

Use the Balanced Scorecard to Execute CRM Strategy

Viewpoint

CRM is all about vision, strategy and implementation. Too many companies lead with technology, and fail.

Changing behaviors and processes are key to implementing strategy. A Balanced Scorecard makes change manageable.

Dynamics

- Competitive pressures are driving companies to invest in CRM, even though 50% to 90% of CRM initiatives fail.
- The primary cause of failure is the inability to develop and effectively implement a strategy for relating to customers.
- Combining Gartner's CRM process map with the Balanced Scorecard framework is a good starting point.

Predictions

- Companies that focus on an overall CRM strategy will be far more successful than those that focus on CRM technology.
- Implementing strategy will increasingly become a critical core competency.

Recommendations

- Focus first on developing a vision and customer strategy related to long-term business goals.
- Fund CRM projects only after you have a process in place to manage strategic implementation.

Dig Deeper

- Related Research from GartnerG2
- Gartner Core Research
- Methodology

**Kevin Murphy with
Randy Russell**

"To beat the odds against successful CRM, use Gartner's CRM process map together with the Balanced Scorecard framework."



Viewpoint

The key to CRM is developing and implementing strategy

Customer relationship management (CRM) is as old as the market economy. Sellers try to manage customer relationships to create additional value for their customers and for themselves. So what's new? Software tools to help you improve customer acquisition and retention, grow your share of customer's spending and improve understanding of customer profitability.

This simple notion has created a \$40 billion market for CRM software and services, most of it wasted. To reap benefits from managing customer relationships, more than technology is required. First, build the basics: a customer strategy that can harness the power of CRM technology, and a strong focus on implementing strategy across an organization.

It's easy to say: Align your technology investment with your customer strategy. But strategy execution is one of the most daunting challenges facing organizations. That's why the failure rates of CRM initiatives parallel those of successful strategy execution.

To beat the odds, combine Gartner's CRM process map with the Balanced Scorecard framework. This helps your company translate a customer strategy into action.

Dynamics

Why has CRM failed?

Analysts and consulting firms have reported staggering estimates of CRM initiative failures over the past two years:

- Gartner research shows that more than half of all CRM projects don't produce results, and that 50% of CRM strategies will still fail.
- Cap Gemini Ernst & Young reports that 70% of CRM initiatives fail.
- Peppers & Rogers Group, which focuses on the benefits of one-to-one marketing, estimates that 80% of CRM projects fail to generate a positive return.

This negative publicity has attracted much attention, and there is no shortage of opinions on what's gone wrong.

- According to Booz, Allen & Hamilton, companies that fail at CRM initiatives fall into three traps:
 - They treat technology as the primary driver of their customer strategy.
 - They rely on vague aspirations instead of customer strategy.
 - They fail to align organizational resources to the customer strategy when one exists.
- A CRM forum survey of companies with failed CRM projects showed that 87% of respondents identified the lack of adequate change management as the primary cause of failure.
- A recent *Harvard Business Review* article, "Avoid the Four Perils of CRM" (February 2002), attributes CRM failure to:

- Implementing CRM technology before creating a customer strategy.
- Installing CRM technology before creating a customer-focused organization.
- Assuming that more CRM is better.
- Stalking, not wooing, customers.

Regardless of source, the odds of achieving strategic benefits from CRM are not good. So why does spending on CRM continue to grow?

CRM growth is driven by the perennial necessity to achieve competitive parity. Some organizations *are* making progress in CRM, which puts competitive pressure on others to keep up with the leaders. So the strategic question is not: Should we do it? but rather: How can we make it pay off?

Implementing strategy is the key

Analysts agree on the need to integrate and align CRM technology with customer strategy, but customer strategy is often lacking. The real challenge of CRM is no different from the challenges of any strategic initiative: *developing and implementing strategy*.

Treat CRM as an essential component of customer strategy, not as a technology. If relationship management is the desired strategic objective, then the software is just one leg of a platform to ensure that the customer strategy is executed. The three key steps to develop and implement a CRM strategy have nothing to do with technology.

Instead, according to Michael Fleisher, chairman and CEO of Gartner, Inc., CRM is:

- **First**, about whether you have the right corporate vision.
- **Second**, about whether you have the right strategy to achieve that vision.
- **Third**, about whether you are willing to change your business processes to change the nature of your client relationships.
- **Fourth**, about whether you have the technology in place to do it. When one, two and three are done, four isn't that difficult.

The hard part is not developing a strategy or agreeing to change business processes. The real challenge is getting the organization ready and managing the journey—in other words, implementing the strategy.

Is your organization ready?

Elevating CRM to the level of a strategic initiative begs the question: Is your company even equipped to execute strategy? Two core skills are required to have any hope of achieving benefits from a CRM initiative:

- **Translate the strategy:** Senior management must clearly articulate the strategy so it can be effectively communicated to those who are expected to carry it out.
- **Execute the strategy:** Is there a strategic management process or system in place that can execute and manage the strategy on a continual basis?

Translating a strategy to actionable steps requires a structured approach. We recommend the Balanced Scorecard, a performance management method focused on translating strategy into action. It identifies the strategic resources needed to implement, align and support the strategy, via these steps:

- **Identify behaviors** that deliver the new customer value proposition.

- **Identify supporting resources**, such as training programs, new services and organization capabilities.
- **Describe how these resources relate to executing a customer strategy.** The people who manage these resources need to understand what is expected and how their roles must change to align their organization with the customer strategy.
- **Align the compensation and recognition systems with the strategy** to ensure that behaviors support the strategic objectives.

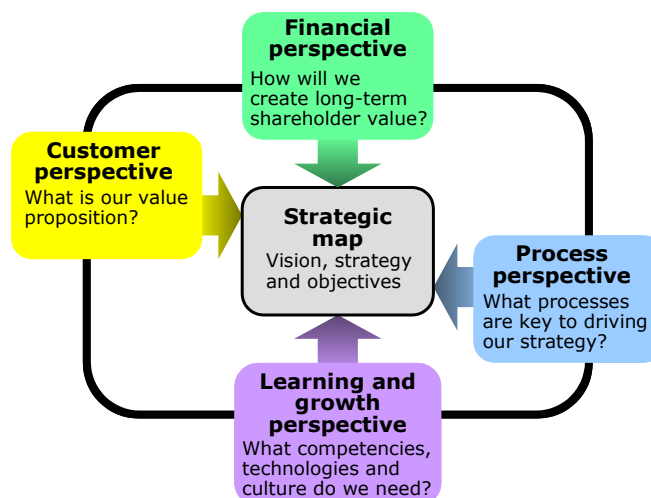
These steps are critical for implementing any strategic initiative. Without them, trying to implement a new strategy is likely to fail. Ultimately, management must confront the question: How effective are we at executing strategy in general? Having a proven process in place to manage strategic implementation improves the odds of success.

Strategy maps—the key to Balanced Scorecard methodology

Creating a strategy map is the first step in designing a Balanced Scorecard (see Figure 1). Its four levels correspond to one of the four perspectives that form the heart of the Balanced Scorecard framework:

- **Financial:** How will we create long-term shareholder value?
- **Customer:** What is our value proposition?
- **Process:** What processes are key to driving our strategy?
- **Learning and growth:** What competencies, technologies and culture do we need?

Figure 1: The basic Balanced Scorecard strategy map

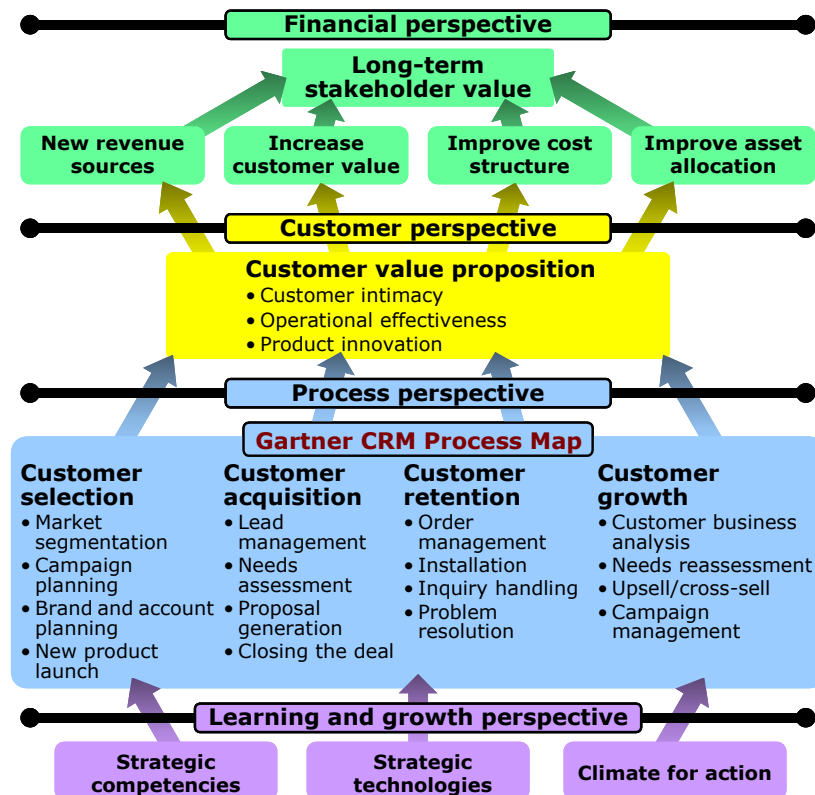


Source: GartnerG2, July 2002

Figure 2 shows the basic strategy map applied to CRM. It reflects the key customer processes that impact the customer perspective. It is easy to see from this strategy map how CRM can deliver financial results by supporting the customer management process and transforming the customer value proposition.

The CRM strategy map links the four perspectives of the balanced scorecard methodology to measurable goals. The process perspective section shows the processes defined in essential components through Gartner CRM research—making the balanced scorecard methodology compatible with Gartner’s method of developing CRM strategy.

Figure 2: Balanced Scorecard strategy map applied to CRM



Source: GartnerG2, July 2002

The four perspectives of a Balanced Scorecard strategy map

Financial perspective: If we succeed, how will we look to our shareholders? Create a strategy map by asking what strategic success will look like from the shareholders’ point of view. Assuming that long-term shareholder value is the ultimate financial objective, the next question is what strategic path will produce the desired results: a long-term growth strategy or a short-term productivity strategy?

- Achieve long-term growth by establishing new revenue sources or increasing customer value.
- Achieve a productivity strategy by focusing on improving cost structure or improving asset utilization.

Customer perspective: How must we look to our customers to achieve our vision? Next, define the strategic objectives for your specific customer value proposition. The key to designing an effective strategy is to establish a long-term basis for market differentiation. As Treacy and Wiersma discuss in their book, “The Disciplines of Market Leaders,” there

are three primary sources of differentiation from the customer perspective:

- **Product innovation:** Create new products and services that keep you ahead of competitors.
- **Customer intimacy:** Develop intimate knowledge of customer needs and ways of satisfying these needs.
- **Operational excellence:** Deliver acceptable quality and product characteristics at the lowest possible cost.

Your customer value proposition will emphasize one of these three differentiators, and reflect the marketplace and unique competencies of the firm. The value proposition will ultimately be defined in terms of price, quality, timeliness, features, service, relationships and brand.

Process perspective: Which process must we excel at to satisfy our customers? This step integrates Gartner's CRM processes into the Balanced Scorecard, linking Gartner's CRM processes with a proven framework for implementing strategy.

In this step you must identify the strategic objectives that will deliver the customer value proposition. Specific customer processes will receive different levels of emphasis over the life cycle of a particular customer management strategy. For example:

- Customer selection processes may be emphasized more during the launch phase of a new brand, product or segmentation strategy.
- Customer acquisition or retention processes becomes a focus based on the life cycle dynamics of particular customer segments.
- Customer elimination is possible once customer profitability analysis is well established as part of the continual strategy management process.

To make customer strategies measurable, you must identify the current stage of the customer management process. Trying to implement CRM across all customer processes may be conceptually appealing, but hard resource allocation decisions are inevitable. This forces strategists to confront the tradeoffs, resulting in a much greater understanding of the strategy.

Learning and growth perspective: How must our company learn and improve to achieve our vision? This perspective identifies the strategic competencies that support the customer management processes. These include:

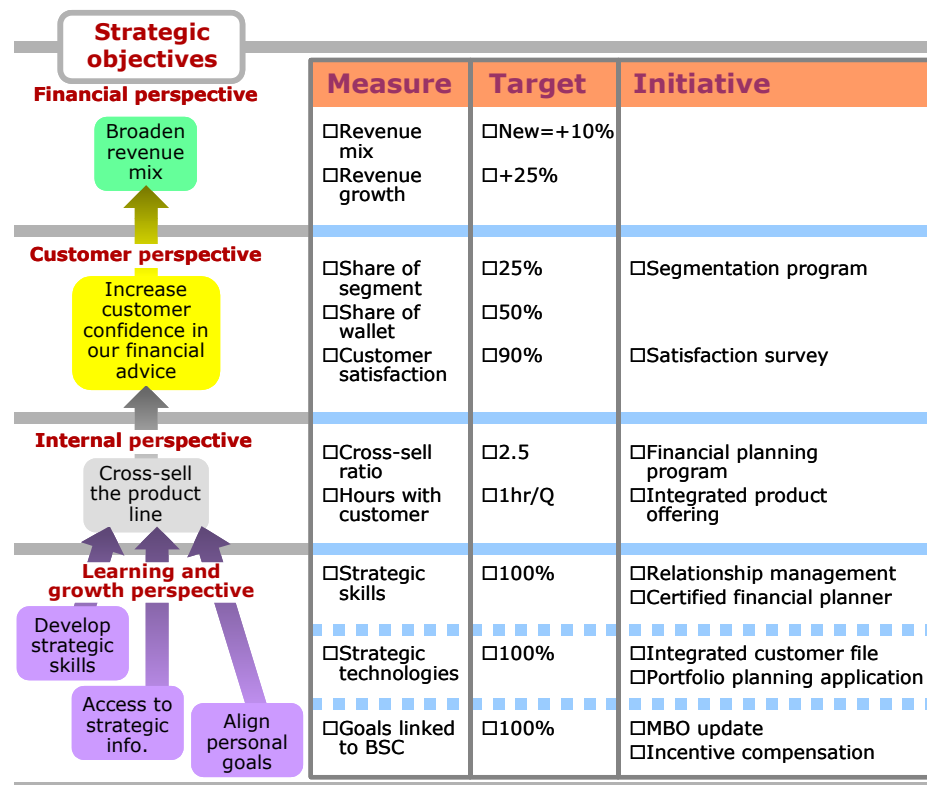
- **Capabilities and leadership:** This includes support from top management for CRM initiatives, for example.
- **Climate for action:** What key elements of the company culture will likely cause a CRM initiative to fail if they are not addressed? Is it strategic awareness, alignment of incentives to the strategy, education programs or other elements?
- **Strategic technologies:** This includes CRM software applications. Note that this is the *last* step in the planning process.

Treating technology as one of the underlying resources necessary to enable strategic outcomes forces you to develop the financial, customer and process perspectives *before* addressing technology issues. The Balanced Scorecard method defines the customer strategy and then asks what resources will be required to achieve it.

The Balanced Scorecard in action in retail banking

The CRM vision for a major metropolitan bank was growth through customer retention and increasing share of wallet. The bank was formed by the merger of two rivals. The combined organization launched a metropolitan markets division targeting consumers and small businesses in a large East Coast city. At the time of the merger, retail banking was experiencing slow revenue growth, rising costs, increasing outflows of deposits to mutual funds, and more demanding customers. The strategy called for retaining up to 90% of targeted customer accounts even though massive branch closings were planned. The goal was to increase share of customers' wallets by broadening product and service lines and by better understanding customer needs. Customer intimacy was a key component of the strategy. The bank successfully implemented its CRM strategy. Based on the successful execution of the initial mega-merger, a second merger several years later resulted in customer retention in excess of 95%.

Figure 3: Customer management strategy at a retail bank



Source: GartnerG2, July 2002

In this example, the four perspectives of the bank's Balanced Scorecard strategy map (see Figure 3) for its CRM initiative were:

- Financial perspective:** The bank developed a high-level strategy map for the new combined organization that reflected two primary strategies: a revenue growth strategy and a productivity strategy. Both strategies would be implemented together to improve the financial returns for the bank. The revenue growth

component emphasized a broadened revenue mix and the productivity strategy focused on improving operational efficiency. In turn, each of these global strategies had customer, process, and learning and growth components. The strategy map shows only the customer management strategy for the bank. The primary strategic objective to broaden the revenue mix indicates this is part of the bank's overall revenue growth strategy. The driving vision behind this objective is to improve stability in financial performance by broadening the sources of revenue from current and future customers.

- **Customer perspective:** The top objective was to increase customer confidence in the financial advice provided by the bank. Advice was considered a way of adding value from the customer's perspective and cementing the relationship. Providing trusted advice would increase customer satisfaction, increase the share of spending from customers and, ultimately, increase the bank's share of total spending on banking-related services for key customer segments.
 - Customer segmentation programs were used to determine which segments would most likely take advantage of new services. Specific services could be tailored to meet the unique needs of target segments, such as customers with higher profit potential, making it worthwhile for the bank to make the necessary investments.
 - While actual customer behavior is the ultimate measure of success, satisfaction scores can be useful as interim measures to indicate whether the initial investments in new service offerings are paying off. The bank used various measures of customer satisfaction to reflect early-stage success and to test whether the strategy model was moving in the desired direction.
- **Process perspective:** Customer objectives and measures were used to indicate the success of the various customer management processes. The main objective was to cross-sell the product line. Specific measures such as the cross-sell ratio and the number of hours spent with customers were used to assess how well the primary strategic objective was achieved. A number of strategic initiatives were used to transform the customer processes:
 - Segmentation and targeting programs were developed to focus the bank's strategy on high potential markets where it held a relative advantage.
 - New product and service development processes were introduced to achieve objectives for increased non-interest income and to shift the channel transaction mix.
 - Sales training dramatically improved the sales process by increasing the number of weekly contacts with customers, thereby increasing new revenue per salesperson.
- **Learning and growth perspective:** Ultimately, the success of this strategy depended on the bank's ability to effectively grow and leverage its intangible assets: human and information capital. The bank needed to develop strategic skills in relationship management as well as in the content for the new financial advisory services it wanted to provide. Of course, having the skills available is only part of the answer—you need to motivate people to provide the capabilities to the right people at the right time. Aligning the workforce was one of the biggest advantages of applying the Balanced Scorecard to implement the strategy—people knew what the strategy was and their role in making it happen. Incentive compensation was

linked to performance to make sure the strategy had every chance of working. Likewise, information capital was developed and aligned with the strategy to ensure an integrated view of the customer was available and to support delivering portfolio planning services.

The initial strategic vision was to retain as many customers as possible—and the bank did retain in excess of 90% across both mega-mergers. Managers began to realize that some customer turnover was desirable. Some customers were not profitable or were not suitable for their new strategy. Customer segmentation became more granular and the bank started focusing specifically on retaining targeted, profitable customers. According to the bank's chief of staff, the strategy execution process was so successful the bank added between \$20 million and \$30 million per year to earnings. By any measure, that is a stunning success.

What you can do to make your CRM investment pay off

Analysts, consultants—and even industry pundits—tend to agree: If you want to realize the benefits of CRM, it is imperative that you tie it to your customer strategy. If you don't have a customer strategy but you've already embarked on a significant CRM investment, start formulating your strategy *today*.

We all know that strategy formulation is no guarantee of success; effective execution is the ultimate goal. Clearly, a well-designed approach to performance measurement and management is the best way to improve your odds of achieving strategic success. While most executives seem to understand the concept, each time an amazing new technology appears, a new generation of management has to learn the lessons.

The Balanced Scorecard framework can help you both define and implement strategy, whether it is a CRM strategy or any other strategic initiative.

Predictions

- **Companies that focus on customer strategy will be far more successful than those that focus on CRM technology.** Technology is just one component for delivering an effective CRM strategy—and it should be the last component to address.
- **Implementing strategy will increasingly become a critical core competency.** As the pace of change accelerates in business, the way you implement strategy differentiates your business.
- **A formal process that addresses both strategy and implementation will become a selection factor when high potential sales and marketing executives evaluate potential employers.**

Recommendations

Follow the steps outlined to map out your strategy and then apply the Balanced Scorecard methodology to ensure effective implementation.

- **Focus first on developing a vision and customer strategy related to long-term business goals.**
- **Next, develop a process for managing strategy execution.** Be sure the process includes a method for identifying the critical resources needed to implement strategy, and includes all the stakeholders that manage these resources.
- **Fund CRM projects only after you have a process in place to manage strategic implementations.**
- **Review your current CRM implementation projects. Are they based on a sound customer strategy?** If not, force business units to develop one.

Dig Deeper

Related Research from GartnerG2

Report: [Process Design: The Best Starting Place for Successful CRM](#)
By Scott Nelson (22 March 2002)

Q&A: [Rethink Customer Ownership](#)
By Kimberly Collins (05 April 2002)

Report: [Fixing the Balanced Scorecard's Missing Link](#)
By Michael Smith (30 November 2001)

Gartner Core Research

[What's Happening to CRM in 2002?](#)
By Scott Nelson (02 January 2002)

Summary: Gartner predicted CRM would move into the "Trough of Disillusionment" in 2001. Here, we look at what 2002 will be like in this hot market. The good news: CRM is hotter. The bad news: Some will get burned.

[Seven Key Reasons Why CRM Fails](#)
By Scott Nelson (20 August 2001)

Summary: CRM projects often fail, but they don't have to. Enterprises that know the seven key reasons for CRM failure—and how to avoid them—will have successful CRM projects.

Co-author

Randy Russell is a director with Balanced Scorecard Collaborative Inc., managing research and publications. For the past 15 years he has led or contributed to numerous innovative action research programs in performance management, measurement, organizational effectiveness and IT, and has consulted to clients in these areas.

Methodology

This report is based on the authors' CRM and marketing expertise, client inquiry, observation of market trends.

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