Key Issues

1. **How can marketing rise above its role as a tactical cost center?**
2. **How should marketing respond to customer relationship management?**
3. **How can organizations consolidate, analyze and apply customer data?**
4. **How will the Web be a testing ground for new marketing concepts?**
5. **How will marketing technology evolve, and who will provide it in the next five years?**

Source: GartnerGroup

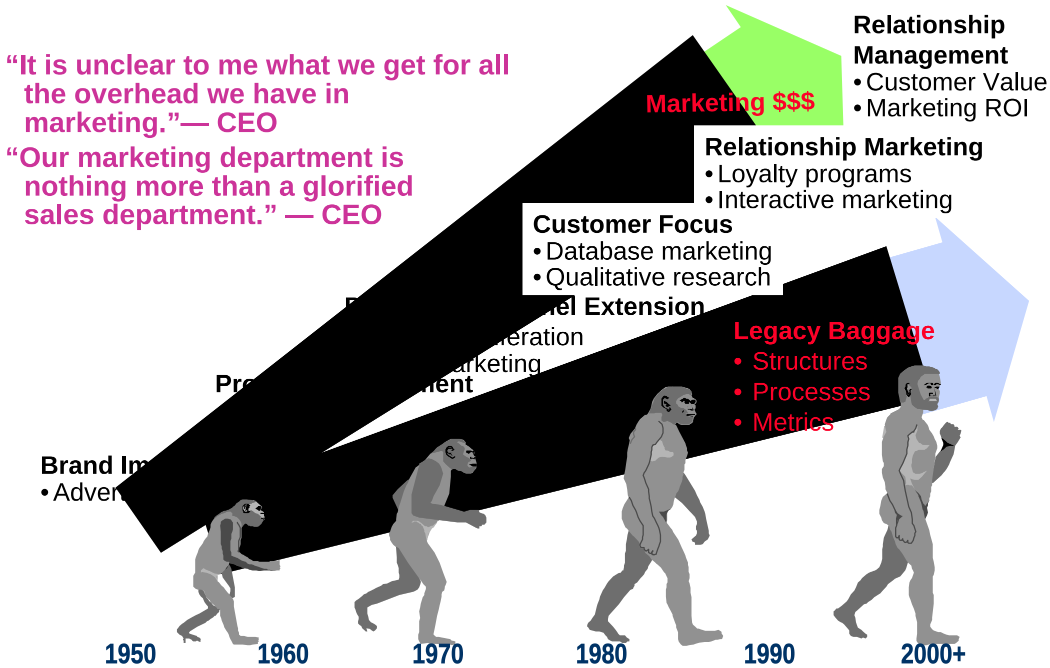
GartnerGroup's Marketing Knowledge and Technology (MKT) service helps marketing and IS groups understand the profound impact technology will have on the way organizations identify, acquire and interact with their customers.

In our research, we analyze:

- The drivers that are forcing organizations to adopt a technology-enabled marketing strategy
- Technology's impact on the marketing organization and its role in the enterprise
- Technologies that enable enterprisewide understanding of customer relationships
- Emerging technologies and the competitive advantage they can bring to marketing

How can marketing rise above its role as a tactical cost center?

Marketing Evolution: Not There Yet



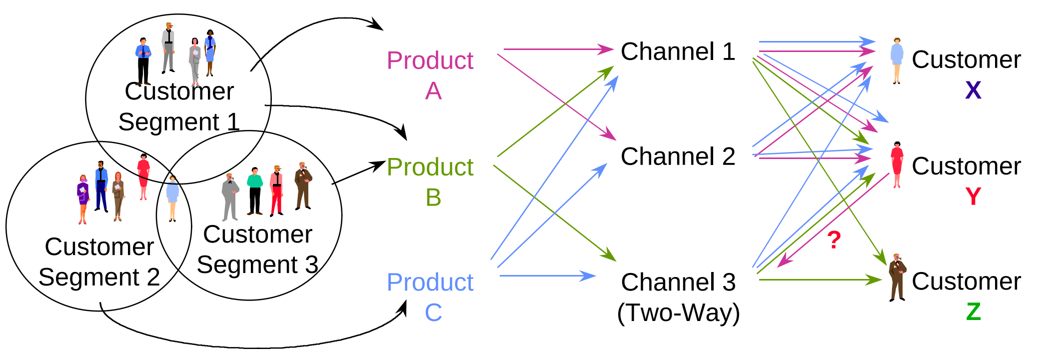
Source: GartnerGroup

In the past five decades, the role of marketing within the enterprise has evolved. Whereas marketing was once responsible only for product-centric sales support, it is now responsible for creating a cohesive view of the customer and creating value propositions to satisfy the customer's needs. Despite this evolution, marketing often struggles to prove its value to the enterprise. Too often, existing organizational structures, processes and metrics (collectively referred to as "legacy baggage") prevent marketing from accessing all of the data it needs to really understand the customer. As a result, marketing must rely on traditional metrics, such as market share or response rates, that tell marketers only part of what they need to know. Marketing needs to continue building a more-cohesive view of the customer, based on new metrics, so that it can evolve from customer relationship *marketing* to customer relationship *management*. Only then will marketing truly be able to justify its initiatives and prove its importance within the enterprise.

Action Item: To add more value to the enterprise, marketing departments need to push for the adoption of a customer relationship management business model.

By 2002, consumers will perceive 90 percent of relationship marketing efforts as trivial or useless (0.7 probability).

The Relationship Complexity Function



R(f) = *(No. Segments) x (No. Products/Offers) x (No. Channels) x (No. Companies)*

Source: GartnerGroup

Key Issue: How can marketing rise above its role as a tactical cost center?

There is a basic disconnect between today's relationship marketing efforts and consumer perceptions of those endeavors. Enterprises attempt to satisfy consumers' every need, but consumers see many of the enterprises' efforts as trivial and useless. In the worst cases, customers actually feel penalized for their loyalty. In less-extreme examples, prospects get attractive, timely offers, whereas loyal customers continue to receive irrelevant and misplaced communications. Surely, this is not the best way to build lasting customer relationships.

What is causing the problem? First, most enterprises still operate from a rigid product management perspective and have uncoordinated departmental structures. Second, enterprises often fail to take into account customers' limited desire or ability to manage more than a handful of interactions with a company. The only way for enterprises to overcome these problems is to improve intraenterprise communication and cooperation while tracking (and limiting) interactions with the customer. Again, the goal should be to move from customer relationship *marketing* to customer relationship *management*.

Action Item: An enterprise should use its own experience as a consumer to evaluate how many enterprises have succeeded in establishing a successful relationship with the customer.

By 2002, 30 percent of global 1,000 companies will have initiated enterprisewide CRM efforts (0.8 probability).

Factors Leading to CRM

CRM Drivers

Organization	Products	Channels	Customers
• Management buy-in • Customer-driven • Strong IS/marketing. relationship • Cross-functional teams • Cross-functional budgets	• Broad product or service range (cross- and up-sell opportunities) • Complex products that require education or support • Consultative services	• Few simple sales/support channels • High information sharing • Incentives for customer retention/ extension	• Concentration of high-value customers • High acquisition costs • Loyalty reduces interaction costs
• Internal turf battles • Focus on cost reduction vs. revenue enhancement • Product management culture and budgeting	• Commodity products without differentiation *or* • Unique products/ services in the marketplace without significant competition	• Many complex sales/support channels • Low information sharing • Incentives based on customer acquisition	• Low concentration of high-value customers • High price sensitivity • Little or no loyalty • Infrequent purchase cycle • Consumer privacy

CRM Inhibitors

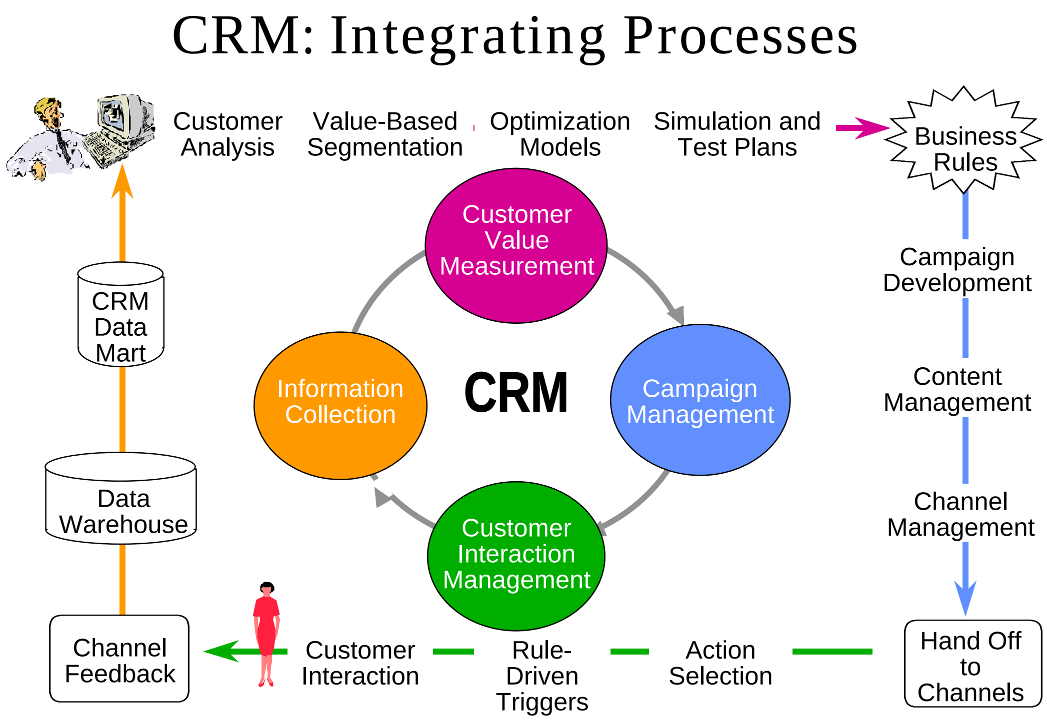
Source: GartnerGroup

Key Issue: How should marketing respond to customer relationship management?

Customer relationship management (CRM) involves more than the integration of information and technology from various parts of the enterprise. It requires a new business model that is driven by an appreciation of customer relationships as the enterprise's most valuable asset to be guarded and cultivated in every interaction. It will require changes in strategy, investment, operational processes and organizational skills, and relationships. Organizations deciding whether to pursue a CRM strategy first must consider their relative market, industry and competitive discipline position. Second, enterprises must consider whether their customers will perceive value from the adoption of a CRM strategy. Third, enterprises need to assess the suitability of pursuing such a strategy by examining organization, product, channel and customer-based factors.

Action Item: Enterprises should determine their own suitability for pursuit of a CRM strategy from a strategic and customer perspective first, and then evaluate the enterprise’s CRM drivers and inhibitors.

Fewer than 50 percent of enterprisewide CRM initiatives will generate payback by 2004 due to lack of enterprisewide process re-engineering (0.7 probability).



Source: GartnerGroup

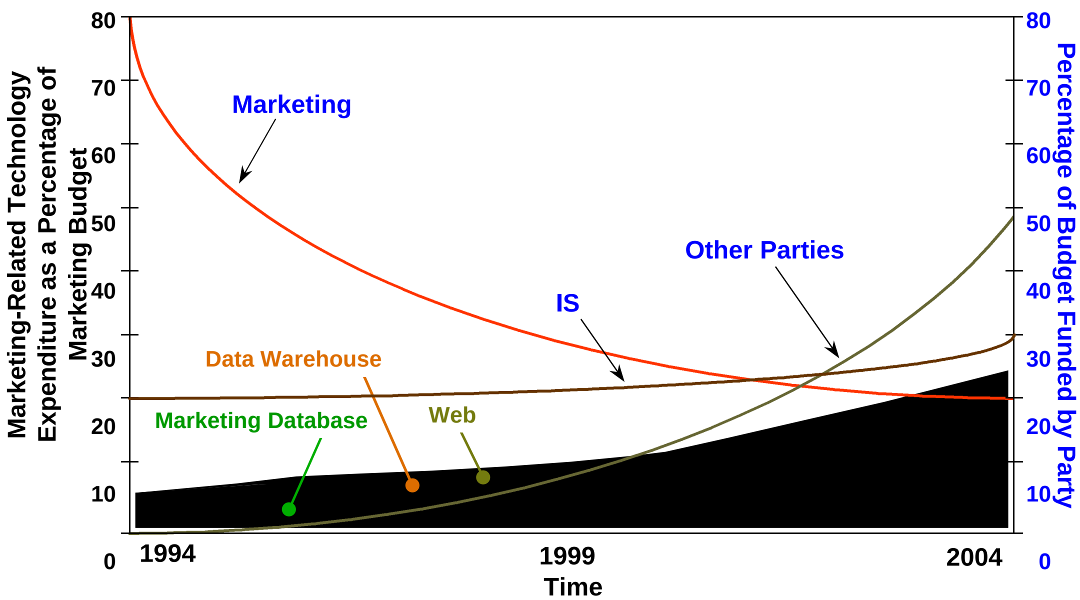
Key Issue: How should marketing respond to customer relationship management?

Because CRM depends on enterprisewide collaboration, the most important investment enterprises will need to make is the re-engineering of functions, processes, roles and responsibilities to facilitate planning and coordination among multiple departments and channels. These processes can be broadly characterized as: 1) information collection; 2) customer value measurement; 3) campaign management; and 4) customer interaction management. All four of these processes are in practice to varying degrees. Led by IS departments, information collection is in place or at least under way in many enterprises. Early customer value measurement and campaign management initiatives have been spearheaded by marketing. Customer interaction management has been in the domain of sales, customer service and other business units. The problem is that there has not been a cohesive strategy for tying together all of these processes. CRM is intended to do just that.

Action Item: Enterprises should outline customer interaction processes and then begin to re-engineer or create new processes from an enterprisewide CRM perspective.

By 2004, marketing-related technology expenditure associated with customer relationship management will cost up to five times as much as most marketing departments will be able to pay (0.8 probability).

CRM Requires New Sources of Funding



Source: GartnerGroup

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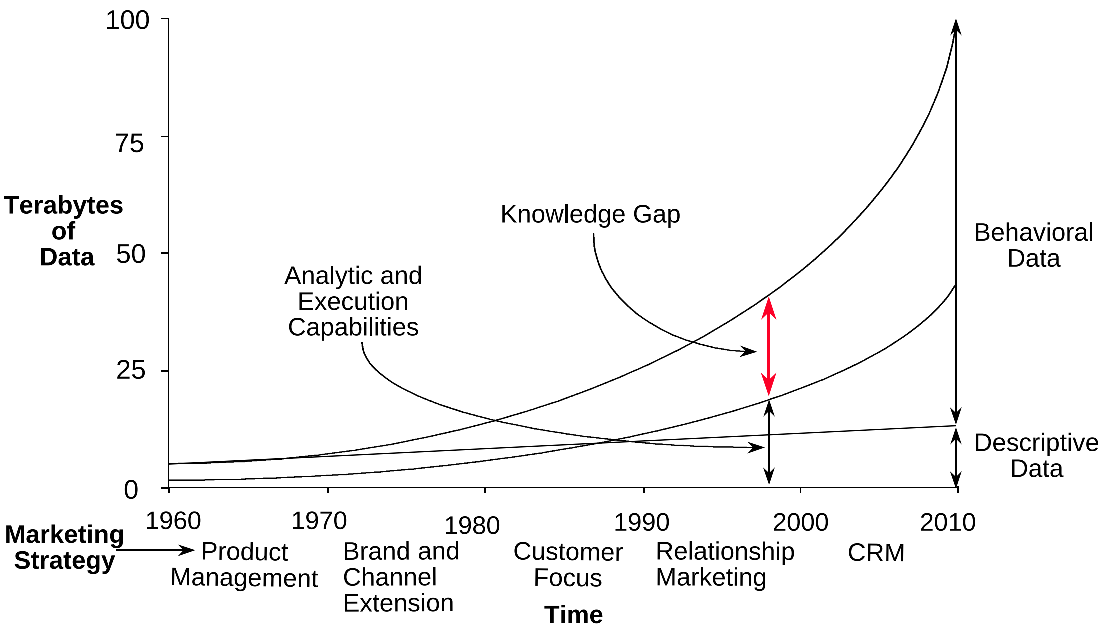
In 1994, when the majority of marketing-related technology expenditures was spent building and maintaining the marketing database, the marketing department footed almost 80 percent of the bill. On average, this spending accounted for 5 percent of the total marketing budget. In 1999, spending on marketing databases is declining, but not as quickly as spending on data warehousing and Web initiatives is increasing. Marketing cannot cover this additional spending, and the IS department has had to make up most of the difference. In the next five years, we will witness two trends: First, today's separate marketing database, data warehouse and Web initiatives will merge under the context of a broader CRM strategy. Second, the spending required to support a broad CRM strategy will exceed what the marketing and IS departments can afford to pay. This means that enterprises pursuing CRM will need to find new sources of funding to pay for the increasing costs of CRM.

Action Item: Marketers interested in pursuing CRM must lobby senior management for additional funding now.

By 2004, only 20 percent of enterprises will use more than 50 percent of the total data they collect to gain competitive advantage (0.7 probability).

Narrowing the Knowledge Gap



Source: GartnerGroup

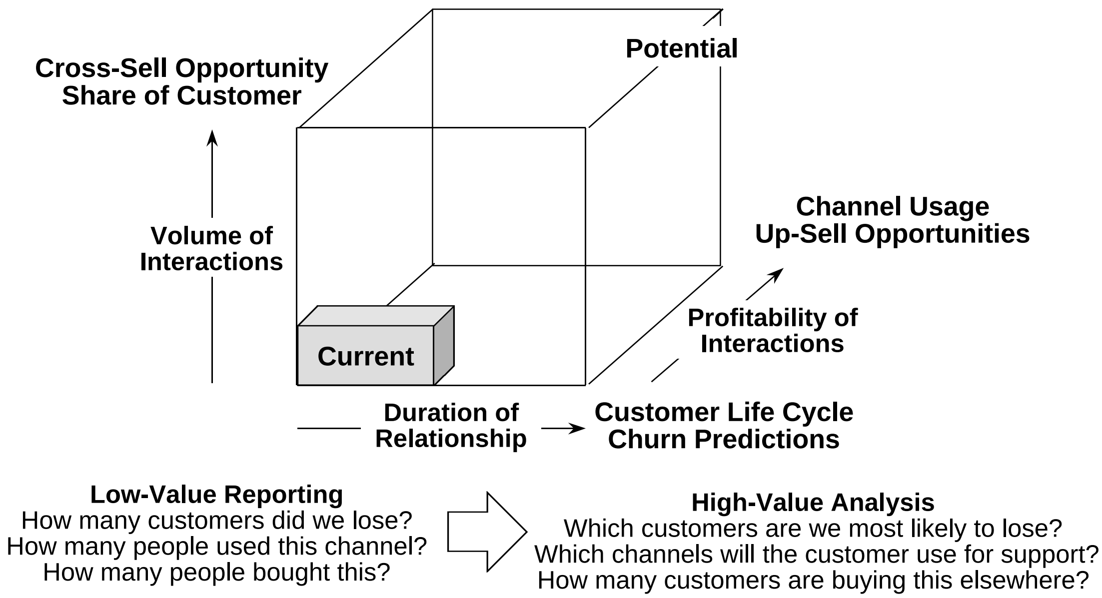
Key Issue: How can organizations consolidate, analyze and apply customer data?

Enterprises have traditionally relied on third-party, descriptive data to understand customers, prospects and competitors. In the 1990s, many enterprises have supplemented external data with internal data by integrating their transactional systems into customer data warehouses. In the next five years, interactive channels will provide a flood of new information. Although storage technologies are scaling to meet this deluge, analytical systems to understand and organizational processes to use this data are not. This is causing a "knowledge gap," which is defined as the difference between the available data about customers, prospects and competitors, and the organization's ability to use that data efficiently and effectively. Increasingly, enterprises will compete on the basis of their ability to narrow the knowledge gap.

Action Item: Enterprises should identify sources and usage of customer, prospect and competitive information, and outline a plan to enhance utilization.

The ability to manage customer value will be the primary objective for 75 percent of CRM projects by 2002 (0.8 probability).

Optimizing Customer Value



Source: GartnerGroup

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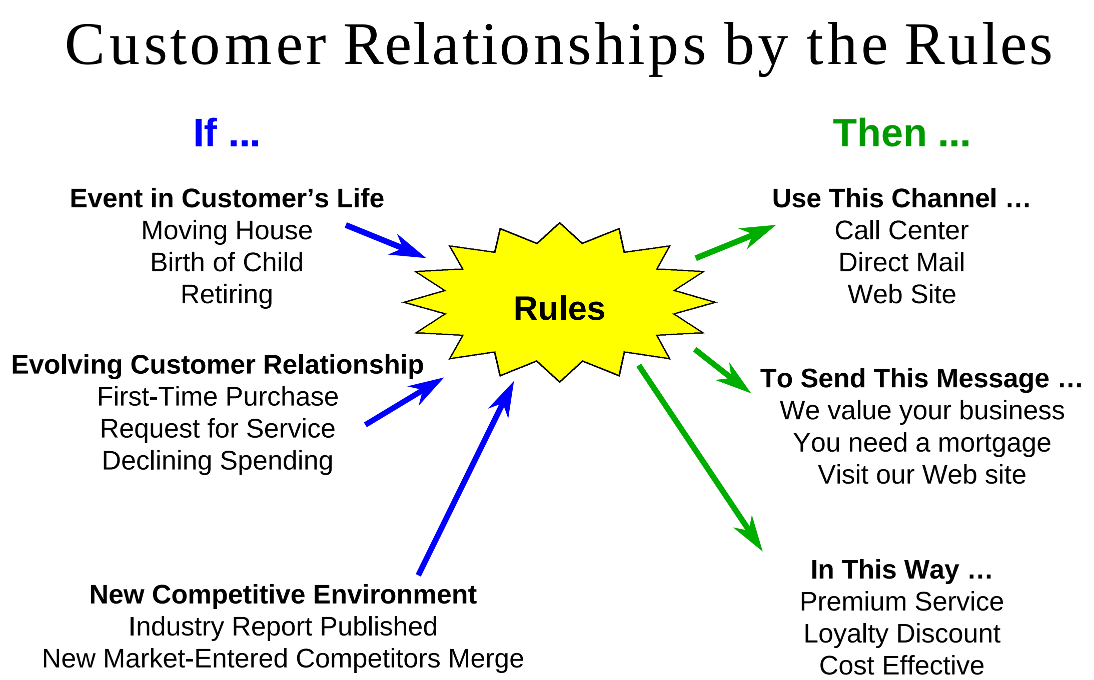
Customer value is defined as the expected financial return from the relationship between an enterprise and a customer. Customer value can be increased by the duration of the relationship and the volume or profitability of interactions. Many enterprises are aware of these issues, but are focused on revenue, rather than profits. This is, in no small part, due to the lack of profitability information at the interaction level. Since they cannot truly calculate customer value, enterprises currently focus on low-value reporting about customers, products and channels. This reporting may describe what happened, but it usually does not explain why it happened. More importantly, it does not help enterprises make decisions based on customer value. To better serve the enterprise, analysis of customer data must shift from low-value reporting to high-value analysis. In doing so, organizations will begin to impact customer value by altering the duration of the relationship (predicting potential customer defection), the volume of interactions (estimating share of costs and identifying cross-sell opportunities) or the profitability of interactions (adjusting expenditures according to potential value).

Action Item: Marketing organizations should identify the data/metrics required for the calculation of customer value.

By 2004, predefined rules will trigger 80 percent of customer interactions (0.8 probability).



Source: GartnerGroup

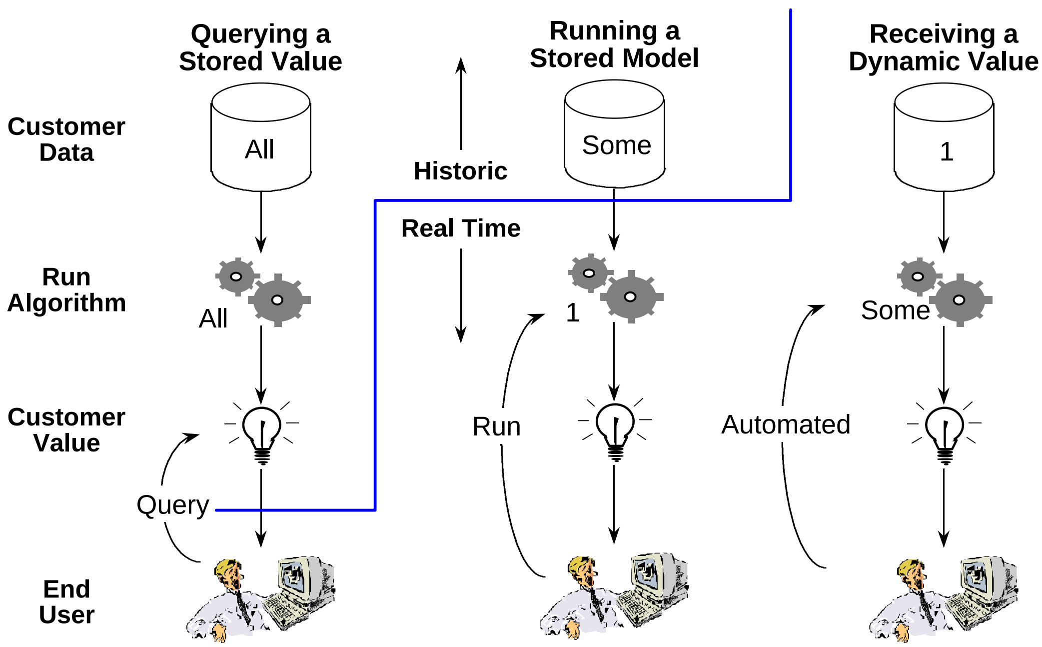
Key Issue: How can organizations add value to their customer data?

For marketing communications to be effective, they must be appealing and accurately targeted and timed. Marketing has always applied considerable creativity and judgment to making its messages appealing, but has devoted less attention to ensure that they are accurately targeted and timed. The new creative challenge for marketing is to identify what events in the customer's life, the organization's relationship with the customer or the general environment represent a valid opportunity for an interaction with the customer. Having identified how to recognize meaningful events, the marketing manager must then provide the customer interaction channels with the necessary information to provide an optimal response. Marketers that learn to automate this technology-driven process will be able to spend more time focusing on new ways to enhance customer value.

Action Item: Marketing organizations should begin to design their campaigns around key trigger events.

By 2004, 80 percent of Type A enterprises will use real-time data-mining approaches to optimize inbound customer interactions (0.7 probability).

Leveraging Customer Data



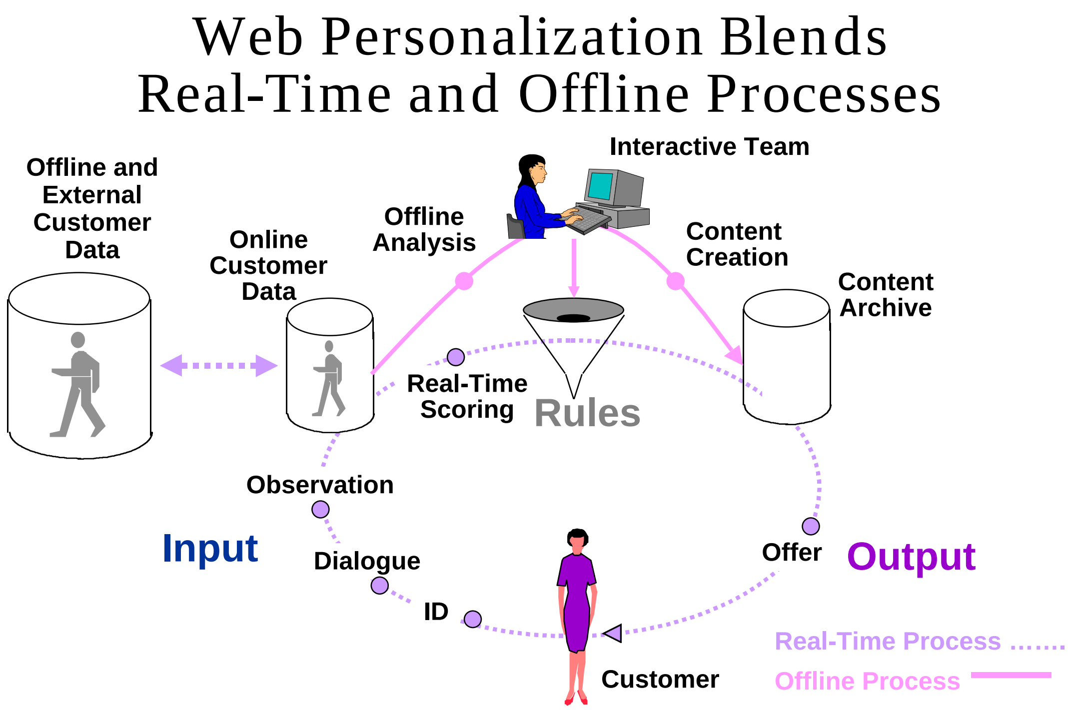
Source: GartnerGroup

Key Issue: How can organizations add value to their customer data?

For several years, enterprises have used data-mining applications to uncover hidden patterns in customer and transaction data. As enterprises seek to leverage more up-to-date and even real-time data, new data-mining approaches are needed. *Stored value* is most commonly used today. Data-mining queries are designed by a dedicated group of analysts, and the results (e.g., propensity to respond and churn estimates) are fed into a general database where they can be queried. This approach is gaining attention as established vendors incorporate it into their product offerings. The key difference is that the end user activates the predefined model at runtime, which allows the customer's metrics to be based on the latest available data and the data-mining algorithm to be run on a smaller section of the customer database (improving performance). *Dynamic value* is an emerging approach that incorporates real-time data into decision-making models. In turn, these models trigger optimized automated responses or provide the end user with suggested courses of action during normal operations. This approach will allow enterprises to react to problems and opportunities more efficiently.

Action Item: Identify inbound customer interaction opportunities that may be well-suited for leveraging real-time data mining.

By 2003, nearly 85 percent of global 1,000 Web sites will use some form of personalization (0.7 probability).



Source: GartnerGroup

Key Issue: How will the Web be a testing ground for new marketing concepts?

Web *personalization* refers to the technologies and techniques that help match content to customers based on historical transactions psychographics or demographics. Personalization gives customers the sensation that they are engaged in an interactive dialogue with an enterprise. Ideally, personalization fosters a stronger sense of relationship that can translate into higher retention rates and opportunities for cross-selling and up-selling.

To make real-time personalization possible, numerous technologies must be tightly integrated. Web measurement tools are needed to identify customers, record their behavior, refer that information to a profile database and provide reports to marketers. Content management systems are required to create and archive marketing content. Finally, business rules engines are needed to match customer profiles with content. These various technologies are already being incorporated into integrated suites.

Action Item: Enterprises should treat the Web as a testing ground for real-time customer interaction.

By 2003, approximately 70 percent of global 1,000 enterprises will have formed interactive divisions comprising marketing, sales, customer service, information services and other business functions (0.7 probability).

Web Sites Will Jump-Start CRM

Source: GartnerGroup

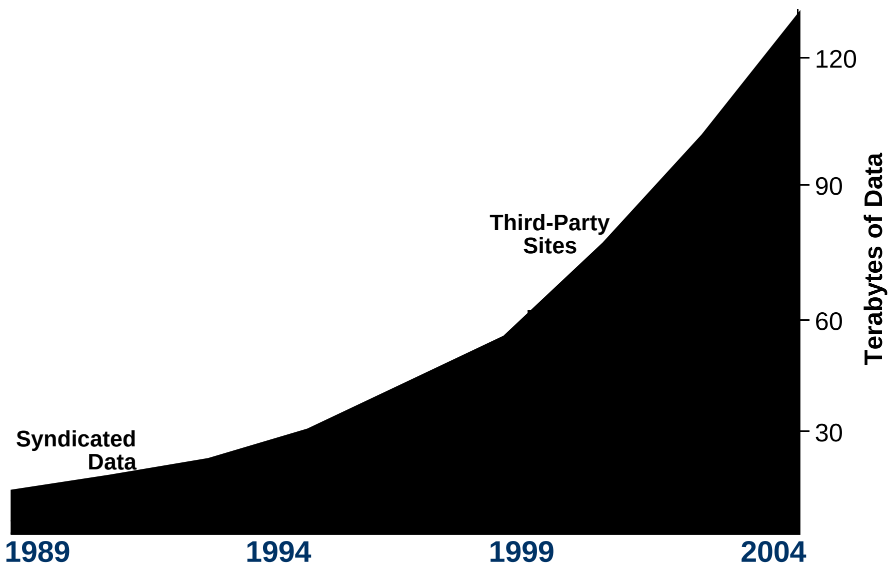
Key Issue: How will the Web be a testing ground for new marketing concepts?

Enterprises cannot pursue CRM successfully without the cooperation of their various business functions. Simply put, maintaining a consistent relationship with the customer demands it. Many enterprises realize this, but until now, they have lacked the business unit motivation or executive-level mandate required to effect this change. One of the Web's more important functions has been to act as the catalyst that forces organizational change. For the first time, organizational units must collaborate to present a cohesive view of the enterprise to the customer. Over time, this cooperation will result in the formation of cross-functional teams at a growing number of enterprises. Rather than fight this trend, marketing should facilitate the formation of cross-functional Web teams, since this multidisciplinary approach will serve as the model for future enterprisewide CRM efforts. By taking an active role within the interactive team now, marketing will position itself strategically for larger CRM initiatives.

Action Item: Marketing must establish itself as a proponent of multidisciplinary Web site development.

By 2003, nearly 95 percent of online merchants will rely on third-party Web sites as a source of external data (0.7 probability).

Third-Party Web Sites Will Generate New Sources of External Data



Source: GartnerGroup

Key Issue: How will the Web be a testing ground for new marketing concepts?

Today, the most-sophisticated enterprises on the Web are starting to track and measure visitor behavior at their sites. In the next five years, such tracking and measurement will become increasingly prevalent, but will yield an incomplete view of the online visitor. To round out this view, enterprises will begin to rely on external data from third-party Web sites, such as infomediaries or shopping sites. These sites will be able to provide not only customer and visitor data, but also competitive intelligence. Enterprises will be challenged to integrate this third-party data with the internal data they have collected from their own Web sites.

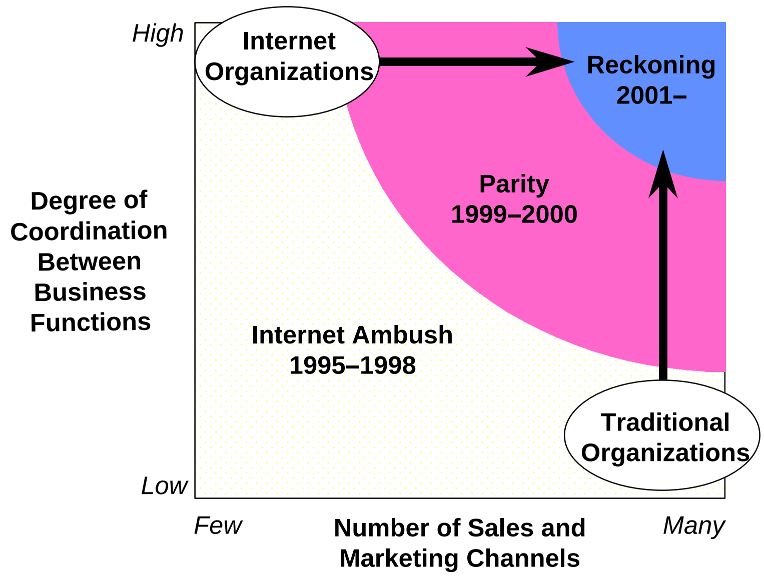
The difficult process of merging external and internal Web-based data will foreshadow an even-more-complex process of incorporating Web-based data into the data warehouse. For enterprises intent on building a consistent relationship with the customer, this integration is daunting and inevitable. Enterprises that address these integration challenges will be well-equipped when competition with online and traditional rivals intensifies in the next five years.

Action Item: Outlining a plan for merging external and internal Web-based data now will yield a competitive advantage within 18 to 24 months.

Traditional enterprises that fail to establish tight cooperation between business functions by 2002 will continue to cede market share to Internet rivals (0.8 probability).

Sixty percent of Internet enterprises that fail to master multichannel operations by 2001 will go out of business by 2003 (0.7 probability).

CRM Is Tipping the Balance in the Internet Wars



Source: GartnerGroup

Key Issue: How will the Web be a testing ground for new marketing concepts?

During the past four years, a number of Internet start-ups have quickly captured market share from established, traditional players by building highly coordinated Web sites that meet a broad range of customer needs. As these Internet organizations mature, however, they will be confronted for the first time with the challenge of managing multiple sales and marketing channels. They will have to establish call centers and distribution facilities, and will place a preponderance of advertising in traditional media.

Traditional enterprises, meanwhile, will struggle to win back the market share ceded to Internet rivals. To do this, many will struggle to tie the internal business functions together as part of a CRM strategy. If and when they succeed, these enterprises will be well-positioned to recapture competitive advantage, since many already have extensive experience in managing multichannel operations.

Action Item: An effective CRM strategy will help traditional enterprises reclaim market share lost to Internet enterprises.

How will marketing technology evolve, and who will provide it in the next five years?

Vendors Cannot Solve Organizational Problems

Vendors who say...	Would like to....	But the problem is...
"We're a database marketing vendor"	Help you build and leverage a central customer database	Building a central customer database requires buy-in from across the enterprise and IS support
"We're an interactive marketing vendor"	Help you achieve one-to-one marketing by personalizing your Web site	Real personalization will require data and content from across the enterprise
"We're a CRM vendor"	Help plan a centralized customer management strategy and execute it through the appropriate channels	Most enterprises are not structured this way
"We're a marketing automation vendor"	Help automate the marketing processes in the same way the ERP vendor automated your manufacturing processes	Marketing automation depends more on process definition than on software

Source: GartnerGroup

Every couple years, a new category of marketing software emerges that is designed to solve particular business problems. Despite these continued efforts, the problems persist. Why? The answer is not because the vendors are incompetent, but because technology alone cannot solve difficult business problems. Organizational, political and procedural changes are almost always required. A surprising number of enterprises deny this truth and look to vendors and their technologies to provide a panacea. Enterprises that achieve the greatest levels of success with new marketing technologies will identify a business problem to be solved and address internal challenges *before* turning to vendors to provide technological assistance. Enterprises that cannot take this approach due to organizational and political obstacles will have to rely on professional service firms or vendors with strong consulting divisions to provide the business process re-engineering they will require.

Action Item: Enterprises should not expect technology to help solve problems that are mainly organizational or political. Solving internal problems first will increase the likelihood of successful implementations.

By 2002, leading marketing technology vendors will provide workflow management tools, rules engines and tighter integration with applications outside the marketing department (0.7 probability).

Marketing Application Selection Criteria

	1999	2002
Need to Have	• Campaign design • Campaign analysis • Consulting division	• Workflow • Rules engine • Integration with third-party applications • Content management • Professional service partners
Nice to Have	• Workflow • Rules engine • Integration with third-party applications • Content management	• Simulation • Optimization • Agents • ???

Source: GartnerGroup

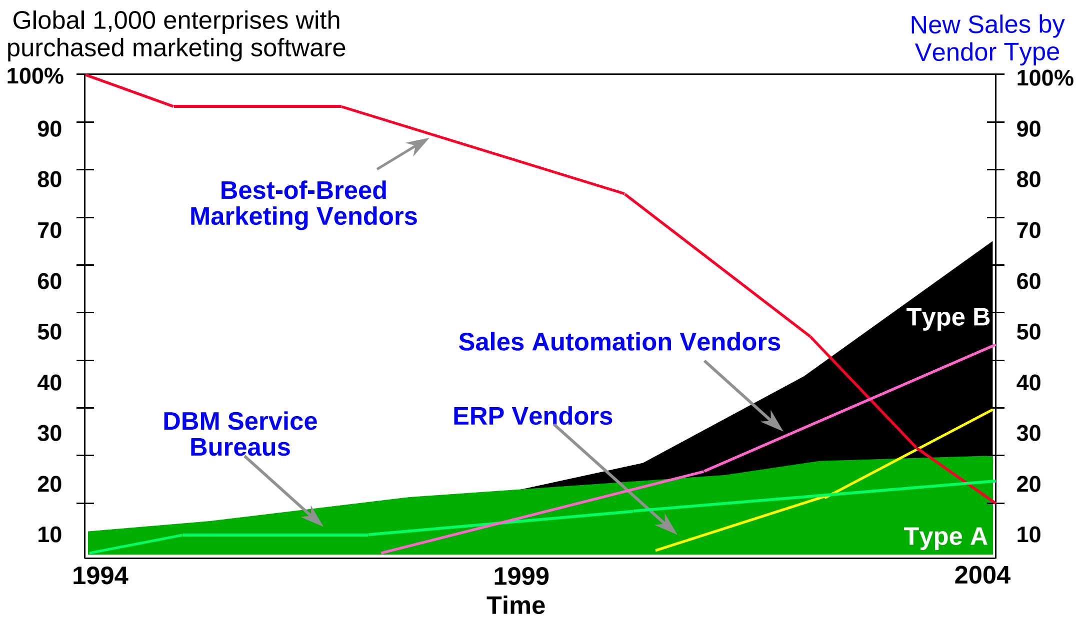
Key Issue: How will marketing technology evolve, and who will provide it in the next five years?

If marketers are to play a leading role in the pursuit of CRM, marketing technology is going to have to change. Marketing software will have to be rules-driven, so that a greater number of more-sophisticated campaigns can be automated through more channels. In addition, tomorrow's marketing software will have to be more tightly integrated with applications in other parts of the enterprise (e.g., the sales, customer service and Web divisions) so that the coordination of a cross-channel CRM strategy becomes possible. The prospect of tighter integration poses a major problem for today's marketing technology vendors, which are not big enough to expand into other parts of the enterprise. One option will be to partner with complementary vendors not looking to expand into the marketing arena. Another option will be to rely on third-party middleware. The most-common solution will be for marketing technology vendors to develop closer ties with large professional-services firms.

Action Item: When evaluating vendors, enterprises should ask if, when and how the vendor plans to provide tighter integration with other applications.

By 2004, more than 70 percent of Type B enterprises will look to sales automation and ERP vendors to meet their marketing software needs (0.8 probability).

New Vendors Will Capture Marketing Software Market Growth



Source: GartnerGroup

Key Issue: How will marketing technology evolve, and who will provide it in the next five years?

Marketing software, purchased almost exclusively by Type A enterprises to date, will be implemented through 2004 by Type B enterprises as well. As the market for this technology grows, large sales automation and ERP vendors will continue to expand into the marketing arena via acquisition and internal development. Over time, these vendors, along with large database marketing service bureaus, will compete with best-of-breed marketing vendors by offering their large, installed client bases tight integration and bundled pricing. Best-of-breed marketing technology vendors will not be able to match these offers, nor will they have the vendor scale and viability that Type B enterprises value. As a result, many best-of-breed vendors will struggle to survive or will be acquired. Best-of-breed vendors that remain viable independent vendors will focus on meeting the sophisticated marketing needs of Type A enterprises.

Action Item: Enterprises looking to gain a competitive advantage through marketing software need to invest before the encroachment of the sales automation and ERP vendors.

Bottom Line

Marketing should see CRM as a means of justifying its existence.

CRM will require cross-functional participation and funding.

The biggest obstacle to CRM is overcoming internal processes and structures.

The Web will act as a testing ground for CRM and will inspire even-broader CRM initiatives.

Type B enterprises should expect “good enough” marketing functionality to be incorporated into broader software suites within the next five years.

Type A enterprises should plan on integrating best-of-breed marketing applications for the next five years.

GartnerGroup’s MKT Team:

Michael Bernstein — Lead analyst for for interactive marketing

Gareth Herschel — Lead analyst for marketing management and business issues

Scott Nelson — Lead analyst for database marketing

This team collaborates with analysts working in related services such as Strategic Data Management, Advanced Technologies Applications, Customer Service and Support Strategies, Sales Leadership Strategies, Electronic Commerce and Extranet Applications, Inet, Software Asset Management and External Service Providers.

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