1.0 Introduction and Report Overview

Customer relationship management (CRM) represents the key business strategy that will determine successful enterprises in the 21st century. Enterprises engaged in CRM — or planning to be — must understand the critical components of successful CRM strategy development and implementation.

Among business initiatives, CRM holds both great promise and major challenges:

- The *promise* lies in the business benefits and competitive advantages that enterprises can gain from superior knowledge of, and intimacy with, their customers. Enterprises that are succeeding in their CRM initiatives are achieving improved profitability, revenue and customer satisfaction by organizing around customer segments, fostering behavior that satisfies their customers and implementing customer-centric processes.
- The *challenges* lie in the complex and comprehensive nature of the undertaking. CRM is not easy. It requires high-level vision and leadership to drive a relentless focus on the customer. It involves difficult changes to processes, culture and organization. It requires a strategy to capture accurate customer data, analyze it, distribute it to the right people and act on it effectively. It poses technical challenges such as multichannel alignment, system integration and data quality.

Implementing a CRM strategy involves a complex interplay of factors across the enterprise, as part of a broad initiative to understand customer preferences — and to use that information to drive improved service levels, revenue and profits. The goal is to provide the enterprise with a competitive advantage by creating a unified, enterprisewide view of the customer, and by presenting a single "face" to the customer.

Gartner believes that 2003 will be remembered as the year that companies began to get over the failures and disillusionment of early CRM initiatives, and to see significant benefits and measurable returns on their CRM investments. More than ever, however, IT practitioners and their business counterparts are challenged to build a CRM technology infrastructure and business culture that delivers quantifiable business benefits. Enterprises must:

- Prepare rational, tactical and attainable CRM objectives.
- Take the measure of their initiatives by establishing solid metrics and realistic return on investment (ROI) models.

- Acknowledge that instituting CRM is more problematic than simply installing a new software system — it takes executive commitment, employee buy-in and flexibility to constantly fine-tune efforts to meet changing realities.

This Executive Report provides comprehensive guidance on the strategy, tactics, implementation plans and supporting technologies and services that enterprises need to develop and launch a successful CRM initiative and build profitable customer relationships. It provides practical advice on planning imperatives, forecasts of the key CRM trends in store during the next several years, and in-depth analysis of the CRM issues that are critical to IS organizations and business management.

As such, this report is designed to serve the diverse needs of executives involved in CRM-related strategic planning, budgeting and investment management, technology acquisition and implementation, data management, and application and service vendor evaluation. Topics addressed in the chapters of this Executive Report include:

- Gartner's "Eight Building Blocks of CRM" framework, detailing the critical components of successful CRM initiatives
- Formulation of the CRM vision and strategy, and planning for the organizational transformation necessary for CRM success before technology is deployed
- Key trends and strategic imperatives for building profitable customer relationships, and improving the customer experience
- Gaining insight through customer data management and CRM analytics
- Strategies and tools for building customer loyalty and satisfaction
- A review of key vendors of enterprise application frameworks, CRM software suites and CRM sales applications
- Advice on how to select CRM software vendors, handle the procurement process and negotiate software license agreements
- CRM project management best practices
- Critical considerations in using CRM external service providers (ESPs) and offshore services
- Industry-specific views on CRM strategy for the consumer goods, financial services and midsize-business segments
- Detailed case studies of real enterprises' successful CRM initiatives

The remainder of this introductory chapter provides a general overview of the research elements and high-level concepts presented in this Executive Report. Section 1.1 reviews the standard Gartner research elements used in this report, while the remaining subsections provide an executive overview of each of the 25 remaining chapters of this report. This overview has been tailored for executives who require a high-level summary of the issues, forecasts, guidelines and recommendations offered in each chapter. Each section number corresponds to the chapter summarized — for example, Section 1.2 summarizes Chapter 2, Section 1.3 summarizes Chapter 3, and so on.

1.1 Research Elements Used in This Report

This Executive Report is based on Gartner's extensive research facilities and archives, which include conference presentations, Research Notes and Strategic Analysis Reports. The report is structured around Gartner Key Issues and corresponding Strategic Planning Assumptions and Tactical Guidelines.

- *Key Issues* pose questions that embody important concepts or problems facing decision makers in a given topic area. Gartner develops Key Issues about markets, technologies and business strategies.
- *Strategic Planning Assumptions* are forecasts — usually framed within a defined, multiyear time horizon — that are assigned probabilities denoting Gartner's level of confidence in the outcome (see Section 1.1.1).
- *Tactical Guidelines* are analytical statements addressing important tactical factors enterprises will face in addressing a Key Issue.

In addition, selected sections conclude with Action Items — statements that convert a section's analysis into concise, actionable advice. High-level recommendations, spanning the overall content of the chapter, may also be offered in the concluding section of the chapter.

1.1.1 Probabilities Defined

Probability statements are most commonly used within Gartner Strategic Planning Assumptions, although they are occasionally used in other research contexts (for example, to qualify the likelihood of a vendor's product availability estimate, or within a graphic illustrating a time line of future events). In any context, probabilities never exceed 0.9, which represents Gartner's highest confidence level in a forecast. (Because no future outcome is 100 percent certain, a probability of "1.0" is never used.)

Because a forecast is logically phrased in the form of the likely outcome, probabilities lower than 0.6 are rarely used. Occasionally, however, probabilities ranging from 0.1 to 0.5 may be used in special contexts — for example, in a "scenario" of mutually exclusive possible outcomes, in which all probabilities total 1.0.

Within the context of a formal Strategic Planning Assumption, the probabilities assigned will normally range from 0.6 to 0.9. These probabilities are defined as follows:

- 0.9: This will almost certainly happen, barring a major industry reversal. Gartner would be shocked otherwise. Moreover, the timing is almost certain.
- 0.8: This is likely to happen, barring exceptional circumstances. Gartner would be quite surprised if it failed to happen, but a degree of uncertainty exists. The timing estimate is fairly certain.
- 0.7: There is good reason to believe that this will be true, but there is a fair chance that it won't. Gartner would be surprised, but not shocked, if it did not happen. Moreover, the timing is unclear and may vary from estimates.
- 0.6: For planning purposes, this should be treated only as a general direction, rather than a solid forecast. It is better than a rumor or a guess, but not necessarily by a wide margin. Most likely, Gartner does not have a firm idea of the timing.

1.1.2 Type A, B and C Enterprises Defined

Gartner often identifies enterprises as "Type A," "Type B" or "Type C" based on the aggressiveness with which they adopt and use technology. These terms are often used to offer different recommendations to different types of enterprises, based on their approach to technology adoption. Briefly defined:

- Type A enterprises are technology-driven, and are often willing to risk using immature, cutting-edge technologies to gain a competitive edge.
- Type B enterprises are moderate technology adopters, using new technologies once they have been proven and have entered the mainstream.
- Type C enterprises are technologically risk-averse and cost-conscious, and are usually among the last to adopt new technologies.

1.1.3 The Gartner Magic Quadrant

Gartner's Magic Quadrant diagrams (see Figure 1-1) are graphical portrayals of vendor performance in a market segment. Within the diagram, vendors are grouped within four categories — Leaders, Challengers, Visionaries or Niche Players — based on their positioning along two axes.

Completeness of Vision, the horizontal axis, assesses factors such as:

- The existence of clear vision
- Consistency with industry trends
- Product completeness for the target buyer
- Creativity in the plan of attack for the defined market

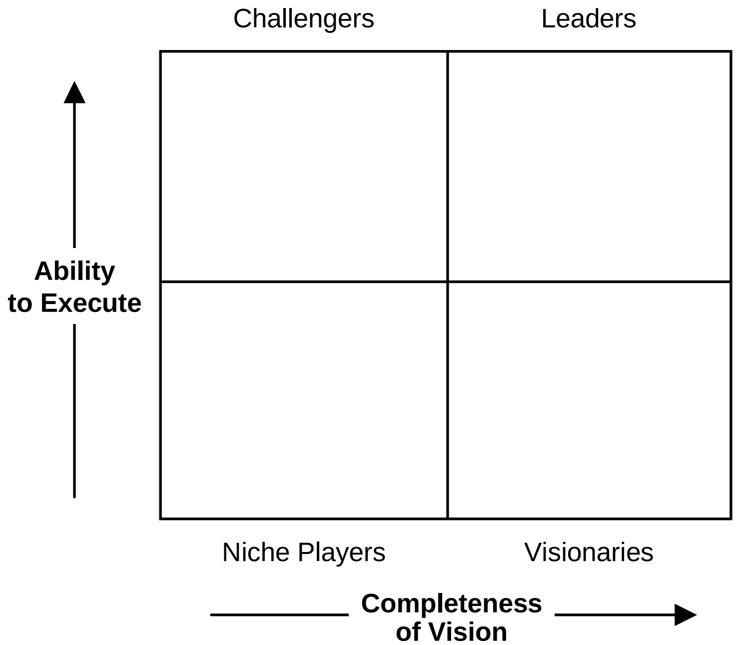
Ability to Execute (the vertical axis) assesses factors such as

- Senior management talent
- Sales, marketing and distribution capabilities
- The depth of research and development
- The quality of a vendor's professional services and support
- The strength of a vendor's finances and alliances

Based on these positionings, vendors fall within one of the following four quadrants:

- *Leaders* are companies that are doing well today and have great prospects for tomorrow.

Figure 1-1: The Gartner Magic Quadrant



Source: Gartner

- *Visionaries* are those that have great ideas for tomorrow, but may not be executing consistently or well in all areas.
- *Challengers* are those that execute well today and may dominate a large segment, but do not fully understand market trends and directions and thus may not have all the elements necessary for future success.
- *Niche Players* are either companies that focus on a small segment of the market (and may do so well), or those that have modest horizons and possibilities owing to their inability to innovate or outperform other vendors.

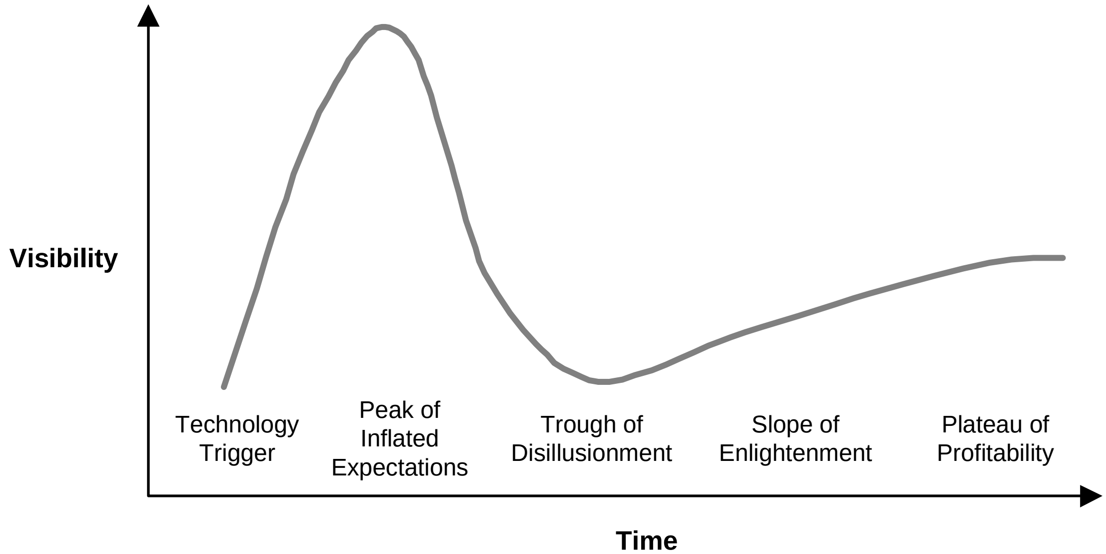
Magic Quadrants can be used to support technology selection decisions; however, Gartner cautions that they should not be used as the sole means of evaluation. Enterprises should not limit their considerations only to vendors that are in the Leaders category, nor should they necessarily reject those ranked as Niche Players. In certain situations, Niche Players' products may be appropriate tactical choices. User organizations should carefully evaluate vendors based on their own unique circumstances and specific requirements.

1.1.4 The Gartner Hype Cycle

Gartner uses its Hype Cycle diagram (see Figure 1-2) to illustrate the pattern of intense hype, followed by disillusionment, that emerging technologies typically pass through on the road to eventual productive use and mainstream adoption. Technologies or services are plotted on the diagram to illustrate Gartner's estimates of their current maturity, and how far away they are from providing mainstream value. The Hype Cycle contains five phases:

- *Technology Trigger:* This is an event that generates significant press and industry interest, such as a breakthrough, invention, discovery, public demonstration or product launch.
- *Peak of Inflated Expectations:* During this phase of over-enthusiasm and unrealistic projections, a flurry of well-publicized activity by technology leaders results in some successes, but more failures, as the technology is pushed to its limits. The enterprises that make money during this phase are generally conference organizers, magazine publishers and consultants.

Figure 1-2: The Gartner Hype Cycle



Source: Gartner

- *Trough of Disillusionment:* The technology fails to live up to the inflated promise. As a result, it rapidly becomes unfashionable, and the press abandons the technology or touts its failure deliver on what were, in retrospect, unrealistic expectations.
- *Slope of Enlightenment:* Focused experimentation and hard work performed by an increasingly diverse range of organizations leads to a true understanding of the technology's applicability, risks and benefits. Commercial, off-the-shelf methodologies and tools become available to ease the development process and application integration.
- *Plateau of Productivity:* The real-world benefits of the technology are demonstrated and accepted. Tools and methodologies are increasingly stable as they enter their second and third generations. The final height of the plateau varies according to whether the technology is broadly applicable or benefits only niche markets.