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Let Your Customers Manage You

Why traditional CRM doesn't work and what you can do about it
&
Outlook and Trends for 2009

Deloitte Consulting SEA

Microsoft | **Strategic Steps to Success**

Traditional CRM – based on a flawed premise – has been a waste of time and money to many given that CRM failure rates are 70% or higher

The Promise

- "One Customer View" through information visible across entire organization
- One brand view" from the customer perspective
- Customer satisfaction improvement leads to increased customer retention
- Customer understanding, translated into customer value
- Increase sales, efficiency and profitability

The Reality

- Focus turned to customer transaction data gathering, rather than developing intelligence
- CRM systems became tools for sales and service personnel, and not for the customer
- CRM efforts became technology-focused initiatives aimed at basic business process automation, not customer centric initiatives
- Lack of integrated CRM across an organization resulted in limited customer satisfaction improvement but not the "overall" customer experience
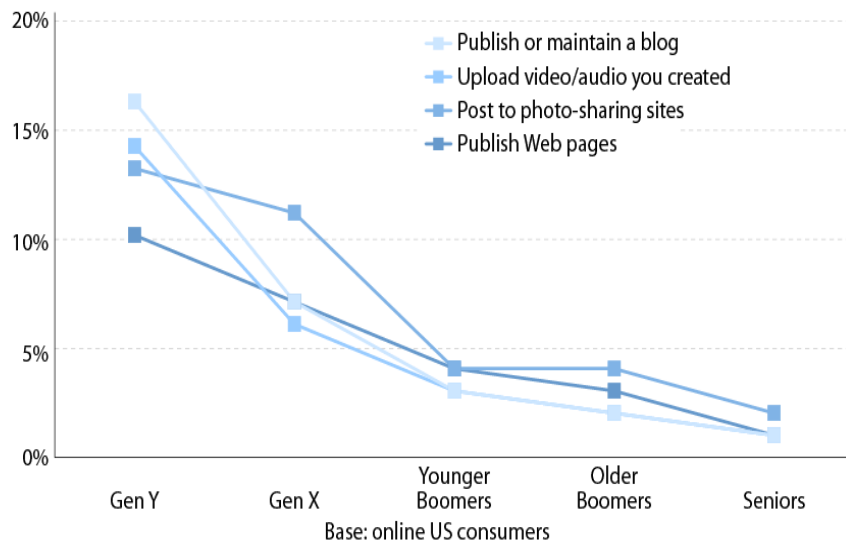
Examples of CRM failure

- Cigna failed to integrate a complete CRM strategy and lost 6% of their health care membership. Damage to their reputation required a significant investment to repair
- Hershey failed to recognize the time required to change the complex business processes in a CRM initiative. They experienced serious issues with orders and delivery that resulted in $100M in lost sales and an earnings miss
- Printer manufacturer Lexmark failed to recognize CRM benefits and abandoned the initiative, announcing that it would take a charge of $15.8 million in related expenses

Sources: Giga Research, Butler Group

Shifts in demographics, behavior, information and communication technologies are ceding control of the business interaction and relationship to the consumer

The demographic tide has turned

"Consumers who have done the following activities in the previous month"

Legend:
- Publish or maintain a blog
- Upload video/audio you created
- Post to photo-sharing sites
- Publish Web pages

X-axis: Gen Y, Gen X, Younger Boomers, Older Boomers, Seniors

Base: online US consumers

Source: Forrester Research

## And consumers demand more control over their interactions

- The youngest demographic groups have been found to be quite fickle with brands – experience is replacing brand as the basis of affinity

- They expect similar experiences with a brand regardless of the channel or touch point with which they are interacting

- Having grown up with technology, this growing demographic group is re--defining the way to do business, e.g., comparison shopping, online auctions, peer recommendations, communities of interest, etc

Technology is enabling this shift

- Technology advancements in consumer devices, telecommunication networks and user interfaces continue to support and encourage new level of interaction and collaboration

- The types of network connectivity that support this interactive and "always connected" lifestyle are here now and will be ubiquitous shortly

- Back-office technology like Network Identity and SOA are being leveraged by enterprises and their partners to deliver new types of user experience that is aware of the consumer's context (location, interactions, events, mood, etc)

Companies have understood this shift and are switching from an "Inside-Out" to an "Outside-In" approach to their customer relationships

CRM
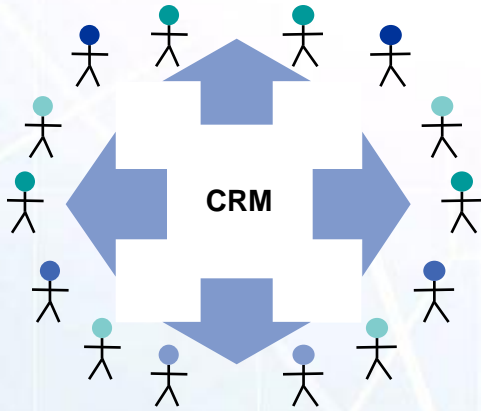
Where CRM seeks to standardize customer relationships, CMR seeks to create a unique, real-time customer experience through multiple touch points

Customer Managed Relationships

From Inside - Out

Traditional, application-focused CRM and internally developed management of customer relationships

- Customer experience is defined, "one way," by the CRM system and associated business processes

- Focus is on gathering and accessing customer data, primarily historical transactions

- There is minimal emphasis on customer needs and purchasing preferences

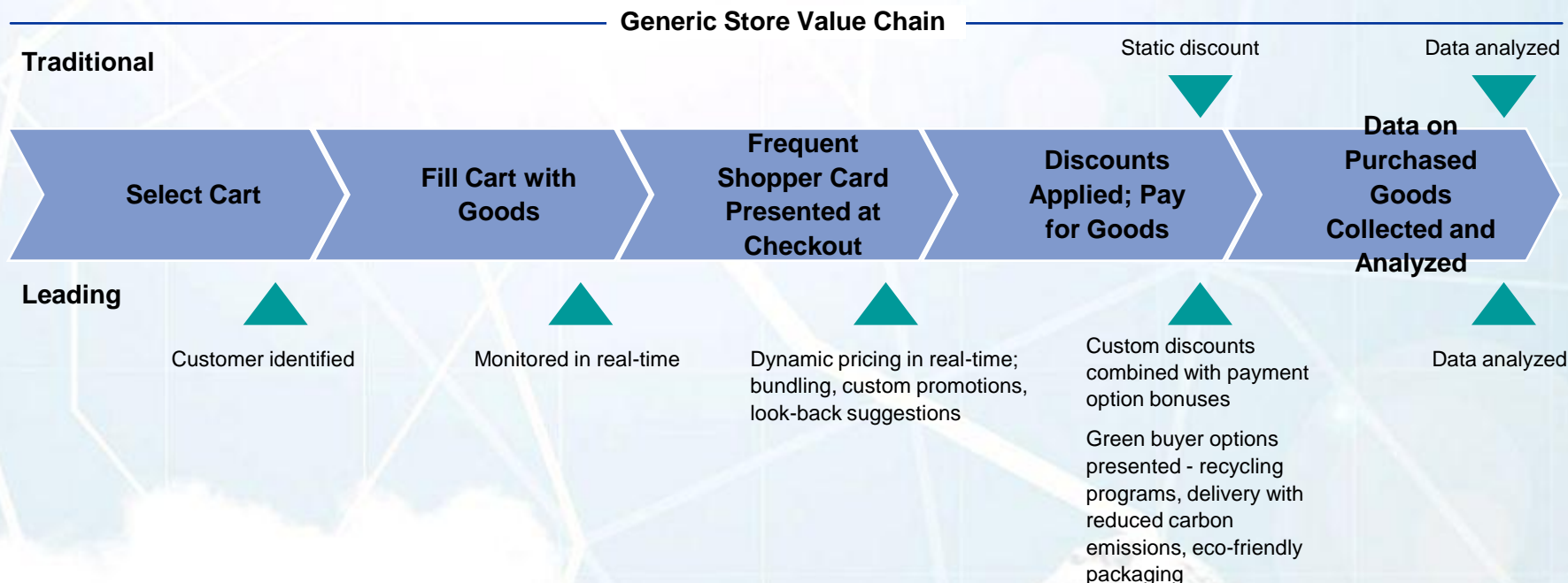- Internal process efficiency and technology drive CRM initiatives and improvements

To Outside - In

Customer-driven relationship with a flexible and predictive capability in anticipating and responding to customer needs

- Customer experience is a real-time "two-way" interaction between both parties

- Information and relevant content at specific *moments of truth* delivered within the organization. This may include special relationship pricing, coupons, bundled offers

- Individual customer preferences are understood and utilized during all steps of the customer experience

- Business efficient and customer convenience, identified for each customer, drive CRM efforts

Just like at a bazaar, in this new approach, no one leaves the "store" without trying to make a deal

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These companies are orchestrating multiple technologies to create rich and dynamic customer experiences

ILLUSTRATIVE

———— Generic Store Value Chain ————

				Static discount	Data analyzed

Traditional

Select Cart	Fill Cart with Goods	Frequent Shopper Card Presented at Checkout	Discounts Applied; Pay for Goods	Data on Purchased Goods Collected and Analyzed

Leading

Customer identified

Monitored in real-time

Dynamic pricing in real-time; bundling, custom promotions, look-back suggestions

Custom discounts combined with payment option bonuses

Green buyer options presented - recycling programs, delivery with reduced carbon emissions, eco-friendly packaging

Data analyzed

———— Enabling Flexible Technology Infrastructure Requirements ————

- Tight orchestration of enabling architecture

- Integration of IT applications, data, and technology infrastructures. Full end-to-end integration from customer touch-point through to enabling delivery capabilities

- Creation of complete customer profiles through aggregated data and information in order to improve marketing strategies and identify product offering opportunities

- Understanding of online, in-person or other interactions with customers, to identify behavior trends and potential to fill customer information needs

- Conversion of data to intelligence, with actionable feedback to the right individuals

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Use of real-time intelligence can drive revenue growth and customer retention

The Walt Disney Company

Situation

- Their decade old CRM system contained millions of household records but found difficulty in converting this information into the ability to deliver personalized experiences

Decision

- Disney's CRM strategy includes three key elements:
  - Provide customers with experience management tools
  - Use analytics to support customer advocacy
  - Deliver customer insight across the organization
- The technology backbone enables it to collect information at all customer touch points, before, during ,and after a visit

Execution

- Disney provides guests with personalized information on activities and events that they are predicted to enjoy
- Guests can use a "Pal Mickey" doll that utilizes infrared technology to activate insider facts and tips at 700 hotspots around the park

Result

- Disney performs stronger than its rivals in both increased revenue and improved margins

verizon

Situation

- Verizon's integration of the back office and CRM from its many acquisitions successfully created a "single view" of the customer but did not deliver much service differentiation

Decision

- To provide a superior customer experience, Verizon saw the need to understand the triggers that caused their customers to switch to other providers and respond to them in real time. Triggers included dropped calls, going over plan minutes, abandoned care channels, etc.

Execution

- The carrier developed predictive churn modeling techniques to identify high value subscribers and their churn triggers
- They also implemented a complex decision engine that dynamically created offers to subscribers in real-time based on their value, when such churn events occurred

Result

- Verizon has consistently recorded the best churn rates in the wireless industry reducing churn from over 2% to an industry low of 1.19% in Q1 '08 while adding 1.5 million new subscribers

Unique customer experience results in higher sales hit rates and sales growth

Nike

Situation

- "We need to find a way to enhance the experience and services, rather than looking for a way to interrupt people from getting to where they want to go" – Nike global director

Decision

- Co-branding with Apple (iPod) allows Nike to reach into the iPod pop culture and conversely allows Apple to reach the running culture

Execution

- Allows runners and walkers to listen to songs and to record, store and share information (speed, distance, calories burned) with others via a Nike website

Result

- "It's a very different way of connecting with consumers. People are coming into it [the Nike website] an average of 3 times a week, so we are not having to go to them. We are in the business of connecting with consumers" –Trevor Edwards, Nike corporate vice president for global brand

- Global sales have increased in the past four years to more than $16 billion from $10 billion and Nike executives say that the new type of marketing is a part of that trend

Capital One

Situation

- Capital One's website was lacking in functionality, ease of use, and was a poor overall experience which was driving customers to abandon applications

Decision

- Capital One needed to identify what was important to their customers and how to give their customers more control over their experience, while at the same time making the customer's experience more enjoyable

Execution

- By creating the Capital One Card Lab, Capital One was able to give their customers control over items of primary importance; rates, fees, and rewards, while at the same time using new customer experience technology (Rich Internet Applications)

Result

- Through giving control of the experience and the products to their customers Capital One has driven their industry leading application conversion rates, while enhancing the overall customer experience

The benefits are clear and the game has already changed

Customer
Relationship
Management

Customer
Managed
Relationships

Knowing everything about your customers

Designed to support sales and service with information about the customer. Focus is to provide information to cross-sell, and sales force tools to execute transactions.

Knowing everything that your customers want you to know

Community driven and created by customers desire to provide you with information in order manage their relationships effectively and in **their** best interests.

Enablers for Transforming to a Customer-Directed Organization

People

Relinquishing Control

- Embracing concept of allowing customers to manage their relationship with you

Matching Inside to Outside

- Marketers should create a team that focuses on technology strategy and implementation, blended with product marketers who have a deep understanding of enterprise data

Changing Current Mindset

- A fundamental culture change is required to embrace an 'outside-in' perspective of the customer

Process

Keeping Pace with Customers

- The technologies go beyond "business as usual" and reshape how marketers view, analyze, and interact with customers.
- New processes, structures, and metrics are needed to facilitate technology adoption, and reinforce a customer-centric approach

Challenging Conventional Wisdom

- Customer-centric technologies transform how marketers target and interact with customers and measure success.

Converting Data to Insight

- CRM systems contain millions of records but converting this data into the insights needed to deliver personalized experiences is difficult

Technology

IT architecture

- Solutions are architected for efficiency, effectiveness and security; not for adaptability to today's ever-changing customer landscape.

IT Orchestration

- Coordinating multiple IT systems including OSS, BSS, CRM and real time applications

Current Tools – Transform or Trash?

- Conventional CRM tools are hard to use, and do not foster strong customer collaboration

Explosive Growth in Interface Choices

- The desire to always be connected creates demand for new devices, which can create customer controlled sales channels, e.g., social networks, RFID

CRM Business Drivers

CRM business DRIVERS BECOME even more Impossible To Ignore

Outlook for 2009

Customer Loyalty will Trump Customer Acquisition

- Turn attention from an emphasis on customer acquisition to customer retention
- Improving customer loyalty will be in top 5 business Priority

Improving customer experience will stay the limelight

- Forestalling revenue erosion by customer management improvement initiatives will continue to be critical
- Customers are becoming more sensitive to price and less to advertising.
- Need to obsess about customer needs and reinforce brands with every interaction
- Treat Customer experience as a competence, not a function

Dynamic Solutions to support customer facing process will gain favor

- Successful selection, implementation, and adoption of technology would require a major emphasis on business processes.
- Customer demand, market dynamics, and technology are driving CRM functionalities to more easily integrate with the enterprise resource planning (ERP) and supply chain management (SCM) functions.
- Desire for more agile and usable applications into a business imperative
- Applications vendors must deliver Dynamic Business Applications or risk becoming obsolete.

Boosting worker productivity will remain a priority

- Desire for more user-friendly applications would drive interest in CRM application upgrades as vendors made better UIs available in new releases.
- Buyers will be taking a second look at their CRM vendors, weighing the benefits of better UIs that promote higher user adoption against the costs of an upgrade.

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CRM Trends 2009

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2009 TRENDS TO WATCH

➢ **Trend No. 1: The Emergence Of The Social Consumer**

➢ **Trend No. 2: The Imperative That CRM Strategies Deliver Business Value**

➢ **Trend No. 3: The Requirement To Fully Cost-Justify CRM Investments**

➢ **Trend No. 4: The Necessity To Reduce The Risk Of CRM Initiatives**

➢ **Trend No. 5: The Need To Get More Value From Customer Information**

➢ **Trend No. 6: The Battle To Redress Vendor Pricing And Licensing Arrangements**

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