CHAPTER 1

Commerce in the 21st Century

Today's marketplace isn't the same as the one we're used to, even though many of the basic principles haven't changed. Events in the external marketplace are forcing us to rethink what we have to do internally in order to remain successful. This book starts by taking a look at some of the internal and external factors that influence the way we will do business in the 21st century in order to remain competitive.

You are reading this book because you already know that Customer Relationship Management is important for your organization. Even so it's appropriate to start by building a common understanding: CRM isn't one total solution that everyone just plugs in and finds that all problems are solved. We need a framework for describing the different needs of different kinds of companies and for understanding the changes that are taking place in the world around us.

We also need to develop an understanding of how we are going to work together while you're reading this book. My goal is to give you the tools and knowledge you need to manage a successful CRM program for your own company. You don't need to hire one of my colleagues or me in order to be successful. You don't need us to "do CRM" for you. You just need to understand the basic principles and ground rules.

1.1 Understanding the Landscape

Yes, the environment in which we operate has changed. Both inside our companies and externally in the marketplace, many of our old working assumptions just don't look the same.

1.1.1 The Internal Landscape

Michael Treacy and Fred Wiersema are leading authorities on business strategy and corporate transformation. In their extensive study of highly successful companies versus those that are less successful, they identified some key differences in strategy setting and operational behavior between industry winners and losers. The value discipline model they developed is an important frame of reference for understanding how changes in the marketplace have affected all businesses and why requirements for success have changed for most, if not all.

Treacy and Wiersema showed that successful companies build their competitive advantage by focusing on and excelling in only one of three basic values: product leadership, customer intimacy, or operational excellence. In addition to having the discipline of maintaining this single focus, companies must be at least adequate in the other two; they cannot be failing (Treacy, et al., 1995). These values are outlined in Figure 1-1.

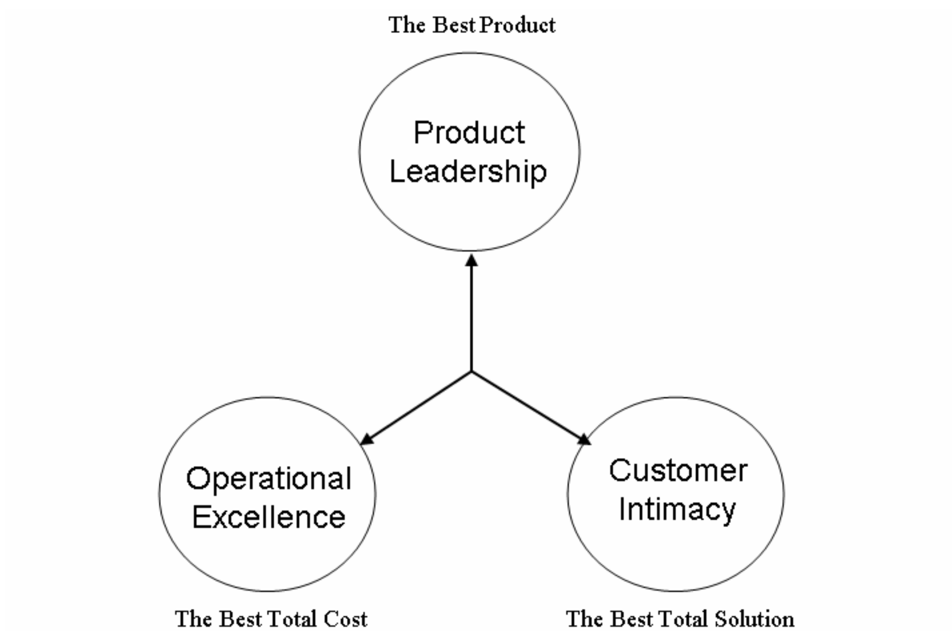

Figure 1-1 The Value Discipline Model (adapted from Treacy, et al.)

Treacy and Wiersema's business principle still holds true. These three value disciplines form an understandable and actionable model that describes the different ways in which companies can focus their efforts and build success. Understand what differentiates your company, know where your strength and unique value comes from, and maintain your focus. There is no one correct model that all companies must follow to achieve success. According to Treacy and Wiersema, the Value Discipline Model includes these three values, as were shown in Figure 1-1:

- **Operational excellence** involves building business processes that provide the best product quality, best price, and the best purchasing experience, yielding *the best total cost* to the customer.

- **Product leadership** involves focusing investment and energy into developing the product that is the newest or most revolutionary or most sought after, offering *the best product* to the customer.
- **Customer intimacy** involves building strong customer relationships, really getting to know your customers so you are sure to really understand their situation, which should yield the *best total solution* for the customer.

These value disciplines describe the way different companies build relationships with their customers, and they haven't changed. The importance of being able to pick just one to focus on while keeping the other two at an acceptable level also hasn't changed. What *has* changed is what it takes to be adequate or excel in each of the three disciplines. The Internet hasn't changed everything…but it has changed a lot!

1.1.2 The New (e)Marketplace

At first, we thought that the Internet was going to break all the rules. But painful as it was, it didn't take long to learn that business basics still count. No matter how many sales are made or how much traffic is generated, if a company cannot make money, it will not survive. In fact, no matter how much *value* a company provides to customers, if its business plan isn't sustainable, it can't continue to provide that value for very long.

We also now know that the Internet didn't destroy all the traditionally successful companies. In fact, it is the solid brick-and-mortar companies that have been able to combine their strong infrastructures with the new tools and capabilities that the Internet offers. These "bricks-and-clicks" companies have turned out to be the real winners.

So, what *has* changed? Let's take a closer look.

- **Access:** The Internet puts more information in customers' hands, at a faster rate, than was previously possible. Having all of this information at their disposal has given them the opportunity to evaluate alternatives and to make much more intelligent decisions about purchases.
- **Control:** The Internet also gives customers the opportunity to do business when and how they want to do it, not when we choose to be open for business. Customers have more power and control than ever. They aren't about to give any of it back; in fact, they want even more.
- **Speed:** Commerce on the Internet occurs at unheard of speeds. Information can be gathered, options compared, and transactions completed faster than a customer could drive down to the mall or get a call back from a sales rep. These incredible speeds are reshaping customer expectations of how quickly things can and should be done everywhere.
- **Globalization:** The Internet has opened up the entire world as a marketplace to everyone. We are no longer constrained by the neighborhood or even the borders of the

country we live in. Companies that have never sold outside of their own region may now have customers all over the globe. These global customers often have very different expectations from those they've always known. Everything from language to product features, from privacy to payment options and more can be (and probably should be) different.

- **Automation:** Finally, and maybe most important, the Internet has eliminated many of your employees (order administrators, call center support reps, sales reps, etc.) from the processes that you have moved online. Historically, human intelligence and knowledge have created a link between many of our internal disconnects. Now, just at the time that customers' expectations have risen regarding how quickly, easily, efficiently, and accurately commerce can take place, the Internet has removed the "glue" that has allowed most companies to mask all of their disconnected processes and systems.

This doesn't mean that an Internet experience has to feel "cold" or mechanical. Stanford University professor Clifford Nass showed that people actually react to computers as if they were human (Reeves and Nass, 1998). But computers don't (yet) have the human capability to make intellectual leaps or connect information that is not obviously linked. Computers are logical, but not intelligent.

1.1.3 The Impact

The Internet has affected companies that have chosen to focus on operational excellence in several ways. It has given customers more information and, thus, more control over their buying experiences and has raised customer expectations regarding speed and convenience. The speed at which transactions can take place affects expectations of how fast everything should be done. For many industries, it has leveled the operational playing field, but the level of play is much higher and more competitive! There is less differentiation today and less of a gap between the minimum acceptable experience and the best experience. It's harder to be excellent, and even the minimum standard has been raised.

The impact on customer-intimate companies is equally strong. The single global marketplace serves customers from many different cultures with different expectations and needs. This makes building relationships much harder. Of course, the biggest impact is removing the direct human contact from so many interactions. It's harder to be excellent when you don't understand your customers' expectations (or even their language) and even more so when the human interaction is eliminated.

Product-leadership companies have also been significantly impacted. More control in your customers' hands means less control in yours. With more information available to customers, they can easily compare products and prices and make buying decisions. All the information that's available on the Internet has contributed to another phenomenon in today's marketplace. Many products have become or are becoming commodities, and it's happening very quickly. Customers are better informed and can make better decisions about what they really need (and what they don't need). In addition, the Internet makes it much easier for competitors to access your product information and to quickly develop competitive products. Today, it's difficult to maintain product superiority for very long.

Almost overnight the marketplace has become truly global, and most of us haven't had enough time to learn who our new customers are. Most important, many customer interactions take place without a human being there to smooth out the rough spots and eliminate the disconnects in many of our processes.

Table 1-1 summarizes the Internet changes that have impacted the whole marketplace. You can use tools like this table to track the situation for your own company.

Table 1-1 Summary of Changes in the (e)Marketplace

Internet Effects	Operational Excellence	Product Leadership	Customer Intimacy
Access	Easier to compare and swap	Commoditization	Providing human contact
Control	Always on	Broader choice, less differentiation	Interaction preference
Speed	Process expectations	Products unique for shorter periods	Efficiency, not loyalty
Globalization	Language, localization	Localization of products	Unknown language, culture
Automation	Process disconnects	Distance from customer needs	Loss of human memory, connection

At the end of the chapter in the Questions for Reflection, you can refer back to this table to help you understand the specific impact of the Internet on your company.

1.1.4 The Result

As a result of all these significant changes, many people (including me) believe that customer loyalty is the single most important differentiator for ensuring competitiveness and success into the 21st century.

1.2 Defining "Customer Loyalty"

There is a very persistent barrier that comes up time and again whenever groups of people and organizations attempt to adopt new ideas or change the way they do business. This barrier is the simple fact that often there is no universal understanding of or common language for describing the issue and identifying the goals you want to achieve. People frequently use exactly the same words to describe very different ideas. And they use different words to describe the same idea. Generally the result is that no one really knows what has been agreed. This situation is even more common when the ideas are fairly new and not widely understood. Meetings are concluded with great good feeling and nods of agreement all around, followed by months of conflict and rework because everyone thought they'd agreed to something different.

We are not going to accept this state of affairs. We're going to fight this barrier by developing a common language that we agree to use throughout this book. I'll present definitions of the critical terms that we'll be using, and ask that you agree with that definition while you're reading. Remember that when you're finished reading, you are back in control. For your own purposes or your own organization, you may want or need to create your own concepts and definitions. Just be sure that if you do so, you make your definitions very clear and very visible to those with whom you're working. And be sure that you get their agreement that they will use your definition for the duration of the time you're working together. Most important, watch for people using inconsistent terms or definitions, and educate these people right away. Don't let these inconsistent concepts take root.

So, for the duration of the time that we're working together (that is, while you're reading this book), I will ask you to suspend any current definitions you may have and use mine instead. This will ensure that for this time period, we're speaking the same language.

1.2.1 What Is a Customer?

To understand what is meant by *customer loyalty,* we first must define what a customer is.

1. A customer is a human being. Only human beings can make decisions and use products. I know this seems terribly obvious, but many companies that sell to businesses instead of consumers forget this.
2. A customer is a person who has acquired or is considering the acquisition of one of our products. Anyone who is involved in making a decision, from the financial decision maker to the decision influencer to the end user (and often they are one in the same), is a customer.

Note that people who are considering but have not yet acquired one of your products are included. You may not have gathered much information about these prospects, but the relationship starts as soon as you become aware of each other. What you do with this knowledge is a topic for future consideration as we discuss "valuing" potential customers. Also, product "acquisition" may be the result of a purchase, a lease, a gift, or any other means of getting a product into the customer's hands. After a customer has begun using or even considering one of your products or services, he has started a relationship with you. It's your job to be sure you know about each customer and to take care of those relationships.

For business-to-business (B2B) sellers, the concept of a "customer company" is also important. But its importance is as a label for and a set of facts about a group of customer people. The company represents additional interesting information about the set of customers who are employed there. Companies do not make decisions to buy things. Companies do play an important role in that they have certain cultures, certain sets of needs, certain standards and processes, and certain styles, all of which influence how the people who work there make decisions. We can identify a group of customers with characteristics in common by knowing that they work for the same company. We often identify the "value" of this group of customers by knowing the aggregate sales to their entire company. As discussed in the preface, a dictionary sitting beside a box of text will indicate these definitions. All the definitions will be summarized in the glossary in Appendix A.

DEFINITIONS

A *customer* is a person (or a group of persons) who influences or decides on the acquisition of one of our products or services, or who uses one of these products or services.

A *customer company* is an organization (public, private, non-profit, or governmental) that has characteristics that influence the group of people who work there.

Through the remainder of this book, when you see the word *customer,* it will refer to people. If we're talking about a company as a whole organization, we will use the term *customer company.*

1.2.2 What Is Loyalty?

Loyalty is an emotion; it isn't rational. Loyalty occurs when an individual has a vested interest in maintaining a close relationship, usually resulting from a series of positive experiences that have occurred over time. These experiences can be either tangible (product quality, ease of use, prompt and effective service) or intangible (respectful communications, trustworthy company image).

Customer Loyalty, for our purposes, leads to the behavior we hope our customers will demonstrate. We hope our customers will continue to choose to purchase our products instead of our competitors' just because they would rather do business with us.

DEFINITIONS

Customer Loyalty is a behavior, built on positive experiences and value. This behavior is buying our products, even when that may not appear to be the most rational decision.

Once established, there is momentum for a customer to remain loyal. All things being equal (or only slightly unequal), the loyal customer continues to buy our products. But if we stop delivering the tangible and intangible positive experiences to customers, their loyalty will be lost and they will surely disappear.

1.3 Loyalty in the New Marketplace

Loyalty is built on relationships developed through the customer's experiences when she interacts with your company. Of course, so is disloyalty! Loyalty, for our purposes, is the likelihood that a current customer will buy from you again, rather than from a competitor, whenever she needs new or additional products that you sell. The value of loyalty is well understood. A recent study by Bain and Company showed that when loyalty (customer retention) was increased 5 percent, profits within various industries (both consumer and B2B) increased from a minimum of 18 percent up to a high of 125 percent. The impact of customer loyalty on profits hasn't changed, nor has the way loyalty is created through a customer's experiences with our company. Positive experiences build strong loyalty, but so can prompt resolution of negative experiences. In fact, many people believe that reversing a negative experience is the strongest way to ensure loyalty (Vavra, 1992).

From the corner grocery store to the sophisticated telephone support organization, managing customer relationships has traditionally involved human interactions. But with so many of these interactions now taking place over the Internet and involving less (or no) direct human contact, how do we build relationships now? There is a simple (but not easy) solution. The answer lies in information. The knowledge about our customers that we collect and save, combined with our ability to use this information, will allow companies to build and maintain loyalty in the Internet age.

Information can make it possible for us to link together customer experiences across different interaction channels. Information can make computers appear to recognize a customer and thereby create a relationship with him. Information can be used to personalize and humanize electronic interactions. Information can be used to customize the best product or service for a customer.

Regarding the critical role that information plays in making the Internet successful, Pradeep Jotwani, president of Hewlett-Packard's Consumer Business Organization said in a presentation at an e-commerce summit in San Jose,

> The Net has forever changed our world, and as a result, we can expect to be part of a continually shifting social and economic landscape. […] Electronic sales to consumers passed $20 billion in 1999. U.S. online consumer retail revenue will exceed $184 billion by 2004. Business-to-business sales will surpass consumer sales at about the same time. You wouldn't be here today if you didn't believe this was true. The online opportunity is staggering, and the long-term success of almost every business will require some degree of online activity. Success in this New World will depend on creating new and inventive ways of doing business. Data is collected, mined, and analyzed to provide extremely high qualitative and quantitative information. As a result, we are in a position to provide levels of customized, personal services never before imagined. From New Delhi to New York to Newcastle, it's a New World.

The Internet has a big impact on how we do business. Let's look at these changes and consider how they relate to our ideas of what it will take to be successful in the future. Although this book certainly isn't a study of Treacy and Wiersema's Value Discipline theory, understanding their three basic operating styles allows us to form a good foundation for measuring the impact of the Internet on the way we do business. (If you do want to know more about Value Disciplines, please refer to Treacy and Wiersema's terrific book.)

Understanding the changes in measuring success or even maintaining the minimum standard for each of the disciplines will explain why managing your customer relationships must be an important component of your business strategy even if your company is not, and never will be, *customer* focused.

1.3.1 Loyalty and Operational Excellence

In an effort to streamline and focus on core competencies, most companies have found ways to outsource elements of their operating environments to third-party specialists at lower costs. Focusing just within the walls of the company hasn't been enough to achieve operational excellence for some time. Now, in an effort to streamline processes and further reduce costs, companies are moving many of their remaining internal processes to the Internet. Activities including order management, product delivery, product support, and fulfillment are taking on new forms.

We've already discussed how the Internet has impacted the customer's expectations across all types of interactions with your company. The Internet has caused customers' expectations for the operational performance of your company to be raised as well. Today your customers can easily experience and compare how your competitors do the very same things you do, so you must be at a level that is at least acceptable. It's also easy for your competitors to test and emulate your processes. You can continue to improve operations to maintain your operationally excellent position, but each improvement in your operational performance in effect challenges your competitors to match or exceed your performance. It's not as quick or easy for them to do as price slashing, but the resulting level of performance is now part of your competitor's operating environment and is sustainable (unlike a price war, which can't be sustained over the long haul).

You can provide this value by capturing and storing knowledge about your customers that only you have. Use that knowledge so that you can consistently recognize your customers. You can remember and understand what they really need, and respond to their specific requirements in the most efficient and cost-effective manner. Competitors can duplicate your processes, but they can't duplicate your knowledge. Use your knowledge to ensure that you are delivering what the customer wants at the best possible price.

This doesn't mean that your operationally excellent company must change its focus to become customer intimate. It does mean that, while you are focusing on operational excellence, you can't ignore the importance of your customers and their relationship with your company. We will look at how to build and manage these relationships.

1.3.2 Loyalty and Product Leadership

Product leadership also doesn't look quite the same as it did. It's becoming harder to sustain success based on product differentiation alone. Your competitors are able to copy you and catch up more quickly and without the heavy, initial product development effort or expense that your company incurred. This leaves a much shorter period of time during which a company can remain in a product-dominant position before the competition at least matches current offerings.

Because so many industries sell products that have already become (or are in danger of becoming) commodities, prices are being squeezed and product differentiation is becoming blurred. When profits are narrowed, it's more difficult to continue to invest in the development efforts that will keep your products out in front. As an example in the high-tech industry, PCs have become essentially ubiquitous. PCs are everywhere, and they all have basically the same capabilities because there is little customer demand for extraordinary features. Gone are the days when each manufacturer could claim (and charge for) a uniquely "best" product. The market is looking for basic, standard capabilities, and no one is willing to pay significantly more for any specific product. PCs and many other products from many different industries have become commodities. Price wars are common and continue to shrink margins painfully. This catch-22 cycle, as presented in Figure 1-2, makes product leadership riskier and more expensive to sustain.

How do you continue to be a successful product leadership company when so many products, maybe even yours, have become commodities? Customer loyalty can make the difference between successful and unsuccessful product leadership companies, because loyal customers will choose your products even if they aren't that much better than someone else's. Your customer's loyalty to you makes your product the best choice for him. You will undoubtedly continue to invest in those efforts that have always resulted in your superior products, but because you also recognize that return on investment may have shrunk, you also allocate resources toward managing your customer relationships. Loyal customers feel that your product is better and choose it over other similar products. Loyal customers seek out your products. The relationships you have with your customers are the only differentiators that your competitors can't

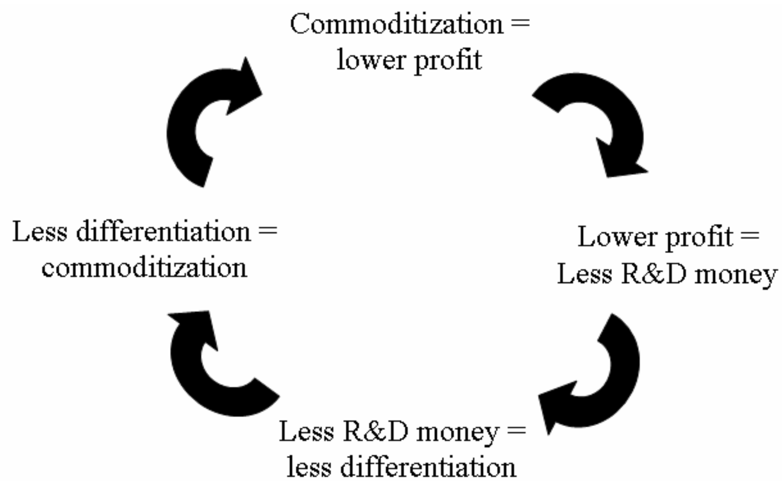

Figure 1-2 A catch-22: Commoditization means less money for development, which increases commoditization

duplicate. Loyalty once created is extremely stable; it is hard for competitors to dislodge. Customer loyalty is based on developing and maintaining personal relationships with your customers and providing them excellent experiences, even when using the Internet means that many of these experiences will not involve people on your end.

This certainly is not to suggest that all product leadership companies need to change everything they do and make customer intimacy their discipline focus. It does mean that the luxury of having such a superior product that you can afford to ignore your customers and force them to do business your way is going, going, gone.

1.3.3 Loyalty and Customer Intimacy

The Internet has had a tremendous impact on both the numbers and types of interactions that customers have with your company. Customer intimacy is no longer just a matter of providing excellent call center support and a high-quality sales force. Only in rare cases is there one single person who has knowledge of all of a customer's needs and experiences. Many of these interactions are online and don't involve the customer's having direct contact with any one of your employees. Others involve isolated interactions with a large number of people who may never see or talk with each other.

Historically, it was the men and women in your sales and service organizations who built and managed relationships with customers. The most successful sales and service people **knew** intuitively that their relationships with their customers were the keys to their success. Sales people knew that PEOPLE make buying decisions, that keeping a customer for the long term is where you really make money, and that long-term loyalty is based on maintaining good relationships and providing consistently high quality experiences. Service people knew that heroic individual efforts could often overcome a negative situation, making the customer more loyal.

As other sales channels emerged, the customer could experience your company through many different avenues. Whether through a retailer, a reseller, catalog phone order, or telemarketer, people have been involved in building and managing the customer relationship. But these people operate in silos, and some aren't even your employees. They certainly don't work as a customer-centered team. The Internet has removed "people" from the product supplier end of the interaction. How can you build intimacy without consistent and direct human interactions? What information do you need? How do you get it? Where do you store it? How do you protect it? How do you use it? We'll explore the answers to these questions throughout the rest of the book. Soon, you will fully understand the discipline that uses information and technology to emulate human interactions and to bridge the organization's silos. You will learn how to build relationships between your company and your customer when there are either too many or too few (or zero) human beings responsible for the relationship.

1.4 Building and Managing Relationships in the New Marketplace

The Internet is here to stay. Customers like it because it puts them more in control. Companies like it, too; it's the most cost-effective way to enable most sales, marketing, and support activities. We will talk more about the Internet and building loyalty in Chapter 4. Throughout the book, we'll consider the impact of the Internet-generated issue: how to build trust and loyalty when there aren't at least two people directly involved.

This new marketplace requires that we substitute electronically stored and accessed customer knowledge for the customer knowledge held by sales people and others. We know that fewer and fewer of our customer relationships will involve interactions between two human beings. Information, history, memory, and knowledge are the elements from which we must build relationships. When there is no human interaction, knowledge must be collected and used electronically. We know that customer experiences can be vastly improved by better information. Information about the customer's needs, wants, behavior, experience, and expectations allows us to better understand our customers so that we can:

- Match our operational processes to known customer expectations tuned to meet specific needs at the best overall cost
- Build the products we know the customer needs and wants (and leverage customer loyalty to ensure ours are the products customers seek and buy)
- Build and customize our product and service offerings to meet specific customer expectations

We won't talk much more about product leadership, operational excellence, or even customer intimacy as business disciplines. There is certainly no implied message here that all companies should immediately change their focus to customer intimacy. The Internet has changed what it takes to maintain the minimum acceptable standard within each of the three disciplines. It has also changed, to a varying degree, what it takes to be successful in all of the disciplines. Customer loyalty is a key element of meeting the challenges of the new marketplace for all companies. (Reminder: Key Concepts for each chapter will be indicated by a key symbol.

KEY IDEA

No matter which of the value disciplines your company has chosen for its focus, your ability to manage customer relationships and build loyalty is critical to your success in the new marketplace.

Using our knowledge about customers will help us meet new customer expectations and new standards. Information and technology will help us manage our relationships with our customers and build the loyalty we need to maintain success. That success is dependent on our collecting meaningful information, remembering it and making it available, and developing tools and processes so that we can use information about the experiences and interactions our customers have had with us.

In the next chapter, we will discuss the approach your company should take to build strong customer loyalty so you can meet at least the new minimum standards for customer intimacy, product superiority and operational excellence.

Questions for Reflection

These questions will help you build a plan for how you'll get started moving your company's CRM program forward. These and other questions for reflection in subsequent chapters are included in the Company Self Assessment in Appendix C.

1. What is your company's value discipline focus? (Remember, the three disciplines are operational excellence, product leadership, and customer intimacy.)
2. How do you assess your performance in your primary discipline compared to your competition's performance?
3. How do you assess your performance in the other two disciplines compared to your competition's performance?
4. Which of these Internet-caused changes shown in Table 1-1 have had the biggest impact your customers? Your company?