

# Customer Relationship Management

The philosophy of CRM is the recognition of the fact that a long-term relationship with customers can be one of the most important assets of an organization, providing competitive advantage and increased profitability.

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# Introduction

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**CRM is a business philosophy that describes a strategy placing the client in the center of its processes, its activities and its culture.**

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IT applications are the tools that allow an organization to implement the CRM strategy. The new IT developments can help an organization regularly adapt its strategies.

The main CRM concept is quite simple. Throughout many years, the companies focused their efforts primarily on lowering the costs and improving their internal efficiency. Thus they concentrated more on the internal processes, often automatizing back-office functions elements like manufacturing, logistics and finance.

In contrast, the management effort invested in client service, for example selling and marketing, was often relegated in a last place. As the market gets stronger and the providers become more efficient in offering products or services, it becomes more difficult to differentiate between rivals. What is the true difference between two types of toothpaste? In the meantime, as the quality of services and products improves, client expectations increase. As long as the client has the possibility of changing his provider, it becomes harder to keep him loyal. In conclusion, it is highly important for a modern company to own a system that will shorten the reaction time to customers' requests and complaints, thus offering support and quality for its services.

Many industries evolved their method of doing business over the years. The providers that offer large amounts of products struggled over the years to create brands based on quality and price. But the clients' empowerment and their importance have increased. Today, in an environment ruled by Internet, when changing providers can be done with just a few mouse-clicks, the problem becomes more complex. It affects each organization, no matter if it concentrates on clients or on business.

It has been proven that necessary costs for client maintenance are significantly lower than those associated with new client acquisition. While businesses will continue to extend the clients database, they should also concentrate on keeping and multiplying the best of these clients. Increasing a client's action - or in other words the quantity of business each client generates - becomes as important as increasing the action of the market. Through a good administration of the relationship with a good client, the profitability will certainly grow.

Essentially, the above represents the concept of **Customer Relationship Management**.

# CRM Fundamentals

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**The term CRM became popular in the mid-1990s even though the principles that underline the concept of relationship management - representing the essence of marketing - are not new and have been practiced for a long time, especially by small businesses.**

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Since the marketing instruments used by small businesses (e.g., mostly personal contact between buyer and seller and therefore a good knowledge of the buyers needs) are not achievable for larger businesses, CRM technology should enable managing customer relationships on a larger scale.

The philosophy of CRM is the recognition that a long-term relationship with customers can be one of the most important assets of an organization, providing competitive advantage and increased profitability.

According to studies, the average company loses between 20 and 50 percent of its customers every year, and also finds it hard to retain its best customers.

Deregulation, diversification and globalization have stimulated a dramatic rise in competition. These marketplace realities have forced companies to switch from a product-centric approach to a customer-centric approach. According to **IDC**, the CRM industry gained momentum in the past years and the CRM application market increased by 84 percent, to \$6.2 billion in 2000.

# How It Works?

Customer Relationship Management (CRM) is a complex system, consisting of procedures, strategies, software and web applications, that assists a company in organizing and managing the relationship with its clients.

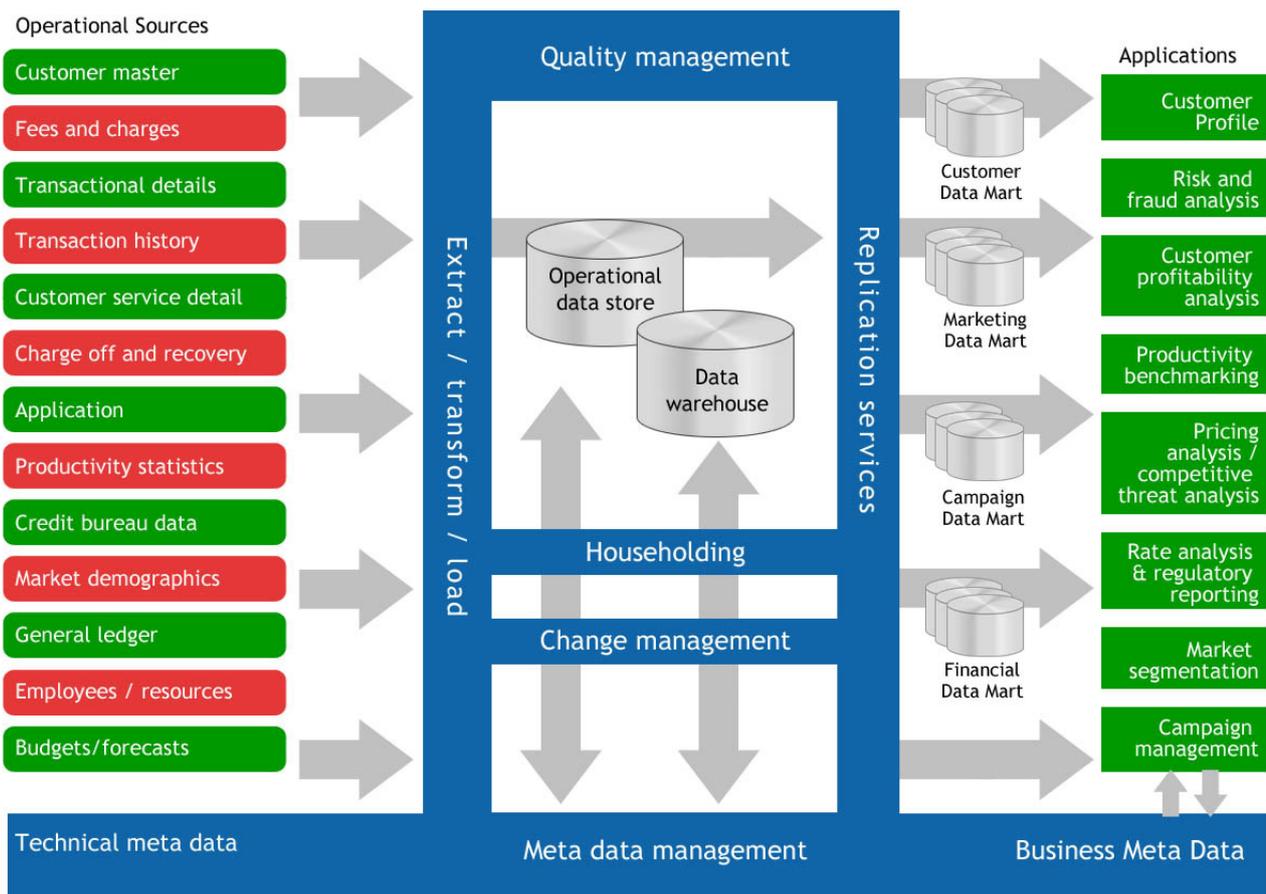


Figure 1

CRM facilitates the interaction with clients through the most efficient, the fastest and the most sophisticated channel of communication - the Internet. It is a solution that concentrates on the people, the processes and the information from within a company, and aims to support its clients better and increase the level of fidelity/loyalty.

The spectacular growth and the continuous reevaluation of the organizations that use websites brought the Internet to the attention of today's management philosophy. The Internet offers another infrastructure through which the organizations can interact with clients in the same way they interact through phone, fax or email. The complexity of this interaction through multiple channels indicates some areas in which technology can reduce personnel effort and investments.

At this moment, many companies consider that the advantage of the web is actually the fact that visitors can find answers on their own, thus minimizing the effort of the companies, reducing direct contact with the agents and improving the efficiency.

Generally, this consists of pages that contain answers to the most frequently asked questions (FAQs). More complex systems analyze the questions and search the database for possible answers. In each case, the system should be updated constantly, as new problems and new solutions appear. The most sophisticated systems will automatically "learn" from the cases where the problems were solved, adding the necessary information in their databases.

Because many users don't trust the web concept, part of the Internet support systems will offer different ways to communicate directly with the agents, including online chatting. Most of the web based systems will have this feature, that will allow clients to be contacted or to contact the agents directly over the phone, thus respecting the request of receiving services through the favorite channel of communication. When this facility is activated in an integrated system, the contact center will have the possibility to identify the client immediately and to access his interaction history with the organization.

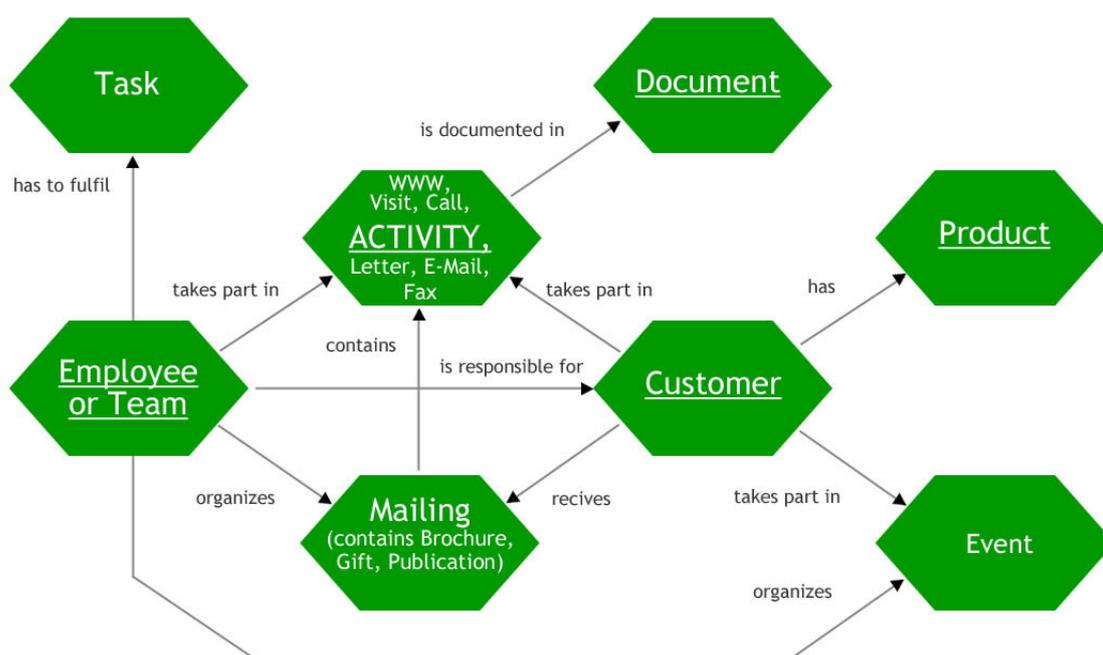


Figure 2

# CRM Systems and Technology

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**Data sources that are used in CRM systems are customer service inquiries, customer surveys or sales force input such as purchase history, shipping history, account data, demographic data and Web sales data.**

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Since a part of this information is obtained through enterprise resource planning systems, ERP databases must be integrated with some aspects of the CRM databases. Furthermore, CRM technology includes different aspects of information management, including integration with other enterprise-related systems and methods that convert data to usable information. CRM uses technology, strategic planning and personal marketing techniques to build a relationship that increases profit margins and productivity. It uses a business strategy that puts the customer at the core of a company's processes and practices. The implementation of CRM software should come along with a change of the company's mindset to become more customer oriented. It requires this customer focused business philosophy to support effective sales, marketing, and customer service and order fulfillment.

Some examples of CRM initiatives are:

- A database that specifically tracks customer service issues;
- A web page that allows customers to check inventory availability, order status, and place orders;
- Data warehousing to build an information database to better understand your customers;
- Capturing visitor data including their name, e-mail, location, and purchasing preferences.

# Defining CRM Objectives

The business objectives for the implementation of CRM software are:

- Increased customer number and customer profitability;
- Increase in market share;
- Increased campaign response;
- Higher customer satisfaction ratings;
- Greater number of returning customers on the Web site;
- Simplified internal organization (shrink workflow, shortens cycle times, and eliminates non-productive information flow).

Furthermore, *The Conference Board* surveyed 96 global firms in order to analyze the CRM programs. 52 percent of the interviewed companies have implemented a CRM solution and, among others, the top three strategic motives were to increase customer retention and loyalty, to respond effectively to competitive pressure and to achieve a competitive advantage, and to differentiate competitively based on customer service superiority (see Figure 10).

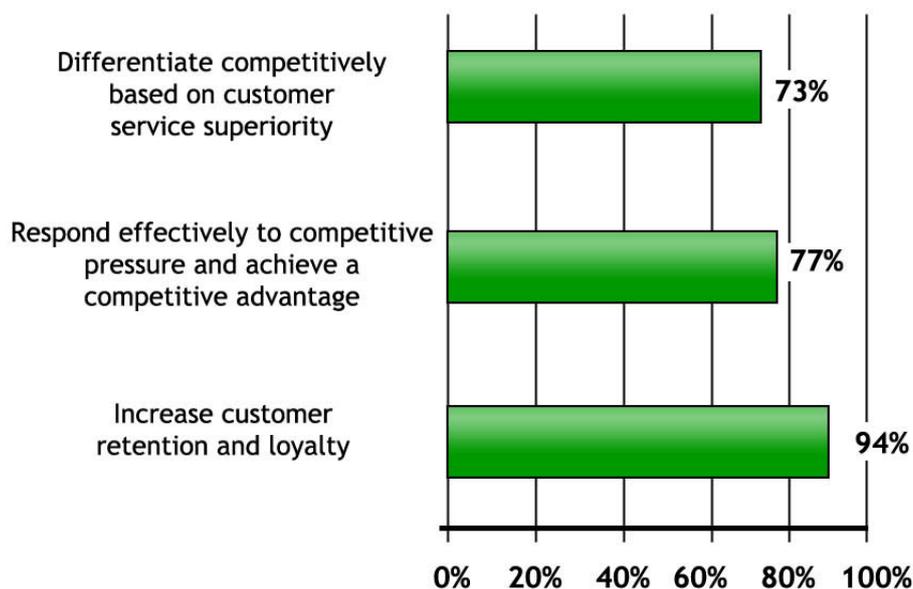


Figure 3

# CRM Goals Differentiated by Departments

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Different departments have different objectives when adopting a CRM program.

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In the following, some examples of department-specific goals are presented:

- **Customer Support** - Customer service objectives are: obtain basic information about customers and their complaints, customer satisfaction monitoring and faster complaints resolution in order to raise customer retention rates, to increase self-service efficiencies, and to mitigate the need for in-person assistance.
- **Marketing** - The marketing department is interested in performing dynamic customer segmentation to begin more targeted customer communications and campaigns, refined marketing campaigns, customer satisfaction by segment analysis, and tracking campaign responses.
- **Sales** - The sales department objectives are to deploy sales force automation across regions, to track contact history, to streamline the sales process, and to qualify prospects based on past experience.
- **Field Service** - Field service implies the service or repair of the customer's equipment on the customer's premises. Field service engineers need to monitor customer complaints and repairs histories.

# Customers

According to a survey conducted by The Database Group concluded in November 2000, retailers with an implementation level of 15.1 percent - one of the pioneering sectors for CRM - and utilities companies with 17.9 percent implementation level lead the field for CRM strategy. Banks and insurers are heaving relatively poor CRM implementation levels, 7.3 percent, and 4.4 percent implementation level respectively, but are expected to catch up in the next years. However, their share on total customers is very high (see also Figure 4).

About one third of the 100 companies surveyed have a CRM strategy, but again only one third of them achieved their plans. However, about a quarter executes important components of CRM. These components are, e.g., the ability to deal with customers consistently across multi communications channels (21 percent of companies) and the linkage of key customer information databases (28.8 percent of companies).

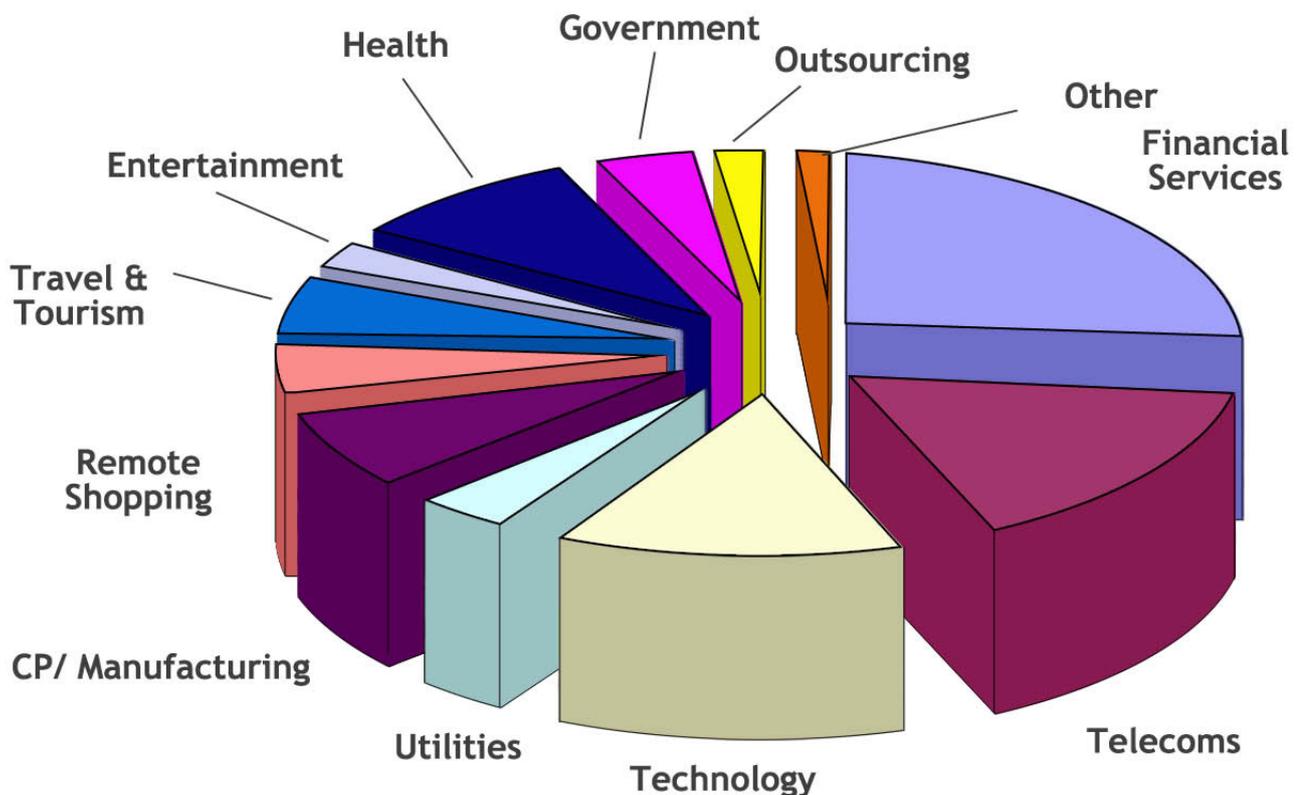


Figure 4

# Purposes of Customer Relationship Management

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**CRM, in its broadest sense, means managing all the interactions and business activities between a company and its customers.**

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This includes, but is not limited to, improving customer service. A good CRM program will allow a business to acquire customers, service the customer, increase the value of the customer to the company, retain good customers, and determine which customers can be retained or given a higher level of service. A good CRM program can improve customer service by facilitating communication in several ways:

- Increases the efficiency of customer interaction through all the communication channels available.
- Facilitates the collaboration between the client and the provider using the web, thus reducing the costs of customer relations management.
- Provides product information, product use information and technical assistance on web sites that are accessible 24 hours a day, 7 days a week.
- Identifies how each individual customer defines quality, and then designs a service strategy for each customer, based on these individual requirements and expectations.
- Provides a fast mechanism for managing and scheduling follow-up sales calls to assess post-purchase cognitive dissonance, repurchase probabilities, repurchase times, and repurchase frequencies.
- Provides a mechanism to track all points of contact between a customer and the company, and does it in an integrated way, so that all the sources and the types of contacts are included, and all the users of the system see the same view of the customer (reduces confusion).
- Helps to identify potential problems quickly, before they occur.
- Provides an user-friendly mechanism for registering customer complaints (complaints that are not registered with the company cannot be resolved, and are a major source of customer dissatisfaction).
- Provides a fast mechanism for handling problems and complaints (complaints that are resolved quickly can increase customer satisfaction).
- Provides a fast mechanism for correcting service deficiencies (correct the problem before other customers experience the same dissatisfaction).
- Uses internet cookies to track customer interests and personalizes product offerings accordingly.
- Provides a fast mechanism for managing and scheduling maintenance, repairs and on-going support (improves efficiency and effectiveness).

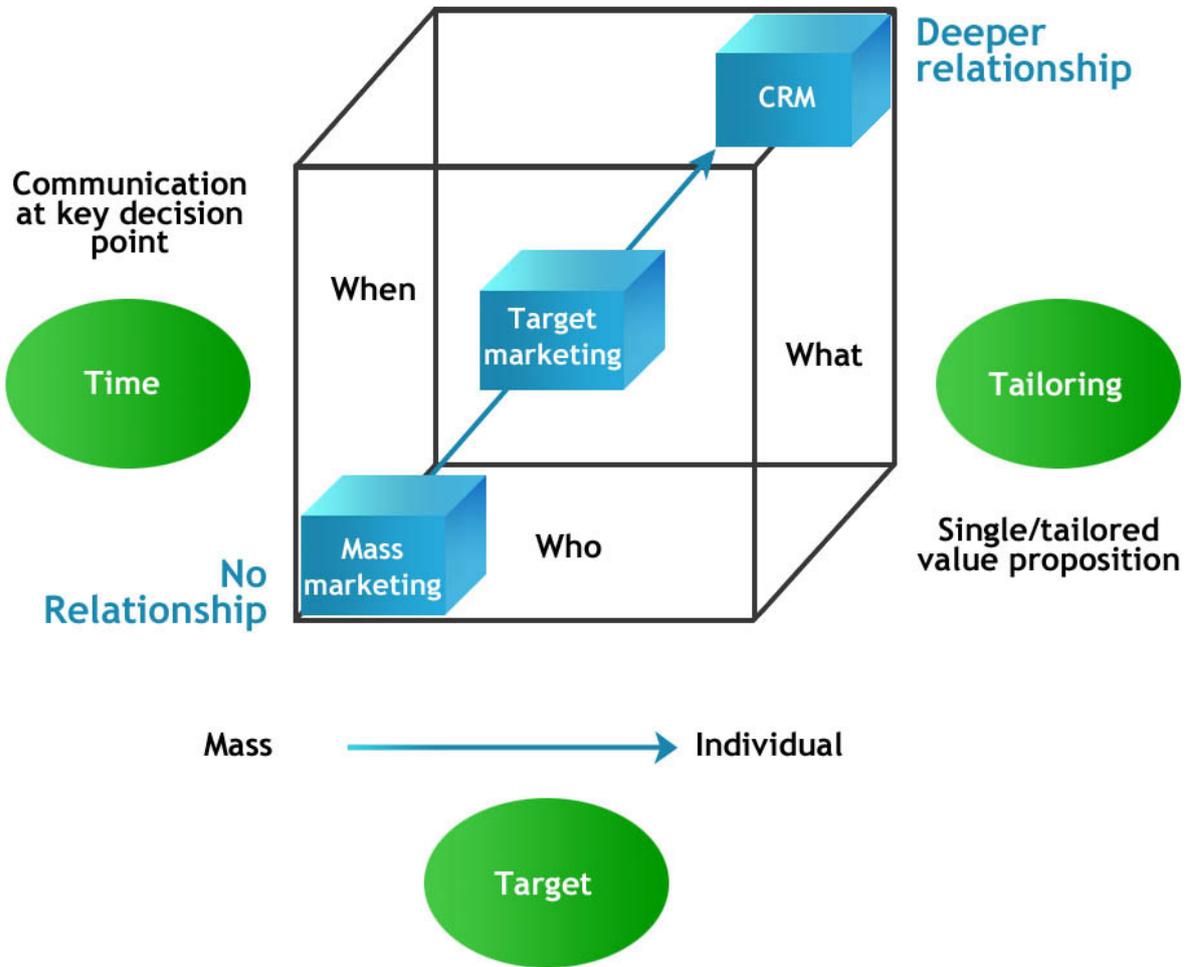


Figure 5

# Measuring the Success of CRM

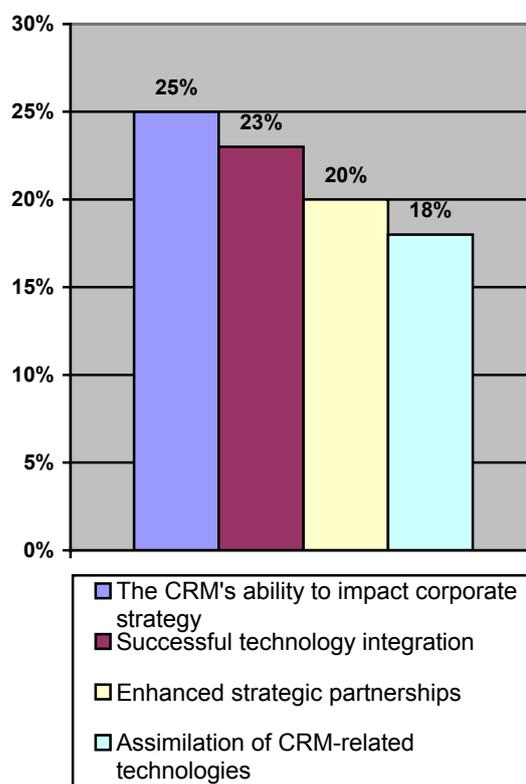
As mentioned, one of the most difficult parts of a CRM project is defining success parameters.

Even if the success factors are different, in the end many companies choose the ROI (Return on Investment) as the only success factor, although this choice is controversial. Sometimes, CRM systems measure the ROI simply as the incremental revenue or margin return from implementing a CRM technology. This has only limited applicability, as it doesn't give sufficient insight to make ongoing decisions that improve the customer relationship. It considers the problem only from the business point of view, and sees the customer only as a source of revenue, while CRM ROI should integrate both the margin and the customer satisfaction.

A study conducted by the researchers at the *University of Dayton* illustrates four major measurements for CRM success:

- The CRM's ability to impact corporate strategy (according to 25 percent of respondents);
- Successful technological integration (according to 23 percent of respondents);
- Enhanced strategic partnerships (according to 20 percent of respondents);
- Assimilation of CRM-related technologies (according to 18 percent of respondents).

Another financial success indicator is the customer lifetime value (CLV). It allows companies to measure beyond one time period and beyond one customer, and combines both the discounted cash flow, the activity costs and the probabilities for customer retention to help understand the impact of different CRM scenarios. The profitability outcomes of the most likely scenarios that can be implemented must be compared to find the best path to increase total profitability.



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