Customer Relationship Intelligence

A Breakthrough Way to Measure and Manage Sales and Marketing

Linda Sharp

Q
Querencia Publishing

San Francisco, CA

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Dedicated to the unsung heroes
in sales and marketing and customer service,
in recognition of the value they create every day
by developing relationships with customers

Support for *Customer Relationship Intelligence:*

The intangibles that are the real drivers of enterprise value are the most difficult to measure and manage. A consequence has been the 80-20 rule of management, i.e., managers have tended to spend 80 percent of their time managing factors that are responsible for 20 percent of the value of the enterprise. We are now witnessing a revolution in management practice that will be the hallmark of the future winners: metrics and systems that focus on designing and managing value creating organizations. The CRI Framework and metrics have the potential to meet this need in the critical domain of customer relationship management.

Michael M. Mann, PhD
Chairman, EnCompass Knowledge Systems, Inc.
Adjunct Professor of Industrial and Systems Engineering
University of Southern California

Well worth an executive read. I have never seen such a clear explanation of how companies keep themselves from executing their strategy as well as they could, or from achieving the competitive advantage possible, as Linda Sharp presents in her book Customer Relationship Intelligence. She carefully lays out the underlying symptoms of dysfunction in sales and marketing, the need for change in how these functions are managed, and provides a simple, practical solution. In my years in market research, I've seen how these issues can make or break a company.

Mike Kelly, President/CEO
TECHTEL Corporation

Customer Relationship Intelligence brings a whole new perspective to the challenges of building and maintaining Customer Relationships and building Customer Equity. Linda Sharp takes the guesswork out of relationship marketing and brings a "new intelligence" to linking strategy to execution and profitability.

Robert Stacey, President
Association for the Advancement of
Relationship Marketing

This book is powerful! I especially liked the prescriptive second half of it. I believe the remedy to the inescapable challenges Linda Sharp laid out so carefully is very doable. I say this from the perspective of an executive who helped pioneer the use of data warehouses for customer intelligence. You do better in marketing if you know the facts. The CRI Framework is an organized, simple way to build intelligence into process to get unique customer feedback and the key performance indicators you need to run your business in real time. When sales people have to focus on short-term opportunities, they can keep other relationships alive and growing without having to think too much about it. Imagine the advantage of knowing which actions to take and when for a higher payback with each individual customer.

Boyd Pearce, President & CEO
Truviso

A hundred years ago Frederick Winslow Taylor dissected the manufacturing process, turning it from a "craft" to a "scientific manageable, measurable process." Linda Sharp in this book brilliantly helps us understand that sales and marketing has a set of definable processes that have specific costs and revenue that are predictable. Concerned about how effective your sales and marketing functions are? This book will help you quickly diagnose the root cause of your problems and give you a logical, scientific, mathematical approach that your sales and marketing team will understand and embrace.

Jim Horan, President
The One Page Business Plan Company

Every customer-facing executive should read this book. Up to now, customer metrics have been about measuring our own performance to see how well we are doing. Linda Sharp's Relationship Value metric turns this on its head. Read the book to discover a new and unified way of thinking about and measuring your customers.

Richard Taylor, Chair and Co-Founder
Business Intelligence SIG
Software Development Forum

The relevant importance of customers and processes to provide insightful information and intelligence is one of the key disciplines of every organization. Linda Sharp's insight and pragmatic approach is just what you should examine and this book provides the foundation and vision of where and how you should apply this discipline.

Mark Smith, CEO & EVP Research
Ventana Research

Businesses today have more data available than ever before and so every business is looking for ways to quantify their performance and to run their business based on data. With this background, I naturally found Linda Sharp's innovative approach to measuring and managing sales and marketing attractive. Her focus on interactions as the atomic unit of customer relationships promises to quantify the value of interactions, and moreover to measure cause-and-effect. Therefore, I quickly became convinced that her approach to sales and marketing optimization can add much value to a field that is inherently hard to quantify. She describes the framework in clear language and she stays away from rambling sentences and overloaded terminology that so often make conceptual books difficult to apply in the real world. Linda Sharp has a powerful message to share. Customer Relationship Intelligence is a promising direction that holds much potential.

Tilmann Bruckhaus, PhD, Director of Analytics
Numetrics Management Systems

More of what executives and thought leaders in sales, marketing, customer service, customer experience management, finance, operations, process improvement, market research, business intelligence, data management, strategic planning, and performance management are saying about *Customer Relationship Intelligence* is at the back of the book.

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Foreword

Back in the late nineteenth century, manufacturing was a craft. Everything was built by craftsmen, working individually or in small teams. The work was accomplished from beginning to end by those same craftsmen, with very little specialization.

Then, at the beginning of the twentieth century, Frederick Winslow Taylor made his groundbreaking "Time and Motion Study." He looked at the smallest movements that made up every step in the assembly of a manufactured item. Motion was the "atomic" unit. His goal was to identify the process made up of those motions, and then reduce the time necessary to perform the assembly.

He and his followers were spectacularly successful. Not only did they codify assembly processes and reduce the time necessary to produce many products, but they laid the groundwork for the field of Industrial Engineering. That led to the reorganization of assembly processes, allowing whole new forms of organization, including the assembly line. Ultimately, both the scale and efficiency of manufacturing increased vastly beyond what had been possible before.

Now, at the beginning of the twenty-first century, sales and marketing is still dominated by a "craftsman" approach. There are some really great sales representatives, and some really brilliant marketing people. But it is still a "creative" field, and managers are loath to tinker too much with what is working fairly well.

Does sales and marketing have to go on this way? Not any more, now that Linda Sharp has discovered the "atomic" unit for sales and marketing, and a breakthrough way to measure it. The smallest unit of work is each interaction between a company and its customers and prospective customers. The objective is to increase the value of the relationship being built with the customer, interaction by interaction. To measure the value, she has discovered a new metric, missing until now. She calls it Relationship Value.

Sharp's metric will have an impact on sales and marketing similar to the one Taylor's Time and Motion Study had on manufacturing. The metric applies equally to the acquisition of new leads and the closing of sales, and to everything in between. In fact, as Sharp demonstrates, it applies to customer retention, including customer service, shipping, any part of the organization that deals with customers.

Sharp's Relationship Value metric is revolutionary! Along with the change in perspective it inspires—having you consider customer acquisition, closing, and retention as a continuum—it will surely change the way you manage your business.

Nonetheless, I did not really get excited about what she had developed until I saw the entire superstructure she had laid out on top of this framework and metric. Sharp has begun to anticipate the sales and marketing equivalent of Industrial Engineering—all the while respecting the creativity and the humanity of the people in the field. This is not just another analytical framework or another strategy and planning tool; Sharp's Customer Relationship Intelligence (CRI) Framework can become core to all of your day-to-day operations.

Finally, someone has figured out how to structure a plan that can be implemented with continuous feedback that is consistent and relevant for everyone—from the individuals making customer contacts, up through middle management, and on to the top executives. Sharp has figured out how to manage day-to-day operations so that continuous improvement principles can be applied to sales and marketing just as they have been to manufacturing. The potential improvements to a company's efficiency and effectiveness are absolutely mind-boggling.

From my 30 years as an executive at DuPont and Charles Schwab, and a dozen more years as an independent consultant, I know that strategy and planning are only about two percent of an enterprise's cost, and maybe five percent of its value. The money is spent, and the profits are made, in day-to-day operations. Sharp's CRI Framework is *operational* as well as *analytical*, and that is the *big* breakthrough.

Know that this book will truly change the way you look at your organization, forever.

James M. White, President and CEO
International Information Technology, Inc.

Introduction

> ***Unrealistic expectations.***
> ***Inadequate resources.***
> ***Shortsightedness.***
> ***Lack of orchestration in the sales and marketing process.***
> ***And, no respect.***

Call this frustration—frustration with how sales and marketing was approached by most companies, and how it was regarded during much of my career.

Too many people in the field looked at sales and marketing as a cost center to be controlled rather than as an engine for growth and profit. Most potential clients wanted a silver bullet, a fix-all technique that guaranteed a result. But they didn't want to put enough time or money or effort into building a market and relationships with customers. Typically, they had a myopic, short-term view—limited to their functional area, their project, this particular quarter. Many thought they knew how to "market," yet how sales and marketing worked was uncertain.

Fortunately, I found clients who were either already very successful and knew how much effort it took to market a product or service, or who were willing to just let us "do it." They followed the advice of my marketing firm, executed well, and were extremely successful. I had experienced enough successes across enough industries that I knew I *really* deserved to be frustrated with the current state of sales and marketing.

One of the secrets of my success was talking to customers and working closely with sales. It took enlightened clients to let that happen, and when they did, magic happened. But many clients did not want to pay for customer research, and in many companies, marketing and sales were pitted against each other. It just seemed logical to me (my math background poking up its head) that if you were trying to position a product or service so that it would appeal to a customer, you ought to talk to some prospective customers and to others who had already bought, to see why they would buy or why they did buy. And you ought to talk to people who were close to customers, namely, people in sales. But how sales and marketing operated was really not logical because they were not encouraged to talk or work together. I couldn't understand it—when I was allowed to engage, sales became my best friend!

Another basic problem was that very few knew who did what to whom, when, or for what result in sales and marketing. That there weren't adequate tools was just one of the obstacles to work around. That sales and marketing didn't have a place at the management table was another obstacle. Sales and marketing couldn't speak the language of numbers; therefore, sales and marketing got no respect.

And when numbers did begin to show up in sales and marketing as technology became available, the old cost-cutting mindset continued. The numbers were limited mostly to efficiency measures for controlling costs for the functional areas or silos. Technology paved the cow paths keeping things the way they had always been done, rather than looking at the big picture: the entire customer relationship.

Technology proved not to be the hoped-for panacea. Technologists then said that the problem with managing customers was that customer data was scattered. So, in the next wave of innovation, customer data was pulled into warehouses, mined, and manipulated, and the tea leaves were read. More often than not, each functional group read their own tea leaves, based on the data in their own warehouse(s). No big picture here, either. And although there was still no silver bullet, it was better than not looking at data at all.

I was still frustrated, so much so that I decided to see if I could find that silver bullet, the magic formula to answer the question clients would ask: What would they get if they did the program my firm suggested? With the way sales and marketing was at the time, the answer was unknowable.

It was probably audacious to think that I could solve this, but I loved differential equations and "if this, then that" kind of questions. So I put my math propensity and decades of paying attention to what happened in sales and marketing to work. I beat my head against the wall for a couple of years. But I still couldn't say with any certainty what would happen if you did *anything*. So much for my audaciousness!

Then it hit me. In sales and marketing, only part of what needed to be measured was being measured. Only the end state was being measured. And moreover, the measurement was from the company's point of view, not the customer's. There was no big picture here.

What was most important—the process—wasn't being measured. The cause-and-effect process that develops a relationship with a customer, the give-and-take between the company's staff and its customers, wasn't being measured. The whole give-and-take—from the moment a person is first marketed to, until they have become a customer so important to the company's success that they are essentially a partner—wasn't being measured.

There wasn't even a framework in which to collect and analyze this kind of Customer Relationship Intelligence. I don't mean the emotional, feel-good, subjective aspects of relationships. I mean creating an objective record about what happens in order to give a context to the more qualitative aspects of the relationship.

What if I could find a way to:

- Collect data on what interactions were happening in real time?
- Quantify the data by designating a value and cost to it?
- Capture this missing data in a way that enabled real-time use by people on the frontline with customers?
- Use the same data to enable analysis using existing tools, by thinking of each interaction as a potential transaction?
- Tie customer relationship interactions to profit, so that sales and marketing could speak in numbers that executives would listen to?

- Measure and manage the workers in sales and marketing and customer service to develop profitable, sustainable relationships with customers?
- Guide people in how to do it again and again, successfully?

It turns out, I could do this. It just took me another three years to figure out how.

This book describes how—and just in time, too. After a long, long stretch of cost-cutting, executives are now interested in growth and innovation—growing the top line as well as the bottom line.

And, I'm not frustrated any more. People used to question why I was in marketing since my background was in math and science. I used to say that it made sense, because it was all about communication—that math was the language of science. Now I say math is the language of business, the language of sales and marketing, the language of *Customer Relationship Intelligence*.

What this book is and is not about.

This book *is* about Customer Relationship Intelligence. The approach described here could be used in every relationship important to the success of the enterprise, from analysts to shareholders to community activists, and then related back to the customer relationship. But the book *is not* about that. It *is* about customer relationships which are central to business, to all the other relationships, and to profit.

This book *is not* about how to calculate Customer Lifetime Value (CLV), although I recommend CLV. There are many good books about that already, including *Managing Customers as Investments* by Sunil Gupta and Donald Lehmann. Or an old favorite of mine, *Strategic Database Marketing* by Arthur Hughes.

This book *is not* about *Marketing Metrics: 50+ Metrics Every Executive Should Master.* That book has already been written by Paul Farris, Neil Bendle, Phillip Pfeifer, and David Reibstein, and is an excellent summation of current marketing metrics.

It *is* about a *new* metric, one missing until now, to work alongside these current marketing metrics.

This book *is not* about sales techniques. It *is not* about how to market your brand or optimize your contact center. It *is* about how to build bridges between these functions and all others that deal with the customer, and get everything working together in a synergistic way to develop customer relationships.

This book *is not* about getting rid of old ways, but it *is* about building on these old ways in a breakthrough new way, to measure and manage sales and marketing from a customer perspective. It *is* about teamwork and collaboration. It *is* about executing strategy. It *is* about retention and profit and competitive advantage.

CHAPTER 1

The gold is inside customer relationships.

What's needed is a breakthrough metric to measure the development of customer relationships, and a breakthrough framework to manage the people who develop the relationships, tied to profit.

OVERCOMING RISK AND UNCERTAINTY CHALLENGES

Many business leaders recognize that the keys to competitive advantage and profitability lie in customer relationships and customer retention. However, with uncertainty and lack of clarity about how customer relationships work, most have not been able to take full advantage of this insight. A critical relationship metric has been missing, as well as an actionable framework to give executives the strategy and the tools to use it.

Without a unifying relationship metric and unifying framework:

#1 Customers are invisible.

#2 Executives are isolated.

#3 Operational control in sales and marketing is incomplete and disjointed.

These are the major management challenges in the way of the customer focus so many executives want. These are the challenges that make the work in sales and marketing and customer service harder than it has to be, and that put more obstacles in the way of the really bright people who do their best to make it work anyway. These are the challenges that arise from risk and uncertainty in sales and marketing.

Despite the tremendous effort put into market research, technology, and data mining, customers are essentially invisible, and knowledge about them and what happens to and with them is incomplete. Analysis without an operational framework doesn't lead to operational control.

Although there is much more sophistication in terms of developing strategy and offerings, many executives are uncertain about how their strategy is being executed with customers; they don't have the operational control in sales and marketing and customer service to take strategy down to the level where it needs to be for execution.

Executives are isolated from both the action on the ground with customers, and also from the people on the frontline with customers in sales and marketing and customer service. Because there isn't an integrated record of what happens with customers, even within the sales and marketing and customer service functions, operational control is incomplete. Because sales and marketing and customer service are managed as separate functions, operational control is disjointed.

Without effective operational control, there is no link between strategy and execution. And management has to operate more on faith than is prudent. In this customer-driven environment, continuing to operate with these challenges unresolved is neither acceptable, nor profitable, nor sustainable.

Without effective operational control, there is no link between strategy and execution.

The alternative is attractive. "The prize for closing the strategy-to-performance gap is huge—an increase in performance of anywhere from 60 percent to 100 percent for most companies," offer Michael Mankins and Richard Steele, writing in *Harvard Business Review* in 2005.

Putting new relationship metrics in context

Before Frederick Winslow Taylor discovered what to measure—time and motion—manufacturing was as intuitive as sales and marketing is today. It was an art, not a science. From Taylor's work, the field of Industrial Engineering was born. Manufacturing processes were defined in terms of time and motion, and with the addition of materials to the concept, common manufacturing models (raw materials to semi-finished goods to finished products) were codified. Operations Research was created to broadly optimize the results. Decades later, ERP (Enterprise Resource Planning) was developed for planning in this environment, scheduling both materials and processes. Now manufacturing is much better understood and much more quantitatively managed.

Interactions are to sales and marketing what motion was to manufacturing. And as it was in manufacturing, time is a critical measure for sales and marketing. Time is money. But more than money is needed to measure interactions in sales and marketing, just as more than time was needed to measure motion in manufacturing. Taylor could *see* what actually happened with the motion—he could see what was being produced as it was produced. In sales and marketing, another metric is needed to see what is happening—*a critical relationship metric that has been missing until now.*

Continuing the manufacturing analogy, sales and marketing compares more aptly to continuous process manufacturing than it does to discrete manufacturing. In continuous process manufacturing the "brew" in the semi-finished stage can be observed from control panels, its "temperature taken," and immediate adjustments made. Management needs a way to peer into sales and marketing's Black Box to take its temperature, to see what is happening. What is "happening" is that relationships with customers are being developed. **What's needed** is a Key Performance Indicator for relationship development. Call it Relationship Value.

Relationship Value, a breakthrough way to measure sales and marketing

Relationship Value is the Key Performance Indicator about progress in developing the customer relationship. It measures the "effect" in cause-and-effect. The interactions themselves measure the "cause." Considering just the interactions or the number of them doesn't lead to clarity—there are myriad interactions and myriad combinations. The interactions indicate what happened, but not what good the interaction did. Did it move the relationship forward or backward? By how much? With Relationship Value, the effect of one interaction to another can be compared very easily and in real time. Placing a value on each interaction for its effect translates squishy, soft interactions to hard numbers and provides critical context. Relationship Value is the common denominator for the effect of the interaction.

Cause-and-effect in customer relationships is different in every company, and even within different parts of the same company. Because this is so, measuring Relationship Value can lead to sustainable competitive advantage when harnessed. Relationship Value lets managers and frontline staff "take the temperature" inside the Black Box—to see where they are, relative to their customers. Staff on the frontline with customers in sales and marketing and customer service can use Relationship Value to help them make informed, more profitable operational decisions, one interaction at a time, in real time. The byproduct of the operational system is a data stream that can be used for analysis and process improvement, working with commonly available tools and analytical approaches.

Measuring Relationship Value can lead to sustainable competitive advantage.

With Relationship Value,
customers are not invisible any more.

Customer Relationship Intelligence (CRI) Framework, a breakthrough way to manage sales and marketing

With Relationship Value embedded in an actionable CRI Framework, to give executives the strategy and the tools to use the new metric, a broader, more holistic process links the customer relationship to profit, and through profit, back to strategy. The approach channels the creativity of the people in sales and marketing and:

- Shifts the focus from acquisition to retention, where the money is.
- Collects missing operational data about the value of customer relationships across the customer relationship.
- Measures relationship cause-and-effect continuously, in an operational system, for in-the-moment decisions and immediate course correction.
- Provides a more up-to-date view of profit and a more comprehensive picture of the company's fiscal health, for better operational control.
- Captures profit and behavior patterns in order to repeat success.

With Relationship Value and the CRI Framework, management can overcome the challenges of risk and uncertainty in sales and marketing to:

#1 Unlock the unique, sustainable competitive advantage found in customer relationships.

#2 Align the organization in a cohesive framework to earn high-profit revenue.

#3 Operationalize strategy to manage strategy execution in real time.

With Relationship Value and the CRI Framework, executives can see what is happening with and to their customers, act with more certainty on highly relevant Customer Relationship Intelligence, and lead their organizations to breakthrough performance.

With Relationship Value and the CRI Framework, executives are not isolated any more. There is shared, cohesive operational control.

Making the case for change

The need is quite real. The challenges that arise from the risk and uncertainty in sales and marketing have many symptoms. Thought leaders have been pointing out many of these symptoms for years. Attempts to solving the symptoms individually often are complex, too complex to be practical or affordable. What hasn't happened until now is looking at the symptoms as a whole—at the bigger picture creating the symptoms. That insight has led to a solution that is more comprehensive, simple, and elegant: Relationship Value and the CRI Framework.

If you would like help in making the case for change in your organization to be more customer-focused, take a look at these symptoms. With each one, you'll find what I think is needed to overcome them. The solution to each symptom draws on elements of the whole solution, contributing to and benefiting from the whole.

Each symptom solution draws on elements of the whole.

The rest of the book shows how. Chapters Two and Three lay out a new way to think about and manage sales and marketing and customer service to drive top-line and bottom-line growth. Chapter Four explains how to use the Relationship Value metric to measure relationship development and tie relationships to profit. Chapters Five and Six put customer relationship strategy and tactics in context. Chapters Seven and Eight explain how to set up and use the new, unifying approach for strategy execution and operational control. Chapter Nine is a reality check on what it will take. These symptoms may help you make a case for change.

CHALLENGE #1: Customers are invisible.

SYMPTOM: It is rare to have anyone designated as in charge of customer retention.

Some 80 percent of revenue for most businesses is from repeat/referrals, versus 20 percent of revenue from new business. Yet seven times as much money is spent in acquiring new customers as in retaining them. And way too many new customers are not repeat customers.

Something's wrong with that picture. Were they the right people to be your customers in the first place? Did they get enough attention?

Executives tend to recognize that customer retention is important to profit, but with the exception of national account teams for large customers, customer retention is generally not on the radar screen of managers and is not even measured. Typically, managers are rewarded for cost-cutting, so much so that "cost-to-serve" is a critical measure.

Yet retention is where the money is. **What's needed** is a new customer retention function for all customers, drawing on the traditional roles played by sales and marketing and customer service. Then, with a practical way to measure relationships, customer retention could be managed as a profit center. Executives could lower their risk of losing valuable customers and increase returns from all customers, not just the biggest ones.

SYMPTOM: Often executives do not know as much about customers as they would like.

Direct communication by executives *with* customers is rare unless they are a top revenue generator. Information to executives *about* customers is only infrequent and on an aggregated basis, as part of a satisfaction study—how many are satisfied with the product/service, how many are not. It is equally difficult to derive actionable intelligence about customers from other customer metrics—this many new, this many of a certain size, this many here, this many there, this many who buy this or that.

A 2006 IBM study indicates that 79 percent of executives in the study had only superficial understanding of their customers. Another telling figure is that 74 percent of these same business leaders made decisions on what's right for their operations versus what's right for both their business and their customer.

Even with high-revenue customers, executives haven't had the information they need to know which ones are most profitable, or how they got so profitable, or how to repeat their success. Executives know intuitively that the high-revenue customers are not necessarily their most profitable ones, but that's hard to prove. **What's needed** is a way to measure what a relationship with a customer is worth, and how the relationship develops. Otherwise, it is very difficult to know which customers should get more attention, or how to make win-win decisions.

Executives know intuitively that the high-revenue customers are not necessarily their most profitable ones.

Executives often don't have a clear idea of why customers buy, or why they stay. In my experience, after talking to hundreds and hundreds of customers for clients over the years, the reason their customers buy is rarely the same reason the company expects. Why customers stay is yet another matter. A key reason for disconnects between executives and customers is that the research is typically company-focused and doesn't ask, "Why?"

Yet successful salespeople usually ask, "Why?" When they know the answer, and want to develop a long-term relationship, salespeople then "own" the customer, while the company they work for does not. **What's needed** to mitigate this huge risk for the company is a way to continually ask the question "Why?" in interactions with customers across the customer relationship, and then be able to track the answers—within the context of a quantitative framework.

SYMPTOM: Most realize now that technology is not a panacea for being intelligent about customers. There just has not been a viable systematic alternative.

Think of the unfulfilled promise of CRM—the notion that just putting in a system would increase sales and customer loyalty without addressing the people and process issues across the customer relationship. [CRM Failure Rates]

Think of the myriad systems used to keep track of customer activities in myriad functional departments. Sure, some systems are now integrated enough that people on the frontline with customers can look at financial and operational systems. But generally, systems are functional, not cross-functional. And that restricts—at a company's peril—the ability to see underlying, cross-functional issues (like profit and the customer relationship), and then manage accordingly.

That takes people and process, not just technology.

Think of data warehouses chock-full of data to be mined. And with the new Web applications that encourage customer interactivity, there will be even more. But no amount of data mining or predictive modeling can make up for data not being collected or data that is not categorized and valued in the first place. **What's needed** is codified, cross-functional data about what happens in real-time interactions with customers. It is these interactions that execute strategy and build Relationship Value.

Think of recognition software "listening" to customers and trained to care primarily if the customer makes unhappy noises—instead of noting the patterns that made them happy, got them to increase their purchase, or make a referral. That takes people and process, not just technology.

What's needed is intelligence, built into the process and then tracked with an operational system in real time. Then technology and now cross-functional process can take supporting roles, and people can take the starring role.

SYMPTOM: It is not easy to know who does what to whom, when, and for what results.

It's not easy even for the people doing it, who may very well know what they are doing, but find it hard to show what they did. It's been nearly impossible to keep track, even in the marketing silo, the sales silo, and the customer service silo. These silos now have contact management systems, but what happens is generally kept in the form of notes. So if management or the frontline people want to know what happened in personal exchanges, they have to take the time to read the notes. Sure, some companies have started to structure contact reports with dropdowns and special fields, but even so, the contact report is only part of the story. Marketing has its set of tactics, sales has its programs, and customer service has its actions. Which customers or prospects got what, when? What happened next? It's pretty hard to get a complete picture, within the individual silos, of what was done and how it worked to be able to analyze it. As a result of this uncertainty, many companies are flying blind, and there is no audit trail. **What's needed** is a method that puts what happens in the context of the whole customer relationship, from a customer's perspective.

Many companies are flying blind.

CHALLENGE #2: Executives are isolated.

SYMPTOM: Often executives find it difficult to explain how they achieved success.

That makes it hard for many executives to give good direction in order to help their teams repeat success. Jim Collins, the author of *Good to Great,* says the most dangerous position for a company is not to know why it's successful. Yet executives typically have to rely on the opinion of people close to them or on anecdotal information rather than quantitative measures. Even valuable anecdotal information loses potency and reliability as it is passed up the chain of command. But it hasn't been practical for it to be any other way until now. As a result, executives have been isolated from the very people who could give a first-hand account—the customers and the people who relate to them in sales and marketing and customer service. And even the people in those functions haven't been able to look at success in any sort of context. **What's needed** here is an actionable framework to know: Do this, this and that. In this order, at this time. In that pattern.

SYMPTOM: Typically, sales and marketing people are the first to get the budget ax.

How risky is that? People buy from people they know, or know of. Developing relationships takes time and effort. Yet sales and marketing and customer service people routinely have been considered expendable by companies. Quite often, people in sales are hired because of their relationships, and then are thrown away. In customer service it is nearly impossible to get the original person if you have to call back about an unresolved issue. Until now, the value of relationships has been greatly underestimated, and what it takes to build or develop them has not been understood or appreciated. While developing relationships is a primary function for sales, all people on the frontline with customers contribute to success, but most companies find measuring their performance extremely difficult. **What's needed** are relationship metrics to easily measure and manage staff performance. This new approach could lead to better treatment of everyone critical to the success of the business and could preserve institutional memory.

SYMPTOM: Short-term thinking stymies long-term success.

Executives are often forced onto a treadmill and find themselves managing to quarterly expectations instead of managing to build long-term relationships with customers—which is the source of truly sustainable profit. [Short-Term Thinking]

Incentive programs for executives and salespeople also reinforce the short-term view—they have to, because the average tenure for sales and marketing management is under two years, and for executives, just over three years. The vast majority of incentive compensation plans for managers are tied to short-term functional objectives, rather than to a strategy to build the business long-term. Short-term thinking is pervasive. While cuts of sales and marketing and customer service people are routine to "make the numbers," the budget cuts in these areas are even more drastic when a company is making itself attractive for an acquisition. But by making cuts like these, the company cuts off its lifeblood: its connection to customers. Is it any wonder that most mergers and acquisitions deliver disappointing results? All too often, the acquirer doesn't get a vital, alive company and even if they do, they are likely to have to execute a round of cuts in order to realize the savings they promised Wall Street—thereby throwing away the brand equity and customer equity they just paid for. Is this shortsightedness, or just plain risky? **What's needed**, to justify doing the right thing for the long-term, is a process to measure the value of customer relationships and the people who develop them.

Short-term thinking is pervasive.

CHALLENGE #3: Operational control in sales and marketing is incomplete and disjointed.

SYMPTOM: Current metrics are inadequate for measuring strategy execution.

Profit is how a company keeps score, how it tells if its strategy is working. Yet profit and strategy execution have been hard to measure, except as an end state.

Efficiency measures of a person's skill in executing a function or the organization's use of a tactic like the cost per lead, time to close a sale, time to resolution of a service issue, or the percentage of "perfect" orders are not sufficient to measure strategy execution effectiveness. [Ackoff and White Opinion] None of these metrics measure the progress in improving relationships with customers and correlating that to profit—the ultimate in effective strategy execution. Happy customers buy, and stay.

Profit is how a company keeps score.

Current strategy mapping approaches have had to typically rely on metrics for strategy performance management from single function solutions at the tactical level. None of the metrics are bad per se; each is helpful in context, but they just don't do the strategic job of measuring the customer relationship so it can *really* be managed and developed profitably. Most traditional metrics measure the company and the company's activities *in relationship to* the customer, but not *the customer relationship itself.*

What's needed are relationship metrics to codify the common, cross-functional language of profit, as it is earned in a cohesive framework, to bring profit planning and execution from the bottom up—where the action is, where the customers are—to the executive suite.

What's needed is speaking of strategy in terms that relate to the customer relationship.

What's needed is speaking in consistent profit and relationship metrics, in a cohesive framework, across business units and across the company.

What's needed is to stop executives from being isolated from their customers.

What's needed are relationship metrics to measure a company's interactions with customers. It is these interactions that ultimately execute its strategy, earn profit, and deliver competitive advantage.

Executives get this. Some 71 percent of senior business leaders believe that the customer experience is the next corporate battleground, according to a survey by Colin Shaw and John Ivens, authors of *Building Great Customer Experiences.*

John Chambers, Cisco Systems CEO, especially gets this. He wrote in the company's *Executive Thought Leadership Quarterly* in 2005: "*The next generation (of productivity growth at Cisco) is almost all based on interactions between functional units: between engineering and sales; between ourselves, our customers, and our channel partners; and between engineering, manufacturing, and service. … If we are going to grow at 10 to 15 percent productivity, it is these interactions in real time that we need to be focused on for the next decade… As markets move* *toward greater transparency, these interactions will be an important source of competitive advantage."*

SYMPTOM: Very few in most companies know where they are going, and why.

A 1996 study by consulting firm Renaissance Solutions, Inc. and *CFO* magazine found that typically only five percent of a company's frontline staff understands the company's vision and what it is trying to accomplish. Frankly, it has been really hard to translate vision into action and operationalize strategy to make it clear what everyone's role is.

- So companies rush to tactics in marketing and hope an answer will emerge. Sometimes it does. Sometimes the positioning appeals clearly to the customer. Sometimes the positioning is aligned with the company's business goals.
- Or companies throw a head count at the problem in sales and hope for the best. Sometimes they get lucky.
- Or since most companies think of customer service as a cost center, they routinely outsource customer service. And they, too, hope for the best.

What's needed is a cohesive framework granular enough to get everyone behind a common strategy and consistent relationship metrics to measure progress. With such a framework, management would get more value out of strategic planning in general, and strategy mapping tools like the Balanced Scorecard specifically. The framework would define what metrics are important to track in sales and marketing and customer service within and across business units for strategy effectiveness, not just for operational efficiency. [Porter]

SYMPTOM: Marketing is more of an experiment than it has to be. And it is not a controlled experiment, at that.

Marketing people are beaten up over ROI all the time. [ROMI] Their managers ask them, "What will we get if we do this or that?"

Fortunately, there is a shift underway toward bigger-picture metrics, however, these metrics are still very limited and hard to repeat. The best most companies have are attitudes and perceptions tracking research, pipeline metrics, or Customer Lifetime Value (CLV). Some link CLV to tracking research. CLV is fine, especially when measured as potential profit. The problem comes in linking CLV to attitudes and perceptions tracking research. What people SAY isn't always what they DO.

What people SAY isn't always what they DO.

What's needed is the ability to correlate profit to what people DO. **What's needed,** in advance of execution, is the ability for executives and managers to evaluate how likely they are to make money with a particular strategy and its related set of tactics, and thus be able to establish critical controls in a strategy decision model. **What's needed**, then, is the ability to operationalize strategy so that strategy execution can be measured and tracked in real time across the entire customer relationship, not just the part marketing handles. The resulting data stream feeds profit and decision models and pattern analysis tools with up-to-date operational data. Then when the teams in sales and marketing and customer service achieve success, they know how to do it again—because they know what happened. They have operational control.

Instead of all of marketing being considered an experiment, these managers could consider only new marketing approaches as research and development. They could manage these exceptions closely, while everything else would be routine.

SYMPTOM: It is really difficult to align an organization to execute on its strategy.

That only a small percentage of companies are able to successfully execute even well formulated strategies, has been bantered around for decades. When Walter Kiechel III wrote about it in *Fortune* magazine in 1982 and *Planning Review* in 1984, he put the number at 10 percent. In a 1999 *Fortune* article about CEO failures of the period, authors Ram Charan and Geoffrey Colvin estimated the number at 30 percent. Creators of the Balanced Scorecard David Norton and Robert Kaplan both of Harvard have made great strides in bringing methodology to the fore to drive that percentage up. They now have a new book out called *Alignment* to help.

I agree that alignment is critical. When an organization is aligned, people work together toward a common goal, behind a common strategy, across functions, with a common budget built from the ground up to be successful.

But instead of alignment, too often strategy is the purview of executives, while everyone else does their best to figure out a reasonable course of action within their functional area. [Strategy Link] They fight over resources with other functional areas, or work at cross-purposes. There are no clear handoffs or consequences. For people who think beyond themselves and care about the company's success, it is frustrating. I know; I've been there.

When marketing develops leads that sales ignores, or generates interest, only to have the phone ring off the hook and not be answered, it's frustrating. But marketing is measured on the number of leads they generate and what they cost—not on the follow-up, or if they are the right leads to execute the strategy.

When sales knows what customers want but is never asked for an opinion as marketing campaigns are being developed, it's frustrating. But sales is rewarded on making the sale by whatever means necessary, with whomever they can get to buy, not if they made the sale using marketing's leads or spouting the company message. It's frustrating for sales to book an order and be told it can't be delivered. Actually, it is downright maddening for salespeople, since they are compensated on completing the sale. But to be fair, it is equally maddening for operations to try to deliver on unrealistic promises made by sales.

It's frustrating for customer service people to be told to get customers off the phone fast or they will be penalized—knowing that those customers will have to call back and go through the dance again. Often customer service people just do not have enough information: *How many times has a prospective customer responded to an offer, but* *customer service knows nothing about it? How many times are customers sent from one department to another until they finally reach the right contact? How many times does the customer know more than the help desk person about how to solve the problem?*

It is really frustrating for the professionals in these functions to know that no one really knows or appreciates what they do, to see their efforts wasted, or not know if what they are doing is strategic or not. They do the best they can, knowing that all this "not knowing" makes them vulnerable. Clearly, they are not in control.

What's worse, the most important thing these professionals do is often not even recognized: they are the ones who establish and build relationships with customers, but that isn't measured. **What's needed** is a cohesive framework to align executives with managers and with frontline staff who work with customers and take strategy down to the customer relationship level. This framework could lessen the risk to people in sales and marketing and in customer service, and to their companies in general.

SYMPTOM: It is hard to know what to expect from marketing. The short-term view prevails here, too. As a result, in most companies not enough time, money, or effort is put into marketing activities, or tactics are used inappropriately. An extreme, immediately recognizable example occurred at the height of the dot.com boom, when cash-rich, start-up companies blew their budgets on Super Bowl ads, leaving no money for ongoing marketing. But just as unrealistic are more traditional companies who run only one ad in a national publication, to try to net leads for an obscure business-to-business pitch.

A campaign over time with a consistent presence works best.

Instead of betting the company on one tactic, experienced marketers know that a campaign over time with a consistent presence works best. A research study during a recession showed that if a business maintains or increases its marketing investment, within four years it will have four times the revenue of businesses that stopped or decreased their marketing. [McGraw-Hill] The problem is, experienced marketers have trouble proving consistency works, even with this research since they haven't had the tools to measure it. Besides, it is rare for marketers to be at a company long enough to explain their theory, since marketing is often cut on a whim.

I was lucky. I have had my own firms and could partner with my clients to show that the mix worked better than a single tactic. I could point to pilots with controls for a major leasing company in financial services and another for a company selling service contracts for networked printers.

Experienced marketers know that they aren't selling a product or service; they are creating a positive selling and retaining environment where people have a comfort level with the company. That requires numerous tactics, used many times, to develop the trust needed by the customer. **What's needed** is a way to measure the role marketing people play in developing the customer relationship. That's where the real value is.

SYMPTOM: Anticipating demand is elusive for most companies.

If expectations of marketing are unrealistic, what happens in sales can be just as unrealistic. Unfortunately, often neither management nor sales have enough information about the current market situation or customer relationships to do more than estimate demand. So management will give sales "stretch goals" keying off of statistical models based on past performance or on what they need to reach to satisfy the market.

Sales forecasts quite often are divorced from reality.

Without better information, management is often forced into the dangerous position of basing their plan on the stretch goals *they* created in the first place. And to respond to a stretch goal, sales forecasts quite often are divorced from reality—except for projecting whatever number will keep them employed. And then, in that impossible situation, to meet the unrealistic quota and make their quarterly numbers, sales will cut deals that aren't always in the company's best interest, make promises that can't be delivered, or sell products that satisfy the quota but don't solve the customer's problem. Sales growth then is haphazard, occurring where there is least resistance and where a commission can be earned fastest.

What's needed is better Customer Relationship Intelligence, so that both sales and management can be more certain about their numbers. Over time, with a better understanding of customer behavior and profit patterns, management could develop a more sustainable business model, at far less risk to themselves and their companies.

SYMPTOM: Budgeting, planning, and forecasting are broken, ergo, so is execution.

Just as top-down numbers quite often drive forecasts, as noted in the previous point, top-down numbers drive what the budget will be in many companies. *Will there be across-the-board cuts, or increases based on last year's numbers, or a percentage increase over what the competition is spending, or will a best practices number be used?* [Strategy Link]

Knowing what to do at the individual customer level is key.

Is that any way to manage to an objective? It is, if a company can't articulate its strategy effectively throughout the organization and know what it needs to do to execute. Knowing what to do—at the individual customer level—is key. Too often, managers get a budget number and then do their best to plan their tactics to it without knowing what the overall directional strategy is.

The current system is set up to be reactive instead of proactive. Most strategic plans don't easily roll into execution, into action. So they are put on a shelf, dusted off once a year to react to end-state numbers, and then recast for another year.

Is there any wonder that there is a lack of support for linking strategy, planning, and execution in most organizations? It's not practical, using current approaches. There haven't been hooks to link to. **What's needed** is a cohesive framework across the customer relationship, using the common language of profit, for operational control.

Just imagine...

Imagine what it would be like for innovation and productivity if the creativity of those involved in sales and marketing, and management, could flow smoothly, without these challenges? How much better people would be treated, and how much more profitable and more sustainable business would be!

Now with a breakthrough metric to measure the development of customer relationships and a breakthrough framework to manage the people who develop the relationships, tied to profit, these challenges can be overcome.

Key Points

- Sales and marketing works as well as it does now because of the creativity of its people in overcoming operational challenges.
- Tools have been lacking, leaving many best practices in the hands of the individual "best" practitioners, rather than being institutionalized in the enterprises where they work.
- It is hard for executives to keep in touch with what is really going on between their organization and their customers.
- What is needed is a CRI Framework, based on Relationship Value, which can:
    - Unlock the unique, sustainable competitive advantage found in customer relationships
    - Align the organization in a cohesive framework to earn high-profit revenue
    - Operationalize strategy to manage strategy execution in real time

Commentary Related to Chapter One

What is Marketing?

Is it strategic marketing, market research, product development, product marketing, brand management, or sales and marketing? All of these? Or is it one of myriad subsets, like the evolving and ever-more-important database marketing or Internet marketing? Or is it the advertising that retailer John Wanamaker was obsessed with nearly a hundred years ago when he lamented, "Half the money I spend in advertising is wasted. The trouble is, I don't know which half."

I'd say Wanamaker took too limited a view, a limitation that has continued to plague marketing. I have always thought of marketing in the broadest sense, appreciating both the strategic and operational aspects. But for clarity in this book, I've opted to use the term "sales and marketing" when speaking of people in marketing and sales functions.

In developing the CRI Framework, one of my goals has been to explicitly connect sales and marketing to what is called strategic marketing in some companies, strategic planning in others. By whatever name, executives in these roles participate in the development of the directional strategy for the company at a high level to determine what business the company is in, and its position relative to the competition.

This book and the CRI Framework it describes is not about how to do strategic marketing or product development or product marketing or brand management, although having more relevant Customer Relationship Intelligence will affect what is done in those functions. Because market research supports not just strategic marketing or product development or product marketing or brand management, but sales and marketing as well, this book is about market research. With the CRI Framework Voice of the Customer market research is built into the process to provide ongoing feedback.

So what is marketing? A widely accepted definition of marketing on a global scale comes from the UK's Chartered Institute of Marketing (CIM), www.cim.co.uk/cim/index.cfm, the largest marketing body in the world in terms of membership. CIM claims that marketing is "the management process of anticipating, identifying, and satisfying customer requirements profitably." I'd agree, and not worry about whether marketing is strategic marketing, product development, product marketing, brand management, market research, or sales and marketing.

With an actionable CRI Framework, the planning that this definition implies just became more operational and iterative, because how sales and marketing works is by developing relationships, one interaction at a time. And now, that process can be measured and managed.

New Roles for Marketing, Sales, and Customer Service are Needed

For companies to realize competitive advantage from customer relationships and optimize profitability, they must be relationship-driven. New, unifying roles for marketing, sales, and customer service need to be defined that use the common language of profit to align strategy and execution, and expand responsibilities beyond acquisition and closing into retention.

The new roles enable a process to develop relationships with customers across the customer lifecycle. It is a joint collaborative process with customers—with interactions back and forth. The interactions are how the tactics, designed to execute strategy, are carried out. Measurement needs to be about: What customers DO, what staff on the frontline with customers DOES, and what happens as a result to build the relationships necessary to acquire and keep profitable customers.

With these new roles, both the company and the customer win. A business is a partnership between a company and the customers who purchase its products and services. It always has been a partnership, but that is just more recognized now.

CRM Failure Rates

In their book *Making CRM Stick,* authors Daniel Murphy, Joseph Grady, Javad Maftoon, and Andres Salinas note how critical an issue it is that CRM implementations have failed to produce the desired results. The authors point to several studies: an IBM study that found that 85 percent are failures, an Accenture study that found a 60 percent failure rate and a Gartner Group finding that "only" 50 percent are failures. Only 50 percent!

Short-Term Thinking

A recent study by Duke University professors John Graham, Campbell Harvey, and Shiva Rajgopal found that 78 percent of executives would sacrifice long-term value to achieve smoother earnings. Granted, they did see this as a choice of lesser evils. Organizational guru Russell Ackoff of the Wharton School weighs in, noting that "wisdom is the ability to perceive and evaluate the long-run consequences of behavior. It is normally associated with a willingness to make short-term sacrifices for the sake of long-run gains."

Strategy Link

In his paper "Strategy Execution: An Oxymoron or a Powerful Formula for Corporate Success?" Peter DeLisi, President of Organizational Synergies, pointed to a 1999 *Strategy & Leadership* journal article by David Axson. The article mentioned that less than 60 percent of companies tie incentive compensation to achieving their strategic plans, while 97 percent tie compensation to their financial plan results. Axson's article also pointed out that the typical company gives access to the strategic plan to only 42 percent of managers and 27 percent of employees. DeLisi made the further point that giving access doesn't necessarily mean making strategy clear.

In a 1996 study Renaissance Solutions, Inc. and *CFO* magazine found that only 43 percent of companies have a strong link between long-range strategies and their annual budget. According to the study, only 50 percent of executives, 20 percent of managers, and less than 10 percent of frontline employees have goals and compensation linked to strategy.

Ackoff and White Opinion

Russell Ackoff in his book *Re-Creating the Corporation*, notes that "control is a double-edged sword; it involves both doing things right (efficiency) and doing the right thing (effectiveness.)…It is better to do the right thing wrong than the wrong thing right…In some cases, increases in efficiency can decrease effectiveness."

My colleague Jim White notes that the reverse is also true. An increase in effectiveness can decrease efficiency. That is especially true when redundancy is required. When you are striving to achieve perfect service for your most profitable customers, you might want some redundancy as a failsafe.

Porter

In his 1996 paper "What Is Strategy?" in the *Harvard Business Review*, competitive advantage guru Michael Porter made the point emphatically that strategy is not operational efficiency. Yet tools intended to help link strategy to execution like the Balanced Scorecard are frequently used for operational efficiency, not strategy effectiveness.

ROMI

Return on Marketing Investment (ROMI) is a relatively recent attempt to answer the ROI question. ROI typically is used as an efficiency measure of a person performing a function or an organization's use of a tactic or activity. ROMI attempts to link marketing activities to sales and to the financial goals of the company. It paints a bigger picture, but not big enough, because the entire customer relationship is not examined.

McGraw-Hill

The study I mentioned was done in the 1980s. I saw first hand in the 1990s during another downturn how these numbers held for a client who invested for the long-term when others did not.

CHAPTER 2

Customer relationships drive both top-line and bottom-line growth.

Breakthrough growth of profitable revenue comes when attention is paid to customer relationships and customer retention. Customer relationships are so important, they warrant the new function, on a par with marketing and sales, of customer retention.

WHERE THE MONEY IS: CUSTOMER RETENTION

Just do the math. In a typical business, 80 percent of revenue comes from existing customers' repeat business and referrals; 20 percent comes from new customers. [Sharp and Levitt] Typically, seven times as much money is spent acquiring a new customer than is spent to retain an existing customer. Yet way too many new customers don't stay around. Do companies attract the wrong customers in the first place? Or do they ignore them once they become customers? Or both?

How can you beef up retention? What if you courted existing customers as much as potential new ones? What if you could hold onto and grow those customers bringing you the most profit? The results–and the math—would be quite different.

Doing the math has never been easy. The math about profit is cross-functional. Yet, historically, most customer-related math is one-dimensional, limited to either:

- A very narrow interpretation of Return on Investment (ROI) used to justify isolated programs, for example, ROI on tactics to acquire leads in marketing, or
- The conversion rate algebra behind pipeline management in sales to achieve the number of closed sales desired.

Neither approach paints a big enough picture. Both are stuck in their functional area or silo and deal with only the 20 percent of new customers typically needed just to stay even.

The fact is, new customers are only a minor part of the profitability equation. *Retention is where the money is.* Most successful salespeople know that. The math is, it is 10 times easier to sell to an existing customer than to a new one. Whether you are taking a reorder or selling something entirely new, it is far easier to sell to existing customers than to a new prospect. That's why many salespeople don't want to pay attention to leads for new prospects, may question the quality of the leads, and ask whether they have been qualified. Acquiring new business is harder to do. Relationships have to be established first.

Relationships are established with people, not companies.

People buy from people they know or know of—even in the age of the Internet, outsourcing, and automation. That's why it is easier to sell products and services from an established, trusted brand than from a new company. People buy from people or brands they identify with, are comfortable with, and can trust. It *is* possible to establish instant rapport, just as it is possible to fall in love at first sight. (The consumers' love affair with the iPod is one example of that.) But establishing a relationship, whether personal or with a brand, is more likely to take time and involve a step-by-step process. Relationships are established with people.

Your customers are the people in the companies you do business with, not their companies.

Why not make it easier to do what should be easy? Why not make profitable customers even more profitable? The question is, where to begin?

It is time to think differently

Many business leaders recognize that they need to think differently about strategy, about customers, and about sales and marketing. They know they need to think cross-functionally and holistically to garner the competitive advantage and profitability in customer relationships and customer retention. They realize they need to consider the big picture. Yet they also need a cost-effective solution that does not require oppressive systems and massive time requirements, and they don't want to throw away the huge investments they have already made in technology.

A century after retailer John Wanamaker lamented, *"Half the money I spend on advertising is wasted; the trouble is, I don't know which half,"* sales and marketing is still uncertain. Former Federal Reserve Chairman Alan Greenspan highlighted another aspect of the uncertainty in 2002, when he explained how technology helped tame that period's recession, enabling companies to respond quickly to a changing business climate.

"Today, businesses have large quantities of data available virtually in real time. As a consequence, (and here is the telling understatement for which Greenspan was famous) *although their ability to anticipate changes in demand seems little improved,* they nonetheless address and resolve economic imbalances far more rapidly than in the past," Greenspan pointed out.

The uncertainty is intensified in high-value business-to-business sales and marketing. There, except for really large companies, the sophisticated data manipulation tools and techniques for mass marketing aren't as economically viable. Moreover, in high-value business-to-business sales and marketing, relationships with customers matter even more.

Time to harness the power of the underlying customer relationship strategy

Customer relationships are not just built by sales. Customer relationships are built in functional areas across the company—marketing, sales, customer service, order fulfillment, technical support. Each team affects relationship profit. That's why an all-encompassing customer relationship strategy and attitude is needed to marshal the collective power of all the people who interact on the frontline with customers and all the people in the rest of the company who support them in their work.

This customer relationship strategy underlies your directional strategy. It is as important as your directional strategy, which makes explicit what business you are in, what you are offering, how you are creating the product or service, and how you are promoting and delivering it to customers.

The customer relationship strategy brings directional strategy to life. By aligning these two strategies, everyone is energized. The customer relationship strategy is now absolutely aligned with your business goals: growing revenue, profit, market share, or cash flow. The customer relationship strategy can help you achieve those goals by promoting larger sales to profitable customers, increasing the rate of sales of more profitable products, encouraging customer movement from one level of profitability to another, up-selling, cross-selling, and growing repeat business and referrals to new customers. *This is not just about selling products or services; it is about maximizing relationship development with the customer at the same time*.

As if having everyone aligned with your business goals and energized weren't enough, here's why an all-encompassing customer relationship strategy is crucial: it is through that strategy that directional strategy can be tied directly to *profit*. Customer retention is where the money is. It can be argued that some customers are not worth retaining, and I would agree; they are not profitable enough or of enough strategic interest. But it would make a significant impact if you could move the retention number up, even slightly, in a profitable way. Eighty percent of the revenue of most companies is from repeat or referral business. Most established businesses need to acquire 20 percent new customers each year, just to maintain their customer base. So growth requires adding more new customers than just replacing lost customers. If you can leverage existing customers more than you do at present, you'll be ahead.

A customer relationship strategy leverages existing customers in two ways: by acquiring the necessary new customers with their help, and by continuing to grow the business from them as well, to add to the top line and bottom line. A customer relationship strategy must also take the long view about how to develop those relationships for continued profit.

Implicit customer relationship strategies already exist in many companies.

Companies don't have to start from scratch. They already have a good start at developing these new underlying customer relationship strategies. Implicit customer relationship strategies already exist in many companies. They will just need to expand upon the traditional promotional approaches that have been previously focused on the acquisition of the 20 percent of new customers. Companies can refocus and transform these approaches into cross-functional customer relationship strategies to grow the top line profitably in the 80 percent as well.

It makes sense to begin by transforming these traditional promotional approaches; the people responsible for them routinely put themselves in the customer's shoes as they work to develop the positioning that will drive the promotional activities. Positioning lines are the bridge between the company and its customers. Effective positioning lines are central to the company they promote, yet become part of the fabric of life because they connect with the customer's experience: "Reach out and touch someone" or "I can't believe I ate the whole thing" or "Can you hear me now?" are memorable examples.

By deconstructing successful campaigns done for clients in my marketing companies, there were three types of implicit customer relationship strategies—whether they were identified as strategies or not at the time.

Process Strategy: builds on and leverages strengths or shores up weaknesses in current processes and infrastructure across the entire customer relationship. For example, in a new market, a company is likely to need to focus on acquisition to shore up a weakness. With an established customer base, for example, a company may want to leverage those relationships to acquire more customers or to cross-sell, up-sell, or increase purchases. With the established company, the focus on acquisition is to leverage an asset.

Repositioning Strategy: seeks to change perceptions among customers, both internal and external. For example, this may be necessary to open new markets or encourage new uses for products. Or it may be necessary to change the subject after a scandal, after a man-made disaster like product tampering, or after disappointing business results. But any time a business needs to change the public's perception of its business, it will be difficult and expensive to do. I know; I've helped clients do it.

Reinforcing Strategy: leverages the current situation or position. It builds on what customers already think, supplies what they say they need, or creates a need for something entirely new, instead of trying to change people's minds. In my experience, this is the most successful type of strategy. It reinforces what customers think and then builds upon what they want, or can easily be persuaded they need, because it is a natural, logical extension of what they believe. You're ahead of the game with this strategy.

It was not unusual to combine strategies. Most businesses need some form of Process Strategy, and so they may combine that with either a Repositioning Strategy or a Reinforcing Strategy. In some cases, all three may be combined.

For an engineering firm, my marketing company created a new strategy that redefined the environmental industry to include the engineering firm's services and help them acquire new business. It was both a repositioning strategy and a reinforcing strategy. It not only redefined the industry, but it brought the industry into sync with what the customer thought. Lucky us! It paid attention to what customers were beginning to grumble about: too much planning, not enough action in actually cleaning up the environment. This strategy played to those concerns and helped the engineering firm double their business in that sector in three years, meeting their goals of playing in that growth market.

For another client, a multibillion-dollar captive semiconductor manufacturer entering the public marketplace and wanting to tap high-margin business, the reinforcing strategy played to their potential customers' desire to be recognized for the value they brought to the table. It promoted strategic alliances, long before strategic alliances were in vogue. The strategy played out very successfully over a decade; the client opened ASIC (Application Specific Integrated Circuit) design centers and sales offices around the world.

It takes time to build trust. By paying attention to the relationship and where it stands, as much as to the promotion of products and services, marketers nurture prospects long before they're customers. *And sales gets a prospect primed to continue the relationship, not just open to starting one.*

But this kind of change will take some attitude adjustment, more deliberation, and executive leadership. Here's how the customer relationship strategy meshes with the traditional directional strategy, positioning, and value proposition:

Directional Strategy: Whether for the company as a whole or for a business unit, the directional strategy makes explicit what business you are in, what your brand stands for, what your promise is to customers, what you are offering, how you are creating it, and how you are promoting and delivering it to customers. At the core is positioning—of the company, its capabilities, its products and services in relationship to the competition. Some may call it brand strategy instead of directional strategy. As long as the term reflects the company as a whole or a business unit, that is fine with me.

Customer Relationship Strategy: Underlying the directional strategy is a customer relationship strategy for each channel/product group combination—the smallest unit for effective action, and where relationships are made. This strategy ties the customer relationship to profit and focuses on retention. At its core is positioning, this time in terms of the customer relationship.

Positioning: A traditional positioning line highlights only what is most likely to appeal to the contacts about the offering to acquire them as customers. With the expanded role of the customer relationship strategy, positioning lines may also highlight what is most likely to keep them as customers. This means that there may be different positioning lines for acquisition and for retention when what appeals to people in deciding to become a customer is different from what retains them.

Value Proposition: The value proposition is the reason your company thinks the customer should value your offering. It describes why your customers stay, but it is not necessarily the reason they become customers in the first place. If you're lucky, the reason they *should* buy is the same as why they *do* buy, or what appeals to them most is what they *should* value. In my experience, this rarely happens, which argues for different positioning lines, depending upon what you are trying to accomplish and whether you are marketing to new or existing customers.

It will take more executive involvement. Executives have been isolated from customers, except for the high-revenue ones, and isolated from the people who form relationships with customers. The isolation is understandable. There hasn't been a practical framework to involve executives, to give them the operational control needed, without overburdening them with tactical and process detail from myriad functions.

An integrated focus across the functions of marketing, sales, and customer service is needed to help staff on the frontline build contiguous relationships with customers, which will ultimately build profit. Unfortunately, current measurement and control systems evolved from the "cow paths" of functional management, restricting the ability of executives to study underlying, cross-functional issues and manage based on that knowledge. It will take executive encouragement to orchestrate these functions and involve the people working within them.

More executive involvement is important early on, actually as the relationship with the customer starts, to ensure that what happens with customers is what they intend when directional strategy is developed. Executive involvement is needed to ensure that all of the people on the frontline with customers are orchestrated behind the same strategy in order to bring their full force to bear and to ensure that the whole enterprise is behind them.

The relationship begins with the promotional approaches that attracted customers to the company. It will take executives working with managers to make sure that the customer relationship strategies don't fall prey to what has made it difficult for promotional approaches to succeed in the past.

- Too often, marketing has had to create promotional approaches in a vacuum, almost by accident. The marketing people may or may not have known the company's business goals so they could be in alignment with them.
- Too often, marketing has had to work out the approach and the promise to the customer in the rush to tactics,

without deep understanding of customers from Voice of the Customer research, or from sales.

- Too often, people in marketing and sales functions either don't talk to each other or engage in finger-pointing while working at cross-purposes.
- Since sales and marketing and operations march to a different drummer, it is rare in most companies that anyone asks *whether* the promise can be delivered. And because the focus has been on acquisition, not retention, delivery is quite often almost an afterthought.
- Worse yet, it is rare for the potential profitability of the strategy to be evaluated across the customer relationship. That activity doesn't compute within the construct of the isolated functions or silos, which operate on their own rather than in sync with each other.

In the acquisition mode that marketing has primarily been in, it hasn't been important to include those who work in customer service and the other operations-focused customer support functions in promotional approaches. In fact, they might as well have been on another planet! But now, with customer retention becoming so important, that staff becomes a critical part of the profit equation.

Promises you make to customers are appropriate for the customers' profitability level.

More executive involvement is necessary to ensure profitability and to avoid the trap many companies fell into with TQM (Total Quality Management), where they went for quality at all costs, without thinking as much about profit as they should have. The same thing could happen in the rush to provide a great "customer experience." That doesn't mean that you can't treat all customers well. It *does* mean paying attention so that the promises you make to customers are appropriate for the customers' profitability level. That makes for a relationship that is profitable for both you and the customer.

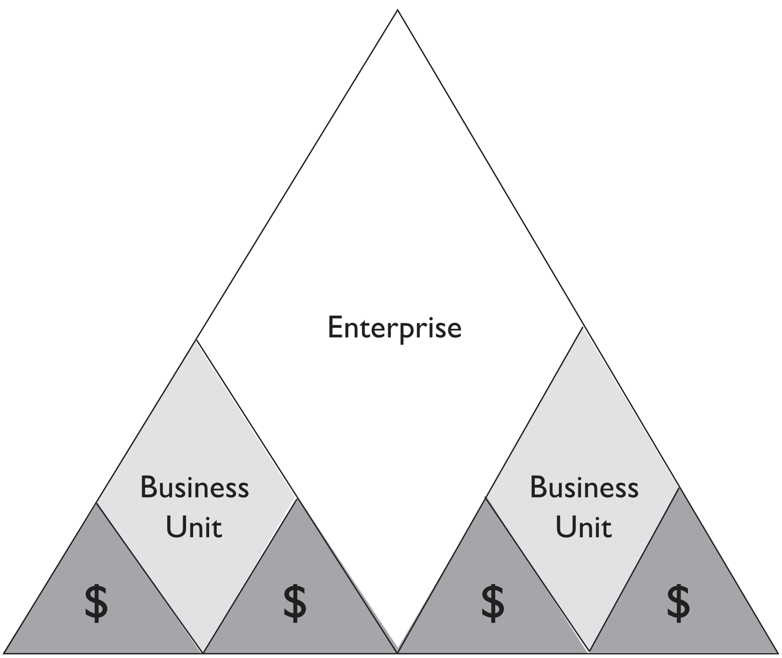
If you pay special attention to those customers who generate the most profit, they are more likely to generate even more. The math here is that generally 20 percent of customers account for 80 percent of revenue and 100 percent of profit. More important, of these top customers, four or five often account for 40-to-60 percent of revenue and 60-to-85 percent of profit. In financial services, the numbers are more drastic. There, 20 percent of customers can account for 250 percent of profit. [Sabath] Maintaining these "platinum relationships" and adding a new one every few years can help you achieve spectacular growth levels—but only if the relationships can be retained.

The question of "how" to acquire and maintain those relationships profitably is answered by managers and an action learning team [Robinson] composed of marketing, sales, and customer service frontline group leaders. A cross-functional strategy decision model is used to evaluate alternative customer relationship strategies. A separate model is used for each channel/product group. This is the level where relationships are made and kept, and where executive influence is needed to empower managers with these tools. By evaluating the likely profitability of alternative customer relationship strategies in advance of investment, managers can adjust strategies and their supporting tactical plans until profit is more assured. With this discipline, you have a better idea of whether a strategy will fly or not. You'll know how to develop the relationship with the customer, and what tactics you will need to stimulate customer interactions.

You can use the Customer Relationship Intelligence (CRI) Framework with all channel/product groups, but that is not a practical way to begin. Begin with those customer segments that have the potential for profit improvement, like the platinum relationships just mentioned. Over time, as the framework is rolled out to more and more segments, the data can be rolled up consistently within and across business units. The framework is the same for each one. The tactics, and the process to carry out the tactics, will be different for each segment, but the process fits into the same framework and has the same kind of metrics. Executives can manage to success with one coherent framework.

Comprehensive Strategy Decision Models Linked to Profit

Forecasting and budgeting with the Customer Relationship Intelligence (CRI) Framework is more realistic than traditional approaches because the forecast and budget are taken down to the channel/product group level, in a comprehensive strategy decision model linked to profit. Forecasts and budgets for the channel/product groups are next rolled up into business units, and then into the enterprise, to provide a cohesive framework for planning. In execution, the results are rolled up in the same way, for consistent management of people on the frontline with customers across the enterprise. Managers are empowered, yet disciplined, in developing strategy, and executives are more in touch—less isolated from execution. Best of all, everyone is in control, including the people on the frontline.



When the power of the customer relationship strategy is harnessed, it is really a profit strategy—because it is all about building long-term relationships with profitable customers. Success at this requires that everyone—from executives to managers to those who deal directly with customers—must know the customers better than most businesses do. Real knowledge of customers must reside with marketing, sales, customer service, operations, and finance.

Time to consider customer service as a profit center

Who owns the customer? Who is responsible? "Is it marketing?" or "Is it sales?" have been the usual questions. Since companies have been so focused on acquiring customers instead of retaining them, any ongoing connection to the customer is often relegated to sales, which is often incentivized to sell for the short term, rather than addressing customer issues or problems for the long term. When salespeople do develop the relationship for the long term, they then "own" the customer rather than the company "owning" the customer. This phenomenon is proven when customers switch companies to follow people who treat them well. I do that; don't you?

The national accounts teams in sales organization may be the closest thing to what is needed now. It is not practical, however, to assign one salesperson to every customer, as with national accounts. So something else needs to be done to hold customers close.

Further, because these teams are complex and costly, they can't always be available to every customer, for every product, for every situation. And customers have entirely different opinions about the value and necessity of such teams. As a result, the offerings of cross-functional customer teams (or customer units, or individuals, for that matter) must match the opportunity, the finances, the situation, and the customer. "One size fits all" usually under serves the best customers, while over serving the worst customers. *What's wrong with that picture?*

In customer support functions, departments are typically managed as cost centers: giving the minimum essential attention to a current problem, spending only the amount of money that is absolutely necessary. This approach doesn't cut it. A collaborative team approach is needed—one that begins when a prospective customer is being identified, that extends to the closing of the sale, and then goes through the cultivation of the customer relationship over the long term for continuing business.

A collaborative team approach is needed.

Current systems don't help much, either. It is not unusual for a business to have several systems keeping track of customers. In fact, only recently have systems begun to be integrated enough so that the frontline staff can look into financial and operational systems and gain intelligence about the customer, such as:

- What is their payment history?
- Have they had customer service issues?
- How "perfectly" has what the customer ordered been delivered?

Incidentally, the math here is that 50 percent of all orders are *not* as customers requested because of the wrong product, wrong specs, wrong timing, wrong destination, wrong packaging, inadequate documentation, incomplete feedback, or many other problems. In other words, half of the time the promise to the customer is not kept.

Many things exacerbate this issue, but the primary underlying cause in most companies is related to the distinct handoff that occurs as an order is entered. One function is in charge of *making the sale* and another function is in charge of *shipping and delivery*. It's rare to have someone in charge of both satisfying customers and retaining them for repeat business. If companies had a perspective on the entire customer relationship as a process, they would make a lot more money.

This is quite serious. A survey by Bain and Company, Inc. cited in a 2005 *Harvard Management Update* showed that 80 percent of companies believe they deliver a "superior" customer experience.

Their customers, however, thought only 8 percent actually deliver a "superior" customer experience. A study by the University of Michigan Business School found that a 1 percent increase in customer satisfaction equaled a 3 percent increase in market cap. There is clearly profit to be made in rethinking the allocation of staff and budget for most companies.

The shift in emphasis will take a different mindset. The difficulty in managing the handoff between sales and operations is heightened by the fact that the functions responsible are frequently managed to very different objectives. Everyone understands how making the sale contributes to the top line of the company's profit-and-loss statement. Consequently, the sales process is managed to improve that top-line contribution, albeit frequently with a focus on tactical efficiency, not on the effectiveness of strategy.

On the other hand, delivery is generally managed as an operation, where efficiency (frequently as measured by cost control) is valued above all. In fact, most customer service activities are managed as cost centers, with incentives based on cost control.

The shift in emphasis will take a different mindset.

Cost, not relationships with customers and potential profit, has driven many companies to outsource this critical connection to their customers, often making it harder to have operational control. If customer service and other customer support functions were managed to the top line, what a contribution that could make toward retaining customers and developing repeat business! Customer relationship activities would then be added to ensure retention and differentiation, while still taking advantage of the cost benefits from outsourcing.

That means shifting resources to retention, moving over some of the money spent in acquisition, and strengthening the handoff. Seven times as much is spent in acquisition as in retention, and yet far too many new customers don't stay.

Something *is* wrong with that picture…*not enough quality attention is being paid.*

Time to orchestrate sales and marketing and customer service.

The objective is to provide a seamless experience for customers as they move through the customer lifecycle and are handed from staff in one function to the next. Roles must change and expand in sales and marketing and customer service.

Marketing has long taken a customer perspective in positioning and creating the materials to support sales. It is generally acknowledged that sales has had the execution role and has done the relationship development work. Customer support has been more about getting rid of a customer problem than building a relationship. Yet how well operations delivers on the promise of sales and marketing has a huge impact on the customer relationship and, ultimately, on profitability.

The objective is to provide a seamless experience for customers.

As important as sales is in developing relationships, the relationship with the customer begins from the very moment a cold prospect is made aware of a company's product. That relationship continues to be built upon throughout the entire customer lifecycle; that's why it is so necessary that these relationship development activities be orchestrated.

The first step is to consolidate customer support into one functional area, with a heightened importance. In most companies, customer support is organizationally challenged. Is it part of the sales organization, or is it part of operations, or a little bit of both? A new function called "customer retention" must be the all-encompassing coordinator of those people who deal with the customer—including providing customer service and technical support, shipping the order, and dealing with returns and reorders. To show how emphatic I am about this, I'm going to use the term "customer retention" instead of "customer service" from now on.

In addition to these reactive roles, now consolidated, the customer retention function also needs to take a proactive role in cultivating customer relationships. I am not just suggesting the customer advocate role that many companies have tried in the past or just having customer service agents push products or services when a customer calls for help. Instead, I am suggesting campaigns to retain customers for repeat and increased business and campaigns to ask customers for referrals as part of the customer relationship strategy. These retention campaigns need to be as sophisticated and deliberate as the acquisition campaigns that sales and marketing are generally known for. Retention should be thought of as a proactive profit center.

Retention should be thought of as a proactive profit center.

Until this new function is firmly established to coordinate customer retention activities, sales and marketing and operations should share in, and orchestrate, the expanded duties. The table on the next page shows rough equivalencies across the table in the roles for the different functions.

There are both strategic and operational aspects for the teams in marketing, sales, and customer retention. Operations are a day-to-day activity, no matter where in the company they occur. When strategy is adequately operationalized, the operational activities of people on the frontline with customers are intuitive and the value of the simplest action—a call to a prospect or customer—is recognized and measured for its part in execution of strategy.

What happens operationally with the customer either executes the customer relationship strategy, *or it doesn't.*

Defining the roles for the cross-functional customer relationship team:

Marketing	Sales	Customer Retention
Strategic Aspects		
Conduct market research		Conduct Voice of the Customer (VOC) research
Target market segments by profit-ability potential	Identify opportunities within the segments	Identify customer growth segments
Develop prospect databases	Make contacts/ develop networks	Profile high-value customers
Participate in cross-functional team to determine underlying customer relationship strategy	Participate in cross-functional team to determine underlying customer relationship strategy	Participate in cross-functional team to determine underlying customer relationship strategy
Develop positioning promise to customer	Match opportunities with what can be promised	Define business rules for level of service, to keep promises profitably
Plan Acquisition tactics	Plan Closing tactics	Plan Retention tactics

Operational Aspects		
Create awareness	Participate in professional organizations/ volunteer for civic and charitable organizations	Build customer community
Develop qualified leads/ manage inquiries	Follow up on qualified leads/call on prospects	Develop customer campaigns
Handle media relations		
Publish articles		
Prepare for speeches, shows, conferences, events	Attend shows, conferences/hold special events/give papers, speeches, seminars	Hold customer events, participate in customer taskforces
Develop collateral	Develop proposals, presentations	
	Present proposals	
	Socialize with prospects	
	Close the sale	
		Monitor product rules for level of service to ensure promise delivered
		Process orders, returns, warrantees
		Fill orders/handle shipping
		Handle customer service/provide technical support
		Advocate for customers
	Socialize with customers	Socialize with customers
	Close follow-on business	Develop follow-on business
		Identify opportunities to partner with customers
Monitor results	Monitor results	Monitor results

Time to get real about being customer-centric

In the not-so-distant past, customers were thought of as an inconvenience. More recently, customers are being considered as an asset to be managed. But in this customer-driven environment, it is important to go one step further. Your business is a partnership you have with your customers. What you DO and what they DO affect your business. Customers are integral; they are internal, not external.

Your business is a partnership you have with your customers.

And as much as I've talked about who "owns" the customer from the company perspective, the fact is that customers "own" you just as much as you might "own" them. A business, by definition, is a set of activities performed for gain—in broad terms, all profitable activity. Without a customer, there is no gain, or profit. It follows that, without a customer, there is no business. Since you and your customers are partners in the business, the goal ought to be for the partnership to be profitable for both you and them. To be a better partner to your customers:

- Consider shifting marketing resources to existing customers instead of continuing to spend seven times as much on acquisition as on retention.
- Consider developing business rules to shift service resources so you don't under serve your best customers or over serve your worst customers.
- Consider orchestrating sales and marketing and customer retention to develop the customer relationship over the entire customer lifecycle.

Key Points

- There is a bigger Return on Investment (ROI) with your existing customers than with new ones.
- Building customer relationships where customers are considered as business partners is a long-term strategy, with high profit potential.
- It is time to think about customer service as a contributor to the top line (and to the bottom line), and not just as a set of cost centers.
- It is time to integrate sales and marketing with customer service and other operational functions that interface with existing customers to create a function of equal standing, focusing on customer retention.

Commentary Related to Chapter Two

Sharp and Levitt

After hearing company after company brag about their customer retention levels, and how that must mean their product or service was especially good, I noticed that they were all bragging about retention levels of around 80 percent. I searched the literature to see if indeed this was a typical number, but couldn't find anything, although it felt typical to me. Marketing guru Theodore Levitt of Harvard graciously confirmed that 80 percent struck him as typical, intuitively.

A couple of points: It's revealing that the number is that high. It's equally revealing that there hasn't been much discussion about this topic. Retention hasn't mattered until now, except for bragging rights. Now, with a focus on profit, retention matters a lot more.

Sabath

Bob Sabath is a colleague who has understood the importance of retention for quite a while. In over thirty years of pioneering differentiated customer service, he has seen how few customers really build a business for a company, and what a huge difference it can make to a company's bottom line if it pays more attention to those most profitable customers. The huge discrepancy he has seen in financial services is caused by the incredible number of unprofitable customers these companies typically carry on the books.

Robinson

When I shared my ideas about Customer Relationship Intelligence with my colleague Kathleen Robinson, she immediately suggested an action learning team approach, where teams learn how to master a new process while doing it. Then, because the team can go forward with the new skill independently and know enough to teach others, the spread of the new CRI Framework can occur more quickly throughout the organization.

CHAPTER 3 Breakthrough performance comes from people working together.

Marketing, sales, and customer retention can really succeed when there is a cohesive, cross-functional framework that aligns them, from the customer's perspective.

A COMPREHENSIVE, CONSISTENT FRAMEWORK

What marketing, sales, and customer retention have in common is the customer. Each does its part in developing the relationship, but, generally, they have been managed as separate functions within most companies and from a company perspective. By not managing what happens with, and to, the customer—Acquisition, Closing, and Retention—as a continuum, prospects and customers fall through the cracks. The handoffs are less than perfect.

If the perspective changed to that of the customer, then each function would perform its work in sync with the others, as the customer progressed or regressed in the relationship. Salespeople would come in when a prospect was qualified; marketing people would pick back up when a prospect didn't close, but was still interested; retention people would know when it was time to call salespeople back in for an important renewal. Each would know when it was time for them to take the lead, when to stand down, and when to follow the leader. They would have a common purpose and a comprehensive, consistent framework in which to collaborate. They would have earned their customer relationship wings together.

The CRI Framework extends sales and marketing into retention

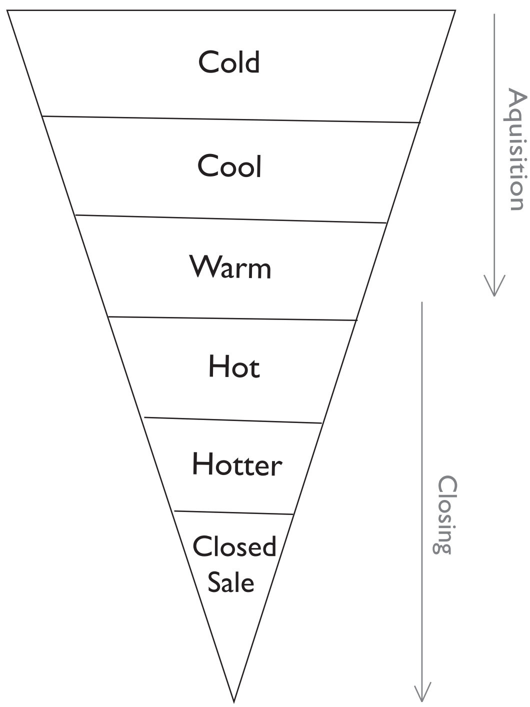
Customer Relationship Intelligence is about directing and measuring activity related to the customer. I've suggested new roles for the cross-functional team in Chapter Two. Now it's time to define the context for a Customer Relationship Intelligence (CRI) Framework for them to work within.

Most companies use what they call a "sales and marketing funnel" for pipeline management in sales and marketing. Potential prospects are added to the top of the funnel, and are gradually qualified. The group of leads is winnowed and narrowed down to the most likely prospects. In my experience, there has been quite a debate on where marketing ends and sales begins. That can be resolved by defining what it takes for someone to move from one stage to another, and from one level to another, within the stages of the sales and marketing funnel. Then handoffs between marketing and sales are designed as contacts move among the functional groups responsible for different tasks.

The following figure shows a way of viewing this process from the potential customer's point of view—that of the Acquisition and Closing stages. By design, the descriptors and definitions parallel awareness research categories. What they are called is not as important as having defined levels and defined handoffs. How many levels there are is not important, either. The number of levels needs to match your process.

A Typical "Sales and Marketing Funnel"

Early on, the emphasis is on Acquisition of new leads. Later on, the emphasis is on Closing the sale. The funnel is wider at the top to indicate a larger number of contacts at the beginning of the process. Contacts who can't be reached or refuse permission to be marketed move out of play.



Typical stages in Acquisition and Closing might look something like the following examples.

ACQUISITION STAGE DEFINITION EXAMPLES

Suspect

1.0 Cold (Target Market)
(unexposed to current products/services)

2.0 Cool (Receives promotional materials and/or _________?)
(thawed out a bit)

3.0 Warm (Agrees to email list, gives influencer names and/or ______________________ ?)
(has given permission to be marketed)

CLOSING STAGE DEFINITION EXAMPLES

Prospect

4.0 Hot (Agrees to appointment and/or ________________?)
(would consider buying, actively moves the sales process along)

5.0 Hotter (Wants to buy)
(would like to do, starts the buying process)

Closed Sale

6.0 Closed Sale (Places an order or _______________ ?
(before handover)

These definitions are a starting place. Each company's process can be defined to suit its unique environment. Just as you define the levels and the handoffs between marketing and sales, you define who is a suspect and when they become a prospect. That they *are* defined and agreed upon is almost more important than what the definition is. Definitions lead to consistency and discipline.

There is a complementary process involving the *Retention* of existing customers. Most companies have processes like these by default; that is, retention is less visible in a company's organization chart, incentive system, or budget than are the standard marketing and sales functions involved during *Acquisition* and *Closing*. [Griffin] And as previously noted, I think much more attention needs to be paid to customer retention.

VoC ties the customer's opinion to strategy execution and operational results.

As I define it, after a prospect becomes a customer, a new cycle begins, tracing the evolution of a customer from one "expecting" the product/service to the point where they are a loyal customer and then even further, to the point where that customer becomes your partner in the enterprise. A customer's position in the various levels is determined by the customer as part of the Retention process, with built-in Voice of the Customer (VoC) research. Unlike typical satisfaction research, this VoC ties the customer's opinion to strategy execution and operational results.

In the sales and marketing funnel, the definitions are based on your process. In the retention funnel, the levels are based on where the customer thinks they are. The levels could be defined like this to track with many satisfaction research categories:

RETENTION STAGE DEFINITION EXAMPLES

Customer

7.0 Expectant Customer (Ready to receive product/service—no delivery yet)
(after handover from Sales)

A NEW LEVEL UNIQUE TO THE CRI FRAMEWORK

8.0 Trial (Receives product/service)
(waiting to see what happens in use)

9.0 Likes (Doesn't complain, accepts product/service as-is)
(won't send it back, or may not have a choice, either by being locked in or has no other alternative)

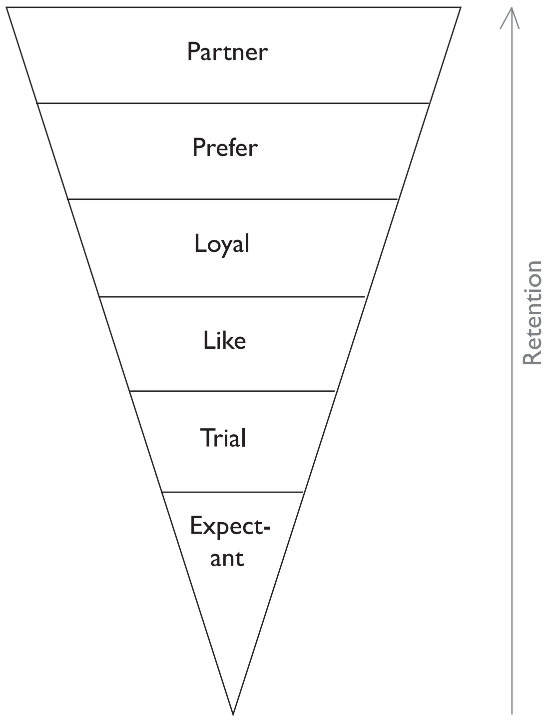
10.0 Loyal (Actively engaged in working relationship, works to fix problems)
(open to buying more and does again freely)

11.0 Prefer (Specifies your product)
(would take extreme situation to change, definitely wants to stay a customer; will give references, referrals)

12.0 Partner (Works with you in developing products and markets; shares vital customer and product information)
(under current conditions pays a premium to have your product or service, evangelizes with others, is an advocate for your company)

Complementary Retention "Funnel"

The retention "funnel" is wider at the top, not to reflect the number of customers (there can actually be fewer customers at the top), but rather to reflect the much greater value of the customers at the top of this "funnel." Whereas in the sales and marketing funnel, there can be a number of people from the same company who are being qualified, in the retention funnel, the person who buys becomes the primary relationship. There can be more than one buyer or customer at a company. The customer is the individual, not the company. Customers who decline to be customers any more quickly move out of play.



With this figure, the process begins at the bottom, with customers who have signed an order for a product and are awaiting the first delivery, either with anticipation or with dread. It is important to have an "Expectant" level, in order to give more attention to the customer than is usually given in the handoff from sales to order fulfillment because this, as well as the next level, are where customers are most often lost. The Expectant level is unique to the CRI Framework.

Once the customer receives the delivery, they move up in the relationship to the "Trial" level. Given how fragile the relationship is with a new customer, special attention needs to be paid to the first two levels—Expectant and Trial. Think about what your company does to welcome and reassure a new customer who hasn't yet received your product or service. What does your company do in the first few days or weeks of use to move them beyond the period where your company is "on trial"? For those who are selling services, think about the first cycle of payment for a service.

Trial is where typical "satisfaction research" categories start. If all goes well during the Trial level (delivery is satisfactory, product quality is as expected, tech service gets the product working in the customer's environment, etc.), then the customer may move up to the level where he appears to Like the product.

But silence can be misinterpreted. You just don't know how the customer really feels because typically you don't hear from them. If the customer answers in typical "satisfaction research," she'll say she's satisfied. Unfortunately, this can be shorthand for "It's not worth discussing." But since most satisfaction research doesn't ask, "Why?" or drill down very deeply, the customer is placed in this catch-all, "Everything's okay" category that doesn't give much forewarning of potential disaster. [Satisfaction Research]

And yet with attention and care, a customer can be developed into an engaged Loyal customer, prime for ordering additional quantities and for cross-selling additional products. The Loyal customer comes back regularly. He could build your products into his specifications, and Prefer you as a supplier. Loyal customers and those who Prefer your products are also the most likely sources of referrals to new business. Referrals like these are gold—they are potential customers who are already pre-qualified. Referrals are much faster and less costly to close, because several levels in the Acquisition stage can be bypassed and because, from a relationship point of view, you are further along in developing the comfort level necessary for the customer to buy from you.

The ultimate in the relationship with a retained customer is to evolve to a Partnership, which may involve joint supply chain planning, or even joint product or market development. The Partner customer helps you sell, as an evangelist for your business.

At any of these levels, customers could become unhappy. They can be Loyal or even Prefer you and still be unhappy. Typical "satisfaction research" misses this nuance. Unless they complain to you directly, or you ask the customer directly, you may never know that there is a problem. The customers could be waiting for an opportunity to leave, or, at the very least, may be ready to drop down in relationship levels if their particular issue isn't fixed. But if the issue *is* fixed, they will be a better customer than ever.

Unnerving as it is, different customers will have different reactions to the same situation. What makes one unhappy may not bother the next. If both customers are from the same company, you could have a potential problem with the happy one if you leave the issues of the unhappy one unresolved. You have to have a process to monitor *all the time* to be sure where you stand. Voice of the Customer research built into the retention process accomplishes that.

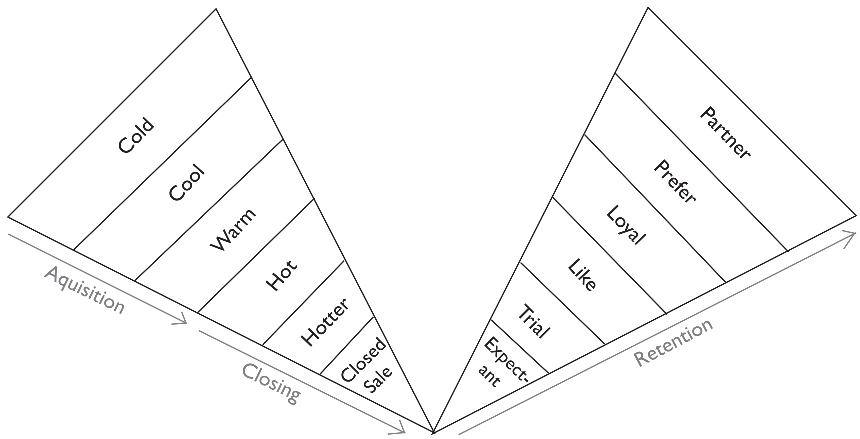
Obviously, this is an important issue. It is commonly accepted that if people have a problem, they will tell nine more people about it. Now that people have Internet communities, social networks, and blogs as outlets, that number actually looks small! Mass opinion can drive companies out of business, and drive people out of their jobs.

What makes one unhappy may not bother the next.

As mentioned earlier, people buy from people or buy brands they know, or know of. People buy when they have arrived at a comfort level with the seller and trust that they are making a good decision. In my experience, a comfort level is reached when the buyer has heard of your company from three different sources. So perhaps the reason customers talk about their bad experiences is that their trust has been betrayed, and they are upset by the time, money, and effort they wasted in making their decision to buy. But research also shows that if a problem is fixed, those same customers are 50 percent more likely to repurchase than the average customer. Their trust in you is validated, attention is given, and their importance to you is confirmed in their eyes because you "made good" on the product or service. Again with the Internet, a company, who makes a good effort and has a record of good performance, is likely to be defended as vigorously as those companies, who don't make a good effort and don't have a record of good performance, are criticized.

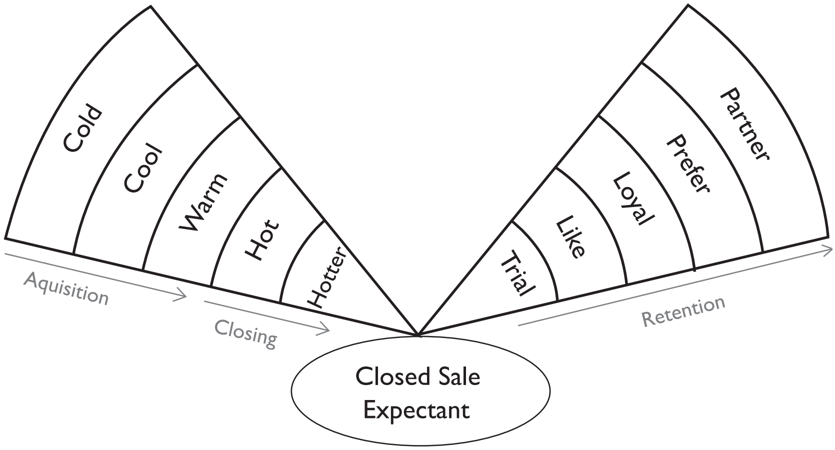
A More Complete Picture and...

Putting the traditional sales and marketing funnel together with the new retention "funnel" yields a more complete picture of how most companies actually develop revenue and profit.



A More Reliable Process with the Customer Relationship Wings

Putting the two "funnels" together creates a more complete picture. But operationalizing it creates a context for a more reliable customer relationship development process. The old "funnels" become wings, which is how the funnels will be referred to in this book going forward, to make sales and marketing and customer retention "fly." Because of the extra care needed to ensure a successful handoff between sales and customer retention, the connection between them is now strengthened, making it integral. That is symbolized by putting Closed Sale and Expectant together in the same oval, creating the critical connection between the Customer Relationship Wings.



To summarize, you define Acquisition, Closing, and Retention stages, customized to your company. Then you define levels within the stages in the Customer Relationship Wings framework. Your strategy and tactics drive the process to start a relationship with someone who has never heard of your company and develop that person into your most ardent supporter or partner. The greater the number of contacts who move through the levels, the more valuable your business becomes.

It takes a collaborative team approach across the entire customer lifecycle—through Acquisition, Closing, and Retention—to build customer relationships. For a successful transformation of a suspect to a prospect to a customer who is a partner, both wings need to be engaged and strong. It is hard to fly with one wing! If you try, you go around in circles. (I'm sure many in sales and marketing would agree with me that it seems like they are doing this sometimes!) Worse, one-wing flying translates to no one being in charge of retention.

But not only does it take both wings to fly, it takes the force of the entire organization behind the people on the frontline with customers, serving them so they can serve customers. As mentioned earlier, some 80 percent of revenue for most companies is from repeat or referral business. If you could move that number up even slightly, you would see a significant impact. Your business would take off, so to speak.

The CRI Framework runs a customer relationship process

How does a customer become loyal, build a preference, or become a partner? He lives through a history of being satisfied, of having his needs heard, and of having promises made to him honored. Management needs to bring a similar process discipline to that used for decades in manufacturing and finance to staff on the frontline with customers in marketing, sales, and the new customer retention function—without stifling their creativity. Management needs to institute a process that aligns marketing, sales, and customer retention behind a common strategy—without destroying the functional areas—to channel their creativity. Then these professionals can do what they do best while improving their productivity and making the process seamless for customers.

Management needs to have a cross-functional process for the entire customer relationship—from the initial courting to a working partnership. The process needs to capture what the customer experiences in the Acquisition, Closing, and Retention stages. The process has to be more than what was described earlier, people on the frontline with customers, delving into financial or operational systems for customer intelligence. The process needs to build in intelligence about what happens in the customer relationship. Why?

Right now with customers, it's not easy to know, who does what to whom, when, with what result. It's not easy even for the staff working within their functional areas; systems haven't supported them until now. For an individual customer, typically, what a company will know is where that customer began and where that customer ended up, in terms of revenue. But quite often what happens in between is unknown. That makes it hard to know where money is made or lost. And it is hard to determine what the relationship is worth.

To understand your business fully, you have to understand your customers' experience with your business—what the interactions are, and what effect the interactions have. A relationship with a customer is built one interaction or experience at a time. Each one builds value and can be correlated to profit. These interactions are how strategy is executed and are tied to tactics in the Acquisition, Closing, and Retention stages.

To build relationships with customers, managers need to think about Acquisition, Closing, and Retention as a continuum and allow marketing, sales, and customer retention people to collaborate. The collaboration is about how tactics are used in interaction with customers and what happens to build the relationship. That is the process. It is a joint process with customers, and there are myriad ways it can flow.

Think about Acquisition, Closing, and Retention as a continuum.

The CRI Framework, or structure, is set, but what strategy and what tactics you use are up to you. *How the process flows is up to you and your customers, and how you interact—what you DO and what they DO.*

The CRI Framework builds intelligence into this cross-functional process

The intelligence to be gained is from monetizing, valuing, and then tracking the interactions in the joint process for short-term and long-term results in a Customer Relationship Intelligence tracking system. With this Customer Relationship Intelligence comes an understanding of which actions are best to satisfy which customers, under which circumstances. This gives you your own customer-inclusive process in a cohesive framework for managing operations as well as planning strategy. This is a deliberate, systematic process to build customer relationships and to measure and manage the staff who tend them.

Key Points

- Companies are accustomed to measuring their prospects' progress through a sales and marketing funnel. Extending this concept to incorporate retention yields a consistent framework for integrating all functions into a larger, more comprehensive structure.
- The comprehensive Customer Relationship Wings framework allows for a more consistent set of processes to manage sales and marketing by managing Acquisition, Closing, and Retention as a continuum.
- What is needed is a metric to calibrate movement within stages of the Customer Relationship Wings framework.

Commentary Related to Chapter Three

Griffin

Jill Griffin, author of *Customer Loyalty*, published in 1995, was the first person I learned of who defined customer levels, including suspect, prospect, and customer, and suggested that you should plan tactics to affect movement within the levels. Her work laid an important foundation for the current focus on the customer experience.

Satisfaction Research

Since the mid 1990s as more attention was paid to why customers who said they were "satisfied" stopped being customers, attempts have been made to drill down more to at least categorize these customers. Are they willing customers? Is price what drives them? Are they antagonistic towards your company? The categories are helpful. They begin to answer "Why?"

CHAPTER 4

You cannot manage what you cannot measure.

New breakthrough relationship metrics give the right perspective and conditions to realize the gold in customer relationships.

THE MISSING METRIC: RELATIONSHIP VALUE

How often have you heard: "It's not what you know, but who you know"? Or as a Rainmaker from a major firm, when asked about his success in business development, commented, "It doesn't really matter what your business strategy is; it all comes down to the relationship." Salespeople know this instinctively and jealously guard what they know to be a precious resource. Consider your own experience: it's not that unusual to follow people who serve you well from one company to another as they change jobs. You don't want to lose the special relationship, the personal attention they give you.

What's mind-boggling is if relationships are so important, why haven't they been measured to capture their value? In fact, everything but relationships are measured in sales and marketing.

Management guru Peter Drucker carries the logic forward: *"You cannot manage what you cannot measure."* And if you're not measuring the value of relationship development—relationship cause-and-effect—then you're missing something vital and relevant. *You are not managing the most important part of your business.*

Clearly, there are many metrics available to measure activities in customer operations, including marketing, sales, and customer retention. Certainly each of these metrics gives information within its function or silo in a company-centric way. The metrics focus on the efficiency of the person executing the function, or on the organization's use of a tactic. *Cost per lead, time to close a sale, time to resolve a service issue, or the percentage of "perfect" orders* are just a few of such internally directed metrics.

Current customer metrics count customers one way or another, rather than measuring the entire customer relationship. Popular metrics include *how many leads, how many qualified leads, how many customers, how many in this region or that, how many in this channel or that, how many buy this or that, how many spend this much or that much, how many are aware of the company, how many are satisfied with the product/service,* to name a few.

But none of these metrics accounts for all of the customer activities in sales and marketing and customer retention. How could they? They are not cross-functional. These metrics can only address one customer function in a company at a time, such as marketing, sales, or customer retention. But a customer relationship crosses all of the functions and can involve all of them at the same time. None of the old metrics relate well to an individual customer's total economic value to the company. Few traditional metrics relate to profit, which should come as no surprise: they are not cross-functional, while profit, which is directly tied to the customer relationship, is earned by the orchestration of functions across the company. No wonder it is hard, if not impossible, to determine just how much of any activity contributes to profit, despite all the attempts to justify marketing programs with ROI calculations. Standard calculations just don't cover a big enough picture to be relevant. Finally, most traditional metrics measure the company and the company's activities *in relationship to* the customer, but not the customer relationship *itself*.

Most sales and marketing people find it difficult to demonstrate much about the value of the customer relationship they are developing. They may know very well what they are doing, but it is hard for them to show what they did and why it was worthwhile. It's been nearly impossible to keep track of what they actually DO, or what customers actually DO, as the relationship develops. Additionally, there hasn't been a way to measure what the relationship is worth, until now.

If knowing what happens in a relationship and what it is worth are so important, why not measure it? The question is, how to measure it? Then, how could that measurement be used? Why would it matter?

Why relationships should be measured

It is commonly recognized that relationships matter because relationships with customers are where the money is. In fact, *relationships with customers constitute nothing short of a sustainable competitive advantage*. [Levitt] Customer relationships are unique to a company, and cannot be duplicated by competitors. Though competitors might have relationships with the same customer, those relationships will be different. A different set of interactions will take place to develop the relationship. Yet, relationships remain a competitive advantage only to the extent that you know what has happened to develop them, that you put a value on that, and that you take advantage of that proprietary, relevant intelligence.

Good relationship development has been in the "I know it when I see it" category. Until now, there has been no general way to capture, measure, and replicate how relationships with customers are developed and how they grow. As a result, the value of relationships has been greatly underestimated, and what it takes to build or develop them has not been understood or appreciated. Far too often, company staff who interact with and serve the customer hasn't been particularly appreciated, either—such as the one who answers the phone, or who closes the deal, or who clarifies a point about the product or service, or who creates the Website.

Developing good relationships, personally and in business, takes much hard work and time. It's possible to get lucky and hit someone at just the right time, but more likely it will be a process, whether you think of it that way or not. But it's a process worth noticing, recording, and developing systematically. Very often in business, the management of relationships and how they develop is haphazard at best. Anecdotal or qualitative measures are about all executives can go by. The people charged with developing those relationships haven't had quantitative measures to use to record what happens and what those activities are worth, to share with management in real time. An easy way to determine the value of the relationship, as well as the right metric, has simply been missing.

> **An easy way to determine the value of the relationship, as well as the right metric, has been missing.**

Using a *relative* value is the measurement breakthrough

The breakthrough in finding the missing metric came with my realization that a *relative* Relationship Value could be put on each interaction a company has with each of its customers—beginning when they were just being courted. It didn't have to be absolute. The value could be based on the interaction's relative impact and relationship enhancement capabilities. This value may be small for relatively minor interactions, such as sending a prospect an email. The value may be much larger for very significant interactions, such as participating in an event that a company stages for its most loyal customers. The potential effectiveness of the interaction could also be accounted for in the scoring, basing potential effectiveness upon the resources behind it, in terms of people, process, and technology. The ultimate measure of effectiveness, of course, is what happens next, and in the long run. When an interaction happens could also affect the score. For example, the value of the first direct mail piece in a series may be different from the seventh, or the tenth. All interactions matter, however, in measuring value. A set of interactions over time is what builds the relationship. There is value in that: Relationship Value.

Sales interactions are a natural for this approach. But the power of the breakthrough is that it generalizes to activities beyond sales—it crosses the functional divide. It can measure marketing activities aimed at lead generation and prospect qualification. It can measure customer retention activities aimed at retaining and leveraging customer relationships. Interactions in marketing and customer retention can be just as clear-cut as they are in sales. In fact, this approach provides a broadly applicable common denominator across a wide range of customer activities.

Relationship Value: Every interaction with a customer is assigned a relative numerical value, or score.

Relationship Value is the missing metric

Paying attention to interactions with customers and recording them in a Customer Relationship Intelligence tracking system in real time is significant. Knowing what interactions gets to the reason things happen as they do—the "cause." What interactions, in what order, how many, when? But of even more significance is capturing the Relationship Value automatically with each interaction. Relationship Value is the building block that measures how the relationship is improved, or not improved, as it is moved forward or backward by the interaction. Relationship Value indicates what good the interaction did. Relationship Value measures interaction effectiveness.

By measuring the progress in developing the customer relationship, Relationship Value becomes a Key Performance Indicator. While the interactions themselves measure the "cause," Relationship Value measures the "effect" in cause-and-effect.

There's no silver bullet or short cut here, as much as I set out to find one. It takes work to get set up to measure Relationship Value, but once set up, it automatically provides the context for analysis and, more importantly, it provides the context for day-to-day operations by staff on the frontline with customers.

With Relationship Value, those on the frontline can make informed, more profitable operational decisions, one interaction at a time, in real time, without having to worry about keeping track of what interactions they use, and in what combination. The potential for variation is exponential; only a computer could keep track of it. In fact, over time, more likely interaction flows will become apparent, as companies have interaction record histories to compare and contrast; decision engines can then suggest a next step. Interaction flows could easily be parsed by what type of person likes what kind of interactions, and so move forward in the relationship, bringing a whole new meaning to the phrase *"Different strokes for different folks."* But that level of sophistication isn't required for Relationship Value to give a context to interactions immediately.

The relative value in the development of the relationship can be seen.

Relationship Value is the common denominator that puts the interactions into context so that the relative value in the development of the relationship can be seen—no matter what interactions have occurred, or how many.

***Relationship Value* is the metric that has been missing. It is the Key Performance Indicator. Relationship Value can be structured to compare and contrast by:**

1. **Total Relationship Value in each stage per individual**
2. **Average Relationship Value in each stage, or**
3. **The pattern created by Relationship Value as people move through the Customer Relationship Wings stage by stage, level by level within each stage.**

Relationship Value can be structured several ways. For example, combining the Relationship Value from all interactions in each stage with a particular customer generates the Relationship Value for that customer. Relationship Value for various customers then can be compared.

Similarly, the Relationship Value in each stage for the customers in a particular channel can be evaluated to generate the current average Relationship Value of that channel. Average channel Relationship Values in each stage can be compared, to measure the critical factors, channel by channel. Market or customer segments of any kind—channels, regions of the country, people handling the account, levels of customer profitability, levels of satisfaction—can also be compared. By dividing the Relationship Value in each stage of a segment by the number of customers or targets in that particular segment—for example, high-revenue customers—the average Relationship Value in each stage is generated for the segment.

Then, to know where in the development of the relationship more value is typically built for these high-revenue customers, you can use the pattern created by looking at the average Relationship Value in Acquisition stage, the average Relationship Value in Closing stage, and then the average Relationship Value in Retention stage. For a finer cut, you can look at the pattern of the average Relationship Value built into each level of the Customer Relationship Wings. Then in their day-to-day work, staff on the frontline with customers can compare and contrast the total Relationship Value in each stage or level of an individual customer with the pattern of the average or typical customer, overall or within a segment like the high-revenue customers to know what they are likely to need to do to move the relationship forward. The process is easy, because it uses a structured data stream that can be viewed from multiple perspectives.

Eight ways Relationship Value can be used

Relationship Value tracks how value is built for the company. It is the Key Performance Indicator, whether considered as a total in each stage per individual, as an average in each stage, or as a pattern.

Relationship Value gives a measure of what can be expected—what is realistic for a desired result to happen. It measures relationship effect across the entire customer lifecycle. Relationship Value allows managers to know where they are, relative to their customers, but it also allows people on the frontline in marketing, sales, and customer retention to make informed, more profitable operational decisions, one interaction at a time.

Relationship Value has to be meshed with a company's business process in a tracking system to focus on relationships and the people who tend them. It requires, but also engenders, cross-functional collaboration. It has immediate, practical, relevant benefit in these eight ways:

1. Relationship Value gives a benchmark to measure movement through the customer relationship. Relationship Value allows anyone in the company to monitor how far the interactions that have already transpired with a customer have moved the relationship forward or backward, and where the customer currently is—what stage, what level. The simplicity of the operational nature belies the sophistication of the scoring underneath. Relationship Value is a variable used to understand at a glance how the individual customer arrived at the current position, and what could be done next.

2. Relationship Value summarizes interaction effectiveness. You don't have to know which interactions or how many, to know what value is being built, or the depth of the relationship. When working with distributors, agents, or other sales organizations, who may have confidentiality or privacy concerns, Relationship Value can be shared without compromising information about the individual customer or exactly what interactions the sales organization has had with that individual. Both the company and the sales organizations find out what they really need to know. The company knows the depth of the relationships being built, and the sales organization keeps the details private. In this environment, the details of the interactions are aggregated to contribute to segmentation patterns, and then are shared with all.

3. Relationship Value gives a benchmark to compare market segments. It allows you to compare customers based on demographics, profitability, biggest spenders, criticality, and more.

4. Relationship Value patterns can be used to correlate to profit. Relationship Value is not a proxy for profit any more than revenue is. Instead, Relationship Value, looked at in aggregate or in segments in large enough numbers, is probabilistic and a *leading indicator for profit*. Relationship Value is a guide for looking at an individual, unique customer in order to compare and contrast to the aggregate. From an operational point of view, this is a *huge* improvement in understanding profit potential.

Relationship Value can be probabilistic and a leading indicator for profit.

Instead of increasing sales haphazardly, with Relationship Value, companies can focus on increasing high-profit revenue, which requires the cooperation of cross-functional teams.

For example, Relationship Value can be correlated to events that affect profit, such as referrals, increased purchases, or unhappy customers. Questions may include: How does the Relationship Value of customers who give referrals compare and contrast to those who don't? What is the pattern, starting from when the interactions began in the Acquisition stage? What is the Relationship Value of customers who are unhappy compared to those who are happy?"

Further, underlying cause-and-effect for profit can be understood. For example, with unhappy customers: What pattern of Relationship Value across their whole relationship led to their being unhappy? What were the underlying interactions? When did the problems begin? It's interesting to note that research shows that if an unhappy customer's issue is fixed, that customer is 50 percent more likely to repurchase than customers who were not unhappy. So it is definitely worth knowing what happened.

5. Relationship Value patterns support understanding what leads to profitable customer segments, or comparing and contrasting segments with different levels of profitability. It supports the many ways to segment for profitability, among which are:

- Looking at the most profitable customers buying the most profitable products. [Sabath]
- Examining the most satisfied customers, or those who advocate for the company [Reichheld], or, in Customer Relationship Wings parlance—those in the highest levels in the retention wing.
- Studying a set of those who bought most recently, most frequently, and who make the largest purchases. (Based on RFM or the Recently, Frequency, Monetary segmentation.)
- Considering Customer Lifetime Value (CLV), the potential future profits expected from customers. [Rogers]
- Comparing customers with low and high CLV to customers with low and high Contribution to Profit to Date. [Fruehan]

Customer Profit Characteristics	**Low Contribution to Profit to Date**	**High Contribution to Profit to Date**
High Expected Customer Lifetime Value (CLV)	What You'd Expect for New Markets, New Customers	Highest-Priority Customers—Do Not Mess Up!
Low Expected Customer Lifetime Value (CLV)	Make Profitable or CULL	What's Going On? A Better Opportunity Here than Expected?

It is fascinating to see what the Relationship Value pattern is for each quadrant. The Customer Relationship Intelligence (CRI) Framework shows what leads to success or disaster in terms of Relationship Value, plus looks at the underlying interactions—how many interactions, and when did they occur?

Whatever method you use to define your profitable customer segments, Relationship Value gives you a frame of reference to show *how* they became profitable. It lets you see what works with different types of customers, and what the relationship needs to be for success. Like attracts like.

6. Relationship Value works not only externally, but also internally. Relationship Value can be used to discover the prospect and customer patterns set by your best performers in the marketing, sales, and customer retention functions. With these specifics, it can help institutionalize approaches and standards set by your best performers in all customer activities, while allowing for plenty of flexibility in the process.

New groundbreaking ideas become standard as they prove successful.

Creativity can be encouraged in new ways to approach building Relationship Value and have new groundbreaking ideas become standard as they prove successful.

Managers will know what Relationship Value score it takes, typically, to get a prospect through the Acquisition stage, as well as what score high-value customers had when they were in the Acquisition stage. Marketing staff have both these scores to guide them. Salespeople have similar guides to emulate, as do those in customer retention.

7. Relationship Value can also be optimized for profit. Because every interaction now has a measurable value, disparate interactions of equal value could potentially be interchanged where there is an economic reason to do so. Optimization can happen in planning, and also in execution.

Interactions and alternative interactions with differing costs are considered not only for their affect on profit in planning, but for their efficacy in developing the relationship in execution. The cross-functional teams run test scenarios as they configure the tracking system to be sure. Later, in execution, where there is a choice to be made about the best way to interact with the customer, the frontline person can make a more profitable choice, or not. For example, if a thank you note to a customer has the same Relationship Value as a thank you call, and one costs more than the other, the least costly interaction could be chosen—if it is equally appropriate for the situation.

8. Relationship Value helps quantify "goodwill," the value of a company over and above its total book value. Relationship Value, as a leading indicator for profit, provides a justifiable approach to the soundness of the company's relationships. Until Relationship Value, the value of a company's position in the marketplace has had to be estimated by placing a value on customer lists, market share, customer share, brand equity, and customer equity.

Six ways Relationship Value and the CRI Framework make a difference

Adoption of Relationship Value will fundamentally change, to their benefit, how customer teams in the company are measured and managed—hence, how they succeed. In practice, focusing on the building of relationships affects how everyone critical to a company's success is treated, including customers. The motivation to change is increased profits. The process by which more profit will be achieved is the cultural change that will become embedded in businesses.

1. When an enterprise manages its customer operations with the Relationship Value metric, a customer is treated like a partner and an asset, integral to the business, and is not considered an external force.

2. Relationships, and the people who tend them, are valued.

3. Employees are directed, measured, and rewarded based on their actual contribution to building a customer relationship, which leads ultimately to profit. It takes a cross-functional team to develop profitable relationships. Relationship-building patterns of top performers are used to teach others how to be successful.

4. Collaboration replaces infighting and resolves the "muddle in the middle." Frontline staff is aligned with managers, and managers are aligned with executives, so that strategy is executed profitably every step of the way, with everyone working toward the same goal. Marketing, sales, and customer retention functions are aligned, and everyone is focused on the customer. The common goal of both vertical and horizontal teams is profit, tied to the customer relationship.

5. Valuation and measurement of the health of the enterprise will include Relationship Value assessment as best practice. Corporate governance, transparency, and accountability are improved. There is an audit trail where there was none before. There is operational control at all levels of the organization that cascades up, from the people on the frontline to the executive suite.

6. From all of sales and marketing being considered an experiment, now only new sales and marketing approaches are considered "research and development." Sustainable formulas that are unique to the individual business govern the majority of sales and marketing activity, and better use is made of existing sales and marketing resources.

Relationship Value measures success

Relationship Value tracks how value is built for the company in real time. It is the Key Performance Indicator, and can be a leading indicator for profit. Relationship Value is the unifying metric that measures the source of a company's competitive advantage—its customer relationships. Cause-and-effect in customer relationships is different in every company, and even within different parts of the same company. Because the customer experience is different in every situation, it can't be copied. It can be ignored at a company's peril, but it can't be copied, and that is the source of competitive advantage for every company that taps into this Customer Relationship Intelligence.

With Relationship Value, executives can explain with more certainty how they achieved success—they now have a way to measure the relative value of the process used, and a way to manage it better, going forward.

Key Points

- Relationships are a source of competitive advantage that is sustainable, because no one else can copy your relationships.
- Measuring the development of customer relationships is a breakthrough way to measure sales and marketing.
- Relationship Value is the new metric to measure incremental movement within the stages and levels of the Customer Relationship Wings framework.
- Relationship Value allows everyone in the enterprise to view developing relationships, and gives a common basis for measuring and managing sales and marketing and customer retention.
- Many more metrics can be derived from, or built on, Relationship Value.

Commentary Related to Chapter Four

Levitt

In his 1983 book *The Marketing Imagination*, Theodore Levitt of Harvard pointed out that there is no such thing as a commodity. He suggested differentiating based on the relationship between the buyer and seller. He was ahead of the curve on relationship marketing.

Sabath

Many approach profitability segmentation by correlating the most profitable customers with the most profitable products, in terms of total contribution to profit. My colleague Bob Sabath prefers to use a four-by-four matrix instead of the more commonly used three-by-three matrix of profitable, marginally profitable, and not profitable. In his matrix he breaks the commonly looked at "profitable customers" into two parts, to distinguish the highly profitable franchise customers from the other profitable customers. There is usually only a small percentage of them. The Relationship Value pattern of these customers across the entire customer relationship is critical to success.

Reichheld

Frederick Reichheld of Bain and Company, Inc. suggests segmenting for profitability by segmenting by the customers who will promote your business and give your business a recommendation of 9 or 10 on a scale of 0 to 10. (These customers would be in the top two levels of Customer Relationship Wings—*Prefer* and *Partner.*) In his view, you would measure your success by how many customers like this you grow. To him, profits from customers like these are "good" profits. Profits from customers who are not inclined to give you a score of at least 7 out of 10 in recommendation are "bad" profits. He has created a metric he calls Net Promoter Score which subtracts the percentage of customers who detract (those who would give a recommendation score of 0 to 6) from those that promote (those who would give a recommendation of 9 to 10) to signify a company's growth potential based on the strength of its relationships.

Rogers

Martha Rogers of Peppers and Rogers and 1-to-1 Marketing fame, now part of the Carlson Marketing Group, suggested some time ago that success in sales and marketing should be measured by the increase in CLV expected for the business, one period over another. To bypass the difficulties most have had in measuring CLV based on profit, she and Don Peppers now suggest a metric they call Return on Customer, which is based on cash flow in measuring Customer Equity, defined as the Net Present Value of all cash flows expected over a customer lifetime.

Fruehan

My colleague George Fruehan took to the CRI Framework immediately—as a way to paint pictures with numbers in order to change behavior and increase performance. He then suggested that comparing estimated CLV to actual Contribution to Profit to Date in a two-by-two matrix would be a more revealing way to segment for profitability, offering unique operational insight at the same time. Not only does it calibrate CLV, which is sometimes discounted, but it helps discern which actions to take in the situation. Trades off short-term and long-term. Magical.

Because the CRI Framework measures variable costs of interactions with customers, a more complete picture of profit can be achieved than what is done in either traditional accounting or even in an Activity-Based Costing accounting approach. That means, with the CRI Framework, you *can* track a customer's contribution to profit to date. And within the strategy decision models for each channel/product group combination for potentially profitable customer segments, an expected CLV is calculated and then embedded in the profiles of individual customers within the segment. Anticipating, and then calibrating, CLV based on profit is difficult without a cohesive framework for the entire customer lifecycle like the CRI Framework.

CHAPTER 5

A customer relationship strategy makes explicit what has been hidden.

A breakthrough framework takes strategy to where the action is with customers, and involves the people who interact with customers.

CUSTOMER RELATIONSHIP STRATEGY

The world is not flat. Despite the leveling effect of the Internet and technology, competitive advantage thrives in exclusive customer relationships. That's where strategy ought to be focused.

Unlike the purveyors of competitive advantage in the past—control of resources, economies of scale, and technology—which have become givens in a "flat" world, competitive advantage derived from customer relationships can't be copied by competitors. In a technologically flat world, the last bastion of true competitive advantage may be as simple, and as difficult, as paying attention, developing trust, and delivering what's promised. Most important, the resulting customer relationship advantage is sustainable and unique.

Though multiple competitors might have relationships with the same customer, each is different. Different sets of interactions took place to develop each relationship. Yet, relationships become a competitive advantage only to the extent that you have a strategy to focus on them explicitly.

In his 1996 paper "What Is Strategy?" in the *Harvard Business Review,* competitive advantage guru Michael Porter laid the groundwork, "The essence of strategy is in the activities—choosing to perform activities differently or to perform different activities than rivals." He was talking about the underlying activities a business performs in designing, producing, marketing, and distributing its product or service to achieve competitive advantage in cost or through differentiation. Such a "directional" strategy makes explicit what business you are in, what your brand stands for, what your promise is to customers, what you are offering, how you are creating it, and how you are promoting and delivering it.

The customer relationship strategy ties everything together; it unifies the functions.

What's been implicit is the underlying customer relationship strategy. It is inherent, intrinsic, and intuitive, yet rarely articulated or orchestrated across the customer relationship. Critically, the customer relationship strategy should also be explicit. It is through a customer relationship strategy that a directional strategy can be tied to profit. Profit is earned by the orchestration of functions across the company. The customer relationship strategy ties everything together; it unifies the functions. It is through the customer relationship strategy that the directional strategy aligns with the customer point of view and how it is executed.

Just as it is in the directional strategy, the essence of the customer relationship strategy is in the activities. In this case, the activities are marketing, sales, and customer retention tactics. Interactions are how these tactics are carried out, making interactions the essence of strategy execution.

The power of deliberate action—in making the customer relationship strategy explicit, and measuring it—links the company's directional strategy to execution and profit and brings strategy to life as it percolates throughout the organization. With operational control and a cohesive framework for the customer relationship strategy, operational control is then achieved for the directional strategy.

The dismal statistics about strategy execution cited in Chapter One can go away: that only a tiny percentage of the workforce understands the company's strategy; that few companies link performance and budget to strategy; and that the vast majority of companies implement strategy poorly. Instead companies begin to close the strategy-to-performance gap and recognize the performance gains that experts suggest is possible.

Now, with both the directional and underlying customer relationship strategies explicit and in sync, *strategy is more robust and is made relevant to executives, to managers, and to the frontline.* Instead of just focusing on a cost and efficiency advantage in the product or service offering, a company can also focus on profit and effectiveness in developing customer relationships. These relationships are unique to your company and are directly related to your success. Sustainable competitive advantage comes from *understanding and acting on your customer profit patterns better than your competitors understand and act on theirs.* You do that through the customer relationship strategy.

Linking strategy to execution and profit, in practice

The three things that have stood in the way of implementing and learning from a successful customer relationship strategy can now be overcome.

- First, the customer relationship strategy can be acknowledged at a high level. As futurist Alvin Toffler notes in a *Business 2.0* magazine interview in 2000, if you don't have a strategy of your own, you become a part of someone else's strategy. In other words, strategy happens…whether you act upon it deliberately and coherently, or not. In most companies, the customer relationship strategy has been created by default and is "owned" by the people who created the relationships, not necessarily by executives and the company as a whole. That can now change.

- Second, until now, there has been no unifying, cross-functional, analytical framework for the customer relationship process. Now there is.
- And, third, the missing metric to measure relationship development within the context of such a framework is missing no more.

Developing customer relationship strategy

While it is desirable to use a Customer Relationship Intelligence (CRI) Framework to develop and deploy customer relationship strategies throughout the company, it is practical to focus first on customer segments with profit improvement potential. Within the customer segments, the focus is on channel/product group combinations, because that is the smallest unit for effective action. It is at this level that relationships are made and the people who make them are managed. There is a customer relationship strategy for each channel/product group. Given that most companies are using at least three sales channels, there will most likely be several customer relationship strategies for every directional strategy.

With the CRI Framework, strategy is made relevant and actionable throughout the organization—from the executive suite to the people working directly with customers. Managers form the bridge from executives to these frontline people. To be meaningful to the frontline people, there needs to be a customer relationship process that makes it clear what they are supposed to do, and how what they do in their functional areas contributes to strategy execution. The focus on channel/product groups ensures that.

To arrive at the current strategy, the present sales and marketing process is mapped by managers in a cross-functional action learning team with group leaders from marketing, sales, and customer retention as well as the staff who support them—business analysts, IT and HR professionals. Together, they reverse-engineer the current customer relationship strategy and articulate it to executives for concurrence.

There are three kinds of customer relationship strategies that underlie the directional strategy, discussed in detail in Chapter Two:

Process Strategy: builds on and leverages strengths or shores up weaknesses in current processes and infrastructure across the entire customer relationship.

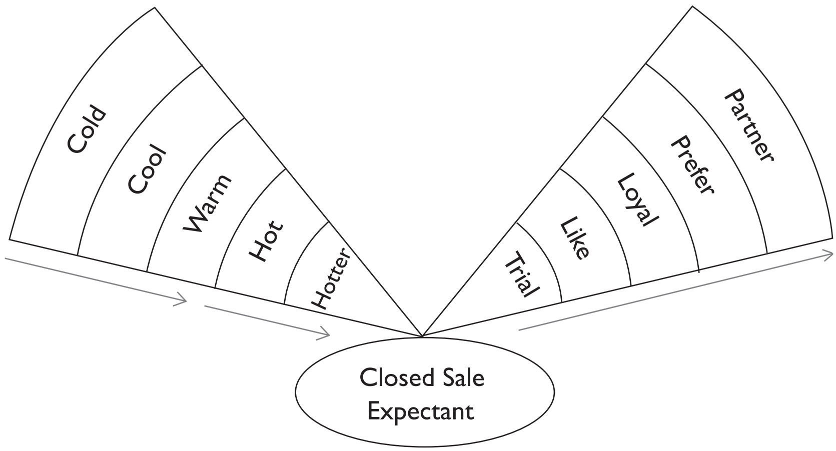
Repositioning Strategy: seeks to change perceptions among customers, both internal and external.

Reinforcing Strategy: leverages the current situation or position. It builds on what customers already think, supplies what they say they need, or creates a need for something entirely new by extension from what they believe instead of trying to change people's minds.

Current customer relationship strategies are checked for alignment with the directional strategy. It's worth asking all these questions: Is the customer relationship strategy in sync with the company's direction? If not, what needs to happen now, and in the long run? What should the customer relationship be like, according to the directional strategy? What do the customers want the relationship to be like? How much can the company realistically take on to make the relationship the way customers would like? What level of risk is palatable? How quickly should the company move on critical initiatives? What's profitable to do?

With a CRI Framework to align the teams, and an identified process across the customer relationship, companies can understand more fully what happens in the functional areas of marketing, sales, and customer retention, taken separately, and in how they work together. It will be clear where they make and lose money—so that winning customer relationship processes are repeated.

Customer Relationship Wings
Acquisition/Closing/Retention Continuum



In mapping the customer relationship strategy, the CRI Framework aligns people on the frontline with customers, both from the customer's point of view and by what the customer experiences in the relationship as a continuum in Acquisition, Closing, and Retention. In other words, a framework is created to account for what happens across the whole customer relationship—a place to hold the interactions, once execution begins.

Focusing on retention for sustainability and profit

A customer relationship strategy achieves effectiveness in building a sustainable, more profitable business with customers' help. That's why it is so important to focus on retention. Retention provides a much higher Return on Investment (ROI). It is easier to sell to existing customers. Furthermore, existing customers can provide valuable referrals that jumpstart the relationship building process with new, prospective customers, saving the company acquisition money.

But even more important in the long run, focusing on retention completes the relationship-building process and yields a common framework for organizing and managing all customer activities.

Key Points

- A customer relationship strategy underlies directional strategy and is the way in which the directional strategy is executed. Just as in directional strategy, the essence of the customer relationship strategy is in the activities.
- The essence of customer relationship strategy execution is in the interactions with customers, which is how the activities are carried out. Interactions develop relationships.
- The CRI Framework helps link sales and marketing activities to profit by focusing on what is effective in developing customers' relationships and tying those relationships to profit.
- Sustainable competitive advantage comes from understanding and acting on your customer profit patterns better than your competitors understand and act on theirs. The customer relationship strategy enables you to do that.

CHAPTER 6 Developing customer relationships takes collaboration.

Working together with a common purpose is exhilarating. Now, with new respect for the creators of competitive advantage—where the customer teams have a say in how they do what they do—it is especially exhilarating.

CUSTOMER RELATIONSHIP TACTICS

What's with the explosion in citizen journalism, the popularity of shows where people can vote for their favorites, all the interactivity on the Web? Think about it. People like to express their opinions; they like to be honored for what they know.

People on marketing, sales, and retention teams are no different. And, in fact, even if they didn't like to be involved in designing processes that affect them, it takes cross-functional planning to capture the customer interactions that are at the core of what executes strategy and how tactics are carried out.

It takes teamwork to design the handoffs between functions so that the experience is seamless for the customer. The teams know the issues; they've had to deal with the dysfunction that many companies experience to make it right for the customer. It takes collaboration to plan tactics and a process to carry them out that will work for the team day-to-day, to provide them with highly relevant Customer Relationship Intelligence in real time.

The principles described in Jeffrey Liker's book, *The Toyota Way*, for manufacturing excellence through team participation are now being adopted by some Indian outsourcing firms for service processes. Unlike the workers-as-robots approach of early manufacturing measurement pioneer Frederick Winslow Taylor, these companies have built-in reward systems to honor the wisdom of their teams. It is a wake-up call for managers of other processes—and especially those that have not been explicit—like those in sales and marketing and customer retention.

The Customer Relationship Intelligence (CRI) Framework enables a company's customer organizations to collaborate as they develop and execute the customer relationship strategy. Managers collaborate both with executives and with an action learning team comprised of their group leaders in marketing, sales, and customer retention, to arrive at the strategy and supporting tactics. The action learning team, with the help of the managers, fleshes out the customer relationship process, detailing the interactions needed to carry out the tactics.

Adapting tactical plans to fit the new framework

Traditionally, marketing and sales plans have operated independently. The disparate customer service, technical support, and delivery teams in sales and operations have been managed as cost centers with procedures, certainly, but with no particular tactical planning related to the customer. With the CRI Framework in place, there is a tactical plan for "customer retention," just as there are tactical plans for marketing and sales.

The goal is for all these functions to work together so that the customer relationship can be managed as a continuum from marketing through sales and into customer retention. The goal is to manage them from the customer perspective and what the customer experiences, namely, the stages the customer goes through: Acquisition, Closing, and Retention. In the CRI Framework, instead of isolated silos, the people on the frontline with customers collaborate across the silos in a seamless process—with each function doing what they do best. Marketing keeps Acquisition; sales has Closing; the new elevated function customer retention, either shared among marketing, sales, and operations or in a new group formed to coordinate the activities, has Retention.

In planning with the CRI Framework, managers and their action learning team define a high-level value stream process map for what they do now to create value with their customers at a base level. The framework makes it easy to see what is missing in the continuum, as well as what needs to be added. Each tactic to support strategy alternatives is chosen not only for its traditional promotional value, but for its value in developing the customer relationship to support the strategy. Each tactic is chosen for what it is supposed to do in moving contacts through the stage within which it is used.

The frame-work makes it easy to see what is missing in the continuum.

What the tactics should be in each of the stages is not developed in isolation within the functional groups of marketing, sales, or customer retention, but rather the tactical plans are developed by the managers and their action learning team as a group at a high level to facilitate the ongoing process across the customer relationship in Acquisition, Closing, and Retention. The process is dynamic, with people moving among the stages at will. So attention is paid to what the handoffs need to be.

For example, a contact may get to the verge of becoming a customer in Closing, only to stop at the last minute. With the CRI Framework, a qualified prospect would fall back into Acquisition for more massaging and not be lost, as is now so frequently the case when a sale is not immediate. And instead of salespeople constantly hounding customers for more purchases, they are brought in just at the right time to apply their skills. In between, relationships are built in a more low-key fashion by customer retention specialists, in part by building positive customer experiences into the process. Coordinating functions like this will require different tactics than are typically used, and also connecting processes to make them work together.

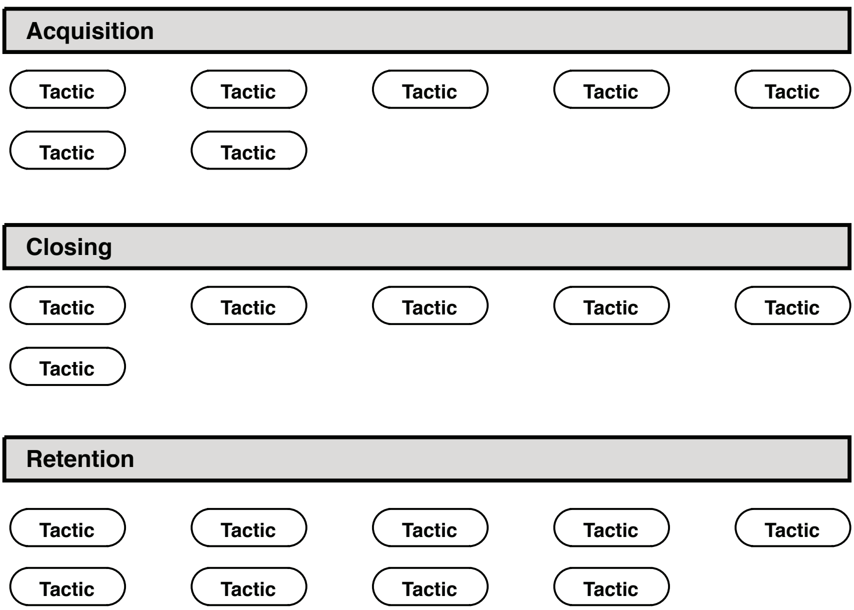
Given the newness of the function, it will not be unusual for managers to need to stretch for tactics in the Retention stage. What is typically done in what passes for customer retention now is simply to react to customers. Despite their popularity, many loyalty programs are not much more than discounted pricing, rather than the differentiators they could be in building a relationship with customers. Retention is where the money is—for repurchase, increased purchase, up-sell, cross-sell, and referrals. People buy from companies they know or know of, where they feel understood and comfortable with their choice. [Personalization] They stay with companies where their needs are met, where they feel important, and where their contribution to the business's success is recognized. Customers can get this by osmosis, indirectly—but faster when the company is proactive and what it SAYS and DOES goes directly to the customers' benefit.

Managers and the action learning team define when a customer has moved from one stage to another in the Customer Relationship Wings framework. These definitions are critical for the handoffs between functions. The group also anticipates what it will take to move the customer—what high-level tactics, what high-level value stream process map.

Managers consider the impact on operations—will they be able to deliver what is about to be promised? What business rules should be in place? Promises that are kept build relationships. Managers also anticipate the change management techniques they will need to employ in execution in order to align those on the frontline with customers—what kind of training and monitoring will be required? It will be easier, because the action learning team had a part in developing the tactical plan and the customer relationship process.

High-Level Tactical Plan Overview Format

The current, or status quo, sales and marketing process is mapped into this format in the CRI Framework, and is used as a guide in determining what might be a better process for a couple of strategy alternatives. The same format is used for the tactical plan required to execute each additional strategy being considered. In execution, this format for the chosen strategy will be carried forward into a coherent tracking system, in a way that can be monitored and related back to individual elements of the plan.



There are three types of tactics to carry out customer relationship strategies. Many of them are the same tactics that have been used just to promote an offering. But now the perspective changes to consider the customer relationship, and instead of just thinking about the promotional value for the company in deciding on a set of tactics, planners think about the tactics' relationship-building potential as well. This is really important because a new way of thinking about tactical planning is required.

I actually recommend starting with Retention tactics and working backwards. The end-game is profitable customers for life. How should you treat them to arrive at this result? If the treatment is so special, perhaps you'd want to mention it in the tactics you use for Closing and Acquisition to prove your point. What tactics will carry that message the best? *Do you see what I mean?* You're not just taking the customer perspective in your strategy; the customer perspective influences your tactics as well. Think about how you'd use these:

The customer perspective influences your tactics as well.

Personal Tactics: Obviously, the best tactics for relationship development are personal tactics, where you can be one-on-one with the potential customer face-to-face, or with a customized communication or action. But as good as these personal tactics are in delivering the personal touch, it is not practical to use them alone. It is just too expensive and time-consuming to qualify suspects one-on-one to get to good prospects.

Direct Tactics: The next best in terms of the relationship, and definitely the best in finding qualified prospects or keeping in touch with customers on a regular basis, are direct tactics that can be personalized, like direct mail or telemarketing or the personalization experienced on the Internet. Many companies are finding that their efforts at building community within customer groups—via the Web and other Web-based communications such as social networks or blogs—are becoming an important part of the direct tactical mix, and are establishing a much more direct connection than has been possible ever before, on a massive scale. Direct tactics make personal tactics more efficient and effective. It takes less time and money to build credibility and explain the offering when direct tactics precede and accompany the delivery of personal tactics. I had to prove this over and over in my marketing firms. It takes a number of exposures to your offering before customers buy. I've seen that number range from 7 to 12 times. It is not cost effective to use costly tactics for all of those exposures. Instead use lower cost direct tactics, like email/direct mail/telemarketing campaigns, to warm the "suspect" up to prospect stage, and use the precious and costly personal tactics, like meetings, to move the prospect through closing. Not only is this more efficient, but a mix of tactics works better in my experience. I usually recommend using at least five tactics with the expectation then, that at least three of them will be seen to achieve the comfort level people need to buy by hearing of you from several sources. See Tactics Mix section coming up.

Infrastructure Tactics: Mass media creates another kind of experience with your brand when it connects with potential customers emotionally, but it takes a long time and a lot of money to equal the personal touch. As expensive as mass media is, however, when a company has been promoting itself a long time and has established a brand with a large customer base, the cost is much less than other tactics.

Mass media can be part of a baseline infrastructure that can also include, for example, corporate identity programs, company literature, public relations, newsletters, co-op advertising, and product placement. What is difficult with infrastructure tactics is tying them causally to an individual. These indirect infrastructure tactics create awareness and establish your image and standing in the community and business world. They draw customers to you and reinforce, for the existing ones you have, the reason they bought your product or service. But the indirect infrastructure tactics alone are not sufficient for success.

In fact, within the CRI Framework, mass media and other infrastructure tactics are budgeted off-line and are not included in Acquisition, Closing, and Retention tactical plans per se. Instead, the quality and longevity of the effort is recognized in the strategy decision model for its value in setting the stage for a positive selling and retaining environment. Brand equity built up over time can influence conversion rates, retention rates, referral rates, cost-per-contact, and average purchase.

Tactics Mix: An investment in infrastructure tactics makes it possible for personal and more direct tactics to work better. The investment does need to be balanced—just as there needs to be a balance between personal and direct tactics. All three types of tactics—personal, direct, and infrastructure—need to be orchestrated well for long-term success.

To borrow an analogy from Peter Sellers' Chance the Gardener character in the movie *"Being There:"* Sales and marketing is like gardening. The fruits and vegetables are the draw that help you build the relationship as you develop leads, close the sale, and serve your customer. You have to have gardeners who tend the garden, get the crop to market, and help the customers know how to best use the produce. To call more attention to your garden and reach more people, you might plant some trees and shrubs which over time would grow tall, to make a bigger and bigger statement about something special happening at your company. But it is the harvest of the garden that nourishes prospects and customers. Successful companies pay attention to their garden—even when their trees have become a forest.

A 1994 study by D.F. Blumberg and Associates, referenced in the *Journal of Management Consulting*, showed for high-value service businesses, a mix of all three types of tactics was 10 times more effective at closing business than using Rainmakers for personal selling alone. (Not just more efficient, as noted earlier.) At the time, it didn't seem to be so important to use such a mix for product businesses—the results in the research didn't show a difference one way or another, so a case couldn't be made. But as a service component becomes a more and more important piece of most product businesses, I expect there will be a similar effectiveness boost from using a balanced mix of tactics in their proper roles. Infrastructure tactics to draw people in; direct tactics to more efficiently augment the personal relationship-building efforts; and personal tactics, where only a personal touch will do.

With the CRI Framework, opportunities for strengthening the customer relationship are built into the process with the chosen tactics. Similar approaches are being used in product development at cutting-edge companies. [Sheen] There, product designers are building in opportunities for positive customer interactions right into their products or services. They want to keep a relationship going after the sale. Developing relationships is the point.

Promotional and Relationship Development Direct Tactics Checklist

In the CRI Framework, Acquisition, Closing, and Retention tactical plans to carry out the customer relationship strategy are orchestrated. Direct tactics are chosen for the role they perform in each stage of the customer relationship—not only in traditional promotion mode, but in how they help build the relationship and move the customer forward most efficiently and effectively.

The marked areas in these checklists show how the direct tactics apply in Acquisition, Closing, and Retention stages. More traditional tactics like Direct Mail are listed as categories. Direct Mail tactics could include postcards, newsletters, letters, brochures, flyers, or packages, to name a few. Sales Promotion could include packaging, couponing, or special offers, etc. The newer Internet-related tactics are listed separately—Web Search Ads, Blogs, Twitter, Social Networks, and Web Links, for example. Given the media explosion now underway, even more digital tactics can be anticipated. Also shown in more detail are the tactics that will be used with the new Retention focus—Referral Programs, Up-Selling Programs, Relationship Enhancement Programs, Recognition Programs, and Customer Portals are some.

Direct Tactics	Acquisition	Closing	Retention
Promotional Direct Mail	X		
Telemarketing	X		
Email Campaigns	X		
Web Ads	X		
Web Links	X		
Web Sponsorships	X		X
Virtual Communities	X		X
Sales Promotion	X	X	
Website	X	X	X
Web Newsletter	X	X	X
Web PR	X	X	X
Blogs	X	X	X
Twitter	X	X	X
Wiki Collaboration	X	X	X
Evangelizing	X	X	X
Viral Marketing	X	X	X
Seminars/Conferences	X	X	X
Trade Shows	X	X	X
Special Events	X	X	X
Presentations		X	
Sales Materials		X	
Status Reports		X	X
Documentation	X	X	X
Training			X
Delivery			X
Customer Service			X
Technical Support			X
Ongoing Telemarketing	X	X	X
Ongoing Direct Mail	X	X	X
Ongoing Thank Yous	X	X	X
Community	X	X	X
Social Networks	X	X	X
Sponsorships	X	X	X
Strategic Alliances	X	X	X

Direct Tactics	**Acquisition**	**Closing**	**Retention**
Affinity Marketing	X	X	X
Cross-Selling Programs		X	X
Up-Selling Programs		X	X
Increased Purchase Programs		X	X
Referral Programs	X		X
Retention Programs			X
Recognition Programs			X
Influencer Programs	X	X	X
Advisory Boards	X	X	X
Charitable Contributions			X
Customer Portals			X
User Groups			X
Relationship Enhancement			X
Attitude Adjustment			X
Designed-In Product Actions			X

With high-level tactical plans outlined for each customer relationship strategy and alternative strategy, managers and their action learning team estimate conversion rates from one stage to another and establish a high-level budget for each tactic in each stage. They think about what the differences will be between the current process and the alternatives being considered. They anticipate not just the fixed costs in each stage, but the cost-per-contact needed to move each contact through each stage. Keeping track of cost-per-contact by what happens instead of measuring the costs by a head count of their staffs will be new to most companies. It will give a more realistic picture of what it costs to move a contact through the Customer Relationship Wings framework. [Activity-Based Costing]

Once the alternatives have been defined in this format—what constitutes movement between stages, what tactics to use in each stage, what handoffs, what metrics for movement and cost—the alternatives are evaluated and compared in the strategy decision model.

Strategy decision models are used to quantify the current situation, or status quo, and consider alternatives. By modeling alternative strategies in advance of investment to evaluate likely profitability, strategies and their supporting tactical plans can be adjusted until profit is more assured. Customer Lifetime Value (CLV) is used to look at anticipated profit-per-customer for the big picture. [CLV, NPV, and RFM] CLV and profit flows for new and existing customers are calculated in the models. Then the best strategy, in line with the company's directional strategy and goals, can be chosen. With the models, a customer relationship strategy that all staff on the frontline with customers can help implement is optimized and justified.

It is a new way to manage sales and marketing.

The discipline of a model for each potentially profitable channel/product group combination achieves *consistent metrics that can be rolled up for the business unit, the division, and the enterprise to give executives a cohesive framework* to compare potential and performance against plan. It is the cornerstone of cohesive operational control of customer activities, and a new way to manage sales and marketing and customer retention.

With planning complete and the best customer relationship strategy and supporting cross-functional tactical plan chosen, you

- **Know how you can make the best use of sales and marketing resources**
- **Know what your company can afford to spend at each stage of the process to optimize profitability**
- **Understand what factors drive retention**
- **Understand what operational rules are needed for differentiated service**
- **Know what metrics will be relevant and most important to watch, and have a preliminary plan for a dashboard**
- **Know which customer relationship strategy and tactics will pay off better, and why**

High-Level Tactical Plan Overview

Client Major Manufacturer Strategy Alternative #2

Channel Direct Offering Maintenance Service Primary Relationship End User

Acquisition

Tactic	Tactic	Tactic	Tactic	Tactic
Promotional Direct Mail	Telemarketing	Ongoing Email	Website	Referrals

Closing

Tactic	Tactic	Tactic	Tactic
Presentation/ Sales Kit	Fact Finding/ Evaluation	Proposal	Contract

Retention

Tactic	Tactic	Tactic	Tactic	Tactic	Tactic
Initial Product Report	Customer Portal	Update to Management	Relationship Enhancement	Ongoing Email	Ongoing Training
Tactic	Tactic	Tactic	Tactic		
Ongoing Thank Yous	Anniversary Celebrations	Event	Attitude Adjustment		

This simple example shows the High-Level Tactical Plan Overview for a customer relationship strategy to increase profit for a major manufacturer of digital printers. Along with a traditional direct marketing campaign, they were counting on referrals from their distributors in Acquisition. They sold their products through distributors, but sold maintenance service directly. They segmented their customers by industry, and by whether the print copies would be resold or not, to optimize the profitability of their service models.

Although Closing was typical, Retention was not. The challenge was that the people who sign the contract are not the ones they provide the service for. So not only did they build in opportunities in their process to have face time with the managers who are the buyers, but they had tactics to keep them in front of their actual users in a positive light. Tactics were defined to enhance the relationship—to celebrate milestones, to provide an opportunity for executive briefings, to ask for and thank the customer for referrals, testimonials, and references. Most importantly, customer retention maintained the capability to fix the customer's problems, often before the customer was aware that they existed. They even had, with *their Attitude Adjustment tactic, a process to deal with customers who became unhappy.*

Because customers wanted it (and what customer doesn't these days?), the manufacturer had a comprehensive customer portal. On the portal, the customer could check the status of their digital printer inventory, check usage records, receive optimization suggestions based on their usage of the digital printers as seen by the manufacturer over the network, collaborate with other users via a community Wiki, offer feedback to the manufacturer on service and with product ideas, and link to related products and services. A connection linked them to live support in a contact center. There the representative could see where the customer had been on the customer portal by viewing their clickstream record and using remote diagnostic software to analyze the customer's printer functions and usage. Fully informed, the representative could take preventative measures to improve printer performance, diagnose and fix problems, and deliver tailored training to the customer.

Because this manufacturer paid so much quality attention to their customers, their distributors were even willing to refer them to their competitors' customers to service their competitors' equipment. You can picture which supplier the customer will be likely to go with when it comes time to replace products!

Preparing to operationalize strategy

The CRI Framework or structure is set, but what customer relationship strategy and what tactics you use are up to you. How the customer relationship process works in practice is up to you and your customers and what you both DO. With the CRI Framework, you and your teams have your own process in a cohesive, disciplined, relevant framework for planning strategy as well as managing operations. The stage is set to prepare for execution of your strategy.

Key Points

- The CRI framework helps unite marketing, sales, and retention plans into an overall customer relationship tactics plan.
- Instead of focusing on marketing, sales, and customer retention *organizations*, it helps to focus on teamwork and on Acquisition, Closing, and Retention as a *process*.
- Specific tactics can be assigned to each of the Acquisition, Closing, and Retention stages in the customer relationship process.
- Tactical plans expressed in this format:
    - Demonstrate what is being done to implement the strategy.
    - Lead to operations systems that support the plan.

Commentary Related to Chapter Six

Personalization

While customers have become accustomed to, and appreciative of, personalization on the Web, if the personalization is not in real time, companies are in danger of destroying the good feelings they may have created. Personalization can be so obviously off that it is laughable. How many times have you bought something for Aunt Sally and then were irritated that the system thinks you are Aunt Sally?

Sheen

A colleague who has recognized the importance of designing a positive customer experience into product use is Ray Sheen. In over twenty years in product and process innovation, he has seen the viability of technology as a sustainable competitive advantage decrease. Sheen believes companies should have a Product Relationship Roadmap to engineer positive, reoccurring experiences into the use of products that will continue to build customer relationships and Relationship Value after purchase.

Activity-Based Costing

Working with Steven Anderson, CEO of Acorn Systems, Robert Kaplan of Harvard has updated Activity-Based Costing (ABC) with a time-driven approach that is similar to the approach used in the CRI Framework for monetizing interactions. Their book is *Time-Driven Activity-Based Costing.*

Kaplan was instrumental in popularizing the ABC approach in the 1980s to give a more realistic way to account for indirect costs. (Traditional accounting adds a broad percentage onto the direct costs to represent the indirect costs.) Used most extensively in manufacturing, ABC's use elsewhere has been stymied because of the time and money necessary to set up and use the models. The new time-driven approach greatly simplifies traditional ABC, requiring only two parameters—the unit cost of the supplying capacity, and the time required to perform a transaction or an activity.

In the CRI Framework variation on this useful approach, the variable costs of interactions are based on estimated time and materials directly related to the performance of the activity, for example, the time in handling a mailing and the postage required. It is a variable cost that does not include the fixed costs necessary to be ready to perform the interaction. In the mailing example, it would not include the creative work to set up the mailing or the costs of printing it.

The use of this example also illustrates a difference between most ABC implementations and the CRI Framework. Most ABC implementations use only the cost-to-serve individual customers and don't include the cost-to-acquire. Cost-to-acquire, including head count, is usually allocated as in traditional, non-ABC accounting, making it hard to know just how profitable a customer really is.

Just as there are various approaches to ABC, there are a variety of ways to calculate variable costs of the interactions. What is important is being consistent.

CLV, NPV, and RFM

Customer Lifetime Value (CLV) adjusts the value of future profit by using Net Present Value (NPV) calculations, which consider the risk and the cost of money in the future. According to research early in the 2000s by the University of Connecticut's School of Business professors Rajkumar Venkatesan and V. Kumar, published by Marketing Science Institute, CLV is proving to be more effective than other methods for predicting future profits from customers, including Recency, Frequency, and Monetary (RFM) analysis, despite the fact that CLV is estimated and RFM is based on past transactions. Their findings were also surprising given that share-of-wallet or RFM had been considered a best practice and millions have been spent to measure loyalty marketing that way. Obviously, best practices evolve.

The CRI Framework uses an estimated CLV calculation based on profit in its strategy decision models. Yet with the CRI Framework, you can move to an operational level beyond estimated CLV, because what actually happens is tracked, and the operational data on profit is fed back to the strategy decision models for continuous improvement. With this operational control, estimated CLV and satisfaction scores don't have to be your proxy for effectiveness any more. You can evaluate effectiveness with what happens.

CHAPTER 7 When customer interactions are visible, so are customers.

Intelligence built into the customer relationship process measures how sales and marketing works and how strategy is executed so both can be managed.

WHAT EXECUTES STRATEGY? CUSTOMER INTERACTIONS

Just as the essence of strategy is in the activities, the essence of strategy execution is in the interactions—how tactics for acquiring and keeping customers are carried out. Interactions capture what you DO, and also what the customer DOES. The interaction process is a joint process you and your customers undertake to build relationships one interaction at a time. Each interaction builds value and can be measured.

The interaction process across the entire customer relationship is how strategy is brought to life, how it is executed, and how profit is tied directly to customer relationships. Interactions happen in real time. Measuring interactions measures how strategy is working in real time in sales and marketing.

Thomas Edison invented the light bulb, the phonograph, and thousands of other electronic items taken for granted in today's world. An impressed bystander wondered about his sources of inspiration. His reply was that invention is 2 percent inspiration, and 98 percent perspiration. It takes a lot of work to realize the potential of an idea, a plan.

It is similar with customer relationship strategy and its associated tactical plans. Planning may be 2 percent of the value, and execution may be where 98 percent of the value lies. Even the best of plans has little value if two-thirds of the organization is off doing something that is not related to the plan. It is critical to forge that link.

Putting plans into operation.

Most successful companies have marketing plans and sales plans. All successful companies have some level of sales and marketing operations, whether their plans and processes are well-defined or not.

However, very few companies have been able to develop tactical plans that can easily be rolled into execution. Very few companies link their plans and their execution, even within their functional areas, in a way that is consistent enough to provide actionable feedback. Very few companies have feedback that tells how well the plan is being implemented in a timely enough manner to develop all of the mid-course corrections that are needed to keep the plan moving toward its goals.

The operational data to track progress has been missing. A cross-functional, cohesive framework to tie the entire customer relationship together and link progress in developing customer relationships to profit has been missing. Without the operational data and the cross-functional framework, linking strategy to execution is difficult. Remember, experts have been saying for years that only very few companies have been able to do it well.

Instead, management of most companies has made do with traditional customer metrics that count customers in one way or another, or measure the company's activities in relationship to the customer, but not the customer relationship itself. For an individual customer, about all a company will know is where they begin and end in terms of revenue (not profit). But what happens in between is unclear. With the CRI Framework, this uncertainty is overcome and real-time management is made possible.

The CRI Framework, based on relationship cause-and-effect, enables the links between planning and execution. Cause-and-effect is measured by customer interactions (the cause) and by the value of those interactions in moving the relationship forward, or Relationship Value (the effect).

The CRI Framework enables the links between planning and execution.

Customer Relationship Intelligence feedback is generated by building intelligence into the process of going through the stages of the Customer Relationship Wings. The CRI Framework, including the Customer Relationship Wings, is set, is structured. But the process itself flows *as it will*. It is a natural extension of Six Sigma principles, but designed to accommodate the fluidity and creativity of sales and marketing. [Dunaway]

Tracking the interactions themselves, the cause, adds significantly to what is known. It is significantly better than having just the results of traditional after-the-fact data mining, when a company has to sift for gems of useable information in data warehouses that are chock-full of data of questionable value.

What makes the CRI Framework more powerful, however, is measuring *what the interactions DO to build the relationship with the customer—the effect.* Giving each interaction a value for its relationship development potential is a major breakthrough. This Relationship Value metric is what has been missing—until now.

Relationship Value ties together many aspects of the customer relationship process and, when correlated to profit, allows a whole new level of analysis. But Relationship Value has an even more important role. With Relationship Value, plans can be put directly into operation—in a way that generates that all-important operational feedback loop to enable real-time management of the staff on the frontline. Relationship Value is not just for managers; it allows staff on the frontline to make informed, more profitable operational decisions on their own, one interaction at a time. Then, as managers see what is happening, they can make immediate course corrections and in-the-moment decisions. That's why Relationship Value is the Key Performance Indicator, and can be a leading indicator for profit.

Putting it all together

An important prerequisite to operationalizing strategy was discussed in Chapter Six: adapting the traditional marketing and sales tactical plans and the new customer retention tactical plans so that they fit into the framework and can be put into operation. That activity included determining which tactics to use for Acquisition, Closing, and Retention, as was shown in the diagram "High-Level Tactical Plan Overview Format" and as was illustrated in the example.

Once a high-level plan is achieved, vetted in the strategy decision model, and chosen for implementation, there are three steps to link a customer relationship strategy and tactical plan to execution and to profit:

1. Taking the high-level plans and detailing and valuing the interactions in a process to carry out the tactics—basically, configuring a Customer Relationship Intelligence tracking system.

2. Developing the information systems necessary to support the plans and to provide real-time progress measurements and real-time learning.

3. Monitoring execution for feedback to use in day-to-day operations and to take immediate action to adjust and fine-tune the plans in real time, as well as to discover longer-term patterns and repeatable processes. *This step will be discussed in Chapter Eight.*

The benefits are enormous. Managers will know who does what to whom, when, for what result, as staff on the frontline interact with customers across the customer relationship. Right now, it's almost by happenstance that customer relationships get nurtured. Almost always, it's done by one motivated person or by a small team. It's been hard to understand how well the team did, how they contributed to profit, or how to repeat their success when working with another customer. Just what DID they DO? What DID the customer DO? No wonder many management teams find it hard to explain their success.

With customer activities adapted to the new CRI Framework, your whole organization is ready to put them into operation, in a way that is consistent, from strategy through tactics to execution, and to provide the mechanisms for real-time management and operational control.

With the CRI Framework, you can measure customer interactions and correlate them to profit. By measuring interactions, you measure customer relationship development and how sales and marketing works. That's a breakthrough for management of sales and marketing and a breakthrough for strategy execution.

The configuration process is straightforward

But each step in the process has a key point or two that make all the difference between what has gone on before and what is possible now—and all the difference between success and failure in building a system to execute the plans.

To start the first step in operationalizing the strategy, managers and their cross-functional action learning team take the high-level value stream process map used in the test scenarios down a level to a detailed process, to implement each of the tactics. The action learning team is composed of group leaders in marketing, sales, and customer retention and the business analysts, IT, and HR professionals who support them. The process they determine is expressed as a series of planned interactions with prospects and customers. The interactions support the intention of the tactic. There may be only a few interactions planned to implement one tactic, while it may take a couple dozen interactions to implement another tactic.

These detailed interactions will become the basis for configuring the tracking system.

Next, the cross-functional team determines how the contact might respond to each interaction. Again, this is expressed as a series of possible responses that a prospect or customer might have to the interaction. For simplicity in describing the concept thus far, the word "Interaction" has meant both "Interaction" and "Response." A response *is* an interaction, after all. [Touch Point]

The granularity you choose to capture depends on what kind of decisions you need to make with the data. Not all interactions are of equal importance to your customers. And at different stages in the customer relationship, you'll want to know a different level of detail. For example, early in the relationship, you're likely to want to know more than you will later on, because you don't know what to expect. Or if your customer becomes unhappy, you'll want to ratchet up the amount of detail. The goal is to balance the level of detail with what you need to do with it.

Not all interactions are of equal importance to your customers.

Interactions with your customers are dynamic—what you DO, what they DO. Both interactions are important to capture; you can't really define the process until you record what happens typically on *both* your side and the customer's side. Up to now, interactions haven't been captured across functions and linkages made in a cohesive framework. Up to now, both sides of the interaction usually haven't been captured, either. That's why it has been hard to understand customer relationship processes. Relationships are reciprocal and mutual. *Relationships are a give-and-take.*

Quite often these interactions are recorded helter-skelter. Making sense of it later is really hard, and that's why it requires professional modelers to do predictive modeling and analysis. It would be like trying to measure manufacturing by measuring a few motions here or there in the process of making something, with significant numbers of the motions left out. Just what is the process? But, more critically: What did the interactions DO to build the relationship? What did they cost?

In the CRI Framework, determining the possible interactions and responses is important, but this is where the magic happens: Relationship Value and variable costs are pre-assigned to each of the possible interaction/response pairs listed. If you assign a value and cost for each interaction/response pair ahead of time and then configure a tracking system, the relationship can be quantified automatically, without tedious data entry. For simplicity, from now on in this book, the interaction/response pairs will just be called an interaction, as before. And responses will be called interactions, as before, except where clarity requires the distinction.

Configuring a tracking system is where the magic happens.

For example, a customer event might be 10 times more valuable in building a relationship than an email sent when the person is still a prospect, and therefore the customer event would get a score 10 times higher. The value of the interactions around applying for a loan is quite different from using an ATM. Every industry has examples of these extremes.

For each interaction, you can also pre-assign an interaction cost. The interactions, Relationship Values, and costs then become part of the automated, configured tracking system.

Later, as the plans are being executed through all of the day-to-day customer activities of the frontline staff, these values and costs can be accumulated automatically to track how each contact is moving through the various stages of the relationship. *The simplicity within which the interactions are tracked operationally belies how sophisticated the scoring and costing can become.*

Relationship Value: Every interaction with a customer is assigned a numerical, relative "value" or score.

Interaction Cost: A cost is also attributed to the execution of each interaction, the variable cost that is incurred only if the interaction happens. It does not include the fixed costs necessary to be ready to perform the interaction. How all these costs are calculated can vary from company to company, and can be more or less sophisticated. What is important is being consistent.

When the interaction is clicked on to select it, the interaction and its ascribed value and cost are recorded automatically by the tracking system. The record becomes a stream of data that can be analyzed. Unlike textual data (such as contact reports), this stream of data is structured numerically, which enables far more precise analysis and easy review. It is structured data, in a technical sense.

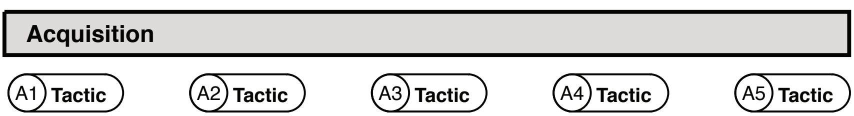
Scoring can become sophisticated with large amounts of data. Typically in business-to-business, there hasn't been enough relevant data for probabilistic analysis. With the CRI Framework collecting this data stream, there will be sufficient data over time. In fact, there will be enough data to come close to predicting absolute values instead of using the relative values that get the valuation started.

When a company already has data, it is used. For example, companies who use the Internet extensively are likely to have clickstream data that can add greatly to the understanding of the customer relationship process. Whatever data is available is calibrated to the framework, and critical missing interactions are anticipated for the ongoing process. Some companies have been able to successfully model just which interactions are working for them and which ones aren't. Where there is sufficient data to warrant modeling, and where the value in moving the relationship forward or backward can be extrapolated, it is used to help value the interactions in the current process. This will be an iterative process anyway, with each round improving upon what is known and adding to the sophistication. [Pearson]

Similarly, to get started, where existing customers fit within the Customer Relationship Wings framework is extrapolated from Voice of the Customer research and satisfaction research. Soon enough in strategy execution, the customer will be able to give his or her own feedback about where they fit as part of the ongoing process that links customer feedback to operational results.

Some examples for each stage may help clarify just how this works. The examples are for illustration purposes only, and are not meant to suggest that these are a definitive list of tactics or interactions. When you configure the tracking system, you will anticipate the possible interactions for all the tactics in your plan and store them in a database.

Acquisition Tactics



The tactics are coded by the stage they are in, and are numbered. For example, the tactics in the Acquisition stage would be coded with the letter "A" and numbered. The tactics in a typical plan to sell contract maintenance services, for a major manufacturer selling direct, could be:

A1. Promotional Direct Mail
A2. Telemarketing
A3. Ongoing Email
A4. Website
A5. Referrals

For each of these tactics, a set of possible interactions is defined. For example, under the tactic "A2 Telemarketing," the interactions themselves are numbered and defined as:

- A1. Promotional Direct Mail
- A2. Telemarketing
  - A2-1. Leave Voice Mail #1
  - A2-2. Attempt Call
  - A2-3. Leave Voice Mail #2
  - A2-4. Transfer to Internal Sales
  - A2-5. Prospect Calls Back to 800#
  - A2-6. Live Conversation
  - A2-7. On-Going Thank Yous
  - A2-8. Personal Touch
- A3. Ongoing Email
- A4. Website
- A5. Referrals

Then for each interaction, a set of possible responses is defined and alpha-coded. For example, for interaction "A2-2 Attempt Call," potential results are defined as:

- A1. Promotional Direct Mail
- A2. Telemarketing
  - A2-1. Leave Voice Mail #1
  - A2-2. Attempt Call
    - A2-2a. Disconnect/Wrong #
    - A2-2b. Busy/No Answer
    - A2-2c. Get Voice Mail
    - A2-2d. Gatekeeper Block
    - A2-2e. Do Not Contact
    - A2-2f. Inappropriate Contact

A2-3. Leave Voice Mail #2
A2-4. Transfer to Internal Sales
A2-5. Prospect Calls Back to 800#
A2-6. Live Conversation
A2-7. On-Going Thank Yous
A2-8. Personal Touch

A3. Ongoing Email
A4. Website
A5. Referrals

For another interaction, "A2-6 Live Conversation," a different set of potential results is alpha-coded and defined. "A Live Conversation" can lead to a great number of interactions, including these selections:

A1. Promotional Direct Mail
A2. Telemarketing

A2-1. Leave Voice Mail #1
A2-2. Attempt Call

A2-2a. Disconnect/Wrong #
A2-2b. Busy/No Answer
A2-2c. Get Voice Mail
A2-2d. Gatekeeper Block
A2-2e. Do Not Contact
A2-2f. Inappropriate Contact

A2-3. Leave Voice Mail #2
A2-4. Transfer to Internal Sales
A2-5. Prospect Calls Back to 800#

A2-6. Live Conversation

A2-6b Inappropriate Contact
A2-6c Call Back 00/00/00/time
A2.6m Not Right—Not Critical
A2-6p Send 1st Email Tip
A2-6v Handoff—In Person Appointment

A2-7. On-Going Thank Yous
A2-8. Personal Touch

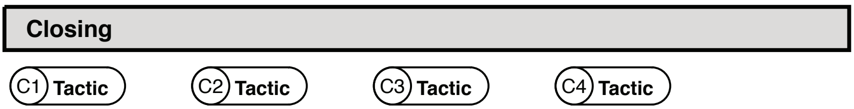
A3. Ongoing Email
A4. Website
A5. Referrals

To each interaction, a value is attached. Relationship Value denotes the incremental improvement in the customer relationship that builds for each possible interaction. It is the key factor that will drive the operational system.

In addition to accruing Relationship Value, some interactions will also jump the contact to a higher or lower level, or position, in the sales and marketing and retention wings, or even go back to the beginning. What events determine movement in customer levels within the Customer Relationship Wings framework are defined during tactical planning, as described in Chapter Six.

For each interaction, a set of costs is also attached. The variable cost associated with each interaction is important for future profit analysis of actual to plan. It provides important insight, down to the individual customer level, of the full cost of implementing strategy. Most companies now are limited to misleading aggregate costs based on head count of their staff, and are not tracking what that staff DOES for each customer. Because of this, a customer's true contribution to profit is unknown.

Closing Tactics



Similar interactions are worked out for the tactics in the Closing stage to sell the contract maintenance service. The tactics in the Closing stage would be coded with the letter "C" and numbered. The tactics could be:

C1. Presentation / Sales Kit
C2. Fact Finding / Evaluation
C3. Proposal
C4. Contract

For each of these tactics, a set of possible interactions is defined. For example, under the tactic "C1. Presentation / Sales Kit," the interactions themselves are numbered and defined as:

C1. Presentation / Sales Kit

- C1-1. Initial Appointment
- C1-2. Thank You for Appointment
- C1-3. Personal Touch
- C1-4. Other
- C1-5. Another Appointment with Others
- C1-6. Follow-Up Appointment

C2. Fact Finding / Evaluation
C3. Proposal
C4. Contract

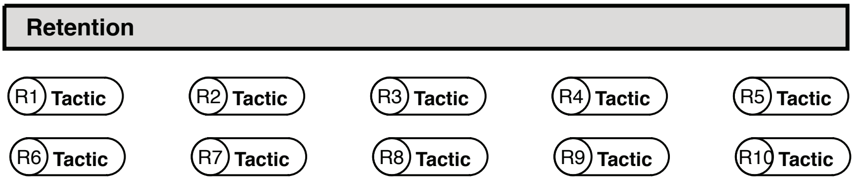
Then for each interaction, a set of possible responses is defined and alpha-coded. For example, for interaction "C1-2 Thank You for Appointment," potential results are defined as:

- C1. Presentation / Sales Kit
  - C1-1. Initial Appointment
  - C1-2. Thank You for Appointment
    - C1-2a. Thank You Note
    - C1-2b. Thank You Email
    - C1-2c. Thank You Post-It Note with Attachment
    - C1-2d. Thank You T-Shirt
    - C1-2e. Thank You Call
  - C1-3. Personal Touch
  - C1-4. Other
  - C1-5. Another Appointment with Others
  - C1-6. Follow-Up Appointment
- C2. Fact Finding / Evaluation
- C3. Proposal
- C4. Contract

In this case, the interaction will be a result of the sales representative's decision on how to "thank" the prospect for the appointment. And, of course, both the Relationship Values and variable costs would be very different for each of these responses. Including a "thank-the-prospect" sequence like this is a simple example of how careful definition of tactics can provide guidance to the salespeople and others on the frontline with customers at appropriate points in the operational process.

Similar interactions are defined for the tactics in the Retention stage.

Retention Tactics



The tactics in the Retention stage would be coded with the letter "R" and numbered. The tactics could be:

R1. Initial Product Report
R2. Customer Portal
R3. Updates to Management
R4. Relationship Enhancement (Updating Relationship Development Status)
R5. Ongoing Email
R6. Ongoing Training
R7. Ongoing Thank Yous
R8. Anniversary Celebrations
R9. Event
R10. Attitude Adjustment (Resolving Issues)

For each of these tactics, a set of possible interactions is defined. For example, under the tactic "R9 Event," the interactions themselves are numbered and defined as:

R1. Initial Product Report
R2. Customer Portal
R3. Updates to Management
R4. Relationship Enhancement (Updating Relationship Development Status)
R5. Ongoing Email
R6. Ongoing Training
R7. Ongoing Thank Yous
R8. Anniversary Celebrations

R9. Event

- R9-1. Invite to Event
- R9-2. Hold Event
- R9-3. Thank You for Coming
- R9-4. Personal Touch
- R9-5. Follow Up with Summary
- R9-6. Other

R10. Attitude Adjustment (Resolving Issues)

Then, for each interaction, a set of possible responses is defined and alpha-coded. For example, for interaction "R9-1 Invite to Event," potential results are defined as:

- R1. Initial Product Report
- R2. Customer Portal
- R3. Updates to Management
- R4. Relationship Enhancement (Updating Relationship Development Status)
- R5. Ongoing Email
- R6. Ongoing Training
- R7. Ongoing Thank Yous
- R8. Anniversary Celebrations
- R9. Event

  - R9-1. Invite to Event

    - R9-1a. Declines
    - R9-1b. Accepts for Self
    - R9-1c. Asks for Additional Attendees
    - R9-1d. Requests Special Treatment

  - R9-2. Hold Event
  - R9-3. Thank You for Coming

R9-4. Personal Touch
R9-5. Follow Up with Summary
R9-6. Other

R10. Attitude Adjustment (Resolving Issues)

With this level of detail, managers can check their customer relationship process flow for holes or duplications by running test scenarios on how a customer relationship might develop, following the best practices suggested by their best performers in Acquisition, Closing, and Retention to carry out the tactics. They can see what extra steps they need to build in to ensure seamless handoffs between functional areas. They can anticipate critical customer interaction practices like, what they will do when things go especially right or especially wrong with customers. And they can see what needs to be worked out with operations in terms of:

- New business rules for level of service and profitability
- Monitoring alerts
- Plans to institutionalize these rules and alerts

This example of a manufacturer's customer relationship process is certainly anticipated, but it is not rigid. There are plenty of choices to be made by the people executing the strategy to respond to the situation in the moment. The tactics themselves are not as important as how they are used in interactions with customers and what happens in the relationship as a result.

In all of these examples, each tactic, interaction, and response is carefully coded. This not only keeps the elements of the plan together, but structures the data, providing an important reference point, so that the results of operational experience can be compared back to the plan. This detailed configuration is recorded in a database, which in turn drives an operational Customer Relationship Intelligence tracking system. Details, details…there's "inside" intelligence in the details. These details become an invaluable data stream.

Setting up the Customer Relationship Intelligence tracking system

Once assigned, the quantified and valued interaction information can be tracked with relatively simple information systems mechanisms. There are several viable approaches to this second step in operationalizing strategy.

One approach is to collect the new information through existing systems. Most companies already have Enterprise Resource Planning (ERP) systems and Customer Relationship Management (CRM) systems. In cases where there are CRM systems in place, and the sales force is accustomed to them, the new information could be carried through the same interfaces. Customer retention teams may have different systems, and marketing people still other systems. The information can be collected through all of them, using the existing interfaces, with a new window or two. Then that data can flow into your existing data warehouse or a new one can be set up.

Another approach is to use the CRI Framework to solve myriad integration problems. Whether you are running SAP, Oracle/Siebel, or other systems simultaneously in different parts of your organization, you can use this framework as a common interface and integrate at the data level, consistently, across your organization. It doesn't matter what technology engine is underneath; the framework provides consistency and integration at the data level.

Or alternatively, you can implement a new system with interfaces back to existing systems as appropriate. For the new system you may want to consider using an On Demand system such as Software as a Service or even using a cloud computing application to track the data.

The key point is to support the interactions as they are developed, and to record them—with whatever approach works best in your information systems environment.

Once the CRI Framework has been integrated with information systems and properly launched, real-time management is possible. As the new framework involves a change in business processes and practices, as well as the introduction of new information systems, a thoroughly planned and well-executed launch is critical to success. Everyone needs to know their part in the new operation, and support needs to be in place for all parties. This is where all of the marketing, sales, and customer retention staff begin operating at a new level of operational effectiveness, and all of the human resources and information systems staff begin to support them in new ways.

Collaborating is simple with the tracking system

For people on the frontline, collaborating just got easier, more focused, and more valuable. With the interactions to carry out tactical plans configured and embedded in a database, accessed by the tracking system, guidance to all those responsible for contacts with prospects and customers is readily available.

Within each tactic, there are suggested interactions. Planning the next interaction can be as simple as selecting from the list. With sophistication, the next interaction can be suggested automatically, by a decision engine drawing on the past experience of interaction flows, not just selected by the person using the system. This is a process that can be deciphered to anticipate what to do next—by the individual, and with sophistication, by the system.

In either case, the individual has control of the choice of what to do next. The system just guides and helps channel their creativity in how they develop the customer relationship.

The selected interaction can easily be recorded. This not only simplifies the frontline person's job, but keeps him or her focused on plan-related activities that support the customer relationship strategy.

Even greater benefit is derived after the interaction has occurred. Traditionally, people qualifying prospects in telemarketing and sales, and people serving the customer in customer service and technical support, and people taking orders and returns, have filled out a mostly narrative contact report. When the person puts the time and energy into writing a good contact report, there is valuable information in it—but it is very difficult to extract that valuable information in any way that supports looking for patterns across several contact reports within the functional area, let alone across the whole customer relationship. This is true even in companies where some dropdowns and special fields are beginning to simplify reporting. And it is even more true of companies using recognition software to discern word patterns. But a lot more happens than contact reports attempt to collect. Marketing has its tactics, sales has its programs, and customer retention has its actions.

Typical Contact Report

blah blah blah blah blah next week blah blah blah blah blah not yet blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah blah %! blah blah blah blah blah blah blah blah call Mary blah blah blah blah blah blah blah blah blah blah blah blah blah send blah blah blah blah blah blah blah blah blah blah blah blah blah can't tell blah blah really important blah blah blah blah blah blah blah blah blah blah blah blah %!@* blah GRRRRR GRRR!!!!!**

It is a toss-up who hates these things the most—the people who have to write them, or the people who have to read them. Forget trying to analyze this unstructured data. Some companies are so disgusted with them, that they don't use contact reports at all, and then they know even less about what is going on.

With the CRI Framework, preparing a contact report in marketing, sales, and customer retention functions is as simple as calling up a window on a computer that displays the planned interaction and selecting the appropriate response from a pull-down menu of possible results. The process is simple enough that it could be programmed for a hand-held device: tablet PC, PDA, or one of the newer cell phones. And the interactions and responses that are recorded are structured to facilitate consolidation and analysis.

Recording interactions simplifies contact reports; once an interaction type is selected, the Relationship Value and cost are automatically recorded, too, in a table for easy scanning. Instead of laboring over contact reports and later trying to decipher them, choosing and recording interactions is "point and click." Instead of rethinking what to do next, after the fact, follow-up actions can be planned and recorded on the spot. Decisions are informed by how far the relationship has developed—what Relationship Value has been built so far—and by what has been spent so far to achieve that value, compared to what typically needs to be done.

Creating this feature eliminates 80 percent of the dreaded note writing about the nuts and bolts of what happened. Although a column for notes is not included in the table on the next page, it is part of the record in practice, just not a major part any more.

Creating this feature eliminates 80 percent of the dreaded note writing about the nuts and bolts of what happened.

About what is left to report on is the attitude, the qualitative part of the relationship. Is this person hot or cold on what just happened in the interaction? Is this person happy or unhappy? That is measured in part by what level in the Customer Relationship Wings the customer is placed. Suspects or prospects are more likely to continue movement in the Acquisition and Closing wing if they are hot on what you are proposing and happy with your treatment of them. In the Retention wing, the staff interacting with customers uses Voice of the Customer techniques to elicit their feelings about their relationship. How they respond dictates their position on the Retention wing. To register how hot or cold and how happy or unhappy the suspect, prospect, or customer is, I suggest scoring the attitude and keeping a record in the customer's profile information. A person could be Loyal and Unhappy at the same time. And a person can be Loyal, but not likely to budge in a particular situation, no matter how many interactions you may have. *See Chapter Eight for more about customer profiles and feedback.*

With the CRI Framework, reporting on what happens in building a relationship has just become consistent and painless. The process itself is intelligent, quantifiable, and repeatable.

Detailed Individual Interaction Record

At a glance it's possible to see relationship cause-and-effect. The "sales and marketing whodunit" of who did what to whom, when, for what result, and at what value and cost in moving the relationship forward or backward, is solved. The record of the interactions—and the value and the cost attributed to them—together build "intelligence" into the process of developing a customer relationship. There will be dozens of interactions. Here are a few samples from each stage with the most current information at the top of the record:

WHEN	WHO	WHAT INTERACTION	WHAT RESPONSE	WHAT VALUE	COST
00/00/00	Smith	R4-5a Receives referral	Gives referral	X.XXX	$$$
00/00/00	Smith	R5.1a Monthly Tip	Receives email monthly tip	X.XXX	$$$
00/00/00	Smith	R4-1a Start of contract	VoC response indicates Trial level	X.XXX	$$$

00/00/00	Jones	C2-1i Follow up fact finding	Set meeting to get facts	X.XXX	$$$
00/00/00	Jones	C1-2a Thank you for appointment	Receives thank you note	X.XXX	$$$
00/00/00	Jones	C1-1z Initial appointment	Customer to develop facts	X.XXX	$$$
00/00/00	Doe	A2-6v Live conversation	Handoff to sales, in-person appointment	X.XXX	$$$
00/00/00	Doe	A2-1a Leaves voicemail #1	Receives voice mail message	X.XXX	$$$
00/00/00	Doe	A4-1c Website visit	Asks for follow-up call	X.XXX	$$$
00/00/00	Doe	A1-3a Postcard mailing	Receives postcard	X.XXX	$$$

When, Who, What Value, and What Cost are built into the example above and show up in the record automatically when the Interaction or Response is selected. WHO in the chart is the person on the company team interacting with the contact as the relationship develops. In this example, Doe serves the contact in Acquisition; Jones, in Closing; and Smith, in Retention. The system could then also record whether the customer is in Acquisition, Closing, or Retention, and what tactic is being deployed. In practice, a section for notes is included, but is used now only for information not anticipated—the exceptions, not the rule.

With the CRI Framework, people on the frontline and managers who supervise them can easily review a customer's status at any time. Important details are in front of the right people before each customer contact, in an ongoing record of the interactions. Instead of searching for and then plowing through large numbers of emails before an important call, anyone in the company can easily see where they stand with a particular customer, easily choose what to do next to maximize profitability, and easily record what actions they take and what happens. Institutional memory is institutionalized.

The results of hundreds of small, more profitable decisions each day are woven into the profitability of each customer.

Key Points

- Day-to-day operations make or break strategy and plans. The essence of strategy execution is in the day-to-day interactions with customers.
- With plans expressed as specific tactics within each stage of the customer relationship process (Acquisition, Closing, and Retention), it is straightforward to configure an operational system that reflects the plan.
    - For each tactic, a set of planned customer interactions is defined.
    - For each interaction, a set of possible responses is defined.
    - For each interaction/response pair, a relative Relationship Value and variable cost are assigned.
- Then as each sales or marketing representative (or anyone else in the enterprise) interacts with a customer, their response to that interaction defines a quantitative event that can be recorded as a transaction. Reporting is easier to do, and intelligence is built into the process automatically.
- The stream of data that results from recording the interactions and responses provides a basis for quantitative analysis superior to what is possible with written contact reports—and the interaction record is easier for the representative to prepare.

Commentary Related to Chapter Seven

Dunaway

Many of my marketing colleagues roll their eyes when you talk process to them. Understandably. Process has usually been approached from a zero-defects point of view. That is what Six Sigma does and has greatly refined the manufacturing and other processes where a quality standard must be met. When my colleague Ray Dunaway, who is a Six Sigma Black Belt, saw what I was doing with Customer Relationship Intelligence, he could identify with the systematic approach, but appreciated the flexibility and fluidity necessary to capture a dynamic, creative process. The CRI Framework is complementary to Six Sigma, but designed for sales and marketing.

Touch Point

Some use the words, “touch point” to mean “interactions.” Others use the same word to mean major “events.” I’ve steered clear of it because of this confusion.

Pearson

My colleague Dave Pearson was the perfect person to critique the CRI Framework. For decades he was in operations, finance, and marketing leadership positions in financial services. Financial services is one of the most advanced industries in terms of sales and marketing, tracking customer interactions, and predictive modeling. He is used to having sophisticated analytics to help manage the business and knows what it takes to get systems in place. Pearson knew that management would want to use the interactions that their companies are already tracking, and suggested that the interactions be calibrated for use in the CRI Framework based on the insight from their existing predictive modeling.

CHAPTER 8 Orchestrated operational control is built from the bottom up.

A deliberate, systematic approach puts staff on the frontline with customers in control. When they're in control, everyone is in control, and singing from the same song sheet in the common language of profit.

OPERATIONAL CONTROL WITH CUSTOMER RELATIONSHIP INTELLIGENCE

Less is more. Executives who share control of strategy and operations have real-time control over strategy execution and profit. They know how their success is earned. With shared, cohesive operational control, executives can link strategy to execution.

With Customer Relationship Intelligence, executive influence reaches down to where the action is with customers, where strategy is executed, and rolls back up with actionable intelligence, making it safe for executives to let go.

Intelligence that enables a company to manage and execute to the same drumbeat—from the executive level to every team member. Intelligence that allows them to do it again and again, improving with every beat of the drum. Intelligence that unlocks the unique, sustainable competitive advantage found in customer relationships.

Profit is how you keep score, how you tell if your strategy is working, and how you tell if you're getting and keeping enough customers. Profit and strategy execution have been hard to measure, except as an end state, until now. Without a deliberate, systematic process to build profitable customer relationships, all you can do is look at historical results—when it's too late to do anything to change them. With the Customer Relationship Intelligence (CRI) Framework, executives can have the confidence to let go of the controls and go for real-time management; because there is a systematic way to guide frontline staff in what to do, managers have their hands on the controls to make adjustments midstream; and executives have a consistent framework, consistent metrics across their enterprise.

When there is a CRI Framework in place, staff on the frontline with customers can apply their intuitive good sense in creative ways within the discipline of the framework, knowing that they are contributing to the good of the whole company, that they are a part of a critical process, that what they are doing is core—and appreciated.

When you can see every relationship, you can measure profit and strategy execution in real time. What happens with, and to, customers is easily known. You can *see inside out instead of outside in*.

The Customer Relationship Intelligence tracking system captures the dynamism of the customer relationship process, and the flow of interactions becomes a data stream that can lead to real-time management and to more probabilistic processes, complete with decision engines, when the patterns are analyzed.

Having relevant data to understand how strategy is working is *major*. Most companies are operating blind, hoping for the best, but uncertain of where they are in executing strategy, or where they stand with customers. Quite often the two common ways they get customer information don't help much. They are burdened with:

- Nearly useless written contact *(blah blah blah)* reports instead of "point and click" structured data available in real time.
- Disjointed awareness and satisfaction research, looked at only in the aggregate, instead of systematic, Voice of

the Customer research built into a customer relationship process tied to strategy execution and operational results for the *individual customer*, as well as in the aggregate.

In this environment, when they had enough data to make it feasible, companies have had to resort to data mining through multiple databases, if they hoped to get any insight into what was going on with their customers. Occasionally, they hit pay dirt and gain very good insight. But the whole process is hit-or-miss and in that respect, resembles data "wildcatting" even more than it does data mining. And even if the results are really, *really* good, they can only be as good as the data the companies are working with. They are *looking from the outside in, instead of from the inside out.*

Data farming provides a context for data mining.

Instead, with the CRI Framework, you anticipate the data needed as you would in a market research project. [Canapary] This is more like "farming" than "mining." You anticipate the metrics you will need to run the day-to-day operations, and the metrics you will need to run the business over time. Then methods to get that data are built into the process. Dashboards and scorecards are created. Alerts are specified. You refine the profile, contact, and operational response information being collected.

You anticipate the ways you will want to segment the data to achieve the intelligence you need. Most companies are creating customer profiles, but they may not be preserving all the data they need. For instance, if you are working from a purchased "suspect" list in Acquisition, chances are there are valuable fields of information appended to the contact information. You may have purchased a list where the people are supposed to have at least 500 gizmos. That piece of information could be incorporated in the tracking system as an answer to confirm in profiling questions used in telemarketing to that individual.

You anticipate the data needed.

Profiling questions are pretty typical in Acquisition, although the answers aren't shared as much as they could be. Typically, the profiles are used to reach the people who have the greatest, most immediate need, and the rest of the data is lost. Instead, the data could build more complete profiles in Acquisition. But profiling questions are just as necessary in Closing and Retention, questions like the challenges your customers face, their and your revenue potential, and growth expectations. By anticipating what you would like to know in each of these stages, you can build in questions that get you to that data. Information like this can be buried in contact reports, just as much as what happened in the interaction with prospects and customers. By creating standard questions for each stage and storing them in the tracking system, you will have much more structured, accessible data. The answers can then be parsed into screens for company information, product/service information, and customer relationship characteristics including customer feedback.

You will have much more structured, accessible data.

In addition to customer feedback, the customer relationship characteristics screen includes the person's Relationship Value pattern, influence, potential, worth, and the relationship quality. To get at the quality of the relationship with the customer beyond a simple scoring, which I suggested earlier in Chapter 7, those dealing with the person could also collaborate using a Wikipedia-styled process with structured topics. In complex situations, which happen quite frequently in high-value business-to-business sales and marketing, this collaboration could be invaluable.

In addition to standard profiling questions, you will want to tap into other systems in the company for critical information, such as the financial and operational data mentioned before. The financial information could be expanded beyond credit ratings to what the individual's contribution to profit is to date, so that can be compared to the CLV anticipated (and also stored in the tracking system). The operational data could be expanded, to note how well the company delivered what was promised to the customer. It will take some effort to think through what is critical in that channel/product group combination with that particular customer segment and choose what you really need to consolidate in one place, so staff at the frontline with customers will have access to it.

Another area in most companies where valuable information is not operationalized as well as it could be is customer research. Usually, a great deal of effort is put into analyzing the results of the research, but far too often, the results stay in the report and at best may be reduced to an index number to track. It isn't as actionable as it could be. [Sharp] Pulling key findings from the reports and storing them alongside more direct customer feedback will give staff on the frontline with customers the benefit of the intelligence that management has—and it can be put to use day-to-day.

The Customer Relationship Wings levels were designed to track with typical categories in awareness and satisfaction research for a reason. This allows the correlation of the Relationship Value—built as a result of customer interactions—with existing and future awareness and satisfaction research. Again, you'll have more structured data. When you multiply that by the increasing amounts of customer feedback, including analysis of clickstream data that the Internet is making possible, you'll be glad to have it in one place—and down to the *individual* customer level, where it can be tied to strategy execution and operational results.

This is important. A Customer Champions in Europe Companies 2001 study referenced by Gartner Group showed that 95 percent of companies collected customer feedback. But only 50 percent alerted their staffs. It gets worse. Only 30 percent used the insight gained, only 10 percent made improvements, and a mere 5 percent told their customers of the change. *Why did they bother?*

As a customer, I still bother, but I'm not hopeful that it will be worth my time in most cases. As for why companies bother, I'm not sure. The feedback must not be important enough or reliable enough or specific enough for them to take action. Or perhaps their resources are stretched too thin because they haven't focused on customers they want more of, as much as they could. When an individual customer does get the attention of top management, or when a surrogate like the media or consumer action group puts attention on a customer's plight, action is usually taken. With the CRI Framework in place, the feedback will be in context and actionable. Then it will pay to bother—for both the customer and the company.

To summarize, until the CRI Framework, important data on how relationships are developed and what it costs has been missing. Now, by knowing what you DO, what they DO, and what happens next—real-time management and a whole new level of analysis are possible. The interaction data and the expanded customer profile and customer feedback information that has been "farmed" is a context for the data you "mine." Predictive modeling without an operational framework does not lead to operational control.

How real-time does in real-time need to be?

Most decision support or transaction processing systems collect data for later analysis, so being real-time is not necessary or practical. For them, being "right-time" is good enough. The data the CRI Framework collects is also used for later analysis. *But it is a breakthrough, because the same data that feeds later analysis gives day-to-day operational feedback.* So the real question is, how real-time does day-to-day need to be?

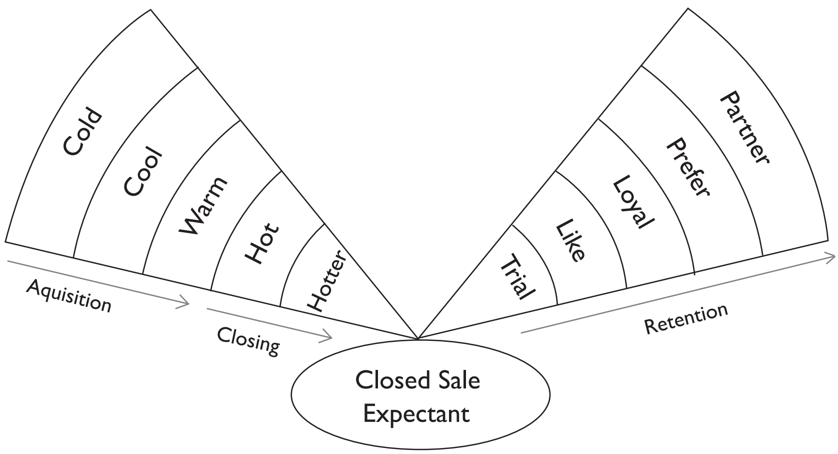
The CRI Framework enables the people on the frontline in marketing, sales, and customer retention to see, right then, what is happening with an individual customer and how it compares to previously successful patterns. That allows them to make better and more profitable decisions in the moment, as they develop relationships with customers. Managers can watch what is working and how profit is being earned in real time, to make interim adjustments. Managers don't have to wait until the end of a cycle or the end of the year. So if you are to get the full benefit of the CRI Framework, you'll want to make it as real-time as you can, as quickly as is practical to do so.

Operational data tied to the individual is *huge*. Data in aggregate is fine for long-term planning, but not as useful for day-to-day operations except to compare and contrast. The beauty of the CRI

Framework is that it collects operational data that can be used in real time, and the by-product is a data stream that can be used for later analysis.

Day-to-Day Use by Frontline Staff and Managers

Customer Relationship Wings Status



By individual customer and compared and contrasted to aggregate, to segment, to origination of the contact, such as a Website visit or a response to a direct mail piece or to person(s) responsible for the contact in Acquisition, Closing, or Retention.

1. Location on Customer Relationship Wings by level
2. # interactions each level
3. Amount of Relationship Value each level
4. Time elapsed in each level
5. Relationship Value pattern across the wings
6. Relationship Value pattern correlated to profit potential
7. Variable cost-per-contact
8. The path(s) of interaction flows

Alerts triggered by major events in Customer Relationship Wings levels that affect profit, such as becoming unhappy, increasing purchase, giving a referral by individual contact—and then compared and contrasted to others with same event.

1. Relationship Value pattern across the Customer Relationship Wings
2. The path(s) of interaction flows
3. Aggregate of all contacts to view relationship characteristics unique to your company and tracked by the system
4. Aggregate of all contacts to view traditional demographic and psychographic and now new clickstream attributes
5. Aggregate of all contacts to view geographic location on separate map

How well is this strategy working in real time?
By channel/product group per customer segment in the Acquisition, Closing, and Retention stages, or by level in the Customer Relationship Wings, status quo and plan to actual—and then compared and contrasted to others in business unit and to the aggregate of all business units, business unit-to-business unit:

1. Conversion rates
2. Retention rates
3. # of contacts in play
4. # of contacts out of play
5. Variable cost-per-contact

Short-term, real-time management is now simple

With the CRI Framework, management can happen on the fly, in the moment. The relevant intelligence is there to support real-time decision making for immediate course-correction for managers and frontline staff. What's happening in the process can be seen. Similarly, profit results are up-to-date with individual customers as well as in the aggregate.

Interactions and responses carry out planned tactics in a joint process with customers, interaction by interaction, response by response, across the functions of marketing, sales, and customer retention as a continuum. The process includes not just the interactions carried out by people, but the interactions that were done automatically by the system as well, for example, an ongoing email campaign. A data stream records the results of each interaction in a quantitative way—what value was derived from each interaction in building the individual customer relationship, and what the interaction cost.

The interactions and their responses are valued, monetized, and coded to track with the tactics in the plan. This makes it easy to compare the actual day-to-day performance with what was anticipated of the plan in the strategy decision model, and what was anticipated when the configuration test scenarios to implement the chosen strategy were run. Are the costs-per-contact in each stage working out as planned? Is it taking more or fewer interactions than expected to move a customer forward? Are relationships being built as quickly as it was thought they could be?

Instead of using a narrow, incomplete look, function by function—say, at the number of times an ad was run, the number of emails sent, or the number of sales calls made—to judge performance in sales and marketing, what good the collective interactions have had in moving the relationship forward can now be readily seen. The Relationship Value can be seen.

If actual performance is not what was expected, then managers can adjust the process. Tactics can be added or deleted. Interactions can be added to—or deleted from—the list of interactions from which to choose. New responses can be identified and captured. *These changes in the process can be immediately reflected in the day-to-day operational guidance for each of the staff members on the frontline with customers.*

Managers are now armed with structured data to analyze, and have a real-time basis for monitoring alerts, for status reporting, and for timely course corrections. They can have continuous feedback for decisions and up-to-date profit results.

How the Math Is Different. How the Metrics Are the Same.

In practice, it is highly unlikely that any one tactic or interaction can move a contact or customer substantially. It is a series of tactics and their related interactions in a process that do that. Thought of this way, you can readily see why an ROI calculation on one tactic is an exercise in futility. The calculations need to be done probabilistically on the group—the group in Acquisition stage, the group in Closing stage, and the group in Retention stage—taken as a whole for the entire customer relationship. The calculations then need to be combined with a more comprehensive look at the pipeline conversion rate algebra to include both "wings" in the Customer Relationship Wings framework. This is done in a strategy decision model. Other key metrics in planning are cost-per-contact in each stage, retention rates, referral rates, and Customer Lifetime Value (CLV) for profit. Key metrics in execution tracked in real time are the interactions themselves, the interaction costs, and Relationship Value, the Key Performance Indicator, which can be a leading indicator for profit.

The metrics are set. That guarantees the consistency and coherence needed to manage within and across business units. *How* you use the CRI Framework for your business process is not set at all. That is totally customized to *your* business; it is, after all, *your* process, *your* interactions with customers. The framework helps you capture what you are doing already and optimize it for each market or customer segment within channel/product group combinations.

Long-term analysis makes it easy to repeat success

Monitoring what happens provides feedback so managers can take immediate action to adjust and fine-tune the plans in real time, as well as discover longer-term patterns and repeatable processes. With long-term analysis, managers can discover patterns of interactions that "cause" things to happen—both good and bad. How many interactions? In what order? When did they occur? Was there a time lag? What was the tipping point for the pattern?

The various paths in which the interactions flow, paired with the "effect," or Relationship Value, lead to an even deeper understanding of what is realistic to expect.

Eight ways Relationship Value can be used

To summarize what was detailed in Chapter Four:

1. Relationship Value gives a benchmark to measure against for movement through the customer relationship.

2. Relationship Value summarizes interaction effectiveness and can be used to allay confidentiality concerns in working with distributors, agents, or other sales organizations. The depth of the relationships being built can be shared, without sharing the contact information or the details of the interactions at the individual relationship level.

3. Relationship Value gives a benchmark to compare market segments.

4. Relationship Value can be used to correlate to patterns that lead to events that affect profit, such as referrals, increased purchases, or unhappy customers.

5. Relationship Value creates the patterns that lead to understanding profitable customer segments, and allows those segments to be compared and contrasted with different levels of profitability.

6. Relationship Value can be used to discover the prospect and customer patterns set by your best performers in marketing, sales, and customer retention functions.

7. Relationship Value can also be optimized for profit. Because every interaction now has a measurable value, disparate interactions of equal value could potentially be interchanged, where there is an economic reason to do so.

8. Relationship Value helps quantify "goodwill," the value of a company over and above its total book value. Relationship Value, as a leading indicator for profit, provides a justifiable approach to the soundness of the company's relationships.

Improving your unique business model iteratively

Your best reference point for improving your business model is developing your own analytical CRI Framework based on quantifiable customer interactions and detailed customer profiles for comparison. Despite their popularity, best practices do not lead to competitive advantage; they lead to standardization. They are just a place to start—a place to start to identify your own sustainable best practices. For every business the situation is different, and the tradeoffs are different—as Michael Porter of Harvard has noted.

Now you can take it a step further and add that what happens within the customer base is also different. It is even different within different parts of your own company. Your strategy is more likely to pay off if you leverage *those* differences rather than trying to copy some other business's success.

Your strategy is more likely to pay off if you have uncovered your own unique formula for developing high-profit contributing relationships and created a business rules-driven learning company. When driven by your rules and your results from interacting with your customers, your business model is made better with every iteration.

Critical Answers for Executives

Where are you making more money?

By channel/product group per customer segment, in Acquisition, Closing, and Retention stages plan to *actual*—and then compared and contrasted to others in business unit, and to the aggregate of all business units, business unit-to-business unit:

1. Profit growth
2. Average sale
3. CLV
4. Profit/customer
5. Revenue growth

Are you growing high-value customers?

By channel/product group per customer segment, in Acquisition, Closing, and Retention stages *actual*—and then compared and contrasted to others in business unit, and to the aggregate of all business units, business unit-to-business unit as it changes over time.

1. # revenue > $X
2. % repeat business
3. # in top three retention levels
4. # contribution to profit to date > CLV
5. # in top priority profit segmentation cells
6. # gave referrals

How well are you driving profit and satisfaction?

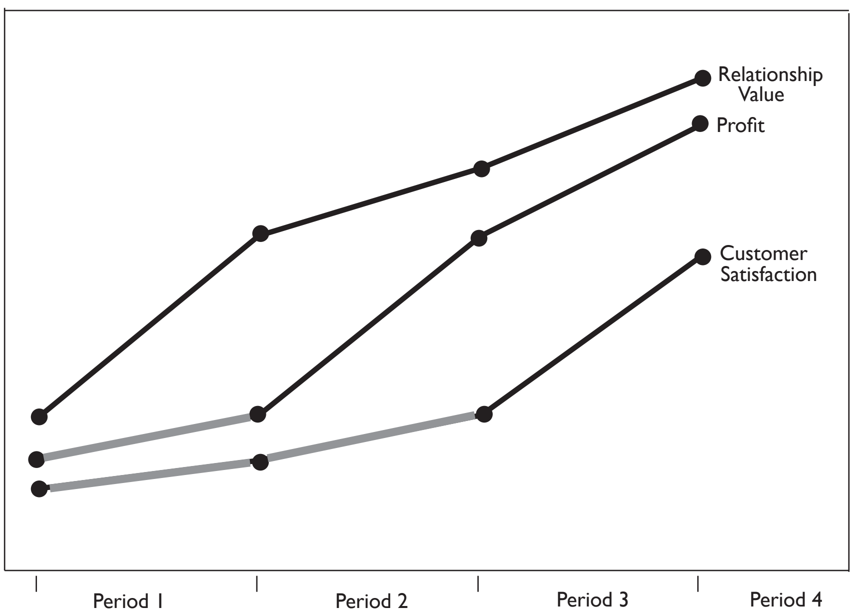
By channel/product group per customer segment, an *actual* Relationship Value Index expressed in terms of the Acquisition, Closing, and Retention stages—and then compared and contrasted to others in business unit, and to the aggregate of all business units, business unit-to-business unit as it changes over time and drives:

1. Profit
2. Customer satisfaction index

3. Employee satisfaction index
4. Employee turnover in sales and marketing and customer service
5. Revenue
6. Awareness research

Relationship Value Drives Profit and Customer Satisfaction

Relationship Value can be a leading indicator for profit and customer satisfaction as shown here conceptually. Profit follows after relationships are built, so there is a lag time before the value created is seen as profit. Still later, that is reflected in customer satisfaction, as customers evaluate their relationship to the company. [Customer Satisfaction Index] With the CRI Framework, you can develop your own proprietary, relevant Customer Relationship Intelligence to lend credibility to your performance claims and forecasts, leading to setting more realistic expectations in the marketplace.



With the CRI Framework, you can systematically and iteratively determine what strategies and factors make your company's relationships with your customers stronger, and which bring you more high-profit revenue, building a competitive advantage that cannot be copied and one that will sustain you.

Five Steps to Continuous Learning

Manage customer interactions in real time—for day-to-day support and immediate course correction.

1. Manage in the moment: *Frontline people* make better and more profitable decisions in the moment as they develop relationships with customers. Evaluate customer status in Customer Relationship Wings levels with built-in Voice of the Customer insights.

Managers evaluate how the new tracking system and processes are working, and make needed interim adjustments. Calibrate Relationship Value with other customer feedback. Review strategy decision models, updated with actual data for real-time profit.

Capture profit patterns in the tracking system—to repeat success and get better over time.

2. Improve operational business model: *Managers* analyze results over time. Identify profitable patterns and repeatable processes. PDCA (Plan. Do. Check. Act.). Make iterative, continuous process improve ments. Update profitability segmentation with expanded customer data.

3. Adjust goals and strategies to new reality: *Executives* make changes dictated by experience, tempered by changes in the market situation.

4. Choose where to focus next: *Executives and managers* improve on current opportunity and take on new ones for best potential profit improvement.

5. Determine unique formula to develop high-profit contributing relationships: Ultimately, the *company* achieves unique, sustainable competitive advantage, based on understanding the cause-and-effect of unique customer relationships.

The CRI Framework measures what hasn't been measured before—the development of the customer relationship—and brings it all together in one framework that can be operational day-to-day, as well as analytical. The overall framework is new. A framework that aligns executives and managers and staff on the frontline in marketing, sales, and retention behind a common strategy is a breakthrough. *This is a breakthrough that provides the underpinnings of a truly customer-focused organization.*

Key Points

- The data stream from the operational system contains each interaction and its associated cost, and incremental Relationship Value. This structured data can be added, summarized, and otherwise analyzed—as contrasted with the information in traditional written contact reports.
- Real-time analysis of the data stream gives immediate feedback to the organization, with bottom-up control of incremental progress on strategies, enabling real-time management and real-time profit.
- The data stream drives continuous improvement in sales and marketing. Interactions found not to be productive can be removed from the system, or potentially productive new interactions can be added. The effect on operations is immediate and universal.
- Analysis of the data stream identifies long-term productive patterns.

Commentary Related to Chapter Eight

Canapary

I *love* market research. Researcher extraordinaire Ed Canapary is one of the reasons why. I was fortunate to work with him for decades at his firm Corey, Canapary, and Galanis in San Francisco before he went to his reward. I learned a lot from him. One of his golden rules was: Don't ask what you won't do anything with; it is a waste of precious time. It follows that if you can figure out what you need to know, you can build it into a system to get the information. That's what I've done in the CRI Framework.

Sharp

Given how much I love market research and finding out about things, it is not surprising that it was a market research project—and how a client didn't use the information that they could have—that fired me up to show how sales and marketing worked. I had been working for years at making research more and more actionable so it could be tied to strategy execution and operational results. It was irritating that the client didn't use what was in front of them. Now I can thank them for the push; at the time, I was just frustrated.

For research to be more actionable, I think it needs to be closer to the customer. That's why I've built ongoing Voice of the Customer research into the CRI Framework as part of the interactions between customers and the staff on the frontline with them. The results of the exchange dictate customers' positions on the Customer Relationship Wings levels.

To make other customer research actionable and tied to what customers DO, not just what they SAY, I've suggested posting relevant excerpts from it alongside other customer feedback. That way the people on the frontline with customers can benefit from the insight.

One of my rules in doing customer research: If you're not going to listen to them or do anything about what they may suggest, don't ask customers anything. You'll get their hopes up, and the fall will be worse than not asking in the first place. It is *my hope* that the CRI Framework will prove to be a useful venue for honoring customers for what they have to SAY and for what they DO.

Customer Satisfaction Index

Although customer satisfaction is a lagging indicator for profit in general, it is an important index, because, as I've noted, a good 80 percent of most companies' business is from repeat or referred customers. A high customer satisfaction index would suggest continuing growth for that 80 percent. Calibrating a customer satisfaction index with a Relationship Value index enables a more robust outlook. A Relationship Value index has the advantage of not just looking at Retention, but at Acquisition and Closing stages in the customer relationship as well. The relationship with customers begins from the very first interaction.

CHAPTER 9 Win-Win-Win!

When visionary executives take the lead in linking strategy to execution and profit, their companies win, their teams win, and their customers win. Executives are engaged, and staff and customers are visible. Relationships are profitable for all.

A VISION FOR A CUSTOMER-FOCUSED ENTERPRISE

A customer-focused enterprise is one that develops mutually beneficial (profitable) and sustainable relationships with its customers, to its competitive advantage. That takes the whole enterprise being focused on the customer, from the people who engage the customer directly to those who support them throughout the organization, from finance to operations. Being customer-focused is everyone's job.

In a customer-focused enterprise, customers are seen as active participants in the business. Customer relationships are tied to profit. The organization is aligned in a cohesive framework for high-profit revenue, while still being extremely responsive to its customers.

It's time to think differently to achieve breakthrough performance like this. Integrated control of customer activities through the Customer Relationship Intelligence (CRI) Framework takes the management of sales and marketing and customer retention to a new operational level. Everyone knows what to do, and why. Everyone knows what's going on with customers within their teams. Everyone knows how their strategy is working in real time. Everyone.

It's time for executives to take a deep breath and embrace a new way of measuring and managing sales and marketing.

Value to your company

With Relationship Value, companies are run better, and a more accurate picture of the company's fiscal health can be seen by shareholders and potential investors or acquirers.

Tighter, more nimble operations

Operations are much clearer, and consequently they are managed much more tightly, more efficiently, and more profitably. Managers know who is accountable for what. They know what their relationships are worth. Executives involve more of their management chain developing strategy, including managers and others who are closer to actual customer interactions.

Everyone knows where they are, so they can respond better and faster than their competition. They know what efforts are most likely to win in every circumstance. Frontline staff is guided in making profitable operational decisions in the moment. Managers react quickly and encourage profitable behavior efficiently. They recognize patterns that lead up to specific events in the customer relationship—such as increasing purchases, giving referrals, or becoming unhappy. Managers make adjustments in midstream to optimize profits in day-to-day operations. Everyone knows if the strategy is working—they speak the common language of profit. *Real-time management is a reality.*

Better use of resources

Executives and managers know where to focus, where to allocate their budget, and how to mitigate uncertainty and risk. They know which strategy is more likely to be profitable before they invest in it. They know what it costs to execute their strategy. They build operational capacity targeted on specifically satisfying key customers in order to maximize profits.

A more profitable, sustainable business model

Managers know where their profit comes from, how to optimize it, where and how to repeat a successful process pattern, and they bring quality improvement to all processes. They know how to turn customers into partners to improve both the top and bottom lines.

Executives have consistent metrics from across their enterprise—the metrics needed to iteratively improve their business model.

Implementing the CRI Framework yields a stream of data about incremental changes in customer relationships. The data stream reflects all the customer interactions and responses, their cost and their value in building the relationship.

Analyzing the patterns the data stream creates helps managers read their customers like a book and fine-tune their operations. They discover their own unique profit formula. The majority of sales and marketing activity is decided by sustainable formulas unique to the individual business, leading to the development of high-profit contributing relationships.

Over time, their understanding of the patterns and formulas help executives differentiate based on exclusive customer relationships. Sustainable competitive advantage is based on what is exclusively theirs—their customer relationships.

Improved corporate governance, transparency, and accountability

With the CRI Framework, executives are more certain about their success. They have more control over strategy execution and profit. They understand their success, so it becomes an ongoing process, not just an event or an end-state accounting.

Their managers back up high-level strategy decision model assumptions with actual performance data. They have intelligence from an ongoing process that links customer feedback to strategy execution and operational results. They have an audit trail where none existed before, to make running the business more predictable, more repeatable, and more accountable. [Sarbanes-Oxley]

Executives have more confidence in setting expectations for themselves and the marketplace, making their forecasts more reliable. They make better decisions.

More realistic valuations

As more and more companies adopt the CRI Framework, and as the relative values for the interactions that build customer relationships are defined in more concrete and standard ways, Customer Relationship Intelligence contributes to a more complete understanding of the value of an enterprise. As the business world gets better and better at applying Relationship Value, this Key Performance Indicator (KPI) is included on the "balance sheets" of the future as a leading indicator for profit.

Take its impact on mergers and acquisitions, for example. When a company is evaluated for acquisition, more than just the book value is taken into account. A potential acquirer must consider the business processes, the capabilities of the current staff, and the position of the company in the marketplace. This is a very inexact science. Accountants, who need precision in this inexact area, have invented the term "goodwill" to stand for everything that an acquisition pays for, over and above the total book value of the company.

Given the propensity, quite often, of acquiring companies to reduce staff in the acquired company (to help pay for the acquisition), and then (for efficiency) to force its own processes on the acquired company, the most significant factor remaining many times in "goodwill" is the market position of the company.

Market position includes many factors, including market share, customer share, brand equity, customer equity, and customer lists. Until now, there has been no good way to determine the value of this market position with any precision—in spite of its importance in figuring out how much a company is worth. The Relationship Value KPI provides a much more solid basis for such an evaluation.

Relationship Value also has an impact operationally when both parties to the merger use the CRI Framework. Then, it requires only calibration to continue to provide consistent intelligence to management about the combined operations without drastically changing processes. And with Relationship Value as a guide, a more careful consideration and quantitative approach is used in making necessary staff reductions. Stopping the relationship-building is like stopping any infrastructure development; it doesn't show right away, but long-term, the business will be hurt.

Value to your team

Staff in marketing, sales, and customer retention is managed for more than selling products and services. They are managed for how well and effectively they build customer relationships and create Relationship Value.

Relationship Value tracks how value is built for the company. Value is built by what people DO in interactions with customers. The act of measuring what it takes to build a profitable relationship creates a record where there's been uncertainty before. It makes clear who does what to whom, and when, in the sales and marketing process, and for what results. The individual interaction record becomes a data stream that leads to sophisticated analysis and models that drive "better" treatment of everyone critical to the success of the business. Instead of better treatment being just "nice," and the people who nurture relationships being vulnerable to arbitrary budget cuts, better treatment is standard operating procedure, best practice, because it makes the company more money.

Not only are people on your team recognized and rewarded for what they do to create value, which is a motivator in itself, but working on a highly motivated, directed team is exhilarating. The atmosphere in such environments does not go unnoticed. It helps attract and retain the best people—the ones who can develop and nurture relationships with customers.

Value to your customers

Customers are recognized as active participants, as partners, in the business. They get the attention and respect they deserve. The value given to customers is balanced with the value received from customers, so both the company and the customer profit—but not one at the expense of the other. Customers are treated better and the company makes more money.

Implications for management

Competitive advantage comes from your understanding and acting on your customer profit patterns better than your competitors understand and act on theirs, but only if management mandates the discipline necessary and maintains it over time.

Both executives and managers can get off the short-term quarterly treadmill and justify the long-term view with real-time situation analysis, real-time management, and the roll-up of consistent data across the enterprise. But the CRI Framework can only serve them if executives are willing to push strategy down the organization to enable managers to own the customer relationship strategy that underlies the directional strategy set by the executives. And the CRI Framework can only serve them if the executives are willing to manage for the profit the customer relationship strategy execution can bring them, by insisting that all members of staff on the frontline who work with customers participate fully. *Including sales.* For sales to cooperate willingly, executives need to make it safe for all in the sales organization and the sales channels to do so. With the CRI Framework and Relationship Value, they can.

Decision-making can become a collaborative sport that executives, managers, and frontline staff play together. The CRI Framework enables cohesive operational control across the marketing, sales, and customer retention functions. But the framework does not assure coordination among the many activities in all of the involved organizations. The coordination is a management issue. The framework provides the metrics and the context to help bring this coordination about. For the coordination to occur, executives will need to embrace some changes in the decision-making systems. This is necessary, particularly during planning, but also during operations.

Similarly, the CRI Framework provides mechanisms for feedback, from operations to plans, enabling real-time management. But it does not *assure* real-time management. That is achieved by viewing the data produced, relating it to the plan (and to norms), and taking action on it. These new business processes affect managers' day-to-day actions, staff meetings, and all business discussions. Ultimately, they are even going to affect informal conversations; imagine this question on the golf course: "How much Relationship Value does it typically take in your end of the business to have a good profit margin?"

Of course, not only do the business management processes and the decision-making systems have to change, but the incentive systems have to change, too. Members of the entire team—executives, managers and frontline staff—are not insulated from the consequences of their actions. Goals and quotas can be set based on gains in Relationship Value, and bonuses and perquisites granted accordingly. In this way, the concepts of the Customer Relationship Intelligence approach permeate the entire organization.

With the new cohesive, disciplined, relevant framework and new decision, incentive, and information systems in place, managers can manage their marketing, sales, and customer retention functions at a whole new operational level, knowing exactly what is going on and where they are going.

Mindset for change.

Companies who are more likely to reap the high-profit revenue possible with the CRI Framework:

- **Will take on the status quo, and will:**
    - Push strategy development down the organization.
    - Shift resources from acquisition to retention.
    - Create a new function for customer retention.
    - Expand decision-making systems.
    - Institute and share operational control.

- **Have these characteristics:**
  - Like to run their business with numbers as a guide.
  - Appreciate the rigors of real-time management.
  - Are not afraid of transparency.
  - Think long-term.
  - Embrace a learning environment.
  - Revel in change.
  - Foster collaboration and teamwork.
  - Look out for their teams.
- **Believe that:**
  - Relationships matter.
  - Employees are to be rewarded for developing customer relationships.
  - Customers are their business partners and the source of sustainable, competitive advantage.

Operating principles for change.

Companies who are more likely to enjoy the sustainable competitive advantage possible with the CRI Framework see that:

1. The customer relationship is a continuum.
2. Incremental improvements can be made in the development of the relationship.
3. Interactions are the "atomic" unit.
4. Interactions execute strategy.
5. Interactions can be measured.
6. Interactions are transactions between a company and its customers.
7. Interactions cause what happens.
8. How interactions affect relationship development is relative.
9. Cause-and-effect is unique to every company and to each channel/product group combination.
10. Customer relationships become a sustainable competitive advantage when this highly relevant inside intelligence is acted upon for profit.

The Customer Relationship Intelligence Framework opens new opportunities for management breakthroughs in strategy, innovation, process, intelligence, and profit.

What role will you play?

Commentary Related to Chapter Nine

Sarbanes-Oxley

The CRI Framework improves transparency, accountability, and corporate governance, which is in the Sarbanes-Oxley spirit. With Relationship Value, the Key Performance Indicator, executives can say with more certainty why they are successful. Executives have the operational control to know where their profit comes from, how to optimize it, and where to repeat a successful process pattern. Bottom line: With Relationship Value as a leading indicator for profit, executives have more confidence in setting expectations for themselves and the marketplace.

Acknowledgements

The contemplation required to write a book leads you to think about what brought you to this place. How do you know what you know, and why do you believe what you believe? I was born an engineer's daughter. From my father, Frank Sharp, I learned to love knowing how things worked. From my Depression-era mother, Ada Sharp, I learned the pure pleasure of making the most of my resources.

One of my resources as a young person was a propensity for math and science. That garnered me a cooperative scholarship at the New Mexico Institute of Mining and Technology (now New Mexico Tech), and then a work-study scholarship at Oregon State University, where I earned a B.S. in Mathematics.

I didn't want to be a mathematician or a scientist, but I did care about scientific method and how things worked. I loved reporting on science and technology, which was how I put myself through school, along with those scholarships. I appreciate the opportunity the schools in New Mexico and Oregon gave me, and I particularly appreciate my bosses, Dave Jackson and Gwil Evans.

My technical background served me well for over thirty years as I positioned complicated products and services for my clients in my marketing businesses. Who could have foretold that this same background would lead me to try to solve one of the most perplexing business problems—how does sales and marketing work?

When I began in the field of sales and marketing, most people learned by doing. What was different about me compared to most of my peers was my scientific background. I could not help myself from looking at the underlying patterns, the relationships. I cared about cause-and-effect. In other words, I paid attention.

I paid attention to some giants in marketing:

- Competitive advantage seer Michael Porter of Harvard and Monitor Group, and his insight about the essence of strategy—that it is in the activities, which ones, and how well they are performed, that differentiation is achieved.

I first learned of him from his classic paper "What Is Strategy?" in *Harvard Business Review* in 1996.

- Advertising strategists Jack Trout and Al Ries, on how to connect with customers, and their ideas of bottom-up marketing—building successful tactics into a strategy. I first heard of them from their book *Positioning: The Battle for your Mind*, published in 1981.
- Marketing guru Theodore Levitt of Harvard, for saying there is no such thing as a commodity and for showing the differentiation of your product or service possible by capitalizing on the *relationship* between buyer and seller. He was writing about marketing in the 1960s. My introduction to him was his 1983 book *The Marketing Imagination*. He passed away at 81 in 2006. Not only was he a brilliant thinker, but he was a generous human being as well. I will never forget how a person as famous as he was would take the time to confirm an insight I had had about the percentage of business that is repeat or referral. Thank you, Sir.

While these people are at the top of my list, there are others. Please take a look at my list of thought leaders at the end of the Acknowledgements section.

And I paid attention to what happened as I worked with some of the brightest, most innovative people you can imagine, in my client companies and on my teams. Bit by bit, the pieces fell into place about the importance of the customer relationship. Some of many examples:

- At a Fortune 100 bank that was considering shifting to a service strategy from a product strategy, a project to map the ways the bank's customers were touched across product groups showed potential to leverage the relationships if they all worked together. The product groups kept control. The manager who commissioned the study was ahead of his time in caring about the customer experience.

- Repositioning a major research institute to transition from an automatic, member-supported mode to a value-driven funding mode brought an opportunity to illustrate the different levels of relationships the institute had with members. In spite of the turbulence created by the deregulation of the industry, funding levels stabilized over the long term, and the membership base diversified and grew both domesticallly and internationally. This was the first time I drew a retention schematic.
- A Fortune 100 captive semiconductor manufacturer was persuaded to enter the public marketplace positioned as their prospective customers' partner, honoring the value the customers would bring to the table. My marketing firm's pioneering use of Voice of the Customer research in developing positioning indicated that a heavy-handed approach just would not work. Being their customers' partner did work. The company booked over $2M in new ASIC (Application Specific Integrated Circuits) orders in less than eight weeks, in a down market. The campaign expanded from Silicon Valley to Europe and Asia over the next decade and established our client as a major player.

So it didn't surprise me totally when I discovered that to understand how sales and marketing works, you have to understand how the customer relationship works. Just looking at my own experience:

- I followed my banker, David Gallagher, around from branch to branch because he made banking easy for me. A top performer, he constantly challenged his employers to explain how he was so successful when he didn't use their process.
- How much I appreciate being a customer of Dennis Beckman at the Enchanted Crystal Gift Shop in San

Francisco! He truly cares, and takes the time to find out, why I buy what I buy from him.

- What a pleasure it was to find a couple of "old-timers" at the phone company when I've needed to make a complicated change. They knew the system, were dedicated to the customer, and took pride in their work, finding ways to make the system work for me even if that meant going beyond the allocated "average" time. I don't know them as well, but I will always remember their great service.

In Dennis Beckman's case, he is the business owner, but in the other examples, employees did what they thought was right, even if their employers didn't approve or understand. That's one reason why I've been so passionate about getting what I've discovered about Customer Relationship Intelligence and how to quantify sales and marketing "out there" in honor of people such as the ones described here.

My vision has been nurtured by an incredible group of colleagues, friends, and family who have believed in me and have helped make it possible for me to take my discovery to market:

- *Urging me to file for the business process patent:* Mark Ritchie and John Kauke.
- *Serving as my attorneys for the patent:* Tom Bottini, Natu Patel, Patrick Rasche, and Michael Anslinger.
- *Helping me present my patent ideas visually:* Bill Jacobson and Larry Nielsen.
- *Being my advisor:* Ian Jacobsen, Jim White, Marlin Boisen, Sharon Tjian, Dan Noble, Rolf Lips, Cullen Coates, Alfred Dipman, Rick Ellinger, Jim Horan, Mike Kelly, Bob Weiss, Richard Mueller, Rich Neumann, Dorea El-Sayed, Fay Kilgore, Chris Grasteit, Malcolm Ryder, Ray Dunaway, and Kathleen Robinson.

- *Being my encourager:* First and foremost, my brother Tom Sharp and my sister-in-law Nikki Sharp, my aunt Margaret Bell, David Gallagher, Jeanne Fukuji, Jim Welter, Jean Anderson, Ed Canapary, Betty Morris, Susan Christy, Marilyn Manning, Duncan MacVicar, Dan Dahle, Steve Cox, Deborah Hornberger, Richard Taylor, Mark Smith, John Todor, Anne Chambers, and Bob Stacey.
- *Helping take Customer Relationship Intelligence to market in Religence, Inc:* Jim White, Bob Sabath, George Fruehan, Kathleen Robinson, Dave Pearson, Ray Sheen, Ray Dunaway, John Kauke, Eve Thompson, Anne Chambers, and Steve Cox.
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- *Crafting early messaging and marketing materials:* Eve Thompson.
- *Providing critical critique of Customer Relationship Intelligence:* Dave Pearson.
- *Introducing me to the action learning team approach:* Kathleen Robinson.
- *Helping me visualize the data from the Customer Relationship Intelligence tracking system:* Chris Grasteit, George Fruehan, and Dave Pearson.
- *Reviewing early drafts of this book:* Dave Pearson, Bob Stacey, Dan Noble, Steve Savia, Bob Sabath, Fay Kilgore, Kathleen Robinson, John Kauke, Ray Sheen, and Tim Powell.
- *Publishing this book:* Sylvia Todor and her team: copyeditor Linda Jay Geldens, and book designer Whitney Todor.
- *Naming this book:* Especially Max Henrion, Sydney Green, and David Stodder and the 68 others who voted on the title.
- *Writing this book:* Jim White and Cat White.

I'd like to acknowledge Jim White especially. He signed on the minute I showed him what I had done for the patent. He saw right away that the management discipline enjoyed for decades in manufacturing could be brought to marketing. He wanted to see this happen, and committed to doing whatever it took. He has done that! His is a special talent, to quote a friend of his. Jim likes being on the forefront of new ideas, and relishes finding practical ways to bring them to fruition. For example, early in his career, Jim pioneered methods to apply Operations Research and other quantitative techniques to marketing processes, when he managed information systems at one of the largest continuous process manufacturers in the world. He was an early adopter of network technology, open systems, distributed computing, decision support, and e-business infrastructure, as well as deployment of integrated enterprise software systems such as SAP. I was lucky to have him be as excited about this as I am.

A year of research and development ensued to figure out the best way to take my breakthrough to market. Since then, Jim has been instrumental in helping me form the company and refine the Customer Relationship Intelligence tools and operational framework.

It was Jim's idea to do this book. He created a book outline to sell me on the idea and then recruited his daughter Cat White, who works in the publishing industry, to get us started. Cat was courageous enough to take on a reluctant author, patient enough to pull out of me what we needed to cover, and diligent about shaping the first draft of the manuscript. She has continued to offer advice and counsel as Jim drove the book project and drove me! Our book, *Customer Relationship Intelligence*, would never have happened without the collaboration of our team. And I would never have known the joy of being an author. Thank you so much, Jim and Cat.

And thank all of you for being there for me during this incredible odyssey.

The odyssey isn't over. If Jim is right, Customer Relationship Intelligence will forever change the way executives and managers look at their organizations.

As you may have noticed, I have dedicated this book to the unsung heroes in sales and marketing and customer service, to recognize the value created by them every day in developing relationships with customers. I already know that my next book will be about the management breakthroughs in strategy, innovation, process, intelligence, and profit realized by the executives and managers who embrace a new way of measuring and managing sales and marketing.

In the meantime, I can't wait to see where you take Customer Relationship Intelligence.

A Special Thank You

"If I have seen further it is by standing on ye shoulders of Giants," Sir Isaac Newton said in 1676. I feel that way now. My breakthrough way to measure and manage sales and marketing has been possible because of the work of others in building a body of knowledge about business.

I'd like to pay a special tribute to the thought leaders—people and companies, including people on my team—mentioned in this book and thank them for how their ideas sparked ideas in me or validated my approach.

You'll find them and how they have added to my understanding here chapter by chapter, but you will also find commentary at the end of most chapters that expands upon specific contributions.

Thank you all.

Introduction

Helping to establish Customer Lifetime Value (CLV) as an important measurement: Arthur Hughes, author of *Strategic Database Marketing;* and Sunil Gupta and Donald Lehmann, authors of *Managing Customers as Investments.*

Summarizing current marketing metrics: Paul Farris, Neil Bendle, Phillip Pfeifer, and David Reibstein, authors of *Marketing Metrics: 50+ Metrics Every Executive Should Master.*

Chapter One

Putting a number on the huge performance gain possible if the strategy-to-performance gap were closed: Michael Mankins and Richard Steele of consulting firm Marakon Associates in *Harvard Business Review.*

Measuring and managing manufacturing breakthrough: Time and Motion Study inventor Frederick Winslow Taylor.

Quantifying how invisible customers are to most executives: IBM study.

Pointing out the failure rates for CRM (Customer Relationship Management) enterprise software implementations: Daniel Murphy, Joseph Grady, Javad Maftoon, and Andres Salinas, authors of *Making CRM Stick*, who referenced studies by IBM, consulting firm Accenture, and Gartner Group analysts.

Establishing the importance for executives in understanding their success: Jim Collins, author of *Good to Great*.

Underscoring the drawbacks of short-term thinking: Organizational guru Russell Ackoff of Wharton and author of *Re-Creating the Corporation*; and studies by Duke University professors John Graham, Campbell Harvey, and Shiva Rajgopal; and McGraw Hill.

Outlining why strategy execution can be an oxymoron: Peter DeLisi, President of Organizational Strategies, who referenced a David Axson article in *Strategy & Leadership*.

Highlighting the difference between effectiveness and efficiency: Russell Ackoff of Wharton and Religence team member Jim White.

Describing the customer experience as the next corporate battleground: Colin Shaw and John Ivens, authors of *Building Great Customer Experiences*.

Evangelizing the shift from transactions to interactions as the new driver of productivity: Cisco Systems CEO John Chambers.

Underscoring the difficulty in executing strategy: Former *Fortune* managing editor, Walter Kiechel III, writing in *Planning Review* (now *Strategy & Leadership*) and *Fortune* magazine; and Ram Charan, author of *Boards at Work*, writing in *Fortune* magazine with *Fortune* senior editor-at-large Geoffrey Colvin.

Establishing the need for and a method to map strategy to align an organization and link strategy and execution: David Norton and Robert Kaplan of Harvard and Balanced Scorecard, now part of the consulting company Palladium, and authors of *Alignment*. Also prior work at Renaissance Solutions, Inc. with *CFO* magazine.

Making the case that strategy is not operational efficiency: Competitive advantage guru Michael Porter of Harvard and consulting firm Monitor Group.

Chapter Two

Suggesting differentiating based on the relationship between the buyer and seller: Marketing guru Theodore Levitt of Harvard.

Pointing out the inability of most companies to anticipate demand in real time: Former Federal Reserve Chairman Alan Greenspan.

Pioneering differentiated customer service for enhanced profitability: Religence team member Bob Sabath.

Introducing me to the action learning team approach: Religence team member Kathleen Robinson.

Uncovering the "disconnect" between what a company and its customers think about the delivery of the customer experience: Bain and Company, Inc. consultants.

Providing insight on the value of customer satisfaction: The University of Michigan Business School.

Chapter Three

Defining customer levels and tactics to affect them: Jill Griffin, author of *Customer Loyalty*.

Chapter Four

Opining: you cannot manage what you cannot measure: Management guru Peter Drucker.

Confirming my insight about the percentage of business from repeat and referrals for established companies: Theodore Levitt of Harvard.

Improving upon segmentation by profitability by highlighting franchise customers: Religence team member Bob Sabath.

Establishing the importance of customer advocates to the bottom line: Bain and Company's Frederick Reichheld, author of *The Loyalty Effect* and *The Ultimate Question: Driving Good Profits and True Growth.*

Evangelizing the importance of CLV as a measure: Carlson Marketing Group's Martha Rogers and Don Peppers of 1-to-1 Marketing fame.

Discovering a revealing way to segment for profitability using CLV and Contribution to Profit to Date: Religence team member George Fruehan.

Chapter Five

Declaring that the essence of strategy is in the activities, which stimulated me to think that the essence of strategy execution is in customer interactions: Michael Porter of Harvard.

Pointing out that strategy happens whether it is explicit or not: Futurist Alvin Toffler, author of *Future Shock*.

Chapter Six

Illustrating the benefits of an involved workforce: Jeffrey Liker, author of *The Toyota Way.*

Disclosing the importance of a mix of tactics in closing a sale: D.F. Blumberg & Associates study referenced in *Journal of Management Consulting.*

Pioneering engineering positive customer experiences into product and process design: Religence team member Ray Sheen.

Revamping Activity-Based Costing to measure activities based on time, which is similar to my approach in monetizing interactions: Acorn Systems CEO Steven Anderson and Robert Kaplan of Harvard, authors of *Time-Driven Activity-Based Costing.*

Showing the efficacy of CLV over RFM for anticipating profit: University of Connecticut professors Rajkumar Venkatesan and V. Kumar in a study published by Marketing Science Institute.

Chapter Seven

Appreciating the hard work in realizing an idea: Inventor Thomas Edison.

Comparing and contrasting the CRI Framework with Six Sigma: Religence team member Ray Dunaway.

Fine-tuning how existing interactions and insight from predictive modeling can be used within the CRI Framework: Religence team member Dave Pearson.

Chapter Eight

Declaring the importance of asking only what you will use: Market researcher Ed Canapary.

Pointing out how little use companies make of the customer feedback they collect: A European study referenced by Gartner Group.

Establishing the downside of using other companies' best practices: Michael Porter of Harvard.

Note:
I didn't mention Jack Trout and Al Ries specifically within the text of the book, but I'd give Trout and Ries credit for *planting the seed in me and many others that a customer experience is built one interaction at a time. Just update, to today's parlance, their ideas from the early 1980s of how to establish your brand in a customer's mind. Additionally, their idea of marketing from the bottom up, which gave recognition and credibility to marketing tacticians, stimulated my thinking about taking strategy down to where the action is with customers.*

I've already mentioned the tremendous contribution Religence team member Jim White made *recognizing the value of what I had invented and resolving to do what it would take to bring it to life*. It doesn't hurt to mention it again!

About the Author:

Linda Sharp is CEO of Religence®, Inc., a customer-focused performance management consulting firm in San Francisco. Her highly experienced, multidisciplinary consulting team at Religence aligns marketing, operations, and finance to help clients unlock their competitive advantage in customer relationships and grow high-profit revenue. Religence helps clients understand where they stand with customers and how value is built—cause-and-effect. Religence clients execute their plans, manage in real time, and repeat success. Religence clients put a value on customer relationships to drive profit.

Sharp has run her own marketing firms for more than 30 years, observing success in marketing with a mathematician's eye. The Customer Relationship Intelligence (CRI) Framework was born of her five-year odyssey to quantify marketing, and has resulted in a business process patent application* and the formation of Religence to commercialize her discovery. Elements of the CRI Framework have been proven at a number of companies, but the overall framework is new. The CRI Framework links strategic planning to operational execution, and real-time customer relationship metrics to profitability. Her insight is that it is all about the customer relationship, that measuring relationship development is what matters for profit and competitive advantage. Relationships are fundamental.

A sales and marketing process innovator and integrator, Sharp created one sales and marketing process change after another, first integrating marketing tactics to help pioneer the marcom function, then integrating telemarketing and market research to pioneer a new use of Voice of the Customer (VoC) research. She understood early on that a company's best potential customers were most likely its current customers. Now she has captured her insight about how sales and marketing works and how to measure it, formalizing her approach to Customer Relationship Intelligence.

Sharp has worked successfully across many industries, with special focus on business-to-business in the financial services, high technology, transportation, energy, and environmental industries. Major company clients include Fireman's Fund Insurance, Wells Fargo, Visa, U.S. Leasing, AT&T, AMD, Hewlett-Packard, Pacific Fruit Express, EPRI, Chevron, Brown and Caldwell, and Grace Sierra (a former W.R. Grace company).

A reoccurring theme for Sharp has been to help companies through the throes of massive change. If she has her way, another huge change is about to happen. She believes the CRI Framework will fundamentally change how people who work on the frontline with customers are measured and managed—and that it will take sales and marketing and customer service to a new operational level.

Sharp is an award-winning wildflower photographer and was the founder of the San Francisco Bay Area American Red Cross Disaster Information Task Force, which revolutionized the way the agency used volunteers.

Reach Sharp at linda.sharp@religence.com or at (415) 771-7473 in San Francisco, CA. Learn about how to participate in activities related to the book at www.customerrelationshipintelligence.com.

*On April 28, 2009 Sharp became the proud, patient, and persistent owner of Patent No. US 7,526,434 for a Network-Based System and Method of Marketing Management. The business process patent is for a method to manage marketing by measuring and managing the development of a relationship between a business and a contact.

Index

Key Words: customer relationships, retention, profit, competitive advantage, strategy, strategy execution, real-time management, operational control, metrics, profit patterns, process intelligence, collaboration, cross-functional, sales, marketing, customer service, interactions, Customer Relationship Intelligence (CRI) Framework, Relationship Value KPI

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More of what executives and thought leaders in sales, marketing, customer service, customer experience management, finance, operations, process improvement, market research, business intelligence, data management, strategic planning, and performance management are saying about *Customer Relationship Intelligence:*

Linda Sharp has written an excellent book on relationships and understanding relationships in relation to marketing. I had no doubt that the book would be excellent; she was an early leader in the Institute of Management Consultants in Strategic Alliances and Teaming. Her understanding of the relationship model and her belief that marketing should not be viewed as a cost center or loss leader come together in this book to move the reader to an understanding of how customer intelligence and building on customer relationships can result in greater profitability. This is refreshing in what has become a corporate America belief that customers are commodities.

Steven A. Savia, MA, CMC, Managing Principal
The Sage Group
Past National Chair, Institute of Management Consultants, USA

Customers are business partners. Customer service is a profit center. Outrageous? No. At last someone thinks as I do. In her book Customer Relationship Intelligence Linda Sharp makes a strong case for customer retention and why the customer relationship spans a continuum of acquisition, closing, and retention. Understanding what is going on with customers all the time is critical to success. Without this intelligence, you are flying blind. To get it requires collaboration among sales and marketing and customer service within a unifying framework.

John Poppleton, Product Manager
Applikon, Inc.

The Customer Relationship Intelligence Framework is a unique and practical method for frontline employees to improve individual customer profitability and retention. Sales, customer service, and marketing professionals are empowered through the CRI Framework to make an ongoing impact that is readily visible and highly appreciated by executives. This fully customizable solution is a proactive customer advocacy method and an important component of customer experience management.

Lynn Hunsaker, President, ClearAction, LLC
Past President, Silicon Valley American Marketing Association

Marketing done well is about sustainable customer relationships. Typical marketing communication is a scatter shot of advertisements and targeted work via the Internet along demographic lines. Linda Sharp has a clear message in Customer Relationship Intelligence that makes managing the relationships, not just customer demographics, the priority. Use this book to improve support and repeat business with your own customers.

Rick Ellinger, Interim Director
Disaster Planning Initiative
Joint Venture Silicon Valley Network
President, Wireless Communications Alliance

Having worked with countless executives from start-ups to the Fortune 500 in strategic planning and leadership coaching, I know the concern these executives have for customers and the frustration many of them feel in not knowing as much as they would like about what motivates their customers. They have a similar frustration in linking their strategic plan to operational execution. Now there is a solution. I heartily endorse Linda Sharp's book Customer Relationship Intelligence and the actionable process she describes that will allow executives to have consistent, relevant data from across their enterprise to manage in real time. She has achieved simplicity beyond the complexity that has stymied so many.

Marilyn Manning, PhD, CSP, CMC, CEO
The Consulting Team, LLC

Intelligence works best when it focuses on what creates value. And how better to create value than to develop stronger customer relationships? Companies fail to create the conditions to acquire and act upon true customer intelligence—then wonder what became of their brand equity. It doesn't take too much time to destroy a brand—or even a company—this way. Linda Sharp's systematic approach gives us a way to avoid such a tragedy.

Tim Powell, President
The Knowledge Agency®

Linda Sharp's approach to measuring the value of each individual customer relationship puts a framework around what we all know we should do, but didn't know how to do until now. The real gem in Customer Relationship Intelligence is that, by knowing where we stand with a customer in real time, we will be able to proactively and cohesively deliver on the promises we make. For many corporate executives, this eliminates a major excuse for not delivering great customer experiences every time.

Sharon Oatway, President & Chief Experience Officer
VereQuest Inc.

The CRI Framework provides a structure for concepts that have never been properly organized. Through this framework, organizations will be able to leverage existing metrics in ways not previously possible without many years of research and refinement. Specifically, providing a structured methodology for the integration of user behavior, clickstreams, and customer satisfaction will make those who adopt more agile, competitive, and customer-focused.

Cameron Turner, CEO
ClickStream Technologies

Linda Sharp's breakthrough book, Customer Relationship Intelligence, shows the way to putting the customer at the center of your company, in ways that are understandable, measurable, and most of all, profitable.

Betsy Burroughs, President
FutureCatalyst

Our work with major brands across North America and Europe has convinced us that the needs Linda Sharp is discussing here are very real, and so is the viability of new, emerging solutions her framework accommodates, including our own 1:1 Optimization work. Her roadmap is going to become a must-read resource for a new breed of marketers who want to combine creativity with accountability, harnessing a wave of new relationship building state-of-the-art, predictive technologies within a consistent framework. For those who have the courage to lead, the rewards will be large.

David Beaton, Senior Partner
Custometrics, Inc.

Linda Sharp has created a truly thought provoking book. Customer Relationship Intelligence describes a cutting edge methodology for improving effectiveness in building customer relationships and for measuring the contribution of the marketing and sales organizations to a business' profitability. I predict that the CRI Framework will become ubiquitous as the power of determining and measuring the value in customer relationships is realized.

Ian Jacobsen, CMC, FIMC, Principal
Jacobsen Consulting

Linda Sharp's new book is an important, leading-edge approach to a long-neglected aspect of customer retention. If America and Western Europe are to survive globalization with their middle class intact, they will have to look closely at customer relationships, which may be the central margin of profit in the future paradigm of business competitiveness, especially with high-end goods and services. American business and world commerce need a second look at customer service and perhaps a new look at the way we do business. Sharp has started us on that journey with her unique book which will soon be seen as the future of sales and marketing. Professionals and professors will both benefit from integrating Sharp's thesis into their practice.

Professor Mike Whitty, College of Business Administration
University of Detroit Mercy
Director, The Future of Work Institute

Resources

At the end of most chapters in *Customer Relationship Intelligence* you'll find commentary about current practices related to that chapter. Many of these practices are ones that my colleagues in Religence, Inc., the company formed to commercialize my patent, and I have pioneered over the last couple of decades.

Now these practices are recognized as critically important to bring a customer focus to marketing, operations, and finance. These methods help companies align to realize the sustainable competitive advantage now possible when Customer Relationship Intelligence (CRI) is operationalized.

To learn more about how your company can profit from a customer focus, please visit our website at www.religence.com. Go to Resources. What follows is a summary of what you'll find in the body of knowledge we have created there.

Next-Generation Thought Leadership Papers

Our thought leadership papers put what we've pioneered in context with what we view as the next steps and suggest how to get started valuing customer relationships to drive profit now.

1. **Voice of the Customer Research: *Customer Focus as Business Imperative*** by Religence CEO Linda Sharp
    - Five reasons why so few companies use the feedback they get
    - Three ways to act on customer research
    - Why ask WHY?
    - When you ask WHY, be prepared to ACT
    - The advantage in asking WHY
    - People appreciate being asked WHY

2. **Traditional Customer Research with VoC: *More Actionable, Powerful, Relevant Research*** by Religence CEO Linda Sharp
    Primary focus, what's changing, why ask WHY, what's next for:
    - Product/Service Development Research
    - Market Assessment
    - Process Improvement
    - Customer Satisfaction
    - Customer Feedback Tracking

3. **Technology Innovation: *Engineer in Positive Customer Experiences*** by Senior Religence Consultant Ray Sheen

- The commoditization of technology
- Product development mindset
- Product technology and the customer relationship
- The impact of product technology on the customer relationship
- The Product Relationship Roadmap
- Customer relationships replace technology as competitive advantage

4. **Value Creation: *Map What the Customer Experiences***
by Senior Religence Consultant Ray Sheen and CEO Linda Sharp

- No one said this was going to be easy
- The need for a common understanding of value from the perspectives of finance, operations, marketing, and the company overall
- Customers determine value, not the company
- Customers perceive value in several dimensions: Brand Value, Product Value, and Relationship Value are aspects of Customer Value
- Map Value Creation
- Measure and manage Value Creation
- What's next: breakthrough, repeatable customer-focused performance

5. **Profitability Segmentation: *Focus on High-Profit Growth Potential*** by Religence CEO Linda Sharp with Chairman Emeritus Bob Sabath and CFO George Fruehan

- Customer profitability trumps product profitability
- Customer profitability segmentation methods:
    - Customer Satisfaction Research
    - Net Promoter Score
    - Recency, Frequency, Monetary (RFM) Transactional Analysis
    - Customer Lifetime Value (CLV)
    - CLV to Contribution to Profit to Date Matrix
    - Profitable Customers to Profitable Products Matrix Analysis
    - Activity-Based Costing (ABC) to Balanced Scorecard Matrix
- What's next is real-time profit

6. **Strategy Execution: *Operationalize Strategy to Deliver Advantage*** by Religence CEO Linda Sharp with Board Member Dave Pearson

- Execute directional strategy by executing customer relationship strategies
- A comprehensive, consistent, disciplined approach to strategy execution planning
- Operationalize strategy
- Collaborating for strategy execution is simple
- A breakthrough way to measure and manage strategy execution and value creation
- Now real-time management and innovation is possible
- Unlock the competitive advantage in customer relationships

7. **Operational Control: *Relevant Intelligence about Customer Relationships*** by Religence CEO Linda Sharp

- Current state: backward looking
- What's new: forward looking
- Manage Acquisition, Closing, and Retention as a continuum
- Customer relationship metrics measure cause-and-effect
- Relationship Value drives profit and customer satisfaction as a leading indicator
- Systematic process to build profitable customer relationships

Frequently Asked Questions (FAQ) Section

This section puts Customer Relationship Intelligence (CRI) in context. The questions and answers provide a

- High-level overview of why you should care
- Comparison of CRI to other approaches including Customer Satisfaction Research, Customer Lifetime Value (CLV), Six Sigma, Balanced Score card, and Sarbanes-Oxley
- Description of where we think there is the best fit for CRI
- Suggestions on where to begin
- Discussion on tracking interactions
- Technical considerations.

CRI Reference Section

You'll find more on Voice of the Customer Research and building profitable customer relationships in our extensive CRI Reference Section.

- There are seven sections on Voice of the Customer Research to help you
  - Establish relationship status
  - Position your offering
  - Build robust profiles
  - See how to approach it
  - And more.
- To guide you in building profitable customer relationships, you'll find
  - A profitability checklist
  - How to correlate profitable customers with profitable products in terms of total contribution to profit
  - How to align for strategy execution using a strategy decision model
  - And more.

CRI Community

The CRI Community evangelizes the adoption of Customer Relationship Intelligence and collaborates on how it is done. Please visit www.cricommunity.com to join in.

Executive Briefings

To help companies thrive in challenging times, we have partnered with the Association for the Advancement of Relationship Marketing to make available two Executive Briefings on Customer Relationship Intelligence and customer fundamentals. Go to www.aarm.org or www.religence.com. For more information, contact Linda Sharp at linda.sharp@religence.com or at (415) 771-7473 in San Francisco, CA.

In every economic environment--in downturns and in growth cycles—the winners will be the companies who pay attention to their customer relationships and understand their customers better than the competition understands theirs. It's fundamental. Fundamental in challenging times. Fundamental any time.

Customer Relationship Intelligence

To Thrive, Pay Attention to Customer Fundamentals:

#1 Pay Attention to the Voice of the Customer

The most important thing the current economic conditions tell us is how critical it is to stay close to customers. A conversation is how to find out what is going on with customers, what they need to be more successful or just to navigate challenging times.

#2 Pay Attention to the Relationship

People buy from people they know or know of, are comfortable with, and can trust. The relationship begins before a person becomes a customer and continues well after purchase. Developing a relationship is a joint collaborative interaction process—a give and take--between the company and its people and the customer that moves the relationship forward or backward.

#3 Pay Attention to Customer Value

Know what customers value. Engineer in what could create more value. Stop doing what doesn't. Make sure everyone knows what to do when things go right or things go wrong with customers.

#4 Pay Attention to Top Priority Customers

Focus on customers you'd like more of. Find out what appeals to them—why they buy, why they stay or not. Use what they tell you to tell others why they are happy with you. Like attracts like.

#5 Pay Attention to Customer Profitability

Customer profitability is more important for performance than product or service profitability. Generally 20% of customers account for 80% of revenue and often more than 100% of profit.

#6 Pay Attention to Retention

Retention is where the money is. Yet most companies put 7X as many resources on Acquisition. For established businesses typically 80% of revenue is from repeat or referral business.

#7 Pay Attention to the Customer Experience

First map the value being created in the joint collaborative interaction process. Then track actual interaction flows in an operational Customer Relationship Intelligence tracking system for real-time operational control and to drive profitable customer outcomes. Interactions with customers are the essence of strategy execution and value creation.

Why Customer Relationship Intelligence Is Fundamental

Managing the development of the customer relationship across the continuum of acquisition, closing, and retention in the context of strategy is new. Typically marketing, sales, and customer service are managed discretely as separate organizations or silos and measured on how tasks are performed, not for their part in developing the customer relationship and executing strategy. And with multiple organizations like this it is hard to know what happens as the relationship develops or to repeat a successful process.

Customer Relationship Intelligence (CRI) provides breakthrough customer relationship metrics to measure cause-and-effect in the development of customer relationships and a breakthrough framework to manage the people who develop the relationships in real time, tied to profit.

CRI takes sales and marketing to a new operational level and breakthrough performance in a truly customer-focused organization.

Customer Relationship Intelligence brings a fresh, new perspective to sales and marketing: new relationship metrics and a breakthrough, actionable framework for real-time management, tied to profit.

It is about teamwork and collaboration. It is about executing strategy. It is about retention, profit, and competitive advantage. Now companies can realize the *gold* in customer relationships and overcome risk and uncertaintly in sales and marketing to:

- Unlock the sustainable competitive advantage in customer relationships.
- Align the organization in a cohesive framework to earn high-profit revenue.
- Operationalize strategy to manage its execution in real time.

With the Relationship Value metric, Linda Sharp has found a quantitative way for sales to give feedback to executives without being second-guessed. Her Customer Relationship Intelligence Framework reflects a great respect for and understanding of sales. She has truly made the sales job easier day-to-day.

Alfred Dipman, Vice President North American Operations
Linkquest LTD

Applying metrics to marketing was what initially attracted me. As a finance executive I was eager to find a comprehensive approach that could help us bring discipline and control to sales and marketing. The CRI Framework has put us on a path to both high-profit revenue and improved processes.

Kent Wegener, Vice President Finance
Otis Spunkmeyer, Inc.

Using the CRI approach, we gained the ability to identify and pursue high-probability prospects and our success ratio has increased dramatically. This system has had a substantial and positive impact on our bottom line. I look forward to refining our processes by implementing more of the framework.

Tom Grotewold, President
Rare Space, Inc.

US $34.95

How to take sales and marketing to a new operational level and breakthrough performance in a truly customer-focused organization.

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