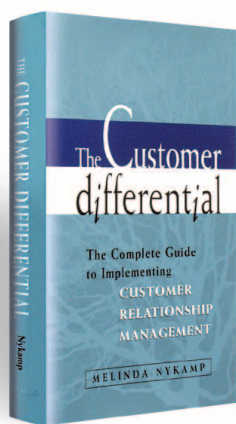


SOUNDVIEW Executive Book Summaries®



By Melinda Nykamp

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THE CUSTOMER DIFFERENTIAL

THE SUMMARY IN BRIEF

One company took 12 months and 12 employees to institute a data warehousing project as part of a corporate-wide customer relationship management (CRM) effort, without any appreciable results. Another company was stymied by the incredible complexities of the processes needed in its CRM effort and had to put the effort on hold almost a year before the right data collection and storage systems were in place. Any company that has begun to implement a CRM plan knows it can be a time-consuming task involving a multitude of business processes and infrastructure dependencies; much broader organizational change than initially thought; and extensive learning of customer-centric and data-driven marketing concepts.

Nevertheless, although it might be easy to dismiss CRM as just another management fad, there are some compelling reasons to take another look at this trend.

First, customers — aided by the technology of the Internet, in particular — have much more power and influence than ever before. Customers today have higher expectations on service, price and delivery.

Second, advances in computer systems are giving companies the ability to collect and analyze specific, up-to-the-minute customer data.

In this summary, you will learn how to transform the five fundamental areas of your company — business focus, organizational structure, business metrics, customer interactions and technology — from a production orientation to a customer-focused orientation.

You will also learn how to:

- ✓ Recognize the four stages of CRM.
- ✓ Measure the effectiveness of your CRM program.
- ✓ Calculate the ROI of CRM.
- ✓ Identify barriers to successful CRM implementation.

The Customer Differential is about differentiating your company by meeting the stringent expectations of today's customers.

Here's how.



— THE COMPLETE SUMMARY

Defining Customer Relationship Management

Although the term “customer relationship management” (CRM) is often equated with the old saying, “the customer is always right,” it is much broader. True CRM is a revolutionary, enterprise-wide refocusing of how you develop and maintain dialogues with your customers. It requires a careful focus on providing the best value to your customers based on how you communicate with them, how you market to them and what levels of service you can provide—without forgetting the traditional areas of product, price, promotion and distribution.

Most important, CRM is not just a technology solution. While the Internet and other advances in technologies have enabled companies to obtain vast amounts of customer data, these same technologies also have given more power to consumers, who now demand much higher levels of service, greater choice in product features and the lowest prices. Businesses need to know which data are the most important to collect and how to best assimilate and utilize this information while at the same time providing personal “mass customization” to individual customers. This new paradigm calls for a new way of looking at and interacting with customers.

Four Stages of the CRM Process

CRM is a continual process that involves four inter-linked stages:

1. **Acquire and Retain.**
2. **Understand and Differentiate.**
3. **Develop and Customize.**
4. **Interact and Deliver.**

As this process evolves, you will be able to add levels of sophistication to your customer strategies. This ongoing, enterprise-wide effort yields unique sustainable competitive advantages that can help increase customer loyalty that will improve your company’s bottom line.

Understand and Differentiate

Although business starts with the acquisition of customers, any successful CRM initiative is dependent on a solid understanding of customers. Therefore, the first stage of the continual process that we will examine is how to understand and differentiate customers.

To have a successful relationship with customers, you must understand what services are important to your customers, which products they want to buy and how and when they prefer to interact with you (e-mail, direct mail, telephone, in-person). You can gather this information in the following ways:

- **Perform Customer Profiling.** Gather demographic and geographic information for consumers; for businesses, gather information such as number of employees and company revenues.

- **Segment Customer Groups.** This is a practical place to begin one-to-one marketing. Identify unique groups of customers through similar characteristics relative to the purchase and use of your products. As you continue to narrow segments of customers, you get closer to actual one-to-one marketing.

- **Conduct Primary Research.** You gain insight into your customers’ needs and attitudes toward your company’s products and services and about your organization as a whole.

- **Rank Each Customer’s Value to Your Company.** No customer is created equal. Using the type of information listed here, you can more specifically identify which customers or groups of customers offer the most profitability for your company.

Develop and Customize

In the product-oriented 20th century, manufacturers built products, defined distribution networks and then searched for customers. In the customer-focused 21st century, companies must let the customer drive the choice of product and distribution channel. The most successful organizations are those that base products

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Defining Customer Relationship Management

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and services and distribution channels on customer needs and wants.

For example, financial services providers now offer ATM and electronic banking, which benefits both the provider and the customer. In the travel industry, wireless-based reservations and electronic ticketing offer customers flexibility.

Interact and Deliver

Companies now have many different customer touchpoints—from retail stores to catalogs to Web sites—and creating a common look and feel and assuring superior service at each site is an essential step in CRM. Most of these touchpoints have been built around the concept of efficiency for the company, not for creating two-way interaction with customers. In fact, although the term “interactive” is usually associated with online initiatives, most Web sites are less interactive than a bricks-and-mortar store staffed by salespeople.

To foster relationships with customers at the various customer touchpoints, companies must make sure:

- that all departments have ready access to relevant customer information; and
- that all employees are trained how to use this information.

Provide them with frameworks (step-by-step scripts, if necessary) for identifying and interacting with individual customers and customer segments.

Acquire and Retain

Learn as much as you can about your most valuable customers, then target prospects who “look like” those valuable customers. The better you understand your customer, the more effective your acquisition efforts; you’ll be able to choose the right channels, media, product, offer, timing and message for the target prospect base.

Once you have acquired a new customer, you need to make that person a repeat, loyal customer. By focusing on the following three areas, you can improve your chances of retaining your valuable customers:

- **Continue to provide an ongoing forum for a two-way dialogue.**
- **Consistently meet the customer’s definition of value.**
- **Be alert for changes in your customer’s needs so you can modify your products or services to meet these evolving needs. ■**

CRM: An Integrated Approach

- ✓ CRM is not exclusively a marketing initiative. But CRM can involve customer-facing and data-driven marketing and can result in more effective marketing campaigns.
- ✓ CRM is not exclusively a sales initiative. Sales is just one piece of the CRM puzzle, and a CRM focus can improve sales strategies, account management and SFA efforts.
- ✓ CRM is not exclusively a service initiative. Rather, service is merely one functional area of a CRM effort.
- ✓ CRM is not exclusively a technology initiative. While IT and IS are big parts of CRM, it is important to remember that they are simply the tools that allow a company to focus more narrowly on its customers.

CRM Requires Complete Transformation of the Company

CRM is an enterprise-wide effort, involving nothing less than the transformation of your company from the traditional product/transaction orientation to a customer-focused orientation. Specifically, CRM requires the transformation of your company’s business focus, organizational structure, business metrics, customer interactions and technology. The chart on page 4 outlines the stages of transformation in each of these business areas.

Business Focus

Moving from the old “product-focused” business approach requires a radical change that is best accomplished by completely shifting both a company’s vision and resources. This shift entails more than just trying to “redirect” customers and customer segments into existing plans and processes or “repackaging” existing products.

What is your company’s current focus? Conduct an audit to identify where you can become more customer-focused. Without a true, company-wide focus on anticipating and meeting customer needs, companies can become stuck in intermediate stages, and such half-hearted CRM initiatives usually don’t succeed. Even though marketing and service are oriented toward customers, very often these initiatives can become overly tactical and operational. Similarly, with a heavy focus on sales, the emphasis is usually only on customer acquisition, not creating ongoing dialogues with customers.

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CRM Requires Complete Transformation Of the Company

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Organizational Structure

This area can be one of the most difficult to transform to a customer-facing emphasis, and can be one of the major barriers to successful CRM implementation. Traditionally, companies have organized around products or regions. Transforming the entire structure of an organization requires a complete shift in thinking for managers within all departments, and often entails adding to the existing product line or channel structure, as well as hiring additional employees. Some companies have even created “customer relationship” departments.

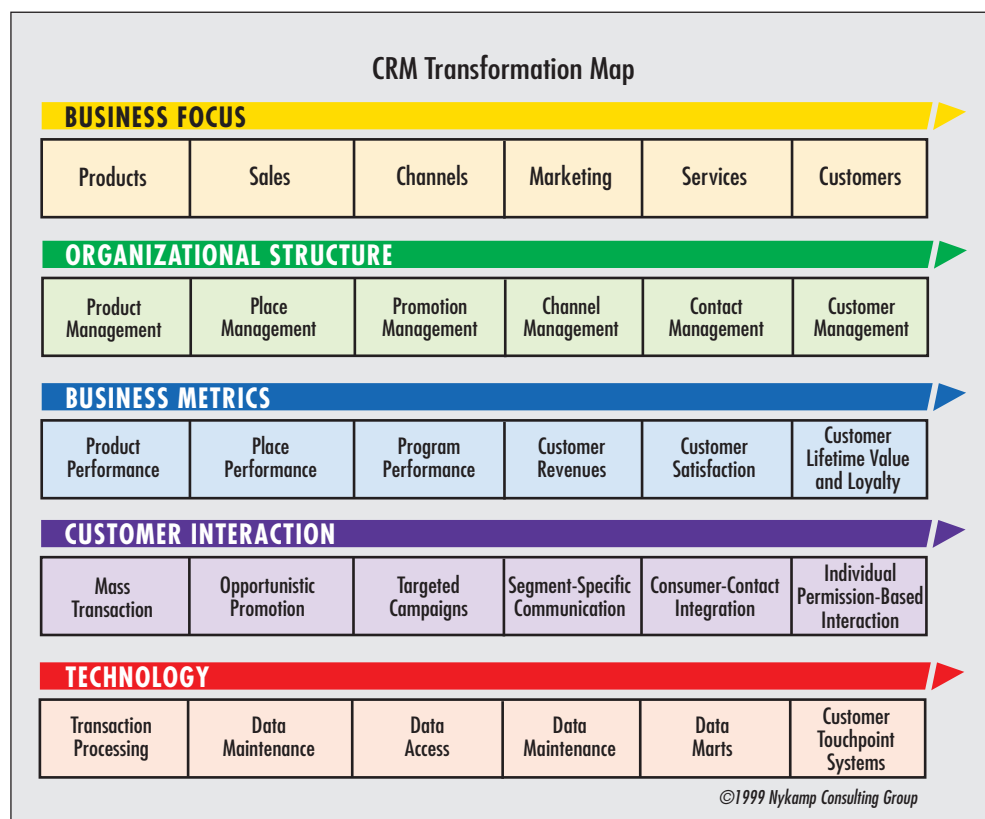
Business Metrics

Today, different departments within a company usually measure different sets of metrics. And it is rare to find metrics based on customer-oriented areas. When a CRM transformation is successful, you will have established a way of measuring and tracking customer lifetime value and loyalty. The goal of CRM is therefore to blend traditional metrics (i.e., on product, place) with customer value.

Specifically, you must measure:

1. **Product performance:** The traditional “build a better mousetrap” ideology.
2. **Place performance:** Measuring and comparing productivity by regions/territories.
3. **Program performance:** Marketing efforts are tracked by campaign.
4. **Customer revenues:** Quantifying the short-term profitability of each customer.
5. **Customer satisfaction:** A first-stage attempt to measure the quality of customers’ experiences with a product or company.

The biggest benefit of these new metrics is that you gain a long-term view of how all of your customer touchpoints factor into overall profitability.



Customer Interaction

The ultimate goal of CRM is to initiate and maintain a back-and-forth dialogue between customers and employees that is individual-based rather than segment-based. This requires a tremendous amount of integration and coordination among employees, departments and information systems. It also requires large investments of time and resources, often on an ongoing basis.

Technology

Rather than creating silos of customer data, the key to successful CRM is using technology to give any employee the right customer information at the right touchpoint at the right time, all the time. But the technology itself is only a tool. ■

The Case for CRM

Results of successful CRM initiatives at organizations in various industries show that:

- ✓ Short-term results often can turn the opposition around quickly.
- ✓ What you learn from these systems tends to strengthen the data, process and functionality of a longer-term solution.
- ✓ Advanced features and functions often are not necessary.

Implementing CRM

Is your company's current organizational structure conducive to optimizing customer relationships? Which employee(s) will take responsibility for the CRM program? Will your CRM project involve hiring any new staff, offering new training, or changes in performance measurement or your compensation structure?

These are critical questions that must be addressed before any CRM initiative is launched. The following checklist is a good guide for assessing your organization's readiness for launching a successful CRM program:

Is senior management tasked with ensuring that the organization understands and is meeting customers' needs? Are they responsible for seeing that the CRM vision and goals are understood?

- **Is management accountable for the P&L of customer performance and responsible for measuring and monitoring customer performance?**
- **Are customer relationship responsibilities clearly defined, assigned, and understood? Are methods for measuring results and providing rewards established?**
- **Are customer-centric performance standards in place at all customer touchpoints?**
- **Are all customer communications viewed as important?**
- **Are policies and procedures critical to managing customer relationships well-documented and consistent across all customer touchpoints?**
- **Are customer-critical functions staffed with well-trained, motivated employees?**
- **Is employee performance measured and rewarded based on meeting customer needs?**
- **Does your company have the necessary sales and marketing expertise and resources?**
- **Does your company have the necessary service and technical resources and expertise?**
- **Have you addressed how you will continue to allow the CRM program to evolve and expand?**

Building the Case for CRM

As budgets for IT equipment (a part of most CRM initiatives) have tightened over the years, it is important to clearly identify the cost benefits and increased effectiveness that CRM offers. Development and implementation of CRM is particularly challenging not only because of the time and money it involves but because you may need to upset deeply entrenched systems and processes and coordinate disparate departments and divisions. The

essentials of any CRM business case include:

- 1. Qualifying your effort.** Know the roadblocks you will face and determine which factors will help you or hinder you.
- 2. Identify the necessary components,** and create separate business cases for each one.
- 3. Project results and improvements** in a context that reflects your business setting.
- 4. Gather case studies and success stories,** particularly from your own industry and on companies that operate within similar business models.
- 5. Create a prototype.** It's easier to prove the value of a low-cost option, and it can bolster your longer-term solution.

The CRM Department

Microsoft, American Express, Bell South and Hewlett-Packard have created new departments charged with optimizing customer relationships at all points of interaction. Such CRM departments recruit staff from all customer-facing groups and serve as liaison for CRM implementation in existing functional departments. These firms have found that employees with skills in change management, customer valuation, customer interaction and integrated communications, customer information management and training and performance measurement are essential for their CRM departments.

The Customer Information Management Plan

Another approach to presenting the value of a CRM plan is to develop a Customer Information Management Plan. Typically, this should address: Where and how to efficiently collect customer data, and how to transform these data into meaningful, practical information. You

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CRM Hurdles

Lack of Planning is the number one reason CRM initiatives fail. Therefore, be ready to sustain an aggressive effort that spans departmental boundaries and reaches into all functional areas of the firm.

Overdoing Planning also can cause CRM efforts to stagnate. Plan to start small and keep it simple at first.

It Takes Time to reap the results, but it is worth the wait. Don't think of CRM as just a buzzword or "theory of the month." The combination of today's increased customer expectations and rapidly advancing technology, if handled consistently with a CRM focus, can provide you with significant, sustainable competitive differentiation—The Customer Differential.

Implementing CRM

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may want to consolidate information into an account or household basis, into monthly transaction summaries, or linked to regional sales territories. You will need to suggest a method to readily distribute customer information throughout your organization.

There are five stages to creating a Customer Information Management Plan:

1. **Define where customer data** is needed or could be utilized across your organization, and why.
2. **Conduct a customer information audit.** This is crucial and identifies what data is gathered and how; the quality and quantity of this data; where data is maintained and how frequently it is updated; how this data is maintained and by whom.
3. **Using your findings from steps 1 and 2,** develop a specification document that will include requirements for data, process, functionality and architecture.
4. **Conduct a gap analysis;** i.e., find out what information you need that you are not currently collecting.
5. **Define a solution** that reflects your situation and your prioritized requirements. ■

CRM and Technology

The ideal CRM system includes operational and analytical, online and offline offerings in the following categories:

- Customer databases
- Marketing applications
- Data mining applications
- Sales force automation (SFA) systems
- Customer care applications
- Online applications

Barriers to achieving such an integrated approach include the inability—so far—to blend a speedy operational system with the slower analytical systems. For instance, Online Transaction Processing Systems must use lean customer files for assessing real-time online actions and reactions, while an analytical system such as a reporting tool, needs to sort through huge customer databases to identify trends. Another stumbling block to a total CRM application system is the distinct nature of the sales, customer service and marketing groups within companies. Often, these departments can have independent information processing systems that make it difficult to share data. Finally, the need to integrate established businesses with e-businesses is still a learning curve for most organizations.

Internal Development vs. Outsourcing

In deciding whether to build your CRM technology in house or to outsource, consider the following:

- ✓ **Solution Scope.** Make sure you know exactly what you want to accomplish — from something as simple as outbound e-mail capability or as sophisticated as multichannel integrated sales. Generally, the broader the scope of your solution, the greater the value in insourcing.
- ✓ **Core Competencies.** If becoming customer-focused is highly unlikely to be a strength of your IT department, the better it is to outsource this area.
- ✓ **Time Horizon.** If your goals are shorter-term, outsourcing is recommended, at least for starting a CRM effort.
- ✓ **IT resources.** If you have no internal technology resources, or your IT department lacks enough experience in managing customer information, outsourcing is recommended.

Dealing with CRM System Vendors

With the volatility in the IT market, there are risks of delays and product and service changes as companies merge. Longer term there may even be dangers of monopolistic pricing. However, the bright side of the continuing M&A activity in the IT sector could mean improved products and services as well as the possibility in the future of “one-stop” shopping as opposed to the many niche players now selling in this market.

Be sure you document the details of both your internal and outsourced services. Your contracts should specify assignment rights, solution specifics and service levels. Ask the important questions, and if a vendor is hesitant to answer forthrightly, find another vendor. And, if a company you have contracted with is merged or acquired with another, this may be an opportunity for you to renegotiate your contract. ■

Changing Your Metrics

Because the traditional business model has been focused on either products or channels, these are the areas where most measures of profits originated. However, none of these metrics capture a comprehensive view of customer behavior. Program performance metrics calculate how many leads were generated in certain promotions, for example, while product-based metrics illustrate the most profitable products, but these two findings alone don't address customer attitudes.

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Changing Your Metrics

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Customer metrics are difficult to establish, and because customer behavior is dynamic, they also need to be adjusted over time. Even customer satisfaction statistics can often yield only limited information. Some studies, for instance, show that customer dissatisfaction has an inverse correlation with attrition—i.e., that customers who did express a level of dissatisfaction were actually less likely to switch to a competitor. This finding could be because customers willing to participate in a survey in the first place had some loyalty to the brand.

Customer Scorecard

Using a customer scorecard is a good way to begin transforming your company's metrics. This is an iterative process that involves collecting relevant customer data, building on your customer intelligence incrementally, and communicating results across the organization.

To build a customer scorecard, you first need to collect the right customer data by asking the following questions:

1. Who Are Our Customers?

- Unique customer identifier.
- Customer name.
- Name of the customer's organization.
- Department or group in which the customer works.
- Title, role in organization, or other designation.

2. Where Can We Reach Our Customers?

- Home and business addresses, phone number(s), e-mail and fax addresses.

3. What Are Our Customers' Key Characteristics?

- Consumer: Gender, age, household size, estimated income, presence of children, segment classification.
- Business: Industry classification, number of employees, annual revenues, number of locations, role of individual in the purchase process.

4. How Do Customers Prefer to Interact with Us?

- Media preference (mail, e-mail, phone, fax).
- Channel preference (Web, retail store or branch, salesperson, phone).
- Opt-in or opt-out for any media or specific communications.

The Lifetime Value Of Your Customer

One of the key metrics in your customer scorecard will be the estimated lifetime value (LTV) of that customer. LTV estimates the annual profitability over the expected lifetime of a customer, using net present value financial calculations. Some calculations assume statistics of spending, while more complicated models include cross-purchase behavior and changes in spending over time.

Estimated lifetime value will tell you which customers are most valuable to your company — and which customers are just costing you money.

5. What Has Been Our History of Interaction?

- Outbound marketing promotion history.
- Outbound sales contact history.
- Inbound customer-initiated queries.

6. What Has Been Our Customers' Purchase Behavior?

- Purchase dates, number of transactions, items purchased.
- Prices paid.
- Channels utilized.
- Sale vs. nonsale items.
- Returns or exchanges.

7. What is the Customers' Value to Our Organization?

- Revenue to date.
- Profitability to date.
- Estimated lifetime value (see box above)
- Estimated share of wallet. This is the percentage of business a customer is giving you, versus your competitors.
- Estimated probability of: response to specific promotions, specific purchases, attrition, and nonpayment or bad debt.

The next step is to analyze the data that you have collected. Answers to the questions above should allow you, for example, to develop profiles of your customers, to segment the customer base according to different needs and behaviors, and to determine the value of different customer segments.

Once you've collected and analyzed the data, you can create the scorecard, which is basically a snapshot of your customers that can be easily communicated to your organization.

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Changing Your Metrics

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First, decide on the segments or group of customers you wish to measure. Then choose the metrics you will put on the scorecard. Number of current customers (by segment and tenure), product penetration (percentage of customers that purchased certain product categories) and current profitability are some examples of the metrics that you will want to chart. Another key metric is the customer lifetime value (see box).

Once you decide which metrics are important, set annual goals for each metric — per customer segment — and compare with current performance statistics.

Remember that your customer scorecard needs to tell a story by highlighting trends over time and providing comparisons by customer segment and other relevant criteria. ■

Measuring the ROI of CRM

You've implemented your CRM effort; now you need to show how this initiative has helped increase revenues, decreased costs and improved your firm's competitive differentiation. How do you do this? To begin with, before you make any investment in CRM technology or other resource, scrutinize each CRM business plan by examining its broad-scale quantification of potential return on its investment. By doing this you prioritize each of these initiatives.

It is important to create organization-wide measurements of CRM success as well as establishing metrics for measuring the progress of the CRM effort once it is implemented. Don't just set up the program and forget about it!

Specifically, you will want to measure the progress of the CRM effort in five interrelated areas of your business: internal CRM capabilities, customer interactions, customer dynamics, operational efficiencies and business metrics.

Internal CRM Capabilities

Using best practices, continually monitor your progress with CRM methods to assure that your business focus, organizational structure, technology and customer interaction capabilities are customer-centric. Such ongoing monitoring can help spot over-investment in some areas. Ideally, you want your business focus to be centered on customers, your organizational structure to be tailored to customer management, your metrics to provide information on customer lifetime value and loyalty, your customer interactions to be individual, permission-based dialogues, and your information technology to be able to deliver the right information at the

right time across all customer touchpoints.

Customer Interactions

There are potentially hundreds of customer interaction points in an organization. Once you've prioritized the most important interaction points, assess how well you are meeting customer expectations by using a Customer Interaction Scorecard. A typical Customer Interaction Scorecard might track interaction opportunities (for example, "Customer visits our Web site three times daily) according to "past performance," "current performance," "importance to customer relationship" and "improvement priority." For each of these measurements, the interaction opportunity would receive a "3" for high performance, "2" for medium performance and "1" for low performance.

Customer Dynamics Among All Departments

It is essential to link CRM efforts among all departments. Each department needs to study how it can improve customer acquisition, growth and development, retention and reactivation. All CRM initiatives should be linked to these metrics. This can be easier said than done, however, since within many organizations each department has a different way of measuring success. For example, the marketing department may be able to show how its new targeting model has resulted in improved customer response, without mentioning the firm's investment in improving its data collection techniques, implemented by the IT department. Different departments need to be made aware of how their efforts affect other departments and ultimately the company's ability to competitively differentiate itself.

Organizational Structure

Once you have implemented more customer-centric processes in business focus and customer interactions, it is common to see increased operational efficiencies as a result. Some benefits realized by companies using CRM include cost reductions in data collection, maintenance or fulfillment; easier identification of fraud or other problems; and increased integration of other core business processes. ■

Lessons Learned

Here are key lessons learned by companies who have begun implementing enterprise-wide CRM:

1. CRM initiatives need to be driven by business goals and objectives.
2. CRM requires aggressive, ongoing organization and planning.
3. Balance planning with action.
4. Stick with it!