

“CUSTOMER BASE DEVELOPMENT” - WHY IT’S CRUCIAL

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It happened rather quietly. The term “CRM” got hijacked. Ask, and most who know the term think “system”. That’s not the way it was when Customer Relationship Management emerged as an important business process. But since CRM now has such a strong systems flavor, let’s think more broadly about our real intent – Customer Base Development (CBD).

CBD is the broader view that includes the people, the process, and the technology, all working harmoniously. It trumps CRM every time. Let’s see why.

The Goal

Let’s start with a fundamental premise: If you want your business to flourish, you want a healthy customer base that’s growing and buying increasing volumes of your products and services. But let’s turn that view inside out and take the customer’s perspective: If I buy \$500,000 worth of your goods and services this year, I’m worth \$500,000 to you this year, and perhaps \$300,000 next year. If you invest in your products, then I may be worth \$500,000 this year, \$500,000 next year, and \$250,000 the year after that. It’s not a great leap to realize that your business goal is to maximize the value of your customer base by investing in value propositions they’ll buy.

The Process

It takes a business process to achieve a business goal. “Process” is rather abstract – it’s what we do and what information we pass around, all in pursuit of that goal. Let’s suggest a process that meets the goal:

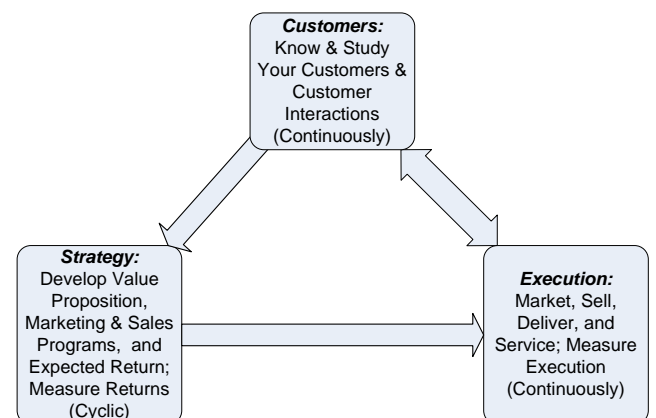
- **Customer** activity (top) focuses on customers and prospects. It collects all marketing, sales, delivery, and services events and analyzes them all. Why? To gain insight into customers’ patterns in their choice of your services (to find segments) and their needs.

Example: From this activity, you know that – this year – I’ve ordered \$350,000 of your products, accepted one of three offers, and made three calls to service. You’ve classified me as a mid-value customer who uses your products for mission-critical applications. Further, nine of your ten other mid-value customers who use your products for mission-critical

applications accepted value propositions similar to the one I accepted, and all had several satisfying service calls.

- **Execution** activity includes marketing, selling, delivering product, and servicing customers through the channels you’ve chosen and programs you’ve designed. If anything here touches a customer – a direct mail letter, a web-site visit, a purchase – the **Customer** activity records it. Results you measure here are “process” measures that help you understand whether your marketing, sales, delivery, and service programs are working to expectations; however, they can’t tell you much about value proposition goal success.

Example: You market through direct mail. You find that your direct marketing program targeting mid-value prospects needing mission-critical support got a 4% response rate – double the industry average – but that doesn’t translate into increasing customer value.



- **Strategy** is the “brains” of the whole process. Here you’ll decide whether you want to retain, win back, or attract new customers, and you’ll design the products to meet those objectives, based on what you know of your **Customer** activities. Next you calculate the projected return, the “end” measure. Finally, and most important, you’ll check **Customer** activity to see what they bought, and from that you’ll measure the actual increase in customer value. This is a cyclic process, and you

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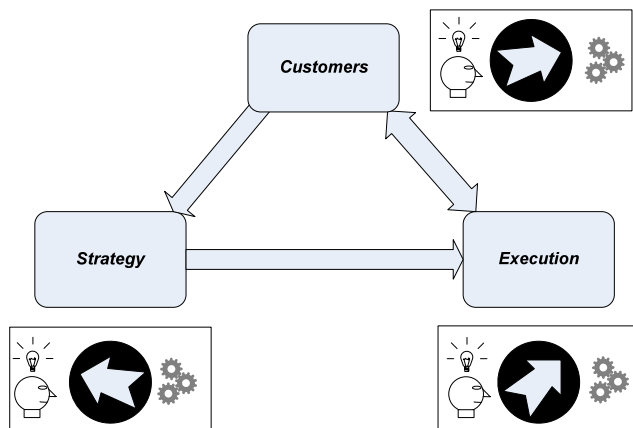
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execute it consistent with your product life-cycles. This is where you learn – from successes and failures – how best to increase customer value.

Example: You seek to make \$10M profits on \$100M of sales of new products designed to win back departed mid-value customers, and that will require an investment of \$3M. You prepare your channels and launch **Execution**. If you get \$9M profits on purchases made by customers you won back, you actually achieved a \$300% ROI, not what you planned, but not bad. Now you know you’ve increased your customer base value!

Systems

Executing that process on any meaningful scale requires tools – CRM systems. But how can CRM systems help with Customer Base Development? To know, we have to see how much of this process can be executed by CRM systems.



- **Customer** activities – information collection, analysis and modeling, segmentation, mining, for example – can be highly automated by current CRM systems.
- **Execution** – marketing, selling, delivering, and servicing – get substantial amounts of help from automation, including E-commerce, self-service, Interactive Voice Response (IVR), and Sales force Automation (SFA). So Execution can be supported by CRM systems.
- **Strategy** – the most significant activity in Customer Base Development – is a human process that requires insight, a sense of the market, and a sense of the business. Only human intelligence can understand the implications of what is learned by

the **Customer** activities and choose next steps. CRM systems can’t help here.

CRM systems alone, absent the overall process, cannot maximize customer value.

People and Culture

Culture is the beliefs, traditions, habits, and values governing the behavior of a group, or, as another anonymous source put it, “it’s what you do when no-one is looking.” Culture can serve two roles: It’s the “moral compass” that makes you do the right thing, and it’s the grease that makes the machinery work in spite of bad automation choices, incomplete training, organizational obstacles, and gaps in the defined process. An example belief and its implications illustrate:

Example:

Belief: “We should present a consistent coherent face to the customers.” *Implications:* If you put in contact management (the most basic of CRM features), those taking calls willfully write up customer conversations so the next representative can avoid a conflicting or embarrassing response. Wondering why you have to “enter all this stuff into the computer” bespeaks different beliefs.

In the end, customer-focused culture makes the process and the CRM systems work in spite of their limitations.

The Big Picture

Customer Base Development is a three-legged table – your process, your systems, and your culture. If “CRM” makes you think “system”, you will miss opportunities to enhance the value of your customer base.

About the Author

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