2.1 The CRM Arms Race

A confluence of market forces has steadily eroded the ability of companies to generate sustainable profits from ongoing customer relationships. In nearly all industries, the proliferation of new product and service offerings has provided customers with an overwhelming number of options from which to choose. The Internet, by giving customers an unparalleled ability to compare value propositions and aggregate their buying power, has further tipped the balance in the customer’s favor. Digital technology has also extended this opportunity backwards along the supply chain, enabling powerful collaboration with companies’ suppliers.

Companies have responded by spending aggressively to acquire new customers. U.S. companies are spending an estimated $110 billion on advertising through direct mail and telemarketing channels and $7.5 billion on Internet advertising in the year 2000. The returns on traditional marketing tactics, however, continue to dwindle. Credit card mailings, for example, have increased at a 12% annual growth rate over the past 10 years, but response rates have fallen at a similar pace to just 0.6%. Internet advertising, once touted as a low-cost direct marketing alternative, has not proven to be any more successful. The average banner ad click-through rate today is less than 0.5%, down from 2-3% in the mid-1990s.

Given the high cost of acquiring new customers, companies are also stepping up efforts to keep existing customers, especially the most profitable ones. Such efforts include reactive measures to sweeten the pot when customers threaten to leave, pricing adjustments to forestall attrition, and loyalty programs that reward continued usage. Customer retention initiatives are even more critical in a slowing...
economy, as reduced disposable income and greater price sensitivity make it more difficult and more costly for companies to maintain existing relationships or acquire new ones. Information on customer behaviour, when properly used, can raise the effectiveness of the entire supplier-to-customer value chain.

Faced with these challenges, many companies have readily embraced the promise of Customer Relationship Management (CRM). When Mercer Management Consulting recently interviewed chief financial officers and other senior executives from Fortune 1000 companies on their experience with CRM, many reported that they have turned to CRM because the competitive bar has risen. One business unit leader at a gas and electric utility said, “In recent years, we have stepped up our focus on CRM due to the expectation of greater competition.”

There is serious money banking on the promise of CRM. The Gartner Group projects that spending on CRM applications and services, which totalled $23 billion in 2000, will grow at a compound annual growth rate of 27% and exceed $75 billion in 2005. Eager to capitalize on the opportunity, nearly 500 CRM vendors are marketing products and services that claim to help companies increase customer loyalty, target their most profitable customers and streamline customer data mining and sales processes.

2.2 Into the Money Pit

Despite the fanfare and large expenditures, CRM is not fulfilling its promise and dissatisfaction is mounting. Only 16% of companies that have implemented CRM software say it has exceeded their expectations, reports a March 2001 survey of

![Figure 2.1: The Failed Promise](source: Meta Group “Leadership Strategies in CRM” (Jan 2000); Data Warehousing Institute (Mar 2001))