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The New Age of CRM Has Arrived

Gartner and Peppers & Rogers Group join forces to unfold the New Age of CRM.

Podcast

Get customer-centric with Gartner and Peppers & Rogers Group

Gartner discusses key CRM challenges with Martha Rogers, Ph.D., of Peppers & Rogers Group, and Kim Collins, research vice president and chair of the Gartner Customer Relationship Management Summit.

GARTNER: What are the primary barriers to generating long-term value from CRM?

Martha Rogers: The primary barrier is the

fact that companies are so focused on short term value. Many are thinking about how to get the best return on a particular program or particular campaign, and they're not really thinking as much about how to make sure they get the best value from each of the customers they're using these programs to reach.

Kim Collins: We see a lot of that as well. Companies end up doing a lot of different

things to get the short term value. But sometimes those things actually end up competing with each other and really get in the way of that long term value.

GARTNER: What advice are you giving to help clients get to long term thinking?

Martha Rogers: I think many companies still equate CRM with marketing. There was the old marketing that was all about "what we do to them." And now there's supposed to be CRM which is about "how we learn from them" and then do things to them more intelligently.

Continued on page 2

Q&A

An MDM Q&A with Gartner Analyst Andrew White



Andrew White
Research VP

What's the benefit of practicing MDM?

There are multiple drivers that help enterprises decide to embark on an MDM program. Implementing a CDI-focused MDM program will help implementations of CRM achieve a higher return by enabling better cross-marketing and selling. Implementing PIM within MDM will help supply chains fulfill orders more timely and introduce new products more quickly. Embedding MDM in an SOA environment contributes to business (process) agility through support of more rapidly developed composite applications; and others help cut costs by supporting better procurement practices. *Continued on page 6*

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Instead, I think we should be thinking not just about how a customer looks to us, which is CRM, but about customer engagement, which is how we look to a customer. If we do that, then we can start thinking about what it takes to generate the most value for the company, and shareholders, from each customer, rather than how we get the most out of every campaign.

That means we have to think about how marketing, as we've all grown to know and love it, actually sometimes destroys value. That's a pretty radical thing to say, isn't it?

Kim Collins: It is, but I agree. It's not that marketing isn't important, but that its role has to change so that it is a central driver of what's going on with the customer. It also has to be the brains behind what's going on and about delivering intelligent interactions rather than taking it one campaign at a time.

In fact, we've all seen times when the person responsible for a campaign wants to generate the most results, so they keep going after more and more customers — way beyond the level they should have probably contacted in the first place.

The key is about looking across and finding out what you should be doing with any one customer at any point in time.

Martha Rogers: It means we should always think of our response rate as 100%: some actually got back to us and bought something, some did something else, and some were annoyed. The fact that we only know about the ones who actually got back to us means that we're not looking at the real cost of running a campaign. What was the reaction of all those other people?

Kim Collins: I hear companies get so excited when they have had response rates of less than one percent and now they're getting three percent. They're like "wow, we've got three times the response rate!" But that means 97% did what?

Martha Rogers: I think it's pretty fair to say that many of those people were positively reinforced in some way. But there were probably a whole bunch, probably more than three percent, who looked at this particular

message and said "Mm, I don't think this company's really relevant for me." And that is a huge cost. So when we see companies that are content with one percent and three percent, that makes me sad because we should be expecting 40% and 50% if we're doing our CRM right.

I think we've come to think of CRM as something that's really equivalent to marketing and how we could do it faster and more efficiently instead of thinking of CRM as something the whole company needs to take responsibility for. That is an entirely new animal.

Kim Collins: I would agree. I'm always asking: Have you asked that 97% what they thought about the campaign? When they do the analysis, they often find that they're marketing to the same customers again and again. That works against them, not for them.

I think we agree that it's about organizational change. It's an enterprise wide effort. In fact, you could say it's an effort that extends beyond your organization into the partners that you might have as well as the customers themselves.

GARTNER: What really makes cultural change for an organization happen?

Martha Rogers: That is a great question. It's really about what do we do to balance the short term and long term. How we overcome that crisis.

The answers really come from understanding that customers are all empowered. They're connected to each other. And employees are connected to customers in ways that were never the case before.

If we're going to look at the most important thing for companies, it is really to establish a culture of trust and fair play. If we do that, then a lot of other things will automatically follow. I don't want to make it sound as though it's a simple thing to do because, in many cases, it will require rethinking business models and organizational structures.

But when we do this, we see things like what happened at one particular credit union. You know how when you go into a bank or credit union there's a row of very

high desks with tellers protected behind? Once this particular credit union decided they were really going to become customer centric and think about doing what was best for all of their clients, they kind of felt funny being behind that barricade and they actually made it go away.

Now they've got chairs and desks that sit out in the middle of the room and it's much friendlier. That is a culture change that comes from dedication to making sure that we're all about doing what's best for customers. And that's how we do what's best for our shareholders.

Kim Collins: I think it's so hard for people to think outside the box. It's about organizational change. Sometimes it is physical change within the environment as Martha mentioned. One of the hardest things is the fear of change. It's easy to maintain status quo; it's very hard to change. It's the fear of what change means if you get it wrong.

We have to be open to the fact that people might not always be successful the first time and will have to try again. We have to get over that hurdle of "my job is gone if I don't do it right the first time."

GARTNER: How do companies get past some of those barriers to change?

Martha Rogers: Part of what you've really asked is how do we create an environment of innovation given that we're so short-term oriented? The answer is you can't. If you're really all about this quarter, then you are going to be too scared to make a change because what you're doing right now is sort of working okay. So it's better to just keep doing that than to do something that would be a serious improvement.

But if you create an environment where creativity is allowed, indeed encouraged, then we start seeing cultures develop like the ones at Toyota. I'm citing a big company deliberately because it's very difficult for some big companies to accept that they can challenge themselves and create the kind of culture that really encourages employees to trust the company and customers to trust employees and builds true long-term equity for customers.

Having said all that, we should also mention that culture is probably the hardest thing to change. If I create a great new product then, patents aside, you're going to try to create a product that's very similar because you can see my success and you want some of it. If I create a new service or put in a drive-thru or do this or that, then you can copy all of that.

But if I am able to create a culture that is truly customer centric, that builds on the value of customers, that rewards the success of our own people by building on the value of customers, then that's going to be much more difficult for my competitors to copy. It will give me much more real competitive advantage in the long run. So it's worth it.

GARTNER: What do you see as some of the critical success factors for being able to innovate, to change?

Martha Rogers: Successful companies have learned that if you want to be innovative, there are a couple of ways to do it. You can either be innovative around products, which means you come up with new ideas about things and somebody else can copy it; or you can be innovative about customers, which is much more important to building competitive advantage. So, first, customer-driven innovation is very important.

Second, once you decide you're going to be innovative and do it in an environment of trust and fair play, then you probably will be thinking about ways to be fair about failures. In our minds, there are two kinds of failure. There are fiasco failures where people just do dumb things and don't do their homework and just waste money, etc. But, there also are other kinds of failures which we might think of as good failures. A company that doesn't allow those will not really encourage innovation at all. It will squash it.

A good failure is one where we've done our homework and we know that we have an 85% chance of succeeding. That means there's a 15% chance of failure. If we do lot of these, some will fail, statistics being what they are. So a failure in that way is probably a good thing.

The third thing you want to think about is just that whole sense of fair play. We don't think

you can have strong innovation, that you can really achieve long-term value with customers, if you don't have a strong sense of fair play. In a world in which customers are networked and employees are networked, they are empowered. If you don't treat them fairly, you'll be outed pretty quickly.

So we really have to start taking the customer's point of view and look for all the places we need to be more reciprocal. When I think about reciprocity, I think if I make a mistake at the bank, a minor mistake, then the bank will make a big deal out of it. I'll have to go in there, go to a lot of trouble and end up paying them some big fee. But if they end up making an error, then it's up to me to find it. It's up to me to go into the bank, call it to their attention and they say 'oops, sorry' and then that's that. And it doesn't seem fair.

We could list a whole bunch of things like that. You know, the fact that people can call me at the most inconvenient moments to sell me something. I'd like to be able to take their home phone numbers and call them back when it works for me. We really need to be thinking more about what's fair and operating that way by taking the customer's point of view.

Kim Collins: I think that true customer centricity comes from not taking your company's point of view – how do you grow revenue – but also understanding your customer's point of view and taking that into account. It's your customers, it's your employees, it's your partners. They're all part of that ecosystem that you have to take into account when you are really trying to become more customer centric.

Martha Rogers: That actually brings us back to the question about what companies need to do to make CRM really work. What Kim just said reiterates the fact that CRM doesn't work as well when it is a tool of marketing. It only works in a company that's completely dedicated to being customer centric, building the value of the company based on growing the value of customers, and doing it in a way that will play well no matter what storm is going on in the real world.

GARTNER: How can a company know when they've been successful, or when it's time to give up on a strategy and move on?

Martha Rogers: That's a great question. And the reason I like it is because most companies have become wedded to deciding whether they've been successful by whether or not they're getting a good return on the money they're using for whatever initiative we're talking about.

So here's an initiative. We're going to have to spend some resources on it. How much does it cost and what do we expect to get back from it? If that's the only measure we use, then we could actually be devaluing the equity in the company as measured by the value of the customer base, customers being our only source of revenue after all, even as we're making money on a particular initiative.

We need to do something besides just measuring return on an investment that has served us well up until now. But when we understand that money is not the only resource we use when we initiate a program or any kind of change, then we have to look at what is the return on all of those resources. The other resource that we use besides money is customers.

If we send out that program that we mentioned before that's not relevant to a bunch of customers, then we use up a whole bunch of customers to get that response from the one to three percent. Then we probably have eaten up more value than we have created.

So it's not enough just to look at return on the investment of the money, we must also look at the return on customer. We use up money in the process of initiatives. We also use up customers in that process. The question is: how do we do this most intelligently and balance the two to get the most back from our resources to build shareholder value in both the short term and the long term.

Kim Collins: That's something that's very difficult for companies to do. It's about people, processes, and what you measure, what gets incented is what gets done in the organization. You've got to be sure it's the right things.

It just brings home the fact that CRM is so much more than technology. It's made up of a lot of harder to solve issues than the technology itself. Technology is simply the enabler once you get the other things in place.

Keynote Guests



Dan Heath, Best-selling Author, "Made to Stick", and Consultant, Duke Corporate Education

Though a variety of success stories, Mr. Heath's Summit keynote will reveal principles of successful ideas at work – and how these rules can be applied to ensure that our own messages "stick."



Martha Rogers, Ph.D., and Luc Bondar, Sr. Advisor, 1to1 Faculty, Vice President of Loyalty Marketing, Peppers & Rogers Group

As a Summit Keynote, Ms. Rogers and Mr. Bondar will present new quantitative research from Peppers & Rogers Group and Carlson Marketing that reveals what drives loyalty, engagement and relationship strength.



Joe Wheeler, Executive Director, The Service Profit Chain Institute

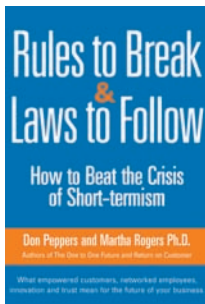
Mr. Wheeler's Summit presentation will focus on how CRM, operations and HR combine to enable the "active enterprise," how to execute a dynamic service delivery system and much more.

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1990s: CRM is all about technology and short-term efficiency.

It is the inevitable result of interactive, data and mass customerization technologies. Many organizations jump at the chance to do what they were already doing, faster and more efficiently, even if annoying. However, there is a lack of focus on business strategy and processes.

1995: "Big Bang" CRM: Big spending without adequate ROI.

Massive CRM projects are executed across sales, customer service and marketing — but without clearly phased road maps and plans. The bottom line? Lots of spending on never-ending projects that rarely have a business case and produce few if any measurable results.

2000: Backlash: CRM fails to deliver the desired results.

Many organizations are fed up with the black hole of CRM projects that produce no measurable gains and are resented by internal users. CRM acquires a negative reputation, and jobs are lost over what many believed were CRM "failures." Even the term "CRM" becomes taboo.

2005: Siloed projects deliver tactical value but long-term value remains elusive.

CRM makes a cautious comeback with more emphasis on smaller, tactical projects that are held accountable for program ROI in a short reporting period. Rarely do the projects reach across functional areas or product divisions or focus on growing customer value. CRM becomes synonymous with sales, service, or marketing.

2007 and beyond: The New Age of CRM emerges as a journey, not a destination.

Large CRM initiatives return, driven by a highly defined vision, strategy, and goals that are focused on growing shareholder value by increasing the value of the customer base. Customers are empowered, employees are networked, and innovation and trust are the new currencies for success. Processes follow a comprehensive roadmap measured by customer-value metrics as well as ROI. CRM becomes the purview of the entire boardroom, which finally is focused on creating long-term value vs. making today's numbers.

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*Interview with Andrew White —
continued from page 1*

What happens if we wait?

MDM address a chronic problem that has existed within most firms for years. If your problem turned into an acute business pain in the last three years, you may be an early adopter of MDM – and have “first mover” advantage potential to obtain the benefits of MDM ahead of your competition. On the other hand, if you are still experiencing chronic pains associated with semantic inconsistencies (no single version of the truth), your competitiveness will slowly erode – even imperceptibly – and you may not even know that your advantages are being undermined.

Isn't MDM just another name for the EIM projects I'm doing now?

The MDM discipline can be part of a broader

Enterprise Information Management strategy. The principal difference between MDM and EIM is that MDM is highly focused on master data, as well as the governance and re-use of that data as an asset across the enterprise. EIM is much broader, addressing a wide variety of data.

How can I encourage collaboration between business and IT?

Any successful MDM effort requires cooperation between line of business and IT. Most business leaders are aware of symptoms that impact their ability to perform, though few realize that the problem lies within semantic inconsistencies in the data they use every day. IT must show the business that there is a direct link between master data quality and their ability to achieve enhanced performance and attain measurable business benefit. Part of any successful MDM effort will require active governance that will be led by the business, and executed by IT.

What's the connection between MDM and CRM?

The big connection between the two involves MDM with a specific focus on customer data. This is usually known as

Customer Data Integration (CDI) and will help an enterprise achieve an active governance process that supports and assures a semantic consistency of customer definitions across the enterprise – the single view of the customer. By introducing an MDM discipline to manage master data, enterprises can ensure the ongoing persistence of a single view of that master data.

How does MDM help with compliance issues?

Through the adoption of an MDM discipline, an enterprise will implement a governance model. A governance model will generate rules and policy guidelines that the enterprise will follow. These rules and policies will be “operationalized” and supported in the MDM technology used — and it is through this technology that those rules and policies are enforced.

Can we roll out MDM incrementally?

Yes, most enterprises implement MDM incrementally. However, the paths they take differ based on industry, pain points, and maturity. Some enterprises are starting with PIM, others with CDI. A growing number are starting with PIM or CDI with the clear

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intention to support and extend the program to include other master data domains. Other organizations are trying to leverage what they have learned with their BI program in order to develop a more operational MDM focus. It's a good idea to approach MDM incrementally because technology vendors are not yet capable of meeting complex requirements across all domains and industries. In addition, users are not fully able to absorb such a high level of change all at one. It is not recommended, however, to treat MDM as a discrete program; it is an ongoing journey that will develop over time as your IT infrastructure and applications domain evolves.

How do I build a business case for MDM?

The business case for MDM falls out of the IT projects and programs over an 18 to 24 month period. Users must look at the set of IT programs ahead of it and determine which of them cause IT to alter or enrich the master data model. Once these programs have been identified, determine which

domains are "touched" more than others. It could be that the customer will be touched several times in the next 18 months. As such, a CDI program up front can reduce the effort on remaining programs. An implemented CRM program that has not lived up to expectations might also be a good candidate — or a supply chain that is underperforming due to the expense of addressing data integration problems.

How can I tell if my MDM projects are succeeding?

MDM itself will require metrics — how the line of business user defines data quality and how IT will measure it. These analytics will be extended to support the reporting needs of data stewards who will report on the level of master data quality being achieved across the enterprise, and will be the early physical sign of success. Later, as the data quality takes hold and stabilizes at a new higher level, the business objectives of the programs that touch consume or enrich the master data should see both lower integration costs and an increase in the benefits

they are meant to deliver to the business. For example, CRM may start to yield higher revenue numbers once a single view of customer can be achieved so that up-selling and cross-selling can be achieved; or SCM and merger and acquisition projects may accelerate once an acquired business is mapped to the master data used for buying materials and selling products to shared customers and suppliers.

What are the ingredients for MDM success?

There is a wide range of both technological and non-technological ingredients that help assure MDM success. Technological components include data integration, data quality, data services, data cleansing and normalization, metadata management, information architecture, standards (schema, ontology) and repository. On the non-technology side, success factors include governance and stewardship roles — and even changes in reward schemes.

Keynote Guest **Helping Drive Business Growth and Profitability with MDM**

Ranjay Gulati

Michael L. Nemmers Distinguished Professor of Strategy and Organizations; Co-Director, Heizer Center for Entrepreneurship, Kellogg School of Management, Northwestern University

Author of the newly published book, *A Blueprint for Building Customer-Focused Organizations*, Ranjay Gulati is a widely recognized specialist in the creation and management of intra and inter-firm partnership, with a focus on achieving both short and long-term growth by organic means — as well as through mergers, acquisitions and alliances. His research has been published in leading journals that include *Harvard Business Review*, *Sloan Management Review* and *Strategic Management Journal*.

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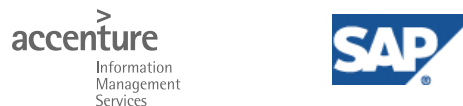


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