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Implementing the CRM Strategy

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Overview

In the previous chapter we have discussed various aspects of a CRM strategy. The following chapter focuses on implementation aspects of CRM. Most importantly, it stresses that implementing the CRM strategy should be thought of as an iterative process including continuous refinements. As such, managers should think of CRM implementation as a series of small CRM projects. We discuss three different types of projects (operational, analytical and application projects) and how they are linked to each other. A particular focus will be on data handling as a key prerequisite of successful CRM implementation.

Subsequently, we discuss CRM implementation effectiveness and introduce the concept of ROI for CRM initiatives. In this section, we discuss key underlying driver of both costs and benefits of CRM initiatives as well as a three-stage process for ROI estimation and target setting. As anecdotes of failed CRM projects are plenty, we also include a section discussing why CRM implementation projects fail. We provide six reasons frequently mentioned both in practice and the academic literature and discuss three of them in further detail, including potential remedies.

The chapter closes with a case study on the financial service company *Capital One* which highlights many aspects from both CRM strategy (▶ Chap. 3) and CRM implementation (▶ Chap. 4) in one real world example.

4.1 Types of CRM Implementation Projects

The implementation of the CRM strategy is a process of planning and executing a series of small CRM projects. These projects are all aimed at addressing the elements of the CRM strategy (as discussed in ▶ Chap. 3), and they normally fall into three categories:

1. **Operational CRM projects:** Enable the company to meet the technical and functional requirements of the CRM strategy.
2. **Analytical CRM projects:** Have the objective to obtain a good understanding of the customer's needs, expectations, and behaviors.
3. **Application projects:** Focus on deploying the operational and analytical outputs to improve marketing decisions and customer relationships.

Next, we will discuss each of these project types in detail in order to understand their role in CRM implementation.

4.1.1 Operational CRM Projects

The objective of these projects is to build an infrastructure that meets the technical and functional requirements of CRM. Examples of these projects include automation of functions such as a call center or an order-processing system, developing an online transaction Website, changing the process of data collection and data management, selecting and installing appropriate hardware and software, upgrading or reconfiguring the IT infrastructure, setting up a customer database and or a data warehouse. It should be noted that these kind of projects do not create value directly (in form of additional revenues or reduced costs), but – if successfully developed and completed – they build the basis to perform further value-adding CRM projects. From a technical perspective, a typical CRM infrastructure should have the components listed in ◘ Table 4.1.

4.1.2 Analytical CRM Projects

Analytical CRM projects are implemented to help the company understand its customers by using data analysis tools that mine the company's databases. This area of CRM is also called *data analytics* (for further details, please also refer to Part III Analytical CRM). Data analytics can be understood as the process of leveraging data and technology to increase the company's understanding of its customers, products, and environment and to improve strategic decision making and tactical market activity (Kelly, 2000). Analytical projects benefit from investments during previous operational projects by leveraging the infrastructure

Table 4.1 Components of CRM infrastructure

Component	Description
Information delivery/Online catalogs	Capability to display and list the company's products and services online
Customer database	Capability to capture, organize, present, and analyze customer-specific data, in order to identify sales opportunities and address product development and delivery requirements
Personalization and content management	Utilizing results of data analysis to create an individualized experience for the customers and enhance/modify service delivery vehicles to match the specific needs of customers (based on their user profiles)
Sales force automation	The deployment and use of tools and services designed to automate the sales and marketing lifecycle
Partner channel automation	The deployment and use of tools and services designed to integrate a company's service vehicles with those of its provider and third-party partners
Customer services	The deployment and use of technology and business processes designed to successfully support a company's products and services

that the latter has created, and add value by enabling the firm to understand its customers. These projects create the ability for a firm to establish and manage profitable relationships with its customers. Moreover, the results of these analyses provide critical information to continuously refine the CRM strategy. Analytical CRM projects include three major types of activities: Capturing customer information, customer data transformation and customer knowledge discovery (Barton & Court, 2012).

Capturing All Relevant Customer Information

An effective customer data analysis should rely on a customer database that is as comprehensive as possible. Building such customer database requires capturing all relevant customer information, and this can be a significant challenge to many companies.

There are a few steps that should be taken to construct a complete database. First, all customer information from any varying formats or data sources need to be standardized from both the business and technical point of view. This is extremely important for analytical purposes.

Second, over time, customers can interact with the company in a number of new ways, and this will generate a new range of data sources. Therefore, the analytical solution should also be able to flexibly and consistently integrate all data across all channels and all customer-company touch points (see CRM at Work 4.1). This will ensure that no important information is missing and ideally, the customer information is updated in real time.

Third, external sources of information should also be incorporated to keep the company aware of the competitive situation. External sources can include:

- Competitors' data dealing with the company's customers.
- Published survey results to supplement the customer information with details about customer satisfaction and customer preferences.
- Data from communities or clubs with a common interest.

Finally, customer-related back office data related to billing and shipment should be evaluated from a financial perspective and should be consolidated into a coherent picture of financial success and customer profitability. Successful data intelligence solutions integrate customer data and ensure that useful analytical results are delivered.

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CRM at Work 4.1

La Croissanterie, Paris, France: Enhancing Customer Interface Using Technology

La Croissanterie, a Paris based fast-food chain was facing a problem because many of its customers had too many loyalty cards and were forgetting or losing their cards all together. Additionally, the company had an outdated system that collected only the basic information about the customers and rewarded only customers who purchased full meals. For instance, customers ordering only coffee were not rewarded thereby reducing the incentive for customers to use the loyalty card.

To resolve this, La Croissanterie updated its loyalty program with the introduction of Loyalty Pass in June 2010. The new system allowed customers to record purchases through any of the following three channels – a loyalty card, a mobile phone or a transit pass. Additionally, the company also used these three channels to track and offer product promotions. This advancement in customer data collection and usage was made possible using the Near Field Communication (NFC) technology.

The NFC technology is an extension of Radio Frequency Identification (RFID) and smartcard technology geared towards mobile phones. It is a wireless technology that allows the customers to store their unique IDs on the phone. When the customer arrives at the store, he/she simply taps a smart poster imbedded with another NFC device to transmit their information. This device will instantly present him/her with promotions based on their specific profile. At the checkout, the customer taps again and his/her transaction is recorded for the loyalty rewards. Additionally, La Croissanterie was able to immediately catalog all individual customer transactions across all locations, frequency and purchase type. This advancement in technology allows for a consistent interface with the customer and presents the company with more detailed view of the customer from all available touch points.

Source: Felding (2010).

Customer Data Transformation

This type of data analytics activity involves extracting and transforming raw data from a wide source of internal and external databases, marts, or warehouses, and then pooling the total data value and information in one place where it can be accessed and explored. First, in order to perform customer data transformation, the company needs to build a data warehouse. Data warehousing involves consolidating all relevant customer data within a comprehensive database and making it accessible to the users in the organization who need it. Many firms have made progress on that end. However, there are still legacy systems that prevent that accessing and analyzing the data often is not as easy, fast, or accessible as it should be. Unless the data is available in a useful format, in a timely fashion, and enable the analysis that marketers rely on, the data are of no value at all.

Second, a firm must enhance the data about a customer by integrating information from various internal sources. If the integrated customer data is incomplete, the company should enhance the data with externally available information. For example, geographic, lifestyle, and psychographic data can help in developing a complete image of a customer. All this information can be pulled together to a single source, and a historical perspective can be developed over time.

Customer Knowledge Discovery

This type of data analytics project provides marketers with the tools and processes to discover customer data, convert information into usable customer knowledge, and deploy it to enhance marketing decision making. This usually involves a three-step process:

1. **Analyzing the data:** Using statistical tools to better understand customers.
2. **Predicting the future:** Based on analytical results obtained from existing data.
3. **Assessing customer value**.

Analyzing the Data

Analyzing the data often starts with an analysis of the customer base which provides a clear understanding of the company's existing customers and their characteristics. This includes demographic aspects (their name, gender, address, age, education, number of people in the household, etc.), psychographic information (e.g. survey results on customer satisfaction, loyalty, attitudes) and finally information on actual behavior (e.g. transaction data, complaints, service incidents, app usage, etc.). On this basis, the company should be able to define customer segments and use them as the basis for making decisions in marketing, sales, and customer services to different customer segments. For example, by analyzing customers' transaction history, the company can gain insights into the customers' recency, frequency, and

CRM at Work 4.2

Giant Eagle: Fuel for Thought

The flexibility to adapt to the needs of the consumer is critical when implementing a CRM system. Grocery and convenience store chain Giant Eagle realized the importance of a customer relationship management program, especially during the recent economic slump. Discounts and promotions acquired by using a loyalty card is not a new concept. However, Giant Eagle added a creative idea to increase use of its customer loyalty program during the most recent economic slump – Fuel discounts.

The program was launched in all the 221 corporate and independently owned full locations as well as 150 GetGo outlets, which are convenience/fueling locations. Since the program's inception, Giant Eagle has successfully managed to cross-over fuel discounts with a food discount loyalty card, allowing for increased cross buy between food and fuel purchases. This new initiative has led to significant gains in sales for the chain.

Source: Garry (2009).

monetary value of their purchases. Analyzing customer service records can also indicate customers' attitudes and their feedbacks.

Predicting the Future

Based on this information, the company should be able to *model a behavior pattern for specific customers and predict* whether they will buy again, what they will probably buy, when they will buy, how much they will spend, and what additional services they may need.

Assessing Customer Value

After establishing the methods to model customer behavior and analyze customer demographic information, it is essential to *assess customer value*. This helps the company allocate its limited resources in the most efficient manner and focus on the best and most valuable customer relationships.

4.1.3 Application Projects Deploying Operational and Analytical Outputs

Although an operational CRM project can put the CRM architecture into place, and an analytical CRM project can extract helpful information on customers' needs and expectations, no value will be created until this system and the information are applied and utilized to improve the company's marketing decision making and the company's relationships with its customers (Barton & Court, 2012).

In general, the goal of these projects is to increase revenue and profit by improving relationships with customers. For example, automation of a call center will service customers more promptly and effectively, and on-line transaction processes will enable customers to transact through self-service. Using the analytical results of customer value assessment and customer profiling helps design marketing campaigns that target the customers or prospects that are most likely to respond and that provide a high expected value. Also, customer calls can be directed to the appropriate contact person in a call center depending on customer rating and customer value to ensure that the most valuable customers receive the best service possible. Products or service can be customized, or even personalized, based on customer behavior modeling and customer segmentation to meet their unique expectations. The planning and forecasting of sales, marketing, and customer service can be improved based on customer life-cycle patterns (engage, transaction, fulfill, and service) to make the sales and marketing efforts more focused and efficient. All these measures will help the company acquire and retain the most attractive customers and improve the profitability of the existing customer base. Finally, insights from the analysis can be used to dissolve relationships with low value customers. ▪ CRM at Work 4.2 provides an example of pragmatic yet highly effective actions based on customer insights.

4.2 CRM Implementation Effectiveness

Once a firm decides on the elements required for implementing a CRM system, it must ask one important question: Is the investment in CRM elements worth it? The practice of developing and implementing a CRM *system* should always measure the expected monetary benefits to *assess* whether the investment is likely to payoff. In times when marketing has to demonstrate its value to the company (Homburg, Vomberg, Enke, & Grimm, 2015; Srinivasan & Hanssens, 2009), critically assessing the ROI of CRM initiatives is

Table 4.2 Key issues to consider in computing ROI for CRM activities

Business areas to be considered	Key issues to be asked
Consulting services	What will be the consulting cost for the project (business case, strategy, IT engineering, implementation, training)?
Business processes	To what degree is business process re-design necessary?
Information technology	What new IT software and hardware must be purchased to accommodate the new system?
Vendor management	Does the system need to be customized or will it work «out of the box»? How much customization is required and at what cost?
Procurement and maintenance	Can the system be easily configured and maintained by internal IT staff or is continuous external assistance required?
Staffing and training	What is the cost of training the company's staff to use the CRM system?
Implementation	What is the timeframe for implementation and what will happen to the current system processes during that time?
Costing	What are recurrent costs in the implementation?

imperative. The estimation of ROI of CRM determines many critical decisions, such as whether a CRM strategy is needed, what CRM strategy should be developed, and how it should be implemented. The formula for ROI is given as:

$$\text{Profits} / \text{Investment} \times 100\% = \text{ROI}(\%)$$

While the formula is simple, a deeper understanding of the elements of CRM investments is warranted to accurately ascertain the ROI of CRM activities. Due to the cross-functional nature of strategic CRM, both benefits and costs accrue in different areas of the organization. Table 4.2 provides a list of areas and key issues to be considered in deciding the nature of the costs.

4.2.1 Costs Associated with a CRM Implementation

From Table 4.2, it can be determined that the elements of CRM investments can be divided into five major categories: organizational requirements, technology needs, database needs, human resource potential, and implementation factors. This section will explore each of these categories.

Organizational Requirements

The overall requirements of the organization interested in deploying the CRM initiative play a significant role in determining the final cost of CRM implementation. Managers and functional experts within the various departments of the organizations will contribute the business and department-specific requirements that will go into the overall framework of the CRM program to be implemented. In effect, the organizational requirements will depend on the nature of the CRM project, such as campaign management, channel management, customer support, and product development, among others (Bohling et al., 2006). The organizational requirements will also be supplemented by business infrastructure needed to achieve the goal. The breadth and depth of these requirements ultimately determine the final cost of the CRM initiative. The more complex the requirements, the higher the cost of CRM implementation.

Technology Needs

Technology requirements typically include software and hardware components, database development and IT infrastructure. Each of the types of IT contributes to the overall cost of CRM implementation. Typically, software can be purchased or licensed. For a typical CRM project, IT costs usually account for one-fifth to one-third of the total cost. This is likely to remain an accurate prediction for future years too, because the savings associated with the falling costs of hardware and software are offset by the rising cost of hiring IT professionals.

An important element when dealing with CRM technology is identifying and examining the role of relational information processes and understanding how they aid in effective customer relationship management. The relational information processes are defined as encompassing the specific routines that a firm uses to manage customer information to establish long-term relationships with customers. These information processes help in the capture and use of customer information so that a firm's effort to build relationships is not rendered ineffective by poor communication, information loss and overload, and inappropriate information use. Research has shown that by moderating the influence of relational information processes on customer relationship performance, technology used for CRM performs an important and supportive role (Jayachandran, Sharma, Kaufman, & Raman, 2005). If firms adopt these insights into their implementation, they are bound to witness significant impact on the cost incurred on technology.

Database Needs

Based on the nature of the CRM project and the customer segment(s) that will be served, the database costs will vary. The customer database is at the heart of an IT-enabled CRM system. Customers often have multiple channels to communicate with a firm and can interact with numerous departments, such as sales, customer service, and marketing. The information from these interactions serves as the basis for future interactions in the context of CRM (Peppers & Rogers, 1997). Further, creating a single database by combining internal data from several channels and divisions, with relevant external data, is a huge challenge faced by many companies, particularly for those that have grown through mergers and acquisitions. If the organization already maintains a robust database containing all relevant information, the database needs will add very little to the overall costs. However, if the organization has to create a database or add a significant amount of information to their existing database, this requirement could become a significant addition to the overall costs.

Human Resource Potential

The human resource potential in an organization is a critical component in the development and implementation of a CRM project, and perhaps even the most challenging to manage. Getting the right people to helm CRM projects makes the difference in an implementation. For instance, Continental Airlines went from worst to first in customer satisfaction. This transformation clearly stresses the importance of firms having people issues under control before investing in expensive CRM technologies (Reitz, 2005). The human resource costs include the hiring of IT professional as well as the costs of training current employees. Operations researchers and statisticians may be required for developing and implementing a CRM system. The analytical side of CRM may require expertise in segmentation analysis, migration modeling, lifetime value estimations, customer acquisition planning, and customer churn analysis. Recruitment of CRM talent in direct marketing, campaign, management, and many other areas may also be required. Training costs also fall into this category. Current and future employees will need to be trained on how to properly use the CRM system including often tedious measures to ensure all relevant information is fed into the CRM system (e.g. by the field sales force).

Implementation Factors

Often when a new or different CRM strategy is employed, significant changes need to be made to a firm's current mode of operation. One of the key CRM implementation challenges is defining and communicating the need and use for the proposed changes to all members of the management. In other words, change management plays a crucial role in deciding the success (and cost) of CRM implementation (Kumar, Ramani, & Bohling, 2004). One way to counter this challenge is to implement the entire project as a series of small projects, in which only a single activity is performed/achieved. The costs involved in such small projects do not only require a lower cost outlay, but also allows easy tracking of costs for the entire project.

4.2.2 Financial Benefits from a CRM Implementation

While it is relatively easier to identify the costs involved in a CRM project, pinpointing the financial benefits from a CRM strategy implementation requires a firm grasp of the company's pre-CRM financials. Since CRM projects are usually complex and run over a long period of time, they are implemented in stages. This step by step process allows a firm to judge the financial impact (whether or not it is a positive gain) of each stage as it is put in to place.

Considering that it is difficult to determine concrete financial benefits of CRM initiatives directly, companies often consider indirect future returns on CRM investment. Some of these indirect returns reflect CRM's direct impact on costs and revenues, including lower customer acquisition costs, lower costs-to-serve, higher average transaction margin, or higher average customer value. Some other indirect returns reflect neither cost nor revenue, but the drivers of both. These kind of returns include improvements in customer satisfaction, customer retention, customers acquired, customer attrition rates, cross-sell rates, up-sell rates, products owned per customer, inventory turns, average number of transactions, share of wallet, customer complaint rates, process costs, rework, employee satisfaction, and employee retention.

As companies in different industries face different CRM problems they also focus on different returns of CRM projects. For example, the biggest customer problem for companies in the telecom industry is *customer churn,*[1] which can be up to 40% a year (Forbes, 2013). Therefore, the most important effect of a CRM initiative should be improving the retention of their most valuable customers and creating opportunities for cross selling in order to build a multiproduct bond and thus increase switching costs. In the financial services industry, one of the companies' major CRM concern is lowering transaction costs by shifting customers from branches to the mobile or Web channels.

1 Churn rate is the number of existing customers who have left by the end of a given period divided by the number of existing customers at the beginning of the respective period.

4.2.3 Computing the ROI of CRM Initiatives

After determining the costs and related financial benefits associated with CRM investments, it becomes easier to compute the ROI of CRM activities. In evaluating the ROI of CRM activities, it is common for organizations to find that the many costs associated with the CRM activities are not recovered within the initial project cycle. Even though the initial results may look negative, it is important to project the return of the project over several time periods to ascertain the true ROI of the project. Such projections over future time periods should also consider the entire cycle of developing, implementing, and continuously improving the CRM strategy – a process that is long and complex. In addition, an accurate calculation of ROI entails the understanding and development of measurable indices of business outcomes in each of the stages of implementation. Such indices make it easier for the management to identify the financial benefits arising out of the implementation (Rust, Lemon, & Zeithaml, 2004).

So, what does it all mean? The ROI estimates vary according to the assumptions made by the firm's management. Therefore, it is important to obtain a reliable picture of the expected returns from a CRM project. How do you ensure CRM ROI targets are accepted by the organization? This is about ownership as well as accuracy. Management must create a shared view of how the ROI targets for a CRM project are set. This target setting can follow a three-stage process, as shown in ◘ Table 4.3.

Before a consensus can be reached, there are likely to be iterations between stage 1 and stage 2. Estimating the ROI for strategic CRM initiatives is by no means easy. Yet, if approached objectively, our discussion shows that a satisfactory measure of the ROI is not elusive.

So far in this chapter, we have looked at the basic types of CRM implementation projects, the main cost drivers for implementation and maintenance, and finally, how to arrive at a reasonable measurement of ROI. In the concluding section, we will take a deeper look into why CRM implementation projects can fail.

Table 4.3 Stages of ROI estimation

Stage	Content	Questions to ask
1. Setting the target	Determine ROI goal of CRM project based on benchmarking, similar projects, external and internal knowledge	Is the goal sufficient?
		Is this goal achievable?
2. Reaching the target	Generate ideas of how to reach target through internal bottom-up participation, external views, consultants, benchmarks, etc.	What factors have to change and by how much to achieve the goal?
		Does it work from a technical perspective?
		Are the proposed benefits clear/unclear?
		Will customers and/or staff accept these measures?
3. Building consensus and commitment	Have executives and line staff agree on proposed ROI goals and ensure commitment on both sides	Are we collectively prepared to sign them off?

4.3 Why Do CRM Implementation Projects Fail?

Anecdotes of failed CRM initiatives are plenty and almost every employee or manager can tell interesting, sometimes funny stories about his or her company's efforts to bring CRM to life. Yet, the figures of CRM failures – which according to several market research companies (e.g. Gartner, Forrester Research, Economist Intelligence Unit) are as high as 50% (ZDNet, 2009) – are a clear warning sign.

Diagnosing why CRM initiative fails is thus an important aspect in order to learn which traps to avoid. Both scientific and practitioner literature has put forward a large number of reasons why CRM projects fail. Here, a selection of these reasons is provided (Reichheld, Schefter, & Rigby, 2002):

1. Assumption that CRM is a software tool that manages customer relationships for you.
2. Implementing CRM before having a CRM strategy.
3. Poor match between CRM system and organizational processes.
4. Resistance from employees.
5. Poor data quality.
6. Low «actionability» of the information.

With respect to the first three, we do not go into detail here since they were discussed extensively in the previous chapter. Instead, we will focus on the remaining three reasons for failure since they touch upon crucial aspects during the implementation of CRM initiatives.

4.3.1 Resistance from Employees

The first issue these projects have to address is resistance from employees. No value can be realized from CRM without understanding and managing its impact on the people who live with it and make it work on a daily basis. The key to successfully dealing with the people aspects of change is to accept change and to deal with issues as and when they arise. However, there are two ways to positively deal with resistance.

First, think of resistance as energy. If employees are resistant, then this shows that they do indeed care, and this is much better than total apathy. If the management recognizes resistance as energy and passion, its goal will be to channel that energy into positive commitment and behavior. Second, resistance is information that tells management what is working and what is not working in the change process. By paying attention to resistance and even encouraging it, management harnesses the energy of change and learns about the next steps it must take to make the change succeed.

There are some guidelines that companies can follow to overcome resistance and help people utilize the CRM system as well as the information:

- **Plan:** Be prepared, focus attention on the benefits of changing, the consequences of not changing, and the impact of these changes on the individual and group.
- **Communicate:** Hold regular meetings. Provide as much information as possible to clarify what is happening and how it will impact the people.
- **Listen:** Encourage people to talk about what is happening. Allow people to «grieve».
- **Support:** Understand that there are no quick fixes for these changes and managers who become champions of change should be supported.

To help handle resistance, the company should not only motivate employees to utilize the new system and analytical information, but also train them on how to use the new system and information. Internal marketing campaigns should be initiated to motivate the information users, such as sales reps, customer service reps, marketing analysts, and even decision-making executives, to use the analytical information in order to achieve their objectives, improve their productivity, and affect the company's bottom line so that they can show their importance and their impact to the company.

Implementing CRM requires employees to change their work habits. The most effective way to do this is training. Users need to be trained on how to utilize the information. This process may include demonstrating to users how to access and utilize needed information, providing users with frequently updated and understandable user documentation, offering online tutorials that can be customized for each user, providing a telephone help line to stand-by users, and training the «trainers»to ensure that new users can quickly be up and running the system.

4.3.2 Poor Data Quality

Data quality is one of the key challenges for CRM implementation. On the one hand it is essential for achieving a single definitive view of a customer and interact with this customer in a consistent way across all touchpoints. On the other hand, poor data quality and subsequently poor service quality can lead to dissatisfaction among customer and at the same time ruin the trust and confidence into the CRM system, especially among frontline users (Reid & Catteral, 2005).

The challenge is augmented by the development of CRM from a rather functional to a strategic level involving multiple functions within the company. This essentially means that employees from many different departments are required to interact with parts of the system and contribute information to the CRM system in order to create a 360-degree view of the customer. Moreover, with the advent and increasing importance of self-service technologies (e.g. self-service stations or account registration via the internet) even customers themselves actively enter information that is relevant for CRM activities. This has important implications for data quality if we consider that human action is never error-free. For example, industry estimates show that a competent data-entry clerk has an error rate of 2–4% while the error rate of data entered via the web is 10–15% (Krill, 2001).

There are several types of poor data quality (Reid & Catteral, 2005):

- Poor data entry (including misspellings, typographical errors, or variations).
- Missing data.
- Lack of company-wide coding standards (and/or missing unique identifiers in all relevant data sources).
- Multiple databases scattered throughout the organization (with potentially conflicting information and/or missing unique identifiers across data sources).
- Legacy systems containing poorly documented of obsolete data.

Each reason for poor data quality has implications for the implementation of a CRM system and eventually how it can support users in CRM activities. While there is no simple solution for addressing poor data quality, the following recommendations can help deal with the challenge:

- It is imperative to consider data quality at the very beginning when devising the CRM strategy (Alshawi, Missi, & Irani, 2011). Often, severe data problems only become apparent when project reaches the step of implementing a CRM application. Therefore, having a realistic idea of the data quality before the projects starts is a first step. This includes a thorough analysis of the status quo of data quality for the main sources of data.
- The assessment of data quality should be followed by a one-time effort for data cleansing. Often, this involves replacing legacy

systems integrating data into a central database, also called data warehouse.

- Finally, data quality is highly dependent on continuous data care. Most importantly, it requires specific processes to detect and correct erroneous data entries that occur during the deployment of the CRM application. If data quality deteriorates at a rate of 2% per month, this translates into almost a quarter of the entire customer database annually (Thompson & Sarner, 2009). Thus, companies need to install an on-going routine for data quality maintenance which includes explicit roles and responsibilities, adaption of incentives (e.g. for call center service staff) and close collaboration between IT, data management and system users.

4.3.3 Low «Actionability» of the Information

Many companies engaging in CRM implementation initiatives report that they not capable of deriving actionable and personalized advice to their customers and/or service/sales agents (Gartner, 2001). Thus, at worst, a CRM system is simply a huge exercise of data collection without improving business processes and decision making and in the end, helping serve customers better. New technologies of predictive analytics may help improve on that end. Yet, for many applications, it is still advisable to have a dedicated team of data/business analysts that help make sense of the data. This can involve both, periodic reports of specific key performance indicators (e.g. leads generated by campaigns, rate of successful lead conversions, percentage of first contact resolution in service situations, etc.) as well as tailored analyses for frontline business units.

Overall, the discussion above shows that many challenges later in the implementation process could and should be addressed from the beginning. Figure 4.1 shows how investing in CRM by overcoming challenges ultimately results in the reduction of time and money resources. The case study of Capital One

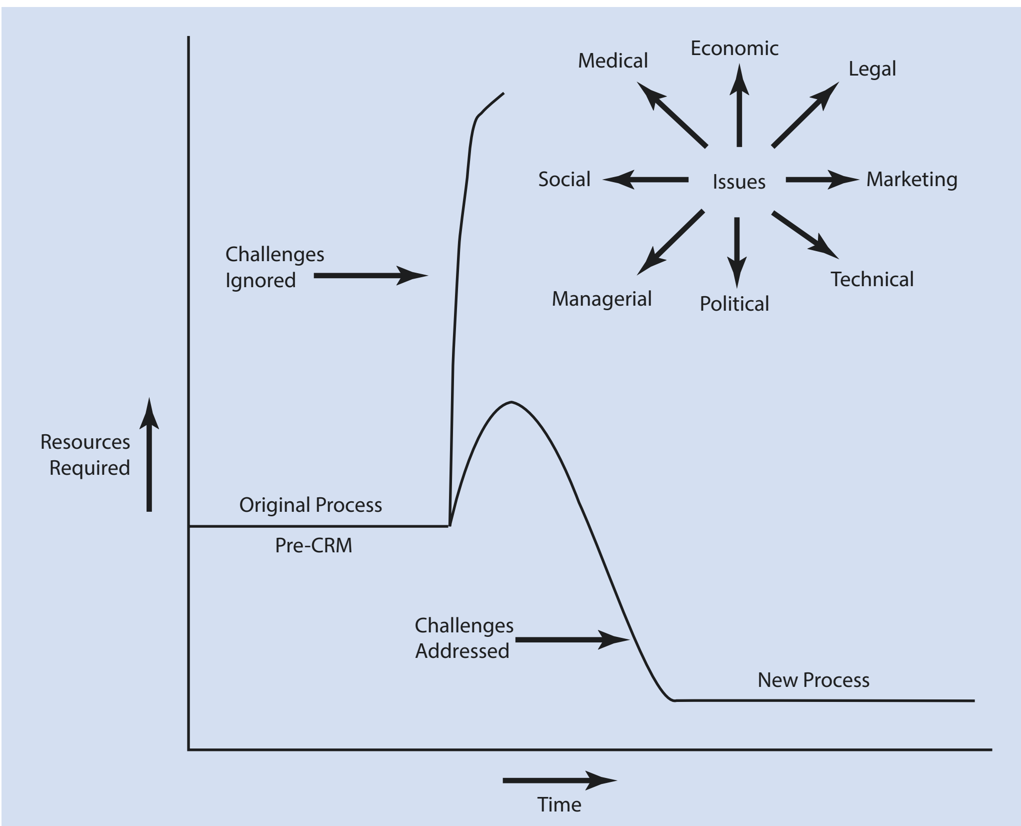

Fig. 4.1 Improving profitability by investing in CRM (*Source*: Adapted from Bergeron, 2002)

in the next section will illustrate how CRM strategies are developed and implemented successfully.

4.4 Case Study: CRM at Capital One[2] (United Kingdom)

> Ian: «Customer Relationship Management is another buzzword to me, but what does it actually mean? It just seems like a nice concept. We don't talk about it internally – we have many buzzwords, but not this one. »
>
> Phil: «We've internalized it so much – that's why we don't talk about it.»
>
> Ian: «You're right, we don't do Customer Relationship Management – we just get on and manage Customer Relationships!»
>
> – Conversation between Phil Marsland, director of Marketing and Analysis, and Ian Cornelius, account manager, Capital One, June 2002.
>
> *Source:* Copyright © 2003 INSEAD, Fontainebleau, France.

4.4.1 Case Background

Capital One's leaders, Richard Fairbank and Nigel Morris, had a vision of creating an information-based company rather than a financial services company when they worked in the consulting business in the late 1980s. They envisioned that the strategy for credit card providers should be to deliver «the right product to the right customer at the right time, at the right price». While sounding obvious, their statement marked a revolution that would trigger huge changes in the credit card business. However, this revolution did not happen overnight.

As consultants, Fairbank and Morris could see the potential for improving the credit card business for both customers and shareholders alike through the application of their nascent strategy ideas. The US credit card market during the 1980s was characterized by the fact that the financial institutions were offering very similar products across the whole spectrum of their customer bases, charging a standard 19.8% interest rate and a US$20 annual fee. The market lacked a customization of offers, and one-to-one marketing was practically inexistent. The prevailing story was very much «one size fits all».

The journey began in late 1988, when Signet Bank, in Virginia, not only bought Fairbank and Morris' concept but also engaged them to execute the plan from within. In contrast to the prevailing attitude of the major players, Signet put a different understanding at the heart of its new strategy. According to Morris and Fairbank:

> » Credit cards are not banking, they are information. It's all about collecting information on millions of people that you've never met, and, on the basis of that information, making a series of critical decisions about lending money to them and hoping they pay you back.

Therefore, Signet Bank rebuilt its credit card operations around information technology and sophisticated analytical techniques. This new adopted strategy, named «Information Based Strategy» *(IBS)* was to compile what was ultimately to become the world's largest Oracle database, allowing the company to understand its customers and to develop mass-customized products, which would ideally suit their needs and risk profile.

By early 1994, Signet made the decision to float the credit card business separately, and hence *Capital One Financial Corporation* was born in November 1994, with Richard Fairbank as Chairman and Chief Executive Officer, and Nigel Morris as President and Chief Operating Officer.

Since its IPO in 1994–2011, the stock price of the company has increased by almost 400% and the company has grown at an average annual rate of about 40%, excluding mergers and acquisitions. At the end of the first quarter in 2011, the company reported quarterly revenue of $4.082 billion and 43 million customers worldwide, serviced by more than 27,000 employees. Moreover, has received many awards in different domains, most particular as being a responsible employer (e.g. the U.S Department of Labor's *Award for contributions to create a youth supply pipeline* in 2008 or third in the Sunday Times *Best Place to Work in the UK* in 2001), providing excellent customer service (e.g. *CIO 100 award for Customer Excellence*) or for its technological leadership (e.g. the Gartner Group *Excellence in Technology' Award*).

2 This case was prepared by Ulrike Wiehr, the Boston Consulting Group MBA Fellow, under the supervision of Professor Werner J. Reinartz, at INSEAD.

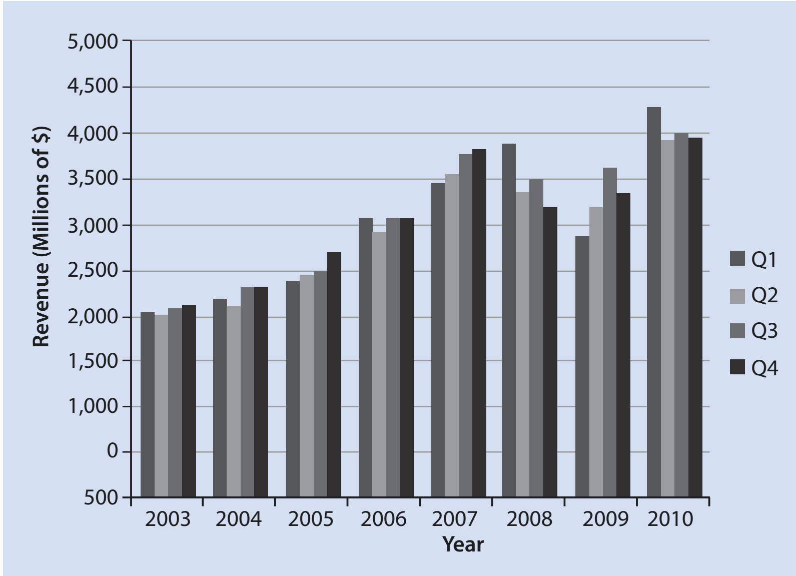

Fig. 4.2 Growth of Capital One's revenue (worldwide operations)

Encouraged by its success in the US, Capital One decided to launch its first overseas operations in the UK. In July 1998, Capital One opened its operations center in Nottingham. On day one, 250 associates were employed. By 2001, this number had grown to over 2000, and Capital One associates in Nottingham now deal with application processing, customer service, product design and marketing, card issuing, collections, business development and database management. As early as 2002, the company reached profitability and became one of UK's top six credit card issuers.

Capital One's percentage of outstanding bad debt, a key performance measure in a risk-driven business, was significantly lower than that of key competitors. This is especially significant, given that the company, unlike most of its competitors, lends to customers across the whole credit risk spectrum. At year end, 2001, Capital One posted its 18th consecutive quarter of record earnings: annual earnings grew by more than 20% and delivered a yearly return on equity of more than 20%. Reaching this goal seven times in a row put Capital One in a league with only seven other publicly held US companies. From 2001 to 2007, Capital One's quarterly revenues fluctuated, but maintained a steady annual increase in revenues. In 2008, Capital One enjoyed a successful first quarter before succumbing to the economic climate and experiencing quarterly fluctuations with annual revenue losses during both 2008 and 2009. In response to this 2 year downturn, Capital One recorded its highest annual and quarterly revenues, a positive sign for what is to come (see Fig. 4.2 for the growth history of Capital One's revenues).

In early 2001, Fairbank and Morris could not help wondering about its success: while all their competitors were also embracing CRM (Customer Relationship Management), and most seemed to pursue the concept with significant investments in software and reorganization, Capital One's customer base was developing at a compound annual growth rate of 40%. It seemed as if Capital One could indeed be seen as creating industry best practice in developing valuable customer relationships and managing risk based on an intimate understanding of the customer. But what exactly was it that made Capital One's approach to CRM so unique? Was the company's success down to luck or was it based on a real competitive advantage – and, if so, would this be a sustainable advantage, in the light of competitors' efforts on CRM?

4.4.2 Industry Background

An Overview of the UK Credit Card Market

In the early 1990s, the major British banks dominated the market (such as Barclays, Lloyds, The Midland, NatWest, and The Royal Bank of Scotland). These banks would typically charge all

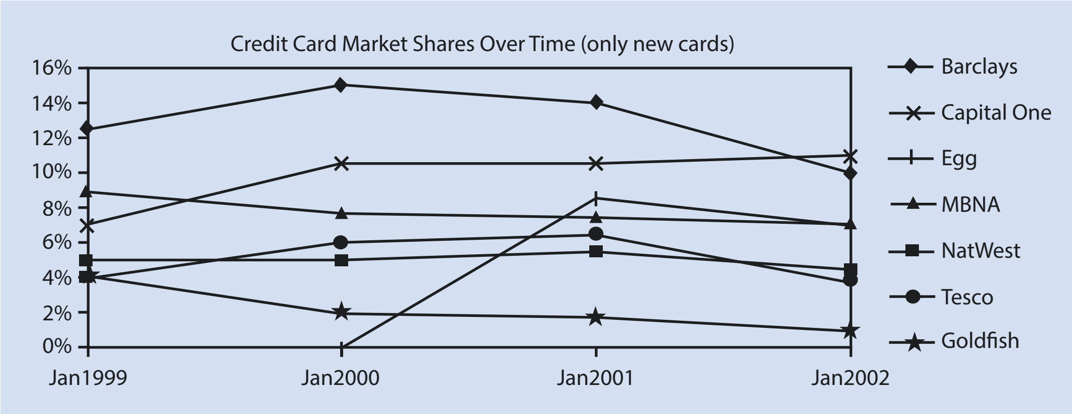

Fig. 4.3 Credit card brand shares in the UK around 2000. Base: all credit card holders (*Source:* MORI Financial Services, June 2002)

customers interest rates of about 22% as well as an annual fee of £12. Products were barely differentiated and customers had little real choice. In the mid-1990s, the market was shaken up by the entrance of competitive US banks such as Capital One, Morgan Stanley Dean Witter and MBNA, that targeted the UK market to expand their own business. The Internet wave also prompted the emergence of new competitors such as the online banks Egg, Cahoot and IF.

The introductory offer of the new entrants revealed an aggressive pricing strategy. By offering lower interest rates and lower fees, they built sizeable customer bases. Moreover, many of the new entrants dismissed the idea of a standard interest rate and introduced more differentiated pricing schemes. As a consequence, the credit card market became highly competitive and the market share of the major UK banks (two thirds of credit cards in issue) was eroding (see Fig. 4.3 for market shares shortly after the market entry of the new competitors such as Capital One). In addition, it was evident that the days of the standard interest rate were truly over.

Credit Card Revenues

Credit card issuers have many sources of income from the use of credit cards as a payment device or as a form of credit. The most frequent are: interest charge paid by customers taking extended credit, annual card fees, interchange (a service commission from the merchants accepting the card) and other fees, such as late or over-limit fees.

Another valuable source of income for credit card issuers is the revenue originated by cross-selling other financial products related to the cards, such as insurance against fraud, or personal loans and mortgages. However, the main source of profit for a card company is the Annual Percentage Rate (APR) on an outstanding balance, i.e., the use of the credit card requires that the customer pays a specific minimum proportion of their balance each month, and, in addition, an interest rate on the outstanding balance. The more outstanding balances customers have, the greater the company's revenues are, and the higher the APR, the higher the interest charges incurred.

Consumers

As mentioned, credit cards may be both a payment device and a form of revolving credit. Credit card customers can be divided into two main segments:

1. **Transactors:** Clients who regularly repay their entire balance.
2. **Revolvers:** Clients who pay less than their entire balance and usually benefit from an interest-free grace period, which may be up to 54 days.

Revolvers are the customers who provide the biggest source of revenue, since they are always revolving their credit and therefore always providing revenue as they pay their interests.

Relatively buoyant consumer confidence and low interest rates have combined to create an environment in which consumers are happy to take on extra debt. An example of this confident

Table 4.4 Number of payment cards in issue: 1992–2001

	Number of credit cards (m)	Number of debit cards (m)	Number of charge cards (m)
1992	28.28	22.60	2.35
1995	28.27	28.44	2.51
1999	41.42	46.08	3.45
2001	51.70	54.31	4.43
% Change 1992–2001	+96.8	+140.3	+88.1

Source: APACS/Mintel

environment is the comparative strength of both credit and debit card markets, with charge cards in issue trailing far behind (see Table 4.4 for the evolution of card issues). The growth in the number of credit cards in issue is, in part, a result of the increased market competition but also a consequence of the changing attitude of the British towards credit. The amount of total consumer credit increased by 96.7% from 1995 to 2001 (£89.1bn to £175.3bn). Credit cards represented 53.5% of this total credit in 1995, rising to 59.6% in 2001. For many, consumer credit is simply another financial tool to be taken advantage of, in the same way as a current account or mortgage.

Also, consumers are increasingly happy to play credit card providers off against one another, switching from card to card in order to take advantage of introductory deals. While APR is clearly a key factor in customers' preferences for specific cards, there are other factors that influence their choices. These include, for example, the availability of a reward point system, the acceptance rate at stores, the size of the credit line, the card design, or the affiliation with a charitable organization.

4.4.3 Capital One Company Background

Business Model

The business model of Capital One is founded on the simple, yet crucial, premise that each customer requires a different product and service from its credit card provider. The company believes in the assertion that customers, if offered what they want and need, as opposed to what banks want to offer them, will choose the provider that gives them choice and individuality.

Each customer carries a specific and unique credit risk and potential revenue profile, mainly based on his or her previous credit history (or lack thereof). The better the company can understand and assess a customer's specific risk, the better it can manage it. Moreover, the better it understands the customer, the more it can tailor its products to his or her needs. Risk is a crucial factor in the credit card business. «We're in a risk-driven business where one bad debtor can easily wipe out the benefits from 20 average customers or 4.5 good ones – thus, it's vital to manage them carefully,» explains Ian Cornelius. «It is one of our competitive advantages to understand and manage these different levels of risk.»

Information-Based Strategy (IBS)

Capital One's goal is to use information to acquire the types of customers it can most profitably serve. In order to understand them, the company uses information technology to accumulate and manage large amounts of data on its customers. Alongside publicly available data on credit risk, the company supplements this with data on customer demographics and behavior collected internally during the application and account management process, where every transaction is carefully registered. None of this could be achieved without the entire company being completely aligned behind the whole process.

With the data accumulated, the company executes its proprietary «Test & Learn» strategy. Test & Learn is a scientific, hypothesis-driven approach to test any customer related activity in a controlled condition on a sample of customers before rolling it out on a large scale. Using this scientific process, Capital One's Marketing and Analysis teams develop ideas, design products, and select target customers. Real products are empirically tested with genuine customers: the number of tests run is impressive – 36,000 in 1999 and 45,000 in 2000. Figure 4.4 summarizes the principle behind the «Test & Learn» strategy. For example, mailings with different copy and/or letter design are sent out to potential customers. Their response rates are monitored, as is their behavior as new customers, so that Capital One can understand the relative value of different offers. All test results are

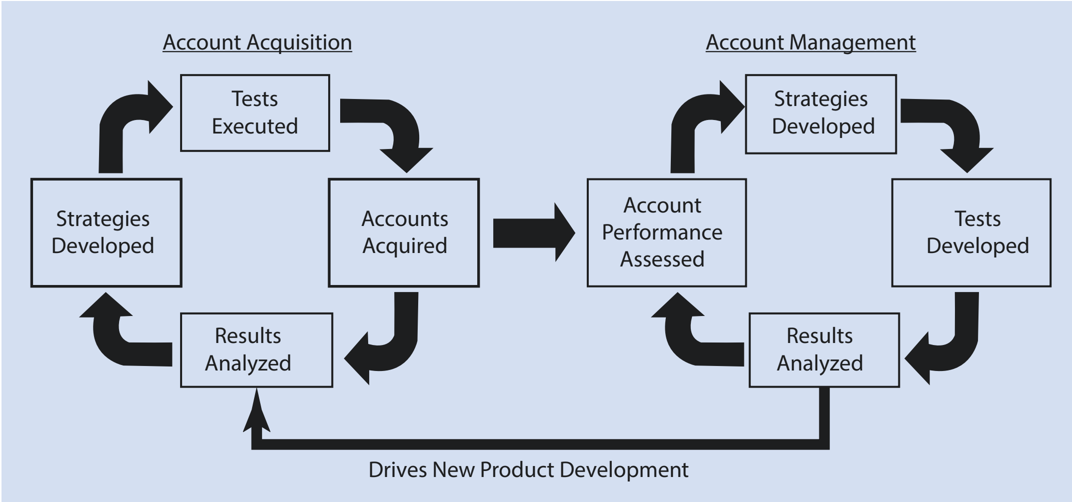

Fig. 4.4 Capital One's test and learn strategy

then analyzed and integrated into databases that can be referenced later to initiate further ideas on development and product design. Similarly, by analyzing customer behavior, the view of risk can be refined, and the credit offer can be improved accordingly. Balance-building programs can be targeted at the low risk customer, thereby reducing the average loss rate of the portfolio.

As a result, the company continues to improve its portfolio of products and services, and it now offers more than 6000 products, most of them variations of credit cards. Here are some key products:

- Credit cards with different conditions (APR, credit limit, fees) and designs.
- Products directly related to the credit card such as card protection plans and payment protection insurance (cross-selling).
- Other financial services such as travel insurance.

4.4.4 CRM Practices at Capital One (UK)

Managing its relationships with customers is at the heart of Capital One's strategy. CRM is not seen as a tactical or functional approach but as a key strategic process. This strategic CRM orientation expresses itself; for example, in the way the various corporate functions are interlinked. It is not only the way in which departments are structured but also the way they interact with one another. As Capital One managers usually say: «All departments work in an integrated fashion and there are no silos within the company.» Internally, the company is grouped in four key activities.

1. **Marketing & Analysis (M&A):** Responsible for Capital One marketing strategy, product development, credit and risk management, pricing strategy, monitoring market trends and competition.
2. **Operations:** In charge of all front- and back-office operations and for all customer inter-processes (e.g., cross-selling, customer acquisition and retention, etc.).
3. **Information Technology (IT):** In charge of the development and maintenance of the systems infrastructure.
4. **Human Resources (HR):** Responsible for employee recruitment, training and development, the internal satisfaction survey and for nurturing the company's culture.

Marketing & Analysis (M&A)

Capital One's M&A department has, as its main functions: segmentation, testing and analyzing customer data in order to elaborate the company's marketing strategy, and the development of new products and services. To segment customers, Capital One uses analytical techniques and tests to identify groups of customers and to cluster them into segments according their risk profile and behavior.

Segmentation Strategy

Capital One's segmentation strategy focuses on a full spectrum approach (i.e., it targets all types of risk profiles, offering them different products and prices accordingly). The company's database has many types of customers, such as «transactors», with a low risk profile, and «revolvers». Capital One was able to further distinguish two sub-segments in the latter group: «high risk revolvers», with a high level of credit line utilization and high probability of default, and «low risk revolvers», who use their credit line extensively but pay back their balances. In order to identify this profitable low risk «revolvers» segment, Capital One carried out some tests that revealed that these customers could be targeted by making them a better interest rate offer. In fact, offering them a lower APR to encourage them to transfer their balances from other banks to Capital One proves to be an attractive offer, since these customers intend to repay the balance they have already created. Many other tests were conducted to fine-tune the solicitation of these customers in terms of contact channels, credit offers and mailing preferences.

The company's other large customer segment is composed of customers for whom the Capital One card is very often the first card. This segment also includes people who have had problems obtaining or handling credit in the past, people with limited or non-existent credit records and young people. Since this segment carries a relatively higher risk, these customers are usually not well served by products offered by the main high street banks. Capital One's strategy in this case is to offer these customers an initial higher APR with an annual fee and a lower credit line. While this is clearly higher than other Capital One offers, it usually compares very favorably with alternative credit offers on the market, and represents good value to these customers.

Account Manager, Cavendish Elithorn, explains why the offer is an attractive one for this segment: «Given their credit history, the Capital One card is still a better deal than other sources of credit – store cards where interest rates are 30%, brokers who charge 40–50%, or door-to-door lenders with 100% rates.» The potential volume of this segment is significant, which is why Capital One has the potential to grow this customer base alongside the low risk segment. The challenges to identify this segment are the same as those of «low risk customers»: identify the customers, their risk assessment and managing attrition. To evaluate the customer risk profile on application, the company rates them based on their credit scoring, information taken from the application forms and credit bureau data.

Retention Strategy

To attract «low risk revolvers» with balances in other banks, Capital One may offer them a card with an introductory low rate that expires after a few months, and no annual fee. However, when the introductory rate expires, Capital One may witness increasing attrition from these clients, as many price-sensitive customers tend to reduce their debt or leave Capital One, without notifying the company or closing their account. «This is a dangerous development as it's the best customers – those that are low risk – that tend to leave to get better credit deals elsewhere,» explains an account manager. «Consequently, we have active strategies to keep these customers, and their balances.»

Many of the account management activities seek to keep these customers from being «dormant» or becoming permanently inactive. These retention activities are designed to help retain customers when their introductory rate expires or when other accounts risk «dormancy». «If a customer's account is dormant for a while, there is an increasing risk of losing that customer,» explains Ian Cornelius. «That's why we have a number of activities in place to guard against this – by making a range of offers to reactivate their account.»

Capital One's retention strategy with this type of low risk segment is basically to grow the low credit line they received at the beginning of their relationship. Furthermore, they may also receive increased benefits, different card designs and other incentives to stay with Capital One. The key strategy with these customers is to treat them as well as any other customer segment. Just because Capital One was the best available offer on the market when they joined, it does not mean it will always be the case. Consequently, Capital One works hard to retain these customers.

At various points in time in the customer lifecycle, Capital One analyses its customer database in order to fine-tune its offers and retain customers. The behavioral and performance data allows the company to make proactive rate or credit limit offers, whenever appropriate. IBS testing is also used to help identify low- and high-risk customer profiles. By making different offers to customers, the company learns more about customer behavior and therefore improves its targeting and retention.

Operations

In order to offer a wide variety of cards and services, Capital One aligns its Operations department with customer requirements. This strategy has proven to give Capital One a competitive advantage over other banks in the market. Rather than taking the «assembly line» approach, the company attempts to handle its customers in a personalized and flexible way.

The Operations department handles front-end customer relationships. There are over 1000 people working in Capital One's call-center, handling more than 10,000 incoming calls per day. Most call center type operations are aligned managerially and operationally in order to achieve specific targets that often compete with one another: (1) low cost efficiency, (2) high quality customer service, (3) flexibility and (4) associate satisfaction. In fact, these four measures are the cornerstones of a model known as the «Big Yellow Square» (BYS). Each quarter, the management team rate themselves on these four «corners» to take a qualitative assessment of how «big» and «square» the BYS is at any time. This is a simple model, easy to buy into emotionally. The BYS indicates that Capital One's view on operating a call center differs from most other organizations, particularly in the way it weights «associate satisfaction», which is equally important as «service quality» and «cost efficiency».

As mentioned, «Flexibility» is one of the BYS corners. Because the company tests so many products in the marketplace on a regular basis, flexibility in the approach and attitude of the Operations staff is a key part of the business' success. Flexibility is also present in the way that Capital One deals with operational overloads. Many associates, even those who normally do not work with the Operations department, are trained in one or more disciplines. Also, when volumes exceed expectations in a particular area, managers take the decision to ask associates to temporarily move jobs to cope with the peaks. Eventually, this action is more likely to be taken when there is an unexpected surge in high value customer contacts, such as applications for new products.

Another important aspect of Capital One's strategy is the way it uses customer profitability analysis. Profitability is calculated on an individual basis to improve the product offer to each customer. However, the company does not normally differentiate customer service levels according to a customer's profitability. As Mitch Beres explains:

> » We would not be comfortable matching up high-value customers with high-level service – every customer has a choice of whether to use us or go elsewhere, and our quality of service can be a reason for them to stay. We aim to offer high-quality service to all our customers, regardless of their profitability.

However, Phil Marsland reflects on the subject of differentiating customer service: «It is a real question to me whether the lower risk customers should cross-subsidize those with higher risk, or whether everyone should get the deal they deserve.» Although Capital One does not currently follow this line of thinking, Marsland's comment indicates that Capital One's management is constantly contemplating new ways of managing its business, and may even consider changing this current strategy.

Another element that differentiates Capital One's Operations department from others is its IT infrastructure. IT is used to route calls and provide associates with the necessary information to best handle specific calls. The systems are updated directly by call-center associates. Therefore, as soon as each call is completed, associates enter information about the interaction in an encoded form into the system, which will then be available for the next contact with the customer. In some ways, this ensures a modern version of so-called «old fashioned» personal service. More specifically, the Operations department is divided in four main areas:

1. Operations processing
2. Customer relations
3. Sales
4. Collections
5. Co-operation between M&A and operations

Operations Processing

Operations processing handles all back-office operations. Some examples of its key functions are: keying in credit card applications, scanning all incoming correspondence into a document management system, managing vendors such as card embossers and statement printers and handling payments from customers.

Customer Relations

Customer relations handle incoming calls. While it is primarily devoted to providing particular service requirements and receiving customer complaints, it also attempts to cross-sell when appropriate. 400 customer service associates receive about 8000–10,000 calls a day. These associates use the sales system (called SALSA – also used in the Sales department) when attempting to cross-sell. This allows them to identify suitable products to the customer who is calling and to avoid offering the same product twice.

Customer service associates, as well as sales associates, work to an incentive scheme that encourages sales and quality service. This incentive scheme is characterized by the following criteria:

- **Average handling time of the call:** Measured by the number of calls routed per day and the average call length in seconds.
- **Sales points per contact:** A sale is encouraged by awarding points per product sold in order to reflect product profitability.
- **Quality:** This is measured by using a system that records ten random calls a month, per associate, to which managers listen and give feedback.

Associates receive a review of their performance weekly that shows how they rank against overall department targets and against their own past performance. The call listening program, introduced 2 years ago by senior management, is very rigorous. As one customer relation manager explains: «This feedback from senior management has served not only as an extra quality screen, but also as a visible signal to our front-line associates that they are important». Competition between individual associates and call-center teams is also encouraged. On the call-center walls, colorful charts track the performance of different teams. Awards are given to the best performing teams or individuals, and their pictures are displayed on internal notice boards or appear in in-house publications.

Sales

The Sales department is divided into the following units:

- **Inbound:** Customers call to activate their cards or to respond to a marketing offer.
- **Outbound:** Capital One associates call the customers to sell them a product or to provide a proactive service (e.g., customers who received a card but did not take out the payment protection insurance).
- **Retention:** Associates try to retain customers who intend to close their accounts.
- **New Business:** Sales are attempted with new customers.

Within all units, teams of 12–14 associates plus a supervisor and a manager are formed. While some specialization is encouraged, there is also cross-staffing and rotation to familiarize sales people with other tasks and teams, and to allow for flexibility in meeting peak demand.

Offering new products to customers is one of the key tasks of the Sales department. Given the variety of new products on offer every month, computer-based training modules are developed to familiarize sales personnel with the new offers. When cross selling, Capital One's cross-selling system determines the likelihood of customers to buy certain products based on the projected NPV of a product to a customer, and suggests different products to different customers, or even no selling attempt at all (see ◘ Table 4.5 for the model).

◘ **Table 4.5** Capital one's NPV-based cross-selling process

Customer ID	CPP	PPI	Loan	BT	Shopping
4324 1223 7874 3333	10	30	40	21	1
4324 1223 7874 3334	43	22	9	45	24
4324 1223 7874 3335	12	59	8	43	3
4324 1223 7874 3336	0	1	5	12	33

1. Customer 4324 1223 7874 3335 calls in.
2. System checks whether any sale is permissible in this channel (e.g. have we tried a CSM approach recently).
3. Product priority is sourced from the NPV table.
4. System checks whether approaches are allowable on these products. E.g. excludes product if customer already holds it or where the product has been attempted recently.
5. The list of products we are «happy to offer» is shown to the associate, with the primary product at the top of the list.

The SALSA sales system enables targeting cross-sell offers to specific customers likely to be interested in particular products. To avoid inundating the customer with offers, SALSA prevents Capital One associates from offering the same product twice within a short period of time. Associates are not encouraged to sell more than one product during a single call, even if SALSA suggests more than one product offer. As one sales associate explains,

> the target time for a call is challenging – this means you really need your sales pitch honed and ready!

This minimizes the chances of wasting the time of both customers and associates.

The SALSA system also uses accumulated data on customers to suggest how to react to specific customer requests. For example, if a customer asks for a credit line increase, a reduced APR or a cash advance, data on past behavior and risk assessment are used to decide whether to grant the request or not.

Collections

The Collections department deals with customers who have fallen behind with their payments or with accounts affected by fraud. The department is split into three main areas: payment assistance, recoveries and fraud.

In *payment assistance*, Capital One associates work with customers who are behind with their payments to try and help them recover their account. For example, if the customer cannot pay his bill because she is unemployed, payment assistance may put her in contact with a recruiting agency. If the customer is ill, payments may be temporarily suspended. In other circumstances, customers who are behind with their payments may be offered revised terms, enabling them to make smaller, and regular payments. The overriding goal is to keep customers until they can pay and help them not to default. Elithorn explains:

> We believe we are better than most working with all customers to come to satisfactory solutions. For example, other card issuers might ask customers what they intend to do, in order to get out of debt, or give them few workable options. We might say that for a specific customer, based on our data, the best solution would be to lower its interest rate. We are still a long way away from individual solutions, but closer to it than most others in this field.

In *recoveries*, Capital One looks after those customers whose debt has been charged off and whose accounts are no longer open. The objective is to work with the customer to recover as much of the debt as possible.

Finally, the *fraud* team has two fundamental tasks: to help customers who have been victims of fraud and to prevent fraud itself. In the case of fraudulent activity, the team closes down the old account, writes off any fraudulent charges and transfers genuine transactions into a new account. Customers affected by fraud usually need a higher level of support, and the fraud team is trained to treat each case with sensitivity. A wide range of systems is in place to help prevent fraud, including real time transaction models and account behavior pattern systems. Very often, the fraud customer service team calls customers to let them know that they might have been victims of fraud, even before the customer realizes it. This is yet another strong selling point for Capital One from the customer relationship management perspective.

Co-operation Between M&A and Operations

Given the large number of tests carried out and new products developed within Capital One each year, there clearly has to be a great deal of co-operation between these two major departments. For example, when introducing a new product, M&A and Operations work very closely together. While M&A designs the product, develops marketing material and follows up customer responses, Operations collect regular feedback from customers and make improvement suggestions. The information from Operations is also used to improve the NPV models that serve as decision-making mechanisms.

Much of the information on customers that is used to craft strategy is obtained from front-end associates, who are, of course, closest to the customer. There is a partnership between Operations and M&A to review the risk perspective of present as well as future strategies. Of course, such a tight link between Operations and M&A would not function without the enablement through IT. Furthermore, numerous permanent or *ad hoc* cross-functional teams, composed of members from Operations and M&A, exist to define, for example, the credit policies for new and existing products.

Information Technology (IT)

The IT department sits at Capital One's head table and reports directly to the board in its own right – it is highly valued as the enabler of business strategy. The IT division performs a broad function, ranging from pure business issues and decisions on how the company should deploy its resources and finances, through applications and software engineering, to detailed technical issues of hardware, operating systems and networking. After Operations, IT is the company's second-largest division.

Against common practice in the financial industry, Capital One chose to *in-source* the majority of its IT capability, relying on the speed, management acumen and expertise of its in-house provision. Much of the IT intellectual property of the business is implemented internally, which proves that IT has become a core competence. This department offers a full-service capability to the business (Operations and M&A), covering the spectrum of products and processes through their genesis and complete life cycle. It houses the data, performs guardianship of the information, excels in data warehousing, and assures that the information can be readily accessed. All the terabytes of customer behavior data are kept indefinitely in-house for online or near-online access. Through query tools, batch updates and transactional data, IT provides the tools that enable IBS to work successfully. The IT department contributes to CRM activities in the following domains:

1. Prospect pool and solicitation management
2. Account acquisition and management
3. Account servicing and call-center technologies

Prospect Pool and Solicitation Manage ment

Capital One differentiates itself from the competition because of its internal prospect pool management and solicitation process. Rather than outsourcing the data on a prospect's behavior and lifestyle, Capital One runs an in-house database with this information, which targets and selects customer audiences and matches products according to the prospects' profiles. The information gathered over the years on Capital One customers has proved to be very useful in this perspective to tailor products to individuals.

Traditionally, Capital One has been using direct mail campaigns to target new customers. This approach has proved to be very beneficial since it allows the company to predict gross and net response rates to various offers, according to the product, customer type and creative process chosen. This allows an accurate prediction of its marketing effectiveness. Once the campaign results are received, data are introduced back into the Prospect and Solicitation Management system, to provide further data that will improve future acquisition programs.

Account Acquisition and Management

When a prospect becomes a customer, Capital One creates an account on the account management system, where all interactions with customers, from account detail changes to transactions and payments, are recorded. This information will create the customer profile, which allows the company to differentiate offers according to customer preferences. In fact, front-end customer acquisition processes rely upon sophisticated sets of credit models and automated decision algorithms to process the high volume of applications via the various channels (telephone, Internet, mail). Hardcopy applications are scanned and retained on optical disk. This information is subsequently communicated to credit bureau and external fraud prevention agencies that provide Capital One with up-to-date information about applicants. All the raw data are recycled to MIS on a daily basis. This consolidates the core of the IBS account management programs through which Capital One can develop reward schemes, change fees and products or make special offers to customers. In order to protect existing accounts against potential fraudulent card activities, expert real time neural network solutions are deployed to trigger the alarm at the earliest possible instant.

Account Servicing and Call-Center Technologies

The call-center is supported by automated call dialers, power dialers, voice response units (VRU) and local systems integrated with voice solutions. Many of the special systems for customer contact (cross-sales, balance transfer, retention and correspondence activities) are specifically designed to support the IBS approach. The system also stores information on customers' telephone numbers, which allows it to identify the origin of the call and route it to the most suitable associate. The sophisticated form of Computer Telephony Integration (CTI) ensures efficient customer handling and provides high quality service. When customers call in, they can choose to talk to an associate or to use the VRU system. The VRU, which currently handles about 7500 calls every day, is used mainly for tasks such as balance enquiries.

In addition to the development of solutions to the Operations and M&A, IT also develops and maintains solutions in other departments of the company, such as the Finance or the HR departments. IT also develops the *Internet* system that allows customers to apply online, get real time information and manage their accounts. It also maintains the *Intranet* system, which provides accurate and accessible information to the company and functionality to all associates.

Human Resources (HR)

The HR function is critical to Capital One's CRM strategy. Finding and keeping top quality associates is vital to the company's success. HR is responsible for two main activities: managing associate selection and developing the company culture.

Associate Selection

Capital One considers the hiring process crucial and wants the selection process to be as science-driven as the overall customer strategy.

Hiring and Training All associates are hired and evaluated based on the same criteria, which the company believes helps to prevent the formation of cliques. During the recruitment interviews, they test analytical and conceptual skills. The company also performs «behavior interviews» in order to access candidates' competency by asking them to provide examples of situations where they supported change, managed several tasks or made difficult decisions. According to one recruiter:

> We do not hire for specific experience, but for competencies. We try to find the best fit between a person and a role, and then train them. For example, we have a systems testing manager who used to test racing car engines before joining us – he had no direct experience, but certainly possessed all the competencies we were looking for.

Specific training, including some cultural induction, is offered for new «hires». Managers at all levels are offered a range of performance and skill enhancement classes that are carried out by either in-house trainers or external organizations. There is also a learning center with books, videos and simulations, which are grouped around the core competencies that the company seeks to build. Career development is another important aspect. Capital One has a highly structured people management process which include 360° appraisals twice a year, personal Development Action Plans (DAP) to help employees prepare for their next job and a weekly one-to-one 10-min meeting between each associate and their manager to discuss key issues. In fact, the company won a Training Magazine award in 2001 in the US and was featured as the «3rd Best Place to Work in the UK» in 2001 by *The Sunday Times* newspaper.

Evaluation All associates are evaluated every 6 months. Half of the evaluation is based on targeted achievements and the other half based on Capital One's defined core competencies. Several categories are used to evaluate the competencies of call-centerassociates and team supervisors. Among the key elements are: communication, support of others, integrative decision-making, responsiveness to feedback and coaching, taking ownership and job specific knowledge. Evaluation is taken very seriously, and if metrics turn negative, managers spend time attempting to understand what went wrong. Says Mitch Beres:

> » We see ourselves as coaches, rather than controllers or discipliners, nurturing talent and providing freedom. Even if our associates get it wrong, good coaching should help them improve – and we avoid getting the atrophy that often exists in other organizations.

Compensation Incentives are an important part of the compensation package for all Capital One associates. For example, front-line associates can achieve a bonus of up to 14%, based on their results and competencies. Senior managers are awarded share options as well as cash bonuses. On several occasions, since the company floated in 1994, options have been awarded to junior associates on a one-off basis to share the feeling of ownership throughout the company. Also, a subsidized share purchase scheme allows all associates to purchase stock at a substantial discount on the market price. Take up is currently running at about 20%, and ownership behavior is very visible. According to one operations manager:

> » People really watch the stock price – there is a refreshing clarity on the fact that what we do affects the share price, and, since we have share options, it makes a real difference to us.

Company Culture

As Capital One searched for suitable premises to house its operations center in Nottingham, its main goal was to bring most activities in-house and under one roof, as well as creating a springboard for new products and businesses and a center for recruitment. Combining all operations in one main location would also have the advantage that new employees could be more easily integrated.

Premises A place with the potential to meet these goals was found in a huge, 1950s' building that matched not only Capital One's accommodation needs but also its culture of openness. They kept the two huge floor areas of 10,000 m^2 and a smaller second floor of 2800 m^2. Call-center and professional areas are not differentiated, allowing flexibility in use and reinforcing the company's open business culture. The open-plan spaces, in which most associates work, are arranged in team configurations, while a few glass-fronted offices and meeting rooms are separated from the main areas. The building also has a convenience shop with refreshments, «relaxation rooms», training rooms, a library and locker rooms with showers. Also, a large staff restaurant, with relaxed design elements, provides the feel of a trendy restaurant or bar.

The atmosphere of the huge floors of the Capital One building is busy and professional, yet relaxed and colorful. The associates' cubicles are personally decorated with photographs and nametags, cuddly toys sit on almost every computer, inflatable palm trees stand in the corridor and remote-control air balloons fly through the room. On the computers, «Golden Nugget» stickers signify each sale of a priority product made by that associate. There are flipcharts showing how the different teams rank against one another. On the «Wall of Greatness», associates who have received special company awards are shown alongside great people from American history, like Henry Ford, Thomas Edison and Muhammad Ali. As Scott Woolveridge, operations processing manager, sees it:

> » What you see reflected in our decoration is that we try to avoid being a manufacturing shop. Our raw material is our people – so let them be themselves and have an environment to suit! If people are having fun, they do a better job – that's why we give them all these cuddly toys and stress balls. We want to make people feel they belong to something. And they do.

Culture of Involvement Developing this strong culture of employee involvement was a conscious decision and part of the business plan. «If you do not treat the people who deal with customers as well as you want them to treat those customers then you are in trouble,» continues Woolveridge. «People on the front-line need to be empowered – they *are* the company as far as customers are concerned. We try to take care of individual needs, so it is a natural step for this to be translated into customer treatment.»

In line with its focus on associates, Capital One aims to create a culture of involvement and buy-in for all objectives. «We spend a lot of time explaining our objectives and ensuring that they are meaningful for everyone – where we are going and why – which is what creates a sense of excitement, of ownership, of understanding why we are making certain trade-offs,» explains Paul Hawker, Collections Manager. Trips, simulations and training programs are some of the other tools that Capital One uses with its managers to ensure that objectives are aligned, and to create a common language and methodology. Managers estimate that they spend about 10% of their time on creative activities. They comment that it greatly helps them in decision-making, as they tend to «assume positive intent on the other side of any discussion and know that we are all trying to do the right thing.»

The company conducts an associate survey twice a year, containing more than 100 questions to «help the company remold itself for the future» as one manager puts it. The survey completion rate is well over 90% and the data obtained are carefully analyzed by managers. While some questions evaluate overall work satisfaction, others request more specific detail such as quality of management communications and stress levels. Using regression analysis, Capital One identifies the key drivers of employee satisfaction and devises action plans to improve weaknesses and exploit the opportunities identified.

Capital One is considered as one of the UK's top employers in 2001, and employee satisfaction is extremely high: 97% of staff regard the company as a friendly place; 96% report that people are willing to give that bit extra to get the job done; and 66% (20% above the market average) believe that they are getting a fair share of company profits. Associate turnover is extremely low – the attrition rate at Capital One's call-center is around two thirds of the average figure of 35% at a standard call-center. In Capital One's non-call-center functions, turnover is even lower, and there has been virtually no senior management turnover.

Continuous Improvement Improvement suggestions from front-line associates are highly encouraged. An example of an improvement suggestion made by call-center associates is the «APR indicator». Call-center staff noticed that customers often wanted to discuss their APR, so IT and M&A built in a quick access function that enabled them to view a customer's effective yearly APR without needing lengthy calculations. There are high levels of motivation and co-operation for these initiatives. Those employees who contribute with particularly valuable ideas are given awards and highlighted on posters around the building. There is also a high degree of co-operation among the various departments in the improvement process. As one operations manager explains:

> » Our business is all about IBS, change and innovation – that is true for every department involved, and it is very liberating that there is no 'who's in charge' debate. There is an overall acceptance that we will change, and that we will launch new products – some will succeed, others will fail. We don't have conflicts of issues as regarding 'Marketing wanting to do this, but Operations not wanting to.'

4.4.5 Future Challenges

Building a Deeper Understanding of Customer Needs

While acknowledging the success of their approach, Capital One's Operations management is concerned with taking their understanding of customers and their behavior further. Today, Capital One knows which product a given customer holds, which financial transactions they have made and what interactions with the company have taken place. However, the company still knows relatively little about the customer as an individual, which would enable a deeper understanding of their behavior and needs. Mitch Beres envisions the following:

» If we could identify why customers call, we could segment them according to their needs – for example, if customer X calls mainly to check his balance, then he could immediately hear the message 'Mr. X, your balance is… if you have more questions, please press one.

Increasingly, the company realizes that profitability is not necessarily driven by product ownership, but by customer characteristics (e.g., if they are working or studying, married or single, with or without children) and by product usage. Consequently, Capital One needs to ensure that it is able to address real customer needs at an individual level.

Managing Costs

In terms of cost structure (e.g., cost-per-customer account), Capital One's costs are currently higher than those of most of its competitors. The company views its heavy investment in IT and people as justified, but also seeks to keep costs within limits. David Farlow, Director of Operations Strategy, comments:

» We don't need to be more costly than our competitors. In fact, as IBS helps us to know our customers and their needs better, we should be well positioned to decide where to spend our resources. However, we are not yet at the part of the curve where increased spending on IBS does not add incremental value.

There is general agreement that associates are an expensive resource, and that they should be allocated to the highest value activities while lower value activities might be treated as a commodity, be outsourced, or at the limit, not serviced. It is debatable to what extent VRUs and the Internet can decrease operational costs.

Coordinating Channels

Capital One clearly sees a challenge in coordinating its customer interaction through all its different channels, which are currently coordinated, yet not fully aligned. «As every contact with the customer is precious, our next step will be to integrate our systems further so as to view customers through the same lens and align customer communications fully,» explains Mark Sanders, Sales Manager. Sanders also believes that the company has to work to avoid giving conflicting messages to customers.

» There is a clear degradation of responses when customers receive too many mailings, and we have to avoid an uncoordinated situation where Account Management contacts a customer to raise their credit line and then Sales contacts offer them a new product.

The fact that additional communication channels, such as websites and e-mail now exist, and others might be established in the future, creates future challenges. As Sanders continues:

» Whenever we add a new channel, we witness an increase in demand also in the older channels because of the need for explanation. For example, customers telephone to make sure their Internet payment was processed okay.

Furthermore, when information comes from new sources or when it is more frequently published, enquiries increase. For example, there are more customer enquiries now that balances are produced continuously on the Internet than when the traditional paper version was mailed once a month. Of course, this can be viewed either as a cost or an opportunity.

? Questions on Case Study: CRM at Capital One

1. If it is to become more than a concept, CRM needs to be translated into specific activities and processes. Based on the case, what are key CRM activities and processes of Capital One?
2. It is often claimed that CRM can create competitive advantage. Does CRM create competitive advantage for Capital One? If so, how?
3. Reflecting on the CRM strategy and CRM implementation of Capital One, which areas for improvement do you see?

Summary

The implementation of a CRM strategy is a process of developing and executing a series of small projects aimed at the business needs and value proposition of customers. These projects can be categorized as operational projects, analytical projects, and application projects. Operational projects build the infrastructure that enables companies to meet the technical and functional requirements of CRM. These include automation of functions, setting up a customer database, information delivery, and changing the process of data collection. Analytical projects, by contrast, are implemented to help a company understand its customers using data analysis tools. This is also called data analytics, and it combines data-driven marketing and technology to better understand customers. Data analytics projects include customer data transformation and customer knowledge discovery. Customer data transformation consists of pooling data from a number of sources to a data warehouse and enhancing the data with externally available information. Customer knowledge discovery is the stage when the data are analyzed using statistical tools and the future is predicted based on analytical results in order to enhance marketing decision making. Building a complete customer database incorporating all the relevant customer information from different departments and external sources is crucial for a successful analytical CRM project. This database is the basis for the customer demographic analysis, customer behavior modeling, and customer value assessment. The application projects deploy operational and analytical outputs to increase revenue and profits by improving marketing decisions and customer relationships.

Once the elements of the CRM strategy and its implementation steps are identified, it is important to calculate the ROI of CRM to see whether the investment is worthwhile. In calculating the ROI, care should be taken to identify the costs and benefits from CRM initiatives as well as the time period for assessing ROI. Three main categories of CRM costs are IT costs, people costs, and process costs. The investments in IT infrastructure, database development, and software are the main components of IT costs, and this may be usually one-fifth to one-third of total costs. The costs involved in recruitment of CRM talent and in redeployment and training of both the existing and new employees constitute the people costs. Process costs include investments in redesigning and reengineering of existing work practices. It is difficult to compute concrete CRM profits because (1) the implementation takes 2–5 years to complete, during which the competitive environment might have been changed, (2) some CRM costs are necessary but do not generate revenue, and (3) the change or performance improvement cannot always be attributed to CRM investment. However indirect benefits of CRM in terms of lower customer acquisition costs, lower cost to serve, higher customer satisfaction and retention, and higher average customer value should be considered in arriving at the benefits of CRM.

Anecdotes of failed CRM projects are plenty. Therefore, it is crucial to analyze the reasons for failure and learn for future initiatives. We provide 6 reasons frequently mentioned both in practice and the academic literature: (1) Assumption that CRM is a software tool that manages customer relationships for you, (2) implementing CRM before having a CRM strategy, (3) poor match between CRM system and organizational processes, (4) resistance from employees, (5) poor data quality, and (6) low «actionability» of the information.

The Capital One case study illustrates how the company successfully implemented a CRM strategy. Its business model was founded on the crucial premise that each customer requires a different product and service from a credit card provider. Following this business model, Capital One adopted an information-based strategy (IBS), which centers around the idea of collecting customer information and leveraging it to develop ideas, design products, and select target customers. CRM is viewed as a key strategic process in Capital One, and different departments work in an integrated fashion toward understanding and satisfying customers and their needs. For example, there is a partnership between

Marketing and Analysis (M&A) and Operations to review the risk perspective of present as well as future strategies. This strategic approach to CRM has helped Capital One to be seen as creating industry-best practices in developing valuable customer relationships and managing risk based on an intimate understanding of the customer.

International Perspectives: Did You Know?

1. In 1995, the British retailer Tesco launched its «Clubcard» which was to become one of the most important retail innovations in the twentieth century and built the foundation for Tesco's rise to become one of the biggest retailers in the world. However, 20 years later, the loyalty program has mutated into giant with an estimated cost of £500 million a year. Meanwhile, discounters with the promise of «shopping made simple» like Aldi and Lidl are booming in the UK. Some analysts have already suggested abandoning the complex point-collection and redemption system. The example shows that every implementation of CRM has its time. The «Clubcard» can be considered a success, but maybe the twenty-first century requires a new approach to managing retail relationships (Ruddick, 2014).
2. Tesco's up-market competitor Waitrose on the other hand has radically simplified its loyalty scheme offering direct benefits like a cup of coffee or a newspaper instead of abstract bonus points. The managing director of Waitrose, Mark Price, even claims that points have become «meaningless» to consumers. In addition, the retailer has significantly extended its portfolio by partnering with dry-cleaning services or offering a click-and-collect service for purchases made at partner retailers. Clearly, this aims at creating a different kind of value for customers – convenience and simplicity as opposed to price promotions and complexity. This underscores the assertion of this chapter that managing customer relationships effectively requires more than running a (complex) loyalty scheme – it is rather about continuous efforts to create value for the customers (Medland, 2016).

Exercise Questions

1. What factors will you consider when measuring the ROI of CRM investments?
2. What are advantages and disadvantages when implementing CRM on an organizational basis versus on a limited functional basis (e.g., sales force only)?
3. What are the various components of the CRM architecture from an operational perspective?
4. What analysis is involved in assessing the value of a customer?
5. What customer backlashes can be expected when a company introduces CRM practices? What are the cautionary steps that you would advise companies to take to avoid these?

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