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Customer Analytics Making the Difference in CRM: Customer Analytics Amplify the Value of Integrated CRM Solutions

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Competing in a Customer-Driven Environment

The current business environment is undergoing yet another transformation characterized by a tighter economic climate, increased globalization, competition for top customers, the advancement and rationalization of the Internet, cost management/reduction, mergers and acquisitions, etc. These trends have impacted the competitive landscape by:

- Increasing competition for high value customers,
- Creating more demanding customers with more choices, and
- Opening new channels to attract and serve these customers.

Now more than ever, companies are becoming aware of the tremendous benefits associated with understanding current and prospective customers from both an economic and behavioral perspective. As such, most companies have embraced customer relationship management (CRM) as an important element of their corporate strategy. To help enable these CRM programs, companies have invested in customer-facing solutions such as sales force automation, customer service centers, marketing automation, business to consumer (B2C) Web sites and others.

These applications help facilitate better service and more efficient interaction with customers through each respective channel. Unfortunately, many companies have implemented these applications as independent, nonintegrated solutions. As a result, they have yet to achieve several important CRM objectives, including:

- One view of the customer.
- Consistent and accurate customer information across the enterprise.
- Closed-loop customer interaction.
- Multichannel integration.

More importantly, without this integrated customer information, companies cannot apply the customer analytics (e.g., propensity to buy, channel preference, churn analyses, segmentation, target marketing, etc.) required to deliver real value from CRM.

"One Face" to the Customer

Recently, several articles have been written about the high percentage of CRM projects that have failed. While I may not agree with the published failure rates, I do believe that there are two primary reasons why many CRM projects have not been more successful.

1. Companies have implemented new CRM technologies without changing the basic processes for serving and interacting with their customers. Further, many of these companies have not truly embraced the notion of outstanding customer service. Therefore, from a customer perspective, nothing changes. A preferable model would be an organization like USAA, a mutual insurance company that has always embraced the concept of providing exceptional customer service and is now deploying technical solutions to further enhance its industry-leading practices in CRM.
2. Until recently, most companies had not fully appreciated the value of integrated CRM solutions. Thus, these companies have separate systems and databases for sales, marketing, customer service, e-business, etc., that do not share information. This lack of integration limits the usefulness of each of these applications and hinders a strategic imperative of providing one face to the customer, regardless of the channel.
The remainder of this article will focus on the second challenge which can be generally defined as integrated CRM and customer analytics.

Integrated CRM and Customer Analytics

Imagine how much more effective your organization would be if it could:

- Have access to a full view of its customers across all business units and product lines.
- Score the customers' long-term value to the organization.
- Proactively identify which products the customer may want or need.
- Know a customer's preferred channel for both buying and communicating.

If your organization had this capability, employees could make better decisions with respect to how, when and what to offer each customer.

Additionally, knowing that a new customer could be extremely profitable for your organization over the next five to ten years would allow you to improve your chances for a long-term relationship with the best customers by offering them premium services, reduced fees, upgrades and other benefits.

As you collect and analyze more information about your customers, this information can then be shared throughout the enterprise to better support employees such as customer service representatives. These employees can use the information to provide higher levels of service and personalized marketing offers for the products/services that would be of most

interest to each customer.

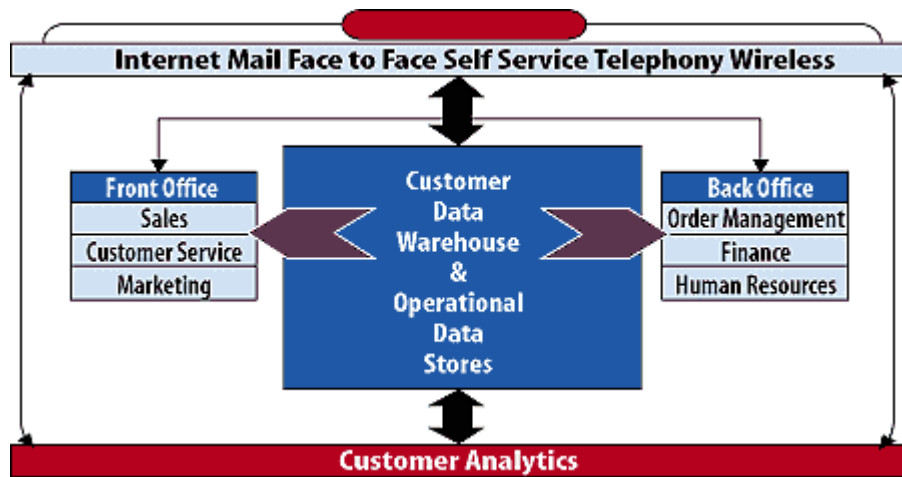


Figure 1: Integrated CRM Architecture

Further, as companies collect more information based on experience with their customers, they should implement a process that continuously measures and reviews the effectiveness of their analytical models. This will help ensure that adjustments are being made to refine and update the customer analytics so they take full advantage of the most recent customer interactions and transactions.

This final step, which is often overlooked, is highly important to ensure that your analytical models reflect the most current experiential information consistent with rapidly changing business dynamics.

The key to achieving all of this is having a strong vision, strategy and commitment to customer service, supported by integrated CRM and customer analytics.

Customer Data Warehousing

The most effective way to create an integrated CRM environment is by implementing a **customer data warehouse (CDW)**. A CDW aggregates relevant data from each customer touchpoint to provide a single, integrated view of each customer or household. Additionally, a CDW should contain the information necessary to effectively apply customer analytics. It is only through the effective application of customer analytics that companies can truly deliver the right product or service through the right channel to the right customer at the right time for the right price.

It is important to note that the CDW should contain more than just customer information. For instance, during the past two years, the emphasis of CRM has shifted from the top line (i.e., customer revenue associated with attracting, retaining, cross-selling, etc.) to the bottom line (i.e., is this a profitable customer?).

By combining customer information with financial information, many companies are

leveraging integrated CRM solutions to calculate customer profitability and extending these models to forecast customer lifetime value.

Through this analysis, one large airline was surprised to find that 16 percent of its customers generated 85 percent of the profits. This could not have been determined by looking only at the customer volume information contained in the frequent flyer/mileage system.

Data warehousing is a key enabler of integrated CRM and customer analytics. As such, companies planning to implement integrated CRM strategies will need the skills and knowledge of data warehousing practitioners to achieve their goals.

Customer Analytics: CRM's "Secret Sauce"

It's not enough to merely collect the relevant customer-related information from the various channels (although this is a great first step). Rather, you must be able to analyze this information in a way that will provide unique insights into customer behavior. These customer analytics must leverage past customer activities, trends, psychographic and demographic data to:

- Support and enable more effective customer service and interaction today.
- Predict the products/services, channels, prices, etc., that will be of most interest to customers in the future.

At PricewaterhouseCoopers, we define **customer analytics** as the application of advanced analytical methods to a company's customer information to help identify, attract and retain its best and most profitable customers. It embodies the people, processes, data and technologies required to analyze customer information in order to understand the customer better. An organization can use these analytical results to anticipate, influence and measure customer behavior.

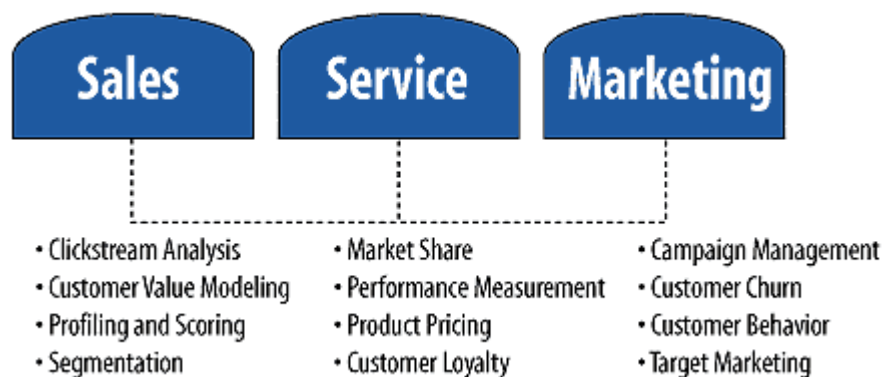


Figure 2: Customer Analytics

The results and observations derived through customer analytics must be actionable and readily available to any and all of the customer touchpoints.

When done effectively, this information can be used to strategically influence interactions

with customers. This process is referred to as closed-loop CRM, as it reflects information flowing to and from every customer channel.

Shaping Customer Behavior

Organizations that have developed and deployed customer analytics are able to better understand and respond to, as well as anticipate, customer behavior. This gives them the power to be both responsive and proactive in taking action that helps positively influence customer behavior.

For instance, in the telecommunications industry, competing companies frequently target customers with promotions, seeking to convert prospects to customers with attractive offers. These offers only make economic sense if the company can retain these new customers for an extended period of time. On the other hand, the company must be willing and able to match offers from competitors in order to defend its customer base. At the same time, the returns from a typical retention effort are not always measurable or, if measured, often reflect lower revenue and profits per customer due to the lower price. Thus, the result is an industry with extremely high attrition, minimal customer loyalty and shrinking profits.

In such a case, an integrated customer analytics program has significant value, helping determine customer lifetime value and focusing retention programs based on the value of each customer. Analytics could be applied to assess the profitability of each customer as well as predicting his/her likelihood of attrition over a certain period of time. Armed with this information, you can determine if a specific customer relationship is worth the investment necessary to preserve it, as well as determine how to maintain and strengthen this relationship based on what is most important to each customer. Once this is understood, you can implement a targeted retention strategy that leverages various customer touchpoints: billing statements, e-mail promotions and messages, directory assistance, operator messaging, voice mail, direct mail and telemarketing based on what you know about the customer's preferred channels.

The smallest retention budgets would be allocated to customers with a low economic value to the organization and a low likelihood to attrite. Retention activities targeting this customer segment could include offering low-value premiums and messages within their monthly billing statement. Other low-cost promotional alternatives may be used on an infrequent basis.

On the other hand, customers with a high value and high likelihood of churning would receive a range of personalized offers through a number of touchpoints based on their stated preferences, including the more expensive channels such as direct mail and telemarketing. These channels are used to deliver a clear message: The company values the customer and intends to meet or beat any competitive offers available in the marketplace. In the event that these companies lose a valued customer, they have designed very targeted "win-back" marketing programs to quickly reestablish the relationship.

With the opportunity to continuously test and calibrate the actions assigned to each

customer segment, organizations can, over time, define the optimal strategy for customer retention. Such a strategy would be based on:

- The aggregation and analysis of revenues, margins, and the service and promotional costs associated with each "action."
- The development of robust customer value and propensity models that enable the company to accurately identify its customer segments along these dimensions.
- The design and introduction of customized programs personalized for each of these customer segments.

Are You Ready to Compete in the New, Customer-Driven Economy?

Organizations must effectively leverage information to better serve their current and prospective customers and gain competitive advantage.

CRM has become critical for organizations moving toward:

- Adopting customer-centric business models,
- Leveraging the Internet as a new channel to serve customers, and
- Empowering employees and customers with the information necessary to make smarter business decisions.

The future will bring more extensive use of the Internet as an important component of the multichannel strategies of companies. The key to success will be a customer data warehouse that contains accurate, consistent customer information sourced from numerous customer-facing systems. This information will be further enriched through advanced analytics. The results of these analytics will be readily available via Web-based access to each of the custom touchpoints and will be the basis for a positive "action" on the part of both the employee and, ultimately, the customer.

As companies move rapidly into the new client-driven economy, integrated CRM and customer analytics will be vital to their success.

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