

Customer Relationships ↑ in a Wired World



WHAT'S INSIDE:

- Reaching Customers Anytime, Anywhere
- Capitalizing on Customer Knowledge
- The Customer-Driven Transformation

ILLUSTRATION: DOUG ROSS

The Coming Customer Free-For-All

By William S. Hopkins
and Britton Manasco

We are entering a transformational era in the world of business. The pace of change and innovation is accelerating. Information technology and networks are becoming ever more pervasive. And customers are discovering that an enormous number of choices await them at the click of a mouse. The net result is increasingly cut-throat competition and widespread customer infidelity. It's beginning to look like a customer free-for-all.

In our super-charged, high-velocity economy, every industry — whether travel or automotive, entertainment or financial services — is experiencing extraordinary change. What promises to set most companies apart in the inevitable shakeout ahead is their ability to address the preferences and priorities of their customers. From the executive suite to the front lines, customer loyalty is becoming one of the central business issues that companies now face. That might sound obvious, but it's not. Effective customer relationship management (CRM) is about much more than great customer service or high-quality products. It's about building powerful and personal relationships. It's about treating your best customers best. It's about learning from your customers and acting on what you know.

As customer disloyalty becomes an increasingly pressing trend,

This special advertising feature is sponsored by participating advertisers. It was written by William S. Hopkins and Britton Manasco and did not involve the reporting or editing staff of The New York Times. William S. Hopkins is founder and chief executive officer of The Knowledge Capital Group (www.knowledgecap.com), an Austin, Texas-based strategic advisory services firm that focuses on the Enterprise and Internet Software marketplaces. Britton Manasco is senior partner with The Knowledge Capital Group.
©2000 The New York Times

expect to see a great deal of corporate turmoil and a growing emphasis on strengthening and enhancing the customer relationship. Where once we focused on building products and selling them to every potential prospect, we must now focus on building relationships — providing more products and services to our existing customer base.

In addition to market share, we are now starting to focus on “share of wallet.” In other words, we are attempting to deepen our customer relationships so that we might obtain a greater percentage of their overall spending and ensure they keep coming back.

With this in mind, many companies are now struggling to come to grips with the deep cultural, organizational, and technological challenges associated with becoming a truly customer-focused enterprise. They are attempting to better understand their customers and instill loyalty through powerful new approaches to customer management and relationship building. They have decided they must organize around customer relationships — as opposed to products — if they hope to survive and thrive in the years ahead. Indeed, nearly 50% of the executives interviewed in a recent survey by the Economist Intelligence Unit and Andersen Consulting said their companies would organize around customer type by 2002 as opposed to only 18% today.

Enduring success will hinge on the ability of companies to manage the comprehensive transition associated with customer focus. This means companies must develop the capabilities — and acquire the knowledge, resources and tools — that can help them effectively match customers with appropriate products and services. What is driving companies in this direction is the recognition that it is far more profitable to retain existing customers and build relationships with them than it is to try to attract new customers. Investing in current relationships becomes paramount to success. But companies are also

continues



Customer Relationships in a Wired World

The Coming Customer Free-For-All continues

being driven in this direction by fear and intensifying competition. They are realizing that they must somehow differentiate themselves if they are to hold onto their customers. Where once they would have focused on differentiating their products and services, now they are looking at ways of making the experiences of their customers much more personal and compelling.

The aspiring customer-focused business realizes that heightened competition is accelerating the rate at which products and services become commodities, eroding profit margins and encouraging customer disloyalty. We see some of the greatest turmoil in industries such as banking and telecommunications, sectors where companies have suffered greatly from both customer defections and the costs of unprofitable relationships. But companies should not be driven purely by observable pain. The costs attributable to customer defections and unprofitable relationships are certainly great, but opportunity costs — the costs attributable to our failure to build on promising customer relationships — are even greater.

Fortunately, many companies are beginning to recognize the opportunities before them. As they do, relationship management will become a pervasive, enterprise-wide initiative that touches customers in real-time and at every point of interaction. Such efforts cannot be driven or managed by a single, functional department. No vice president of sales, marketing or customer service can handle the challenge alone. Relationship management is now a perpetual activity — one that requires the participation of individuals throughout (and beyond) the enterprise.

In order to optimize the relationship management process, however, it will be necessary to invest heavily in new customer management software, services, talent and capabilities. AMR Research estimates that the market for CRM technology will experience a compound annual growth rate of nearly 50 percent in the coming years — rising to \$16.8 billion by 2003, up from \$2.3 billion in 1998. Such investments promise to dramatically enhance a company's ability to manage customer knowledge and relationships.

Where's the payoff? There are many benefits associated with such efforts that promise to contribute to both the top and bottom lines. Indeed, it's crucial that executives who are exploring these opportunities examine the payoff within the larger context of revenue gains, cost savings and the smart deployment of limited resources. The upside benefits associat-

be loyal and profitable, and deliver an appropriate level of service. As industry analysts such as the Gartner Group point out, some companies can increase profits by as much as 100% by retaining an additional 5% of their customers. By some estimates, it can cost four to seven times more to replace a customer than it does to keep one.

- **Higher customer profitability.** While many companies have spent years in the dark about the profitability levels of individual customers, CRM efforts enable companies to place a value on their customers. Such scores can be critical. In many industries, 20 percent of customers represent 80 percent of a firm's profit — the oft-cited Pareto Principle. Customer analysis helps executives determine which customers should be actively courted and which ones — if any — should be politely dropped.

- **Dramatically more productive sales efforts.** Investments in world-class selling software and capabilities promise to significantly enhance revenue per sales professional. Many companies are already witnessing impressive results. Sales teams work together more effectively and the sales process is far more effective. In many cases, customers can examine their options on the Web and make purchases on their own — bringing even greater benefits to the bottom line.

- **Higher responses to marketing campaigns.** Database marketers in many industries have learned to accept inter-digit response rates as acceptable. But no longer. Innovative marketers recognize the power and potential that new software tools can offer them. It is not unusual to generate returns of 250 percent or more on investments in campaign management when one considers (on a per customer basis) all the revenue gains and cost savings associated with an effective implementation.

- **Extraordinary service and support.** New approaches to service and support are reflected in customer satisfaction and loyalty rates. While customer retention is indeed a mounting challenge, companies that succeed in this regard recognize they must provide world-class customer care. Often, that means creating sophisticated systems that enable customers to solve their own problems in an automated fashion.

- **More effective investment of scarce resources.** Skill shortages and high employee

demonstrate powerful financial results that capture the attention of top executives and persuade others that "customer-focus" is not just another management fad.

CRM initiatives are generally launched to strengthen relationships with customers and ensure they become more profitable. Success depends on managing customers across front-office functions (such as sales, marketing and service) as well as channels (direct sales force, call centers, the Web, retail outlets, resellers, etc.). CRM, however, should be considered a sub-set of what we at the Knowledge Capital Group call Enterprise Relationship Management (ERM). We think it's essential that a company's relationship strategy encompass multiple constituencies within and beyond the enterprise.

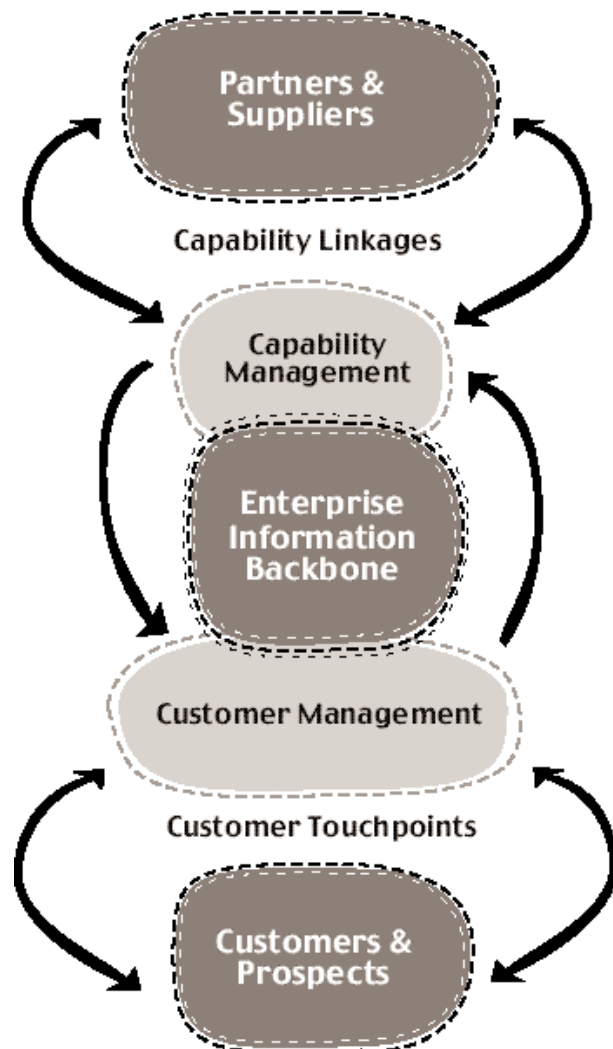
Smart companies of all kinds are now trying to develop what we call "enterprise relationship networks." These networks encompass a wide array of relationships — everything from suppliers to partners to customers. Potential value lies in every interaction and exchange — and every member of the network has an opportunity to contribute (or destroy) value.

In order to meet their potential, companies must develop sophisticated customer management expertise. They must implement front-office systems and leverage unified customer knowledgebases (incorporating needs, preferences and priorities). Companies are connected to their customers through multiple "touch-points" including call centers, the Web, physical offices, and direct sales forces. They must learn to manage their relationships across these various touch-points and across time so that every interaction is informed by every other interaction that took place previously.

At the same time, companies need to build powerful capability management expertise that draws on their own capabilities and those of their partners. They must implement capability management systems and leverage capability knowledgebases (incorporating information on products, services, solutions, and pricing as well as other content that addresses the needs or might influence the decisions of customers and prospects). They must use their expertise, resources and relationship systems to optimize their "capability linkages" — connections with suppliers, partners and other external resource providers.

Of course, companies should not manage customers and capabilities as separate initiatives. Companies must develop strategies and implement processes and technologies that effectively integrate them — sensing customers needs and then rapidly dispatching available

The Enterprise Relationship Net



Enterprise relationship networks encompass a wide array of relationships — everything from suppliers to partners to customers.

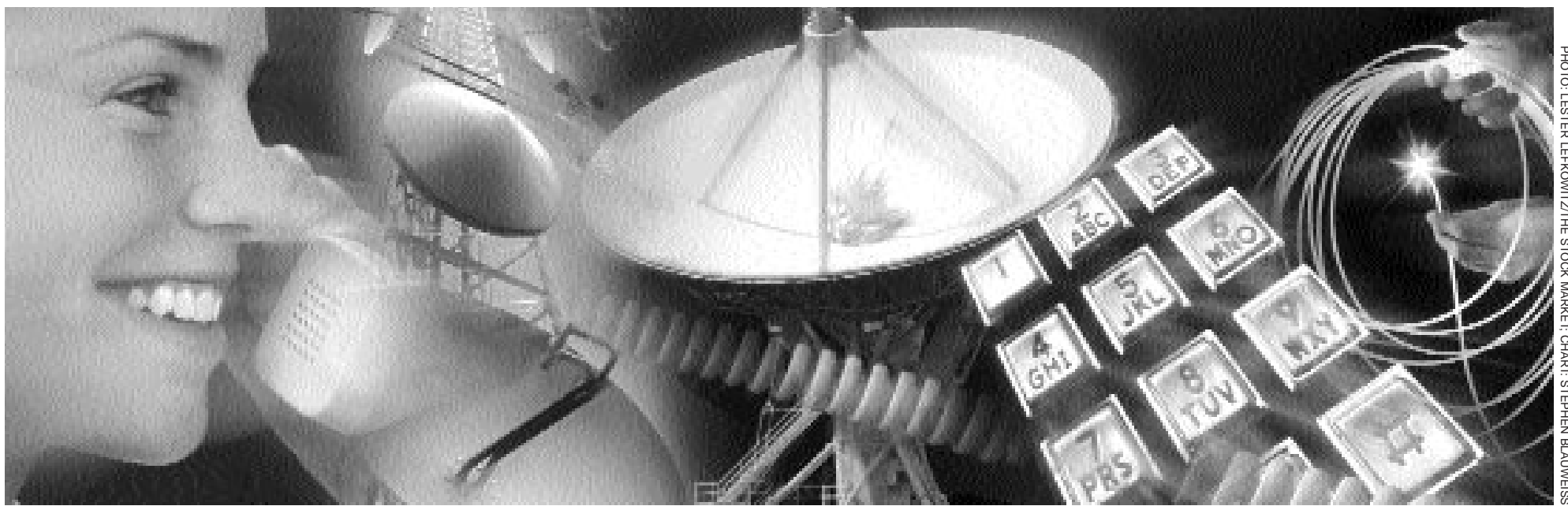


PHOTO: LESTER LEFKOWITZ/THE STOCK MARKET; CHART: STEPHEN BLAUWEISS

ed with customer relationship management are tremendous. Among them:

- **More effective cross-sell and up-sell.** Smart companies are learning how to anticipate what customers are likely to purchase next, and then deliver an offer that customers will be quick to seize. CRM software enables companies to predict future purchases, manage focused campaigns and deliver customized offers at the moment of opportunity. Companies realize a profit multiplier effect as their existing customer base eagerly purchases new products and services — and customer profitability improves significantly.

- **Higher customer retention and loyalty.** Recognizing the extraordinary costs associated with customer defections and the reciprocal benefits of loyalty, companies have seized on the issue of customer retention as a key objective in the coming years. CRM can enable companies to determine which customers are most likely to

attrition are putting an increasing strain on sales and marketing budgets. It's more important than ever to get more out of your scarce (and often hard to please) human talent. One key way that smart companies will accomplish this is through the automation of labor-intensive, relationship management tasks — freeing up more resources to focus on creative and innovative relationship building efforts.

Ground zero in the current corporate upheaval and transition is populated with cutting-edge executives — and quite a few whose companies have had "near death experiences." They are sold on the vision of using new technology to enhance customer relationships. Now they are struggling to implement it — to serve as catalysts of and champions for the critical initiatives that their companies must undertake. They recognize the larger implications for their businesses, but also realize they must demonstrate clear, tangible payoff if momentum for their efforts is to continue building. They must

capabilities to address them. That is the essential challenge facing companies that intend to develop powerful enterprise relationship strategies. Customer and capability management must be combined — and, when possible, the interactions that connect such efforts must be automated — if a company is to succeed in the dynamic markets of the future.

Customers cannot be managed in a vacuum. One cannot effectively address the preferences and priorities of customers without considering the capabilities — whether products, services or solutions — that can be profitably delivered. This is the reason a company's wider relationship strategy must encompass not only customers, but suppliers, partners and employees as well. And yet, few companies will be able to compete successfully in the fast and unforgiving markets of the future without mastering the management of customer relationships. As a result, the strategic decisions that companies make with regard to customer management in the coming years are bound to prove more consequential than ever. <



Customer Relationships in a Wired World

Best Buy Personalizes Interactions

The company realizes it must connect to its customers in a more intimate fashion if its rapid expansion is to continue.

Best Buy is one of the fastest growing retailers in America, but it realizes it must connect to its customers in a more intimate fashion if its rapid expansion is to continue. As a well-known retailer of consumer electronics, the company is certainly expected to offer good prices and high quality products. However, it now wants to be known as a provider of personalized relationships, and has committed itself to that objective through a multimillion dollar service initiative.

Best Buy, which has 354 stores in 37 states, intends to offer "specialized solutions" that make new technology-oriented products much easier for consumers to understand and use. Customers still depend on retailers such as Best Buy for the opportunity to "see and touch and learn about" new high-tech products, but the company realizes it must offer much more if it is to keep customers coming back.

In order to meet its goals, the retailer recently implemented a new customer management system nationwide. The system is designed to enhance its field service, logistics, and customer service operations online, over the phone and at its retail stores and service centers. It now can track a VCR from its sale to service — even if the owner moves across the country and loses the receipts. "We know who you are and the history of your products," says Scott Lien, director of service systems at Best Buy. "We are able to take care of your problems in a very personal way."

Prior to the implementation of its customer management system, Best Buy was unable to manage customers individually. It was unable to track customer history and every sale or customer service call would have been treated as a distinct and separate interaction. Now, the service rep can call up the individual customer's profile and make appropriate suggestions. Knowing the type of computer that the customer previously purchased, for instance, the service rep could suggest a particular cable that will link up a new printer. Service reps have immediate access to information about particular products and configurations, enabling them to rapidly respond to customer concerns.

When a product is being fixed, customers can now check the status of their orders over the phone or online. Best Buy can pro-

vide a real-time response to the query. That stands in marked contrast to traditional customer support lines, which often keep customers on hold for long periods of time. "We can pull up the order in real-time and see what's happening," says Lien.

Customers don't want to spend a great deal of time installing, integrating or worrying about the products they purchase, as Best Buy understands. That's why service has become such an important element of the retailer's overall consumer value proposition. The company is focused on ensuring the customer is handled appropriately and immediately, not passed around between service reps and service technicians.

Another important aspect of Best Buy's efforts is its ability to centralize the collection of information about product and customer problems. Now, it can monitor trends at its Minneapolis data center and spot problems that occur with particular products. The company can then use this information to negotiate solutions with manufacturers and enhance the effectiveness of the entire supply chain. In fact, the company intends to gain numerous benefits from its efforts, including faster product repairs and improved factory warranty reimbursement rates.

The most important benefit of Best Buy's initiative is customer loyalty, especially critical to its success in an increasingly competitive market. Most consumer electronics products are now available over the Web as well as through competing retailers. Best Buy must distinguish itself through excellent service. It offers in-store and in-home repair as well as a variety of delivery and installation services. "Our success is linked not only to great selection and prices, but great service options that competitors can't match," says Lien.

The company now has plans to expand its product and service offerings on the Web — mirroring what is available in the store. Indeed, the company points to tremendous "synergy" between the store and the Web site from the standpoint of distribution and customer service. It is also investing in sophisticated call center capabilities to enhance customer interactions. Meanwhile, it is adding 50 new stores a year at present. "We need to interact with customers in the way they want to interact," says Lien. "The key is managing the customer across all these different channels." ◇

Anytime, Anywhere

One of the most powerful aspects of the whole movement toward customer-focus is the opportunity to create relationships that span channels of commerce. Customers want to do business in many ways — in person, over the phone and on the Web. They also expect companies to be accessible around the clock — whether they are shopping or seeking advice. Companies must be available to interact with their customers at anytime and from anywhere.

While there is a growing amount of attention being devoted to electronic channels such as the Internet, it's clear that most companies must have a physical presence as well as a virtual one. Ultimately, customers will remember how a company treated them, not where they interacted with it. In order to be successful in the customer's eyes, companies must effectively manage the customer relationship across all channels and touch-points.

Charles Schwab President and co-CEO David S. Pottruck recently made the statement that future success will revolve around the integration of online and physical activities — what he called "clicks and mortar." Schwab now manages nearly 3 million online accounts, but it also has 310 branch offices and four national telephone service centers. In sum, it serves 6.2 million active accounts with \$592 billion in customer assets. "Sooner or later, you need more than an outpost in cyberspace," Pottruck said. "It's a false dichotomy to think you're either doing business online or you're doing it the old-fashioned way. We're all embedded in the real world."

Interactions are the currency of relationships. It is through interactions — in person, over the phone and via various other electronic means — that companies build relationships with their customers. Most organizations have come to realize the critical nature of these interactions and are planning or building "contact centers" that consolidate interactions from any source — phone, Web, email, print, fax, video, data, etc. The contact center must be built in a manner that allows for the seamless integration of any type of interaction into core business activities. With regard to the customer (see graphic on page 6), the essential interaction gateways are direct (including the Web, the call center, the direct sales force) and indirect (including the retailer, the reseller and the distributor). Companies face a tremendous management challenge as they attempt to integrate these various channels. If companies are to win the loyalty of their customers, they must be able to address them as individuals in all of these channels of interaction.

It's important to understand that companies now compete in

a "multi-channel" world, where customer relationships are increasingly personal. Throughout most of the 40s, 50s and 60s, more and more corporations began to place emphasis on the importance of "the channel" (distributors, resellers, retailers and agents). Some corporations still used direct sales forces, but in many cases (especially for mass manufacturers and international operations) it was easy to lose touch with customers and to rely more and more on retailers, resellers and agents. Mass marketing was the dominant force in communications and advertising — in print, on TV, on the radio. More often than not, personal relationships were too expensive to be included in most strategic plans.

As new methods of direct communication and commerce — such as call centers and direct mail — emerged in the 70s and 80s, the nature of relationships started to become more personalized. The "channel" gave way to the idea of two channels: direct and indirect. This was the age of the channel masters. Businesses as diverse as Wal-Mart, IBM, and Procter and Gamble used mass and direct marketing, combined with active and involved sales organizations, to foster closer relationships with consumers, other businesses and their distribution partners.

In the 90s, we've witnessed the emergence of still more methods of communication, commerce and relationship building including the Web and email. The proliferation of these new media has created new points of interaction and commercial exchange between company and customer. The primary concern of businesses is no longer managing the direct and indirect channels. Instead, the new concern is managing customer relationships across multiple channels or touch-points. Today's interactive technologies — the Web, the call center, email, etc. — are no longer just technologies. They are also channels. They are points of interaction and commercial exchange, connecting company and customer. Innovative companies like Dell Computer and Cisco Systems literally turned their entire industries inside out as they have reinvented selling and redefined customer relationships around these new channels.

Now, companies such as Lands' End are attempting to integrate different technologies and means of communication to enhance customer interactions. They realize that customers often want the opportunity to interact with other people in real-time — even as they are making purchases on the Internet. Companies like Cybex International are using various media — such as call centers and the Internet — to communicate with their indirect channel partners (dealers and service providers). Such companies are mak-

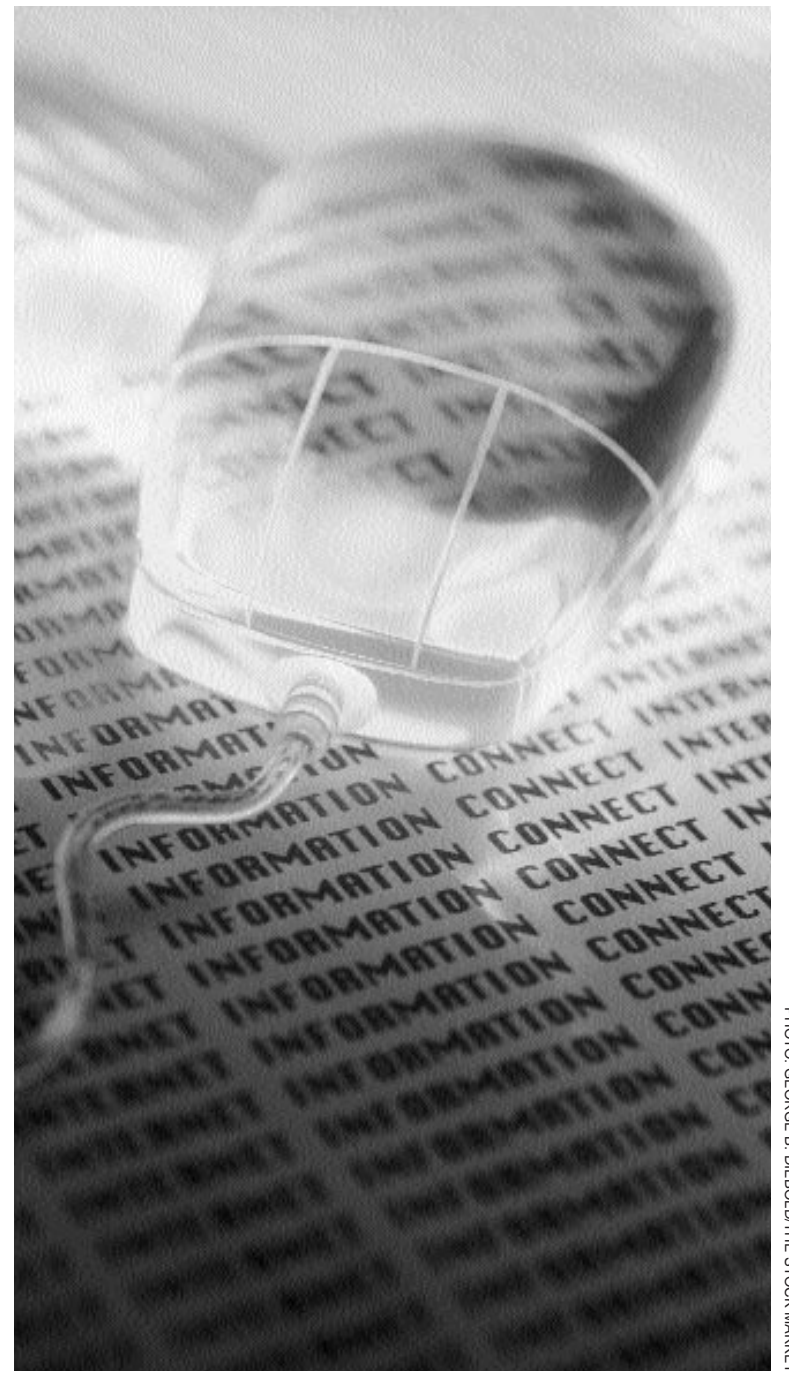


PHOTO: GEORGE B. DIEBOLD/THE STOCK MARKET

ing information and communication capabilities available 24/7 and thereby, are strengthening their enterprise relationships.

All of this, of course, depends on strategy and leadership. But it won't be enough to merely make customers the focus of a new mantra. In the years to come, virtually all enterprises must transform themselves in important ways if they are to create expansive and enduring customer relationships. Expect to see CEOs embracing customer management initiatives in the coming years. But you can also expect to see them appointing special leaders for such initiatives. Such leaders must address an array of challenging organizational and functional hurdles. Ultimately, sales, marketing and customer service and other professionals must collaborate in powerful new ways if they are to earn the customer's loyalty and encourage higher spending. They must ensure that their objectives are aligned. And they must manage customer relationships across channels. ◇



Customer Relationships in a Wired World

Know Thy Customer

Success now revolves around first-rate management of customer knowledge and relationships. If companies hope to hold onto their customers, they must, in a sense, get into their heads. They must perpetually interact with them and then act on the knowledge they acquire. Companies do this by individualizing or customizing their offerings — giving customers exactly what they, as individuals, want and request.

What makes this possible for many companies is technology. New information technologies have dramatically improved the ability of corporations to interact with customers. We now can engage our customers through the Web as well as call centers and in person. But we also have the ability to remember the preferences and priorities they express in sophisticated and easily accessible "profiles." Powerful database technologies allow us to capture insights about our customers in great detail and remember past interactions. Customer relationship management systems allow us to share that knowledge throughout an organization. Now, salespeople and marketers, service representatives and manufacturing personnel all can have access to a single, unified view of the customer. This allows people throughout a company to collaborate to address the needs of customers and provide a world-class experience.

Knowing the customer, however, is a complex objective — one that requires deep investment and commitment. It also depends on an understanding of what knowledge is necessary to provide first-rate products and services and earn customer loyalty. There are two crucial elements to any effort to manage customer knowledge. Companies must learn the preferences and priorities of their customers. But they must also determine their customers' profitability and potential. This knowledge will enable companies to determine what their priorities must be and how to effectively invest in their relationships.

One must first understand the needs and concerns, preferences and priorities of a customer. It's about knowing who they are and what they want. This is how a Web-based company such as Yahoo! manages to provide customized news and information online. In fact, it offers customers an opportunity to develop their own profiles of needs and interests through its "My Yahoo!" offering. Over time, a company may even begin to effectively anticipate what they might need. Amazon.com, which recommends books based on what other like-minded readers have purchased, offers a powerful illustration of this concept.

We learn about our customers by interacting with them. Every retail transaction, every call center conversation, every Web site visit offers an opportunity for companies to acquire information about the needs and concerns of their customers. Smart companies use this opportunity to find out what is important to their customers, what is working well and what is falling short. Companies such as Cisco Systems and Dow Chemical are not only gathering information to develop deeper customer profiles, they are actively measuring customer satisfaction and acting on customer feedback. Other companies, such as power giant Southern Co., value the opportunity to capture information about projects, interactions and transactions so that knowledge about a relationship is available to everyone throughout an organization as opposed to a single account manager.

What many companies fail to understand is the importance of eliminating complexity and making it easy for the customer to do business with them. It is irrelevant to customers whether they are interacting with a company in person, over the phone or on a Web site. They only want to know that their needs are being addressed and that the history of the relationship is recognized and understood by the company. They hope for a single point of contact — someone who can address their needs without bouncing them around to different departments and assorted personnel. By immediately recognizing their customers and acting on the information in a customer database, companies make themselves easy to do business with — and encourage customers to be loyal.

Companies also gain an opportunity to up-sell or cross-sell new products and services by understanding their customers. General Electric, for instance, does a masterful job of understanding the array of customer needs and selling complete solutions. It draws in experts from its GE Capital business, for instance, to help finance the sale of its aircraft engines or power systems. In this way, the company addresses more of its customers' essential needs, strengthening the relationship while increasing the amount of revenues it generates from a single customer. Deeper customer relationships mean higher profits and greater loyalty. It's a virtuous circle.

But it's not enough to merely know the needs and interests of your customers. In order to understand a company's true opportunities and fundamental health, it is also important to assess the value of its customer base. This is a new frontier in accounting, and one that should not be underes-

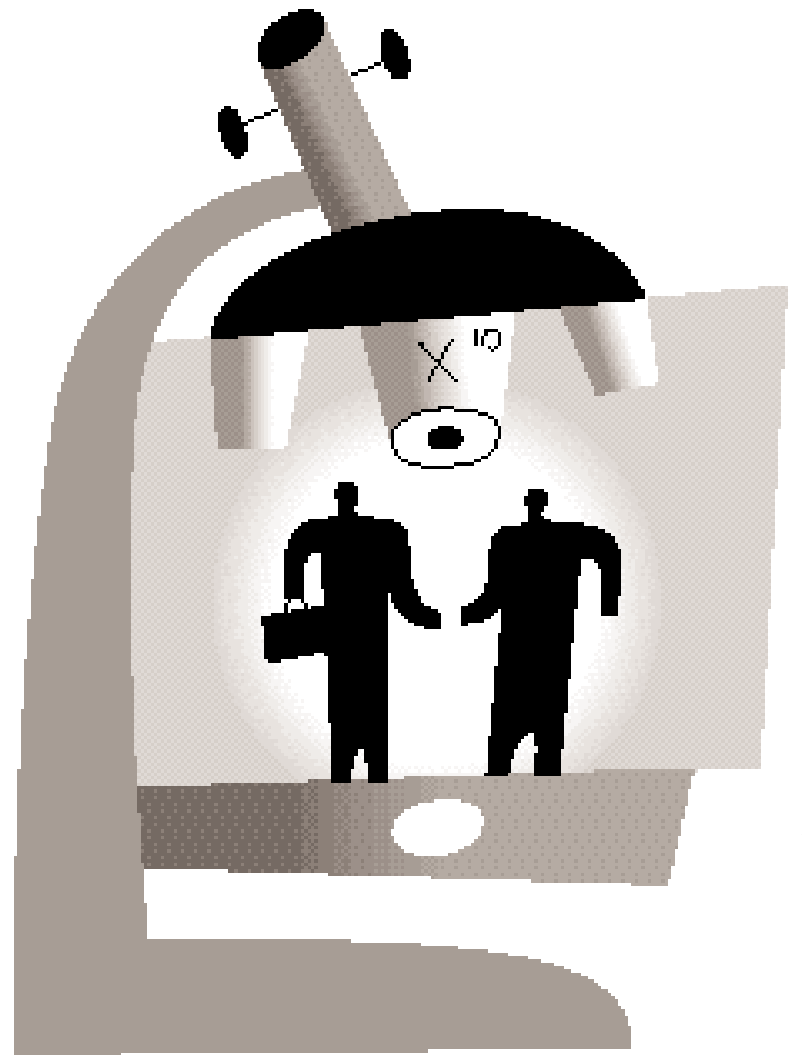
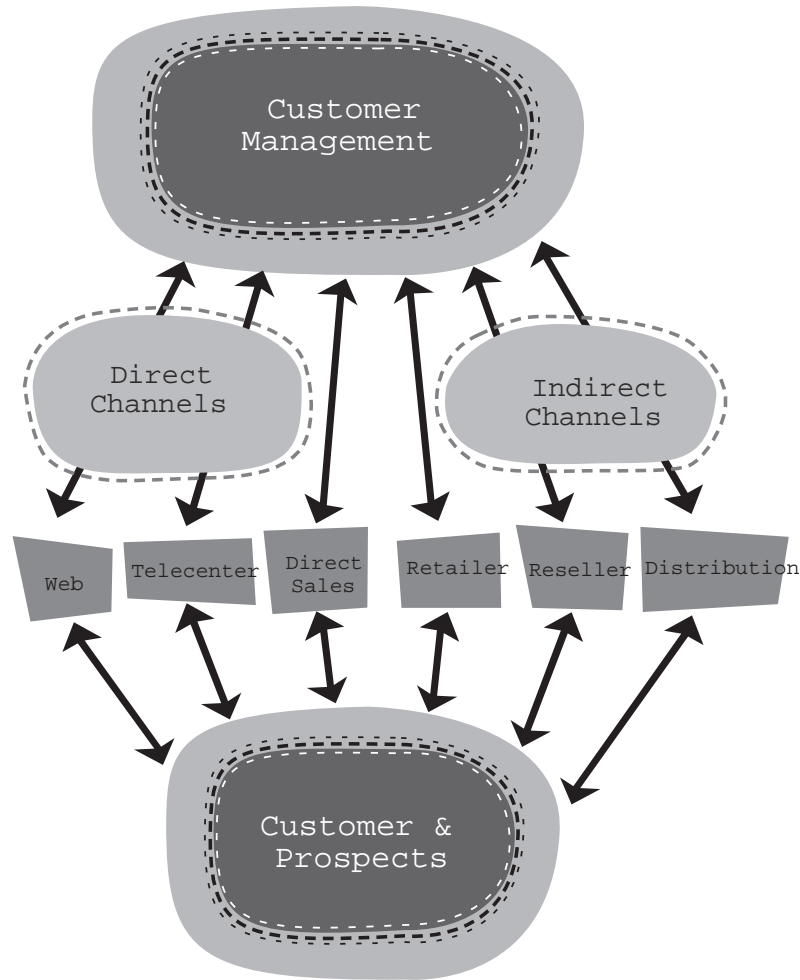


ILLUSTRATION: DOUG ROSS; CHART: STEPHEN BLAUWESS

Customer Interaction Gateways



The essential customer interaction gateways are direct (including the call center and the direct sales force) and indirect (including the retailer, the reseller and the distributor).

timated. Customer profitability and potential is a critical form of customer knowledge. Such figures will soon drive our business decisions in profound new ways.

Many companies are just waking up to the implications of an inescapable fact: all customers are not created equal. It's common to say the "customer is king," but it's unclear why companies should treat unprofitable, unpromising customers as royalty. Unfortunately, too many companies can't tell their best customers from their worst — much less analyze the gradations that lie between. But they must. Everything follows from these assessments: How we treat customers; how much we invest in them; what we offer them.

Things are starting to change though. Many firms that have experienced or fear mass customer defections are among the pioneers in the effort to manage customer profitability. Canadian Imperial Bank of Commerce, one of North America's leading financial institutions (with more than six million retail customers), wasn't able to measure customer value until recently. Therefore, the bank wasn't able to identify customers that represent the greatest potential profit growth or fully understand the needs and behaviors of customers who already generate a great deal of income. The bank, however, now uses sophisticated profitability, potential, and propensity models to determine how best to segment its customers and invest marketing resources. "The key to our future success," says Rick Miller, vice president of customer profitability at CIBC, "will be our knowledge of the customer."

Harrah's Entertainment is adhering to the same principle through its Total Gold customer recognition program. It can now track its best customers across locations and cities, ensuring that they are given service that is appropriate to the profits they generate for the company. The more a customer plays at one of the company's casinos, the higher the service levels they will receive. This enables the company to ensure that its best customers do not defect. Indeed, higher service levels encourage profitable customers to spend even more.

Companies must begin to assess their customer relationships with a much greater sense of the true financial value that a customer offers — weighed against the costs incurred to sustain the relationship. The company that learns to differentiate its customers by relative value and then acts on this knowledge can be expected to rise to great heights in the years to come. By obtaining customer knowledge on both preferences and profitability, companies can determine how to most effectively invest limited resources. They build powerful relationships and, ultimately, can cultivate loyal relationships.

Tremendous opportunity lies in creating deeper relationships with our customers as opposed to merely seeking more customers for existing products. In order to cultivate such relationships, companies must be willing to ask and listen, not just speak and sell. They must learn as well as teach. The distinctions between customer-focus and product-focus are profound. Are we engaging our customers and perpetually learning more about them? Are we remembering their names and acting on what we learn? Are we differentiating our customers by value and ensuring that we invest aggressively in sustaining relationships with our best customers? These are the first questions that we must ask and answer as we attempt to understand our customers. ◊



Customer Relationships in a Wired World

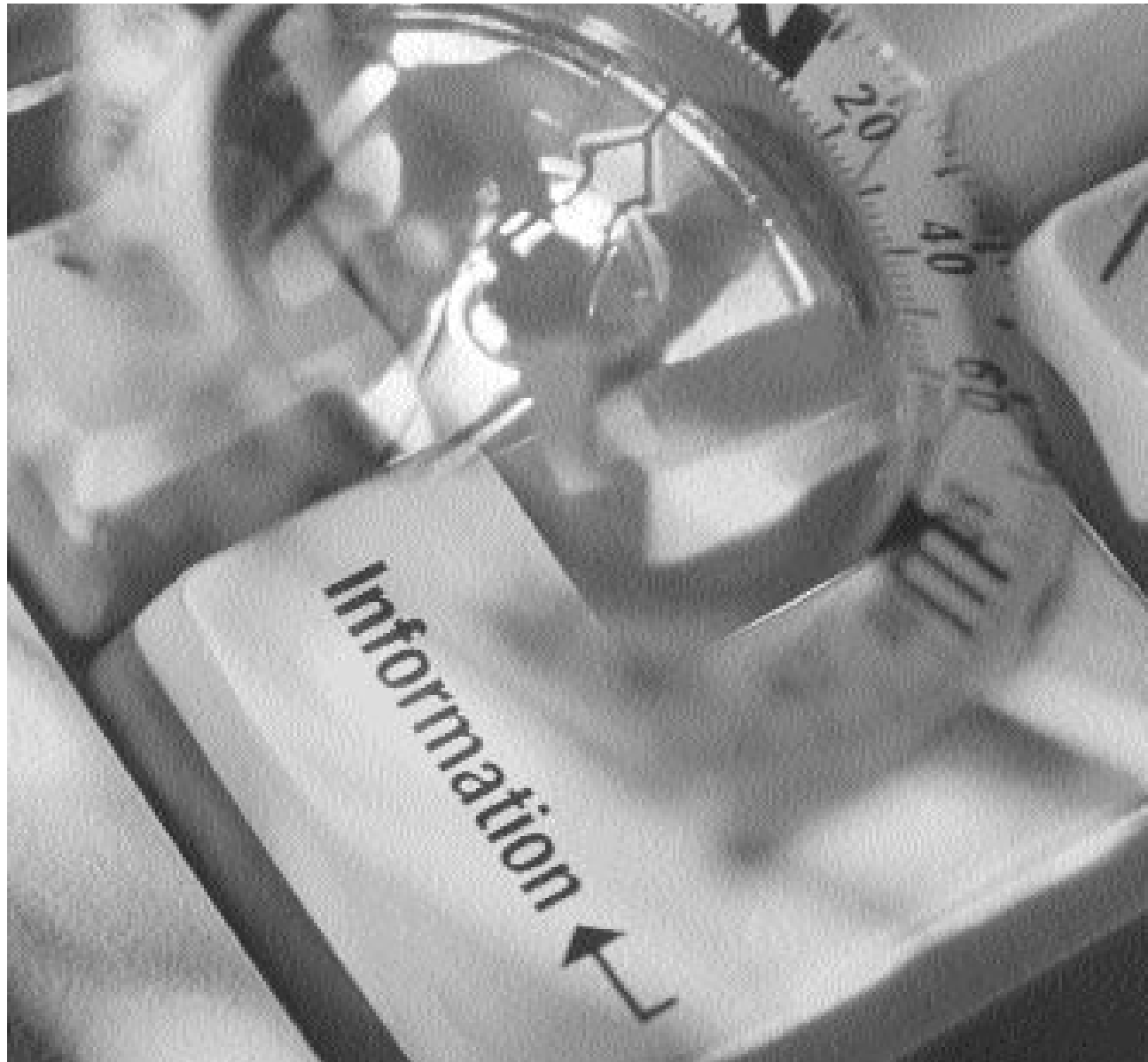


PHOTO: GEORGE B. DIEBOLD/THE STOCK MARKET

The Customer Driven Transformation

Companies seeking to transform their customer relationship practices and processes face a great many hurdles in the coming years. There should be no illusions about this. We should not deceive ourselves about the limits of our own knowledge. There is no reason to believe we could possibly have the answers before we've even begun. Indeed, we have much to learn about the successful management of transition and change. Even our objectives are subject to change over time — or, at least, the tactics we use to achieve them. Under the circumstances, diplomacy, empathy and openness to new ideas are as crucial to the success of our transformation efforts as commitment and courage.

Companies that are struggling to make the transition from product-focus to customer-focus face a number of distinct challenges. These challenges lie along several different dimensions. It is pretty difficult (if not impossible) to address all of these challenges all at once. But smart leaders of transitional efforts — smart change managers — recognize that all of these (and maybe a few more) need to be addressed if they are to be successful. We have limited ourselves to five key challenges: Value; Talent; Organization; Culture; and Technology.

•**VALUE.** No lasting and meaningful change is possible unless the advocates of that change can make a persuasive case for it. They need to make a business case that lays out the value proposition — the payoff — for the investment. Executives who intend to transform their customer management efforts should think of themselves as entrepreneurs seeking a venture capital investment as opposed to department heads seeking an allocation of resources. Compelling metaphors, analogies, arguments and, of course, numbers will all be crucial. Moreover, the need to win support or “buy in” is ongoing. Leaders and advocates must continuously “sell” the project or the initiative if it is to pick up momentum and have a far-reaching impact.

•**TALENT.** It's hard to overestimate the importance of this issue to all of us in the coming years. In some ways, our technological capabilities are racing far ahead of the abilities of people to act on them effectively. In many of the areas crucial to customer-focused initiatives, we face a “talent crisis.” Many enterprises do not have the knowledge, skills and talent necessary to capitalize on the opportunities discussed in this article. Even when they do, there are extreme centrifugal forces pulling that talent out the door and into other organizations. The war for talent will be as serious in the coming years as the war for customers. Companies must win on both fronts — or the loss will be total. Therefore, organizations must cultivate the people and build the capabilities necessary to implement powerful relationship strategies.

•**ORGANIZATION.** As companies embrace strategies that are customer-focused, they face the challenge of making significant (often, extreme) organizational changes. They may no longer be able to organize themselves in huge teams around individual

products. Instead, they must create structures that facilitate customer management — encouraging deeper customer relationships. Don't be fooled. No one really has this figured out. We are all struggling to take the uncertain — and politically charged — steps associated with such transitions. We are still unsure how to organize, which partly explains why there are so many “reorgs” these days (even in relatively successful firms). We may understand that customer knowledge must be shared throughout the company, for instance. But we haven't necessarily come to grips with all the organizational implications of this objective, especially when many professionals may feel threatened.

•**CULTURE.** This issue speaks to the ideas and beliefs, the norms and behaviors that define a company. It is one of those topics that leave us restlessly grasping for answers. Unfortunately, there are no 10-point plans for developing customer-focused, corporate cultures. You cannot really “manage” culture. However, you can influence it. It's clear that many organizations could do a much better job of creating an environment in which sensible risks are encouraged and innovation is embraced. But change depends on forceful advocacy. Many people complain that their change efforts have been thwarted by corporate cultures that are resistant to it. Too often, this is a mere excuse for poor leadership and execution. People naturally want to change, but they also want to be engaged and inspired. “Show me,” they say. As well they should.

•**TECHNOLOGY.** Finally, companies face clear technological challenges as they attempt to implement the software and systems that will enable customer relationship management. They must, of course, ensure these new tools facilitate effective work — and are designed to meet the performance needs of professionals throughout the enterprise. Too often in the past, new technologies have been implemented with little sensitivity to human factors and too little regard for the real objectives of those who would use them. Well, it's getting even more complicated. Companies now must focus on overcoming the vast challenges associated with integration — whether they are integrating with the front office, back office or external information systems. They must choose from an increasingly crowded field. Among the leading software and solution providers in the CRM marketplace are: Oracle; Siebel Systems; Peoplesoft; Nortel; Cisco Systems; Baan; SAP; NCR; Remedy; Quintus; Pivotal Software; and Onyx Software. They are providing the tools necessary to manage customers. At the same time, management consulting firms such as Andersen Consulting, Pricewaterhouse Coopers and eLoyalty are pulling together CRM systems and solutions, helping their clients cut through the increasing complexity of the customer management solutions business.

Transformation may be an imperative, but it's also a threat. It's a threat to existing and entrenched interests. It's a threat to all of those who crave stability. It's a threat to those who feel they are

prospering in the present environment. Change, as reengineering guru Michael Hammer famously said, has no constituency. But is this notion literally true? More likely, all of us welcome change to some extent — though, of course, some are more open to risk than others. Change advocates must learn to inspire us and cultivate the natural attraction to change that exists in us all.

No change effort is more important than the one that companies have now embarked on in order to build dynamic, profitable and enduring relationships with their customers. What they must realize is that customer relationships cannot be built in a vacuum. They must be managed within the context of the enterprise's larger set of relationships. All organizations must embrace change — perpetual and pervasive change — if they are to meet the objectives that are commonly discussed by advocates of customer relationship management.

The punishments for failing to become relationship-driven are becoming increasingly immediate and severe. At the same time, we see long-term relationships being torn apart by hyper-competitiveness on the Internet and elsewhere. Travel agents, car dealerships and stock-brokers are under assault by an array of e-businesses. By making it easy to defect, Web-based businesses are forcing established consumer businesses of all types to reassess and reinvent. Business-to-business relationships are similarly imperiled as companies realize they can more cost-effectively purchase products and services through Internet and other channels.

Survival in such a turbulent environment ultimately will hinge on the ability of organizations to build lasting relationships. This is the only way they can remain profitable and competitive in a marketplace of widespread customer infidelity.

But companies cannot become relationship-driven if they are not prepared to make deep, fundamental changes. Most organizations will undergo a profound transformation over the next few years merely to survive. This transformation will depend on vast changes in business strategy, enterprise systems, processes, metrics, rewards and culture. For most organizations, this will require some hard choices concerning how best to enhance their relationships with suppliers, partners and customers. A newfound focus on customers, interactions and relationships will replace the traditional way of doing business. Transformation is vital and inevitable. As Jacques Nasser, president and CEO of Ford Motor, puts it, “Five years from now, we will be a different company, and five years from then, we will be another different company.”

In the years ahead, the boundaries separating companies from their customers, suppliers and partners will dissolve. The network of value-creating relationships that surrounds an enterprise will act and react with increasing agility and speed. In the near term, however, loyalty is under siege. We are about to see defection rates soar to unprecedented levels — and blood red ink spill all over the balance sheets of the entrenched and unprepared.

The new economy is about rapid and perpetual change. But it's also about trust and relationships. Change leaders who understand the dynamics of networked, relationship-intensive business promise to be in the vanguard of the new era. ◊



Customer Relationships in a Wired World

Harrah's Entertainment Cashes In Big On Relationships



PHOTO: WILLIAM WESTHEMER/THE STOCK MARKET

Managing customer relationships across properties and geographical boundaries can be a particularly thorny challenge. In many industries, the responsibility for managing customers falls on the manager of a single site, store or location. The trouble with such decentralized management is that customers do not respect such boundaries. They travel around the country and, increasingly, the world. Smart companies are seeking ways of recognizing their best customers wherever a set of interactions or transactions occurs.

One company that has found powerful ways of addressing this challenge is Harrah's Entertainment. With casinos in Las Vegas, Atlantic City and several other locations, the company realized that it would have to create relationships that transcend geographies if it hoped to maximize potential profits and create enduring loyalty. Of course, casinos have always recognized their high rollers and treated them special, but they've never adequately recognized their best customers every place they do business with them.

To meet this objective, Harrah's introduced a customer recognition program, known as Total Gold, in September of 1997. The program is designed to enhance the company's knowledge of its customers and its ability to serve them well. It also has enabled the company to differentiate its customers by needs and value. In the middle of 1999, Harrah's implemented an extension to this approach. It now offers three different cards for three different tiers of customers: Total Gold; Total Platinum; and Total Diamond.

The reason the company introduced different tiers is that it found different segments of its customers were interested in different aspects of the company's recognition program. While Total Gold customers got the basic benefits, the others — typically customers representing higher value to the company — received added benefits. The customers in the Platinum and Diamond segments have expressed interest in a higher level of service. Depending on the segment, customers now receive an array of benefits including the ability to stand in express lines at restaurants and hotel check-ins, and various complimentary services such as meals, hotel rooms and show tickets.

Now, Harrah's is focused on enhancing these programs and extending their value so that they are well understood and appreciated by customers. The company's relationship management organization is aggressively focused on determining what new programs should be put in place, how they can be improved and how their value should be measured. "We really want to improve our execution through improved knowledge about what is important to customers — and what enhances the rela-

tionship with them," explains John Boushy, senior vice president of brand operations and information technology at Harrah's.

One way it measures the performance of its Total Gold program is by examining the growth of "cross-market" revenues. It also measures this revenue growth relative to the share of revenues its competitors are obtaining. Here's what it has achieved. In the two-year period since the program was instituted, cross-market revenues have grown from about \$110 million to about \$250 million. In other words, revenues associated with customers playing in multiple markets has more than doubled. During the same timeframe, cross-market revenues as a percentage of total company revenues have risen from 8 percent to just under 13 percent. Gross gaming revenues have risen from \$1.4 billion in the base year to \$2 billion.

"We've not only grown the revenues," says Boushy. "We've also grown the percentage of cross-market play by managing the customer relationship. We recognized that there was a customer segment that traveled to multiple markets. We believed that if we could extend the relationship with our customers from one property to the entire brand we would be able to capture a greater share of their wallets when they went to other markets — and that is what happened."

The company's strong focus on measuring performance has helped it achieve its desired outcomes: higher cross-market revenues and stronger customer loyalty. It has encouraged its existing customers not only to spend more with Harrah's but to spend less with its competitors. And, as the customers spend more, service levels rise in parallel. In this way, Harrah's demonstrates its appreciation for the customer's commitment.

Of course, such efforts have not always been easy for Harrah's. On occasion, it was necessary to take a firm stance to ensure the strategy was followed at all properties. There have also been points at which it was necessary to make compromises to achieve consensus. Moreover, there have been technical integration challenges. Many companies find this to be an overwhelming hurdle because information is scattered about in many silos and locations. While Harrah's has done a phenomenal job integrating its information systems so that it can track customers, it has faced challenges integrating the customer information it obtains when it acquires new properties and businesses — leading to the occasional direct mail piece that is inaccurately "personalized."

Still, the company has overcome most hurdles. It has accomplished this by developing strong customer management organizations and by working collaboratively with its various properties to improve performance. "We have been able to work through those challenges and change management issues," says Boushy. "Now we are

focused on execution and enhancing customer relationships. As performance improves, the buy-in becomes automatic. It's no longer something we have to sell throughout the company; it's something we do."

In the years to come, Harrah's intends to focus on further improving its customer relationship management efforts. The company expects to continue gaining a deeper understanding of its customers — what motivates them, what attracts them, what retains them — and use that information to deliver an increasingly personalized set of offerings for each customer. "The knowledge capital that we are building is a component of how we will constantly build relationships," adds Boushy.

As for Total Gold, the company plans to continue strengthening the program by making it easier to understand and motivating people to play at Harrah's. That means it must develop increasingly sophisticated profiles of customer needs and preferences, and anticipating what the customer might need in the future. It also intends to add additional benefits to cardholders through strategic alliance partners — whether they are travel-related or providers of consumer products. Harrah's understands that the value it brings to its customers is related to the full range of products, services and experiences it can offer to fulfill the individual customer's needs. The more benefits the company can provide, the more problems it can solve, the stronger the relationship.

The company recognizes there's no "silver bullet" that will instill loyalty. "When a customer spends 8 hours at our property, there is a series of experiences that occur," explains Boushy. "We may cut wait times, invite them to special events, provide them with complimentary services. It's a very multi-faceted approach. We want to make it very clear to our customers that if they spend more money with us, they will earn a higher level of service. We'll make it very simple for people to understand what they are receiving as a result of playing at Harrah's. We'll strengthen the relationship because they'll realize that playing at other casinos won't help them move to higher levels."

The Harrah's strategy seems to be paying off. In fact, it is realizing 7-11 percent same-store sales growth — a growth figure that most retailers would find astounding. Such success can be traced to its customer-focus. While many of the company's competitors are investing heavily in high-end attractions and new buildings to draw new customers, Harrah's is placing far more emphasis on the extension of existing relationships. "One of our most precious resources is our base of customer relationships," concludes Boushy. "We must invest in those relationships and ensure they are growing. That's fundamental to our strategy. We have recognized that we have an asset with these relationships." ♦



John Boushy, senior vice president of brand operations and information technology, Harrah's Entertainment.



PHOTO: WILLIAM WESTHEMER/THE STOCK MARKET

Lands' End Enlivens Interactions On The Web

Traditionally known for its excellent customer service, Dodgeville, Wisconsin-based Lands' End believes that if it takes care of its customers the rest of the business tends to take care of itself. It is now finding that this simple principle is especially true in the realm of cyberspace. The direct merchant, which made its name in the catalogue business, has invested heavily in customer interaction capabilities that are addressing customer concerns about online shopping. Such efforts are rapidly making the company a leader in electronic commerce.

As Lands' End acutely understands, expectations are rising on the Internet. Consumers are no longer simply enamored of the new medium and the ability to shop from their desktops. They now want to be treated as individuals and have their questions answered in real-time. Successful as Web-based shopping has been, one of the reasons it has not proved more successful to date has been the imper-

sonal nature of the experience. By some estimates, two-thirds of shoppers abandon their electronic "shopping cart" in the middle of a transaction. Research shows that shoppers often terminate the transaction because they are unable to ask a question that arises at the moment of a sale. They may have questions about returns, or using their credit cards or complimentary products and services, but no one is there to respond when they need help.

Lands' End has come up with a powerful means of addressing this problem. This year, it introduced "Lands' End Live" — allowing the customer to immediately engage a customer service representative in an electronic or phone conversation. The service reps, which the company calls "personal shoppers," can answer customer questions, solve problems and even make suggestions about appropriate merchandise — all in real-time.

Imagine you are on the Lands' End Web site looking for a pair of chino pants and you can't find a product

continues

Lands End continues

that matches your needs. Simply click the Lands' End Live button and you will immediately be trading e-mail messages (known as "Web chat") with a personal shopper. If you would prefer to talk on the phone, the representative can call you back. While the representative can certainly address your concerns (reps have an average of eight years experience with the company), he or she also can direct your browser to relevant pages on the site — matching your interests to appropriate products including those sought-after chinos. "People are flocking to this," says Jeremy Hauser, research and analysis specialist at Lands' End. "They find it to be a better experience."

As it goes through transcripts of online conversations, the company is finding that customers have many questions about service as well as interest in products to complement their existing merchandise. Lands' End Live is enabling it to ensure transactions are completed — certainly at a much higher rate than many other companies have experienced on the Web. If a shopper has a question about the availability of a particular style, size or color, the personal shopper can provide an instant answer.

"Customers are beginning to expect this," says Hauser. "There's no reason the Internet should be different than any retail store in terms of getting your questions answered."

But Lands' End can now do more than just answer questions. Personal shoppers also recommend additional products that match customers' preferences. They can even split the computer screen and display apparel combinations (such as a shirt and tie) to help the customer make a decision. Through effective interactions, the company is able to enhance the customer's experience and, as a result, generate more sales.

Of course, such activities require investment. The company allows that the Internet chats can last even longer than phone calls, but it is convinced that such efforts are critical to its success as an online merchant. Therefore, it does not try to encourage callers to quickly complete the interaction merely to achieve short-term savings. "If you are going to cut costs in your organization, you don't want to do it in customer service. We believe that if we keep our customers online, they will probably complete the sale and may even buy more products. We don't want to skimp on customer service," concluded Hauser.

Lands' End seems to have successfully made the move to the online world. Internet sales in FY1999 (ended January 31, 1999) were \$61 million — about 4 percent of total sales of \$1.37 billion. Web-based sales in the first and second quarters of FY2000 have grown two and a half times. And while the company had a total number of 15 million new visitors to its site last year, it received 14 million new visitors in the first half of this year.

"The growth of the Web site is a testament to the commitment we've put into enhancing online shopping," says Hauser. "We've

tried to add a little warmth to the Internet."

The company has always sold merchandise directly to its customers. It has outlet centers, but no retail stores. The Web is becoming one more channel — much as catalogues have been. And while other companies are struggling with issues of channel building and conflict, Lands' End is leveraging its existing infrastructure to great effect. It has an intricate system of warehouses and distribution centers in place. It also has a long-standing relationship with its shipper, UPS.

What lies ahead? The company intends to actively integrate customer information into its Web-based interactions. That will enable the company to leverage its knowledge of past interactions and purchases to make personalized recommendations. It estimates that roughly 80 percent of the people it is currently doing business with are repeat customers. The information it generates from those customers can be used to CRdevelop stronger and more personal relationships.

The challenge lies in integrating information that exists on

the company's mainframe system with its new Web-based systems. The company also intends to apply the lessons its learned in customer interaction to sites developed for other markets including Japan, Germany and the United Kingdom.

"I think you'll see a lot of companies focus on customer management in the coming years," says Hauser. "That's the key to e-commerce. You need to offer excellent customer service to answer your customer's questions, and help them out when they have problems. That will separate the winners from losers." ◇

CRM page 11



Customer Relationships in a Wired World

Dow Chemical Builds a Customer-Focused Organization

In order to become customer-focused, Dow contends it must redesign its business processes from the "outside in."

The most difficult challenge that companies face with respect to CRM is the challenge of organizing around customers. Most companies are organized around product groups or divisions. Each one of these groups is responsible for selling as many of their products as possible to as many customers as possible. When this is the case, a single company's sales teams might make many unrelated sales calls on the same customer. There is typically little incentive to collaborate or share information. Customers, however, want a single point of contact that understands their various needs and remembers past interactions.

This is the direction that Dow Chemical, the \$19.5 billion global manufacturer of chemicals and plastics, has taken. While the company has 15 different businesses (working in 68 countries), it is now attempting to show "one face" to the customer. But none of this is possible without organizational change and commitment. Dow's CRM initiative, which is sponsored by the CEO and promoted throughout the organization, is designed to make it much easier to do business with the company.

In order to become customer-focused, Dow contends it must redesign its business processes from the "outside in." It must begin to see from the customer's perspective and transform itself with the customer's needs in mind. To reinforce its change management efforts, the company is following the Six Sigma Quality process (celebrated by companies such as Motorola and General Electric). This enables the company to establish metrics for customer satisfaction and loyalty, and ensure that performance goals are met.

The company also realizes that it's critical to communicate these goals throughout the organization, and ensure customer management efforts are heavily supported and embraced. To this end, key leaders at Dow are promoting the customer-focused initiative company-wide and a series of workshops have been launched that discuss objectives and how to meet them. "The key to successful organizational change is an effective communications program," says Mack Murrell, global director, customer interface, Dow Chemical. "You need to show the new direction and rally the organization."

Dow is also investing heavily in information technology — both front and back office systems — to strengthen its customer

management efforts. There are more than 200 people involved in the group directly responsible for the organization's "interface" with its customers and another 10 people in each of its 15 businesses. They are focused on setting standards, transferring successful practices and making information accessible across all geographical boundaries and all customer touch-points. Touch-point integration is a particularly significant challenge. The objective is to ensure that the customer is recognized and treated consistently whether the point of interaction is a call center, the Web or a face-to-face meeting with a member of the field sales force.

CRM systems now enable call center professionals to immediately call up information about the customer and respond appropriately. Such systems also automate or eliminate many of the administrative activities that kept sales people from focusing on high-value, strategic selling efforts. And the Web is now enabling customers around the world to check on available products or the status of their orders. Dow even places monitoring devices on tanks at customer sites that enable it to automatically replenish the supply of necessary chemicals.

New technology is also making it much easier to collaborate with the customer. Dow has recently rolled out a new Web-based capability called "My Account." This service not only enables a customer to examine its order history and status online, it allows Dow and the customer to engage in Web-based meetings and sophisticated troubleshooting activities. It even includes a secure "drop box" where Dow can exchange designs, contacts and other documents with its customers.

Such initiatives and programs are enabling Dow to address an increasing number of customer needs and become a much more valuable supplier. Instead of merely handling tactical business problems, the company is now developing strategies with its customers — helping them to transform their own businesses using Dow's products, services and expertise.

After spending the last few years cutting costs and determining which businesses it wants in its portfolio, Dow is now focused on growth. It intends to accomplish this objective through active customer management and is investing "tens of millions" of dollars in the effort. "We're thinking of this as a transformation," says Murrell. "We will make significant changes in the year 2000." ◇

Cybox International Strengthens All Channels

Cybox International, a 20-year old manufacturer of fitness equipment (such as treadmills, stair climbers, cycles and strength equipment), is reaching out to its customers by building powerful relationships with channel partners. Whereas many other companies that sell through both direct and indirect channels are experiencing channel conflicts, Cybox is successfully managing all of its channels in parallel. Cybox sells to health clubs through a direct sales force and recently began selling direct to consumers through its Web site, Cybox.com. However, it knows it must also please its dealers if it is to achieve its market potential. Dealers provide retail showroom space, but they also install and service the products. Considering the complex and service-intensive nature of high-end exercise equipment, the dealers play a pivotal role.

The company's new Web site and aggressive advertising campaign are certainly generating consumer interest in Cybox. It is tracking Web site visitors and has found that the number has climbed dramatically since it began promoting the new site. For the most part, however, these leads are being directed to dealers.

The most compelling elements of its new site, in fact, are the ones designed to support dealers and strengthen relationships with them. Now, dealers are able to place orders for parts and equipment online on a rapid and efficient basis. The dealers obtain inventory availability information instantaneously and can track the order all the

way to delivery. Moreover, they gain access to customized pricing (as opposed to list pricing), reflecting the amount of business they bring to Cybox.

Whereas Cybox's call center has traditionally received more than 250 inquiries a day from dealers regarding orders, they now can quickly find order information themselves. Now, the information is available around the clock and around the globe (greatly benefiting dealers in Europe, Asia and other places). This adds convenience and saves time for dealers, but it also allows Cybox to redeploy its people into more valuable roles such as customer training and technical problem solving.

Cybox is convinced that its investments in developing its dealer channel relationships are paying off. It claims to have the premier business-to-business Web site in the industry based on dealer feedback. The Cybox Web site is designed to enable the dealers to work with their customers much more effectively. This is critical because dealers sell competing products in their showrooms. Under such circumstances, it's important to get their attention and their respect. "Our relationship building with our dealers has to do with mind share and quality of service, not just products," says Thor Wallace, vice president and chief information officer at Cybox. "These efforts differentiate us beyond our products."

In the near future, Cybox will be rolling out new capabilities on its site to benefit dealers, resellers and service

providers. For instance, the company is developing new ways of managing and sharing leads so that its dealers can quickly make new sales. It also intends to offer powerful online troubleshooting functions. "These are sophisticated and knowledgeable people," says Wallace. "They just need information."

Cybox is also empowering its direct sales force, which sells to the health clubs. It is giving them the tools and information they need to make the sale and build the client relationship. When they are online, they can place and track orders, access product information and inventory availability. This enables sales people — and dealers alike — to spend much more time cultivating relationships and generating creative offers as opposed to handling low-value administrative issues.

While direct customer relationships often get the most attention from executives, it's important to understand that many businesses revolve around indirect channels. Managing supplier, reseller and distributor relationships is a key priority for such companies. Interestingly, it seems that even companies that have made their biggest splash selling direct are now finding they must work with indirect channels in order to continue growing. As the experience of Cybox demonstrates, channel relationships and customers relationships are often intertwined. Relationship strategy must encompass many parties if we are to thrive in today's extremely competitive markets. ◇

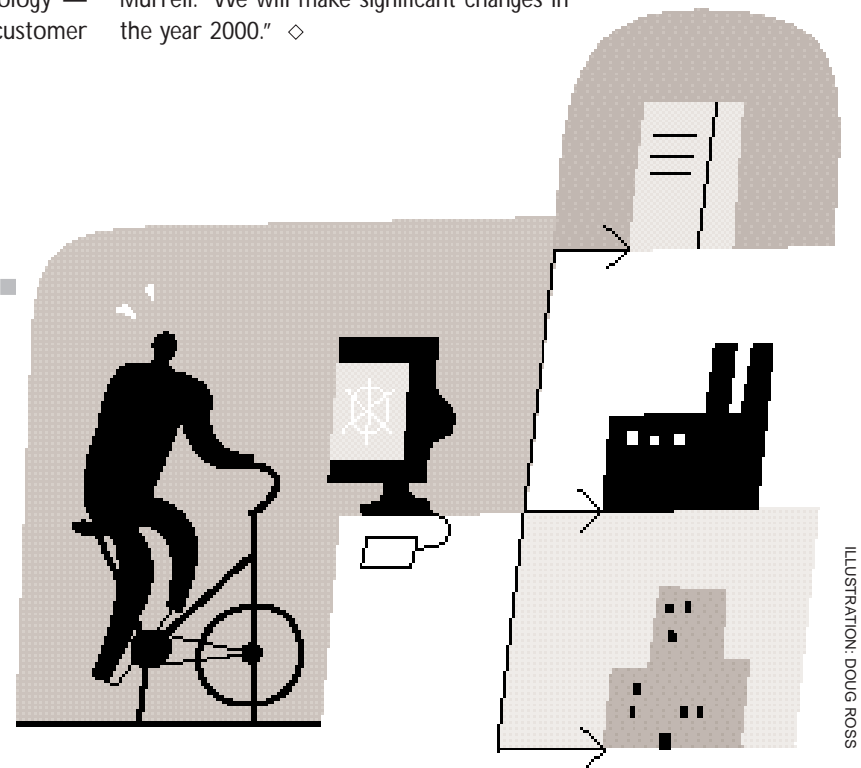


ILLUSTRATION: DOUG ROSS



Customer Relationships in a Wired World

Southern Co. Creates High-Power Relationships

As one of the world's largest companies in the heavily regulated utility industry, one might not expect Atlanta-based Southern Co. to move rapidly to address customer needs and concerns. But that would be a mistaken assumption. Southern, which operates several utilities in the southeast (including Georgia Power, Alabama Power and Mississippi Power), prides itself on its excellent reputation in the area of customer service. The company, however, is now investing in efforts to deepen its customer relationships and prepare it for an increasingly competitive marketplace.

Southern spends a great deal of time with its clients, helping them determine how to effectively use energy to maintain profit growth. The company has several tiers of customers including large corporate and industrial accounts. Its relationships are, by necessity, quite close. Indeed, client managers often are situated on the client's site. Regularly scheduled face-to-face meetings with sales people and account managers are the norm. Client needs are complex and the client manager's understanding of the account goes deep.

The trouble with this arrangement is that too much knowledge resides with individuals — and too little with the organizations themselves. It's a significant liability in mission-critical relationships such as Southern's. If an account manager takes a day off or leaves the company, there might be no one available with adequate knowledge of the client's needs and particular concerns. The same could be true of the client, where a technical specialist is often responsible for managing and monitoring power systems.

Under the circumstances, Southern realized it needed a system enabling it to effectively capture information about the relationship. Therefore, it invested in a CRM system that keeps track of projects, interactions and past activities so that a new account manager — or technical specialist — could easily pick up where another one left off. The system also enables professionals to collaborate, sharing data and documents electronically that are essential to building and maintaining the relationship.

The CRM initiative is enabling Southern to meet several objectives at once. First, the initiative is helping it establish customer management standards for each of its five regional operating companies. In some cases, client companies need to be managed across regional boundaries. The CRM effort allows Southern to seamlessly manage projects and interactions. "Now, there is more consistency in our dealings with customers," says Temp Davis, who is the project manager responsible for Southern's CRM system. "They like it and they demand it."

New CRM efforts are also driving cost out of Southern's operating activities, particularly in relation to information technology. It is now implementing a new system that will replace cumbersome legacy systems. Finally, these initiatives promise to drive revenue up. Sales and marketing people now have sophisticated lead management and order tracking capabilities at their disposal, enabling them to spend more time selling "value-added" services and solutions. In addition to providing energy, for example, the company can conduct sophisticated "energy audits" to determine if a customer — be it a small restaurant or a large manufacturer — is using energy in optimal ways. "We can provide much more than electrons," says Davis.

Looking ahead, Southern's vision revolves around taking its expertise and capabilities to small and mid-sized companies. In order to make this effort profitable, it must find ways of streamlining and automating many of its customer management activities. Constant, face-to-face contact is not economically feasible for smaller customers so the company must learn to effectively manage these customers through call centers and over the Web. Southern is relying on phone-based account management and Web-based, self-service to address the needs of smaller customers — an arrangement that is cost effective for both company and client. "The opportunities in these new markets are tremendous," says Davis. "This is an undiscovered country." ◇



PHOTO: HERMAN/STARK/THE STOCK MARKET



Temp Davis,
CRM project
manager,
Southern Co.

CRM page 13



Customer Relationships in a Wired World

Cisco Systems Expands Its Network

Central to Cisco's efforts in customer performance management is its focus on measurement and performance.



Cisco Systems has employed Web-based applications to change how it does business in terms of electronic commerce, online technical support and its supply chain. Right, Sue Bostrom, vice president, Internet Business Solutions Group, Cisco Systems.

Cisco Systems is one company that everyone has their eye on as we enter the network economy — and not just because it is a global provider of networking technology and solutions. Cisco has experienced hyper-growth in recent years, earning its reputation as a premier customer service company.

Among the reasons the company is known for its treatment of the customer is its high-level, executive support of customer satisfaction initiatives. Customer relationship management is at the top of everyone's priority list and has become part of the company culture. Indeed, employee bonuses and other types of compensation are directly linked to customer satisfaction scores. "We are all tied to customer satisfaction and whether we are meeting customer expectations," says Sue Bostrom, vice president, Internet Business Solutions Group, Cisco Systems.

Central to Cisco's customer management efforts is its focus on measurements and performance. The company has a series of customer satisfaction metrics that it measures itself on perpetually. Whether it's a presentation at the executive briefing center (where customers come to learn about business trends and solutions) or an interaction at the technical assistance center (online or over the phone), Cisco is constantly asking customers to rate their experience and how well the company has met their requirements.

While many companies survey their customers, Cisco has aggressively acted on the feedback it generates to enhance its business. It launches quarterly initiatives for customer relationship improvement. Moreover, the company uses the information it gathers through each interaction and transaction to strengthen relationships with individual customers. Cisco is focused on transferring successful practices throughout the organization, but it is also intent on correcting poor practices. It has applied the lessons of the Total Quality Management movement to ensure that it is consistently and continuously improving customer relationships. Customers understand that their input is likely to be considered and their concerns addressed, which helps Cisco elicit the feedback in the first place.

One of the most impressive aspects of Cisco's customer management efforts is the way it has expertly used the Internet to develop relationships. It has used Web-based applications to transform how it does business in terms of electronic commerce, online technical support and its supply chain. All such efforts, however, have been guided by a sense of "the customer's value proposition." Indeed, the company has created special advisory boards — made up of customers and channel partners — to determine what capabilities and functions will be useful. Cisco reviews its plans with these advisory boards — typically on a quarterly basis — to determine how it can enhance its relationships through Web-based and other initiatives.

"They help us enhance our development plans and determine what our priorities should be," says Bostrom. "They tell us what they like and what they don't. We change our plans based on this feedback. If our customers don't think an initiative is going to meet their needs and requirements, we don't go forward with it. We only build capabilities that our customers say they need. The key factor for our success as a company has been our focus on our customers and keeping them satisfied. That has been a primary driver of everything we do including the technologies we develop and companies we acquire."

Such attentiveness has paid off. When the company started developing online technical support in the early 90s, its average customer satisfaction levels were at 3.4 — on a scale of one to five. The company has since raised those levels to 4.2 and is pressing for still higher scores. "We have used the customers, needs and requirements to drive the capabilities we develop," says Bostrom. "That has driven adoption, but more importantly, it has driven customer satisfaction. That is the same mentality we

apply to our face-to-face interactions with customers."

High customer satisfaction is deeply related to Cisco's commitment to the objective. In fact, many Internet-related business activities (including technical support and electronic commerce) fall under the umbrella of the company's Customer Advocacy Group. The focus of the organization is to become an advocate for customers, ensuring their experiences are as positive as possible. The company depends on a customer satisfaction organization which is responsible for metrics and action plans. "If you don't measure, track results and reward people appropriately, it's very difficult to get the results that you want to achieve," says Bostrom.

One cannot underestimate the importance of building a customer-focused company culture as opposed to merely implementing initiatives and programs. Cisco's employees carry their objectives with them on their identification badges. Those tags include the company's 3-5 year business goals — one of which is a commitment to customer satisfaction. "That's a very powerful tool for people to understand that this is one of the key priorities for the company," says Bostrom.

Of course, Cisco recognizes that technology is also critical to effective customer management.

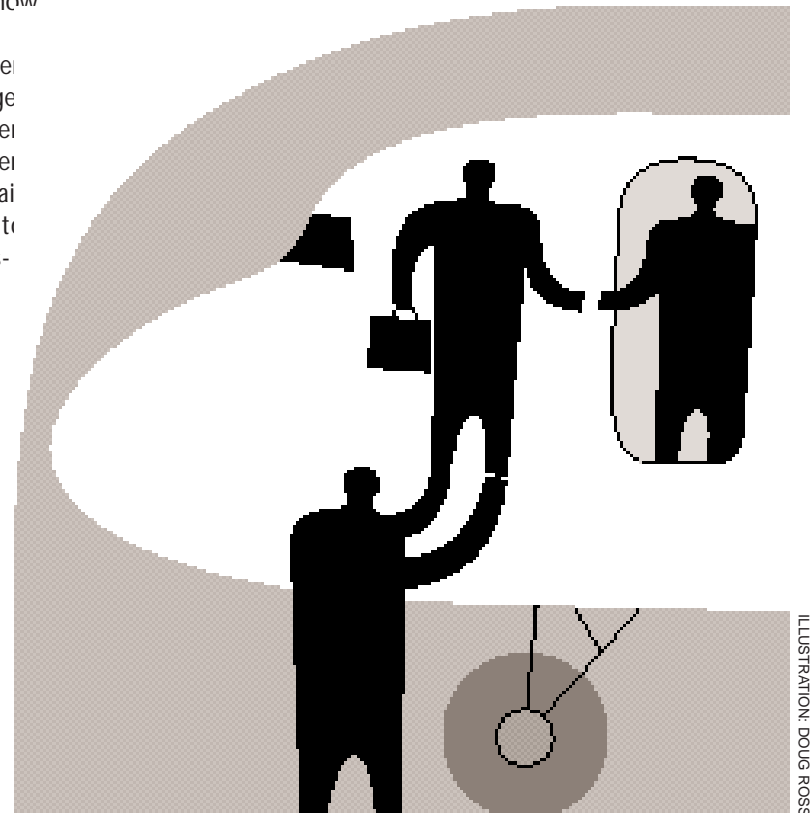


ILLUSTRATION: DOUG ROSS

Customers want one contact and they want past interactions to be remembered and acted upon. With that in mind, Cisco offers its client managers a single, integrated view of the customer. Indeed, the company relies on one central repository of information and knowledge to address the needs of all of its constituencies — employees, partners, and customers. Whether you are an account manager at Cisco or a channel partner or a customer, everyone has access to the same customer profile database and the same information. The system has different levels of access, but everyone uses the same system nevertheless. Having a single repository has helped eliminate "information silos," a problem that often hinders corporate efforts to collaborate and manage customers effectively.

The company continues to shoot for higher levels of customer satisfaction. In order to meet these objectives, Cisco intends to provide "customized customer experiences" based on past purchases as well as preferences and priorities. That might include the generation of personalized messages online, anticipating or immediately addressing customer needs and concerns. All such efforts will remain directly linked to addressing customer needs and interests. "We are relentless about customer satisfaction," says Bostrom. "We have always been very focused on customer satisfaction. We have to deliver basics, but we also have to continue to meet customer expectations." ♦