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CRM Excellence at KLM Royal Dutch Airlines

Stijn Viaene

K.U.Leuven, stijn.viaene@vlerick.be

Bjorn Cumps

K.U.Leuven

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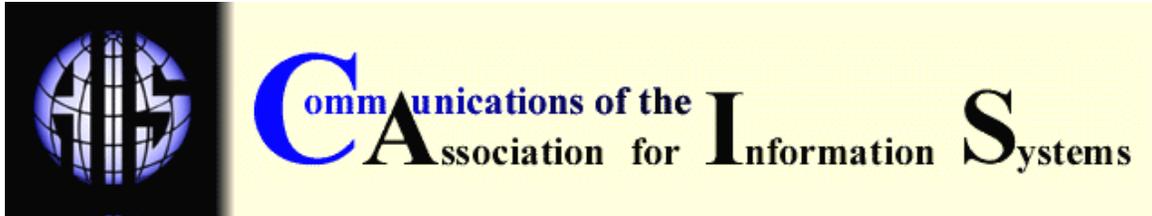
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CRM EXCELLENCE AT KLM ROYAL DUTCH AIRLINES

Stijn Viaene
Vlerick Leuven Gent Management School and
Department of Applied Economics
K.U.Leuven
stijn.viaene@vlerick.be

Bjorn Cumps
Department of Applied Economics
K.U.Leuven

ABSTRACT

This teaching case tells the story of the rebirth of CRM at KLM Royal Dutch Airlines since 2002 and its successful liftoff during 2003, for which KLM received Gartner's 2004 CRM Excellence Award. The Award presents a natural moment of reflection on past CRM achievements and future plans. The case allows us to

- (1) dissect a CRM success story, that contrasts nicely with many of the CRM horror stories of the 1990s, and identify key success factors;
- (2) focus attention on the viability of the planned approach KLM uses for implementing CRM;
- (3) introduce and show the importance of program management as a construct for structurally growing and governing enterprise-wide investment in CRM; and
- (4) help reinforce lessons around CRM and business-ICT alignment.

Keywords: business-ICT alignment, CRM, governance, program management

Editor's note: A teaching note is available to faculty who are listed in the MISRC-ISWorld Faculty Directory (<http://www.isfacdir.org/>). Contact the first author at stijn.viaene@vlerick.be

I. INTRODUCTION

Thursday, 29 April 2004 – 8pm. Cristina Zanchi and Roderik Rodermond had just settled into comfortable armchairs in KLM's Business Lounge at London Heathrow International Airport. They were on their way back home from attending Gartner's European Customer Relationship Management (CRM) Summit 2004 in London, where they just won first prize for their successful

CRM efforts at KLM.¹ Cristina Zanchi was the Head of Customer Relationship Management at KLM Royal Dutch Airlines and Roderik Rodermond was her Head of Strategy and Database Marketing. Both were extremely pleased with the way things went today. They were well aware that this award was an important next step towards convincing KLM's Board of Directors that their investment in CRM was on the right track. While enjoying some refreshments Cristina Zanchi and Roderik Rodermond began discussing how to proceed with their CRM efforts at KLM.

"We have to be very careful," said Roderik Rodermond.

"I know what you're thinking. This first phase was crucial for the rest of the CRM Program, but the tricky part is yet to come," replied Cristina Zanchi.

"Exactly! We now have our campaign management tool up and running and it is connected to our new customer database. This arrangement allows us to differentiate in our marketing communication, the first of our customer interaction points. A good start, that's for sure, but it'll be quite a different story to differentiate our operational activities."

"I know, I know. Getting CRM implemented in the rest of the organization will not be straightforward. Inflight and Ground Services, to name just two, are all much bigger than our Marketing Department."

"And let's also not forget that the rest of KLM is currently still very much working in an operations-driven rather than customer-driven mode. Getting all of these people to focus more on the customer may prove to be quite the challenge."

"True ... Luckily we had the full support of Paul Gregorowitsch."

[Paul Gregorowitsch was the Executive VP Commercial of KLM Royal Dutch Airlines' Passenger Business. He reported directly to KLM's Board of Directors. Cristina Zanchi reported to the Head of the Commercial Division via the VP Marketing & Brand.^{2,3}]

Roderik Rodermond replied: "Having the full support of the Head of our Commercial Division is no luxury. What support do we have in the rest of the organization? Maybe it's just too soon to roll out CRM to the rest of the organization? Why not continue working on CRM from within the Marketing Department?"

"I agree that a lot remains to be done within the boundaries of our own Marketing Department. We should not forget, however, that for CRM to really deliver on its promise, we should, eventually, get it into the rest of the organization."

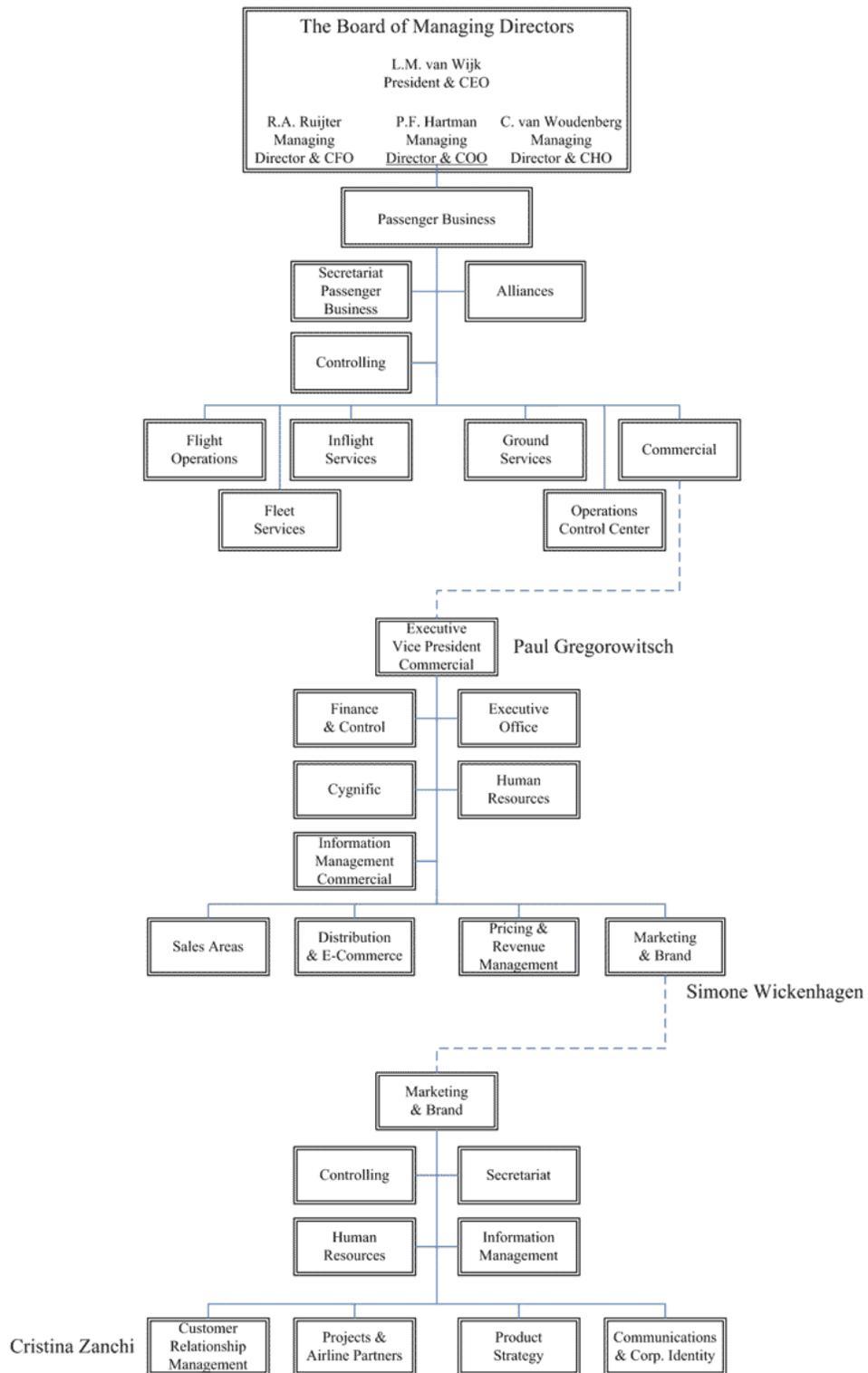
"What about predictive modeling and customer analytics? We could focus more on the analytical part of CRM.⁴ Once we start producing the right customer insight and show that it is immediately usable for day to day practice, people will pick up on CRM and we are launched. The customer database is at our disposal now. We just must learn how to look at it in a smarter fashion."

¹ The Gartner Award is described in Appendix I.

² The KLM organization chart is shown in Figure 1.

³ Note: All figures and tables are based on information provided by KLM.

⁴ This terminology is in accordance with what Meta Group defines as analytical CRM, or the analysis of data created on the operational side of CRM and through other relevant operational data sources for the purposes of business performance management and customer-specific analysis. Operational CRM, according to Meta Group, refers to the automation of horizontally integrated business processes involving front-office customer touchpoints across sales, marketing, and customer service via multiple, interconnected delivery channels [Peppers and Rogers, 2004].



Source: KLM Royal Dutch Airlines

Figure 1. KLM Organization Chart

“Perhaps ... One thing is for sure: It will take time for CRM to be soaked up into the entire organization. It’s going to be a marathon, not a sprint. There’s definitely more to it than investing in a data analysis suite! Remember the last time a full blown, enterprise-wide CRM initiative was launched at KLM?”

Cristina Zanchi and Roderik Rodermond pondered the fate of KLM’s 1997 broadly scoped, Information and Communication Technology (ICT)-driven CRM endeavor that went sour and created a lot of skepticism about CRM within KLM. Cristina Zanchi knew that Paul Gregorowitsch would want her to update him on the award ceremony first thing on Monday morning. Inevitably, the question of what to do next would pop up and she wanted to have her answer ready by then.

II. COMPANY BACKGROUND

KLM Royal Dutch Airlines (now merged with Air France) was an international airline operating world-wide. Its home base was Amsterdam Airport Schiphol, The Netherlands. KLM formed the core of KLM Group, other members being KLM Cityhopper and Transavia. KLM Group’s four core activities were: passenger transport, cargo transport, engineering and maintenance, and charter/low cost flights. In fiscal year 2003/2004, KLM Group carried more than 23 million passengers and reported a net income of €24 million on €5,877 million revenue. The number of employees for KLM Group in March 2004 was 34,529 of whom 4,162 worked abroad. KLM financials are shown in Table 1.

In fiscal year 2004/2005, KLM merged with Air France and became a member of the SkyTeam Alliance, a global alliance in which several important European, American and Asian airlines joined forces to make their passengers’ travel experience seamless and convenient across allied carriers.⁵ The combined entity of KLM and Air France represented the first cross-border merger of major European airlines. The combination would form the largest airline group in terms of 2003 revenues and would rank third behind American Airlines and United Airlines in terms of passenger traffic. Alliance formation was a key element in KLM’s strategy that, as its 2003/2004 Annual Report [KLM, 2004] said, was supposed to bring KLM closer to “a position of lasting strength in the global aviation industry” by strengthening “the brand values and distinctive character of the nearly 85-year-old company” through “synergy gains, the more favorable scope and scale and greater resilience.”

KLM, as most incumbents of the European airline industry, was facing declining revenue per seat and increasing competitive pressure during the last several years because of deregulation in the European airline industry and unfavorable economic conditions.

In December 1992 the European Union passed legislation to deregulate the airline industry. The directive that was issued implied that any European carrier could fly from any destination to any destination and demand landing slots. Opening up Europe’s skies brought about newly energized competition in the European airline industry, not least due to the entrance into the market of low cost carriers such as Ryanair and easyJet. The latter airlines put enormous pressure on the profit margins of the traditional airlines, making them engage in major cost cutting programs.

At the same time the traditional airlines faced an increasing commoditization of their product offerings. Fares came under enormous pressure. New low cost carriers were opening up new

⁵ In September 2004, SkyTeam combined the network of nine allied carriers: Aeroméxico, Air France, Alitalia, Continental Airlines, CSA Czech Airlines, Delta Air Lines, KLM Royal Dutch Airlines, Korean Air and Northwest Airlines. Passenger benefits included more, easier, and quicker connections, single check-in, consistent assistance at any of the partners’ reservations centres, airport service counters or ticket offices, and access to more business lounges. Also, frequent flier members with any of the Alliance partners could earn and redeem frequent flier program miles over the whole SkyTeam network.

Consolidated statements of earnings	2003/2004	2002/2003	2001/2002	2000/2001	1999/2000	1999/1998	1998/1997
Operating revenues	5,877	6,485	6,532	6,961	6,296	6,047	6,064
Operating expenses	5,757	6,969	6,626	6,683	6,314	5,854	5,696
Operating result	120	-484	-94	277	-18	193	368
Financial income and expenses	-101	-98	-134	-138	-112	-82	-127
Results on sales of assets	-1	-42	10	27	-8	32	22
Results of holdings	13	2	-6	-17	462	116	111
Pretax result	31	-622	-224	149	324	259	374
Taxes	-7	206	68	-73	13	-52	-99
Net income	24	-416	-156	76	337	207	275
Consolidated balance sheet							
Current assets	1,781	1,828	2,519	2,467	2,467	2,289	2,778
Fixed assets	6,256	6,337	6,424	6,124	6,181	6,009	5,937
Total assets	8,037	8,165	8,943	8,591	8,648	8,298	8,715
Current liabilities	1,856	2,191	2,092	2,057	2,243	1,999	1,912
Long-term debt	4,228	3,971	4,417	3,686	3,712	3,503	3,628
Provisions	279	271	177	499	458	413	473
Deferred credits	186	256	265	287	215	227	267
Group equity	1,488	1,477	1,992	2,061	2,019	2,157	2,435
Total liabilities	8,037	8,165	8,943	8,591	8,647	8,299	8,715

Source: KLM Royal Dutch Airlines

Table1. KLM Financials

segments, attracting new customers, and taking market share away from established airlines. Unfavorable economic conditions, triggered by external events such as the terrorist attacks of 11 September 2001, the SARS epidemic in Asia during 2003, and the start of the war in Iraq in 2003, exerted further pressure on the airline industry.

Decreasing passenger numbers led to excess capacity in terms of fleet and personnel. Airlines badly felt the impact of their high fixed costs. Whether a plane was parked on the ground or flying with a cabin full of paying passengers, lease or loan payments had to be paid. Declining passenger numbers directly impacted bottom line profitability. Moreover, since the terrorist attacks of 11 September 2001, all aspects of aviation security were tightened. New security regulations forced airlines to invest further in both inflight and on-the-ground security measures. All of these factors weighed heavily on the airline's costs.⁶

In response, KLM in 2003/2004 set out to reduce its internal cost base structurally by €650 million by April 2005. This cost cutting exercise would enable KLM "to provide a better product at lower cost and so make up for the declining operation margins in the aviation industry." For KLM this cost control program was the most comprehensive ever. It was to be implemented through a combination of process change, productivity gains, and product improvements.

This need for cost cutting, however, did not imply that KLM chose to become a low cost/price carrier. In fact, quite the opposite was true. It knew that cost reduction alone would not guarantee profitability. As it stated in its 2003/2004 Annual Report [KLM, 2004], KLM's strategic orientation would be geared towards differentiating itself from its competition by forging "a more direct relationship with its customers."

III. KLM MEETS CRM

KLM realized that it could differentiate itself from its competition by offering a superior customer experience at every interaction point with its customers. Every customer interaction was to be perceived as both a great opportunity to bond with customers or prospects, and as a risky break point for a worthwhile customer relationship. The ultimate aim for KLM was to infuse CRM – as a business philosophy enabled by extensive investment in ICT – into the complete KLM Circle of Contacts (Figure 2), and make the relationship with its customers as intimate as possible.

A first major CRM project was set up in 1997. Under the leadership of the ICT Department. With the help of external consultants the company started with an extensive study on what opportunities CRM could offer KLM and what ICT capabilities would need to be set up to make it happen. The Customer Management Project was developed. The primary objectives for this project were:

- Implementation of better customer identification and recognition capabilities at all customer interaction points throughout KLM;
- Improvement of customer data gathering, integration, and use;
- Creation of a well architected, strategic ICT platform that would replace the current, organically grown ICT legacy infrastructure⁷.

⁶ For a more elaborate analysis of the competitive situation of KLM see [KLM 2004]. For a more in depth analysis of the European airline industry, see Paul and Hartmann [2003]. Another good reference covering the airline industry is Costa et al. [2002].

⁷ ICT infrastructure is the collection of computer hardware and software that forms the backbone of a company's computer services. It consists of databases, communication networks, Internet services, network routers and ICT support staff. ICT applications, such as customer care applications, use this infrastructure to access and update data, and to communicate with other applications. The way in which these different components are connected is called ICT architecture [Robertson, 2004].

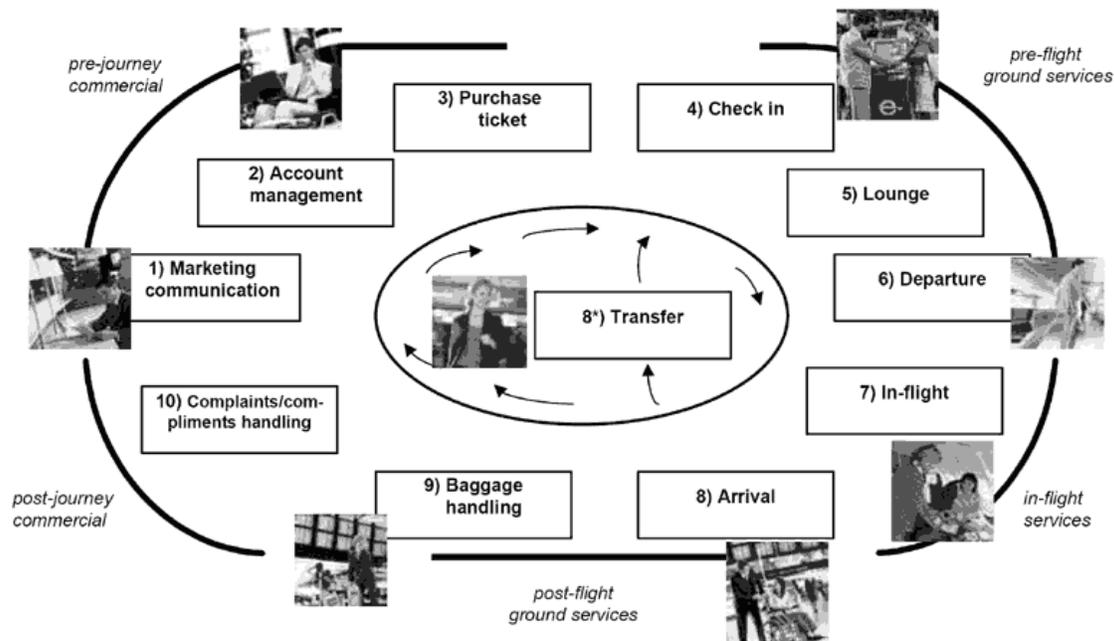


Figure 2. KLM Circle of Contacts

With these capabilities in place, KLM would be able to steer its customer interactions more systematically based on valuable customer intelligence. The project plan also included a limited set of rough (gu)es(s)timates that quantified the return on the ICT infrastructure investment to the business. A rigorous analysis of the linkage between this investment and the company's financial results was, however, labeled in the project document as "not possible at this point in time." Most attention was paid to the impact of CRM on the infrastructural and technical capabilities on the ICT side.

The proposed effort, however, proved too much for the organization to digest. In the end, this broadly scoped, ICT-driven CRM project did not take off. This was mainly due to the high forecasted technology costs and the lack of support for the initiative on the business side. The perceived failure engendered a lot of skepticism about CRM within KLM. Many grew distrustful of further initiatives in this area. CRM largely disappeared from the management agenda in 1997. Instead, KLM focused on alliance creation. Between 1997 and 2001 KLM engaged in an active search for an alliance partner in the airline industry. The search was not successful. In 1999 KLM called off an impending alliance with the Italian airline Alitalia, and in 2001 an alliance deal with British Airways fell apart.

III. CRM REBORN

When Paul Gregorowitsch was appointed Executive VP Commercial of KLM Royal Dutch Airlines' Passenger Business in April 2002, he took CRM from under the dust. He was given responsibility

for all global passenger sales, distribution and marketing activities. He was also responsible for revenue management and pricing. He reported directly to KLM's Board of Directors. Paul Gregorowitsch joined KLM in 1980. He served in a variety of sales, marketing and servicing management positions within KLM, moving up to become Executive VP Commercial of KLM. He knew KLM as operations-driven rather than customer-oriented. He believed that KLM suffered

from far too limited possibilities for personalized service and from too many inconsistencies in service delivery.

One of the first things Paul Gregorowitsch did as Head of the Commercial Division was to make CRM into one of the strategic building blocks on which he would build KLM's future commercial strategy. He envisioned three building blocks for KLM Commercial: (1) the customer, (2) CRM and (3) e-business. These building blocks consistently reappeared in meetings, monthly newsletters, and other communication with the rest of the company. His evangelization of CRM went down as well as up to KLM's Board of Directors. Still, a lot of lingering skepticism remained within KLM about the effectiveness of CRM.

In June 2002 a new Customer Relationship Management Department was created within the reorganized Commercial Division (Figure 1). Its mission, set by Paul Gregorowitsch, was "to make every customer interaction into an opportunity to enhance the customer's buying and traveling experience, and to increase and sustain company profitability." The department was told to work on establishing capabilities for "differentiating services to customers in an efficient and cost-effective way." Cristina Zanchi was appointed to head this new Department. She joined KLM in 1989, and served in a variety of sales, marketing and servicing management positions. In her previous position she reported directly to Paul Gregorowitsch (at the time VP Sales & Marketing). Now, within the new structure of the Commercial Division, she would report to Paul Gregorowitsch via the VP Marketing & Brand, Simone Wickenhagen. Getting direct access to Paul Gregorowitsch about CRM matters would not be a problem though.

The overall objective for CRM remained the same as in 1997, that is, to make KLM a truly customer-centric organization and, in this way, turn around the negative trend of declining yields. Still, Cristina Zanchi had witnessed the demise of the 1997 CRM initiative, and she understood very well that she would need to tackle the propagation and institutionalization of CRM throughout KLM quite differently. Instead of rushing into broad-based CRM rollout that was supposed to incorporate every customer interaction point at once, the new approach would start out modestly with highly focused investments that would be relatively narrow in their scope and offer a clear return on investment (ROI). The real business gains from these targeted initial investments in CRM would help to win broader management and line support and act as springboards for further and more ambitious CRM projects. The plan was to use a phased approach to CRM implementation as outlined in Figure 3.

Cristina Zanchi was also fully aware that the path towards becoming a customer-centric enterprise would involve complicated technological issues and require crucial and significant investment in ICT to make it happen. Still, from the very start she stressed that the business rather than ICT would call the shots. Of course, business and ICT would need to work closely together.

Campaign management⁸ was chosen as a first CRM project. Cristina Zanchi knew that the choice of the first CRM project new-style would be crucial. There was no room for failure because failure would play into the hands of the skeptics, with a definite risk that CRM would be buried anew for for several years. The project was termed CIAO⁹ (Customer Insight, Analysis and Opportunities). CIAO was a project that would introduce CRM in KLM's marketing communication to allow the company "to deliver the right offer to the right customer at the right time and via the right channel." More specifically, the CIAO project aimed at what was called "closed loop campaign management" via:

⁸ Campaign management is a marketing tool used to obtain new customers and ensure the loyalty of established customers by providing continuous, permission-based, and promotional communications, according to the customer's interests [Shaw and Taggart, 2000].

⁹ To reinforce the idea that CRM was her project, Cristina Zanchi opted for an acronym with an Italian flair.

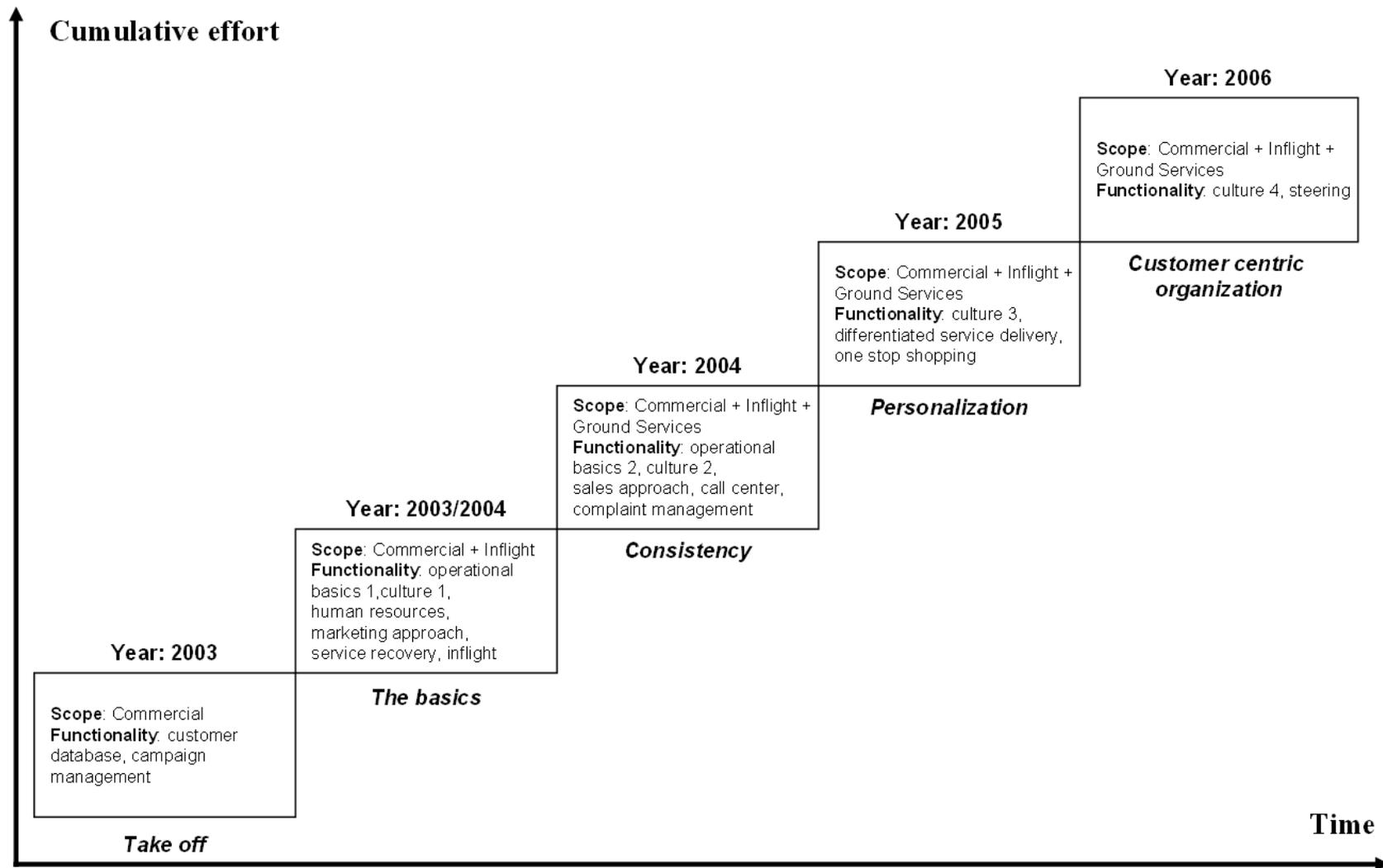


Figure 3. Planned CRM Rollout

- Identification of customer value segments;
- Better understanding of customer needs and preferences;
- Creation of targeted marketing and sales campaigns for specific customer segments;
- Monitoring of customer responses;
- Applying experiences to future campaigns;
- Better steering of customer buying and traveling behavior.

What drove the decision to go for this project as a first CRM project, besides it being able to produce fast, measurable ROI, was that the initiative would be embedded completely within KLM Commercial, which clearly limited risks. That is, strategy, investment, execution, and control of CIAO would all ultimately be under Paul Gregorowitsch. Whereas other senior managers tended to cut budgets on customer related projects when things became tough in the past, this response would probably not happen immediately with Paul Gregorowitsch.

What also made life easier for Cristina Zanchi was that the Marketing environment in which the project would be deployed was relatively small and sympathetic to the idea of CRM. Such would not have been the case if the first CRM project was placed, for example, within KLM Ground Services, where customer centricity came much less naturally. Ground services, like many other parts of KLM, were still operations-oriented, which would only complicate matters. Although some of the managers there were open to the idea of CRM, they still were very much concerned with the increase in unit cost CRM would imply for their Departments.

In June 2002 Cristina Zanchi and her team started the search for vendors to deliver the necessary CRM technologies for CIAO. Requirements were determined up front and a Request for Information was sent out in mid June. All the 12 vendors that responded were then scored extensively and transparently. Cristina Zanchi made sure to involve both the ICT people and the business users in the scoring to help to create the necessary buy-in from these key stakeholders. The selection process was also a good opportunity to include them in the investment decision-making process. Including them made them jointly responsible for the decision and also took away some of the danger of later criticism.

In September 2002 E.piphany was selected to provide campaign management software and to help set up a central customer database that would be fed into the campaign management tool. With this database in place, KLM would be able to support general querying and reporting on customer data; campaign setup and execution; monitoring and reporting; and enhanced e-mailing. With the choice for E.piphany KLM did not opt for the tool that offered the most functionality, or was most popular in the market. As Roderik Rodermond put it, KLM chose the vendor that qualified as “the best match with our CRM goals and willing to go a long way in thinking along on how to best support our CRM business needs.” The latter meant that E.piphany would be actively involved in the execution of the first campaigns supported by its software, as part of the same fixed price deal. The implementation of the E.piphany campaign management application began in January 2003. As planned, the first tool-driven campaign went live, on time and under budget, in mid-August 2003, on completion of the CIAO project. Global rollout was scheduled to follow in the next three months. In the meantime, KLM started working on the centralized customer database which would be released in a first phase in December 2003.

IV. INTEGRATED CUSTOMER DATA

With CIAO, the airline wanted to move beyond just the sole intention of rewarding customers for spending more of their patronage with KLM. It set out to build a true relationship with its most valuable customers based on integration and consolidation of its data on these customers. Thus, a central customer data repository was considered essential. The repository would serve as the basis for creating customer value segments that could be used by the enterprise to tailor its

interaction with individual customers based on the value of those customers to KLM. At the time, most of the necessary customer data resided in the KLM's Flying Dutchman (FD) frequent flyer program. Still, over a dozen other databases within KLM contained useful customer data. For example, data on the monetary value of a customer's flying was not available within FD. It was embedded in an Accounting database. The same went for data on customer complaints that resided in a Sales database or for data on incidents (for example, delay, cancellation, or downgrading), that resided in an Operations databases. Also, corporate customer data was not linked into individual customer data.¹⁰ All this useful customer data basically needed to be integrated to arrive at what is called "the single view of the customer." It was only on this foundation that CIAO campaign management could be run in a consistent manner. Thus, in parallel with CIAO, Cristina Zanchi launched a complementary project for setting up a central customer database, named the CDB project, in support of CIAO.

The CDB project would also be the first major step in the implementation of KLM's new ICT architecture and infrastructure in support of enterprise-wide CRM. Over the years, Marketing, Sales, and Services largely developed their ICT systems independently. They created their own databases, their own business rules and analytics, and set up proprietary business processes for supporting their own CRM-like activities. Much of the existing customer data was duplicated, giving rise to data quality issues. There was hardly any integration. The old ICT infrastructure reflected an architecture of data/business rule/process silos, as depicted in the left pane of Figure 4. The new infrastructure, on the other hand, would be architected along the lines of the right pane of Figure 4. The architecture consisted of a single view of the customer data, and unified business rules, analytics, and processes for Marketing, Sales, and Services. Issues of ownership and accountability would need to be addressed, of course, to be able to maintain the whole. In time, all customer interaction points of KLM's Circle of Contacts (Figure 2) were expected to be linked in to the single view of the customer data. Moreover, they would share the responsibility of growing its value by helping to enrich it, to populate it with quality data, and to make use of that data effectively.

By digging through the centralized customer data, Cristina Zanchi and her team relatively quickly found that frequent flier mileage was not the best indicator of customer value to the airline, though it was used for years in FD to differentiate service delivery. The analysis of frequent flier data with other customer specifics such as the frequency, recency, and monetary value of flying, and with demographic customer variables (such as gender, marital status, household composition, house ownership, and profession), allowed KLM to obtain greater insight into its customer base. Customer insight was eventually synthesized into a much better customer value segmentation model. What KLM, for example, discovered was that in 2002 roughly 25 percent of its most valuable customers, were not in the top FD membership level. These customers systematically missed out on the service that was specifically designed for KLM's most valuable customers. Conversely, some customers with top FD membership did not show up in the highest value segment identified under CIAO, which meant that they were granted superior service than they were actually entitled to.

KLM did not have to wait long for CIAO, backed by the CDB project, to prove itself a success. An important goal of the CIAO project was to create targeted marketing and sales campaigns and monitor customer responses. Instead of launching a mass marketing campaign annually targeted at all customers, KLM now launched several smaller campaigns targeted at specific customer

¹⁰ To illustrate the troublesome nature of this situation, Cristina Zanchi's people liked to recall the story of a top executive of one of KLM Cargo's largest corporate customers and his family that were denied boarding due to an overbooking of their holiday flight. Due to the lack of integration between individual and corporate customer data the KLM employee deciding on who would and who would not be allowed to board simply had no idea of how important this passenger really was to KLM. The seriously displeased executive went on to file a complaint that caused serious upheaval at the time. Luckily it did not cost KLM Cargo the account.

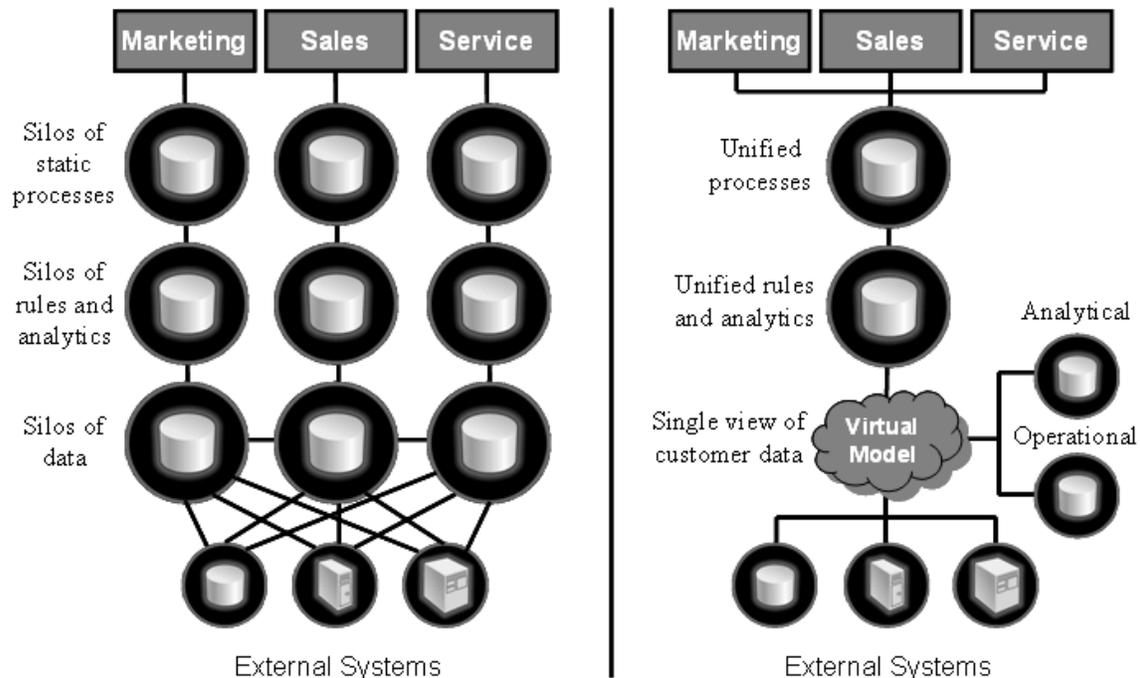


Figure 4. Old vs. New ICT Architecture

segments at specifically chosen moments in time. By the first half of 2004 KLM reported response rates on its campaigns of 5 to 12 percent, well exceeding the industry average of 2 percent. Also, by making use of the Internet and e-mail, the time to market for campaigns fell from weeks to days. At the same time, KLM reported a 20 percent decrease in the costs of communication FD members compared to 2 years previously. On the revenue side, on average, known customers now spent 5 percent more than they did the year before. The known customer base was increased by 20 percent between March 2003 and March 2004.

V. CRM PROGRAM DRIVE

The success of the campaign management project was crucial for creating the necessary momentum for further CRM deployment. The ambition was to eventually transform the entire enterprise by creating chains of successful CRM projects. By going through the phases outlined in Figure 3 these CRM projects would gradually move beyond Marketing and the Commercial Division into other parts of the KLM organization. Paul Gregorowitsch realized that the expanded scope would inadvertently bring with it the need for prioritization, management, and coordination of initiatives across an ever larger part of the enterprise. Therefore, in March 2003, concurrently with CIAO, he initiated an effort in which he assigned some of his best people to work on reconceptualizing CRM, for later management purposes. He wanted a program of interrelated projects, covering the entire organization, in which everyone serves a common vision of "letting every customer interaction drive profitability" and a common mission of "enabling the optimal customer interaction and profitability by shaping KLM into a customer-centric organization."

VISION-INTO-ACTION TRANSLATION

KLM's CRM vision and mission statements were translated into the following three actionable, directive goals in order to establish a clear linkage between the vision and the actual CRM projects that would be included in the CRM Program:

- More personalized and consistent service delivery across all interaction points;
- More customer profitability based steering;
- More customer-centric organization.

These three goals represented three distinct strategic pillars on which KLM needed to work long term to realize its CRM vision. Each goal was further translated into measurable sub-goals used to actually drive the different CRM projects that would constitute the Program. The business cases of all current and proposed projects needed to be clearly linked to these goals, as would their subsequent management. The CRM Program goals design is illustrated in Figure 5.

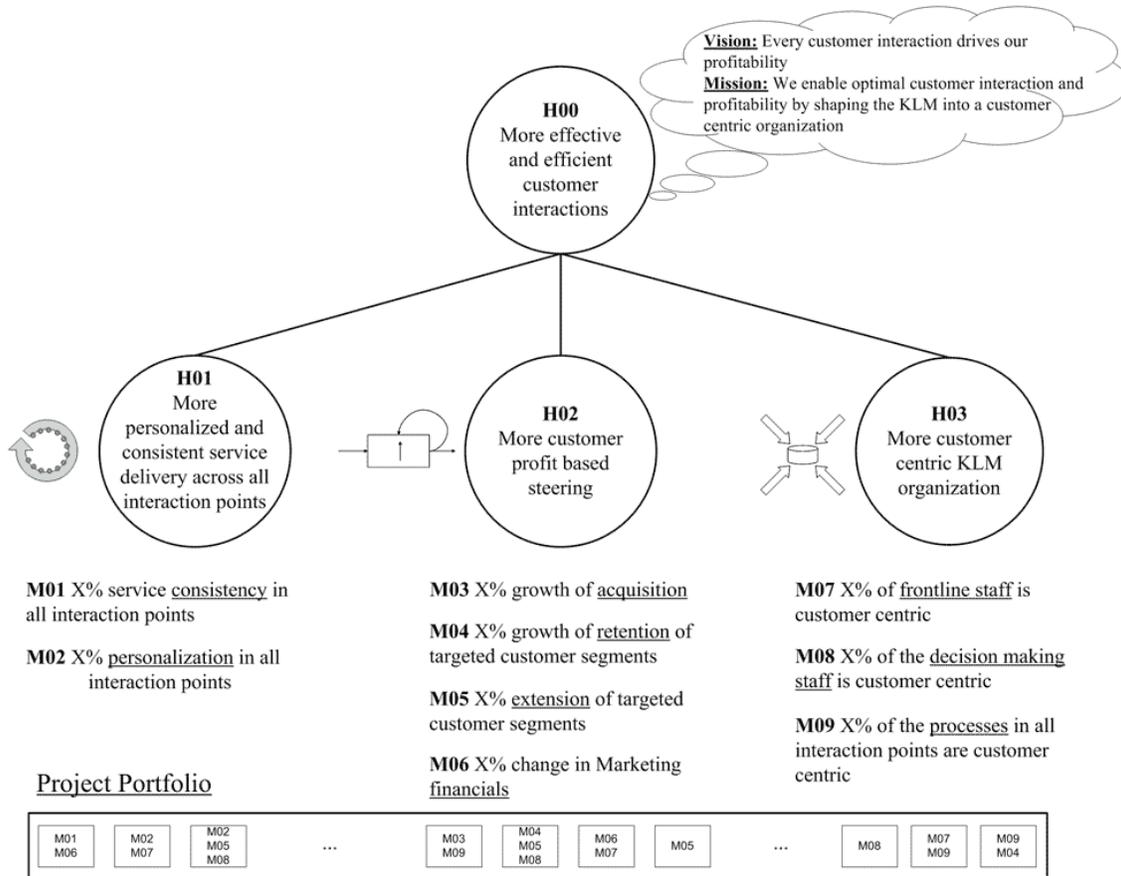


Figure 5. CRM Program Goals Tree

CRM INVESTMENT PORTFOLIO

First Pillar

Projects with primary drivers under the first pillar of the CRM Program focused on developing skills and capabilities for enhancing the operational side of customer service delivery with more personalization and consistency. These project (group) initiatives included, among others:

- Redesign and simplify the call center process;
- Redesign complaint management;
- Identify customers in all interaction points; and

- Deliver integrated real time view of the customer in all interaction points.

Second Pillar

The second pillar involved projects that focused on developing skills and capabilities that would enable KLM to steer service delivery and decision making effectively on the basis of customer profitability. The purpose was to shift more to the use of customer metrics, profiles and insight based on customer data. Project (group) initiatives here included, among others:

- Optimize customer segmentation;
- Optimize campaign management;
- Create a customer value-based pricing model; and
- Get insight in purchase drivers of the customer.

Third Pillar

The third pillar related to projects that, in broad terms, focused on facilitating and managing the change effort as KLM would move progressively towards a customer-centric organization. Here project (group) initiatives included, among others:

- Evangelize customer-centric culture; and
- Set up a customer-centric performance management process.

With the third pillar of the Program the management of culture and people change would be embedded structurally in the CRM Program. This view recognized that strategic, business process, and ICT changes never took place in isolation, and that proactive mechanisms were necessary to get the current organization and its people to go along with the planned change. Without people support, each change initiative was bound to fail. This realization was all the more important in light of the levels of internal skepticism bred by the stalled CRM project in 1997.

Education and Training

Employee education and training would also support KLM's strategic transition. KLM was, for example, planning CRM Master Classes to create awareness on the what, why, and how of CRM with middle management. Frontline staff would receive intensive operational CRM training under the Program. For example, frontline staff was supposed to take responsibility of enrolling high value customers into FD. in addition to the inflight service they were used to doing. In a first phase, enrollment would mainly be a paper-based process. But it was not difficult to see this process become automated by using pocket computers hooked into the central customer database. Even this relatively simple change implied quite a change in the mind sets and skills for frontline people. This transition was to be facilitated by the proper training.

To reach out to each and every sales and operational unit within KLM, a network of committed and appropriately trained CRM Ambassadors would progressively be put in place to help coordinate local CRM developments, and promote and facilitate CRM advancement locally on a permanent basis. A CRM Community Intranet would be set up for support. All of these activities were designed to bring CRM close to all employees.

Customer Scorecard

To create the necessary visibility of the CRM Program to the rest of the organization, KLM also established a so-called Customer Scorecard containing a set of regularly measured Key Performance Indicators (KPIs) for the entire CRM Program. This monitoring device was used to track performance in Commercial, Inflight, and Ground Services. Together with other CRM results it was communicated in a monthly brief that KLM top managers sent out to KLM staff world-wide.

Another initiative was the gigantic board that Cristina Zanchi's team put at the entrance of the Marketing floor that posted the progress on the performance KPIs in a visibly appealing way. The Customer Scorecard also acted as a permanent feed of triggers to initiate program, project, or product adjustments.

VI. CRM PROGRAM ROLES AND RESPONSIBILITIES

The proposed core governance¹¹ structure designed to develop and manage the CRM Program drew on some of the key concepts and best practice guidance from an open methodology called Managing Successful Programmes (MSP). This methodology was developed by Britain's Office of Government Commerce, first published in 1999 and in revised form in 2003.¹² The structure of roles and responsibilities is laid out in Figure 6. A regularly scheduled CRM Meeting, chaired by Paul Gregorowitsch and made up of senior executive representatives for all key stakeholder groups within the KLM organization, would ultimately be accountable for the success of CRM within KLM. This assembly carried the responsibility for the evolution of the CRM Program's vision, mission and goals, for reviewing and approving CRM project business cases¹³, prioritizing projects, tracking the progress of the portfolio of projects, and reviewing the delivery of the business benefits from the business changes these projects delivered.

PROJECT AND BENEFITS MANAGEMENT

Each CRM project under the Program would be assigned a Project Manager who was trained in a project management approach. He or she would be responsible for the timely implementation of the project budget and quality requirements.

Each project also would be assigned a Project Owner, that is, a business executive that would take on responsibility for and would be committed to realizing the business benefits from the project by managing the integration of the project outputs into normal business operations. This role would typically be assigned to a business leader from a business area within KLM that was most impacted by the project. This person ideally embodied business knowledge and credibility with the leadership of all the business areas that were impacted. The Project Owner's role typically would start earlier and persist longer than the Project Manager's.

The business executives that took up Project Ownership were also to convene on a regular basis in so-called Business Executive Meetings, chaired by a CRM Program Manager. These Meetings would take on responsibility for monitoring and reviewing the project portfolio and its management on a more regular basis than the CRM Meeting, which they supported and reported to.

PROGRAM MANAGEMENT

Managing the CRM Program on a day to day basis was the responsibility of the CRM Program Manager. This manager was responsible for supporting and facilitating the work of both the CRM Meeting and the Business Executive Meeting. For example, in support of the CRM Meeting, the Program Manager was supposed to filter the list of potential investment projects to a selected set of strategy-focused initiatives, and ensure that all planned and budgeted initiatives were developed into business cases and were assessed by the CRM Meeting.

¹¹ Governance, as in corporate governance, refers to the use of transparent structures and processes that specify how decisions are made, carried out, reinforced, and challenged, and who will be responsible and accountable for these decisions.

¹² See [Office of Government Commerce, 2003] or <http://www.ogc.gov.uk/> for further information about MSP best practice guidance.

¹³ Business cases that were approved by the CRM Meeting went on to obtain final approval and allocation of resources and budget by the Investment Committees at KLM Division level.

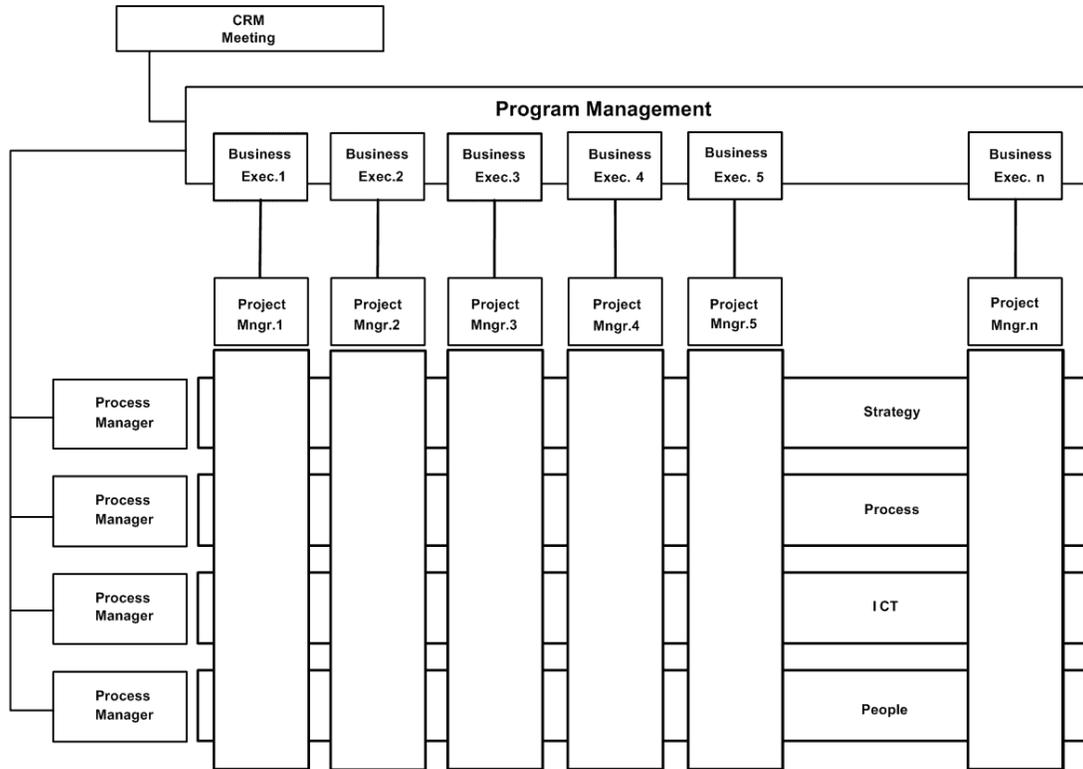


Figure 6. CRM Program Roles and Responsibilities

The Program Manager's job was to ensure that a strong link was maintained between the projects being executed and the strategic relevance and rationale for them. He would also be responsible for managing project resources, and for enabling the coordinated delivery of projects within the Program, efficiently and consistently.

ENTERPRISE ARCHITECTURE MANAGEMENT

Process Managers were expected to be instrumental in aligning and integrating individual projects across functional, geographic, and other boundaries. Strategy, Process, ICT, and People constituted the four areas of specific expertise that were assigned a Process Manager. Their job was to ensure consistent decision making and change management in each of these areas across the entire enterprise.

VII. CRM PROGRAM LIVE

In mid-2003 the CRM Program was ready to be implemented. At least, the minimal management skeleton could be activated for supporting clear and coordinated decision making, control of resources as a whole, and for ensuring the realization of benefits for further CRM projects across an ever larger part of the KLM enterprise.

The CRM Meeting of September 2003 set out the lines for the next phase of the CRM Program. Four priorities would govern next year's activities:

- To realize the maximum business benefits from the CIAO project. That is, all marketing campaigns supported by the new software tools would start running and be managed. This task included developing and rolling out a modular training program for CIAO. The objective was for marketing to change gradually from "mass" to "one to one." The CDB, that would allow supporting the new campaign management environment to the fullest, would be released in a first phase in December 2003.¹⁴
- To stimulate data and insight capture that enriched the single view of the customer. Most of the effort would go to Inflight projects. This work included setting up the onboard enrolment of passengers in FD. More than just data capture was involved. For example, cabin crews were to recognize high potentials, based on their own judgment, and immediately enroll them as Elite Guests into the program.
- To increase the availability of customer information for personalization in pre-, in- and post-flight services. The objective was to at least be able to recognize customers and address them by name where possible. This goal, for example, was reflected in personalized campaigns and information e-mails. Also, cabin crews would be given more information on frequent flier passengers in their Passenger Information Lists for personalizing their Inflight services.
- To drive cultural change. Training programs were launched to accompany CRM-driven change projects. Awareness creation initiatives were set up for pre-, in- and post-flight services. For example, on a regular basis special Customer Days (including a speech by Paul Gregorowitsch) would be organized for servicing staff. The CRM Ambassador program was to be deployed gradually across the entire organization to put structural CRM communication in place. The Customer Scorecard and KPIs would form the basis for a new CRM Management Information System that included Commercial, Inflight and Ground Services.

VIII. CRM'S FUTURE AT KLM

Cristina Zanchi was mindful of what she told a journalist at the reception following the award ceremony in London:

"Although we only started our CRM program quite recently, we are satisfied with the results achieved so far. In winning this award, we hope to have reached a point where we can swiftly implement the next phases of CRM in a bid to positively influence our customers' buying and traveling patterns."

The approach she and Paul Gregorowitsch took for making CRM into a success at KLM, despite the skepticism resulting from the 1997 affair, turned out to be quite rewarding. However, up till now, CRM mainly flourished within the rather protected Marketing environment. How difficult would it be to install CRM into the rest of the organization? How would she guarantee that the CRM wave would not lose its current momentum? What would need to receive priority? These were all questions she could expect from Paul Gregorowitsch on Monday morning.

¹⁴ In February 2004 it was decided that further development of the CDB would be put on hold until the merger between KLM and Air France would definitively be settled. This merger was officially announced 30 September 2003 but still needed to be investigated by the European Union's competition authorities. The actual launch of the share exchange offer was planned for the first half of March 2004. On May 4, 2004 Air France and KLM officials announced the successful closing of the share exchange.

IX. QUESTIONS FOR DISCUSSION

1. Why do you think KLM won the Gartner 2004 CRM Excellence Award?
2. How would you characterize the approach taken by KLM to infuse CRM into the organization? How does it differ from the 1997 approach?
3. How difficult will it be to move CRM beyond Marketing into the rest of the KLM enterprise? Why? Which approach would you take to roll CRM out into the rest of the KLM organization? Where would you start?

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APPENDIX I. GARTNER AWARD

On 10 May 2004 Gartner Inc., one of the large commercial providers of research and analysis on the global information technology industry, in an official press release [Gartner, 2004] announced KLM Royal Dutch Airlines as the winner of its CRM Excellence Award for Europe, the Middle East and Africa. Gartner's CRM Excellence Award recognized outstanding CRM initiatives based on criteria defined in Gartner's Eight Building Blocks of CRM: (1) vision, (2) strategy, (3) valued customer experience, (4) organizational collaboration, (5) processes, (6) information, (7) technology, and (8) metrics. The award was presented at Gartner's European CRM Summit 2004 in London on Thursday, 29 April 2004.

Gartner invited applicants to submit case studies for the competition that described their CRM initiatives and highlighted why they demonstrated CRM excellence. A review team of Gartner analysts then evaluated and rated each entry with respect to Gartner's Eight Building Blocks of CRM. The Gartner analysts selected three finalists: Nationwide Building Society, Ducati, and KLM Royal Dutch Airlines. They presented their cases at the London CRM Summit. The audience was made up of business and ICT professionals with an interest in CRM, including project managers, consultants, analysts, and customer service, marketing, sales, and ICT managers and executives.

The 280 conference delegates voted to select KLM, with its story on the rebirth of CRM at KLM since 2002 and its liftoff during 2003, as the winner of the award. The following were two of the comments.

"The award highlighted the airline's ability to combine grand strategic vision with pragmatic execution, and deployment of software applications with cultural change." Gartner Inc.

"The quality of submissions this year was very high. KLM stood out because it set a very clear and comprehensive CRM vision and strategy. KLM's key objective was to make every interaction with its customers an opportunity to enhance their buying and traveling experience. This was achieved by driving each interaction based on customer value, and has contributed to a 20 percent increase in their known customer base and a 5 percent increase in revenue." Gartner Inc.

LIST OF ABBREVIATIONS

CIAO	Customer Insight, Analysis and Opportunities
FD	Flying Dutchman frequent flyer program data base
ICT	Information and Communications Technology
EU	European Union
KLM	Koninklijke Luchtvaart Maatschappij (Royal Dutch Airlines)
KPI	Key performance indicator
MSP	Managing Successful Programs
ROI	Return on Investment
VP	Vice President

ABOUT THE AUTHORS

Bjorn Cumps is a PhD student in the Department of Applied Economic Sciences at K.U.Leuven working with Prof. Dr. Stijn Viaene. His research, which is empirical, is aimed at studying how companies align their ICT investment with their business. His research interests include ICT performance measurement and ICT governance.

Stijn Viaene is an Assistant Professor in the Department of Applied Economic Sciences at K.U.Leuven and Information Management Professor at Vlerick Leuven Gent Management School. He currently holds the Knowledge Discovery in Databases Police Amsterdam-Amstelland Research Chair at K.U.Leuven. His work focuses on helping companies to align their ICT investment with their business and on designing and implementing business intelligence systems.

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