Managing Customer Relationships

A Strategic Framework

Don Peppers
Martha Rogers

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Our goal with this book is to provide a methodical overview of the background, the methodology, and the particulars of managing customer relationships for competitive advantage. We begin with background and history, move through an overview of relationship theory, outline the Identify-Differentiate-Interact-Customize (IDIC) framework, and then address metrics, data management, customer management and company organization, channel issues, and the store of the future. We end the book with an appendix called "Where Do We Go from Here?" which contains some very basic tools needed by individuals embarking on a new career in managing customer relationships or—even more difficult—learning to help an existing company make the transition to using customer value as the basis for executive decisions.

Since January 1990, when we met and within five minutes had decided to write a book together, we began to question what would happen to marketing as a result of the fractionalization of communication. It didn’t take us long to realize that the real question that needed to be answered was bigger: What are the implications, for business, of information, interaction, and mass-customization technologies? The ongoing quest to answer that question, or at least to explore the next logical question, and the next, led us to write our first book, The One to One Future: Building Relationships One Customer at a Time (Currency/Doubleday, 1993). In it, we hypothesized how technology might change the dimensions of competitive strategy. We thought about the quest for share of customer rather than just market share, and the idea of managing customers, not just products and brands. Before long, we had the opportunity to work with some bright pioneers in industry, who were wrestling through one-to-one and customer management. Based on four years of field experience, we wrote our second book, Enterprise One to One: Tools for Competing in the Interactive Age (Currency/Doubleday, 1997).

Since then we have had the chance to speak at several colleges and universities, where more and more coursework and curricula are addressing electronic media, database marketing, and more importantly, customer relationship management, data analytics, and a host of related topics that serve to prepare business, management, marketing, information technology (IT), and statistics students for careers in the growing field of competitive advantage through understanding individual customers better, getting the most valuable ones for an enterprise, keeping them longer, and growing them bigger. We have also taught countless seminars and workshops and have worked in depth with consultants in the dozen worldwide offices of Peppers and Rogers Group, for clients who themselves have taught us a lot about what it takes to build customer equity. Our third book, The One to One Fieldbook: The Complete Toolkit for
Implementing a One to One Marketing Program (Currency/Doubleday, 1999), coauthored with Bob Dorf, was a compendium of what we had learned about how to help people understand the basic principles. Our goal was to provide a framework for learning that was based on a methodology that we had tested and proven in a variety of client companies in a variety of industries around the world. That was the beginning of the IDIC approach.

Meanwhile, professors and classrooms across the United States and around the world were beginning to teach one-to-one and customer relationship management (CRM). They sometimes used one of our early books as readings, along with other excellent work that was being published by a group of other early explorers on this and related topics. But the field was too new, and the academic market too small, to justify the work (yet) on an academic textbook or desk reference per se.

In 2000, NCR Teradata donated the funding for the Teradata CRM Center at Fuqua School of Business at Duke University, where Martha is an adjunct professor and codirects the center. The center’s mission is threefold: to help support rigorous academic research, to provide top-level teaching and curriculum materials, and to bring together academicians and practitioners for mutual learning. One of the first activities of the center was to support the background research and project management of a textbook on managing customer relationships, which we agreed to write. (You can reach the Center, and take advantage of the help it offers professor and students for classroom learning as well as research, at www.teradataduke.org. You can reach us about this book at MCRtext@fuqua.duke.edu.)

However, even though we welcomed the chance to codify and synthesize the learning and thinking about managing customer relationships, we also thought this book should not reflect just our views. Obviously, we know more about our own work (some might say obsession) than about anyone else’s, and this book predictably draws heavily on our own experience from the past 10 years. But we had also been reading excellent work done by others, and so invited many of them to share their views, to include their voices. Nearly everyone generously agreed, and we found that the challenge of coordinating such a large chorus was offset by the benefit of gathering together many of the thoughtful leaders in this emerging field. We thank all of the contributors, as well as the nine anonymous reviewers who pushed us to make the text better in many ways, as well as James Barnes, Mary Jo Bitner, Anthony Davidson, Julie Edell, Susan Geibs, Rashi Glazer, Neil Lichtman, Janis McFaul, Marion Moore, Ralph Oliva, Phil Pfeiffer, and Jag Sheth, who also shared suggestions and support.

At the time of this writing, we believe this is the first book to appear that is designed to help the pedagogy of managing customer relationships, with an emphasis on customer strategies and building customer value. We hope it will be useful to professors and students, and hope that all of you who see this first edition will help improve the textbook in its second edition. Please send your suggestions and comments, as well as citation to your work if we haven’t yet included it, to MCRtext@fuqua.duke.edu. While we hope this work will teach
our readers, we also implore our readers to teach us. Our goal is to build the most useful learning tool available on the subject of managing customer relationships to build competitive advantage.

HOW TO USE THIS BOOK

The table of contents provides not only a guide to the chapter topics, but also a listing of the contributions and contributors who have shared their insights, findings, and ideas.

Each chapter begins with an overview, and closes with a Summary (which is really more about how the chapter ties into the next chapter), Food for Thought (a series of discussion questions), and a Glossary. In addition, chapters include the following elements:

• Glossary terms are printed in **boldface** the first time they appear in a chapter, and their definitions are located at the end of that chapter. All of the glossary terms are included in the index, for a broader reference of usage in the book.
• Sidebars provide supplemental discussions and real-world examples of chapter concepts and ideas.
• Contributed material is indicated by a shaded background, with contributor names and affiliations appearing at the beginning of each section.

We anticipate that this book will be used in one of two ways: Some readers will start at the beginning and read it through to the end. Others will keep it on hand and use it as a reference book. For both readers, we have tried to make sure the index is useful for search by names of people and companies, as well as topics.

If you have suggestions about how readers can use this book, please share those at MCRtext@fuqua.duke.edu.

ACKNOWLEDGMENTS

We started the research and planning for this book in 2001. Our goal was to provide a handbook/textbook for students of the movement to focus companies on customers, and to build the value of an enterprise by building the value of the customer base. We have made many friends along the way, and had some interesting debates. We can only begin to scratch the surface of all those who have touched this book, and helped to shape it into a tool we hope our readers will find useful.

Thanks to Dr. Julie Edell, who has team-taught the Managing Customer Value course at Duke with Martha for over four years. Special thanks to:
Peter Heffring and Rick Staelin, the original co-directors with Martha at the Teradata CRM Center at Duke, who approved funding support for the early stages of research and background work.

Josh Rose, who managed the Center when this project began and proved helpful to this very large project.

Katie Lay and others at the Center, who assisted with background work and graphics.

We are honored to be contributing all royalties and proceeds from the sale of this book to the Center.

This book wouldn’t be what it is without the voices of the many contributors who have shared their viewpoints throughout this book—you’ll see their names listed in the table of Contents. We thank each of you for taking the time to participate in this project.

The book has been greatly strengthened by the critiques from some of the most knowledgeable minds in this field, who took the time to review the book and share their insights and suggestions with us. This is an enormous undertaking and a huge professional favor, and we owe great thanks to Jim Barnes at Memorial University of Newfoundland; Mary Jo Bitner and James Ward at Arizona State; Ray Burke at Indiana; Anthony Davidson at NYU; Susan Geib at MSUM; Rashi Glazer at U.C. Berkeley; Jim Karrh at University of Arkansas; Neil Lichtman at NYU; Charlotte Mason at UNC; Janis McFaul at Lawrence Tech; Ralph Oliva at Penn State; Phil Pfeiffer and Marian Moore at U.VA; David Reibstein at Wharton; and Jag Sheth at Emory. Thanks to John Deighton, Jon Anton, Devavrat Purohit, and Preyas Desai for additional contributions, and we also appreciate the support and input from Mary Gros and Corinna Gilbert at Teradata. Thanks to half a dozen anonymous reviewers whose comments also helped to improve the manuscript. And thanks to Maureen Morrin and Eric Greenberg at Rutgers, who has contributed to the Web site supporting this book.

Much of this work has been based on the experiences and learning we have gleaned from our clients and the audiences we have been privileged to encounter in our work with Peppers and Rogers Group. Dozens and dozens of the talented folks who have been PRGers over the past three years have contributed to our thinking—many more than the ones whose bylines appear on some of the contributions you will see in the book. Special additional thanks to Elizabeth Stewart, Tom Shimko, Tom Niehaus, Abby Wheeler, Lisa Hayford-Goodmaster, Lisa Regelman, Marji Chimes, and many others. In the past year, we couldn’t have finished the many details necessary for a book like this without help from Jenny Smith, Judy White, and Jennifer Makris, and we owe special, huge thanks to

1The Teradata Center for Customer Relationship Management at Duke University (the Center) advances the field of Customer Relationship management (CRM) through research and learning. This multi-million dollar global think tank, based at Duke’s Fuqua School of Business, was established in January 2001 through a grant from Teradata, a division of NCR. Through this dynamic partnership between the University and Teradata, the Center leverages the intellectual resources of a leading academic institution and corporation to merge theory and practical business experience, thereby creating a world-class center in CRM research and curriculum design.
Holly Daniels, who has patiently and capably assisted in winding us through the morass of minutiae generated by a project of this scope.

Our editor at John Wiley & Sons, Inc., Sheck Cho, has been an enthusiastic supporter of and guide for the project since Day One. We owe much to his talented production and marketing teams, especially Jennifer Hanley. As always, thanks to our literary agent, Rafe Sagalyn, for his insight and patience.

We thank the many professors and instructors who are teaching the first “Customer Strategy” or “CRM” course at their schools, and who have shared the syllabi for their courses with the Teradata CRM Center at Duke University and thereby helped us shape what we hope will be a useful book for them, their students, and all our readers who need a ready reference as we all continue the journey toward building stronger, more profitable, and more successful organizations by focusing on growing the value of every customer.

Don Peppers and Martha Rogers, PhD
2004
Part One

Principles of Managing Customer Relationships

The Learning Relationship works like this: If you’re my customer and I get you to talk to me, and I remember what you tell me, then I get smarter and smarter about you. I know something about you my competitors don’t know. So I can do things for you my competitors can’t do, because they don’t know you as well as I do. Before long, you can get something from me you can’t get anywhere else, for any price. At the very least, you’d have to start all over somewhere else, but starting over is more costly than staying with me.
Evolution of Relationships with Customers

Chapter 1

We have only two sources of competitive advantage:

1. The ability to learn more about our customers faster than the competition.
2. The ability to turn that learning into action faster than the competition.

—Jack Welch, former CEO, General Electric

The goal of this book is not just to acquaint the reader with the techniques of customer relationship management (CRM). The more ambitious goal of this book is to help the reader understand the essence of customer strategy as a necessary and important element of managing every successful enterprise in the twenty-first century. A firm’s most valuable asset is its customers, and given our new and unfolding technological capabilities to recognize, measure, and manage relationships with each of those customers in order to thrive, a firm must focus on deliberately increasing the value of the customer base. Customer strategy is not a fleeting assignment for the marketing department; rather it is an ongoing business imperative that requires the involvement of the entire enterprise. Organizations need to manage their customer relationships effectively to remain competitive in the interactive era. Technological advancements have served as the catalyst for managing customer relationships more efficiently.

The dynamics of the customer-enterprise relationship have changed dramatically over time. Customers have always been at the heart of an enterprise’s long-term growth strategies, marketing and sales efforts, product development, labor and resource allocation, and overall profitability directives. Historically, enterprises have encouraged the active participation of a sampling of customers in the research and development of their products and services. But until

recently, enterprises have been structured and managed around the products and services they create and sell. Driven by assembly-line technology, mass media, and mass distribution, which appeared at the beginning of the twentieth century, the Industrial Age was dominated by businesses that sought to mass-produce products and to gain a competitive advantage by manufacturing a product that was perceived by most customers as better than its closest competitor. Product innovation, therefore, was the important key to business success. To increase its overall market share, the twentieth-century enterprise would use mass marketing and mass advertising to reach the greatest number of potential customers.

As a result, most twentieth-century products and services eventually became highly commoditized. Branding emerged to offset this perception of being like all the competitors; in fact, branding from its beginning was, in a way, an expensive substitute for relationships companies could not have with their newly blossomed masses of customers. Facilitated by lots and lots of mass-media advertising, brands have helped add value through familiarity, image, and trust. Historically, brands have played a critical role in helping customers distinguish what they deem to be the best products and services. A primary enterprise goal has been to improve brand awareness of products and services, and to increase brand preference and brand loyalty among consumers. For many consumers, a brand name testifies to the trustworthiness or quality of a product or service. But brand reputation has become less important among shoppers. Indeed, consumers are often content as long as they can buy one brand of a consumer-packaged good that they know and respect. Whether shopping in a store, online, or from a catalog, consumers are just as satisfied whether a retailer carries a trusted store brand or a trusted manufacturer’s brand.

For many years, enterprises depended on gaining the competitive advantage from the best brands. Brands have been untouchable, immutable, and inflexible parts of the twentieth-century mass-marketing era. But in the interactive era of the twenty-first century, enterprises are instead strategizing how to gain sustainable competitive advantage from the information they gather about customers. As a result, enterprises are creating a two-way brand, one that thrives on customer information and interaction. The two-way brand, or branded relationship, transforms itself based on the ongoing dialogue between the enterprise and the customer. The branded relationship is “aware” of the customer (giving new meaning to the term brand awareness) and constantly changes to suit the needs of that particular individual.


3Ibid., p. 50.
The goal of every enterprise, once you strip away all the activities that keep everybody busy every day, is simply to get, keep, and grow customers. Whether a business focuses its efforts on product innovation, operational efficiency and low price, or customer intimacy, that firm must have customers or the enterprise isn’t a business—it’s a hobby. This is true for nonprofits (where the “customers” may be donors or volunteers) as well as for-profits, for firms large and small, for public as well as private enterprise. What does it mean for an enterprise to focus on its customers as the key to competitive advantage? Obviously, it does not mean giving up the product edge, or the operational efficiencies, that have been successful in the past. It does mean using new strategies, nearly always requiring new technologies, to focus on growing the value of the company by deliberately and strategically growing the value of the customer base.

To some executives, customer relationship management (CRM) is a technology or software solution that helps track data and information about customers to enable better customer service. Others think of CRM, or one-to-one, as an elaborate marketing or customer service discipline. We even recently heard CRM described as “personalized email.”

This book is about much more than setting up a business Web site or redirecting some of the mass-media budget into the call center database. It’s about increasing the value of the company through specific customer strategies (see Exhibit 1.1).

Enterprises determined to build successful and profitable customer relationships understand that the process of becoming an enterprise focused on building

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**EXHIBIT 1.1 Increasing the Value of the Customer Base**

- Acquire profitable customers.
- Retain profitable customers longer.
- Win back profitable customers.
- Eliminate unprofitable customers.
- Upsell additional products in a solution.
- Cross-sell other products to customers.
- Referral and word-of-mouth benefits.
- Reduce service and operational costs.

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Enterprises determined to build successful and profitable customer relationships understand that the process of becoming an enterprise focused on building its value by building customer value doesn’t begin with installing technology, but instead begins with:

- A strategy or an ongoing process that helps transform the enterprise from a focus on traditional selling or manufacturing to a customer focus, while increasing revenues and profits
- The leadership and commitment necessary to cascade the thinking and decision-making capability throughout the organization that puts customer value and relationships first

The reality is that becoming a customer-strategy enterprise is about using information to gain a competitive advantage and deliver growth and profit. In its most generalized form, CRM can be thought of as a set of business practices designed, simply, to put an enterprise into closer and closer touch with its customers, in order to learn more about each one and to deliver greater and greater value to each one, with the overall goal of making each one more valuable to the firm. It is an enterprisewide approach to understanding and influencing customer behavior through meaningful communications to improve customer acquisition, customer retention, and customer profitability.5

Defined more precisely, and what makes CRM into a truly different model for doing business and competing in the marketplace, is this: It is an enterprisewide business strategy for achieving customer-specific objectives by taking customer-specific actions. It is enterprisewide because it can’t be assigned to marketing if it is to have any hope of success. Its objectives are customer-specific because the goal is to increase the value of each customer. Therefore, the firm will take customer-specific actions for each customer, made possible by new technologies.

In essence, CRM involves treating different customers differently. Today, there is a CRM revolution underway among businesses. It represents an inevitable—literally, irresistible—movement. All businesses will be embracing CRM sooner or later, with varying degrees of enthusiasm and success, for two primary reasons: First, CRM represents the way customers, in all walks of life, in all industries, all over the world, want to be served. Second, it is simply a more efficient way of doing business. We find examples of customer-specific behavior, and business initiatives driven by customer-specific insights, all around us today:

• A car-rental customer rents a car without having to complete another reservation profile.
• An online customer buys a product without having to reenter his credit card number and address.
• A company saves money by eliminating duplicate mailings.
• A firm’s product-development people turn their attention to a new service or product based on customer feedback captured by the sales force.
• An insurance company not only handles a claim for property damage, but also connects the insured party with a contractor in his area who can bypass the purchasing department and do the repairs directly.
• A supervisor orders more computer components by going to a Web page that displays his firm’s contract terms, his own spending to date, and his departmental authorizations.

Taking customer-specific action, treating different customers differently, building relationships with customers that go on through time to get better and deeper: That’s what this book is about. In the chapters that follow, we will look at lots of examples. The overall business goal of this strategy is to make the enterprise as profitable as possible over time by taking steps to increase the value of the customer base. The enterprise makes itself, its products, and/or its services so satisfying, convenient, or valuable to the customer that he becomes more willing to devote his time and money to this enterprise than to any competitor. Building the value of customers increases the value of the demand chain, the stream of business that flows from the customer up through the retailer all the way to the manufacturer. A customer-strategy enterprise interacts directly with an individual customer. The customer tells the enterprise about how he would like to be served. Based on this interaction, the enterprise, in turn, modifies its behavior with respect to this particular customer. In essence, the concept implies a specific, one-customer-to-one-enterprise relationship, as is the case when the customer’s input drives the enterprise’s output for that particular customer.6

CRM has become a buzzword of late, and like all new initiatives, suffers when it is poorly understood, improperly applied, and incorrectly measured and managed. But by any name, strategies designed to build the value of the customer base by building relationships with one customer at a time are by no means ephemeral trends or fads, any more than computers or interactivity are.

A good example of a business offering that benefits from individual customer relationships can be seen in today’s popular PC banking services, in which a consumer spends several hours, usually spread over several sessions, setting up an online account and inputting payee addresses and account numbers, in order to be able to pay his bills electronically each month. If a competitor opens a branch in town offering lower checking fees or higher savings rates, this consumer is unlikely to switch banks. He has invested time and energy in a relationship with

the first bank, and it is simply more convenient to remain loyal to the first bank than to teach the second bank how to serve him in the same way. In this example, it should also be noted that the bank now has increased the value of the customer to the bank, and has simultaneously reduced the cost of serving the customer, as it costs the bank less to serve a customer online than at the teller window or by phone. The term CRM is also known by other labels, coined by various experts in their respective fields, such as integrated marketing communications (Don Schultz), one-to-one relationship management (Don Peppers and Martha Rogers), real-time marketing (Regis McKenna), customer intimacy (Michael Treacy and Fred Wiersema), and a variety of other terms. Clearly, CRM involves much more than marketing, and it cannot deliver optimum return on investment without integrating individual customer information into every corporate function, from customer service, to production, logistics, and channel management. A formal change in the organizational structure is usually necessary to become an enterprise focused on growing customer value. As this book will show, CRM is both an operational and an analytical process. Operational CRM focuses on the software installations and the changes in process affecting the day-to-day operations of a firm. Analytical CRM focuses on the strategic planning needed to build customer value, as well as the cultural, measurement, and organizational changes required to implement that strategy successfully. 7

FOCUSING ON CUSTOMERS IS NEW TO BUSINESS STRATEGY

The move to a customer-strategy business model has come of age at a critical juncture in business history, when managers are deeply concerned about declining customer loyalty as competitors lure away their customers through lower prices and purchasing incentives. As customer loyalty decreases, profit margins decline, too, because the most frequently used customer acquisition tactic is price-cutting. Enterprises are facing a radically different competitive landscape as the information about their customers is becoming more plentiful and as the customers themselves are demanding more interactions with companies. Thus, a coordinated effort to get, keep, and grow valuable customers has taken on a greater and far more relevant role in forging a successful long-term, profitable business strategy. If the last quarter of the twentieth century heralded the dawn of a new competitive arena, in which commoditized products and services have become less reliable for business profitability and success, it is the new computer technologies and applications that have arisen that assist companies in managing their interactions

7META Group defines these terms as follows: Operational CRM is the automation of horizontally integrated business processes involving front-office customer touch points across sales, marketing, and customer service via multiple, interconnected delivery channels; Analytical CRM is the analysis of data created on the operational side of CRM and through other relevant operational data sources for the purposes of business performance management and customer-specific analysis.
with customers. These technologies have spawned enterprisewide information systems that help to harness information about customers, analyze the information, and use the data to serve customers better. Technologies such as enterprise resource planning (ERP) systems, supply chain management software (SCM), enterprise application integration software (EAI), data warehousing, sales force automation (SFA), and other enterprise software are helping companies to mass-customize their products and services, literally delivering individually configured products or services to unique customers, in response to their individual feedback and specifications.

The accessibility of the new technologies is motivating enterprises to reconsider how they develop and manage customer relationships. CEOs of leading enterprises have made the shift to a customer-strategy business model a top business priority for the twenty-first century. Technology is making it possible for enterprises to conduct business at an intimate, individual customer level. Indeed, technology is driving the shift. Computers can enable enterprises to remember individual customer needs and estimate the future potential revenue the customer will bring to the enterprise.

**SIDEBAR 1.1**

**Traditional Marketing Redux**

Historically, traditional marketing efforts have centered on the “four Ps”—product, price, promotional activity, and place—popularized by marketing expert E. Jerome McCarthy and Philip Kotler. To be fair, these have been enhanced by our greater (and deeper) understanding of consumer behavior, organizational behavior, market research, segmentation, and targeting. In other words, using traditional sampling and aggregate data, a broad understanding of the market has preceded the application of the four Ps, which enterprises have deployed in their marketing strategy to bring uniform products and services to the mass market for decades. In essence, the four Ps are all about the “get” part of “get, keep, and grow customers.” These terms have been the focal point for building market share and driving sales of products and services to consumers. The customer needed to believe that the enterprise’s offerings would be superior in delivering the “four Cs”: customer value, lower costs, better convenience, and better communication. Marketing strategies have revolved around targeting broadly defined market segments through heavy doses of advertising and promotion.

This approach first began to take shape in the 1950s. Fast-growing living standards and equally fast-rising consumer demand made organizations aware of the effectiveness of a supply-driven marketing strategy. By approaching the market on the strength of the organization’s specific abilities, and creating a product supply in accordance with those abilities, it was possible to control and guide the sales process. Central to the strategic choices taken in the area of marketing were the—now traditional—marketing instruments of product, price, place, and promotion—the same instruments that served as the foundation for Philip Kotler’s theory and the

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same instruments that still assume an important role in marketing and customer relations today.

The four Ps all, of course, relate to the aggregate market rather than to individual customers. The market being considered could be a large, mass market, or a smaller, niche market, but the four Ps have helped define how an enterprise should behave toward all the customers within the aggregate market:

- **Product** is defined in terms of the average customer—what most members of the aggregate market want or need. This is the product brought to market, and it is delivered the same way for every customer in the market. The definition of product extends to standard variations in size, color, style, and units of sale, as well as customer service and aftermarket service capabilities.

- **Place** is a distribution system or sales channel. How and where is the product sold? Is it sold in stores? By dealers? Through franchisees? At a single location or through widely dispersed outlets, like fast food and ATMs? Can it be delivered directly to the purchaser?

- **Price** refers not only to the ultimate retail price a product brings, but also to intermediate prices, beginning with wholesale; and it takes account of the availability of credit to a customer and the prevailing interest rate. The price is set at a level designed to “clear the market,” assuming that everyone will pay the same price—which is only fair, because everyone will get the same product. And even though different customers within a market actually have different levels of desire for the same product, the market price will be the same for everybody.

- **Promotion** has also worked in a fundamentally nonaddressable, noninteractive way. The various customers in a market are all passive recipients of the promotional message, whether it is delivered through mass media or interpersonally, through salespeople. Marketers have traditionally recognized the trade-off between the cost of delivering a message and the benefit of personalizing it to a recipient. A sales call can cost $300 or even more, but at least it allows for the personalization of the promotion process. The cost per thousand (CPM) to reach an audience through mass media is far lower, but requires that the same message be sent to everyone. Ultimately, the way a product is promoted is designed to differentiate it from all the other, competitive products. Except for different messages aimed at different segments of the market, promotion doesn’t change by customer, but by product.

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SIDEBAR 1.1 (continued)

Dr. Philip Kotler, who, with Jerome McCarthy, is responsible for our understanding and practice of traditional marketing, shares his views of the transition to the customer strategies mandated by new technologies.
When I first started writing about marketing 36 years ago, the Industrial Age was in its prime. Manufacturers churned out products on massive assembly lines, stored them in huge warehouses where they patiently waited for retailers to order and shelve so that customers could buy them. Market leaders enjoyed great market shares from their carefully crafted mass-production, mass-distribution, and mass-advertising campaigns.

What the Industrial Age taught us is that if an enterprise wanted to make money it needed to be efficient at large-scale manufacturing and distribution. The enterprise needed to manufacture millions of standard products and distribute them in the same way to all of their customers. Mass producers relied on numerous intermediaries to finance, distribute, stock, and sell the goods to ever expanding geographical markets. But in the process, producers grew increasingly removed from any direct contact with end users.

Producers tried to make up for what they didn’t know about end users by using a barrage of marketing research methods, primarily customer panels, focus groups, and large scale customer surveys. The aim was not to learn about individual customers but about large customer segments such as women ages 30 to 55. The exception occurred in business-to-business marketing where each salesperson knew each customer and prospect as individuals. Well-trained salespeople were cognizant of each customer’s buying habits, preferences, and peculiarities. Even here, however, much of this information was never codified. When a salesperson retired or quit, the company lost a great deal of specific customer information. Only more recently, with sales automation software and loyalty building programs, are business-to-business enterprises capturing detailed information about each customer on the company’s mainframe computer.

As for the consumer market, interest in knowing consumers as individuals lagged behind the B to B marketplace. The exception occurred with direct mailers and catalog marketers who collected and analyzed data on individual customers. Direct marketers purchased mailing lists and kept records of their transactions with individual customers. The individual customer’s stream of transactions provided clues as to other items that might interest that customer. And in the case of consumer appliances, the company could at least know when a customer might be ready to replace an older appliance with a new one if the price was right.

GETTING BETTER AT CONSUMER MARKETING

With the passage of time, direct marketers became increasingly sophisticated. They supplemented mail contact with the adroit use of the telephone and telemarketing. The growing use of credit cards and customers’ willingness to give
their credit card numbers to merchants greatly stimulated direct marketing. The emergence of fax machines further facilitated the exchange of information and the placing of orders. Today, the Internet and e-mail provide the ultimate facilitation of direct marketing. Customers can view products visually and verbally order them easily, receive confirmation, and know when the goods will arrive.

But whether a company was ready for customer relationship management (CRM) depended on more than conducting numerous transactions with individual customers. Companies needed to build comprehensive customer databases. Companies had been maintaining product databases, salesforce databases, and dealer databases. Now they needed to build, maintain, mine, and manage a customer database that could be used by company personnel in sales, marketing, credit, accounting, and other company functions.

As customer database marketing grew, several different names came to describe it, including individualized marketing, customer intimacy, technology-enabled marketing, dialogue marketing, interactive marketing, permission marketing, and one-to-one marketing.

Modern technology makes it possible for enterprises to learn more about individual customers, remember those needs, and shape the company’s offerings, services, messages and interactions to each valued customer. The new technologies make mass-customization (otherwise an oxymoron) possible.

At the same time, technology is only a partial factor in helping companies do genuine one-to-one marketing. The following quotes about customer relationship management (CRM) make this point vividly:

- “CRM is not a software package. It’s not a database. It’s not a call center or a Web site. It’s not a loyalty program, a customer service program, a customer acquisition program or a win-back program. CRM is an entire philosophy.” (Steve Silver)
- “A CRM program is typically 45 percent dependent on the right executive leadership, 40 percent on project management implementation and 15 percent on technology.” (Edmund Thompson, Gartner Group)

Where in the Industrial Age, companies focused on winning market share and new customers, more of today’s companies are focusing on customer share, namely increasing their business with each existing customer. These companies are focusing on customer retention, customer loyalty, and customer satisfaction as the key management objectives.

CRM is more than just an outgrowth of direct marketing and the advent of new technology. It requires new skills, systems, processes, and employee mindsets. As the Interactive Age progresses, mass marketing must give way to new principles for targeting, attracting, winning, serving, and satisfying markets. As advertising costs have risen and mass media has lost some effectiveness, mass-marketing is now more costly and more wasteful. Companies are better prepared to identify meaningful segments and niches and address the individual customers within the targeted groups. They are becoming aware, however, that
many customers are uncomfortable about their loss of privacy and the increase in solicitations by mail, phone, and e-mail. Ultimately, companies will have to move from an “invasive” approach to prospects and customers to a “permissions” approach.

The full potential of CRM is only beginning to be realized. The goal now is not just to offer excellent products and services but to get, keep, and grow the best customers. The objective is to focus more on customer retention and growth rather than pursue all types of customers at great expense only to lose them.

MANAGING CUSTOMER RELATIONSHIPS IS A DIFFERENT TYPE OF COMPETITION

A lot can be understood about how traditional, market-driven competition is different from today’s customer-driven competition by examining Exhibit 1.2. The direction of success for a traditional aggregate-market enterprise (i.e., a traditional company that sees its customers in markets of aggregate groups) is to acquire more customers (widen the horizontal bar), whereas the direction of success for the customer-driven enterprise is to keep customers longer and grow them bigger (lengthen the vertical bar). The width of the horizontal bar can be thought of as an enterprise’s market share—the proportion of customers who have their needs satisfied by the enterprise, or the percentage of total products in

EXHIBIT 1.2  Market Share versus Share of Customer
an industry sold by this particular firm. But the customer-value enterprise focuses on **share of customer**—the percentage of this customer’s business that a particular firm gets—represented by the height of the vertical bar. Think of it this way: Kellogg’s can either sell as many boxes of cornflakes as possible to whomever will buy them, even though sometimes cornflakes will cannibalize raisin bran sales, or Kellogg’s can concentrate on making sure its products are on Mrs. Smith’s breakfast table every day for the rest of her life, and thus represent a steady or growing percentage of that breakfast table’s offerings. Ford can try to sell as many Tauruses as possible, for any price, to anyone who will buy; or it can, by knowing Mrs. Smith better, make sure all the cars in Mrs. Smith’s garage are Ford brands, including the used car she buys for her teenaged son, and that Mrs. Smith uses Ford financing and credit cards, and gets her service, maintenance and repairs at Ford dealerships—throughout her driving lifetime.

Although the tasks for growing market share are different from those for building share of customer, the two strategies are not antithetical. A company can simultaneously focus on getting new customers as well as growing the value of and keeping the customers it already has.9

Customer-strategy enterprises are required to interact with a customer and use that customer’s feedback from this interaction to deliver a customized product or service. Market-driven efforts can be strategically effective and even more efficient at meeting individual customer needs when a customer-specific philosophy is conducted on top of it. The customer-driven process is time-dependent and evolutionary, as the product or service is continuously fine-tuned and the customer is increasingly differentiated from other customers. The aggregate-market enterprise competes by differentiating products, whereas the customer-driven enterprise competes by differentiating customers. The traditional, aggregate-market enterprise attempts to establish an actual product differentiation (by launching new products or modifying or extending established product lines) or a perceived one (with advertising and PR). The customer-driven enterprise caters to one customer at a time and relies on differentiating each customer from all the others.

The principles of a customer-focused business model differ in many ways from mass marketing. For one thing, the traditional marketing company, no matter how friendly, ultimately sees customers as adversaries, and vice versa. The company and the customer play a zero-sum game: If the customer gets a discount, the company loses profit margin. Their interests have traditionally been at odds: The customer wants to buy as much product as possible for the lowest price, while the company wants to sell the least product possible for the highest price. If an enterprise and a customer have no relationship prior to a purchase, and they have no relationship following it, then their entire interaction is centered on a single, solitary transaction and the profitability of that transaction. Thus, in a transaction-based, product-centric business model, buyer and seller are adversaries, no matter how much the seller may try not to

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act the part. In this business model, practically the only assurance a customer has that he can trust the product and service being sold to him is the general reputation of the brand itself.\textsuperscript{10}

By contrast, the customer-based enterprise aligns customer collaboration with profitability. Compare the behaviors that result from both sides if each transaction occurs in the context of a longer-term relationship. For starters, a one-to-one enterprise would likely be willing to fix a problem raised by a single transaction at a loss if the relationship with the customer was profitable long term (see Exhibit 1.3).

The central purpose of managing customer relationships is for the enterprise to focus on increasing the overall value of its customer base—and customer retention is critical to its success. Increasing the value of the customer base, whether through \textit{cross-selling} (getting customers to buy other products and services), \textit{upselling} (getting customers to buy more expensive offerings), or customer referrals, will lead to a more profitable enterprise. The enterprise also reduces the cost of serving its customers by making it more convenient for them to buy from the enterprise.

\textbf{TECHNOLOGY ACCELERATES—IT IS NOT THE SAME AS—BUILDING CUSTOMER VALUE}

The interactive era has accelerated the adoption and facilitation of this highly interactive collaboration between the customer and the company. In addition, technological advancements have contributed to an enterprise’s capability to capture the feedback of its customer, then customize some aspect of its products

\begin{tabular}{|l|l|}
\hline
\textbf{MARKET-SHARE STRATEGY} & \textbf{SHARE-OF-CUSTOMER STRATEGY} \\
\hline
Product (or brand) managers sell one product at a time to as many customers as possible. & Customer manager sells as many products as possible to one customer at a time. \\
\hline
Differentiate products from competitors. & Differentiate customers from each other. \\
\hline
Sell \textit{to} customers. & Collaborate \textit{with} customers. \\
\hline
Find a constant stream of new customers. & Find a constant stream of new business from established customers. \\
\hline
Use mass media to build brand and announce products. & Use interactive communication to determine individual needs and communicate with each individual. \\
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\end{tabular}

\textit{EXHIBIT 1.3} A Comparison of Market-Share and Share-of-Customer Strategies

\textsuperscript{10}Don Peppers and Martha Rogers, PhD, \textit{The One to One Manager} (New York: Doubleday, 1999).
or services to suit the customer’s individual needs. Enterprises require a highly sophisticated level of integrated activity to enable this customization and personalized customer interaction to occur. To effectuate customer-focused business relationships, an enterprise must integrate the disparate information systems, databases, businesses units, customer touch points, and many other facets of its business to ensure that all employees who interact with customers have real-time access to current customer information. The objective is to optimize each customer interaction and ensure that the dialogue is seamless—that each conversation picks up from where the last one ended.

Many software companies have developed enterprise point solutions and suites of software applications that, when deployed, elevate an enterprise’s capabilities to transform itself to a customer-driven model. (You’ll find more about technology in Chapter 8.) And while one-to-one customer relationships are enabled by technology, executives at firms with strong customer relationships and burgeoning customer equity believe that the enabling technology should be viewed as the means to an end, not the end itself. Managing customer relationships is an ongoing business process, not merely a technology. But technology has provided the catalyst for customer relationship management to manifest itself within the enterprise. Computer databases help companies remember and keep track of individual interactions with their customers. Within seconds, customer service representatives can retrieve entire histories of customer transactions and make adjustments to customer records. Technology has made possible the mass customization of products and services, enabling businesses to treat different customers differently, in a cost-efficient way. (You’ll find more about mass customization in Chapter 10.) Technology empowers enterprises and their customer contact personnel, marketing and sales functions, and managers by equipping them with substantially more intelligence about their customers.

Implementing an effective customer strategy can be challenging and costly because of the sophisticated technology and skill set needed by relationship managers to execute the customer-driven business model. A business model focused on building customer value often requires the coordinated delivery of products and services aligned with enterprise financial objectives that meet customer value requirements. While enterprises are experimenting with a wide array of technology and software solutions from different vendors to satisfy their customer-driven needs, they are learning that they cannot depend on technology alone to do the job. Before it can be implemented successfully, managing customer relationships individually requires committed leadership from the upper management of the enterprise and wholehearted participation throughout the enterprise. Roger Siboni reiterates that in the next contribution, which reminds us that while customer strategies are driven by new technological

Within seconds, customer service representatives can retrieve entire histories of customer transactions and make adjustments to customer records.

The foundation for an enterprise focused on building its value by building the value of the customer base is unique: Establish relationships with customers on an individual basis, then use the information gathered to treat different customers differently, and increase the value of each one to the firm.