

Customer Value Enhancement: Linking Strategy & Operations for Better Loyalty and Margins



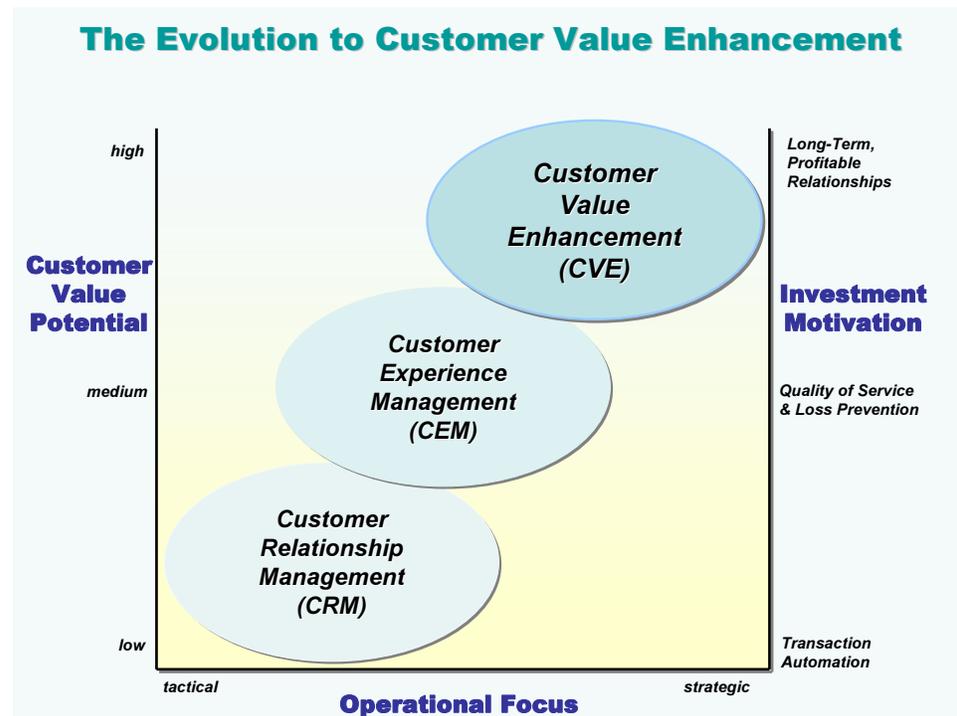
EXECUTIVE SUMMARY

Rapid convergence of communications, media and entertainment (CME) is driving forward-thinking telecom, cable and content executives to seek more creative means to garner long-term customer relationships that are both profitable and predictable. This is a desirable end, to be sure, but how does one get from lofty goal to measurable results? **Customer Value Enhancement (CVE)** is a predictive, adaptive approach to linking front and back office functions through the prism of advanced business intelligence and analytics. CVE provides a customer’s-eye view of the world, powering the development of new offers that can be served up *in anticipation of customer needs*, and in ways that promise to delight the customer, promote loyalty, and improve margins.

WHAT IS CVE?

Customer Value Enhancement (CVE) is the end point along an evolutionary scale begun nearly 20 years ago with Customer Relationship Management (CRM) and fostered by more recent developments in Customer Experience Management (CEM) as shown in figure 1 below. It is an approach to business that has, as its goal, long-term profitable relationships that are valued by both customer and provider.

Figure 1 Customer Value Enhancement



Source: Stratecast

In a CVE environment, business functions are proactively initiated by the provider based on who the customer is; the products and offers to which they subscribe; the performance of those products and services; the customer’s usage levels; and other attributes and behaviors. CVE also likely employs demographic and psychographic insight from sources outside the provider company, often provided by third-party data sources. Lastly, a CVE approach encourages telecom, cable or media providers to employ data analytics products with the capability to *predict future behaviors*, facilitating the recommendation of the best combinations of services, features, content, and equipment for that consumer. Think of it as a little bit of “mind reading”. Done well, a CVE focus shapes business processes and systems in a way that delivers a satisfying, “value enhanced” relationship for the consumer and one that is profitable for the provider, too.

To further understand CVE, consider the historical context: when communications services were fully regulated, one placed an order for service via a business office, and service was turned up at a future date. Similarly, customers interacted with service and billing departments, with each department operating in its own realm. By the 1980s, telecom operators embraced CRM (Customer Relationship Management) systems to mechanize order taking, and later, multiple processes were added to the scope, including technician scheduling, trouble reporting, billing and collections, to name a few. Still, the motivation was internal cost efficiency, as evidenced by the metrics used to judge CRM success, including error rate decreases and calls handled per hour, leaving the customer identity to little more than a revenue figure.

More recently, CSPs have begun to consider Customer Experience Management (CEM) as the next step beyond CRM. CEM seeks to facilitate better overall understanding of the customer’s perceptions of the end-to-end experience. It does so by gathering data from multiple touchpoints, including CRM, billing, and marketing systems and correlating that with fulfillment, inventory, network/signaling and service assurance systems¹ to ensure up-to-the-minute status of the complete customer-affecting environment. This is still a bit new, but it holds the promise of making providers better “listeners” to the needs of their customers, and presumably, better suppliers as a result.

CRM and CEM both add to the communications service provider environment in a positive way and well-run companies gain measurable market value from these functions. The orientation, however, is largely supply-driven (“Here’s what we have to sell today”) and focused on prevention of loss (“If I have data on how well we do, I can understand your behaviors better and compensate you if we fail.”). Instead, **CVE is oriented toward anticipating customer demand and building a relationship with the customer to satisfy that demand for the long-term.** Figure 2 below illustrates the most salient points of the CVE proposition.

Figure 2 A Comparison of CRM, CEM and CVE

	<i>CRM</i>	<i>CEM</i>	<i>CVE</i>
Key Business Function	Ordering & Account Management	All Operations	All Operations and Strategic Functions
Time Horizon	Tactical	Tactical/Strategic	Strategic
Investment Focus	Transaction Processing	Quality of Service Understanding for Loss Prevention	Provider-initiated Interactions for Long-term customer relationships
Business Goal	Cost Containment, efficient operations and labor force productivity	Provider market differentiation on service quality	Add value to the customer. Increase loyalty, service bundling, one-stop shopping for CME needs; reduced churn; improved profits
Customer Communication	Reactive	Reactive	Proactive; predictive
Offer Management	Supply-Driven	Supply Driven; may be predictive of some needs	Predictive and Demand-driven
Market Differentiator	Speed, Accuracy	Awareness of customer environment	Customer Intimacy and anticipation of needs

Source: Stratecast and Business Objects

1. Stratecast has written extensively on the subject of Customer Experience Management in communications. Two schools of thought, called “network up” and “customer down” represent the different starting points for data collection and analysis. For more information, see Report OSSCS 08-03, “Customer Service Assurance: The First Step Toward Customer Experience Management” (April, 2007).

Why bother with CVE? In a word: **competition**. Wired telephony line counts in North America are declining in the face of broadband proliferation, developed wireless markets are virtually saturated, and average revenue per user (ARPU) is in decline worldwide, even in the high-growth emerging markets². Bundles continue to grow in cable and telecom, but customer churn remains worrisome³ as opportunities for organic growth decline and customers ferry between providers looking for a better deal, better quality or a better customer experience. Similarly, hyper-competitive media providers (and their advertisers) seek new distribution opportunities in online and mobile channels as traditional media loses its luster and economic strength.

Further, telecom, cable and media providers know their customer experience reputation could use some help. Websites and business journals bear witness to years of customer satisfaction debacles. Finally, tech-savvy consumers are a bit fickle. They want personalized, competitive services that fit their lifestyle – that is, they want to decide what to buy, when, and in what quantity. They are less apt to be contented with supply-driven packages of pre-arranged services and features, instead responding well to operator-supplied loyalty communiqués. CVE fits directly into their vision of a high-value relationship with a provider.

Case Study: Anticipating Customer Needs

A large wireless operator's customers never have to worry about exceeding their minute limit in their calling plan. The carrier's business intelligence engine watches for unusually high usage in a given month as well as an overall upward trend in usage. If the system predicts the customer will exceed their balance, it automatically recalls the customer's profile, updates credit score, analyzes their history, their psychographic and demographic attributes and selects the best plan based on what is best for the customer AND profitable for the operator. The system sends a text message to the consumer, inviting them to consider the offer, and if they like it, the consumer can respond to the text message and be guaranteed acceptance in the offer. The result? No 'out of plan' charges at high per-minute rates for the customer; an automatic contract renewal; decreased churn; and increased customer satisfaction leading to increased loyalty at the same or better profit margin.

Delivering Customer Value Enhancement

Stratecast believes there are five critical ingredients for CVE success:

1. CVE Mindset – Provider recognition that they are in the business of retailing, not technology. With a retailer's point of view, the CSP will organize business functions according to well-researched customer needs and behaviors. As a result of a 2005 Bain & Company study of customer experiences with 362 retailers, the authors noted those who deliver a superior experience have three things in common. “They **design the right offers and experiences** for the right customers. They **deliver these propositions** by focusing the entire company on them with an emphasis on cross-functional collaboration. They **develop their capabilities** to please customers again and again—by such means as revamping the planning process, training people in how to create new customer propositions, and establishing direct accountability for the customer experience⁴.”

2. Frost & Sullivan Information and Communications Technology Decision Support Database Service.

3. Churn warning is the most highly valued predictive capability sought by North American telecom, cable, Internet and Direct Broadcast Satellite operators. For more information, see Stratecast report OSSCS08-06, “Predictive Analytics Powers CSP Marketing Strategies”, (August, 2007).

4. James Allen, Barney Hamilton, Frederick F. Reichheld, "Tuning In to the Voice of Your Customer," Harvard Management Update, Vol. 10, No. 10, October 2005.

2. Executive Commitment - This is such a well-documented requirement for success in any project that it scarcely requires restatement. In his recent book *Competing On Analytics*⁵, author Thomas Davenport cites executive commitment as a critical factor in moving companies to more fact-based, analytics-powered decision making cultures, which is in turn highly correlated to improvements in corporate financial measures.

3. Back-office/Front-office Operational Integration – Back office operational systems (e.g. network/cable plant, inventory, fulfillment, service assurance and billing) need to communicate to front office (CRM, CEM) systems in a manner that is as near real-time as possible, based on updates that affect customer touchpoints. For example, customer-affecting product quality issues need to be correlated to the affected customer accounts within minutes. Similarly, front-office environments will need to process these inputs for potential impacts to customers, giving product executives the opportunity to consider potential responses such as proactive customer notification, or rebates for service quality changes according to the customer’s profile. Not every application will require real-time responsiveness, but with real-time service activation, particularly in on-demand video and mobile services, CVE requirements become powerful drivers of system design.

The 5 critical ingredients for CVE success:

1. CVE Mindset
2. Executive Commitment
3. Back-office/Front-office Operational Integration
4. Robust Business Intelligence (BI) & Analytics Environment
5. Strategy - Operations Linkage

4. Robust Business Intelligence (BI) & Analytics Environment – An important part of CVE is the ability to sift through large volumes of operational data to identify patterns that may reveal business opportunities. Enterprise-caliber business intelligence platforms deliver many capabilities considered essential to CVE, such as rapid access to clean data across multiple enterprise systems, much of which may still be in operational “silos”; flexible data management tools, powerful ad hoc query capability and easy to use visualization, dashboarding and reporting. Consider the following facilitators of a predictive, anticipatory customer relationship:

- **Data mining and pattern analysis** – Accurate customer segmentation for micro-targeting; identification of profitable sets of customers, markets and products; description of the ‘key influencers’ of customer behaviors; spotting trends in time-series network quality data; analysis of unstructured text from CRM systems and websites for customer satisfaction insights. This can reveal both opportunities for new offers and ways to forestall churn.

Case Study: Phantom Customer Dissatisfaction

Analysis of an enterprise customer’s mobile billing data reveals *increasingly heavy usage* over several months, *suggesting the customer is satisfied* with his services. By correlating this usage data with zip-code-based demographic figures, product model and payment data, the operator is able to determine that the user fits into an affluent, “early adopter” category, leading the operator to conclude this customer would be well suited to an enhanced mobile data offering requiring an expensive equipment upgrade and hefty monthly fee.

But when the *customer care interaction logs* are also mined for this customer, and text files from notes taken by care representatives are factored in, a troubling pattern emerges. This customer has had numerous equipment problems, owing to frequent email synchronization that compromised handset battery life. So rather than being satisfied, this *customer was actually about to defect* to the competition, and the data mining tools fostered this important discovery. The wireless operator was able to shift strategies, factoring in additional handset memory and an extended-life battery, and the account was saved.

5. Thomas H Davenport and Jeanne G. Harris, *Competing on Analytics* (Boston: Harvard Business School Press, 2007) pages 32, 121.

- **Interactive dashboards** – Real-time updates from operational systems provide both customers and CSP executives with timely feedback on the status of offers, promotions and consumer spending limits, to name a few. For example, consider the value in having an interactive dashboard available to your cable customers as part of their monthly e-bill. By showing their on-demand video consumption patterns and giving them some “what if” exploration capabilities, the MSO can use the customer’s activity to show the relative value of packaged offers (Starz, Showtime, etc.) that fit the customer profile, in much the same way that Amazon.com makes recommendations based on your purchase history. At the same time, this e-bill can recommend new offers that fit the customer demographics, say, an upcoming “March Madness” bundle for college basketball fans that includes free High Definition programming and Digital Video Recording (DVR) for the duration of the tournament.
- **Business-user friendly interfaces** – Users in operational departments require drag-and-drop report formatting and “wizards” for analytical functions to facilitate easy access to answers without having to involve IT for every request. Product managers can answer a set of questions about the kind of analysis they wish to perform, the nature of the data they need, the range of dates involved and the sorting and summarization characteristics of the output. Once the available data fields are presented, the product manager can drag the desired fields into a format, and run a quick test to see if they are on the right track, along with an estimate of the time needed for this query and similar queries that have been run by other users that may fit their need.
- **Advanced data management** – Information on customer accounts and their usage of offer features must be easily sourced, scrubbed and made available for analysis tasks. Metadata from relational databases and information models also must be handled in ways that make ongoing management economically feasible. Further, with the variety of product silos still in place, and compounded by the disparate data definitions that resulted from years of CSP consolidation, powerful data management tools are a must. The ability to federate databases; profile, clean and normalize across time, function and product type; and quickly assemble high-value data marts keeps costs in line and time-to-market a priority.

Case Study: ‘Addressing’ Customer Satisfaction

Situation: A large North American multiplay provider sends over 500 million pieces of mail per year to its customers. This includes bills, service confirmations, product shipping, and advertising/direct marketing pieces.

Issue: Address quality and consistency across multiple operational platforms.

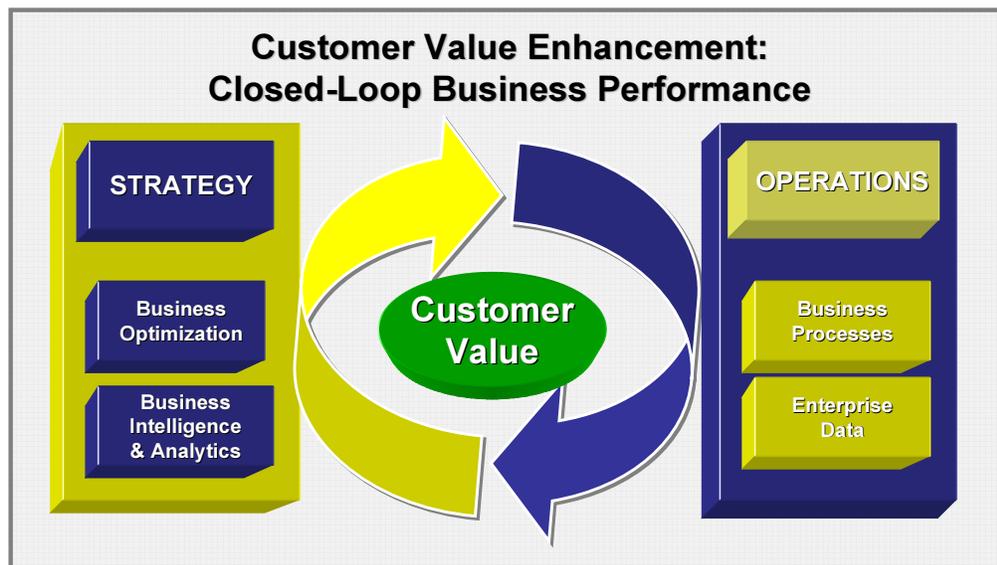
Solution: In this case, the provider chose a Business Objects data cleansing solution to parse, standardize and correct data online at the point of order entry and again in a batch process just before bill mailout. The solution normalizes data across multiple input sources and appends needed data for postal service requirements to ensure maximum discounts for the provider.

Result: 30 percent reduction in returned ‘undeliverable’ mail. This, in turn, reduced postal charges and increased postal discounts, **improving cash flow**. Care center calls from late/missing bills decreased and customer satisfaction increased from more reliable product mailing. ROI was significant enough that provider standardized the address validation approach for its entire enterprise.

- **Links to enterprise performance management** – BI environments form the bridge between one’s customer-focused operations and corporate functions such as marketing resource management, strategic planning, financial management, and balanced scorecards.

5. Strategy - Operations Linkage – This is the key, the essential ingredient to moving into the realm of CVE. Theoretically, all organizations process customer feedback as a critical input to offer improvement, so what is new here? The differences for a CVE-driven company are many: the decisioning process is fact-based and analytically sophisticated; these decisions are powered by input from *all* points of the customer experience; and they result in proactive (and in some cases real-time) outreach to customers resulting in a closed-loop process as shown in Figure 3 below.

Figure 3 Strategy and Operations Contribute to CVE



Source: Stratecast and Business Objects

Recent Stratecast research indicated nearly half of all North American providers limit their marketing to quasi-analytical processes, simple list building and “database marketing” activities, with data generally coming from billing and customer care (operations) systems⁶. While this is useful, it doesn’t *begin* to approach the value that can be achieved by linking customer demand indicators that originate in CRM systems (operations), through to operator supply considerations such as offer and network cost, to customer experience data coming from network, customer care and service assurance systems (operations). Analytic capabilities from business intelligence (strategic) systems may then be embedded directly into CRM applications along with this important operational feedback., moderating live interactions with a CSR (customer service representative) in real-time, giving the CSR a more meaningful view into the customer’s mindset during the call. It can also prompt discussions on satisfaction with the customer, giving the CSR an opportunity to provide, for example, rebates to compensate for an SLA violation, or loyalty bonuses of additional free content downloads for high-value, low cost customers.. Lastly, as in the case of SAP’s RealTime Offer Management Solution, these **embedded analytics may be used to prompt CSRs with offers and upgrades appropriate to the customer - all proactive, in real-time, and in anticipation of the customer need**.

Most CSPs will recognize their current capabilities in at least some of these requirements, so CVE is by no means a “throw everything out and start over” proposition. On the contrary, CVE isn’t limited to the well-heeled. With many applications now available via the on-demand, Software-as-a-Service model, large upfront commitments to a business intelligence platform and data mining/analytics software needn’t be a hindrance. Likewise, platform overhauls need not be completed prior to an investment in business intelligence capabilities. **Today’s systems accept data from virtually any platform, in any format, and can refashion it to CVE purposes.**

6. See Stratecast report OSSCS08-06, “Predictive Analytics Powers CSP Marketing Strategies”, (August, 2007).

The days of supply-driven bundles based solely on a provider's internal perspectives may soon be coming to an end. Business insights from advanced analytics and business intelligence are essential enablers of the demand-driven world of Customer Value Enhancement. These analytic insights, gathered from the "back office" systems to understand the service experience; checked against the corporate systems for financial integrity; and coupled with a robust front office interface to customers ensures high quality, satisfying interchanges in an adaptive, predictive mode that improves their relationship with the operator. **The near-term effects of a CVE approach are improved customer loyalty, leading to reduced churn. Longer term, this provides a basis for more robust customer relationships, improving one's overall marketplace competitiveness and profitability.**

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About Stratecast

Stratecast directly assists clients in achieving their objectives by providing critical, objective and accurate strategic insight, in a variety of forms, via an access-and-industry-expertise-based strategic intelligence solution. Stratecast provides communications industry insight superior to a management consultancy, yet priced like a market research firm. Stratecast's product line includes: Monthly Analysis Services [Communications Infrastructure & Convergence (CIC), OSS/BSS Global Competitive Strategies (OSSCS), Consumer Communication Services (CCS), and Business Communication Services (BCS)]; Weekly Analysis Service [Stratecast Perspectives and Insight for Executives (SPIE)], Standalone Research, and Business Strategy Consulting.

About Business Objects

As an independent business unit within SAP, Business Objects transforms the way the world works by connecting people, information, and businesses. Together with one of the industry's strongest and most diverse partner networks, the company delivers business performance optimization to customers worldwide across all major industries, including financial services, retail, consumer-packaged goods, healthcare, and public sector. With open, heterogeneous applications in the areas of governance, risk, and compliance; enterprise performance management; and business intelligence; and through global consulting and education services, Business Objects enables organizations of all sizes around the globe to close the loop between business strategy and execution

