



The NTF Group's view on the
'Evolution of Customer Management'

20 April, 2001

All of the models, analytic techniques and conceptual frameworks presented in this document are the intellectual property of Nelson Taylor Fox Pty Ltd.

TABLE OF CONTENTS

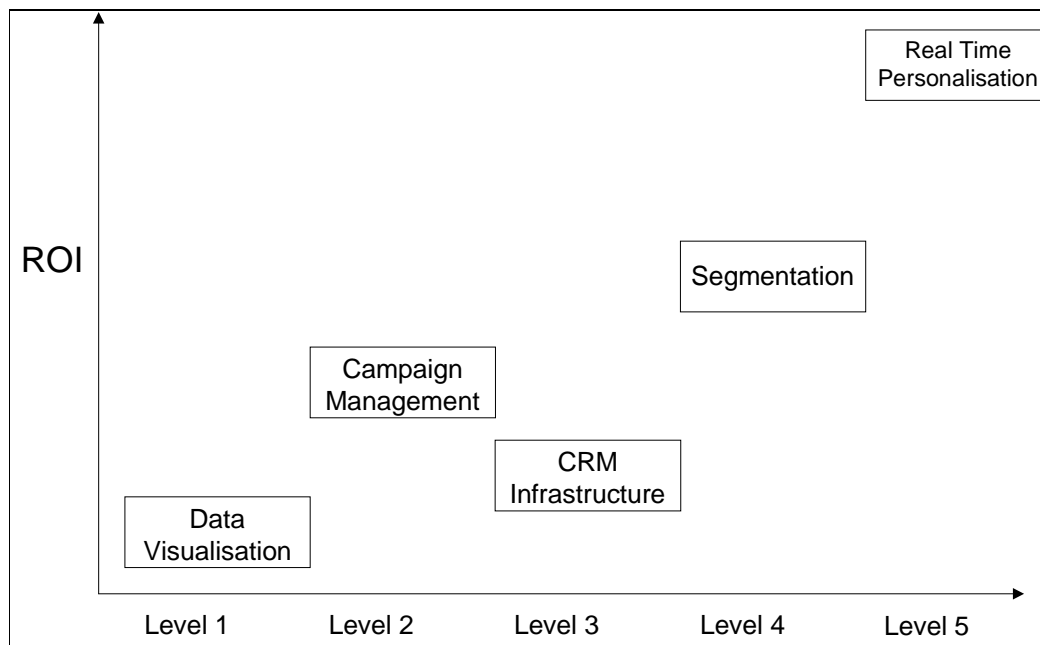
| | |
|--------------------------------------------------|----------|
| 1 STEPS TO BEST PRACTICE CM | 4 |
| 1.1 INTRODUCTION | 4 |
| 1.2 LEVEL 1 - DATA VISUALISATION | 4 |
| 1.2.1 THE PROCESS | 4 |
| 1.2.2 EXPECTED OUTCOMES | 5 |
| 1.3 LEVEL 2 - CAMPAIGN MANAGEMENT | 5 |
| 1.3.1 THE PROCESS | 5 |
| 1.3.2 EXPECTED OUTCOMES | 5 |
| 1.4 LEVEL 3 – BUILDING CRM INFRASTRUCTURE | 6 |
| 1.4.1 THE PROCESS | 6 |
| 1.4.2 EXPECTED OUTCOMES | 6 |
| 1.5 LEVEL 4 - SEGMENTATION | 7 |
| 1.5.1 THE PROCESS | 7 |
| 1.5.2 EXPECTED OUTCOMES | 7 |
| 1.6 LEVEL 5 - REAL-TIME PERSONALISATION | 7 |
| 1.6.1 THE PROCESS | 7 |
| 1.6.2 EXPECTED OUTCOMES | 8 |

1 STEPS TO BEST PRACTICE CM

1.1 Introduction

Our consulting experience and international research suggest five typical stages in the evolution towards best practice in customer management. While strictly speaking these stages are not sequential, it is not possible to achieve Level 5 practice without having built the infrastructure and capability achieved in the previous levels. The point of entry is clean, relevant, accurate and timely data.

The Evolution towards 'Best Practice' customer management



1.2 Level 1 - Data Visualisation

1.2.1 The Process

At Level 1 organisations are beginning to use online analytical processing (OLAP) tools to gain a basic understanding of customer behaviour across the total base and within key high value target customer groups. The key enabler of this process is an integrated 'whole of customers view'. This typically requires the integration and linking of customer records across disparate product systems to unify contacts from multiple communication channels. Given many of these 'legacy' product systems were created at a time when this purpose was not even contemplated, this can be an extremely complicated and costly process to undertake.

Data visualisation allows for a wider internal user group than traditional databases that required significant technical expertise to manage and interpret complex reporting tools. This enables customer relationship management decisions to be integrated across the company in alignment with the single customer view.

In our experience, most major service organisations in Australia achieved a version of this capability three to five years ago.

1.2.2 Expected outcomes

While this process is absolutely critical to unlocking value through Levels 2 to 5, tangible commercial returns from this process are difficult to quantify. Main outputs are reports on current activity with easy-to-understand tables and charts which can be used to gain a high level understanding of the customer base e.g. customer activity analysed against variables such as demographic profile.

1.3 Level 2 - Campaign Management

1.3.1 The Process

Having created a physical or virtual whole of customer database, organisations then seek to leverage this integrated customer information to improve the ROI of marketing campaigns (particularly direct marketing campaigns). Value is created through superior customer selection and ensuring the most appropriate product is targeted at a particular customer through the most appropriate channel. As response to each campaign is tracked, a continuous loop of learning is created which enables ongoing improvements in campaign ROIs. The key enabler of this process is sophisticated data mining in order to identify valuable and potentially valuable customers to target for retention (differentiated customer management) and selective acquisition.

In our experience, most major service organisations in Australia achieved this capability three to five years ago.

1.3.2 Expected Outcomes

When this technology is first applied, the experience of NTF clients has been a **300% to 500% lift in direct marketing response rates**. Optimisation of scarce resources towards the most profitable marketing programs enables the client organisation to comfortably halve their direct marketing budgets without any resulting impact on business generated through direct activities.

AT&T Wireless were able to increase its subscriber base by 20 percent to 9.7 million and to contribute 57 percent of its parent company's 1998 revenues of US\$59 billion by using targeted direct mail to market their Digital One Rate product.¹ This was enabled through identifying differentiating characteristics of

¹ Forbes, April 1999

early campaign responders and then creating a prospect file using consumer lists and demographic data. Seventeen percent of all Digital One Rate retail sales and 22 percent of sales through national retailers were by individuals who had received the direct mail offer.

A similar campaign was launched for the Personal Network program, a packaged offering resulting in AT&T Wireless increasing average revenue per subscriber by acquiring more high-volume users and increasing share of wallet.

1.4 Level 3 – Building CRM Infrastructure

1.4.1 The Process

This stage involves the integration of all channels and customer touch points. This means that not only is data from all customer interactions fed back to a central warehouse but importantly leads generated from this warehouse can be distributed through to each contact and servicing channel (e.g. call centre). The key factor for success is this two-way flow of information.

This capability enables businesses to collect and analyse customer data, and in some cases, initiate real time responses. The focus is on understanding and retaining the most valuable customers, deepening the relationship with them by cross-selling and up-selling products they need and then selectively acquiring like customers.

In our experience, some major service organisations in Australia haven't achieved this capability. Others did so over the past two or three years.

1.4.2 Expected outcomes

The successful implementation of CRM (in combination with segmentation) has been shown in the US to lead to an **8% lift in revenue**.²

This has been achieved through targeted sales pitches based on a customer profile and increased customer loyalty and retention through improved and differentiated customer service. For example, Nissan North America's CRM software will enable a dealer to see that a valuable customer is nearing the end of his lease and hence should be offered a free service.³

The Australian Tourist Commission overcame costs of handling an increase in enquiries following the Olympics by adding the Internet to its channel mix.⁴ Data is collected through an online registration form, which is later queried and reported on. Eighty percent of enquiries now use the Internet, and an IVR system backed by a small number of call centre staff, service enquirers that prefer this channel. The ATC have realised savings in provision of literature,

² Source: International Data Corporation, US.

³ Source: Information Week, July 24, 2000

⁴ Source: Acxiom.com, Case in Point, 2000

has increased service levels for enquirers, become skilled in the use of targeted mail and can provide more effective and timely leads to partners.

Michael Innes, ATC information services director for Europe, Africa and the Middle East explains: “ My vision is that the ATC becomes a communications channel to the consumer and also a data collection point from the customer. All relevant marketing communications run through the ATC and the relevant marketing and conversion information is filtered and used to fine-tune marketing campaigns, plan joint campaigns, and review market segments.”

1.5 Level 4 - Segmentation

1.5.1 The Process

Best practice organisations augment their understanding of customer behaviour with market surveys and sophisticated share of wallet modelling to understand the *inherent value* of their customers (that is the value and behaviour of your customers to all firms in the category).

Segmentation enables targeted up selling, cross selling and retention activities. It ensures a more effective deployment of organisational resources by matching resource allocation with inherent customer value and profitability over time.

In our experience, most major service organisations in Australia have been experimenting with segmentation approaches for the past 5 years.

1.5.2 Expected outcomes

The implementation of segmentation for a major Australian retail bank yielded a **\$6 million after tax profit increase** through retention and growth strategies in one particular high-value segment⁵.

1.6 Level 5 - Real-time Personalisation

1.6.1 The Process

This requires the building of predictive capability that suggests the most appropriate recommended action for a particular customer, in real time. For example, a call centre operator will be prompted to suggest a particular product offering, a change in service or bill payment channel, etc based on all available data on that customer, including the purpose of their call to the customer service centre. Sophisticated analytic infrastructure ensures the recommended action will maximise the profitability of that particular customer.

The additional value derived from real time personalisation over and above CRM and direct marketing, is the integration of sophisticated analytical

⁵ Segmentation Audit Report, Bain Consulting.

techniques and predictive algorithms with customer service channels, such that a prospect can be profiled and delivered a relevant offer in real time.

Personalisation has been most often linked with Internet marketing, this is largely because the technology makes it easier and more cost-effective to deliver an offer relevant and tailored to a particular customer. However, sophisticated CRM systems allow real-time tailored offers to be made over the phone or counter.

Early examples of personalisation were based upon analysis of historical buying behaviour used to learn what products a particular customer liked. Products could then be recommended to customers in real time. This approach does not however take into consideration who the customer is. It is only through the effective combination of consumer information and behavioural characteristics that the full potential of personalisation can be maximised.

1.6.2 Expected outcomes

Only anecdotal data is available, but industry pioneers are suggesting that further improvements in customer profitability through personalisation are equivalent to the improvements achieved in the first four stages combined.

In the web space, Marc Singer, principal with McKinsey & Company's Silicon Valley Office and co-author of "Net Worth: Shaping Markets When Customers Make the Rules"⁶ has found that " Personalising the browser's online shopping experience can increase Web site visits by anywhere from 4 to 15 percent, and conversion rates by more than 10 percent." "This can yield an average of 3 to 10 times more customers acquired for the same cost, and a possible 50 to 60 percent increase in revenues per customer acquired."

⁶ 1999, Harvard Business School Press, Cambridge,