

Development
Development involves the construction and customization of the CRM product, using specific product features. But CRM development is more than programmers assuming center stage and writing code; it involves the integration of business processes with the chosen CRM product.
Process integration involves ensuring that identified business processes are tested with users to ensure not only that the business processes work, but also that technology features can be leveraged in order to refine them. In other words, technological capabilities should improve, not compromise, customer-focused business processes. For instance, a campaign management product allows segment managers the opportunity to refine a mailing list before the campaign is launched—something they've never been able to do—thus refining the existing process. The same product might also allow a campaign director to monitor a campaign's success rate as it's being executed. If the first thousand prospects have been unresponsive, the manager can cancel the campaign rather than allowing it to proceed, adding another valuable option to the campaign execution process.
Refining business processes during development means iterative prototyping: from time to time programmers demonstrate interim functionality to business users. Thus business users can monitor

product development and test CRM functionality during—not after—implementation. End-user feedback about CRM functionality and desired changes can be flagged and incorporated into the CRM deliverable to ensure that resulting functionality conforms to requirements and meets user expectations.

Delivery

The delivery step is often overlooked or lumped into development. Basically it means leveraging the corporation's IT infrastructure to dispatch the resulting CRM software to the business users who need it. In the case of a new Web-based sales-force automation tool, the application might be announced via an e-mail message that contains a link to the new CRM Web site. If the CRM system is client-server based, it will need to be installed on individual workstations.

Often, new CRM functionality simply supplements an existing operational system and is not considered a new standalone system. For instance, a contact center representative might now see a "screen pop" displaying a customer profile when the customer calls in. In such cases, business users might not even be aware of the new feature before it appears.

CRM delivery can also include user guides, job aids, and other documentation, as well as online or Web-based help to encourage users to make the most of the new CRM functionality.

III. Deployment

Measurement

The measurement step brings the CRM roadmap full-circle as it evaluates CRM usage in order to refine CRM requirements. Measurement also includes the incorporation of user feedback to improve CRM usability and business effectiveness.

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