

Is CRM Really Effective

White Paper



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One UK retail bank with £3bn of three year fixed rate savings due to mature was worried about possible attrition. Taking advantage of differential price sensitivity and utility for non-price features by customer segment, it developed a range of offers that achieved 95% retention of funds at an average of 25 basis points lower interest rate than previously thought possible.

Risk Assessment and Management

A motor insurer improved its claims ratio by 2-3% by incorporating customer-specific information into its risk assessment and selection procedures. A commercial lines insurer achieved a similar result by investigating how loss adjuster behaviour and incentives contributed to large variations in claims settlements for apparently similar losses. A credit card issuer with £15 billion in assets was able to save a one-off £40 million plus £80 million annually from collections. It developed advanced scoring models to align and optimise its collection resources and processes for different segments of customers in arrears.

Lessons Learned

Financial institutions seeking to apply CRM must decide how to manage the programme and where to focus resources. They should beware. Lack of experience is a handicap and good advice hard to find.

How to Manage CRM

Cross-functional project teams have proven the most successful organisation form for CRM. To achieve results rapidly, they seek ways around organisational barriers to implementation. Frequently, they use marketing experiments both to optimise results and develop experience. Often, time-consuming and expensive large-scale solutions are not required to address seemingly insurmountable problems caused by lack of information, inflexible systems, and hierarchical organisation structures. A few financial institutions have achieved one-off successes with cross-functional teams. For them, repeating and sustaining the initial success now requires new approaches to staff career management, performance measurement, and compensation incentives, etc. to reflect a project-based organisation. We will have more to say on this topic in a future paper.

Where to Focus the Resources

If institutions would devote a fraction of the resources currently being focused on customer profitability to customer behaviour, they would soon appreciate the vast variations between customer segments. Pretty soon, they would be awash with ideas to exploit these differences through targeting and tailoring.

Empirically, most successful examples seem to be single product applications, rather than cross selling. There may be two reasons for this. First, our research suggests only 20% of consumers consider one-stop shopping attractive. Second, proprietary customer information, which is CRM's 'raw material', is obtained largely in the context of single product

relationships and usually worthless outside that context. For example, most consumers' propensity to re-mortgage is unaffected by their holdings of deposit products with the same institution.

This does not mean that cross selling cannot be valuable. Identifying those customers with a high propensity to be cross-sold and targeting marketing resources accordingly can pay-off. However, the expectations of many institutions may not be fulfilled.

Conclusion

Customised to your specific business and applied with insight, judgment and precision to focused objectives, CRM initiatives pay-off by changing, or taking advantage of, customer behaviour and profitability, and how these differ by segment.

Benefits are sensitive to focus, precision and insight in programme design:

- An over-emphasis on customer profitability has left many financial institutions lacking the insights into customer behaviour to design effective initiatives
- They are often huge
- Differences between customers; initiatives aimed at the average fail whilst targeting and tailoring yield substantial gains
- Although cross-selling and loyalty schemes seem to get most attention, experience suggests larger benefits from re-pricing, reducing attrition and new customer acquisition

It is vital to use cross-functional teams since this is the only way to mobilise the skills and imagination of the entire company. Marketing experiments are also important; not just for optimising the design of specific programmes but also to build capabilities and experience.

Many financial institutions need to re-focus their CRM initiatives to avoid disappointment. The prize more than justifies the investment.