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HIGH-TECH ASSOCIATES (B): ACCEPT THE CRM CHALLENGE?

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In late 1998, Singapore-based High-Tech Associates Pte. Ltd. (High-Tech) embraced the e-business challenge by developing a new stream of services designed to satisfy two key client groups: upstart 'dot-coms' promising to offer new and innovative ways of doing business and 'old economy' companies interested in using the Internet to achieve greater cost and business process efficiencies. Over the next 15 months, the marketing consultancy enjoyed strong demand for these services as Internet usage and penetration continued to skyrocket. However, beginning in March 2000, investor sentiment towards Internet ventures turned sharply downward as serious doubts set in concerning the long-term viability of many related initiatives. Consequently, many public companies lost a great deal of their market value while many IPO aspirants who failed to make it to the public markets in time scaled back their operations significantly or went bankrupt.

In the ensuing 18 months, global economic activity began to slow. This slowdown was exacerbated by terrorist attacks carried out in New York City and Washington D.C. on September 11, 2001, which sent shock waves around the world. Singapore was particularly hard hit by the global downturn because so much of its economy was export-dependent. This left companies like High-Tech scrambling to find new revenue streams to support their operations. By December 2001, Sarah Fraser, now High-Tech's sole director, claimed that a "general malaise" had set in Singapore's business scene. This prompted her to consider developing a completely new service line - customer relationship management consulting and project implementation. The question that now needed to be answered was whether or not this was a viable growth opportunity for High-Tech.

Ivey-Nanyang Case Writer Tom Gleave prepared this case under the supervision of Associate Professor Edna Reid. The case is based on public sources and interviews with key personnel from High-Tech Associates. As the case is not intended to illustrate either effective or ineffective practices or policies, the information presented reflects the authors' interpretation of events and serves merely to provide opportunities for class discussion.

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THE E-BUSINESS GAMBIT

After spending a great deal of time researching and analysing the market, High-Tech decided to launch an e-business services stream in late 1998 under the proviso set by partner Jenny Smith that Fraser assumed the associated risks, responsibilities and rewards for this foray. The process proved more difficult than originally foreseen because each day witnessed the arrival of new ideas, companies and technological developments that impacted the evolving Internet market. However, by ensuring that it took a measured approach to "advising" itself as if it were an external client, the consultancy was able to identify two appropriate target segments that provided low barriers to entry, minimal competition and a strong promise for profit. These two segments were upstart dot-coms looking to revolutionise the way business was conducted and traditional companies looking to exploit the advantages of emerging Internet technologies, without necessarily being technology companies themselves. Given the inherent differences between the two segments, High-Tech developed and emphasised different service offerings accordingly. (See **Exhibit 1** - High-Tech's Service Offerings And Capabilities.)

Once High-Tech formalised its e-business service offerings, it began to aggressively pursue and acquire clients in its two target segments. Correspondingly, over the next year the company experienced a significant increase and shift in the types of projects that it undertook, with about 60 percent of the workload being related to e-business marketing advice provided to local dot-coms. The remaining 40 percent comprised work related to High-Tech's traditional strengths of marketing strategy, positioning, distribution channel management and marketing tactics on behalf of MNCs and local SMEs. In addition, the company continued to act as the outsourced marketing department for three clients, one more than in 1998. These accounts remained lucrative because High-Tech generated about S$200,000 on each account, yet only spent about three quarters of the salary of the three employees who managed the respective accounts.

Although High-Tech's move into e-business services initially proved successful, the hectic pace and shift in focus of the business made founder Jenny Smith feel uneasy. This, coupled with changing priorities in her life, prompted her to sell her half of the company to Fraser in mid-1999, thus giving the 35 year-old Briton complete control over the daily management of the business. Undaunted by the already demanding workload, Fraser soon after enrolled in the part-time MBA program at the local Nanyang Technological University.

After Smith's departure, Fraser implemented several changes that were designed to professionalise the company. One such change involved the establishment of a formal management structure based on High-Tech's main service lines. To this end, two separate divisions were formed, one focused on strategic marketing consulting, the other on tactical marketing services. Within the two divisions employees were assigned to projects based on their functional expertise instead of their industry expertise, as was originally the case. This was done in an effort to increase the organisation's ability to manage diverse projects simultaneously.

By early 2000, the first major alarm bells concerning the long-term viability of many dot-coms had sounded. In March 2000, these alarm bells turned into panic as investors, wary of tenuous revenue models and value propositions, began to shun many new economy companies in droves. This resulted in steep depreciations in the valuations of many publicly traded ‘dot-coms’, as well as a significant decline in interest in private businesses by the venture capital community. Consequently, a great deal of uncertainty regarding the future direction of the Internet arose, despite the fact that usage and penetration continued to grow at impressive rates throughout the world.

LESSONS LEARNED

The move into e-business services proved to be both a boon and a bane for High-Tech. On the one hand, the company was able to increase its revenues substantially during 1999 and early 2000. On the other hand, the challenges of playing in the e-business arena proved more difficult than was originally foreseen, as Fraser elaborated:

> *The move into e-business services meant that we ended up spending a lot of time working with young, untested management teams. It was interesting to watch how these teams would often meet only in groups in the hope that they would cover up for their lack of preparation or inexperience. What became particularly challenging was dealing with situations where managers within the same team would use the same language, but then they would have their own interpretations of what the words meant. On one occasion I*

was talking to a team about their 'ASP' (application service provider) model when one of the managers asked me 'what does this have to do with the average selling price?' This kind of mix-up was not an isolated case. Therefore, we had to spend more time than we planned for playing the role of communications facilitator so that everyone would be talking from the same page. After we launched our service, we also discovered that some of our associates were not as prepared as we originally believed, while others, like our Hong Kong associate, proved to be ahead of the curve. This meant that we needed to spend time managing communications with some of our associates as well.

Many of the young 'dot com' teams were well-funded, but their immaturity was all too apparent. They thought that if something was unique, people would automatically buy it. Well, maybe the reason it wasn't developed in the first place was because people didn't want it. We also had teams trying to do new product or service launches without so much as a benefit statement. In one case, a client asked us to get 200 people together for a launch. When we asked 'who do you want?' they answered 'we don't care'. They clearly didn't see the need to logically link different components of the marketing mix together.

Many of the young teams were also ill-disciplined because they had come into some easy money. But there were some management teams out there that had invested significant amounts of personal capital in their businesses. They seemed more mature in their expectations but they still lacked marketing experience. In fact, we did not come across any 'dot com' where the senior manager had extensive sales or marketing experience. Most had come from finance, operations or IT backgrounds.

Attrition also became a problem because many key managers at our 'dot-com' clients started to job hop as the Internet euphoria escalated. These managers were often lured by what appeared to be more exciting business opportunities, as well as the promise of stock options. Since so many of companies were already racing around, establishing and maintaining clear communication channels with key managers became that much more difficult.

There was also a financing issue. Some 'dot coms' were struggling badly and wanted us to take on equity instead of having to pay our invoices. We even had a couple of teams approach us about sharing our office so that they could keep their rent costs down. Naturally, we resisted such overtures. We are in the consulting business, not the venture capital or real estate business. Given these headaches, we decided to revise our pricing schedule. Now we spend even more time than before scoping out our projects so that we can set an appropriate fixed fee. We have also revised our payment schedule by asking for 50 percent of the fee upfront, 30 percent at an adequate mid-point review and the final 20 percent and out of pocket expenses upon completion.

Interestingly, the managers who were the easiest to deal with came from 'old economy' companies. They sometimes appeared less IT savvy than the 'young turks', but they took a more measured approach at determining how the Internet could be properly applied to their specific situations. They also spent a lot less time trying to dazzle us with fancy new language and instead focused on core business process improvements.

One of the most important lessons for us was discovering that the disconnect between the IT and marketing departments in both traditional and 'dot com' companies was deeper than we originally suspected. We knew that IT people often viewed marketing people as flaky, and that marketing people often viewed IT people as geeks. But it went well beyond stereotypes. More often than not, the problem was that IT departments often did not understand the need for the types of data and *information requested by their marketing departments. Therefore, you would have marketing managers saying 'our Website is getting hits, but we want to know who are they, where are they coming from and what these people want?' Unfortunately, many IT departments were not forthcoming in facilitating the creation of information from these raw data.*

SHIFTING PRIORITIES

Despite the bursting of the Internet bubble, Fraser and her team worked sufficiently hard enough to substitute the declining interest in e-business services with sizeable projects related to High-Tech's traditional strengths in marketing planning, positioning and distribution channel management. This was accomplished in large part to the emphasis that Fraser had placed on securing projects that were more strategic than tactical in nature. The motivation for this shift in focus stemmed from the fact that such engagements were generally priced much higher than tactical projects like promotional events or public relations exercises. Strategy driven projects also offered twice the gross profit margin or more than tactical projects. During this period, the company also began to develop a small but promising service line involving database development and management. This came about after Fraser realised that many non-retail oriented companies in Singapore, including MNCs and SMEs, were not capturing fundamental data in a structured manner. Therefore, she approached several companies who agreed to allow High-Tech to design a customised database for them. Once the database was developed, High-Tech employees would then input key data of records (such as sales invoices) supplied by the clients.

By mid-2001, the company's revenue mix was as follows: 40 percent channel related; 35 percent marketing strategy or positioning related; and 25 percent tactical services and database related. Correspondingly, the company's customer base had shifted again, with about 75 percent of the projects coming from MNCs, 15 percent from ‘dot coms’ and 10 percent from local SMEs. The shift in emphasis towards traditional strategy and positioning projects proved beneficial, as High-Tech increased its revenues by 50 percent between 2000 and 2001, despite the burst of the Internet bubble. Taking into account the 100 percent growth that occurred during 1999, this meant that in the four years Fraser had been with the company, sales had grown more than fourfold, while costs were kept to slightly over two times those of the 1998 levels. This included payroll costs, with the total number of employees having increased from 10 in late 1998 to 17 by mid-December 2001. Although Fraser was pleased that all the employees who had joined High-Tech during her time with the company had remained, she was still conscious of the existing gender imbalance at the company. Fraser explained:

We have 17 employees representing nine different countries, so we have a wide diversity of experience, cultural backgrounds and opinions from which to draw upon. I am really pleased about our team because everyone has been a positive contributor, which makes my job easier. The interesting thing is that all these employees are female. This simply happened by default. But we have to be mindful of this because some companies may perceive us as having too much creative talent and not enough hard-nosed consultants who can be candid and forceful when the need arises. Funny enough, I just made an offer to a strong candidate today who happens to be male.

NOW WHAT?

On September 11, 2001, terrorists hijacked four commercial airliners on the eastern seaboard of the US, three of which were used with devastating effect when two were deliberately flown into the twin towers of the World Trade Center in New York City, and other into the Pentagon in Washington, D.C. The fallout from these attacks was immediate and global. The economic slowdown that was already being experienced in the US was exacerbated by the attacks, and this in turn sent strong negative ripple effects throughout the world. Much of Asia was not spared from this global economic downturn as many regional economies were export-dependent. Singapore was particularly hard hit because many of the high-technology manufacturing industries on which it depended, were going through an especially severe slump. This resulted in the Lion City's worst recession in 35 years, with annual GDP for 2001 forecast to plummet by 5 to 6 percent over the previous year. Commenting on how these events had impacted the local business scene, Fraser stated:

Ever since the Internet bubble burst, companies have become much more *focused on the ROI of their marketing investment. They are saying 'we have invested X dollars in an online presence and Y dollars on enabling the supply chain, but what is the return?' And now with the recession and 9-11, there is huge trepidation about spending money. Some companies haven't even finalised their 2002 budgets yet and this is mid-December (2001). Many companies are also starting to move to a quarterly or bi-annual budgeting cycle. This is almost unheard of. The annual budget cycle has been a mainstay in the corporate world long before I ever started working. So it is no surprise that most companies are not committing to any major new marketing strategy or positioning work. What money that is being spent is dedicated entirely to lead generation. The problem is compounded by the enormous stress that people are feeling. I know some managers who have seen entire departments or even offices closed right in front of their eyes. So those who are left standing are afraid to ask for money for fear that they will get their heads chopped off next.*

THE CRM OPTION

In response to the decline in sentiment for Internet-related companies and the global economic downturn, Fraser began to consider other revenue-generating opportunities to support the business. The one option that she had given the greatest attention was related to the rapidly expanding world of Customer Relationship Management (CRM). This relatively new information-driven domain focused on improving business processes in an effort to achieve greater understanding of customer needs and behaviours. The growing interest in CRM system applications made it one of the fastest growing segments of the global software development industry, with worldwide revenues expected to increase from an estimated US$9.4 billion in 2001 to US$30.6 billion by 2005, with Asia accounting for about 9 percent of the total.[1] In terms of sales by industry, financial service companies were expected to buy 22 percent of all CRM application packages, with telecommunications and discrete manufacturing companies expected to purchase 19 percent and 15 percent respectively.[2] The cost of the software ranged from US$50,000 for a scale-down package up to US$5 million for packages with advanced features and wide-ranging functionality. The software itself typically constituted only 30 to 40 percent of a project's total cost. The majority of the cost was related to implementation and staff education, a process that usually took six to nine months to complete.

The growing interest in CRM was fuelled by companies that realised it often cost five to 10 times more marketing dollars to attract new customers than it did to retain existing ones. Therefore, by investing in CRM systems, companies hoped to develop deeper and longer lasting relationships with their existing customers, as well as establish solid leads to promising new buyer segments. This implied that such systems needed to be holistic in nature by bringing together timely and relevant information about customer needs and preferences, market trends, marketing effectiveness and organisational responsiveness. Such information could then be used to improve call centre efficiency, generate greater cross-sales opportunities, close transactions more rapidly, simplify marketing and sales processes, as well as identify potential new client bases.

Given the inherent complexity of most CRM implementation initiatives, many projects failed to meet expectations. As Fraser explained, it was the frequent number of unsuccessful implementations that had prompted her to consider CRM consulting and implementation management as a possible new revenue generating opportunity for High-Tech:

Implementing a CRM system is not easy. It takes a massive amount of coordination and clear communication. I have already seen one case where one MNC has tried to install CRM applications from three different vendors and they all don't work! Clearly there is a problem here. So I have approached some of the global vendors like Siebel, SAP and Oracle to find out if there is an opportunity for us to work together to resolve these problems. After several conversations, I am convinced more

1 CRM sales in Asia were expected to reach US$2.7 billion by 2005. Cahners In-Stat, July 2001
2 *Invest in Education for CRM to Succeed,* The Business Times, 2001, October 29.

than ever that these companies can provide great software, but I am not at all convinced that they can provide strong customer-focused consulting advice. This is because the vendors typically have IT people speaking to IT people. Where we could add value is with our direct pipelines to senior executives in sales and marketing departments who, in turn, are in touch with their customers. We also have a very strong understanding of the marketing process and how it is linked with other parts of the organisation.

CRM is quite the buzzword these days. Everyone seems to be jumping on the bandwagon, but so many companies need to take a step back and determine how their sales, marketing, call centre and finance departments interact with each other before embarking on such projects. I believe that CRM is a business philosophy, it is not about bits and bytes. Good customers relations are not provided by software, you have to have the mindset in place prior to any system implementation or else there will be a mismatch between people and software. This means that organisations must first ask themselves some fundamental questions like 'what is it we are trying to achieve?'; 'who are our customers?'; and 'how can we better serve our customers?' We could help answer these questions by forcing companies to apply tried and true methodologies that will help them better understand their existing relationships and future priorities.

If we do develop a CRM-focused service line, one of the key issues for us will be deciding whether we should try to team up with the major vendors or instead deal directly with the clients. Each of the major vendors seems to recognise the value of our relationships with marketing executives, so our conversations about working together have thus far been encouraging. If we could convince these vendors that they need to offer our tailored marketing methodologies to each client, we would have the opportunity of developing mutually beneficial relationships for all concerned. As it is now, the vendors can offer the software and show the clients how to capture the data, but the clients would still not know how to use and apply these data in a customer-focused fashion. Our methodologies would help lead the way. The thing is - if we team up with any vendors it may compromise our independence. It would also necessitate higher project costs for the client because we would be tied in to a premium-priced service provider. On the other hand, we would have an incredible opportunity to learn about this business from the ground-up. This would minimise the opportunity cost of self-education that we would have to incur if we had gone alone.

If we decide to deal directly with the clients, we could audit their situations and evaluate appropriate software packages from different vendors on their behalf. This type of objectivity should give us greater credibility because we would not be beholden to any one vendor. So much money is being wasted these days by companies that don't need a CRM system because they don't have the appropriate data to mine or the necessary mindsets in place. If we point this out to clients in the first place, instead of simply trying to sell and implement software, I am sure we would gain their respect and long term loyalty. One major drawback about going alone, however, is that we will need to deal with clients who have many disparate databases. This will make data and system integration very cumbersome. This also means we would need to hire some talented people to troubleshoot these problems, and this kind of talent is expensive, whether or not it shows up on our payroll or through subcontracted expenses. This means that we would probably need to charge 10 to 20 percent more than our strategic marketing price point for these types of projects because of the work involved. Still, this would result in a noticeable discount compared to the CRM vendors and 'Big 5' consultants.

Ultimately, by becoming known as an effective CRM system evaluation and implementation consultant, we could broaden our scope of offerings and put *ourselves in a better position to cross-sell our services, especially our high-margin marketing strategy and positioning services. But it is not like it is a green field out there. The vendors themselves are working independently, and all the 'Big 5' consulting companies have established relationships with the vendors as well. In the past, we have lost bids to the 'Big 5', even though they used people in their US offices to put something together for their Singapore-based clients. They also have brand power. Six months ago, we lost a large marketing strategy project to a 'Big 5' firm, even though our bid was about half the cost. This was because the marketing manager wanted to be able to tell his general manager that his marketing project was endorsed by a 'Big 5' company.*

GO OR NO GO ON CRM?

In the four years since Fraser had joined High-Tech, the company had witnessed a great deal of change, some of which was brought about by Fraser herself, some of which was in response to changing environmental conditions. Through it all, the company was able to continually achieve a solid record of growth. However, the global economic downturn of 2001 had severely affected Singapore. This in turn had an impact on people and companies associated with the marketing function. As Fraser sought to determine how best to steer High-Tech through these troubling times, she needed to determine whether or not embracing the CRM challenge was the best way to go.

EXHIBIT 1

HIGH-TECH'S SERVICE OFFERINGS AND CAPABILITIES

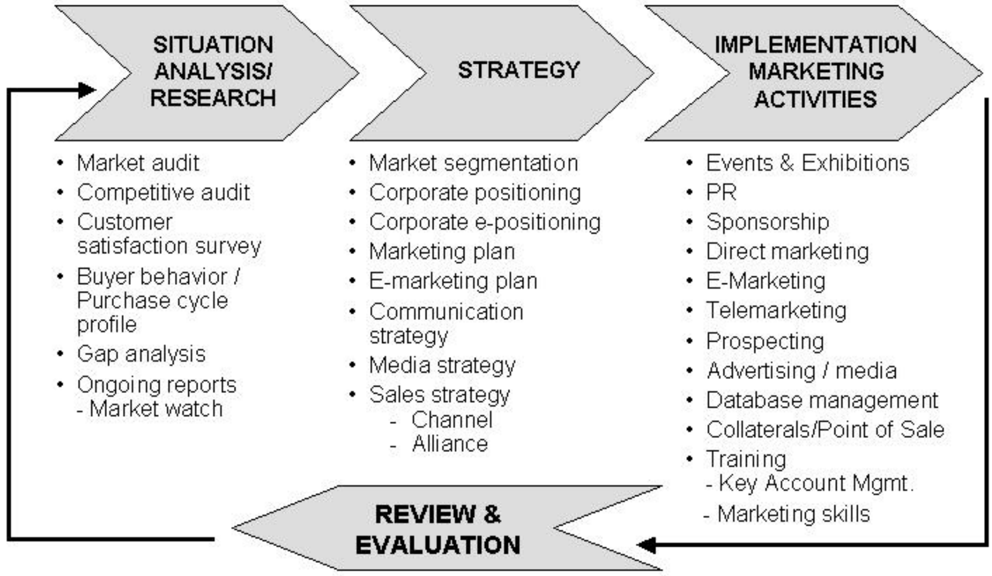

EXHIBIT 2

AN OVERVIEW OF CRM

CRM stands for Customer Relationship Management. It is a strategy used to learn more about customers' needs and behaviours in order to develop stronger relationships with them. There are many technological components to CRM, but thinking about CRM primarily in technological terms is a mistake. It is more useful to think about CRM as a process that will help bring together various pieces of information about customers, sales, marketing effectiveness, responsiveness and market trends.

CRM Effectiveness

For CRM to be effective, an organisation must first decide what kind of customer information it needs and what it intends to do with this information. For example, many financial institutions keep track of the life stages of their customers in order to market different products (like mortgages or retirement investments) at the appropriate time. Next, the organisation must look into the different ways that information about customer flows into a business, where and how these data are stored and how they are currently used. Robust CRM systems will link each of these data points. The data collected can then flow between operational systems (like sales and inventory management) and onto analytical systems, where patterns and trends are identified. Such analysis can provide a holistic view of each customer and pinpoint areas where better services are needed.

The Keys to Successful Implementation

- Break the CRM project down into manageable pieces by setting up pilot programs and short-term milestones. Start with a pilot project that incorporates all the necessary departments and groups. Make sure projects roll out quickly, and that they are small and flexible enough to allow fine tuning along the way.

- Do not underestimate how much data might be collected. Ensure that systems can be readily expanded by using a scalable architecture.

- Be thoughtful about what data are collected and stored. Avoid the impulse of collecting all possible data streams as some will be low value and ultimately be costly to store.

- Recognise the individuality of customers and respond appropriately.

Causes of Failure

From the beginning, a lack of communication between members in the customer relationship chain can lead to an incomplete picture of the customer. Poor communication can also lead to technologies being implemented without the proper support or buy-in from users. For example, if the sales force is not completely sold on the system's benefits, they may not input the kind of demographic data that are essential to the program's success. One Fortune 500 company is on its fourth try at a CRM implementation, primarily because its sale force resisted all previous efforts to share customer data.

Adapted from: What is CRM, Deck, Stewart. May 16, 2001 http://www.darwinmag.com/learn/curve/column.html?ArticleID=104