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# Gameplan for CRM

By Karen D. Schwartz, Contributing Editor

Customer segmentation and setting clear goals are the keys to CRM success

Customer Relationship Management (CRM) software has matured, according to experts, to the point where it lives up to the promise of optimizing information for the purpose of effectively building virtual one-to-one personalized relationships.

As a result, many more retailers have implemented CRM initiatives over the past year. To maximize their CRM initiatives, retailers have learned that the secrets of success are using the tools intelligently, having the know-how to segment customers properly in order to differentiate between them, personalize promotions and offers, and effectively measure results.

"You can't just buy and install a CRM tool and think you've solved the problem," says Paula Rosenblum, retail research director at Boston-based AMR Research. "You've got to invest the resources, make sure you know your customer, personalize your programs and engage in customer segmentation."

Failure to differentiate between customers — the key to personalizing the shopping experience — is one of the main reasons why many retailers don't experience the full benefits of CRM deployments. Retailers who are getting the most value out of CRM systems know how to segment and reach the highly valued customers effectively, explains Chris Sellers, global leader, solutions consulting, in the consumer industries and retail practice of EDS.

"In many instances, customer differentiation takes almost no meaningful form today," he says. "Take loyalty cards. Aside from an electronic discount mechanism, do they treat you any differently when you go into the store? Do you receive promotions at home directed specifically at you that acknowledge the shopping patterns and size and nature of your family?"

Rosenblum agrees. "Unless CRM programs are very segmented and very personalized, they don't work," she says. "If you don't do segmentation, [CRM] is just an expensive way of dispensing coupons. But if you do it properly, you'll get a return on your investment."

## Segmentation is Key

Segmentation may be the key to a successful implementation of CRM, but it's more difficult to get it right than many realize, says Michael Relich, CIO of The Wet Seal Inc. of Foothill Ranch, California. Although the company offers its consumers loyalty cards containing percentage discounts, "we've done nothing to track those sales and determine when customers become inactive or look at their shopping patterns to determine how to tailor a message to them."

That's quickly changing. To create an effective CRM system, Relich first revamped the chain's outdated loyalty program in favor of an internally developed CRM system integrated with a new point-of-sale system from Datavantage Corp. of Cleveland, Ohio. Relich also upgraded the entire chain to a high-speed virtual private network that ties the company's 486 stores together.

To achieve true CRM functionality, Wet Seal developed its own CRM software. "We wanted to push in a thumbtack and these guys offered me a sledgehammer," Relich says. "It's expensive and overkill. With a few smart guys, we can throw stuff together that meets our needs for now." If it pays off, Relich says he might look for an off-the-shelf industrial-strength CRM solution.

Now that company executives have an aggregate view of the customer and what they have purchased, they are better able to tailor offers specifically to them, Relich says. Today, when customers scan loyalty cards at the point of sale, the information travels back to a central server to locate information about the customer, prompts the customer for missing information, and notifies them of how many loyalty points they have accrued.

## Segmentation Challenges

For some retailers, segmentation presents its own unique challenges. "CRM is touchy for us, because if we've done a good job with a customer visit, customers don't need to come back for a while," notes Ralph Briskin, director of e-commerce at The Men's Wearhouse. "And we're not that comfortable segmenting our customer base, because part of our image is that no matter where you are in your clothes purchasing process we've got something for you. We don't want to pigeonhole customers as traditional versus fashion-forward."

Briskin knows what it takes to succeed in managing customer relationships, and the company has done all it can short of implementing a full-fledged CRM system to make it work. To achieve these goals, the Houston, Texas-based company relies on pulling information from its Web site built on software from Blue Martini Software to meet its needs. The software works in concert with the company's home-grown Java-based point-of-sale system, which has since been sold and remarketed by Retek Solutions.

The system aggregates orders from all 480 stores, as well as the Web site, allowing employees to find all transactions made by a particular customer. Store salespeople use the information to contact their customers, following up on recent purchases, informing them about annual sales and making sure they know their coupon is about to expire.

Company executives would like to graduate to a full-fledged CRM implementation, but believe they should take their time and get it right before moving forward.

"Everybody can see the value in CRM and data mining and segmentation, but we're very cautious about making the effort without first understanding what the outcome should be," Briskin says. "If you can't identify your objectives and know how to measure them, you are very likely to spend way more than you think you should when you finish and examine what you've got."

Experts say Men's Wearhouse is on the right track. In fact, a major error in CRM strategy — a reluctance to measure return on investment (ROI) — can spell doom for a retailer's CRM strategy. A recent study from BearingPoint analyzes this point. The May, 2003 study of 167 businesses notes that more than 70 percent of executives heading CRM initiatives fail to set clear and specific goals for achieving ROI. Only six percent of companies set specific ROI goals early in the implementation stage — a key factor leading to success — while the vast majority used standard measurement metrics but were unable to translate that data into accurate ROI data.

## Ensuring Success

For many retailers, ensuring success also means marrying the CRM system with the point-of-sale system. Doing so creates valuable synergy that can't be achieved separately — at least not economically, says Sheryl Kingstone, program manager for the CRM strategy advisory service at Yankee Group of Boston, Massachusetts.

"Many companies have made the investment in CRM, but they have to go and clean up after themselves by integrating key areas like POS and kiosks that are critical touchpoints with the customer," Kingstone says. "If they can somehow link these up, they can really start to mine the data and understand customer segmentation. Until they get it all integrated and consolidated, they could be making bad decisions."

But as the market and the technology matures more retailers are doing it right, Sellers says. "We've seen a more focused approach to CRM in retail in the past year," he notes. "They are using it more tactically — and not just the largest retailers."

## Customer Centric

When done right, the payoff can be significant. A recent report entitled "Getting Retail CRM Right" by Forrester Research notes that although only six percent of retailers surveyed spent more than $20 million on CRM for the 24 months leading up to September, 2002, those who did have noticed early benefits. The biggest returns on investment are optimizing marketing contacts (90 percent), increased loyalty (87 percent), and increased cross-sells and upsells (77percent).

Customer-centric technology is one of the major buzzwords today in retailer. But for a merchant to become truly customer centric it must have a clear understanding of current and targeted customers. Then, the retailer must segregate high-value customers from low-value customers and in the process come to a clear understanding of their needs, expectations and requirements.

Also, as retail channels expand through the Web, kiosks, wireless, catalogs and call centers, merchants need to achieve seamless integration of data from all channels. Customers behave differently in each channel and expect services to be tailored appropriately.

BearingPoint's Bruce Culbert notes that a useful CRM strategy for retailers can be thought of as a three-step process: 1. Customer data collection; 2. Customer analysis and measurement; and 3. Customer-based decision making.

In the customer-data collection step, a retailer uses technology to collect, manage and access data in a robust warehouse.

But this is just the beginning. In the second step, the retailer segments customers on multiple levels and uses analytical modeling and forecasting to calculate expected customer behavior.

In the final step, the data is viewed across the company to make strategic, cross-functional decisions that impact the supply chain, merchandising and pricing strategies.

## Re-Engineering

As is the case with any major IT implementation, a successful CRM deployment must be accompanied by a commitment to design new business processes or re-engineer existing ones. In essence, the entire company must be engaged in the effort to achieve a more customer- centric focus.

Which brings us back to the point of setting clear objectives beyond simply measuring customer transaction data. Several years ago, a high perceived-failure rate for CRM initiatives produced several well-publicized articles and stories in the business press, but it's now clear from our present perspective that this was due to the low percentage of companies that monitored and measured CRM effectiveness against clearly defined ROI goals

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