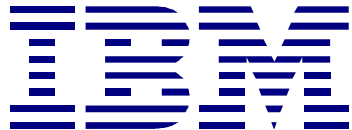


Customer Relationship Management – the importance of market segmentation and appropriate measurement

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Balance of marketing measures

Making the important measurable

Changing the organisation

What IBM is seeing in the market place

To develop CRM there are a series of actions needed to understand and service the customer well and to provide a consistent face to the customer

Enterprise view of CRM

CRM is the application of customer information to build profitable customer relationships through:

- **knowing the customer** by continually refining insights into customer needs, behaviours, and economics,
- **targeting and tailoring** value propositions based on this knowledge, and
- **focusing business resources** on activities that build long term customer and economic value.



Customer view of CRM

From a customer perspective these capabilities appear as:

- **a single long running dialogue** across all business functions and customer access points,
- **customisation of products and services** in real-time based on a detailed knowledge of the customer,
- **consistent user experience** across all contact points, and
- **integrated approach** enterprise-wide to customer relationships versus departmental customer transactions



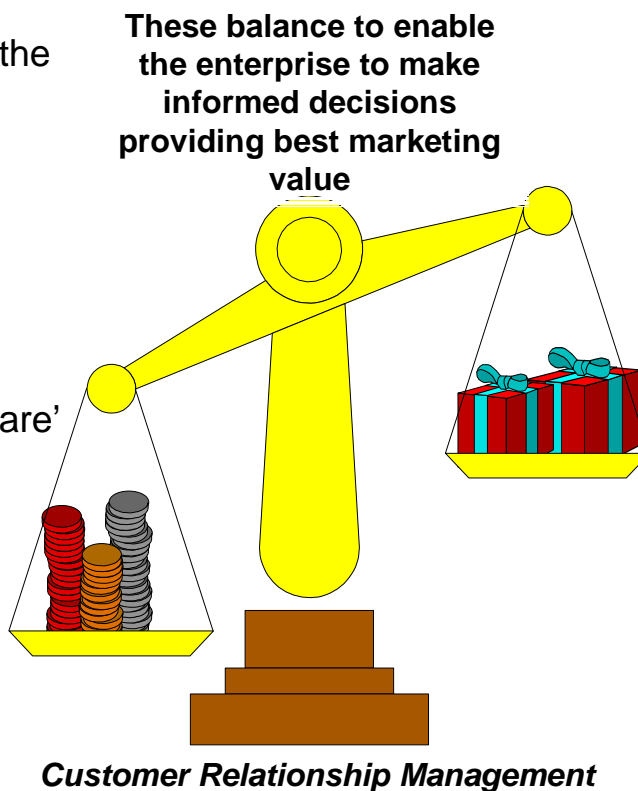
Balancing the value of the of the enterprise to the customer and the value of the customer to the enterprise maximises profitability and the customers perception of the service

The value of the customer to the enterprise

What attributes of the customer are important in determining the value of the customer to the enterprise?

For example:

- Current profit
- Future profit - 'lifetime value'
- Product holdings
- Share of the customer - 'wallet share'
- Customer loyalty
- Likelihood to repeat purchase



The value of the enterprise to the customer

What specific **actionable** attributes determine whether a customer will buy product or service offerings?

For example:

Basic Needs *must be done just to trade*

- Correct records
- Access to the enterprise

Satisfiers *if not provided, customers will defect*

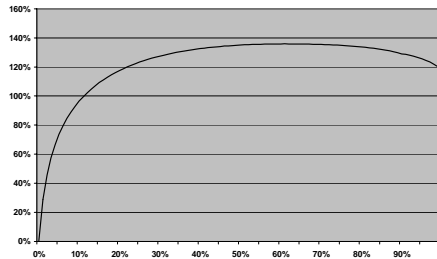
- Fast and accurate transactions
- Responsive staff

Differentiators *Steal from competitors*

- Creative pricing
- Personalised service
- Tailored products
- A good feeling

To target customers effectively a composite view of the customer is needed, each element defines part of the CRM requirements

Profitability

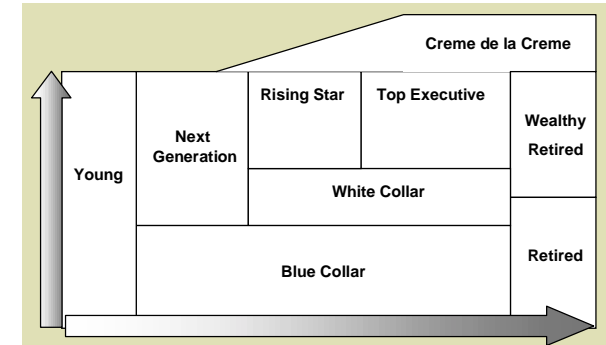


What is this customer worth to us?

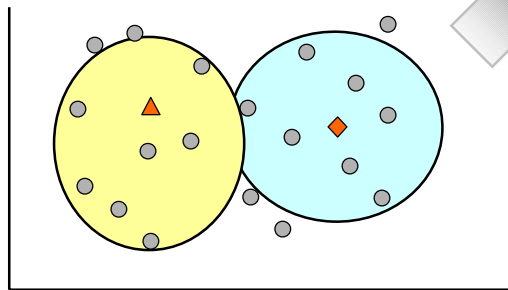
What is the customer like?



Lifestyle Segmentation



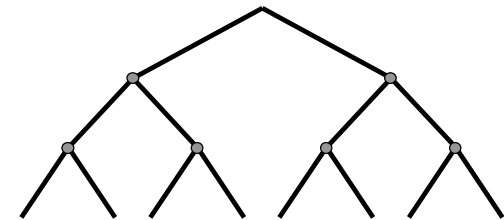
Behavioural Clustering



What is the customer doing?

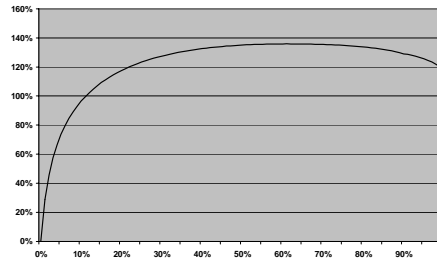
Will they buy?

Propensity Model



Customer profitability is the cornerstone of CRM, it identifies who is worth servicing and gives us a performance measure

Profitability



What is this customer worth to us?



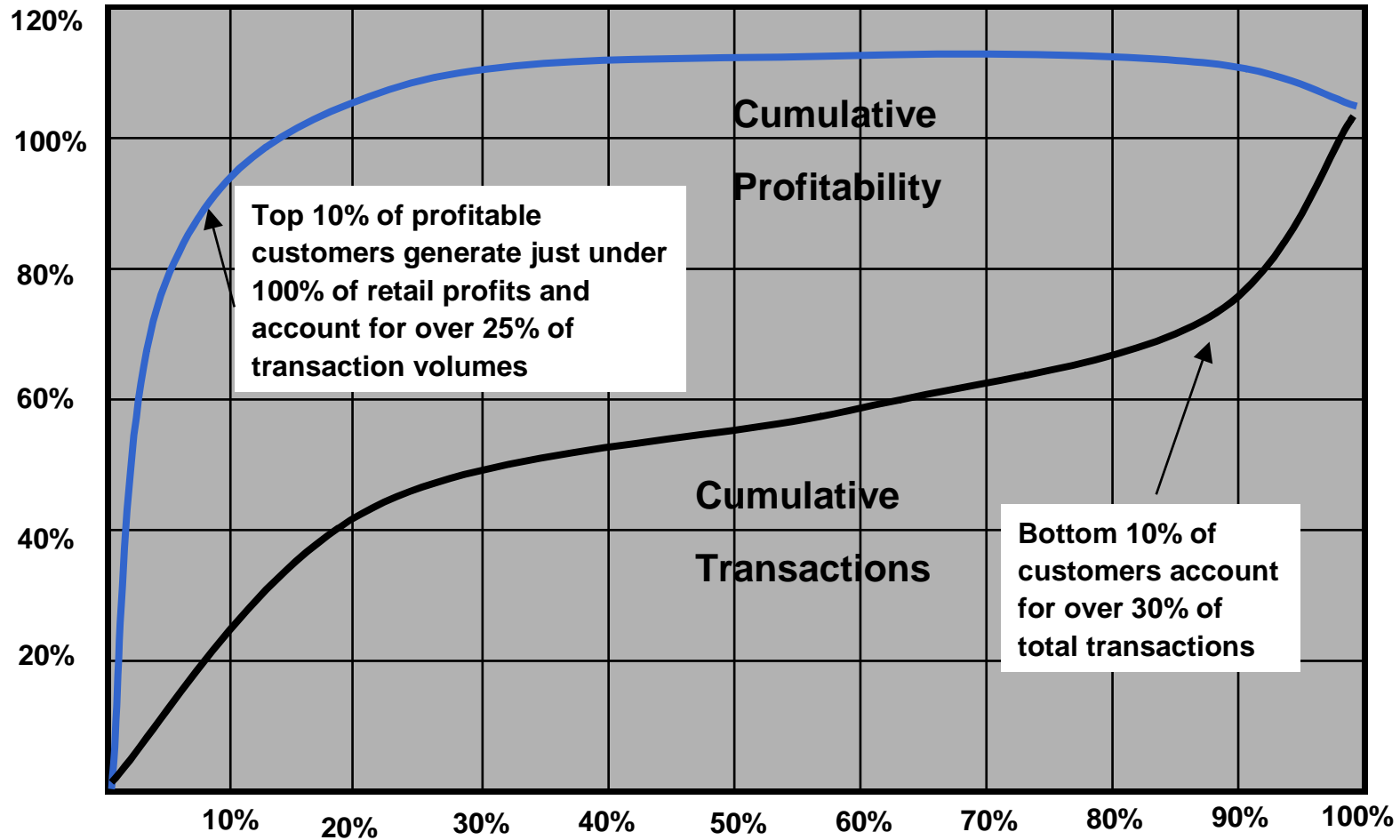
Who is adding value to our business?

Where does value get generated?

How effective have our CRM efforts been?

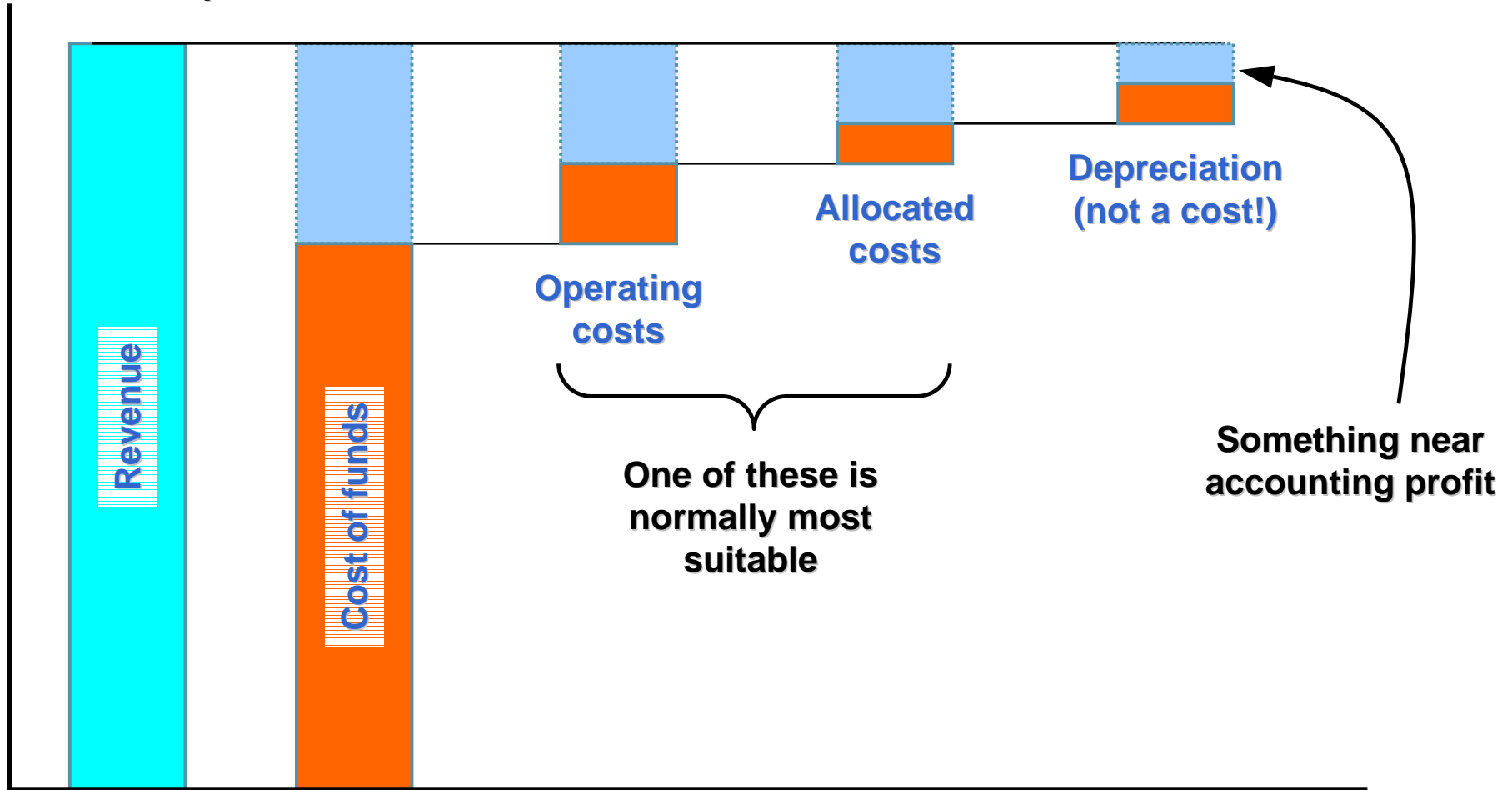
How much can we spend on CRM activity?

A typical retail bank's profitability curve shows the importance of focussing CRM effort on the high value customers

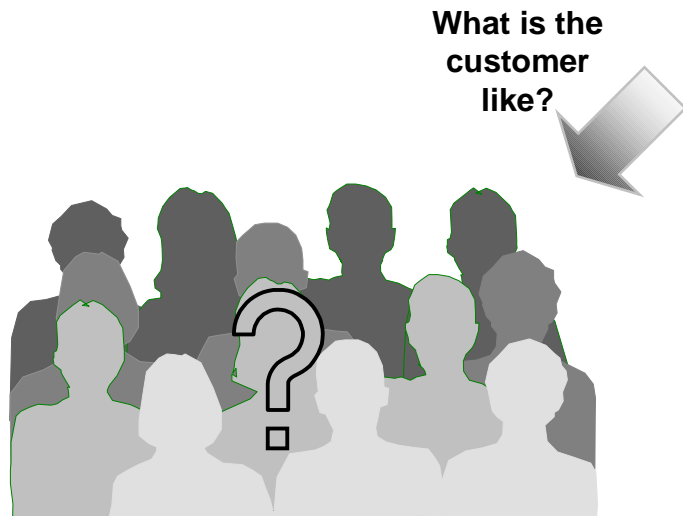


The profitability analysis can be quite simple, as relative profitability is sufficient for marketing applications

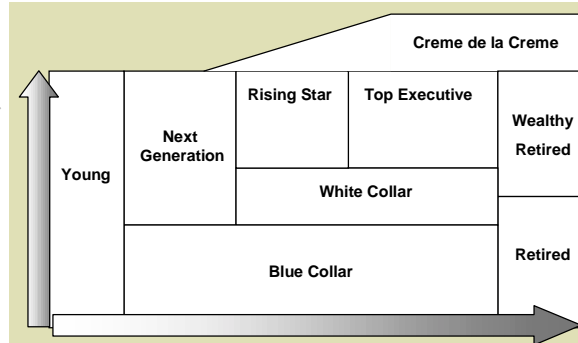
An example bank



The lifestyle segmentation tells you what your customers are like as people, we need this to develop marketing messages and to design appropriate products



Lifestyle Segmentation



What do our customers look like as people?

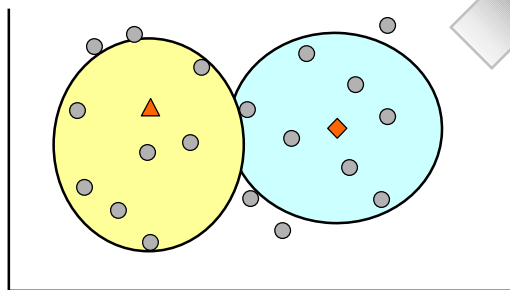
What kind of products would they need based on their life-stage?

What kind of messages would be appropriate for our customer set?

The behavioural clustering shows what the customers are doing with us, often very similar customers from a lifestyle perspective have very different behaviours



Behavioural Clustering



What is the customer doing?

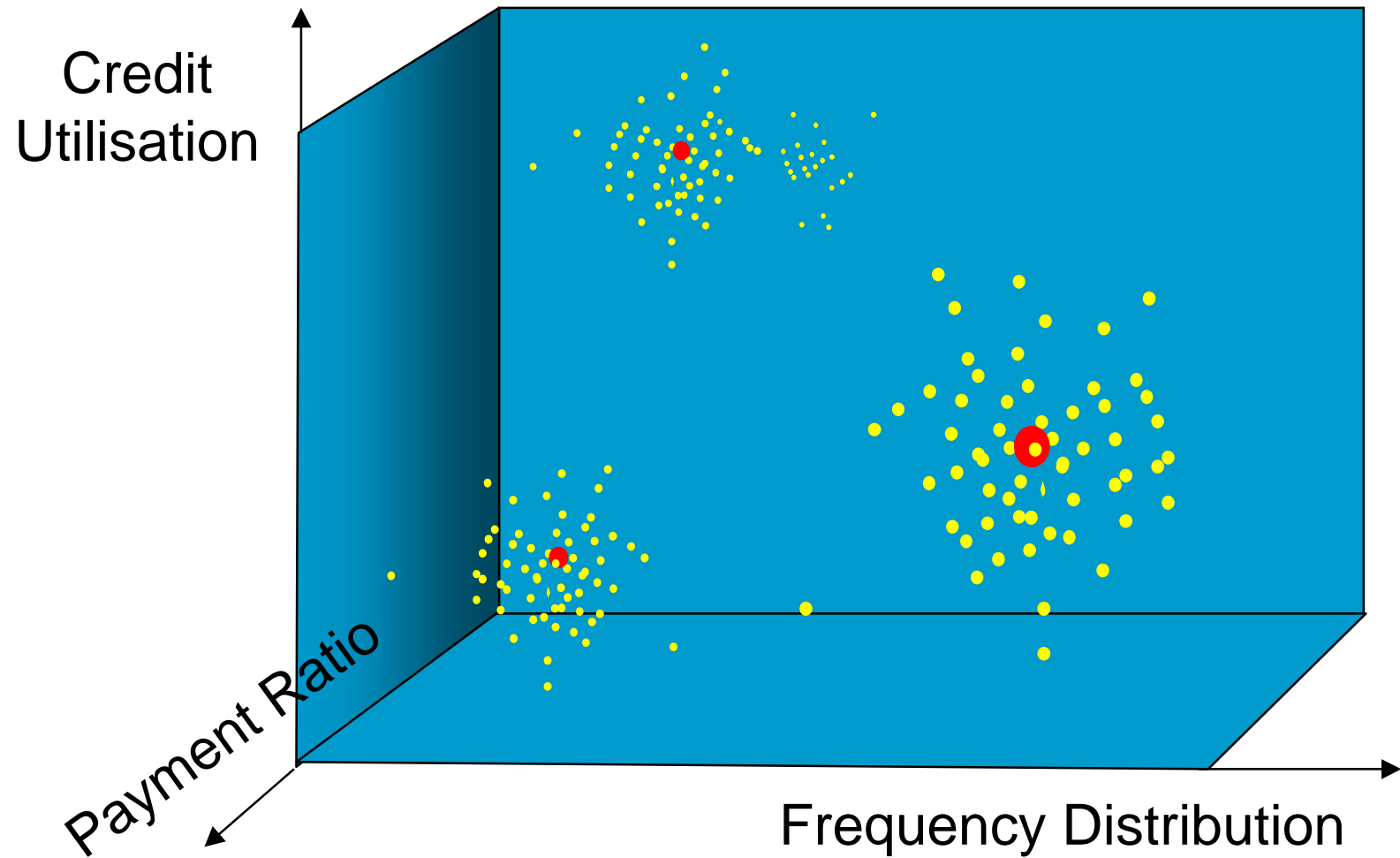
What are our customers doing with us?

What do our customers choose us for?

What opportunities exist to migrate customers into more productive segments?

Are there clear gaps in product take up by our customers?

Data mining starts without an end in mind and helps get to hidden patterns



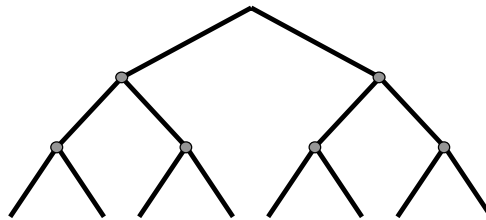
Finally the propensity modelling shows how likely a customer is to purchase a product, this analysis is done for each of the behavioural clusters



Will they buy?



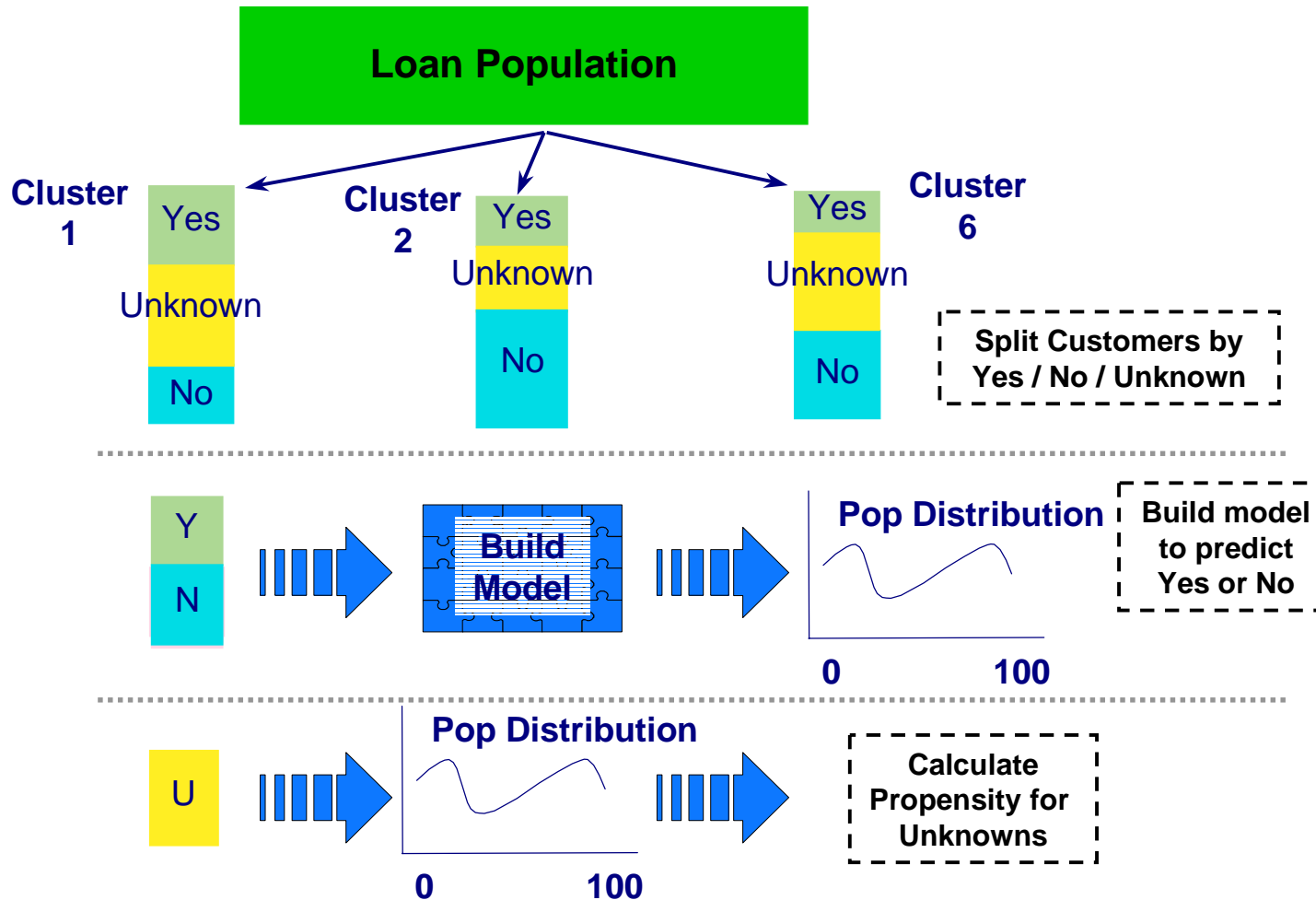
Propensity Model



What is the probability of a customer purchasing a new product?

How similar is this customer to other customers with this product or behaviour?

Propensity is calculated by splitting the customers by cluster, then modelling how similar customers are to those with the product we are targeting



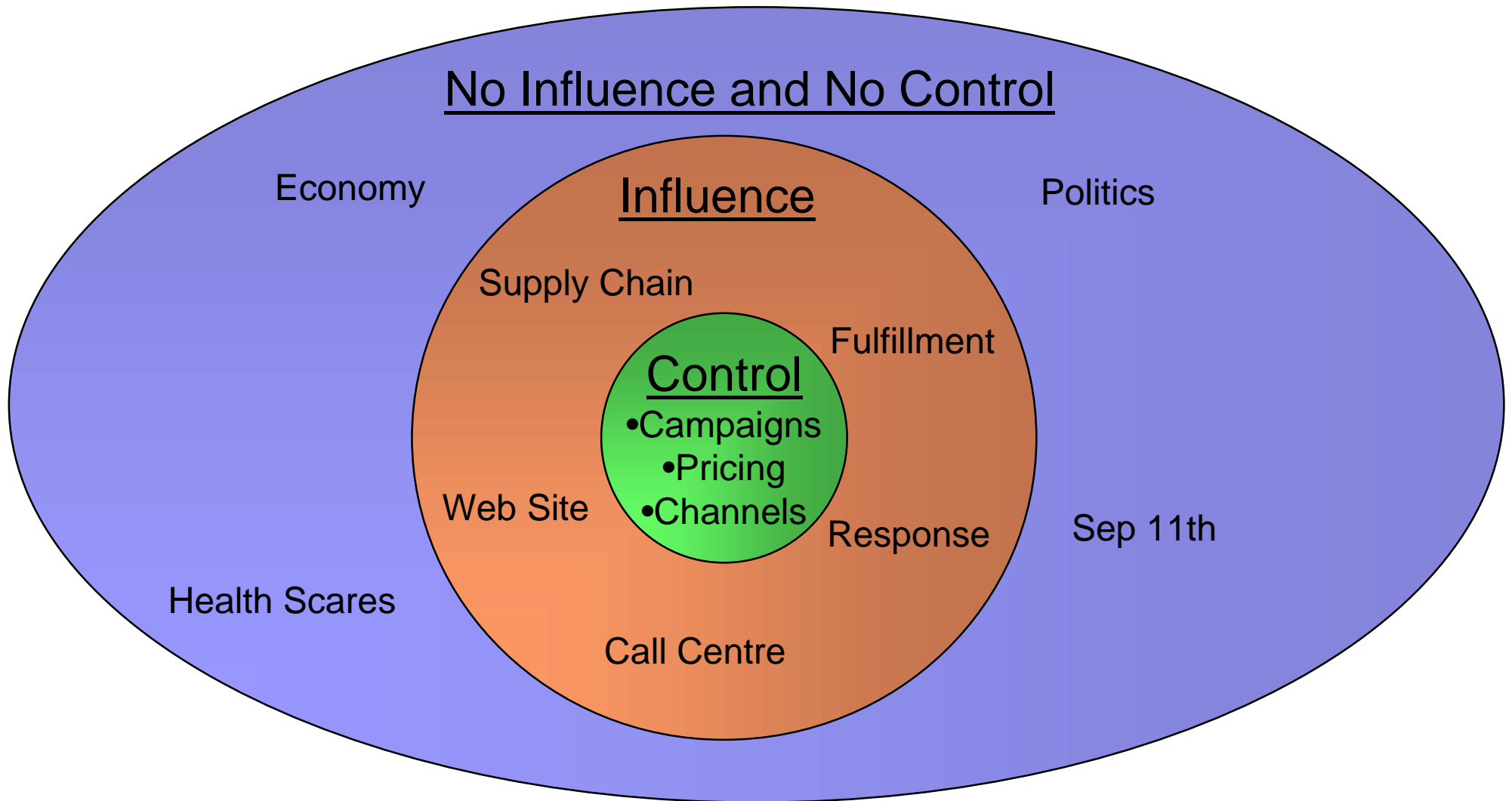
Results

Table of scores for each customer where
1 = **Very similar** to customers with the product

0 = **Very dissimilar** to customers with the product

We target customers with a high propensity score

We now have superb segmentation, we know how our customers behave and we have a powerful propensity model. What could possibly go wrong?



*Measurements are the key.
If you cannot measure it you cannot control it.
If you cannot control it you cannot manage it.
If you cannot manage it you cannot improve it.*

Dr James Harrington



The brand is reinforced or damaged at every moment of truth. Therefore we had better know how we are performing in the customers' eyes.

Perspectives from which a company's activity can be evaluated:

- Customer perspective
 - how do our customers look to us?
 - how do we look to our customers?
- Process perspective
 - in what processes must we excel to succeed?
- Development perspective
 - what products are required to stay ahead of the marketplace
- Learning and innovation perspective
 - how will we sustain our ability to change and improve?

And always...

- Financial perspective
 - how do we look to our shareholders?



Most measurement systems make the measurable important and not the important measurable

Reasons:

- Lagging indicators

most performance measurement systems so far have been focused mainly on lagging indicators

for example: a catering company measuring number of poisoned customers (lagging) rather than measuring the activities by which they avoid poisoning customers such as number of chefs trained in Health & Safety (leading)

- Lagging financial indicators

moreover, those lagging indicators are mainly financial ie P&L

- Wrong reaction to indicators

eg the train is running late and will not be stopping at this station to make up time

- Limited measures

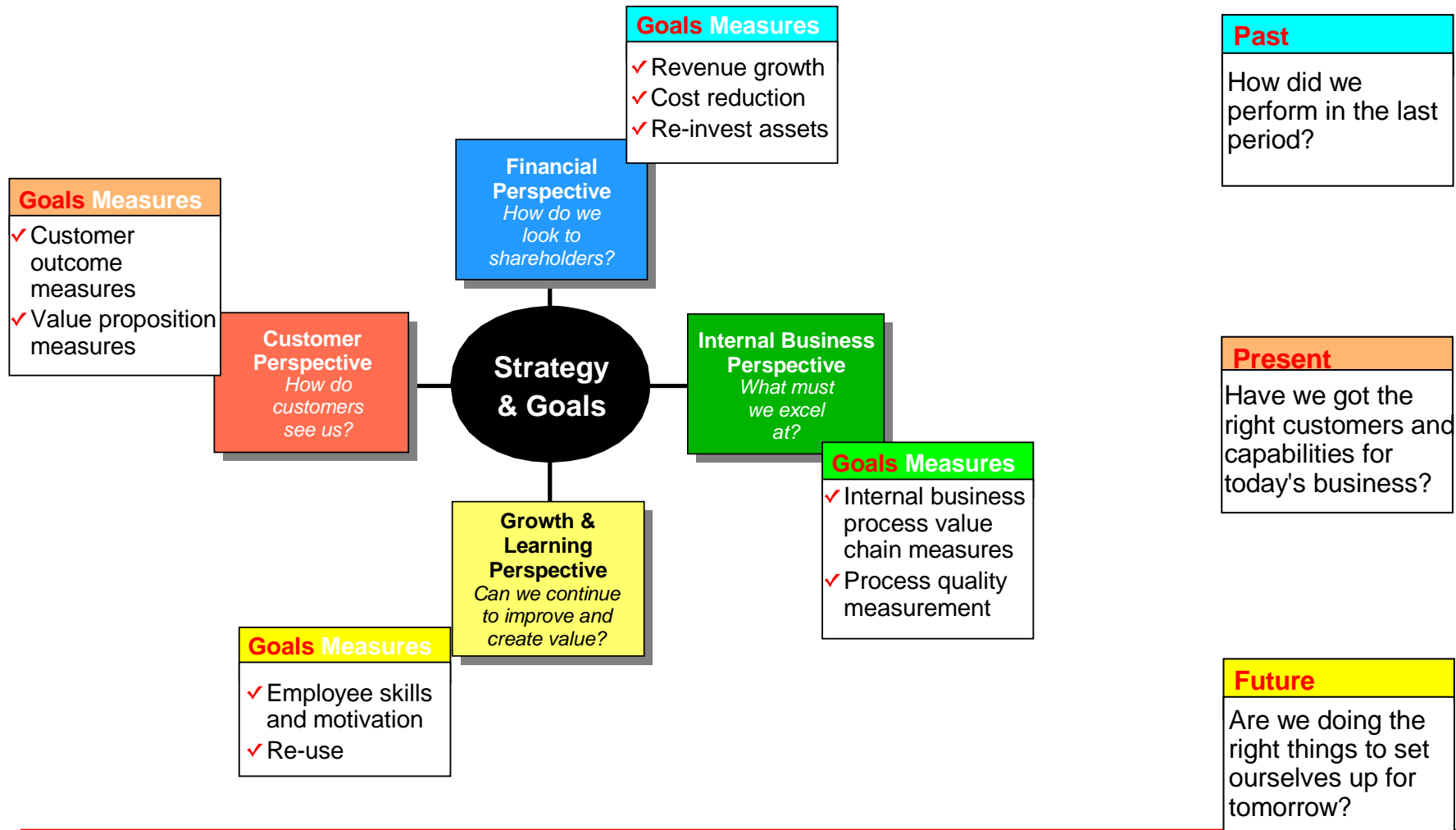
Non-financial measures are not well defined or widely used
and their link to strategy and financial results has been vague at best



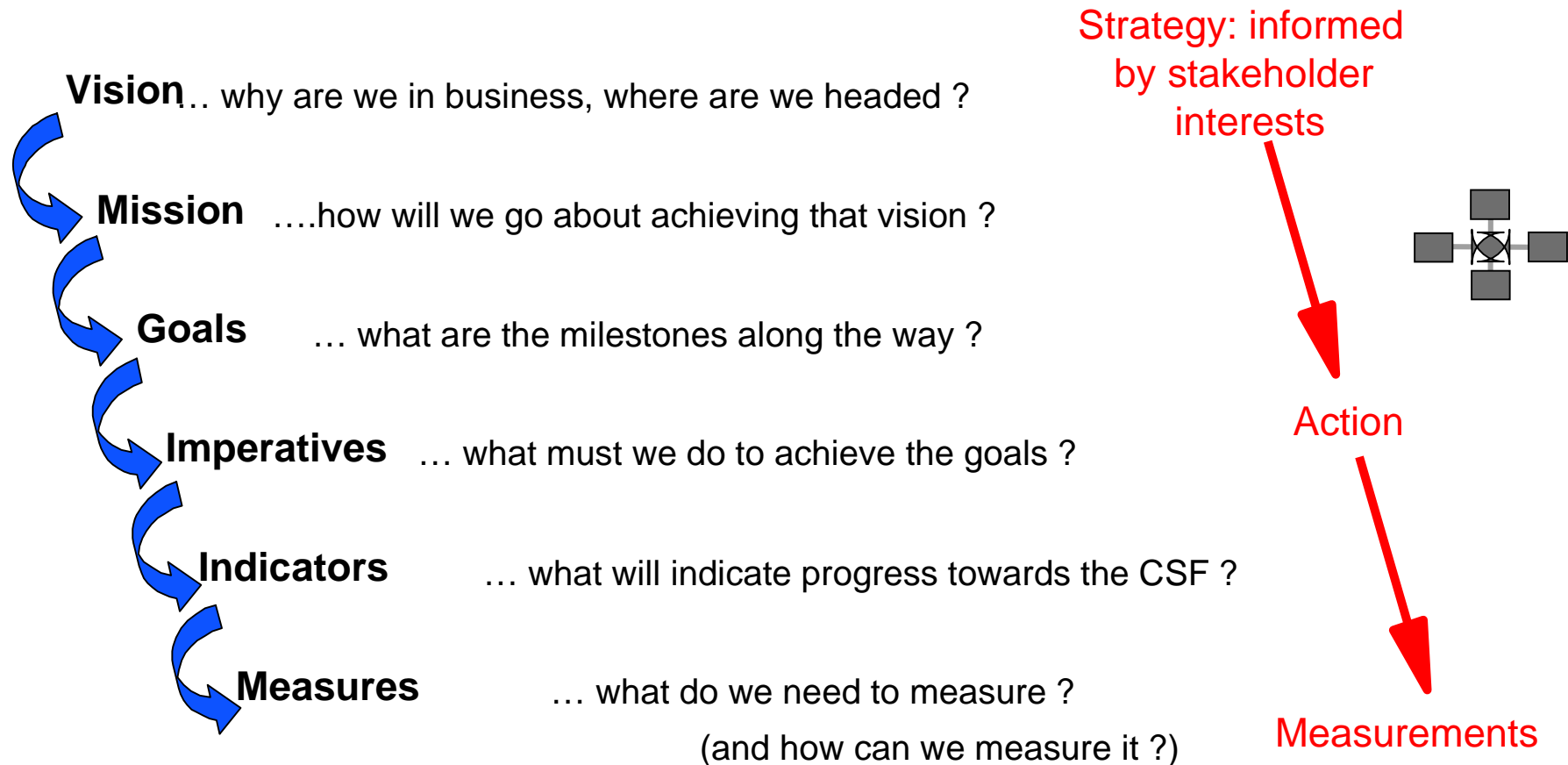
The Balanced Scorecard ensures focus on strategy & goals ...

And it builds coherent goals & performance measures ...

Looking as much to the past as to the future



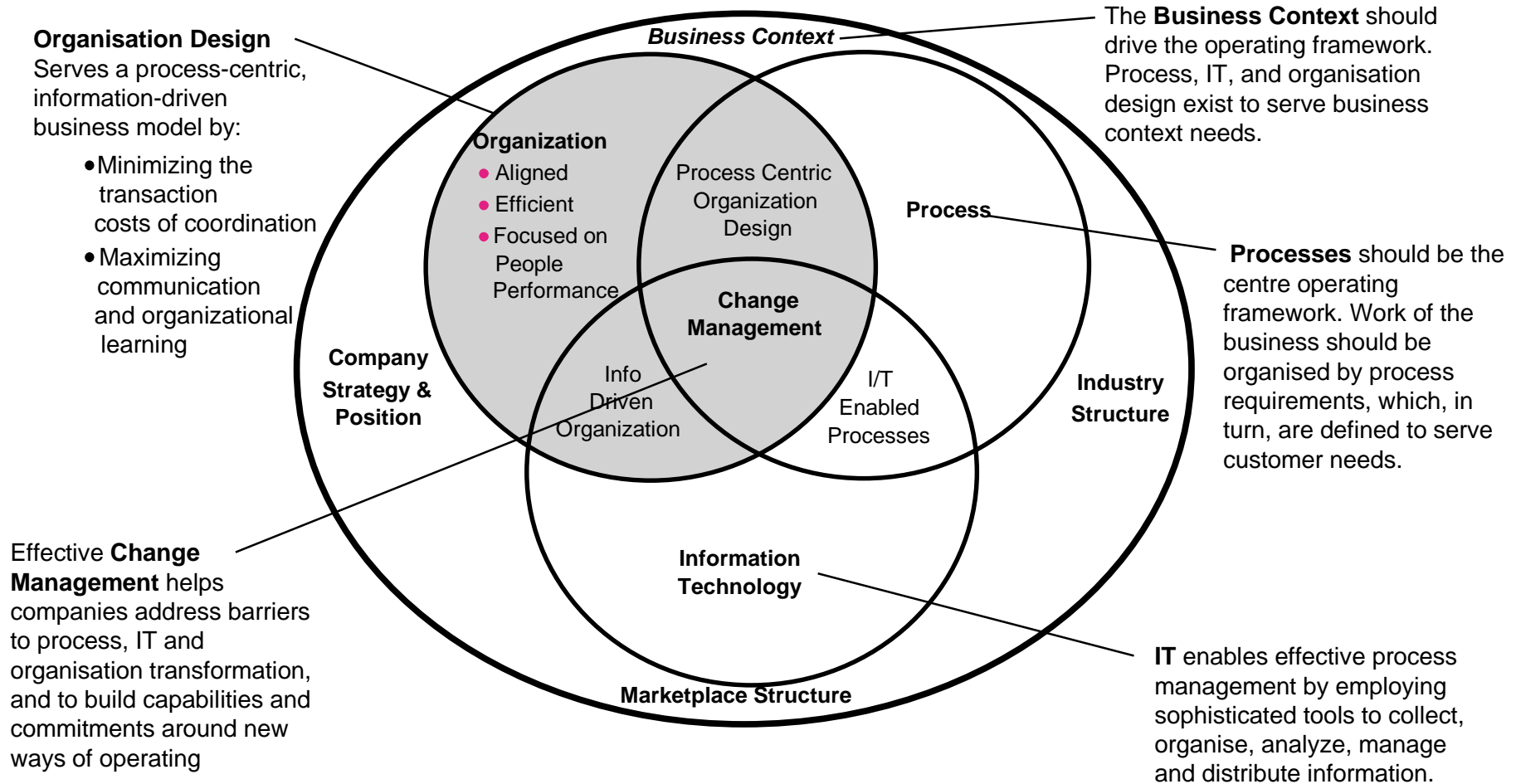
It provides a complete link from business strategy to the scorecard measurements



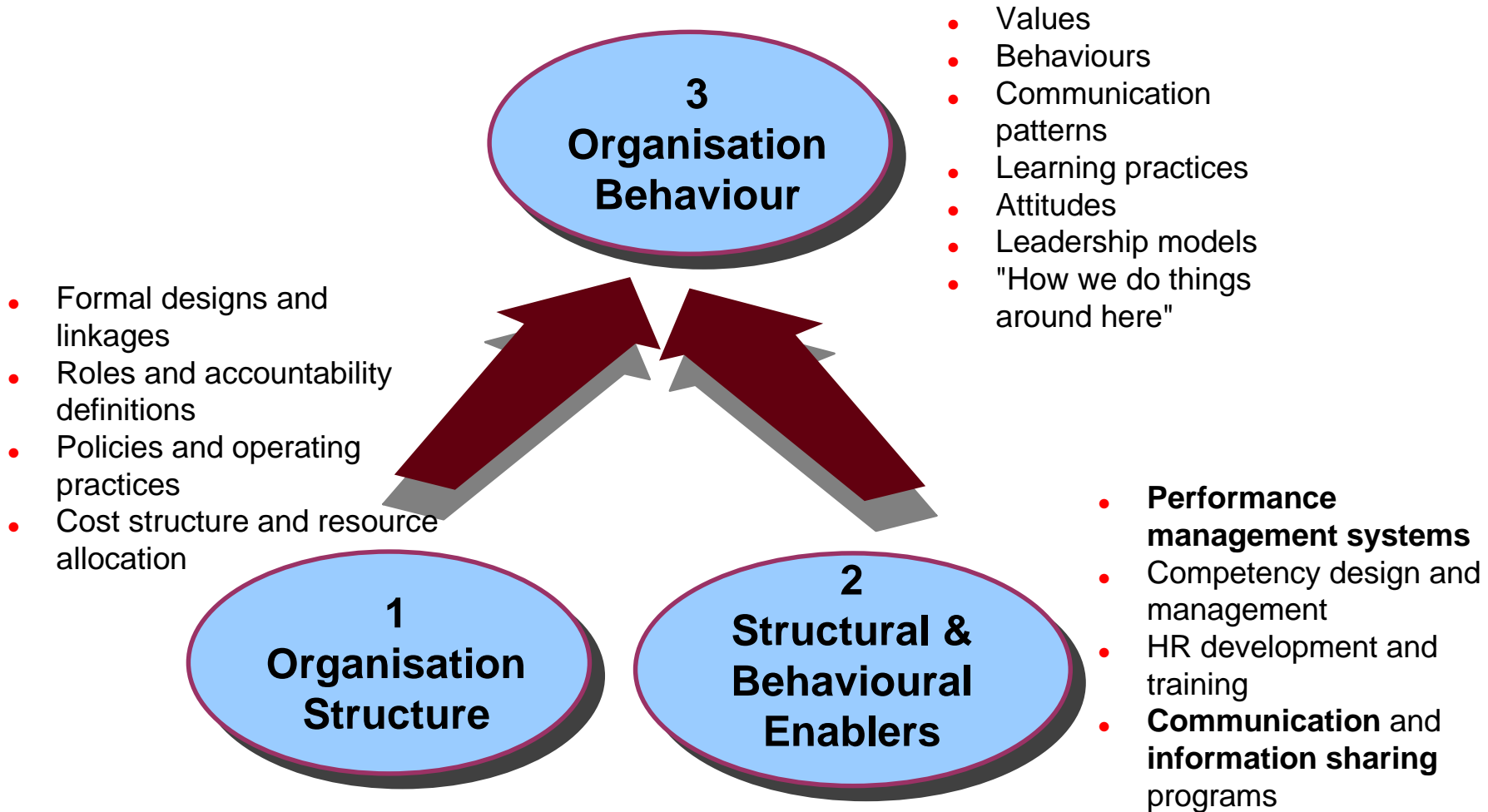
The measures help us to understand how we need to change. The key to achieving significant and sustainable change lies in.....

- What** {
- Establishing a credible case for change
 - The buy-in, leadership, and role-modelling offered by the executive team
 - The effective involvement of all people
- How** {
- Ensuring that the end-game addresses the organisational requirements
 - Integrating all changes within a coherent framework
 - Managing the change as a process

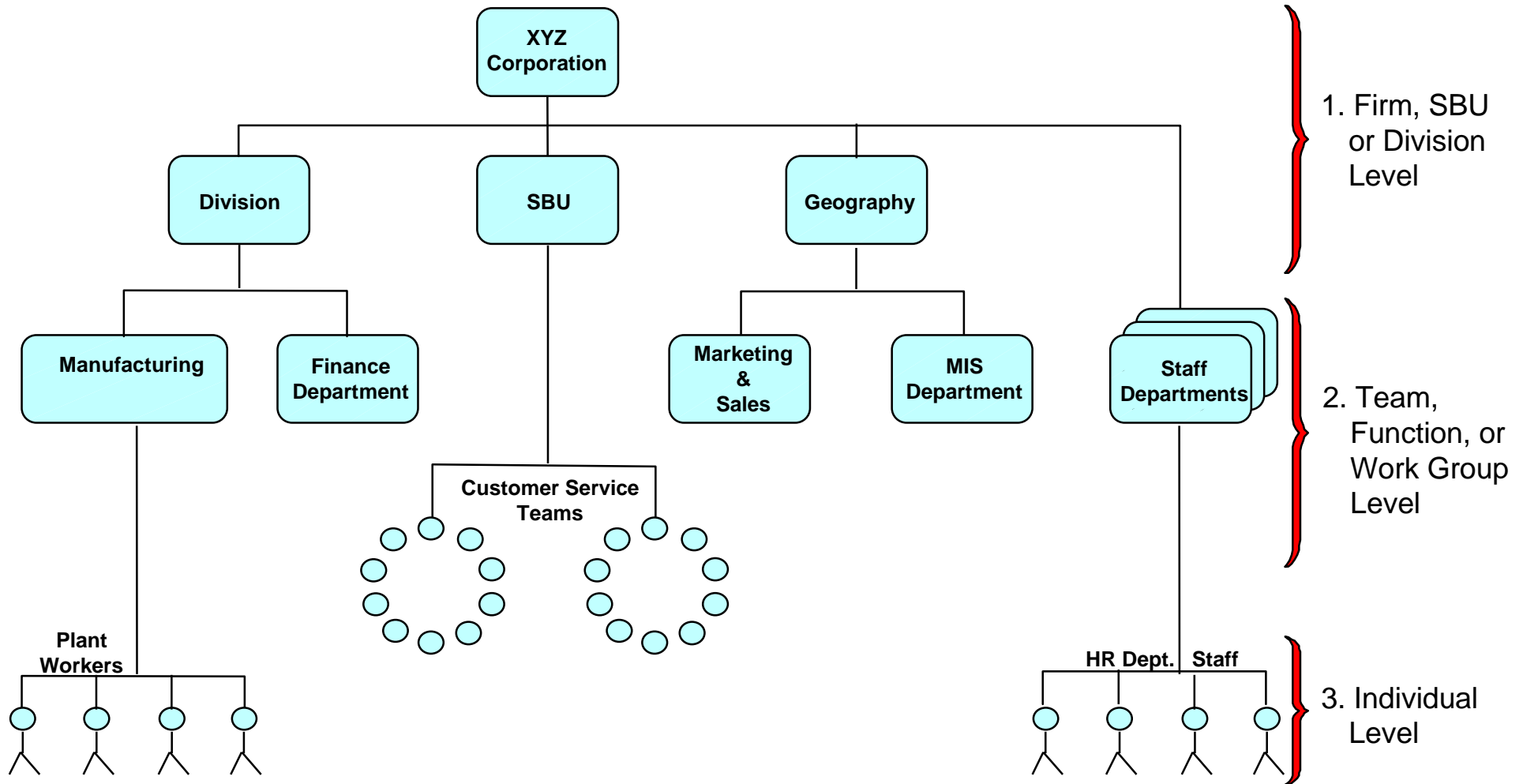
Maximum performance occurs when all elements of the management framework are integrated and effectively aligned to the business need



A company has three basic organisational levers to improve its framework for co-ordination and information sharing...



These levers need to be pulled at all levels within a business



This framework enables and supports actions at all organisation levels

Organisational Elements			
	Structure	Enablers	Behaviour
Company-Wide	<ul style="list-style-type: none"> • High Level Mission • Policies and procedures 	<ul style="list-style-type: none"> • Measurements • Change / Learning / HR Strategies • Complaints mgmt 	<ul style="list-style-type: none"> • Organisational Culture
Team	<ul style="list-style-type: none"> • Team design • Cross functional relationships 	<ul style="list-style-type: none"> • Team Competencies & Measurements • Group support systems • Mentoring & coaching 	<ul style="list-style-type: none"> • Teaming & Networking Behaviours • Conflict resolution
Individual	<ul style="list-style-type: none"> • Roles and responsibilities • Job design 	<ul style="list-style-type: none"> • Individual Competencies • Performance Appraisal • Personal development • Remuneration & promotion • Induction & exit interviews 	<ul style="list-style-type: none"> • Individual behaviours

Current technology is pushing the boundaries of modern commerce

Never before have we been able to target so many customers so fast with new and exciting offers...

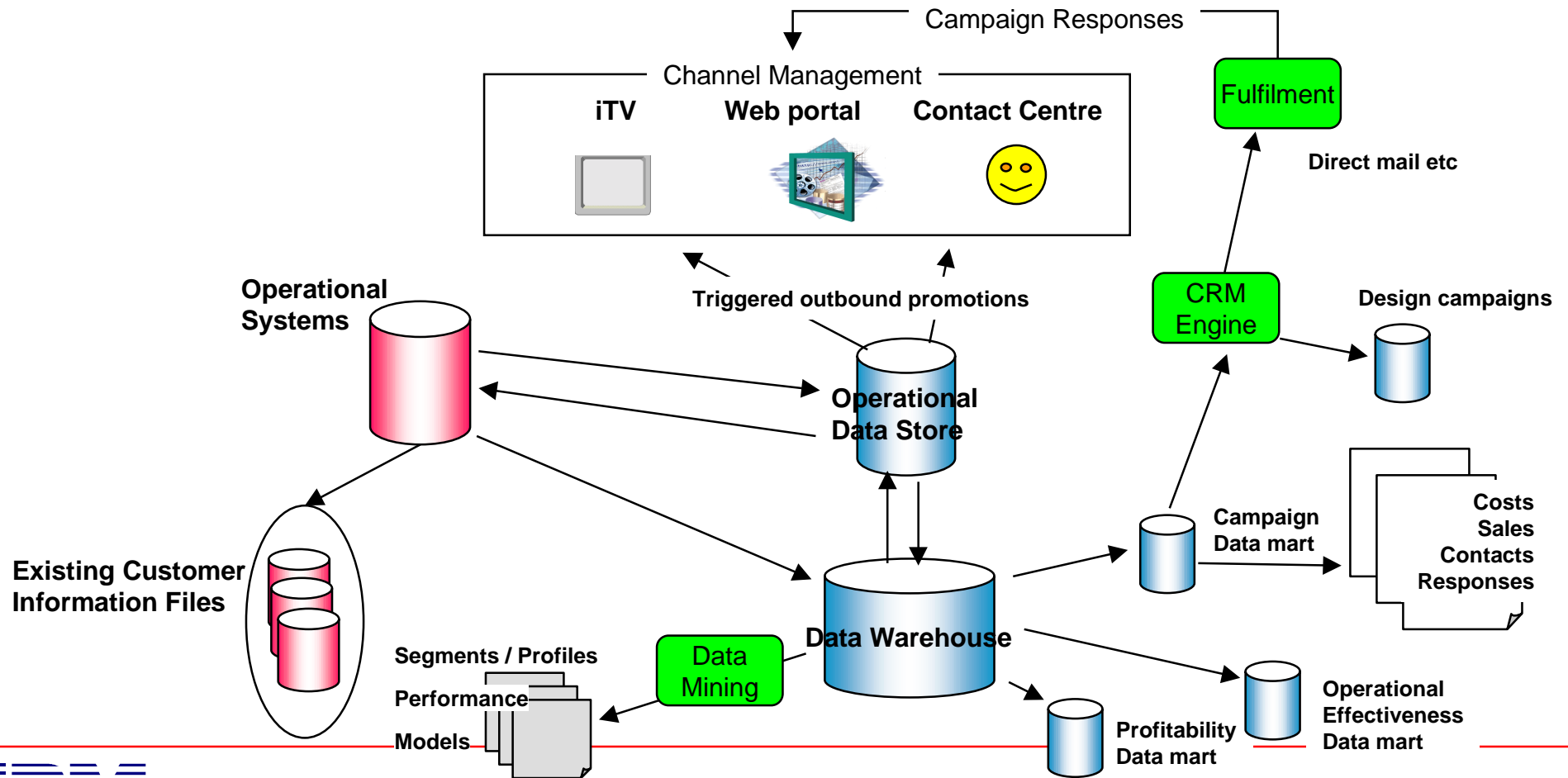
... that are entirely inappropriate in their target, timing and execution and damage the brand rather than enhance it.

In the wrong hands the CRM toolset is a blunt instrument to enable a faster disaster.

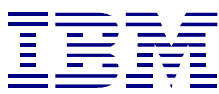
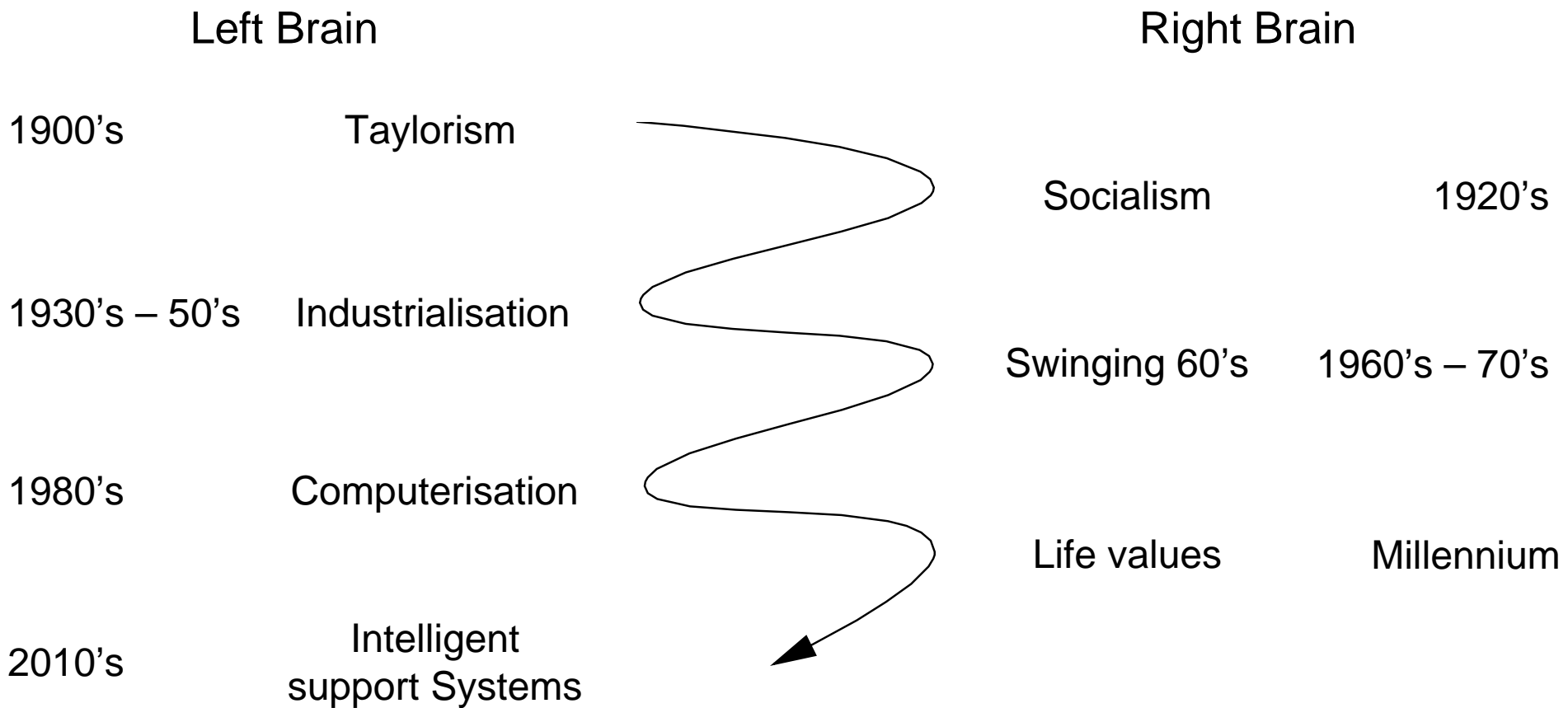


The data warehouse forms the core of the CRM engine and operational infrastructure

During 2000-01, enterprise CRM initiatives will be frustrated by application piece-part diversity across operational, analytical, collaborative CRM, which necessitate customization and handcrafted EAI infrastructure. (Aaron Zornes)



The current interest in CRM is viewed by some execs with suspicion to be embraced with care because the work force will be cynical of yet another fad. It can be viewed as part of a continuous cycle of focus between technology and people.



Some of the things we are seeing in the market place.

- A demand for real-time content management across channels
- A demand for real-time performance feedback
- Large volumes of web and other channel data requiring continuous processing
- A search for smart leading measurements
- Customers pushing back against CRM as a means of reducing costs
- Second wave of web sites or portals being more tightly integrated to information engines
- Customers with heritage systems funding CRM transformations from annual budgets and using coherent road maps

