Customer relationship marketing – keep your feet on the ground

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1. Summary

This article draws upon observations gained from 14 years of consulting projects in customer management with leading companies, objective findings from QCi's Customer Management Assessment Tool (CMAT) and research carried out by Professor Merlin Stone and SEMS. It defines relationship marketing and suggests some techniques for analysing your company's current performance in managing customers, and then for improving it.

2. What is relationship marketing?

As with many management fashions, 'relationship marketing' is a term that many marketers use but define in different ways. Here is our definition:

Relationship marketing is the use of a wide range of marketing, sales, communication, service and customer care approaches to:

- identify a company's named individual customers,
- create a relationship between the company and its customers that stretches over many transactions, and
- manage that relationship to the benefit of the customers and the company.

This definition, while technically a good one, is a little lacking in feeling. In marketing, a good way to define a concept or technique is in terms of what we want our customers to think or feel as a result of us using it, one we could even explain to customers. So a company could describe relationship marketing to its customers like this:

Relationship marketing is how we:

- **find you,**
- **get to know you,**
- **keep in touch with you,**
- **try to ensure that you get what you want from us in every aspect of our dealings with you, and**
- **check that you are getting what we promised you**

...... subject of course to it being worthwhile to us as well.

3. Why relationship marketing is important

Relationship marketing is important because:

Acquiring customers is much more expensive than keeping them.

This is most obvious in direct marketing, where the costs of acquiring and keeping customers can be accurately quantified. In other marketing environments, estimates show the same. The benefits of relationship marketing can be shown through accounting techniques which reveal:

- costs of acquiring customers,
- changes in the number of customers, and
- changes in what each customer is buying.

The benefits of relationship marketing are usually in one or more of these areas:

a) improved customer retention and loyalty - customers stay longer, buy more, more often i.e. increased *long term value*

b) higher customer profitability, not just because each customer buys more, but because of:
   - lower costs of recruiting customers, and no need to recruit so many to maintain a steady volume of business;
   - reduced cost of sales, as existing customers are usually more responsive.

4. Stages of the relationship

In marketing, as opposed to marriage, binary relationships (in which a customer is 100% loyal to one company or to another) are rare. Most relationships develop in stages, with customers sampling different products and often remaining ‘switchers’ or ‘multisourcers’. One of the first steps in managing anything via IT is to rationalise it into manageable ‘chunks’. So, with our clients, we use a model of relationship development. Clients have used it to understand their customers better and to develop policies for improving the relationship.

We summarise the relationship as a series of stages, and then identify how many customers are at each stage and what takes them to the next stage. In the table on the following page, we explain these stages, their definitions and the problems some companies have in managing them.

Stages in managing the customer relationship

Stage	Definition	Typical problems and opportunities
Targeting	When the customer is targeted as being an appropriate customer for the company, and induced to "join"	Targeting is not precise enough. So, if the company tries to cross-sell to all its existing customers, irrespective of their suitability, cross-selling can be a loss-making activity. Very large numbers of customers are targeted, using a variety of approaches - direct mail, off the page, TV. This leads to overlapping coverage and wasted promotional budgets. At worst, if the activities of different product managers are not coordinated, the same person may be targeted in for several different products at the same time, with the same names being rented more than once.
Enquiry management	The customer is in the process of joining	Usually a very short stage, but of critical importance. In many cases, failure to manage enquiries properly leads to many customers being lost before they join. Sometimes this process is just too expensive compared with subsequent customer value. At this stage, customers' expectations are often set for future treatment, yet they are often disappointed.
Welcoming	After the customer has joined, depending on the complexity of the product or service, it is important to ensure that the customer is "securely on board" e.g. knows whom to contact if there are problems, knows how to use the product or service	This is also often a very short stage, yet it is clear from what happens when a customer has problems or makes a claim, that they often do not know whom to call or what to do. For decisions involving significant outlays, customers may need to be reassured that they have made the correct decision, and given the opportunity to say whether they felt they could have been handled better during the buying cycle.
Getting to know	This is a crucial period, when both sides exchange information with each other. additional customer needs may become apparent, and the customer's profile of use of the product or service becomes known. More is also learnt about the customer's honesty, ability to pay, etc.	Many companies assume that this stage does not exist, and that their customers go straight into a mature state of account management. Yet if we take the example of financial services, the early cancellation that applies to many types of insurance policy and loans indicates that this is clearly not so. We cannot expect that no customers will cancel early, but we can expect to be able, through data analysis, to identify customers most likely to, and implement preventative action. Experience in insurance and banking shows that if we try, we will have some success. Analysis from other industries with long term relationships with customers indicates that communications behaviour, brand attitudes and satisfaction with the category are good predictors of loyalty, and these can be formed quite early on in the relationship e.g. if they respond to your communications, rate your brand highly and are satisfied with how you have arranged their portfolio of products or services, then they will be more likely to stay with you.

Customer development	The relationship is now being managed securely, with additional needs being identified in time and met where feasible	This is the ideal state, though quite a few customers never reach it, and often dip into the next stage or remain in the previous stage for a long time. This is best detected by short questionnaires - which can be administered by mail, telephone or by sales staff.
Managing problems	The customer has such severe problems that special attention is needed to ensure that the customer returns safely to account management. If this attention is not given, the customer is so dissatisfied that divorce is imminent. If the customer does leave, the customer will usually, after a cooling-off period, be ready for 'winback'.	This stage is defined in terms of what the supplier should do, but of course the need for it is often missed and the customer goes straight into pre-divorce e.g. after a mishandled service event or a change in customer's need which remains undetected. If a company does not handle the initial problem well, and the customer considers leaving, companies often fail to recognise that this is happening.. Surprisingly, many companies give up here, and even pride themselves that they make it easy for customers to cancel. If the reason for cancellation or termination of the relationship was a change in circumstances or a move by the customer out of the category, then brand loyalty may be intact, and in some cases enhanced if the supplier made termination easy.
Winback	Sometimes, the relationship ended because of high price or the wrong product, so winback can be initiated when these issues are resolved. Winback is hardest if the customer left due to poor service, unless the competitors' service is even worse!	The targeting of winback campaigns is made difficult because many companies are poor at defining and identifying lost customers and because they have no reliable customer database.

We would like to see some recognition that:

1. customers don't simply move from being 'prospects', to 100% 'loyal customers' and then to 'lost customers';
2. stages of the relationship can be identified and managed; and
3. data can be used to manage this activity.

5. The strategies large companies are following - an act of faith?

In nearly every sector, large companies are adopting 'customer relationship management programmes'. In some companies these words are a Holy Grail for senior managers - an acid test to see whether a newly proposed marketing policy is worth considering. In one or two extreme cases, "Customer Management" is becoming a new form of political correctness.

The conventional approach to "managing customers" in most industries is to:

- take on anyone who wants to buy the product', and
- manage most of the customers - the largest ones excluded - in the same way (normally reactively).

In many markets, the 80:20 rule applies, and sometimes far worse. A blind attempt to retain all current customers may be counter-productive. The key to increasing profitability and competitive strength may be to *get rid of customers who will never be profitable, and focus on recruiting and retaining high lifetime value customers.*

Many companies look to "customer relationship management" to solve this problem. They mean an approach which

- identifies which customers to acquire and retain and which to discourage,
- develops marketing, service and information technology policies to create the right relationships with different types of customers and prospects, and to acquire and retain the target customers.

Our research shows that many of the companies adopting this approach are doing so as an act of faith. They are not adopting the approach because of:

- a detailed analysis of current and expected lifetime customer profitability.
- a searching analysis of customer service needs.
- research into what relationships customers ***perceive*** they are experiencing, and what relationships they would ***like*** to have.
- a study of competitors' customer acquisition and retention policies.
- evaluation of how well existing methods of relating to customers meet their needs. and
- piloting or testing the approach to see if it works.

Most of these companies have not developed the people, with the attitudes and the organisational structures to manage customers better and build different kinds of relationships with different types of customers.

6. Customer management processes

Although many companies are starting to move into relationship marketing, they do not have a clear model of what it means to be a relationship marketer. The new model of customer management that they need differs from the models of marketing, sales and service which they currently use. These models include marketing planning, brand management, field sales account management and customer service management. Companies often adopt and adhere to them because of the experiences and management education of senior management. Faced with customer management issues, large companies try to make sense of it using these models. The model which they chose is often not the "home" model of the sector. It may be this model is not right for relationship marketing. *Sometimes, only a total redesign of the customer management process will improve the way customers are managed*.

7. What should you do in practice?

As far as generating repeat purchases is concerned, research across many sectors in both business and consumer markets shows time and time again that customers' most important requirements are clear and understandable. They can be summarised as:

- "When I enquire about the product, give advice to me promptly and courteously and do the things that you say you will do when you say you will do them.
- "Make it easy for me to buy the product I want at a competitive price. I want the product to be complete and working, and if the product is being delivered, for it to be delivered in spec, on time and in full.
- After the sale, don't pester me, but keep in touch if there is something to say. More importantly, if I have a problem or ask for support please give it promptly and courteously. Trust me and live up to your promises"

The customer statement above explicitly implies; good manufacturing, distribution, people competencies as well as robust enquiry, welcoming, sales and complaints handling processes and measurement systems. It implies good IT, so that the company can recognise the best customers and can give best advise. These customer requirements should be translated into basic business practices – but they are not in the majority of large corporations.

If your proposition, matches customers' requirements and you are friendly and professional in the way you deal with customers at all stages, the benefits can be are massive. Our studies show that if you align your customer relationship management with customer needs, you will:

- Reduce your customer loss rate by at least 25%. 1 in 4 customers lost are lost for simple service reasons, not serious service errors. 3 in 4 you will lose anyway for reasons that are out of your control e.g. the customer's needs changing so that they no longer need your product or service.
- Hold on to customers longer. This is linked to the above point but of course becomes a different revenue line on a business case. There are too many variations here to give an average figure.

- Maintain or even improve margins at existing customers because the strength of your relationship with your customers results in them being more resistant to aggressive competitive pricing
- Improve your penetration rate and share of spend, often increasing your share of target customers' business by tens of % points.
- Apart from an increase in referred business, there will be an impact here to in that your core business acquisition processes (targeting and enquiry management) will be professional and robust. This alone will increase your new business sometimes significantly.

7.1 Make sure you manage profitable customers profitably

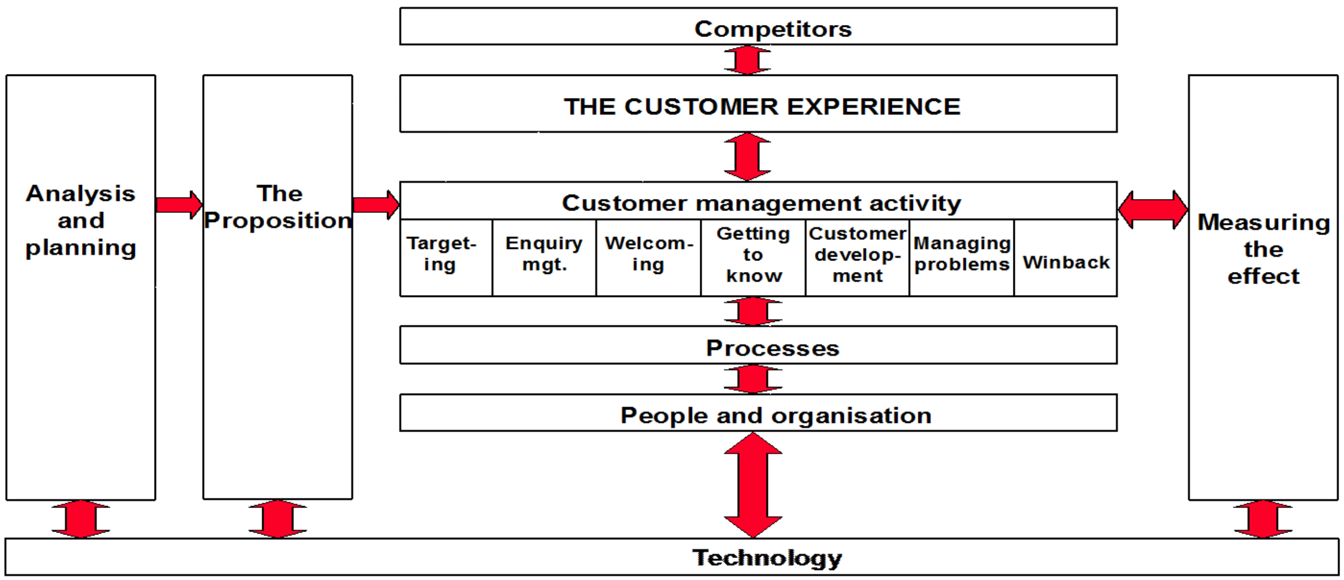
To make an acceptable margin in a competitive market, a company must be efficient in its operation and should deploy customer management resource efficiently.

- You would assume that a good company knows what customers they want to manage in the first place; which are their present or future profitable ones that should be actively managed; the marginal ones who should be passively managed (they obviously wouldn't manage unprofitable ones?).
- You would assume that companies understand how many customers they lose, why they lose customers, which of their customers buy from competition as well.
- You would assume that companies would have clear plans and objectives to improve retention, increase penetration into appropriate customers and target the right sort of new customers. There would be a business case behind this plan to help prioritise activities.
- You would assume that these plans would be used to direct sales activities cost effectively, via some sort of customer contact strategy to the right customer or prospect at the right time.
- You would probably also assume that the organisation regularly measured both the business case in the plan and the efficiency and effectiveness of specific internal activities.
- Finally, you would expect there to be a simple research and mystery shopping programme that enables the company to understand the customer experience of your organisation and quickly act upon the results.

7.2 What businesses actually do

7.2.1 The reality of the present

In order to assess this objectively, we developed a model for assessing customer relationship management practice. The starting point for this work was our consulting practice, the ideas behind which we published in our book, Relationship Marketing (publisher Kogan Page). Our ideas were developed further through research carried out at the Surrey European Management School, University of Surrey and published in the IBM-sponsored Close to the Customer Series (published by Policy Publications). These will be more fully documented in our forthcoming book, “Up Close & Personal – Customer Relationship Marketing @ Work”, to be published by Kogan Page.



Our assessment model uses the relationship stage analysis described earlier, and summarised in the chart below. We also developed a smart little piece of software for helping companies give a structured response to our questions about how they manage their customers.

Look at the results in the table on the following page!

	Average score	Range
Overall	38	28-45
Analysis & planning	30	23-40
The proposition	38	18-46
People & organization	47	32-63
Information & technology	47	39-52
Processes	43	5-70
Customer management activity	36	25-49
Measuring the effect	40	17-54
Customer experience	20	6-37

This objective evidence supports intuition and personal experience, that despite ever increasing consultancy and research support, companies are not applying the common sense business practices that will really allow them to manage customers profitably. The lack of applied best practice occurs right through the model of customer management. The scores are measured against the world class model, where 100% represents top performance.

The model encompasses all of the essential elements of practical customer management. It assumes you know what market you are in and where you want to be- but that is all it assumes. When we carry out an assessment we effectively ask over 260 questions to understand what goes on now and to stimulate ideas for the future.

We have removed trendy or unfamiliar jargon from the questions we use because our purpose is not to confuse, generalise or show off our knowledge of the latest tools and techniques but to be clear and specific about proven sensible practices.

We ask questions of people responsible for setting policy and ask questions of the doers – for instance customer facing staff, analysts and so on so that we can comment on intention and reality. We insist on evidence where appropriate and try and ensure that the practice or behaviour is widespread and not isolated.

More details on the areas we cover in the model can be found in the diagram *(note to editor– this is shown at the end of this article).*

The comments below represent the essential components that we look for in each area. A quick scan of the points on the following page will show that this is not rocket science – it is just sensible business practice.

7.2.2 Analysis and planning

Customer Management starts with understanding the value, behaviour and attitudes of different customers and customer groups. This understanding, derived from internal and external information sources, will drive more questions, which will in turn define the research program.

- **Value**. On the positive side, margin includes actual value (database), realistic potential value (database or research) and future or strategic value (customer is in a segment which is, for instance, increasing in value). On the negative side, you cannot extract value without investing in your proposition to that customer. We look for some application of “cost to serve” in determining strategy.
- **Behaviour** analysis will look at Retention rates for different value cells, the type of customer you are Acquiring and the share of wallet you get from the customer (your Penetration).
- **Attitudes** will look at realistic surveys around what the customer looks for I a supplier and how well you match up versus the competition.

Once value, behaviours and attitudes are understood, planning can start for the cost effective acquisition; retention and penetration of the customer base. We look for sales and marketing plans that reflect specific retention, acquisition, penetration and efficiency objectives at customer or product group levels.

Companies with a low overall score on CMAT always have a poor score in the Analysis and Planning area. This is such an important area. Poor customer management almost always begins with unfocused, incomplete analysis. While some customer value analysis was almost always carried out, incomplete data sets and/or a lack of knowledge prevented further analysis to take place. Cost to serve was rarely used in calculations of customer value and customer management strategies are relatively inefficient in these larger organisations.

Poor customer analysis leads to unclear high level planning which provides little direction as to how the sales, marketing and service operation should alter behaviours and deploy resource in order to react to retention, acquisition and penetration issues. There is little guidance in the plan as to how the operation can manage the whole customer base efficiently resulting in customer groups that are either over managed or under managed.

7.2.3 The proposition

The enhanced understanding derived from analysis and research will help identify the groups or segments of customers who we want to manage. Our next step is to define the proposition to each of the segments and plan the appropriate value-based offers. The aim is to identify whether true customer commitment is realistic and if it is, how we should deliver it. This is done through focused “needs” research, mapped against the values and behaviour discovered during analysis. The proposition is normally defined in terms of Price, Service, Transactional interactions, Relationship, Logistics, Product and for each element of the proposition a service standard (performance “footprint”) is defined in terms that can be measured. It must involve all functions within the operation that impact on the proposition and customer experience – it cannot successfully be developed by marketing and imposed on the organisation.

Having defined the proposition, you must communicate it effectively to both customers and to the people responsible for delivering it. Many large organisations find it hard to examine their overall proposition to a customer group and to be able to define the full set of needs and experiences that impact on customer repeat purchase. If the overall proposition to customers is unclear, undefined in service performance terms, or poorly communicated to others in the organisation, more problems become apparent. When this happens key CM processes such as enquiry management, welcoming, billing, technical support and managing dissatisfaction - essential moments of customer experience - may be managed separately from other customer management activities and by managers with process, not customer objectives. Separate management is not necessarily an issue and in some large organisations is essential, but nonaligned objectives are clearly a problem and can lead to service conflicts and customer dissatisfaction.

7.2.4 Customer management activity

This is the delivery of the customer management. Plans and objectives, based on the retention, acquisition, penetration and efficiency findings of the analysis, and the needs of the customer groups, will drive the activity through the whole of the customer lifecycle from prospect, through new customer and on into mature customer. This will involve the day to day working practices of the marketing, sales and service support functions in the following key areas:

- Targeting of acquisition and retention activity
- Handling of enquiries
- Specific support for new and upgrading customers
- Getting to know customers and how they want to be managed
- Key account management and account management by sales (field, third party telephone)
- Identifying and managing dissatisfaction
- Winning back lost customers

7.2.5 People & organisation

People deliver the activity. We look at the work the organisation does to identify and develop competencies and how well the customer management objectives of the company are supported by leadership within an organisational structure that enables good customer management. Suppliers support the organisation with the skills not available within the organisation, or those that are non-core. What processes are in place to ensure that suppliers are well sourced, briefed, managed and evaluated?

7.2.6 Measuring the effect

Measurement of people; processes; profitability; channels and customer activity (e.g. campaigns) must underpin the vision and objectives as well as enable the assessment of success and failure. Feeding back success and failure enables refinement and redefinition of future plans and activity. Most companies performed poorly in this area.

7.2.7 Customer Experience

Customers experience our customer management activity across all of their 'moments of truth'. It is critical to understand from customers questions like "How well are we doing? What can we improve? What do competitors do better than us?" for each experience they have with us, especially the ones that they rank as most important. We need to look at now just measuring satisfaction but trying to get at what defines true customer commitment to your organisation, assuming it is a viable goal in the first place (see Proposition).

7.2.8 Information and technology

Information and technology underpins the whole model. Information needs to be collected, stored and used in a way that supports the way people work and the way customers want to access the organisation. Technology needs to be used to enhance the way that customers are managed (from analysis to data at point of contact) and *enable*, rather than disable these core customer management practices.

7.2.9 Conclusions

So a mixed picture. What is perhaps more startling is the gap between the perceptions of senior management and the reality of the way the operations manage customers. It is common to find that basic, common sense business practices are simply not being applied by companies but senior managers do not even know it and will, in companies with protective cultures, even go into denial when challenged. It is worth saying here that the boards of the companies we have assessed have always, without exception, accepted our findings. What is implied by our findings is large-scale organisational *ineffectiveness* (lost business) and *inefficiency* (wasted cost) running into millions of pounds for most companies.

7.3 Key areas to focus on for most large companies

Our interpretation of these findings is as follows:

- Companies are not particularly smart in the way they manage customers

- There is much to be gained – possibly millions of pounds - in simplifying what your company does and how it does it and re-focusing on the key principles of customer management described above

- The key principles are:
  - ✓ Adopt a model of customer management that makes sense to you and your organisation
  - ✓ Understand customer value and behaviour
  - ✓ Be really clear, as a whole organisation, about your core (profitable) customer's core needs and how these needs can be delivered efficiently without error, in a way that allows the customer to enjoy the experience. Set and measure service standards around the proposition
  - ✓ Double check that the core processes and policies which impact on customer experience are robust, customer friendly and measured. This includes you and your suppliers
  - ✓ Ensure that your day-to-day activities are driven by the strategy by being clear about targets based on linking retention, penetration, acquisition and efficiency objectives with your overall business goals
  - ✓ Check that staff/supplier behaviors that impact on achieving the only four things that matter - retention, acquisition, penetration and efficiency are encouraged and rewarded. This is a leadership issue as well as a remuneration issue
  - ✓ Take a fresh look at the key job roles in your or your suppliers' organisations (not necessarily customer facing) who influence the customer experience and ensure they are competent to enhance that experience
  - ✓ Ensure that processes and technology are not over-engineered but designed within a holistic system vision to support all aspects of the customer management model, focused around delivering the core proposition to customers
  - ✓ Ensure that customer experience monitoring takes place and that the results actually influence policy

- A re-evaluation and simplification of where effort is being spent and why is a necessity in most organisations

7.4 Making "best practice" happen in large corporations

Whether you are implementing a multi-million pound computer system, a key account management process, an analysis discipline or a new planning system one or more of these points will confront you at some time. Our interpretation of these findings leads us to list the following essential principles of best practice implementation:

- ✓ Understand now where you have best practice gaps. Do you really know what the priorities are?
- ✓ For the opportunities you uncover, develop a simple business case for the investment you are making. Don't believe advice unless it makes clear practical sense to you
- ✓ Don't worry about what your competitors say they are doing; focus on what makes good sense for you
- ✓ Assign good leadership to the project. The leader must have the authority and budgets to make things happen and alter already existing priorities if necessary
- ✓ Do not over engineer processes or systems. Use experienced and vocal users to work with you throughout the project as a practical sounding board for ideas
- ✓ Get practical right away. Start small and build on successful beginnings (quick wins)
- ✓ If you need external help, work with consultants and agencies who have done it before
- ✓ Target the process change at key influencers within the user community. Involve them in design and let them become the initial users and even trainers
- ✓ Consider changing other processes, policies (e.g. remuneration, performance contracts, appraisal systems) and people management (e.g. management styles) to encourage change in behaviour and adoption of best practice
- ✓ Assign sufficient budget to post implementation coaching and review.