

IAN GORDON ARTICLE

Customer Knowledge for e-Marketing

Ian Gordon President - Convergence Management Consultants Ltd. Author: "Relationship Marketing: New Strategies, Techniques and Technologies to Win the Customers You Want and Keep Them Forever" (Wiley, 1999)

If the individual customer is king, this customer must be treated as an individual. Companies who don't really know each among their customers cannot possibly achieve the potential of CRM. Customer knowledge and the insight and predictions derived from that knowledge, are basic CRM building blocks.

Customer knowledge and market research

Marketers used to rely on market research approaches to help identify issues and assess consumer responses to hypothetical solutions. Market research typically focuses on customers' attitudes and perceptions, and aggregates the data into "segments" in an attempt to uncover clues to manage future perceptions, attitudes, and purchase behaviour. But market research can take more time than the marketer has available, not only for the reasons discussed above, but because market conditions are changing so fast that a company addressing current research findings may actually be dealing with yesterday's issues. This was actually the main reason for Ford's famous failure with the Edsel and not all marketers have learned the lesson.

Technology for customer knowledge

Today, technology provides marketers with the granular information they need to manage customers as individuals. When each customer or prospect interacts with a company, whether on the Web, call centre, or in a sales transaction, their behaviours should be tracked and examined for what they might do next - or could be prompted to do.

While many companies have or are in the process of implementing technologies to deliver the detailed database on customers, some are now starting to rip out the technology. Others are quietly beginning to leave their CRM solutions unused and unsupported. Management in a global technology company says it "has CRM" in large measure because it has bought and implemented a technology solution. Peel back the layers a little, look for changes in processes and individual customer engagement and interaction, and it looks like the old days, with an expensive technology operating in parallel, rather than integrated in what the company does. In short, technology is not CRM. But CRM can and should benefit from technology.

At the other end of the technology-adoption spectrum, one firm wanted to improve its customer engagement and sales processes. It hired consultants with expertise in sales and their industry. The company spent a million dollars on consulting services and today has

weaker customer relationships and nothing to show shareholders for the money it spent. Perhaps because management did not see technology important in this business-to-business context, technology formed no part of this company's sales process review.

A fundamental issue for many companies is that the product-driven business model is breaking down. Technology now lets companies communicate with individuals at less than mass communication costs, and produce in shorter production runs for smaller and smaller segments, to the point that the segment of one - the individual, can be economically addressed. Technology has killed the old business model. Watch the turmoil at DaimlerChrysler and you see more than the press would have you believe - that there are cultural challenges amidst traditional auto industry cyclicality. Rather, this is a company struggling to rationalize and unify multiple business models. The two most challenging to sort out are niche segment vs. mass-market products, and customer-led purchasing processes vs. vendor-driven productization and selling. It is a rare company today that can succeed without knowing each among its customers, positioning to help them buy as each wishes, and without aligning all production, marketing, and e-marketing technologies and processes to enable real-time, customer-specific marketing. Perhaps this is the destination for DaimlerChrysler.

Back to basics

Customer relationship management is about the creation of new and mutual value with and for customers. Technology should create and enable opportunities for customer-specific innovation, leading to a deeper bond between organizations and their customers. That is the main role of technology for e-marketing. Period.

Where companies have limited potential to create extra value for individuals, they would be better off remaining focused on bringing products and services to market segments. Companies may still pay some attention to individual customers but the main thrust of the business should still be segment-based. Most consumer non-durable products, such as household cleaners, detergents and toothpaste, fall into this category. Here technology for e-marketing should focus most on developing interactive capabilities (such as Web content) and improving personalization of communications with purchasers and prospects, approaching customers with segment-specific and personalized, if not always highly customized, messages.

But in other cases, individual customers can benefit materially from very specific, tailored consideration. This is the case for many business-to-business purchases, most consumer durables, such as automobiles, dishwashers, and houses, and many consumer services, including airlines, financial services, hospitality, and retailing. In cases such as these, technology can aid the company's marketing and e-marketing by helping to:

- Identify individual customers
- Track each customer and learn key information about each customer, such as that presented below
- Predict what they might do next, with no stimulus, interaction, or engagement by the company
- Establish what outcomes are desirable and what stimulus, interaction or engagement is needed in each case
- Interact with customers to manage their next and desired behaviour
- Determine whether the desired outcomes were attained.

The Four Components of Content for Customer Knowledge

The following four components of content are needed to develop the customer knowledge and insight that can help companies innovate with customers before their competitors:

1. Customer information

Customer information includes data describing, such as:

- customer demographics
- locations
- usage patterns
- order frequency
- customer favorability towards your company and competitors (from objective measurements)
- preferences regarding vendors, products, services, communications, collaboration and processes.

The focus here is on an objective understanding of the background of each customer. And if a company ever asks its customer for information twice, it proves it is not listening.

2. Customer behaviours

Customer behaviors capture information on interactions before the sale, during the sale, and after the sale, the number, nature and scale of orders, and other behavioral information. The intent here is to create customer *memory*.

3. Customer context

Customer context captures information to describe the priorities the customer emphasizes (such as their business issues, strategies, and priority customers), the decision-making unit, criteria for buying, and the purchase processes. The intent is to know what influences or might influence behaviours.

4. Customer profitability

Customer profitability tracks the financial performance of a customer or business account with a costing methodology that recognizes all the costs and time associated with selling to, servicing, communicating with, and financing a customer, not just the cost of goods sold.

Economies of Data

Fingerhut Companies is one of the largest direct marketing and online retailers in the US, with 10,000 employees. Fingerhut sells a broad range of products and services through catalogs, direct marketing, telemarketing, and the Internet. The company Fingerhut has six terabytes (a million million bytes) of customer information and maintains data on 50 million customer households. Fingerhut mails catalogs more than 100 times a year, totaling more than 480 million catalogs annually, to seven million active customers. Its catalogs include 15,000 items. Up to 1,400 data elements provided by customers are retained on customer files, including demographics (for example, the firm targets Spanish speakers and youth audiences through different subsidiaries), buying and payment histories, product preferences, and even birthdays and anniversaries. Using this vast amount of customer information, the firm looks for cross-selling opportunities between catalogs and Web sites and among its Web sites. Fingerhut uses financial algorithms developed by IBM to allocate marketing expenditures for highest revenues from individual customers. The company cut its promotions to customers by 6 percent, saw sales drop by less than 1.5 percent and increased profits by 2 percent. In short, technology based on extensive customer

knowledge enables very focused marketing for increased profitability. The message from the Fingerhut experience and those of many companies seeking better relationships through information: invest in customer knowledge and insight, and do it through thick and thin.

In the past, consultants advised companies to seek "economies of scale". The advice encourages companies to go down their "experience curve" faster than competitors so that their total costs would decline as their cumulative volume - the total number of units ever made by the company, increased. Today, the concept of the experience curve is outdated because the life cycle of products and even industries is much shorter. Economies continue to exist but now the economies are primarily in data and here they concern the customer relationship. Companies have the potential to create competitive advantage by having more customer data and using it better than their competitors. "Economies of data" can be defined as *the competitive position of a company and its relative profitability, which is likely tied directly to the cumulative volume of data it maintains on its customers, relative to its competitors.*

Customer Knowledge and Insight

Customer knowledge and insight derives from technology infrastructure that captures, stores, and processes the data needed to derive customer knowledge, and an architecture of the technology that places customer data at its strategic heart. The infrastructure and architecture should include a data warehouse, data mining tools, and business processes and technologies that maintain current data on the customer, as previously mentioned. Customer knowledge without data is like hiking without a compass: *you might get there, but chances are you won't.*

Customer knowledge and insight also requires leadership and strategies that see customer knowledge and insight as cornerstones for long-term business profitability and invest to achieve this.

Ukrop's is a twenty-three store supermarket chain based in Richmond, Virginia. Unlike all the other supermarkets in the area, Ukrop's does not advertise in the weekly newspapers. Rather, Ukrop's advertises to their Value Customer cardholders using the mail because, unlike e-mail, Ukrop's could be assured they reach everyone. They focus on increasing loyalty and decreasing what the industry calls "cherry pickers" - those people who flit from store to store and buy the specials only. Customers who do not have a Value Customer card cannot plan their purchase of the stores' specials; now they see store specials by visiting the store. Ukrop's base their focused marketing on a sophisticated customer database.

If you go to your favorite shoe store, tailor, or hairdresser, the better proprietors will know your name, engage you in conversation that carries over from prior visits, be aware of your purchase preferences, and perhaps do something helpful and unexpected, such as give you a free gift with your purchase. But if you go to a larger store, such as a supermarket, bank, car dealer, or mass merchandiser, the staff will not know your name, your likes and dislikes, or why you are there. They will not engage you in meaningful conversation nor do much of anything for you other than take your money, make change, and tell you to have a nice day. So, smaller enterprises can have a service advantage over the bigger ones. And since all companies are - to a greater or lesser extent - in the service industry, the larger companies are potentially at a disadvantage. However, technology now allows large companies to be as responsive to individual customers as smaller ones. The bigger firms can put more information into their organizational memory about each and every customer than the proprietor of the corner stores could ever do. In short, technology can turn the tables for the large operator, allowing them to anticipate the needs of individual customers and be proactive about capturing the opportunity, whether through e-marketing or more conventional marketing channels. The vision is for stores to throw open their doors in the morning and know who will be coming in, for Web sites to know who will visit that day, for

call centres to anticipate orders from specific customers. Customer knowledge and insight can get companies that far. Then other processes and technologies need to kick in, to serve each of these customers as they individually wish.

Every business has succeeded to a greater or lesser extent because of the knowledge and insight it has gained and used to customer advantage. Previously, the focus of knowledge was on research for new products, applications, development, and production. Other knowledge included market research, which helped provide some market balance to technology-led and product-focused companies. While it is not uncommon for companies to gather customer data, there is often a gap in converting these data to knowledge and insight and then extending customer relationships through marketing and e-marketing. For many businesses, this is now the opportunity.

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