USING DECISION SUPPORT TO LEVERAGE CUSTOMER RELATIONSHIPS

a fact-based approach to leveraging customer relationships

When the economy at large is doing well, there tends to be small performance differences between companies in an industry. Customers seem to reward all competitors with a lot of business and everyone experiences rapid growth. This umbrella treatment, however, does not apply in flat and down markets. Customers become much more selective and sensitive to differences among offerings from various companies – they spend more time reviewing and researching before spending their money. This more rigorous due-diligence is a bane for some and a boon for others. Not all companies suffer or benefit in equal proportions when their customers take them “through the ringer.”

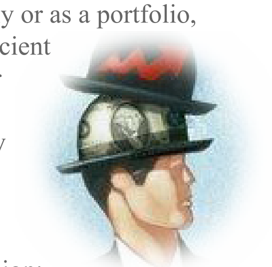
High performing, service oriented companies benefit disproportionately. Customers begin to notice obvious differences between companies – differences that would be glossed over in the “hurly-burly” of fast growing times. This suggests that top-quintile organizations need to pay added attention to strategic initiatives aimed at grabbing market share from competitors during flat and down markets. While it might seem intuitive to explore cost-cutting efforts, flat and down markets are actually investment opportunities for high performing companies. This is the time to be strategic, to invest aggressively and to grab market share from competition.

One of the most strategic assets of any organization is its customer relationships. These relationships have been fostered, often, over a number of years and many organizations rely heavily on trusted relationships to endure hard times. However, customers are intangible assets and are thus under-analyzed and under-utilized. Customer relationships are often dispersed and distributed throughout an organization. Hence, there is not much concerted analysis, governance and active management of these assets. Companies often pay loud lip-service to the importance of their customer relationships; for instance, they

CUSTOMER ANALYTICS SERIES

institute strategic account programs targeting key clients. But, often key clients are determined based on the wrong metric – revenues instead of profitability. Concerted, economically-based analysis is the cornerstone to identifying key, value-added customers. Furthermore, there are certain aspects of these relationships that need to be addressed centrally and holistically. Most companies view customer relationships individually – one customer at a time. In "Hedging Customers," Dhar and Glazer argue effectively that a company's customers should be evaluated as a portfolio (similar to a portfolio of financial instruments) . Managing a customer portfolio holistically, akin to managing a financial portfolio, requires analysis of all the assets that make up the portfolio. Making customer decisions for the entire portfolio has some interesting ramifications – for instance, it might be too risky to have customers concentrated in one particular industry (even if they are all profitable relationships) or it might be too risky to bank a large percentage of revenues on very large customers who might request hefty price discounts in down markets.

Whether customer relationships are being analyzed individually or as a portfolio, leveraging current relationships is a far more effective and efficient ways of adding to the bottom-line when compared to customer acquisition costs. The economics of retention and expansion (or cross-selling) are so profound that all companies are keenly aware of them. Although most companies pay more active attention to cross-selling as opposed to retention, many have targeted programs to deal with both issues. The problem is that these targeted programs are often managed in a triage fashion; retention and expansion should be part of the core fabric of day-to-day operations.



HIGHLIGHTS

Most companies view customer relationships individually – one customer at a time … however … argue effectively that a company's customers should be evaluated as a portfolio

With the improvement in recent years in decision support, business intelligence, scorecards and CRM tools, we finally possess the technological firepower to address retention and expansion in near-real-time. Technology can help address three of the problems with current retention and expansion efforts. Firstly, as indicated previously, retention and expansion should be interwoven in the daily fabric of a company's operations. The data captured by many in-place transaction systems provides the ammunition to construct a knowledge-base that can help people with day-to-day customer-contact, make intelligent retention and expansion decisions. Secondly, real-time retention and expansion decisions are critical – it is ineffective to address these issues months after they have surfaced. Technology makes it possible to identify these problems in near-real-time and to address them soon thereafter. Thirdly, and perhaps most importantly, retention and expansion decisions are currently made mostly in a blanket fashion, either for the entire organization or for too large of a sub-segment. With the decision-tools available today, retention and expansion decisions can be made on a case-by-case, customer-by-customer basis.

Marketing efforts have shifted over the last decade from concentrating on the masses, to the segments and finally to the individual. This trend towards one-to-one marketing applies to retention and expansion decisions as well. Although overall guidelines can ensure that an organization's strategic portfolio needs are being met, each customer is a different case and requires specific analysis (although, many times it is practical to group smaller customers into one bucket). To provide for this analysis, one must not rely on customer-facing employees' anecdotal and intuitive parameters, but on hard, analytical facts. It is challenging to parameterize customer relationships quantitatively, but it is necessary and desirable to do so in order to make informed and consistent decisions across the entire customer portfolio.

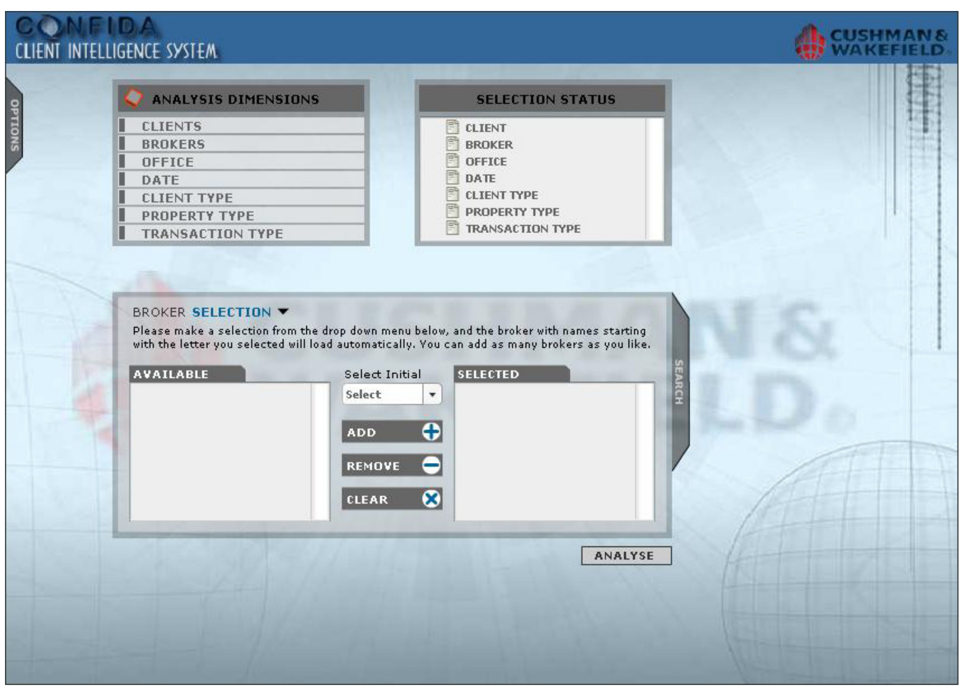
This is exactly what Gary Loveman of Harrah's Entertainment has done – he has won the "casino wars" (against competition with deeper pockets) by mining his customer data deeply . On Harrah's overall approach to retaining and expanding their relationships with their customers, Loveman says:

> "We've increased customer loyalty, even in the current challenging economy, in two ways. First, we use database marketing and decision-science-based analytical tools to widen the gap between us and casino operators who base their customer incentives more on intuition than evidence. Second, we deliver the great service that consumers demand."

Loveman and Harrah's understand that their innately service oriented culture coupled with innovative technology can provide a tremendous competitive advantage. Harrah's has accomplished this by fully leveraging their existing customer relationships. They know the behavior of their customers well and have experimented with methods aimed at identifying and retaining potential "deserters" and providing incentives for customers to use services that add value to Harrah's. The irony is that they have improved their relationships with their customers, an inherently subjective parameter by analyzing and mining data, an inherently objective parameter.

The success of Loveman and Harrah's was partially based on the development of proprietary in-house data mining tools. Often, purchasing an off-the-shelf decision support, business intelligence or CRM tool does not provide the insight intelligence that Loveman and Harrah's have had access to. There are so many idiosyncrasies in an organization – the business, the customer, the technology, the data – that the more successful approach appears to be to use a custom-designed tool.

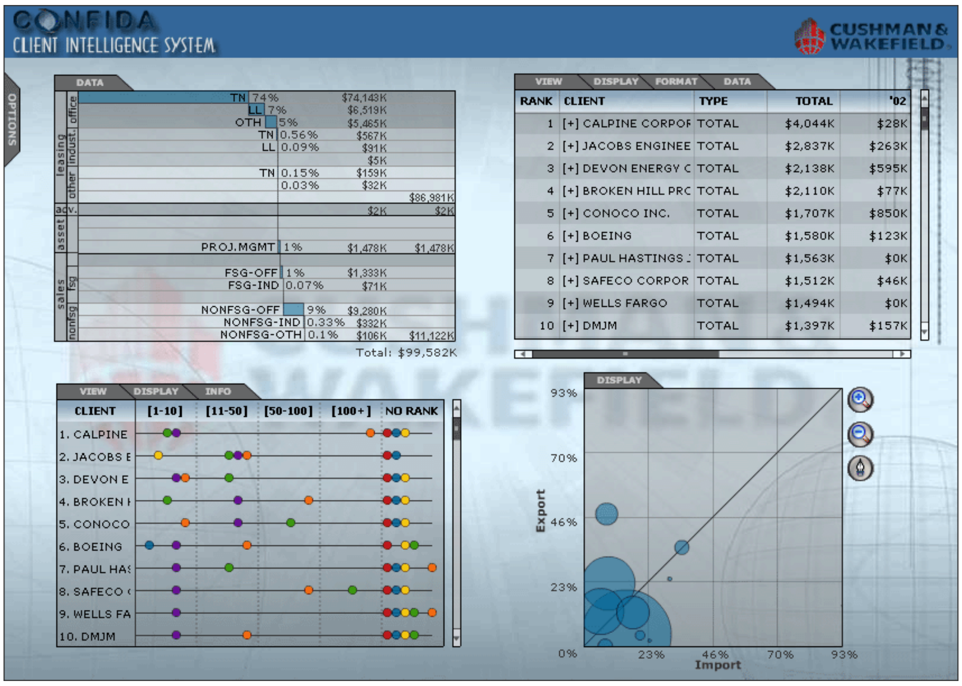
Confida, a decision support consulting company, offers a customizable customer analytic application that can help companies in understanding their customers intimately.



CUSTOMER ANALYTICS SERIES

The application uses sophisticated information mapping techniques presenting a set of standard reports and ad-hoc analyses capabilities for a wide-range of customer analytics. Standard information, such as lists of highest value customers, those with potential retention issues and cross-selling opportunities, is provided for the entire company or any user-defined sub-segment (such as a branch, a grouping of branches, one salesperson, etc.).

More sophisticated reports tracing the network of customer relationships across employees, organizational units and over time present valuable insight intelligence for individuals in charge of customer retention and expansion efforts.

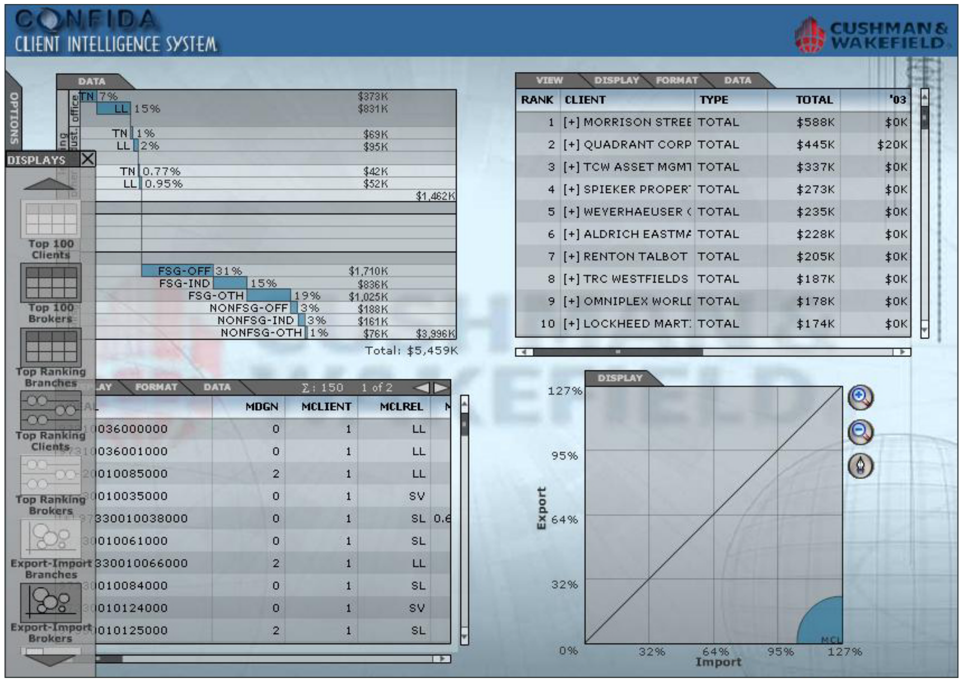


The key to our approach at Confida is our over-rigorous treatment of the nuts-and-bolts of business intelligence – the data and the reports. As such, we spend an inordinate amount of time making sure that the data we are using is of the highest relevance and quality, study and analyze the collected information to capture the key nuggets and then present the knowledge in a concise and elegant manner useful for a business decision maker.

In many client situations, one of the early barriers to establishing a rich information source for customer decisions is the fact that customer data is not captured in a systematic manner. A comprehensive data collection, validation and cleansing effort is often necessary to assemble a useful repository of customer information. This customer data warehouse enables the team to answer straightforward customer questions and to conduct discovery analytics. This in turn provides the ability to take a more holistic and strategic view to customer and account management. The discovery analytics provide fact-based answers for many questionsincluding forward-looking trends, potential retention issues and the identification of best opportunities for the cross-selling of services. A complete set of standard reports along with the ability to perform ad-hoc queries is imbedded into

CUSTOMER ANALYTICS SERIES

a web-based, decision-support tool that provides insight intelligence pinpointing where customer relationships are not being leveraged.



HIGHLIGHTS

Many companies today are overloaded with "lower order" transactional customer data, but lack access to "higher-order" customer information that key decisions can be based on

Many companies today are overloaded with "lower order" transactional customer data, but lack access to "higher-order" customer information that key decisions can be based on. Even companies whose bread-and-butter is customer relationships tend to manage them in a largely unstructured, intuitive and distributed fashion. Using decision support and analytical applications can help transform the customer decision-making profile from gut-and-instinct to facts-and-figures. Two types of customer decisions anchor the customer intelligence needed – insight regarding individual customer behavior and intelligence that ensures a diversified customer portfolio. To do this, a flexible, accurate and real-time customer fact-base is needed to pinpoint best resource and investment options: which customers to retain, who to cross-sell to and who to target for acquisition.

---

i. "Hedging Customers" by Ravi Dhar and Rashi Glazer, Harvard Business Review, May 2003

ii. "Diamonds in the Data Mine" by Gary Loveman, Harvard Business Review, May 2003

