Top 10 Trends in CRM for 2001

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We examine the 10 key trends that will impact the enterprise and its pursuit of CRM in 2001. Those serious about winning the customer will have to address these trends.

Core Topic
Business Applications; CRM Business Strategy

Key Issue
How will organizations develop and implement a business vision for CRM?

Gartner is frequently asked about the major trends in customer relationship management (CRM). These can be split into three categories — market, executive and implementation trends.

CRM Market Trends:

- **Increasing Customer Expectations.** With greater consumer education, increased availability of information, the adoption of the Internet, global competition, more choice and deregulation in many industries, expectations are being set by direct competitors and by enterprises in other industries. Increasing customer expectations are driving the adoption of new channels, leading to poorly implemented multichannel strategies. This is lowering both customer satisfaction and customer loyalty, and making CRM even more vital.

- **Increasing Customer Relationship Complexity.** The relationship-complexity function between an enterprise and its customers states that: $R(f) = $ (No. of Segments) x (No. of Products) x (No. of Channels) x (No. of Corporations). All the elements of the equation are increasing due to new technology, greater mobility and faster development of new products. Managing this complexity is becoming key.

- **A Growing Shift From Mass Production to Mass Customization.** Customers are demanding an exact fit to their requirements. Mass customization provides an answer to this demand for both products and services. It is made possible by the Internet, which is enabling improved supplier collaboration to support mass customization. However, this evolution to collaborative commerce is in its infancy.

CRM Executive Trends:

- **Intensified CEO Attention on CRM.** The larger CRM consultancies and vendors are presenting evidence that successful CRM initiatives are leading to improved profits and better stock prices. With shareholders happy, CEOs can look forward to larger bonuses, but the expectations set by IS and business management will be critical.

- **Improved CRM Budget Allocation.** Driven by the attention of CEOs, a strategic shift in emphasis is taking place in many enterprises, toward customer intimacy and away from product excellence or operational efficiency. This results in IT spending shifting from back-office efficiency to front-office effectiveness (see Note 1), and from departmental funding of point projects to multiyear, cross-functional, board-level funding.

- **Formalization of Governance for Customer Relationships.** Many enterprises describe themselves as customer-centric, but few involve a customer advocate on the leadership

team. Governance for customer relationships is starting to be formalized in more-advanced enterprises. However, through 2003, just 15 percent of enterprises will "promote" customers at a senior management level through the creation of a chief customer officer (0.8 probability).

Note 1
Top Strategic Software Projects

In a recent survey of 150 CIOs (drawn mainly from Global 2000 enterprises), the following were given as the top strategic software projects for 2001. Those marked with an asterisk relate to CRM:

- Commerce server on the Web site* (27 percent of responses)
- Customer service on the Web site* (18 percent)
- Application integration* (13 percent)
- CRM* (10 percent)
- Supply chain management/logistics (9 percent)
- Financial/accounting (5 percent)
- Database software upgrade (3 percent)
- Manufacturing software (3 percent)
- Engineering software (3 percent)
- Systems management infrastructure (1 percent)
- Marketing applications on the Web site* (1 percent)
- Human resources (1 percent)
- Other (6 percent)

Source: Morgan Stanley Dean Witter

CRM Implementation Trends:

- **Shift in CRM Application Architecture and Spending.** Applications developed in-house are being supplanted by packages, client/server architectures are moving to Web-based architectures, and best-of-breed point solutions are being replaced by CRM suites that handle most functions. Per-seat pricing is shifting to role-based pricing. Therefore, we expect prices to fall from $2,500 per seat to $250 per seat in three years. The buying of software is moving toward greater use of application service providers, leasing and rental models. Call center outsourcing is increasing due to a lack of skills and staff, but database marketing is being insourced.

- **Explosion of Customer Data.** In the past, the bulk of spending for CRM applications has been on sales and customer service. Beyond these areas, marketing and analytics are now the fastest-growing areas, due to an explosion of customer data from transactional, personalization, clickstream, voice and video communications, and the resulting analysis (see Note 2). We expect customer data management (in particular to protect privacy) will become a key skill set.

- **Vendor Churn, Leading to a Power Shift.** About 500 enterprises claim to sell CRM software, but only 200 actually do so. Of these, we believe only 50 will survive until 2004. Gartner expects ESP and ERP vendors will increase in importance, while best-of-breed vendors will diminish in number, but they will still play an important role.

- **Increasing Numbers of Project Failures.** Project failure can be defined as poor or low

adoption rates, and a lack of measurable benefits and improvements. A recent study identified that in 32 percent of sales technology projects, little or no use was made of the technology 12 months after deployment. Enterprises should try to identify risk factors and take steps to minimize the risk of failure in these projects.

Note 2
Important Investments

In a recent survey of 600 enterprises headquartered in the United States, across eight vertical markets, the following areas were rated as the most important investment to be made in the following 12 months (multiple responses were allowed):

- Electronic commerce applications (34 percent of respondents)
- Marketing automation (29 percent)
- Call center applications (22 percent)
- Sales force automation (21 percent)
- Data warehouse with detailed customer information (17 percent)
- Supply chain management (14 percent)
- ERP (12 percent)

Source: Gartner Consulting

However, we believe the most-critical trend will be none of the above. Consumer willingness to divulge details about themselves is the lifeblood of CRM. The key question is whether the trend will be toward greater privacy and data protection or to greater sharing of personal information by consumers. In either case, those enterprises that do not act responsibly with customer data will be in a constant "cat and mouse" game of getting and then losing customers, and will ultimately be wasting their investment in CRM.

Bottom Line: The top 10 trends listed above will all move at different speeds, but none can be ignored and all require enterprises to take the following actions:

- **Measure** customer expectations, relationship complexity, the reasons that drive customers to leave, and the level of demand for mass customization.

- **Educate** the CEO and board on the extent to which CRM could realistically improve profitability, the amount of executive time that is required and the changes in governance that are needed.

- **Focus** on customer data management and analysis, CRM vendor viability and the main causes of CRM project failure (both management and technology) if working in the IS organization.

Acronym Key
ERP Enterprise resource planning
ESP External services provider

Gartner's PRISM for Customer Relationship Management Research Note M-12-3620, 21 November 2000.

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