

The Critical Phase of the CRM Lifecycle

*Without CRM analytics, your customer won't
even know you're there*

by Julie Hahnke
IDTech



Contents

The CRM Lifecycle	2
CRM Analytics Success: Customer Profiling	3
CRM Analytics Success: Call Center Improvement	6
CRM Analytics Success: e-Business Effectiveness	9
What Does a Balanced CRM Solution Require?	12
Conclusion	13

Customer relationship management (CRM) is one of the fastest-growing business technology initiatives since the Web. Each year, companies pour millions of dollars into CRM application suites and front office automation systems. CRM vendors such as Siebel, Vantive, Onyx and Clarify are growing at rates of 30–70 percent annually from the corporate dollars flowing into CRM projects. That growth rate will only climb as businesses increasingly recognize that in order to achieve sustainable competitive advantage, they must first understand and then delight their customers.

Yet despite widespread recognition of the need, the willingness to fund a solution and the urgency driving CRM projects at a relentless pace, businesses are still coming up short. At the end of the process and several million dollars later, companies are no more customer facing than when they started. And in this winner-take-all playing field, the winners are not standing still.

The problem doesn't lie with the imperative—understanding your customers and strengthening your relationships with them is essential in today's demand-driven economy. Your customers aren't just buying your products; they are buying their relationship with you. Nor does the fault lie with front office automation suites. Integrated sales force automation, contact management, marketing automation and call center integration provide unprecedented productivity and shared communications with front office departments. These applications enable one shared, consistent view of front office activities and customer data, much as Enterprise Resource Planning (ERP) systems have integrated back-office activities and centralized human resources, manufacturing and financial data.

The failure of CRM initiatives to even affect, let alone help manage, a business's relationships with its customers is a problem of incompleteness. Integrating sales, marketing and customer service activities is the first stage in the CRM lifecycle. While it is necessary, it is not sufficient. Without CRM analytics and the strategic process refinement that they drive, a company can certainly enjoy a higher level of integration and productivity, but its customers will still be out in the cold—strangers to it.

Without CRM analytics, your customers remain a mystery, and you might as well read tea leaves to try to figure out how to please them. Conversely, the well-considered analysis of customer behavior and causal influences can take the guesswork out of business strategy.

“META Group believes that a CRM initiative lacking the analytical component will fail to provide a panoramic customer view long-term.

“In 100 percent of the CRM projects we’ve seen that lack CRM analysis, there was a total and complete inability to effect change in the customer relationship and improve the return on the customer relationship.”

*Elizabeth Shahnam,
Senior Program
Director,
Application Delivery
Strategies,
META Group*

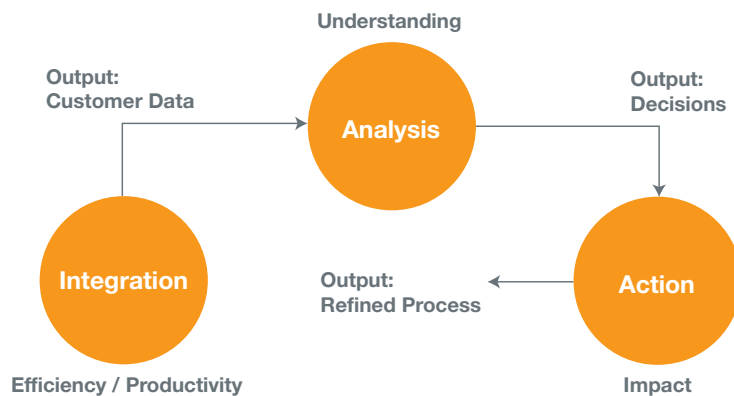
The CRM Lifecycle: Phase I - Integration provides efficiency and productivity, and outputs centralized customer data. Phase II - Analysis provides a deeper understanding of customer behavior and needs, and outputs strategic business decisions. Phase III - Action provides positive impact and strengthening of customer relationships, and outputs a refined business process.

The CRM Lifecycle

The CRM lifecycle begins with the integration of front office systems and the centralization of customer-related data. This is the Integration phase and its benefits include improved front office efficiency and productivity. The output from this phase is a centralized source of all relevant customer data. Reporting is typically summary-level only, showing what activities have occurred but failing to explain their causes or impact. This is, unfortunately, as far as most CRM initiatives get. While this phase provides business value, by itself it doesn't improve your understanding of your customers, nor strengthen your relationships with them.

The second phase, Analysis, is the most critical to CRM success. CRM analytics enable the effective management of customer relationships. Only through analysis of customer data can you begin to understand behaviors, identify buying patterns and trends, and discover causal relationships. Together, these help more accurately model and predict future customer satisfaction and behavior, and lay a quantified foundation for strategic decision-making.

The final phase, Action, is where the strategic decisions are carried out. Business processes and organizational structures are refined based on the improved customer understanding gained through analysis. Business and financial planning is revised and integrated across all customer-facing activities, including sales, marketing and customer service. This final phase closes the CRM loop, and allows organizations to cash in on the valuable insights gained through analysis.



Without CRM analytics, your customers remain a mystery, and you might as well read tea leaves to try to figure out how to please them. Conversely, the well-considered analysis of customer behavior and causal influences can take the guesswork out of business strategy. Your understanding of your customers will no longer be based on thin anecdotal evidence. Rather, solid quantifiable conclusions will guide business process refinements that will delight your customers and improve the lifetime value of your relationships with them.

In the next three sections of this paper, the CRM lifecycle is applied to three common business problems: customer profiling, call center improvement and e-business effectiveness. Each scenario demonstrates how essential CRM analytics are to customer relationship success.

CRM Analytics Success: Customer Profiling

The Business Problem

A major cellular phone company is ready to test market a new service that will integrate voice and e-mail on cellular phones. The company is excited, not only because this service will differentiate it from its competition, but also because the test will enable e-mail for individuals who don't own computers or lack Internet access.

The company is particularly interested in how this campaign affects customer profitability and retention within the test population. It specifically wants to know if the new service will result in more airtime and the sale of additional services, and if it will decrease the rate of customer churn.

For the results of this market test to be meaningful, the test population will need to be chosen carefully. The first question that must be answered is, "Who is likely to use this service?" It would be unproductive to test the new service on a group with little or no interest in e-mail. Second, test customers should be selected based on profitability and retention scores. It would be more meaningful to measure the response of profitable customers versus the less profitable. Similarly, it wouldn't be worthwhile to test customers with low retention scores, as they would be likely to defect regardless of the service offered.

What is Customer Profiling?

Sales and marketing analysis involves many techniques that analyze different aspects of customer populations. No single technique gives a composite view of the customers, their behaviors and their descriptive characteristics. Customer profiling is a collective set of analysis that best describes customers. It includes:

Segmentation—The subdivision of customer populations into finer groups. These groups are then targeted with specific marketing and advertising, based on their characteristics.

Customer Profitability—The measurement and ranking of customers based on their profitability—typically measured by accumulating customer revenue and assigning direct product costs, indirect customer acquisition costs and operational costs.

Customer Retention—

The measurement of how likely a customer is to remain loyal to your company. Customer churn is the lack of retention.

Customer Clustering—

The identification of common characteristics within a customer segment that are associated with a measured behavior.

Response Analysis—

The measurement of a marketing campaign's effectiveness within a specific customer segment.

Finally, the company hopes to use the results of this market test to fine-tune its pricing strategy for the new service. The final price structure and bundling options will be based on the responses of different population segments to different offers, the product profitability of each offer, the impact on customer profitability and retention, and customer demand. Integrated analysis ensures that the impact of these pricing adjustments on sales forecasts and margins can be accurately predicted. By correctly balancing each of these components, the company can best lower marketing program costs, increase profitability, and increase customer loyalty and satisfaction.

The Solution: Required Integration

- Profitability analysis requires current and historical customer transaction details, integrated with product details and financial records. Customer records across multiple business divisions need to be linked to show an aggregate customer profitability score. By deriving and assigning direct and indirect costs to customers, a customer Profit and Loss Statement can be calculated. When modeled forward in time, it is possible to calculate a total lifetime P&L for each customer. While this derived profitability data typically does not exist in financial systems at the customer level, it is an extremely valuable and distinguishing benefit of CRM analytics.
- Customer profiling requires as broad a range of data as possible for each customer. Sales force records, including customer profiles and contact management details, need to be integrated with each customer's transaction history. External demographic and psychographic data may also be required. In addition, external data on customer Web, internet service provider (ISP) and e-mail use is necessary to identify customers who currently use e-mail.
- Integrated sales and marketing automation systems that access customer data help target customers who are more likely to respond to particular campaigns. By targeting the test campaign to promising segments and measuring the specific responses of customers within those segments, the company can fine-tune its sales and marketing strategies before the new service is formally launched.

The Solution: Required Analysis

The solution of this business problem requires a number of different types of analysis, including customer profitability, retention, segmentation and customer clustering, and

promotional and pricing analysis. Each of these is not separate and distinct, but rather offers a different perspective of the customers and their value to the business. When viewed together, the aggregated results provide a whole picture of each customer.

Customer profitability analysis usually begins with a ranking of customers relative to their percent contribution to total revenue. By analyzing profitability across a number of business dimensions—typically including products, time, geography, demographics and channel—the organization can uncover the factors that most influence profitability.

Retention analysis is particularly important to companies in the telecommunications industry, as customer churn is very high and customer acquisition programs are considerably more expensive per customer than retention programs.

Segmentation defines how the test population is broken down for more targeted marketing and product offerings. Finer segmentation allows more personalized marketing. Multidimensional analysis is an extremely effective segmentation technique, since each grouping of dimensional values essentially represents a unique segment—for instance, households in a particular region with incomes of more than \$100,000, two or more children and two cars.

In addition, statistical regression analysis and data mining clustering algorithms help predict how particular segments may respond to a promotion based on past promotional behavior. This is known as promotional analysis, and is an effective method of fine-tuning campaign strategy.

The Solution: Required Business Actions

The initial segmentation of customers based on their profitability and predicted loyalty scores provides a good ruler with which to measure the results of this test-market campaign.

The company is looking closely for customer segments that can be promoted upward, for profitability or for loyalty, in response to this campaign. Conversely, it wants to identify any segments that result in worse-than-average profitability and loyalty scores.

Once these segments are identified, statistical regression analysis and data mining clustering algorithms should be applied. These help the company identify any common customer characteristics within each population that are believed to impact the profitability and loyalty scores.

“CRM analysis isn’t about making companies more productive, although that’s often a side benefit…”

“...Its real value is as a key enabler for broad strategy change.”

*Michael Emerson,
Vice President
of Marketing,
Recognition Systems*

“Complex customer analysis is essential to understanding the effects of all the various attributes that can contribute to customer behavior.”

*Dan Lackner,
Chief Operating
Officer,
Paragren
Technologies*

Call Center Terminology

Outbound—A call center that makes outgoing calls (e.g., for telemarketing).

Inbound—A call center that receives incoming calls (e.g., customer service).

CSR—Customer service representative.

ACD—Automatic call distribution. A system that can route incoming calls to specific individuals or CSR groups based on call characteristics.

CTI—Computer telephony integration. The ability to integrate voice call information with business applications. CTI systems frequently use “screen pops” or application pop-up windows to deliver customer-specific application data, based on the caller ID number of the incoming phone call.

IVR—Interactive voice response. A system that handles routine customer servicing through a series of interactive prerecorded menus. IVRs are customer self-service systems that help reduce CSR labor expenses.

Service Bureau—A company that provides outsourced call center services, either full-time or in call overflow situations.

The segments with the greatest positive response to the campaign represent those customer groups who best respond to the new product. By identifying common characteristics, similar customers from the much larger population of total customers can be identified. Customized marketing and advertising can then be tailored to these various customer groups when the service is finally offered.

Pricing and bundling options can also be balanced for these targeted customer groups to make the offering more attractive without undercutting profitability.

CRM Analytics Success: Call Center Improvement

The Business Problem

An outbound call center that provides customer service support to commercial banking clients wants to expand its services. The bank wants to take advantage of cross-selling and up-selling opportunities that arise during customer service calls. Studies indicate that customers increasingly want “one-stop shopping,” and the current call center’s inability to sell products and services is leaving money on the table.

However, implementing a service and sales program would increase the call center’s operational expenses. Extensive sales and product training would be required for customer service representatives (CSRs), and average call lengths would generally increase as CSRs spent more time with each customer. Greater average call lengths would require even more CSRs in order to maintain current service levels. Accordingly, the bank has decided to implement the selective Service + Sales program.

The bank knows that its premium customers—its top 15 percent most profitable customers—generate approximately 75 percent of profits. Accordingly, it has chosen to selectively route calls from these premium customers to a specially trained team of CSRs that provides Service + Sales support. All other customers will route to the regular CSR team and receive customer service support as they always have.

This plan promises a higher level of service and relationship building for premium customers, while taking advantage of opportunities to cross-sell and up-sell within this very profitable customer segment. Less profitable customers, who are less likely to respond to cross-sell and up-sell incentives, will continue to receive quality customer service, without an increase in service delivery costs.

The Solution: Required Integration

- A computer telephony integration (CTI) system integrated with customer data determines whether the incoming call is from a premium or regular customer, based on caller ID.
- An integrated automatic call distribution (ACD) system routes the call to the appropriate CSR, based on customer type.
- A complete view of the customer's sales history and service request history is presented to the CSRs via screen pops as they receive the call.
- Customer profiling suggests possible cross-sell and up-sell products that have sold successfully to other customers with similar characteristics.
- Integrated scripting utilities—in which questions are dynamically generated based on answers to previous questions—guide the CSRs through the call.

The Solution: Required Analysis

The key to solving this call center problem is knowing whether a potential solution is cost-effective. If a Service + Sales support offering to premium customers fails to generate sufficient additional revenue to offset the added expense of the program, then the solution is not a success.

A number of measures need to be carefully monitored, initially to determine the effectiveness of the solution, and on an ongoing basis to ensure adequate call center quality and profitability over time. Standard call center quality measures typically focus on service level, but other important quality measures include: average call length, number of rings until answer, average hold time, abandon rate, first call/first handle and average response time.

These measures must be analyzed across a number of different call center dimensions to help identify causal factors for both high- and low-quality trends. For instance, an analysis of average hold times across such dimensions as time of day, day of week, customer service representative, customer type and product/service class might indicate disproportionate hold times for premium customers on Friday afternoons. Further research might show that after normal branch hours on Fridays, premium customers tend to call with more complex requests. These take longer to resolve, tying up CSRs and increasing hold times for subsequent calls.

Call center profitability analysis would measure the increase of sales revenue through the Service + Sales program, as well as the degree of cross-selling and up-selling. It would also

Service Level—Answering X percent of calls within Y seconds. A common average is 80/20—80 percent of calls within 20 seconds. This is based on average call time, call volume and the number of CSRs.

Average Abandonment Time—The average time, in seconds, a caller waited before abandoning a call.

Percent Abandonment—The percentage of all calls received by the call center that are abandoned before reaching a CSR.

Average Handle Time—The average of the sums of talk time and after-call work time.

Calls per Hour—The average number of calls each agent handles per hour. It is the total number of calls handled per agent in one working shift divided by the number of hours in the shift.

Percent Agent Utilization—The percentage of an agent's time spent working with customers. It is the total talk time and hold time, in minutes, for an agent's calls in a shift divided by the length of the shift in minutes.

“The real payback from the customer call center is that it allows us to get to know more about the customer...”

“...Analysis is essential in order to understand what [the customer] is trying to tell us...”

“...Decision-makers are really hungry for quantifiable analysis. And without it, quite frankly, they don't tend to listen to the customer.”

*Dr. Jon Anton,
Purdue University
Center for Customer
Driven Quality*

be important to measure program costs (due to CSR staffing, training and increased call lengths) relative to increased sales revenue to determine the ongoing profitability of the program.

The Solution: Required Business Actions

The bank should compare call center metrics against both internal and external quality benchmarks over time. Internal benchmarks measure call center quality improvement, while external benchmarks score the bank's call center quality relative to peer groups and competitors. In keeping with the performance management adage, “You can't manage what you can't measure,” this strategy provides the bank with a quantifiable view of its Service + Sales program success.

Benchmark statistics provide a baseline for comparative analysis; they focus improvement initiatives on customer interaction activities. Good benchmark statistics, however, do not guarantee that a customer is happy. The bank needs to develop a method of measuring customer satisfaction across different customer segments. This measurement will be more subjective and less easily quantified, but is critical to strengthening customer relationships.

CSRs moving toward a Service + Sales role need intensive coaching and management support as they learn how to uncover customer needs. They also need to understand bank products and services, and the potential value those hold for different customer segments. An incentive program should be developed to recognize and reward successful CSRs, based on customer satisfaction, call quality and attainment of sales goals. Best practice reviews of successful CSRs and CSR groups would help others to learn and improve.

The bank needs to evaluate the profitability of the program relative to the increase in customer satisfaction over a period of time. Depending on the results, it may choose to extend the program downwards to include more of the less profitable customers, or further upwards to serve fewer, more profitable customers. This allows the bank to balance profitability and satisfaction across the most appropriate customer population.

CRM Analytics Success: e-Business Effectiveness

The Business Problem

A leading department store chain has recently introduced an online shopping mall that allows customers to purchase the same products via its Web site that are available in its stores. This e-commerce site has enjoyed early success, and during its first six months of operation has contributed seven percent to total revenues.

Corporate headquarters is ecstatic, and is hoping e-business revenues will grow to reach 20 percent of total revenue within the first two years. However, management doesn't really understand who's visiting its Web site and what's motivating their behavior to feel confident in revenue growth predictions.

The company would like to better understand the composition and behavior of its Web customers. Are purchases being made by existing store customers who prefer the Web as a shopping venue? This would shift revenue from one channel to another, without increasing overall revenue. If that's the case, then under what conditions, or for what products, do these customers purchase over the Web versus from the store?

Do some existing customers browse on the Web and subsequently purchase at stores within several days of their Web site visit? This may indicate that these customers prefer online product selection, but still choose to purchase in person.

What Web-based advertising is most effective for what product purchases among existing store customers and for new Web customers? Are there certain products that new Web-only customers tend to purchase? Is it possible to identify new Web site visitors who are likely to purchase, based on their clickstream behavior? What advertising would be most effective for them?

e-Business Terminology

Clickstream—The series of sequential Web page selections (usually via a mouse click) that Web visitors make before they arrive at a particular page or purchase a particular product. Clickstreams are extremely valuable and unique to the Web. Through no other channel can you see the exact sequence of events and choices that led a customer to a product.

Clickstream Data—Data collected via a clickstream, which is very granular and can include the number of hits on a server and the sequence of links or areas on a Web page selected by the visitor. The raw data is practically meaningless, and only reveals valuable information when analyzed in sequence at a summary level.

Cookies—Small text files stored on a Web visitor's personal computer that contain personal information entered into Web forms. This information can be retrieved upon subsequent visits and used to personalize the visitor's view of that site. It is also extremely valuable in identifying a visitor.

Content Personalization—The dynamic creation of banner ads and other Web content around the Web visitor's identified preferences.

The Solution: Required Integration

- When available, Web site cookie data and customer data should be integrated to identify Web site visitors by name.
- By integrating Web transaction records with store transaction records, Web site customers who are also store customers can be identified.
- Using clickstream data, the Web-based shopping behavior of existing store customers can be compared with shopping behavior through non-Web channels. Response rates to banner ads can also be compared with response rates to non-Web advertising.
- Web-based market basket analysis software (shopping cart analysis) can be applied to clickstream data to help identify the products that tend to sell together, and the products that may be left in a visitor's shopping cart if a visit is abandoned before purchase.

The Solution: Required Analysis

The first question to answer—and perhaps the most important—is whether the Web-based revenue is, in fact, new revenue, or whether it has simply shifted from the store channel to the Web channel. To determine this, Web customer data must be broken down by existing customers vs. new customers through all channels. While all new customers represent revenue growth, even existing customers can contribute to that growth if their total purchases through all channels increase over a period of time.

Total purchases of existing customers now buying online need to be analyzed by sales channel. This straightforward dimensional analysis—with customer class, channel, time and products as the basic dimensions—helps identify the preferred purchase venue of existing customers.

Store purchases of existing customers who have visited the Web site without making a purchase also need to be analyzed. Additional dimensions here would include clickstream detail associated with specific product information on the Web site. If there's a correlation between the referenced Web site product information and subsequent store purchases, it may indicate that the Web site can contribute to revenue growth in other channels.

Dimensional analysis can provide insight into the effectiveness of e-marketing campaigns—such as banner ads, direct e-mail campaigns, affiliate networks and search engines—and their correlation with specific product purchases among different classes of customers. In addition, this analysis can benefit from the application of statistical regression analysis and data mining techniques.

Predictive models can help identify Web site visitors who are most likely to purchase certain products based on their clickstream behavior. This information can be used to drive the specific content of e-marketing programs that are most likely to lead to purchases.

The Solution: Required Business Actions

Clickstream data becomes exponentially more useful when the Web visitor can be identified by name. This enables the integration of clickstream and customer data, providing a broader view of customer behavior and preferences. The company needs to develop a mechanism to capture Web visitor names and other descriptive data, as well as an incentive for Web visitors to provide that information.

If analysis indicates that multichannel customers follow predictable browsing, selection and purchase patterns, the company can alter its marketing strategies to appropriately give incentives to these customers. For example, if certain customers prefer to browse online but actually go to the store to purchase products, customers might be able to request via the Web site that a particular item be held at a given store location. This would ensure the item's availability when the customer goes to the store.

Advertising, incentives and product placement can be personalized and delivered through each customer's preferred channel. This degree of personalization makes the shopping experience more intimate and convenient for customers. The strengthened customer relationships, in turn, result in greater customer loyalty, lower customer acquisition costs and greater sustainable profits for the company.

“CRM analytics effectively get the customer into the board room...”

“...Rather than driving business strategy based on thin anecdotal evidence (i.e., this customer said this or that), strategy can now be based on quantifiable measures of customer behaviors and needs...”

*Larry Goldman,
Director,
Braun Consulting*

“... Analysis of your customers will drive corporate change from the inside out at the grassroots level...”

“...Learning who your customers are and what they want will disrupt your business process...”

“...But the disruption and the change will be fact-based. Your business can then align itself around what the customer wants.”

*Dan Graham,
Solutions Business
Executive,
IBM Global
Business Intelligence
Solutions*

What Does a Balanced CRM Solution Require?

Each of the three business problems presented could not be solved without the quantified understanding of customer needs and behaviors provided by CRM analytics. This understanding drove the business actions that closed the loop, strengthening customer relationships and each business's bottom line.

How can an organization ensure that it has a balanced CRM solution that will provide the customer insight necessary for survival? A short checklist identifies the key components required in a well-balanced CRM solution:

1. Integration—Customer data from all sources must be accessible and integrated across all channels and departments within the enterprise. Integrated reports show summary level customer activity but don't offer any explanation of cause or impact. Front office automation suites can provide effective integration, data access and reporting for many business activities and can be particularly effective in providing this integration. However, they are rarely sufficient and are usually only one of several integration mechanisms.

2. Analysis—Analysis provides the critical customer insight that results in the benefits promised by CRM. This analysis is usually dimensional in nature, which makes online analytical processing (OLAP) products particularly well-suited for a CRM analytics platform. Furthermore, they can be complemented with statistical and data mining tools that provide predictive modeling and forecasting.

3. Action—A CRM solution is only effective if the valuable lessons learned through CRM analytics are turned back onto the business process through action. Business process refinement and business planning revision close the CRM loop. Customer relationships can only be strengthened by using what has been learned about preferences and behaviors that will improve the customer's experiences with and perceptions of the business.

Conclusion

The key to sustainable competitive advantage in today's business markets is the customer. Companies must know who their customers are, which customer populations most directly drive their profits and what will keep these customers loyal and happy over time. Customers drive business success, and the winners on this playing field will be those organizations that most effectively and positively manage relationships with their customers.

Despite the millions of dollars invested to date in CRM systems, many companies are failing to impact these relationships at all. These businesses can observe customer activity, but they don't understand what's driving it or how to appropriately respond to it. Their CRM initiatives are incomplete and therefore ineffective.

CRM analytics move an organization beyond the obvious. They provide the understanding of customer behavior, interests and value, and enable the business process refinement and business planning revision that close the loop and touch the customer. CRM analytics enable the effective management of customer relationships. With a balanced CRM solution grounded on quantifiable analysis, not only will your customers know you're there, they'll value their relationship with you and make a point to bring their business to you, again and again.

With a balanced CRM solution grounded on quantifiable analysis, not only will your customers know you're there, they'll value their relationship with you and make a point to bring their business to you, again and again.

