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A new dawn for CRM: This time it's B2B

CRM may have reached maturity, but according to this author, the business-to-business market is very fertile territory. But before CRM managers jump in, they should take a few steps back and learn some valuable lessons from business-to-consumer marketers. Here's a helpful, easy-to-follow blueprint for the B2B manager.

By Robert Angel

Robert Angel is President of The Gilford Group, a consulting firm that specializes in developing client relationship strategies.

A few large business-to-consumer (B2C) organizations with millions of direct customers have generated some of the best returns from customer relationship strategies. By focusing on customers' needs rather than those of the organization, these organizations enjoy significant boosts in revenues, enabling them to also enjoy healthy paybacks on their investment in Customer Relationship Management.

Business-to-business (B2B) organizations typically have fewer customers (often intermediaries rather than end consumers) and smaller product ranges. Nevertheless, B2C CRM principles can be successfully applied in a B2B environment, with the same, satisfying return on investment. This article will explain how these important principles can be applied.

A very brief history of CRM

The golden age for CRM was actually more than 50 years ago. Canada was then a small-town country, with businesses localized in small communities. Business leaders knew the intimate details of their fellow citizens' lives - births, marriages, deaths and other life cycle changes -- giving them a near-real time view of their customers' changing needs. In those days, there was little need for expensive CRM technology.

Movement to big cities changed all that. Urban and suburban living in the second half of the 20th century coincided with development of many new and desirable consumer products to sell, and powerful new technologies to process huge transaction volumes and drive down transaction costs. With a combination of product-oriented, demand-push and transaction focus, it is hardly surprising that many organizations lost sight of the fact that their customers were individuals.

In the late1990s, companies tried to re-personalize their customer relationships by installing sales technology - sales contact management, Web personalization of e-sales messages, and sophisticated segmenting and predictive modeling tools for more tailored sales messages. All too often the result was an increase in one-way product "communications" fired at customers. It was a frenzy of sales missiles lobbed at any prospect coming within range, and driven by the need to sell more rather than the customers' own intrinsic needs.

These sales tools *have* improved results, although the outcomes have often been modest and unsustainable. Gains in satisfaction, cross selling, and retention are reported from most incremental activity aimed at the customer. It seems that customers are used to the traditional "one size fits all" approach and appreciate additional attention.

However, customer resistance is setting in. For example, in the Canadian retail banking industry, relationship marketers are reporting declining responses to their targeted sales campaigns despite using sophisticated segmentation and modeling techniques.

The breakthrough in customer understanding

A few large-scale Business-to-Consumer (B2C) firms - some banks, airlines, retailers, hospitality providers, and telcos - have succeeded in taking CRM to a higher level. What have they done differently?

They practice relationship strategies that are based on the needs of the individual customer, rather than their own internal goals. They still use sales tools and still send out targeted product messages to various customer segments. However, they also search out a relatively few customers every day for whom actual relationship history and transaction behavior indicate that the time may be right to find out what may have changed in their customers' lives.

These companies make it an act of faith to recognize customers' needs rather than their own. They prefer to react to actual customer behavior rather than just make assumptions about customer needs from sampling and modeling. They like to find out customers' needs through dialogue with them rather than from predictive models. They are very selective in which customers they talk to, recognizing that they can't talk to all of their customers every day. They build their strategies through business rules set by business people, using technology as the enabler rather than the driver. They use reporting to facilitate individual customer decisions, rather than just reporting on trends. So strong is the commitment to satisfying their customers' requirements that daily customer dialogue has become an integral part of their brand values.

Research of some 20 truly customer-focused organizations conducted by our organization indicates several important forces are at work. These can be summarized as the six fundamental relationship strategy principles:

Six Principles of Understanding Customers as Individuals

1. Track client behavior at the most granular level, i.e. transactions
2. Analyze your high-value customer base on demand
3. Know the value of your individual customers
4. Differentiate service with selective responses
5. Measure results
6. Live your customer brand values every day

Customers understand when they are being treated as individuals. In working with a number of Business-to-Consumer organizations over the past five years, I have seen satisfaction, loyalty and conversion rates of at least two to three times better with this approach than with more traditional product-push marketing methods. Consultants Peppers & Rogers, advocates of "1-to-1" marketing, sum it up by saying "CRM speaks clearly to customer relationships and to managing our businesses to be competitive in a new economy. It is less about managing customers than managing ourselves to build longer, stronger, more profitable relationships with customers. "

A blueprint for a healthy B2B customer relationship

Business-to-Business (B2B) organizations sell to intermediaries in the consumer distribution chain rather than directly to an end consumer (although many B2B companies promote their products to end consumers and also sell directly to them as well). Typically, then, B2B companies have fewer customers and a smaller product line than large B2C organizations.

Examples of B2B organizations include manufacturers; industrial suppliers that provide an input into another firm's manufacturing process; technology hardware vendors that operate through distributors; insurance companies that sell insurance policies through brokers; and government agencies serving the corporate community. Working through an intermediary is a selling model that shows continuing vitality, despite predictions that the Internet would make this model redundant.

What can B2B organizations learn from the B2C "customer understanding" experience? My research indicates strongly that, lower customer volume and attendant economies of scale notwithstanding, the door is now open for the B2B companies to increase their profitability by seeing customers as individuals. Some B2B companies are now going through that door by taking some of the following steps.

1. Track client behavior at the most granular level, i.e. transactions

When B2B direct transactions are numbered in the thousands, the potential for revenue lift from additional customer knowledge may be less than it is for B2C, particularly if key B2B customers are already being monitored manually. However, the opportunity to improve customer *profitability* can still be substantial.

What to do with the 50 to 80 percent of customers that are not profitable is one of the most crucial customer questions facing companies today.

Examples of rigorous approaches to understanding customers as individuals include: the services company whose executives are given three customers to call every day to enquire into the state of the relationship; the manufacturing company that tracks the multiplicity of relationships stretching across its customer's enterprise; and the brokerage company that monitors each one of its investment advisor customers for investment strategy changes. These companies want to understand the full complexity of their customer relationships in near real time.

Consumer products manufacturers have been cooperating with retailers for many years in tracking end-consumer sales. The opportunity to understand customers as individuals also extends to tracking end-customer data and to providing that data to distributor customers, in those businesses that have access to this data. A financial services product manufacturer is currently working on making end-consumer data available to its distributors as an added value service and loyalty inducement.

2. Micro-segment your customer base

Segmentation is diminishing in effectiveness. Micro-segmentation is now being practiced more widely in B2C organizations looking to find clusters of customers with specific characteristics and behaviors, with whom they can have an informed and very precise dialogue.

B2B organizations often ask, "Who is the customer?" Clearly, there can be more than one level of customer in B2B. A much more important question is, "Who are the best customers?" These may vary from day to day according to changing relationship criteria and shifts in customer behavior. Yet few companies look at their customer base as a varying mix of shifting values. After all, the organization finds it much more convenient to pigeon hole customers in rarely changing segments.

Several B2B organizations are practicing micro-segmentation with their suppliers as well as with customers. A large industrial products manufacturer with as many suppliers as customers identifies changes in supplier transaction behavior for its buying organization. Davis Hicks of QCI North America, a specialist in CRM diagnostics, points to the best B2B companies increasingly "using CRM techniques for supply management as well as sales management, creating an excellent buyer as a by-product ".

3. Know the value of your individual customers

A growing number of B2B companies, both large and small, are calculating the monthly profit contribution for each customer. The contribution is made available as an input to business rules for micro-segmentation and monitoring transactions. For example, a rule may say, "Note changes in a particular behavior only for customers with profitability over a specified level and an average of more than 5 transactions a month."

However, financial contribution is often calculated at such a high level as to indicate only relative performance, rather than an accurate view of actual performance built up transaction by transaction. Over-analysis is clearly undesirable, but I have seen a number of companies make critical customer-treatment decisions on the basis of some very broad- brush calculations.

What to do with the 50 to 80 percent of customers that are not profitable is one of the most crucial customer questions facing companies today. Judging by what many of us experience personally as individual consumers with our banks, phone companies, retail stores, airlines, hotels, and other service providers, too few of these decisions are being made on a sound basis. Since *potential* value calculations (which more and more organizations are rightly moving to) normally compound misleading current value calculations, should we expect significant treatment improvement in the near future?

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4. Differentiate service with selective responses

The heart of a customer-centric strategy is being able to treat different customers differently. After all, individual needs vary, as does the value of different customers. Providing different levels of service to different types of customers can be an important differentiator as products and services become increasingly commoditized and brand values become increasingly similar.

However, the idea of differentiated service levels is a tricky one, especially in Canada, where there seems to be inherent reluctance to do this. The idea that some more valuable customers get more than basic service seems to go against Canadians' attitudes to preferential treatment. Even where this is established practice, such as on airlines or from relationship managers, there can be an undercurrent of customer resentment.

It is reasonable to expect that graduated attention beyond a universal service level will become the norm for higher levels of usage or value. For instance, a retailer going beyond a certain transaction volume might receive proprietary market data through an on-line self-service facility; a premium insurance customer might receive more rapid claims adjudication and more service features, and a highly profitable industrial customer might receive access to the supplier's internal email system.

5. Measure the results

Performance measurement is emerging as one of the major management issues of 2003, for both B2C and B2B organizations. (see article, Measuring customer relationships, elsewhere in this issue). Preparing credible business justifications based on expected results has long been a crucial step in implementing customer relationship strategies. Increasingly, clients are now asking for proof -that projected results are materializing.

This puts the spotlight on a number of issues. What are the appropriate performance metrics, where is the supporting data, how can it be accessed quickly and easily, how can results be related to the causes, how detailed should measurement be? Few organizations can truthfully claim to have addressed all of these issues, still less to have resolved them.

Even fewer have successfully applied performance measurement to individual customer decisioning, even those who have implemented a balanced scorecard. The tendency is to confuse performance measurement with management reporting - in the aggregate on past trends. Performance measurements are best used as decisioning mechanisms to guide future interactions, customer by customer.

6. Live your customer brand values every day

Living customer-focused brand values every day is a prerequisite for excellent customer relationships, meaning that customers are quick to see through an organization's actions if they are not consistent with what the organization says. Corporate values, the qualities that give an organization its character and direction, are closely scrutinized by customers, competitors, the media, and government. They should be considered essential to sustaining financial worth. Neglecting values can destroy financial value and the organization itself. At the micro level, a B2B organization needs to be constantly aware of individual customers' daily interactions with the organization so that every one of its interactions reflects the corporate brand values.

Successful customer-focused organizations have externally focused values - it's about the customer, not about the organization. More traditional product-focused organizations tend to have an internal orientation, and adjust with difficulty to an externally oriented culture. A high level of customer complaints and customer churn, and diminishing shares of customers' wallets, are warning signs of an internally focused organization. The warning signs are usually accompanied by increasing customer service costs.

An early decision involves the extent to which the Internet should play a CRM role in reducing costs in a multi-channel distribution business. While it may make economic sense to migrate low-value clients to lower-cost channels, it is only self-deceiving to portray this as a customer centric strategy if it goes against customer requirements.

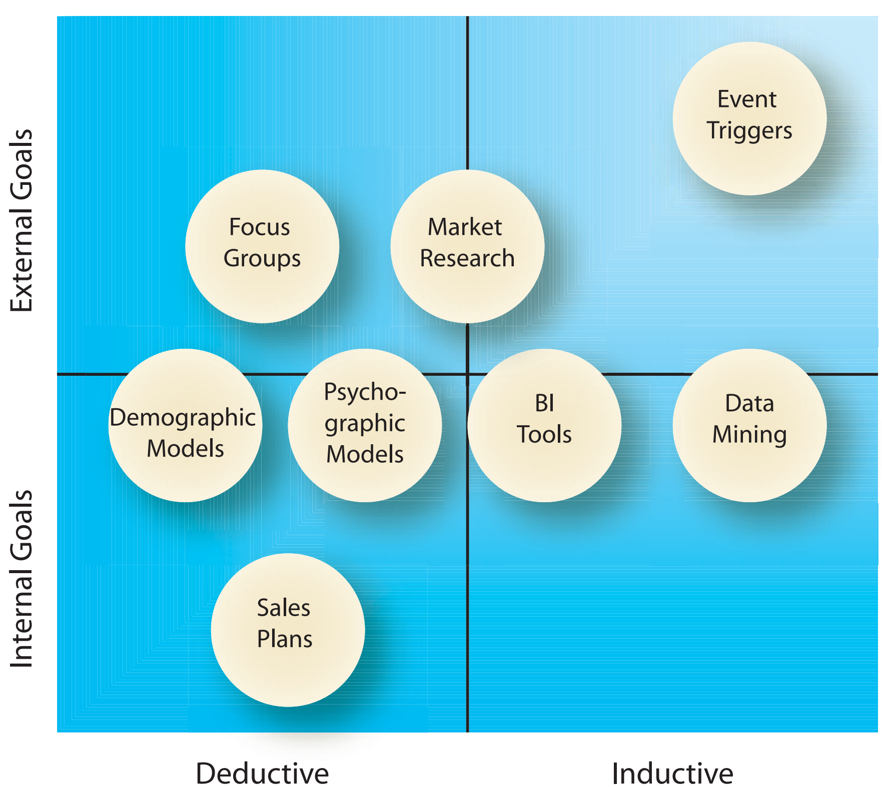
Drawing conclusions

Getting started is not really the issue. Many B2B organizations are already practicing some of the six principles, to some degree.

However, to achieve breakthrough results, it is not enough to just follow some elements of the six principles, as a growing number of B2B organizations are doing. Taking some customer focused steps falls substantially short of a consistent and dedicated customer effort that communicates itself to customers. Rather, the need is to move from a piecemeal and partial approach to a concerted no-compromise strategy that fully adopts all six principles with conviction.

A good approach is to examine each of the mechanisms for learning about customers. These can be plotted against how goals are set, whether they are internal or external. They can also be plotted against observed (inductive) customer behavior compared with needs deduced from predictive models (deductive).

Customer Communications Foundations



The sweet spot for B2B is clearly the upper right hand quadrant, where customer dialogue is based on observing and acting on individual customer behavior.

The six principles can help in surprising ways. For example, they can break down product barriers within the organization and emphasize common ground. They can avoid the common occurrence where two staff members unwittingly contact the customer about the same thing. They can tie results measurement to day-to-day decisioning for rapid business rules modification.

A well conceived business case built on business requirements should not require most B2B organizations to make large technology investments, at least in the early stages. A progressive investment with a series of small but rapid paybacks is usually preferable to a costly "bigbang" investment projecting larger outcomes to begin far out into the future.

CRM has actually recorded growth throughout the recent slowdown. The first generation of CRM spending is maturing, and a new generation of more relationship-focused CRM activity is getting under way. Will we see a B2B breakthrough in thinking about serving the needs of individual customers? The chances are good because the competitive differentiation stakes are high.