

LESSON 1

WEEK 1

TOPIC : Customer Profile and Relationship Management

LEARNING OUTCOMES

After completing this chapter you should be able to understand:

Why is customer profiling vital?

Framework of customer relationship management

TOPIC OUTLINE

1:1:1 Customer Profile

1:1:2 Customer Relationship Management



THE SIGNIFICANCE OF THE CUSTOMER PROFILE: WHY IT DEFINES YOUR STAGE

Developing an understanding of customers' common needs allow you to move more easily along the evolutionary path. You know what your customers need from you. By meeting these needs you will be well on your way to establishing the type of strategic customer/supplier relationships that define Stage III customer care.

However, while research has established these needs to be common among customers, one critical fact remains: not all customers are the same. In recognition of this crucial point, you now need to turn your thoughts to meeting your customers' unique needs. How? Through the diligent and conscientious collection of customer information: in other words, the customer profile.

1:1:1 The Customer Profile

What exactly is the customer profile? Ideally, it should be a structured representation of your key customers – a top-notch profile that would typically be prepared for each and every strategic customer. It would include two main areas: 1) corporate history/corporate overview and 2) customer budget/purchase capabilities.

Corporate history/corporate overview:

A general description of the customer's business

The customer's major products and services

The markets serviced by the customer

Customer budget/purchase capabilities:

The customer's ability to spend ("size of wallet")

Competitive mapping (the share of the customer's business that you have relative to your competition, in the products and services you offer)

Relationship targeting

Constraints and impediments

Because organisations in different stages of the evolutionary process have different focuses when it comes to their customers, the customer profile will also be different depending on your current stage of evolution. At each stage, you should be developing customer profile that will assist you in meeting your particular goals for that stage as well as establishing the foundation for your evolution into the next stage. Let's take a closer look at the customer profile from the perspective of each stage of the process.

Perspective from Stage 1

Stage I organisations concentrate their efforts on acquiring customers. In this stage, your organisation will most likely be concerned with the quantity of customers, not the quality. This, in and of itself, is a necessity for moving into Stage II. How else can you practice segmentation of your customers if you have no customers?

The customer profile at this stage of the evolutionary process tends to be simplified. Generally, the corporate history and a rudimentary overview of the customer will form the bulk of the information in the profile. Corporate history does not mean only the customer's name and address but also the key characteristics of the business.

In forming the customer profile at this stage of the process, ask yourself the following questions:

Is the customer a local, national or multinational company?

Is it a private or public corporation?

What are its major divisions?

Within each major division, what is the total number of employees?

Within each major division, what is the total annual revenue?

The answers to these types of questions provide you with the base information of your customer profile. In most cases, this is the only type of information collected while in Stage I, as organisations focus on racking up the customer numbers and expanding the customer base.

However, it's critical that these relatively limited profiles be developed at this stage, as they form the foundation for the more extensive profiles necessary to succeed as best practice organisations in Stages II and III.

The View from Stage II

The customer profile grows in importance for the company in Stage II of the evolutionary process. At this stage of the survival game, your organisation must concentrate on feeding the vast information needs required before you can begin practising customer segmentation. Because your organisation's main concern at this point is retaining your customers, you must also collect this information in order to properly assess your customer's unique needs and formulate successful strategies to meet these needs.

In addition to the type of information collected in Stage I, key information in the Stage II organisation's customer profile should include a general description of the customer's business, its mission statement, as well as the names of the directors, the organisations represented by these directors and the positions they hold within these organisations. As well, your customer profiles should provide the answers to the following questions:

What are the customer's major products and services?

What are the market and industry sectors serviced by the customer?

In which market segments does your customer have the strongest position?

Who are your customer's major customers?

Who are your customer's major competitors?

TIP

The Customer's Mission Statement

Next time you or your salespeople are in a customer's office, look around the reception area. You can usually find the customer's mission statement somewhere on a sign in the front lobby. Another place where such statements are generally prominently displayed is the annual report. These statements provide you with essential information that should be recorded in your customer profile.

For the Stage II organisation that has a toehold on the next stage of the evolutionary process, take a look at the sidebar on the in-depth customer profile that follows. Developing this type of extensive customer profile provides you with a solid foundation of customer information and signals your company's increasing readiness to move into Stage III. You will also find that an organisational chart can be of great assistance. Other sundry items that should not be overlooked include a file or list of key contacts within the customer's organisation and their primary needs and possibly a financial profile.

The In-Depth Stage II Customer Profile

As you evolve towards Stage III, your customer profiles need to acquire more and more in-depth information. Take a look at them. If they include the following information about your most strategic customers, congratulations! Your organisation is well on its way along the evolutionary process to Stage III.

Here's what the evolving Stage II organisation needs to know about its customers:

Brief customer history, including innovations, milestones, myths, legends and folklore, mottoes and themes

Key sales and marketing activities to date

Critical success factors for the customer's industry/market sector

Critical success factors for the customer's organisation

The Stage III Customer Profile: Focus on Customer Spend

TIP

What Is "Customer Spend"?

At Stage III, the concept of "Customer Spend" becomes very important, but what exactly is it? In a nutshell, "customer spend" is the amount that the customer is prepared to spend in total, in the current year or has spent in the previous fiscal year. In another words, the size of the customer's wallet – its budget or authorised expenditure.

Once you reach Stage III, you will find that the extensive customer profiles you developed in Stage II simply do not contain enough information. You must now go into more detail, with a particular emphasis on the customer's buying patterns.

What key questions should your customer profile answer at this stage of the process? Consider the following crucial information you will require to successfully tackle Stage III customer care concepts.

What Is the Size of Your Customer's Wallet?

This critical question is often overlooked. Every customer will have one or more buying centres that are responsible for purchasing a group of products or services, usually regionally rather than globally. Each buying centre within the customer's organisation operates on the basis of budgets, which they form each business cycle. Generally, budgets will not expand, unless sales exceed the target, and in such cases the next budget may be enlarged but will not likely have an impact on the current budget.

The customer's budget is a defined entity. With research, you can size it, and report it within your customer profile. Some customers will reveal the size of their budgets but generally only with those whom they see as strategic partners. With other customers you may have to make an estimate based on extrapolations, research and perhaps even hearsay. Whether you obtain the actual figures or arrive at an estimate, it's vital that you have some knowledge of the size of the customer's wallet.

Is the Customer's Wallet Changing?

Remember that teeming corporate jungle? Change is everywhere around us. Markets expand, contract and die. You must stay on top of the changes occurring within the product and service groups you sell, and you must properly analyse the impact of these changes on your customer's wallet.

Your customer may be willing to tell you its purchasing forecasts, but you still need more background research. Independent research may reveal to you, for example, that while your customer's sales within a particular market category (or cell) are going up, the market itself may be declining and all of your customer's competitors have already bailed out. In such a situation, you must assess the impact of these market changes on your focus and your relationship with this particular customer's buying centre and within this particular market cell.

In other words, changes to the business and market environment may force changes on your customer's wallet. It's best to remain aware and stay on top of any potentially explosive situations.

Customer Relationship (CRM)

The increasing power of the customer and the fierceness of competition mean that many organisations are seeing their traditional marketplaces and profit margins eroded. The challenge for business today is to move from product-orientation to customer-focus. The process of setting up a customer-service infrastructure using call centres and Web-enabled technology is a good start to becoming customer-orientation. Currently, 75 per cent of technology investment is funnelled into basic call-centre applications. However, organisations with the best practices are going much further by introducing the concept of Customer Relationship Management (CRM).

In a recent survey by KPMG Consulting, 89 per cent of companies said that they consider customer information to be extremely important to the success of their business. Yet only 16 per cent of respondents thought that their customers were fully exploiting the customer information provided; 12 per cent were unable to say how many customers they have.

In the late 1990s, 'third way' business culture called for a more holistic approach in order to bring a number of business disciplines together: direct marketing, database marketing, loyalty schemes and data mining. Dataquest expects to see a strong investment in advanced database technology to enable this process to take place. Statistics from US-based consultancy AMR Research show that sales of CRM systems reached \$1.6 billion in 1998, a figure that is projected to rise to \$10.5 billion by 2003.

The principle of CRM is that the more information a company has about its customers, the better. According to Professor Adrian Payne of Cranfield University, CRM is 'the strategic process of identifying desirable customer segments, micro-segments or individual customers on a one-to-one basis and developing integrated programmes that maximise both value to the customer and lifetime value of customers to the organisation through targeted customer acquisition, profit enhancing activities and retention'.

A report by KPMG shows that 43 per cent of companies could not identify the principal causes of unsatisfied customers and almost half were unable to identify customers on the point of defection. The current trend is towards focusing on customer retention as a corporate strategy rather than prospecting or winning new business. Research by Bain & Co shows that a five per cent increase in customer retention yields a profit in Net present values of between 20 and 125 per cent.

CRM involves managing the customer relationship across all its interfaces with the company as one entire process. Rather than seeing customer transactions on an ad hoc basis as, say, a contact from marketing or a request for customer service, it breaks down the 'silo' mentality of traditional businesses and shares information about the customer. One of the problems that many businesses have is that data has been traditionally stored across various parts of the company. So, for example, one department in a bank may know whether a customer has a current account, but they may not know whether they have a mortgage.

A CRM system can help to identify sales prospects from existing or potential customer databases. It can assist with all aspects of the sale, e.g. offering online access to order status and a single view of the customer status when the sale is complete. It can collect information about the customer and the queries that he or she made. It can also be integrated with relevant databases and supply-chain management applications to help allocate resources, e.g. ensuring the highest level of service is given to the customers who produce most profit. It can also monitor customer-usage patterns, so abnormal patterns or a reduction in use can be identified.

IT company Cap Gemini defines four elements in a CRM framework:

Know your markets and your customers

Knowledge of the customer can be obtained via IT systems which carry out customer-value management, data warehousing and data mining. At these points, companies are able to extract information about their customers from across the business, segment their customer base and predict individual customers' behaviour. This information can be shared across the organisation and updated automatically every time the customer contacts any part of the organisation: at point of sale, by using loyalty cards, using call centres or visiting the Web site.

Target segments and individuals

Examining the flow of information between an organisation's front and back office helps to determine specific customer needs and requirements and how best to target the most profitable customers. Information from third-party sources, such as 'lifestyle' data can be used to help refine customer segments and a company's knowledge of the customers' individual needs. Segmentation means placing customers in groups that respond to and interact with a business in similar ways. Volvo, for example, actively targets its products at the growing family by understanding relevant lifestyle issues. It created a company-wide customer database, which allowed customers to be tracked and targeted.

Sell

This involves moving from a reactive to proactive involvement with customers. In the US, supermarket chain Wal-Mart discovered that sales of beer rose on Fridays if the stock was positioned next to disposal nappies. This was because fathers tended to do more shopping on Fridays than any other day of the week.

Service

Providing after-sales service, which is tailored to individual needs. Electronics distributor RS Components has developed a site for example where each customer has their own welcome page displaying tailored editorial content, advertising and new product alerts relevant to each customer.

Customer knowledge and insight is the linchpin of successful CRM. However, without this knowledge being shared and used throughout the organisation, businesses will fail to meet constantly changing customer needs. The implementation of a CRM strategy involves sales, marketing, IT, customer service and finance, integrating systems across all these different departments to centralise information. Its potentially high failure rate is attributed to cultural obstacles such as internal departments being reluctant to share information.