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Does how customers are managed impact on business performance?

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Abstract

This paper contains first-time-published findings from an ongoing quantitative study on the impact of customer relationship management on business performance.

The paper begins by observing the frustration felt by many sales, service, customer management and marketing managers in business: that senior managers often pay lip service to 'customer management' without believing in their hearts and minds that it *really* makes a difference to the bottom line. The problem with this is observed when, through competitive or market pressure, the companies find volume and margin targets difficult to meet. As a reaction to this, they may introduce measures, counter to good customer management, which can further impact on business decline.

The hypothesis for the analysis is then introduced, which is 'companies that manage customers well achieve better business performance than those that do not'. The paper goes on to attempt to answer two fundamental questions necessary to test the hypothesis, neither of which is particularly quick to answer; what is meant by CRM, and what does 'good business performance' mean? The paper necessarily describes the methodology and research base in some detail.

It can be unequivocally stated that for the 21 companies studied for this paper, the positive correlation between business performance and customer management is clear: if a company has developed a set of practical, sensible customer management practices it is likely to be a good business performer. However, there are no doubt other causal reasons outside the scope of this study for the effect that is seen as excellence in business performance (eg the quality of the CEO, the power of the brand), and some of these may also correlate as well as CM or even better. This paper reports simply and unashamedly on the findings of the research study, and they are worth restating. Companies who manage customers well using sensible, observable, well-implemented business practices are very likely to be best-in-class business performers. Conversely, customers that do not set up good customer management practices are likely to be poorer performers.

This in itself is an important finding and can be used to help win the hearts and minds, and therefore the real commitment, of senior management.

The paper then examines the correlation between different elements of a CRM model and overall business performance. If the interpretation is correct, the conclusions are fascinating. The focus on customer management should be holistic, initially focusing on your people, measuring customer behaviours and developing some basic common-sense customer management processes. The initial focus should not be on developing sophisticated IT systems, for these are enablers, not drivers, of good customer management. If the customer management model is poor, or not thought through, the enablers will simply enable a poor strategy. Over-focusing on IT or over-complicating processes may have a detrimental impact on business performance.

Do companies which manage customers well actually achieve better business performance than those which do not?

Does customer management pay?

There is a largely unspoken assumption among senior managers that a focus on 'customer relationship management' is conceptually desirable, but actually may not be the panacea that it is often heralded to be. There is a commitment to it (at least verbally and within mission statements) in boardrooms all over the world, but when margin pressures increase, the focus from senior management can often become myopic — leading to a concentration on short-term financial measures. This myopia is often illustrated by a loss of focus on key customer management measures around customer behaviour, attitude and long-term value and less of a focus on good customer service and service standards, which begin to slip. This, together with the double impact of a squeeze on costs and a shift in emphasis towards productivity (rather than a more balanced effectiveness and efficiency), often results in the demotivation of the people who deal with customers (as will be shown later, this is can be of critical relevance to business performance). For all these reasons, the customer experience degenerates and a downward spiral of volumes, margins and motivation may be perpetuated. To win the hearts and minds of senior managers and convince them that good customer management is important, especially in tough market conditions, the requirement of the research described in this paper is to answer objectively the fundamental question: is business performance in some way related to how well the company manages its customers?

To answer to this, it is first necessary to determine how good a company is at managing customers, and then how well they perform in business. Then analysis can be carried out to interpret the findings.

The model used for customer management performance

The methodology used, first developed out of QCi's consulting experience in 1996, is robust and objective and has been refined through experience by leading practitioners and academics. QCi and their partners have carried out over 70 customer management assessments, but only the most recent 21 are used in this study. An explanation is given of the QCi model of customer management, because 'customer management' is so broad and vague a term as to have little relevance in any sensible dialogue on the subject until it is defined clearly.

The CMAT model

QCi's CMAT model

The model encompasses all the essential elements of practical customer management (Figure 1). It assumes you know what market you are in and where you want to be — but that is all it assumes. This model defines the scope of customer management.

It is not about ensuring an 'excellent customer experience', because if your best customers are having the worst experiences then something is seriously wrong! It is not about measurement, because unless you know what you are measuring for which customers, the signals you obtain from measurement may be misleading. It is not about technology, because no matter how good technology is it will be a hindrance if the strategy is wrong, or if the people using it are not competent, or if the proposition (the product and service wrap) is not clear. It is not about people, because you may have excellent people who are delivering a service that customers neither want nor need. It is not about having a unbeatable proposition, because even if you have developed a proposition to your customers which is more attractive than the competition, if you cannot deliver it through people, processes and technology, then there is no point in promising it (UK retail banks please note).

It is not about any of those things — but of course it is about all of them. The model defines the best practices that one would like to observe in a company which could be described as excellent in customer management. In summary, the model encompasses the following aspects.

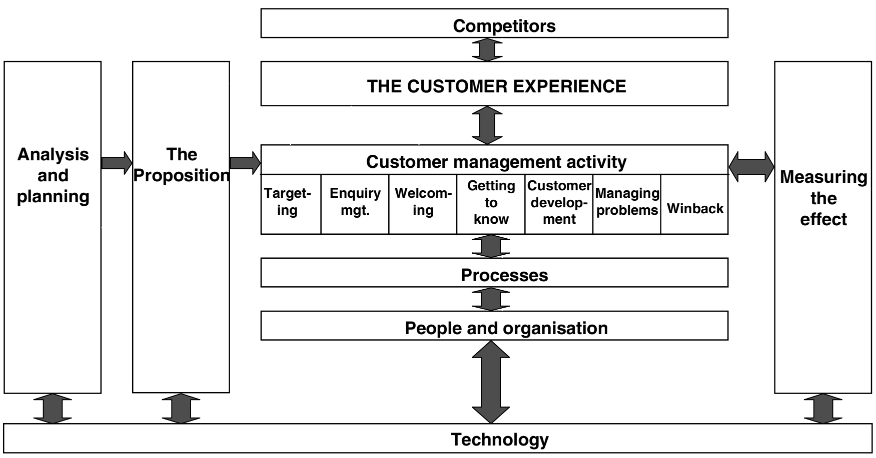

Figure 1: The CMAT model of customer management

Analysis and planning

Know who you want to manage

Customer management starts with understanding the value, behaviours and attitudes of different customers and customer groups. This understanding, derived from internal and external information sources, will drive more questions, which will in turn define the research programme.

— **Value**. Margin includes actual value (database), realistic potential value (database or research) and future or strategic value (customer is in a segment which is, for instance, increasing in value). You cannot extract value without investing in your proposition to that customer. One must look for some application of 'cost to serve' and efficiency in determining strategy.
— **Behaviour** analysis will look at retention performance (absolutes or indices) for different value cells, the type of customer you are acquiring and the share of wallet you get from the customer (your penetration).
— **Attitudes** will study realistic surveys around what the customer looks for in a supplier and how well you match up versus the competition.

Once value, behaviours and attitudes are understood, planning can start for the cost-effective acquisition, retention and penetration of the customer base. One must look for sales and marketing plans that reflect specific retention, acquisition, penetration and efficiency objectives at customer or product-group levels.

The proposition

Develop a proposition

The enhanced understanding derived from analysis and research will help identify the groups or segments of customers who should be managed. The next step is to define the proposition to each of the segments and plan the appropriate value-based offers. The aim is to identify whether true customer commitment is realistic and, if it is, then how it is delivered. This is done through focused 'needs' research, mapped against the values and behaviours discovered during analysis.

The proposition is normally defined in terms of brand, price, service, transactional interactions, relationship, logistics and product, and for each element of the proposition a service standard (performance 'footprint') is defined in terms that can be measured. It must involve all functions within the operation that impact on the proposition and customer experience — it cannot successfully be developed by marketing and imposed on the organisation.

Having defined the proposition it must be communicated effectively to both customers and the people responsible for delivering it.

Customer management activity

This is the delivery of customer management. Plans and objectives, based on the retention, acquisition, penetration and efficiency findings of the analysis, and the needs of the customer groups, will drive the activity through the whole of the customer life cycle, from prospect through new customer and on into mature customer. This will involve the day-to-day working practices of the marketing, sales and service support functions within the following key areas.

— Targeting of acquisition and retention activity.
— Handling of enquiries.
— Specific support for new and upgrading customers.
— Getting to know customers and how they want to be managed.
— Key account management and account management (service, billing, technical support, field, third-party telephone).
— Identifying and managing dissatisfaction.
— Winning back lost customers.

One must look for the application of specific key practices (eg targeting high lifetime value, having a 'no-blame' culture for complaints) in each of these areas.

People and organisation

Enable your people

People deliver the activity. One must look at the work the organisation does to identify and develop competencies and establish how well the customer management objectives of the company are supported by leadership within an organisational structure that enables good customer management. Clear, understandable objectives linked to overall business goals and employee satisfaction are two key elements that one should look for here. Suppliers support the organisation with the skills not available within the organisation, or those that are non-core. What practices has the company put in place to ensure that suppliers are well sourced, briefed, managed and evaluated?

Measuring the effect

Measure

Measurement of people, processes, profitability, proposition delivery, channel performance and customer activity (eg campaigns) must underpin the vision and objectives as well as enable the assessment of success and failure. Identifying performance versus plan will allow the refinement and redefinition of future plans and activity. One must also look for processes that allow policy and activity plans to be altered based on dynamic measurement.

Customer experience

Understand the customer's experience

Customers experience customer management activity across all of their 'moments of truth'. It is important to understand that the answers to questions like 'How well are we doing?', 'What can we improve?' and 'What do competitors do better than us?' can be obtained from customers for each key experience they have with us, especially the ones that they rank as most important. One needs to look at not just measuring satisfaction but at trying to get at what defines true customer commitment to your organisation, assuming it is a viable goal in the first place (see the section on the proposition).

Information and technology

Information and technology underpin the whole model. Information needs to be collected, stored and used in a way that supports the strategy, the way people work and the way customers want to access the organisation. Technology needs to be used to enhance the way that customers are managed (from analysis to data at point of contact) and enable, rather than disable, these core customer management practices.

Assessing customer management

CMAT methodology

So how is the model used to assess how good a company is at managing customers? Each company undertakes the assessment seriously and expects to obtain both a realistic picture of the way they manage customers and a clear set of recommendations. The exercise is not a 30-minute question-and-answer session with senior management, but a two- to four-week in-depth assessment of the intention and reality of customer management in the organisation.

Typically, a trained assessor will talk to and observe 30 people in an organisation (normally a specific business unit) from senior managers to sales staff. During the assessment over 270 questions (looking for specific practices) are asked across the model to understand what goes on. The questions and answers are built into the CMAT software tool for easy recording of scores, recommendations and notes, and for speedy assessment analysis and comparison. During the interviews, trendy, vague or unfamiliar jargon in the questions is avoided because the purpose is not to confuse, generalise or show off knowledge of the latest tools and techniques but to be clear and specific about proven sensible practices. Questions are asked of people responsible for setting policy and also of the ‘doers’ — for instance customer service staff, field sales people, telemarketers and so on — so that comment can be made on the intention of the policy makers and the reality of what happens. There is an insistence on seeing evidence where appropriate to ensure that the practice or behaviour in question is widespread and not isolated. This way a realistic picture of how the company operates is obtained.

As an illustration, the example screen in Figure 2 shows a question from the analysis and planning section, together with the compliance text (guidelines for the assessor) and answer options.

The maximum score for this question was 750 (one of the high scorers). In this fictitious example some organisational commitment and progress towards achieving a real recognition of retention, acquisition, penetration and efficiency (the three revenue drivers and the cost driver of a business) have been seen in the plan, and some progress in moving this from plan to action. To obtain a full 750 score wider organisational commitment (behaviours and measures) to improving retention, acquisition, penetration and efficiency would have to have been seen. The compliance tab text is a reminder to the trained assessor as to what he or she needs to look for here.

After the assessment, the findings are presented in detail to senior company management. In 100 per cent of assessed cases, the results, however derogatory, were accepted by client management as a fair reflection of their customer management capability.

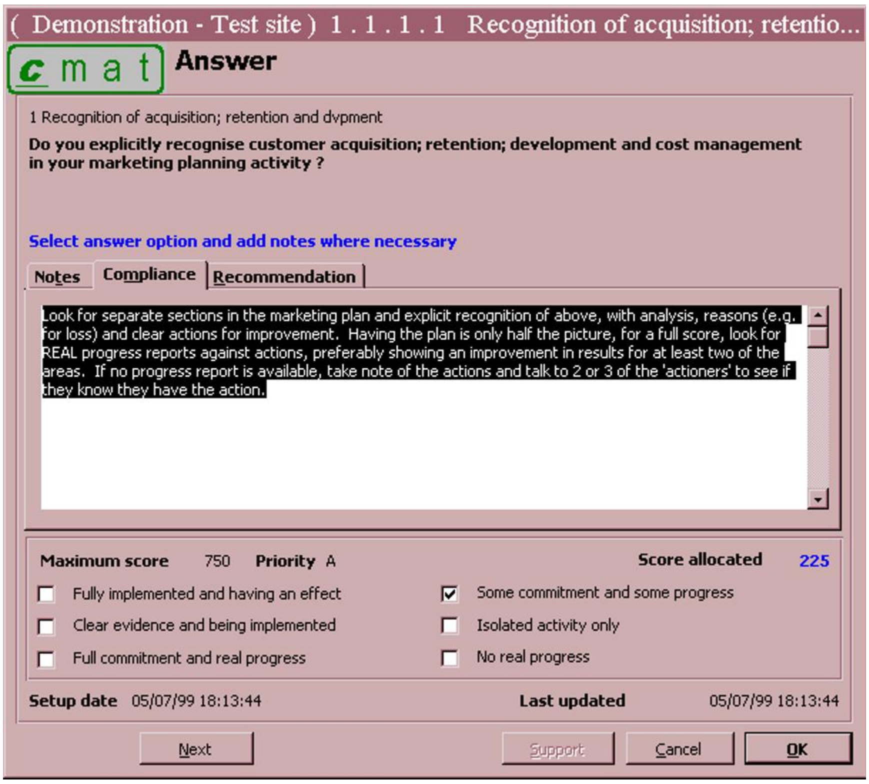

Figure 2: Example screen from CMAT

Customer management performance

Reality of current performance

The standard of customer management in the UK is disappointing. Most people suspect this statement to be true and, through CMAT, the evidence is now available to prove it and explain why (Table 1). We are probably all guilty of it, but exaggerations at seminars by consultants and some client companies do give a false impression of the reality of the situation.

In the UK and mainland Europe, where most CMAT assessments have been carried out, the standard is not good, with basic business practices being ignored and often replaced by over-complex conceptual

Table 1: CMAT scores, summer 1999

	Average %	Range
Overall	**38**	**28–45**
Analysis and planning	30	23–40
The proposition	38	18–46
People and organisation	47	32–63
Information and technology	47	39–52
Processes	43	5–70
Customer management activity	36	25–49
Measuring the effect	40	17–54
Customer experience	20	6–37

approaches to customer management. The CMAT assessments carried out in Asia-Pacific and the USA show no particular improvement. Interestingly, the difference between management intention as to how customers should be managed and the reality of how they are actually managed is great. However, the purpose of this paper is not to describe the observations from CMAT. (If readers are interested please let the author know by e-mail, and this could be the subject of a further series of papers.)

From the scoring process above, each of the companies could be ranked against their performance overall and against each element of the model.

The model used to define 'business performance'

Good business performance is not always what it seems at first sight because, for example, of the following factors.

Assessing business performance

— Corporate financial juggling often produces a set of performance figures designed to present an *impression* to the City, stakeholders, a possible acquirer and so on. Stock market performance, for instance, is one pointer to success but needs to be treated with caution.
— Overall market dynamics may be very different in different markets. If the market conditions are tough (eg lower demand, higher competition, introduction of substitute products) then the company performance may look poor in financial terms, but it may actually be good in comparison to the performance of its competitors. Conversely, in a growing market a company's performance may look good but may actually be poor in relation to its competitors.
— Market capitalisation is another confusing area — particularly with companies involved in some form of e-commerce, where valuations on companies appear to bear little relationship to the underlying financial performance and inevitably involve a substantial element of speculation.
— A company may be operating in an environment with unusual competitive dynamics, such as a market following deregulation. Utilities companies are a typical example. This can paint a confusing picture of business performance.

Needless to say, therefore, rank ordering companies in terms of business performance is not straightforward, not least because there is no single, recognised set of criteria from which to work. For this reason, the services (no fees involved) of a panel of five independent experts were engaged, and they were asked to use their experience and judgment to examine the business performance of the companies in question.

Each panel member was asked to rank the companies in terms of their business performance, from 1 to 21. The research needed to identify whether the business performance over the year in question would be judged as successful by a variety of businesses experts (Table 2). Success may be judged, perhaps, by the way the company

Panel

Table 2: Panel member types

Financial specialist	Senior partner in an accounting firm
Business specialist	Senior independent business consultant
Senior business manager	Sales and marketing director, software and services supplier
Senior business manager — industrial marketing	Business unit head of a senior client-side multinational company
Senior business manager — consumer marketing	VP of US multinational company

has generated sustainable sales and/or profit, gained market share, bucked a sector trend, produced a healthy return on assets, performed well for the shareholders in a tough environment, and so on. The assessors were less interested in those aspects of business performance that depend on how well the company's investments (eg property investments) have done, or the increase in asset value that may be unrelated to the business the company actually carries out.

A firm of chartered accountants was commissioned to provide much of the data from accounts, and Web searches were carried out for other data (eg sector performance). Data used in the comparison had to be as common as possible across all the companies. Some data were gained from the client during or after the assessment and were correct at time of assessment. 'Growth data' attempted to compare data for the 12 months before assessment to the assessment date. In practice, the data obtained could rarely be that precise, so data around the assessment period were used. Ancillary profit and loss data were provided to the panel for use if required.

The data used to judge the 'business performance' were based on a combination of the following criteria:

Business performance criteria

— percentage sales growth
— percentage pre-tax profit growth
— sector growth (sales)
— company's estimated market share growth (volume percentage versus competitors)
— met own objectives?
— percentage return on assets
— percentage return on shareholders' funds
— independent comment from sector analysts.

Following a set protocol and working independently of one another, the panel rank ordered the companies from 1 to 21 (with 1 denoting the strongest performance and 21 the weakest). The final position may have been adjusted by the panel taking into account unusual factors such as product substitution in that market, significant new entrants in the competitive marketplace, a newly or partially deregulated market or a focus shift because of potential acquisition or mergers. The panel members were unaware of the customer management scores of the companies. It was their expert judgment that was required. If there was a statistically significant agreement between the experts, a reasonably

Panel agreement excellent

Table 3: Level of agreement among panel members on business performance rank-ordering task

	Panel 1	*Panel 2*	*Panel 3*	*Panel 4*	*Panel 5*	*Average business performance*
Panel 1	1					
Panel 2	0.78	1				
Panel 3	0.83	0.83	1			
Panel 4	0.66	0.71	0.88	1		
Panel 5	0.84	0.78	0.93	0.91	1	
Average business performance	0.89	0.89	0.97	0.90	0.97	1

reliable ranking would be obtained. The agreement between the panel members is shown as a set of pairwise correlation coefficients in Table 3.

The table shows a significant level of agreement among the panel members as to what constitutes 'business performance'. The rank scores for each company were subsequently added together to provide the basis for a final, aggregate rank ordering of the companies. This is the measure of business performance which is used in the analysis presented below.

The companies assessed

Variety of companies assessed

Although it would of course be interesting to the reader, the names of the companies which took part in the study cannot be revealed. All companies which undergo a CMAT assessment are guaranteed confidentiality — apart from anything else, if companies knew that they were going to be part of a public beauty parade it would make the objective assessment of their capabilities that much harder! However, an understanding of the type of company involved in the study is essential, and in most cases the sector, size and geography of the assessed contact can be revealed. The reader should be aware that the 21 organisations were companies that paid a significant fee for a customer management assessment — they were not especially selected for the research.

The 21 companies used in the study were all assessed in the last 15 months and the assessments were carried out on a UK or mainland European business unit. The companies used in this study were sourced from the sectors in the list below:

— finance, banking and insurance (12)
— utilities (2)
— distribution (2)
— manufacturing (3)
— other (2).

In terms of size, each of the assessed companies would be considered to be in the top 500 companies in Europe and had multimillion-pound marketing budgets. All except one are household names; it is predicted that the odd one out will become a household name soon!

Analysis results — a positive correlation?

Overall

A very convincing and exciting correlation

Figure 3 shows a scattergram comparison of business performance ranking against overall CMAT score. From these base data, correlation analysis provided the insight required to determine if there was a relationship between business performance and customer management.

The correlation result was calculated at 0.8. A score of 1.0 would of course be a perfect correlation and with this research approach one would accept correlations better than 0.4 a being statistically significant; 0.8 is therefore a very convincing and exciting correlation.

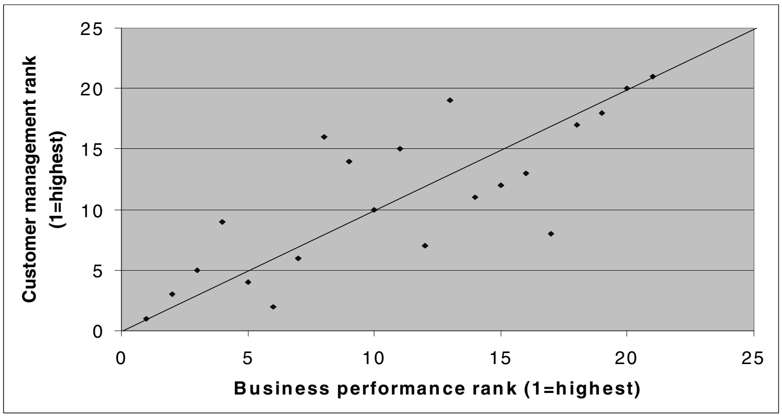

Figure 3: Scattergram of overall CMAT rank versus business performance rank

For the 21 companies studied, the positive correlation between good business performance and good customer management is clear. The business interpretation is simply that companies which manage customers well using sensible, observable, well-implemented business practices are very likely to be good business performers. Conversely, companies that do not set up good customer management practices are likely to be poorer business performers.

Correlation and cause

It is common to confuse a correlation with a cause. The analysis cannot say for sure that customer management caused good business performance; all that can be said is that good business performers are likely to show good customer management practices and vice versa. There are no doubt other causal reasons outside of the scope of this study for the effect that is seen as excellence in business performance. Some of these (eg the quality of the CEO, the power of the brand, a world-beating product) may also correlate as well as or better, and no claims are made as yet to having any quantitative research on areas outside the CMAT model.

Interestingly, the least correlation (companies furthest away form the line) occurred with companies operating:

— in fast-growing markets, where the company is acquiring business and producing excellent returns almost despite itself (this may raise questions over the sustainability of this growth);

— in recently deregulated sectors with abnormal competitive dynamics, where business performance can actually look good even though the observed customer management practice was poor;
— in very tough, competitive markets, where business performance may appear poor despite relatively good customer management practice.

However, even in these companies the correlation between customer management and business performance was significant. It was the degree of significance that was different.

Those readers who are struggling to get customer management the senior sponsorship and ownership it requires should find these findings useful in supporting their arguments.

What are the areas which appear to have most impact on business performance?

Enabling people is key

Looking deeper into the data, an understanding can be gained of the elements of customer management which have the largest correlation with business performance (Table 4). That is, which areas of the model appear to be most important in terms of their relationship with overall business performance. The results here are fascinating!

Table 4: Business performance versus each area of CMAT model (rounded to one decimal place)

	Overall CM performance	Planning and analysis	Proposition	People	Information and technology	Processes activity	CM	Measurement	Customer experience
Business performance	0.8	0.6	0.6	0.8	0.5	0.5	0.7	0.7	0.29

Simple correlation analysis between business performance and each area of the model using the data above provides the results shown in Figure 4.

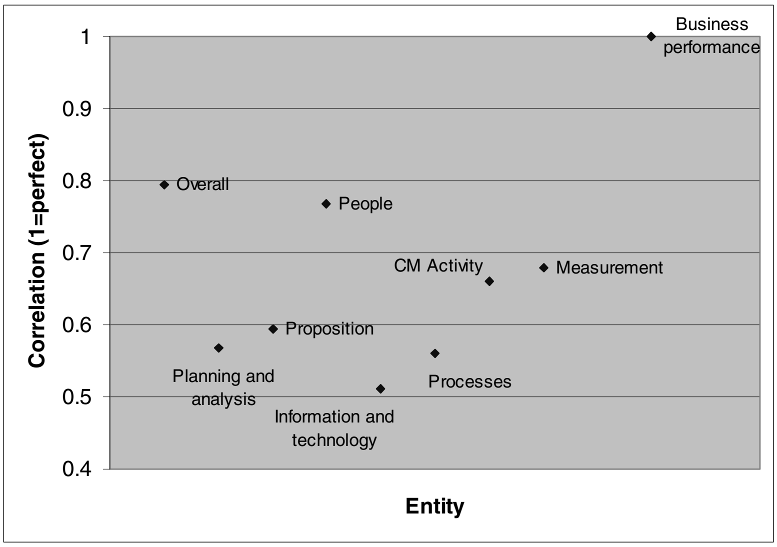

Figure 4: Correlation of business performance against each CMAT element

Obviously business performance correlates perfectly with … business performance! The relationship between other elements of the model and business performance can be observed. One can consider all of the entities in Figure 4 to have a statistically significant positive correlation, with some having a greater correlation than others.

The overall result is discussed above. The other values indicate that the most important elements are (in order of importance) as follows.

Top three elements

— *People — a clear winner!* Having the right leadership, customer management competencies, people with clear objectives related to customer management and well-managed suppliers appears to have the biggest correlation with overall business performance.

— *Measurement* — regularly measuring actual performance against specific customer behaviours, not just high-level financial targets, *and* having the policy deployment processes in place to action the results from the measurement also correlates well.

— *CM (customer management) activity* — actually doing something! Implementing some sensible customer management practices such as targeting high lifetime value customers, managing enquiries well and quickly, welcoming new customers and proactively monitoring the initial transactions with your company, handling complaints well and learning from them, etc, has a positive correlation.

Other positive, but interestingly *less* positive, correlations include IT and processes. Information and technology underpins the whole model — but that is exactly what it does — it underpins, it does not drive the business model. This finding supports intuition and experience: if a company has good people, a clear customer management strategy, a clear proposition and measures what it is doing then IT can be an essential enabler. If it does not, IT may actually be a costly hindrance to good customer management. The same can be said of process management. Well-documented, continuously improved processes must make business sense — but in support of the business model not as an end in themselves.

So what does this mean for companies?

The general interpretation of these findings is as follows.

Our interpretation

— Firstly, companies are not particularly smart in the way they manage customers.

— There is a significant prize (worth many millions of pounds for the companies assessed) to be gained by focusing on improving the way customers are managed.

— The approach to improvement involves examining a holistic view (see the section on essential principles below) of customer management (eg looking at all the areas covered by the CMAT model described earlier) and prioritising a series of actions designed to improve the whole CRM model. If one looks at the scope of the CMAT model, the internal sponsor of this holistic review must be a reasonably senior manager who can encourage cooperation between departments.

— To have maximum impact on business performance, the analysis shows that most companies need to focus improvements in three critical areas (in this order) of the model:
  - working on the leadership and the development, management and motivation of people and core suppliers
  - development of clear customer management measurement criteria and 'actioning' processes
  - carrying out some practical, sensible customer management activities.

— Companies should develop and introduce CM systems to support the model; to enable good people to carry out CM activities to manage the customers they need to manage and then to provide the measures to show whether profitable customer behaviour is being influenced. That is, IT developments should support the clear business process, not drive it or overcomplicate it.

— Do not overly focus on process development and improvement. This can cause organisational focus to shift from an external, customer viewpoint towards an inward focus which can often stifle good business practice and absorb 'organisational energy'.

— In most cases, the observation is that companies could focus on simplifying what they do and the way they do it and consider the key principles of customer management summarised below.

— Companies should be careful to maintain a focus on demonstrating and encouraging good customer management behaviour even when market conditions become tough.

To many experienced observers, the principles listed in Table 5 may be common sense and there is certainly no intention to claim any ownership of them. However, they may prove useful as a high-level checklist for determining the path towards improved business performance.

Checklist

Table 5: Essential principles of customer management

✔ Have you adopted a holistic model of customer management that makes sense to you and your organisation (eg the CMAT model) and used it to plan your customer management approach?
✔ Have you worked to understand customer value and behaviour, and determined which customers you actively want to manage, and which you do not?
✔ Are you clear, as a whole organisation, about your core (profitable) customers' core needs and how these needs can be delivered efficiently without error, in a way that allows the customer to enjoy the experience?
✔ Have you set up and do you measure the service standards defined in the proposition?
✔ Do senior managers reinforce basic customer management principles, show that they care about customer service and cascade clear people targets related to retention, penetration, acquisition and efficiency objectives?
✔ Are your people and supplier competencies and activities aligned with the achievement of the only four things that matter — retention (often through excellence in customer service), acquisition, penetration and efficiency? This is a leadership issue as well as a target and remuneration issue.
✔ Do you listen to and act on the feedback from your employees? On balance, are they happy at work?

Table 5: (*continued*)

✔ Have you influenced the key job roles in your or your suppliers' organisations (not necessarily customer facing) which influence the customer experience? Have you ensured that jobholders are competent to enhance the customer's experience?
✔ Do you have a system plan to support the holistic customer management approach?
✔ Have you identified the everyday core processes and policies, especially those which impact on customer experience? Did you check that they are robust (nothing falls through the cracks), customer friendly (customer perception) and measured (internal compliance against set standards)? Have you done this for your company and your customer-facing suppliers?
✔ Does the technology actually support the business model, or does it hinder good customer management? Have you checked that the enabling systems are not overengineered?
✔ Is the customer experience of your overall proposition monitored and are any issues quickly identified and remedied?

If the answer to all the questions above is 'yes', you are likely to be a good business performer. Without wanting to borrow the now overused political slogan, there is a clear benefit to be gained by returning to common-sense customer management. Focus on good sensible business practices — it makes good business sense!

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