

Know Thy Customer – From Customer Knowledge to Customer Insight

Relationships based on customer insight propel an organization from simply treating customers efficiently to treating them relative to their needs, preferences, and value potential. With customer insight, companies can leverage new opportunities to individualize the brand and offers, and create personalized interactions – which will keep the customer coming back. And through this insight, organizations will know how to better operationalize to meet these needs, as well as understand which customers are most valuable to the long-term viability of the business. What are the essentials of customer insight? How can companies make the leap toward becoming an insight-driven business?

In the film classic *Miracle on 34th Street*, a hired Santa catapults Macy's Department Store to fame and fortune by heeding the high expectations of holiday shoppers, culling insight from them, and shaping customer interactions accordingly. He understood the inherent pressures of holiday shoppers. If Macy's didn't carry a requested toy, the Santa referred adults to Gimbel's or other competitors who did. This goodwill gesture unwittingly transformed Macy's into a customer-driven culture long before its time. In the process, it wooed existing customers and won new customers while engendering brand loyalty.

Macy's Santa knew what his customers wanted. Information drawn from his exchanges with the children revealed the expectations of tots and adults during the holiday season. Macy's Santa wanted to make sure customers were happy, even if it meant sending them elsewhere to fulfill those expectations. Of course Macy's would have been a lot more profitable that Christmas season had it been able to tap into Santa's knowledge and stock the hot products in the first place.

A commitment to fulfilling customer needs – “being customer driven” is essential in today's

marketplace. While Macy's was committed to fulfilling customer needs, it lacked the ability to anticipate and meet those needs. For customer-driven companies to be effective, they must collect customer information, glean insight from it, and then apply what they learned.

Applied customer insight helps companies understand and anticipate customer expectations, and then tailor the customer experience to profitably deliver against these expectations. The real lesson from Macy's Santa is that a company can not truly be customer-driven without the benefit of customer insight.

Customer insight is an ongoing process that applies a unique, fact-based understanding of customer needs, expectations and value potential to personalize customer offers and experiences. By personalizing products, pricing, promotion and message content through appropriate channels, companies can optimize customer acquisition, development and retention. When customer insight is applied effectively, the results are powerful. For instance:

- A French energy retailer stemmed customer defections by anticipating service delivery problems and

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Mr. Nash is also an active author and thought leader in the area of CRM. Other papers authored by Mr. Nash include "eBusiness Strategies are Changing the Marketplace" and "Gaining an Edge and Keeping it with Customer Relationship Management." Mr. Nash obtained his BS and MBA in business, with a concentration in Management Information Systems, at the University of Minnesota.

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Case Studies

Astra Merck and Fingerhut are examples of companies that are applying customer insight to drive a personalized customer experience.

Astra Merck

As part of a broad Customer Relationship Management initiative, Astra Merck, the pharmaceutical marketer, created a customer knowledge base and a single view of the customer. This single view allowed Astra to understand what doctors and patients really needed. Astra employed customer insight to change its product positioning and the way it structured its sales force. As a result, the company's sales force was ranked in the industry's top 10 in value to physicians. What's more, sales of the company's main product, the Prilosec heartburn medicine, posted a strong 37 percent growth eight years after its release – long past a drug's typical sales peak. Not surprisingly, competitors have copied Astra Merck.

"I chuckle when other companies try to imitate Astra Merck," said Chief Executive Officer Matt Emmens. "There is no one answer. Our model may not make sense for a lot of companies. It depends on what you think is important."

Astra Merck's team culture and decision-making technology create enviable advantages that have brightened company prospects in a business world that rewards such flexibility.

Fingerhut

Fingerhut, one of the best companies at predicting customer behavior, has built customer insight competence over a period of decades. Selling more than 16,000 different brand name and private-label consumer products, Fingerhut Companies Inc. is one of the most profitable direct-to-consumer marketing outfits in the United States. "We're not a catalog marketer. We're direct response and there's a big difference," says Andy Johnson, senior vice president of marketing.

Fingerhut uses lifestyle/behavior marketing, value-based prospecting, and balances responsibilities across acquisition,



FIGURE 1.0 Companies collect customer information at a much faster rate than they apply it.

proactively recommending individualized relationship programs to address them. A six-month pilot of the program led to a 50 percent reduction in the customer defection rate and projected a \$30 million net profit increase.

- An automobile manufacturer employed customer insight to identify prospective buyers and then deliver individualized sales and marketing experiences. The program earned 30,000 purchase commitments prior to advertising, and saved \$800 in marketing expenditures per vehicle sale.
- Internet merchants like Amazon.com and CDNow analyze a customer's profile and buying habits and use recommendation engines to suggest complementary items. Many Internet merchants are even positioning themselves against bricks and mortar competitors based on their ability to know the customer as an individual and serve as a trusted advisor.

Knowledge is Power

Knowing the customer is paramount in today's marketplace where the customer has more options, greater flexibility and higher expectations. The power shift from seller to customer is forcing companies to treat each customer as an individual, both from a marketing and a service delivery

standpoint. Armed with customer insight, a company can understand individual customer expectations, preferences and value potential and use this knowledge to shape the customer relationship.

While traditional marketing skills focusing on brand continue to be important, they will need to encompass the "new world" that is virtual, multichannel and increasingly customer-driven. The one-time use of customer research to drive just strategic decisions needs to be replaced by a continuous, real-time use to drive both strategic and tactical decisions.

For instance, USAA Insurance has developed an intimate understanding of its customers' behaviors and the critical events in their lives. USAA uses this insight to drive its cross-selling efforts. Instead of barraging its customers with a constant stream of solicitations, USAA uses customer insight to drive a lifecycle marketing program that communicates a personalized marketing message when that message is believed to be more relevant. USAA increased its response rates dramatically. Because the marketing message is timely and tailored, customers see USAA's marketing activity as a service rather than a solicitation.

USAA is an example of a company that disseminates customer knowledge across

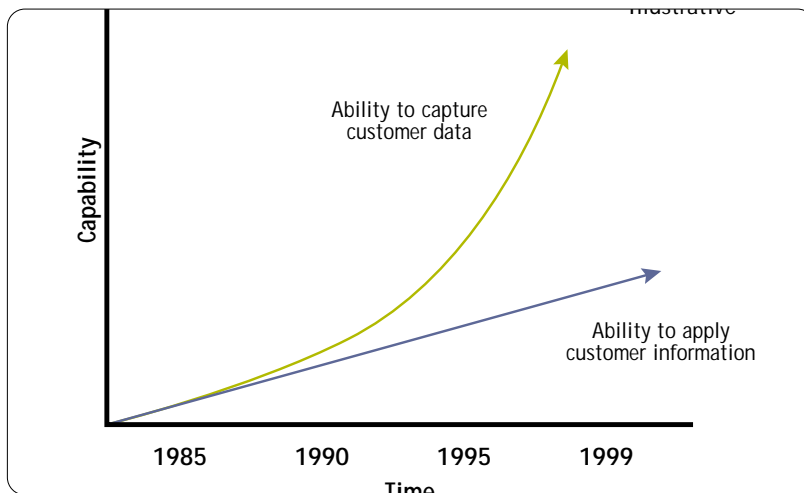


FIGURE 2.0 Customer insight capabilities

the organization and employs it in real time at multiple points of customer interaction. USAA is thriving because it anticipates individual customer needs and tailors its marketing messages and service delivery processes accordingly.

In a world where customers order off the Web, dial into VRUs, and zealously use their loyalty cards, companies are awash in customer information. The challenge is to use this data effectively. Companies are collecting customer information at a much faster rate than they are applying it (see Figure 1.0).

Furthermore, the technology capabilities at the point of customer interaction have improved dramatically as well. Today's technology enables companies to move from mass-producing one-size-fits-all customer relationships to relating to customers as individuals.

The advent of e-commerce and rapid evolution of database technology provides the means to collect volumes of customer information, while technology at the point of customer interaction makes it possible to tailor each customer relationship. Customer insight is a critical element of this dynamic; customer insight makes customer data useful by providing an understanding of how to profitably customize the relationship.

The Economist Intelligence Unit found that 83 percent of companies already have in place or are developing data warehouses.

Simply having a data warehouse and accessing customer data only brings a company to competitive parity. Competitive advantage will be gained based on the quality of the insight a company gleans from its warehouse and the ability of the company to apply that insight to add value to each customer experience.

Getting from Here to There

Leveraging knowledge to create a valuable customer experience is highly dependent on a tight integration of customer insight capabilities. There are three customer insight capabilities that create value: establishing a single view of the customer, generating insight and applying insight to personalize the customer experience (see Figure 2.0).

Capability One: Create a One-Customer View

Companies must be selective about what customer data to collect, how to collect it, maintain and access it, and how to leverage it to anticipate customer behavior. Customer insight flows from the underlying customer data, which may include transactions, preferences, service history, and demographic information. The first step in generating insight is to transform customer data into a customer knowledge base. A customer knowledge base provides a mechanism for developing a holistic view

development and retention. Its capabilities include using predictive modeling to customize catalogs, understanding customers' service needs, and using extensive databases. It has developed a customer database containing over 2,000 data elements on every household in the United States, customer or prospect. As a result, the company enjoys catalog response rates five times greater than the competition, 80 percent of its revenue from existing customers, 12 percent annual increase in sales to existing customers, and gains in customer lifetime value.

"We sell merchandise because it is the most economical way to find out information about the customer. Instead of saying, 'Anyone who wants to be a customer, come and see me,' we sell merchandise to identify the marketplace," says Johnson. Fingerhut's success is powerful proof that it is worthwhile to study customer differences ranging from the obvious to the infinitely subtle.

WEB LINK

Read more about customer behavior at the following links on the CRM Project Web site:

beyers.CRMproject.com
bruner.CRMproject.com
fairisaac.CRMproject.com
hahnke.CRMproject.com
smith.CRMproject.com

of the customer base at both an aggregate and an individual level – which is often termed “one-customer view.”

Customer insight can be applied across broad groups of customers to make strategic marketing decisions and used real-time to drive the interaction with a single customer. When building this “one-customer view”, it is important for companies to design their knowledge base around how customer insight will be applied. These applications include: business planning; formulating segment-specific strategies and value propositions; and anticipating and differentiating customer interactions across all touchpoints.

Building a customer knowledge base can be a difficult undertaking. Customer data is often scattered among disparate databases across the organization. Click stream information is not stored in a way that is relevant to the customer relationship. While revenues may be available by customer, the cost to service the customer may not be. There may be few mechanisms in place to measure a customer’s potential value.

An effective view of the customer requires a knowledge base that accomplishes three things:

- Continuously captures customer data.
- Refines the data to assure its integrity.
- Provides an “engine” that supports analysis at both the aggregate level and for an individual customer.

Capability Two: Generate Insight

It is not enough to collect and analyze customer data. What differentiates winning companies is the ability to draw customer insights from collected data to describe customer needs and expectations, anticipate customer behavior to shape interactions accordingly, and measure performance in terms of customer value and profitability.

The value equation is a two-way street. On the one hand, companies must understand what a customer needs and expects. On the other hand, they must balance the cost to deliver against these needs and expectations with the profitability a customer generates. Continual analysis and segmentation is necessary to group customers according to expectations. Companies must further equate the cost to meet customer expectations relative to customer value to understand which customers they can satisfy profitably.

Armed with a single view of the customer, companies are in a position to generate three types of insight:

- Insight that is descriptive of customer behaviors, to understand what drives customer desires and behaviors.
- Insight that is predictive, to forecast and anticipate future behavior.
- Insight that is performance-based, which guides a company in evaluating performance of its customers.

Capability Three: Apply Insight

Customer insight guides the company as to which customers to focus on and how much can be invested in each customer relationship. Customer insight also provides a company with a picture of a customer’s history, expectations, preferences and value. To be useful, insight must be applied across multiple points of customer interaction, to personalize the experience and deliver consistently differentiated treatment.

The application of customer insight is important to both the strategy and execution of the marketing agenda. Some examples of applied customer insight include:

- Driving marketing planning through strategic segmentation, media planning and effectiveness, and a customer profitability analysis.

- Using insight in multichannel marketing campaigns to identify the target audience and determine the offer to be presented, what the optimal time is to deliver that offer, what the best medium is to convey the offer, and how best to explain it.
- Personalizing customer service and support through, for example, a call center representative using a company’s service history and profile to recognize a pattern of performance failure and to then recommend a maintenance program that will head off subsequent problems.
- Driving real-time product configuration and pricing, on a Web site, at a call center or even on a sales representative’s laptop.

The Value Payoff

Ours is an age of unprecedented choice and constantly rising customer expectations. In the days of *Miracle on 34th Street*, being a customer-driven company was a refreshing anomaly. Today, customers expect companies to do whatever it takes to satisfy them – if they don’t there is a competitor across the street or just a mouse click away. Customer insight provides an understanding of what customers expect and then guides the company in aligning its marketing, service delivery and organizational resources with those expectations.

By applying customer insight across multiple points of customer interaction, companies can better understand customer expectations, determine how to accommodate them and customize the relationship accordingly. Ideally, insight-driven relationships move an organization from a one-size-fits-all customer approach to one that treats customers as individuals, based upon their needs and preferences. Ultimately, this results in greater customer satisfaction, increased profitability per customer, and longer-term customer relationships.