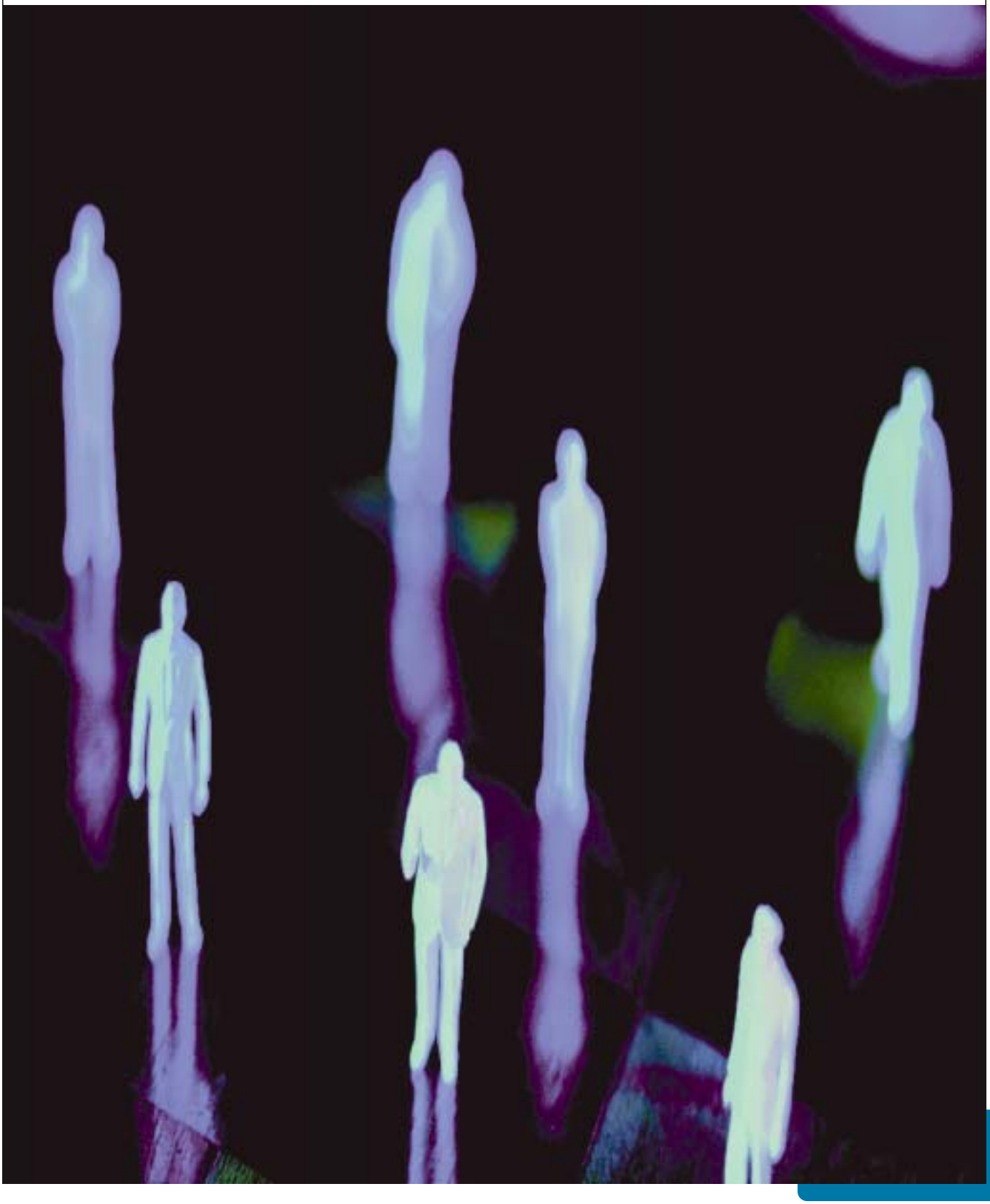
SILVON SOFTWARE, INC

CUSTOMER RELATIONSHIP ANALYTICS WHITE PAPER



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THE BOTTOM LINE OF CRM: KNOW YOUR CUSTOMER

Customer relationship management (CRM) has become a top priority for companies seeking to gain competitive advantage in today's stormy economy. However, confusion reigns about exactly what CRM is, how to best implement it, or even what role it should play in enhancing customer interaction. Worse yet, even after investing hundreds of thousands, if not millions, of dollars in CRM systems, most companies are no closer to understanding their customers than they were before the system was put in place.

CRM itself is not a technology, but a process of gathering and retaining information about customers and their interactions with your company. CRM was practiced by businesses long before CRM technology came along. Consider a typical business that flourished a century ago - the mom-and-pop grocery store on the corner. The owner practiced CRM every day - he or she knew all his or her customers, what days they came in, the size of their families, their favorite foods, and what they needed even before they walked in the door. Wouldn't it be nice if your employees had such intimate knowledge of all your customers' needs!

Of course, keeping close tabs on hundreds or thousands of customers across the globe is not something employees can do in their heads. We rely on databases and automated tracking tools to do that for us. Operational and collaborative CRM covers the nuts and bolts of this process - interacting with customers, managing the process and sharing actions with various channels and trading partners. Analytical CRM integrates customer data coming in from various channels into a single system to provide a decision making platform. Such channels include the various components of CRM systems - call centers, customer service automation, marketing automation, and sales automation

The CRM Track Record

Implementing CRM systems tends to be a complicated and expensive endeavor. META Group estimates that within the next two years, the top global 2000 companies will be spending $250 million each on CRM solutions. While money is being spent, many companies have not been able to figure out what kind of return on investment they are getting with their systems, beyond anecdotal evidence. As one vice president of information systems puts it: "ROI on CRM systems is hard to track, because you're looking at information you never had before." Add to this uncertainty the staggering failure rate for CRM programs - estimated by GartnerGroup to be as high as 70% of all projects. The problem, GartnerGroup relates, is that almost half of all planned CRM implementations will be based on technology initiatives alone, and will fail to address metrics, behaviors and processes. While many of today's database and CRM systems do a good job of capturing customer data, they can't make the data meaningful or enhance customer relationships by themselves.

Bringing Knowledge into the Equation

Customer relationship analytics - sometimes also called analytical CRM - makes sense of the mounds of data you're collecting from CRM systems, databases, and transactions. In many cases, if the data is available, you don't even need a CRM system to develop a robust analysis of your customers. Customer relationship analytical tools can provide a 360-degree view of customers, helping you understand what customers are telling you, who they are, what they need, and more importantly, what they may do in the future. These systems enable fact-based decision-making based on hard data, rather than anecdotal evidence or "gut feel." "We strongly believe that companies that don't have an analytical CRM strategy along with their operational and collaborative strategies are more likely to fail in CRM," according to Steve Bonnadio, program director of application delivery strategies for META Group.

Business Drivers

How can your business benefit from customer analytics? Simply put, it's far cheaper to retain and satisfy your current customers than to acquire new ones. For example, a study within the cellular phone industry found that a company loses $500,000 in revenue for every 1% of customers it loses.

However, it's not profitable to try to hang onto every customer. Some customer segments buy in low volumes, while others have high service requirements or high return rates. Customer relationship analytics will help distinguish whether customers are part of high-profit or high-maintenance segments.

Customer relationship analytics take on the role of a highly sophisticated marketing department. These tools identify your most valuable customers, group these customers based on purchasing behavior and other attributes, and target them with promotions and sales efforts designed to increase customer loyalty and sales revenue. By understanding the relative value of each customer, you can then focus sales and marketing efforts on the most profitable segments.

Customer relationship analytics can impact the company's overall bottom line as well. Recent research by Accenture (formerly Andersen Consulting) finds a direct correlation between customer relationship analytics and business revenues. A typical $1 billion business could add $40 million in profit by enhancing its CRM capabilities by 10 percent. Beyond that, the more CRM performance increases, the more incremental revenues to the business.

Accenture dug deeper to examine what specific CRM initiatives can directly enhance revenues. They discovered that the top three initiatives having the greatest impact on the bottom line include fostering high levels of customer service, encouraging strong employee motivation, and "turning customer information into insight" - in other words, analytics. "The highest-performing companies give their frontline employees quick, easy access to critical data - purchases, contact history and product inquiries, as well as demographic and lifestyle data," says Mark Wolfe, partner with Accenture. He also observes that successful companies share this same analytic information with trading partners across the supply chain.

IMPACT OF INITITIAVES ON THE BOTTOM LINE (For a $1 Billion Company)

Initiative	Average Return
Motivating and Rewarding People	$13 million
Customer Service	$13 million
Turning Customer Information into Insight	$12 million
Attracting and Retaining Employees	$10 million
Building Selling and Service Skills	$9.5 million
Strong Value Propositions	$9 million
Partner and Alliance Management	$9 million
ECRM	$8 million
Sales Planning	$7.5 million

Source: Accenture

Significantly, these successful CRM companies did not view CRM as an IT project relegated to a specific department - rather, they viewed CRM as an enterprise-wide initiative. Most CRM implementations have been fragmented, implemented within departments without a cross-organizational perspective. Likewise, customer relationship analytics need to be shared at all levels across your organization. Inside and field sales personnel will see higher levels of qualified customers, lower costs of sales, and more sales closed. Marketing will be able to track responses and predict results to particular promotions or campaigns among targeted customer segments. Your customer service staff will be able to deliver higher levels of support and customer satisfaction.

WHAT CUSTOMER ANALYTICS MEASURE

Getting Customers	Keeping Customers	Rewarding Customers
Advertising	Call Center Interaction	Buyer Bonuses
Campaign Management	Customer Service	Customer Incentives
Customer Profiling	Privacy Support	Discount Policies
Merchandising	Product Quality	Loyalty Programs
Sales Analyses	Service Quality	Problem Resolution
User Segmentation	Shipping & Fulfillment	Return Policies

Source: Zona Research, 2001

WHAT IS ANALYZED

Lifetime Revenue Contribution	Discount Impact
Net Profitability	Performance by Month
Channel Profitability	Trending
RFM Ranking	Propensity to Buy
Opportunity Analysis	Campaign Effectiveness
Return Patterns	Return Impact on Revenue
Return Reason Ranking	Order Fill Rate
Order Line Fill Rate	Order Shipment Rate
Backorder Duration	Problem Severity Ranking
CSR Performance	Problem Impact on Sales

Source: Silvon Software

AND WHAT IS ACHIEVED

Marketing	Sales	Service
Campaign Effectiveness	Pipeline Improvement	Improved Support Planning
Visitor Experience	Qualification	Reputation Improvement
Predictive Modeling	Interaction Performance	Support Plan Implementation
Backlog Reduction	Lower Cost of Sales	Delivery Performance
Consumption Maximization	A/R Closure	Fulfillment Performance
Production Improvement	Distribution Effectiveness	Response Performance
Churn reduction	Usage Improvement	Satisfaction Improvement

Source: META Group

Technology Drivers

A formal CRM technology solution is not required to implement a customer relationship analytics program. What is required is some level of integration between customer-facing applications - such as call-center or Web systems - and back-end systems. Front office systems providing data pertaining to customer transactions and inquiries can be matched up with back-end financial systems have records of customer credit and invoices. In addition, many companies already have components of CRM systems, such as sales automation systems that record customer contact information. Data can come from a variety of sources - call centers, point of sale transactions, Web clickstream data, back-end databases, and even faxes and phone records. Data from these channels is integrated into a customer-oriented data mart or data warehouse, a knowledgebase that continuously captures customer data.

DATA SOURCES

Back-end/Legacy Systems	Sales/Point of Sale	Customer Service/Call Center	Internet
Invoices	Inquiries	Contact Management	Clickstream Data
Credit History	Store Transactions	Inquiries	Registration Forms
Purchasing History	Receipts	Customer Satisfaction Surveys	Non-Purchasing Visitors
Shipping Records	Contact Histories	Complaints/Returns	E-mail Inquiries
Transaction Records	Complaints/Suggestions	Quality Measures (average call length, response time, etc.)	Supplier Data
Master Files	Warranty Files	Severity / Priorities	Visitor History

Source: Silvon Software

While many integrated CRM solutions do provide this capability, you still need the tools that will take this composite data and paint a picture about your customers. A customer relationship analytics system is a set of tools that are run against this data to perform business intelligence functions - reporting, analysis and data mining. Such tools can help you visualize - through online graphics - patterns and relationships in customer behavior and trends. A number of variables can be measured through this data analysis engine, including net profitability, return patterns, and order fill rates. For example, you may find that a particular customer segment to which you have been aggressively marketing also has a high return rate for products - thereby diminishing the profitability of this effort. You may also find your best customers are treated the worst because you don't know who are your best customers and don't realize the extent of their treatment.

To have a successful impact on your organization, your analytics system needs to be speedy, accessible, and user-friendly. While customer relationship analytic systems may employ sophisticated tools running against data stored on high-end systems, it's important that the end-results are user friendly, and accessible either through PCs or browsers. If end-users have difficulty using a system, or cannot pull up the data they need within a few seconds and navigate down through the information toward a solution, they will abandon the application and its benefits will not be realized. In fact, this historically has been the main reason for the failure of sales force automation systems over the years - sales representatives, usually too focused on the business at hand, refused to find the time to learn to use what they perceived as a difficult or cumbersome system.

"Communication of the analysis to decision-makers and customers should be in a form that is 'decision-ready,'" according to Jeanne G. Harris of Accenture. She notes that at Kraft Foods, for example, "highly skilled analysts use complex statistical tools for their category management analyses. But the sales force receives the results in a business-focused slide presentation that addresses the implications for each category for an individual grocery manager."

Mining a Data Warehouse: A Manufacturer Discovers its Customers

Many companies, particularly manufacturers, are removed from their end-users because they sell through third-party distributors and retailers. For these companies, customer relationship analysis can look at various data feeds and provide a valuable picture of customer trends.

For a leading cellular telephone manufacturer, deployment of CRM analytics is helping to track previously unseen customers within the cellular telephone market. The company embarked on an ambitious effort to better track customer experiences with its products. Prior to the effort, the company only knew a fraction of one percent of the millions of customers who use its products worldwide.

Most distribution partners' data covered sales figures and regions. The company needed, however, to better understand the motivations and buying behavior of end-users, and who the repeat customers were. The company built a data warehouse, which captured data from its ERP system, as well as sales data from partners. An online analysis tool was run against the data.

One factor that became apparent, as the company tracked customer purchasing, is the churn rate - the company loses 12% of its subscribing customers each year. The company's executives calculated that they spend more than a billion dollars buying back the U.S. market alone each year. Outside the U.S., the rate was exponential. By working proactively with partners on end-user analysis, the company intends to evolve into a more consumer-driven organization.

Real-Time Analytics: Web-Based Retailer Gets Personal

For companies with developing Internet channels, the ability to analyze and manage customer relationships is vital. While physical outlets such as stores provide visibility and interaction with customers, the Internet can be impersonal, and contact fleeting. The advantage of a Web channel, however, is that it is capable of accumulating large amounts of customer data.

An established clothing retailer went online several years ago, but had little knowledge about the motivations of its online buyers. The retailer's goal was to build a closer relationship with these online customers through real-time personalization. The company added an analytics solution that observes customer behavior through clickstream analysis, and applies predictive technology processed from data from customers' profiles, purchase history, and clickstream data. The retailer was also able to feed in data on more than 250,000 customer transactions into its analytical system to provide forecasting information. As a result, the Website is capable of generating information targeted specifically to the visitor. Online customers are provided special offers, loyalty offers, and cross-sell offers. The retailer can also now deploy a marketing offer on its Website in the morning, and know how well it was doing by that afternoon.

Silvon's Stratum™ Suite and Customer Relationship Analytics

Silvon's customer analysis solution, marketed and sold under the Stratum suite of business performance management applications, allows companies to adopt a more customer-centric approach to doing business through in-depth analysis and grouping of customers based on purchasing behavior, future marketing opportunities and customer service levels. The Customer Relationship Analytics (CRA) module of Stratum enables companies to ensure that their most profitable customers remain satisfied and that sales and marketing efforts are aimed at retaining good customers and attracting the right prospects.

The Stratum Customer Relationship Analytics module includes several pre-packaged analytical views and reports addressing these areas:

* **Customer value assessment**, for examining customer and channel value from multiple perspectives, such as lifetime sales, gross margin contribution, and by factors that affect profitability such as discounts, freight and handling, and average selling price. By understanding the relative value of each customer, companies using this module can begin to focus sales and marketing efforts on the most profitable ones and those with the most profit potential.
* **Customer acquisition and targeted selling**, for additional profiling, segmentation and ranking of customers based on propensity to buy, order frequency, and overall purchasing behavior. With this application, businesses can apply specialized metrics to segment customers and then build specific promotions or sales efforts around select customer groups.
* **Customer management**, for understanding the impact of order fulfillment, returns and call-center activity on actual sales performance. This module allows users to review year-to-date sales and revenue and problems reported by customers to identify correlations and better understand how customer service issues are impacting profits.

The Stratum Customer Relationship Analytics module does not require implementation of a CRM application. For businesses that already have a legacy contact management, sales force automation, or call-center solution in place, the module can be used to leverage the value of data contained within these CRM-like applications through its pre-built analytical views and reports. If the company has a e-commerce web site that information can be combined using the Stratum e-Business Performance Management (ePM) module to provide a true e-CRM analytical solution.

The Stratum suite of analytical applications features modules for Sales Performance Management, Marketing Performance Management, Manufacturing Performance Management, Procurement Performance Management, e-Business Performance Management, Customer Relationship Analytics and Activity Cost Management.

IBM: Supporting The CRM Infrastructure

Together with strategic business partners like Silvon, IBM offers a full complement of scalable, secure CRM solutions designed to help customer-centric businesses maximize productivity and customer satisfaction. IBM offers an extensive range of products and services that cover any aspect of the CRM technology infrastructure, including the IBM @server (xSeries, iSeries, pSeries, and zSeries) family of servers. For more information, visit www.ibm.com/eserver.

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The Changing Face of Customer Relationship Management

Customer relationship analytics is part of a growing effort to apply measurable and actionable analytics to key parts of the business. Business performance management applications now cover a range of key performance indicators, including sales, marketing, finance, and manufacturing. The ability to apply analytics to customer relationship management opens up opportunities to dramatically improve these relationships.

In today's highly competitive environment, businesses need to better understand their customers, which ones are the most profitable, and how to best retain those customers. Though companies are investing millions of dollars in CRM systems, they are only generating data, and failing to tell the company what the data means. Customer relationship analytics help companies make sense of customer needs, help companies manage these relationships more intelligently and help predict the future. Such knowledge provides a crucial competitive differentiation for companies seeking to gain market share and reduce operational costs. The bottom line is if you are not measuring it, you're not managing it.

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