

“Somebody else is talking to your customers - what are you going to do about it?”

The Customer Relationship Revolution

Produced by:

**[www.swiftcrm.net](http://www.swiftcrm.net)**  
*lifetime customer loyalty*

## Introduction

Customers are your most valuable assets

Today, customer relationship strategy is emerging as the most important component of corporate strategy. A well-executed customer relationship strategy can result in a number of quantitative benefits including greater ability to up-sell and cross-sell, improved customer retention and reduced cost of service.

In addition, successful companies will also develop referencable customers, foster customer forgiveness and create relationship equality, a situation whereby the customer and the company are both deriving high levels of value from the relationship. Together these quantitative and qualitative benefits contribute to shareholder value.

The keys to building an effective customer strategy include:

- **Identifying unique characteristics of each customer within the organisations' customer segment profile**
- **Modelling the current and potential value of each segment**
- **Creative pro-active strategies and operational plans, or business rules, which will support the desired experience for the customer, starting with the highest value customers**
- **Re-designing the organisation, processes, technology and reward system to implement the relationship strategies**

Based on Swift's unique skills, knowledge and experience, we have developed a methodology for overcoming the complexities of achieving this very important goal which we have called "enterprise".

Only those companies that grasp the extreme complexity of enterprise customer relationship management have a chance to successfully implement a complete solution and derive the enormous benefits of turning enterprise customer relationship management into a core competency.

## **The Emergence of a Customer Relationship Strategy**

It may seem like other companies are gunning after your customers - this is because they are! Some primary factors that are driving companies to focus on customer relationship strategies as a key weapon for competitive differentiation and building shareholder value are:

- **More competitors**
- **Shorter product life cycles**
- **The explosion of new technologies and new distribution channels.**
- **Business crossover – e.g. banks have gone into the line of securities and investment, the lines of business have been blurred and it can be hard to know who your competitors are.**

The natural response to greater competitive pressure has been to cut costs. The corporate fighting machine re-engineered during the early 90's and made expense/revenue ratios the point of attack.

In the cost cutting model, organisations could shave the expense side without growing the revenue side to achieve financial goals. This can only work short term. Eventually profitability objectives must be met by growing revenues and this is where CRM comes in.

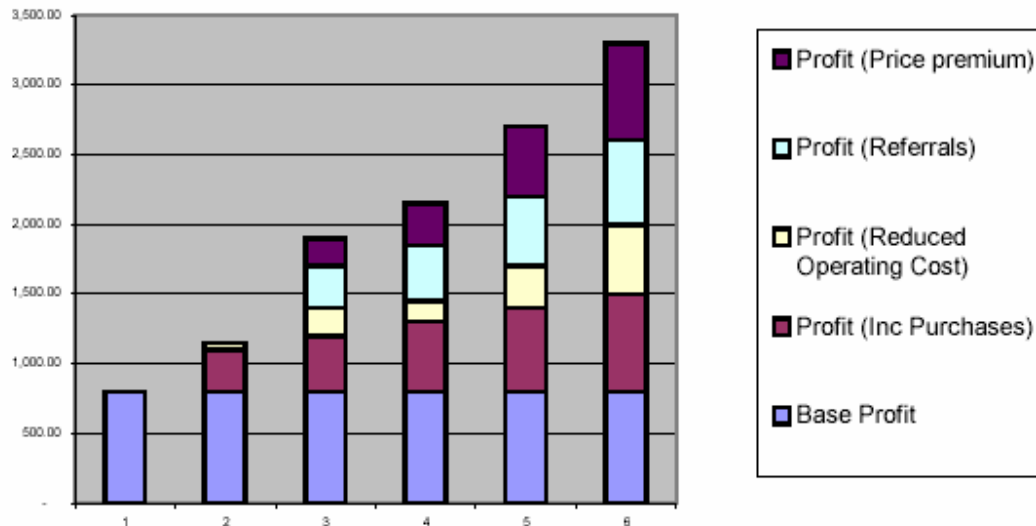
Companies have always focused on winning rather than simply focusing on retaining customers. Financial analysis of the cost of customer acquisition vs. the cost of retention has shown that, for most organisations where the cost of acquisition is high, keeping customers can be a more profitable strategy.

Our models have determined that that it can cost four to seven times more to replace a current customer than it does to keep an existing one. This puts more emphasis on strengthening the relationship dynamic between companies and their customers.

A study published in the Harvard Business Review by Reicheld & Sasser concluded:

*"Some companies can boost profits by almost 100% by retaining just 5% more of their customers."*

The graph below depicts how investment in customer relationships can improve customer profitability over time. Increased purchases and referrals make significant contributions in total profitability.



Bad customer service carries a very high opportunity cost. In a study conducted by Ventura, Bob Tyrell, the chairman of the Henley Centre examined the cost of bad customer service using models of profitability.

The study concluded:

- **In a typical medium-sized company, bad customer service can result in lost revenues of £1.8 billion pounds over 5 years and millions in lost profits.**
- **Reducing customer service problems by one percentage point can increase profits by millions over 5 years.**
- **Eliminating all customer service problems could double profit growth over a 5 year period. There is undoubtedly a strong relationship between improved customer service, greater profitability, and an increasing share price.**

The resolution to the problem of bad customer service must recognise the whole relationship and not just the transaction at hand. If you want to keep your customers, you must know what it is that they want. Only once this has been established is it possible to give them good service.

## Why is there so much customer turnover anyway?

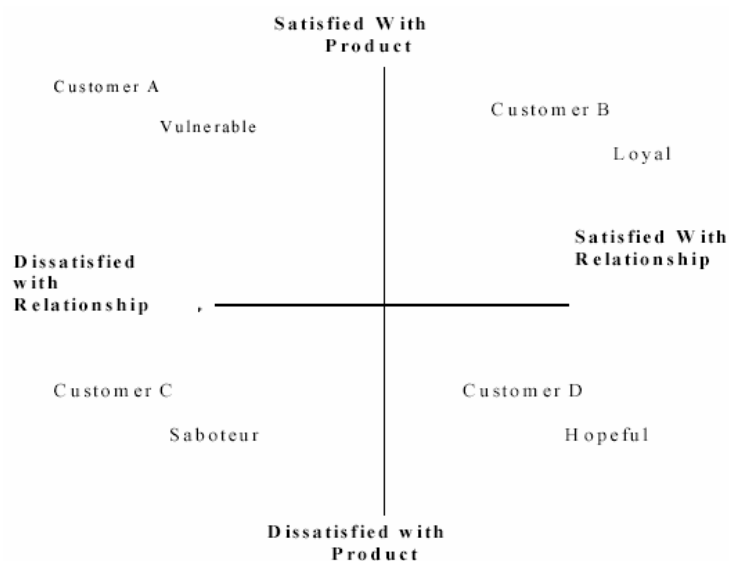
In most industries, product differentiation is disappearing. Technological innovations can be quickly copied. Customer ties to products are weaker because many substitutes are available. However, service differentiation is one area where it is possible to lock in a customer, and a competitive advantage.

Few companies have been able to seize the opportunity to cement their customer relationships. Industry analysts have reported that 70% of repeat purchases are made out of indifference, not out of loyalty. The implications are profound. A significant proportion may be vulnerable to competitive marketing programs, which underscores the need to strengthen customer loyalty.

Building loyalty begins by understanding that it is a behavioural issue, the combination of positive past experiences with product and services. In service industries, where there is no physical product, the process of requiring and receiving the service is the product. The experience individuals have as they interact with the company becomes a huge portion of the company's product.

Events during interactions have a major impact on creating loyalty. The following loyalty matrix shows a customer's relationship with a company affects product attitudes and influences future purchasing decisions.

Loyalty is a vastly complex subject. The following bi-dimensional map begins to illustrate how product-based and customer-based strategies in combination effect loyalty.



The Swift Matrix, an economic model developed by us, shows that turnover is greatest with customers who are satisfied with the relationship that they have with the company. By coupling relationship and product strategies, organisations can effectively create customer loyalty.

Customer A was satisfied with the product purchased, but dissatisfied with his relationship with the company. This customer type is vulnerable to switching. If a company can deliver a quality product, the reward should be repeat, or increased business, not fear of loss of business.

Customer B is the type of customer every company desires: Very satisfied with the product and the relationship with the company. The company can count on his/ her repeat business, and will most likely benefit from referral business via positive word of mouth.

Customer C is the type of customer that nobody wants the misfortune of coming across - a saboteur to the organisation. A bad experience with the product coupled to a bad relationship with the company, will guarantee that he/she will never buy from the company again. This category of customer can, through word of mouth, discourage potential customers from ever interacting with the company.

Customer D was not satisfied with the product, but is hopeful that the next purchase will be satisfactory. A good relationship creates a reservoir of good will upon which the customer is willing to give the company or product another chance.

As well as the quantitative benefits, there is an increasing recognition of the qualitative benefits of building relationship equity. Customers who have positive attitudes can become part of your sales force by referring others and by providing references. Relationship equity also plays a significant role in customer forgiveness. If problems do arise with a product or service, a customer is more willing to excuse the problem as an isolated event and continue the business relationship.

It may be overwhelming for a company with thousands, even millions of customers to realistically implement a customer relationship building initiative across their entire customer base.

The key to success is selectivity and the availability of technology such as data warehousing and data mining that make it possible to creatively segment customers and understand the value and potential nuances of each group and each individual.

Companies need to identify their most profitable customers. Organisations know who their largest customers are but no company has a systematic way of valuing or scoring customers in terms of their economic value.

The concept of value is defined differently across companies, but in general there are some common dimensions.

- **Long-term value (Net present value of lifelong purchases)**
- **Sphere of influence (Ability to generate positive word-of-mouth or referrals.)**
- **Growth potential**
- **Profitability**
- **History**
- **Life events, etc.**

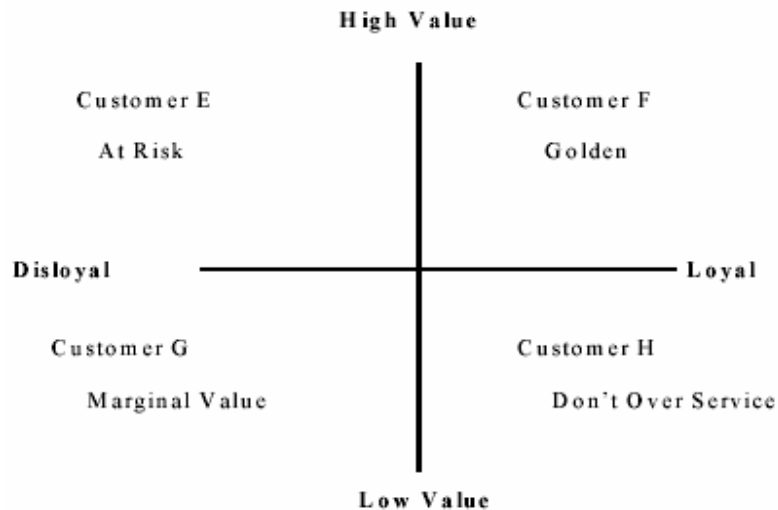
By identifying customers in terms of their value, a company can begin to think how to deploy revenues to nurture, cultivate and grow the most important customer relationships. Customer value takes into account a complete analysis of a customer.

Consider the following:

*A CEO of a major corporation has just purchased a new entry-level PC for her son. Having experienced a set up problem, she calls a computer manufacturers help desk on a Saturday. As a caller who has purchased a low-profit entry-level PC, she is kept on hold, transferred to three different departments and informed that she would need to call back during normal business hours. Who would blame her for cancelling her company's multi-million dollar contract with the computer manufacturer?*

The analysis becomes enlightening when customer value is overlaid against customer loyalty because it clarifies where service efforts can be best focused. It points to an area where organisations can begin to explore the potential of relationship equity. By combining the notions of customer value with Customer Loyalty, it is possible to enhance relationship equity, leading to greater customer referencability and customer forgiveness. Also, it lays the foundation for a market segment where it is easier to introduce new products and services.

## Relationship Equity Matrix



*Customer E* - a group that deserves the greatest amount of attention. The company is at risk of losing profitable, influential customers.

*Customer F* - companies must pay the greatest attention to this group as a way of expressing appreciation for their ongoing business and recognising their importance.

*Customer G* - a group without much long-term potential. If they choose to switch the economic loss is minimal.

*Customer H* - can be over-serviced.

Companies can control how they interact with their customers and build relationships. Relationship building transcends traditional customer service, which is primarily a reactive process. True, it is a good thing to be able to respond appropriately when a customer calls with a request but companies can do much more than react.

At the heart of any enhanced customer relationship strategy is four fundamental steps:

1. **Identifying unique characteristics of each customer within a given customer segment.**
2. **Modelling the current and potential value of each segment.**

3. **Starting with the highest value segment, creating pro-active strategies and operational plans or business rules which will be followed.**
4. **Redesigning the organisation, process, technology and reward systems necessary for implementing the relationship strategies.**

## **The Complexities of Enterprise Customer Management**

Before any company can begin to plan an enhanced customer relationship management system, they must understand the complex issues which must be addressed along with the need to build a strategy at enterprise level. There are many questions that must be addressed. Part of the challenge is to ask the right questions.

It is common for customers to work with multiple business units of the same company. This often means using different channels of contact, sometimes crossing different cultures.

Modelling customer value is another complicated issue. Current direct economic contributions can be measured. However, forecasting future revenues and quantifying the value of a customer's ability to refer business or serve as a reference is not as clear.

Once the customer value model is developed, what information systems are needed to help you quickly recognise a high value customer?

The adoption of technology creates interesting challenges. Technology has been looked at as a possible lifesaver, even as the silver bullet for improving productivity and profitability. However, the reality of the ongoing emergence of newer technologies has added to the complexity of the business environment. Where do the new technologies leave existing legacy systems? How can current information technology infrastructure be leveraged in any new customer relationship management initiative?

Technology has also created another set of complexities, which must be addressed; the proliferation of access methods that customers use to interact with companies. Once interactions were face to face, however now, with the wide spread use of call centres, interactive voice response and the Internet, there has been a fragmentation of controls on customer relationships. Although customers can come to your company in many different ways, they do not want, or expect, different responses from those different access methods. Customers want a common and coordinated response each time they interact with a company.

There is also the challenge of data complexity. Companies have excessive amounts of data housed throughout the organisation, which is usually not

organized or usable. Even in organisations, which have implemented data warehousing solutions, finding and accessing relevant customer information in a timely manner is not a simple task.

How does a company recognise a customer's unique attributes so that they can be accommodated?

What about articulated needs? Customers rarely express what they really want or need. Yet, enhanced service offerings can be deduced by observing customer behaviour. For example, a customer makes an end of the month request for an account balance, then logs onto the web site to check interest rates on different investment alternatives. This customer's behaviour indicates an unarticulated need for investment counselling.

### **Which business events are the sources of friction?**

Solution delivery inevitably involves organizational changes. Hierarchical organisations focus on efficiency objectives. Yet, achieving customer relationship goals may require actions that run counter to efficiency metrics. (The length of a phone call may ensure efficiency but may or may not have any relationship to problem resolution).

Operations and processes need to be re-thought. Marketing may identify a specific service, which will appeal to high value customers. But the solution may greatly affect the IT and Accounting Departments.

How far is the organisation willing to go to be flexible and move decision-making closer to the customer? This raises many issues for whoever controls decision-making in the organisation.

### **Defining the Goals of a Relationship Strategy**

Enterprise Customer Management addresses how an organisation will transform the experience that a customer has with the organisation into customer loyalty. To accomplish this, the enterprise needs to synchronise the actions of different business units, support operations, channels of customer interaction, products, support functions and the overall management of the customer relationship.

Many past customer service initiatives have focused on improving transactional efficiency, i.e. answering the phone faster. Even if this goal is reached, it is not necessarily the best way to deal with your customers. Today, technology has advanced the ability to create a more intimate relationship with many customers. Data warehousing and data mining techniques can help analysts gain insights into a customer's value and how to appeal to their individuality.

The business case will uncover opportunities for revenue creation and cost reduction. Revenue drivers include:

- **Up-sell potential-incremental revenues from selling upgraded, higher margin services to a customer segment**
- **Cross-selling potential-incremental revenue opportunities by selling new products or services to a customer segment**
- **New customers - the ability to attract additional customers as a result of being able to deliver a more personalised level of service.**
- **Customer retention: the ability to sell products or services to customers that otherwise would have defected to competitors; understand what actions can reduce the defection rate.**
- **Reduced cost of service: as processes and business rules change, costs can be reduced in many areas including order entry, distribution and customer enquiry handling - even bad debt may be reduced.**
- **Reduced channel costs: as a company offers customers more contact methods, such as Internet ordering access, direct sales costs can be reduced.**

In addition to these economic drivers, there are intangible, non-economic drivers, which make a significant contribution:

Relationship equity: a loyal customer is an excellent referral source and can serve as a vital reference; a loyal customer is also willing to forgive an event and stay with the company over time.

Long-term reputation: the PIMS study has shown that a dissatisfied customer will tell between 7 and 10 people; loyal customers are positive influences on company and brand image.

A solution prototype can be built based on the agreed business case with the expressed purpose of creating a new customer experience.

The prototype will contain:

- **How resources will be connected.**
- **What data is required.**

- **Establishes the business rules that will be followed.**
- **Coordinates actions across all contact channels.**
- **Defines how channels will be used to serve and acquire customer segments.**

Organisations are beginning to acquire customers and maintain relationships based on the value of the relationship. Sales force compensation is being determined by how effectively each person achieves their potential, not just their production.

### **Determining what belongs in the solution is complicated**

Swift has developed a methodology for alleviating the complexities of creating an effective enterprise customer management solution. Our methodology provides structured approach for clarifying the issues that must be addressed, reducing the complexity and risks of building an effective solution and compressing the time required to implement a new enterprise customer management system.

Our methodology is extremely valuable for solving highly complex problems of enterprise customer management because it provides a repeatable, proven process with clearly defined tasks that lead to successful project completion. It keeps the project on course, and clearly shows the route that should be followed.

But with all ECM solutions, the actual road taken to an optimum solution varies from client to client. Therefore, the ECM methodology has been structured to cater for the different industries, products, functions and business issues of each client.

The first step in any journey is to understand where you are relative to where you want to go, and then decide how to get there. All ECM projects begin with an assessment, designed to achieve these objectives. The assessment allows Swift to understand the unique nature of a client's situation and to adapt its approach accordingly.

The assessment phase helps determine the current environment, processes, technology and organisation readiness for transformation.

A financial feasibility study, which is also part of the assessment, helps quantify the value and return on investment derived from the operationalising of different service differentials required by, and applied to, individual customer segments.

The outcome is a game plan detailing a client's ECM readiness; future vision and goals along with a definition of project phrases, quick win opportunities and tactical considerations.

A joint Client/Swift team defines customer Strategy and ECM Vision. As with assessment, the content and plan for this phase is dependent upon the client's unique requirements.

The objective is to define an ECM vision and Architecture. The four initial components that need to be balanced by each client's individual needs are:

- **Customer Strategy**
- **Business Case**
- **Business Process Redesign**
- **Benchmarking**

As part of this process, the high-level technical and organisational architectures are defined.

The business case establishes the who, what, why, when, where and how. It relates the changes in business processes, system functionality and organisation to the:

- **Benefits they facilitate**
- **Cost it takes to develop and implement**
- **Timeframe it takes to realise**

The business case quantifies the benefits, costs and returns and sets up a realisation program to achieve the benefits and to control the costs.

A joint consultant and client team based approach is utilised in the formulation of any new ECM Architecture. Based on the client's unique requirements, the team will work to create a Vision and Architecture, which includes specific definitions for involving the processes, operations, technology, environment and behavioural components for the solution. It defines how the organization can evolve business processes to support the ECM Vision and Strategy.

The Swift team works closely with the client's management team through the entire project, assessing change readiness, preparing the change management program, planning and conducting workshops, employee feedback sessions and other change management techniques to enable a smooth transition to the new business model.

Swift ensure a constant communication process between all project staff for consistent development across all proficiencies.

### **Account and Project Management**

A quality control procedure is maintained and provides a feedback mechanism for client management and project staff. This ensures continuous improvement in the CRM solution.

### **Metrics and Measurement**

Based on the benchmarks and performance indicators set during the strategy and vision phase, a constant check can be made on the progress of the project towards the goals and objectives of the business. At each stage of the project, these indicators can be used to ensure that the focus is maintained and any changes can be made early in the implementation, mitigating potentially serious issues at a later stage.

Additionally, these measures are used to demonstrate the value and progress of the CRM solution to client management, which in turn facilitates continued evolution in project quality, knowledge and strategy.

### **Extended Support**

Finally, on completion of the project, Swift offers extended service support. This service utilises Swift's highly experienced staff with specialist operational and technical staff in the maintenance and management of newly implemented CRM solutions. This is crucial in the transfer of knowledge of these typically complex systems and operational management practices, and demonstrates our combined true end-to-end solution capabilities. That we provide all the support services necessary for the smooth running of the project thereafter will always remain an enormous benefit for clients. These facilities include:

- **Call Handling Centre. With 250 permanent manned stations rising to in excess of 400 at peak times with overspill provision.**

- **IT Department. 40 staff permanently dedicated to delivering individual client solutions and crisis management, utilizing global best practices across all business as well as specifically within CRM solution providers.**
- **In house mailing centre. One of the largest in the UK handling in excess of 250 million items per annum. The 14th largest in the UK including the Post Office's own.**
- **Fulfilment centre. Handling millions of items for the World's most prolific users, the link between micro customer profiles and pick and place inserts for mailings is acutely apparent. That it all be achieved on one site delivers a unique client service.**
- **Internet product fulfilment. Extending the mailings fulfilment through a sister site and an integral part of the organisation Dataforce provide a stock holding facility predominantly for Internet order fulfilment where speed of reaction is ever more apparent.**

## Conclusion

Because of the importance of enhancing customer relationships, getting it right from the start is imperative. The business case for focusing on customer retention vs. customer acquisition is compelling. It is almost always a more profitable strategy given the high cost of customer acquisition and high turnover rates. A company's ability to increase customer loyalty directly relates to the experience customers have each time they interact with the company.

Buying behaviours are influenced by the relationships individuals have with the companies that they buy from. Even bad product experience can be overcome if the bond between customer and company is strong.

Recognising that not all customers are equal and that some deserve to be treated differently is the key. The theory is that if you recognise how individual customers wish to be treated and have the information and means to deliver the appropriate responses; you will have a loyal customer today and tomorrow. Delivering personalised forms of service can be the ultimately competitive differentiator of business, creating a relationship so strong that repeat business, cross selling, and up selling can be optimised.

There is a simple formula for strengthening customer relationships:

- **Discover what is unique about each customer.**
- **Identify the business situation.**
- **Determine and make the appropriate response and follow through.**

However, there are many complexities involved in conceiving and implementing a successful customer management solution. First, the solution must be made from the enterprise perspective. Customers have varying kinds of interactions with the different business units. Identifying what is unique about each customer is no simple feat.

Aligning the technology, operations and processes to support a solution is a significant endeavour requiring total commitment from senior management.

Process and organisational redesign are also necessary to bring the company closer to the customer. Change Management Services becomes vital for providing the knowledge and skills necessary to enable people to perform differently.

To address these complexities has taken Swift many years to achieve and requires continuous attention to our methodology. It is now a low risk, rapid and reliable way to build end-to-end customer management solutions. We can help companies identify where revenues and profit opportunities lie, identify leverage-able information required for discovering what is unique about each customer, and develop the rules that will apply in different business situations.

Swift can help you create the relationships that make your customers feel that nobody does it better than you. More importantly, no one cares about his or her customers more than you.

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