VALORIS
ABRAM HAWKES

CREATING VALUE IN THE NEW ECONOMY

PROFITING FROM CUSTOMER MANAGEMENT

As consumers become more sophisticated, competitive intensity increases and the e-conomy ever more pervasive, the successful companies will be those which manage their customers most effectively. The winners will regard Customer Management as a strategic imperative, led by the Board, rather than merely an operational or tactical nicety. They will ensure that Customer Management permeates the whole organisation.

Many organisations need to change to face the future and Customer Management can provide the framework to enable such progress. Like anything worthwhile, it is not necessarily easy, but it is achievable.

So, what might a world based on Customer Management be like?

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A bright future?

In an ideal environment, one in which we don't have to worry about costs and we can cope with complexity, organisations would have an individual dialogue with each and every one of their customers in order to understand their current, and anticipated, needs. Relationships would only be built with those customers who do, or will, deliver contribution to the company. In response, customers would always turn to the company as their preferred supplier. This situation would be characterised by:

- Customer service staff knowing all relevant information about customers and the status of their current relationship with the company.
- Further tailored products and services being offered to customers in the way that they prefer, at the time that they need them, through the channels of their choice.
- All interactions being individually designed to fit each customer in terms of their tone, timing and content.
- Resources being allocated and expended in proportion to customers' current and potential contribution to the business.
- All activities and investments being focused on managing customers to deliver value to them - and, consequently, to the business.

The result would be an increased share of customer spend and greater contribution per customer. Customer Management in action. But how do you get there and is it really necessary?

Why bother?

The goal of Customer Management is to increase shareholder value, whether this be from new or existing customers. This takes on much greater significance because of two important trends. As competitors become more sophisticated in their targeting, communications and servicing, those players that do not respond are likely to lose market share; or worse, disaffect their most discerning and profitable customers. Concurrently, consumers are becoming ever more sophisticated. Many will shop around for products from the 'best' provider; a task made easier by the convenience of new remote and electronic distribution channels. Customer loyalty is being eroded by the very forces of ubiquity and convenience designed to cement it.

Human relationships are either based on unconditional trust (love) or, increasingly, on an equal exchange of benefits between the two parties concerned. Building relationships with your customers is no different and, because 'love' is rarely attainable, both sides must perceive that they are receiving an equitable share of the value.

Against this backdrop, consumers are also becoming increasingly aware of the value of both their custom and the information about them. So, whilst marketers are looking to gather ever more data, consumers are becoming reluctant to provide it without some expectation of future benefit.

The building blocks of customer management

There are many ways of thinking about Customer Management. At Valoris Abram Hawkes we have found it helpful to think in terms of six, key building blocks (see Figure 1) which must all be in place if any subsequent strategy is to be firmly grounded:

- *Profitability:* Understanding the value (profit) that a customer currently, and potentially, contributes to the business.
- *Customers:* Understanding how to enhance the relationships with customers relative to other providers (that is, understanding them and what they value, as well as their motivations, wants and needs).
- *Benefits:* Designing relevant and attractive customer benefits that add value for both the customer and the company.
- *Process:* Developing an appropriate process for managing customer interactions over the course of their purchase lifetime.
- *Knowledge:* Managing data and information cost-effectively to generate valuable insights about customers – insights that will serve as the basis for future actions.
- *Infrastructure:* The people, structure, internal processes, IT systems and culture necessary to

deliver an effective customer management strategy which everyone within the company can understand, relate to and use.

Customer profitability

In order to calculate customer profitability, it is firstly essential to understand the financial dynamics of the products, services and channels within the company's portfolio. This is an area often left to accountants and actuaries but, if effective Customer Management is to be developed, people in other functions must also fully appreciate how a customer can add, or remove, value.

This requires the recognition of issues such as activity-based costing, funds transfer pricing and capital allocation. It is challenging; but without some comprehension of these concepts, decisions will be made on a partial, often prejudiced, model of the world. Certainly, without corporate recognition, any organisation's understanding of customer profitability will be severely inhibited; or worse still, may cause the company to focus its activities and investment on the wrong customers.

Recognising the components and structure of product profitability is only half the story though. There is also a need for the skilled analysis of customer behaviour to predict who is likely to lapse, or buy other products, or default on their payments. Marketers have begun to develop skills in this area, but there is an acute shortage of people with the required experience and expertise to add commercial insight to the data analysis.

Only with both halves of the profitability equation working together, product profitability *and* customer behaviour, can customer profitability be maximised. Whilst the concept of customer profitability is gradually becoming better understood, it is still a major, technical exercise to effectively calculate the profitability of each customer, or group of customers.

THE SIX KEY BUILDING BLOCKS OF CUSTOMER MANAGEMENT

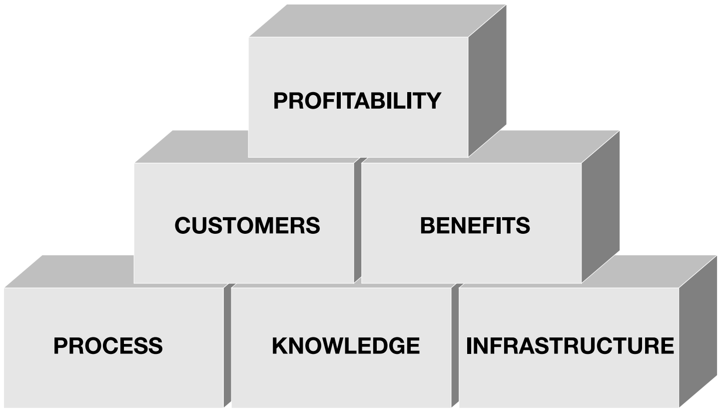

Figure 1

Customer understanding

The other side of the value equation is the understanding of what it is that customers perceive as value. One of the more difficult words in the last sentence is 'customers'. Do we mean all customers, or particular groups of customers, or specific individual customers? In other words, do we mean mass marketing, segmented marketing or one-to-one marketing? Customers increasingly want those companies with which they do business to treat them as individuals. This desire comes out time and again in customer research. The wise customer manager will do something about it (whilst, of course, calculating and recognising the costs involved in delivering it). This is where segmentation is useful, enabling customers to be grouped together based on their values and needs which, in turn, can stimulate innovative new ideas.

Within each segment there will be broadly common customer values and needs. It is possible to vary specific factors such as price, product features and timing for each individual based on the knowledge held about each. One-to-one marketing can then be achieved by varying specific features within a defined structure, not by developing different product and service offerings for every individual. The customer may be offered a tailored product, or be able to choose their own product configuration based on the variable parameters.

There are, therefore, four key determinants of effective Customer Management, using a combination of segmentation and one-to-one marketing:

- How *profitable* is the customer, currently and potentially?
- How does the customer define *value*?
- When is the right *time* to offer a particular product, and through which channel?
- How *likely* is a customer to do particular things at specific times?

These factors can initially be identified at the segment level and then refined as greater knowledge is obtained about the individual customer. The process is one of gradual evolution to improve the chances of meeting each customer's requirements at the right time.

If you already have a broadly acceptable product, communicating at exactly the right time is probably the most powerful way to improve your return on investment. This has been recognised in the ever-increasing complexity of lifestage-based segmentation models. Typically, however, such models still leave a five year window (at best) when someone might want a particular product. With the increased ability to hold detailed customer information, comes the opportunity to be creative in ascertaining from the customer when they want to buy. Organisations need to assess the value of this information in order to determine what they can afford to spend to collect it.

Developing customer benefits

Developing relevant and attractive customer benefits begins with a deep understanding of what customers value. This is not simply a case of finding out what product needs they have, nor even what product benefits they want. It is about understanding what they perceive as valuable in their lives. For example, one can ask which is more important:

- Time or money?
- Social interaction or convenience?
- Novelty or stability?

Only once a thorough understanding of what customers actually value has been completed can the process of benefits development begin. It is at this stage that real competitive advantage can be achieved through the innovative design and creation of an appropriate benefits package. Creativity and innovation are not the sole preserve of a particular group of people. They are skills that can be taught and/or facilitated. Leading edge companies are beginning to involve customers directly in the creative process, rather than simply asking them what they think at the end, once the process has been completed.

Customer interaction management

A well-defined process for managing customer interaction is an essential ingredient in building customer value. This step can sometimes be trivialised by being regarded as merely a contact strategy and delegated too low within the organisation. The management of the interaction between customer and company, to deliver the maximum value to both parties, needs careful planning and design, and must also be supported by the appropriate IT systems and people infrastructure. As such, it needs senior management involvement and support.

A key challenge is to understand the different levels of customer interaction, and those which should take priority at specific times. These include:

- Customer initiated interactions, either face-to-face, electronically, by phone or post.
- Statutory interactions, particularly within the financial services industry.
- Other, regular, company-initiated interactions, such as statements.
- Ad hoc interactions which may be used for welcoming a customer, collecting information, selling, measuring customer satisfaction and intentions to re-purchase, communicating information and so on.

Ad hoc interactions must be co-ordinated within a schedule which includes the others, whilst matching customers' requirements in terms of communication frequency. This is often the area that requires the most attention as the volume of customer communication escalates. The other three categories are equally important, however, and provide excellent opportunities for developing the customer relationship.

The secret is to effectively manage each customer over their purchase lifetime, not merely react to their immediate demands or actions.

Data, information and knowledge

At the heart of managing customers effectively are the processes and IT systems for turning data into information and, subsequently, actionable knowledge. Data can be of many types as shown in Figure 2.

CUSTOMER DATA

Individual	Age, sex, income, marital status, etc
Address	Postcode, house type, ownership, etc
Behaviour	Purchases, renewals, transactions, channel use, etc
Lifestyle	Smoking, newspapers, hobbies, consumption, etc
Postcode	MOSAIC, ACORN, RISC, etc
Values	Time, money, convenience, stability, etc
Attitudes	Risk, service, etc
Needs	Functional and emotional, products and services
Propensities	Likelihood to buy other products, lapse, etc
Profit	Current and potential profit
Triggers	Birthdays, marriages, inheritances, product purchases, maturity, etc
Relationships	Family, friends, children, referrals

Figure 2

In addition to these data types there is the need to manage other essential information flows, including feedback from customer service and sales staff about competitor pricing, product and service development, or new distribution activities, for example. More and more data about consumers is becoming available for purchase.

As the marketplace evolves ever faster, the superior management of these different data sources is one of the most important factors that will distinguish successful organisations in the coming years. It demands a specific strategy for the management of data, information and knowledge.

Customer management infrastructure

Depending on an organisation’s starting point, the adoption and introduction of Customer Management can have a profound impact on corporate infrastructure:

- *Culture:* Management mindsets must change, to focus on managing customers to deliver value, rather than simply trying to sell as many products as possible. It is also likely that the time period over which decisions are made may need to be extended as short-term profit considerations are balanced by those of longer term value. Importantly, there will also be an increased need for cross-functional co-operation, since it will no longer be the sole responsibility of the marketing and sales departments to manage customers effectively. Managers will also need to become more comfortable with a ‘test and learn’ approach, with a greater emphasis on learning and development than the avoidance of mistakes.
- *Organisation Structure:* A more fluid organisation structure will become necessary as priorities shift between different customer groups. Managing customers as well as products often creates the requirement for some form of matrix. As always, responsibilities need to be well defined with product, customer and distribution managers clear about what they are accountable for.
- *Planning and Measurement:* The old adage that ‘what gets measured gets done’ will continue to hold and it will be important for planning and measurement systems to reflect the new approach. Management information will recognise ‘share of customer’, rather than market share, and measure ‘customer value’ rather than the number or value of products sold.

- *Delivery Systems:* Customer service delivery systems will need to be more flexible, intelligent and responsive, to provide individual customers with the product variations that they want - and staff with the support to provide excellent customer service and management. In the e-commerce environment, they will also need to allow the customer the ability to interact in their chosen way.

- *Human Resources:* As these changes occur there will be the need to ensure that staff are properly trained and that remuneration is aligned with the new measurement systems.

The customer management process

Managing customers to deliver enhanced shareholder value is not a one-off exercise - it is a continuous, iterative process involving the following steps:

- Selecting which customers to do business with.
- Developing ways to do business with them cost-effectively.
- Testing or implementing the solution.
- Reviewing the activity and learning from it.

This applies at all levels, from corporate strategy to the planning of a particular campaign. All are important and it will be those organisations that take the final step of learning effectively that will be most successful. As a result, they can anticipate improved levels of performance in terms of:

- An increased share of customer expenditure.
- An increased volume and frequency of transactions.
- Enhanced customer lifetime value.
- Increased net revenue per customer.
- Reduced customer dissatisfaction and attrition.
- Improved returns on marketing investment.

Concluding remarks

In the coming years, all companies will need to become even more flexible and responsive to their customers' needs. This will often require significant cultural shifts and effective Customer Management can be the catalyst. Certainly, those who do not regard changes in customer requirements and the competitive environment seriously will fall behind in the chase for profitability, growth and sustainable competitive advantage.

Over the last year, e-commerce has become a major focus for many Marketing Directors and CEOs; and it certainly provides many opportunities for driving CRM. In such an environment, it becomes easier to collect customer data and have the customer tailor their own interactions and products. It, clearly, also has the potential to drive down the costs of doing business.

There are however, significant challenges associated with the growth of e-commerce as customers are becoming even more demanding about the responsiveness of their suppliers (and not just through the electronic channels). Customers are being given direct access to companies through their web-sites, and if they fail, or are too slow, or even not as easy to use as competitor sites, then it is now very easy for customers to simply click and be gone.

In this new world, understanding your customers and their needs, providing the right services and engaging in value-enhancing dialogues is the only way to survive.

Should you wish to discuss *Customer Management*, or other business growth issues, simply call any member of our consulting team. You can contact us at:

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