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## How Much Are CRM Capabilities Really Worth? What Every CEO Should Know

In virtually every industry, the ability to build strong customer relationships is increasingly critical. But is every Customer Relationship Management initiative a good one? Executives deciding which CRM initiatives to focus on have essentially found themselves guided by intuition and experimentation, with no reliable financial data to guide them in prioritizing and selecting the right investments. Now, however, such guidance is available—in the form of groundbreaking research conducted by Accenture. Companies can, for the first time, tap into research that shows a clear empirical link between CRM excellence in specific capabilities and bottom-line financial performance.

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*The authors would like to acknowledge the substantial contributions of Amanda K. Hayes in producing this article. More extensive biographies of the authors can be found at the conclusion of this paper.*

Accenture surveyed more than 500 executives across six industries—communications, chemicals, pharmaceuticals, electronics/high-tech, forest products, and retail—to understand which CRM capabilities would have the most impact and just how much impact they contributed to the bottom line. The stunning results? CRM performance accounts for anywhere from 28 to more than 60 percent of the variance in companies' return on sales (ROS).

Accenture's Customer Relationship Management research team will publish a series of reports that will provide executives in these industries with in-depth information and a foundation on which to base future investment decisions. Accenture can help companies utilize these tools to assess their individual company performance against their industry, and identify gaps and investments that reap high-impact benefits for their CRM initiatives.

In addition, our cross-industry findings are providing surprising results that will be of interest to any company, providing executives with valuable directional information on how to improve CRM performance. The series of industry and cross-industry reports will be released throughout 2000. Information on each report will be posted on the Web site ([www.CRMproject.com](http://www.CRMproject.com)).

Let's take a look at the impactful findings from the communications industry, our first industry study released.

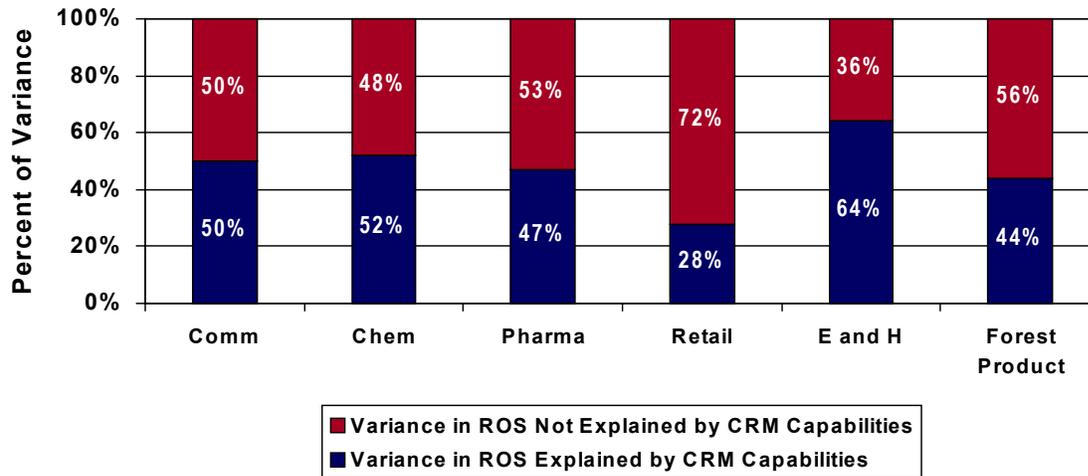
## **Customer Relationship Management and the Communications Industry**

By improving performance in high-impact CRM capabilities, a typical communications company can add tens of millions—and even hundreds of millions—of dollars to its bottom line. This is the major finding of our in-depth look at the Communications industry.

In addition, the research identifies the small number of capabilities in marketing, sales, and

service that drive the majority of that variance in ROS.

## Percent of Variance Explained by CRM Capabilities



**Figure 1.0** | The variance in ROS across the six industries

The 54 CRM capabilities studied in the areas of marketing, sales, and service range from sharing customer information and rewarding skilled staff to building effective billing systems and pricing products to maximize return. The results are surprising: only 12 specific capabilities within marketing, sales, and service differentiate the strongest performers. Investments in these capabilities have a greater impact on business performance than others—which is contrary to the commonly held view that all CRM capabilities are equally important.

### Marketing: The Payoff of Planning and Execution

Accenture found that those companies that are able to improve their marketing performance can add significant value to the bottom line. And, 4 out of 23 key marketing capabilities account for 54 percent of the potential ROS improvement in moving from average to top-tier performance in marketing.

In the communications industry, the marketing function has traditionally been underfunded and understaffed in comparison to other industries. At one large communications

company in the study, for example, Accenture found that the size of the marketing staff was less than 20 percent of what a lean consumer company would consider adequate. The skills of the understaffed unit did not compare to even a mid-tier consumer company, and small budgets meant that some customer segments received little or even no marketing support. One of the key marketing capabilities identified in the study—executing effective marketing plans—is especially difficult to perform well in this kind of environment.

In another case, the company spent less on marketing annually than the typical food company would spend on sales materials for a single promotion. But, the study found that “developing and executing an effective promotion strategy” had a greater impact than other capabilities—such as advertising and branding—that focus on communicating a company’s value proposition. That is in line with a Yankee Group report<sup>1</sup>, which determined that SBC has a higher penetration of enhanced services—such as Caller ID, call waiting, and voicemail—than other Baby Bells because it has “focused less on overall brand advertising and

more on tactical, product-focused marketing of enhanced services.”

According to the study, the ability to price products to maximize return is one of the keys to marketing success, but that doesn't mean that price alone is the determining factor. Typically, new entrants exploit consumers' price sensitivity by underpricing competitors and stealing market share. In response, many of the smartest communications companies are bundling products and services, using complex pricing formulas to maximize returns and avoid pure price competition. The AT&T Personal Network, for example, is a product that lets consumers build a customized service package of long-distance, wireless, and Internet components, each with different pricing options, leading to an aggregated monthly service fee reflecting cross-product discounts and incentives.

Another factor in the marketing area is the ability to use information technology (IT) systems to allow sharing of customer information among channel partners. One communications executive participating in the study noted that his company keeps close track of channels and expects its extranet to be an important tool in sharing customer intelligence. He's on the right track. The research estimates that improving this capability from average to top-tier performance could contribute another \$25 million to return on sales for a typical \$2 billion communications business unit.

As one wireless company executive remarked, “knowledge management is critical” to capturing best practices and detailed information about usage behavior, contact history, product inquires, and corporate data that marketing people can use to their advantage. A communications company typically collects massive amounts of data, but rarely stores it for long periods of time or uses it productively as a valuable resource for tailoring products or services. A cable company executive, participating in the study noted, “we

have remarkable information [on our customers] that our customer service folks are clueless about,” meaning they continue to struggle with how best to extract actionable customer insight from all that data.

For their part, local and long-distance companies face the daunting challenge of integrating multiple customer databases to create a single customer profile. In particular, creating a holistic view of a large business customer with complex organizational hierarchies, geographic locations, and custom-designed products requires an enormous amount of integration. Wireless companies and new entrants may have the advantage here, in that they are not saddled with legacy systems, and therefore have the flexibility to deploy cheaper storage facilities and powerful data mining tools.

### **Skilled Salespeople Are the Key**

In the area of sales, the Accenture study found that people are key. Four out of 12 sales capabilities—the ability to develop sales skills, develop effective sales plans, fairly compensate sales personnel, and attract the best talent—account for 74 percent of the available ROS impact in moving from average to top-tier performance. Note that three of those capabilities focus on attracting, developing, and retaining top people.

The research suggests that the nature of sales in the communications industry has changed dramatically and can be expected to continue to change for some time. Today's sales person must not only be proficient in traditional sales skills; he or she must also be able to explain and sell increasingly complex, bundled products and/or customized solutions.

The availability and the quality of training and mentoring to develop communications and technical skills in sales personnel can be significant differentiating factors among organizations. Although such training can be costly and time consuming, high-performing

organizations typically make it mandatory for sales people.

The very pace of technological change poses enormous challenges for salespeople who are trying to stay current. One communications sales executive said it will be next to impossible for a company to stay up to speed on required knowledge and training for its sales force. “Instead, salespeople must be more proactive in self-learning and self-education, reading everything and talking to as many people as possible to stay on par with what their customers are learning.” As a result, this company has replaced much of their traditional training classes and facilities with guidelines, coaching, and time allocated for self-development. Core training is limited to practical skill building.

Technology can be used to take up the slack. Web-enabled training tools that combine intranets and extranets can store detailed product information and deliver it to sales reps with easy-to-use interfaces so sales reps always have the latest information at their fingertips. Computer-based training and business simulators not only instill basic skills, they also help develop desired behaviors and sharpen critical thinking skills through realistic on-the-job scenarios that salespeople work through, along with online coaching and feedback.

But even a company with a thoroughly up-to-speed sales staff will simply be reacting to customers unless they have a proactive sales plan. The research found that effective sales plans begin with solid customer intelligence. Without a customer database with detailed account profiles, field reports on account attrition, and growth potential that allows them to look at customers holistically, a company is essentially flying blind.

## **Customer Service: Focus on Billing Systems, People, and Measurement**

The customer service area presents the communications industry with some of its most

tempting opportunities for achieving breakthrough differentiation and competitive advantage. The study found that just 3 out of 19 key customer service capabilities—an effective billing system, attracting the best talent, and measuring customer service effectiveness—account for 43 percent of the available ROS impact of moving from average to top-tier performer in customer service.

Historically, regulation and minimal competition encouraged communications companies to look inward in search of process efficiencies to fuel margin rather than looking outward for market share. Even though the business arena has undergone tectonic change, the inward looking mindset still prevails at many communications companies’ service organizations. The net result is customer service environments struggling to meet the needs of an increasingly complex marketplace and at the same time retain and grow its embedded customer base.

One of the most effective ways a communications company can stand out in this arena is through its billing statement. On the surface, billing sounds deceptively simple. For customers, unfortunately, telephone bills are anything but. Some bills are so complex that the average customer cannot comprehend, much less contest or question, their contents. As a consequence, billing drives a substantial number of customer questions and complaints. By some measures, 30 percent of calls to customer service centers are related to billing. Indeed, Ameritech’s decision to overhaul its billing format for customers received front-page treatment in the Chicago Tribune newspaper.

The Accenture study identified three factors that compose a large part of effective billing: the ability to generate accurate bills, the extent to which billing applications are integrated across all customers and products to produce a single unified statement, and the ability to offer customers online access to their bills.

Billing is widely discussed but regularly underfunded in most communications organizations. Nevertheless, the **return on this investment** can be very high. In addition to meeting customers' needs, a good, flexible billing system enables the creation of optimal pricing structures as well as rapid responses to competitors' pricing and promotions.

For example, Australia's Telstra overhauled its billing systems and services in 1996. According to a recent Economist Intelligence Unit/Accenture report<sup>2</sup>, the company's FLEXCAB billing system has the unique ability to consolidate all customer information so that it can offer a one-to-one billing product. Telstra's billing consultants can tailor bills to a customer's precise billing requirements. Some companies, for instance, want to consolidate site accounts, while others prefer their bill broken down into business units. In addition, whenever a new product is offered, changes can be made in one place only without tying up multiple resources across multiple systems.

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Another benefit of Telstra's advanced billing capability is a more efficient data mining and warehousing capability. Customers are assigned a single code number, which is used to track all historical and current data. With a holistic view of the customer, Telstra is in a better position to develop new products, pricing strategies, and sales plans that target its best customers. One senior executive at Telstra said, "It's through billing that tel-cos interact with their customers. It plays a key role in defining and differentiating our products."

## **Superior Customer Relationship Management—Taking the Next Step**

It is important to recognize that effective CRM capabilities are not developed overnight. In any industry, a successful CRM effort requires the support of the entire enterprise, not just the marketing, sales, and service organizations. It requires commitment and changes in behavior across the company. And, it requires a concerted effort that combines the right strategy with the process, technology, and human performance programs needed to implement the vision.

In addition, each company is unique—which means that executives should begin by systematically developing a thorough understanding of their company's specific situation. This can be done using a three-step process:

### **1) Conduct self-assessment**

Assess the company's current CRM performance and the potential value of improvements based on ROS impact, using the insights from this CRM Capabilities Study. This self-assessment allows the company to compare its performance to that of other companies.

### **2) Confirm the areas of large opportunity**

For the largest areas of opportunity, companies should determine the specific performance issues and potential solutions.

### **3) Prioritize CRM programs**

Prioritize current and future investments and allocate resources based on expected financial impact. Develop an action plan for moving forward. Focus and engage the organization around the CRM program.

Accenture's research series shows that many companies are working in earnest to exploit CRM capabilities. At the same time, however, it shows that many more need to rethink their investments in marketing, sales, and service to

ensure they are getting the most for their money. Those companies that keep a sharp focus on developing the highest impact CRM capabilities will greatly increase their chances of prevailing in a highly competitive world.

## About the Authors

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Mr. Wolfe is the lead strategy partner of Accenture's CRM Service Line. For the past several years, he has directed thought leadership initiatives for the CRM Service Line, including the recent study on CRM capabilities entitled "How Much are CRM Capabilities Really Worth? What Every CEO Should Know." Prior to joining Accenture, he was Vice President of Marketing for an \$800 million photo-finishing subsidiary of Eastman Kodak. Mr. Wolfe's initial consulting experience was with McKinsey & Company where he spent eight years focusing on business, marketing, and sales strategy. Earlier positions in his career include Group Brand Manager for The Coca-Cola Company, and Product Manager for General Foods Corporation. Mr. Wolfe has a BA from Yale University and an MBA from Columbia University.

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*To utilize this study in improving your company's financial performance, or for more information on the research series, please call Accenture at 312.737.7777.*

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<sup>1</sup> Yankee Group, "Technologically Advanced Family," 1998

<sup>2</sup> "Managing Customer Relationships: Lessons from the Leaders," The Economic Intelligence Unit in cooperation with Andersen Consulting, 1998.