

The Future of CRM in Small and Mid-Sized Businesses



SEDONA
CORPORATION

March 2002

While on vacation over 2000 miles away from home, Mrs. Jones walks into a branch of a bank that is affiliated with the one she uses at home. The teller greets her by name receiving information from the facial recognition system located at the door that identifies Mrs. Jones and automatically displays information about her accounts, recent financial transactions and purchases while on vacation, as well as personal information such as the names of the other members of her household, and her love for snorkeling and fine wines. The teller assists Mrs. Jones in acquiring some travelers' checks (which she receives for free since she is a premier customer at her home bank). The teller then offers information to Mrs. Jones on the local snorkeling hot spots and learns that Mrs. Jones is considering purchasing new gear on this trip. The teller then offers to extend Mrs. Jones' credit so that she may utilize her bank credit card for her vacation and equipment expenses. Pretty impressive, especially when one considers that the teller is, itself, a computer system!

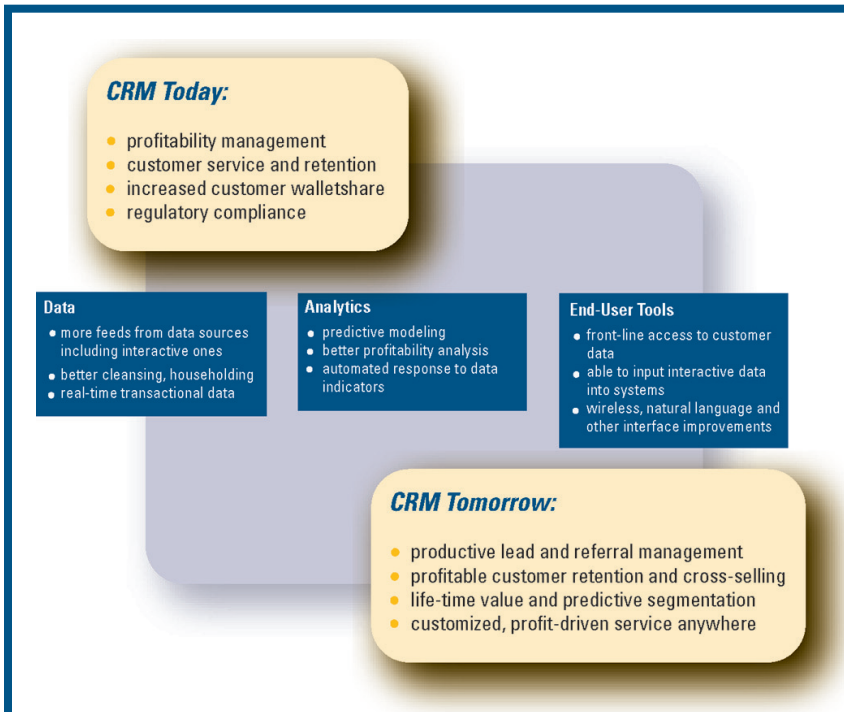
Sound incredible? Fact is, everything in the above scenario is within reach today. All of the technology exists right now and some small and sized institutions are already beginning to implement parts of it. This is the promise of Customer Relationship Management (CRM).

CRM is the notion that businesses should focus on the customer and therefore reinvent themselves to deliver personalized, service-driven sales and support. Some pundits will argue that the overall objectives of CRM are to drive productivity and measurable ROI while improving profitability and expanding market or wallet share. While these objectives are sometimes the result of a well carried out CRM initiative, most CRM projects start more simply to help organizations improve customer satisfaction and retention.

Let us propose a ubiquitous goal that CRM will allow "an entire organization to identify, acquire, foster and retain loyal, profitable customers". To accomplish this organizations will usually require changes in: the existing technology systems and possibly the infrastructure; changes in culture (including perhaps compensation initiatives); and, undoubtedly, changes in leadership priorities. While each area is a topic worth discussing, the focus of this article is on technology -- what is available and in use today, and what small to mid-sized businesses can expect to see 3-5 years from now.

We can oversimplify the value of CRM systems by defining it as a technology that provides the following services:

- 1) the aggregation of data to create a single, accessible source (whether physical or virtual)
- 2) the analysis and presentation of that data into useable information by individuals doing strategic planning or executing strategic sales/marketing initiatives
- 3) tools and information to provide front-line personnel -- or systems -- that are interacting with customers and prospects the ability to make educated decisions.



Data

The key to any CRM implementation is data. Without good data to begin with, we are limited in our ability to make accurate and insightful decisions on any level. In today's CRM world, one of the toughest challenges is aggregating data from various systems into a single repository or data mart/warehouse.

Industries such as banking are fortunate to have core processors that, in concert with connected CRM products, can provide a rich starting point for customer data. Ideally, organizations will want to integrate as many data sources as possible when looking at customer, household, product, and organizational data. This data may be stored in additional internal databases, spreadsheets, and applications. As we look to the future, we see additional types of data added to the mix including transactional data coming from both Internet and person-to-person channels.

In addition to the organization's own data, CRM systems today often offer the ability to integrate third party enhancement data. This additional data can provide information such as demographics, psychographics, behaviors and preferences of customers and prospects. Prospect lists are often obtained as well, enhancing the organization's ability to track and analyze sales cycles and to recognize the source of leads (which is crucial when measuring the effectiveness of the sales channel). Companies such as Acxiom, Experian, and InfoUSA provide this kind of data. In some cases, the data can also be acquired directly through the CRM provider on-line, or in another format that can easily be integrated into the CRM datamart.

Improvements in gathering and using behavioral and psychographic data will also be more readily available for smaller businesses in the next few years. Industry normative data, which provides base foundational analysis information today, will be used more and more to improve productivity and to provide a clear picture of the competitive landscape. Most likely, this will help smaller businesses understand opportunities that they can exploit because of their ability to maneuver with more agility than larger organizations.

Most CRM systems can interface with internal and external data sources in batch mode. When data is

batched, there is a deliberate (automated/scheduled or manually triggered) process that updates data on a daily, weekly, or monthly basis. This is done to avoid disruption of transactional systems and/or other processes that may be affected by data extraction. In most cases, data is moved in only one direction.

In the case of CRM, the process is usually pulling data out of other databases to populate the CRM system. The implication, then, is that anyone using the CRM system may have outdated data, thus the decisions stemming from that data may be limited due to its possible inaccuracy. For example, you might not be able to see the last few transactions a customer has made to respond to a next best product recommendation though you can certainly see that they are a gold star customer that has been with the institution for 5 years. As CRM systems get more sophisticated and users get more demanding, more real-time integration of data across the organization will be seen, and the ability of all CRM tools across the organization to access that data will increase. As a result of this, CRM functionality will be embedded in core business applications. This will not only bring real-time data access through the CRM tools, but also the bi-directional movement of data from the CRM system back in to the core systems. This means new data collected in the CRM system will be available enterprise wide. For example, a conversation recorded in the CRM system or change of address would then be propagated back to the other customer systems that may be used by others within the enterprise.

Moving forward, data cleanliness will continue to be an issue as organizations deploy methods to analyze data integrity and processes to ensure its stability over time. Techniques such as customerization will be more utilized to identify possible duplicate entries of the same individual. Today, technologies such as Acxiom's Abilitec can help in this regard. Such algorithms will continue to be improved to increase the accuracy of the matches. On the input side, customer adoption of data entry processes and quality assurance of the data will increase as businesses recognize the importance of having a single, clean record for each customer. Many organizations will also use householding technologies to help identify and associate members of a household to allow for more effective profiling and planning at the household level.

Advanced householding technologies are already on the market, and organizations exercising a good amount of direct marketing are beginning to appreciate the cost savings and customer satisfaction that result from improved segmentation using householding.

The Internet will continue to be exploited to gather and attract data from customers and prospects. This process that will also become increasingly effective over time. Ad hoc survey engines, self-help on-line systems, and ecommerce data collection are all means by which businesses can drive and/or assess user data on an on-going basis. To help manage support costs, many businesses will utilize and integrate chat-based or live help, proactive problem recognition and correction (i.e. on-line, automated bug fixes), and the integration of call center systems with overall customer information systems to allow a single face to all customers. These systems and processes will generate data that need to be collected and integrated with the CRM system.

Analytics

Now that a single source of multi-dimensional capabilities has been identified, the next challenge for businesses is to analyze and use the data. Today there are a number of techniques and products that can be used to help make sense of data and turn it into information. One such view is profitability management which is a way to look at the profit contribution of customers, products, and personnel. Depending on the industry and CRM system, some profitability management systems come equipped with the tools needed to enter and analyze key profit variables. Some packages utilize simplistic methods while others use more sophisticated approaches. The sophistication of the program may be driven by the vertical industry of the company, as this makes a tremendous difference in the way profit is calculated and valued.

For example, profit analysis in manufacturing must include variables for inventory requirements and raw material costs, while profit management in banking should include historical funds transfer pricing and branch overhead. Once done, a solid profit analysis will help business managers better price and package their products and determine who are the most profitable customers and employees. Looking into the

future, we will see more sophisticated methods in each vertical to analyze profitability and then use those analyses to make practical decisions.

While profitability is a good place to start, some organizations use profit as only one variable within a value metric such as customer or household value indexes (CVI or HVI). This can be a highly customized measurement of the customer as valued by the organization. Other groups, such as Meridien Consulting, already point out that using a Life Time Value Index (LTV) is critically important to look at the long-term potential value of customers. Unlike current methods that only rely on historical data that is held within the CRM system, LTV uses algorithms and statistics in addition to historical information to forecast the future behaviors of those customers. The idea is that someone who has not historically been a “good” customer may in fact have the potential to become one and therefore the organization might want to focus on how to retain and stimulate this customer into being as lucrative as the LTV indicates.



For decades now, propensity models have helped organizations to estimate future behaviors and develop next-best product decision tools. These models were developed to assist knowledge workers in their ability to up-sell and cross-sell additional wares. Moving forward, these technologies will be used more often, while tools that consider profitability as well as interactive input as part of the overall heuristics for determining more personalized recommendations will be developed. The use of psychographic information as a new dimension of understanding future purchase behavior will also drive the need for tools that can accommodate the creation and use of such data. System-based, automated decision making will become more popular in the future as tools such as on-line self-help calculators, event alert generators, and dynamic,

personalized website generation become more prevalent in daily use. These technologies will not only allow the CRM system to complete the analytics, but will allow the system to act on those analyses in the absence of human intervention.

Front-Line Usage

In the near future, the most dramatic changes in technology and operations will be seen in people who are using CRM systems to service and sell to customers and prospects as part of their regular jobs. Already today, so-called “knowledge workers” are using personalized CRM portals to have quick access to information resources and customized applications that easily present data. Front-line workers have access to a variety of CRM tools to assist them in making real-time decisions based on the automated yet specific, recommendations generated by the collective information within the system.

Today, CRM systems present that information in terms of maps, charts and graphs that are generated by report writers and visual profiling programs. Tomorrow there will be voice activated and speech feedback tools, as well as other more elaborate visual aids using 3D and CAD-style graphics. Armed with their own calculators and self-help systems, front line workers will be able to quickly find answers to assist customers in their purchase decisions. The use of knowledge databases and Artificial Intelligence (AI) will make a comeback to allow the front line to focus on assessing the problem and quickly communicating a solution.

Using predictive technologies to proactively address issues will be more widespread so that front-line personnel can participate in more outbound contact rather than simply reacting to customer requests as is often the case today. As we’ve seen with automated phone answering systems, we will continue to drive customers issues to other channels such as websites for self-help. The goal will be to save the time and talents of educated workers to focus on gathering non-system data, such as a customer’s demeanor and future plans. Front-line workers will be transformed, becoming sales people and/or consultants utilizing the CRM system to research historical information. They will then add value to their personal interactions with customers on the phone, via the Internet,

and in person. To make this cultural change, front line workers will need to adopt new views (perhaps encouraged by changes in their compensation rewards) so that they use the CRM systems and understand the value of both the system and their front line interactions.

The use of wireless devices to access customer information will also become pervasive as customer service is driven away from the office to the convenient location of the customer. Untethered customer service individuals will require the same 360 degree view of the customer/prospect. This view will be directly related to the customer service rep’s ability to access the necessary tools and information needed to service them wherever the interaction is occurring. Natural language interfaces will become used to facilitate both front line workers and customers in their necessity to easily access information regardless of location, channel or experience.

The Future of CRM

So where does this all land? Today we see small and mid-sized businesses ultimately looking to CRM to provide better customer service, improved profitability, and the expansion of customer walletshare. Smart organizations are also using CRM to support regulatory compliance such as privacy management and OFAC validation. Often driven by the need to improve customer satisfaction and retention, CRM systems can aid in understanding a customer or segment to focus sales and marketing activities. We will see more of an appreciation that profitability is a key variable in determining cross-sell promotions, product pricing and packaging based on historical as well as future anticipated consumer information. Life time value (LTV) will be better understood to allow for organizations to think about who is a potentially good prospect and the overall return on the relationship that is developed over time. So, while CRM may already seem to be an old term, there is a long future ahead bringing new ways to communicate, operate, and strategize on how small and mid-sized organizations manage their personnel, customers, and prospects. So whether we think that Mrs. Jones needs a new set of flippers or not, we can bet that CRM is here to stay and it will dramatically change the way we work and live.



SEDONA
CORPORATION

455 South Gulph Road, Suite 300
King of Prussia, PA 19406
T (800) 815-3307
F (484) 679-2201
www.sedonacorp.com