CRM – controlling risk and improving profit

At his recent Faculty lecture, **Dr Robert Shaw**, Visiting Professor at Cranfield School of Management, provided a framework for adopting successful customer relationship management (CRM). He identified the reasons behind the many costly CRM failures, and provided guidance on how to avoid them. Helen Fearnley reports.

Every organisation has its horror stories about poor customer relationships, whether from call centres, web sites or sales representatives. Yet, said Dr Robert Shaw, jumping on the customer relationship management (CRM) bandwagon has largely resulted in costly failures. His talk aimed to show how organisations can improve the profit payback from their CRM investments, and control the risks.

As Visiting Professor at Cranfield School of Management, Shaw said, his research has uncovered ample evidence of both the risks of doing CRM badly, and the payback from doing it well. For example, published studies of CRM implementations indicate 70% have no identifiable benefits, and over 50% of CRM managers would like to change the system they chose. On the other hand, he stressed, success brings high rewards for the lucky few: 50% profit increases have been reported from 5% customer retention gains.

Software firms such as Siebel, SAP and Oracle are riding high on the CRM bandwagon, he added. With software costing over £5,000 per user, plus implementation consultancy costing even more, software moguls are getting rich quickly. Yet for the unlucky majority of users that do not reap the benefits of CRM, this cost of failure is unacceptable.

A Swiss private banker, Shaw went on, had recently confided that his firm had just lost SFr 250 million on a CRM system that had failed to yield the promised benefits. Its CRM strategy and the benefits assessment were the work of consultants from a large accountancy firm. Today the bank is seeking compensation from those consultants through the courts.

According to Shaw, consulting firms have profited even more than software firms from the CRM bandwagon. For example, Accenture boasts over 3,000 consultants helping implement Siebel, SAP and Oracle CRM. And consultants who implement CRM software also offer advice on return on investment (ROI), for anyone prepared to trust their objectivity.

However, his own recommendation was that organisations hire different consultants from the system implementers to advise on ROI. Having been obliged to review several reports by consulting titans about CRM ROI, he had concluded that implementation-consulting firms generally lack the objectivity, or necessary expertise, to provide sound ROI analysis.

What is the general solution?

On finding a solution to avoiding costly mistakes, Shaw said the short answer was to apply profit improvement and risk control techniques to CRM investments. These should, he added, be applied by objective third parties, as an independent control. And management should refuse to be blinded by the claims of the implementation team, or costly CRM failure could be just around the corner.

Shaw's own role of adviser to boards such as those of IBM, Direct Line and Manchester United has led to his developing a tried and tested approach to delivering the rewards and managing the risks of CRM, he said. This approach, he added, can be used as a management framework both for new

CRM projects, and for turning round problematic CRM implementations.

Under this approach (*see Figure 1 below*), senior management establishes a profit improvement and risk control framework for its CRM implementation – ensuring that profit improvements are evaluated and delivered, while risks are tracked and controlled.

What this provides is a profit improvement and risk assessment report, evaluating how much profit improvement will be driven by CRM, and recommending actions for risk control and mitigation. Thus it provides a framework both for new CRM implementations to guide profit delivery, and for existing CRM management to improve their effectiveness and profitability.

Setting the right expectations among senior management is also imperative. (Many senior managers treat CRM as if it means cost reduction mechanism, Shaw observed. They starve CRM of resources and cut costs to the bone. For example, call centres generally give miserable service because they are short of resources, running as cost centres rather than profit centres.)

Putting all this into practice involves facilitating workshops with the CRM team, plus research and modelling. Participation from senior levels of management is vitally important, in view of the large commercial risks and rewards.

Getting started entails identifying failpoints in existing customer-related business processes. Three techniques can help. The facilitated workshops help managers to share their knowledge and experience of customer-related issues. Also, interviews with a sample of customers provide another perspective. Finally, analysis of customer-related costs (for example the cost of the customer interface, comparing cost and usage of different channels) provides the third perspective.

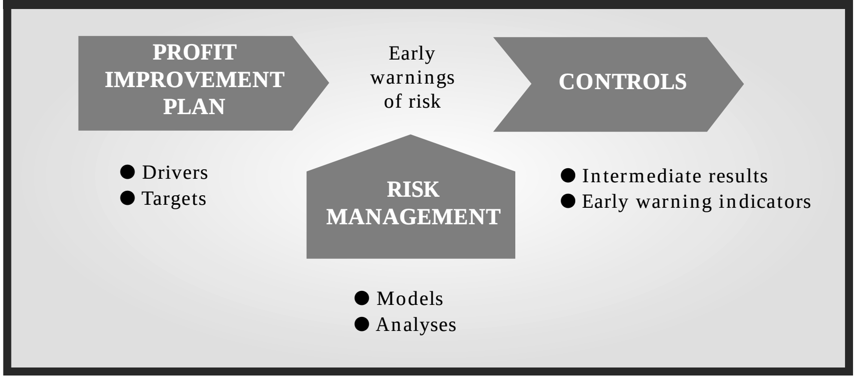
Revenue volatility is studied. Sources of revenue volatility are evaluated, such as reduction in consumption, competitive losses, cannibalisation and substitution. Shaw stressed that changes in customer attitudes are the usual drivers of revenue volatility, and these must be carefully examined. Customer research may be needed to develop a clear explanation of revenue volatility.

The business's growth plans are reviewed, particularly for changes in product range and market coverage. Growth requires customer interaction, and will be hindered by any failpoints identified in the first step. An assessment of growth-value at risk is made.

Profit improvement opportunities are identified and evaluated. Workshops help managers develop a profit improvement plan. Typically profit improvements come from two areas – growth-value at risk and revenue volatility – and both areas of improvement need to be covered. After the workshops, spreadsheet models are prepared to provide quantitative estimates of the profit improvements.

Risk assessment comes next. This focuses on the profit improvement plan and examines areas where it is most likely to fail – using techniques such as brainstorming, fishbone diagrams, and why-why analysis. (Here it is important, said Shaw, to write down everything and create lists of risks that are becoming apparent.)

FIGURE 1 CRM METHODOLOGY



The risks fall broadly into two groups – commercial and contract. Commercial risks concern potential shortcomings in the profit improvement plans. Examples include underestimating resources and costs, overestimating cross-selling and customer retention. Management should take a close look at these commercial risks to see whether their probability or impact, or both, can be reduced. If that proves impossible, it should ensure that plans are in place to monitor and control the commercial risks.

Contract risks involve agreements with CRM suppliers. Risks can be mitigated by strengthening contracts in areas such as performance guarantees, subcontracting, exclusivity, transition plans, operational plans, resource guarantees, and exit strategies. Outsourcing the CRM process, and employing CRM interim managers are two other ways of mitigating risk.

All of us manage risk every day of our lives, Shaw pointed out. We also experience customer relationships ourselves, and have strong opinions on what customers value. We like to see ourselves as 'naturals' where CRM and risk control are concerned. So why do many CRM projects fail? Is it largely, he said, because our intuitive approach is not as good as a well-structured, properly researched framework.

If in doubt on a CRM project, Shaw recommended seeking objective expert guidance but, he warned, this is unlikely to be forthcoming from the technologists, or even some large implementation-consulting firms. However, he said, the research in which he is involved at Cranfield has yielded a wealth of knowledge about CRM, delivering the rewards and controlling the risks, and he would happily share knowledge and provide expert guidance, to those wanting to know more about this complex subject.

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