

Why  
CRM

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CUSTOMER RELATIONSHIP MANAGEMENT

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DOESN'T

WORK

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How to Win  
By Letting  
Customers Manage  
the Relationship

FREDERICK NEWELL

FOREWORD BY SETH GODIN, author of *Permission Marketing*





**Advance praise for**  
***Why CRM Doesn't Work:***  
***How to Win by Letting Customers Manage the Relationship***  
BY FREDERICK NEWELL

“Fred Newell raises relationship marketing to a new level, beyond database marketing, loyalty programs, targeted advertising, and customer relationship marketing. **Read this before your competitors do.**”

—PHILIP KOTLER

SC Johnson & Son Distinguished Professor of International Marketing  
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“**In this competitive world, hanging onto customers is critical.** Fred Newell’s new book is a commonsense approach to helping you do just that.”

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“Frederick Newell has hit the CRM nail on the head. A lot of company managers thought you could create profits by buying CRM software and building an expensive data warehouse. Fred has pointed out that they were wrong. **You cannot predict or modify customer behavior with CRM. What you can do is waste a lot of money.** What you need is a customer database and intelligent customer communications, which come from creative strategies, not a piece of software.”

—ARTHUR MIDDLETON HUGHES

Vice President for Business Development  
CSC Advanced Database Solutions

“Fred Newell does a wonderful job of helping us understand why so few companies get the return from CRM initiatives that they expect. *Why CRM Doesn't Work* makes a compelling case for putting the customer in the driver’s seat and allowing the customer to manage the relationship. **The book is filled with practical examples and tips and is an ideal solution for business executives intent on avoiding ‘CRM backlash.’** In the process, Newell addresses a host of relevant topics ranging from

wireless technologies to brand building to permission marketing in a co-gently written and easy-to-read treatise. Newell moves beyond the buzz and quickly gets to the essence of what companies need to do if they expect to win the ‘hearts and minds’ of customers. A must-read for any manager in an enterprise focused on improving its profitability, as well as the quality of its customers’ lives.”

—JONATHAN COPULSKY

Lead Partner, Customer and Channel Strategy Practice  
Deloitte Consulting

“Fred Newell, in his trademark easy-to-read style, showers us with ideas and examples to illustrate his message that ‘it’s not technology that drives CRM, it’s intelligence about the customer.’ He rightly reminds us that the customers must truly be placed at center stage and that we must listen with both ears to their stated and unstated needs. As a recent definition of CRM states, ‘Customers Really Matter.’ Fred’s book is **timely for all businesses.**”

BRIAN WOOLF

Author, *Loyalty Marketing: The Second Act*

“CRM has been promoted as the answer to customer development and loyalty. Fred addresses head on why this has failed for so many companies that have spent heavily and had such big expectations for CRM. Importantly, Fred now takes customer development and loyalty to a new level—beyond CRM—by redefining and empowering the customer. **This is the way to build a successful customer-focused business.** Fred is always ahead of the curve.”

—CHARLES J. BEECH

Chairman & CEO, Message Factors, Inc.

“**If you’re struggling with a CRM initiative in your company, get this book.** It can set you straight clearly, easily, quickly and, most of all, through a very readable format. Fred Newell has taken a beacon to the ‘black hole of CRM.’ Grab a flashlight and follow along.”

—DON SCHULTZ

Professor, Medill School of Journalism, Northwestern University



# **Why CRM Doesn't Work**

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# **Why CRM Doesn't Work**

**How to Win by Letting Customers  
Manage the Relationship**

**FREDERICK NEWELL**

Bloomberg Press  
Princeton, New Jersey

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Don't believe what your eyes are telling you.  
All they show is limitation.  
Look with your understanding,  
find out what you already know,  
and you'll see the way to fly.

—*Jonathan Livingston Seagull*  
Richard Bach

To the pioneers of customer relationship building from whom I have learned so much and to the many marketers who truly want to make life better for their customers—with the hope that some of these words will help you to look beyond today's limitations, find out what you already know, and see the way to fly.

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## Foreword

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**Y**OU'RE NOT IN CHARGE. Sorry. Someone had to say it. The delusion that you are still in charge of what your prospects (and consumers) see and think and do is costing you money. Consumers have a real choice today. They can choose to ignore your ads, your messages, your follow-up messages, your phone calls, your coupons, and your begging.

CRM, if you haven't noticed, appears to stand for "Consultants (making) Real Money." It's positioned as an arcane black art, something both technical and artistic, and something that you couldn't possibly understand without their help.

But that's not true. CRM isn't hard. It isn't complicated. It's just foggy. It's foggy because too many companies persist in believing that CRM is just a tactic, something to be installed. Once companies get it nailed, they believe they can go back to business as normal.

All you need to do to really get it, of course, is to abandon that thinking. Realize that a sea change has occurred, that "permission" is not just a buzzword invented to get you to buy books and stuff. Instead, recognize that the empowered consumer is here to stay and we all better get used to it. That realization, together with a large dose of common sense (provided for you here by Fred Newell) gets you almost all the way there.

Last thought: quit studying the issue and go try something. You can set up a simple e-mail solution on your desk for a dollar. See what happens when you interact with 100 consumers a day by e-mail—treating them like real people and doing what you need to do to grow their business. The results will surprise you.

—SETH GODIN  
Author, *Permission Marketing*



**A** QUICK SEARCH of online bookseller Amazon.com lists close to one hundred books on customer relationship management (including three of mine) with specialty titles covering Canada, Western Europe, Central Europe, Japan, and Latin America. Why does the world need one more? Because all ninety-eight—including mine, I'm not afraid to admit—have gotten it wrong. The very phrase explained in these books—CRM, or “customer relationship management”—implies that companies can manage the customer relationship by targeting specific customers for specific product offerings. How audacious! How impudent! How wrong!

Most reports show that only 25 to 30 percent of companies implementing CRM initiatives feel that they are getting the return they expected. Too many executives want CRM deployed quickly and broadly because they think it will bring a rapid return on their investment. Not only do these executives underestimate the magnitude of the task, but they also fail to understand what the customer really wants from a business relationship. As a result, the very things they are doing to try to build and manage relationships with customers are all too often the things that are destroying those relationships. Customers don't want to be targeted like hunted animals. This is seen in studies of marketing channel use and as increased numbers of consumers opt out of mailing lists. Consumers want companies to make their lives easier and less stressful by not forcing them to do anything they don't want to do. With product and service options exploding on the Internet and through multichannel purchase opportunities, the balance of power has shifted to the customer, and the customer wants control.

The time has passed for customer relationship management (CRM); it's time to transition to customer empowerment and switch to customer management of relationships (CMR). CMR gives the cus-

tomers the power to tell us what he's interested in and not interested in. For a customer relationship building initiative to be effective, it should be a well-managed process of turning control over to the customer. And that means letting customers tell you what kind of information they want, what level of service they want to receive, and how they want you to communicate with them—where, when, and how often.

*Why CRM Doesn't Work* is written to speak directly to the executives in companies of every size who are concerned with achieving a profitable return on their investments in building and maintaining customer relationships. It is an ideal solution for business people at all levels in all industries who want to stay ahead of the curve. This book will show you how to create business strategies and processes that put customers first and will help you develop a clearly defined plan for profitable return on customer-centric marketing investments.

Projecting a step beyond CRM, to CMR, this book shows by lesson and example how companies can improve the quality of peoples' lives while, at the same time, improving corporate profits. You'll find out why the current CRM isn't working, what needs to change, and how to apply the CMR philosophy at your company. You will learn why so many initiatives fail, a new view of customer service, and a new definition of permission marketing.

Part I of *Why CRM Doesn't Work*, "What's Not Working," takes you through the essential errors in CRM thinking, from not recognizing that the power is in the hands of the customer, to misunderstanding what CRM is all about, to misplacement of technology's role. This section explains the problems caused by failure to change from a culture of product-based management, and by lack of commitment from senior management. The case histories cover different marketing challenges and provide ideas that any business can put into action.

Part II, "What Needs to Change," explains specific alterations that must be made to current CRM programs and why. You will learn the new power of permission marketing, the most profitable role for e-mail in building customer relationships, and important rules for e-mail marketing. The ten commandments of personalization will show you how to balance personalization with privacy. In Chapter 10

you will learn the new role of loyalty cards. Chapter 12 shows how the traditional market-speak of branding hasn't helped most companies and how the new CMR can build strong brands one customer at a time.

Part III, "How to Change," is about updating both your mind-set and your approach to customer relations, and deciding whether or not CRM is important—or even right—for your business. You will see why "best customer service" can be a cause of failure for a CMR program and why you can't let every customer manage the relationship. In Chapter 15 you will learn the questions and rules for evaluating customers, and Chapter 16 has eight steps for your transition to CMR. Chapter 17 shows how you can transition to CMR without additional expense, and how to get a true return on investments in relationship-building initiatives.

Part IV, "A Look Ahead," will stretch your thinking about your market, and will show you what customers really want from mobile messaging. Chapter 22 demystifies customer lifetime value and shows how your company's stock can earn a higher multiple based on its price-to-customer-relationship ratio. The Conclusion suggests the big-picture changes that will occur in a move to CMR, and directs the actions you can take today.

Throughout the book, you will learn from packaged goods giants like Kraft Foods, Procter & Gamble, and Budweiser; financial service leaders Charles Schwab and Fidelity; technology influentials Dell, IBM, and Hewlett-Packard; hospitality and travel firms Ritz-Carlton, Hilton Hotels, and EasyRentaCar; and retail champions Lands' End, Norm Thompson, Sports Authority, Radio Shack, Staples, Tower Records, eBags—even upscale retailer Prada. With examples from airlines, booksellers, banks, telecoms, newspapers, supermarkets, shopping centers, and theme parks, this book has an important message for everyone whose success depends on selling to customers: consumers, business-to-business, internal clients—any kind of customer.

Switching to the new CMR is a process of realizing you are not in charge and allowing the customer to guide your efforts. That's the only way companies will be able to build and sustain profitable relationships with customers. That shift is what this book is all about.





P A R T O N E

# What's Not Working





# Why Doesn't CRM Work?

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1

**Does the customer really want to be managed?**

*I'm not stupid. I read about what you guys call customer relationship management. Why doesn't it work for me? Companies ask for my preferences and I tell them what I want from them. Still, each offer is more meaningless than the last. Why doesn't your so-called CRM make my life easier?*

**M**ARKETERS HEAR THIS from so many customers that the question becomes, who's the enemy? Is the customer the enemy or was Pogo right: "We have met the enemy, and he is us"? Our customers are crying out for us to understand their individual needs. They tell marketers what they want, but we keep bothering them with irrelevant offers.

In the preface to *loyalty.com* (McGraw-Hill, 2000), my book about CRM and Internet marketing, I said: "CRM is now moving to the center of corporate strategy as a process of learning to understand the values that are important to individual customers and using that knowledge to deliver benefits the customer really wants and making it easier for the customer to do business with the company."

No one would question the fact that CRM has since moved to the center of corporate strategy. A Jupiter Media Metrix study reports that 74 percent of U.S. businesses spent more money on CRM

infrastructure in 2001 than they did in 2000, with a majority increasing their spending by 25 to 50 percent. A Gartner Dataquest survey forecast that CRM services revenue would increase 15 percent in 2002.<sup>1</sup> A similar Gartner, Inc. survey reports 52 percent of respondents rated CRM as their highest business priority.<sup>2</sup> The same is true in Europe where a Cap Gemini Ernst & Young and Gartner survey of 242 senior marketing executives from 145 firms reports that 67 percent of respondent companies launched a CRM initiative between 1999 and 2001, and over one third consider CRM a top priority.

Taken together, what do these statistics mean? The acceptance of CRM has been confirmed. The enthusiasm for CRM has been proven. The investment in CRM has been quantified. But why have so many firms that have embarked on CRM initiatives failed to realize the kind of results they anticipated? In 2001 only one in five of all CRM solution providers actually realized a profit. As a group, solution providers lost \$8.8 billion dollars, spending three dollars for every two dollars in revenue.<sup>3</sup> CRM has obviously not been the panacea many had hoped.

### **Is CRM REALLY ABOUT THE CUSTOMER?**

One reason CRM practice is at a standstill and why so many companies are failing to see a return on their CRM investment is that, because of its celebrity, the label “CRM” has been loosely (and often incorrectly) applied to anything that suggests customer-centricity. It is almost impossible to hear a common definition of CRM from industry experts, even among executives within the same company.

Some think CRM is a matter of technology. Some still believe it's just the process of segmenting customers. Some think it's a matter of selling efficiency. Many marketers still think CRM is just an advanced stage of database marketing—using your customer database to find which customers would be the right ones for a specific product offering. They don't yet understand that relationship building must start with an understanding of the customer's needs. They talk about “share of wallet” but fail to realize that you can't get access to the customer's wallet if you don't first have access to the customer's

heart and mind. As our customer said in the beginning of this chapter, CRM ought to be about making her life easier. Do that first, and then you'll gain access to your customer's heart and mind.

### ***CRM Practice at a Standstill***

Industry consultant David Raab says, "Customer relationship management has now reached the awkward stage in its adoption cycle. The concept and its benefits are widely accepted, but few complete implementations are in place. What's lagging is CRM practice." It may just be that we're going about customer relationship management in all the wrong ways. Len Ellis, executive vice president of enterprise strategy, Wunderman, New York, says all the talk about CRM reminds him of what Voltaire said about the Holy Roman Empire:

It's not holy, Roman or an empire. There's a certain degree to which CRM is not about the customer nor is it about relationships—at least not how it's practiced now. Marketing automation is fine, but it's not about the customer. Most marketing automation is about costs and speed. Selling efficiency is not about the customer, it's just about leveraging your resources. Value maximization, in terms of figuring out which of your customer segments are going to deliver the most top or bottom line, that's not about the customer. So a lot of the benefits that are claimed for CRM are really benefits that accrue to the enterprise, but have nothing to do with the customer.<sup>4</sup>

### ***Handing Over the Car Keys***

The fact that marketers must recognize the power of the customer is not a new concept. As far back as 1936 the American Marketing Society began publishing the semiannual *Journal of Marketing*. In the first issue John Benson, then president of the American Association of Advertising Agencies, talked about looking ahead after difficult days. Except for his outdated use of the personal pronoun, this excerpt could have been written today: