
BEST PRACTICE

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When Monster.com rolled out a customer relationship management (CRM) program in 1998, it was sure it had a new money-making strategy on its hands. The Massachusetts-based job-listings company had invested over \$1 million in customized software and integrated all its computer systems in an attempt to boost the efficiency of its sales force. These CRM applications had been specially developed to allow Monster.com's sales representatives instant access to data for prospective customers. However, the new system proved to be frighteningly slow—so slow, in fact, that salespeople in the field found themselves unable to download customer information from the company's databases onto their laptops. Every time they tried, their machines froze. Eventually, Monster.com was forced to rebuild the entire system. It lost millions of dollars along the way, not to mention the goodwill of both customers and employees.

The promise of customer relationship management is captivating, but in practice it can be perilous. When it works, CRM allows

companies to gather customer data swiftly, identify the most valuable customers over time, and increase customer loyalty by providing customized products and services. It also reduces the costs of serving these customers and makes it easier to acquire similar customers down the road. But when CRM doesn't work—which is often—it can lead to Monster-like (and monster-sized) debacles.

Consider this: 55% of all CRM projects don't produce results, according to Gartner Group, a research and advisory firm. Also consider this: According to Bain's 2001 survey of management tools, which tracks corporate use of and satisfaction with management techniques, CRM ranked in the bottom three for satisfaction out of 25 popular tools. In fact, according to last year's survey of 451 senior executives, one in every five users reported that their CRM initiatives not only had failed to deliver profitable growth but also had damaged long-standing customer relationships. One manufacturer retailer, for instance, invested \$30 million in a CRM solution in 1999 only to scrap

the entire project in early 2001. The company abandoned the project because customers had become increasingly irritated instead of loyal, as did the employees trying to deal with them. And while the company was struggling with CRM deployment, its rivals steadily moved into stronger market positions.

Why do CRM initiatives fail so often? We have spent the last ten years trying to answer this, analyzing customer-loyalty initiatives, both successful and unsuccessful, at more than 200 companies in a wide range of industries. Our research suggests that one reason CRM backfires is that most executives simply don't understand what they are implementing, let alone how much it costs or how long it will take. If you find that hard to believe, try asking five of your managers to define CRM. The right answer: CRM aligns business processes with customer strategies to build customer loyalty and increase profits over time. (Note that the words "technology" and "software" are conspicuously absent from the definition.) Then try quizzing these same managers about the cost of implementing a CRM solution. Answer: \$60 million to \$130 million, according to Forrester Research. And finally, ask them how long it generally takes to implement CRM. The best estimate: at least 24 months, even though one vendor we know offers CRM in 90 days and an aggressive competitor has responded by promising it in only nine.

More specifically, our research shows that many executives stumble into one or more of four pitfalls while trying to implement CRM. Each of these pitfalls is a consequence of a single flawed assumption—that CRM is a software tool that will manage customer relationships for you. It isn't. CRM is the bundling of customer strategy and processes, supported by the relevant software, for the purpose of improving customer loyalty and, eventually, corporate profitability. This is a subtle yet critical distinction that weaves itself through the four sections of this article.

Make no mistake—getting CRM right is important and urgent. It is popular and becoming even more so. In 1989, CRM was mentioned once in the media. By 2000, that figure rose to 14,000. Seventy-two percent of the executives who took our 2001 management tools survey expected to have CRM programs in place by the end of 2001. That's more than double the previous year's figure of 35%, making CRM the

fastest-growing technique our firm had encountered in eight years of analysis. And, according to the research and consulting firm META Group, the CRM software market is expected to more than double from \$20 billion in 2001 to \$46 billion by 2003.

The numbers say it all: CRM has arrived. Now it's up to you to make sure it pays its way by avoiding the following four pitfalls.

Peril 1: Implementing CRM Before Creating a Customer Strategy

Any new management tool can be seductive, but there's something particularly captivating about software that promises to make a perennial problem go away. Many CRM products do just that, claiming they will automate the delicate and sometimes mysterious process of repelling low-margin customers and luring high-margin ones. CRM can indeed do that, but only after—and we repeat, only after—a traditional customer-acquisition and retention strategy has been conceived of and implemented. (For more on how to begin the CRM process, see the sidebar "Start with Customer Strategy.")

The reason? Effective customer relationship management is based on good old-fashioned segmentation analysis. Moreover, it is designed to achieve specific marketing goals. To implement CRM without conducting segmentation analyses and determining marketing goals would be like trying to build a house without engineering measures or an architectural plan. Still, most executives mistake CRM technology for a marketing strategy. That is, they allow software vendors to drive their approach to customer management. Or, just as often, they retrofit a customer strategy to match the CRM technology they've just purchased. To make matters worse, they then delegate customer relationship management to their CIOs. It's mostly technology, isn't it? It partly is—and therein lies the problem. Technology that affects customers must always be aligned with an overarching strategy if it is to work.

A case in point is the *New York Times*. In the early 1990s, when the *Times* was trying to break through a circulation plateau, a team of senior executives set out to determine what it would take to gain more market share. The first clues from market research were worrisome. They indicated that the only road to higher circulation lay in dumbing down the ar-

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ticles, adding cartoons, moving to a tabloid editorial style, and taking other such steps that would radically alter the newspaper's editorial approach. Clearly, that didn't fit with the *New York Times*' traditional values, and so the company commissioned more targeted research of core and potential customers.

The research led to the discovery that every major city in the United States had a group of readers similar to the paper's core readership in New York and that these potential subscribers wanted earlier home delivery and better newsstand availability. The company immediately moved to address these customer demands, installing high-speed networks to link 18 print sites around the country. In addition to upgrading its distribution capabilities, the company also set up automated telephone-based systems so that at any time of day or night, customers could change subscriptions or reschedule deliveries. The newspaper's New England and Washington editions even offered customized weather forecasts and television listings.

These initiatives proved to be an all-around win. Customers could get their favorite newspaper tailored to their needs with early and reliable delivery. Editors could continue to sharpen the journalistic quality and integrity of their newspaper. And the *New York Times* became one of the few national newspapers in the world with a growing circulation (in 2000, its circulation rose 2% while the average circulation for national newspapers fell 0.4%). What's more, the paper's customer-retention rate rose to 94% in an industry that averages 60%.

The *New York Times*' approach is an outstanding example of how to plan for CRM. The company wasn't considering any CRM software applications when it was trying to break through its circulation plateau; it was simply trying to solve customer-related problems in the most intelligent way it could. Only now, almost a decade later, is the *New York Times* starting to install CRM technology—including a national data warehouse that stores information by customer—to support its customer strategy. CRM eventually became part of the solution, but it didn't drive the strategy or the process.

Start with Customer Strategy

For a CRM program to succeed, you first need to create a customer strategy. Start by figuring out which customers you want to build relationships with and which you don't. Every customer has different needs and wants as well as different current and potential value to your company. Consequently, your customer base should be divided into groups, ranging from the most profitable, with whom you should broaden and deepen relationships, to the least lucrative, whom you may wish not to serve at all. Segmenting will help clarify the appropriate response: Invest to win back or grow profitable relationships; manage costs to make lower-margin segments worthwhile; or divest unattractive segments.

The task of creating a customer acquisition and retention strategy is complex, but you'll know you're on the right track if you're in the process of debating these five questions:

1. How must our value proposition change to earn greater customer loyalty?

2. How much customization is appropriate and profitable for our strategy?

3. What is the potential value of increasing the loyalty of our customers? How much does it vary by customer segment?

4. How much time and money can we allocate to CRM right now?

5. If we believe in customer relationships, why aren't we taking steps toward a CRM program today? What can we do next week to build customer relationships without spending a cent on technology?

Answering these questions may lead you to conclude that CRM should take a backseat to cost reductions or some other initiative in your company. You might decide that you don't want to differentiate your approach to customers or that loyalty cards don't fit with your company's philosophy. That's fine. The first step is to build the data and the courage to tell the company where its customer strategy is taking it.

Peril 2: Rolling Out CRM Before Changing Your Organization to Match

Installing CRM technology before creating a customer-focused organization is perhaps the most dangerous pitfall. If a company wants to develop better relationships with its more profitable customers, it needs to first revamp the key business processes that relate to customers, from customer service to order fulfillment. Having a strategy is not enough: A CRM rollout will succeed only after the organization and its processes—job descriptions, performance measures, compensation systems, training programs, and so on—have been restructured in order to better meet customers' needs.

It's also important to evaluate existing departmental, product, or geographic structures. Believing that CRM affects only customer-facing processes, however, executives often do not see the need for changes to internal structures and systems before investing in CRM technology. But that's like trying to repaint a house without sanding the walls first; it's bound to look worse than before. Research reinforces our point. According to a survey conducted re-

cently by on-line resource center CRM Forum, when asked what went wrong with their CRM projects, 4% of the managers cited software problems, 1% said they received bad advice, but 87% pinned the failure of their CRM programs on the lack of adequate change management.

The most successful companies in our study have worked for years at changing their structures and systems before embarking on CRM initiatives. Consider Square D, a 100-year-old maker of electrical and industrial equipment that began its CRM initiative nine years ago. Acquired by France's Schneider Electric in 1991, the Illinois-based company completed its integration in 1993, capturing the resulting cost synergies. The company was now poised to grow—in a hurry. Its objectives were to multiply revenues, double return on capital, and boost sales per employee by 33% before 2000. To accomplish those goals, Square D's then CEO, Charles Denny, knew that the company would have to focus on the customer as never before.

But Denny didn't make any knee-jerk investments in CRM software right away; he realized that Square D would first have to reorganize itself around customer segments. The company's three basic business units—electrical distribution, industrial control and automation, and transformers—did just that, eventually organizing themselves around four main markets: industrial, residential, construction, and original equipment manufacturing. The company's remaining functions were then reorganized to support these four divisions. Square D also altered its performance-measurement and incentive systems; incentives were no longer based on the number of units sold but on the number of customers acquired and on profit margins. The changes took three years to accomplish and were championed straight from the corner office.

Only after its internal systems had been re-focused on the customer did Square D start using high-tech applications to upgrade its customer-facing processes. For instance, in 1996, the company invested \$75 million in an order-management system that let sales engineers create proposals for customers based on what the factory floor could deliver. Again, the software implementation was given high priority from top management. Chris Curtis, Square D's vice president of U.S. marketing, says that for three years, managers were taken

out of line jobs for months at a time to understand the issues involved in implementing the software.

Similarly, at GE Capital, executives changed key organizational practices before investing in CRM. GE Capital Fleet Services, one of the largest lessors of corporate automobile fleets in the world, began its CRM initiative by asking, "What aspects of our existing processes frustrate customers and managers?" The answer, executives found, was the "looping" that occurred as each order was processed. Customers would fill out forms but leave some queries blank, so the salespeople would have to send the forms back to be completed. Customers would then change the specs, and the vehicles requested wouldn't be available. So the forms would go back and forth, again and again.

Automation was, obviously, an important part of the solution. But before investing in software, GE Capital Fleet launched an internal Six Sigma effort to simplify the customer interface and improve the old process. Managers followed through, pushing their sales representatives to adopt the new system by making their use of it a performance metric directly linked to compensation. The biggest change that eventually resulted was not in the use of the software but rather in employees' increased sensitivity to customer needs, which eventually paved the way for effective CRM implementation.

Like all successful users, Square D and GE Capital realized early that CRM requires companies to adopt customer-centric philosophies, change their structures and processes, and alter their corporate cultures accordingly. Unless this work is done beforehand, it is unlikely that a CRM technology project will get off the ground. Sure, such changes could take months, even years, to accomplish, but they must precede a CRM rollout if it is to succeed.

Peril 3: Assuming that More CRM Technology Is Better

Many executives automatically assume that CRM has to be technology intensive. It doesn't. Customer relationships can be managed in many ways, and the objectives of CRM can be fulfilled without huge investments in technology simply by, say, motivating employees to be more aware of customer needs. Merely relying on a technological so-

lution, or assuming that a high-tech solution is better than a low-tech one, is a costly pitfall. In fact, companies with well-functioning CRM programs dot all points of the technology spectrum: low-tech, mid-tech, and high-tech.

Several companies have adopted a healthy hybrid approach to CRM. For example, Grand Expeditions, a Florida-based company that manages eight tour operators, started its CRM project by identifying the low-tech activities that were already working well and could be replicated across the company. Its senior executives, led by president Bob DeVries, discov-

ered, for example, the effectiveness of handwritten thank-you notes that one of its tour operators was sending clients days after their excursions ended. Customers loved this personal touch, and DeVries realized that this was an effective—and simple—way that the whole company could strengthen relationships in an industry where customer-acquisition costs are high and clients are risk-averse. Only when the continuous study of such practices was under way did Grand Expeditions start evaluating software solutions that could bolster its ability to build relationships with customers.

What Customer Relationship Management Really Comprises

Executives often mistake the easy promise of CRM software for the hard reality of creating a unique strategy for acquiring, building relationships with, and retaining customers. This chart highlights the five imperatives of CRM—and where technology fits in.

CRM Imperative				
Acquiring the right customer	Crafting the right value proposition	Instituting the best processes	Motivating employees	Learning to retain customers
<i>You Get It When...</i>				
<ul style="list-style-type: none"> You've identified your most valuable customers. You've calculated your share of their wallet for your goods and services. 	<ul style="list-style-type: none"> You've studied what products or services your customers need today and will need tomorrow. You've surveyed what products or services your competitors offer today and will offer tomorrow. You've spotted what products or services you should be offering. 	<ul style="list-style-type: none"> You've researched the best way to deliver your products or services to customers, including the alliances you need to strike, the technologies you need to invest in, and the service capabilities you need to develop or acquire. 	<ul style="list-style-type: none"> You know what tools your employees need to foster customer relationships. You've identified the HR systems you need to institute in order to boost employee loyalty. 	<ul style="list-style-type: none"> You've learned why customers defect and how to win them back. You've analyzed what your competitors are doing to win your high-value customers. Your senior management monitors customer-defection metrics.
<i>CRM Technology Can Help...</i>				
<ul style="list-style-type: none"> Analyze customer revenue and cost data to identify current and future high-value customers. Target your direct-marketing efforts better. 	<ul style="list-style-type: none"> Capture relevant product and service behavior data. Create new distribution channels. Develop new pricing models. Build communities. 	<ul style="list-style-type: none"> Process transactions faster. Provide better information to the front line. Manage logistics and the supply chain more efficiently. Catalyze collaborative commerce. 	<ul style="list-style-type: none"> Align incentives and metrics. Deploy knowledge management systems. 	<ul style="list-style-type: none"> Track customer-defection and retention levels. Track customer-service satisfaction levels.

Unlike the case of Grand Expeditions, some customer strategies may call for more high-tech approaches. Take Square D, for example. Not only has the company streamlined the process of addressing customer queries—in 2000, it consolidated 18 far-flung call centers into one customer information center for North America—it is also designing products that virtually repair themselves. The company's engineers have patented a technology to build Web servers into their equipment, which, in the near future, will identify problems almost as they happen. For example, if a monitor at a petrochemicals plant detects a power surge and automatically kills the utility feed, the Web server linking the equipment will sense damage to any drives (even if a backup generator has taken over). The server will then send an e-mail to the plant engineer's mobile phone to signal the problem. It will also send an e-mail order to Square D for replacement drives and another to the contractor requesting that an engineer be present at the plant the following day to install them. By the time the plant engineer arrives the next morning, the drives will be ready for installation, and a Square D manager will be present to discuss the event. That's how high-tech Square D needs to be in order to secure customer loyalty in its business.

The question for managers, then, is, "Where do your CRM needs fit on the technology spectrum?" Depending on your customer strategy and processes, you could be a Grand Expeditions, a Square D, or something in between. To find out, start by vetting the lower-tech alternatives first—you may not need more. A deliberate ramping up of technology will allow managers to sequence individual software solutions so that each step reinforces the next. It also will allow managers to experiment so that they can discover what they should really be doing to strengthen relations with their best customers—independent of technological sophistication.

Peril 4: Stalking, Not Wooing, Customers

If your best customers knew that you planned to invest \$130 million to increase their loyalty to your products, how would they tell you to spend it? Would they want you to create a loyalty card or would they ask you to open more cash registers and keep enough milk in stock?

The answers depend on the kind of company you are and the kinds of relationships you and your customers want to have with one another. Such relationships can vary across industries, across companies in an industry, and across customers in a company. Unfortunately, managers tend to ignore these considerations while using CRM, with disastrous consequences. They often end up trying to build relationships with the wrong customers, or trying to build relationships with the right customers the wrong way.

In 1996, the *Dallas Morning News*, one of Texas's leading newspapers, woke up to this harsh reality: It discovered that its telemarketing program was annoying customers instead of winning them over. More and more potential customers were slamming down their phones, and circulation gains were slowing. Even the paper's circulation director admitted that the only positive thing about the program was that it was inexpensive. So he began shifting customer-relationship resources away from calling every potential customer to a program to build "wantedness."

The new program entailed a direct-mail campaign targeting 12 customer segments that had been preassessed for growth potential. The company also focused on retention, calling existing customers to check on satisfaction and to offer them the convenience of automatic payments. By the summer of 2001, the company was projecting that only 33% of its new customers would be acquired by telemarketing—the industry average—as compared with 56% in 1996. Moreover, retention rates from direct mail were running at 62% versus 40% for customers who had signed on after a telephone call, which justified the higher expense of mailings. Above all, the new approach fit the image the newspaper wished to project: that of being a household partner, not a pest.

Relationships are two-way streets. You may want to forge more relationships with affluent customers, but do they want them with you? Fail to build relationships with customers who value them, and you are bound to lose these people to a competitor. Try to build relationships with disinterested customers, and you will be perceived as a stalker, annoying potential customers and turning them into vociferous critics. That is what most loyalty programs seem to lapse into, as any hapless customer

who has registered with a CRM-equipped retailer will tell you. Just because managers can contact customers doesn't mean they should; it depends on the customer strategy, not the CRM program.

Learning from Failure

Even if you've been unsuccessful at implementing CRM, there's hope: Companies do recover from their failures. Consider the case of BMC Software, a systems-management software provider based in Texas that was forced to abandon its entire CRM program and start over again—and again. After two failed attempts at implementing a CRM system, the company finally succeeded the third time around. What went wrong during BMC's first two stabs at CRM? Many of the pitfalls we've described. BMC's managers didn't research what customers wanted; they only asked themselves what processes they could perform faster. They assumed that a CRM initiative did not require much top-management involvement and that it could be handled by IT managers. They believed that the software would sell itself to employees and would automatically generate the organizational changes required. Each time, the program simply floundered.

Finally realizing that the CRM project was a cross-functional undertaking, BMC's leadership tapped the vice president of sales for North America and the manager of marketing programs for North America to head up the initiative. The marketing duo's commitment to defining the CRM program's requirements up front and articulating its benefits to employees proved to be critical. They carefully aligned every change with budgeted sales targets to show how CRM would help the sales force attain its goals. And they involved many more employees, with as many as 175 people helping to develop the new program's configurations and serving as its early champions.

It took BMC five months to roll out a sales-force automation system. To overcome any residual skepticism within the company, the roll-out included an internal marketing campaign, spearheaded by a veteran from corporate communications. At the same time, the company shut down most of its other technology-related projects and carefully sequenced the CRM implementation. First, the direct sales function was automated, followed by sales-lead management and business-partner channel manag-

ers. BMC then equipped its Web channels with CRM technology. Success in one area set the stage for success in the next, and if there was a problem, the entire company didn't get embroiled in it.

CRM use eventually became mandatory at BMC, its benefits being carefully communicated to every employee to ensure buy-in. This time, the implementation strategy worked. The CRM system was relaunched in March 2000; six months later, 80% of the marketing and sales staff were up and running on the system—and 95% a year later. Under the new system, BMC's sales representatives were able to access data in five to ten minutes, compared with what was once a couple weeks. When the TeleServices team, for example, used the software to research contacts for a product sales blitz, one sales representative was able to close a lucrative deal in less than a week instead of months. A study that will identify the revenue benefits and cost savings from the project has been only recently commissioned, but results are sure to reveal the success of BMC's third attempt.

Management tools have come and gone, but CRM is not, we are convinced, just another fad. It is a powerful idea, albeit a difficult one to implement. Its pitfalls explain why everything that is presently being done in the name of CRM seems to be driving managers away from, rather than closer to, customers. But CRM is by no means impossible to use; it's no more difficult than any other organization-wide initiative. If you remember the principles on which it is based and avoid the pitfalls in its execution, your CRM project won't end up diluting earnings, disaffecting employees, and damaging customer loyalty.

Successful CRM depends more on strategy than on the amount you spend on technology. Strategy is about allocating scarce resources to create competitive advantage and superior performance. The only way you can make CRM work is by taking the time to calculate your customer strategy, which helps employees understand where they are going and why, and to align your business processes before implementing the technology.

You'll also need to effectively lead and manage change, showing CRM support teams how to achieve their goals through new processes.

Employees must be equipped with the tools necessary to succeed—whether it's stationery and pens to send thank-you notes or software to create self-service options for customers. Indeed, while technology is a powerful facilitator in the process of customer relationship management, that's all it is—a facilitator. And the moment companies forget that, CRM will turn

into a tool that, instead of building loyalty, does just the opposite.

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