Winning in the Relationship Economy:

Realizing a CRM Transformation in the Telecommunications Industry

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"Yeah, I change Telcos pretty regularly...sometimes for cash, sometimes for air miles...they're all about the same, aren't they?"

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The telecommunications industry has historically relied on pricing and service features to drive customer acquisition and retention efforts. With the squeeze in profit margins brought on by competitive pricing pressures, however, companies are seeking alternatives to help win and keep customers, and reduce operating costs. Advancements in wireless technology are also decreasing category market share in the wireline segment and creating a need to replace lost revenue.

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60 percent of Telco respondents do not know the ratio of marketing dollars spent to increased sales -- compared to a 52 percent cross-industry average.

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In this highly competitive environment, most telecommunications companies are pursuing the same group of high volume, high revenue customers. By learning more about individual customer needs and usage patterns, companies can pinpoint high value vs. low value customers and tailor marketing programs accordingly.

Targeting high value customers makes sense - but every telco is going after the same, top 20 percent of the market. Fully integrated, Customer Relationship Management (CRM)-driven companies are better equipped to sustain the relationships with the lower value customers as well. After all, the lower value customers provide thin margins helping to cover fixed costs across a capital-intensive business model.

New technologies and approaches can allow telcos to target investments across profitability segments appropriately. The result is better marketing intelligence that leads to higher sales and reduced operating costs, as it becomes easier and less costly to develop campaigns that satisfy the right customers.

New technologies provide opportunities as well as challenges. Although the Internet, for example, offers more options than ever before to manage customer operations and integrate new channels, telecommunications companies have limited customer service capabilities to manage traffic through the Web and email. According to the study, only 30 percent of the telecommunications industry can immediately identify customers in electronic channels, compared with a cross- industry average of 60 percent. Also, only 30 percent of telcos provide personalized customer service interface and content in these electronic channels, compared to 46 percent across industries. Although the Internet provides ways to grow closer to customers, it is a double-edged sword, as it also makes it easier for customers to shop for the best deals, creating even more competition for the same customer base. As well, customers' brand perceptions are built or eroded across ever more touchpoints with any given service provider.

While the survey proves that management in the telecommunications industry supports CRM efforts, it also shows that rapidly changing market forces make it difficult to offer a consistent customer experience based on today's business architectures. For example, in many companies, functional groups such as customer service, sales, and marketing are not connected with customers across the enterprise but instead are organized by product line.

Establishing the Benchmark

In the fall of 2000, Cap Gemini Ernst & Young U.S. LLC (CGE&Y), one of the world's largest business consulting and systems and network integrators in the communications industry, commissioned the Gartner Group to help develop, administer, and analyze results of a comprehensive Customer Relationship Management (CRM) survey. The survey involved interviews with 250 U.S.-based marketing, sales, and customer service executives, of which 10.4 percent were from the telecom industry. Executives answered questions in the areas of:

- ❑ Customer data, knowledge, and profiling
- ❑ Self-service capabilities
- ❑ CRM infrastructure and resources
- ❑ Enterprise integration

From this survey, CGE&Y created a CRM Index that provides a framework for measuring companies' CRM abilities. Using the CRM Index, telecom companies can configure a roadmap to create comprehensive, end-to-end strategies and connectivity solutions that enhance customer relationships and fully integrate front and back office business operations. Throughout this article, key statistics reinforcing the state of the industry are drawn from the initial survey results.

Telco CRM in its Infancy

Telco companies are in the early stages of true CRM implementation. Although nearly 70 percent of the sales, marketing, and customer service executives surveyed view CRM as either a top strategic or operational priority, only 59 percent of telco survey respondents have completed CRM efforts in the past two years. Approximately 42 percent admit they have made no efforts at integrating CRM strategies, tools, or infrastructure across enterprise-wide channels or functional areas.

Although many telcos have embraced the spirit of CRM and have made initial investments to improve the customer experience, many hurdles remain. More than three-fourths of telecom executives claim their companies have performed customer-centric strategies and visioning, with 80 percent saying they have put data warehousing systems into place. Additionally, over two-thirds have enhanced call centers. The areas that have received the least amount of attention are those demanding significant infrastructure investments:

- ❑ 33 percent have connected partners and suppliers, and
- ❑ only 27 percent of survey respondents have integrated multiple channels.

These statistics are not a sign of delinquent management behavior; rather, they are an indication of the degree of transformational change required to successfully compete in the new relationship economy.

The State of Customer Relationship Management*

KEY HURDLES IN THE TELECOMMUNICATIONS INDUSTRY

- **A lack of discipline in measuring ROI from CRM initiatives**
  Only 26% of telecommunications respondents knew the ROI of their CRM efforts (compared to the 58% average across all participating industries)
- **Product or Geography based organization structure**
  Only 12% are organized around customer segments, whereas 38% are organized around products and 46% around geographies
- **Lack complete customer views, including history and activity across the enterprise, leading to missed revenue opportunities**
  The telecommunications industry is less likely (17%) than the average industry to succeed at cross-sell/ up-sell efforts (33.4% cross-industry)
- **No one executive "owns" the customer experience in telecommunications firms**
  46% say sales, marketing and service executives do not report to the same individual and half do not have an individual responsible for overall CRM

* Based on quantitative primary research conducted for CGEY by Gartner Group/Griggs Anderson in Fall 2000.

source: Cap Gemini Ernst & Young US LLC.

"My corporation's telco expenses are huge. I review the agreements regularly...I'm not really loyal to any particular telco, should I be?"

The Struggle to be Customer-Centric

The promise of building a customer-centric enterprise is alluring. Apply a disciplined approach to customer interaction based on what drives customer behavior and value to the company, and growth will surely follow. While the economic premise is irrefutable and opportunities for improvement abound, there are many challenges.

The linchpin of the whole CRM concept is customer knowledge. Large telco companies are well known for having extensive customer databases. Although telcos have access to information, they are not leveraging the information. Interestingly, of those telecommunications companies surveyed, all currently track transaction and service history; 94 percent track product or service usage; 88 percent report on demographics.

Telcos are less likely, however, to track customer value measurements (63 percent) or channel preference (44 percent). Telcos are also less likely than other industries to keep this information in a centralized repository. Seventy percent of respondents in other industries keep centralized customer information, compared to only 54 percent of telecommunications companies.

Importantly, while most telecommunications executives now acknowledge the value of CRM to their businesses, a few executives characterize it as a fad. Still, telcos are among the most committed to putting CRM at the center of their business strategy; however, they score lower on customer experience measures. Clearly it's time for telco company leadership to embrace CRM and commit mindshare and investment capital, in order to deploy a new, sustaining CRM business architecture.

The CRM Index

How fast, how far, and how much should telecommunications companies focus on CRM initiatives versus other corporate priorities? The decision can be clarified by understanding where companies fall in relation to peers - and to customer expectations. In the survey, more than 100 variables characterizing practices, capabilities, and structures relating to marketing, sales, and customer service were analyzed.

Based on these variables, the CRM Index rapidly assesses CRM effectiveness to set a company's overall CRM direction. The study revealed that there are two key dimensions that define a company's current-state CRM business model - mindset and connectivity.

"Mindset" refers to a corporate philosophy of CRM - how a company values customer relationships, business strategy, organizational structure, programs, performance measurement, and business intelligence. On one end of the spectrum is the mass-market approach; at the other end is a customer-specific, personalized approach that seeks to optimize the lifetime value of the customer relationship.

Dimensions of a CRM Business Model

Mindset Strategy and Customer Philosophy	**Connectivity** Process and Infrastructure
• Measuring customer value • Managing effective customer relationships • Performance measurements for customer-facing employees • Approach towards applying real-time intelligence to business operations • Corporate philosophy • CRM ownership • Customer participation in offer development, marketing and product delivery	• Transparency of customer profiles and histories • Channel mix and touchpoint integration • Connectivity of workflow streams • Degree of front office and back office integration • Level of infrastructure integration • Degree of push/pull knowledge transfer

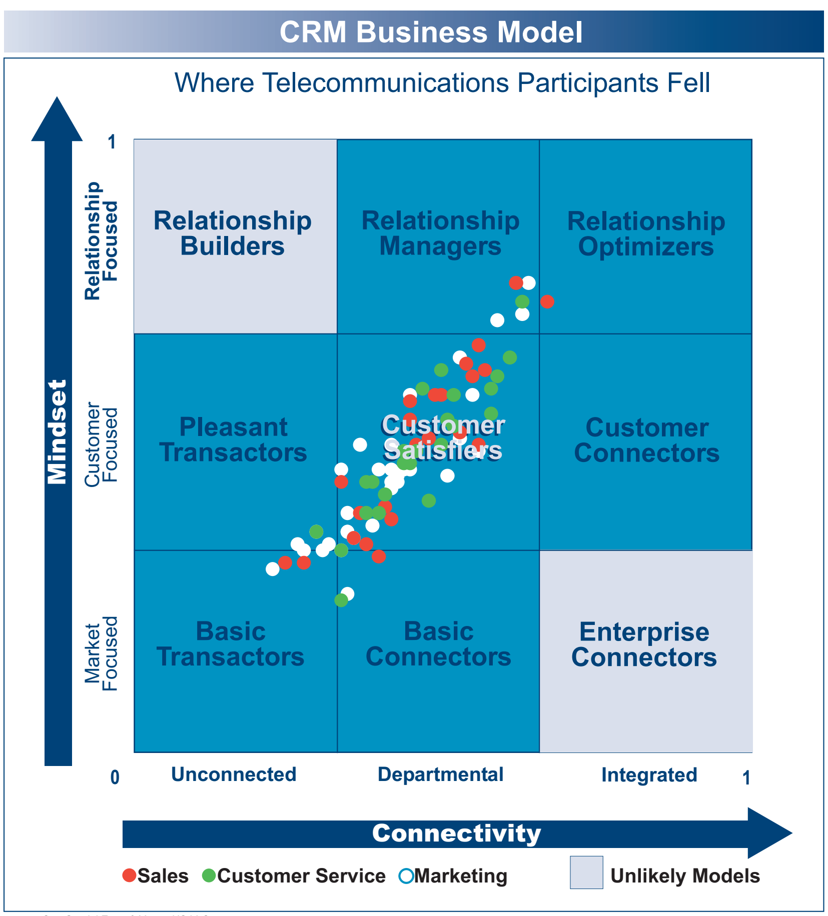
source: Cap Gemini Ernst & Young US LLC.

- ❑ *80 percent of telcos don't have a comprehensive process to review lapsed or lost customers*
- ❑ *70 percent don't have a fully developed loyalty program*
- ❑ *80 percent don't allow customers to configure their own service*
- ❑ *60 percent don't respond to customer feedback within 24 hours*
- ❑ *80 percent don't base customer value on potential profit over time*

... **IS** decision-making "databased?" **IS** information ***CONSTANTLY*** collected - **in real time** - so customized products and services are an **option**?...

"Connectivity" is the process and technology infrastructure that connects companies with customers. What kinds of channels and touchpoints exist and are they integrated? How are tools used to segment, view, and serve the customer? Is decision-making "databased?" Is information constantly collected - in real time - so customized products and services are an option? At one end of the connectivity spectrum are those who devote their IT resources predominately to non-customer facing functions. At the other end are companies with a comprehensive, integrated CRM infrastructure designed to deliver a seamless and consistent customer experience.

As the graph, "Where Telecommunications Participants Fell" depicts, the higher up the mindset axis a company operates, the more it orients its business toward one-on-one customer relationships. The connectivity axis reflects the degree to which customers figure in a company's process model and infrastructure - whether there is little connectivity to support CRM or a highly integrated, enterprise-wide approach. This framework presents nine possible CRM model types, although telecommunications companies tend to fall within five dominant models: basic transactors, pleasant transactors, customer satisfiers, relationship managers, and relationship optimizers.



source: Cap Gemini Ernst & Young US LLC.

The labels assigned to each cell in the matrix are meant as descriptors of the central tendencies of an organization's CRM approach. Several observations can be made about this business model framework:

- Profitable companies exist in each CRM business model.
- There is no implied value hierarchy. However, all else being equal, the relationship optimizer is the most advanced CRM model.
- Multiple models could be represented within a single company if business units operate autonomously or serve distinctly different customer segments.

Based on survey results, it's not surprising that the dominant telco model is customer satisfier.

"I own a small business, when I have a phone problem, I need it resolved right away, not sometime in a few days."

Five Dominant CRM Business Models

Basic Transactors	Pleasant Transactors	Customer Satisfiers	Relationship Managers	Relationship Optimizers
• Limited recognition of individual customers or preferences • Emphasize a quality service or product - not a lifetime customer experience • Use mass marketing techniques to reach relatively undifferentiated audiences	• Recognize needs and preferences of individual customers • Emphasize customer satisfaction • Lack infrastructure to provide consistent delivery across enterprise	• Satisfy customers to ensure continued revenue streams • Limited focus on individual customer profitability or lifetime value across enterprise • Some real-time recognition of customer status across touchpoints	• Technology enables real-time recognition of customer preferences and value • Vary service based on customer lifetime value • Silo-based infrastructure enables limited customer personalization	• Vary treatment of each customer, based on overall value, across the enterprise • Capture complete history of customer activity across channels and products • Collaborate with customers on product design and delivery • Real-time access to a single customer data repository

source: Cap Gemini Ernst & Young US LLC.

Customer satisfiers recognize that customer satisfaction matters to the success of their business and have put measures and procedures in place that track performance against expectations. Additionally, customer satisfiers have invested in automating many customer-facing activities, though generally at the department or business unit level. For example, in most large telecom organizations that fall into this cell, the wireless division operates separately from the long distance division and the local division. They don't share customer information, profiles, or history. A customer doesn't have the same experience from area to area, and may not even be able to reach multiple divisions through a one 800 number.

Within the customer satisfier model, a customer may be unable to:

❑ obtain a bundled discount if buying several services from a single carrier or

❑ receive a single bill for all services with one company.

With today's national wireless calling plans and value added services, wireless' share of wallet is increasing while local and long distance share of wallet is eroding. Basic transactor or customer satisfier - oriented service providers with wireless, local, and long distance plans may not recognize they have actually increased the lifetime value (LTV) of a customer by allowing a shift to more wireless services. Said another way, a profitable wireless customer may not be viewed the same to the long-distance or local service divisions and the enterprise as a whole could suffer. In the relationship optimizer environment, the integrated service provider would measure LTV across all channels, products, and services. The telco would understand the costs and benefits of a growing share of the customers' wallet in one category while seeing degradation in another.

Top CRM Initiatives Planned in the Telecom Industry

❑ *Adding Web enhancement*

❑ *Conducting customer experience analysis*

❑ *Adding sales force automation*

❑ *Enhancing call centers*

...close to **one-half** of its sales interactions come directly from **OTHER** local exchanges - a channel over which they have **no direct control...**

CRM Case Study - Portrait of a Customer Satisfier

An interview was conducted with one of the largest U.S. telecommunications companies to uncover their CRM capabilities. Here are the highlights:

Problem:

The company competes in the residential long distance marketplace and close to one-half of its sales interactions come directly from other local exchanges - a channel over which they have no direct control. (At that point in the sales cycle, the consumer has decided on a preferred long-distance carrier.) The company recognized the need to develop a customer-centric strategy that would enable acquisition and retention of high value customers - those consumers who spend the most time on long distance telephone calls. At the same time, competitive pricing pressures created a need to reduce costs. It was clear that market research was needed to identify high value customers and that a focused marketing strategy would help win and retain this group.

CRM Strategy:

Division leadership began a campaign to instill this customer-centric view in clear and emphatic terms. Next, the company adopted a phased approach to CRM, focusing on the most pressing functional needs - first marketing, then customer service.

Action Steps:

- ❑ Extensive customer profiles created and maintained
- ❑ Marketing performance metrics introduced with reports to measure success
- ❑ Customers' contribution margins tracked monthly to enable value segmentation
- ❑ Electronic channel capabilities improved

Progress Report:

The corporation observed that progress was made in both mindset and connectivity, as indicated by its customer satisfier CRM Index rating. Initial phase efforts in marketing have allowed the division to identify high value customers and target more efficient campaigns to attract and retain them. Phase 2 of the CRM implementation promises to incorporate customer service, enabling more tailored service geared to these high value customers' needs.

Lessons Learned:

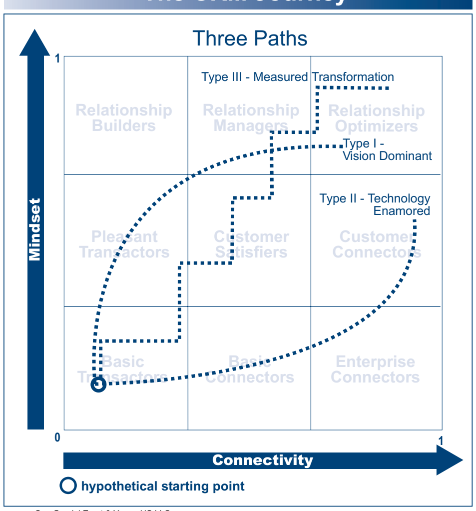
- ❑ Although pushing a program from one business unit to a division can be done with a great deal of perseverance, it helps to have champions in senior management.
- ❑ CRM programs need to be broken down into bite size, logical chunks, not created in one, intergalactic effort.
- ❑ CRM is a business transformation, and the effort is ongoing.

“I work nights, there’s not many reps available when I am. I need to be able to configure my own service.”

Applying the CRM Index to Accelerate CRM Success

The CRM Index helps management in several ways. First, understanding which model best represents today's operations helps to "level-set" the strategy discussion. All too often, various functional areas misrepresent their CRM capabilities. A fact-based approach, supplemented by observation, allows companies to focus on the tough questions: Where do we aspire to be and how do we get there? How much do we invest to meet customer expectations? What is the value exchanged from these new relationships?

The CRM Journey



source: Cap Gemini Ernst & Young US LLC.

Second, the CRM Index prompts companies to decide: where are our competitors and how can we beat them? Finally, the framework forces management to take a balanced view of CRM initiatives by weighing the consequences of strategic and organizational decisions (mindset) with the corresponding process and technology requirements (connectivity). While connectivity and mindset are generally correlated, a company may operate off the diagonal at any given time. Organizations evolve in non-linear fashion, so they are likely to move back and forth across the alternative models as they progress through their CRM journey.

Looking at the alignment of mindset and connectivity, depicted on the "The CRM Journey" we have observed that there are "routes" that typify how CRM strategy takes shape. Telecom companies that declare, "customer is king" usually launch visible internal campaigns to rally the organization and improve the customer experience. Often, however, these top-down programs are little more than the "program du jour" - the intentions are good but they lack execution. This approach is referred to as vision dominant (Type I).

At the other end of the spectrum is the technology-enamored company (Type II). These companies believe that technology can enable the customer-facing processes (marketing, sales, and customer service), but their solutions

(*) Source: IDC, October 2000

"Over time, I'll spend a great deal of money on telephone expenses, that should be worth something, shouldn't it?"

telecommunications companies ***MUST*** embrace CRM to **s t a y** competitive

build-out is typically scattered. As well, without a clear understanding of the total customer experience, companies often automate and enable less than optimal business processes. In the end, they get the same poor results - only faster. Because the projects are not led by a clear CRM strategy, there is difficulty aligning the projects to the business goals and objectives. The call center might be more efficient, but does it really improve customer loyalty? Ultimately, these organizations discover that the whole is less than the sum of its parts.

Measured transformation companies (Type III) are those where CRM evolves methodically. They pace their investments and transformation to lead toward a desired future state, while achieving short-term results through a series of discrete projects. This last model seems to carry the greatest probability of sustained success.

CRM Roadmap

While there is no "one size fits all" path to follow, telecommunications companies must embrace CRM to stay competitive. Here are few action steps to consider in accelerating CRM efforts:

- **Lay the foundation**: Develop a CRM mission statement and encourage company-wide, executive management buy-in. Segment customers to pinpoint pockets of high value - at the same time benchmarking capabilities to determine current areas of effectiveness.
- **Build the business case**: Try a pilot campaign and measure the results. Strengthen customer target profiles and identify the key process and technology enablers associated with full production capacity.
- **Raise the bar**: Treat different customers differently. Enable real-time, point-of-contact decision-making and encourage consistency in customer relations. Appoint a chief customer officer to champion customer causes. Link employee compensation with customer satisfaction and involve customers in designing new products to meet their needs. Leverage market research - learn from the past and apply this knowledge to future initiatives.

Whatever pace companies choose for their CRM efforts - a crawl, walk, or run - it's time to take the steps necessary to grow, nurture, and protect those most vital organizational assets: customer relationships. But hurry - customers will only wait for so long.

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