Making Every Customer Relationship Count

Exploring the Business Drivers and Technology Enablers of Customer Relationship Management

SEQUENT

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"Historically, the hotel business has been very focused on product and the physical package of the hotel. Today there's a far greater focus on customer relationship management: getting to know the customer, serving the customer individually and personally. From an information systems side, this means we have to store and manage information about the customer. We have to make information accessible to the organization; some on a real-time basis and some on a less real-time basis for marketing purposes. It is changing our focus significantly, moving us into information warehouse management and making that information available very, very quickly."

—Scott Heintzeman
Vice President of Knowledge Technology
Carlson Hospitality Worldwide

"In a retail business we focus on product and understanding the product demands for customers. But the view of how you market, how you sell, is very customer-focused. And the combination of that product/customer mix is always part of the retail solution. As that evolves—once you have a strong product base and control, which is the infancy of retail—you focus more and more to refine your customer aspects. And that's a phase we're moving strongly into."

—Tammy Lowe
Director of Product Distribution Systems
Hollywood Entertainment

Introduction

In today's increasingly competitive business environment, sophisticated customers aren't just making their buying decisions on the basis of product comparisons. They're making those decisions on the basis of the relationships that they have with their suppliers.

Sophisticated businesses, in turn, are using advanced information technology solutions to analyze the status of their sales and profits, to learn more than ever about their customers, and then to put that knowledge to work. Armed with a strategy for Customer Relationship Management (CRM), these businesses are winning new customers, delivering highly targeted solutions to existing customers, and building the type of customer loyalty that will increase sales and profitability for years to come.

Although many companies recognize the value of CRM, not all of them are adept at it. Customers want recognition, value, quality and respect for their patronage. They don't always get it. Banks issue ATM cards that know your name—but not which language you prefer to speak. Technology companies make you punch in your customer ID number when you call for customer support—and then have the support engineer request the same information when you finally get him or her on the line. Phone companies are offering an increasing array of services to give customers more convenience—but still require them to call during business hours, when most people are busy working at their own jobs, to order those new services.

CRM recognizes that not all of a business's customers are of equal value—and that it is essential to pay the most attention to the most valuable customers. For example, a leading U.S. airline estimates that six percent of its customers represent 24 percent of all miles flown and 37 percent of all revenue. Given that industry's high fixed costs, these customers probably represent half or more of the airline's profits. Other companies and industries have similar statistics. A major retailer, for example, estimates that five percent of its customers represent 75 percent of its revenue.

But CRM also applies to the rest of a company's customers—to the majority who now comprise a minor share of a company's sales and profits. That's because this majority on the periphery represents a company's *future* income stream. CRM helps to identify ways to bring these occasional customers into the tier of more valued and more-profitable customers. It also helps to identify those who do not fit the profile of present or potential profitable customers, enabling businesses to essentially "fire" them as customers.

A Historical Perspective

CRM represents the culmination of a long-term, evolutionary shift in the traditional thinking of business. Until the past few decades, the business of the global economy was, essentially, manufacturing. That focus on goods rather than services led to a product-focused, mass-market marketing strategy in which businesses tried to sell the same product to as many people as possible. The result: a high cost of acquiring new customers, and a low cost for customers switching to other brands. When all the value is in the product—rather than in the relationship with the vendor—there's little reason for customer loyalty if a better price or new feature pops up somewhere else.

To counter the negative aspects of this situation and to increase customer loyalty, companies are moving toward a more customer-centric perspective. Recognizing that their most profitable or potentially profitable customers are among their existing customers, companies are trying to learn to sell multiple products to those same customers. The result: lower cost of acquisition and some increase in the customer switching cost. But even the best customers in this model can still be lured away by new products or promotions elsewhere.

The challenge for all companies that sell products or services—and that means all companies—is to take this customer-focused approach to the next step: a long-term, relationship-centric perspective. Instead of adding some relationship value to a product-based customer interaction, companies need to focus first on the customer, and on adding maximum value to the customer's relationship to the company. Selling multiple products to the same customer, generally through campaigns or promotions, gives way to developing an understanding over time of who each customer is and what he wants, and

FIGURE 1: RELATIONSHIP–CENTRIC FOCUS

GOAL: Sell complementary products to same customer

- Near-zero cost of acquisition
- Increased customer switching costs
- "Experience" is based on the relationship
- Value to the customer defined by the company

RESULT:

One-to-One Marketing Approach

then using that knowledge to sell better service to him. This is the basis for a learning relationship, in which the accumulated knowledge about a customer's activities and preferences enables the company to engage in a more intimate, value-added relationship.

The result will be fully interactive, one-on-one tailored approaches in which each customer's needs govern how and when and to what extent he interacts with the company. Some companies are getting very close to this model, such as retailer Nordstrom, known for the proactive, highly personalized service that its sales staff provides to turn customers into loyal family members.

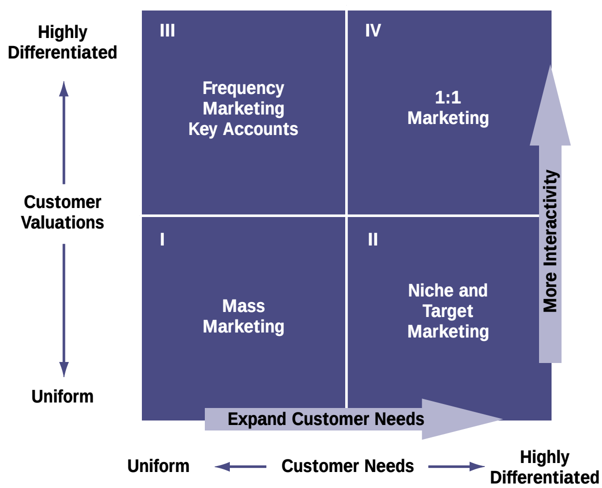
Other companies don't quite have it right yet, like the consumer electronics company whose sales clerks put customers through a detailed marketing questionnaire in order to buy low-cost, commodity items such as batteries. Not all customer interactions need to be personalized or relationship-based. Which makes it crucial for businesses to identify when and where to apply personalized, relationship-based marketing.

Researchers Don Peppers and Martha Rogers have provided a marketing model that helps to identify what marketing approaches are best for a given industry, and which industries can best benefit from CRM, or what the researchers call "One-to-One" marketing.

The horizontal axis measures the diversity of customers' needs; as one moves farther to the right, the graph conveys that customers have an increasingly diverse set of needs. For example, a gas station— where people are relatively limited in their choice of products (a few grades of gasoline, motor oil, etc.)—has low diversity and falls toward the left end of the axis. A bookstore—where consumers can buy any of thousands of titles in scores or hundreds of categories—has high diversity and falls on the right end of the axis.

The vertical axis measures the differentiation in "customer valuations." Businesses in which a small concentration of customers provides high profits have a highly differentiated customer valuation; the airlines are an example.

FIGURE 2: RIGHT MARKETING STRATEGY FOR THE RIGHT INDUSTRY



Peppers & Rogers Marketing Model

Businesses where customers contribute relatively equally to profits — again, such as the gas station — have low or uniform customer valuation. The more a business can implement targeted interactions with its valued customers, the higher it falls on this axis.

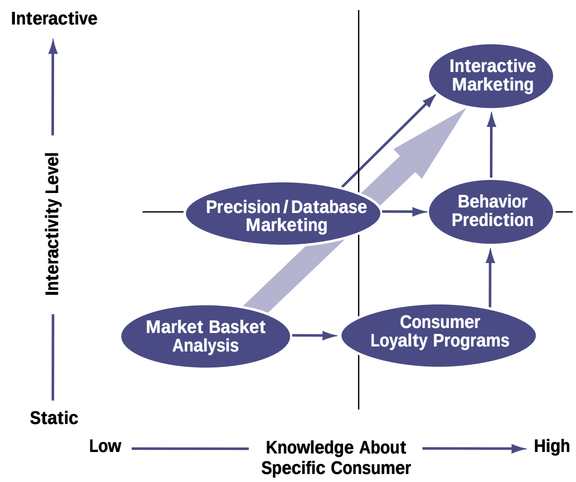
According to Peppers and Rogers, businesses with relatively undiversified customer needs and relatively uniform customer valuations — e.g., the gas station — will do best with mass marketing techniques. Those with diversified customer needs but uniform valuations — such as a bookstore — can benefit from target marketing. A package goods company selling to retailers will benefit from a key accounts marketing approach. And a pharmacy or computer systems company with diversified customer needs and highly valued customers will benefit from one-to-one marketing or CRM.

Since CRM reduces costs, and increases customer loyalty and profitability, it would be a shame to think that many industries can't take advantage of it based on where they are on this chart.

Happily, they can. Companies can move along the horizontal axis by expanding their customers' addressable need sets. But it is also possible for a company to affect its position on the vertical axis. This is done by increasing the level of interactivity that the company has with its customers, in order to distinguish the value derived from that customer. For example, gas stations can add a convenience store, ATM machine and other services — from dry cleaner to key duplication — to address a wider range of their customers' needs.

For example, Mobil Corp. is using electronic smart cards to identify customers and their purchases, in order to facilitate target marketing or CRM, as appropriate. Telephone calling cards, superstore "membership" cards, and bonus-buy cards from the corner bakery or bookstore are additional ways that businesses attempt to build loyalty and gain more information about their customers. But gaining more information isn't enough. Companies also have to be able to analyze and act on this information in a timely way to influence customer purchases and relationships.

FIGURE 3: DRIVING CUSTOMER RELATIONSHIPS



The Business Drivers of CRM

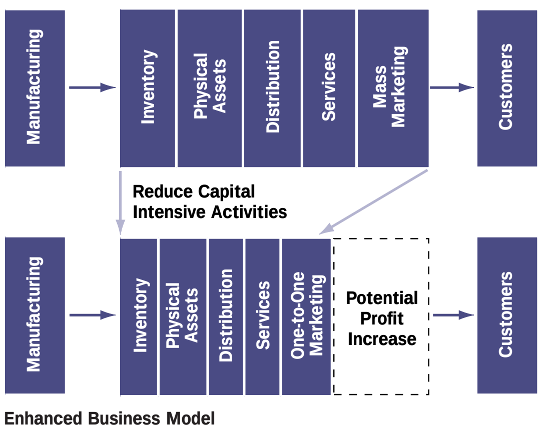
Companies are spending $3.5 billion per year on relationship marketing, according to the Gartner Group. They're doing so because CRM is delivering quantifiable business benefits. Value-chain analysis helps to show why.

For most companies that sell products, the value chain includes processes and activities that are capital intensive, but don't add value from a customer perspective (e.g., inventory, distribution centers). Forward-thinking companies are increasing their profits by reducing their investment in these capital intensive, non-value added links of the chain, and redirecting those investments into activities that do have value to the customer. Companies as diverse as Dell Computer, Amazon.com and Cisco all exemplify this trend. For example, both Dell and Amazon.com have vastly reduced their inventories, an aspect of the value chain that provides no obvious value to the customer. Dell has reduced its inventory to 7 days from the industry average of more than 80; Amazon.com has decreased its inventory to 17 days versus the industry average of 176. With the money they're not spending on inventory, these companies are investing in innovative service and support activities—through new channels such as the Web—that build customer loyalty and company profits.

A variety of factors are driving businesses to adopt CRM and realize its benefits. For example, the Web puts tremendous product and supplier information into the hands of consumers and corporate buyers. A range of reporting and analysis services—from Consumer Reports to million-dollar consultants—do the same. Customers have more information than ever before on which to base their purchase and relationship decisions, which makes those customers more sophisticated.

Customers also have more access and interaction points with their suppliers. In addition to getting more information from the companies with which they do business, customers today have more ways to interact with those companies—including phone, fax, email, Web, mail, on-site and more. That's encouraging businesses to customize and maximize their use of each of these venues and to build profitable relationships with customers who prefer to use these new channels of interaction.

FIGURE 4: CRM VALUE CHAIN RAMIFICATIONS



As a result, business processes themselves are changing. And boards of directors, recognizing all of these changes, are mandating companies to respond in order to establish, or maintain, a competitive advantage.

The Customer Management Cycle

Businesses have a range of compelling reasons to adopt CRM. Once it has made the decision to adopt CRM, a company needs to integrate this approach into all of its customer-related processes, so making these processes a pervasive part of operations. That requires marrying or aligning business drivers with the company's technology base. The company that does so will be able to incorporate CRM into three key steps or stages:

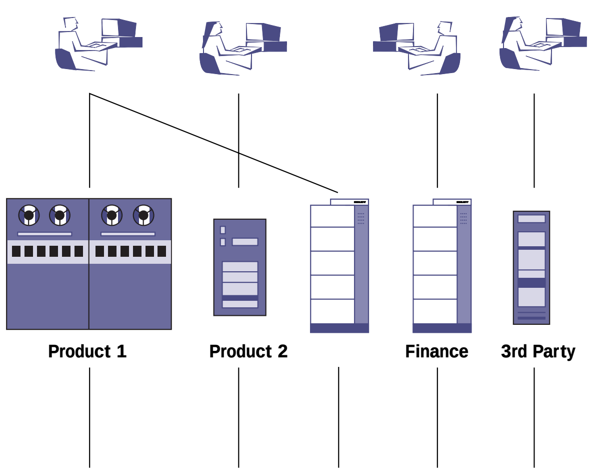
- **Assessment** starts the process. The company uses the unprecedented amount of data it has about its customers to identify churn and retention rates, to segment customers according to sales and profitability, and otherwise gain understanding of customer behavior.
- **Planning** continues the process, with the company devising a marketing plan, or customer treatment plan and related media plan to target customers with a specific value proposition that will build loyalty and customer value.
- **Execution** is the culmination of the process. A broad range of techniques and technologies come into play here, including inbound customer service, outbound telemarketing, sales force automation, point-of-purchase terminals, sales kiosks and more. Regardless of the specific technique used, the company ensures that every execution of customer interaction is customized and targeted based on the customer information gained during the assessment and planning phases.

The IT Legacy Problem

Most companies adopting CRM face a huge IT challenge. Their systems were designed for product-related processes, not customer-related ones. Their customer data is scattered across a range of stove-piped product systems with no ability to link that data together.

It's seldom practical to scrap an entire, existing information infrastructure and adopt a completely new one. So, businesses must find ways to adapt their current infrastructures and integrate new, customer-related system components. To fulfill the vision of an agile enterprise, and to make this transition from product-to customer-centric

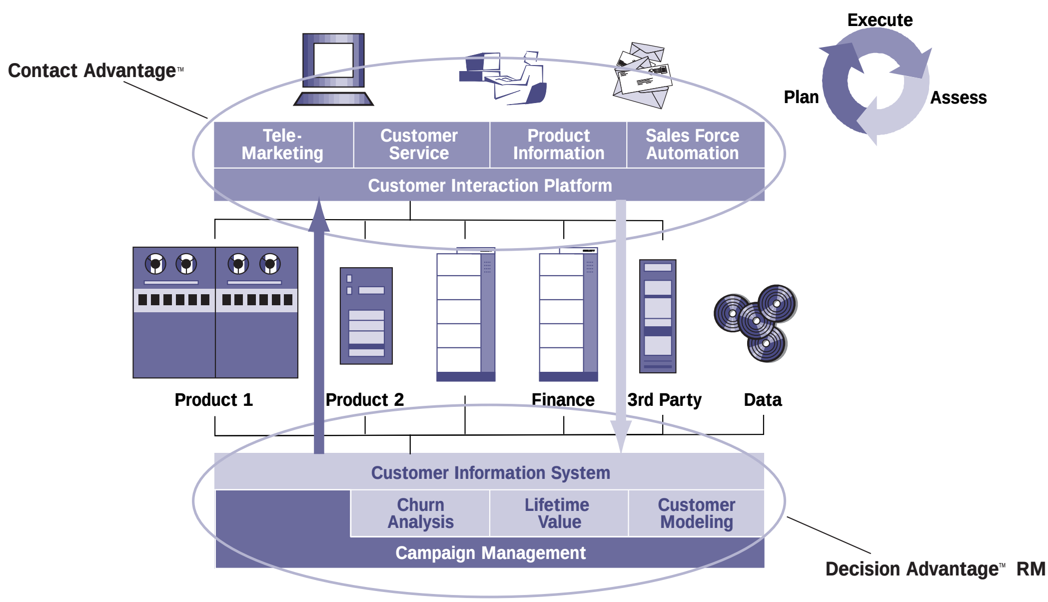
FIGURE 5: EXAMPLE OF PRODUCT-RELATED SYSTEMS



systems, businesses need to consider the following key requirements:

- **Focus on the needs of the customer.** The infrastructure must provide a single point of contact for the customer for all products and services, whether for customer service or sales. The infrastructure must help enforce business processes so any issue can be dealt with correctly the first time. It must use all the data that is known about the customer so that the customer does not have to continually provide the same information. Most importantly, it should be the customer who decides how to interact with the organization and who chooses both the time of day and the mechanism for that interaction. Lastly, those crucial, highly valued customers must be treated with the special degree of service they deserve.
- **Increase the organization's knowledge of the customer.** Every customer interaction must be remembered. More than that, the infrastructure should facilitate dialogue so that the organization is able to build a wealth of valuable information about the customer.
- **Exploit Knowledge.** The organization's knowledge of the customer must be used intelligently at every interaction. Every contact should be seen as a possible sales opportunity, not as a random event, offering the most appropriate product at the most appropriate price. Knowledge should also be used to enable every function within the organization—for example, to allow sales to have an understanding of any outstanding customer care issues before engaging with a customer.
- **Efficiency.** In today's highly competitive world, cost is always a major driver. As a result, this new customer-centric infrastructure needs to be highly efficient. It should maximize the use of new technology and isolate the customer from the inadequacies of the existing systems.
- **Flexibility.** Moving forward, the infrastructure's flexibility is going to be key. The infrastructure should support the rapid introduction of new product systems to reduce the time to market and to allow the organization to exploit new channels, such as the Internet.

FIGURE 6: SEQUENT'S INTEGRATED AND CUSTOMER-CENTRIC ARCHITECTURE



This approach has some positive, practical implications for CRM. For example, take an insurance company that offers home, life, health and auto coverage. It will have many telephone-based customer service or call center representatives that deal with separate systems for each major product line. When they're on the phone with a customer, the agents must spend time toggling back and forth among the screens for each system. They don't have real-time access to all relevant company information about the customer, may not be able to manage the system even with expensive training, and will likely rotate out of their jobs within 18 months, boosting training costs and reducing efficiency even further.

This detracts from the time they could otherwise spend obtaining insightful customer information. Moreover, the agents could be selling complementary products that boost customer loyalty by increasing the cost of customer switching, and building positive customer relationships. And that diverts from the increased revenue, increased loyalty and increased profitability that are the three key benefits of CRM.

With a relationship-centric approach, a customer service representative—who doesn't have to toggle among screens when adding a new driver to an automobile policy—can ask some useful questions and collect important customer data. The new driver is a female—did the customer get married recently and, if so, has the couple considered adding life insurance, or does the new wife have adequate health and disability coverage? If the driver is a daughter, has the customer considered a new insurance product that will help pay college tuition costs? Does the customer have other lifestyle changes that might be reflected in new insurance needs?

Adding a second driver can mean adding new business in many ways—but too often, the customer service representative is too busy with his software to ask the probing questions that lead to this better understanding of the customer and his needs. With more effective systems, the service representative can make the link between better service and increased sales. This link represents a major execution of the CRM-based marketing plan.

Of course, the customer service representative isn't deciding on the spot what customer information is relevant and which complementary products might be offered. The company establishes the specific nature of the service-marketing link through the use of data analysis tools that show the exact correlation between various demographics and sales. For example, these tools can establish the probability that a customer with two drivers (or two cars) on his policy will also be open to a homeowner's policy. This in turn can lead the company to set-up call center scripts to take advantage of the link—and to obtain even more information about the customer as part of the company's efforts to continually expand the customer relationship.

For example, if the call center agent determines that the second driver is a new spouse, that can lead to questions about the customer's need for homeowner's or renter's insurance. Because the customer already has several policies with the company, the agent can offer a "valued customer discount"—adding to the customer's perceived value in the relationship—and calculate the discounted price on the spot. He can also be asked about key possessions, children, and other factors that can lead to additional sales.

Does the customer want to buy the added policies? No? If the call center agent doesn't make the sale during the initial call, his script and software can prompt him to ask the customer if he'd like a quote sent via mail and when he'd like a return call. The agent can make the appropriate entries in the customer database — and the agent is prompted to call back the customer at the pre-arranged time to continue the conversation. The customer has been wowed — and wooed — by highly effective customer service, additional customer information has been gathered, the customer relationship is strengthened, and the likely result is increased sales.

Sequent's Technology Foundation for CRM

Sequent has solutions to aid companies implementing CRM. Sequent's Decision Advantage™ Relationship Marketing and Contact Advantage™ solutions combine industry-leading software and a range of services with Sequent's highly scalable, fully integrated NUMACenter™ environment, which provides the foundation for these customer-centric solutions.

Decision Advantage RM consolidates data from multiple systems into a single, customer-centric data store, where it is accessed and analyzed by sophisticated tools to provide insight into customer behavior. Contact Advantage enables a company to utilize this knowledge in all customer interactions. It provides a platform for the latest generation of customer interaction applications, enabling these applications to access customer data to support customer-specific treatment, and seamlessly integrates the applications in real time with underlying product and functional systems, overcoming any limitations in the underlying systems.

In addition, Contact Advantage enables organizations to capture customer data at every interaction, enhancing the quality of customer data throughout the business. When used in conjunction with Decision Advantage RM, the knowledge gained from the data warehouse can be exploited in every future customer interaction to enable, for example, highly targeted cross-selling after a customer care call or Internet request.

Conclusion

Competition in all industries, as well as increasing customer sophistication, is forcing organizations to rethink how they do business. Products are no longer the key differentiator — competitive advantage comes from utilizing all knowledge within the organization to treat customers as individuals and maximize their lifetime value.

As organizations shift their business models, success is based on the ability to identify, acquire, retain, and grow the most profitable customers. Until now, information technology has not enabled this process. Most systems have reflected a product and functional focus, and customer data has resided on multiple systems with no ability to link together. A fresh approach is required, one that utilizes a completely integrated and flexible information architecture to support a customer-focused business strategy.

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