DON PEPPERS *and*
MARTHA ROGERS

Managing Customer Experience and Relationships

THIRD EDITION

A Strategic Framework

Foreword by **PHILIP KOTLER**,
Kellogg School of Management,
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Foreword

The View from Here

When I first started writing about marketing 45 years ago, the Industrial Age was in its prime. Manufacturers churned out products on massive assembly lines and stored them in huge warehouses, where they patiently waited for retailers to order and shelve boxes and bottles so that customers could buy them. Market leaders enjoyed great market shares from their carefully crafted mass-production, mass-distribution, and mass-advertising campaigns.

What the Industrial Age taught us is that if an enterprise wanted to make money, it needed to be efficient at large-scale manufacturing and distribution. The enterprise needed to manufacture millions of standard products and distribute them in the same way to all of their customers. Mass producers relied on numerous intermediaries to finance, distribute, stock, and sell the goods to ever-expanding geographical markets. However, in the process, producers grew increasingly removed from any direct contact with end users.

Producers tried to make up for what they didn't know about end users by using a barrage of marketing research methods, primarily customer panels, focus groups, and large-scale customer surveys. The aim was not to learn about individual customers but about large customer segments, such as "women ages 30 to 55." The exception occurred in business-to-business marketing, where each salesperson knew each customer and prospect as an individual. Well-trained salespeople were cognizant of each customer's buying habits, preferences, and peculiarities. Even here, however, much of this information was never codified. When a salesperson retired or quit, the company lost a great deal of specific customer information. Only more recently, with sales automation software and loyalty-building programs, have business-to-business enterprises begun capturing detailed information about each customer on the company's mainframe computer.

As for the consumer market, interest in knowing consumers as individuals lagged behind the business-to-business marketplace. The exception occurred with direct mailers and catalog marketers who collected and analyzed data on individual customers. Direct marketers purchased mailing lists and kept records of their transactions with individual customers. The individual customer's stream of transactions provided clues as to other items that might interest that customer. For example, in the case of consumer appliances, the company could at least know when a customer might be ready to replace an older appliance with a new one if the price was right.

Getting Better at Consumer Marketing

With the passage of time, direct marketers became increasingly sophisticated. They supplemented mail contact with the adroit use of the telephone and telemarketing. The growing use of credit cards and customers' willingness to give their credit card numbers to merchants greatly stimulated direct marketing. The emergence of fax machines further facilitated the exchange of information and the placing of orders. Soon the Internet and e-mail provided the ultimate facilitation of direct marketing. Customers could view products visually and verbally order them easily, receive confirmation, and know when the goods would arrive. Now that experience is enhanced by the way customers speak to one another. Even companies that don't really understand social networking realize they have to get on board. If 33 million people are in a room, you have to visit that room.[1]

But whether a company was ready for *customer relationship management* depended on more than conducting numerous transactions with individual customers. Companies needed to build comprehensive *customer databases.* Companies had been maintaining product databases, sales force databases, and dealer databases. Now they needed to build, maintain, mine, and manage a customer database that could be used by company personnel in sales, marketing, credit, accounting, and other company functions.

As customer database marketing grew, several different names came to describe it, including individualized marketing, customer intimacy, technology-enabled marketing, dialogue marketing, interactive marketing, permission marketing, and one-to-one marketing.

Modern technology makes it possible for enterprises to learn more about individual customers, remember those needs, and shape the company's offerings, services, messages, and interactions to each valued customer. The new technologies make mass customization (otherwise an oxymoron) possible.

At the same time, technology is only a partial factor in helping companies do genuine one-to-one marketing. The following quotes about customer relationship marketing (CRM) make this point vividly:

> *CRM is not a software package. It's not a database. It's not a call center or a Web site. It's not a loyalty program, a customer service program, a customer acquisition program, or a win-back program. CRM is an entire philosophy.*
>
> —Steve Silver

[1] Juliette Powell, *33 Million People in the Room* (Upper Saddle River, NJ: Financial Times Press, 2009), pp. 8–9.

> *A CRM program is typically 45 percent dependent on the right executive leadership, 40 percent on project management implementation, and 15 percent on technology.*
>
> —Edmund Thompson, Gartner Group

Whereas in the Industrial Age, companies focused on winning market share and new customers, more of today's companies are focusing on share of customer, namely, increasing their business with each existing customer. These companies are focusing on customer retention, customer loyalty, and customer satisfaction as the important marketing tasks, and customer experience management and increasing customer value as key management objectives.

CRM and its kindred customer-focused efforts are more than just an outgrowth of direct marketing and the advent of new technology. This approach requires new skills, systems, processes, and employee mind-sets. As the Interactive Age progresses, mass marketing must give way to new principles for targeting, attracting, winning, serving, and satisfying markets. As advertising costs have risen and mass media has lost some effectiveness, mass marketing is now more costly and more wasteful. Companies are better prepared to identify meaningful segments and niches and address the individual customers within the targeted groups. They are becoming aware, however, that many customers are uncomfortable about their loss of privacy and the increase in solicitations by mail, phone, and e-mail. Ultimately, companies will have to move from an "invasive" approach to prospects and customers to a "permissions" approach. On the flip side, customers—now in contact with millions of other customers—have never been more informed or empowered.

The full potential of CRM is only beginning to be realized. Of course, every company must offer great products and services. But now, rather than pursue all types of customers at great expense only to lose many of them, the objective is to focus only on those particular customers with current and long-term potential in order to preserve and increase their value to the company.

Philip Kotler
S. C. Johnson Distinguished Professor of International Marketing,
Kellogg School of Management, Northwestern University

Philip Kotler is widely known as the father of modern marketing. His textbook *Marketing Management,* coauthored with Kevin Keller, has become the foundational text for marketing courses around the globe. First published in 1976 by Prentice Hall, it is now in its 15th edition.

Preface

In 1993 we published our first book, *The One to One Future: Building Relationships One Customer at a Time* (New York: Currency/Doubleday). We had no way of knowing how or when ubiquitous, cost-efficient interactivity would arrive, but the march of technology was inevitable, and we felt strongly that genuinely interactive media channels would become widely available sooner or later, in one form or another. And when interactivity did arrive, we suggested, the nature of marketing would have to change forever. At the time, marketing consisted primarily of crafting outbound messages creative or noticeable enough to break through the clutter of other one-way messages. These messages promoted standardized, mass-produced products with unique selling propositions that appealed to the most commonly held interests among the widest possible markets of consumers.

In sharp contrast to this model of marketing, we maintained that interactive technologies would compel businesses to try to build relationships with individual customers, one customer at a time. To our minds, this new type of marketing—which we dubbed "one-to-one marketing" or "1to1 marketing"—represented literally a different dimension of competition. We predicted that in the one-to-one future, the battle for market share would be supplemented by a battle for "share of customer"; product management organizations would have to be altered to accommodate managing individual customer relationships as well; and the decreasing returns of production economics would be supplanted by *increasing* returns of relationship economics.

We did not know it at the time, but also in 1993, the first genuinely useful Web browser, Mosaic, was introduced, and by the end of 1994, the World Wide Web had begun making major inroads into business and academia. This meant that interactivity arrived even sooner than we had suspected it would, via a more robust, vibrant technology than we anticipated. Over the next 10 years, our predictions about the nature of marketing in an interactive world proved uncannily accurate, and we were gratified at the popularity our little book enjoyed among the many marketers and information technology professionals wrestling with the question of how, exactly, to use this new capability for interacting with their customers on the Web. The term *one-to-one marketing* was often used interchangeably with the easier-to-say computer-industry acronym *CRM*, standing for "customer relationship management." Some think of CRM as a reference only to the software, but from our standpoint, the 1to1 rose smells as sweet by any other jargon.

By the time the first edition of *Managing Customer Relationships* was written, 10 years later, many other academics, business consultants, and authorities had become involved in analyzing, understanding, and profiting from the CRM revolution. Our goal with the first edition was to provide a comprehensive overview of the background, methodology, and particulars of managing customer relationships for competitive advantage. Although we significantly updated the material in the second edition, and now again in this third edition, we believe the original approach has in fact been confirmed. So we will begin with background and history, outline the *Identify-Differentiate-Interact-Customize* (IDIC) framework, and then address metrics, data management, customer management, and company organization.

Since our first edition of that first book came out, the steady march of technology has continued to change the business environment, bringing us two particularly important developments, each of which requires some treatment in this new edition. One has to do with the increasing influence of social media—including everything from blogging and microblogging to sharing and collaboration Web sites such as Facebook, Twitter, LinkedIn, YouTube, Amazon, Instagram, and eBay. The other has to do with the increasing proliferation of mobile devices and interactive services for them, including not just broadband Wi-Fi at places like business hotels, Starbucks, and McDonald's, but smartphones that can surf the Web, keep your calendar, deliver movies, and track your location, as well.

Over the past few years, there has also been a major change in the way businesses think about the process of value creation itself, given their new technological capabilities to track and interact with customers, one at a time. Increasingly, companies are coming face-to-face with the question of how to optimize their businesses around individual customers. When you think about it, this is the very central issue when configuring a Web site, or when trying to design the work processes or scripting for a call center, or when outlining new procedures for sales reps or point-of-sale operations. Each of these tasks involves optimizing around a customer, and none of them can be completed adequately without answering the question, "What is the right communication or offer for *this* customer, at *this* time?"

But a business can answer this kind of question accurately only by disregarding its existing, product-based metrics and using customer-based metrics instead. This is because the fundamental issue at stake is how to maximize the value a particular customer creates for the enterprise, a task that contrasts sharply with the financial objective of the old form of marketing (mass marketing), which was maximizing the value that a particular product or brand created for the enterprise. So we have considerably upgraded the financial issues we consider in the metrics discussion in this edition of *Managing Customer Experience and Relationships*.

Among other things, we will suggest that a metric, Return on Customer℠, is sometimes more appropriate for gauging the degree to which a particular customer or group of customers is generating value for a business. Return on investment (ROI) measures the efficiency with which a business employs its capital to create value, and Return on Customer (ROC) is designed to measure the efficiency with which it employs its customers to create value. The ROC metric is simple to understand, in principle, but it requires a sophisticated approach to comprehending and analyzing customer lifetime values and customer equity. With the computer analytics available today, however, this is no longer an insurmountable or even a particularly expensive or difficult task. And this kind of customer-based financial metric will ensure that a company properly uses customer value as the basis for executive decisions.[1]

In the years since the second edition of this book was released, we have continued to teach seminars and workshops at universities and in for-profit and nonprofit organizations, and we have collaborated in depth with our own firm's working consultants in various Peppers & Rogers Group offices around the world, from São Paulo to Dubai, and from London to Johannesburg. We have wrestled with the serious, real-world business problems of taking a customer-centric approach to business in different business categories, from telecom, financial services, and retailing, to packaged goods, pharmaceuticals, and business to business. Over the years, our experience in all these categories has reinforced our belief that the basic IDIC model (identify, differentiate, interact, customize) for thinking about customer relationships is valid, practical, and useful, and that financial metrics based on customer value make the most sense. And we have continued documenting these issues, coauthoring a total of eight business trade books, in addition to this textbook.

The biggest change in this third edition, reflected in the title itself, is the additional consideration of the importance of the creation of better and more personalized customer experiences. CX (customer experience) plays an increasingly greater strategic role, and we've devoted much discussion to it, as well as to the idea of CX journey mapping.

While we obviously know more about our own work than anyone else's, and this book draws heavily on our fairly extensive direct experience in the work environment, we also continue to believe that a textbook like this should reflect some of the excellent work done by others, which is substantial. So, as with the first two editions, you will find much in this edition that is excerpted from others' works or written by others specifically for this textbook.

When it first appeared in 2004, *Managing Customer Relationships* was the first book designed specifically to help the pedagogy of customer relationship management, with an emphasis on customer strategies and building customer value. It is because of the wonderful feedback we have had over the years with respect to its usefulness for professors and students that we have undertaken this third edition. And while we hope this revised work will continue to guide and teach our readers, we also encourage our readers to continue to teach us. Our goal is not just to build the most useful learning tool available on the subject but to continue improving it as well. To that end, you may always contact us directly with suggestions, comments, critiques, and ideas. Simply e-mail us at mr@mrogersphd.com.

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[1] Return on Customer℠ and ROC℠ are trademarks of Peppers & Rogers Group.

How to Use This Book

Each chapter begins with an overview and closes with a summary (which is also an explanation of how the chapter ties into the next chapter), Food for Thought (a series of discussion questions), and a glossary. In addition, chapters include these elements:

- Glossary terms are printed in boldface the first time they appear in a chapter, and their definitions are located at the end of that chapter. All of the glossary terms are included in the index, for a broader reference of usage in the book.
- Sidebars provide supplemental discussions and real-world examples of chapter concepts and ideas. These are italicized in the Contents.
- Contributed material is indicated by a shaded background, with contributor names and affiliations appearing at the beginning of each contribution.

We anticipate that this book will be used in one of two ways: Some readers will start at the beginning and read it through to the end. Others will keep it on hand and use it as a reference book. For both readers, we have tried to make sure the index is useful for searching by names of people and companies as well as terms, acronyms, and concepts.

If you have suggestions about how readers can use this book, please share those at mr@mrogersphd.com.

Acknowledgments

We started the research and planning for the first edition of this book in 2001. Our goal was to provide a handbook/textbook for students of the customer-centric movement to focus companies on customers and to build the value of an enterprise by building the value of the customer base. We have made many friends along the way and have had some interesting debates. We can only begin to scratch the surface in naming those who have touched the current revision of this book and helped to shape it into a tool we hope our readers will find useful.

We are honored to have contributed the royalties and proceeds from the sale of this book to Duke University, where Martha has served as an adjunct professor.

Thanks to Dr. Julie Edell Britton, who team-taught the Managing Customer Value course at Duke with Martha for many years, and to Rick Staelin, who has always supported the work toward this textbook and the development of this field. Additional thanks to all of the marketing faculty members at Duke, especially Christine Moorman, Wagner Kamakura, Carl Mela, and Dan Ariely, and all those who have used and promoted the book and its topics.

The voices of the many contributors who have shared their viewpoints have helped to make this book what it is; and you will see their names listed on the contents pages and throughout the text. We thank each of you for taking the time to participate in this project and to share your views and insights with students, professors, and other users of this book. And, as big as this book is, it is not big enough to include formally all the great thinking and contributions of the many academicians and practitioners who wrestle with deeper understanding of how to make companies more successful by serving customers better. We thank all of you, too, as well as all those at dozens of universities who have used the first or second edition of the book to teach courses, and all those who have used the book as a reference work to try to make the world a better marketplace. Please keep us posted on your work!

This work has been greatly strengthened by the critiques from some of the most knowledgeable minds in this field, who have taken the time to review the book and share their insights and suggestions with us. This is an enormous undertaking and a huge professional favor, and we owe great thanks to Becky Carroll, Jeff Gilleland, Mary Jo Bitner, James Ward, Ray Burke, Anthony Davidson, Susan Geib, Rashi Glazer, Jim Karrh, Neil Lichtman at NYU, Charlotte Mason, Janis McFaul, Ralph Oliva, Phil Pfeifer, Marian Moore, David Reibstein, and Jag Sheth. Thanks to John

Deighton, Jon Anton, Devavrat Purohit, and Preyas Desai for additional contributions, and we also appreciate the support and input from Mary Gros and Corinna Gilbert. And thanks to Maureen Morrin and to Eric Greenberg at Rutgers, and to John Westman, executive vice president of Novellus, Inc., and adjunct professor of the Boston College Carroll School of Management.

Much of this work has been based on the experiences and learning we have gleaned from our clients and the audiences we have been privileged to encounter in our work with Peppers & Rogers Group. Dozens and dozens of the talented folks who have been PRGers over the past years have contributed to our thinking—many more than the ones whose citations appear within this book, and more than we are able to list here. Our clients, our consulting partners and consultants, and our analysts are the ones who demonstrate every day that building a customer-centric company is difficult but doable and worthwhile financially. Special thanks go to Hamit Hamutcu, Orkun Oguz, Caglar Gogus, Mounir Ariss, Ozan Bayulgen, Amine Jabali, and Onder Oguzhan for their thinking and support. We also thank Tulay Idil, Bengu Gun, and Aysegul Kuyumcu for research. And to Thomas Schmalzl, Annette Webb, Mila D'Antonio, Elizabeth Glagowski, and Mike Dandrea of the 1to1 Media team, our gratitude for a million things and for putting up with us generally. We also appreciate the work Tom Lacki has done toward this book and our thinking, as well as the work of Valerie Peck, Alan Pennington, and Deanna Lawrence. Special additional thanks for ideas in the original edition that have survived to this version to Elizabeth Stewart, Tom Shimko, Tom Niehaus, Abby Wheeler, Lisa Hayford-Goodmaster, Lisa Regelman, and many other Peppers & Rogers Group alumni as well as winners of the 1to1 Impact Awards and PRG/1to1 Customer Champions, who are best in class at customer value building.

Plain and simple, we could not have gotten this book done without the leadership and project management of Marji Chimes, the talented and intrepid leader for years of 1to1 Media and an integral part of the success of Peppers & Rogers Group, now a unit of Teletech, or the dedicated day-to-day help from Susan Tocco and Lisa Troland. And the real secret sauce to finishing the many details has been Amanda Rooker—a truly resourceful researcher and relentlessly encouraging and gifted content editor, who has patiently and capably assisted in winding us through the morass of secondary research and minutiae generated by a project of this scope.

Our editor at John Wiley & Sons, Sheck Cho, has been an enthusiastic supporter of and guide for the project since day one. As always, thanks to our literary agent, Rafe Sagalyn, for his insight and patience.

We thank the many professors and instructors who are teaching the first Customer Strategy or CRM course at their schools and who have shared their course syllabi. By so doing, they have helped us shape what we hope will be a useful book for them, their students, and all our readers who need a ready reference as we all continue the journey toward building stronger, more profitable, and more successful organizations by focusing on growing the value of every customer.

About the Authors

Don Peppers and Martha Rogers, Ph.D., are the founders of Peppers & Rogers Group, a leading customer-centric management consulting firm with offices and clients worldwide, and now a unit of TeleTech Holdings (TTEC). They have developed many of the principles of the customer relationship management field. They have been ranked by Satmetrix as the world's #1 most influential authorities on customer experience management. Peppers and Rogers were inducted into the Direct Marketing Association Hall of Fame in 2013, and have received many other accolades and awards.

Together, Peppers and Rogers have coauthored a legacy of international best-sellers that have collectively sold well over a million copies in 18 languages. Peppers and Rogers's newest book, their ninth, is *Extreme Trust: Turning Proactive Honesty and Flawless Execution into Long-Term Profits*, which debuted in a revised and updated paperback in 2016. It suggests that social networks and rapidly increasing transparency have combined to raise customer expectations regarding the trust-worthiness of the companies and organizations they deal with. *Rules to Break & Laws to Follow*, published in 2008, was named as the inaugural title to Microsoft's "Executive Leadership Series." Among the other best-sellers authored by Peppers and Rogers, their first—*The One to One Future* (1993)—was called "one of the two or three most important business books ever written," while *BusinessWeek* called it the "bible of the customer strategy revolution," and Tom Peters named it his choice for "book of the year" in 1993. *Enterprise One to One* (1997) received a 5-star rating from the *Wall Street Journal. One to One B2B* made the *New York Times* business best-seller list within a month of its publication in 2001. Their 2005 book *Return on Customer* was named one of the 15 "most important reads" of 2005 by *Fast Company*, and was cited again in 2007 on its list of the 25 "Best Books" in business.

Prior to founding Peppers & Rogers Group, Don Peppers served as the CEO of a top-20 direct marketing agency, and his book *Life's a Pitch: Then You Buy* (1995) chronicles his exploits as a celebrated new-business rainmaker in the advertising industry. He holds degrees in astronautical engineering from the Air Force Academy and in public affairs from Princeton University's Woodrow Wilson School. Peppers also has a popular voice in the business media and is a top "INfluencer" on LinkedIn, with well over a quarter million followers for his regular blog posts on innovation, technology, trust, corporate culture, and customer experience.

Martha Rogers is the founder of Trustability Metrix, a firm designed to help companies understand how to measure and improve their levels of trust by customers, employees, and business partners. After a career in advertising copywriting and management, Rogers has taught at several universities, most recently as an adjunct professor at the Fuqua School of Business at Duke University, where she co-directed the Teradata Center for Customer Strategy. Rogers has been widely published in academic and trade journals, including *Harvard Business Review*, *Journal of Advertising Research*, *Journal of Public Policy and Marketing*, and *Journal of Applied Psychology.* She has been named International Sales and Marketing Executives' Educator of the Year. Rogers earned her Ph.D. at the University of Tennessee as a Bickel fellow.

PART I

Principles of Managing Customer Experience and Relationships

The *Learning Relationship* works like this: If you're my customer and I get you to talk to me, and I remember what you tell me, then I get smarter and smarter about you. I know something about you my competitors don't know. So I can do things for you my competitors can't do, because they don't know you as well as I do. Before long, you can get something from me you can't get anywhere else, for any price. At the very least, you'd have to start all over somewhere else, but starting over is more costly than staying with me, so long as you like me and trust me to look out for your best interests.

CHAPTER 1

Evolution of Relationships with Customers and Strategic Customer Experiences

No company can succeed without customers. If you don't have customers, you don't have a business. You have a hobby.

—Don Peppers and Martha Rogers

Think about it: By definition, customers are every company's source of revenue. No company will ever realize income from any other entity except the customers it has now and the customers it will have in the future. Brands don't pay money. Products don't. Sales regions don't. Thus, in many ways, a firm's most valuable financial asset is its customer base, and, given our new and unfolding technological capabilities to *recognize,* measure, and manage relationships with each of those customers individually, and to create and improve their experiences with our companies, a forward-thinking firm must focus on deliberately preserving and increasing the value of that customer base. **Customer strategy** is not a fleeting assignment for the marketing department; rather, it is an ongoing business imperative that requires the involvement of the entire enterprise. Organizations manage their customer experiences and relationships effectively in order to remain competitive. Technological advancements have enabled firms to manage customer relationships more efficiently and to create better **customer experience,** but technology has also empowered customers to inform themselves and one another and to demand much more from the companies they do business with. The goal of this book is not just to acquaint the reader with the techniques of managing customer experiences and relationships. The more ambitious goal of this book is to help the reader understand the essence of customer strategy and how to apply it to the task of managing a successful enterprise in the twenty-first century.

The dynamics of the customer-enterprise relationship have changed dramatically over time. Customers have always been at the heart of an enterprise's long-term growth strategies, marketing and sales efforts, product development, labor and resource allocation, and overall profitability directives. Historically, enterprises have encouraged the active participation of a sampling of customers in the research and development of their products and services. But until recently, enterprises have been structured and managed around the products and services they create and sell. Driven by assembly-line technology, mass media, and mass distribution, which appeared at the beginning of the twentieth century, the Industrial Age was dominated by businesses that sought to mass-produce products and to gain a competitive advantage by manufacturing a product that was perceived by most customers as better than its closest competitor. Product innovation, therefore, was the important key to business success. To increase its overall market share, the twentieth-century enterprise would use mass marketing and mass advertising to reach the greatest number of potential customers.

As a result, most twentieth-century products and services eventually became highly commoditized. Branding emerged to offset this perception of being like all the other competitors; in fact, branding from its beginning was, in a way, an expensive substitute for relationships companies could not have with their newly blossomed masses of customers. Facilitated by lots and lots of mass-media advertising, brands have helped add value through familiarity, image, and trust. Historically, brands have played a critical role in helping customers distinguish what they deem to be the best products and services. A primary enterprise goal has been to improve brand awareness of products and services and to increase brand preference and brand loyalty among consumers. For many consumers, a brand name has traditionally testified to the trustworthiness or quality of a product or service. Today, though, more and more, customers say they value brands, but their opinions are based on their "relationship with the brand"—so brand reputation is actually becoming *one and the same* with customers' experience with the brand, product, or company (including relationships).[1] Indeed, consumers are often content as long as they can buy one brand of a consumer-packaged good that they know and respect.

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[1]Christof Binder and Dominique M. Hanssens, "Why Strong Customer Relationships Trump Powerful Brands," *Harvard Business Review*, April 14, 2015, available at https://hbr.org/2015/04/why-strong-customer-relationships-trump-powerful-brands, reports research on brand valuation of a company at the time of merger or acquisition. They discovered that over a 10-year period from 2003 to 2013, "brand valuations declined by nearly half (from 18 percent to 10 percent [of total company value]) while customer relationship values doubled (climbing from 9 percent to 18 percent). Acquirers have decisively moved from investing into businesses with strong *brands* to businesses with strong *customer relationships*." See also Anita Chang Beattie, "Catching the Eye of the Chinese Shopper," *Advertising Age* 83, no. 44 (2012), p. 20; and Masaaki Kotabe's chapter, "Emerging Markets," in *Marketing in the 21st Century: New World Marketing*, ed. Bruce David Keillor (Westport, CT: Praeger, 2007).

> For many years, enterprises depended on gaining the competitive advantage from the best brands. Brands have been untouchable, immutable, and inflexible parts of the twentieth-century mass-marketing era. But in the interactive era of the twenty-first century, enterprises are instead strategizing how to gain sustainable competitive advantage from "brands" that create the best customer experience, based on the information they gather about customers.

For many years, enterprises depended on gaining the competitive advantage from the best brands. Brands have been untouchable, immutable, and inflexible parts of the twentieth-century mass-marketing era. But in the **interactive era** of the twenty-first century, firms are instead strategizing how to gain sustainable competitive advantage from the *information* they gather about customers. As a result, enterprises are creating a *two-way brand,* one that thrives on customer information and interaction. The two-way brand, or *branded relationship,* transforms itself based on the ongoing dialogue between the enterprise and the customer. The branded relationship is "aware" of the customer (giving new meaning to the term *brand awareness*) and constantly changes to suit the needs of that particular individual. In current discussions, the focus is on ways to redefine the "brand reputation" as more customer oriented, using phrases such as "brand engagement with customer," "brand relationship with customer," and the customer's "brand experience." Add to this the transparency for brands and rampant ratings for products initiated by social media, and it's clear why companies are realizing that what customers say about them is more important than what the companies say about themselves.

Roots of Customer Relationships and Experience

Once you strip away all the activities that keep everybody busy every day, the goal of every enterprise is simply to get, keep, and grow customers. This is true for nonprofits (where the "customers" may be donors or volunteers) as well as for-profits, for small businesses as well as large, for public as well as private enterprises. It is true for hospitals, governments, universities, and other institutions as well. What does it mean for an enterprise to focus on its customers as the key to competitive advantage? Obviously, it does *not* mean giving up whatever product edge or operational efficiencies might have provided an advantage in the past. It does mean using new strategies, nearly always requiring new technologies, to focus on growing the value of the company by deliberately and strategically growing the **value of the customer base.**

> What does it mean for an enterprise to focus on its customers as the key to competitive advantage? It means creating new shareholder value by deliberately preserving and growing the value of the customer base.

To some executives, **customer relationship management (CRM)** is a technology or software solution that helps track data and information about customers to enable better **customer service**. Others think of CRM, or one-to-one, as an elaborate marketing or customer service discipline. We even recently heard CRM described as "personalized e-mail."

To us, "managing customer experience and relationships" is what companies do to optimize the value of each customer, and "managing customer experiences" is what companies do because they understand the customer's perspective and what it is—and should be—like to be our customer. This book is about much more than setting up a business Web site or redirecting some of the mass-media budget into the call-center database or cloud analytics or **social networking.** It's about increasing the value of the company through specific customer strategies (see Exhibit 1.1).

Companies determined to build successful and profitable customer relationships understand that the process of becoming an enterprise focused on building its value by building customer value doesn't begin with installing technology, but instead begins with:

- A strategy or an ongoing process that helps transform the enterprise from a focus on traditional selling or manufacturing to a **customer focus** while increasing revenues and profits in the current period and the long term.
- The leadership and commitment necessary to cascade throughout the organization the thinking and decision-making capability that puts customer value and relationships first as the direct path to increasing shareholder value.

The reality is that becoming a **customer-strategy enterprise** is about using information to gain a competitive advantage and deliver growth and profit. In its

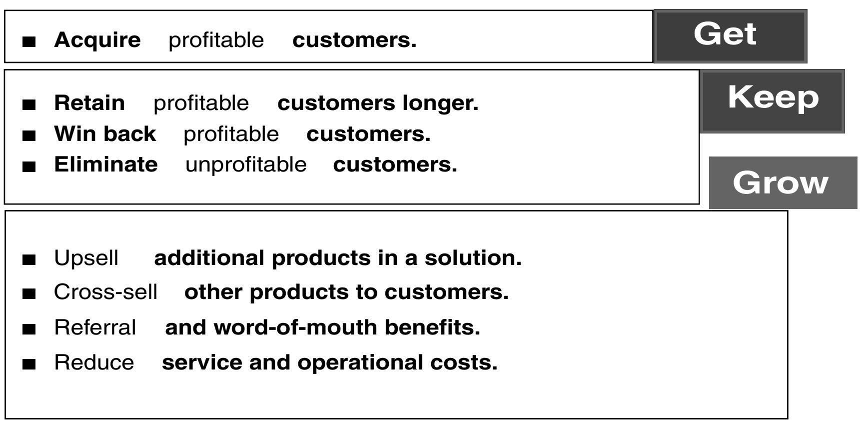

EXHIBIT 1.1 Increasing the Value of the Customer Base

most generalized form, CRM can be thought of as a set of business practices designed, simply, to put an enterprise into closer and closer touch with its customers, in order to learn more about each one and to deliver greater and greater value to each one, with the overall goal of making each one more valuable to the firm to increase the value of the enterprise. It is an enterprise-wide approach to understanding and influencing customer behavior through meaningful analysis and communications to improve customer acquisition, customer retention, and customer profitability.[2] **Customer centricity** is distinguishable from product centricity and from technology centricity. These differences will be discussed more in Exhibit 1.3 later in this chapter.

Defined more precisely, what makes customer centricity into a truly different model for doing business and competing in the marketplace, is this: It is an enterprise-wide business strategy for achieving customer-specific objectives by taking customer-specific actions. It is

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[2]Peter Fader, *Customer Centricity: Focus on the Right Customers for Strategic Advantage,* Wharton Executive Essentials, 2nd ed., 2012 (1st ed., 2011); Ju-Yeon Lee, Shrihari Sridhar, Conor Henderson, and Robert W. Palmatier, *Effect of Customer-Centric Structure on Firm Performance,* Marketing Science Institute Working Paper Series, Report No. 12–111, available at http://www.lehigh.edu/~incbeug/Attachments/Lee%20et%20al%202012%20MSI_Report.pdf, accessed February 3, 2016; Erik M. van Raaij, "The Strategic Value of Customer Profitability Analysis," *Marketing Intelligence & Planning* 23, no. 4/5 (2005): 372–381, accessed January 28, 2010, available at ABI/INFORM Global (document ID: 908236781); Sunil Gupta and Donald R. Lehmann, *Managing Customers as Investments* (Philadelphia: Wharton School Publishing, 2005); Robert S. Kaplan, "A Balanced Scorecard Approach to Measure Customer Profitability," Harvard Business School's Working Knowledge Web site, August 8, 2005, available at: http://hbswk.hbs.edu/item/4938.html, accessed January 28, 2010; Phillip E. Pfeifer, Mark E. Haskins, and Robert M. Conroy, "Customer Lifetime Value, Customer Profitability, and the Treatment of Acquisition Spending," *Journal of Managerial Issues* 17, no. 1 (Spring 2005): 11–25; George S. Day, *Market-Driven Strategy: Processes for Creating Value* (New York: Free Press, 1999); Don Peppers and Martha Rogers, *The One to One Future* (New York: Doubleday Books, 1993); Ronald S. Swift, *Accelerating Customer Relationships: Using CRM and Relationship Technologies* (Upper Saddle River, NJ: Prentice Hall, 2001); Fred Reichheld, *The Loyalty Effect* (Boston: Harvard Business School Press, 1996); and Fred Reichheld and Rob Markey, *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer Driven World* (Cambridge, MA: Harvard Business Review Press, 2011).

enterprise-wide because it can't merely be assigned to marketing if it is to have any hope of success. Its objectives are customer-specific because the goal is to increase the value of each customer. Therefore, the firm will take customer-specific actions for each customer, often made possible by new technologies.

> An enterprise-wide business strategy for customer centricity achieves customer-specific objectives by taking customer-specific actions.

In essence, building the value of the customer base requires a business to *treat different customers differently.* Today, there is a customer-focus revolution under way among businesses. It represents an inevitable—literally, irresistible—movement. All businesses will be embracing customer strategies sooner or later, with varying degrees of enthusiasm and success, for two primary reasons:

1. All customers, in all walks of life, in all industries, all over the world, want to be individually and personally served.
2. It is simply a more efficient way of doing business.

We find examples of customer-specific behavior, and business initiatives driven by customer-specific insights, all around us today[3]:

- An airline offers a passenger in the airport waiting for his flight to arrive an upgrade offer to business class through a phone app he has used to check his flight status, as an apology for a 45-minute departure delay.
- A woman receives an e-mail before her eight-month obstetrics appointment that gives information about what to expect at the appointment and her baby's stage of growth. A month later, the same woman receives a notification of her baby's immunization appointment that is triggered when she leaves the hospital with her newborn.
- A retail clothes company sends a message to a customer it knows is standing outside one of their stores to come in and use a 15 percent discount, sometimes with a sweetener such as free shipping. Or the items appear as a reminder next to the newspaper articles the shopper reads next morning.
- A business sees that a customer has left their Web site, abandoning a cart with selected products before checkout, and sends an e-mail with more detailed information about those specific products to the customer the next day.
- An outdoor gear company sees that their tents are being discussed on a social channel and sends a free tent as a trial sample to a consistent product supporter.
- A group of three friends open the Web page of the same kitchenware company that they all have ordered from in the past. Each friend views a different offer featured on the company home page on her device.

[3] Thanks to the SalesForce Marketing Cloud Web site for inspiring many of these examples; available at http://www.salesforce.com/marketing-cloud/overview/, accessed December 4, 2015.

- A customer service representative sees a complaint a customer has made on a social channel and is able to view at the same time his purchasing history and order status. The service rep uses that information to reply to the complaint via the same social channel.
- Instead of mailing out the same offer to everyone, a company waits for specific trigger behavior from a customer and increases response rates 25-fold.
- An insurance company not only handles a claim for property damage but also connects the insured party with a contractor in her area who can bypass the purchasing department and do the repairs directly.
- A supervisor orders more computer components by going to a Web page that displays his firm's contract terms, his own spending to date, and his departmental authorizations.
- Sitting in the call center, a service rep sees a "smart dialogue" suggestion pop onto a monitor during a call with a customer, suggesting a question the company wants to ask that customer (not the same question being asked of all customers who call this week).

Taking customer-specific action, treating different customers differently, improving each customer's experience with the company or product, building the value of the customer base, creating and managing relationships with individual customers that go on through time to get better and deeper—that's what this book is about. In the chapters that follow, we will look at lots of examples. The overall business goal of this strategy is to make the enterprise as profitable as possible over time by taking steps to increase the value of the customer base. The enterprise makes itself, its products, and/or its services so satisfying, convenient, or valuable to the customer that she becomes more willing to devote her time and money to this enterprise than to any competitor. Building the value of customers increases the value of the **demand chain,** the stream of business that flows from the customer down through the retailer all the way to the manufacturer. A customer-strategy enterprise interacts directly with an individual customer. The customer tells the enterprise about how he would like to be served. Based on this interaction, the enterprise, in turn, modifies its behavior with respect to this particular customer. In essence, the concept implies a specific, one-customer-to-one-enterprise relationship, as is the case when the customer's input drives the enterprise's output for that particular customer.[4]

A suite of buzzwords have come to surround this endeavor: customer relationship management (CRM), **one-to-one marketing, customer experience management,**

[4] Ranjay Gulati, "From Inside-Out to Outside-In Thinking," *Economic Times*, May 10, 2013, available at http://ranjaygulati.com/rg/images/the-economic-times_from-inside-out-to-inside-in-thinking.pdf, accessed on February 3, 2016. Also see Ranjay Gulati, "The Quest for Customer Focus," *Harvard Business Review* 83, no. 4 (April 2005): 92–101. Also see Don Peppers and Martha Rogers, Ph.D., *One to One B2B* (New York: Doubleday Broadway Books, 2001).