

BUILDING BETTER CUSTOMER RELATIONSHIPS THROUGH DIALOG

*Guidelines for Implementing an Enterprise Interactive
Marketing Solution to Execute a Relationship Marketing Strategy*

A **Pinpoint** White Paper

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INTRODUCTION

For the last two decades, Customer Relationship Management (CRM) has offered the promise of stable, profitable, loyal customers over a long period of time. Strong customer relationships are the foundation of sustainable revenue and profits, leading to greater overall customer lifetime value.

While most organizations would widely agree that there is great importance in building long-term, profitable relationships with customers, many continue to manage their marketing programs in ways that do not fully address the individual needs and interests of each customer.

Relationship marketing depends on knowing – or at least inferring – something about a customer’s needs and interests in order to provide the most relevant information, products and services. When done effectively, it requires a strong organizational commitment to adopting the processes and tools necessary to understand customer expectations and address those expectations in each customer interaction.

To develop the trust and respect required in relationships, an organization should have the tools to promote a real dialog. This can include asking customers what they want (or observing their interests), noting their responses and actions, responding with something useful and/or helpful and then asking them again if the response was satisfactory. This is the basis of Interactive Marketing.

This paper offers a roadmap to implementing an enterprise interactive marketing solution that includes:

- A discussion of what interactive marketing is – and is not

- The business process considerations for obtaining real value from interactive marketing technology

- Where interactive marketing components can fit into your existing systems and the five primary system components that must be integrated or built

- How to approach an implementation through a series of steps and phases

- In practice: How we designed interactive marketing solutions at two companies

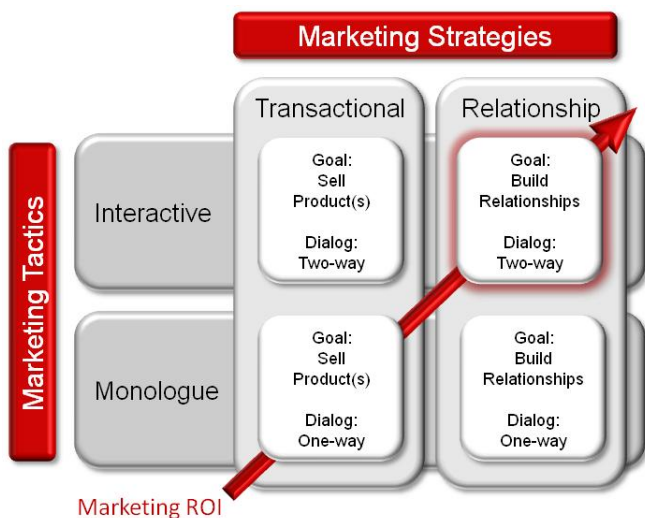
INTERACTIVE MARKETING DEFINED

Interactive marketing is a marketing communications tactic that is highly effective in implementing a relationship marketing strategy. The term reflects the evolving nature of marketing from one-directional, transactional marketing to two-way conversations. Historically relationship marketing strategies have always taken into consideration the 'voice of the customer.' This voice was initially heard through customer behavior, primarily buying decisions.

As marketing (and the technology behind it) became more sophisticated, new tactics emerged to enable real dialog with the customer that could be recorded, analyzed and leveraged to increase the effectiveness of marketing efforts and build stronger relationships.

Relationship marketing can be accomplished in different ways, but interactive marketing is the most effective because it directly engages the customer with meaningful dialog. The more rapidly the dialog takes place, the more relevant the exchange becomes.

Diagram 1: A Relationship Strategy with Interactive Tactics
Customer dialog provides the best opportunity to grow the relationship.



With this approach, organizations shift their focus from each line of business pushing their products to identifying and communicating the best solution within each customer situation. Instead of being product centric, the organization becomes customer-centric.

Diagram 1 illustrates that a relationship marketing strategy that uses interactive marketing tactics is the best way to build customer relationships. There is another tactic available in relationship marketing – monologue marketing – but it reflects the exclusive use of one-way communication and does not allow an exchange of ideas to learn what the customer really wants. With monologue marketing, a company is forced to speculate on customer needs based on previous behavior, with no direct input from the customer.

The diagram also shows that interactive marketing tactics can also be used within transactional marketing strategies. This is an option for companies who want to focus on selling a specific product and not necessarily growing the customer relationship. While a company is able to ascertain product receptivity directly from the customer, the organizational focus is on price and product performance, not the customer relationship.

Interactive marketing should not be considered strictly an online tactic. The internet has provided an optimal platform for interactive marketing due to its ability to gauge customer interests in real-time. It marks a significant paradigm shift that moves the power to the customer. But other customer touchpoints – like phone, kiosk and face-to-face exchanges – can also be incorporated into interactive marketing programs. The real value of interactive marketing lies in presenting the opportunity for customer dialogs and capturing the results, no matter where the dialogs take place.

BUSINESS PROCESS CONSIDERATIONS

Interactive Marketing tactics require collaboration from across the enterprise. Often this means adjustment to current business processes, as well as knowing how to best incorporate customer dialogs into your various communication channels.

Below are five key business process improvements you should consider:

- build customer-centric strategies
- construct meaningful dialog
- communicate relevant offers
- cover all available communication channels
- measure, measure, measure

Build Customer-Centric Strategies

To keep your interactive marketing system from being purely transactional, your marketing strategy must be customer-centric. This requires developing a customer strategy and evaluating how you are meeting customer needs across the spectrum of your customer lifecycle. Each step of the lifecycle must be reviewed, from prospects and new customers to existing customers (both occasional/low revenue and frequent/high revenue) to inactive customers. This strategy forms the basis for the dialogs you will implement within your interactive marketing process to ascertain customer needs and offer relevant solutions.

It's important to note that the marketing strategy is not confined to the walls of the marketing department. Because relationship marketing strategies take into consideration multiple communication channels and customer touch points, they often span many different lines of business and/or product areas. Because these groups develop and provide the products and services that meet the needs of customers, they all must embrace the customer relationship strategy.

Construct Meaningful Dialogs

The fundamental building block of an interactive dialog is the information communicated to the customer in each interaction. For the purpose of this paper, we will call these bits of information offers. This step of the process is typically called offer management or dialog management.

Offers can encompass a wide variety of topics, including:

- relevant products and services
- incentives or discounts for which the customer is eligible
- general information that is helpful to the customer but doesn't involve the company's products and services
- questions designed to elicit information from the customer about their needs or interests

To execute interactive marketing tactics, a company must have a process for managing the complete set of offers available in interactive dialogs. The offer management process must cover offer formulation, offer creation and approval, plus offer activation and expiration/deactivation. This process must also include management of the digital assets, phone scripts and other forms of content used in offer communication.

Each offer can be designed to elicit a different set of responses from the customer. These responses are part of the information used to guide the dialog, and are an essential part of the offer definition. The content may vary by customer and context, and all the different variations have to be designed with the corresponding rules for when they are applied.

Communicate Relevant Offers

The core of an interactive marketing system is the process for deciding which offer to communicate to a given customer at a given point in the dialog. This process is typically called offer decisioning or dialog execution. It includes the rules to govern the dialog. For example, if a customer is in segment A and the last communication was offer X and the response was Y, then the next dialog should convey offer Z. These rules often start out as heuristic rules based on conventional wisdom and are refined over time as effectiveness measurement data becomes available.

This process often also includes models that take into account a broad array of data about the customer's relationship with the company, prior offers and responses and the context of the current dialog.

One type of model used in interactive marketing systems is predictive models, which are used to score the relevancy of offers for individual customers. Predictive models are developed using a historical snapshot of dialog results, and then refreshed periodically using the latest dialog data. Predictive models may be executed in advance for all appropriate customers (once per week, twice per month, etc.) with the score used as an input to dialog rules or at the time the offer decision is being made for an individual customer.

Another type of model is an adaptive model. Adaptive models take into account the dialog results across the entire customer base. The model adapts itself continuously as dialogs are executed. For a given customer, the offers are scored based on how other similar customers have responded. Adaptive models essentially automate the model refresh process used with predictive models.

Cover all available Communication Channels

In order for interactive marketing dialogs to implement relationship marketing strategies, the interactive marketing system must include channel coordination. This means having visibility across multiple customer touch points:

- Web site
- Call Center
- Kiosk
- In-Person

The state of the dialog must be available to each channel so that the dialog can be continued regardless of where the customer next interacts.

Dialogs need to be coordinated with communications on non-interactive channels (like direct mail) as well, to ensure that all communications can be considered in the dialog management process.

Measure, Measure, Measure

Like any other marketing process, measurement is critical to the ongoing improvement of the effectiveness of the offers and dialogs. The most common metrics to be collected and analyzed include:

the effectiveness of offers in eliciting a positive response
the effectiveness of the offers with respect to engaging customers in an ongoing dialog
the impact of the dialogs on customer value measures like:

- tenure
- value/loyalty segment migration
- relationship strength
- lifetime value
- customer profitability

THE SYSTEMS FRAMEWORK FOR INTERACTIVE MARKETING

In order to execute an interactive marketing solution, there are five primary system components that need to be integrated or built. They are illustrated in Diagram 2, and include:

- Contact Strategy Tools
- Offer Management System
- Dialog Management System
- Customer Interaction Hub
- Campaign Management System

Contact Strategy Tools

Any relationship marketing environment must have a set of tools to support the analysis of customer behavior needed to execute the relationship strategy.

These tools are:

- An enterprise-wide customer data warehouse that contains a comprehensive view of the relationship between each customer and the company.
- A customer segmentation capability to group customers into segments based on factors such as value, tenure, purchase frequency and others. Segmentation provides for differentiated treatment and eligibility for various dialogs and offers.

A business intelligence tool to analyze and report on customer relationship status and trends.

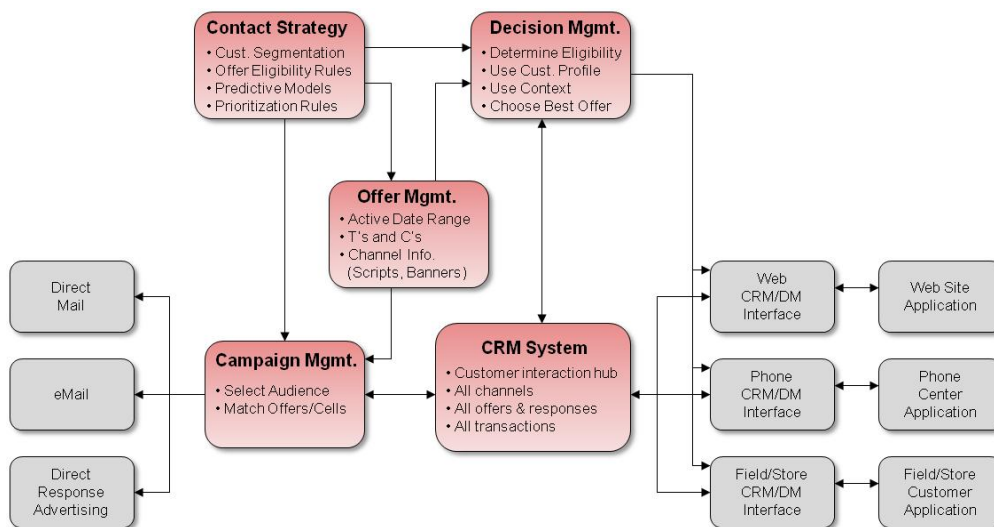
A predictive modeling capability.

Offer Management

A central component of any interactive marketing system is offer management. This shared repository of offer information is maintained by the marketers and is the single source of offer information. It contains all information to be presented to customers in a direct marketing context. It is used by both interactive dialogs and for communications on non-interactive channels.

The system component holding the offer content – such as digital assets and phone scripts – is sometimes a separate component linked to the offer management system, particularly where the company has an enterprise wide content management system. Best of breed solutions will ensure linkage between each of the systems such that they create a “centralized offer repository.”

Diagram 2: Complete System Framework for an Interactive Marketing Solution



Dialog Management

The role of dialog management (sometimes referred to as decision management) is to select the appropriate offer to present to a customer in a given interaction, given the customer profile, overall relationship, interaction history and context of the current interaction. The dialog management system delivers the information on the selected offer to the customer touch point for presentation and informs the customer interaction hub of the decision.

A dialog management system provides the definition of prescriptive rules that govern the interactions, where typically those rules are maintained by the marketing team. Some dialog management systems include an adaptive modeling capability that can be used in conjunction with (or instead of) a set of rules to make decisions on offers in an interactive dialog.

Customer Interaction Hub

This is the repository of the history of all customer interactions and transactions, and is used by dialog management as a key input to the offer decision process. In many implementations, the CRM system serves as the customer interaction hub. Any system that delivers information to a customer must ensure the record of that information makes its way into the customer interaction hub. Dialog management can be implemented to leverage not only other interactive marketing interactions but also all interactions (like service requests).

Campaign Management

Many organizations contemplating an interactive marketing implementation have a traditional campaign management system in place that performs monologue marketing and some limited high latency, often manual interactive marketing tactics. In these cases, there is typically a portfolio of recurring campaigns that have evolved over a number of years that will continue to execute in parallel with interactive marketing. To achieve a consistent customer experience, campaign management and dialog management should use the same offer source, and both should use the same source of interaction/transaction history and customer relationship/profile data.

Ideally, the campaign management and dialog management functions are both performed by a single tool designed to do both. This often is not practical due to the legacy campaigns and existing campaign management processes around a tool that is not equipped to execute interactive marketing communications.

Deploying on the Web Channel

For companies wanting to begin implementing interactive marketing tactics when their customers visit their Web site, here are some typical first steps:

- Profile Web site visitors and review existing segmentation and contact strategies
- Identify unique dialog/decision rules based on Web interactions
- Provide dynamic customer messaging opportunities within the Web site
- Build/modify the interface between the customer information hub and the decision management system to include web interactions
- Establish a process to add/modify Web channel offer content
- Build an interface between the web site and customer interaction hub that:
 - records Web transactions in the customer interaction hub
 - records Web offers and responses in the hub
 - provides personalization in dynamic page content
- Build a Web-Decision Management Interface to obtain the best offer for each offer display opportunity

Deploying on the Phone Channel

If beginning with phone dialogs, the course of action should include these steps:

- Understand how the phone channel is used in your organization across all relevant departments. Define specific messaging strategies that consider why a customer or prospect is calling. If a customer is calling with a customer-service concern, do not push products, but instead consider messaging that is focused on customer retention (possibly through the use of credits or loyalty promotions).
- Take into account certain metrics that drive call centers might compete with marketing priorities (such as minimizing call-handle time).

Consider differentiated positioning statements (call scripts) based on customer attributes. For instance, you might sell your products to seniors differently than you would college students.

Offer disposition tracking. A robust solution should allow for detailed tracking of offer disposition (offer not presented, declined, committed/accepted).

Realize the various tracking and measurement benefits from the ability to track the original inbound call number as well as Interactive Voice Response path.

Review the customer dialogue history with agents. It's important that agents are informed on historical company-to-customer or company-to-prospect dialogue so that they understand the context for offers presented from the decision management system. Agents should be provided with linkage to offer details within the central offer management system that contains specific offer details and metadata.

IMPLEMENTATION APPROACH

To begin the implementation of an integrated marketing solution, you should follow the steps below:

Define the strategy to be implemented by your interactive marketing system. This keeps you from first building the capability and then later having to determine how it should be used. Some questions to be considered are:

What segments of your customer base are you looking to engage?

What customer relationship measures do you want to effect through interactive marketing?

What approaches are planned to affect those measures?

Establish the systems architecture and processes to be used for multi-channel interactive marketing, even though you will not be implementing all channels at once. Make sure you have provided a means to measure the tactics and their effect on your strategy. Include processes to act on the learning obtained from the measurements.

Begin with one communication channel.

Implement interactive marketing on one channel in a way that is consistent with your system architecture. Pick a channel that many of your customers use frequently so you can get representative measurements from your initial dialogs. For example, start with inbound phone if that's where your most of your customer interaction is. Alternatively, you may want to start with the web if the percentage of customer interaction on your web site is growing rapidly.

Establish a few dialogs and offers, measure them against your strategic metrics and learn from them. Initial dialogs can be based on some relatively simple rules based on historical customer behavior. As you build your interaction history, you can do more analysis and possibly add predictive models.

Continue adding dialogs and offers that are aligned with your strategy. Consider adding adaptive modeling to the system only after you have built up enough offer content to make an adaptive offer decision approach meaningful.

Leverage across additional channels. Once you have a process for creating, deploying, measuring and refining dialogs, look to implement interactive marketing on additional channels incrementally. Remember to measure along each step of the way and adjust your overall interactive marketing implementation plan accordingly.

RECENT SUCCESS STORIES

Interactive marketing on the web site

Our client was the CMO of a Fortune 100 financial services company with multiple product lines, including retirement savings, investments and insurance.

The Challenge

An analysis of our client's web site traffic showed that usage of the web for monitoring account status and transacting was proportionately much greater for the high net-worth segment than for the customer base as a whole. In addition, the use of the web channel by all customer segments was growing rapidly, both in terms of the number of customers logging onto the web site and the frequency with which they logged on.

The company had begun to invest in additional site functionality, which had further increased usage. They wanted to take advantage of these trends and further increase their return on investment by using the site to communicate on a one-on-one basis with their customers, including (but not limited to) their high net-worth customer segment.

Our Course of Action

1) Start with the web channel.

Pinpoint led the implementation of an interactive marketing system deployed on their secure web site. We leveraged offers they were already using within their mail and email channels through their campaign management system, and created new content for dialog on the web channel.

The CRM system, which was used primarily by the customer service function, was chosen as the customer interaction hub. The campaign management system selected the list of customers eligible for each campaign and provided that to the CRM system. An interface to the CRM system was developed to provide the list of campaigns for which a given customer was eligible to a very basic decision management module at the time of interaction to choose an offer for each interaction.

In order to test the new web offers, we measured their effectiveness against similar offers in mail and email. The web channel immediately outperformed the mail and email channels in terms of response and dollars transacted.

The result was that marketers across all business lines saw the value of the new dialog and began creating more offers designed for the web channel.

2) Add in adaptive modeling to optimize the customer relationship impact.

As the portfolio of offer content grew, the next step was to present this content to customers with the goal of strengthening the customer relationship. An adaptive modeling tool was then added to the system. This model was pointed at the data in the CRM system as the source of customer information.

The key customer relationship metric used to guide the adaptive model was customer lifetime value. Each response action for each offer was assigned a relative score indicating the degree to which that response would affect the relationship metric of customer lifetime value, and those offer scores were loaded into the adaptive model. The adaptive model was turned on, replacing the initial set of basic decision rules.

In each interaction, this model used the observed response rate from other similar customers and the response value to compute a score for each offer and select the offer with the best score at that point in the dialog. With this decision approach, true relationship marketing was implemented on the web channel because the content communicated to each customer was chosen based on optimizing customer lifetime value.

Next Steps

In order to achieve multi-channel relationship marketing, the company is now planning to deploy the system on the phone channel and use the relationship optimization model to replace the rules used in the campaign management system for mail and email campaigns.

Phone and web interactive marketing in a decentralized organization

Our client was the corporate marketing and IT teams supporting marketing campaigns for a Fortune 500 cable and telecommunications services provider.

The Challenge

Marketing programs were run in a decentralized manner by separate geographic divisions, using content and tools provided by centralized corporate marketing and IT groups. The corporate teams wanted to make the learning and best practices from each regional division available to all groups so they could share information without compromising their operating autonomy.

The client envisioned a single system for relationship marketing for the whole company that used a common framework but still allowed processes, offers, rules, models and customer dialogs to be customized by division. Ideally, this system could also leverage the large volume of customer service interactions from across the company, giving them an opportunity to deepen and broaden each customer relationship.

Our course of action

1) Build an interactive marketing solution

Pinpoint began by building a high level system architecture that included a centralized offer management tool to record all available offers and any associated details like scripts, product(s) involved and special requirements. This offer management tool was designed so it could be used across both the phone and web channels. A centralized database tracked customer responses to offers across all channels.

2) Start with the phone channel

The client selected the customer care channel as the first segment to target, and we began with phone interactions. Two distinct types of calls were identified:

Cross-sell – these interactions had no two-way dialog. The offer selection was based entirely off of existing customer information and based primarily on the customer's current product holdings. We later added additional segmentation criteria, such as strategic segments (based on customer value, age, household information) and competitor tracking (areas where competitors were adding new infrastructure and actively targeting our client's customers).

Retention – these interactions included two-way dialog with the customer. We used a similar dynamic offer selection as in the cross-sell group, but asked pertinent questions to get valuable feedback. This dialog provided key insights on action and reason, allowing for more effective offer selections.

3) Add in web channel

The next step was to expand the solution to the web channel. As customers visited the company web site and added new products to their carts, up sell dialog would begin. The offer management tool provided flexible and configurable rules for the various offers available. We added generic banner ads to the site, providing offers consistent to what was being presented in the phone channel. The flexible web services architecture allowed new channels to connect and consume decisions immediately, with no re-engineering of the decisioning layer.

4) Incorporate advanced decisioning

Our client wanted to ensure that they provided offers that were both beneficial to the customer and to their bottom line. This required a more sophisticated decisioning process, where offer selection could be based on statistical model scores that indicate a customer's propensity to choose a product set, as well as the revenue generated by each offer.

5) Integrate direct mail channel

The next channel to integrate was direct mail. We performed the same advanced decisioning in batches for the entire enterprise. This allowed them to leverage the existing offers from the phone channel.

Next Steps

As the project continues, the company plans to expand the decision manager's reach to additional channels. The advanced decisioning model will be further leveraged to new segments, and offer management will be centralized across the enterprise for cross-channel consistency. Finally, the company will create a more interactive sales path to utilize dialogs to improve decisioning on offers.

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SUMMARY

The best customer relationship, like any relationship, is built over time and relies on two-way dialog. Interactive Marketing requires a strong organizational commitment to embrace the necessary processes and technologies to promote meaningful customer dialog. That commitment begins by adopting business processes that will help you incorporate customer dialogs into your various communication channels. It includes the IT stack, where selection of the correct systems and tools makes every stage of the customer interaction process more efficient and effective. And most importantly, it is facilitated by selecting and engaging interactive marketing experts who can assess an existing customer interaction process, identify actionable improvement points, and provide the tools and processes to best cultivate profitable customer relationships.

ABOUT PINPOINT

Pinpoint Systems Corporation is a leading provider of marketing solutions and marketing software implementation services that help increase the overall profitability of a company's marketing programs. Our consultants are expert marketers and technologists with a truly creative approach for linking marketing processes and technology systems. We serve Fortune 500 and mid-market companies across vertical markets. Our clients benefit from our proven, scalable solutions that are customized to their unique business needs.

For more information about Pinpoint Systems Corporation, visit us at www.pinpoint-corp.com.