Evolution

Learning to manage customers

Most companies assert that managing customer relationships is a key source of competitive advantage, yet the benefits remain elusive. Jennifer Kirkby argues that this is because the marketing function lacks the skills, structure and influence to achieve the task, and proposes an evolutionary solution.

Managing relationships with customers is the most important source of competitive advantage over the next five years. At least that is what senior corporate strategists from major European organizations said a few months ago.[1] This corroborates other recent studies that also identified customer management or customer relationship management[2] (CRM) as the mainstay of a corporate strategy for survival and growth.

Many financial services companies agree. As they face the conflicting challenges of cutting operational costs whilst trying to improve and differentiate the services demanded by more powerful and individual consumers, customer management appears to be the rescue ladder out of the pit of margin and capital pressures. However, the skills and structures for effective customer management do not come naturally to today's retail financial organizations, and are proving difficult to implement.[3]

A marketing renaissance?

To gain these right skills, organizations need to re-examine their marketing practices from first principles, for customer management is an evolution of the marketing discipline – the management practice designed to align company resources with customer requirements in order to achieve optimum profit. Marketing as a discipline grew out of the need in the early twentieth century to differentiate mass-produced goods and escape the chains of commodity pricing, and also to create a trusted face via the brand[4] for the large remote organizations replacing small local ones.[5] The recent trend of copying operational best practice rather than developing differentiating marketing strategies has led to similar needs in today's retail finance companies. Financial market conditions require a marketing renaissance, but this time at a more granular customer level in order to:-

- harness customer equity and make it a company asset
- stop new entrants from cherry-picking the "best" customers
- align capital reserves with customer risk exposure
- adapt more quickly to change in the environment, frequently driven by technology.

Research suggests[6] that financial services organizations that are "effective" at marketing have better business results in terms of customer retention, sales growth and profit margins, especially in dynamic markets. Just what today's retail financial organizations want.

Marketing as a discipline grew out of the need in the early twentieth century to differentiate mass-produced goods and to create a trusted face.

FIGURE 1: MARKETING EFFECTIVENESS DRIVES RESULTS

Relative importance of marketing effectiveness drivers in delivering customer retention, sales growth and profit margin

	Delivering customer value	Marketing information	Operational efficiency	Strategic planning
Customer retention	1	4	2	3
Sales growth	2	1	4	3
Profit margin	1	2	3	4

1 is the most important, 4 the least
Source: Bell and Howell, J Financial Services Marketing **15** 1 2001

The achievement of effective marketing starts with a corporate marketing culture, unified by a common purpose and values. This then creates the environment for the proven drivers of marketing effectiveness to affect the business results:

- A relentless focus by all staff on spotting opportunity and delivering value to target customer segments.
- The use of robust marketing information in decision making.
- Collaborative cross-functional cohesion leading to operational efficiency in delivering strategic marketing plans.
- A strong strategic planning orientation, particularly in relation to positioning against competitors and investment in longer term growth.

These research results are summarized in Figure 1, which shows the relative (declared) importance of the drivers of marketing effectiveness on key customer management business results. However, marketing as it is practised in many financial organizations is not effective, and lacks these drivers.

The marketing discipline encompasses sales, service and marketing communications as well as other functions such as product development, channel management and research. Rarely do these pull together as a unified whole. Arguments rage as to whether centralized or business unit structures are the most efficient and effective. The different marketing practices are fragmented, with little strategic direction. Skills are growing obsolete, rooted in techniques suited to the era of mass marketing, product-driven, supply-side dominance whilst the (lack of) calibre and experience of marketing staff is seen as an increasing problem.[7]

Many retail financial organizations now recognize this issue, and are taking steps to try to improve the situation, by evolving their marketing practices to a higher level of skill and competence. Abbey National, for example, announced a big reorganization of its marketing function[8] to accommodate a greater emphasis on customer roles at the end of 2002. Others, from large high street banks to smaller building societies, are experimenting with new roles, staff incentives and matrix structures to improve marketing effectiveness. This focus is also reflected in the rapid growth of inquiries to consultancies and advisory companies in this area – especially from retail financial services and credit card companies. Insurance and investment companies still lag behind, as indeed they do in the recognition of the importance of customer management. These public examples reinforce the findings of the research cited earlier[1], that the sales and marketing functions are seen as far more strategically important. The marketing evolution is rolling on.

Where next

Before trying to reskill and restructure marketing practices, financial services organizations must recognize the fundamental changes involved at different stages in the move from product to customer

FIGURE 2: EVOLUTION, NOT REVOLUTION

	PRODUCT-CENTRIC	CUTOMER-FOCUSED	CUSTOMER COLLABORATIVE
	Product	Segment product/service	Customer solution/experience
	Price	Price by segment	Price by value and cost to serve
	Promotion	Data-driven customer communication	Knowledge-driven customer dialogue
	Place	Channel	Situation touchpoint
	Product and brand asset	Brand and customer asset	Customer equity
Leading Edge	1990	2003	2006

management, as outlined in Figure 2.

Mass market product centric techniques such as the "four Ps" must be evolved into much more granular customer-collaborative techniques, in which there is a concentration on providing customized solutions to customer needs and problems, and on two-way dialogue instead of one-way communication. However, the first stage is to develop practices that show a much greater focus on customer requirements and customer management. At the same time, there must be a cultural shift in corporate mind-set, from product and brand measures to the understanding of the potential value of customers and the investment required to release this customer equity.

Mass market product-centric techniques must be evolved into granular customer-collaborative techniques.

Although some might claim it in their corporate PR, no financial institution is currently operating on the leading edge of customer collaboration, but the pace of development and change is so rapid that some could approach the new ideal within the next three years.

But this will require a major shift in the development and deployment of marketing skills, as is already partially-evident in some of more customer-focused organizations: ➤

Strategic marketing agility

Marketing strategy is used to cross the chasm between corporate vision and day-to-day operational effectiveness. Strategic skills in customer portfolio management (planning and measuring customer acquisition, development and retention) drive marketing effectiveness. At the leading edge, organizations need to become more responsive and agile in their markets. Therefore the best are redesigning their strategy processes to include continuous customer and operational feedback and metrics. This information feeds scenario planning and pattern forecasting[9] activity that in turn directs effective strategy and tactics.

The end game should be a corporate marketing culture, not a larger marketing department.

Transferring P&L to customer segments

Customer-focused roles with the responsibility to match investment in a segment with its potential value are crucial for effective customer relationship management. Such roles are increasingly common in matrix organizational structures alongside product- and channel-focused jobs. Responsibility for profitability still mainly resides with the product and channel roles, but there is a clear trend for the customer segments to take primary P&L responsibility. This is only possible, however, when the right customer metrics and incentives are also in place. It should be noted, though, that customer roles are not *replacing* product roles – these are still crucial to the delivery of operational and financial targets.

Greater accountability and measurability

The end game should be a corporate marketing culture, not a larger marketing department. To gain the clout needed to achieve this, marketing functions need to be more accountable, networking and co-ordinating activity to achieve organizational goals. To achieve this, greater planning, co-ordination and programme/project management skills are being acquired. There is also a crucial focus on aligning internal structures and skills to the brand values, which requires effective and consistent collaboration with the human resources function. A respondent to a recent marketing effectiveness survey[10] captured the need with the comment:

There is also a crucial focus on aligning internal structures and skills to the brand values.

> We have got to be marketing in the HR department, the operations department, the credit department, the branches and everywhere … it's all got to be joined up.

Measurability to link results and investment is seen as key – but there is a dangerous trend towards looking only at the more accessible short-term return on investment from direct-response communications. To understand investment fully, those at the leading edge are using more financial, analytical and measurement skills, which demands more effective and routine links to the credit risk, compliance and actuarial functions that traditionally have been seen as obstacles to marketing rather than key supports.

And the latest trend is in the area of corporate social responsibility, where relationships with all stakeholders are managed in line with corporate goals – and those relationships actually shape the goals. This is still a fringe activity for most companies, but will fairly clearly be a key stage of corporate evolution.[11]

Reducing partnership risks

Partners are increasingly important. On the supply side, there are outsourcers, shared services and strategic suppliers; on the demand side, intermediaries, geographic and product partners. Managing these external relationships to ensure co-ordination and consistency in areas like customer proposition and experience takes a much deeper level of competence than many organizations have today. There is still a large legacy of "do what we say" rather than collaboration to overcome, and – as some of the collaborations become more global and/or virtual – some serious issues to address in terms of commonality of culture and tangibility of experience.

New skills technology

New technology demands new skills if value is to be realized and competitive advantage gained. Marketing needs to develop skills in areas such as:

- Customer touch-point planning and integration, as channels proliferate.
- Customer process design, as technology supports more activities.
- Customer dialogue planning, as customer knowledge is made more available.
- Event-based communication to take advantage of the ability to capture real-time customer information.
- Knowledge management, so that the right information is captured from the most relevant source and combined for the best use.
- Community building, as technology opens up an organization to its markets. ➤

EVOLVING ROLES

Strategic Marketing - Responsible for amalgamating marketing and customer strategy. Links needed to finance for overall customer portfolio management.

Market/Corporate Performance Information – Historically a reporting or business information function. Now being revived as an analytical function, setting and linking company metrics and key performance indicators.

Internal Communications – Often no longer seen as part of marketing, but increasingly important in cultural brand alignment and change initiatives. Strong links needed with marketing functions.

Market Research – Key information role to play but shockingly under-used – largely confined to usage and attitude, satisfaction and market segmentation. An interest in attitudinal segmentation and propensity modelling built from survey rather than transactional data is emerging. Increasingly, market research is being relabelled as customer insight.

Customer Insight/Information – Emerging function to collate and analyse customer information from all sources and ensure the resulting insight (or knowledge) is used in decision-making.

Customer information areas are frequently divided between analysis and modelling functions, which causes problems if the resulting analysis is not linked.

Brand Management – Financial services has never been strong on brand management and it is often still part of corporate communications. However, there is a resurgence of interest in the need for brand differentiation and values, and its link to supporting cultures.

Marketing Communications – The area that all non-marketers think of as marketing. Customer management skills and roles should evolve in event-based and continuous communication/dialogue planning – separating content from media across the customer lifecycle.

Direct Marketing/Customer Communications/ Database Marketing – These roles often have an untapped depth of IT skills, so are a key focus for some of the new technology-enabled skills.

Retail Support/Sales Promotion/ Merchandising – Supports branches by customizing central campaigns. An increasing focus on individual branch marketing when the branch is a profit centre or franchise.

Customer Management/Customer Loyalty – Tasked with achieving acquisition, development and retention of specific target customer segments. Customer segment management has often failed in the past because it has been seen as direct marketing rather than the management of the customer asset.

Product Development & Management – Still often separate from marketing in an operational area. Product areas still have P&L responsibility but increasingly this is matrixed with customer segment and channel P&Ls

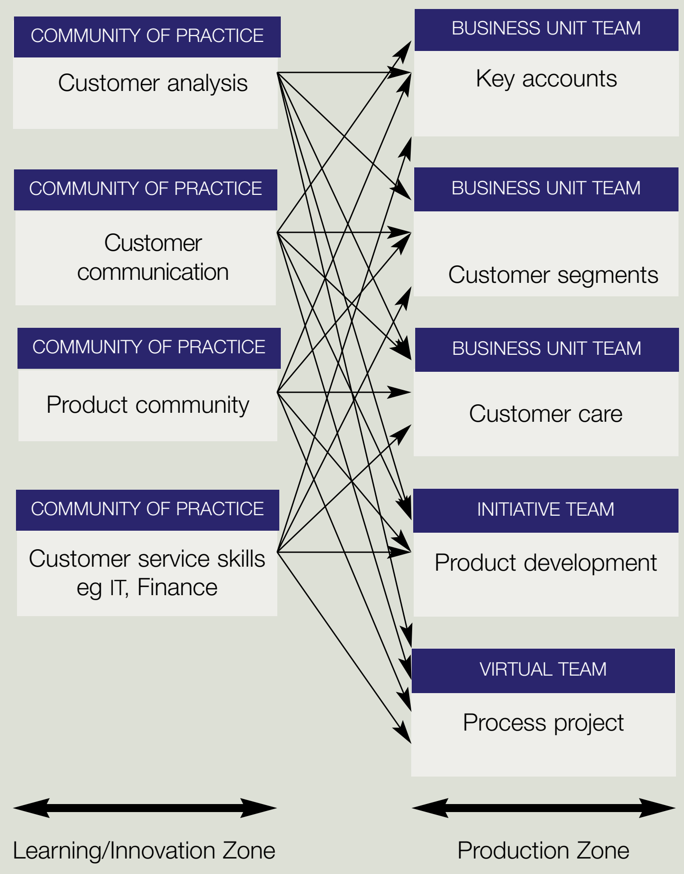
Channel Management – Responsible for the P&L of individual channels. The role only really works when part of a matrix structure, so that cost-to-serve can be calculated and resources allocated efficiently.

Internet Management – Still generally seen as a separate business unit/channel. Some companies are developing community-building roles centred on the Internet, to demonstrate brand value and build dialogue.

Sales – Stronger links are developing with lead management. Relationship management roles are splitting away from customer acquisition roles, with the former collaborating far more closely with service functions. However, sales and marketing are still often treated separately in terms of reorganizations.

Service – Increasingly linked to the marketing function, as customer experience management become higher profile. Stronger relationship with sales where there is a retail business unit.

FIGURE 3: COMMUNITY INTERACTIONS



Communities of practice (central skill areas) own resources, encourage and spread best-practice, control relevant processes.
Cross-skilled business unit teams pull resource together in a team drawing on relevant communities of practice, and own the business objectives. The business units themselves are increasingly based on customer needs segments rather than products or channels. .

Creating a culture not a department

It is fairly easy to specify new roles, but rather more difficult (but arguably more important) to decide how they should be joined to achieve the goals of customer management. Many studies[12] have shown cultural issues, internal politics and staff incentives to be the greatest barriers to strategy change.

One of the big questions has always been whether to have a central marketing function or separate ones in each business unit. Fashion has swung backwards and forwards, as neither structure is ideal in terms of effectiveness. For example, centralized marketing has better co-ordination and economies of scale, but sacrifices the ability to react quickly to market changes and is often distant from the real concerns of customers. Business unit marketing can react very quickly to the market, but is poor at cross-product integration and the overall level of skills and experience is often lower.[13]

It is now very clear in practical terms, however, that command and control organizational structures are neither the issue nor the solution – this is simply moving the deckchairs. The mechanisms used to network skills and roles flexibly within the organization for the task in hand are far more important for effectiveness. Financial services companies need to be far more co-ordinated and adaptive to the environment if they are to achieve the emerging objectives of corporate social responsibility.

One effective approach to the development of this network mechanism, based on communities of practice and multi-skilled business unit teams, is indicated in Figure 3. Some teams will be permanent, some temporary, depending on whether the work is business-as-usual or related to a specific one-off objective.

As marketing practices, evolve, mature and become more pervasive, so does the organizational structure, and a typical development pattern is shown in Figure 4. All the levels of this hierarchy can be observed in various financial services companies, and it is fairly clear that the higher the level, the greater is the degree of collaboration (and the likelihood of success) in achieving customer management objectives.

This is not a process that can or should be rushed – the cultural issues are too strong, and there is also an obvious need to be able to take customers as well as staff forward into the brave new world. High profile restructurings may give good press coverage but are unlikely to deliver the long-term results.

Let things evolve, so that politics and fear of the future do not stall the momentum. Start with changes to staff incentives, establishing workable and meaningful metrics, upgrading skills and using small reorganizations to give greater flexibility in combining the existing skills in the company. At the same time foster collaboration, so

FIGURE 4: STRUCTURAL DEVELOPMENT

LEVEL 1 Basic marketing communication departments supporting product functions in set organizational structures, and often reporting to an operations director.

LEVEL 2 Increasing sophistication brings a variety of marketing skills together within a strategic marketing department. There is now a marketing director, or even a customer management director.

LEVEL 3 Strategic marketing now has strong links to corporate planning, and co-ordinates rather than controls cross-functional teams of marketing skills – individuals in the teams are linked to appropriate communities of practice.

LEVEL 4 Other functions such as finance and IT become part of the cross-functional teams, and marketing practices and mind-sets start to become pervasive.

that better customer value and operational efficiency are achieved and deliver better (and encouraging) results. Customer management skills, roles and structures all need to evolve and mature with practice and time – as in most other fields, it is the quiet revolutions that will deliver the lasting solutions. ◻

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[1] Gartner G2 Corporate Planners Research Study – 2003

[2] Not, in theory at least, the same things.

[3] For example, a 2001 study by Bain showed that, out of twenty-five management tools, CRM was in the bottom three for satisfaction, because of implementation difficulties. Worse still, 55% of all CRM projects do not produce results, and 20% of users reported that their CRM initiative had damaged long-standing customer relationships. See Rigby, Reichheld and Schefter *Avoid The Four Perils of CRM* Harvard Business Review Feb 2002. This article was also reviewed in *Argent 1.2* – back numbers available from Richard Nolan at the editorial address.

[4] The original "branding" was literally the application of the producer's signature to certify, in an age in which customer protection legislation was not even dreamed of, that the product was genuine. This history has been featured in recent years in the modern advertising-led version of branding by both Kellogg's and Jack Daniels. Ed

[5] I would argue that the *real* need for marketing was actually established a little earlier by the industrial revolution, which separated the point of sale from the point of production and design, and thus created the real marketing needs for formal communication between both the customer and the company, **and** between the customer-facing staff and their other colleagues. Peter Drucker puts the emergence of marketing even earlier, in the seventeenth century, albeit in Japan – see Drucker *Management: Tasks, Responsibilities, Practices* New York Harper & Row 1973. Ed

[6] See, for example, *Marketing effectiveness and business performance in the financial services industry* – Journal of Services Marketing **15** 1 2001

[7] Marketing Practice and Effectiveness Research, Financial Services Forum, 2003. Report available from Adam Park at the editorial office. See p63 for further details.

[8] Not unconnected, of course, with the broader refocusing associated with the arrival of its new chief executive, Luqman Arnold, and the need to rebuild City confidence. Ed

[9] A method of linking short-term action to long-term planning. Forecasting has typically looked at the past and then extrapolated events into the future. With the extremely varied changes now affecting markets, a more reliable way of forecasting is to build scenarios based on current issues and assumptions, and then monitor markets and environmental factors, recognize patterns of activity that affect the assumptions or raise new issues, test the new assumptions and build them into revised scenarios.

[10] Marketing Practice and Effectiveness Research – see above.

[11] Laetitia Brindle discussed some of the key issues in *Banking on sustainability*, in Argent 2.2.

[12] For example, *State Of The Nation III* 2003 QCi Customer Management; and *Seven Key Reasons Why CRM Fails* – Gartner UK 2001

[13] These issues were discussed in more detail by Michael Payne and Leon MacPherson in *Necessary expense – or value creator?* in Argent 2.3.