

# Strategies for the New Economy: Customer Smart and Channel Wise

Actions to Drive Customer Value and Reduce Cost  
in a Challenging Economic Environment

Executive Brief



***The current economy demands decisive action by business leaders looking to sustain profitability during tough times. Accordingly, many companies are rushing to close retail stores, cut customer-facing staff and shut down strategic customer initiatives in an effort to quickly reduce costs. The short term impact may help reduce overhead, but the immediate and longer-term customer implications may far outweigh these benefits, and result in lost revenues and constraints on future growth opportunities. As a consequence, many companies are coming to the realization that traditional information sources and options may not be enough to drive the most effective business decisions in today's economy.***

***By being “customer smart and channel wise”, companies can gain additional insight into which customers create value, and which channels to bolster and reconfigure to more effectively optimize revenues and costs. Additionally, companies can more confidently step up and drive proactive customer communications, campaign execution and pricing tactics to address short-term needs and preserve valuable relationships for the long haul.***

*Without previous experience or benchmarks in a down economy, companies often bypass valuable customer and channel interaction information to make major operational decisions*

## **Traditional options are not enough**

The global economic environment continues to gyrate wildly, with many countries continuing to slide into recession. The risks and threats facing companies in multiple industries are unprecedented, with many major organizations struggling to keep afloat. Frozen credit markets have caused the collapse of major financial service firms while others have been sold off, literally overnight. Consumer confidence continues to decline and as a result many have sharply curtailed their purchasing. For many, if not all companies, now is not the time to even think about investing in customer focused initiatives. Or is it?

An intelligent answer has to carefully weigh all of the options. Traditionally, the immediate and most accessible lever during tough economic conditions has been to quickly take costs out of the business. Accordingly, we have become accustomed to reading daily headlines announcing major companies shutting down production facilities, targeting retail stores for closure, and laying off thousands of employees. These actions are often taken to avoid even more dire consequences down the road, including bankruptcy, liquidating the business or seeking an unpopular government "bail-out".

It is not surprising that customer-facing resources and related initiatives are often targeted for cost cutting during these times, especially as companies turn to traditional cost reduction approaches that may stave off immediate failure but do little to create a sustainable profit formula. Additionally, with little or no previous experience in using customer information in a down economy, companies often bypass valuable customer data and channel interaction information when making major operational decisions. Consequently, many companies are finding out that applying yesterday's restructuring options to today's unprecedented and complex economic challenges is not enough to save them.

## **New options must be explored**

Without a doubt, information is the lifeblood of today's economy. Over the past decade, companies such as Google, Apple, and Capital One have dominated emerging market opportunities by combining analysis of customer demographics, purchase trends and channel interactions with traditional performance data to deliver targeted products and services to multiple customer segments. Other businesses have missed customer information opportunities and instead found themselves deluged with data and unable to manage the data effectively.

***Researching products and prices online and purchasing them in a local store is second nature to customers today, and they expect a consistent level of service and professionalism regardless of channel.***

At the same time, ubiquitous access to the Internet and the proliferation of mobile devices has greatly changed how generations socialize, communicate, and buy products and services. The blending of bricks and mortar stores with digital channels is providing customers with seamless channel transitions and value added capabilities that were literally non-existent two years ago. Consumers barely even give a second's thought to reviewing and ordering products online, having them shipped to their home or picking them up at their local retailer.

The net effect is that in today's challenging economy, business leaders need to expand traditional performance measures to include key customer information to drive both customer and operational decisions. Performance data should be enhanced to include a deeper understanding of customer preferences and interactions and matched with channel costs and revenues. With this in mind, business leaders should consider:

- Powerful revenue and cost levers exist within customer interactions and channels. Some customer facing channels and support functions provide profound opportunities to make significant cost reductions and increase customer revenues while sustaining good customer interactions.
- Valuable relationships with the revenue-producers should be maintained. In many cases customer attitudes and opinions are more volatile during a downturn (they are experiencing financial hard times as well). Bad operational decisions can drive away loyal, revenue-producing customers if not handled correctly.
- All interactions are not created equal. Understand that different customer interactions carry different costs, but all are not all valued by customers equally. Cut the expensive channel interactions that customers don't care about, but protect the ones that they do.

So, should companies continue to improve customer focused channels and initiatives during tough economics times? The short answer is yes. In our opinion, most companies need to apply a customer lens to traditional restructuring options to make more informed operational decisions. In most cases, with the right customer intelligence, businesses can drive more targeted cost reduction efforts as well, enhancing cash flow and customer loyalty.

*For many companies, access to customer data is overwhelming – the challenge is how to use it to drive business value without boiling the ocean.*

## The best defense is a good offense

As stated, in a challenging economy most companies react defensively, quickly reaching for the most accessible operational levers to cut operational expenses in response to declining revenues and sales forecasts. We believe that companies need to be more on the offense than the defense to survive and/or thrive in this economy. Companies need to assess and apply key customer and channel information to enhance major operational decisions and drive more proactive communications, offerings, and pricing options. Accordingly, we have developed four key plays that companies should seriously consider to move forward in this punishing environment:

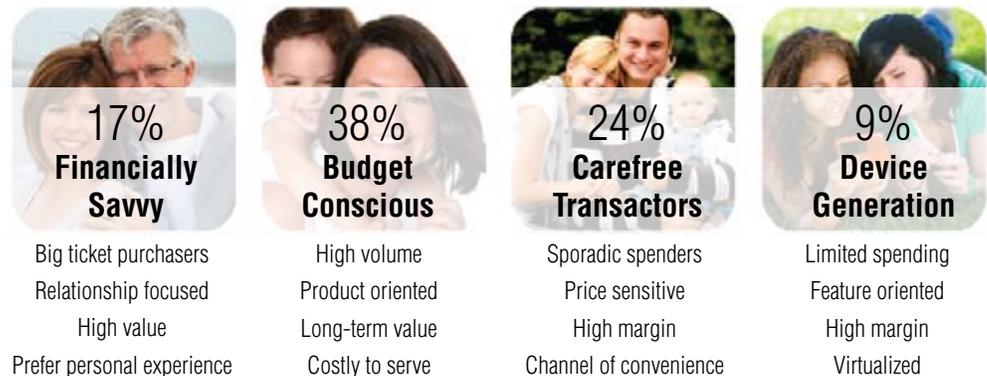
### 1. Get smart about your customers

Abundant customer data can be found in marketing, sales and customer service databases at most sizable companies. However, many companies' past efforts to extract, integrate and use customer information as a competitive asset have been underwhelming. Lack of common data formats, tools and differences in timing and completeness of datasets have proved to be formidable obstacles, leading many to reduce investments or abandon strategic customer initiatives. Conversely, impressive strides have been made by innovative companies exploring new areas of customer trust and advocacy to understand the drivers of customer purchases and loyalty and increase the value of key relationships.

Decisive action in this economy, however, requires a clear, concise and workable understanding of who key customers are and what they want. Readily available customer visualization and communication techniques, such as developing customer personas, can help a small team of decision-makers quickly understand key customer attributes and cut to the chase. Personas are descriptions of common customer segments that succinctly characterize their needs, demographics, purchase trends, channel interactions and a few other defining attributes (see Figure 1).

**Figure 1. Customer Personas**

Note: this example is a summary visualization of four Personas (supporting documentation is not shown)



*The expectations of customers and employees have never been higher, requiring businesses to supply a personalized and responsive environment.*

Personas can be quickly created utilizing existing customer research, transactional attributes (purchases categories, frequencies, channel interactions, etc.) and knowledge gathered from front-line personnel. Assumptions and insights can be confirmed and validated by conducting a small set of targeted interviews with customers who best represent newly developed personas.

Developing customer knowledge is relatively easy today; it doesn't have to be all inclusive to be a valuable and worthwhile business asset. For an organization to fully leverage this information, customer persona information has to be easily accessible, understood across a number of different constituencies and compatible with operational metrics.

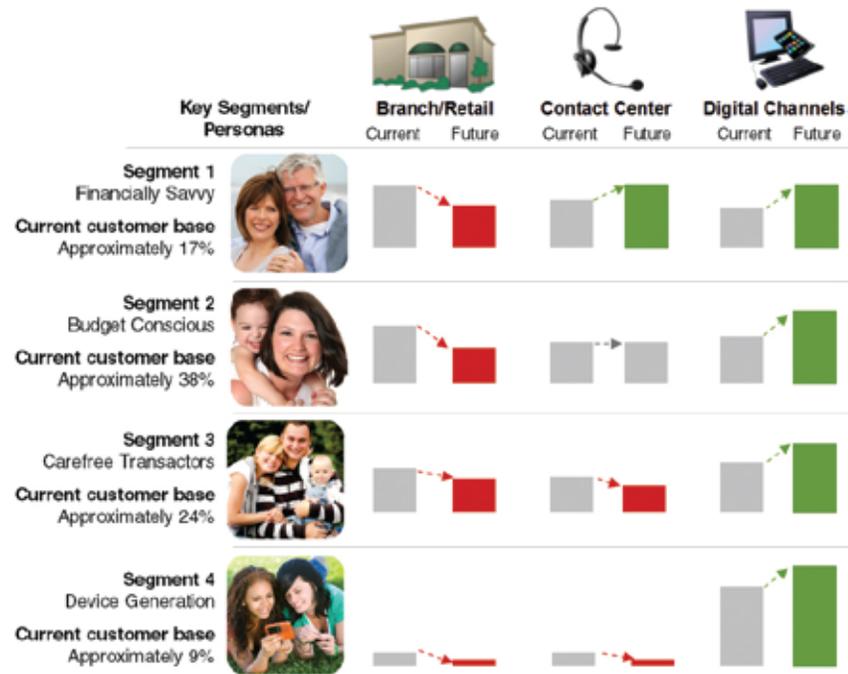
## **2. Get wise about your channels**

Many companies struggle when it comes to integrating customer-facing channels. Channels continue to support specific lines of business within the company and, as a result, channel objectives and investments are often developed to accommodate narrowly defined business goals. Conversely, customer driven interactions take place across multiple channels and are part of a continuum of activities generated by customers to address a variety of needs and tasks. The unintended results for many companies is that broader, more impactful channel opportunities remain unexplored – potential revenue and efficiency gains never materialize and customer opportunities are lost.

Companies need to take a more horizontal view of their channels, understand just how customers transact across those channels, and determine the costs to support their different needs. The initial outcome may come as a surprise to many. In many cases customer personas with little potential are often found using high-cost channels in disproportionate numbers, while other more valuable customer personas are often overlooked. Additional insights may shed light on channel migration opportunities--it may be that key customers are moving to digital channels at an accelerated pace.

Personas and channel analyses can be used to directly feed into channel investment decisions with limited funds (see Figure 2).

**Figure 2. Channel Frequencies and Future Migration**



*A closer inspection of channel activities can reveal opportunities to enhance customer experience and reduce costs associated with low value interactions*

In the example above, we can see channel frequencies associated with different customer personas. High value personas, such as the 'Financially Savvy', value the face-to-face interactions of the branch/store channel and can be targeted for more personalized, in-person service. If a company reduces branch personnel, it can redirect limited resources to focus on those customers who value branch interactions. This would demonstrate continued commitment to service while enhancing sales potential, and potentially mitigating ill will and negative reactions from some of their best customers. Incentives may also be offered to move transactions to call center and/or digital channels based on channel interaction frequencies.

A quick look at the channel activities associated with the other personas illustrates a high potential to accelerate their migration to the lower cost digital channels. We can use key attributes of their personas (product oriented, price sensitive, feature oriented) to customize the digital channel to appeal to their needs, and improve their experience while enhancing their loyalty and patronage.

When digital channels are tightly coupled with the contact center and face-to-face channels, companies can create new customer features and functions that balance the need for live interaction with the cost efficiency of the online experience. One last comment on becoming "channel wise" is that companies without question need to aggressively and intelligently exploit the digital channel to preserve current revenues, decrease costs, and hang onto key customers during this economic downturn.

*A proactive approach to pricing may help limit potential losses and increase customer loyalty*

### **3. Aggressively vary pricing options**

It comes as no surprise that customer spending patterns change during a down economy. Roughly speaking they go down, and we are currently seeing major contractions across all industries. Customers are looking for ways to reduce their spending while continuing to address core needs and operations. Corporate customers determined to reduce costs are reevaluating new contracts and in many cases asking for existing contracts to be renegotiated. Consumers are looking for bargains or low cost substitutes and are postponing many of their purchases. For many companies, this is neither the time to nervously watch as sales decline and do nothing, or to foolishly jump to slash pricing across the board. Companies need to quickly assess customer, channel and operational information to drive proactive and competitive pricing before the tables are turned and customers are demanding unrealistic pricing concessions.

A key stumbling block for many companies is that pricing remains siloed within each Line of Business (LOB) with different pricing schedules and terms. In many cases, each LOB sets its own prices for their products and services based on conflicting sales objectives and revenue recognition schedules. Additionally, within many LOBs standardized pricing sheets are essentially providing the same price to each customer with small variations based on volume and transaction size. As a result, the same pricing is provided to highly valuable customers as well as to low potential customers, based on deal size. In other cases, new customers get more attractive pricing incentives that result in prices lower than valuable long term customers have been getting for years. This type of disparate approach to pricing does nothing but devalue loyal customers and put sales at risk during a downturn.

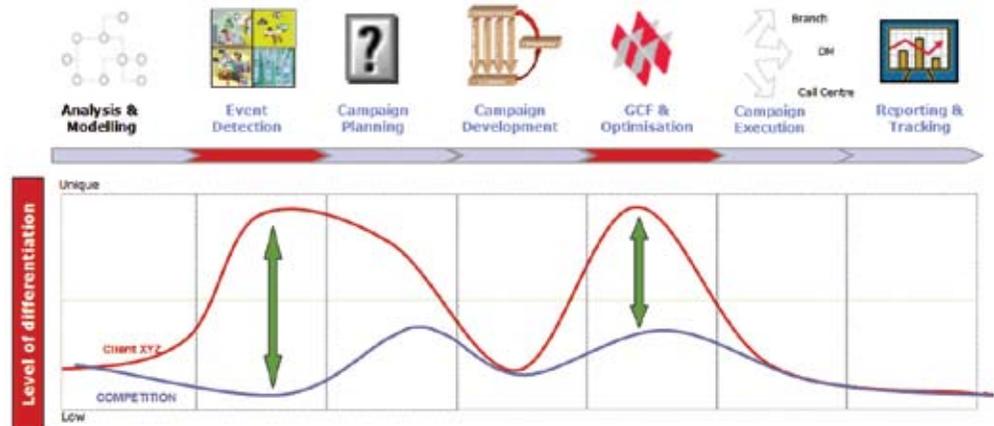
Using customer personas and channel interaction intelligence, companies can identify their short term value seekers and long term, more loyal and sustainable customers. Companies can use the personas to test and establish structured pricing options that leverage best practices and proactively set optimal pricing terms to high value personas. Loyal customers will recognize that their continued patronage is valued and perhaps be less aggressive in pushing for unrealistic concessions. Low value, non loyal customers can be offered different pricing options designed to increase margins at an accelerated pace to fuel short term needs.

#### 4. Proactively communicate and sell

Many companies look to shore up their business during an economic downturn, remaining low key and doing nothing while times are tough. Bold companies look to survive by taking advantage of a volatile market to ensure their revenues stay up and their customers don't leave. At a minimum, we believe that companies need to proactively deliver impactful communications and offers to their customers in an efficient and cost effective manner. One key tactic to apply is Event Based Customer Management (EBCM) initiatives to actively improve both service and sales while reducing the costs of traditional sales and marketing activities.

Event-based customer management is an innovative capability that matches customer needs and attitudes with lifecycle information and transactional events (for example, purchases, service failures etc). Key customer events become the basis for sales, service and marketing activities, either developed proactively by establishing a keen understanding of the customer's lifecycle and delivering communications at a likely event, or reactively in response to a customer's immediate change in behavior. A rules engine (i.e., a software-driven marketing system) evaluates customer interactions at the individual level as they occur, providing a communications process that is timely and relevant to the customer's specific needs. (see Figure 3.)

Figure 3. Event Based Marketing



*An informed approach to using customer and channel information will help address current fluctuations and plant the seeds for a successful recovery*

If a set of criteria is met, pre-determined triggers launch a marketing action or communication. For example, a customer buys a new computer online, so the company instantly offers virus support and surge protectors. Others take in multiple indices to attempt to predict more complex life events. It may be that a customer has purchased maternity clothes, changed insurance beneficiaries and increased credit card volume potentially signaling a significant life event (such as the birth of a new baby) to a financial services firm. Proactive marketing campaigns may be combined with retail partners' offers to provide additional incentives for future maternity purchases. Again, applying customer information and channel interaction frequencies, high potential channels can be selected to deliver appropriate communications and offers.

### **Conclusion: Tough times demand new alternatives**

Companies need to seriously consider their options during these tough and unprecedented economic times and act decisively. First, a structured approach to quickly assess and understand customer preferences and channel interactions is needed to serve as a base and integrate into operational performance metrics. Second, proactive deployment of customer campaigns and pricing options are necessary to provide for short-term revenues, reduce costs and grow customer loyalty to bolster recovery opportunities. Last, the digital channel must be exploited to enable new tactics and capabilities and serve as the channel of choice, for the appropriate customer segment, for cost effective deployment.

In today's business climate no one needs to be reminded that "time is of the essence". Effective business analysis and focused actions to accommodate downward trends demand a rapid and extremely focused approach. It is incumbent upon management to review, assess and increase viable options and alternatives during an unprecedented recessionary climate.

## **Acknowledgements**

Bob Heffernan, Daniel Hirschbuehler, Peter Kasahara, Steve Lavallo, Venetia Muench, Tage Domela Nieuwenhuis, Peter Sullivan and John White contributed their thoughts to the development of this perspective.

To discuss the implications of this perspective for your company and the Marketing, Sales and Service organizations that supports it, we invite you to email one of the following CRM contacts:

### **Worldwide Marketing**

John White, [jmwhite3@us.ibm.com](mailto:jmwhite3@us.ibm.com)

### **Americas Marketing**

Venetia Muench, [venetiam@us.ibm.com](mailto:venetiam@us.ibm.com)

## **About IBM Global Business Services**

With business experts in more than 160 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients innovate and implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.



© Copyright IBM Corporation 2009

IBM Global Services  
Route 100  
Somers, NY 10589  
U.S.A.

Produced in the United States of America  
03-09  
All Rights Reserved

IBM, the IBM logo, and [ibm.com](http://ibm.com), are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at "Copyright and trademark information" at [ibm.com/legal/copytrade.shtml](http://ibm.com/legal/copytrade.shtml). Other company, product, or service names may be trademarks or service marks of others.