

- Solutions
- Insight
- People
- Techniques
- Keynotes

baseline



**MAKING  
INFORMED  
DECISIONS**

# **Customer Management: Whose Line Is It?**

baseline insight<sup>™</sup>



***You access your favorite housewares web site intent on buying a gift for a friend. You find the perfect pasta maker, but are surprised when the site doesn't recognize you and you have to re-enter your billing information. Strike 1. Then the site begins a never-ending effort to cross-sell you additional products—semolina flour, a lasagna pan—even though you checked the “Is this a gift?” box. Strike 2.***

***CRM is delivering on its sales and marketing promise, but customers still defect. Why? The customer has no real voice in the “relationship” and the company is not looking for ways to walk a mile in the customer's shoes.***

The early work of Peppers and Rogers<sup>1</sup> was a breath of fresh air, challenging the very logic of assumptions underlying mass marketing accepted without question for decades, and suggesting instead that customers are individuals who have specific, not mass, desires and needs. The job of marketing is not to cover the world with undifferentiated information about an offer, but to understand and tailor offerings to the tastes and needs of a particular customer based on that customer's past buying behavior and expressed preferences.

...a common underlying assumption is that customers have hidden or overt preferences that marketers can reveal. Once identified, marketers can offer customer what they want, often even before they know they want it. If successful, marketers will be rewarded for the superior value they provide with higher customer loyalty, which will create a “literally insurmountable barrier to competition...”<sup>2</sup>

Unfortunately, the assumption may not be holding up in the research: Sometimes customers know what they want, and sometimes they do not. Customers respond differently to a customized offer, i.e., an offer tailored to the perceived needs and preferences of that customer, depending on whether or not she knows what she wants. In addition, an incorrectly customized offer—one based on erroneous understanding of the customer's preferences—disproportionately damages the customer's perception of the company making the offer.<sup>3</sup>

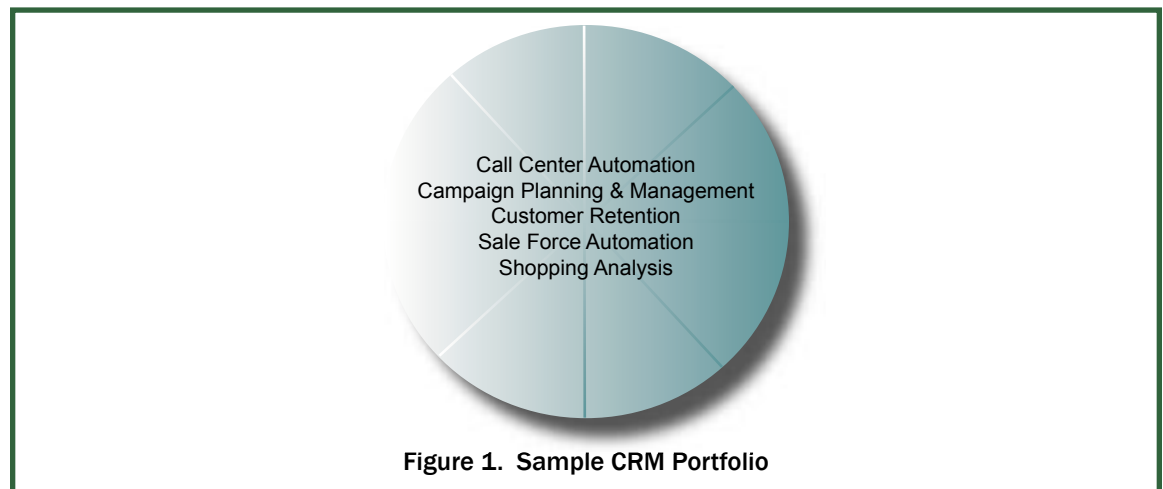
Findings from the academy clearly indicate that understanding, anticipating and accurately responding to customer wants and preferences involves a highly complex interaction of variables that may be impractical for all but companies with extensive and sophisticated research capabilities to isolate and model.

Where does that leave the other 99% or so of the commercial world? Perhaps in a very good place: Free to delay investment in expensive, sophisticated data mining infrastructure and focused on optimizing delivery on the basic dimension of service expected by all customers—convenience, speed and value pricing. Convenience, speed and value pricing as defined by the customers' experience—not the company's!

## CRM PUSHES

CRM applications are designed for internal benefit, automating marketing and sales activities for increased efficiency and accuracy, and integrating post-sales service—such as the call center—to create a seamless sales and service process. The resulting efficiencies echo those of SAP’s integrated Supply Chain Management process that drove unnecessary time and expense from materials management by tying together purchasing, inventory and accounting activities, and Peoplesoft’s integrated HRIS integrated human resources activities.

A company may have as little as one CRM application, or a complex and sophisticated portfolio of CRM applications, but they all contribute to *pushing* offer information from the company out to the customer or to the employees that provide after-sale support.



Although the accuracy of the information a company uses to make customer-focused decisions can affect the customer’s experience—“Oh, we’re sorry! We didn’t know you bought the product we’re calling you about last week!”—CRM is nevertheless internal to the company, and thus relatively controllable. Conversely, the customer experience is external to the company, specific to the person purchasing goods and services from the company, and thus ultimately determined by the customer.

## CEM PULLS

Whereas CRM applications like Sales Force Automation and Campaign Management focus on pushing information—albeit the right information—out to the customer, customer experience management (CEM) applications focus on *pulling* information into the organization from the customer. Information about how the customer perceives

his or her interactions with and treatment by the company is then integrated with CRM information about the customer to better align offers with that customer's (or segment's) interests and preferences.

Like CRM, CEM programs are essentially internally focused because CEM objectives are defined by the company—not the customer. As a result, customer satisfaction scores can be very high while repeat sales are very low. The lack of correlation between customer satisfaction scores and customer retention may be an artifact of the satisfaction survey<sup>4</sup> rather than some attribute of the customer.

Companies should balance the internal focus of CEM by including activities specifically designed to “see” interaction from the customer's perspective. The degree to which the CEM portfolio includes the collection, analysis and advocacy for factors that customers say are important—regardless of company priorities and initiatives—the more valuable the contribution CEM.



Figure 2. Sample CEM Portfolio

## THE LASTING IMPRESSION

One of the principals of my company tells a great customer experience story. A friend recommended a fabulous shampoo and conditioner sold by a .com beauty company. The website was gorgeous: It was easy to navigate; it was simple to place and confirm an order. Imagine her surprise when she received a form letter several days later explaining that the item she ordered was out-of-stock and she was welcome to try again later. Additional features of this letter made it clear that the order process was not tied to their inventory management process or customer information file, and that customer service was at the company's convenience rather than the customer's. Her ordering experience was a dream, but the company's failure to link ordering with delivery and follow-up soured her on the company—which subsequently succumbed to the dot-com bubble burst.

The best sales and purchasing experience can be completely undermined by unreliable inventory or incompetent support. CEM must monitor customer experience from sales offer (CRM) through delivery and post sales service. Customers do not compartmentalize their experience with a company—either they got what they wanted or they didn't. The faster, easier and more convenient every touchpoint, the better.

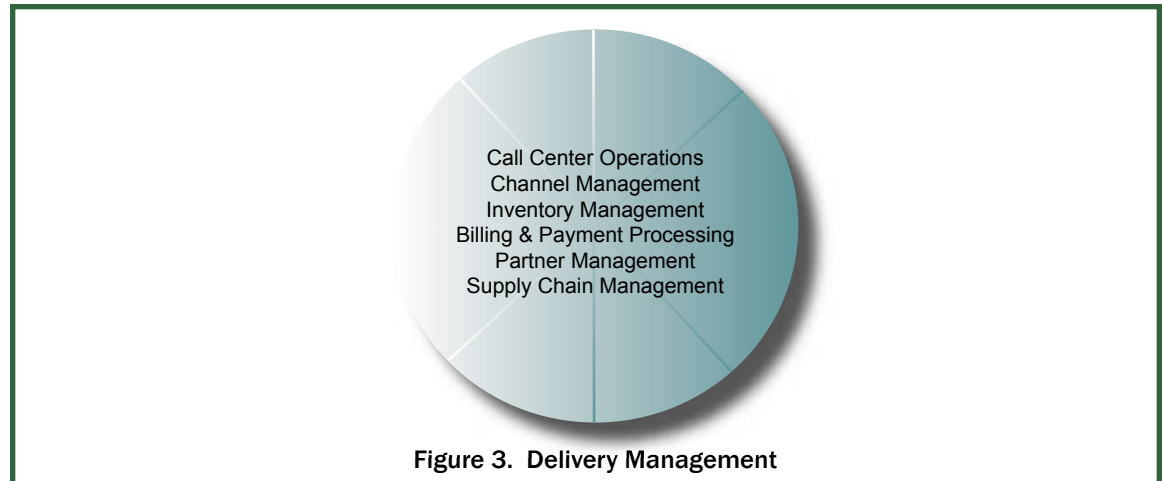


Figure 3. Delivery Management

In terms of customer experience, when delivery management is done well it is transparent to the customer. But if there are problems, those problems may cause a customer to defect. Moreover, the well-documented effect of word-of-mouth works both ways: While happy customers may tell 3-5 other people, a dissatisfied customer will tell 15-20.”<sup>5</sup>

## CUSTOMERS ARE SERVED, NOT MANAGED

Customers don't want to be managed by anyone.<sup>6</sup> The literal terms “customer relationship management” and “customer experience management” imply unrealistic power and control. We need to be clear that CRM, CEM and Delivery Management are about making it easy for the customer to find and acquire products and services in a way that contributes to the long-term profitability of the company. If ceding power to the customer is more effective at achieving the company's objective, then perhaps CEM should also facilitate customer-enabling rights and features.

### An Alternative Model

CRM, CEM and Delivery Management integrate to give the customer and the company the best mutual experience possible. The customer is able to get what he or she needs, and the experience approximates what she considers convenient, speedy and reasonably priced. The company makes a sale and builds trust with the customer

that they can deliver value, perhaps enticing repeat business.

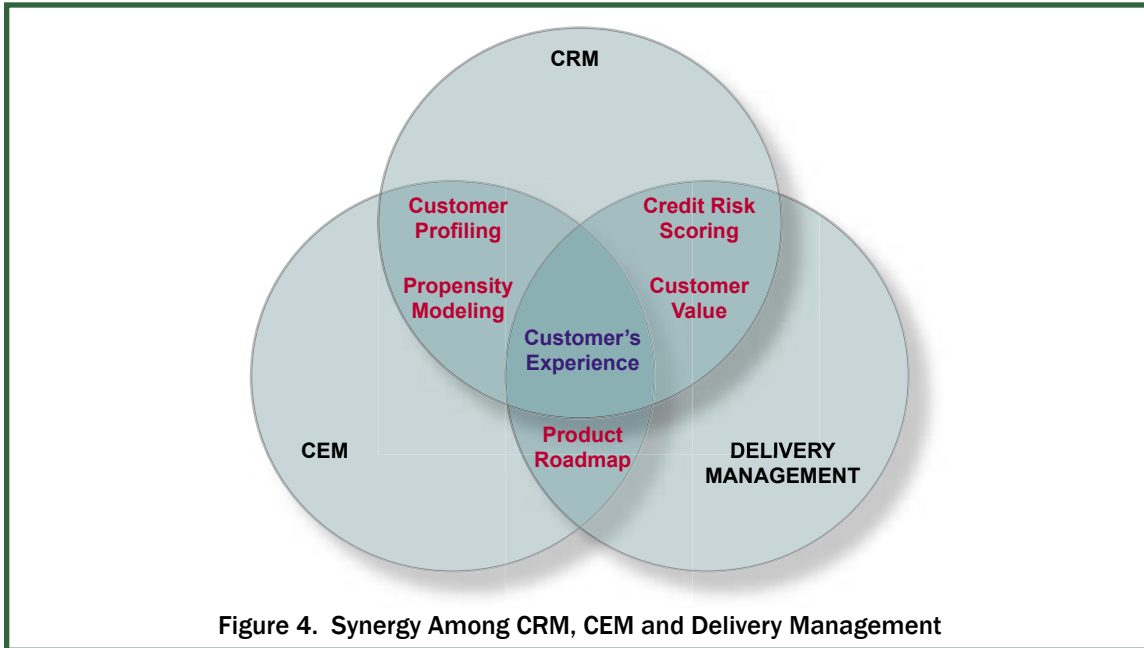


Figure 4. Synergy Among CRM, CEM and Delivery Management

For any given company, the presence or absence of specific applications within CRM and CEM, the kind of information those programs yield and how it is used depends on the customer strategy and the maturity of its enabling technical infrastructure.

## Customer Experience Metrics

Customer experience is no exception to the aphorism: You can't manage what you don't measure. Most balanced scorecards include a measure related to the customer, although it may not have anything to do with customer experience. If customer experience is strategic to the company, then at least one CEM metric needs to appear on the corporate scorecard. Whether strategic or tactical, employees whose functions create or depend on customer experience need ready access to the information.

Identification, design, and ongoing enhancement of a customer experience dashboard is another CEM function. Because performance monitoring is tied closely to the business planning and budget cycle, this is also where CEM ties into those routine processes.

## Avoid Transparency

Companies serious about CEM and CRM act on the information they get about and from customers, and they act on it quickly and visibly. Why? Because consumers are bombarded with requests for information and promises of good treatment. Many are quite willing to contribute information *if* it is used to improve their experience doing business with the firm.

An interesting body of inquiry<sup>7</sup> from the Stanford Graduate School of Business is researching the nature customer feedback. A customer satisfaction study<sup>8</sup> revealed that customers who were given a satisfaction survey *before* a transaction tended to be more detailed and negative in their responses than customers who did not know they would be asked to comment until they received a survey *after* a transaction. The researchers explained:

*...it is possible that part of the reason that those who expect to evaluate tend to focus more on negative aspects and provide more negative evaluations is their expectation that their task calls for constructive criticism.*<sup>9</sup>

Extending that thought, it is just possible that customer satisfaction surveys actually establish a real relationship between customer and company, at least for as long as it takes to complete the survey. The customer puts extra effort into noting aspects of the experience and product quality in order to participate in what they perceive to be the company's continuous improvement program!

It would be interesting to see a follow-up study that examines the effect on customer retention when the same customers are asked for feedback on the same experience and it is clear that the information is not used in anyway.<sup>10</sup> Common sense suggests that customers might conclude that the company does not really care about their experience and has no intention of changing. The ensuing cynicism would likely lead to one sort of disaffection or another.

Bottom-line advice: Be prepared to use information solicited from customers. If you ignore customers, they will know it. There will be negative repercussions that may hurt the brand, undermine the customer strategy, or inhibit the ongoing effectiveness of the CEM and CRM programs.

## CUSTOMER STRATEGY

The customer strategy is the key driver for brand, CRM and CEM. Whether product- or customer-centric, a company will develop a brand and can benefit from implementing CRM and CEM. The nature of the programs and will differ wildly, though.

### **Strategy Drives Brand, CEM and CRM Programs**

The greatest risk investing in CRM and CEM comes from not understanding whether the company is product- or customer-driven, particularly if purchasing packaged applications to support the programs. There is a risk that the assumptions underlying the packaged applications conflict—some supporting customer-centricity, some supporting product-centricity. More likely, the applications assume customer-centricity, management says the company is customer-centric, but the cultural, organizational

structure and reward systems are product-centric.

Any misalignment will limit return on investment in customer and marketing programs, running the risk of confusing or alienating customers, and potentially invoking cynicism and mistrust of management among employees. For these reasons, establish the company's long-term strategic intent and then evaluate the culture, organizational structure, business processes, performance metrics, and reward and recognition for alignment with that intent.

Once the inconsistencies are understood and acknowledged they can be fixed or their effects mitigated for the short-term: They may influence priorities or sequence of development but need not inhibit brand development or building out the CEM or CRM portfolios.

## Rate Your Company

Many companies say they are focused on the customer but have business processes that are completely product focused. There's no shame in being product-centric, but there is a credibility problem with employees and customers alike if the company fails to walk the talk. Use the following checklist to figure out whether your company is truly customer- or product-centric:

- 1. Information about every product owned by a customer is available from a single report, query or database.
- 2. Products are developed and managed as part of portfolios that target specific customer segments.
- 3. The company supports an ongoing customer satisfaction program.
- 4. The customer satisfaction survey not only asks for a rating on some aspect of a product or service, but also asks the customer to rate how important that aspect is to her.
- 5. All customer information is stored and maintained in a single, integrated repository.
- 6. The sales force is organized and compensated by customer segment.
- 7. A chief customer officer (CCO) or similarly titled executive level position is accountable for customer strategy, programs, policies and procedures.
- 8. Bonuses are calculated on measures associated with share of wallet, customer value, or segment growth rather than the number of widgets moved.
- 9. Employees are rewarded for identifying problems that affect the customer; and rewarded even more if they recommend and implement a solution.
- 10. Call center representatives are empowered to make adjustments and offer premiums to customers experiencing problems.

If you checked five or more, your company is more customer-centric than product-centric.

## Product-centric or Customer-centric?

CRM and CEM can add value whether the company plans and organizes around customers or products, but the nature and priority of the programs are quite different. The following table assumes the extremes of customer-centric and product-centric objectives.

	CUSTOMER-CENTRIC STRATEGY			PRODUCT-CENTRIC STRATEGY		
	BRAND	CEM	CRM	BRAND	CEM	CRM
<b>PEOPLE</b>	--	Reporting structure and accountability for customer.  Owned by Chief Customer or Chief Knowledge officer.		--	Reporting structure and accountability for products.  Owned by Chief Marketing or Chief Operations officer.	
<b>PROCESS</b>	--	Inductive research.	Segment customers by interests and behaviors.	--	Deductive research.	Mass market or segment by demographic characteristics.
<b>INFORMATION</b>	Creates expectation of personalized product or service.	Integrated by and across customers.		Creates expectation of product or service reliability or value.	Integrated by product.	
<b>TECHNOLOGY</b>	--	Customer Data Mart or Enterprise Data Warehouse.		--	Functional (departmental) systems.	

**Table 1. Program Differentiation by Strategy and Operational Component**

Inclined to believe that CEM and CRM are antithetical to a product-centric business strategy? Nothing could be farther from the truth: Customers expect convenience, quality and value pricing for products and services. For instance, the recording industry is absolutely product-centric, yet its dogged determination to outlaw download access to product<sup>11</sup> is alienating a large and growing segment of the customer base. Music lovers are insisting on precisely the kind of customer experience the industry is trying to block. One could argue that the entire industry is willing to sacrifice customer experience and in the bargain create a competitive void that threatens the long-term survival of current incumbents.

## What Belongs in the CEM Portfolio?

Knowing whether information will be pushed to or pulled from the customer is a good start but not the only consideration when determining whether an application is CRM or CEM. Some applications, like Sales Force Automation and Wallet Share Analysis are clearly CRM. CEM requires a bit of thought because it is the intent behind the application or activity that really determines whether or not it falls under the CEM rubric, and thus belongs in the CEM portfolio. If the intent is to walk a mile in the customer's shoes, the application or function is naturally CEM.

APPLICATION	INTENT	CEM	CRM
Comment & Complaint Handling	Turn around a customer's feelings of anger, disappointment or distrust as a result of doing business with the company.	✓	
Customer Advisory Board	Get honest feedback on the effectiveness of planned offers and campaigns. <sup>12</sup>		✓
Customer Satisfaction Research	Discover and improve those aspects of interacting with the company that matter most to the customer.	✓	
Dissatisfaction Analysis	Uncover and remediate variables causing customer defection and dissatisfaction.	✓	
Focus Group Research	Introduce a new product or service to target customers and find out if they think they would purchase it.		✓
Mystery Shopper Research	Evaluate the look and feel of a sales channel against corporate standards.		✓
New Product Research	Understand existing customer's problems and priorities, and use that to design innovative products and services.	✓	
Personalized Web Pages	Give customers some control over sales, marketing, fulfillment and delivery. <sup>12</sup>	✓	
Suggestion Box	Make customers feel like they are part of the brand family—assume there is little or no infrastructure for processing and using the input. <sup>13</sup>		✓
Usability Lab	Observation and click stream analysis of users interfacing with sales channel tools. <sup>14</sup>		✓

Table 2. CEM or CRM?

## BUILDING CRM AND CEM CAPABILITY

Because of their strategic contribution to the business, CEM and CRM are programs that develop and evolve over time. Treating either as a project, with static objectives and starting and end dates, limits the return on the investment. Results offer short-term competitive advantage at best because understanding the customer is one of the few ways to differentiate from other players in your market. From a strategic perspective, treating CEM and CRM as a one-time project is defensive, but treating them as integral to the way you do business is offensive: You set the bar against the competition and they scramble to catch up. While they are catching up, you reset the bar a bit higher.

The best way to build out CEM and CRM capability is incrementally. Use it as an opportunity to solve real business problems and prove to the rest of the organization the tangible value of the approach. And prove it again by eliminating another source of business pain several months later; and so on. The approach builds capability and delivers return on investment as you go, which substantially limits risk and can make organizational change much easier to address and sustain.

## FOOTNOTES

<sup>1</sup> Pine, B. Joseph, Don Peppers and Martha Rogers. "Do You Want to Keep Your Customer Forever?". *Harvard Business Review*. March-April 1995. pp. 103-114.

Peppers, Don and Martha Rogers. *Enterprise One to One: Tools for Competing in the Interactive Age*. New York: Currency Doubleday. 1997. 436 pp.

<sup>2</sup> Simonson, Itamar. *Determinants of Customers' Responses to Customized Offers: Conceptual Framework and Research Propositions*. Stanford Graduate School of Business Research Paper No. 1794. March 2003. 44 pp.

<sup>3</sup> Ibid.

<sup>4</sup> Which questions are asked and which are left out? When customer satisfaction scores are tied to compensation, there's a tendency to focus questions around the company's customer initiatives. There are two ways to mitigate the problem. For each question, ask the customer how important the topic of the question is to her. Then give the customer an opportunity to freely comment—and make sure those ad hoc comments are evaluated and considered. They are a precious gift that may remove institutional blinders!

<sup>5</sup> Technical Assistance Research Program (TARP). *Building a World Class Service System and Setting Rational Priorities*. June 1995. p. 2.

<sup>6</sup> Potter, Fenella. "Betting on CRM? How to Achieve Best Odds." *CIO.com*. July 5, 2002. <http://www2.cio.com/analyst/report354.htm>.

<sup>7</sup> Itamar Simonson (the Sebastian S. Kresge Professor of Marketing, Graduate School of Business, Stanford University) seems to be a key sponsor of customer response research.

<sup>8</sup> Ofir, Chezy and Itamar Simonson. *The Effect of Expecting to Evaluate on Quality and Satisfaction Evaluations*. Research Paper Series: Research Paper No. 1608. Graduate School of Business, Stanford University. 2000. 42 pp.

<sup>9</sup> Ibid, page 31.

<sup>10</sup> Whether the company adopts a particular customer's suggestion or not is probably immaterial. Change could be viewed as an attempt to improve product quality or service. When nothing changes, it's pretty clear that input is being ignored.

<sup>11</sup> Napster was the most visible, but not the only music service embroiled in this commercial tug-of-war.

<sup>12</sup> A fanciful example would be a breakfast cereal company allowing the customer to order product in non-standard amounts. Amazon.com gives customers some control over delivery by asking them whether they want products shipped as they are available or in one shipment.

<sup>13</sup> Yes, this sounds cynical yet most businesses provide e-mail access to customers but no infrastructure to read and respond. It is the same issue. Without the intent to use the information, the feature is not CEM—it is debatable whether it is CRM either.

<sup>14</sup> Observation and click stream analysis required the researcher to make assumptions about the customer's experience, assumptions that can be completely wrong. To be CEM, usability research needs to include user input on motivation, intent and personal response.





**Baseline Consulting Group, Inc.**  
**15300 Ventura Boulevard Suite 523**  
**Sherman Oaks, CA 91403**

**818.906.7638 Tel**  
**818.907.6012 Fax**  
**[www.baseline-consulting.com](http://www.baseline-consulting.com)**