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Some Evidence from Scandinavian Businesses

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KEY ISSUES IN CRM IMPLEMENTATION: SOME EVIDENCE FROM SCANDINAVIAN BUSINESSES

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ABSTRACT

This study was based on in-depth interviews conducted with senior managers in five organisations in Scandinavia. Leadership control and drive, employee motivation, integrated process rather than a partial system, continuous update of processes and in-depth reach of information were found to be some of the key issues in CRM implementation.

INTRODUCTION

Customer Relationship Management (CRM) is still failing to meet the expectations of those charged with implementing it within organisations despite being one of the most widely used management tools in the world with lowest defection rate (Rigby & Bilodeau, 2005). According to the IBM Business Consulting Services (2004) a majority of the managers feel that CRM initiatives were not fully successful. Despite its popularity among practitioners, there is a disparity between CRM usage and satisfaction levels of CRM around the globe (Rigby & Bilodeau, 2005). One of the reasons for this could be inadequate implementation of CRM in organizations. Plakoyiannaki and Tzokas (2002) identified several core CRM capabilities critical to its successful implementation. Starkey and Woodcock (2002) suggested that firms should focus on improvements in customer management (CM) processes rather than just at CRM. The authors argued that although spending on CRM trebled from 1999-2001, the overall level of Customer Management (CM) seemed to be falling, as measured by the Customer Management Assessment Tool (CMAT) (Woodcock, Starkey & Stone, 2000).

Starkey and Woodcock (2002) contended that firms implementing CRM systems needed to tie those processes to a strategic marketing framework, due to a positive relationship between customer management and business performance (Woodcock, 2000). Rigby, Reicheld and Schefter (2002) claimed that the spectacular failures of some CRM implementations could be minimised by avoiding four key perils of CRM; viz implementing CRM before creating a customer strategy, rolling out CRM before changing your organisation to match, assuming that more CRM technology is better, and stalking, not wooing, customers. The authors argue that successful CRM is more dependant on strategy and change management than the amount spent on technology. Jain and Singh (2002) supported this approach when they stated that firms are taking a more customer-centric approach to strategy formulation and, as a result, customer life cycle has taken a control role in marketing strategy as compared to product life cycle in the past.

In recent years, an alternative stream of research has suggested that CRM programs should be woven around the concept of customer value (Kumar and Reinartz, 2006; Reinarz and Kumar, 2003; Kumar and Ramani, 2003; Venkatesan and Kumar, 2003; Jain and Singh, 2002). Kumar and Ramani (2003) suggested that the level of sophistication of the adoption of the *Customer Value Framework (CVF)* approach into a firms marketing program can vary depending on the relevance and criticality of a firm's CRM decisions. The authors suggested five levels of sophistication and adoption of CVF. Jain and Singh (2002) and Kumar and Ramani (2003) point out that "the challenge in implementing CVF is that a firm needs to re-structure from being product-centric to being customer-centric".

According to Buttle (2005) CRM is more than a marketing process and should be used at a strategic level to support a company's mission to become more customer-centric. Kumar and Reinartz (2006) regard Strategic CRM as third generation CRM encompassing the entire organisation. Global CRM implementations inherently will encompass many aspects of operational (Buttle 2005) or first and second generation (Kumar and Reinartz, 2006) CRM, which includes; call centre management, customer service support, sales force automation, campaign management, data mining and integrated customer-facing front-end (marketing, sales, service).

The impact of CRM on marketing activities has been investigated, but mainly by marketing research groups, such as Gartner Group, and CRM software companies, such as Seibel Systems. Academic research regarding the impact of strategic CRM on related marketing activities is limited (Kumar and

Reinartz, 2006; Buttle 2005). The studies in the previous section have contributed towards 'implementing and assessing the impact of CRM' in general and relate essentially to firms which are multinationals and based in US dealing primarily with the US customers. Recent studies by market research groups and industry practitioners concerning CRM at a global level have highlighted issues in Global CRM which have not been investigated in academic research. Considering the above gaps in the literature, the present study was aimed at understanding the key issues in adoption and implementations of CRM among European organisations.

METHOD

Qualitative research method was used considering the exploratory nature of the study. Given the limitations of time and resources we selected five organisations, which are parts of large groups based in Scandinavia and operating globally. These include two service organisations (insurance) three manufacturing and marketing businesses in the field of food packaging for (solid and liquid food) products. The organisations covered both business to business and business to consumer activities and include both large and medium size businesses. In-depth interviews were conducted with senior managers responsible for marketing and customer relations. Initially an extensive literature review was conducted on aspects relating to CRM in general and issues that have special relevance to organisations operating globally and with diversified customer cultures. Based on the literature review, a number of key themes were elicited that formed the basis for in-depth personal interviews. Each interview lasted for nearly 1.5 to 2 hours.

ANALYSIS

A qualitative analysis of the transcribed tape recorded interviews is presented below.

Perceiving a need for CRM: Identifying profitable customers is found to be rather complicated process among the Scandinavian manufacturing firms. They look manually at size, financial strength, type of market, how innovative they are and so on. In emerging markets this is found to be rather simple as there are only a few players around. In B2B markets with small numbers of customers, one has to look out not to be involved with companies losing market share. In advanced markets where they may have a large number of customers they focus only on large accounts. For example, the insurance company Codan screens potential customers for low risk depending on where they live (close to rail or police station).

Scandinavian businesses do not appear to follow a strict format for selecting the right customers. "It is about being out there", said the CEO of Tectubes, the medium sized manufacturing company in the Tetrapak group. They define the key actors on the market and extrapolate who will be the winner. "You want to stay with the winners, it is very costly to get out of bad relationships and into new good ones" said the Marketing Director of Tetrapak. He added "In a developed market (with say 500 customers) it is all about straightforward understanding of your market. Make sure you know all the potential customers too, competitor's customers also". Codan follows a different approach screening prospects with low risk and potential. They do not get into certain industries because of high risk. A Call Centre will call and organise the first sales call. During that meeting the agent will record the prior claim. The firm's preferred "right customer" is: above 30 years old, has no claim in the last 3 years and has at least 3 types of insurances.

Issues in implementation of CRM: The firms used different methods for targeting customers. For example, according to the CEO of Tectubes, "It all starts with screening your actual customers. Who has potential? We sit down with company management of key accounts and discuss their 3-5 year plans. We look at their strategic audit and talk about what they need. How can we help them? Some big customers want to keep their distance, some are quite open about their plans. We look at 100 per cent customer share. Sometimes we are two suppliers and one is going to have 75 per cent and the other 25 per cent. We always have a development portfolio of products (3-5) which we believe in. We introduce these to key account customers (3-4 years ahead). We do not ask them what they need (most of the time they do not know). Instead, we show them our ideas and how they can be used for their operations. Then the customer will give back their own ideas about innovation on the other-hand". Codan starts with asking the questions: which segments do we want to be in? Where are the gaps? For example the B2C CRM Manager has pointed out that "we are working now a 'light insurance product' that can be sold via call centres. Time-to-market is also important for a new product".

With regards to the prioritizing customers, the three manufacturing firms estimate or rank their customers manually according to several criteria such as: size, attractiveness of the market, market position and innovation level. Then segmentation is carried out based on the rank order of customers. "Crown jewels" is the term we use for strategic accounts which must not be lost, no matter what. Key criteria are profitability and growth, profitability first. Loyal business partners share their growth plans with us. Estimations are now done manually by Tectubes. What is crucial is the future potential of the customer. On the other-hand, Codan has system which ranks customers according to profitability into colour segments.

With regards to allocation of resources to key customers, size and future potential define a key customer. The Tectubes CEO says, "capital intensity means that we have to operate with our machines for a period of five years. We have to identify where we have extra capacity and then funnel that capacity to profitable business". Codan on the other-hand uses a top down driven evaluation model called CMAT (customer management assessment tool). The evaluation is carried out by an external consultancy QCI in the UK. All customer related processes are evaluated such as: customer handling, analysis and planning, services and the lot. From this evaluation the managers get strategic recommendations that are their guiding stars.

On the costs of maintaining the relationship some of the respondents indicated that it does not cost less to serve a loyal customer in industry. A loyal customer demands more and is in a closer relationship. Codan has the opposite situation. It costs less to serve a loyal customer, who then presumably has fewer claims. A loyal customer may suddenly raise many claims after a long period of having no claims and therefore the situation may change. So it can be both more and less costly to maintain a loyal customer. It varies depending on industry, type of company and the contact person involved.

With regards to minimizing customer defections, the manufacturing firms' respondents pointed out that they rarely lose customers. They proactively find the core issue as to why a customer wants to leave, they try to accommodate the customer commercially. Sometimes it is not possible. An example is given by Tectubes CEO. "Recently, we lost a customer because of a shift in packaging type. We were not close enough to foresee this in time. What we normally do is to push the termination of our relationship as far as we can into the future. Looking back our key account person was not close enough to read the situation and I myself could then have been more active. Consequently we need to know more about the customer operations than the customer himself!" The Tectubes marketing director added "often the internal communication between departments is not so good. Our key account manager can act as a catalyst to improve this communication". Codan has a service concept in practice for five years that lets all customers have an annual meeting during which they go through all insurance needs and how customers can improve claim prevention procedures. Satisfaction sheets are sent out before the meeting as a preparation (and not an ordinary survey). Thus, they know in advance how the customer sees them. Their sales agent will then get all the information with suggestions for what to go for as a preparation for the meeting. Customers have to ascertain their claim history. If it looks too bad they say no to further business.

On balancing acquisition and retention of customers the respondents were of the view that more energy and time is needed to get a customer than to maintain one. Key account managers evaluate the effort needed. Some are attempting to increase customer share, others are also knocking on new doors. Companies introduce incentive schemes to sales people so that extra sales of new products for a certain year is compensated extra. Codan has a measurement model called RAEP, retention, acquisition, efficiency and penetration. Targets are set for all four measures. For example there is a retention of 85 per cent they may have to increase 15 per cent and decide on (if transportation used as segment example) what resources they have. They may make an internal campaign to sell more or promote in other ways.

On the drivers of successful implementation of CRM, the respondents pointed out that the management must take initiative and communicate the tangible value of implementing CRM, hence culture is important. When customers are crying out for change, management must understand the need. Every system change needs an investment in time from employees. They need to see a rather short-term payback. At heart is to develop our ability to innovate, listen and adapt to customer needs. Employees should be given the tools to drive the CRM system themselves. Codan respondents underline that a clear strategy is needed, that management takes the leadership and that this is expressed in a so called customer value proposition. Every employee must know this value proposition and also be able to communicate it in action. A crucial issue is to have ownership of each segment to implement CRM. The manager should be evaluated as to how well he handles the results from the segment.

On barriers to successful implementation of CRM the respondents pointed out that barriers take the form of a mismatch between the role of frontline (marketing) and operations and production units. Often marketing functions cannot drive through change in the internal organisation and they are caught in between. Customers see no change and complain and frontline people hear the same over and again. That is why top leadership has to drive through CRM systems top down. Codan respondents stress, the lack of leadership as main cause and lack of processes to implement CRM.

With regards to the corporate culture and its role in CRM, the respondents pointed out that, culture is important and the crucial part of it is the mentality of change. According to them, leadership drives culture. The whole organisation must be involved. An example is given by Codan. The connection between the three divisions in Codan was strengthened by introducing a segment organisation. A team was set up with members from divisions: sales, underwriting and claims, and the team is lead by a segment manager who is responsible for all products (services) across Codan. He owns the segment and drives the performance and customer value. Also all processes are his responsibility. At first it was a problem because they did not define the overall customer value proposition. Three years have gone and now they know. The task is now for the team manager to adapt this value proposition and decide on what they are going to add on for the particular segment needs (e.g. transportation).

The Marketing Director of the manufacturing firm Tetrapak has become aware of a specific cycle of implementing a CRM system. This cycle has five phases that they move through as they implement CRM. First, there is (1) *scepticism* later on (2) enthusiastic *revelation*. Then comes a period of (3) *confirmation*, the system starts to have effects, then *critique* (4) work is repetitive and we ask ourselves what are we getting out of it? Then (5) finally a *revitalization* makes us more focussed and certain to deliver customer value. It is crucial to make the front line understand and see the benefits of the CRM system. In the beginning it is going to be hard work to feed the system with information. Later on frontline people see that they gain much time in knowing more about the customer. Codan experiences are that you have to use the system 100 per cent with commitment. It is not a project but a process. They focus on the customer value proposition (that contains the elements: risk, claims, claim prevention, claims handling, and insurance solutions. Each customer will be offered a unique solution.

Effects of CRM on the performance of the organisation: On the issue of profitability of customers, the respondents in general feel that few customers are not profitable, but are kept anyway because of the difficulty in understanding the reasons behind and the corrective actions to take. Codan B2B CRM manager has an explicit system for measuring customers as to their degree of profitability. In B2C business the segment 50+ accounts for 80 per cent of profits.

According to the respondents, long term loyalty is necessary for profitability in manufacturing industry. Loyal customers need not be profitable and it could take one year minimum to two and half years to move from red to black numbers. Red customers over a three year period are phased out by Codan. The number and size of claims during a period will largely drive profitability. What is at stake is to make the customers (in the red) change their behaviour so that claims are minimized or income from the customer is increased. This is called development of the business, that is introducing new services or products by the customers.

The respondents in general feel that it is not always bad to lose a customer. What is important is to figure out in emergent markets who will be number one on that market. The CEO of Tectube has pointed out that "It is essential NOT to lose such a one. If you lose a customer it is essential to understand why you did it. Was it the customer decision or something else? It is sometimes good to lose a customer too. Some large customers yield close to zero profit and stir up production because of changes of volume". On the other-hand, Codan purposefully want to lose customers who are unprofitable according to the system they use. Risk of losing a customer in B2C is when they, change car, move house or cancel one of the policies.

The respondents of manufacturing firms in general were of the opinion that good relationships with important customers can serve as reference customers in an emerging market, otherwise a more indirect way via word of mouth may be positive for creating new relationships. Codan does not know and they are not measuring it either. Satisfaction scores include statements such as: “would you recommend Codan to another customer”.

According to the respondents, customers will not remain profitable over time. Depending on market difficulties or change of management profitability changes. However there is a higher probability that very profitable customers will remain profitable over time. The issue is in targeting high potential growth customers with which development can take place. Codan sees no connection between time and profitability. A green customer can become red one year and bounce back to green next year. It all boils down to corporate behaviour (of minimizing claims). The respondents in general are not aware of the CLV and therefore do not calculate an economic value of a relationship. The CEO of Tectubes says: “I have not given that a thought… what is the meaning of a lifetime?” Codan only looks one year ahead and does not calculate lifetime value of customers. Instead they use the profitability model.

On channel migration of customers, the manufacturing firms have different distribution channels for different segments, most of the time customers stay with the same channel (segment). Small customers are handled by junior people. When customers grow they are upgraded into another segment and have a key account manager as a contact person. For Codan, migration is when customers move from one category (segment) to another. This is decided upon once a year. Small companies are moved to a sales representative instead of being handled by a call centre. That will mean that the company customer gets a full service concept namely a meeting once a year during which the entire insurance situation will be analysed.

On measuring the impact of CRM, every market/sales company in the Tetrapak group makes a satisfaction survey of truly loyal customers. Customers are asked to evaluate all frontline market staff such as key account managers and technical directors. It is part of their personal evaluation by Tetrapak. A number of questions pertain to: delivery, operations efficiency, service and marketing support. Bonuses and incentives are determined by the scores they get. All these scores are used as input at calculating the figures for the truly loyal customers. CRM impact can also mean that they can deliver a better price and products because we get more and faster information. The marketing Director of Tetrapak gives an example: “…we may analyse ordering patterns and use that to suggest how they can better organise their purchasing. The same survey questions are used globally and they are centrally driven by top management”. Codan measures the impact both financially (profit) and with claim levels (cost). Other measures are customer satisfaction and customer service level, how good are we at giving advice? Then the internal satisfaction of employees with management is also gauged continually (PULSE). According to CRM manager of Codan (B2C) “We also test our employees (500 every quarter) about our value propositions to see if they know them.

CONCLUSIONS AND LIMITATIONS

The most important issue identified in all the organisations is the role of the top leadership in the implementation of CRM. It was deemed paramount that the leadership took full control of the implementation of CRM in these organisations. This means that the senior management not only initiate the CRM, but also take an active part in monitoring and control of the implementation process. The second most important issue in the successful implementation of CRM among these organisations was found to be motivation of employees to support the CRM implementation process. In order to do this, the managers feel that short term positive effects of CRM be made clear both to frontline employees and change employee attitudes and behaviours. Implementing system requires a lot of information inputs at the early stages that requires extra efforts on the part of the employees which will realize good returns at a later date.

Another important issue that emerged from the study is that organisations need to consider CRM implementation not as an independent/disjointed activity. Instead it should be positioned as an element of the overall organization with a clear understanding of the interdependencies with other elements. It essentially is an element of integrated organisation process to serve customers effectively. With CRM systems one could get to know more about customers than customer themselves. This enables firms to provide extra information and value to customers in order for them to improve further their operations.

It became very clear from the interviews that organizations should not view CRM process to be static, discrete one time activity. Instead it is a dynamic process and requires a continuous update to respond to the changing customers, competitor and technology needs. In order to reap value/benefits from effective CRM implementation, it is also important that there is a clear ownership of individual customer segments in the organisations. By this we mean that there should be clear lines of roles and responsibility as to who is responsible for the performance of different segments. In some of the interviews this was deemed vital in order to use CRM effectively.

Another important factor for successful implementation of CRM is the need to motivate the customers and impress on them the benefits that would accrue to them both short and long term in return for the voluminous information that they are required to provide to the firm on a regular basis. Scandinavian managers seem to know little about the profitability of individual customers. Most of it is done based on intuition and an impressionistic understanding of the present situation. They are more focused on customers who make more profits (which helps maintain the business relationships) rather than the profitability of the customer to the firms.

The study was based on in-depth interviews conducted among the senior managers of five organizations. While the above findings did provide a critical understanding of the key issues in CRM implementation among the Scandinavian organizations, caution must be exercised while directly generalizing the above findings to the larger population of European firms.

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