An Xchange, Inc. White Paper

Evolving to eCRM: How to optimize interactive relationships between you and your customers

The first in a series of eCRM white papers

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Introduction

Historians will look back at 1999 as a landmark year for consumers and marketers. Consumers earned their "rights" to determine who can communicate with them and how. Permission-based marketing and opt-in communications – viewed as ways to reduce unsolicited, annoying electronic messaging (a.k.a. spam) – joined the growing lexicon of marketing phrases.

Marketers themselves gained extraordinary new Internet channels to reach consumers in novel ways. Through technology, companies not only obtained unprecedented capabilities to personalize communications with customers and prospects, but grew new "ears" to hear what they were saying. By becoming better listeners, companies now have an opportunity to create relevant, desirable dialogue that consumers will opt-in to receive.

But despite these advances, much work remains for the years ahead. In evolutionary terms, earlier accomplishments – while sizable and scintillating – can be compared to the launching of early space capsules, which made it into space, but not into earth orbit, let alone a lunar trajectory. While we've made a major movement toward electronic Customer Relationship Management (eCRM) – a term adopted by industry analysts and Xchange – the future must bring us much closer to reaching that eCRM dream.

Companies agree that eCRM is critical to their businesses, but, unfortunately, few understand exactly what it is or how to get there. This paper defines eCRM, its many integrated components, and the market forces making it so imperative. We hope it serves as your guide for optimizing the value of relationships between your company and customers.

Evolving to eCRM:
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Problems with today's CRM "solutions"

We understand your confusion. Seemingly overnight, vendors from all corners have rushed to introduce CRM "solutions," viewing CRM as the next business frontier. Yet many CRM offerings will yield, at best, only tactical improvements – for example automating fulfillment of Web leads. Other CRM offerings might patch together Sales Force Automation and Customer Support, producing only a fraction of an eCRM solution. Still other CRM packages might provide customer analytics needed to observe customer behavior, but lack the means to turn findings into initiatives that positively impact customer behavior.

A common but pejorative thread exists among most CRM packages – they fail to provide the discipline and process that would enable a company to manage its business based on customer economics. In short, this has resulted in a separate and uncoordinated customer-interaction environments. As a result, CRM initiatives adopted to date have not delivered the business benefits promised.

Market dynamics that companies must address:

- Empowered customers who choose how to communicate with companies.
- Consumers who expect a high-degree of personalization.
- Emerging real-time, interactive channels including email, Web, ATMs and call centers that must be synchronized with a customer's non-electronic activity.
- The speed of business change, requiring flexibility and rapid adoption of new technologies.

What is eCRM?

In simplest terms, eCRM provides companies with a means to conduct interactive, personalized and relevant communications with customers across both electronic and traditional channels. It utilizes a complete view of the customer to make decisions about messaging, offers, and channel delivery. It synchronizes communications across otherwise disjointed customer-facing systems. It adheres to permission-based practices, respecting individuals' preferences for how and whether they wish to communicate with you. And it focuses on understanding how the economics of customer relationships impact the business. Advocates of eCRM recognize that a comprehensive understanding of customer activities, personalization, relevance, permission, timeliness, and metrics are all a means to an end – optimizing value between you and your most important asset – your customers.

While the definition above is simple, achieving eCRM itself is hard. For Global 2000 companies, evolving to eCRM requires process and organizational changes, a suite of integrated applications, and a non-trivial technical architecture to support both the eCRM process and the enterprise applications that automate the process. Mid-size companies may benefit from less sophisticated, and easier to implement (and afford) hosted solutions, offered through Application Service Providers. But regardless of the size of your firm, you have no choice but to evolve to eCRM quickly. Forrester Research expects eCRM applications to “obsolete” channel-specific CRM applications by 2002. McKinsey & Company notes that “capturing and effectively using customer profiles will determine winners and losers in…eCommerce development.”

Enterprise Customer Relationship Management		
Sales	Marketing	Services
1. Online and offline customer-facing systems		
2. Integration of customer communications software across the enterprise		
3. Acceleration of execution and measurement from weeks and days to hours, minutes and seconds		

The schematic above shows that eCRM:

1. **Transcends sales, marketing and services within an organization;**
2. **Applies processes and tools to coordinate communication across the many differing customer-facing systems spanning the organization; and**
3. **Provides metrics to quickly measure the impact of customer-communications strategies, following economic and ROI principles.**

eCRM drivers

Several industry trends are driving companies’ to adopt eCRM – a market expected to reach $10 billion by 2002, according to the META Group. Drivers include:

- The emergence of new, dynamic customer interaction channels such as the Web.
- The speed and unparalleled cost effectiveness of the Internet.
- Deregulation, forcing utilities and other companies to derive acquisition and retention strategies.
- The corporate realization that consumers will no longer tolerate mass mailings or “spam” emessaging.

These market forces have created challenges and problems within the walls of click and mortar and dot-com companies.

Does your organization have the ability to recommend via Web personalization package the most effective offer to present to a customer in real time? How can you synchronize communications between channels so that a call center rep knows immediately that a valued customer has recently been looking at certain products on your Web site, or that a customer has sent an angry email to your marketing department?

Why employ eCRM?

- Optimize interactive relationships between customers and companies.
- Enable your business to extend its personalized messaging to the Web and email.
- Coordinate marketing initiatives across all customer channels.
- Leverage customer information for more effective eMarketing and eBusiness
- Focus your business on improving customer relationships and earning a greater share of each customer’s business.

The six “e’s” in eCRM

A brick-and-mortar company or dot-com firm may be approaching eCRM from different evolutionary paths, but they both need to drive toward the same objective – optimizing the value of relationships between companies and their customers. To do so, both business types must address the six “e’s” in eCRM.

For Xchange, the “e” in eCRM stands not only for “electronic,” but “enterprise,” “empowerment of consumers,” “economics of customer relationships,” “evaluation of customer activity and marketing initiatives,” and “external information.”

1. **Electronic channels:** New electronic channels such as the Web and personalized emessaging have become the medium for fast, interactive and economic customer communications, challenging companies to keep pace with this increased velocity.
2. **Enterprise:** Through eCRM, a company gains the means to touch and shape a customer’s experience across the entire organization, reaching beyond just the bounds of marketing to sales, services and corner offices – whose occupants need to understand and assess customer behavior. An eCRM strategy relies heavily on the construction and maintenance of a data warehouse that provides consolidated, detailed views of individual customers, cross-channel customer behavior, and communications history.
3. **Empowerment:** In this new age, eCRM strategies must be structured to accommodate consumers, who now have the power to decide when and how to communicate with the company – through which channel. With the ability to opt in or opt out, consumers decide which firms earn the privilege to “talk” with them. In light of this new consumer empowerment, an eCRM solution must be structured to deliver timely, pertinent, valuable information that a consumer accepts in exchange for his or her attention.
4. **Economics:** Too many companies execute customer-communication strategies with little effort or ability to understand the economics of customer relationships and channel delivery choices. Yet, customer economics drives smart asset-allocation decisions, directing dollars and efforts at individuals likely to provide the greatest return on customer-communication initiatives.
5. **Evaluation:** Understanding customer economics relies on a company’s ability to attribute customer behavior to marketing programs, evaluate customer interactions along various customer touch-point channels, and compare anticipated ROI against actual returns through customer analytic reporting. Evaluation of results allow companies to continuously refine and improve efforts to optimize relationships between companies and their customers.
6. **External information:** The use of consumer-sanctioned external information can be employed to further understand customer needs. This information can be gained from such sources as third-party information networks and Web-page profiler applications, under the condition that companies adhere to strict consumer opt-in rules and privacy concerns.

Conscious of each “e” that will shape its future business, a company builds an eCRM solution in order to optimize relationships between itself and its customers. For each company, optimization might have different and multiple objectives: such as increasing the number of customers; increasing customer profitability; growing revenue; driving customers through cost-effective channels; cross-selling; and retaining customers.

The economics of customer relationships

eCRM must address customer optimization along three dimensions:

1. Acquisition (increasing the number of customers).
2. Expansion (increasing profitability by encouraging customers to purchase more products and services).
3. Retention (increasing the amount of time that customers stay customers).

While acquisition and retention are fairly well understood, customer profitability through expansion requires some scrutiny. Since expansion presents enormous latent and untapped value, an eCRM strategy must be able to identify the expansion potential for each customer.

For example, grocery retailers have historically struggled to understand the value in communicating directly with a customer beyond basic promotions. The average margin in a food retail store is only two to three percent. On the surface, these small margins appear to leave little room to warrant sophisticated customer optimization techniques. As a result, supermarkets have spent most of their energy in acquiring more customers. What many food retailers fail to grasp, however, is the marginal economics of customer behavior. While profit margins may hover around three percent, the incremental margin obtained from getting a shopper to add just one additional item to his or her shopping cart may well be 40 to 50 percent. Therefore, efforts to increase incremental margin hold great potential.

Uncovering that potential requires companies to understand not only how customers behave with them, but what interactions they have with their competitors (sometimes available through external data). Continuing with the grocery-store example, if a customer purchases more than $100 of groceries weekly, but buys no health and beauty aids, the store can assume that the customer is purchasing those products somewhere else. Customer-communications initiatives designed to acquire the rest of that customer's business presents significant potential.

Customer investment allocation

While a significant amount of latent profit potential exists within your customer base, the question remains, how do you leverage those opportunities? Most companies have no central mechanism to determine which customers should receive which investments at a relationship level. In the absence of such a mechanism, investment allocation decisions are generally based on a decision to sell more product or optimize a channel.

An eCRM strategy requires businesses to re-allocate their investment dollars toward customers who deliver the most value and have the greatest potential value. This transition requires a business to develop and deploy an additional set of business processes designed to be customer-centric, not product centric. This simple statement can result in profound changes to the organizational structure and technical infrastructure of a business. Federal Express provides an example of a company that reorganized its business around customer segments and customer segment managers. It conducted an extensive survey of its huge customer base to identify small-parcel customers who were sending large packages through a competitor. Armed with this knowledge, FedEx planned and executed targeted campaigns, making exceptional offers to win over large-parcel business. Offers were made commensurate in value with the potential business FedEx could win.

To identify potential value, an eCRM solution depends on certain process techniques (to be discussed in a separate paper), an extensive customer profile within a data warehouse, and evaluation tools that can identify clues relating to a customer's expansion potential. Targeted cross-sell and up-sell campaigns can then be devised to optimize customer value.

Key eCRM features

Regardless of your companies objectives, an eCRM solution must possess certain key characteristics:

It must be:

- Driven by a data warehouse.
- Focused on a multi-channel view of customer behavior.
- Based on consistent metrics to assess customer actions across channels.
- Built to accommodate the new market dynamics that place the customer in control.
- Structured to identify a customer's profitability or profit potential, and to determine effective investment allocation decisions accordingly.
- Scalable to meet growth and performance needs.

Data warehouse driven

In an eCRM solution, the data warehouse or customer data mart contains a consolidated and comprehensive view of the customer. The warehouse provides the broadest possible profile of the customer, needed to determine an appropriate course of action, the most effective offer to make, and the best channel to deliver your pertinent message.

A multi-channel view

Organizations today have different methods for interacting with their customers. For example, a bank might use one application to support its Web site, another to support its call center, another to support email, another to support sales, another to support ATMs, and yet another to support direct mail and telemarketing. These applications, rarely, if ever, talk to each other, precluding the sharing of information between channels and preventing meaningful cross-channel dialogue with customers. For example, a call center agent may be oblivious to a complaint that a customer registered that day through email, nor would the agent be aware of customer behavior on the Web site.

To further complicate the problem, each touch-point application has its own terminology or ID numbers assigned to offers available to customers. While it is a desirable goal to synchronize customer communications across channels, disparate applications and the lack of standard identifiers for offers and messages makes it difficult to track "who received what and when" and how they responded. In the end, companies have created an environment with conflicting business processes for customer communications.

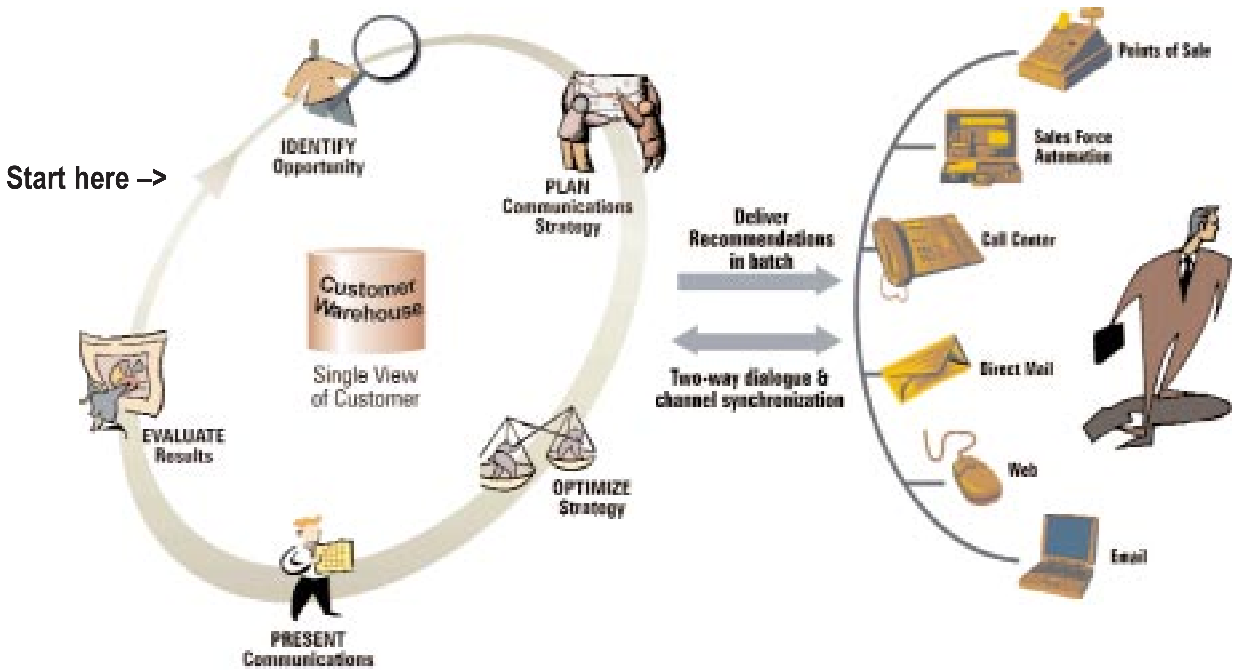
An eCRM solution must have applications that coordinate or synchronize customer communications across channels and do so in real time. These applications must be able to capture customer transactions across disparate touch points and store that information in a temporary data store for immediate assessment and response. In addition, these applications must also feed information captured from touch points into the data warehouse, to broaden the customer profile obtained from back-end transactional systems and external sources.

Measurement driven

Today, many companies spend millions of dollars communicating with customers, but spend little time and effort determining the effectiveness of those campaigns. eCRM provides the means to measure customer communications efforts. eCRM is a continuous, iterative process. It employs customer analytic tools to: project outcomes of customer communications initiatives; capture results; attribute changes in customer behavior to a particular communication; and assess those results to improve subsequent customer interactions and return on investment.

The disparities between customer touch-point systems can make the establishment of consistent metrics difficult. Thus, cross-channel coordination becomes important for establishing a metrics baseline. Effective measurement enables companies to target their customer investments in an optimal fashion across all channels.

An eCRM Picture



The diagram depicts the complete framework for eCRM. The left-hand cycle represents the set of eMarketing and offline marketing functions. These functions utilize a single view of the customer, contained in the central data warehouse. The right side shows a sampling of customer channels, containing both electronic applications such as the Web and personalized email as well as traditional direct mail. The one-way arrow in the middle of the schematic illustrates one-way batch outputs to the channels. The two-way arrow depicts bi-directional customer communications in real time, and the synchronization of communications across channels.

Note that direct mail will continue to play a major role in eCRM as a means to drive traffic to Web sites, collect email addresses, and gain permission to electronically deliver pertinent offers and messages to customers and prospects.

Consumer controlled permission marketing

While a company can encourage customers to communicate through particular channels, the consumer ultimately decides how and when he or she will contact the company and grants explicit permission about how the company can communicate with him or her. Thus, an eCRM strategy must deliver timely, pertinent messaging that a customer or prospect will gladly accept. By adhering to opt-in, permission marketing, an eCRM solution makes marketers sensitive to when and how to communicate – i.e. email, wireless phones, etc. A customer may decide to opt in or opt out of dialogue across a particular channel – particularly email. Therefore, an eCRM strategy must contain permission-based rules to avoid irritating customers. For example, a company must respect a customer's desire not to receive phone calls and determine other avenues to reach that individual. Even if a customer opts in to receive, for instance, your weekly electronic newsletter, each outbound communication must possess an easy and prominently displayed means that allows a customer to sever further communications.

Scalable

eCRM systems tend to quickly accumulate data, which is continuously manipulated by analytical tools to refine marketing processes, messages and strategies. The difference between a "test environment" and real-world application is often measured by scale and adaptability to dynamically changing situations. "Off-the-shelf" solutions may implement quickly, but will crumble from rigid and proprietary limitations that preclude the integration of additional functions and the ability to scale to meet future growth and dynamic business demands. Be careful.

Why traditional CRM offerings can't deliver optimization

Existing CRM packages will never deliver on the promise of customer optimization for the following reasons:

The CRM offering remains channel centric, not customer centric.

Processes: Most CRM offerings focus on improving the effectiveness of the individual channel that their systems support. While this is a necessary step, it does not address the fundamental question of which customers should be targeted in the channel and how much should be invested in them. At a typical retail bank, for example, the majority of customers are unprofitable. Regardless of how efficient customer communications may be through any channel, these customers will remain unprofitable.

Systems: Unless your company only communicates through a single channel (e.g. the sales force), then a channel-centric approach (e.g. sales force automation) will never have a comprehensive view of all of the customer interactions and customer behavior required for customer optimization strategies. For most companies, a front-office system contains only a small subset of the information required for optimization. Information such as transactions at channels, responses to marketing events, external demographics, activity within other lines of business, and credit information is missing from the formula.

In addition, most front-office systems are designed and optimized to support transactional or online transaction processing. Allowing knowledge workers to access and analyze a large volume of customer information places very different demands on these systems.

Customer-centric metrics do not exist.

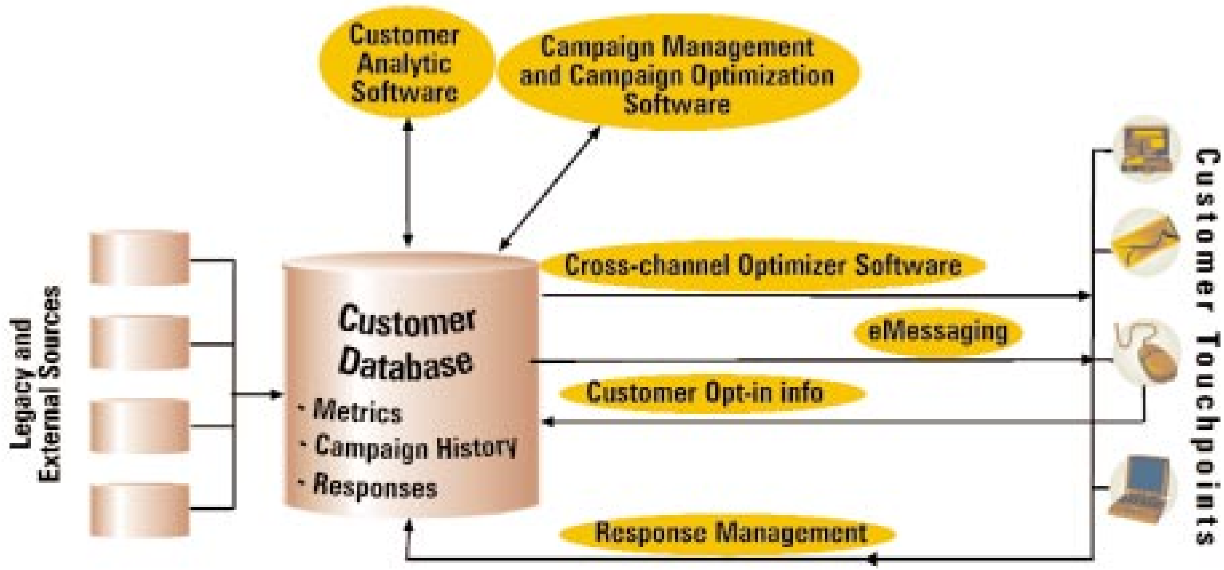
If you cannot measure it, you cannot improve it. Most CRM offerings have weak metrics and measurement capabilities. Generally, those with measurement capabilities cannot assess customer profitability, ROI of the customer interaction, and lifetime value of a customer because data needed for this falls outside the reach and design of channel-centric systems. Instead, they focus on operational metrics such as wait times on calls, the size of the pipeline, the number of annoyed callers. While these metrics are important to running various channels operationally, they fail to address the question: Are we investing the right amount of resource on customers with the most value? Answering the question requires a holistic view of the customer experience.

Customer-facing systems create new islands of non-integrated information.

Contemporary customer-facing systems, such as sales force automation and customer care, often have their own data models and data stores that manage only the information that their application requires and generates. While this information is critical to understanding and optimizing customer relationships, it remains isolated by not being integrated into a broader information strategy and data warehouse. In the vast majority of CRM offerings, no strategy exists to capture back to the warehouse important data such as call dispositions, customer questions and complaints, email requests, click streams on a Web site, and survey information.

Any organization evolving to eCRM requires applications that optimize the value of relationships requires: a customer-centric, warehouse focus; the coordination of customer touch-point systems; and consistent metrics to evaluate customer behavior across channels and measure campaign ROI.

eCRM integrates customer touch points – previously islands of automation



The diagram above depicts the basic components and architecture of an eCRM solution.

Achieving customer optimization

Customer optimization lies at the heart of eCRM. It is obtained through a value exchange, in which a company makes an investment in a customer interaction in exchange for some desired behavior. If a business wants a customer to behave in a certain manner (buy more, stay longer, pay a higher price, transact through a different channel), that business must make the appropriate investment in the relationship. Measurement determines the value of the exchange and the degree of optimization achieved. An eCRM solution provides the methodology and software to acquire the maximum value from customer relationships across every channel, over the lifetime of the relationship. For example, the schematic on the previous page describes Xchange's eCRM architecture, which provides the necessary components for optimizing the value between companies and their customers across touchpoints.

Evolving to eCRM

So how does a company go about building an eCRM solution? It must:

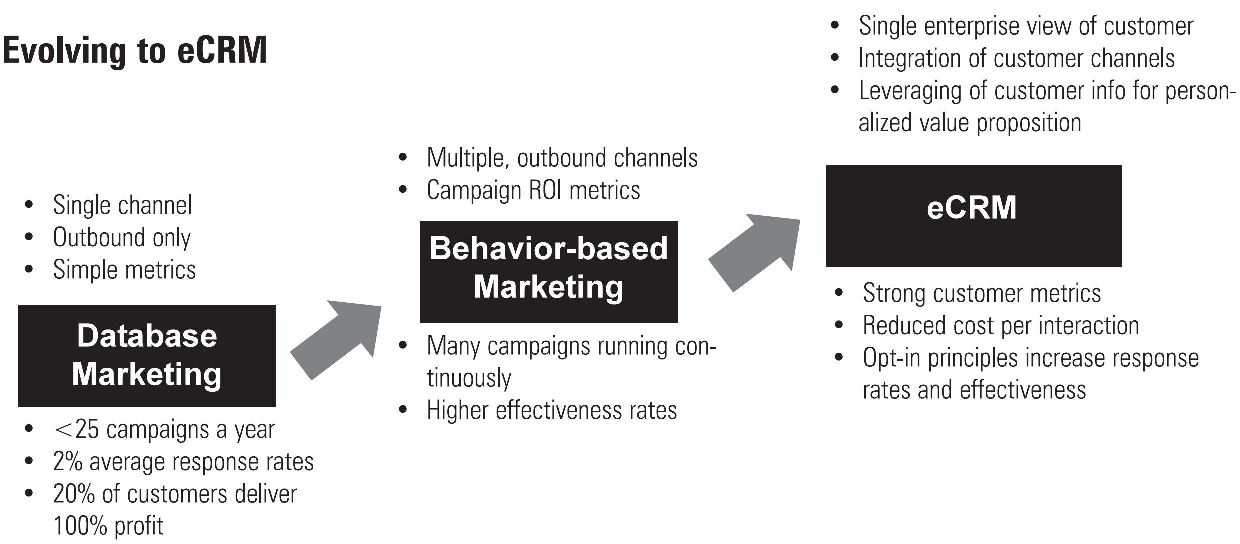
- Define its business objectives;
- Assess its current "sophistication" along the eCRM continuum – in terms of process and technology; and
- Define business processes and changes needed to support its goals.

A company can then derive the plan and timetable to implement processes, erect the necessary data warehouse to attain a consolidated view of the customer, and select, implement and integrate the required eCRM applications. A company should seek steady progress, looking for areas along the way to deliver quick returns that justify its eCRM path and efforts.

Traditional brick-and-mortar companies usually start their direct-marketing efforts through simple list pulls and "one-shot" campaigns, and then gravitate to a data warehouse and software for executing multiple, targeted campaigns that run simultaneously and utilize sophisticated capabilities. Dot-com companies start with eCommerce applications and find they must then add the back-end data warehouse and off-line marketing channels to flesh out their eCRM offering.

The diagram below shows the path that typical brick-and-mortar companies follow toward eCRM, along with the characteristics that mark each stage:

Evolving to eCRM



To develop an effective solution, an organization may need to consider a host of professional service offerings and products to supplement internal development. Outside professional services, experienced in both business and marketing process and technical infrastructure for eCRM, can help re-engineer your organization for the eCRM challenges ahead; construct your data warehouse (or data mart), optimizing it for your eCRM solution; help select the appropriate tools for customer analytics, reporting, and customer-communication software; host eCRM software to help you get started quickly; teach best practices for permission-based marketing and get you started email marketing; and tie email and emessaging capabilities with your other online and offline customer-communications channels.

Specific service areas of assistance might include:

- Business and marketing process consulting.
- Technical consulting for database-design optimization including the extraction, transformation, cleansing and loading of data into a warehouse.
- eCRM application implementation, integration and project management.
- eMarketing strategy consulting.
- Hosted services through Application Service Providing.

(These services will be described in a future eCRM paper.)

eCRM applications

The following is a set of eCRM capabilities that collectively comprise a full eCRM solution:

- Customer analytic software predicts, measures, and interprets customer behaviors, allowing companies to understand the effectiveness of eCRM efforts across both inbound and outbound channels. Analytics provide a set of eCRM metrics that describe the state of your customers across the enterprise. Customer analytic software, and its reports, can be used by virtually anyone across the organization, from marketers and salespeople to corner-office executives. Ideally, analytics should be delivered as a packaged, but extensible application that uses a set of industry-specific data models and reports. This packaging will help companies implement solutions quickly and limit risk. Most importantly, customer analytics should integrate with customer-communications software to enable companies to transform customer findings into ROI-producing initiatives.
- Data mining software builds predictive models to identify customers most likely to perform a particular behavior such as purchase an upgrade or churn from the company. Modeling must be tightly integrated with campaign management software to keep pace with multiple campaigns running daily or weekly. For example, a marketer might select a propensity model from an existing library to dynamically "score" individuals within an already defined customer segment. He or she might then select individuals with scores above a certain threshold to include in an up-sell campaign. This segment-selection process improves response rates and campaign effectiveness and lowers campaign costs by reducing the size of the original target segment.
- Campaign management software leverages the data warehouse to plan and execute multiple, highly targeted campaigns over time, using triggers that respond to timed events and customer behavior. For example, a retail campaign may present a high-profit customer with a gift on her birthday or send an email promoting various specials if the customer has been silent for three months. Campaign management software tests various offers against control groups, captures promotion history for each customer and prospect, and produces output for virtually any online or offline customer touch-point channel, such as personalized emessaging, call centers, branch offices, direct-mail houses and ATMs.

- Business simulation, used in conjunction with campaign management software, optimizes offers, messaging and channel delivery prior to the execution of campaigns, and compares planned costs and ROI projections with actual results.
- A personalized emessaging system should deliver either text or HTML pages, scale to support very high volumes, have an automated mechanism to answer responses, and drive recipients to Web pages through trackable URLs embedded within messages. For example, a company might include three trackable URLs within a particular email and be able to monitor success at driving an individual customer or prospect to one, two, or all three sites, and in which order.
- A real-time decisioning engine coordinates and synchronizes communications across disparate customer touch-point systems. It contains business intelligence to determine and communicate the most appropriate message, offer, and channel delivery in real time, and support two-way dialogue with the customer. Its decisioning powers assess both a customer's activity at the touch points (i.e. Web, email or customer care) in conjunction with the profile of that customer stored in a data warehouse. With this information, it responds to an inbound message, selecting from any number of staged offers or messages. For example, the decisioning engine might inform a Web personalization product of the best offer to present to a Web visitor in real time. Business rules determine responses. For example, if a visitor searches a Web site for its mutual funds, a rule might require a sales representative to wait one day before contacting that individual.

Finally, companies must look to software devices that capture customer behavior at any touch point for assessment of customer communications.

Just rewards

Regardless of the type of firm you have, businesses following of the basic eCRM tenants – cross-channel coordination, warehouse-centric customer profiling, personalization, permission marketing, and customer optimization – can achieve considerably higher response rates and ROI on marketing programs. These companies will have far easier times attracting, retaining and expanding profitable relationships with customers.

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