The Internet - Changing Customer Relationships

Electronic Customer Relationship Management (eCRM), Your Business and the Internet
"Although today’s Web-enabled markets are rapidly evolving, eCRM analysis will provide the understanding and clarity to guide your business decisions and maximize the effective execution of your customer acquisition and retention strategies.

It replaces the guesswork that can threaten your business survival with the understanding that enables your success."

John Shenton - President - Global Millennia Marketing
THE INTERNET - CHANGING CUSTOMER RELATIONSHIPS

ELECTRONIC CUSTOMER RELATIONSHIP MANAGEMENT (ECRM), YOUR BUSINESS AND THE INTERNET

The relative and marked emergences of CRM as a business strategy has radically transformed the way organisations operate. Consequently, there has been a shift in business focus from transactional to relationship marketing where the customer is at the centre of all business activity with organisations now desperately trying to restructure their processes around the needs of their strategically significant customers.

The cost of making a new customer is nearly 5 times that of retaining an existing one. No wonder then, that in today's world of decreasing margins, increasing competition and ever changing business environment, corporate success depends on an organization's ability to build and maintain loyal and valued customer relationships. But that is easier said than done.

One of the greatest challenges to business is the flight of customers looking for more satisfying returns on their consumer dollar. And, in today's relentlessly competitive business environment, many companies aggressively pursue their competitors' best customers.

A majority of businesses are just beginning to recognize the fact that they are dealing with a customer base that is more demanding, less satisfied, and less loyal than ever before, in spite of their targeted marketing efforts.

Consider:

- An estimated 58% of all new bank customers leave an institution within just two years.
- As many as 15% of credit card holders switch cards each year. The even bigger problem is the large percentage of customers who just stop using their card.
One automobile manufacturer found that 90% of its car owners were satisfied with their vehicle, but only 60% would consider buying another from the same company ... and only

40% actually followed through on purchasing another auto of the same make.

A national mass retailer discovered that its customer attrition rate was costing it $1 billion a year in lost revenue and marketing costs of acquiring replacement customers.

The Internet has forever changed the way we do business. The Web, as both a marketing and sales channel, has redefined well-known customer shopping patterns and behaviours. As a conduit for business-to-business transactions, emerging net markets and exchanges offer unprecedented economies of scale to organizations.

For all of the billions of dollars pouring into e-business, whether for business-to-consumer (B2C) or business-to-business (B2B) development, not all companies have established successful Internet strategies and reaped the rewards of conducting business on the Internet.

Companies with a successful Internet presence have learnt that success in today’s Web enabled markets belongs to those organizations that understand the following:

- How the Web has influenced the way in which we conduct business and how our companies must respond in order to remain competitive
- The changing role of the customer and how to survive in this demand-driven economy
- The need for continuous business process refinement and measurement
In order to develop a successful business strategy for today's Web-enabled markets, you must first understand how the Web has influenced the business drivers that shape our markets.

**CUSTOMER BEHAVIOR**

Over the last several years, the Web has redefined how people conduct business.

In the past, the acts of browsing and product selection, purchasing and even customer service were well established for a given set of customers and generally predictable. Today these patterns have been broken.

It is difficult to predict when a customer would rather browse online versus in person, what products that customer prefers to purchase on the Web and when Web-based or e-mail support is an acceptable customer service alternative.

As mainstream as online shopping may seem today, commerce models continue to develop and evolve as quickly as we learn to adopt them.

Auctions, exchanges, reverse exchanges and net markets are but a few examples of the dynamic reshaping of today's business markets.

The consequence of this unpredictable customer behaviour is that we can trust nothing. Past behaviours will be meaningless in predicting future behaviour.

Your customer behaviour will have to be closely measured and analyzed under a broad range of circumstances in order to understand those customer patterns and preferences.

This measurement and analysis will need to be an iterative process, as any observed behaviour is likely to continually evolve and change in the future.
HOW THE WEB INFLUENCES BUSINESS DRIVERS

PRICING EXPECTATIONS

The Web has had a dramatic influence on how customers expect commerce to be conducted, regardless of the channel through which they browse, select and purchase. A Jupiter consumer survey shows that:

- 81 percent of online consumers visit two or more sites before making an online purchase
- 54 percent visit three or more sites.

The heavy use of online discounts and promotions to encourage customer purchases and grow customer acquisition has resulted in extremely price-sensitive consumers.

Reverse exchanges, which allow customers to set their price, and comparison-shopping sites, further strengthen this trend so that the Web is seen as a vehicle for finding or driving the best deal.

Unfortunately, one of the consequences is that your customers are choosing where to purchase based more on price, not brand or loyalty.

This can hold your margin down as discounting is the only way to fight the competition for the purchase. Successful branding can mitigate this margin erosion to a certain extent.

This ultra sensitivity to pricing has found its way into brick-and-mortar-channels as well. Knowing that competitive pricing is only a few clicks away, consumers may browse in stores, but if the pricing is not attractive, they will take their purchasing to the Web.
This demand for pricing efficiency is not restricted to B2C markets. The explosive growth of net markets attests to the B2B demand for similar pricing efficiencies. Many companies are increasingly willing to share internal manufacturing, pricing, supply chain and logistics data with partners, if they can lower transaction costs and improve processing efficiencies. This has to become a consideration in your business and marketing plans.

**FULFILLMENT & SERVICE EXPECTATIONS**

Early e-commerce successes shared one common practice above all others: 'exemplary order fulfillment and customer service quality'.

What these companies have done for the rest, who now follow, is to establish very high expectations for customer service quality. Having experienced order-processing turnaround of 24 hours or less with efficient shipping alternatives that can be tracked online, customers are finding it difficult to be satisfied with less. And should there be a problem with a purchase or transaction, prompt, efficient and courteous customer service is demanded.

If your customers' demands for this level of fulfillment and service quality are not met, they will likely defect in search of a company that will meet their needs.

These expectations are finding their way into off-line channels as well. Businesses are increasingly forced to broaden their proffered customer services in order to satisfy and retain their existing customers.

The competition from online channels is too threatening to ignore customer demands for better customer care quality.

What effects are these changing business drivers having on today's markets? It is more difficult for you to reliably predict what your customers will want and how they will react. They are extremely price sensitive, but aggressive pricing will result in lower margins.

In addition, retention will require high levels of fulfillment and customer service quality, raising expenses. Business survival necessitates success under these challenging conditions.

There is no middle ground. Your success requires a business strategy that is based on the ongoing analysis of all aspects of your customer acquisition and retention.
The secret to business success is no secret at all.

- First, you have to obtain customers, acquisition
- Second, you have to keep them, retention

However, given today's high rate of business failure, this is easier said than done. How can you develop acquisition and retention strategies that will work, balance cost and benefit, and are sustainable? The first step is to better understand on-line customer acquisition and customer retention.

The activities that contribute to the success of acquisition and retention strategies are described below.

**ACQUISITION**

Customer acquisition is necessary to establish and build market share. This is especially critical for start-ups or companies entering new markets where they hope to gain market dominance before the competition becomes well entrenched.

Acquisition strategies focus on getting new customers to purchase a product or service for the first time and include the following activities:
ADVERTISING

The effectiveness of today's online advertising is usually measured by banner ad click-through rates. The general belief has been that to be effective, an ad should lure you directly to the target site where you will make a purchase. However, market research strongly suggests that branding can be a more valuable consequence of effective advertising than post-click sales conversions.

A recent Acknowledge survey showed that conversion rates were higher for users who viewed but did not click (post-impression conversion), compared to those that clicked through to the target site and purchased immediately (post-click conversion). Obviously in the post-impression cases, the ad still had an impact, because branding and awareness drove the later sale.

This means that if the real value of banner advertising is not the immediate click through, but rather establishing brand awareness and delivering a URL to be investigated later, then banner ad effectiveness must be evaluated jointly with other advertising efforts that also influence reach and frequency.

It also means that banner ad effectiveness must be measured with more granularity than the very limited perspective of click-through rates if a business is to truly understand what is occurring. Sales conversions should be viewed from a broader perspective, particularly if one recognizes that the majority of sales may be multiuse processes that occur over some period of time.

The definition of conversion should be extended to include the events that lead up to the ultimate product purchase, so that the effectiveness of advertising and other acquisition activities can be measured throughout this multiuse sales process.

In addition to the completed sale, these conversion events can include visitor registration, product searches, information requests, software downloads and the placement of items in a shopping cart.

This analysis is considerably more complex than a simple click-through conversion report, but it offers a much richer understanding of how advertising dollars are ultimately influencing all of the steps in the sales process. Analysis of your web site log files using a product such as 'Webtrends' is advantageous.
CUSTOMER SEGMENTATION AND PROFILING

Personalized advertising, promotions, merchandising and Web site content can each have a tremendous impact on customer conversion rates. However, the anonymity of the Web as a business channel makes the job of identifying and understanding your customers, critical to accurate personalization very difficult. If too much is concluded from too few solid facts, personalized campaigns and promotions can lead down a blind alley with unwarranted confidence.

Yet reliable segmentation and profiling are achievable with two conditions.

- First, data must be available from as many customer touch points as possible. This provides the depth of data required on each customer’s activities.

- Second, there must be a large profiling database to allow comparisons of known customer activities against anonymous customers in the profiling database.

This database provides the breadth of data necessary for accurate comparative analysis. The profiling engine suggests potential content, merchandising or promotions of interest, based on how others with similar behaviour have responded.

This level of customer segmentation and profiling may seem difficult and expensive to implement. However, it can supplant guesswork and supposition with solid, quantifiable results that can be measured and refined over time. The impact on conversion rates can be substantial, resulting in significantly increased sales and a significant ROI.

Today's most successful Web-enabled businesses use integrated customer profiling systems and have built a metrics-based measurement process around the personalization of campaigns and promotions.

CAMPAIGN MANAGEMENT

Successful campaign management is about much more than simply scoring campaign effectiveness based on customer response rates. The Web has introduced significant new variables into the commerce equation, and understanding which combination of product, pricing, target customer, channel and presentation will be most effective is pivotal to business success.

Pricing is certainly among the critical factors for profitability in today’s markets. Marketers need to clearly understand which of your customer segments are most price-sensitive in order to offer pricing relative to their lifetime value to an organization. Balancing offers with customer profitability and predicted campaign effectiveness will ultimately determine which of your campaigns succeed and whether they are profitable.

The margin for error is tight and the cost of failure is high. In addition, channel behaviour must be sufficiently understood in order to reach customers across their preferred channel. Because this
preferred channel can vary for different products and different customers and can even change over time, accurate customer segmentation and profiling are critical for successful management of your sales campaigns.

MERCHANDISING

While merchandising is a carefully refined practice in your brick-and-mortar retail channels, its importance is often overlooked or taken for granted online.

Aggressive advertising campaigns, with any luck, will get visitors to an e-commerce Web site, but that is only part of the campaign; you still have to get them to buy something. Once at your home page, what will customers see that will entice them to enter?

Online merchandising defines how a Web site organizes and delivers content to visitors, in support of the company’s Web strategy whether the goal is sales, product education or customer service.

What is unique to e-commerce is the ability to personalize merchandising through visitor profiling. This allows pure one-to-one marketing where home pages, graphics, content and even navigation paths can be tailored to the preferences of each customer.

The key to effective merchandising is an ongoing process of measurement and refinement. Using customer profiles to understand preferences and buying patterns, Web site content is packaged in the way most likely to appeal to each customer and encourage sales. But just as in a brick-and-mortar store, this packaging is not necessarily right the first time.

Whenever merchandising decisions are made, subsequent conversion events need to be carefully measured and compared to pre-merchandising values. This metrics-based approach validates the effectiveness of merchandising decisions. Through continuous measurement and refinement, personalized merchandising can maximize customer conversion rates, regardless of how heterogeneous the customer population.

SALES ANALYSIS

One of the effects of the unpredictable customer behaviour caused by the Web is channel hopping. Customers today are less likely to purchase through a single sales channel and, in fact, tend to freely range across multiple channels in a seemingly random way. This migratory purchase behaviour can render your traditional sales analysis useless if an integrated, multi-channel view of your customer behaviour is not available. Whether the customer buys through a store, the Web site, a call centre, catalogues or telesales, purchase behaviour must be seen in aggregate across all channels.
Multi-channel sales analysis should provide a composite picture of customer profitability. This allows the costs of marketing and loyalty programs to be measured against the predicted lifetime value of a customer. While it is important to grow customer value, you cannot lose sight of shareholder value. That is, the costs of increasing customer value must be balanced with expected returns of that value, ensuring maximum return on the investment.

RETENTION

Customer acquisition is about getting new customers. Customer retention is about keeping the ones you already have. According to the Harvard Business Management Review, the cost of acquiring a new customer is six to eight times higher than retaining a current customer.

Therefore, effective retention strategies are critical for companies with an established customer base that are looking to improve their bottom line.

While product attraction can acquire customers whether the attraction is low pricing, effective merchandising or a catchy brand, customer satisfaction is the key to retention.

A successful customer retention strategy will have two goals:

- Eliminating the negatives in the customer's experiences
- Enhancing the positives

Both of these goals are important in building the lasting loyalty that will maximize customer lifetime value. Your business activities that most directly influence customer loyalty and retention include customer service, fulfillment, product quality, call centre support, and trust and privacy.

CUSTOMER SERVICE

Customer service quality plays a significant role in customer satisfaction and loyalty. By eliminating the negatives in the customer experience, happy customers are given no reason to defect. By enhancing the positives, a company creates a more attractive “whole product,” which is the core product wrapped in high quality customer service that builds loyalty and may even win sales from price hunting consumers.
Strong customer service is important in all channels but is essential when a live sales person is not available to assist a customer. Given the anonymity of most consumers’ Web shopping experiences, it is no wonder customer retention is such a challenge.

A recent Jupiter Consumer Survey reported that 75 percent of online buyers said customer service is a critical factor in shopping satisfaction. And yet of those surveyed, only 40 percent were satisfied with current customer service levels.

Customer service quality is a key differentiator among e-businesses and cannot be taken for granted. Those that make the investment will have strong customer loyalty and increased customer lifetime value. Those that do not will drive customer acquisition with costly discounting and promotions just to see their hard-won customers slip through their fingers.

FULFILLMENT

Fulfillment is the process of reliably delivering the product into your customer’s hands as quickly as possible after the purchase. In a retail store, fulfillment is an easier process than for other channels. Because the customer physically takes possession of the product in the store, fulfillment is primarily ensuring the product is in stock at the time of purchase.

In online, catalogue and telemarketing channels, fulfillment plays a much bigger role in customer satisfaction, because there’s more that can go wrong.

In addition to managing inventory stock levels, the product also needs to be shipped and delivered to the customer, typically through third parties over which a business has little direct control.

Good fulfillment quality requires careful analysis of sales forecasts; inventory stock levels, as well as order, ship and delivery status. This analysis will help prevent problems, and when they do occur, a prompt, courteous solution will hopefully minimize the customer’s discontent.

An example of a fulfillment enhancement that would strengthen customer loyalty might be a courtesy shipping upgrade for a company’s most profitable customers.

PRODUCT QUALITY

Good customer service quality will go a long way toward keeping customers happy and loyal, but nothing will retain them forever if the product quality is poor. This is where businesses need to first examine when planning retention strategies. Improved product quality will also eliminate considerable
support requests; so dollars invested in product quality improvements will be dollars saved in customer service, call centre and field service expenses.

A product quality best practice among successful businesses is the sharing of customer product feedback within the organization, particularly between the customer service, product development and sales departments. This ensures that your customer's concerns are heard, that product deficiencies have a realistic chance of being identified and corrected, and the sales staff can close the loop with the customer and minimize any discontent.

**CALL CENTER SUPPORT**

Call centres are critical to the success of a customer retention strategy, regardless of whether the call centre is outbound, initiating contact with customers, or inbound, when customers need support. Particularly with the widespread growth of automatic voice response systems and customer self-service, it is essential to understand what is going on at all times, and correct problem situations immediately.

There is nothing more frustrating than trying to reach a live person for help and being caught in a maze of voice response options that lead nowhere.

Likewise, rude or incompetent customer service representatives can quickly destroy the loyalty of even the most faithful customers. Conversely, knowledgeable, courteous reps can further strengthen valued relationships.

Real time call centre analysis is essential to guarantee high levels of customer satisfaction. Call characteristics such as call abandonment; backlog volumes and average wait times can be likely indicators of customer frustration levels.

Likewise, reopened call volumes may indicate ineffective problem resolution and growing dissatisfaction. The adage that you cannot manage what you cannot measure, is certainly true when managing call centre quality. And those companies best known for their customer service quality rely on real-time call centre analysis to identify early problems before they can hurt customer relationships.
TRUST AND PRIVACY

The fastest way to lose your customers is to lose their trust. Business is about building and maintaining relationships with customers, and relationships are built on trust. However, consumer privacy concerns over the collection, sharing and resale of personal data pose a serious threat to customer trust. You must be careful not to undermine your customer retention and loyalty-building efforts with insensitive privacy policies and practices.

If customers feel that a company is not respecting the privacy of their personal data, they will defect. Customer data is invaluable and the keystone to effective customer analysis, but if in the process of gathering that data a business drives away its customers, the data is meaningless.

It is highly recommended that you publish your privacy policy on your web site.

You should define, follow and communicate strong internal privacy policy standards and look to comply with industry standards as they are developed. Compliance with Online Privacy Alliance (OPA) recommendations is a minimum, and companies should consider certification through a privacy seal program such as TRUSTe, BBBOnLine or CPA WebTrust.

Customers should have some choice and control over what information is shared and how it is ultimately used. Personal data should be viewed as an asset to which a company is asking for access, where the customer controls the right to grant or deny that access.

By demonstrating that you will respect and protect your customers’ privacy, you can strengthen the trust and loyalty that’s so vital for customer retention.
Implementing a successful business strategy in today’s complex and ever-changing markets is difficult. There are no easy answers, but you can do more than just rely on luck. By understanding how business practices influence customer acquisition and retention, you can take control over your own destiny.

eCRM analysis can provide this understanding, and serve as the foundation for focused, deliberate business planning and execution.

Effective eCRM analysis requires much more than a monthly report on Web site hits, a comparative chart on marketing campaign response rates or a call centre report showing total call volume. These reports may be components of an eCRM solution, but the solution itself must be more comprehensive. It must not only provide a 360° view of a customer, but also a picture of how all business activities influence that customer.

Many companies that practice database marketing think they are engaged in Relationship Marketing. In fact, they may only be part of the way there. As seen in the chart on the right depicting the Database Marketing Development Curve, the mere presence and use of a database or direct mail doesn't mean a company’s marketing efforts are focused on Relationship Marketing.
Today’s most successful business leaders have helped to define the criteria necessary for an effective eCRM solution that can enable business success.

- The solution must provide more than just reports. Customer analysis can be complex when all of the causal variables that can influence customer behaviour and loyalty are considered.

A simplified view of business and customer activity will mask the subtleties that may really underlay the observed outcomes. A full-featured analytic solution should provide flexible, dynamic reporting, key performance metrics, modeling and forecasting, customizable measures, profiling capabilities and analysis integrated across all business areas. These more advanced features will ensure that complex customer behaviour and subtle influencers will be correctly identified and understood.

- The solution must enable analysis across all channels. Whether a company is a brick and mortar business with a Web site, or a dot-com pure play, integrated multi-channel analysis is the only way to see where a customer is going and what they are doing throughout your business.

Understanding activity in one channel, but being blind in other channels can give an incomplete and possibly misleading view of acquisition and retention effectiveness. Only when an organization can see customer activity across all channels can it understand the mutual influence of customer online and offline actions.

- The solution must balance multiple data sources. Customer data from the marketing and sales activities that drive acquisition has to be integrated with the retention-focused customer data from fulfillment and support.

All of this data must be integrated with the financial records that allow cost and return to be calculated for your business activities, customer profitability and business strategy assessment.

This deep integration means that point solutions will not be sufficient. An enterprise scale analytic platform that ties together all customer, business and financial data sources is necessary to see the meta-level view of overall customer acquisition and retention effectiveness.

- The solution must be part of an iterative analytic business process. No matter how sophisticated the analysis, if an analytic solution is not part of an ongoing, iterative business process, the understanding it enables will age and become obsolete.
Successful eCRM analysis is an ongoing process of measurement, understanding and refinement. Business success in today’s markets requires an analytic rigor that constantly measures and refines business practices, based on the understanding learned through eCRM analysis.

TURNING SURVIVAL INTO SUCCESS

Understanding will separate the businesses that will succeed in today’s markets from those that will fail to survive. eCRM analysis can provide this understanding by explaining customer behaviour and preferences as they are impacted by business activities. This analysis must include customer interactions across all touch points and measure the effectiveness of your organization’s customer acquisition and retention strategies. Below are some of the questions that customer analysis can answer:

- How is advertising impacting the conversion events that lead to acquisition?
- Are aggressive promotions acquiring price-hunting customers with little brand loyalties that are likely to soon defect?
- What level of additional customer services will maximize retention relative to the cost of those services?
- Which profitable customers have not purchased within their average repeat visits period and might be targeted for a specialized campaign?

Effective eCRM analysis examines customer interactions from the perspective of your business’s marketing, sales and service efforts, and measures the relative cost and return of those efforts.

This integrated, enterprise view ensures that acquisition and retention strategies do not win in one area while failing in others. It provides the complete picture of how your business interacts and influences your customers. It is this understanding that enables an iterative process of business refinement and measurement that will attract and retain the most valuable customers in the most cost-effective manner.
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RECOMMENDED READING


Certain graphics were supplied by Avaya, a market leader in providing call centre and CRM (Customer Relationship Management) products.
Global Millennia Marketing Inc. is one of the first of a new breed of integrated Internet marketing communications companies and is comprised of four on-line divisions. Our ability to work closely at all levels optimizes synergy between the different divisions from the strategic planning stage right through to tactical execution of all our projects.

As the use of New Digital Media such as the Internet, CD-ROM’s, DVD’s, increases, the importance of coordinating its use with traditional printed media becomes paramount. We are uniquely placed to address this need, having evolved from genuine specialists in both fields. We work with our clients to develop effective, long-term partnerships, which encompass every facet of the management and marketing functions, from initial project consulting through creative design and production, to corporate presentation management.

Our teams have many years' industrial experience in the fields of Sales & Marketing, Finance and Information Technology in North America, Europe and Asia. This background allows us to quickly empathize with our clients to understand their markets, their objectives and to identify their business needs. Through strategic planning and the creative application of our skills and experience, we deliver effective total marketing communications solutions, which meet, and typically exceed, their pre-defined goals and expectations.

Operations are controlled from Montreal, Canada. From here we are able to provide service on a global basis in English, French, Chinese and Arabic to a diverse range of companies from start-up to established corporations.