

# Forrester Consulting

MAKING LEADERS SUCCESSFUL EVERY DAY

April 2, 2007

## **Business Managers Say Customer Relationships Is No. 1 Business Issue**

But IT And Human Capital Investments Tell A Different Story

*The following is a commissioned study conducted by Forrester Consulting on behalf of Microsoft.*

FORRESTER®



**Headquarters**

Forrester Research, Inc., 400 Technology Square, Cambridge, MA 02139 USA  
Tel: +1 617/613-6000 • Fax: +1 617/613-5000 • [www.forrester.com](http://www.forrester.com)

## **Table Of Contents**

Executive Summary .....	3
The No. 1 Business Issue: Customer Relationships.....	4
IT And Human Capital Investments Are Not Well-Aligned With Business Focus.....	6
Conclusions .....	9
Appendix: Supplemental Material .....	10
Related Forrester Research .....	10
Forrester Methodology.....	10

© 2007, Forrester Research, Inc. All rights reserved. Forrester, Forrester Wave, RoleView, Technographics, and Total Economic Impact are trademarks of Forrester Research, Inc. All other trademarks are the property of their respective companies. Forrester clients may make one attributed copy or slide of each figure contained herein. Additional reproduction is strictly prohibited. For additional reproduction rights and usage information, go to [www.forrester.com](http://www.forrester.com). Information is based on best available resources. Opinions reflect judgment at the time and are subject to change.

## Executive Summary

Microsoft commissioned Forrester to conduct a custom study that examines how companies are investing in IT and human capital to improve customer relationships. On behalf of Microsoft, Forrester Consulting undertook a Web-based survey of 630 business process owners and business managers and a phone survey of 205 senior IT decision-makers in November of 2006 and February and March of 2007. Survey participants were in the US, Europe, and Asia. We selected business managers and business process owners who were responsible for managing customer relationships, establishing and/or managing partnerships, managing innovation, improving operational efficiency, contributing to strategic planning, recommending or evaluating technology investments, managing a team of information workers, or specifying the types of training employees receive. Nearly half of the business managers we surveyed (47%) had responsibility for managing customer relationships. The vast majority of senior IT leaders we selected were responsible for setting IT budgets (81%) and contributing to corporate strategic planning (79%).

In this study, Forrester found that more than half of respondents (55%) ranked customer relationships as the number one issue for their organizations and another 21% ranked it as the number two issue. Respondents' values and company initiatives support this finding, as does their focus on innovation as a means of positively impacting the customer experience. Nearly half of the respondents (43%) said they strongly agree that their organizations highly value innovations that positively impact the customer experience. More than a third (37%) said their organizations measure themselves against specific customer service metrics on an ongoing basis. More than one third (37%) said that all the company's employees take great pride in the service they provide to customers. And only 15% said their organization outsources customer-facing business processes like service and support, which indicates that most consider customer relationships to be strategic.

But we also found a gap between the strategic importance of customer relationships and IT and human capital investments in this area. Only 32% selected customer relationships as the top priority for IT spending and only 35% selected it as the top priority for human capital investments in 2006 — compared with 55% ranking it as the number one business issue. Of the 199 survey respondents that selected customer relationships as the top priority for their organization, only 51% say their organization has implemented CRM software, 41% have implemented a basic customer tracking system, and only 38% have implemented a knowledgebase. Even fewer have implemented more advanced technologies like automated, skills-based routing and agent collaboration.

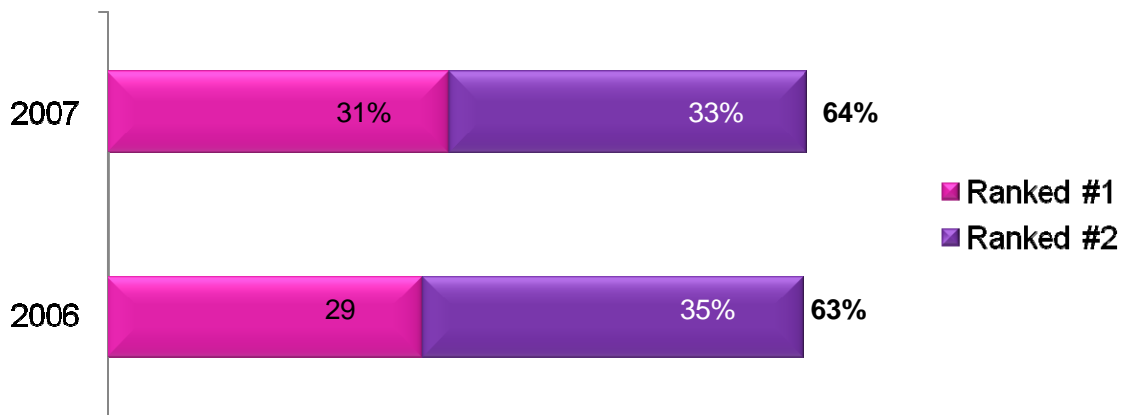
Based on the study the disconnect between perception of strategic importance and spending is: 1) many organizations lack discipline in the area of customer experience; 2) it is easier for most project teams to build a business case for technology and human capital investments that result in operational efficiency than it is to make improvements to customer relationships; and 3) many business and IT executives do not feel that the business benefits achieved with CRM investments met their expectations and or that they were able to quickly realize value from the applications.

## The No. 1 Business Issue: Customer Relationships

Business managers and business process owners believe that their company's number one business issue is customer relationships. They value innovations that support improvements in customer experience and paint a picture of corporate cultures that prioritize customers. Despite these good intentions, companies often fail to support customer relationships with investments in IT and human capital initiatives, focusing instead on operational improvements that provide a clearer line of sight to the balance sheet.

This strategic focus on customer relationships is reflected in a survey of 630 business managers and business process owners conducted by Forrester Consulting on behalf of Microsoft. As part of this research, Forrester found that over three quarters of respondents ranked customer relationships as one of the top two areas of strategic importance for their organizations (see Figure 1). This trend holds true across the United States, Europe, and Asia, but is particularly prevalent in the United States.<sup>1</sup>

**Figure 1: Respondents' Top Strategic Concern Is Customer Relationships**  
**2006 And Planned 2007 Priorities: IT Spending In Support Of Customer Relationships**



Source: Forrester CIO Phone Survey commissioned by Microsoft, and March, 2007  
Base: All respondents, n=205  
Percentages may not add up perfectly due to rounding.

Business manager respondents' values and initiatives, as selected from a list we provided, confirm that the leading business issue is customer relationships (see Figure 2). Three quarters of them (75%) said they agree or strongly agree that their organizations highly value innovations that positively impact customer experience. Nearly three quarters (73%) said that all the company's employees take great pride in the service they provide to customers. And more than two thirds (70%) said they measure themselves against specific customer service metrics on an ongoing basis. Only 15% (10% in the US, 17% in Europe, and 19% in Asia) said their organization outsources customer-facing business processes like service and support, which indicates that most organizations consider customer relationships to be strategic.

Figure 2: Values And Initiatives Confirm That The No. 1 Business Issue Is Customer Relationships



Source: Forrester Online Survey commissioned by Microsoft, November 2006 and February and March, 2007

The biggest area of weakness, with regard to customer relationship oriented initiatives, is in having a single organization responsible for all aspects of a customer relationship regardless of channel. Eighteen percent of business manager respondents disagree or strongly disagree that this is true for their organizations. The next biggest area of weakness is having formal programs to build customer loyalty — 16% of business managers disagree or strongly disagree that this is true for their organizations. Forrester has found this to be true in other research we have done. When we asked companies about their customer experience efforts in Q4 of 2006, few reported that their firm's employees shared a common view of customers or that senior executives regularly interacted with customers.<sup>2</sup>

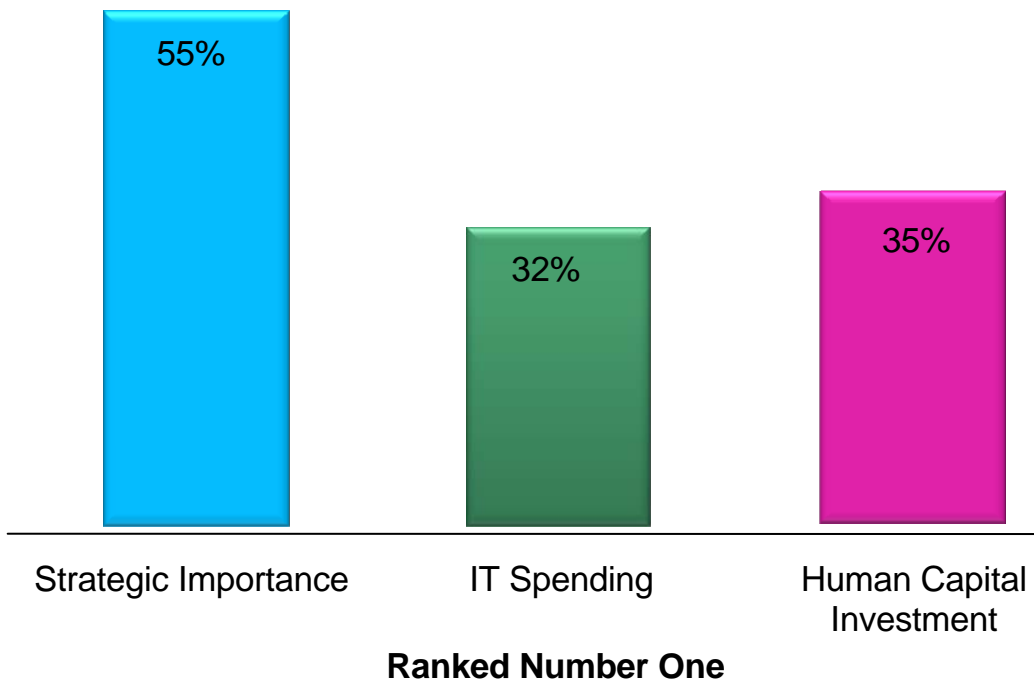
In our survey of 630 business managers and business process owners for Microsoft, Forrester found that the biggest regional variations in values and initiatives is in having a single organization responsible for the customer relationship and having a formal program for customer loyalty. When it comes to having a single organization responsible for all aspects of a customer relationship, regardless of channel, and having formal customer loyalty programs, Asia is ahead of the US and Europe. With regard to having a single organization responsible for the customer relationship the mean score for business manager respondents in Asia was 4.13 out of 5, with 5 being "strongly agree" and 1 being "strongly disagree," whereas it was 3.44 in the US and 3.45 in Europe. With regard to having formal programs for building customer loyalty, the mean score was 3.99 in Asia, 3.78 in the US, and 3.33 in Europe.

## IT And Human Capital Investments Are Not Well-Aligned With Business Focus

One would think that IT spending and human capital investments in companies worldwide would map to the strategic focus on customer relationships in companies worldwide. But this is not the case. Our survey of business managers and business process owners shows that IT and human capital investments in 2006 did not match up squarely with this business issue prioritization. While 55% of respondents said that the top business issue for their organization was customer relationships, only 32% selected customer relationships as the top priority for IT spending and 35% selected it as the top priority for human capital investments (see Figure 3). This correlates with data Forrester has found in other surveys; companies have an undisciplined approach to customer experience management, with few corporatewide programs, sparse leadership, and limited measurements.<sup>3</sup>

**Figure 3: Technology And Human Capital Investments In 2006 Were Not Aligned With The Most Critical Business Issue: Customer Relationships**

### 2006 Spending Compared To Strategic Importance Of Customer Relationships



Source: Forrester Online Survey commissioned by Microsoft, November 2006 and February and March, 2007  
MQ1. Please rank the following four areas in terms of their relative strategic importance to your organization. Base: All respondents, n=630  
MQ10. Please rank the following four business areas according to your organization's technology spending in 2006. Base: n=555  
MQ13. Please rank the following four business areas according to your organization's human capital investments in 2006. Base: n=543

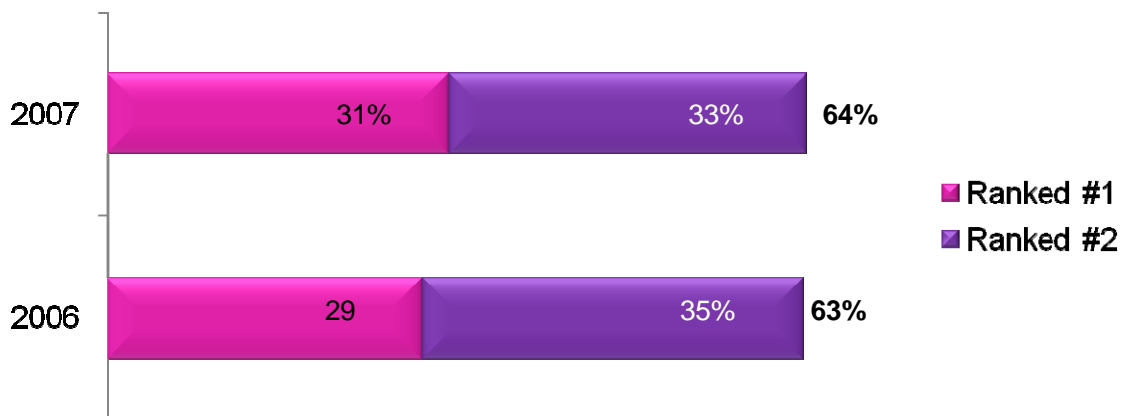
## Business Managers Say Customer Relationships Is Number One Business Issue

The mean ranking of customer relationships, with regard to both IT spending and human capital investments in 2006, was highest in the US and lowest in Asia — an unexpected result, considering that the percentage of respondents that said their organizations invest in advanced technologies to support customer relationships is higher among respondents in Asia than in the US and Europe.

The outlook is similar for 2007, based on our phone interviews with senior IT leaders (see Figure 4). Almost a third of senior IT leaders we surveyed (29%) ranked customer relationships the number one business focus according to their organization's IT spending for 2006, with another 35% ranking customer relationships second. A slightly larger percentage (31%) ranked customer service the number one business focus according to their organization's planned IT spending for 2007 and a slightly smaller percentage (33%) ranked it number two.

Figure 4: CIOs Predict Little Change In IT Spending Prioritization In 2007

### 2006 And Planned 2007 Priorities: IT Spending In Support Of Customer Relationships



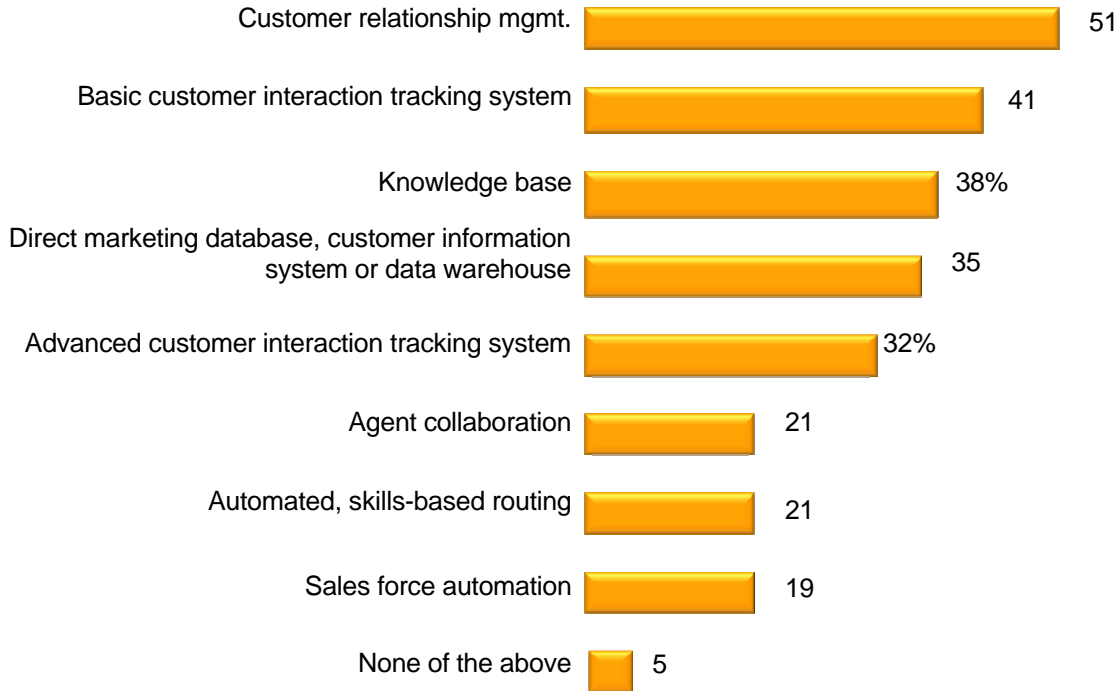
Source: Forrester CIO Phone Survey commissioned by Microsoft, and March, 2007  
Base: All respondents, n=205  
Percentages may not add up perfectly due to rounding.

More detail about organizations' IT investments in customer relationships backs up our assertion that a disconnect exists between what business managers believe is most important to their organizations and how organizations are investing in IT and human capital (see Figure 5). Of the 199 survey respondents that selected customer relationships as the number one priority for the organization, only 51% say their organization has implemented CRM software, only 41% have implemented a basic customer tracking system, and only 38% have implemented a knowledge base.

Even fewer have implemented more advanced technologies: only 21% have implemented automated, skills-based routing (which we defined as a request coming in and going to the person who is a specialist in that area) and 21% have implemented agent collaboration (which we defined as more than one person being able to work on a customer issue via chat or another mechanism).

**Figure 5: CRM And Basic Customer Interaction Tracking Systems Are Most Commonly Used Technologies To Support Customer Relationships**

**Question: Which of the following technologies is your organization currently using to support customer relationships?**



Source: Forrester Online Survey Forrester Online Survey commissioned by Microsoft, November 2006 and February and March, 2007  
Base: N=199 (we only asked this question of respondents who ranked customer service as the number one issue)

The study shows that the main reasons for lack of IT investment in support of customer relationships are:

- Many organizations lack discipline in the area of customer experience. They don't have corporatewide programs, leadership, metrics in place, or even a clear customer experience strategy. Instead, they have siloed customer experiences, industry tunnel vision, and inward-focused product development.
- It is easier for most project teams to build a business case for technology and human capital investments that result in operational efficiency than it is for improvements in customer relationships. It is easier to calculate the ROI of shortened cycle times or reallocated headcount, for example, than it is an increase in customer satisfaction or customer retention.
- Many business and IT executives do not feel that the business benefits achieved with CRM investments met their expectations and or that they were able to quickly realize value from the applications.<sup>4</sup>

## Conclusions

From this study of organizations' prioritization of, and IT and human capital investments in support of, customer relationships, operational excellence, innovation capability, and partnerships, Forrester consulting found that:

- Respondents' top strategic concern is customer relationships, followed by operational excellence. This is evidenced in business managers' and business process owners' values and initiatives.
- Customer relationships rank higher on the priority list in the US than it does in Europe or Asia.
- Technology spending and human capital investments in 2006 were not aligned with the most business critical issue: customer relationships.
- The mean ranking of customer relationships, with regard to both IT spending and human capital investments in 2006, was highest in the US and lowest in Asia.
- Risk-averse, tactical innovation initiatives focus on explicit customer needs and cost efficiencies — thus possibly lacking growth orientation.
- Customer interactions are valued as crown jewels — and therefore outsourced less commonly than one might think.
- Organizations that rank customer relationships as the number one priority have made limited technology investments in this area.

## **Appendix: Supplemental Material**

### **Related Forrester Research**

#### **Customer Relationships**

[Customer Experience Leadership Matters](#), March 2, 2007

[Trends 2007: Customer Relationship Management](#), March 1, 2007

[Building Your Voice Of The Customer Program](#), February 8, 2007

[Obstacles To Customer Experience Success](#), February 6, 2007

[Trends 2007: eService Is Customer Service](#), January 18, 2007

[Customer Retention Is A Process, Not An Event](#), January 9, 2007

[Experience-Based Differentiation](#), January 2, 2007

[Five Disruptive Customer Experience Strategies](#), December 7, 2006

[Voice Of The Customer: Five Levels Of Insight](#), Trends, December 1, 2006

[Considering A Chief Customer/Experience Officer?](#), Trends, November 2, 2006

#### **Forrester Methodology**

In November of 2006 and February and March of 2007, Forrester Consulting conducted a research study on behalf of Microsoft to investigate the strategic importance, technology investments, and human capital investments in four areas: 1) customer relationships; 2) innovation capability; 3) operational excellence; and 4) partnerships. The primary objective of this research was to validate Microsoft's "People-Ready" business strategy. The project consisted of a Web-based survey of 630 business process owners and business managers in the US, Europe, and Asia and a phone survey of 205 senior IT decision-makers in North America. The studies were conducted in November of 2006 and February and March of 2007. Respondents worked in more than 17 industries. The industries most frequently represented in this survey are public services, government, professional services, high-tech products manufacturing, industrial products manufacturing, and consumer products manufacturing. Most of the business managers and business process owners (80%) and senior IT leaders (83%) we surveyed work for organizations that have more than 1,000 employees. All respondents worked for companies with more than 500 employees.

## **Business Managers Say Customer Relationships Is Number One Business Issue**

---

<sup>1</sup> The mean ranking of customer relationships by respondents in the US was 1.58, whereas it was 1.73 in Europe and 2.06 in Asia, where “1” was the organization’s top strategic focus.

<sup>2</sup> In Q4 of 2006, Forrester interviewed customer experience executives at 74 large US firms that are a part of Forrester’s Customer Experience Peer Research Panel. See the February 8, 2007, [“Building Your Voice Of The Customer Program.”](#)

<sup>3</sup> In Q4 of 2006, Forrester interviewed customer experience executives at 74 large US firms that are a part of Forrester’s Customer Experience Peer Research Panel. See the February 6, 2007, Forrester report [“Obstacles To Customer Experience Success.”](#)

<sup>4</sup> Forrester surveyed business and IT executives at 94 companies and found that satisfaction with CRM software applications was not strong. See the December 13, 2005, [“Best Practices For CRM Deployment.”](#)