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Business Intelligence



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Departments Work Together When They Have Real Numbers To Work With

By Brian Goonan, Inforte Corp.

Regardless of geographical location, industry, company size, or products manufactured: inevitably, one functional department will believe that it understands the customer better than another. These convictions inevitably cause problems. For example, the sales staff think they understand the customer better than marketing, which leads to an uncoordinated approach to the customer relationship, resulting in higher attrition rates, lower customer satisfaction and lower profitability.

At one financial services organization, the vice president of commercial marketing—let's call him John Smith—decided to do something about it. He recognized that marketing and sales were not always delivering the consistent customer experience needed to ensure healthy and profitable relationships. After completing some preliminary research, Smith learned that both organizations were relying on instinct rather than fact-based insight and analysis to drive their decision processes about customer-related interactions. Additionally, both departments were adamant that they understood the best customers better than the other, making any sort of collaboration difficult.

Smith engaged my company to assist with the diagnosis and solution to sales' and marketing's lack collaboration and customer insight. We had previously proposed on a number of technology implementation efforts for his firm, and Smith understood the breadth of Inforte's capabilities including strategy and customer intelligence. Having experience with a number of financial services clients and background in customer segmentation and value analysis, I was bought in to work directly with Smith on this opportunity.

Smith hypothesized that both marketing and sales were dedicating an inordinate amount of time and resources on customers who did not contribute to the profitable growth of the organization. To move the organization—specifically sales and marketing—to a more data-driven customer approach, Smith initially decided to segment the customer population on a system based on attributes and behaviors. These data points were fairly easy to gather but still relied more on opinion, observations and conjecture than data. The results of this segmentation approach yielded some customer insights; however, the results still left too much to interpretation.

Customer segments

To bolster the results of the initial segmentation approach, Smith completed some additional analyses. He based the analyses on the relative profitability: total revenue less the total cost to generate that revenue. His analysis used the sales, marketing and customer service cost to serve each customer, as well as the cost of the goods sold. Smith used the formula of profitability as the primary criterion in identifying eight distinct customer segments, rather than attributes and behaviors. Each segment represented a group of customers with comparable characteristics that also delivered a similar level of profitability to the organization.

Smith not only identified the value-based customer segments, but also he learned that 95 percent of the organization's profits came from only 10 percent of its customers. This concerned him and other company leaders greatly, because it meant that the loss of any customer in the highly profitable segment would profoundly affect the company's financials.

The analysis also revealed that both sales and marketing were dedicating an inordinate amount of time on unprofitable customers. Both organizations were spending time and money with the customers they *felt* were most important but who, in reality, were not. The organizations essentially spread the investment across many customers, both profitable and unprofitable, rather than solely focusing on the more profitable customers.

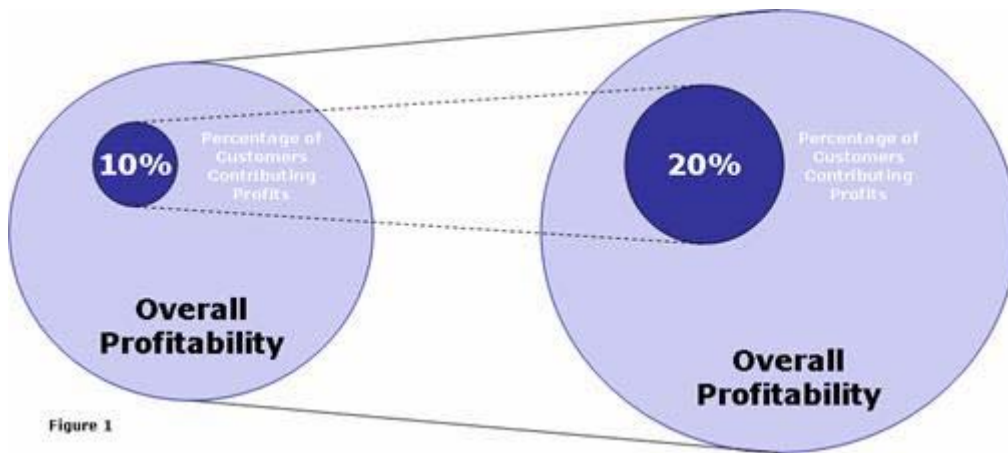
To align sales and marketing with the newly identified customer segments, the organization developed data-driven profiles for each customer segment. The profiles were a combination of customer attributes, behaviors and profitability contribution, as well as other analytical data including common products purchased, purchasing frequency, purchasing channel, breadth of products purchased and price points.

Armed with the customer segment profiles, Smith and the vice president of sales completed a number of training sessions with their respective teams to outline the results of the analyses and highlight the profiles of the eight value-based customer segments. Next, a team made up of both sales and marketing

representatives determined which employees had the better relationships with the more profitable customer segments. These employees were organized into cross-functional account teams responsible for all aspects of the relationship, including sales, marketing, service and back-office activities.

In addition to organizing the cross-functional team, the company developed specific incentive strategies for employees intended to migrate lower-value customers to higher-value segments. It also improved its coordination of product discounts, channels and customer incentives to migrate the customers to more profitable segments. Using the value-based segmentation, the company could begin making more fact-based decisions, which resulted in lower attrition, increased profitability and a general increase in customer satisfaction.

By leveraging the customer insight gained from value-based segmentation and aligning sales and marketing activities, the financial services firm was able to increase overall profits. It also was able to increase the number of customers in the higher profitability segments, reducing the influence of a single customer on overall bottom line results (see Figure 1).



Organizations that utilize customer-value based segmentation and take into consideration both revenue and cost-to-serve factors view their customers in a new light. When combined with other analytical data, customer value provides a view of the customer that is difficult to dispute.

Profitability contribution is an exact science and is one of the few dimensions of a customer relationship that is black and white. The results of customer-value based segmentation reveal which customers contribute to the bottom line and which customers do not. Emotional arguments over the importance of one customer vs. another are dispelled by data-driven analyses that clearly show the bottom-line impact of the relationship.

Although there are other methods to ensure the alignment of sales and marketing, a value-based segmentation approach has proven itself as one of the few methods that quickly focus and align an organization with bottom-line results. It's clear how effective value-based segmentation is when you retain your most profitable customers. Your customer satisfaction scores climb and you begin to shift customers to higher-margin segments.



Brian Goonan is a vice president at Inforte Corp., a customer intelligence consultancy that increases the competitive strength of its Global 1000 clients by providing them with insight, intelligence and an infrastructure to close the fact-gap and enable more timely and profitable decision-making. Goonan is a member of Inforte's strategy practice, with more than 14 years of experience in strategic consulting, general management and financial analysis. Goonan received his MBA from Northwestern University's Kellogg Graduate School of Management. He can be contacted at brian.goonan@inforte.com.



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