

PROFIT FROM YOUR RELATIONSHIPS

Customer Relationship Management is Your Best Business Strategy.

The best business strategy to follow in this crowded and competitive marketplace is Customer Relationship Management (CRM). In a new speech called PROFIT FROM YOUR RELATIONSHIPS, Ian explains that CRM is not simply a marketing tool or an IT activity, it is the way you run your business and decide how you will organise your business resources.

Customer Relationship Management is not simply a marketing tool or an I.T. activity, it is the way you run your business. It concerns your strategy and how you organise your business resources. CRM involves everyone whether they have direct customer contact or work in the backroom. CRM is not about pushing your message to the customer but rather learning about your customers world. How do they behave? What perceptions drive their behaviour? This must be learned about each customer, one at a time. Finally, CRM is never-ending. It is a journey not a destination.

Each word represents a key concept. Customers because customers are not important to you business - they are your business. Relationship because people get involved in relationships to get their needs met. If someone has a need that is not me, they have a problem. Your customers problems are the only reason you have to be in business. Your customers problems provide you with opportunities to grow your business. Management because relationships must be built and maintained, and this process needs managing. Indeed, relationships go through stages

1. Honeymoon - when first buy
2. Power struggle - who is going to win in the battle to get their needs met
3. Acceptance - the benefits of win win
4. Cooperation - forming the partnership - transparency and sharing
5. Stability - committed to a long-term strategic partnership

CRM must be aligned with your business objectives.

You will get little value from CRM unless it is aligned with your business objectives.

* Are you managing your business for growth in share price, volume, market share or profit?

* There is no point in embarking on CRM unless you are prepared to put the customer at the centre of your universe. Start with the customer and ask: "Where will we be allowed to make a profit?" What problems irritate them enough that they are prepared to pay (and pay well) to have them solved?

* A PricewaterhouseCoopers research of 1500 organisations discovered that everyone of these companies fell into one of three stages:

Customer acquisition - 35% of the group.

They were focused on building a large customer base and generally competed on price alone.

Customer retention - 59% of the group

These companies had successfully built a customer base and were focused on retention. They were beginning the process of segmenting their customer base.

Strategic customer partnerships - 6% of the group

These companies focused on increasing the profitability of their customers through enhanced customer care. They developed strategic partnerships which allowed them to increase their own profits by increasing their customer's profits.

Five steps to ensuring journey is proactive and productive:

1. Focus the organisation on creating value

Understand that business is the activity of creating value. Your customers do not want your products and services, they want what those products and service will do for them. Define your business according to the value our customers are seeking. Make sure everyone focuses everything they do on creating superior customer value. Make sure your vision and

mission statements describe the value you aim to create for your customers.

2. Segment your customers

Not all customers are equal. You must understand who your most valuable customers are. Segment them not according to products purchased or to demographics, but on the basis of their contribution to your profitability. Look at current and potential profitability.

Your customers are likely to fall into one of four categories:

A. Transactional customers

They are primarily focused on price and are always looking for the lowest price supplier. They are expensive to service but, on the other hand, expect only minimal service. They show no loyalty and have little or no potential. Most companies who look at the profitability of their customers are horrified to find how many of their customers fall into this category.

B. Niche customers

These are moderately profitable customers but they take only one or two of your products or services. They view you as only one of a cluster of suppliers. They expect good service but are still price sensitive. They have potential for future growth.

C. Major use customers.

These customers who see you as being a major supplier and are either reliant on one of your products or services or buy a wide range of your products or services. They are highly profitable with potential for developing a strategic partnership. They expect a preferential level of service and that you will go out of your way to help them. They expect to be consulted about new products and services being considered. They are your second most important group of customers.

D. Strategic partners

These are already a highly profitable partners with great potential for increased profits for both - expects you to be proactive in discussing the long-term - happy to merge business processes - expects you will work together to develop new products and services that are exclusive to them

3. Develop a strategy for each segment

Not all customers are equal and, therefore, customers in different segments should be treated differently. Who are you best able to serve? Who do you not want as a customer? Indeed, some would argue that in the spirit of one-to-one marketing each customer should be treated in a unique way. Transactional customers who cost you money should be fired, or if this is not possible, you should rip the cost out of servicing them. Marginal customers should be kept but provide the lowest level of service you can in an attempt to increase your margins. Niche customers should be the target of up-selling and cross-selling campaigns as you try to get them to use a wider range of your products and services. The way to do this is to understand their business better and to show them how you can solve a wider range of their business problems. The emphasis with Major use customers should be to turn them into strategic partners. Work to grow the relationship to the point you develop a single strategy aimed at increasing profits for both of you, and by merging business processes. Strategic partners are your most important customers and this is where a great proportion of your resources should be devoted. They will be the least price sensitive of any of your customers and the least likely to defect. Work to strengthen the relationship by taking over parts of their non-core business, developing exclusive products and services and joint marketing (Intel inside).

4. Know Your customers

CRM means learning about your customers. This customer research should not be aimed at customer satisfaction surveys but rather at understanding the behaviour and perceptions of your customers. You need to understand who they are, where they live, what is important to them and how they see the world. You need to understand their present shopping behaviour, their likely future behaviour, their future spending patterns, their degree of loyalty, why they would defect and their willingness to recommend you to others - to mention just a few things. Generally, you must understand your customers' problems, their shopping list of issues and their priorities. Talk to customers, don't just read market research reports. Ask about things you are afraid to find out about. Find out why defectors switch. Better than talking to people, watch them. Shadow them as they use your products and services. See how they use them and what problems they encounter. Track their purchasing behaviour.

5. Use this information to change the way you do business

Talk to people in different ways. Introduce campaigns and offers to develop the buying behaviour you want. Develop recognition and loyalty programmes. Customise your products and services. Develop the ability for mass customisation.

The likely payback.

The major payoff for CRM is that you will end up with strong relationships with profitable customers who will do more business with you over a long-term period of time.

Your future profitability will come not from finding new customers but from holding on to your existing customers and getting them to come back repeatedly to buy more - perhaps even at better margins. Most companies lose more than 50% of their customers every 5 years and yet if they could reduce this defect rate by 5% they could double their profits. A study reported in Businessweek: found that increasing customer retention by 2% is equivalent to cutting costs by 10%. Customer retention is important because it is six times easier to sell to an existing customer, and because repeat customers buy more, require less service and are less price sensitive. Companies must think of the life-time worth of their customers and treat them accordingly. There is a widespread myth in business that customers are fickle but this is because managers fall into the satisfaction trap. Companies believe that if they satisfy their customer that will be enough to make them stay. This is not true. Studies show that between 15 and 40% of all customers who say they are satisfied actually defect each year and up to 85% of customers who defected were happy or very happy at the time they did so. What companies must do is aim to do more than simply satisfy their customers. If they are dealing with business customers they must aim to make them successful, or if they are dealing with consumers they must give them something extra. Loyalty programmes are quite successful. One study showed that 53% of people said that the loyalty programme they were in made them less likely to switch and 80% said they spread their business around more before joining the programme. More encouragingly, the loyalty programmes encouraged people to spend more - up to 46% more.

Most importantly, CRM improves the bottomline. A 1995 study compared the financial results of customer focused companies with 'average' companies. Return on equity was 17% in customer focused companies compared to only 11% in average companies. Similarly, profit on sales was 9% vs 5% in customer focused companies, market share growth was 6% (vs 2%) and cost reduction was 10-15% vs 2-3% in average companies.

You must ensure your CRM programme is company wide.

Making CRM a company wide initiative must start with managers because studies show that managers spend 70% of time dealing with internal issues and only 30% on external ones. It is hard to be customer focused if you are looking mostly inside your company. Other ways include:

- * bringing the customer into the workplace
- * developing a customer promise which is published both inside and outside the company
- * organising staff into natural work teams and focusing them on their customers
- * developing a remuneration scheme for staff related to company profitability

Have the right target

The aim of CRM is to build long-term partnership relationships with profitable customers. Focus not just on current profitability of a customer but also potential. Another key target is to identify customers who show a willingness to form a strategic partnership.

Conclusion

CRM is a business strategy, not a marketing tool. It involves putting the customer at the centre of your universe and focusing the entire organisation on building and maintaining a relationship with them. You must know the value of each customer and treat them differently, putting your resources where you will get the best payback. Then you must work to understand your customers - especially their behaviour and perceptions. Use this knowledge to change the way you run your business.

Remember, CRM is a journey not a destination. You will never get there but you will become more successful as you travel along your journey.