Eyes Wide Open

Ten ways to generate rapid ROI
with analytical CRM Technology

By Judy A. Bayer, Ph.D. Marketing
CRM Practice Partner
Teradata Northern Europe

A Teradata White Paper

Teradata
a division of NCR

Marketing specialists are under more pressure than ever to manage customer value streams upward, reduce marketing costs, identify new opportunities, find and exploit existing ones, identify optimal channel strategies, differentiate the business in the marketplace, and report the impact of all marketing activities on the business. Should senior executives expect any less?

Then, there are the millions of individual customers who expect – and deserve – to receive more personalized treatment and service – even as they interact with the business around the clock. And marketing owns the relationships – so then marketers are the ones under pressure from customers. Should customers expect any less?

Think about it. There's only one way marketers can handle the enormous pressure and deliver the deliverables: with analytical technology. And so today, more than ever, marketing specialists are learning to apply and master analytical technology tools to further accelerate customer value growth and cash flow into the business. The purpose of this paper is to point marketers in the right direction by showing them ten smart ways they can generate rapid ROI with analytical CRM technology.

Analytic methods and technology enable the mining of detailed data to identify business opportunities, communicate to individual customers with timely and relevant messages – and drive profitable growth while building customer equity. The secret of generating rapid ROI and meeting the tidal wave of demands, is this: that the benefits, the rewards, and the ROI come from 'going deeper' into your rich resources of customer data. Yet you need to know where and how to look.

Liz Shanham, vice president and director for CRM Infusion, META Group, has said, "Analytical CRM is the brains behind the operational and collaborative arms and legs of a company. With analytical applications, including those from Teradata CRM, companies can gain a competitive advantage by creating a complete view of their customers – and consistently communicate with them across all channels."

She has it right. The power of analytics starts with leveraging detailed data continuously gathered in your enterprise data warehouse from across all customer touchpoints and systems. Ask any question. Get the answer. It's a technology-enabled, intelligence creating process. With new insight, you can improve your customer equity, customer satisfaction and retention – while also generating ROI.

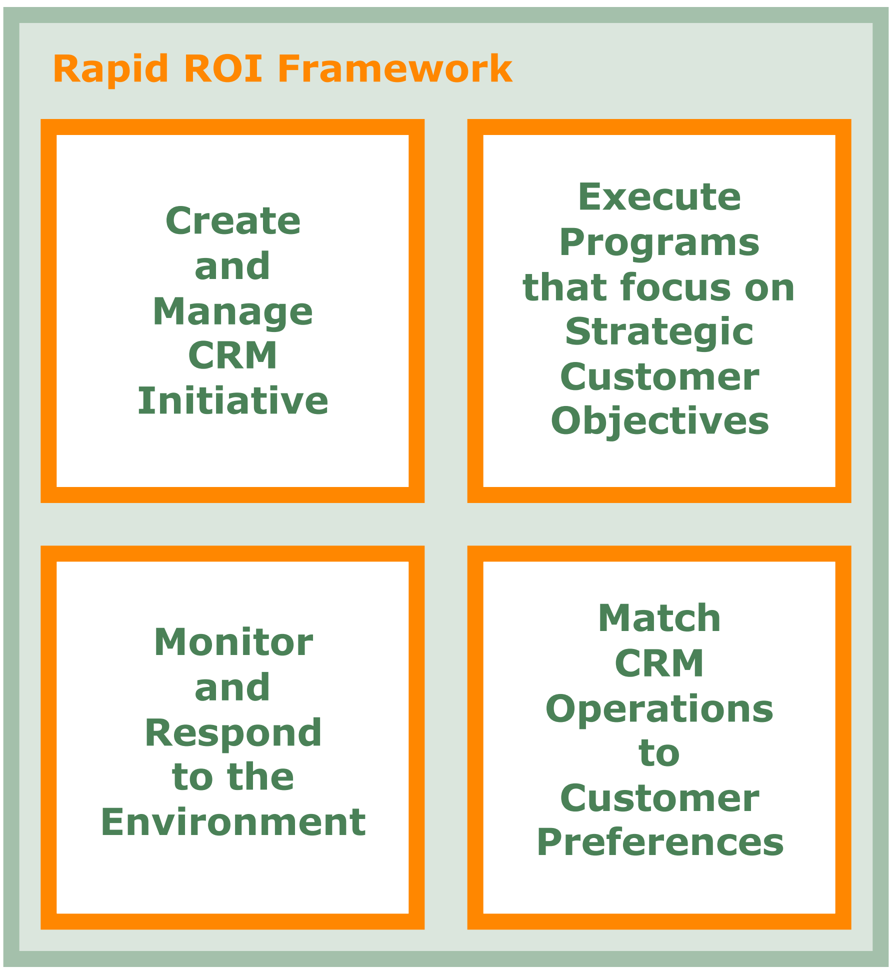
The activities that follow are ones that can generally apply to a wide variety of business and marketing environments. I'd like to underscore from the beginning that we are not asserting that companies are not presently executing on *any* of the following approaches to maximizing ROI. It's just that companies generally do not do enough to explore and capitalize on CRM-related ROI opportunities. One intention of this paper is to provide a means to jump-start CRM ROI brainstorming activities in your business.

Eyes Wide Open

This document will not provide a detailed step-by-step instruction sheet that guarantees instant ROI. CRM is a scientific process implemented by human ingenuity, enabled by technology tools. Thus, the key purpose here is to provide a quick reference guide to analytical CRM activities at a high level – to point out where you can realize rapid ROI. And these tips are not just theoretical but based on significant analytical CRM experience.

Because analytical CRM is at an evolutionary stage – as a technology-enabled marketing science – there is much for marketers to learn. Thus the importance of getting and keeping everyone's 'eyes wide open' to all of the opportunities and possibilities that exist with analytical CRM applications and processes. There are literally hundreds of ways to generate ROI on CRM, and every business is unique. However, they can generally be categorized as falling into some part of the following "Rapid ROI Framework."

Following are ten viable approaches that can apply to almost any industry or business. All four sections of our framework are represented, but not equally. Let's take them one at a time.



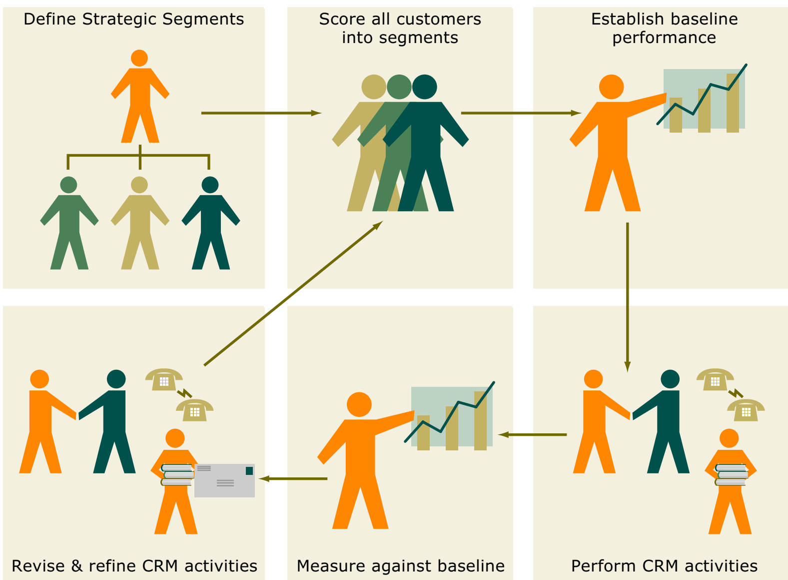
1. First things first: establish and manage strategic customer segments that will help track the results of your customer activities over time.

CRM, by definition, is customer-centric. That's why one of the first initiatives any marketer should act on immediately using new analytical CRM technology is this: define and build the basic customer segments that will become the focus of your CRM activities and your 'reality check' – the business gauge for your marketing effectiveness. This falls under the "Create and Manage CRM Initiative" portion of our Rapid ROI Framework.

By creating the initial segments and analyzing them – you have created a baseline against which you can track success. If you evaluate the segments before CRM activities, you can then compare after. This approach allows for rapid refinement.

Managed segments should be the ones most strategic – those that best represent the key customer groups that will be the source of your most useful and actionable information. Don't hesitate to create multiple segmentation schemes. Why? You will raise your marketing intelligence and enrich your insight into the behavior of many different types of customers. You will understand how different customer segments respond, behave and relate to your company. You then have the detailed picture you need to market more selectively and generate more effective tactics on a one to one basis.

How strategic customer segments are used



The process tracks the activity and changes in key customer segments over time. This is really the prerequisite to all other analytical CRM activities. From the very start, you must have a reliable way to begin measuring the impact your marketing activities are actually having upon your customers.

Naturally, your segment definitions and schemes will depend on your business objectives. Often, segmentation schemes are created around customer value or profitability or – predicted lifetime profitability – or around different customer needs. In banking, for example, customer segments are often based on customer profitability, including various levels of revenue generation. There are many different kinds of segmentation frameworks.

The important thing is that your framework should be a meaningful and actionable way of grouping customers; you want to be able to group customers so that within a segment they are similar, while being distinct across segments – based on your defined segmentation methodology. Then, you want to be able to track them over time.

Build strategic segments using one of many statistical techniques. Known generally as clustering methods, there are many different types. However, clustering methods go beyond the scope of this paper. The point is that you must use some sort of methodology to define a strategic segmentation scheme – and then, proceed to score customers from the data warehouse into the strategic segmentation scheme.

As part of a company's established strategy, key strategic segments may already be defined. Baseline behaviors, such as sales, growth in customer value, and retention, should be established for all segments. Control groups should also be established for comparison.[1]

It is important to consider what kinds of problems a specific company is having at the time of the strategic planning for CRM. However, companies should not be cavalier in tweaking and revising the customer content of strategic segments, defining one fundamental segment one reporting period and another the next. These should be relatively consistent reflections of your company's overall strategy.

Sometimes companies launch CRM initiatives with the assumption that the correct thing to do is to find and focus on the current most profitable segment. This is not necessarily true. In fact, what you are trying to do is make MORE money than you would have made through building better customer relationships.

The whole point here is in making *extra* profit – and this may NOT involve going after your current most profitable segment. It may actually mean going after a middle value segment because this group may provide greater opportunity to drive extra value – compared to those 'high-value people' who are already spending so much with your company. High value segments may indeed be 'tapped out.'

Another risk you run is that you might be allocating too much of your communications budget on marketing to 'best' customers and not enough on the 'good' customers. So you are reducing your allocation among those customers on whom you could be getting a higher return.

[1]Bayer, Judy A., *Show Me the ROI! Plan, Deliver and Measure Serious Returns on Serious CRM,* Jan. 2002

It's important to focus on managing your customers and markets not at a *point in time*, but in managing value *over time…* because nothing stands still – everything is in motion. Realize that there is a tremendous amount of customer interaction going on throughout the business – continuously. Subtle, or even conspicuous, changes can develop quickly. That's why it is so important to DEFINE those strategic segments, understand 'who' they are and their value – and then manage them over time.

Keep your eye on the customer. Stay focused on what you are trying to achieve with that customer.

For example, assume we have identified five strategic value-based segments, ranked from highest to lowest value. Suppose our segmentation scheme is implemented at a point in time – January 2001. By being customer centric within these segments, we can be marketing to those segments in different ways – communicating different ways with different people within a segment. We can use 'value' as our criteria to drive the amount we spend on the segment, but use 'individual customer needs and preferences' to drive how we communicate within a segment.

You then make different, customized offers – because people have different needs even when they represent the same value to the company. Some might provide cross sell opportunities and some might be up-sell opportunities – and some just may need service communications. We might decide we want to communicate 'x' number of times through 'y' communication channel on some segment members, but have a different communication plan for other members of the same segment. Now, suppose we fast forward to July 2001.

Though everything is in motion, we can go back to that original segment (top-value customers or some other segment) and evaluate across everything we did, what happened with those people. For example, did the overall segment grow in terms of value? Did we have good retention or bad retention in a segment? How did they compare to people I did not market to in that same segment (for more information on the global control group concept, see "Show Me the ROI!" white paper).

Using this approach we can always quickly see how well we are managing our customer relationship objectives. This is where the speed comes in – we can quickly figure out where we might be going wrong or where we have an opportunity to improve… so we can have a true measure of how well we're doing with contact management strategy over time for each segment.

2. Design trigger campaigns around time-sensitive customer events that require timely and relevant customer communication.

Going back to our 'Rapid ROI Framework,' event trigger campaigns represent the action component of monitoring the environment.

Gartner reports that by year-end 2003, the majority of outbound interactions within CRM-driven organizations will be triggered by customer behavior or events, and that shortening the time it takes to detect a customer event will be the single largest challenge for enterprises moving to event-driven customer relationships.[2]

My experience in working across different businesses in recent years indicates that companies in industries with high customer penetration are moving away from an acquisition focus – to a strong emphasis on retention and growth strategies. This makes event trigger activities critical to the success of relationship management activities. Why? Because time-sensitive events can often be strong leading indicators of churn – or opportunities to communicate with your customers to further develop the relationship.

Time-sensitive customer events can also represent opportunities to increase customer value. In the banking industry, leads that are followed up within 24 - 48 hours are often twice as likely to result in increased customer value as those that are not promptly acted on. The ability to detect, execute and manage event trigger campaigns will be a key differentiator of company competitiveness in the near future.

Once you have your strategic segments defined and have tracking measures and processes in place, a next course of action is to start intense analysis of your detailed customer data to identify and prioritize potential time-sensitive customer events.

Begin by mining your data based on hypotheses you generate – say, in a marketing workshop with colleagues – a brainstorming session. You and your group could come up with literally hundreds of hypotheses. Your aim would be to refine it down to the best five or ten triggers – to start with. Going in, your fundamental objective is that you want to do something quickly that generates rapid payback. Be creative, but stay focused.

[2] CRM Summit Spring 2002: Moving From Potential to Payoff; 4-6 March 2002

In coming up with a possible hypothesis, you can often use the detail data in your warehouse data to check its viability. For instance, maybe you want to consider a customer complaint as an event. When a customer complains without receiving rapid resolution, what is the risk of defection? You need to know the cost of not resolving a customer complaint.

Marketers can review the detailed warehouse data and examine customer complaints – to compare the results where there was rapid resolution and where there was no rapid resolution – to see whether there was any impact on defections. Analyze the data and see whether the hypothesis is true.

Consider another hypothesis. If we follow up on a lead within 48 hours of a customer showing interest in a product or service, then it is likely the customer will translate that interest into a purchase. True or not true? Go, look at the data and see if this customer interest hypothesis is viable.

Test hypotheses by analyzing your enterprise warehouse data. Some hypotheses will prove viable as triggers, others won’t. For the ones that are viable, you should try to estimate what the payback might be – come up with a number. Once you have identified viable time-sensitive customer event triggers, you should use your CRM software to implement these event triggers.

For a more detailed discussion of customer event trigger types, please see the related article “What Is Event-Based Marketing, Really?”[3]

3. Implement a ‘value growth program’ for medium value customers that have product preference profiles *similar to* high value customers.

In the context of the Rapid ROI Framework on page three, the quickest payback on CRM often comes from ‘executing programs that focus on strategic customer objectives.’ This is one of our ‘ten places to look for rapid ROI’ that is no exception. And it is not rocket science, but you will indeed need to have a data warehouse and analytical tools to execute it.

Here, marketers begin by looking at their customer data in two basic ways. Look first for customers in the medium value segment that are buying the same items (or the same types of services, etc.) that high-value customers buy – only in lower quantities. Second, look at customers in the medium value segment that are buying *a subset* of items/services that high-value customers buy.

Perhaps there are only a few products ‘missing’ from the medium value product or service mix that higher value customers buy. Maybe both medium and high value customers buy wine or jewelry, but either in different quantities or without the related affinity products in a typical high-value wine or jewelry purchase.

Regardless of your industry, think about how this might apply in your business. Look for opportunities in your services, products, and specific affinities in your medium and high-value segments. You can make important new connections using affinity analyses.

The payback may come, of course, from cross selling, and up-selling to grow your medium value customers, or in some cases, from increasing the frequency of purchase.

4. Encourage customer growth by stimulating multi-channel purchasing by the customer. Research has shown that customers who make transactions through multiple channels tend to be more valuable and more loyal.

When a company multiplies its customer sales channels, like adding a catalog operation or setting up an Internet site for shopping, what happens? Does revenue increase overall, or is the effect only to cannibalize the other channels? What’s the business impact? How is individual customer value affected? Many companies that take this approach cannot explain the business impact.

In fact there is evidence to suggest that customer value grows. One of the quickest ways to generate ROI is, based on experience, through the stimulation of multi-channel purchasing. New channels evolve from stores or branch offices to catalog sales via call centers, the Internet, or self-service solution networks using ATMs or interactive kiosks.

Looking for a moment at the financial services industry, consider a bank whose customers interact at the branch or at ATMs. The bank wants to know what the risks and rewards might be when they add a web site. Would the bank be encouraging its customers to adopt new interaction

[3] “What Is Event-Based Marketing, Really?”, Teradata’s *Relationship Management Report,* Summer 2002, www.teradata.com.

patterns which result in increased value – or decreased value? What happens to revenue, profits – and relationships?

Using retail as an example, we analyzed the impact of multi-channel expansion on changes in customer value, customer attrition/retention rates, spending increases or decreases, and changes in the type and amount of products purchased.

Our analysis began with a group of customers who bought ‘in the store only’ in Year One. A call center and Internet channel were added going into Year Two. The analysis showed that at the end of Year Two:

- 40% of customers still shopped only in the store.
- 20% were no longer store customers.
- 10% still shopped in the stores but also shopped on the retailer’s Internet site.
- 25% still shopped in the store, but also used the call center.
- 5% of customers used all three channels.

To perform the analysis, our analytical solution team used a combination of analytical CRM ad-hoc analysis tools. Based on our analysis, the team helped the retailer make these discoveries around the business impact of promoting multi-channel customer relationships:

- “Customer value” tended to stay the same for the 40% of customers who remained single-channel, store-only shoppers.
- For the segment that migrated to *two* channels, individual customer value increased from 20% to as much as 60%.
- For the segment that migrated to *all three* channels, customer value increased from 60% to as much as 125%.
- The attrition rate was *lower* for customers who began using two or more channels.
- The types of products purchased by customers who shopped in more than one channel *increased* in breadth and variety.

These were positive and significant findings. However, what exactly caused customers to change shopping behavior? It was tough to pinpoint the causality. We only knew that many customers increased their interaction with the retailer and thus become more valuable. Is it because they sought a deeper relationship with the retailer? Or was it because the retailer simply made it easier and more convenient to shop more frequently?

To sum up, our team observed that when store-only customers become multi-channel customers, they were more likely to continue or increase their shopping activity. Attrition rates decreased. Customers increased the type and quantity of products they bought and thus, customer value increased.

Again, business analysts using ad-hoc CRM tools conducted these analyses. The research did not require statisticians. As a result, the retailer gained a clear understanding of the impact of multi-channel marketing and selling. This was indeed helpful strategic information, and will lead to further exploration and analyses.

There are other channel-related, ROI-generating areas to explore. These include learning how your business can create synergies between channels – to further grow customer value, retention, revenue and customer satisfaction.

5. Don’t stop marketing to former customers! Implement customer win-back programs to reactivate customers who defect. Programs should be designed to stimulate not only reactivation, but also future retention and customer value.

This is sometimes a very quick payback initiative that, frankly, many companies overlook. Studies show that many companies routinely lose 20% to 40% of their customers each year.[4] Of course, we know that companies look for ways to retain customers, grow customers and acquire customers. But what happens when a customer leaves? All too often, they just stop marketing to her.

Our experience in customer-centric solutions across industries has shown that a strong win-back program is the single largest CRM opportunity for many companies.

We know that a customer who leaves is not always a bad thing – depending on the current and potential customer profitability. Some customer attrition is inevitable. However, when possible, you want to hold on to profitable customers.

What is going on with customers who drop off in activity for a while, or actively resign? Pay close attention. Learn what is going on – look in the details. Maybe they stopped buying from your business – say, for a month or two – to try out another supplier. Or maybe they are on a two-month sabbatical.

[4] *Customer Winback: How to Recapture Lost Customers – And Keep Them Loyal,* Jill Griffin, Michael Lowenstein, Don Peppers, Martha Rogers, Jossey-Bass, 2001

There are many things you can do. However, before allocating precious resources to customer reactivation programs, it is important to extensively analyze your data. Not all customers are good reactivation candidates. Find those that:

1) are profitable,

2) have the potential to be reactivated, and

3) do not have an "attrition / reactivation" pattern.

In some industries, such as telecommunications and catalog retailing, customers have become conditioned to receiving valuable special offers any time they churn.

Essentially, companies have taught these customers how to "game" the system. So, rather than building loyalty, win-back programs sometimes encourage customers to 'churn / reactivate / churn / reactivate.' Proper analysis can find these customers, as well as profile their characteristics, so that reactivation programs can target and win-back the *right* customers.

In retail, customers sometimes exhibit a defection / spontaneous reactivation pattern based on where they live, relative to the company and major competitors. Customers who live in a "battle-zone," that is close enough to shop with both the company and its competitor, will often periodically shift from one to the other. Analysis can help determine which customers in which parts of the battle-zone are worth the effort. Testing can help refine and improve on the reactivation tactics.

6. Optimize your communication channels based on customer preferences.

Our Rapid ROI framework includes this category: 'match CRM operations with customer preferences.' Customers often have one or more interaction and/or communication channel preferences. If you communicate to customers through the channels they like, then they are more likely to respond to your messages and offers – and build a relationship with your company. These responses translate to more rapid payback because you are increasing the likelihood of engaging customers – where they naturally and more frequently focus their activity with your company.

Moreover, by working out which interaction channels a customer prefers, you save time, effort and money. You don't spend more than you have to! The cost of communications can be an issue, and this is a good way to reduce those costs. Sometimes a customer will have no channel preference, or actually prefer a low-cost channel. That's good. Your company can save significant money.

Thus, your rapid payback comes from both *making more* money by communicating more effectively with individual customers in their preferred channels – and, conversely, you will *save money* by focusing investment in channels where somebody's actually listening, watching and interacting – actively paying attention to your messages and offers.

With the right analytical CRM tools, you can observe and determine interaction preferences. It's there – in the data. Discover it by analyzing historical patterns of response for each customer.

7. Implement a structured new customer program as a recurring campaign. Use a multi-wave approach to assure continuity of customer experience.

When is a customer actually a customer? From your company's perspective, it may be the first time they make a purchase from you, or in other words, when money changes hands. Or, at least when there is an intention to spend money with you. From the customer's perspective, however, at the time of that first interaction your company may actually be irrelevant to him.

In referring to a 'structured' program, I mean a well-developed one – carefully worked out, one with a lot of structure. As soon as someone makes a purchase, she is immediately entered into the new customer communication program. She is documented in the database and automatically 'in' your campaign – which then executes through multiple or recurring communication waves.

Again, this is important because some people who have made one purchase with your business may not think of themselves as your 'customer.' Rather, some are only taking advantage of a promotional or discount incentive offered to sign up, or making a purchase simply for convenience. To acquire a solid, repeat customer you need to set up a program to communicate to that customer in ways that encourage repeat interactions and cultivate an enduring relationship.

Teradata
a division of NCR

In some businesses (especially retail and catalog sales) more than 50% – and in some cases as many as 70% – of newly acquired customers make only a single transaction with the company. It would be fair to say in this case that although the company may have a CRM program, the customer does not perceive herself as having any relationship with the company.

Often the *way a customer is acquired* can have a significant impact on the future relationship of the customer with the company. This implies that customers acquired in different ways may need to have somewhat different new customer starter programs in order to maximize the continuity of the relationship.

New customer programs should also be specific to different types of customers. For example, in Europe, catalogers often classify customers into two types: agency and direct. Historically, agency customers purchased goods not only for their own use, but also to sell to friends – via marketing scheme or home-based business characterized by in-home events or 'parties' where products are promoted and orders are taken. 'Direct' customers purchase only for their own use – or the use of their families.

Although in many cases the distinction between agency and direct is no longer as meaningful as it once was, the difference in the new customer profiles in terms of such things as credit worthiness and use of credit is such that they may be fundamentally different. If so, new customer programs should be optimized separately for each group.

One of the powerful features of analytical solutions such as Teradata CRM is the ability to create self-managing, recurring campaigns. You can set up a multi-wave communication stream for new customers. There can be differences in communications within the program based on customer type and acquisition method. The campaign then runs automatically, based on the schedule you've set up. Customers can be automatically excluded from communication campaigns once they've been identified as recipients of previous communications or another program.

New customer campaign planning begins with analysis. You analyze retention and value patterns for customers based on the acquisition method. For instance, acquisition rates tend to be very high when department stores have an employee sitting near the store entrance offering a free gift for filling out a new credit card application – and perhaps also offering a 20% discount on the first purchase.
The risk with this method is that although the store gets lots of applications – that may be the last ever you see of most of these prospects. For many of these prospects, the second purchase never happens.

A lot depends on how you structure your acquisition program. What methods, offers or channels first attracted each prospect? You also need to think about how each customer first touched your business. Which channel did each new customer/ prospect use? Was it telemarketing, in-store personal contact, or a web interaction? Do you 'ease' customers into the program or use high-impact tactics?

You would need to base your new customer program on these factors – as well as look at the kind of customer each prospect is – such as, demographic profile type. Is it an agency or direct customer, depending on your business model? The customer type shapes the terms of the relationship.

8. Make your 'customer loyalty' program more than just a discount deal. Pay special attention to customers in the program. Track program effectiveness. Mine your customer information. Act on the information. Create loyal relationships!

Someone may read this initiative and say: "Oh, come on. Everybody tracks the effectiveness of their loyalty programs." However, guess what: many companies do NOT track, measure or act on information gathered in the course of implementing loyalty programs. Then they wake up one day and wonder where their 'loyal' customers went –and question the value of the program! Supermarkets have historically been some of the worst about tracking and using customer information to improve loyalty – even though many of them have loyalty programs. There is much ROI to be gained here.

After launching loyalty programs and keeping them going for a time, some companies drop the programs because they haven't seen the loyalty grow relative to the expense of the program. But think for a minute about the execution and tracking. To many customers, this is not a loyalty program – it's simply a discount program.

Even though many stores have a loyalty program, they actually market to everyone the same way in the program, which isn't really being customer centric at all. They are not marketing to the needs of individual customers, so there is nothing there that really increases each individual customer's sense of loyalty. Sure, some customers may form *habits* around shopping at a certain store, but there's no loyal bond involved.

So what's the point of tracking loyalty programs? Making rapid improvements! Find out what works and what doesn't. Do things to encourage and communicate the value of loyalty. The point of loyalty programs is to build relationships!

If you know that certain customers buy a bottle of 'Kendall Jackson' Merlot during every visit, can you cross-offer a good cheese, bread or other appropriate complement to Merlot? In addition to taking you up on your offer, this customer could also interpret your suggestion as a personal touch – and feel a stronger connection to your business. It could certainly be a brand differentiator. There are countless ways to act on customer interaction information to create loyalty.

Let your customers know that you understand them – that you know what they want. Communicate with them in terms of new information that will increase their satisfaction with what they currently buy – and information that will expand their interaction and quality of life.

But you need to track the information in the program, and then take appropriate actions based on your analysis of your customers and their relationship to you and your products. Close tracking allows for rapid improvements and can generate significant payback. With close monitoring, for example, you can execute needs-based initiatives and understand what customers want.

'Get with' your program! Map it out, track your progress, watch where you're going – and create a relationship with each customer! You'll improve over time and see rapid payback – while learning how to get more and better value from the program.

9. Want better customer retention? Implement complex retention programs with coordination across multiple communication streams.

Think about how companies currently articulate the benefits and execution of customer activities on churn and retention. They say: "I have a modeling tool or process, and I'm going to predict who is most likely to churn. Then I'll do a marketing campaign with them. Boom. I'm going to retain them." Say that the customer generates $1,000 per year. "Well, I've just saved my company $1,000."

Again, think about this for a minute. Is retention really that simple? Can you expect to retain customers through one single communication? Shouldn't you communicate with each customer through multiple communication streams? It actually makes more sense in a retention scenario to have several different types of communication streams in play at one time. For instance, you could call the customer, send direct mail, or have a personalized message waiting for her when she visits your web site.

The point is that you need to take a holistic approach to the entire *relationship* you have had with each individual customer. You need the tools to look at the detail data – everything your business has done or is doing with that customer. You need to ask in each instance; "What does this activity tell me about the relationship – about retaining this customer?" You generate a holistic communication program based on the uniqueness of that customer's relationship with your business.

The multiplicity of communications will increase the chances of reaching the customer before she disappears, resulting in higher retention. Yet bear in mind that this kind of campaign can be complicated to execute, so you need a technology capable of managing and coordinating this complexity. You also don't want to over-communicate with customers. At best, this wastes your resources. At worse, it can offend your customers and increase churn rates. Teradata CRM is very good at managing this complexity for you.

You'll find that multiple communication streams deliver much higher retention than one-time communications.

Implicit in this discussion is the assumption that customer retention has been defined in a meaningful way. For many businesses, churn is implied, rather than explicit. Customers may not tell you they are no longer customers. This is especially true in retail, catalog, and "pay as you talk" wireless telecommunications businesses. So, part of an effective retention program involves appropriate measures of churn.

Eyes Wide Open

10. Analyze the impact of new competitor activities in your business space, such as store or branch openings or intense promotion. Understand how they affected your customer retention, value and types of products purchased. Then, use this knowledge to anticipate the impact of future incursions, and plan to reduce their impact. Better, turn this into an area of positive opportunity.

Whether a store, bank, telecommunications company – you want to know what happens when a competitor opens a new business right in your trade space. There is obviously a risk of losing customers. Or if not losing customers, you could lose a degree of product or service sales. The presence of a new competitor can also drive down prices for products and services in that trade area. There's a lot at stake.

It is common to see companies do some analysis of the impact of competitor incursion on their business space. However, what is not common is actually seeing companies make good use of that knowledge to anticipate and plan ahead to prevent the same negative impact from happening next time.

The reason for this missed opportunity? Companies often do not drill down deep enough into their detailed data to gain the insight they need to be effective in the future.

Let's think about this. If customers leave, they may be back soon – since they may only be interested in taking advantage of the promotions and special offers the competitor will make. This is especially true in retail and the hospitality industry where there is a well-known novelty effect on customer behavior. In some cases they will return to their typical purchasing behaviors with your business. Sometimes they won't.

First, note that some customers are affected and some customers are not. Second, note that some products are affected and some are not. Third, there may or may not be long-term implications. In any case, you will indeed know when a competitor has entered your space by opening a new store, launching a promotion or sending out a special offer.

You can use analytical CRM tools to understand the impact of competitor incursion; identify which customers have been affected – as well as which products or services have been affected. What happened among your customers? Did spending patterns change? What products did they purchase fewer of? Did the value of one or more products go down? And how long did this effect last? Did you actually lose certain customers forever? Or did you lose certain product purchases forever?

By understanding what happens when a new competitor makes an appearance in your space, you can arm your business for what is likely to happen next time. Even before the competitor incursion hits, you can anticipate the impact and plan ahead.

And if you know that a competitor is opening a new store near yours, and you know that a certain type of customer is most likely to be affected (customers with certain attributes/characteristics) then you can be proactive in marketing to them at the time the new outlet or channel opens. If you expect a certain product set to be affected, then you can act on that knowledge.

Access to this knowledge can have a tremendous positive impact on your bottom line. You can retain more of your customers, prevent a painful dip in sales, and limit the impact of a competitor's new activity in your business space. In short, you can counteract competitor incursion more quickly.

The result is better retention – and certainly better maintenance of customer value.

For example, suppose you know that your overall store sales dropped 11% when a competitor opened one mile from your shop. What does that tell you? Nothing – it's just a number. You can't learn enough from this number to know exactly what you should be doing in the future. You need to do deep analysis to learn the impact in detail. You need to know which type of customer was affected, and their various profiles. And you need to know the impact on certain products – sales, margins and more.

If you don't have the detail data, you won't be able to understand what is really happening and how to work proactively. Make sure you have the technology to do this well.

Eyes Wide Open

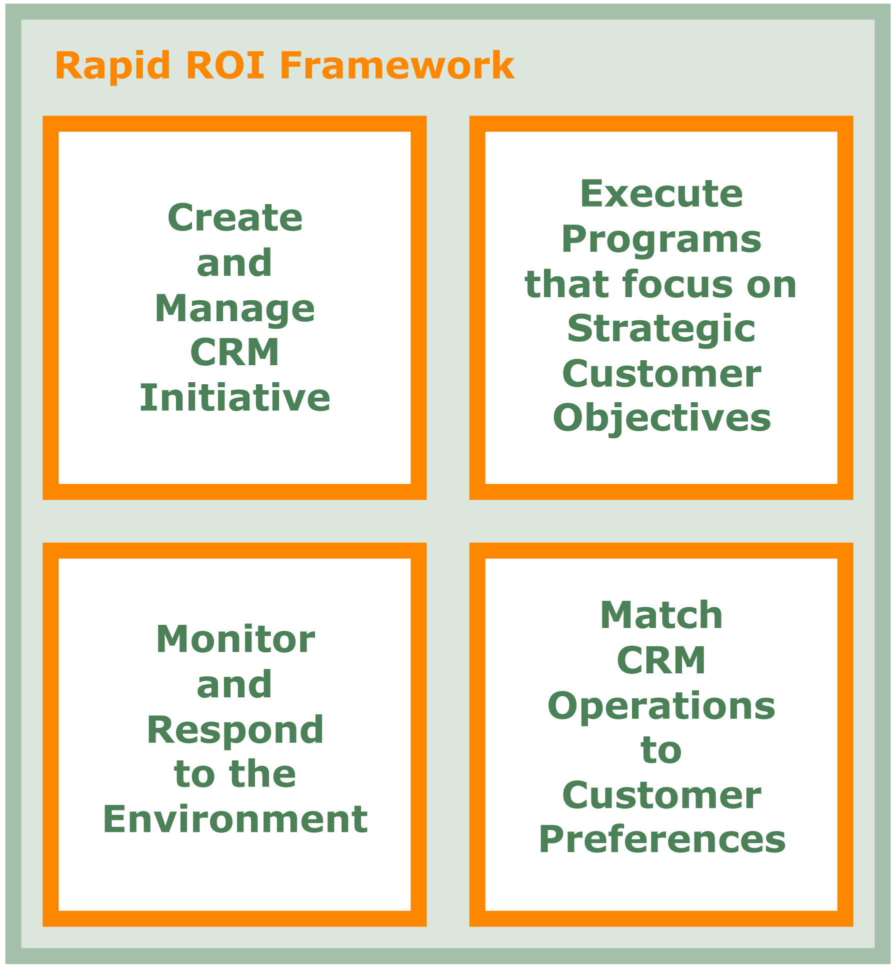
Rapid ROI Framework

We've discussed ten opportunities for realizing rapid ROI on investments in CRM. Ten were selected from potentially hundreds of opportunities. They each, however, fall into one of four quadrants that represent ways analytical CRM can benefit your organization.

Keep Your Eyes Wide Open! All of the ROI opportunities your business will ever need are 'in the details' of your enterprise data warehouse – with analytical CRM

Some say 'God is in the details.' For analytical CRM, the detail is the key to competitive advantage and real ROI. That's where continuous learning, competitive advantage and customer relationship management await your inquiring mind. The 'details' enable you to transcend your current market position with new and powerful capabilities.

Knowing your customer data and business *in detail* can make you more pro-active, more customer-centric as a business, and more effective. This is the real source and secret of generating rapid ROI on CRM. So here's the message: 'go deeper' into your customer data. Do not be satisfied with summary superficial data. Do not settle for analytical applications and methods that do not provide actionable insight for more effective business practice in the future. Keep raising the questions and getting the answers – that will result in higher ROI on your CRM investment.



Yes, today marketing is about managing the value of the firm's customer base upward. And again, it can be done, because most of a company's earnings flow straight from the customer base. With the right analytical CRM tools, marketers can not only deliver the expected ROI and customer value growth – but maybe even have fun along the way.

www.teradata.com www.ncr.com

Teradata
a division of NCR