



**Master the new realities
of customer relationship
management**

Succeeding in a consumer-driven environment

The Internet tips the playing field towards the consumer. Performance management helps level it.

Our fathers worked for the boss, and when they left the office at five o'clock, they left their job worries behind. But today's managers, employees – even the CEO – work and worry nearly 24/7 – and probably for someone other than their bosses on the organizational chart. What has caused this shift, and who is this new boss? The answers to these questions are the Internet and the recently empowered customer, respectively. The Internet, with its powerful search engines and near-instant gratification, has irreversibly shifted power from sellers to buyers. And every supplier of products and services is scrambling to become more customer-focused.

Performance management, defined narrowly by most as merely better strategy, budgeting and control, is increasingly becoming recognized as a much broader concept. Performance management runs end to end as the complete, closed-loop planning, design, marketing, selling and customer order-fulfillment cycle. One of the critical components in the portfolio of performance management methodologies is customer relationship management (CRM), executed via decision process automation (DPA). Why is CRM now so critical to performance management?

A shift of power from sellers to buyers

Organizations have realized they must be increasingly focused on customers in order to stay in business today. This power shift is due to slimmer margins, commoditization of offerings and the availability of information for the customer – especially through the Internet. For businesses to survive, they:

1. Need higher customer retention. It is relatively more expensive to acquire a new customer than to take the steps needed to retain an existing one.
2. Must shift away from commoditized products and toward value-added service differentiation for customers and prospects as the source of competitive advantage.
3. Need to boost customer profitability through increasing the number of customer segments and better targeting efforts. Micro-segmenting of customers helps businesses focus on customers' unique preferences, a departure from traditional, spray-and-pray mass advertising and selling that has shown very little return.

These forces should not keep organizations from attempting to acquire new customers. But they should balance their use of financial and human resources between growing sales with higher-potential, existing customers and acquiring high-

profit customers who share characteristics with their existing, high-profit customers.

The Internet has shifted power from suppliers to buyers because shoppers can instantly view comparative pricing from a broad range of vendors while collecting more information from Web-based product and service-line resources.

Just imagine the shopping experience of a forgetful husband the evening prior to his 10th wedding anniversary. Once he realizes on his drive home from work that he has forgotten a gift, he types – or even speaks – these five words into a search engine on his Internet-equipped cell phone: “10th wedding anniversary wife gift.” In less than a second, his phone provides a list of gifts other husbands have purchased, ranked in order of popularity. With a click, he can view price ranges. And once he further specifies his price range, he can locate nearby stores complete with driving directions, and he can even immediately phone each of those stores to talk to a salesperson. If he had been prudent enough to remember his anniversary only a few days earlier, he could have been directed to Web sites where he could have purchased the item for far lower than retail price and have had the gift wrapped and shipped.

How can retailers gain a competitive edge?

Some retailers overreact by becoming customer-obsessed when they attempt to transform themselves away from developing innovative new products and services and motivating their sales forces to sell them. Most eventually realize that they should work backward by first understanding the unique buyer preferences of the types of customers and prospects they want to serve. There is a difference between being customer-focused and customer-obsessed. The latter approach may cast too wide a net and capture savvy, high-maintenance, price-driven, non-loyal buyers who ultimately yield little profit margin in the long term.

As a retailer increasingly micro-segments its customers and sales prospects, the company will need more accurate intelligence on the current and future potential profitability of its products, service lines, channels and customers (see Figure 1). The idea here is not just to know which types of customers to grow or acquire and which not to, but also how much to spend growing and acquiring the desired types. If you bribe loyal customers and prospects with unnecessarily deep discounts and excessively costly differentiated services, or if you neglectfully fall short with offerings or services to non-loyal customers and prospects thus risking their abandonment, then you destroy shareholder wealth. The

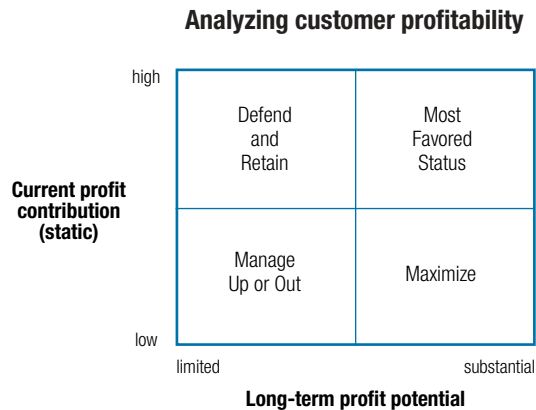


Figure 1: Just knowing the existing level of profitability for a customer may not always be sufficient. Some kinds of customers, such as a young, promising dentist or imminent university graduate, have sizable future profit potential. Because their current level of profitability does not reveal this, their future potential should also be considered. Each quadrant in the figure suggests which action to take toward a type of customer to improve profitability.



spending and investment of sales and marketing is ultimately a financial optimization problem. This is why an effective managerial accounting system is another one of the key components of the performance management portfolio of methodologies.

A single view of the customer

Placing aside the skills and capabilities needed to measure customer value and derive a return on customer value score, there is a myriad of other tactics available to exploit customer intelligence data. For example, sales and marketing campaigns can become continuous, closed-loop learning cycles. Based on known patterns of psycho-demographic customer data (for example, teens' TV viewing preferences) and their recency-frequency-monetary spend (RFM) history (how much money was spent, how recently and how often was it spent), offers, deals and discounts can then be customized to micro-segments, and ultimately to individuals. In addition, based on the actual-versus-expected response behavior, future marketing campaigns can then be fine-tuned. DPA is required to reach this level of customization in a timely manner across millions of customer interactions. The complexity is too great to achieve manually.

To create higher shareholder wealth, a company must analyze its customer portfolio in new ways to discover new, profit-

able revenue growth opportunities. Many organizations have difficulty accessing, consolidating and analyzing the necessary customer data that exists across its various business systems. This issue is exacerbated over time as the number of systems and discrete customer databases expands.

Becoming customer-centric requires a view of data that involves no walls. For example, a bank should ideally consolidate its information onto a single decision-making platform, instead of keeping its credit card data in one silo, its banking account data in another and its mortgage data in yet another. A "single view" of the customer must eventually be created, one that consolidates relevant and accurate data related to a single customer across different organizations, databases and operational systems. Without this single view, a customer with a variety of products may be viewed as less valuable than a customer with one product. One customer who spends a lot of money with you and time with technical support could be determined as highly unprofitable/undesirable in the customer service department but very valuable to sales and marketing.

As initially mentioned, customer relationship management is one of the critical components in the portfolio of performance management methodologies for this very reason. When customer analytics are combined with the other components

of the performance management portfolio – such as balanced scorecards, demand planning/forecasting, marketing automation and predictive resource capacity management – the full vision of performance management can be realized. ●

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On-demand Webcast (featuring Tom Davenport, author of *Competing on Analytics*) discusses customer metrics. www.sas.com/retail-davenport

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1-800-FLOWERS.COM knows its customers

From its innovative use of telecommunications technologies in the 1980s to its pioneering Internet programs in the 1990s, 1-800-FLOWERS.COM has always been a company that embraces technology. Today, the retailer views information technology as an invaluable element of corporate success and SAS as a critical application in helping it achieve its customer-centric goals.

“In the early days, our success was based on convenience, reliability and 24-hour-a-day accessibility,” says Chris McCann, President of 1-800-FLOWERS.COM. “Nowadays, everybody’s in the ship-to business; everybody’s available 24/7. The foundations of our early success have become a commodity. In order to retain our competitive advantage, we have to migrate toward becoming a customer-intimate company.

“Many factors contributed to our recent revenue growth, and our use of SAS is among them,” McCann says. “Because SAS is giving us access to better customer information, we’ve reduced the amount of time we need to spend on the phone with our customers, which makes better use of their time and ours. As a result, we’re saving money and increasing customer loyalty. In fact, while using SAS, we continue to increase customer retention.”

A multibrand CRM strategy

With SAS, the retailer has developed a CRM strategy that can be leveraged across e-mail, catalog and telephone channels; the strategy is also used across multiple brands, including The Popcorn Factory, Fannie May Confection Brands, Magic

Cabin, GreatFood.com, Ambrosia.com, 1-800-BASKETS.COM, Plow & Hearth and HearthSong.

IT is one of the core capabilities that 1-800-FLOWERS.COM looks to leverage across all of its brands. The company says SAS plays a role in the operational piece, the strategy piece and the development piece. SAS spans the entire decision-support process for CRM and permeates the entire organization. Available through the company intranet, customer data can be viewed at many different levels, including departmental views, which present data for unique divisional needs and common views. These show a general snapshot of customers, including order history and household data across the whole family of brands. In other words, marketing executives and customer service representatives alike can use SAS to determine whether a first-time customer at Magic Cabin might be interested in a catalog for The Popcorn Factory, or whether a recurring telephone client for 1-800-FLOWERS.COM would like to be notified about a Mother’s Day promotion at the Plow & Hearth Web site.

“Our rationale for our CRM effort is to build loyalty,” McCann explains. He adds that although cross-selling and campaign management are important features, the ultimate goal is to make sure that when a customer wants to buy, he or she continues to buy from 1-800-FLOWERS.COM and cannot be captured by a competitor’s marketing. “To build that kind of loyalty, you have to know your customers and build a solid relationship with each one of them,” says McCann. “That’s where SAS comes in.”

Aligning corporate and IT goals

In addition to supporting the company's immediate CRM endeavors, SAS also helps the company align IT goals with long-term corporate goals. Not only is the company better able to maintain a low capital deployment profile and a low expense ratio, but it can also support programs to broaden and maximize product offerings, refine the multiple-brand strategy and optimize inventory management.

Bill Carson, Vice President of Technology Solutions, is especially confident about the future with SAS. "The overall architecture allows flexibility and scalability. We've already scaled SAS from a single user NT-based environment to a multiuser UNIX-based platform, and it was a very smooth transition. That's very powerful from a flexibility and scalability perspective. So in the future, we know it will be easy to grow these programs even further, and that works perfectly into our strategy."

Whether accessing data from Oracle databases, NT-based SQL servers and Microsoft Access databases, or delivering information to company executives, SAS saves time for the company's IT development and integration teams. "Partnering with SAS has been great from an IT perspective because the software is very self-explanatory and the end users are able to work easily with the data," says Carson. "It used to take longer to generate the multiple data views that the various departments needed, but SAS automatically provides data for different areas of the company and frees up a lot of our time.

"When we began looking at software to use as our primary analytical tool, some of our IT and marketing people were already using SAS," Carson recalls. "Every time we would look at something new, one of them would say, 'We don't need it. SAS already does that.' Pretty soon, we got the idea. Our internal users of SAS – our power users – were very happy with SAS as a solution provider." ●

Business issue:

Develop an information delivery framework that supports advanced CRM and aligns IT strategy with long-term corporate goals.

Solution:

SAS helps provide a CRM strategy that can be leveraged across e-mail, catalog and telephone channels and used across multiple brands.

- ONLINE:
- View Q&A with 1-800-FLOWERS.COM President, Chris McCann www.sas.com/retail-mccann





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