Gaining Competitive Advantage through Enhanced Customer Experience

By Marina Hop and Jacqui Bullock     April 2005

Companies continue to invest in CRM enhancements but they are missing out on genuine customer insight. Technology alone is not proof of a customer-centric strategy. Business leaders need to reconsider how they segment their customer base if they are to achieve a meaningful relationship with customers and a true competitive advantage.

The traditional competitive battlegrounds are shifting from products and price towards customers and, more specifically, to the customer experience. Service quality has been shown to have five times more weight in influencing purchase and repurchase decisions than other attributes (including product design, functionality, performance or price).1

Most businesses claim that they are more customer centric and point to their CRM systems as evidence of their customer focus. While companies are saying all the right things, very often the main activity is the deployment of technology. Technology has the capability to improve customer focus, but it doesn’t deliver better customer experience unless it is used to support a more proactive response to customer needs.

The vast majority of companies attempt to understand their business by using historical data about who their customers are and what they buy. While this approach may have been sufficient in the past, a step change in the level of service and satisfaction that customers expect means that it is fast becoming inadequate. The needs and demands of customers are changing more rapidly than ever before. Companies must look at both current and future needs if they are to differentiate their offer around the customer experience. Companies can create meaningful contact across all the customer touch points by applying greater insight into the underlying requirements and priorities of their customers. Customer-driven segmentation provides the tool for doing this by helping companies’ to understand their customers and to improve the customer experience so that it becomes a source of competitive advantage.

Just how customer centric are companies?

With the renewed focus on the front office and the role of customer relationship management in shaping the customer experience, we wanted to see how companies are stepping up to the challenge. We asked over 40 multinationals across Europe and the US, in industries which ranged from Food and Beverage, Manufacturing, and Chemicals to Telecoms, what steps they are taking to design the customer experience.

We started by asking whether they make any distinction between different customers. Over half don’t differentiate between different customer groups and if they do make a distinction, they don’t treat them differently as a result.
Clearly the basic step of understanding the customer: who he or she is, what her needs are and how this drives her purchasing behaviour, is not being applied.

Of the 44% that do differentiate between different customer types, we found that only 12% do so based on their customers’ needs and behaviour i.e. they use a needs based segmentation. Just over half segment their customers on the basis of product line, channel or geography. While 29% do so according to the type of business or industry that their customers are in, with the remainder segmenting on customer spend or value.

The majority of companies are using historical data about past customer purchases to differentiate their customers leaving them with backward looking segmentations. Changes in customer needs and expectations of the service experience are largely being ignored.

“70% of our decision to buy is based on how we are treated as people”
J McKean²

So what factors affect the choice of segmentation that companies adopt?
We found two factors that appear to be crucial in determining the way in which companies divide their customers into meaningful groups:
1. The extent to which the organisation is customer or internally focused. Companies who operate in industries that are slower moving and less exposed to disruptive change tend to adopt more simplistic segmentations. Companies in dynamic industry sectors, which may be fragmented or those that have very large, diverse customer bases have been forced to adopt customer segmentations that more closely reflect customer needs if they want to remain competitive.
2. The extent to which processes and systems within the company are aligned across all the functions that deal with the customer relationship. Companies with disparate systems and silo-type organisational structures tend to have isolated segmentation models that work for one function such as marketing or sales but cannot be applied within the service function.

Our findings are in line with the observations of Cranfield University³ which date back to the mid-1990’s. This suggests that not much has changed in the way that companies view their customers.

Companies continue to invest in CRM but miss out on genuine customer insight
A significant proportion (74%) of the companies that we surveyed, either have CRM systems in place or are in the process of implementing them. The other 26% of respondents don’t currently have CRM technology in place but half of these companies are currently evaluating their need for a CRM system.

Interestingly, two thirds of companies in the survey who do not have CRM systems in place are running SAP elsewhere in their business but have not implemented the CRM modules.
So technology doesn’t appear to be a barrier to adopting a more customer centric approach. The capability to collect customer data is largely available and to use this to generate at least basic forms of customer segmentation. However, companies are not using the ability to differentiate between customer groups. A study by IBM* showed that only 17% of companies that have implemented CRM solutions use marketing and customer analytics applications i.e. the type of applications that help to determine profitability of customers and segments.

Our research suggested that there are three barriers preventing companies from gaining and using customer insight to shape their business and most importantly, to enhance customer service -
1. The development of a customer segmentation is often initiated by the Marketing organisation. We found this to be the case in almost half of the companies that we interviewed. The value of using customer segmentation in the development of a tailored marketing approach is clear. What companies find harder to grasp are the benefits of rolling the approach out to the rest of the organisation.

2. The lack of senior management support. We were concerned by the apparent lack of understanding amongst senior managers of what customer segmentation is and how it can be used to influence the way in which the company does business. In companies who are actively using needs-based segmentations, there is clear evidence of a senior management champion who is familiar with the use of customer segmentation and can act as an evangelist within the senior management group and the wider company.

3. The extent of the change required to align the company with a customer centric approach. To become truly customer centric requires change at every level of the organisation. This ranges from changing the culture to support deep customer understanding to aligning business processes and technology and providing incentive programmes to drive employee behaviour. The change process is disruptive making it a daunting prospect. Most companies will choose to maintain the status quo until external factors such as increased competition threaten the business and force dramatic change in an attempt to survive.

Are companies missing the point?
While technology has the capability to enable better customer focus it isn’t being applied in a way that will deliver meaningful customer experience. Systems remain disparate and are often not underpinned by a clear customer centric strategy.

The development of a customer centric strategy and company culture that makes knowing the customers a way of life, starts with a clear understanding of the customers and what their needs are. We believe that customer segmentation has the potential to have a significant impact by helping to understand the customer better and shape the customer experience.

Segmentation remains largely the preserve of Marketing and is seldom applied to Customer Service. There is real potential to make some quick wins in customer retention and loyalty by treating different groups of customers in line with the value that they represent. There is a need to design customer segmentation from the start with service in mind.

Companies in dynamic industry sectors, with high levels of competition and significantly large customer bases stand to benefit most from customer segmentation.
We believe that there are four key conditions that need to be in place for segmentation to be accepted and applied across the company:

- The initiative needs the support of the senior management team;
- Marketing (the most likely owners of the segmentation) must be embedded in the day-to-day running of the business and have authority to operate a wider remit than traditionally associated with the marketing function;
- Customer Service must be actively involved in the development of the segmentation. Not only do they have valuable insight into customer behaviour, they also need to buy into the process if they are going to successfully deliver a tailored service offering;
- If the company is serious about making customer experience management (CEM) a source of competitive advantage, it needs to make use of market research to shape the segments. External market research provides a unique view of the market from the customer’s perspective and highlights nuances in customer behaviour which are often not available from internal data assessments. In addition, any customer groups which are not currently being served can be identified and addressed appropriately.

The evidence is mounting that customer retention and loyalty are driven by customer experience. The key to moving from CRM to CEM is whether your company can give its front-line staff the tools to make effective decisions based on the real, underlying needs of its customers.

**About the authors**

Marina Hop and Jacqui Bullock are the founders of Segmetrics Consulting, a customer strategy and research company. Segmetrics offers a wide range of market research, as well as design, implementation & validation of customer segmentations and Customer Service benchmarking. Contact Marina and Jacqui on enquiries@segmetricsconsulting.com or visit or web site at segmetricsconsulting.com

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