

# Adaptive CRM and Knowledge Turnover

By Vince Kellen  
6/30/2001

Cost per interaction. Response rates. Click-through rates. Sales per employee. Share of wallet. Customer defection rates. Customer profitability.

All these measures and more are what companies infatuated with (Customer Relationship Management) CRM are desperately seeking. And of course, the software they will buy will capture the data and easily produce reports with all these measures sharply printed. And they will all go marching to that CRM promised land of market dominance and loyal customers.

Right.

Haven't we heard this one before? What's wrong with this picture?

The problem is that this view of measurement and CRM is blissfully naive. Simply getting key measures tracked and reported is actually the simple part (and this is hard enough!). How a company actually digests information and acts upon it is the harder yet more crucial part of implementing CRM programs and software.

Too often we have seen companies do the following:

- a) buy the software equivalent of a Ferrari
- b) fail to heed the instrument panel or the operators manual
- c) crash into a tree

And then they have the nerve to claim the Ferrari (the software) was no good! Other companies are obviously driving the Ferrari at 25 miles per hour down a one-way street the wrong way at 4 am in the morning. Sooner or later, when the traffic gets heavier, there will be a crash. Simply having information doesn't ensure CRM success. Timely action is needed. And the more high performance the technology, the more adept the drivers must be.

## **Business Response and Knowledge Turnover**

Faced with more competitive markets and rapidly changing technologies, businesses need to work smarter not harder just to keep up. In the 20th century, what drove business' productivity included factors such improved logistics, manufacturing efficiency, supply chain management, inventory turnover and channel optimization. In the 21st century, businesses will discover that the key driver to improving performance is how quickly and correctly it can discover and apply new knowledge. In addition to tuning those processes that directly manage goods and services,

business will know have engineer a knowledge generation process that works to ensure the organization is constantly observing, learning and applying new things.

When it comes to generating knowledge, the Internet has brought some new and powerful capabilities to the game. With Internet technologies, the fusion of delivery and knowledge generation capabilities within a single medium makes it a powerful and pervasive source of information. Not only can businesses continually engage customers online in a variety of ways, they can use the Internet's innate measurement capability to learn important and significant knowledge about their customers, competitors and their market's competitive landscape.

For asset-based companies that maintain inventories, inventory turnover -- how fast inventory moves on and off the shelves into customers' hands -- is a key productivity measurement. For the 21st Century, a new productivity measurement will be knowledge turnover -- how fast knowledge is generated and distributed for use throughout the business. And the Internet has become a key factor in increasing knowledge turnover.

### **Adaptive CRM Overview**

To meet the challenges of the 21<sup>st</sup> Century, we believe that Adaptive CRM is a more successful strategy than tradition CRM approaches. Adaptive CRM is a business strategy aimed at understanding and adapting to customers better and faster than competitors. It is an approach that simultaneously delivers customer value and business value quickly and incrementally.

Today, pundits are claiming that CRM is expensive, difficult and takes too long to accomplish. This view may be the result of some organizations attempts to apply ERP-like implementation approaches to CRM initiatives. This view of CRM can often keep organizations from developing those skills that are required for successful and rapid adaptive CRM capabilities. An adaptive approach differs significantly from traditional CRM approaches. Some differences are:

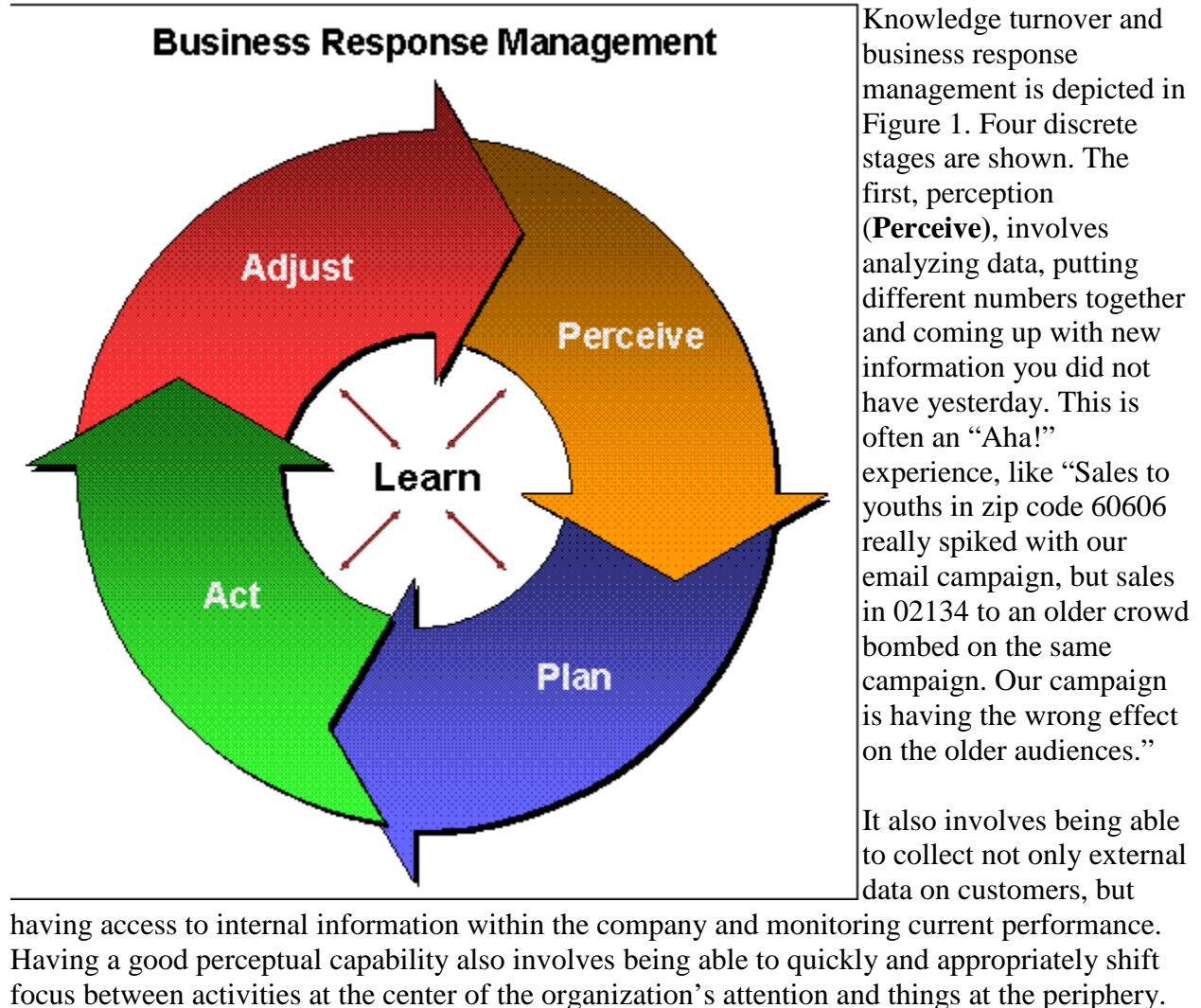
- No large-scale master plan or “endpoint” needs to be defined. Since customer and market behavior can shift dramatically within years or months, developing adaptation skills is more important than designing a long-range and comprehensive game plan.
- Technology and business process integration and reconfiguration are more important than application feature sets. This follows from the prior point.
- All CRM activities need to be time-boxed within short windows: perhaps weeks or a few months of activity.
- The focus is on knowledge acquisition and usage skills, not information deployment. Information is valuable not because it is produced, but because it is consumed and applied.
- Adaptive teams collectively build out correct customer facing responses. While overall coordination is required, the process of determining winning customer-facing activities requires some trial and error and innovation from multiple teams that affect the customer experience.
- The focus is on improving the customer experience (effectiveness) not so much improving the efficiency of the interaction. While knowledge applied to operation

efficiency gains can be significant, knowledge applied to determining new forms of customer value is more important.

- Failures in determining winning strategies are a source of insight, not punishment.
- Managers need to search for emergent behavior that arises out of novel customer and/or employee interactions. Emergent behavior is not easily reduced to component parts. An example is a direct mail and Internet marketing campaign that has conversion rates far greater than the sum of either two approaches in isolation.
- People and people-processes take first place, technology second. Since expert coordination between teams of people inside a company is crucial for adaptive response, not so much the technology, efforts are placed on building the corporate culture to support rapid adaptation.

## Business Response Management

Figure 1. Knowledge Turnover/Business Response



The next phase (**Plan**) involves communicating and developing a plan of action based on information perceived. Organizations need to be able to not only abstract from data key competitive and value-add features but be able to remove from consideration inconsequential items of information. Activity prioritization and establishing consensus around the priorities is crucial. In affect, the planning stage reveals the “corporate consciousness,” the ability to coordinate several different and often competing courses of action and achieve internal consensus to cause the organization to act. Key decision makers have to get together, and if the problem is hard enough, collaborate with each other to decide on and implement a course of action.

The third phase (**Act**) requires that the company execute the plan correctly and *change the company's behavior in the market*. Items of concern here are the careful and efficient staging of customer activities in the right sequence and with the right level of precision. Since some large costs can be consumed in executing CRM activities, efficiency, precision and timing are critical for generating the maximum bang for the buck.

In the fourth phase, (**Adjust**), the company must measure how much the planned execution generated had the desired effect and quickly adjust, often times mid-stream. This requires carefully examining the activities executed for exactly the success or failure it was, no more or less, without shooting the messengers or publicly hanging the perpetrators. Many companies, and people within companies, avoid this careful measurement because it can often be harmful to certain individual's careers. It is difficult to look failures in the face. But in an information economy, companies need to learn from their failures.

At the core of business response management is learning. While organization learning and knowledge management are often talked about, sometimes disparagingly, we believe these items are extraordinarily significant. Many companies actually do execute a series of Perceive->Plan->Act->Adjust loops without learning. This is akin to small mammals and reptiles that consistently scurry out of the way of oncoming cars. They perceive the danger, coordinate a motor plan to run, execute that plan and in the middle of executing it, check to make sure they are getting out of the car's way. What these animals fail to do is effectively learn that cars are constantly on roadways and that avoiding a roadway is the best way of not having to scurry out of the way.

Learning is a form of behavior that emerges out of a complex and often unpredictable series of human and machine interactions. It is impossible to mandate learning from on high. Some key attributes are: interaction flexibility, collaboration, motivation and memory. Companies that use technology and people to allow for all sorts of planned and unplanned interactions that can easily evolve over time have a high level of interaction flexibility. Since the precise arrangements of interactions required to produce an learning can't be fixed before hand and varies depending on the problem domain and the people involved, companies would do best to ensure that their business culture and technology infrastructure support novel and complex forms of interactions. Learning also requires some level of collaboration between various subunits inside the company. Not only is collaboration needed, but a strong motivation for learning is too. Without the right compensation and motivation systems in place, learning can fail to occur. Finally, providing some way to allow the organization to “remember” key learnings is critical. This can

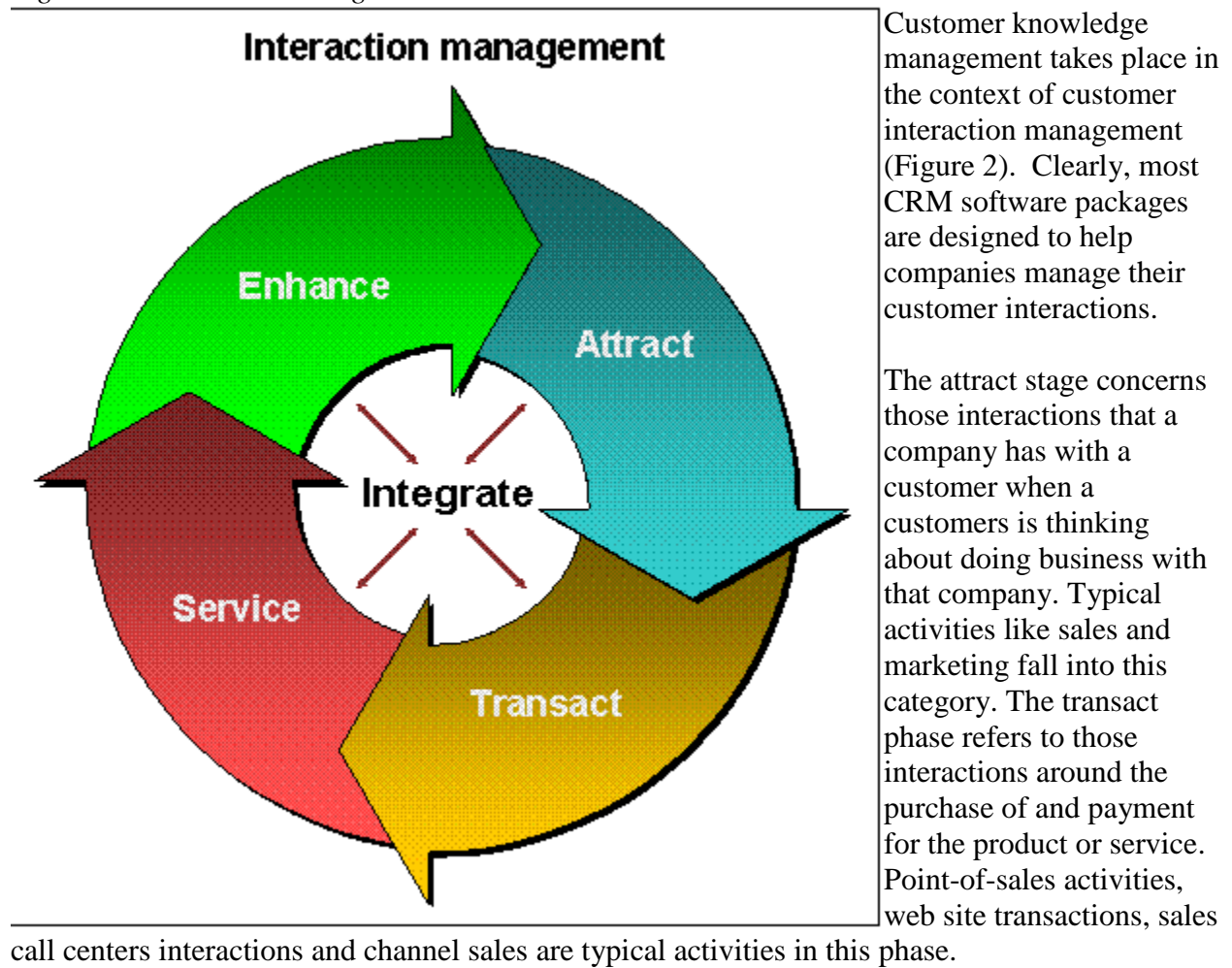
be in the form of developing an oral history, using pen and paper, using computer storage systems or any combination of the above. Without an integrated memory to work with, learning clearly can't happen.

Time and time again, businesses execute CRM activities and a few years later fail to internalize the learning from the activity only repeat the same mistake twice, or worse yet, fail to leverage the learning to improve the execution of another activity. In our model, learning must be extracted from and applied to each phase. *This might be the most competitive weapon available to any organization.* Over time, synergistic learning accumulates, creating emergent CRM capabilities that managers could not see as possible early in the process.

When companies execute a series of Perceive->Plan->Act->Adjust (PPAA) cycles with the proper learning, the company has the ability to adapt to changing market conditions in a directed manner – under management control and guidance. Companies that execute PPPA loops faster than competitors can more readily take advantage of market opportunities as they arise.

### Interaction Management

Figure 2. Interaction Management



The third phase, service, refers to the initial service around deliver, installation or implementation of the product or service and follow maintenance or support. Service call centers, field service, logistics, delivery and web self-service are typical activities in this phase. The fourth phase refers to those interactions designed to increase the level of commitment in the company/customer relationship. Typical activities involve cross-sell and upsell campaigns, loyalty program implementation, partnership programs to increase share of wallet among others.

In order to expertly manage customer interactions across the customer lifecycle, data and processes managing these interactions must be tightly integrated. In fact, the exact set of features for either applications or business processes in each phase is less important than the level of integration between the activities. It is one thing to expertly run a call center on a standalone basis. It is quite another to integrate data from a variety of customer touch points (marketing, field service, sales force, multi-channel transaction systems) into the call center letting the call deliver outstanding and highly differentiated levels of service.

### **Spinning the Wheels**

Simply managing customer interactions is not enough. A company must build the ability to continually improve customer interaction management. This starts with information. Creating and consuming knowledge about customers faster is crucial for thriving and surviving. Companies that can detect subtle market shifts and respond more quickly and appropriately than competitors win. The tools and technologies for gathering this knowledge are abundant. Every company in the world can buy all the CRM software they need to manage almost any kind of customer interaction. Technology clearly is not a long-term differentiator. Many companies buy this software in a sort of arms race with competitors, thinking: “If I buy more weapons, I’ll be more competitive.” Not only is technology not a long-term differentiator, it is also not proprietary to the company. A competitor can purchase the exact same software. While still expensive, software borders on being a commodity.

Managing customer interactions clearly “inform” the business response capabilities and vice versa. Between these two processes flows a dialectic that can, when present, build substantial results over time and is the source of competitive advantage in Adaptive CRM. Most often however, these two distinct capabilities are disconnected and don’t communicate. Strategic business planning and adaptation is often uninformed about the art of the possible with technology-driven customer interaction management. This IT/strategy disconnect is the cause of many a great set of technologies deployed for no significant strategic purpose or for many a strategic plan out of touch with the technological capabilities in the market place today. Delivering intelligent customer interactions can be either frustratingly difficult or surprisingly easy and *technology is not the determining factor!* Integrating human and machine processes with both human and machine learning requires the penetration of technology deeper into the human processes. At this point in time, most businesses are still applying 19<sup>th</sup> century industrial age thinking to this problem. Companies typically seek ways to use technology to improve the productivity of human muscle, as in processing more sales contracts in a shorter amount of time or reducing call center staff while handling more calls. While operational efficiencies of this sort are needed, few businesses have used technology to improve the productivity of the human mind and build for themselves a better adaptive response to competitive pressures.

In order to use the technology better, companies have to start spinning the business response management wheel. This involves many things, most of them related to business processes, employee motivation and compensation and attitudes towards information and collaboration. Let's look at some of the impediments to "spinning the wheel."

### *Excessive Internal Competition*

This is usually the bane of large companies dotted with minor kingdoms inside them. But to truly have a beneficial impact on customers requires coordination between all parts of the company that touch the customer throughout the customer's different experiences. Most customers have an integrated view of the company well before the company has an integrated view of them. To combat this, companies must set up the right incentives to ensure cooperation and collaboration across product silos and functional areas.

### *Management Structure Change*

It is downright impossible to do any of this in an environment where the organization structure keeps changing or where key employees are continually leaving. Corporate merges, reorganizations, product spin-offs or sell-offs are all events that make when retaining knowledge difficult. If your company does not suffer from these ills whereas your competitors do, then your company enjoys a significant advantage that should be capitalized on.

### *Lack of Expertise*

For many companies, not having the skilled resources to actually implement intelligent customer interaction management, especially on the business side of things, can be a challenge. This is where consulting firms and software vendors come in. Some of these companies do have the right talent (although usually at a premium price) and are best used to initiate and guide the process.

### *Outsourcing Mistakes*

Many companies choose to outsource parts of the customer lifecycle experience to execution partners. Call centers, direct marketing programs, promotional offers and field service operations are frequently outsourced. In most of these arrangements, there is frequently an unsatisfactory level of data integration (the basis for knowledge) and almost never the right level of business process integration to ensure key customer learnings between the company and its partners are bi-directional. In addition, outsource partners typically do not collaborate and cooperate with each other and are often pitted against each other in the hopes the company will get lower costs from the outsourced agent. Developing a suite of complex and synergistic customer learning interactions between players inside and outside the company will generate much more business value long-term than any non-integrated outsourcing arrangement will ever achieve.

### *Not Knowing Where to Start*

Some companies are just starting their forays into better customer interaction and relationship management and as with most beginners are very unsure where to start. Using an adaptive, iterative, time-boxed approach in which learning occurs naturally at each iteration means that you can start in any number of places. All that is needed is a simple strategic map which can highlight a few starting points that seem well aligned to the business strategy. Not knowing where to start should never be used as a reason for delaying or not starting at all. Over time, feedback on how well each activity is performing will help the organization guide future activities in the right direction.

### **Adaptive CRM Planning**

Since the future, especially when it comes to customer behavior, is unknown, companies will need to use more adaptive management techniques. Rather than attempt to engineer several execution tracks over a 2-5 year time frame, we recommend that customer execution tracks be much more focused and adaptable as both the company learns more about what works and what doesn't with its brands and its customers and as the market and customer behavior evolves. The Companies should engineer a customer knowledge acquisition and program execution machine which can lead the adaptive responses.

Perhaps the new important productivity measure for businesses in the 21<sup>st</sup> Century will be the number of customer-facing adaptive responses delivered in a unit of time, which is our proposed knowledge turnover metric. In order to improve this knowledge turnover metric, companies need to change significantly how they plan CRM activities and how they build their organization's internal culture and structure.

Managing customer interactions intelligently enables what we term "Adaptive CRM." With shrinking product lifecycles, increased product differentiation and innovation, product and service personalization and more rapid customer churn, quickly developing insight into action that rapidly takes advantage of or influences customer behavior may be the difference between survival and extinction. Businesses that can perceive shifts in market and customer behavior before competitors do will be able to more rapidly take advantage of market opportunities and increase market share and market value. Just as product lifecycles are shrinking due to customer needs and competitive forces, the amount of time it takes a business to detect key market changes and act upon will need to shrink rapidly as well. Nimble business that quickly learn which products and services to add, change or drop or can figure out which customers to attract and how best to retain them will outperform slower-moving organizations. Markets are moving faster than ever. Businesses will need to get smarter faster too.