

# SOLUTIONS MANUAL

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## Customer *Relationship* Management



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# CRM Instructors' Manual

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## Chapter 2: History and Development of CRM

### A. Chapter Overview

A better and more thorough understanding of CRM can be achieved if one understands its history and development. The roots of CRM are varied: philosophical, technological, functional, and organizational. The chapter's first section investigates CRM's roots and discusses how each played a role in its creation.

Relationship marketing with its focus on building relationships as opposed to generating one-time transactions, and its underlying tenet that customer retention is one of the primary determinants of company profitability, was an underlying force leading to CRM. Relationship building inherent in B2B and industrial marketing was emulated by CRM in the B2C environment. Services marketing with its focus on improving service quality and marketing research with its measures of customer satisfaction regarding service quality both contributed to CRM. Companies in a variety of industries began to adopt direct-response marketers' use of one-to-one marketing with great success. Relational databases allowing for customer data integration, and the proliferation of personal computers to analyze the data meant that those closest to the customer could act on their own findings. MRP, SAP, and ERP were forces leading to CRM because of their focus on and use of databases. Rising costs of promotional campaign development and media buys led to campaign management tools—an important segment of CRM. Sales force automation tools were developed to improve sales force productivity and documentation but are increasingly used to strengthen relationships and improve satisfaction. Telemarketing centers gave way to customer contact centers (CCC) and when CCCs took on customer service and support application functions, we had what many call the first CRM initiatives. With consumers today using a variety of touch points in their relationships with companies, it becomes important for companies to collect and manage this information and use it as a resource in strengthening bonds with their customers.

After discussing the roots of CRM, the chapter investigates the many reasons why CRM was developed and accepted when it was. Reasons include competitive differentiation, eroding effectiveness of traditional marketing methods, consumer time pressure, and multi-channel usage. With the number of high-quality competitors in every industry and their ability to copy and improve upon any innovation quickly, one of the few proven ways companies have to keep customers is through the creation of loyalty. Strong bonds can prevent attrition and cannot be quickly copied by competitors. Also, strong bonds enable companies to maintain their base with increasingly harried customers in the face of media, promotion, and channel proliferation.

How have organizations fared with CRM systems? Have they met with success, failure, or somewhere in between? Since many, if not the majority of users, did not establish goals and objectives for their CRM initiatives, it is difficult to tell. Further, the returns from CRM suites are more difficult to ascertain than the returns from single function systems. While some research shows that half or more of all CRM projects have been disappointing, other research has

shown that the majority of companies experienced gains of over 50 percent. The one thing that is certain is that organizations face many challenges in implementing CRM.

How can the many barriers to CRM implementation be overcome? Studies show that the real barriers are not related as much to technology as they are to corporate culture, employee attitude, organizational structure and lack of a strategic plan for the CRM system. The latter includes lack of quantifiable goals and objectives, poor integration with business unit strategies and tactics, and lack of effectiveness metrics.

The chapter then explores the many ways in which these barriers can be overcome. A relationship marketing philosophy needs to be adopted across all functional areas; the benefits of CRM must be communicated throughout; and top executive support must be obtained and maintained throughout development. A business analysis, including costs and payback, must precede the selection of any CRM technology solution; and business strategies must drive its development rather than the technology driving the strategies. There must be integration between IT and line managers. Integration must also characterize separate CRM “quick-results” when CRM is introduced incrementally. Customer data must be collected from all touch points, upgraded continuously, and made available to those who may benefit from it. Finally, success metrics must be established to assess the effectiveness of the CRM effort.

In addition to the preceding strategic issues, one cannot forget more tactical things leading to CRM effectiveness. These include effective use of the information collected from the customer contact centers; capably analyzing customer data in order to define and differentiate customer segments on the basis of value; and selection of a CRM technology solution that considers legacy systems but is not simply focused on the features desired by an influential department.

Even though CRM is a relatively new field, the meaning of CRM has been extended well beyond a firm’s customers to include channel members, members of the supply chain, and all partners the firm interacts with (partner-relationship management).

## **B. Objectives**

- To understand the roots of CRM
- To understand the forces behind the development of CRM at this point in time
- To be exposed to the conflicting assessment regarding firms experiences with CRM—success or failure?
- To understand the various challenges in creating a CRM system
- To understand the steps that organizations can take to remove the barriers from successful implementation and use of their CRM system
- To understand the expansion of the CRM concept to include channel members, supply chain members, and partners

## C. Chapter Outline

### 1. History and Development of CRM

There are many different views as to what led to CRM as we know it today. Most see the roots of CRM in the following areas:

- A. Relationship Marketing: with its focus on customer relationships as opposed to one-time transactions, relationship marketing has been viewed as a paradigm shift that has reshaped the field of marketing. The forces that drove marketers to focus on customer and partner relationships include the following:
  - Technological advances in information technology enabled companies to record details from every transaction and enter into a dialogue with customers.
  - Growth of direct marketing enabled companies to enter into one-to-one relationships with their customers.
  - Marketing academicians and business consultants began recognizing that customer retention was the key to corporate profitability.
- B. Marketing Research: Some feel CRM had its origins in marketing research's customer satisfaction studies, which led to companies' quests to continuously improve quality through total quality management (TQM) techniques.
- C. B2B relationships: High-contact services markets rely on productive relationships between vendors and purchasers. The strengthening of relationships in B2B markets was seen as having potential in B2C markets. This became possible through advances in information technology.
- D. Materials Resource Planning, SAP, and Enterprise Resource Planning: In the mid 1980s MRP was introduced and companies began to construct customer databases. In the early 1990s SAP (Systems Applications and Products in Data Processing—a company headquartered in Walldorf, Germany) began integrating traditional MRP functions with accounting, and customer data warehouses were established, which led to CRM.
- E. Customer Contact Centers: In the late 1980s telemarketing technology was built into the customer call center. In the early 1990s customer service and support applications were introduced as well, leading some to say that these were the first CRM initiatives.
- F. Sales Force Automation: These tools were developed and introduced to improve the capture of customer and prospect information, providing the sales force with real-time information. SFA tools were originally meant to improve sales force productivity and documentation but are increasingly used to strengthen relationships and improve satisfaction.
- G. Campaign management tools: Introduced to contain the growing costs associated with media buys for mass marketing promotional campaigns. CMTs enable companies to design and coordinate (often online) promotional programs for specific retailers, forecast financial results, and measure the effectiveness of their targeted campaigns. The basis for such tools is a customer list containing key customer characteristic and buying information.

- H. **The Web and Channel Integration:** The majority of CRM systems started as point solutions for a single department or function. With data warehouses centralizing all databases, companies could now have a single vision of the customer across all departments and functions. With customer data coming from all business areas, a 360 degree view of the customer is possible. Today, CRM efforts include gathering information from all customer touch points, including call centers and Internet systems.
- I. **Diffusion of Personal Computers and Analytical CRM:** PCs enabled those closest to the customer—company divisions, rather than headquarters—to collect and analyze their own customer data. They were now able to develop and assess programs and campaign performance themselves through their own data warehouses. Their customer contact personnel could also use these databases to identify the value of each customer and treat them accordingly; in other words, practice CRM.
- J. **Success of direct-response marketing—toll free calling, direct mail and e-mail:** These techniques enabled companies to target prospects and customers on a one-to-one as opposed to a mass marketing basis. Further, companies could develop personalized communications and messages, create dialogue, and measure success.
- K. **Relational databases:** These databases made it possible for companies to identify, access, manipulate, and share customer information across departments. The databases contained customer transaction histories, all contacts through any channel, demographic and behavior information, and customer responses to company campaigns.
  - Database construction is easiest for firms that have frequent and direct customer interaction (banks) and most difficult for firms that have infrequent and indirect customer interaction (furniture manufacturers).
- L. **Industrial and Services Marketing:** The former looked at interaction theories and relationship building focusing on trust and commitment. The latter looked at quality, customer satisfaction, and customer retention. These are all key concepts in CRM.
2. **CRM: Why Now?**
- A. **The increasing number of high-quality competitors and products:** Consumers today can choose from a large number of high quality items in every product category. When a company does innovate, its improvements are quickly copied. Companies are creating bonds between themselves and their customers in order to better retain them; bonds created through CRM strategies foster loyalty. Loyalty cannot be quickly copied by competitors.
- B. **Erosion of the Effectiveness of Traditional Marketing Communication Methods:** With hundreds of television and radio channels and over 20,000 magazines, not to mention the Internet, there is more “noise” in the marketplace today than ever before, making it difficult for companies to get their message through. With hypermarkets, boutiques, category busters, kiosks, home shopping networks, virtual shopping centers, and so on, consumers can buy from more outlets and channels than ever before. With so much information from so many different sources, some feel CRM will allow companies to cut through the chaos and establish binding relationships with their customers.

- C. Changes in the pace of life: Consumers are demanding quicker and better service since there are more sources vying for their scarce time. Families in which both spouses work and increasing hours on the job have led to less time available for shopping. Companies who have CRM systems that can help the harried consumer have a differential advantage.
  - D. Internet and Multi-channel Usage: Multi-channel customer contact is the key to CRM strategy. Companies have to come to grips with the number of channels through which their customers wish to transact business. The more environments a company can provide, the richer its customers' experiences are likely to be. Companies are developing multi-channel contact centers (not simply call centers) to provide customers with meaningful interactions. Companies need to maintain contact with customers in both synchronous and asynchronous manners in both live and automated formats.
3. Organizations' Experiences with CRM: Success or Failure?
- A. Have organizations been successful with their CRM Programs and Installations?
    - Success is difficult to determine if metrics have not been developed in advance. Some researchers have found that two-thirds of all companies lacked techniques to measure the business value of CRM. A fourth could not even properly define CRM! Without performance metrics, companies' claims that CRM doesn't work must be questioned.
    - The returns from all-encompassing CRM systems are more difficult to determine than the returns from single-function CRM systems.
    - Some research studies have shown that 50 to 70 percent of all CRM projects have been disappointing or outright failures.
    - Shortcomings include unmet targeted revenue goals, budgeted cost overruns, and unmet timetables.
    - On the other hand, other studies have shown that the majority of companies experienced gains of between 51 percent and 500 percent on their CRM investment. A CRMCommunity.com survey showed nearly three-fourths of all respondents rating their CRM projects as "successful" or better.
4. Challenges in Implementing CRM and How the Many Barriers Can Be Overcome

Studies across the world show that the real barriers to effective CRM implementation within companies are not related to technology; rather the real barriers appear to be corporate culture, employee attitudes, organizational structure, and the lack of a strategic plan for the CRM system. The latter includes lack of quantifiable goals and objectives, integration with business unit strategies and tactics, and lack of program metrics to measure CRM effectiveness. The fact that CRM systems interface with large numbers of stakeholders with diverse needs requires communication, integration, and foresight when establishing such systems. Following are the ways in which barriers can be avoided in the establishment of CRM systems:

- A. The organization must adopt a relationship marketing philosophy across all functional areas
  - 1. Shifting the focus from products to customers is a major challenge since product management systems are often in place, sales force incentives are based on selling products as opposed to servicing customers, and data often resides in product as opposed to customer silos.
  - 2. Marketing, sales, and engineering must act on data collected by the customer contact centers.
  - 3. Customer information must be made available to everyone who can benefit by having access to it—sometimes including those outside of the company in the distribution channel.
- B. The organization must detail and communicate the benefits of a CRM orientation.
  - 1. Top management must be involved from the very beginning in setting philosophy, managing culture change, and presenting a detailed case for CRM benefits.
  - 2. Companies should consider adding support programs to assist employees during transition to CRM.
  - 3. Targeting successful employees as early adopters may give CRM efforts the credibility that drives widespread adoption.
- C. Top executive support must not only be obtained but also maintained throughout CRM development.
  - A survey released in July 2002 by Accenture showed that CRM software failed to work effectively because of inadequate support from top management. It is important that top management not become disillusioned during CRM development and not reduce the scope or not sign off on budgetary requests. Top management must expect “bumps” during CRM development.
- D. Business strategies must drive CRM development rather than the other way around.
  - 1. When vendors began offering CRM suites that were geared to integrating various functional legacy systems already existing within the organization, companies often focused only on this technological integration as opposed to business strategies that should drive this integration.
  - 2. IT is a tool but too often IT becomes the plan when CRM integration takes place. Emphasis is put on platform technology rather than on solving the problems faced by managers.
  - 3. Companies must be careful not to introduce a plethora of functional solutions to aid individual departments but don't relate to one another.
  - 4. A CRM business plan should be developed showing how CRM features will relate to each business goal such as increasing customer profitability, numbers of items sold annually to each customer, increasing satisfaction, improving promotional response rates, and so on.
- E. If separate “quick-results” CRM projects are being implemented as opposed to a CRM suite, then they must be integrated and functionally aligned.

1. Technical integration does not guarantee performance integration. Organizations must also integrate structurally and strategically in order to have a CRM system that benefits marketing, sales, customer service, advertising, IT, and other departments.
  2. Recent opinions suggest CRM systems be developed in manageable pieces as opposed to the one-shot “big bang.”
  3. CRM complexity is due to two factors: range of usage and quantity of functions. Sequence of work should be based on cost, benefit, feasibility, and time to produce. While cost-benefit analysis can help prioritize the phasing-in of CRM functions, they must also be integrated.
  4. “Quick-results,” a term used when CRM functions are released incrementally, benefits organizations in many ways:
    - a. It combats disenchantment.
    - b. Users get to “test the water.”
    - c. Avoids overload and culture shock.
    - d. Users can provide input that can help in future module development.
- F. Include both IT and business unit managers in CRM start-up teams.
1. IT personnel should be involved in more than just the development of CRM systems. Both IT and line managers should be responsible for providing the business case and usability requirements of the system.
  2. Future users of the system should also be involved throughout the development instead of just at the beginning.
  3. Some suggest the development of a program management office to expedite and coordinate the development of the CRM system. Its responsibility is to divide the project into manageable pieces and assign each piece to a project manager.
  4. Marketing and sales must direct IT in terms of what customer data to collect; how it needs to be integrated across products, channels and markets; and what modeling, forecasting, and pattern detection analysis needs to be applied to data in the data warehouse and data marts.
- G. Customer data must be integrated and maintained.  
Customer data integration (CDI) allows for the creation of a consolidated view of the customer from multiple customer data stores. All customer touch points are linked and data continuously upgraded. The challenges involved in CDI include: Disparate databases, multiple touch points, departmental disparity, dissimilar applications, and inconsistent customer data. Poor data quality is the single greatest inhibitor to successful CRM implementation.
- H. Build a business case and conduct a business analysis before deciding upon a CRM solution.
1. There must be a business rationale for CRM development, including estimated costs and payback.
  2. A competitive analysis should be conducted, including competitors’ usage of CRM.
  3. An option available to companies today is simply subscribing to a “hosted” CRM service—CRM software available over the Internet at a monthly fee.



- I. Develop success metrics to assess the effectiveness of your CRM efforts.
  1. Success metrics are often the missing link in CRM systems but are necessary to serve as a scorecard against which performance can be measured.
  2. Changes in revenue, acquisition, usage, customer satisfaction, time-to-market, campaign effectiveness and margins all serve as indicators of CRM effectiveness.
5. Developing CRM From a Tactical Perspective
  - A. Checklist for customer service success
    1. The customer contact center (CCC) is the main touch point for customers. CCC personnel are the voice and ears of the organization and are able to provide management with information on product deficiencies, customers' likes and dislikes, reasons for acquisition and attrition, reactions toward new promotions and campaigns, and so on.
  - B. Customer analytics
    1. Companies must learn to use current customer databases more effectively in order to direct their offerings.
    2. Companies need to segment their markets and differentiate their offerings based on the value of each segment.
    3. Companies need to compute customer lifetime value.
    4. Companies need to remember that the purpose is not merely to build large customer databases but rather to build customer relationships.
  - C. Product Selection
    1. The organizations' goals should drive which CRM technology solution to purchase.
    2. If the CRM technology solution does not consider existing legacy systems, then it may never be used.
    3. The selection of a CRM technology solution cannot be based simply on features desired by a single user or department.
6. Extending the Meaning and Application of CRM
  - A. A more expansive notion of CRM includes more constituencies than merely customers.
    1. The customer focus of CRM has been extended to include all members of the channel who might find it beneficial to collaborate.
    2. CRM can benefit each member within the supply chain, including equipment manufacturers, raw material suppliers, wholesalers, retail stores, industrial suppliers, household customers, and industrial customers.
    3. CRM systems are valuable for vertically aligned networks (VANS) as well as value added partnerships (VAPS) where independent companies work closely together to manage the flow of goods and services along the supply chain.
    4. CRM has been expanded to include all partners that the company interacts with and is called partner relationship management (PRM).

### **D. End of Chapter Questions**

1. Some say the origins of CRM are in the concept of Relationship Marketing. Describe the concept of Relationship Marketing.

ANSWER: Relationship marketing focuses on maintaining a continuous relationship with customers and building long-term bonds. Over time, a company learns more and more about the customer's needs and wants and is therefore able to provide more personalized and relevant one-to-one service. Relationship marketing, with its focus on customer relationships as opposed to one-time transactions, has been viewed as a paradigm shift that has reshaped the entire field of marketing. There are paybacks for both the company and its customers in such relationships and consequently marketers' focus on relationships is expected to be very long term.

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2. What were the forces that drove marketers to begin to focus so intently on customer relationships?

ANSWER: There were many forces that drove marketers to focus so intently on customer (and partner) relationships. First, technological advances in information technology made relationship marketing feasible by enabling companies to record details from every transaction and enter into a dialogue with their customers. Second, the large-scale growth of direct marketing enabled more and more companies to enter into one-to-one relationships with their customers. Third, marketing academicians pointed out that acquiring customers was only the first stage in the marketing process and that more attention needed to be paid to retaining customers and improving service performance. Finally, consultants such as Reichheld and those at McKinsey wrote a number of very influential articles stating that customer retention was the key to corporate profitability and that downward migration was even a greater cause of company losses.

Pgs 48, 49

3. What led to CRM as we know it today; for example, what are the roots of CRM?

ANSWER: In addition to marketers' focus on relationships, additional roots of CRM include:

- Customer satisfaction studies done by marketing researchers
- Extension of the productive relationships apparent in the B2B environment
- Extension of technology implementation beginning with MRP and SAP
- Improvements to company call centers
- Sales Force Automation tools that captured customer and prospect information
- Campaign management tools to contain excessive mass marketing costs
- Channel integration techniques geared to gathering customer information from all touch points
- Diffusion of personal computers enabling any individual to analyze customer information
- Success of direct-response marketing such as direct-mail, toll-free calling and e-mail
- Relational databases that made it possible for companies to identify, access, manipulate, and share customer information across departments

- Industrial and Services Marketing with their focus on interaction theories and relationship building

Pgs 48-56

4. What caused organizations to change their focus at this point in time to one-to-one or customer relationship management? After all, mass marketing techniques had worked well for nearly three-quarters of a century.

ANSWER: Most would agree that there were two forces at work that caused the change:

- advancements in computer and information technology
- a substantial change in the business environment

Enterprise Resource Planning (ERP) initiatives of the 1990s showed that it was possible for all divisions in a company to work within one business system—with \$300 billion spent by companies to centralize, standardize, and organize information. During the ERP initiatives, customer information became centralized. Middleware enabled companies to integrate disparate customer databases. Companies began using information technology in the form of the database and analytical procedures, enabling them to profile individual customers from the acquisition stage through the retention stages.

In addition, there was a confluence of business environmental factors that led companies to develop CRM initiatives. It was getting harder for companies to differentiate themselves through their products and brands alone, so companies looked to differentiate themselves by creating close bonds with their customers. The media was also becoming fractionalized, making it harder to reach mass markets. The pace of life has quickened, and more women are in the labor force, leading to less time for shopping and greater reliance on quicker and better service. Finally, the Internet and multi-channel opportunities for gathering information, shopping, and buying has led companies to develop multi-channel customer contact—a key CRM strategy.

Pgs 58, 59

5. Would you say that organizations have experienced success or failure with respect to CRM systems?

ANSWER: Numerous studies have indicated that less than half of all companies are satisfied with their CRM systems. Targeted revenue goals, for example, are not often achieved. Budgeted costs are generally exceeded as are development timetables. When CRM systems are finally up and running, companies are often dissatisfied with their performance. It should be pointed out, however, that most companies have gone into CRM efforts without clearly stated goals and objectives, making their assessments of CRM failure somewhat specious. More recent studies have indicated that many CRM systems have performed admirably, with companies like Charles Schwab recouping their costs much more quickly than expected.

Pgs 60-63

6. What are the major challenges companies encounter when trying to implement a CRM system?

ANSWER: The real barriers to a smooth CRM introduction appear to be corporate culture, employee attitudes, organizational structure, and the lack of a strategic plan for the CRM system as opposed to technology, the need to replace or integrate existing systems, or the amount of time involved in establish the new CRM system. In addition, CRM systems interface with a larger group of stakeholders with more diverse needs than most other business systems, making it more difficult for organizations to effect the many cultural, psychological, and structural changes needed for successful CRM implementation. Executives worry about payback, salespeople are skeptical of having to learn yet another system, managers worry about managing their business during the implementation phase, and customers worry about privacy.

Pg 63

7. What are the major ways in which organizations can overcome the barriers to effective CRM implementation?

ANSWER:

- Establish a strategic plan quantifying goals and objectives for the CRM system. Estimate the business value by estimating costs and target returns. Integrate business unit strategies and tactics with the CRM system.
- Estimate the impacts on ongoing structures at the executive, managerial, sales, and customer contact center levels. Develop integration procedures and retrain management and staff in the use of CRM.
- Communicate the relationship marketing philosophy from the top down, working with key department influencers. Reallocate resources (both budgetary and manpower) based on customer segment values.
- Build the CRM platform technology to solve the problems faced by managers. Ensure complete integration of all functional components. Use a cost-benefit analysis to determine the sequence of work.
- Organize to expedite development of the CRM system by integrating IT and business managers into start-up teams.
- Establish metrics to measure the performance of the CRM system once it is developed.

Pg 64

8. While still very young, the field of CRM is already being extended both in meaning and practice. Please describe.

ANSWER: A more expansive notion of CRM includes more constituencies than merely customers. It includes all members of the channel—suppliers, distributors, facilitating agencies, wholesalers, retail stores, household and industrial customers, and so on. CRM is applicable to all members in a vertically aligned network or value-added partnership.

The CRM concept has been expanded to include all partners that the company interacts with and is called Partner Relationship Management (PRM).

Pgs 78, 82

**E. Exercises**

1. Conduct some research on the concept of relationship marketing, and discuss how it has changed the focus of marketers and the field of marketing itself. Compare and contrast the differences between customer-centric marketing and product-brand oriented marketing.
2. Conduct some research on the two major corporate-wide systems of the 1990s: Materials Resource Planning and Enterprise Resource Planning. Compare and contrast them with today's CRM systems. Which systems are likely to remain viable over the long term?
3. Contact a company you have a relationship with via multi-channels, and determine competitors in the same industry using the same query and determine which has the better CRM system.
4. Do some research on relational databases and why they advanced companies' ability to integrate customer information.
5. Through research, find an example(s) of a company experiencing success in developing and using their CRM system with a company or companies experiencing failure. Compare and contrast the differences in implementation of the two systems.
6. Through research, find a company or companies that have been able to develop close relationships with their customers via CRM systems. Are their experiences applicable to other companies?
7. Through research find examples of companies that have successfully extended their CRM systems to include channel members or partners.

**F. Multiple Choice Questions**

1. Which of the following does not apply to Relationship marketing?
  - A. Is viewed as a paradigm shift that has reshaped the entire field of marketing
  - B. Has paybacks for both the company and its customers
  - C. Focuses on the sales transaction
  - D. Focuses on maintaining long-term bonds
  - E. Views personalized service as key

ANSWER: C—Pgs 48, 49

2. Which was not a force that drove marketers to begin focusing on customer relationships?
  - A. Technological advances in IT that enabled companies to record transaction details
  - B. Technological advances that enabled companies to enter into dialogue with customers
  - C. Direct marketing efforts that enabled companies to enter into one-on-one relationships with their customers
  - D. The creation of functional information silos enabling smooth data transfers within any organization
  - E. Writing of consultants pointing out that customer retention was the key to corporate profitability

ANSWER: D—Pgs 48, 49

3. Which was not a root cause of CRM?
- A. Customer satisfaction studies
  - B. Extension of the productive relationships apparent within the B2B environment
  - C. Psychographic studies that led to more efficient mass marketing
  - D. Extension of technology implementation beginning with MRP and SAP
  - E. Improvements in company call centers
- ANSWER: C—Pgs 48, 49

4. Which was not a root cause of CRM?
- A. Sales force automation tools that captured customer and prospect information.
  - B. Campaign management tools that helped contained excessive mass marketing costs.
  - C. Channel integration techniques that gathered customer information from all touch points.
  - D. Diffusion of personal computers enabling divisions to analyze their own customer data.
  - E. All of the above were root causes of CRM.
- ANSWER: E—Pgs 50, 51, 54

5. Which of the following was a root cause of CRM?
- A. Improvements in the gathering of government census data.
  - B. Success of direct-response marketing such as direct-mail and toll-free calling.
  - C. Global integration of company data making possible a 360 view of customers.
  - D. Ethnographic research enabling companies to truly understand consumer behavior.
  - E. All of the above were root causes of CRM.
- ANSWER: B—Pg 54

6. Mass marketing techniques
- A. Continue to be cost effective based on companies' abilities to measure results.
  - B. Are successful based on the continued pull of network television and mass oriented national magazines.
  - C. Became out-of-vogue due to companies' inability to measure results.
  - D. Became useful again through application of SFA and ERP.
  - E. Are still the underlying force of CRM.
- ANSWER: C—Pgs 58, 59

7. Which business environmental factor did not lead to companies' use of CRM?
- A. It was getting harder for companies to differentiate themselves through products and brands alone.
  - B. Companies looked to CRM to create close and intimate bonds with their customers.
  - C. Media continued to become more and more centralized, enabling companies to effectively and efficiently reach customers.
  - D. Pace of life quickened, leading consumers to demand quicker and better service.
  - E. All of the above led to companies' increasing use of CRM.
- ANSWER: C—Pgs 57-60

8. Which is true regarding companies' experiences with CRM?
- A. More than 75% of all companies have experienced success with their CRM systems.
  - B. Less than half of all companies are satisfied with their CRM systems.
  - C. Companies are surprised to find CRM installation oftentimes comes in under budget.
  - D. CRM systems have been widely adopted by small- and medium-sized enterprises.
  - E. E, C and D are all true.
- ANSWER: B—Pgs 60-63
9. Which of the following is false regarding companies' experiences with CRM?
- A. Targeted revenue goals, contrary to popular opinion, are most often achieved within 2 years of installation.
  - B. Most companies do not have clearly stated goals for their CRM systems.
  - C. Charles Schwab recouped their costs more quickly than expected.
  - D. The real barrier to effective CRM installation is corporate culture.
  - E. All of the above are true.
- ANSWER: A—Pg 60-63
10. The barriers to CRM system installation include all but which of the following:
- A. Corporate culture
  - B. Employee attitudes
  - C. Lack of a strategic plan for CRM
  - D. Extraordinary amount of time involved to install CRM systems
  - E. All of the above are barriers
- ANSWER: E—Pg 63
11. Which of the following is not a barrier to effective CRM installation?
- A. A large number of stakeholders are involved
  - B. Structural changes involved
  - C. Executive concerns about payback
  - D. Skeptical salespeople
  - E. Companies' focus on individuals as opposed to the mass market
- ANSWER: E—Pg 63
12. With respect to CRM systems
- A. Salesmen generally look forward to new technology making their job easier.
  - B. Executives worry about how to manage their business during implementation.
  - C. Data silos will be created, allowing for smooth data interchanges.
  - D. Employees generally look forward to a new challenge.
  - E. All of the above are false.
- ANSWER: B Pg 64

13. Which of the following is, in fact, a way that organizations can overcome barriers to effective CRM implementation?

- A. Break data marts into more manageable data warehouses.
- B. Establish a plan for quantifying goals and objectives.
- C. Initiate implementation at the channel level.
- D. Establish IT as lead development implementer.
- E. A, C and D are correct.

ANSWER: B—Pg 68

14. Studies on CRM implementation have found

- A. Impact on customers is, in fact, greater than impact on employees.
- B. 18 months is required on average for successful CRM implementation.
- C. Implementation is more successful when IT and business managers work together.
- D. Lead IT groups with a CRM focus lead to more efficient implementation when not encumbered by business managers who lack IT background.
- E. Average amounts spent on CRM systems for SMEs is \$180,000.

ANSWER: C—Pg 71

15. Studies on CRM implementation have found

- A. Contrary to popular belief, direction begins from the bottom-up.
- B. Those closest to the customer should design the system.
- C. IT opinion leaders will make or break the system.
- D. Companies spend too much time on developing performance metric standards.
- E. All of the above are false.

ANSWER: E—Pgs 67, 71, 74

16. A more expansive notion of CRM includes more constituencies than merely customers. Which of the following is not typically covered in the expanded notion of CRM?

- A. Suppliers
- B. Distributors
- C. Household and industrial customers
- D. Facilitating Agencies
- E. All are covered

ANSWER: E—Pg 78

17. Which is false?

- A. CRM is applicable to all members in a vertically aligned network.
- B. CRM is applicable to all members in a valued-added partnership.
- C. CRM has been expanded and is often referred to as PRM.
- D. Because CRM has its roots in SAP, employees are now considered part of the VAN.
- E. All of the above are true.

ANSWER: D—Pgs 78, 82



18. Select the incorrect statement. Campaign management tools
- A. Were introduced to contain the growing costs associated with media buys.
  - B. Have basically become obsolete with the growth of E-business.
  - C. Enable companies to design and coordinate promotional programs.
  - D. Enable companies to forecast financial results.
  - E. All of the above are true.
- ANSWER: B—Pg 51
19. Database construction is
- A. Easiest for firms having infrequent interaction with their customers.
  - B. Easiest for firms having infrequent and indirect customer interaction.
  - C. Easiest for firms having frequent and direct customer interaction.
  - D. Most difficult for firms in VANS and PRMS.
  - E. Easiest for firms having data silos.
- ANSWER: C—Pg 56
20. Which is incorrect? Relational databases contain
- A. Customer transaction histories.
  - B. All customer contacts through any channel.
  - C. Demographic and behavior information.
  - D. Customer response to company campaigns.
  - E. All are correct.
- ANSWER: E—Pgs 54-56
21. Which is a true finding with respect to the establishment of CRM systems?
- A. Shifting the focus from products to customers is not a major problem since product management systems are often in place.
  - B. Marketing, sales and even engineering should act on data collect by the customer contact center.
  - C. Customer information should never be disseminated to those outside the company in the distribution channel.
  - D. Top management is generally unwavering in its support of CRM establishment.
  - E. All of the above are true.
- ANSWER: B—Pg 66
22. Legacy systems
- A. Can impede company-wide CRM development.
  - B. Are generally developed by an IT task force.
  - C. Are what every organization strives for in CRM development.
  - D. Are best practice attempts at CRM.
  - E. C and D are correct.
- ANSWER: A—Pg 66

**23. CRM systems**

- A. Should emphasize platform technology first and problem solving second.
- B. Should be functional in nature.
- C. Are too often tied to business goals without consideration of IT concerns.
- D. Work best in functional silos.
- E. Sometimes consist of CRM suites or CRM point solutions.

ANSWER: E—Pg 69

**24. With respect to CRM systems:**

- A. Technical integration leads to performance integration.
- B. CRM systems should benefit marketing, sales, customer service, advertising, IT and many other departments.
- C. The “big-bang” approach has proven more successful than a piece-meal approach.
- D. Cost-benefit analysis is not needed since implementation has shown benefits always outweigh costs.
- E. Both B and D are correct.

ANSWER: B—Pg 69

**25. “Quick-results” CRM benefits companies in many ways. Which of the following is not one of the benefits?**

- A. It combats disenchantment.
- B. It places IT in the lead.
- C. Users get to “test the water.”
- D. It avoids culture shock.
- E. It avoids information overload.

ANSWER: B—Pg 69

**G. True/False Questions**

1. Relationship marketing is viewed as a paradigm shift that has reshaped the entire field of marketing.

ANSWER: True

Pgs 48, 49

2. The creation of functional information silos enabling smooth data transfers within any organization was a major force that drove marketers to begin focusing on customer relationships.

ANSWER: False

Pg 49

3. A root cause of CRM was the psychographic studies of the 1970s that led to a better understanding of customers and more efficient mass marketing.

ANSWER: False

Pg 49

4. Diffusion of personal computers enabling divisions to analyze their own customer data contributed to the growth of CRM.  
ANSWER: True  
Pg 54
5. CRM was aided by the media, which continued to become more and more centralized, enabling companies to effectively and efficiently reach customers.  
ANSWER: False  
Pgs 57-60
6. Despite major difficulties in development and execution, recent surveys show that more than 75% of all companies have experienced success with their CRM systems.  
ANSWER: False  
Pgs 60-63
7. Corporate culture and employee attitudes have not proven to be a detriment to CRM development for in most situations, companies and their employees relish the opportunity to better serve their customers.  
ANSWER: False  
Pg 63
8. IT leaders are major determinants of CRM success because of their knowledge of technology, as well as business unit needs.  
ANSWER: False  
Pg 71
9. During CRM development, success is dependent upon creating data silos that will allow for smooth data interchanges.  
ANSWER: False  
Pg 73
10. Studies of CRM implementation have found that the impact on customers is, in fact, greater than the impact on employees.  
ANSWER: False  
Pg 66
11. CRM is applicable to all members in a vertically aligned network.  
ANSWER: True  
Pg 78
12. Database construction has been found to be least difficult for firms who have indirect and infrequent interaction with their customers since the data is more manageable.  
ANSWER: False  
Pg 56

13. When creating CRM systems, shifting the focus from products to customers is not a major problem since well-developed product management systems are often in place in most companies.

ANSWER: False

Pg 66

14. CRM systems are too often tied to business goals without consideration of IT concerns.

ANSWER: False

Pg 69

15. The establishment of a program management office to expedite CRM has not proven useful because it is generally not integrated with the rest of the company.

ANSWER: False

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## **H. Short Answer Questions**

1. Some feel that CRM has its roots in marketing research. In what way(s) did marketing research help shape CRM?

ANSWER: Customer satisfaction studies have been carried out by marketing researchers since the 1960s. By using these satisfaction measures, others in the company were able to improve quality through the use of Total Quality Management (TQM) techniques. Thus, companies used marketing research satisfaction findings to improve their relationships with customers.

Pg 49

2. How did the diffusion of personal computers within companies contribute to the development of CRM?

ANSWER: Diffusion of PCs meant every desktop had the capability to analyze customer data. This led to company divisions having the ability to manipulate their own customer data, develop their own marketing programs, and assess their own performance. Diffusion of PCs enabled those closest to the customer to develop and assess program and campaign performance in new ways.

Pg 54

3. Database construction is easiest for what types of organizations? Most difficult for what types of organizations?

ANSWER: Database construction is easiest for organizations that have frequent and direct customer interaction (banks) and most difficult for organizations that have infrequent and indirect customer interaction (automobile and furniture manufacturers). It is intermediate in difficulty for those having frequent but indirect customer interaction (package goods companies) or for companies that have infrequent but direct customer interactions (computer stores).

Pg 56

4. What are the real barriers within most companies to effectively implementing a CRM system?

ANSWER: The real barriers appear to be corporate culture, employee attitudes, organizational structure, and the lack of a strategic plan for the CRM system. In other words, the real barriers reside in the “software” side of the business, as opposed to the “hardware” side of the business.

Pg 63

5. Respond to the following observation: “IT is a tool but often in the area of CRM, IT becomes the plan.”

ANSWER: IT and technology should not be the CRM plan; rather the CRM plan should emanate from finding solutions for managers’ problems. Early CRM initiatives were built by technical specialists and focused on platform technology rather than on solving managers’ problems. When vendors started selling CRM solutions, companies became vulnerable to putting technology before strategy. Strategies, however, should be in place before a CRM system is determined.

Pg 68

6. Before a CRM system is installed, a business plan should be developed, showing how CRM system features will relate to each business goal. Give examples of some typical CRM business goals.

ANSWER:

- Increasing the profit from each customer
- Increasing the number of items sold annually to each customer
- Increasing the acceptance of new products by the customer base
- Increasing customer satisfaction
- Improving response rates to promotional campaigns
- Increasing the speed of campaign development
- Decreasing the costs involved in campaign development and assessment
- Decreasing the number of employees and time involved in solving problem tickets
- Improving the percent of the customer base that trades up to the next item

Pgs 68, 69

7. It is often said that CRM’s complexity is due to its quantity of functions. What does this mean?

ANSWER: CRM includes a wide variety of functions, such as managing campaigns, automating sales forces, computing customer value, developing customer profiles, monitoring call center effectiveness, customer service, and so on.

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8. Jill Dyche suggests that a program management office (PMO) be formed to expedite and coordinate the development of an organization's CRM system. What are the functions of a PMO?

ANSWER: The function of the PMO, generally located within the IT department, is to divide the project into manageable chunks containing repetitive tasks (coding, design, testing) and assign each chunk to a project manager. Each project manager is responsible for the goals, budget, and deliverables in his or her area. By putting a PMO in charge of coordination, individual project teams can concentrate on their specific deliverables.

Pg 72

9. Customer data integration (CDI) enables an organization to accrue knowledge about the customer in a consolidate manner; but why is a single, integrated view of the customer difficult to attain?

ANSWER: A number of challenges present themselves as organizations attempt to create the single customer view so critical to CRM. They must consolidate and resolve the problems resulting from:

- Disparate databases
- Multiple touch points
- Departmental disparity
- Dissimilar applications
- Inconsistent customer data

Pgs 72, 73

10. What are the key lessons that practitioners have learned regarding CRM analytics to date?

ANSWER: First, use your current customer database more effectively.

Second, segment in order to discriminate between high and low value customers.

Third, identify the value of your various market segments.

Fourth, use the information to build customer relationships.

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## I. Essay Questions

1. What were the factors that caused CRM to appear when it did?

ANSWER:

- The increasing number of high-quality competitors and products forced companies to look for other ways to hold onto their customers.
- The effectiveness of traditional mass marketing methods began to erode due to an increasingly cynical cohort, information overload, noise, fractionalization of audiences due to an increasing number of channels, magazines, and information sources.
- The quickening pace of life has led consumers to demand quicker and better service.
- Channels of communication are multiplying and need to be organized by organizations. E-mail, SMS, WAP, brick-and-click, catalogues, the Internet, and so on are channels used by consumers, and they all need to be integrated by companies.

Pgs 57-60

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2. Organizations can overcome the barriers to effective CRM implementation through communication. What should be communicated and to whom?

ANSWER:

- The organization must adopt a relationship marketing philosophy; this philosophy must become imbedded in the minds of managers, departments, functions and employees.
- The organization must detail the benefits of the CRM system to its employees, and also detail what they personally will gain from it.
- The top executive must communicate his or her support at the start of the CRM initiative and maintain support throughout the development and implementation stages.

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