

CRM IS NOT A FADING FAD

But its emphasis should change. Disproportionate resources are being committed to technology relative to the amount of investment in intellectual capital and creative thinking.

Energy and “thinking time”

Disillusion with CRM investments, their return, their effectiveness, their failure to deliver on promises abounds*. Does this mean that like Process Re-engineering, Enterprise Resource Planning (ERP), Scenario Planning, Six Sigma, etc., enthusiasm for it as a core strategy will fade? In our opinion, not at all. In fact, the reverse is likely: more energy and “thinking time” rather than “Information Technology spend” will be focussed and concentrated on CRM. Where will this change of focus lead? It will lead to a redress of the huge imbalance that has been placed on the strategy of emphasizing science and technology at the expense of the art involved in the strategy.

Companies in financial services, telecommunications, retail, pharmaceutical industries, and other industries have spent literally billions of dollars on sophisticated databases. Here data of every imaginable type – transactions, balances, history, demographics etc. is being captured, cleaned and stored. The Wal-Mart database alone can hold 24 terabytes.

* Economist 21st February 2002: “CRM has turned out to be the opposite of what its name suggests. According to Gartner Group, over three-fifths of such projects have failed to meet expectations.”

Similar amounts are being spent on “front end” technologies of customer platforms, direct mail capabilities, call centre systems and sales representative workbenches. The effect of these investments has been an exponential increase in the number of solicitations being made to consumers. For example, it is estimated in Canada that in the first quarter alone over 45 million credit card solicitations were mailed in a country which has less than 25 million adults.

A significant under-investment

In spite of these efforts, the number of respondents to these solicitations has been falling rapidly. In the United States, financial services direct mail solicitation per customer response has risen from 32 in 1992 to 166 a mere 8 years (Source: BAI Global). Similar statistics exist for telephone solicitations. So what is going on? The investments in CRM technologies are doing what they are supposed to do – using captured customer data to launch larger numbers of solicitation campaigns. Yet, to the extent that return on investment is ever measured, it is clear that the promised returns are not materializing. Has the consumer stopped buying? No. Recent retail sales

statistics show strong growth in consumer spending in all OECD countries.

In our view, there has been significant under-investment in the art and effects of CRM relative to the science and technology. It is admirable to have a top-notch database with real time data feeds, etc., and the latest front-end platform installed, but if there is no activity in terms of analysis, strategy and design in between, failure will result.

It is correct analysis of the data and the subsequent design of the offer that are the crucial elements in the middle that have been under-resourced in many CRM strategies. Even when a company has recognized this deficiency they have tended to search for a science and technology solution. Look at the proliferation of statistical models; vulnerability, next-most-likely purchase, and the propensity to buy in general.

As an aside, look also at the language that is being used – ‘campaigns’, ‘targets’, ‘hit rate’, ‘carpet bombing’ and ‘front line’. Do these words lend themselves to a nurturing relationship view of the consumer? We think not.

This is not to say that “data mining” and using Bayesian

statistical models have proven ineffective. To the contrary much political and economic science is based on a probabilistic view of human behaviour. Predictive models do raise the chances of obtaining a higher “hit rate” than random sampling. Nevertheless, there is much in human behaviour that does not lend itself to being captured in statistical measurements. More on that later.

The actual consumer behaviour

To give a little insight into where we believe the emphasis for successful CRM strategies should be placed, consider the following example. Increased customer retention is one of the main drivers behind CRM strategies. As such, significant resources have been poured into “Attrition Models” in most companies that are pursuing CRM strategies. The models try to identify which customers are likely to defect so that interventions can be made to reverse their impending defection. The models provide a lift in the 10-20% range. Yet in a recent experiment, a financial



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services company simply asked a sample of their customer base “Are you likely to close your business with us in the near future?” Of those who answered “yes” to the question, over 50% were gone within 6

months - A significant lift above any predictive model.

Relative to the resources poured into “Attrition Models”, how much in terms of resources have companies put into asking their customers this simple question? There is no science in this, and given how basic it is, relatively little art too!

Still staying nearer the science end of the science/art spectrum, it is important to look at actual rather than inferred consumer behaviour. For example, we know that some 80% of credit card holders state that they pay their balances in full at the end of each month when asked in a survey. However, from in-house data we know that the numbers who do is very much lower than 80%. Building a CRM program around what customers say might be very different than building one around what they actually do!

Returning to “Customer Defection”, much of the science and predictive models is built on inferred data rather than actual consumer behaviour. Consider industries where a “relationship” consists of holdings



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of several different services for which there are multiple substitutes. The telecom industry, where mobile phones can be substituted for landlines and different tariff packages for long distance and time-of-day use exist would be a good example. In such a case, attrition models tend to be built on the total movement of business out of one product or product category, simply because the challenge of isolating substitution of one product for another from the actual lost business out of the institution is difficult to achieve. (We know of only one company that has cracked this nut and has a method for isolating such flows.) Building a model on the basis of inferred data is less effective than a model built using the cohort of clients who actually left the institution, excluding those who merely substituted their service for another offered by the same institution.

Art and science

In this space between the ultimate data base and the best-in-class delivery platform, putting resources into tracking actual consumer behaviour rather than inferred behaviour will provide rich returns, but will require more art than science.

Another example of this art is to design a method for capturing and classifying client complaints and attaching them to individual customer profiles. Being

able to match customer complaints with the individual's subsequent behaviour not only provides rich insight into what faults might be imbedded in the original offer, but would also tell us how effective are the win-back strategies.

It is becoming more and more recognized that the total client experience of an offer or solicitation needs to be evaluated in order to optimise a Client Relationship Management initiative. Yet many of the nuances of such an offer are not held in a database. Here we are much closer to the pure art end of the science/art spectrum. A mobile phone is not just a communication device with a price, but often depending on its colour, sophistication, etc., a fashion statement at the same time. It makes a statement about the owner's identity. For an individual trying to book a hotel room or hire a car, a credit card is not just a piece of plastic, it is their identity! Yet, all that is held in a database is the model, price and usage patterns. It requires the art of a marketer who can tie together and infuse meaning into a client experience, not solely based on statistics from

the database, but also on insight reaped from the known or observed emotional drivers of human behaviour. Only by consciously blending both the art and science elements contained in a Client Relationship Management strategy will the expected benefits, rewards and success appear. Investing disproportionately in technology and science, will force CRM into becoming just another one of those fading fads.

“Require more art than science”

**Point
OF VIEW
on...**

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