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# CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM OVERVIEW AND KEY REASONS FOR CRM FAILURE

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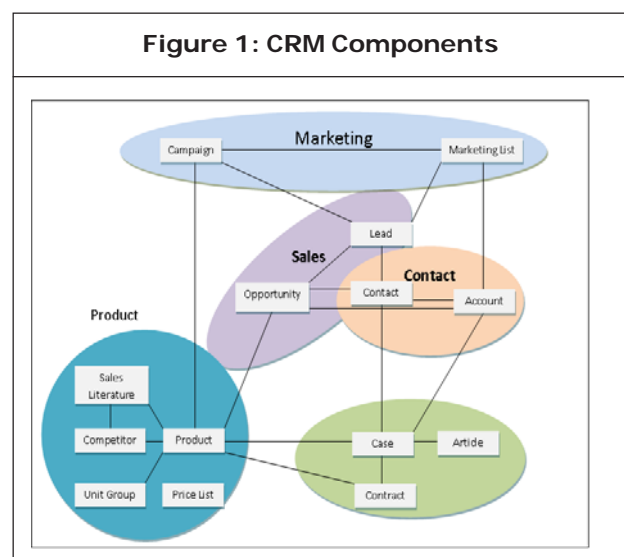
Despite the substantial growth in CRM System implementations over the last decade and the increased awareness of the business benefits of CRM, critics have always highlighted the high failure rate of CRM implementations. 13 Years of Research indicate that CRM Projects fail between 30% - 60% of the time. This paper provides an overview of CRM system components (Sales Automation, Marketing Automation, Service Automation), types of CRM systems and also reviews the reasons for failure of CRM Implementations. Some CRM failure Case Studies have also been included. Despite the high rates of CRM failure, it has been observed that if CRM projects are planned keeping in mind the potential pitfalls, it is possible to effectively leverage CRM functionality to drive business growth, enhance business processes and improve customer satisfaction. Organizations planning to Implement CRM systems can refer to this paper to formulate their CRM strategies keeping in mind the potential pitfalls.

**Keywords:** CRM implementations, CRM failures, CRM functionality, CRM strategies

## INTRODUCTION

CRM software is a class of enterprise software that covers a wide range of applications and software, engineered to help organizations manage customer information and interaction, automate marketing, sales and customer service and also manage partner relationships.

CRM software consolidates all customer data into a single CRM database so users can more easily access and manage it. The other main applications of this software comprise recording various customer transactions and interactions (over phone calls, email, social media or other channels, depending on the CRM system's



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capabilities, automating various workflows such as activities, calendars and notifications, and offering managers the ability to monitor productivity and performance based on information captured within the system.

## CRM COMPONENTS

**Marketing Automation:** CRM systems with marketing automation features can automate repetitive processes to enhance the marketing at different points in the lifecycle. For example, as sales leads come into the CRM database, the system can automatically direct them marketing content, typically via email or social media, with the goal of converting a sales lead into a customer.

**Sales force Management:** Sales force automation is meant to prevent redundant efforts between a sales executive and customer. A CRM system achieve this by automatically tracking all contact and follow-ups between both sides. Using the CRM system, managers can create activities, assign these activities to sales executives and monitor progress on these activities. All interactions with an end customer (contact) or a business (Account) can be tracked and viewed on single page.

**Service Automation:** Designed to minimize wearisome aspects of a call center agent's job, call center automation can include pre-recorded audio that supports in customer problem resolution and information propagation. Various CRM tools that integrate with the call center executive's desktop applications can handle customer requirements in order to reduce the time of calls and make customer service processes simple.

**Geolocation Technology:** Some CRM systems include technology that can create geography specific marketing campaigns based on customers' locations, in most cases integrating

with popular location based GPS applications. Geolocation technology can also be used as a contact management tool in order to find sales prospects based on location.

**Analytics:** comprises all programs that analyzedata about an organization's customers and presents it in easy to understand formats, so better and quicker business decisions can be made. CRM analytics can be considered to be a form of Online Analytical Processing (OLAP) and may also employ data mining. As websites add new and faster ways to interact with customers, the opportunity to turn data collected about customers into useful and actionable insights has become generally apparent. A number of software firms have developed products that perform customer data analytics. CRM analytics can also provide customer segmentation groupings (for example, at its simplest, separating customers by those most and least likely to repurchase a product or a service); customer profitability analysis (which customers provide the most profit over time); personalization (the ability to market to end customers based on the data-likes/dislikes/Preferences-collected about them); event tracking (for example, when a customer reaches a certain value of purchases); what if scenarios (What is the likelihood of a customer or customer category that bought one product to buy a similar one); and predictive modeling (for example, comparing various product development plans in terms of possible future success given the customer knowledge base). Data collection, nurturing and analysis are viewed as an unending and iterative process and ideally over time business decisions are refined based on feedback from earlier analysis and resulting decisions.

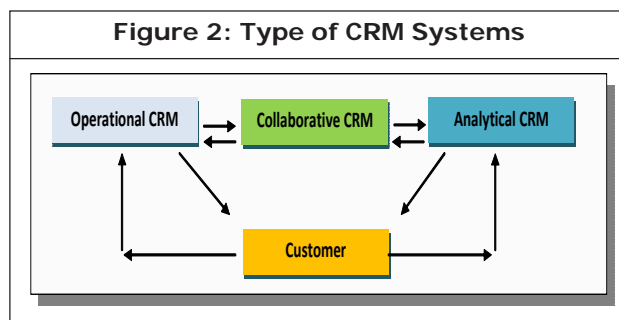
## CRM TYPES

**Operational CRM** supports front office operations, e.g., the call center representatives.

Operational CRM integration points exist to human resource information systems for data and other enterprise information systems for transferring sales order information which was captured for example by a call center representative. From an operational perspective, CRM is an integration of systems and business processes that are embraced to fulfill the needs of a customer during any given interaction.

**Analytical CRM** places itself on top of operational CRM and establishes information on consumer behavior, customer segmentation, and customer lifetime value using statistical methods. It is beneficial for management and evaluation purposes, the operational customer data is integrated with a centralized data warehouse which contains amalgamated data based on various parameters (e.g., demographics, sales, profits). Here the data mining tool performs analytics based on pre-defined dimensions, e.g., compares the characteristics of one customer with another, leading to the determination of a customer segment and thus providing the basis for a targeted marketing campaigns

**Collaborative CRM** focuses on customer integration using asynchronized mix of interaction channels (multi-channel management), e.g., online shops, and call centers. As per survey nearly 60% of the companies using CRM develop internet portals to facilitate real time customer communication for selected or suitable activities.



## CRM BENEFITS

Enterprise have either already invested or are planning to invest heavily in CRM strategies and products. Improved workforce efficiency, collaboration, customer data management and customer service have been cited as the top benefits expected from CRM solutions.

Professionally implemented CRM systems can deliver many benefits for sales, marketing, service and other supporting teams. Here are some examples that demonstrate how CRM solutions help organizations prosper:

- Sales cycles are shortened and win rates improve as teams are able to focus their efforts on the opportunities that are most likely to convert in to sales.
- Effective Time Utilization as CRM notifies business users to follow up on tasks and automates tracking when important events occur, or in case actions are missed/delayed.
- Performance hotspots are quickly identified allowing timely action to be taken to rectify issues and incentivize outstanding performance.
- Improved Customer Experience (CX) as everyone has access to comprehensive customer relationship information, they are able to work more effectively, to engage with clients and deliver amazing service.
- CRM can integrate with finance and other back-office applications to connect processes, ensure seamless data flow, and remove double handling of tasks.
- Improved Quality of lead generation from marketing activities by utilizing CRM customer segmentation to send personalized campaigns and targeted messages that

resonate.

- Pipeline reports are trusted and are used as the foundation for dependable production and sales forecasts to predictably manage cash flow.
- The value of each client relationship is understood ensuring that resources are appropriately prioritized to protect the most profitable customers/accounts. For charitable organizations CRM can manage beneficiaries, donors, and volunteers.
- Decision making is agile and well informed reinforced by real time CRM reports across all business areas.
- Training costs are reduced by equipping users with tools they are already acquainted with and applying directed processes that guide them to successful outcomes.
- Process automation replaces repetitive manual tasks by reducing admin work and eliminating redundancies, so teams can focus efforts on profitable activity.
- Communication is a strength Shared notes, team calendars and service schedules give everyone clear visibility of individual activities and progress.
- Users can instantly review order histories to identify customer buying patterns and get insights on new trends and selling opportunities.
- Mass Promotions (Emails/SMS) are reported in CRM so hot prospects are instantly identified and sent to sales teams.
- Do business anywhere by having reliable access to all the client, sales and relationship information you need using CRM applications

on mobile and other hand held devices.

- Connected business processes by managing all key processes in one application, including diverse processes like contracts, projects, events and applications.
- A positive team culture as staff share information, collaborate effectively, and gain a better understanding of others work in the organization.
- Critical customer data is protected as teams and individuals are allowed different access at different levels that are consistent with their role and responsibility.
- Scalability that fuels your business growth by adding more CRM functions and processes as the business grows and processes evolve.

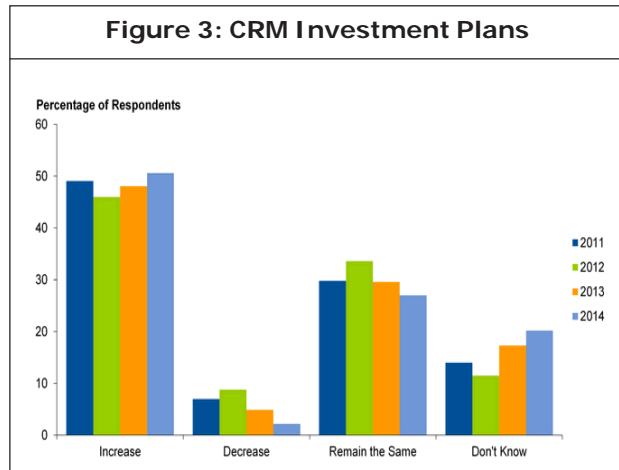
## CRM ADOPTION TRENDS

According to Gartner, Organizations are using CRM systems as an integral part of their digital initiatives to improve the customer experience. Gartner said that demand for modern technology customer relationships is driving refreshed or expanded integration and usage of all areas of CRM software. The outlook continues to be positive for CRM as buyers focus on technologies that enable more-targeted customer interactions in multichannel environments.

“CRM will be at the heart of digital initiatives in coming years. This is one technology area that will definitely get funding as digital business is crucial to remaining competitive,” said Joanne Correia, research vice president at Gartner. “Hot areas for CRM investment include mobility, social media and technologies, Web analytics and e-commerce.”

As per a study by Gartner nearly 48%

businesses plan to invest in CRM solutions. As a result there is staggering growth in demand for CRM solutions. As per another research by



Gartner the Global CRM software market totaled \$23.2 bn in 2014, upto 13.3% from 20.4 billion in 2013. Gartner anticipates that the CRM market worldwide will be worth 37 billion by 2017.

“Unsurprisingly, high-tech, banking, insurance, securities, telecommunications, pharmaceutical, consumer goods, IT manufacturing and IT services vertical industries will continue to be the largest spenders on CRM as they have the widest use of different types of CRM applications and technologies,” said Ed Thompson, vice president and distinguished analyst at Gartner. “All these industries are also increasing investment in emerging economies, further driving spend.”

### CRM FAILURES

Despite the massive growth in CRM System acquisitions over the last decade and the increased recognition of the business benefits of CRM, critics have always highlighted the high failure rate of CRM implementations. 13 Years of Research indicate that CRM Projects fail between 30% - 60% of the time.

CRM PROJECT FAILURES	
Source	Statistic
Gartner	50%
Butler	70%
AMR	29%
The Economist	56%
Forrester	47%

source: ZDNet

According to Gartner about 50% of CRM projects result in either losses or insignificant improvements in organizational performance.

CRM Failures are costly affairs. In December 2002, the Senior Leadership at Cigna Corporation (Cigna) announced that problems in their CRM systems had resulted in misreporting the number of customers by an additional 900,000. Due to glitches in the CRM system Cigna also faced problems on various other fronts including customer service and profitability. Customer service went haywire leading to millions of unhappy customers. Poor customer service led to a fall in the company’s membership by around 7% in 2001-2002. Cigna reported revenues of USD19.34 bn and a net loss of USD398 mn for FY 2002. Read Detailed Case Study in the “CRM Failure Case Study” Section of this Paper.

In the past few years, various other companies have had to deal with CRM Failures. For example, Lexmark scrapped a CRM initiative in 2002 and announced that it would take a charge of \$15.8 mn. Again in 2002, Agilent Technologies attributed its profit shortfall to challenges in implementing a new Enterprise wide CRM system. Carsdirect, a US based online car buying/selling company, experienced operating losses of around USD50

mn due its failure to effectively meet customer demand after automating its customer tracking process.

As CRM Initiatives are strategic and transformational in nature (with the intent of significantly changing the way a company interacts with customers) there are various potential failure points.

Like for any complex technology initiatives, different risks exist in different phases of the initiative. The risks need to be identified during the planning phase of the initiative and risk mitigation/avoidance strategies need to be developed.

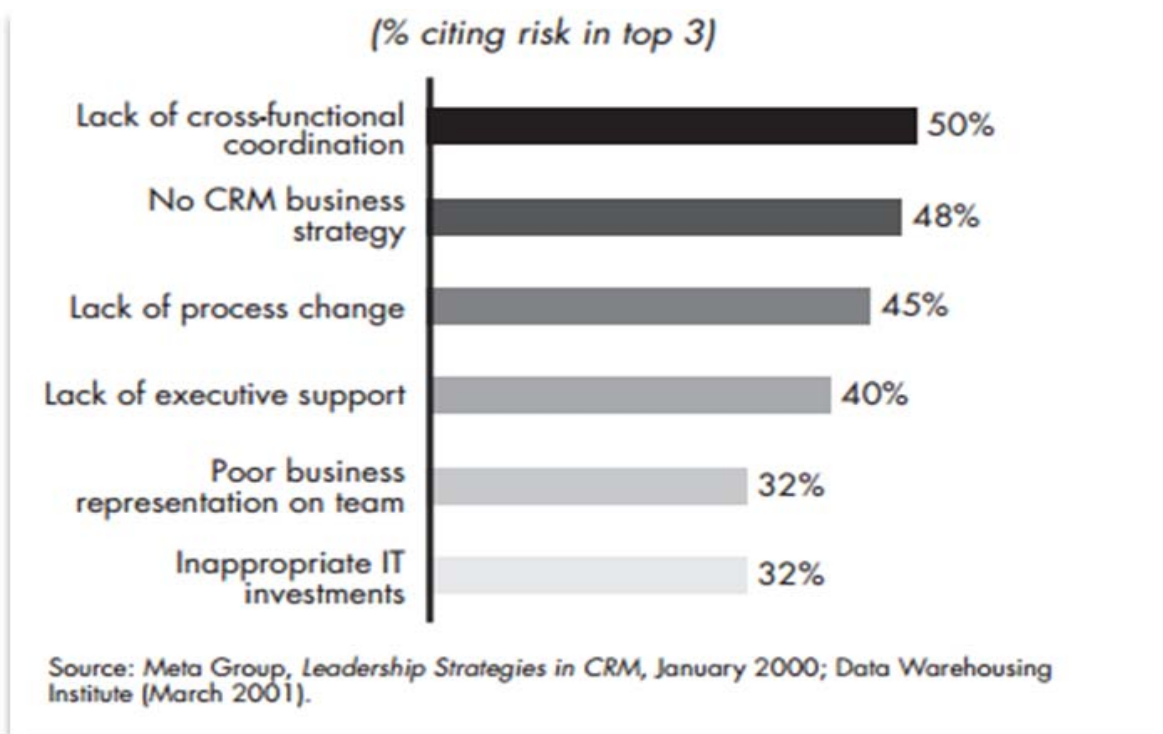
Following figure describes the most common reasons for failure

Studying the critical CRM success factors can

help organizations develop a better understanding of the risk and can help them plan their CRM initiatives accordingly.

1. Technology-led CRM projects are, in most cases, started with the wrong objectives. Some of these projects are begun primarily to implement new technology without making sure that the technology support a compelling business case. If CRM is considered as only aIT project and not a business driven initiative leveraging technology then the business is not driving the change of its own business operations/processes. CRM can only automate business processes and business rules. It's the business that needs to define the processes and rules to ensure the automation achieved using the CRM system brings value.

Figure 5: Key Reasons for CRM Failure



Many executives go with the assumption that CRM has needs complex technology. Customer relationships can be managed in various ways, and the goals of CRM can be achieved without large technology investments. Simple approaches such as motivating employees to be more aware of customer needs can go a long way. Merely assuming that technological solution will automatically meet all CRM needs, or supposing that a high-tech solution is better than a low-tech one, is a costly mistake. In fact companies with successful CRM programs map all levels of the technology spectrum: high medium/low complexity.

2. Project sponsors are not committed to, or do not completely understand, the project objectives and outcome. They may not understand the need or the way a CRM should be implemented. Another scenario could be that the Project sponsors have lost interest and are not keenly involved in the project strategy or implementation. Lack of commitment from the executive sponsor normally indicates that key stakeholders need to be persuaded that the initiative will fulfill their business objectives and that they need to be made aware of the possible CRM implementations risks and challenges. It is imperative for the key stakeholders to understand that the real business value derived from the CRM implementation is worth the effort and the change. Communication and cross-functional collaboration has to be streamlined at all levels with a clearly defined communication process. Lack of Stakeholder commitment can prove extremely detrimental to the success of the CRM initiatives.

Leaders Failed to Engage BMC, the \$1.5 billion software company, was an early CRM visionary and rode out two failed CRM initiatives before achieving success and returns. In the first attempt, processes and systems were implemented without the involvement of key executives or business units. The new system suffered from very low utilization, with only 30 to 50% of users adopting it. The system was also plagued by problems caused by inaccurate data. The second attempt went forward under the mistaken impression that all the users needed to get onboard were more features and better data. The system again failed to capture wide usage. BMC's persistence paid off on attempt number three once they realized the need for executive support. The project team obtained C-suite commitment and formed a steering committee of IT and business owners. In addition, more than 150 grass-roots-level salespeople helped define the system's features and usability and this time adoption soared to 97%.<sup>14</sup> BMC spent more than \$10 mn on the third effort alone, but returns are expected to be in the order of \$70 mn the next two to three years as sales reps increase their leads and convert more of them to sales.

3. User Adoption is not attained. This is where the success of a CRM is really measured. It is the litmus test that decides whether the CRM automation system enables staff to be more effective and efficient in creating profit and selling better. It is important that the project team wisely choose the Business Process Owners involved in both the design workshops and User Acceptance Testing (UAT). It is vital that the testing is completed by users who know the business. For the implementation to



be successful, business users must be involved at each stage of the CRM Implementation: from planning to execution to project closure.

4. Management Discipline is not established. Without leadership and employee buy-in for the CRM Implementation the focus and necessary detail to make the changes to the business will not happen. Every employee in the core business and support departments will be affected by the fundamental process changes introduced by CRM. To have a CRM Initiative anchor who can communicate both vertically and horizontally across the organization is vital. The users will be excited once they understand both the paybacks and how they will be enabled to enhance and streamline customer sales, service and marketing making the business more profitable. Management needs to maintain impetus towards customer focus. Appropriate training is important to make sure employees understand the role they are playing and also the motivation for change.
5. Business Readiness —The business needs to be ready with accurate data to load into the CRM system and to start capturing incremental data effectively. The system will provide results that are only as good as the data that is available in the database. As they say Junk in Junk Out. The data holds prime importance in the business. Business results are usually built around the business rules that need to be clearly defined, ensuring the process and data checks required to create profit and meet other CRM objectives. Close collaboration between the business and technical teams will yield the best results. Data availability, quality and integration issues all need to be addressed.

It's also important to assess the as-is Business Structure (departments, products, geographies in scope). Internal structures and systems also need to be aligned with the CRM strategy. Research reinforces this point. According to a survey conducted by the on-line resource center CRM Forum, when questioned about what went wrong with their CRM Implementations nearly 4% of the managers cited software related issues, around 1% said they didn't get the right advice, but a staggering 87% attributed the failure of their CRM programs to the lack of a proper change management (Planning & Execution). As per a Harvard study many companies work for years at changing their business structures, processes and systems before initiating CRM initiatives.

6. Change Management failure is one the common reasons for failure of CRM projects. Management of the change related to systems, processes and people requires control, co-ordination, communication of the schedule. For completing the processes and systems successfully within the timeframe will not happen without people being prepared and onboard. For this, it is important to organize different training for users, technical staff and support staff so that they each know their role and the rationale for change.

CRM initiatives are often disruptive and initially unpopular among the rank and file. It considerably impacts skills, jobs, roles and the daily routine of an organization. The most challenging part is the aspects of people in the large initiatives mainly politics and organizational conflicts which is norm of CRM initiatives. If not prepared adequately, the departments and employees will be apathetic

and hostile for change. However, while preparing for and deal with the change, many organizations fail to assign time in their plans. In fact, the first item considered from proposed plans and budgets is usually the change management. Executives assume the employees are excited about the initiative and face a rude awakening when confronted with opposition. An executive at Mutual of Omaha was greeted with a sea of rolling eyes when the CRM initiative was announced to an employee meeting. It prompted executives to immediately increase efforts in order to help the organization to prepare for and cope with the change.

7. Business Objectives and Strategy when unclear and ill-defined, causes CRM project to fail. Simply automating the current processes and then making them to suit the CRM product instead of supporting the business are the two common mistakes done by a project teams. Rather than forcing the CRM product onto users, it is required to have a fundamental understanding of the business model to ensure the system to correctly reflect the defined business processes.
8. People Risks are not managed. Changing the existing work practices may create stress and uncertainty in the workplace. Implementations of new CRM systems often lead to the replacement of old processes, systems and people. This uncertainty can create fear and may lead to resistance or a lack of morale while running the key initiatives. It is necessary to clearly address issues of people and to have a strong steering committee in place in order to manage factors that are largely outside of the project deliverables. Lack of managing culture may also result in a lack of morale, high

attrition and poor motivation among people in multicultural deployments. Long working hours, constant requirement changes, unrealistic client expectations and stringent timelines can also result in the frustration at many levels.

9. Product/Vendor Risks in many CRM projects result in failure due to over-customization of the CRM product. There should be a careful assessment of various CRM vendors prior to make a decision on the implementation partner. The key parameters to be considered are: scalability of the product; its impact on performance; upgradeability and cost of upgrade. Engaging an inexperienced, unstructured system integrator provides much uncertainty around project execution especially who does not have the requisite business and systems knowledge.
10. CRM Interfaces to the customers and enterprises are not considered while designing and launching of the system. In order to provide customer with consistent, knowledgeable, and high-quality service, it is important to ensure an accurate, timely data flow through each step of the customer experience. To share customer data with other systems, the integration and interfacing with CRM data will quickly be required. If this is not considered, the customer data will become siloed on the CRM platform and can fall out of sync with other key systems such as ERP.

## CRM FAILURE CASE STUDIES

### Cigna Corp

At a press conference in December 2002 the Leadership of Cigna Corporation one of the

leading health insurers in the United States announced that issues in their customer database systems had resulted in misreporting their number of customers by an additional 900000. In the beginning of 2002, Cigna faced problems on many fronts including customer profitability and service. The company's membership dropped due to poor customer service and towards the end of 2002 the membership fallen to 12.5 million, down from 13.3 million at the end of 2001. For the fiscal year 2002 Cigna reported earnings of USD19.34 bn and an overall loss of USD398 mn.

According to analysts the primary reasons for Cigna's poor customer service and the ensuing reduction in membership was the failure of the restructuring of its CRM systems at its HealthCare division. This USD1 bn Initiative was aimed at migrating 3.5 million customers of Cigna from the 20 year old legacy systems to the new AS400 systems that offered claims processing functionality—ProClaim and PowerMHS software. The project was driven by the Chief Information Officer.

In spite of Anania's confidence in the system, the switch did not go efficiently, running into several technical glitches. As a result of this customer service went for a toss resulting in a number of disgruntled customers. The firm lost 6% of its healthcare members in 2002 alone. The Cigna Leadership, during the shareholders' meeting in 2002 acknowledged that they had failed in executing the CRM project. Cigna's top management investigated the cause for the failure. The reasons identified were: (1) Greater than expected cost of implementation. (2) Misconceptions about the timing of the business benefit realization from the project.

## HERSHEYS

Candy producers usually record 40% of their annual sales between October and December. Halloween, which is the biggest candy-consuming holiday, accounts for approximately \$2 billion in sales. For a Candy Company to lose out on Halloween sales is like a toy company missing Christmas. Unfortunately in 1999 that's exactly what happened to Hershey, the largest candy maker in the United State. Just before the candy season shelves at warehouses and retailers lay empty of delights such as Reese's Peanut Butter Cups, Hershey bars, Kit-Kats, Kisses, and Rolos. Though inventory was available, orders had not arrived and distributors were not able supply their retailers. Hershey announced in September that it would not be able to meet its third quarter earnings targets due to problems with the new orders and delivery system that had been rolled out recently. The new enterprise resource planning and CRM processes/systems implemented earlier in the year had adversely effected Hershey's ability to take orders and fulfill orders. The USD112 mn system was aimed at improving and optimizing business practices. The system was expected to provide "front to back" automation from "order taking to truck loading", but Hershey lost market share as these problems allowed rivals to benefit during the season. Mars and Nestlé reported unusual spikes of orders as the Halloween season came closer. The most trying aspect of the situation was that Hershey had plenty of stock (candy) on hand to fulfill all its orders. It was just not able to deliver the orders to its customers. By December 1999 the company announced it would not meet is already reduced earnings forecasts. It announced that lower demand in the last few months of the year was in part a cause for the earlier fulfillment and service issues.

## CONCLUSION

Various Management tools have come and gone however CRM is not just another trend. It is a powerful concept, however a difficult one to execute. Its downsides explain why everything that is presently being done in the name of CRM seems to be driving managers away from, rather than closer to, customers. But CRM is by no means impossible to use effectively. It's just like any other enterprise wide initiative. If the focus on the principles on which it is based is not lost the pitfalls in its execution can be avoided. The CRM project won't end up weakening earnings, dissatisfying employees, and diminishing customer loyalty.

Successful CRM Implementation, depends more on strategy than on the amount of money spent on technology. Strategy is about allocating limited resources to create competitive differentiators and improved performance. The best way to make CRM work is by spending enough time on formulating customer strategy. The customer strategy helps all stakeholders understand where they are going and why. It also helps ensure that Business/IT alignment before implementing the CRM System.

Companies also need to efficiently drive and manage change helping CRM support teams understand they can achieve their goals through

new processes. Employees must be equipped with all the necessary tools to succeed. While technology is an important facilitator in the process of customer relationship management, at the end of the day, that's what it is "a facilitator". The moment companies lose sight of that CRM turns into a tool that does not bring any significant benefits to the Business or its customers.

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