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Capturing Value Through Customer Strategy

Executive Summary

Getting the customer relationship right is the leading challenge on the CEO agenda for creating value. Unfortunately, for many companies, the quest to capture value from better customer alignment has not produced the expected results.

Does Customer Relationship Management (CRM) technology truly enable improved customer alignment or is it simply a repeat of the ERP debacle of the 1980s and ’90s? How can executives sort through the discord around CRM to take decisive actions that result in bottom-line benefits?

Booz Allen Hamilton believes that the debate surrounding CRM fundamentally has missed the mark. Much of the argument has centered on questions about technology, diverting attention from the more critical issue: What is the best way to craft effective customer strategies? Creating and capturing value requires clearly articulated, segment-level customer strategies that are supported by organizational, business process and technology enablers. Effective CRM technologies do exist, but they produce value only when properly deployed in support of winning customer strategies.

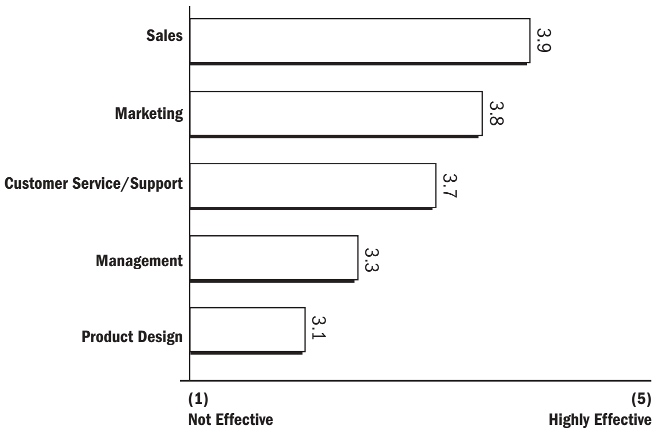
We believe all successful companies must take an active approach and build a practical plan to optimize their customer relationships — or they will lose ground to competitors that do. In the pages that follow, we lay out a five-step approach to create and capture value from customer strategy.

Capturing Value Through Customer Strategy

According to a 2001 survey of 506 global CEOs by the Conference Board, CEOs ranked customer loyalty and retention as their No. 1 management challenge. That need has driven some companies to invest as much as $30 million to install CRM systems. Forecasts for 2002 global spending on CRM range from $20 billion to $45 billion.[1]

Senior executives rationally want a return commensurate with this significant investment. But there is increasingly sharp discord in the marketplace about whether all of the operations and systems investments — let alone the business model changes — are paying off.

Exhibit 1
Relative Effectiveness of CRM Usage



Source: Booz Allen Hamilton

A Booz Allen Hamilton survey of senior sales and marketing executives at Fortune 1000 companies conducted in late 2001 indicates widespread frustration about the returns on CRM investments. Respondents with CRM systems generally don't believe they are used with the maximum effectiveness possible (see Exhibit 1).

Our study is consistent with other research which indicates that, despite considerable initiatives to achieve better customer focus, too few companies have realized the promise of becoming fully customer aligned. Although some have unlocked the value, many others have been unable to capture the benefits required to justify their investments. And more troubling is the fact that, while more information is available on behavior and customer interactions, companies continue to have difficulties leveraging that information to enhance the customer relationship (see Exhibit 2, page 2).

Conventional wisdom for the disappointing results tends to fall into two camps. The first believes that technology is to blame and that generic CRM software simply cannot support all of the complexities of the customer and channel relationships. The second camp believes that technology is irrelevant and that the problem stems from ill-advised customer strategies. We believe the problem is much more complicated than these simplistic views and that both strategy and technology must work together to create value.

For years, Booz Allen has helped clients develop customer strategies and implement technologies to support improved customer loyalty and intelligence.

[1] Source: IDC, Gartner, Meta Group, Aberdeen — includes CRM software and services

Exhibit 2
Discord in the Marketplace

Support for CRM	Opposition to CRM
▪ 92% of CIOs buying CRM satisfied with experience (Morgan Stanley)	▪ Up to 75% of CRM initiatives failing to meet their objectives (Meta Group)
▪ 58% of CRM projects meeting or exceeding expectations (The Data Warehousing Institute)	▪ Just 32% of CIOs planning to invest in CRM in 2002 (Morgan Stanley)
▪ Worldwide CRM spending expected to reach $66–$76 BN in 2005 (IDC, Gartner)	▪ Failure rate for CRM projects expected to reach 80% in 2003 (Gartner)

Sources: Morgan Stanley 2001 CIO Survey, The Data Warehousing Institute 2000 Industry Study, Meta Group, Gartner, IDC

Based on our experience, we strongly believe that the CRM dilemma stems from several root causes:

- Depending on the source, CRM can mean everything from a class of software to a reclassification of the entire set of sales and marketing functions
- Companies take an overly passive approach to implementing new customer-oriented initiatives, assuming that a single customer strategy will work across all their customer segments
- Technology deployed without a clearly articulated customer strategy will fail
- Technology alone will not fulfill the promise of a customer strategy

It is not too late for companies to rise to the customer challenge. The Booz Allen survey found that only about one in four companies have CRM capabilities in place today. About half (45 percent) of larger firms (those with over $1 billion in annual revenues) have CRM capabilities in place, three times the percentage of smaller firms. However, many of the organizations that have implemented CRM have done so only in a limited way (e.g., in a single channel, division, or geography). In short, most companies are still wrestling with the development of customer relationship programs.

The solution, we believe, begins with the recognition that there are many forms and intensity levels of customer alignment, which depend on a particular company's situation (i.e., competitive position, industry structure, aspirations). Given the situational differences for any individual company, a one-size-fits-all customer strategy does not and cannot exist. Within any company it is also unlikely that the same strategy is appropriate for each customer segment. All customers are not equal in terms of lifetime value, which justifies varying levels of resources being applied to each relationship.

CRM systems implementation needs to follow a similarly nuanced path. Technology solutions, either off-the-shelf or in configurable form, are available to enable most or all of the critical customer relationship requirements. The availability of appropriate software depends largely on a company's industry and specific needs, and choosing the right solution remains a critical factor for success. But, as a general point, the most robust technology solutions available today exceed what most companies are able to digest. As we will describe in more detail, it is critical for each company to understand each customer segment it serves, to what extent further customer alignment will produce quantifiable benefits, and how technology can be leveraged most effectively to capture those benefits.

For companies that desire a complete change in how they relate to the customer, success is possible as long as they recognize that the full promise requires fundamental organizational transformation.

CRM Technology — A Red Herring

To understand why the CRM category is now being called into question, consider some of the facts and beliefs that have dominated the marketplace's thinking over the last three years. The CRM category appears to be following a typical product life-cycle curve. It started out as a set of distinct functional capabilities for the call center and sales force and grew into a very broad set of capabilities encompassing the entire business front end.

With the rising demand for customer alignment and the explosive growth in technology solutions has come an avalanche of marketing from CRM technology vendors.

We need to start unraveling the CRM puzzle by coming to terms with terminology. A few expressions — and the distinctions among them — are critical:

Customer Strategy
Every company must have a clearly articulated strategy for how to value, obtain, serve, and retain customers. The term *customer strategy* is used to define how an organization focuses on and aligns itself to each and every customer segment. As we will discuss in more detail, each customer segment must have its own tailored customer strategy to capture full value from CRM investments in customer alignment.

Customer Alignment
The manner in which a company structures the organization, business processes, and incentive systems to be consistent with the needs and expectations of each customer segment.

CRM
The acronym CRM (Customer Relationship Management) applies specifically to the class of software and analysis tools required to support the customer strategy.

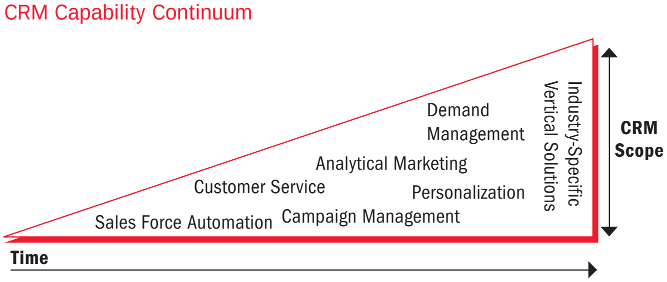
It is vital at this point to separate the technology discussion from the strategy discussion. Much of the CRM debate centers (wrongly in our view) on whether the technology solutions currently on the market are adequate. The quality of software and the robustness of its capabilities certainly vary significantly by vendor and industry: Smaller CRM vendors continue to spend millions broadening their offerings functionally (sales, marketing, customer service, analytics, etc.), whereas major CRM vendors continue to focus a significant share of their R&D budgets on deepening industry- and market-specific solutions. Just as there is not a one-size-fits-all customer strategy, there are no generic CRM solutions that will meet all of a company's needs.

Because the needs of most companies have moved beyond the simple automation of broken processes, more tailored industry-specific applications are required. Companies must operate within and optimize across demand chains that vary significantly by industry and require appropriately varying levels of technology support. Because this is so imperative, leading vendors have moved to deliver industry-tailored software. This is an indication that vendors understand that generic solutions may not be able to fulfill the hopes that many companies have for their customer relationships.

Today, organizations can select from a continuum of CRM capabilities, ranging from narrowly focused tactical solutions (e.g., call center automation), to fully integrated, enterprise-wide CRM systems intended to support transformational change specific to a company's industry and role in the supply chain. With this expansion in CRM software capabilities has come a significant increase in performance expectations and a shift in the value that CRM can enable. The point in this spectrum at which a company is aiming will determine whether the right solution might be a generic application (far left), a set of tools configured to meet specific needs (middle), or an enterprise-wide, industry-specific solution (far right) (see Exhibit 3).

Farmers Insurance Group of Companies, for example, implemented a CRM solution based on an insurance-industry vertical solution. Farmers opted against extreme price competition, and chose to offer a guaranteed level of service and quality to its customers. Farmers wanted to tie together remote field agents, branch offices, brokers, call centers, and customers

Exhibit 3
CRM Capability Continuum



CRM Value Paradigm Shift

Focus	Tactical, Process Automation	→	Strategic, Transformational
Benefits Capture	Efficiency Based, Incremental	→	Effectiveness Based, Shareholder Value
Implementation	Functional, IT Focused	→	Enterprise, Organizational
Expectations	Targeted, Evolutionary	→	Differentiating, Revolutionary

Source: Booz Allen Hamilton

by integrating data sources and sharing information on a real-time basis. Because providing a single point of contact for the customer was a key driver, Farmers needed to store all customer and claims information in a central database accessible by anyone who needed the information 24 hours a day. The specific claims-based nature of its industry led Farmers to choose an insurance-specific solution that it could deploy quickly to meet most of its needs and ensure a lower total cost of ownership.

Companies can capture value all along the CRM Capability Continuum. Failures are rare for those companies that are able to maintain balanced expectations regarding the role of CRM technology in capturing value. It is equally clear that customer/CRM strategies do not self-organize. It takes hard work to analyze and define what is appropriate for a company, its industry, and each targeted customer segment. Without understanding this, building capabilities speculatively is a path to high cost, risk of organizational rejection, and significantly extended implementation times.

Capturing Value Through Customer Strategy

To understand best how to capture value, it is helpful first to understand why companies have failed to extract the full value from CRM in the past. Companies having difficulty achieving success with their CRM initiatives tend to fall into several basic traps:

1. Technology as a Proxy — implementation of CRM technologies too often becomes the primary driver of customer strategy and alignment.
2. Aspirations in Place of Customer Strategy — vague aspirations to be customer-focused substitute for having a clear road map for customer-segment alignment.
3. Failure to Align the Business — key organizational elements and business processes do not align fully to the customer strategy.

Falling into any one of these traps can disrupt a company's mission to become customer-focused. The traps also provide insights into the key drivers of CRM success.

As an example, a large consumer-products company (which requested anonymity) had recently attempted an unsuccessful automation of its sales function. Based on a desire to use the software essentially "out of the box," the sales force was required to enter excessive amounts of customer-profile data to provide information to senior management. This requirement placed significant burdens on the sales force, and a lack of incentive for them to use the system correctly. The salespeople quickly began to game the system and often failed to enter data correctly. There was a basic failure to examine the organization and business processes surrounding this effort.

After evaluating the overall business model and desired outcomes, the company moved the majority of data-entry activities to a call center, creating a push environment that drove leads to the salespeople, which, in turn, resulted in a more valuable capability and created incremental sales. This company realized that proper alignment of the business to a clearly articulated plan for building customer value was the key to maximizing the effectiveness of its CRM technology.

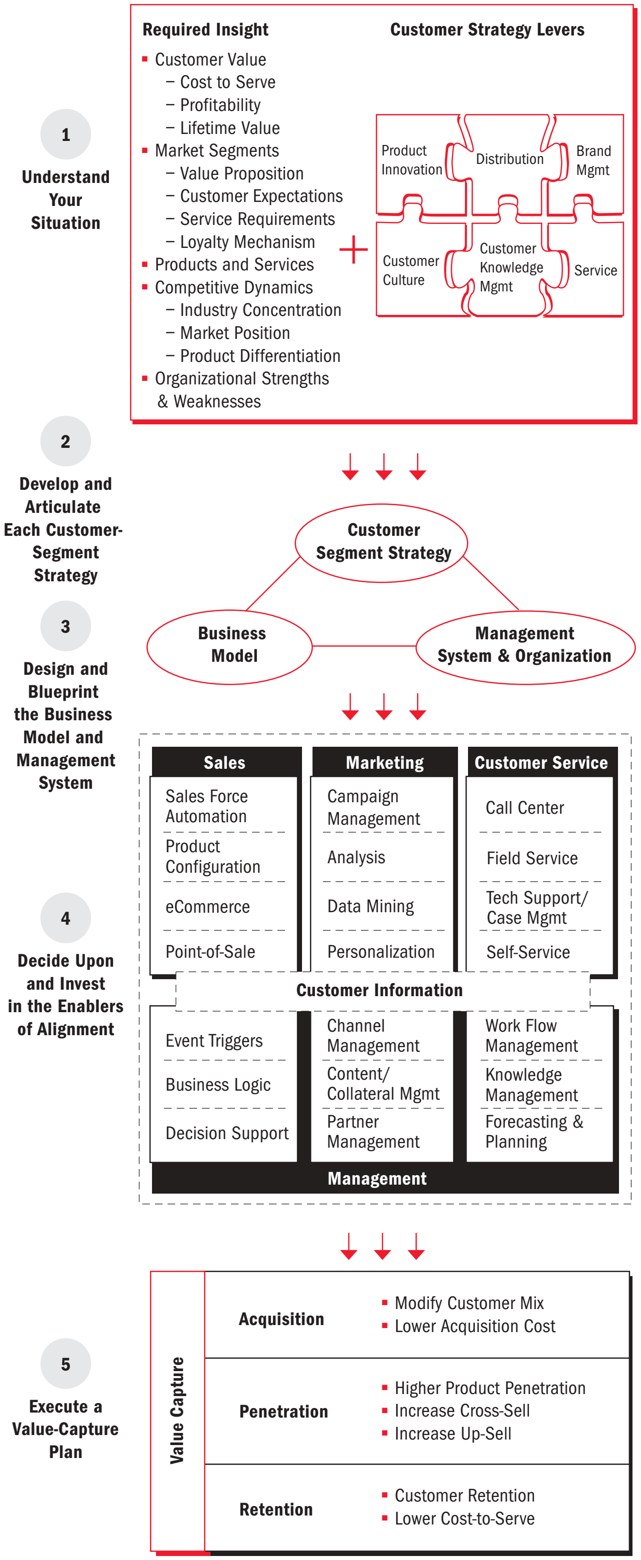
We believe companies can capture value from customer alignment if they focus on performing five basic things well (see Exhibit 4):

1. Understand Your Situation
2. Develop and Articulate Each Customer-Segment Strategy
3. Design and Blueprint the Business Model and Management System
4. Decide Upon and Invest in the Enablers of Alignment
5. Execute a Value-Capture Plan

To be customer-aligned, all companies need to go through each of these steps to reliably capture the value from their investments. Shortcutting any step is possible only to the degree that it has been previously examined.

Consider the incorporation of the Saturn brand within General Motors. GM's challenge was to create a totally different and compelling new customer experience. It was critical for GM not only to establish and communicate an entirely new customer strategy internally and externally, but also to "sell" that strategy to the public. Many believe that GM's bold move with Saturn not only redefined a market segment, but also created one.

Exhibit 4
Our Approach to Capturing Value From Customer Alignment



Source: Booz Allen Hamilton

Given the redefinition of this customer segment, it was necessary for GM to follow all steps within the customer-alignment approach in a comprehensive fashion to create and capture the value from their innovation.

Depending upon a company's situation however, it may be possible to expedite some of the front-end strategy and blueprinting steps. For example, when Lexus was conceiving its original customer strategy, the company did not have to create the luxury car segment before it sold its first car. Lexus was able to build on many of the more public elements of Mercedes', Cadillac's, BMW's, and other's customer strategies (e.g., bundled financing, transportation relief during maintenance).

In short, if the customer strategy requires only modest refinement or more complete articulation before moving to implementation, a lengthy strategy-formulation initiative is not necessary. In all cases, however, successful customer-aligned companies progress through the disciplined process we have outlined.

1. Understand Your Situation

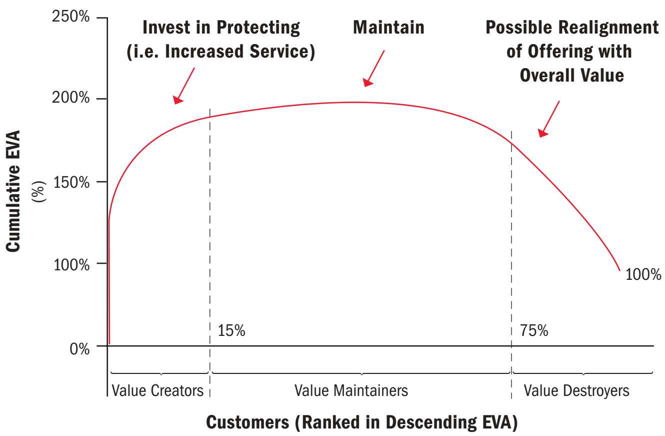
There are a variety of ways in which customer alignment can create value, both for the company and the customers. Although the extent to which value can be extracted depends upon each company's particular situation, there is mounting evidence that enhanced customer strategies will deliver bottom-line benefits for those companies that adopt them correctly.

The most important consideration when crafting customer strategy is to understand that for each industry — and for each company within an industry — there is likely to be a very different approach to building relationships. A one-size-fits-all approach does not exist. For example, a retail bank likely would need a different approach to customer alignment than would a utility company. Retail banks touch customers in more ways, with more employees, more frequently, and with different customer expectations than the typical utility — indeed, a bank may have as many as four times the number of customer-information "touch points" that a utility will have.[2]

Obviously, understanding the customer alignment issues inherent to your industry is only the beginning.

[2] Based on number of employees that work with customer information – Morgan Stanley, April 2001

Exhibit 5
Sample Customer Profitability



Source: Booz Allen Hamilton

Comprehending the distinctions among the segments your company serves specifically, and the channels to those segments, is equally crucial. To further emphasize this point, look at a classic segmentation based on customer profitability (see Exhibit 5). The customer-segment strategies (pricing, promotions, services, loyalty programs, etc.) for customers representing the lion's share of profitability (Value Creators) will be dramatically different from those tailored for unprofitable customers (Value Destroyers). Although a one-size-fits-all strategy may feel like the right thing to do, it is unlikely to provide a reasonable return on investment. Segmenting your customers this way will generate debate on how to treat each segment and what each strategy should be. For example, for the unprofitable segment: Will these customers turn into profitable customers in the future, or should we be concerned with retaining these customers at all?

As an example, Marriott International uses CRM to better serve corporate accounts and general business travelers, its two most important segments. Marriott no longer has to wait for its best corporate accounts to contact the company to make reservations — Marriott can proactively drive sales leads by combining upcoming trade show and conference information with consolidated customer data. The result? Increased customer satisfaction, achieving higher closure rates, and improved loyalty. Because general business travelers tend to contact Marriott through a variety of channels, Marriott tries to increase their satisfaction by linking customer information across systems and ensuring a consistent experience across whatever channel they decide to use.

To truly understand your own situation, you must develop the strategic insights into your business that allow you to develop the detailed elements of your customer strategy, which must differ by segment. Understanding how your customers can be valued, what the distinct markets segments are, how the competitive environment operates, and your own organizational strengths and weaknesses will allow you to determine which levers are most important to define your customer strategy and how they should be aligned (see Exhibit 6).

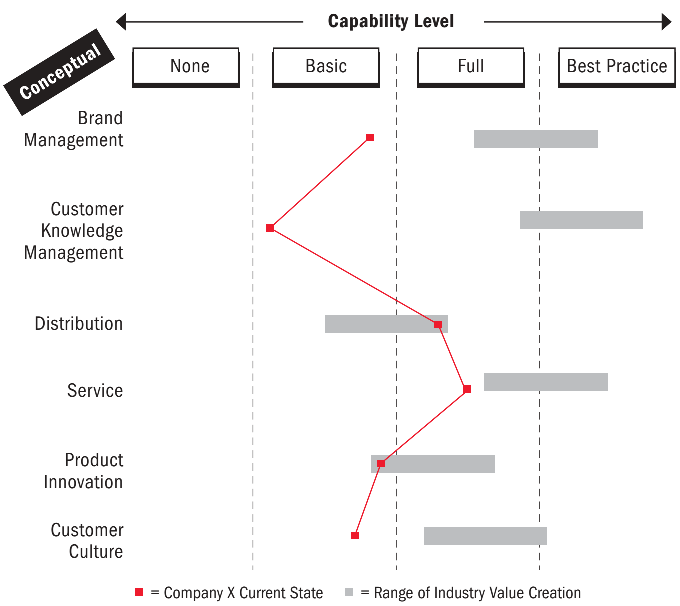
Depending on your industry, there are different combinations of best practices in these levers that should

Exhibit 6
Definition of the Levers of Customer Strategy

Key Levers	Example Customer Strategy Elements
Brand Management	■ "Stretchability" of single brand across products and customer segments ■ Typical brand management capabilities, such as price, promotion, and marketing mix
Customer Knowledge Management	■ Needs-based segmentation capability with understanding of customer profitability and lifetime value ■ Integrated customer data & information management — enabling single view of customer
Distribution	■ Customer access to "best of breed" products, including those offered by competitors ■ Full array of channels enabling similar customer experience across touch points
Service	■ Differentiated customer service levels based on customer value ■ Integrated front-to-back systems — enabling customer service across products and touch points
Product Innovation	■ Customized/one-off bundles created and priced for segments & individual customers ■ Predictive, interactive product development process (incorporating customers and functional experts)
Customer Culture	■ Compensation and rewards linked to customer metrics (e.g., wallet share and customer satisfaction) ■ Empowerment of customer-facing employees to make financial decisions

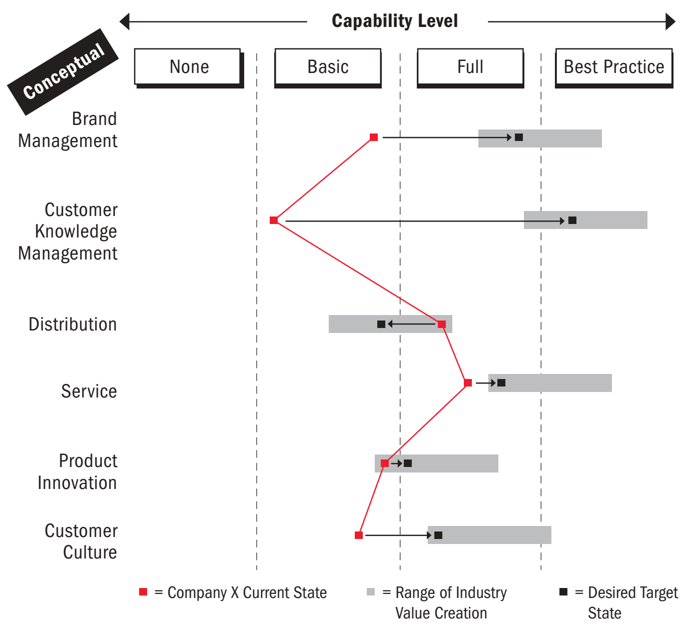
Source: Booz Allen Hamilton

Exhibit 7
Positioning Across Customer Strategy Levers



Source: Booz Allen Hamilton

Exhibit 8
Positioning Across Customer Strategy Levers



Source: Booz Allen Hamilton

be considered. A key first step is to understand how each of these levers is valued within your industry, and where you currently are along the spectrum of capabilities for each of them. Exhibit 7 illustrates, at a conceptual level, an example of how this should be modeled. The gray bars indicate the range of capabilities that generate value for your industry — a particular industry may not require best practices in a given lever to generate value (e.g., distribution capabilities do not need to be best practice for a financial institution).

The proposed examination of your situation is the correct antidote to *using technology as a proxy in place of customer strategy*. Adoption of robust technology is not sufficient to galvanize the organization to both build the right CRM capabilities and capture value.

2. Develop and Articulate Each Customer-Segment Strategy
Defining the customer-segment strategy is an exercise in creating clarity, which is critical because both the organization and customers must understand what is changing. Customers will want to know how they will benefit, and those in the organization will want to know how expectations for their behavior will change.

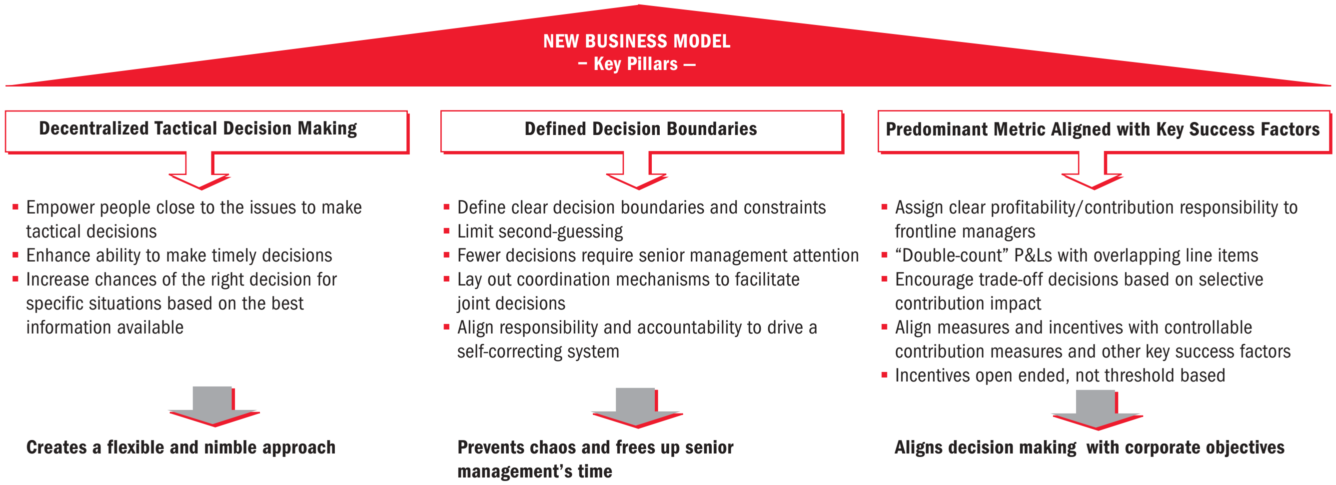
A good expression of strategy must articulate, at a minimum:

- A clear and precise description of what the strategy is and is not
- How the new strategy differs from the organization's current strategy
- The customer segments the strategy will address
- The path to capturing increased value from the strategy and the business case for the change
- The capabilities needed to execute the strategy and make it competitive, defensible, and sustainable
- A reasonable time frame for realizing benefits
- How the strategy will change the expectations being placed on the organization

This articulation, in combination with actually creating the strategy, is the cure to avoiding the *aspirations in place of strategy problem* identified earlier. In place of the potentially meaningless "our goal is to be customer focused," it makes sense to take the time to detail what this means.

In practice, you would continue the exercise using the levers of the customer strategy that was started in

Exhibit 9
Strategically Aligned Organization (SAO) Model



Source: Booz Allen Hamilton

step 1 (see Exhibit 8, previous page). Having already identified how much value is generated by each lever in your industry and where you are currently, this step involves determining where you need to be along the spectrum to fulfill your customer goals (i.e., Desired Target State on the exhibit). The next step would be to identify how you get there and reduce the gap by designing and blueprinting the business model and management system, and making the required investments in capability enablers.

Keep in mind that, in some instances, your current state may exceed what is required to achieve the goals of your strategy, and your plans should include evaluation of reducing investments or effort along those dimensions. In our example, distribution is an area where this company could reduce investments because current capabilities exceed the target; developing brand management capabilities and improving customer knowledge require significant investments to reach strategic goals; the remaining levers would require little-to-no effort.

A full articulation of the strategy will serve as a tool that will motivate people in the organization to pursue the effort. If the strategy is not well understood, they will likely do their best to implement "their" interpretation of the strategy. A well-articulated strategy also will serve as a reference point for the thousands of decisions that will need to be made in the course of the effort.

3. Design and Blueprint the Business Model and Management System

If the new customer strategy depends upon changes in behavior — for example, greater collaborative selling across lines of business — it is reasonable to assume that the organization needs to focus on a common goal. In many instances, this means breaking the barriers that exist across functional silos to allow a focused pursuit of the goal. Our experience indicates that clear delineation of accountability, definition of decision rights, and creation of appropriate incentives are critical to success. We call this discipline Strategically Aligned Organization, or SAO. The principles of SAO are illustrated in Exhibit 9.

Addressing the organization and management processes deals with the third major flaw, the *failure to align the business problem*. In addition to the SAO components above, the following items are needed to appropriately round out business alignment:

- Management structures appropriate to pursue the end-state goals (e.g., organization structure, cross-functional interactions, executive sponsorship)
- Business processes to facilitate the execution of

the customer strategy (e.g., appropriate processes, measures, management systems)
- Skill sets necessary to achieve the goals (e.g., specialized disciplines, new analyst roles, enhancement of existing roles, training and evaluation)

In addition to developing success criteria, the organization should seriously consider what constitutes failure for the project. The organization should formalize when to call the question and whom to hold accountable. Doing this at the outset of the project will set expectations and provide incentive for the right behaviors.

Once the parameters have been set to guide the relationships for each customer segment, it is then time to design, acquire, and implement all of the enablers required to support the change program. Although technology is a critical enabler of change, focusing on CRM alone is unlikely to result in capturing all expected benefits. Three sets of CRM enablers must be in place for any successful customer strategy: organizational structure, business processes, and CRM technology (see Exhibit 10). Each of these enablers plays a very important role and cannot be ignored.

4. Decide Upon and Invest in the Enablers of Alignment
While all of the enablers must be considered together, it would be difficult to fully leverage any capabilities without the appropriate CRM technology. CRM technology vendors build their products to support certain sets of business processes. Although many claim to have built-in best practices, it is important for each

Exhibit 10
CRM Enablers

Organizational Structure
- Enterprise-wide/ cross-functional customer focus
- Eliminated functional silos
- Entire organization is customer facing (eliminates the old back-office concept)

Business Processes
- Re-engineer for new approach to customer management
- Embedded capabilities throughout the value chain
- Harmonization and linkage of cross-functional processes
- Focused on value creation

CRM Technology
- Central customer data repository
- Front- and back-office systems integration
- Support for industry-specific business practice
- Integration across the network of enterprise solutions

Source: Booz Allen Hamilton

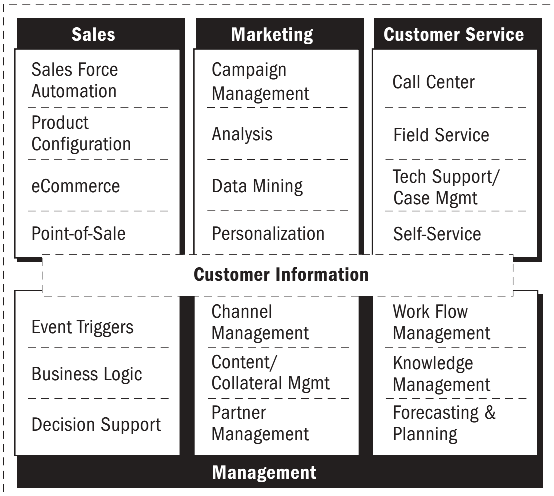
company to decide for itself the extent to which the vendor's technology embeds business processes and best practices that support the company's strategy. It bears mentioning again that, depending on your industry, the CRM vendors that will best satisfy your needs will differ based on the industry-specific solutions that they offer. It is also possible that a tailored product set does not exist that will allow you to develop differentiating capabilities for your industry. In this case, a more generic product that is then tailored through custom configuration may be the appropriate solution.

The technological choices that can be used in servicing a customer strategy are extensive. In fact, CRM software solutions could be broadly defined as covering all solutions that face the customer. All companies have some level of front-end capabilities, although not everyone classifies them as CRM. CRM technologies are currently very broad, encompassing many functional areas (see Exhibit 11, page 10). Whether companies currently attempt to address these capabilities through ERP, homegrown systems, or manual procedures, all companies must execute a demand management function to exist. Hence, the discussion is not whether CRM tools are necessary, but rather how best to enable the customer strategy objectives with the right technology.

Because CRM technology has been the focal point of so much of the debate over customer strategy, a brief discussion of its role is warranted. For the foreseeable future, it is clear that CRM will continue to be a major technology priority for organizations. As companies increasingly look to customer alignment as a primary source of differentiation, they will require the appropriate CRM technology to support their customer strategy.

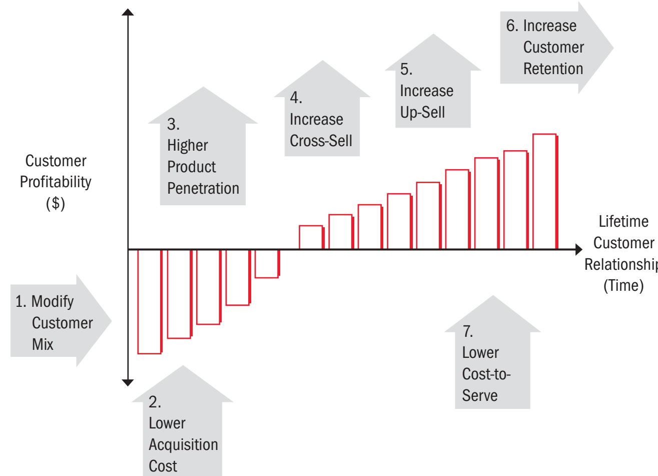
As we have noted, customer strategy fundamentally requires companies to have a sound understanding of differences in customer value, needs, and preferences that define meaningful segments. Further, customer alignment also requires companies to engage and serve those segments in different ways. CRM technology is critical to both these objectives. It provides the instrumentation necessary to capture, track, and analyze customer data on which the alignment strategy is based. And it provides the systems by which organizations can differentiate the way they engage and serve

Exhibit 11
CRM Functionality



Source: Booz Allen Hamilton

Exhibit 12
Customer Strategy Value Levers



Source: Booz Allen Hamilton

customers. For example, a company can configure its call center to automatically assign different service levels to inbound customer calls depending on the customer's value. Without the appropriate CRM technology in place, most customer alignment strategies would become merely academic exercises, impossible to execute.

Given the breadth of technology, diligence is needed to determine the appropriate solution. There is great variation among vendors in the functionality, flexibility, and technical robustness of their solutions. Moreover, a sound implementation methodology is critical to successful deployment. At a minimum, these questions must be answered before selecting the enablers:

- What technology platform will be used to facilitate the strategy?
- What information/data sources are necessary?
- What analytics are necessary to gain insight?
- What sourcing approach will be used? Will the enablers be acquired or created?
- What constraints on the technology platform have been identified?
- Can the technology be easily extended across the entire enterprise as the customer strategy is expanded?
- Has a comprehensive deployment strategy been developed with implementation best practices identified?
- What can be done to expedite the delivery of required technology?

5. Execute a Value-Capture Plan

Implementing explicit value-capture mechanisms must be a priority of your customer strategy. Defining where the benefits (e.g., sales, profit, or their proxies) will be derived is important, as it will drive the overall business case that determines success or failure. The benefits must be real, measurable, and time constrained. Through our work with clients in many industries, we have found that there are seven basic levers for value creation (see Exhibit 12). The suitability of the levers depends on your position in the value chain and the dynamics of both your industry and each customer segment that you serve.

It is clear from our research that tremendous value can be gained from understanding each customer segment better and formulating the appropriate strategies to optimize those relationships. If focused on the correct value levers, any company can achieve the benefits of better customer-segment alignment. Benefits must translate into financial results that ultimately increase shareholder value. Creating more efficient customer-service representatives who sit idle accomplishes nothing.

To ensure that the benefits are captured, an explicit value-capture plan should be put in place. Start by clearly defining the benefits and corresponding metrics that will be tracked. Far too many companies begin investing in CRM programs without first identifying the detailed metrics that will indicate the program's success. The organization must be focused on implementing and tracking value metrics that translate into bottom-line results. Exhibit 13 shows some examples of establishing the value-capture metrics.

After the metrics are defined, you must continuously evaluate the benefits being captured by the initiative. Most projects proceed in multiple phases, so doing reviews at the end of each phase is necessary to incorporate learnings into subsequent stages. Markets, competition, and customer behavior are dynamic. Therefore, making midcourse corrections should not be considered failure, but a prudent response required to maintain focus on creating value.

Lastly, perform an explicit assessment of the ongoing adjustments that need to be made. These are often minor, but explicit, go/no-go decisions that must be incorporated into any well-managed initiative.

Given the high level of investment typically required for technology infrastructure, CRM initiatives should be focused on achieving benefits as soon as possible — soon enough to both justify the expenditure and minimize the associated risk. Many companies have decided to implement technology first and assess the business benefits later. This approach is ineffective. Although quick implementation can lead to competitive advantage, each phase of the implementation must be guided by an overarching strategy focused on delivering specific, measurable results driven with a "show-me-the-money" perspective.

Proactively managing expectations and continuously measuring progress will ensure that the organization is pursuing a customer strategy that mitigates risk

Exhibit 13
Example of Establishing Value-Capture Metrics

Strategy	Benefits	Value-Captured Metrics
▪ Over the next 6 months, better leverage current customer base through cross-sell and up-sell strategies	▪ Increase the frequency of successfully cross-selling mid- to high-margin products to our customer base – Increase sales by X – Increase profitability by Y	▪ Incremental product sales ▪ Customer profitability ▪ Number of cross-sell/up-sell offers ▪ Customer response rate
▪ In the next six months, expand the reach of our programs to a larger target segment	▪ Expand the reach of our programs from a target segment of X to a target audience of Y (a Z% increase) ▪ Keep marketing expenses constant ▪ Generate XX in incremental sales at our standard margin	▪ Response rate ▪ Marketing expenses ▪ Incremental product sales ▪ Product margin
▪ Within 12 months, integrate our partner/reseller network into our sales, marketing, and service processes	▪ Leverage partner/reseller resources to increase market coverage ▪ Increase revenue from partner/reseller channel ▪ Reduce channel costs through greater coordination and eliminate duplicated efforts ▪ Increase end-customer satisfaction ▪ Improve partner/reseller satisfaction and loyalty	▪ Revenue per partner/reseller ▪ Number of leads shared with partner/reseller ▪ Close ratio of leads handed off to partner
▪ Increase quality and performance of customer service in XYZ division by 50% within 12 months	▪ Increase customer loyalty/retention ▪ Improve service productivity	▪ Customer retention rate ▪ Percentage of first-call problem resolution ▪ Average wait time for customers on hold ▪ Customer satisfaction survey scores

Source: Booz Allen Hamilton

and is focused on results. Phasing implementation and measuring success at regular intervals also allows changes to be made to the project when appropriate. Since the original design could be wrong in part or in whole (or might simply no longer apply due to changes in the business environment), course corrections should be viewed as a proactive management tool. Regular inspections should force a detailed review of the project, including checks on success metrics.

Regrettably, in our experience, too many companies short-circuit the approach we have outlined. They hurry to step 4 (Invest in the Enablers of Alignment) without developing a full picture of what they mean to accomplish. This is a potentially fatal mistake.

The enforcement of benefits capture is a vital component of our recommended approach. The elements of results enforcement — the targets, the measurement tools to track progress, and the process to enforce accountability — should be in place early to use as a guide and ultimately to evaluate whether goals (i.e., acquisition, retention, and penetration) are successfully being achieved. In too many cases, these basic techniques are not applied early enough nor rigorously enough.

Moving to Create and Capture Value

While we have stressed throughout this document the need to carefully consider and articulate a customer strategy, it is possible and often desirable to craft these strategies rapidly in a carefully planned "launch-and-learn" approach. Although we have advanced a pragmatic view of the customer-alignment difficulty, in reality, most companies simply do not have the luxury of time when it comes to solving the complex customer equation. Too much is at stake and too much value can be created to simply take a wait-and-see approach to customer management.

Getting customer alignment wrong can have serious repercussions. Waiting for all aspects of a customer-centric strategy to be in place before acting, however, can mean missed opportunities and a slower progression toward capturing value. In some cases, when competition for the hearts and souls of the customer are fierce, waiting can be disastrous. Strategy can — and often should — be driven by a carefully executed launch-and-learn approach.

Exhibit 14
Customer Strategy Diagnostic

1) Customer-Strategy Definition
- Is the strategy realistic and appropriate based on your market value proposition?
- Is the business model in place to support the customer strategy?
- Is there sufficient evidence that the strategy will increase shareholder value?
- What regulatory boundaries must be considered?
- How does your strategy impact relationships with your vendors, partners, etc.?

2) Expression of Customer Alignment
- Do you have a clear and precise description of what the customer strategy is and is not?
- How does the strategy differ from what your organization is today?
- Which customer segments will the strategy address?
- Is the path for capturing benefits from the change well understood?
- Which capabilities are needed to effect the change and make it competitive, defensible, and sustainable?

3) Organization and Management Process
- What changes have been made to align the organization to this strategy?
- Are decision rights well understood and documented?
- How have incentives been changed to accomplish this?
- What new skills are required?
- What new processes need to be established?
- What metrics will be used to evaluate performance
- How will evaluation and management systems be changed?

4) Enablers of Alignment
- What technology platform will be used to facilitate the strategy?
- What information/data sources are necessary?
- What analytics are necessary to gain insight?
- What sourcing approach will be used? Will the enablers be acquired or created?
- What constraints on the technology platform have been identified?
- Can the technology be easily extended across the entire enterprise as the customer strategy is expanded?
- Has a comprehensive deployment strategy been developed with implementation best practices identified?
- What can be done to expedite the delivery of required technology?

5) Value Capture
- What timeline will be used to check on value capture?
- What success measures attributable to this project have been defined?
- What actions will be taken if value capture is not realized?

Source: Booz Allen Hamilton

Obviously, different companies will be at different points along the 5-step approach. To determine where you are and what steps can be safely fast-tracked, you should ask yourself a series of questions (see Exhibit 14). If the answers are clear and imply that you've already addressed a particular step, you can apply more effort across the other tasks. If the leaders of your organization answer these questions differently, it is probable that there are issues with expectations that must be resolved immediately.

Examine your organization and catalog the things your company calls CRM today. Is there consensus? A plan? A vision? Do multiple projects, when taken together, represent an emerging strategy? Does the data leave you confident that your company will be better off when the plans or projects are in place? These are relatively straightforward questions; unsatisfactory answers indicate a need for a more thorough examination.

Getting value out of CRM is not only about choosing or implementing the right technologies. More fundamentally, it is about understanding how value is created, aligning the organization, selecting the right enablers (structure, process, technologies), and building practical plans that extract value along the way. In short, it is about good general management.

The debate over customer strategy and the value of CRM within your company and within your industry probably is just beginning. While some companies will get swept up in discord and confusion, be assured that others will move fast on developing winning strategies with regard to their customer relationships. We believe that the companies that ultimately will achieve shareholder value from proper customer alignment have already begun the dialog, analysis, and organizational transformation required to build the platform for the future.

Developing and implementing the appropriate customer strategy is not an option, it is an imperative. And, it can mean the difference between the success and failure of an enterprise.

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