

CRM IN AUSTRALIA

Francis Buttle
Managing Director, Francis Buttle & Associates, Sydney, Australia
and
Lawrence Ang
Macquarie Graduate School of Management, Sydney, Australia

© www.buttleassociates.com

This paper was originally published in 2004 on www.eccs.uk.com¹

A Maturing CRM Market

CRM in Australia has been implemented by the larger corporations with mixed results. As is common in other jurisdictions the early adopters have been financial services organisations such as banks and insurance companies, and the telecommunications providers. Companies such as National Australia Bank and AMP have enjoyed significant returns from their CRM roll-outs. Other organisations such as Commonwealth Bank have had poor experiences. Telcos including Telstra, Optus and Vodafone are all engaged with CRM implementations, and continue to invest in talent and technology.

Major international software vendors such as Siebel, PeopleSoft, Pivotal, Oracle and SAP operate in Australia and have targeted these larger businesses. However, in comparison to Europe and the USA there are few corporations that could truly be thought of as large enterprises. Many of Australia's larger corporations are outposts of foreign corporations. For example, the local auto brand, Holden, is owned by General Motors. Even Rupert Murdoch's NewsCorp is listed on the New York stock exchange.

As happened around the world following reports of poor returns from CRM, investments in technology stalled in 2002. However, licence fees have begun to pick up as vendors come to market with lower cost solutions that present less of a ROI challenge. For example, Siebel's hosted solution CRM OnDemand is pitched at a price point of Australian \$120 per user per month. These solutions will prove popular with the small-medium sized companies that make up the bulk of Australian manufacturing and service industries. As in other parts of the world, cost savings from systems decommissioning and more efficient processes underpin business cases for CRM investments. Revenue enhancements from growth in customer numbers, improved cross-sell and customer retention have added further value.

The Australian market for CRM software seems to be rebounding. The Gartner Group reports that CRM software licence revenues fell 15% in 2002. Although they were forecasting a further 8% fall in 2003, they estimated that it would recover to 5% CAGR through to 2007, driven by economic recovery and increased competition. The Australian

economy has been extraordinarily resilient during the global economic downturn of recent years. International Data Corporation, the technology researcher, has estimated the total Asia-Pacific CRM software market, outside of Japan, to be worth US\$1.8 trillion in 2002. They estimate the Australian CRM market at US\$719 billion. The Australian market is 40 percent of the entire Asia-Pacific marketplace, exclusive of Japan, but inclusive of China. We expect that most of the growth will be in later adopter industries and small-medium sized enterprises.

¹

<http://www.eccs.uk.com/VD25/tl.asp?UID=33744&LID=56>

One of the challenges for Australian corporations that have overseas parents is rolling out a single vendor's solutions worldwide. CRM in Australia presents some interesting challenges. It is a huge country – indeed it is a continent – whose population of 20 million people and over 1 million enterprises are largely located on the coast. However, many communities are both small and extremely remote. CRM for the banking industry, for example, needs to be able to support not only city-based service centres, but rural community branches and mobile service providers in the outback. CRM requires robust, mobile solutions. This can present a problem, since telecommunications coverage in some parts of the country is non-existent or very patchy, making service, synchronisation and reporting difficult.

Researching CRM competencies in Australia

In order to find out how Australian industry performs at CRM, we performed an original benchmarking survey of customer management practices in a cross-section of 170 Australian companies. The results show a market that is still a considerable way from experiencing the full raft of benefits that CRM can deliver. Current practice is rather elementary. Less than 40% of companies use CRM software to support their customer management strategies. Companies are failing to perform basic CRM tasks such as generating the customer insight that can guide their customer acquisition, retention and development strategies.

CRM Competencies

Our Australian research examined a number of CRM competencies. We can think of a CRM competency as some proficiency that is necessary for the successful implementation of an operational or analytical CRM program. These include competency at:

1. Generating a better understanding of customers, which can be used to
2. Acquire new customers, and
3. Retain existing customers, as well as
4. Create additional value for and from those customers over time.

Competency in understanding customers.

Almost all the companies we surveyed (93%) claimed to have enough customer knowledge to segment their customer base. This is, of course, an elementary and mandatory requirement for the focussed marketing, selling and service that is a characteristic of CRM. The three most widely applied segmentation variables were geography (68%), current sales revenue (56%), future sales potential (51%) and customer tenure (46%).

Our respondents were also invited to estimate the volume of sales generated by the top 20% of customers. The 80/20 rule, or Pareto principle, which suggests that 80% of sales are made from 20% of customers, applies to half the sample. These findings suggest that Australian companies do not have a deep understanding of their customer base. They use simplistic forms of segmentation that are of limited value in CRM implementations.

Competency in customer acquisition.

Do Australian companies implement marketing campaigns explicitly focussed on new customer acquisition?

Less than half the companies we surveyed (47%) have a documented customer acquisition plan. Nearly 3 out of 4 of these (34% of the overall sample) assign a specific budget to customer acquisition activities, and appoint an executive to manage acquisition processes. The three most widely adopted customer acquisition objectives are: revenue streams from new customers (84%), numbers of new customers to be acquired (65%), and specific named customers to be acquired (57%). Only one-third (35%) of the respondents knew the costs of customer acquisition.

Competencies in customer retention.

Do companies construct plans consisting of explicit strategies and tactics to protect their customer base by reducing churn?

Australian companies are even less well advanced in customer retention than customer acquisition. Only 39% have a documented plan for this (although, remarkably, 70% of these companies claim to have a budget and a person in charge of this area). Over 40% of companies say their objective is to retain all customers, once again indicating that they have very little understanding of the possibility that some customers are significantly more valuable than others. The three most popular retention objectives are: revenues to be earned from retained customers (74%), retention of specific customer segments (68%), and retention of specific named customers (59%). Although 2 out of 3 companies say they have a win-back plan if they lose a customer, a large majority of these companies (62%) also say that their retention tactics are not very effective. More companies are aware of the cost to serve their existing customers (51%), than they are of the cost to acquire them.

Competency in customer development.

Do companies construct plans with explicit strategies and tactics to earn additional value from retained customers?

Nearly half (47%) of the sample has a documented customer development plan. Of these, 83% (39% of the overall sample) have a customer development budget and responsible executive. The most popular customer development objectives are: growth in sales revenues per retained customer (80%) and revenue growth from specific names customers (75%). The strategies employed to achieve these objectives are cross-selling additional products and services (44%), selling more of the same products and services already bought by the customer (41%) and customising current products or services (39%).

Deployment of CRM software to support these competencies.

Do Australian companies use CRM software to support their customer management strategies?

Only 39% of Australian companies use CRM software. Of these, only 40% (16% of the entire sample) reported they were satisfied with the ROI the software generated, 24% were lukewarm, and 20% were dissatisfied. Just over one third (35%) used CRM software to support their customer retention strategy; 31% to support their customer development strategy; 29% to support their customer acquisition strategy. Nearly half (48%) of the 60 companies using CRM software to support customer retention reported that it had exceeded their expectations; 42% of 52 companies using CRM software to support customer development reported that the software exceeded their expectations; only 33% of the 49 companies using CRM software to support customer acquisition reported that the software exceeded their expectations. Overall, the results suggest that in Australia, CRM software is more effective for supporting customer retention and customer development activities than customer acquisition.

We also investigated whether improvements in company profitability were predicted by the use of CRM software. The results show that the only significant predictor of company profitability is the performance of CRM software in meeting companies' expectations of customer retention.

Conclusions

Because the current level of CRM competency is poor, the future looks pretty bright for CRM vendors and consultants in Australia. The majority of companies simply are not on the CRM playing field at present but the prospects are that many will join the game, producing opportunities for vendors positioned in the emergent verticals and SME environment. Given our research's evidence of relatively low levels of satisfaction with outcomes from existing CRM implementations, consultants who are able to advise companies how to get a better return will be meeting an expressed need evident in our research, particularly if they can prove the profit potential that CRM can offer.

© Francis Buttle & Lawrence Ang 24/09/2004