What Is a Customer Relationship Management Strategy?

A CRM strategy states how to turn a customer base into an intangible asset for market valuations. Via operational feedback, it should evolve to integrate enterprise activity around customer targets.

Up to 85 percent of enterprises do not understand how customer relationship management (CRM) creates value in their customer base. They have, therefore, failed to develop the unifying CRM strategy to build up this asset. Instead, CRM has been implemented in a piecemeal fashion, concentrating on building up capabilities from which, it is presumed, valuable customers will flow — without a CRM strategy, they won't. Setting up a call center or creating a portal on a Web site are capabilities that can be used, but in themselves they do not deliver more-valuable customers. A CRM strategy is required to give a coherent and structured approach to delivering more value to the business from its customers. Through 2004, up to 80 percent of enterprises will not have a CRM strategy that details how to turn customers into a "company asset." This will result in wasted investment and disappointing levels of customer retention (0.9 probability).

The question then is "What is a CRM strategy?" There is much confusion between a CRM business strategy and a CRM implementation plan. Many organizations think they have a CRM strategy when, in fact, what they have is a plan to build capabilities. A CRM strategy is a blueprint for turning an enterprise's customers into an asset by building up their value. It is based on an understanding of how an enterprise's competencies can be used to create value propositions for customers and the market segments that offer the most value potential, and then systematically developing that potential. An implementation plan states how an enterprise will build the new capabilities it needs to achieve this.

The Objectives of a CRM Strategy

At the heart of a CRM strategy are the objectives. These give measurable and specific targets for how corporate financial goals
are to be achieved efficiently through acquiring, developing and retaining customers of value. The objectives are set around the customer life cycle, which in turn reflects time horizons in the product life cycle. It is the achievement of corporate goals through customer objectives that makes an enterprise customer-centric. For example, if you want to grow revenue, the question should be "Which customers are you going to do it with?" not "Which products are you going to sell more of?"

The customer's life cycle is an important focus for CRM strategy objectives, because a customer base only becomes an asset when it has levels of "loyalty" that increase customer value. The only way to build up loyalty is by acquiring potentially valuable customers and then investing effectively to develop that potential through the customer experience (see "Customer Experience: The Voice of the Customer," TG-14-9567). To do this means:

- Acquiring customers who value the proposition
- Welcoming them, making sure they understand how to use the product or service (a key make-or-break point of a relationship)
- Getting to know them to develop all round value (enterprise-to-customer, customer-to-enterprise)
- Managing problems (another relationship make-or-break point); understand when they might defect and stop them from doing so
- Winning them back if they do defect

When the objectives have been set, the tactics or value-creating initiatives can be put in place to achieve them and then the capabilities can be built up to support them (see "Developing a CRM Strategy," TU-14-9475).

Developing a customer asset base is not, therefore, just a matter of setting sales, service and marketing objectives, or of building capabilities in these areas. This is an unintegrated and functional view of customer management that does not look at customer asset development holistically. It is also an approach that excludes other areas of the enterprise and channel partners that also need to play their part in the "experience."

**Setting Objectives With a Value Audit of the Customer Base**

To set CRM strategy objectives, enterprises need to analyze their assets and look for areas of lost and potential value, take this information, and then link it back to show how corporate objectives can be achieved. Figure 1 shows a customer base divided into asset segments. The vertical axis shows the
potential value of the customer to the enterprise. The horizontal axis shows the strength of the relationship from the customer's view. The objectives of a strategy would be to acquire customers with the greatest potential and to develop with them both the potential and strength of the relationship. Customers with the right level of investment would be retained; others — even loyal customers — would be let go.

![Figure 1](image)

**Customer Potential (Value to Enterprise)**

<table>
<thead>
<tr>
<th>Strength of Relationship (Value to Customer)</th>
<th>Key</th>
<th>Large Share of Budget</th>
<th>Some Potential</th>
<th>Transactional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly Secure</td>
<td>Protect Position</td>
<td>Invest to Protect</td>
<td>Invest to Win Over</td>
<td>Damage Limitation</td>
</tr>
<tr>
<td>Secure</td>
<td>Counter Competition</td>
<td>Invest to Build</td>
<td>Win the Opportunity</td>
<td>Careful Management</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>Manage for Profitability</td>
<td>Build Selectively</td>
<td>Manage for Revenue</td>
<td>Manage for Revenue</td>
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<tr>
<td>Fragile</td>
<td>Manage for Profitability</td>
<td>Manage for Profitability</td>
<td>Manage for Revenue</td>
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</tbody>
</table>

Each segment in Figure 1 shows the main purpose of the tactics that need to be employed, for example, highly secure, key customers need protection tactics and secure transactional-based segments need to be managed for profitability. More-detailed analysis and "What if" modeling of each segment (for example, the profile, needs, behavior and attitudes) would establish the relevant tactics valued by customers to achieve...
objectives. Assessing current CRM capabilities would help map out an implementation plan.

Analyzing a customer base in this way soon shows where immediate actions are needed, for example, with key customers that have fragile relationships and where longer-term objectives, tactics, and capabilities need to be put in place. What's more, measures can be set and monitored. The case studies show initial outline CRM strategies based on this approach. Case Study 3 is the most complete, showing objectives, outline tactics and supporting capabilities to be built.

**Case Study 1 — Business-to-Business (B2B) Telecommunications Company**

1. Segment the customer base into deciles of value.

2. Develop customer profitability by increasing the profitability of the most valuable segment by three percent, the next three segments by 20 percent and then decrease the losses on the remaining six segments. Tactics to be used include developing new services, lowering distribution costs, increasing prices and reducing discounts.

3. Acquire new customers of the most-valuable type, with targeted communication and selling.

4. Implement retention programs for the most-profitable customer segments.

**Case Study 2 — Business-to-Consumer (B2C) Airline**

1. Understand and segment the customer base on requirement and value.

2. Retain the most-valuable customers after finding out why they are defecting.

3. Win back the valuable ex-customers.

4. Develop the loyalty of other valuable customer segments by using differentiated services according to need.

5. Improve the profitability of the unprofitable customers.
Case Study 3 — B2B Government Department

1. Understand and segment the customer base on needs and value.

2. Retain established customers to maintain cashflow and acquire new ones of value by understanding needs and developing key account management. Build up capabilities for customer analysis, account management, inquiry and complaint processes, and customer culture.

3. Build a better customer portfolio by developing customer potential through improved life cycle contact management. Capabilities to build include different customer value propositions, contact and channel strategies, front-line contact capability, and ordering and billing processes.

4. Optimize customer contribution through appropriate, cost-efficient development of each segment. Capabilities to build include customer contribution models, customer information processes, self-service functions and changes to staff compensation schemes.

As can be seen from these examples, different types of organization (B2B, B2C and government or nonprofit) put different priorities on customer objectives. Most have customer retention as a main objective, although few understand how much to invest in this activity. B2B organizations tend to put customer development next in priority, as they need to get a greater understanding of their business customers and gain a larger share of "wallet" to become the supplier of choice. B2C organizations tend to prioritize equally between customer development and acquisition. Those that have a more-mature CRM perspective put development first, while enterprises that still aim primarily for market share goals will have acquisition as the next objective.

For government organizations, the main objectives of a CRM strategy are to develop the loyalty or "feel good factor" of the service users. However, they often do not have the luxury of choosing a target market — they have to deal with a wide range of customers. For some, there may be a need to retain citizens and funds if they face commercial competition. Increasingly, governments want to ensure they acquire customers when the services are needed, but they do not need to indulge in tactics to gain competitive advantage.
How do CRM Strategy Objectives fit With Other Business Strategies?

A CRM strategy does not sit in isolation within an enterprise. To work, objectives have to be tied into corporate objectives and strategy and integrate with other operational strategies. Conversely, the CRM strategy shows how corporate objectives can be achieved — an issue of much concern in many enterprises today. Some enterprises will have a fully-rounded corporate strategy; others may simply have a set of financial goals and strategic imperatives. Whatever the state of the corporate strategy, this is the starting point for a CRM strategy.

Ideally, the corporate strategy should state how stakeholder returns are to be delivered and how competitive advantage is to be built — its primary objectives tend to be financial. A key focus for the corporate strategy is to decide what value it is delivering to whom and how (see "Creating a CRM Vision," TG-14-9470). This "vision" then becomes the brand proposition. The corporate strategy should be accompanied by a business model, which indicates how an enterprise will be financed and organized in its market as well as internally.

To achieve the corporate strategy, a number of operational strategies are required. The objectives of the operational strategies should be taken from the detail of the corporate strategy. If customer loyalty or value is deemed central to achieving profitability, then the leading operational strategy must be the CRM strategy — an interweaving of the marketing strategy (product, price, channel) and customer strategy. This then coordinates other supporting operational strategies for example, human resources and IT (see Figure 2). Lower-level strategies (such as sales, service, marketing communications, individual product and channel) take their objectives from the CRM strategy. The overall operational strategy then needs to be turned into customer processes to deliver a cohesive customer experience. This is done via an operating model that supports the strategy and from which detailed customer process maps can be designed.
It would be a mistake to think that once initial CRM strategy objectives and tactics are determined, they are "set in stone." A CRM strategy needs to be up-to-date, dynamic, energizing and driving the organization to create value. It should effectively integrate enterprise operations with corporate direction and the market environment. Therefore, developing the CRM strategy is an iterative, evolutionary process, which should itself be properly process mapped. New value from creating business initiatives and programs should be a constant pilot, while customer and operational feedback should be part of strategic development measures. Both should be used to continuously refine and develop objectives, tactics, and customer processes, as well as capabilities. For example, a six sigma program (see G2 report "Six Sigma: A Methodology for Manufacturers, Not a Strategy," http://www.gartnerg2.com/rpt/rpt-0902-0152.asp) may support
CRM objectives through improved product quality, while increased service response might be achieved through a "real-time enterprise" endeavor (see "The Real-Time Enterprise: The Quest for Strategic Gains," SPA-17-6216). In this way, the CRM strategy should become the main vehicle for investment decisions and developing the customer asset base.

Key Facts: What Is a CRM Strategy?

- A CRM strategy states how an enterprise will build up the value of its customer base.
- The objectives of a CRM strategy are customer acquisition, development and retention. These must be specific and measurable.
- The objectives are set by understanding value and value drivers in the current customer base.
- The CRM strategy links the financial goals of the corporate strategy to operations via customer objectives, thus giving the enterprise a stronger customer focus.
- The CRM strategy should not be set in stone; it should constantly evolve via operational and customer feedback.

Bottom Line: Enterprises often confuse a CRM strategy with an implementation plan and think it is easy — the reverse is true. Gartner research shows that one of the biggest gaps between CRM success and failure is having a proper strategy that directs CRM investment in the customer asset base. A CRM strategy should integrate corporate financial goals with operations by setting customer life cycle objectives and then detailing the value creating tactics and supporting capabilities. To keep up with a changing environment and developing knowledge of customer requirements, a strategic development process, based on pilots and operational feedback, needs to be allowed to evolve as the means of customer-focused cohesion.