The CRM Lifecycle - Without CRM Analytics, Your Customers Won’t Even Know You’re There

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. This type of spending will only grow as businesses increasingly recognize that 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 finding themselves 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 ultimate 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’re buying their relationship with you. Nor does the fault lie with the front office automation suites. Integrated sales force automation, contact management, marketing automation, and call center integration provide unprecedented productivity and shared communications to front office departments. These applications are enabling one shared, consistent view of front office activities and customer data, much as ERP systems have integrated back office activities and centralized HR, manufacturing and financial data.

The failure of CRM initiatives to even affect, let alone manage a business’ relationships with its customers, is a problem of incompleteness. Integrating sales, marketing, and customer service activities is the first stage in the CRM lifecycle. It is necessary, but 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 their customers will still be out in the cold - strangers to them.

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 (see Figure 1.0); 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. This phase certainly provides business value, but alone 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. It’s only through analysis of the customer data that you can 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 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 the business process refinements that will delight your customers and improve the lifetime value of your relationship with them.

In this paper, we’ll apply the CRM lifecycle to three common business problems: customer profiling, call center improvement, and e-business effectiveness. In each scenario the three stages of the CRM lifecycle will be applied to the business problem, and the solutions will demonstrate how essential CRM analytics are to customer success.

“META Group believes that a CRM initiative lacking the analytical component will fail to provide a panoramic customer view long-term...In 100% 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

**CRM Success:**
**Customer Profiling**

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

The company is particularly interested in how this campaign affects customer profitability and retention within the test population. They specifically want to know if the new service results in more airtime, the sale of additional services and if it decreases the current 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’s likely to use this service? It would be a waste 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 more profitable customers, rather than less. Similarly, it wouldn’t be worth testing customers with such a low retention score they were expected to defect, regardless.

Finally, the company hopes to use the results of this market test to fine-tune their pricing strategy for this service. The ultimate price structure and bundling options will be based on the responses of different population segments to different offer treatments, the product profitability of each offer treatment, its 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 customer transaction detail, both current and historical, integrated with product detail 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 P&L can be calculated. When modeled forward in time, it’s possible to calculate a total lifetime P&L for each customer. 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 detail 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, ISP and e-mail use is necessary to identify customers that currently use e-mail.

- Integrated sales and marketing automation systems accessing customer data help target customers that 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 their 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, promotional and pricing analysis. Each of these is not separate and distinct, but rather offers a different perspective of the customer and their value to the business. When viewed together, the aggregated results provide a whole picture of the customer.

Customer profitability 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.

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 income greater 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 the promotion, based on past promotional behavior. This is known as promotional analysis, and is an effective method of fine-tuning campaign strategy.

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

**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 are promoted upward, either for profitability or loyalty, in response to this campaign. Conversely, they want 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.

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.

**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 customer, their behavior and their descriptive characteristics. Customer profiling is this collective set of analyses that best describe our customers. It includes:

- **Segmentation**

  This involves 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.

“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, VP Marketing, Recognition Systems

**WEB LINK**

Customer profiling is discussed in further detail at the following links:

- bluemartini.CRMproject.com
- fairisaac.CRMproject.com
- hyperion.CRMproject.com
- rightpoint.CRMproject.com
- siebel.CRMproject.com

http://hahnke.CRMproject.com
“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

**CRM Success: Call Center Improvement**

**The Business Problem**
An outbound call center, providing 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-plus-sales program would increase the call center’s operational expenses. Extensive sales and product training would be required for CSR’s and average call lengths would generally increase, as CSR’s spent more time with each customer. Greater average call lengths would require even more CSR’s in order to maintain current service levels. Accordingly, the bank has decided to implement a selective service-plus-sales program.

The bank knows that their top 15% most profitable customers (their premium customers) generate approximately 75% of profits. Accordingly, they’ve chosen to selectively route calls from premium customers to a specially trained team of CSR’s providing service-plus-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 cross sell and up sell, will still receive quality customer service, but without increasing the costs of service delivery.

**The Solution: Required Integration**

- A CTI system integrated with customer data determines whether the incoming call is from a premium or regular customer, based on caller ID.
- An integrated ACD system routes the call to the appropriate CSR based on customer type.
- Via screen pops, a complete view of the customer’s sales history and service request history is presented to the CSR 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 guide the CSR through the call, where questions are dynamically generated based on answers to previous questions.

**The Solution: Required Analysis**

The key to solving this call center problem is knowing whether a potential solution is cost effective. If a sales-plus-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, both initially to determine the effectiveness of the solution, as well as ongoing 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. This helps to identify causal factors for both high quality and low quality trends. For instance, an analysis of average hold times across the dimensions 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 in with more complex requests. These take longer to resolve; thus tying up CSR’s and increasing hold times for subsequent calls.

Call center profitability analysis would measure the increase of sales revenue through the service-plus-sales program and the degree of cross selling and up selling. It would also 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. Following the performance management adage, “you can’t manage what you can’t measure,” this provides the bank a quantifiable view of their sales-plus-service program success.

The bank needs to develop a method of measuring customer satisfaction across different customer segments. Good benchmark statistics don’t guarantee that a customer is happy, but rather provide a baseline for comparative analysis and focus improvement initiatives on customer interaction activities. A customer’s satisfaction is a highly subjective measurement, which tends to be more personal and less easily quantified, but is critical to strengthening customer relationships.

CSR’s moving towards a service-plus-sales role need intensive coaching and management support as they learn how to uncover customer needs. CSR’s need to understand bank products and services, and the potential value they hold for different customer segments.

An incentive program should be developed to recognize and reward successful CSR’s, based on customer satisfaction, call quality and attainment of sales goals. Best practice reviews of successful CSR’s and CSR groups help others to learn and improve.

The bank needs to evaluate the prof-
itability of the program, relative to the increase in customer satisfaction over a period of time. Based on the results, they may chose to extend the program downwards to include more of the less profitable customers or even upwards to serve fewer more profitable customers. This allows the bank to balance profitability and satisfaction across the most appropriate customer population.

“The real payoff 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

**CRM Success: E-Business Effectiveness**

**The Business Problem**
A leading department store chain has recently introduced an on-line shopping mall that allows customers to purchase the same products via their Web site that are available in their stores. This e-commerce site has enjoyed early success, and during its first six months of operation has contributed 7% to total revenues.

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

The company would like to better understand the composition and behavior of their Web customers. Are the Web 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 a 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 on-line 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 click stream behavior, and what advertising would be most effective for them?

**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.
- The Web-based shopping behavior of existing store customers (using click stream data) 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 click stream data to help identify what products tend to sell together and what products may be left in a visitor's shopping cart if a visit is abandoned before purchase.

**The Solution: Required Business Actions**

Click stream data becomes exponentially more useful when the Web visitor can be identified by name. This enables the integration of click stream data and customer data, providing a much fuller view of customer behavior and preferences. The company needs to develop a mechanism to capture Web visitor names, and other descriptive data, together with an incentive for Web visitors to provide that information.

If analysis indicates that multi-channel customers follow predictable browsing, selection and purchase patterns, then the company can alter their marketing strategies to appropriately incent these customers. For example, if certain customers prefer to browse on-line, 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 channel preference. This degree of personalization makes the shopping experience more intimate and more 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

What Does A Balanced CRM Solution Require?
In each of the three business problems presented, the problem could not be solved without the quantified understanding of customer needs and behaviors provided by CRM analytics. This understanding then drove the business actions that closed the loop, strengthening both 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 for 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 positive benefits promised by CRM. This analysis is usually dimensional in nature. This makes 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's been learned about customer preferences and behaviors to improve the customer's experiences with and perceptions of your 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 who most effectively and positively manage their relationships with their customers.

Despite the millions of dollars invested to date in CRM systems, many companies are failing to impact their relationships with their customers at all. These businesses can see their customer's activity, but they don't understand what's driving it nor how to appropriately respond to it. Their CRM initiatives are incomplete, and hence, 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 closes the loop and touches the customer. CRM analytics enable the effective management of customer relationships. With a balanced CRM solution, well grounded on quantifiable analysis, not only will your customers know you're there, but they'll value their relationship with you and make a point to bring their business to you, again and again.

“... Analysis of your customers will drive corporate change from the inside out at the grass roots 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, Executive, IBM Global Business Intelligence Solution