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Difficult Conversations: Discussing CRM With Your CEO

Overview
Few experienced Customer Relationship Management (CRM) professionals would argue that the CEO plays a key role in the successful deployment of an enterprise-wide CRM project. However, the CEO is often not the lightening rod for a CRM initiative; therefore, it is incumbent upon someone to accurately communicate the nature of CRM to the CEO and outline the actions that will be necessary to achieve success.

This type of discussion is obviously ladened with landmines; yet if CRM is deployed on a *go make it so* basis, it is likely to become a road kill statistic on the highway of failed initiatives. The opportunity for the organization is enormous, but success requires the active participation and leadership of the CEO. The question is how to navigate the potential landmines and position the CEO to take the right actions and assume the right level of leadership? The issue often boils down to identifying assumptions and getting through the tangle of egos and personal agendas; once there is clarity of purpose, the roles are obvious.

Since the hype in the industry would have one believe that CRM pixie dust will cure all organizational ills, the CIO (or other initiative designate) needs a pragmatic business orientation to be successful with this discussion. Part 1 of this series will explore some of the common misconceptions regarding CRM that lead to faulty assumptions and ultimately failure. Part 2 will then provide a "script" for the discussion and will identify the four key actions that need to result from this discussion.

Difficult Conversations: Part 1 - Sources of Misconception and Faulty Assumptions

A Common Mechanism For Generating Initiatives
Before identifying the common misconceptions regarding CRM, it is vital for the reader to have an appreciation for the process by which major initiatives are spawned within large organizations. It is not uncommon for large corporations to have 10-20 major management initiatives operative at the same time; sometimes initiatives are inconsistent and this tends to confuse the rank and file which leads to Dilbert type attitudes. Within any organization, there is likely to be something akin to a political swirl that is fed by the media, members of the board, anecdotes, internal reports, politics, and rumor. Over time, certain events or revelations can trigger a prioritization of an action or strategy that is thought to be necessary and appropriate to meet a particular need. If there is enough management momentum (right people supporting it) the initiative is given an identity and a function is authorized to pursue it. This prioritization can be integrated into formal budget cycles or it may be funded outside operational budgets. It is important to understand how this process works within the organization because, senior management obviously perceives that they have

linked cause with effect and thereby defined the scope and intent of the initiative. Once this step has been taken, senior management may not be open to re-visiting the decision.

In the specific case of CRM, the momentum for prioritization may be derived from a wide range of sources: disappointing growth performance, competitive moves, pressure from board members, industry analysts, functional requests, etc. In this regard, CRM is frequently viewed as a technology that leverages organizational performance and offers the promise of competitive advantage and improved financial performance. Clearly, there is an integrated set of tools that appear to address operational issues that face the organization, so there is an intuitive appeal to the whole initiative. Since this initiative involves technology, it is natural to assign the CIO to implement the initiative. Sound familiar?

So why is this initiative at risk? There is clear authority and the organization has identified what it wants fixed; the initiative should be capable of following best practice implementation policies and be poised for success. Right? Well, let's explore a few of the assumptions here:

- The CEO probably feels as though his/her role is complete in that the initiative is funded and assigned with clear expectations regarding desired impact.
- The CIO may view success as on-time and on-budget but there is no one responsible for achieving operational results (impact is directional).
- The CRM technology is expected to do some magic because there is zero commitment for change in operational strategy. This initiative takes on the vestige of *business as usual*.
- The CEO could have the attitude that CRM is just a necessary tool for today's market and therefore direct the CIO to basically pursue a low cost solution. It should be noted here that low cost does not infer inappropriate; the problem here is pre-supposing that this is <u>the right solution</u>. Also, this attitude can be fatalistic in that if failure is anticipated, then at least we did not invest the farm.
- The CEO may use a laissez-faire approach to CRM that basically encourages each function to pursue its own strategy. This may work at some level; but it is more likely that the functions won't agree on the time of day much less more critical issues such as data ownership and the initiative can go into analysis paralysis or simply is rolled out in a diluted/non-integrated format.
- Similar to the orientation toward a low cost solution, the CEO may also desire minimizing the costs associated with supporting the system such as training and technical support. Even a great system will self-destruct if users do not receive adequate training and the system is not maintained.

These comments are not meant to be cheap shots at anyone or any level within the organization; they do however reflect common attitudes and assumptions resident at the C-level that can torpedo a CRM initiative before it starts. Very little is written about this topic because few are willing to recognize the leadership

issues required for success. In many situations, the pain of hitting the wall of failure is less intimidating than addressing the needs up-front.
As will be discussed in Part 2 of this series, the potential of an enterprise install are enormous; however, there must be a corresponding investment in the system and change management to achieve the potential. These systems are complex to design and install and require significant budgets to maintain. CRM has followed the path of ERP systems in that user organizations are finally realizing that high levels of customization involve long lead times and high initial plus maintenance costs; therefore, it is preferable to largely use the applications out of the box. This infers that the organization adapt to the software. This reality is just one of the elements of change involved with the initiative.

CRM as a strategy is alien to the thought process and mechanics of any functionally structured organization. The tools and applications associated with CRM are designed to support a focus on the customer and decision making based on customer profitability (this will be expanded on in Part 2) but the customer facing functions are driven by an internal set of metrics that are not consistent with this perspective. This does not mean that organizations try to be antagonistic toward customers but the customer is responding to the total experience with the company and that is often inconsistent and incongruous. Therefore, CRM applications can lead to improvements in functional areas, but it is this total customer perspective that leads to competitive performance. Thus, the thought that CRM can generate substantial benefits (aside from simply economies of scale) in the absence of organizational change is a fairy tale.

Leadership is the catalyst that takes CRM as an operational strategy and a technology and combines it with the unique elements of the organization to derive a potent reaction of new insight and performance. Therefore, though the discussion with the CEO may be difficult, but it may represent the defining moment for the organization in the longer term.

Difficult Conversations: Part 2 – Elements of the Discussion

Part 2 of this series will provide a general outline for this discussion with the CEO. This approach will offer a logical sequence of topics that will form the basis for a script. It should be noted that this discussion is likely to involve several interactions and may involve different audiences as the topics are explored. Most importantly, this section concludes with a description of what actions the CEO must take as a result of this dialogue.

In Search of a Definition
The CRM industry is largely driven by technology. As the industry has matured the vendor influence has become more pervasive. Virtually every CRM topic web site and white paper is derived from a vendor perspective. As such, the definition or spin given to CRM reflects what the vendor would have the end user organization believe is the *must have* attributes of CRM. Over the seven years

or so that the CRM terminology has existed, there has never been a universally accepted definition. If the industry cannot agree on a definition, then what does the end user organization infer when management uses this term to launch an initiative? Most likely, each management person is using his own perception of what the term and the initiative means to her area of responsibility and the organization at a whole. Thus, management is using the buzz words of CRM, thinking they are communicating a consistent thought when in fact they are not on the same page much less the same chapter of the book. For example, what does being customer centric really mean or how do you define loyalty? What metrics would tell the organization that they possess these attributes or at what level?

For the purposes of this paper, CRM will be defined as:

- CRM is an operational strategy that commits the organization to a focus on customer profitability and life cycle value as a means for achieving long-term profitable growth and shareholder value.
- As a technology component of this strategy, CRM provides a complementary set of tools that facilitate processes that touch the customer such that the total customer experience is maximized in a manner that leverages profitability and life time value.
- The technology provides a database that includes everything the organization knows about the customer relative to interactions, profiles, profit, and behavior. Access to this database allows the organization to identify how to profitably serve the customer and anticipate future needs.

This definition clearly positions technology as an **enabler of an operational strategy**. However, industry hype would have the end user believe that the technology is the driver. If CRM is not an operational strategy, then the technology must have magical qualities that create benefits due to its power and capabilities. One should not dismiss the potential for benefits of scale and pure automation; however, are these commensurate with the price and this really the objective of the technology? A pure technology deployment may garner a ROI, but one is simply *paving cow paths* and it is analogous to using a tank to kill a mosquito.

The Dilemma

CRM is a disruptive concept (organizational perspective) and it is expensive to deploy and support. Senior management tends to re-coil at the cost; yet short-cutting the strategy phase and budgeting has a consistent track record of failure. The underlying issue here is that without a clear sense of outcomes it is difficult to generate the commitment to do the right things for the right reasons. When the initiative is funded, the CEO, COO, and the Board probably have different ideas regarding what they have authorized and believe that they have empowered someone to pursue CRM as a means to slay the dragons that threaten the organization. Having completed this step, they may not be receptive to the idea that their homework is incomplete and that they hold the keys of success or failure. This situation is all too common and the fact that it is a CIO or another individual that is charged with implementation makes little difference. The owner of the initiative is confronted with the dilemma of proceeding and hoping for the best or suggesting the need for a strategy with the person who is positioned as the keeper of organizational strategy; the ingredients for a difficult discussion!

Pain Management

There is a commonly recognized phenomenon in the field of change management that people will take action when the perceived *pain* of action is less than the consequences of non-action. One only needs to think of common occurrences such as quitting smoking to validate this concept. We are about to embark on a discussion with the CEO regarding his/her role in achieving success with CRM. As has been just suggested, CRM is a disruptive concept; this suggests organizational change which has significant risks for the leader who attempts it. So before the dialogue gets to the actions that the CEO may regard as risk laden for a personal perspective, it must be preceded by a discussion of opportunity that will out-trump the component of discomfort.

The starting place for discussion preparation is the identification of areas that the CEO is concerned about (is experiencing pain or has perceived pain); this is the collateral necessary to create action. These points of pain may be well defined or they may be masked by the culture. As indicated in Part 1 of this series, issues are often clouded by the swirl of politics, anecdotes, reports and current crises. However, it is likely that the issues will revolve around one or more of the following topics:

- The need to reduce cost and cycle time on mission critical processes.
- The *China* price for goods.
- The need/opportunity to outsource services.
- Regulatory requirements.
- The inability to budget sales and marketing costs on a cause/effect basis.
- Creating organizational alignment of effort.
- Ensuring organizational innovation and creativity.
- Maintaining profitable growth (short and long-term).
- Merger and acquisition strategies.

The challenge is to identify which of these hot buttons is the most pressing for the CEO and which ones are in search of viable solutions. Obviously, the CEO is going to be most interested in discussing the capabilities of CRM in the context of these needs. Further, the CEO will be inclined to take on personal risk if it is viewed as having a credible potential for addressing the above points of pain.

It is important for the owner of the CRM initiative to go beyond the buzz of the organizational swirl and attempt to connect the cause and effect of these points of pain. This may require some time to do research and talk with peers; but it will be critical to understand this mechanism if one is going to attach them to the capabilities of CRM.

Making CRM Operationally Relevant

The discussion needs to start with an understanding that CRM capabilities are designed to help the organization to understand and manage customer profitability. If one uses a stock definition from the industry you will probably become very familiar with details of the CEO's carpet than you would care to know; most CEOs are very familiar with the published hype.

The immediate reaction of the CEO to this issue of customer profitability is likely to be that we already know who are profitable customers are or what's the relevance of this data? Therefore doing some homework is a good survival tactic. The CFO and perhaps other senior level executives may be helpful in making an educated estimate of the profitability of a sampling of customer across geography, size, and industry. Typically, this analysis produces counter-intuitive results and is ladened with surprises. However, even if this is not the case, it should set the stage for the next step which is to set up a chart which shows the population of customers ranked into 5 or 6 levels of profitability. Again, this will require help from the CFO and will probably have many guesstimates, but this discussion in not about brain surgery. Calculate the impact of moving just five percent of customers in the two lowest profit ranked groups to their next higher rank. Most individuals will agree that this seems to be a reasonable objective. Then calculate the profit impact for the organization. The impact is likely to be in the double digits. This should get the CEO's attention and provide the opportunity to move to the next agenda topic.

The Impediments

Given this example, the CEO is likely to be excited while at the same time frustrated as to why the organization is not going after this technology at warp speed. Now is the time to address some of the realities of the organization. Given a functionally structured organization, one would expect to have the following impediments:

1. No one in the organization **owns** the customer experience.
2. None of the customer facing functions is oriented (aligned) with customer profitability. For example:
   - Sales is driven by revenue targets and budget constraints.
   - Marketing is focused on products and programs.
   - Customer Service and Field Service are managed on a cost and risk containment basis.
3. Customer and trade partner programs and policies have little accountability relative to behavior, profitability, or retention.

4. There is limited agreement within the organization as to who owns customer data and what accountability that ownership implies in terms of accuracy/quality.
5. No one with profit and loss responsibility is currently responsible for the achievement of specific success goals for the CRM initiative.

Therefore, deploying CRM tools with the intention of a focus on customer profitability without addressing a change in operational strategy is likely to be a waste of organizational energy and resources.

Expanding on the Opportunity
At this point, the CEO may feel a little overwhelmed and there is danger that the current balance of pain management may not be enough to keep the discussion going in the right direction. Therefore, it may be wise to review how CRM can be reasonably expected to impact other areas of pain for the CEO. It would take at least another white paper to discuss these in any detail, so the following comments are meant to indicate some relevant ideas but it not meant to be exhaustive by any means:

- Cost and Cycle Time: The tools of CRM are designed to positively impact cost and cycle time but the more important attribute of customer profitability is that it helps the organization identify areas of wasted effort (customer does not perceive value) versus areas that the customer may be willing to pay a premium for. The focus takes on a market orientation.
- China price: This relates to sourcing the product from China (low cost perspective). As defined in the discussion of cost, the customer orientation provides a better sense of customer value needs. Some customers may not be profitable in the first place, losing them to a competitor may not actually be a loss. It is important to recognize who you want to keep and at what price?
- Outsourcing services: It is interesting to note, that after a frenzy of outsourcing services, organization are now beginning to assess the negative attitudes they have created in the minds of their customers due to their rush to reduce cost. A lesson learned?
- Regulatory requirements: This issue is difficult to generalize on, but CRM tools control and document processes at a level that may not be possible otherwise.
- Sales and Marketing Costs: The focus on customer profitability and behavior provides a framework for understanding cause and effect in the marketplace. This understanding may never be perfect but what is the alternative? Most organizations budget based on historical precedent as opposed to understanding what's working versus what is not. History implies making the same mistakes with little opportunity to improve the yield from resources. Since sales and marketing often represent more than 35 percent of corporate costs, this is of strategic significance.
- Organizational Alignment: This topic is most frequently used in the context of IT budgets and strategy, but clearly the whole organization needs to be aligned regarding customer profitability.

- Innovation: It is reasonable that in some circumstances the customer may not know what they want or need. However, the odds favor an understanding of customers and what they are willing to pay a premium for.
- Profitable growth: Long-term growth is difficult to sustain and few organizations achieve it. Certainly understanding customers and their respective markets must be viewed as a mechanism for recognizing trends and taking action before events overtake the market.
- Mergers and acquisitions: When properly deployed, CRM technology can be used to increase the speed for integrating acquisitions and make divestitures more attractive.

These opportunities should surely be attractive to the CEO and warrant future discussion.

What is Needed From the CEO?

Well, the discussion outline has convinced the CEO that CRM is a powerful tool and that to leverage these benefits will require change. So how do we help the CEO get started? What actions are needed from the CEO?

First, there must be a realization that no organization can make the transition to a focus on customer profitability overnight. Likewise, there must be an attitude of learning; management must have a willingness to be transparent and admit not having all the answers. However, at the same time there must be a clear and unshakable resolve to pursue this strategy. There will be surprises and failures; the rank and file will watch to see if there is real commitment.

Accompanying the commitment, there must be a vision statement that communicates the need to adopt the CRM orientation, the reason for urgency, and the consequences of not taking action. This statement must emanate from the CEO, though the CEO should certainly receive input from senior management in its creation.

The CEO must model new behaviors associated with the strategy and deal with political and change issues as they occur.

The CEO either should assume the responsibility for the successful deployment of the initiative or assign a senior executive who has profit and loss responsibility and who has reasonable accountability for achieving the desired operational outcomes. This executive must be chartered with the responsibility to define the operational strategy and the steps required to move the organization to this new state.

The CEO must establish a steering group and assign executives that are respected within the organization. Leadership should be based on who is the best for the task and not who might be more convenient. Whatever the CEO communicates in public will be weighed by the rank and file by these choices.

Congratulations, you have taken the first major steps toward a successful deployment.

About The Author

Glen S. Petersen is an internationally recognized speaker, writer, practitioner, and thought leader in the Customer Relationship Management (CRM) and e-Business industries. Mr. Petersen has held senior level management positions with systems integration and end user organizations and is the Managing Director of GSP & Associates LLC, a consulting firm dedicated to helping organizations leverage and justify their investment in CRM related technology.

Mr. Petersen is the author of seven books:

- *High-Impact Sales Force Automation: A Strategic Perspective*
- *CRMS: ROI & Results Measurement*
- *CRM Leadership and Alignment in a Customer Centric World*
- *ROI: Building the CRM Business Case*
- *CRM Best Practices: Self Assessment*
- Making CRM An Operational Reality
- The Profit Maximization Paradox: Cracking the Marketing/Sales Alignment Code

Mr. Petersen can be reached at 505-771-1956 or gpetersen@gspandassociates.com