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Revenue Revival:

Customer Relationship Management and the Next Wave of Growth

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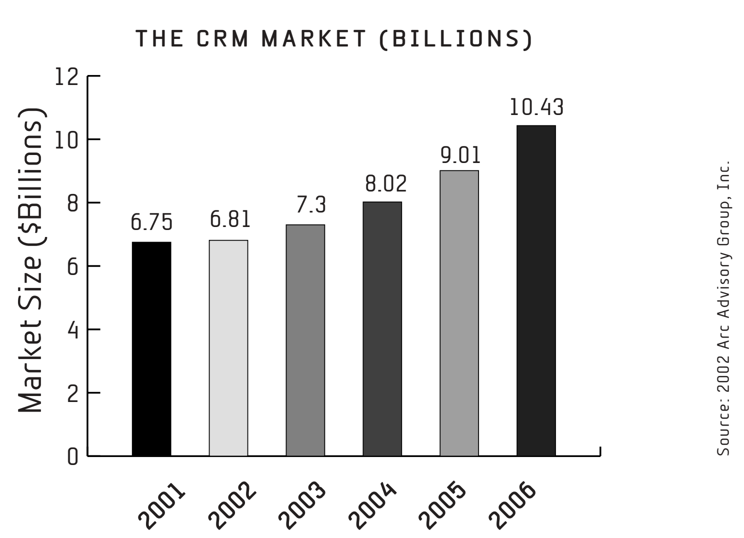
The *new* economy didn't live up to all the hype, but what will the *next* economy bring? One thing seems clear: companies in all industries are now becoming more intimately connected to the needs, preferences and priorities of their customers. While the boom years of the recent past seem in retrospect to have been significantly inflated by a steady supply of cheap capital, the opportunities that stand before us now are unquestionably demand-driven. Customers, not capital, will generate the next wave of dynamic economic growth (*See figure 1*).

With this in mind, smart companies know that they must continue to invest smartly in their customer relationships. Once, we focused on building products and selling them to every potential prospect. Now, we must focus on building relationships and providing more products and services to our existing customer base.

What drives companies in this direction is this recognition: it is far more profitable to retain existing customers and build relationships with them than it is to try to attract new customers. Investing in current relationships becomes vital to success. But companies also fear intensifying competition. They realize that they must differentiate themselves to hold onto their customers.

figure 1



A company's wider relationship strategy must address not only customers, but also suppliers, partners and employees. And yet, few companies will be able to compete successfully in the fast and unforgiving markets of the future without mastering the management of customer relationships. Indeed, strategic decisions made with regard to customer management will prove more consequential than ever.

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FIRST PRINCIPLES. The Knowledge Capital Group's perspective on CRM is guided by the following set of principles.

CRM is, first and foremost, a business strategy.

It's tempting to think that CRM is just another wave of software and consulting services – running parallel to Enterprise Resource Planning (ERP), Supply Chain Management (SCM) and Electronic Commerce (EC). While it is true that software and service providers have congregated and coalesced around the term, it's critical to understand that Customer Relationship Management represents something much more fundamental to the strategy and operations of an enterprise. It is about managing customers.

Companies risk everything if their strategies begin with technology and revolve around it. This is the tail wagging the dog. Instead, they must develop customer relationship strategies that are based on fundamental business objectives. They must begin by analyzing their existing customer base – or the base they wish to create – and design their strategies to maximize the value of these key assets. Then they must look at how CRM will enable them to generate revenues, profits and a sustainable competitive advantage. In fact, one of the most important benefits of such efforts is the promise of creating loyal and profitable customer relationships in an era of widespread customer infidelity.

One company that has developed a powerful business strategy around CRM is Carreker Corp., a Dallas-based provider of software and strategic consulting for the financial industry. The company, which has consulting relationships with 70 of the top 100 U.S. banks, has leveraged CRM technology to sustain rapid and smart growth. Indeed, Carreker implemented CRM software from Peoplesoft that has enabled it to support customers as well as employees in powerful new ways. "Our employees and customers can access valuable information from anywhere on the globe, as long as they have access to the Internet and a Web browser," says Lori Faris, senior vice president of corporate services for Carreker.

The company is presently relying on its new CRM system to integrate critical information and create a single, comprehensive view of its customers. "Not only will we be able to give employees a 360-degree view of customer information and interactions – everything from initial proposal, to creating a contract, to implementing the solution, to providing ongoing support – but, we'll also be able to pinpoint opportunities to cross-sell and up-sell," adds Faris.

Customer differentiation and valuation come first.

The key misstep for companies launching CRM initiatives is that they will try to do everything – all at once. One of the most critical success factors, however, is the ability to prioritize activities and resources. So where to begin? We believe the place to start is with customer differentiation and valuation. First, learn where the value lies in your customer base before creating strategies for interacting with and addressing the needs of customers. Customer analysis of this sort may be imperfect, but it is a critical guide to help determine where to invest scarce resources.

We are also assuming that the relevant information about customers – transactions, history, needs and potential – is available for analysis. That may not be the case. Many companies continue to have silos of customer information dispersed throughout the enterprise. If so, then it will be extremely difficult to differentiate the best customers (or prospects) from the worst. Under these circumstances, it is necessary to create a platform or system that enables the consolidation of customer information. Data unification becomes the first priority.

One of the key metrics now beginning to take hold in the corporate world is customer profitability. It's been a long time coming. We commonly focus on overall revenues and profits as well as the profit margins of particular products. But such numbers miss a lot. In order to understand a company's true opportunities and fundamental health, it is also important to assess the value of its customer base.

Smart and responsible companies invest their limited resources in customers who represent significant existing value, or, alternatively, potential for growth. They build powerful relationships with their most valuable customers. Canadian Imperial Bank of Commerce, one of North America's leading financial institutions (with more than six million retail customers), is proving that such efforts can have a big impact. CIBC wasn't able to determine customer value until recently. But continual advances in processing, modeling and number-crunching technology are facilitating efforts to take a more sophisticated look at customer value.

It now uses sophisticated profitability, potential and propensity models to determine how to best invest its scarce marketing resources. "The key to our future success," says Rick Miller, vice president of customer profitability at CIBC, "will be our knowledge of the customer."

Measure for results.

Through more advanced CRM implementations, companies have gained the ability to track customer needs and buying patterns. Through new marketing technologies, they've acquired the ability to track responses to particular campaigns with great precision. They can run more tests, fail more often and succeed more often. They can use the information they generate to adapt to changing trends and make rapid course corrections.

Nedcor Ltd., a major banking services company with subsidiaries such as Permanent Bank, Peoples Bank and Cape of Good Hope Bank, has leveraged marketing software from a company called Aprimo to reach customer retention levels of 90 percent. In the past, the company had no way to accurately measure the impact of its marketing activities. Customer data was often isolated in pockets throughout the business. Balls were often dropped, and required tasks fell through the cracks. New marketing processes and software, however, have enabled the company to send precision emails, digitally deliver leads and manage inbound/outbound interactions with much greater personal care.

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Now, Permanent Bank, for one, is exceeding its customer retention goals, and customers report that they trust the calls that come from the bank because they are highly aware of the customer's needs, preferences and history with the organization. It's also given bankers a greater sense of control over the relationship management process. "Bankers will accept new technology when they believe that they own the process, and it is easy to use," says Charles Guise-Brown, senior manager, retail banking division, Nedcor.

Other companies have valued their CRM investments for the predictability they can

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acquire with regard to sales operations. Flowserve, a $2.1 billion global provider of pumps, valves and other industrial products, implemented a CRM system from Baan that has enabled sales managers to better manage existing business and project new deals. "We now have visibility into the sales pipeline and the ability to track all sales across the enterprise and share data across our global network," says Todd Roeller, the Flowserve IT project manager. The initiative has led to "considerable increases in our pipeline and forecast projections. We are now working on rolling the solution out across more of our business units and are confident that the benefits we gain from it will continue to increase."

It's a multichannel world.

One of the most powerful aspects of the whole movement toward customer-focus is the opportunity to create relationships that span channels of interaction and commerce. Customers want to do business in many ways – in person, over the phone and on the Web. They also expect companies to be accessible around the clock – whether they are shopping or seeking advice. Companies must be available to interact with their customers at anytime and from anywhere (*See figure 2).*

Interactions are the currency of relationships. It is through interactions – in person, over the phone and via various other electronic means – that companies build relationships with their customers. Most organizations have come to realize the critical nature of these interactions and are planning or already building "contact centers" that consolidate interactions from any source – phone, Web, email, print, fax, video, data, etc. The contact center must be built in a manner that allows for the seamless integration of any type of interaction into core business activities.

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New investments in multichannel, customer management capabilities have enabled General Motors to strengthen relationships with its "family market," which includes GM employees, their extended families and GM retirees – 7.5 million constituents in sum. Traditionally, the company would reach out to them through multiple, fragmented business units – often leading to overlapping offers. "To avoid defection, we had to look at things from our customers' vantage points," says Lisa Anne Charney, executive director, enterprise customer management, General Motors. "We had to enable customers to communicate with us through any channel they wanted, while offering them targeted products and services. We couldn't do that effectively through our traditional, decentralized model."

Working with software solutions from Siebel Systems, GM was able to develop a centralized call-center approach that allowed agents to actively cross-sell and up-sell GM products – whether a new car or insurance or something else – to the family market. GM's new customer contact center, dubbed "C3," provides customers with a single point of contact for all needs. It also helps GM sell bundled product and service offerings and increase customer loyalty. All contact data – such as purchase history and account information – is now universally available to agents on the system. It enables them to conduct a "seamless dialogue" with customers, regardless of how they choose to contact GM.

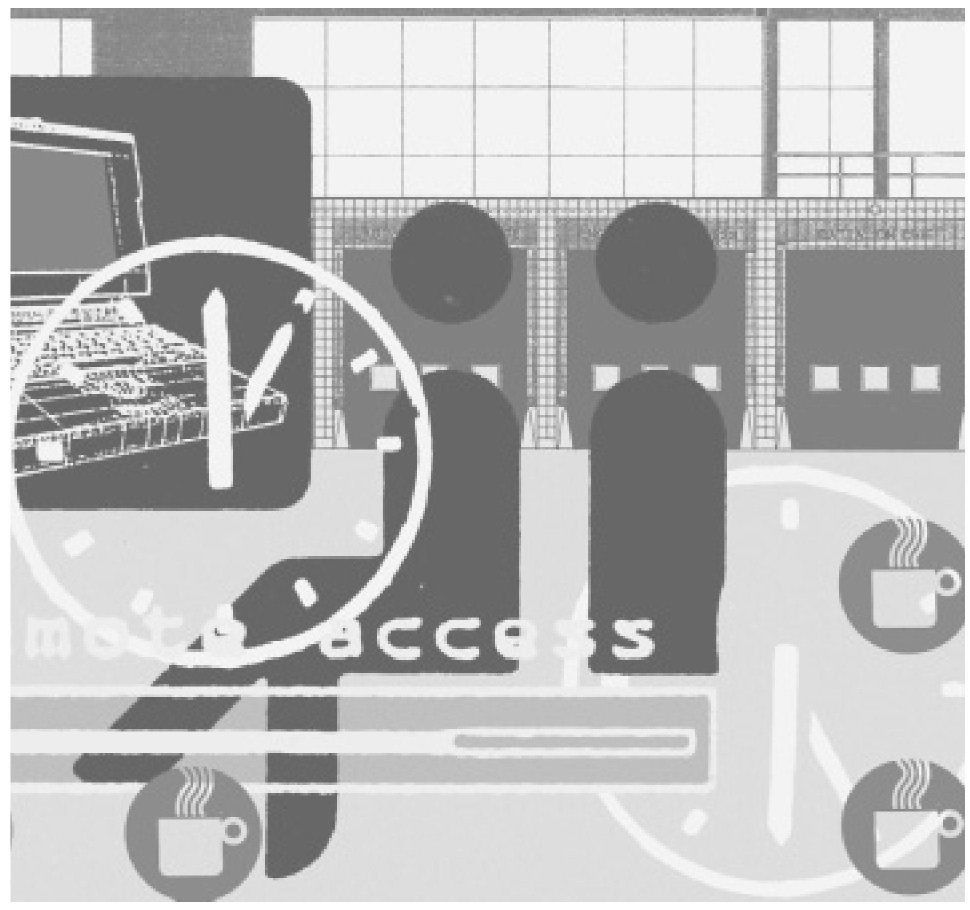
"Revenue is up because our ability to manage leads and convert them is better than ever," says Charney. "We are saving on marketing costs by targeting customers for multiple products through coordinated campaigns, rather than bombarding them with eight different direct-mail pieces for eight different products. We're generating incremental profit from up-selling and cross-selling and thanks to the solution's strong analytics, we can now measure how well we are doing with given customer segments and adjust our sales and marketing accordingly."

While multichannel customer management is ultimately vital to success, many companies are strengthening their overall customer relationships by building stronger connections to them in the electronic realm. Papa John's, the Louisville, Ky.-based operator of 2,800 pizza stores and franchises, worked with Oracle Corp. to develop a system that enables customers to order online. The online-ordering initiative has enhanced accuracy (by 15 percent) and efficiency, enabling Papa John's to raise customer satisfaction and loyalty. In fact, the ticket size for on-line orders has risen 10-12 percent higher than offline purchases as a result of letting customers more effectively assess their options.

CRM outsourcing creates new opportunities.

In an effort to enhance their customer profitability, reduce costs and focus resources on key strengths, many firms have opted to outsource aspects of Customer Relationship Management. While CRM outsourcing remains a young field, the opportunities are tremendous. Many companies have contracted out for customer service and support activities over the years. They've drawn on the talents of marketing, advertising and public relations firms, and even relied on external firms to provide outbound selling – or telemarketing – services. Companies now expect much greater professionalism, and far greater capabilities, from the partners they hire to interact with their customers and prospects. As the companies providing these outsourced CRM services become more capable, expect to see more outsourcing (*See figure 3).*

Market research firm Frost & Sullivan offers some numbers to back up claims of continuing growth. It contends that the market for outsourced contact centers in North America generated $27.5 billion



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in 2001. By 2008, this number is expected to climb to $37.2 billion. Of that market, 54 percent of the revenues represent agents taking inbound calls; 46 percent of revenues are related to outbound calling. Among the top providers of outsourced call-center services: Convergys, APAC, West Teleservices, and Precision Response Corporation. "Each of these companies is moving away from handling only inbound calls and towards becoming a full CRM service provider," says Frost and Sullivan analyst Katrina Howell. "Simple telemarketing activities are declining, while cross-selling and up-selling activities are on the rise."

"Customers are very receptive to offers if someone has just solved a problem for them," says Cliff Oxford, CEO of STI Knowledge, an Atlanta-based company that provides enterprise support solutions including agent training and certification in service, communication and selling practices. "It's very different from being interrupted at the dinner hour by a telemarketer."

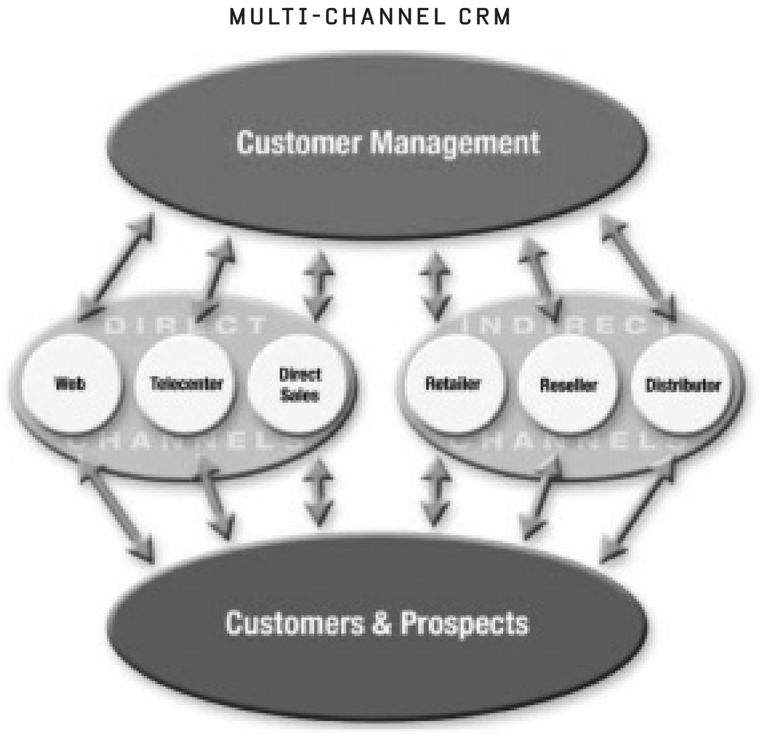
Still other companies are relying on outsourced CRM software, sparing themselves the challenge of having to implement the systems on-site. Garrett Aviation Services, a provider of service, maintenance and custom refurbishment for corporate aircrafts, recently chose Salesforce.com, an outsourced CRM application, to enhance its customer service and response times. Garrett claims to have experienced significant results across all departments at its 12 service centers. One benefit is the consolidation of customer information into a single Web-based repository, reducing response times related to customer queries. The company also has improved internal efficiency and tied customer service to sales opportunities.

The customer-driven transformation.

Transformation may be an imperative, but it's also a threat. It's a threat to existing and entrenched interests. It's a threat to all those who crave stability. It's a threat to those who feel they are prospering in the present environment. No change effort is more important than the one that companies have now embarked on to build dynamic, profitable and enduring relationships with their customers. What they must realize is that customer relationships cannot be built in a vacuum. They must be managed within the context of the enterprise's larger set of relationships. All organizations must embrace change – perpetual and pervasive change – if they are to meet the objectives that are commonly discussed by advocates of

figure 2

MULTI-CHANNEL CRM

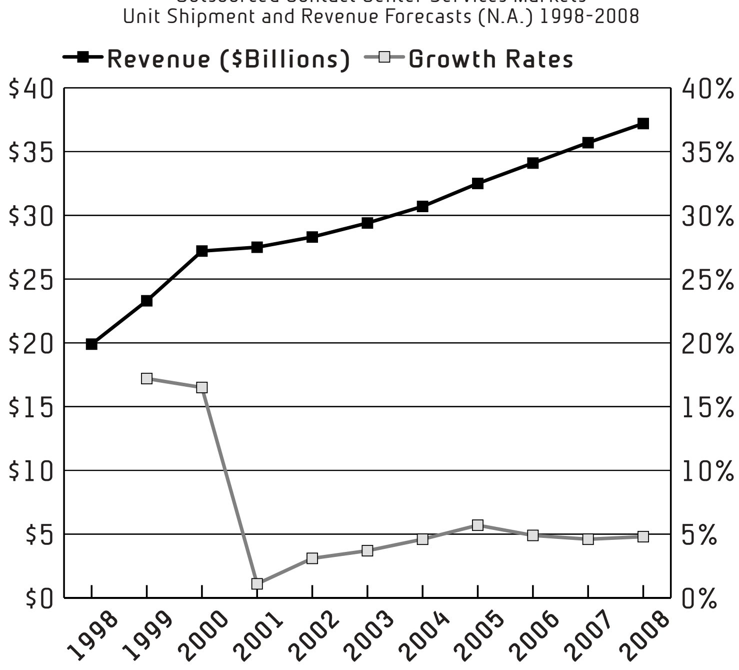


Source: 2002 Knowledge Capital Group, Inc.

figure 3

OUTSOURCING REVENUE FORECASTS

Outsourced Contact Center Services Markets
Unit Shipment and Revenue Forecasts (N.A.) 1998-2008



Note: All figures are rounded; the base year is 2001. Source: Frost & Sullivan

Customer Relationship Management. If they want to succeed in this new era of relationships, companies must consider these steps and then take them with confidence.

Build a Foundation. Companies that intend to develop powerful new approaches to relationship management must first establish the foundations for change. They must identify the pain points and make those widely evident. They need to look for indicators — such as falling rates of customer retention, high levels of customer dissatisfaction or merely declining sales — showing that customers are being poorly managed. Such data points and telling anecdotes can be invaluable tools in the efforts of change leaders to make things happen.

Craft a Strategy. In order to successfully implement a relationship initiative, companies need a powerful strategy to guide their efforts. Stakeholders must understand why they are putting relationships at the heart of their efforts. What does it mean to be a customer-focused enterprise? Why does this promise to give the enterprise a competitive advantage? How will this approach generate value for customers, shareholders and employees? It's critical to articulate this strategy throughout the enterprise and reinforce it at all levels of management.

Execute the Strategy. Once a com-pany has devised its relationship strategy and begun to articulate it broadly, it's time to implement it. This means eliminating hurdles and overcoming boundaries that stand in the way of success. They must reconsider and renew processes, metrics and rewards. One of the principle objectives of relationship management is ensuring that a company's processes evolve from a focus on internal issues to embrace external constituencies. In the past, too much effort and attention has been invested in developing processes that are introverted and internally focused. New measures are also important. Metrics are critical to all corporate initiatives and project management efforts, of course. The failure to set and meet clear metrics has often led to the failure of projects in the past. But now companies must determine what measures matter when building lasting relationships. Call it "the new ROI" — Return on Interaction.

> Real change — which involves a widespread change of perspective — will force companies to address some difficult questions concerning corporate culture.

Reinforce Change Efforts. Smart leaders recognize that they must constantly build momentum for their efforts. They must actively promote their successes and build on them. Real change — which involves a widespread change of perspective — will force companies to address some difficult questions concerning corporate culture. They must re-examine a raft of personnel issues.For instance, skill profiles, compensation, training, scheduling and management capabilities all need reassessment, and often, radical changes. Companies must ask themselves: Are we ready for a far-reaching relationship strategy? How will it affect our customers? Our business partners? How must the culture change to successfully become a relationship-driven enterprise? Such changes must be widely understood and embraced if the enterprise is to thrive.

Perpetual Transformation. Most organizations will undergo a profound trans-

Most organizations will go through a profound transformation over the next few years merely to survive.

formation over the next few years merely to survive. This transformation will depend on vast changes in business strategy, enterprise systems, processes, metrics, rewards and culture. For most organizations, this will require some hard choices concerning how best to enhance their relationships with suppliers, partners and customers. A new-found focus on customers, interactions and relationships will replace the traditional way of doing business. Transformation is vital and inevitable (*See figure 4*).

The next economy is about rapid and perpetual change. But it's also about trust and relationships. Change leaders who understand the dynamics of this increasingly networked, relationship economy can be expected to thrive in the coming years.

Eddie Bauer

Eddie Bauer, the Seattle-based apparel retailer with more than 15 million retail, catalog and Internet customers, is focusing its attention on strengthening customer relationships. It is realizing significant growth gains as a result.

Four years ago, the company began transforming how it manages customers with a new initiative designed to consolidate relevant data. This gave the company greater insight into the needs, preferences and priorities of its vast customer base. In the late 1990s, the company developed a common database that provided "some very different strategic information about direction and decisions," says Harry Egler, divisional vice president of CRM at Eddie Bauer. Methods such as comparing annual sales figures began to give way to customer relationship-oriented measures like determining a customer's current value and projecting his or her lifetime value. "The point is, we need to rethink the metrics we use to gauge our success," Egler adds.

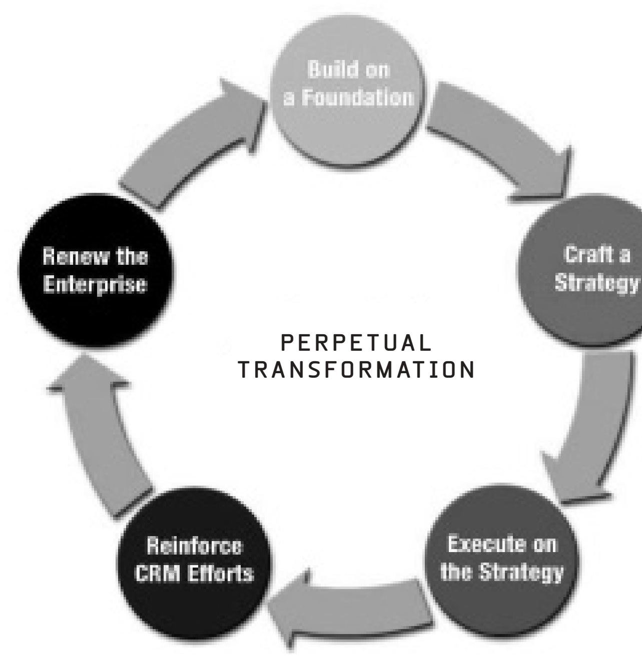
Working with the SAS Institute, a software firm that helps companies manage and analyze data, Eddie Bauer was able to gain a strong grasp of its customers' pro-files. As a result, the company now has effective ways of analyzing customer behavior and can make reliable projections based on that customer information. Data mining, or extracting useful and previously unknown knowledge from data, typically relates to direct-mail campaigns at Eddie Bauer – within the catalog and the retail sectors. Increasingly, however, such activities also focus on the Internet.

Eddie Bauer can track the way customers make their purchases – across all channels (catalog, online, phone, etc.) . "The multichannel picture that's created gives us a robust view," Egler says. "We can track customers regardless of channel." Eddie Bauer uses "predictive modeling" to decide who receives specialized mailings and catalogs. For example, each year Eddie Bauer features an outerwear special, and – thanks to data mining – it can determine which customers are most likely to buy. Data mining allows Eddie Bauer to determine seasonal buying habits as well. Then the company can identify people with similar characteristics who don't normally buy outerwear and target them with mailings to bring them into the store or encourage them to buy from the catalog.

> Eddie Bauer uses "predictive modeling" to decide who receives specialized mailings.

"Customer loyalty is critical to a company like Eddie Bauer," Egler adds. If a company has 100 customers, and three-fourths of them purchase items every year, the company might get 75 orders in year two and only about 56 orders the following year. That means that by the third year, 44 new customers would have to be recruited just to make up the difference. "That's a very expensive proposition," Egler says.

figure 4



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