What gets measured gets better

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Abstract Some marketers define customer relationship management (CRM) as a company-wide philosophy involving organisational realignment and culture change, as well as technology implementation. In practice, CRM has become inextricably associated with the installation of software packages. CRM, a business strategy intended to gain market share and competitive advantage through improving customer loyalty, has been discredited because of over-reliance on technology. Given the results of IT industry analysts' findings on the way CRM success or failure is measured, if it is measured at all, perhaps CRM systems as well as CRM strategy have had an unfair press. Re-launching CRM step-by-step with a balanced metrics framework, including the customer experience, may be the way forward.

INTRODUCTION

A Morgan Stanley survey in 2002 of 225 Chief Information Officers[1] demonstrated that implementing customer relationship management (CRM) is still a priority on the IT agenda, despite widespread reports of dissatisfaction and failure. Some companies have spent millions of dollars on CRM implementations, but 55 per cent of all CRM projects are deemed failures and 20 per cent may even have damaged customer relationships.[2] It has been stated that firms have implemented CRM to 'cure all ills'.[3] Perceived failure could not be far behind such high aspirations.

CRM as a business strategy is a complex recipe of interdependent success factors. The strategy must be concise, specific, understandable and inspire buy-in. Cross-functional teams must champion the projects involved. The technology must not mirror flawed processes. It must be deployed efficiently to transform accurate data into information that leads to perceptive decision making. But above all, CRM must enhance the customer experience, or there is no hope of improving loyalty. Gartner's analysis of their CRM Excellence Awards was that even good practitioners neglected the customer experience.[4]

Identifying improvements in the customer's experience leading to improved perceptions of the company and thus to repeat buying behaviour is difficult to track. It is also costly to measure. IDC recommend that 5 per cent of every marketing programme execution dollar should be earmarked for the measurement of performance, including benchmarking against competitors or best-in-class organisations.[5] In reality, measurement receives very little investment.

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Twelve per cent of respondents to a readers' poll on destination CRM reported in answer to 'What is your most common CRM ROI metric?' that they had none in place.[6] In a survey sample drawn from the Fortune 1000, Forrester Group found that 39 per cent of companies had no metrics, 48 per cent had only internal metrics, and only 12 per cent had external goals and metrics.[7] Kellen quotes a CRM practitioner commenting that CRM stands for 'Can't Really Measure'.[8] Not surprisingly, many consultants assert that failing to set meaningful pre-defined metrics is a guarantee of failure.[9] In May 2003, a report by The e-tailing Group concluded that of all the ways in which e-businesses were improving, measurement capabilities ranked last.[10]

CRM software can 'do' metrics, but case studies referenced by software providers and consultants usually emphasise efficiency measures. Peoplesoft's brochure for their CRM Analytics Workbenches lists typical metrics that the software enables and every one (31 in total) is an internal efficiency measure. Respondents to Forrester's survey[11] were beginning to realise that while efficiency measures are necessary, using them as a blunt instrument may actually create wrong behaviours that spoil the customer experience. Most people have probably heard anecdotal evidence of call-handlers rushing to get rid of a customer without solving their problem, presumably so that they can minimise the time spent on the call. Companies risk loss of customers and negative word of mouth with the wrong metrics, but struggle to identify or invest in the ones that might help them to progress towards their customer loyalty aspirations.

'CRM is about the holding of information about all interactions with the customer and using it for their benefit', says CRM implementer Chris Webb in the *Financial Times*.[12] Short-term internally-focused metrics are not wrong, but they are only part of the picture. Gartner rates performance management as one of the most challenging of the building blocks of CRM,[13] and describes 'customer strategic' metrics as the missing link.[14] Kellen suggests that in addition to measuring the efficiency of customer-facing operations, CRM metrics must include customer equity building.[15] The suggestion has been made that CRM should be renamed 'customer experience management' in order to refocus it.[16]

WHY MEASURE?

Consumption makes up 75 per cent of developed economies,[17] so it deserves a more privileged status than production. It demands customer-focus capabilities and most organisations realise that they must master them. Customer focus in large-scale organisations is a relatively new paradigm, however, so little wonder that customer-focus metrics are also in their infancy. Companies must develop them because 'in order to manage effectively, one must measure'.[18]

Implementing the software will no doubt be subject to rigorous project management, including a full understanding of prerequisites, co-requisites, milestones, critical paths, risks and contingencies. But CRM as business change has been described as a 'wicked' project.[19] It has its own unique organisational context, which makes cause and effect difficult to predict. Unexpected or even negative outcomes may arise. That makes it even more vital for organisations to assess their level of success or failure using commonly agreed and understood measurements. Otherwise, success or failure is purely a matter of perception, based on each decision maker's values. That does nothing for the company, the shareholders or the customers.

Relevant metrics, which can influence or validate decision making, guide ongoing activities and assist in predicting future states,[20] form a sound foundation for change management. Without them, a lot of resources are wasted, and project drift is highly likely.[21,22]

Relevant metrics may come from a variety of sources. The software may monitor internal efficiency trends and drive analyses of customer data and transactions, but customer reactions must be researched. Technology may make it easier to research; General Mills conducted 60 per cent of its market research itself, over the web, in 2001, versus 20 per cent in 1999.[23] Investment in using objective third parties and market research firms is also part of the mix.

WHAT GETS MEASURED?

Peppers and Rogers' 1to1 Innovator Awards[24] reveal a variety of measures of return on investment. Most are internally focused. Increase in sales revenue, improved sales productivity, reduction in marketing waste through better targeting, reduction in costs in call centres, reduction in sales cycle time, increase in campaign responses, increase in web traffic and decrease in cost per response all help the company and may represent very good reasons for 'doing CRM'. Tesco knew that its CRM initiatives were successful because the percentage of purchases linked to loyalty cards and coupon redemption increased. Company activity had had an impact on customer behaviour. However, only a few of the 1to1 innovators cited metrics related to the customer experience, such as improvement in first contact resolution and improved speed of order fulfilment.

Marketers must be realistic; they are but one of several company stakeholders in CRM. Without a short-term increase in revenue or reduction in costs, there will be no CRM project. Shareholders are impatient and chief executives are under pressure. The forced turnover of CEOs because of performance deficiencies rose 70 per cent in 2002 over 2001.[25]

Nevertheless, marketers should be making the case for the customer and should be the champions of long-term value vested in customer equity. In their CRM Excellence Award, Gartner noted 'little, if any, attention paid to how customers benefited from the CRM initiative'.[26] In the short term and the long term, if just one significant thing were improved for the customer, the company would be realising the elusive 'sustainable competitive advantage'.

WHAT SHOULD GET MEASURED?

Expert views

Kellen describes a virtuous cycle of metrics. Internal metrics around value production and value delivery must be informed by external focused information about customer perceptions and behaviour, thus creating customer insight within the value creation process in the firm. Strategy must inform metrics, and information derived from measurement needs to feed back into strategy reformulation.[27]

Johnson and Gustafsson offer another 'holistic' view of CRM metrics. They link internal quality to external quality perception, which is then reflected in customer satisfaction (the customers' reaction to value received), leading to customer loyalty and retention, leading to cost savings and revenue growth.[28]

Shaw, in 'Improving Marketing Effectiveness',[29] offers a simple model to ensure a proper portfolio of measures that encompass not only the easily measured inputs (costs) and outputs (sales/profit), but also two interim steps: customer motivation and customer behaviour. Using this model, decision makers can go through the thought process of assuming what change in customer motivation they expect from a particular input, what changes in behaviour that change in motivation should inspire, and what the resulting change in output will be. Of course, such a regime would need to be tested, adjusted and retested until cause and effect could be tracked.

These models are all trying to get at how changes in company behaviour towards customers affect changes in customer behaviour towards the company. A metrics dashboard with breadth, depth and traceability[30] is needed to inform the CRM strategy. The following list is not exhaustive; each company will need their own framework. It summarises recurring themes in analysts' and experts' comments.

CRM implementation

Even tracking costs within the IT element of CRM can be a challenge. A 1999 survey of 6,000 IT managers found that only half the respondents used measurement. Of those that did, only 25 per cent used them on a weekly basis. Many of those surveyed said that metrics only tell an organisation when it is already in trouble.[31]

Although costs might be easy to measure, the critical factor in any business change involving IT is time. Following widespread concern about the 'big bang' approach to CRM implementations, smaller, more focused projects have been advocated, for example by Rogers and Ryals[32] and by some IT services companies.[33] CRM implementations sprawling over years usually brim and froth well over budget as well. Instead, companies could set a strict time limit of six to nine months for each step or thread. (Steps may overlap, depending on resources available.) A typical 'thread' which will lead to a better customer experience would be speeding up order delivery time. The sub-project is broken into milestones and the milestones are treated as immovable. To avoid project drift, function has to be sacrificed and budgets may have to be flexible. If each sub-project is contained by time, the greater chance the company has of linking its activity to a change relevant to the customer that delivers a desirable output.[34]

People factors in CRM

One input to CRM, which is often overlooked, is employee satisfaction. Frederick Reichheld (Bain & Co) and Earl Sasser (Harvard Business School)[35] identified a correlation between employee satisfaction and customer satisfaction. They observed that if employees have the right values, as well as skills such as being keen to achieve and being able to take a long-term perspective, this will contribute to generating customer loyalty and superior value. In CRM specifics, if employees are happy with new processes, they can convey their confidence to customers. Consequently, many consultants emphasise employee involvement and training as critical to the success of CRM systems and processes. Monitoring employee satisfaction is important to gauging that success.

Internal quality

So far as efficiency means quality processes, it is worth measuring. Some efficiency measures may create wrong behaviours within the company that alienate customers (see cautionary notes below). Nevertheless, CRM implementation is a reason to streamline processes. The criterion for success is that the change makes it easier for the customer to deal with the company, for example reducing duplication. Better, cheaper and faster can be good for the customer too. Satisfaction levels should rise when customers perceive genuine improvements in quality.

Relative customer satisfaction

Sasser and Jones[36] identified four basic elements of customer satisfaction: basic product or service function that all competitors must deliver; support services such as customer assistance or order tracking (efficient processes); a recovery process when things go wrong; and extra services to meet customers' personal preferences or solve their problems. A CRM system cannot deliver all of these, but it can organise the information.

Ambler points out that any customer satisfaction measure is only relevant if the company understands their score relative to that of competitors.[21] For years companies have been measuring customer satisfaction as a key metric. It is not always an indicator of customer loyalty or commitment. The customer may endorse what the company has done in the past, but still be interested in choices for the future. Customers are human and therefore often fail to make a rational association between motivation and behaviour. Detailed qualitative market research, such as trade-off analysis, can provide granular feedback to enable a company to concentrate resources on customer priorities.

Customer retention

Reichheld and Sasser,[38] the pioneers of customer loyalty tracking, researched a variety of organisations in the late 1980s and identified that there is a high correlation between customer retention and company profitability. Even small improvements in retention rates can make a dramatic impact on profitability. A five-percentage point increase in customer retention yielded an improvement in profitability (in net present value terms) of between 35 per cent (software) and 95 per cent (advertising).[39]

CRM was once seen as a panacea to achieve customer retention and loyalty through more personalised solutions, something bound to enhance the customer experience. Therefore it is absolutely essential for the CRM system to track it and for the motivation for retention to be researched.

Financial outputs

Increased revenue and reduced costs leading to improved profitability are on the accountants' agenda, so CRM will have to deliver that to be a success. Increases in cross-selling, reductions in cost per transaction and improved sales productivity are the most frequently quoted financial benefits expected from implementing CRM systems.

Customer lifetime value

The profit that a customer produces for the firm is the sum of the margins of all the products purchased over time, less the costs of reaching the customer/servicing the customer over time.[40] While revenue and profit are essential metrics, understanding customer lifetime value will give the company a much greater understanding of its future potential, a rare capability and one which ought to delight shareholders. Although it may not be easy to measure initially, companies should aspire to using CRM systems to gather and analyse the information to be able to assess customer lifetime value.

CAUTIONARY NOTES

Once the dashboard of customer-focused metrics has been established, there are still pitfalls. Correlation does not prove causation, so how do cause and effect get linked? Connectivity can only really be established over time, so great care must be taken over assumptions. The author recently conducted a customer satisfaction survey that showed very high approval of the company's technical ability and personal approach. Propensity for repeat purchase, however, was proportionately much lower than might have been expected. Most customers were in the public sector; so other buying criteria, especially price, had to be checked every time by competitive tender.

Factors in cause and effect

Linking cause and effect in CRM measurement is a very complex task. Kellen[41] has pointed out that outputs depend on the duration of the company's planning cycle, market volatility and the degree of change to the organisation and customers that CRM represents, eg the introduction of multiple channels, the breaking down of product silos and/or a significant increase in data to manage. He describes it as one of the most complex measuring endeavours a business can undertake. Technology can provide unprecedented potential for observing and measuring customers in new ways, but unlocking that potential may involve a lot of trial and error.

Keeping metrics in perspective

The process of metrics development itself is a learning experience. Ambler[42] states that the alignment of measurement with strategy needs sustained task force activity. He continues, 'A fuzzy sense of what matters is far more important than precise calculation of the irrelevant'. He concludes that metrics should be used for broad positioning — 'illumination rather than control'.[43] This means that he opposes linking marketing metrics to rewards explaining that marketing metrics should be a reflection of overall company performance, not individual effort.

Everything is relative

Trends matter more than the metrics themselves.[44] Movements over time, movements in a company's position relative to competitors or against an independent benchmark give a strong indication of the company's current performance and improve the predictability of the future. One-offs are just snapshots. Trend information tells a whole story. Although reassessment and recalibration are necessary, care must be taken to keep measurement stable over time so that results are comparable.

CONCLUSIONS

CRM implementations have been poorly measured, if at all, and yet repeated claims are made that CRM has mostly been a failure. Many analysts and consultants have started to report on CRM recovery programmes.[45] They recommend going back to the drawing board and re-focusing. After all, the age of consumption is not going to go away. Taking CRM one step at a time, driven by strategy, underpinned by necessary business process change and monitored by actionable customer experience metrics as well as financial and operational ones, should give all stakeholders something to celebrate.

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