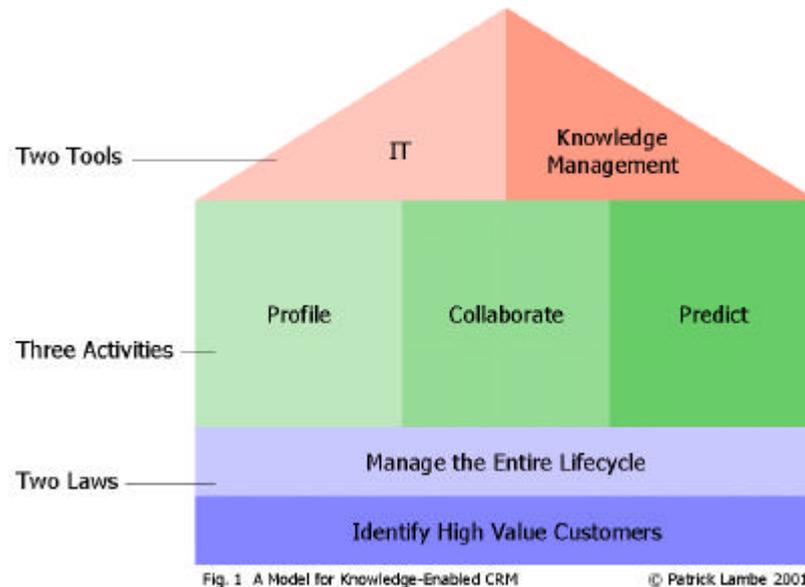


Knowledge-Based CRM: A Map

By Patrick Lambe

This article focuses on *proactive* Customer Relationship Management (CRM). It does not explicitly examine the reactive activities involved in customer support and dealing with feedback. Proactive CRM has two laws, three main activities and depends on two main tools.



The Two Laws of CRM: Identify the High Value Customer, and Manage the Entire Lifecycle

Let's define Customer Relationship Management as the set of tools, processes and technologies that help a business to attract, retain and develop high-value customers. That definition could be unpacked substantially, but it will serve our purpose in expressing the two key concepts of **high value customers** (as opposed to low value customers) and a **customer lifecycle** from entry into relationship, and departure.

The notion of the high value customer is potentially controversial. It is most often assumed to mean the customer who delivers high financial value over his or her lifetime with a company, but more sophisticated views will identify valuable customers as delivering high knowledge value, driving and shaping innovation, or recruiting other valuable clients or partners.

The entire customer lifecycle also has its misconceptions. Too often practitioners focus on the transactional history of the customer, and pay little attention to the means by which the customer became a customer, and the interactions that surround a customer's departure. Proactive CRM looks at the entire customer experience from first hearing about the company, to what they say about the company once they have left them.

Three activities of CRM: Profile, Collaborate, Predict

Apart from the very hackneyed image of the customer service representative, what does CRM look like? In some cases it might be recognition of particular customer profiles and dynamic presentation of products, prices or packaging deemed appropriate to that profile. Amazon.com uses a number of extremely successful strategies to do this. My buying patterns are analyzed, and every time I return to the site my start screen includes new suggestions in my proven areas of interest.

In others it might be a process of discovering unmet customer needs and the collaborative development of processes and services to meet those needs. Hearing aid company Oticon did this with its new generation of hearing aids, Digifocus. Oticon had been a pioneer in customizable hearing aids. Hearing specialists would mould and adapt the devices to the unique shape of each customer's ear. However, our sound environments change dramatically as we move from home to street to bus to theatre to restaurant to office. There was an unmet need to create a device that could adapt to differing sound environments as well as the ear's individual responses to those environments. Oticon worked with its distributors and their hearing specialists to create an intelligent hearing aid that could adjust to sound environments dynamically in response to their wearers' needs.

Finally, customers themselves are dynamic beings with needs that change as they grow, and as the environment around them changes. CRM can also predict, anticipate and suggest new needs of customers as they move through life, career, or into new environments. Banks often use this technique to suggest new services as teenagers become adults, when they have children, when they buy a house, when they reach retirement age. Amazon.com takes a different tack, using socialization techniques to predict your possible interest in other books. Whenever you buy a book, a feature appears saying "Customers who bought this book also bought....".

Two Tools of CRM: Technology and Knowledge Management

Both the laws of CRM and the three main activities are infused by the use of technology and knowledge management. Much CRM writing focuses on technology applications, but the critical role of knowledge management is now beginning to be recognised.

Identifying the high value customer is a sophisticated knowledge task, as is determining the range of profiles among current customers. Technology can assist but knowledge management puts the information processing power of technology to effective use. Collaborating with customers requires a strong grasp of tacit knowledge exchange, and anticipating or predicting new customer needs can be delivered competently using statistical methods with technology, but can only be done excellently when the dimension of tacit knowledge exchange and collaboration are also deployed. The following diagram illustrates this.

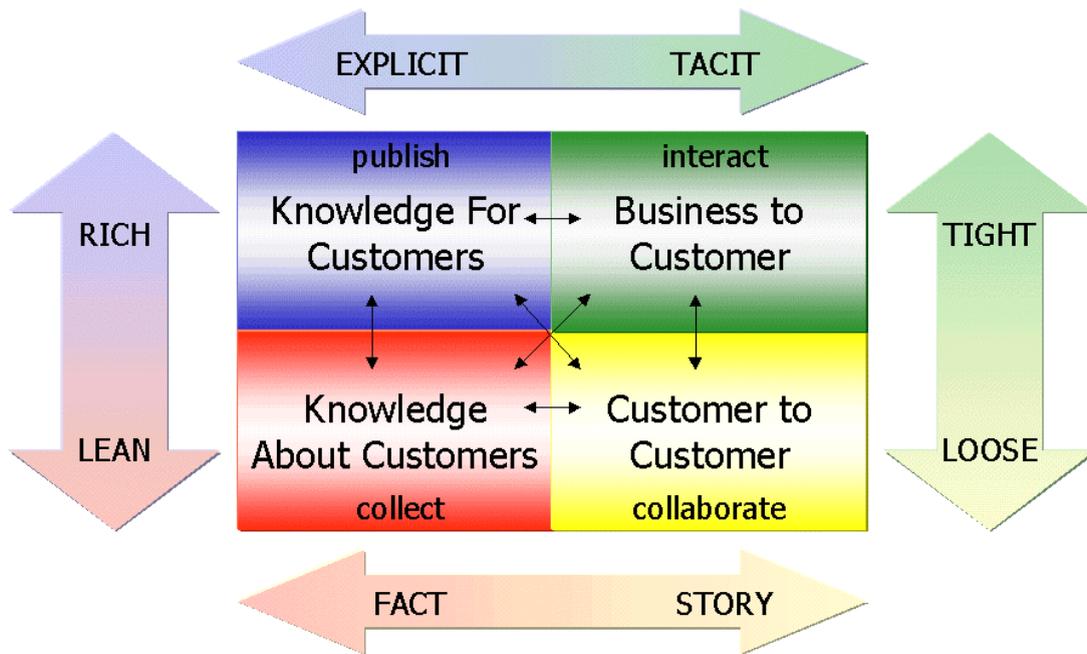


Fig. 2 Four Dimensions of Knowledge in CRM

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Knowledge About Customers

Gathering and analysing knowledge about customers is the oldest form of marketing knowledge activity. Technology enhances the collection of information, particularly but not exclusively, activity on the web. While recording consumer click-through behaviour on websites is now suspect for privacy reasons, in the aggregate it can give strong indications about web usability and broad trends in interest. Similarly, studies by video camera of consumer walking patterns through stores can help determine which layouts are more effective than others.

Datamining of large scale customer buying behaviour over time can help identify unsuspected patterns – the famous example from Walmart is the discovery that diapers and beer tended to be bought in larger than usual quantities on Friday nights. The hypothesis was that husbands were tasked with shopping for the weekend supply of diapers on their way home from work... and while there, they would pick up their own supply of beer for the weekend sports on TV. The hypothesis allowed the store to locate diapers and beers close to each other so that more husbands might be reminded of the one they were most likely to forget.

The domain of knowledge about customers is the one that most strongly underpins the company’s ability to identify a typology of customer profiles, and to analyse their relative value creation for the company. It also substantially informs a company’s understanding of the central part of the customer lifecycle (though not necessarily the entry and exit of the customer).

Knowledge For Customers

Knowledge for customers refers to the practice of providing information and knowledge that will help the customer decide whether to buy the product, and once

bought, how to use it effectively. Ryder, the North American truck leasing company made a dramatic comeback in the 1990s after a sharp decline in business, by following this practice. They went beyond brochures explaining their services; they also provided a free book to all customers about the process of moving house. Removals companies followed suit; and now, for example, expatriates are often presented with a book about how to settle into the country they are moving to. The knowledge wraparound goes far beyond the simple product or service that is being sold.

Dupont the chemical giant found that its fibres division was doing badly because of the decline in the market for carpets. Though their business was not directly in carpets, they fed knowledge down the value chain through carpet manufacturers, distributors and retail outlets, providing guides, information services and videos about the best types of fibres to use in carpet for different settings. They also provided information to customers about how to buy and maintain carpeting. Where collection of knowledge about customers tends to be a matter of simplifying complex information into data, analysing it, combining it and recombining it, the knowledge that is produced for customers needs to be much richer, giving a context for the customer's experience and inviting them to respond.

Business to Customer

So far we have been pretty much in the domain of information and making knowledge explicit – either by formulating it for customer consumption, or gathering information about customers and applying it in a value creating way. The realm of Company-Customer interaction is more strikingly in the tacit knowledge domain, simply because it is more complex and operates at many levels.

Customer-Company interaction ranges from sales interactions, call centre interactions, frontline staff contact, service staff encounters, to public information and advertising and promotion activities. Here, issues of brand management come to the fore, as well as reactive CRM processes. Customer-Company interaction feeds the domain of *knowledge about customers* as well as giving indicators as to which *knowledge for customers* would be most positively received.

However, it cannot be replaced by those explicit-knowledge driven domains, and it cannot be completely enabled by technology. Customer-Company interaction requires significant human interpretation and response at the tacit and emotive level to be truly effective. Service skills and the ability to build rapport both virtually and physically, the ability to abstract, analyse, understand and act upon patterns arising out of customer encounters, the ability to communicate effectively at the micro level of the individual interaction and at the macro level of brand consistency, are all essential qualities.

The co-customization example of Oticon is a good example of a company developing its deep interactions with customers beyond simple transactions of money or information, so that the relationship becomes a collaborative one. Dell's relationship with its customers is also one of co-customization. Because Dell customers design their own configurations, Dell can analyse profiles and trends in customer requirements, and respond with options that are more closely suited to their

customers' needs. Macromedia's online user group discussions are certainly the most actively used part of their website, but also provide a free market of idea, suggestions and solutions where it is never clear (nor is it important) who is a Macromedia staff member, or who is a customer. Yet the future of Macromedia products depends on these interactions.

Customer to Customer

Perhaps the most neglected domain of tacit knowledge management in CRM is that covering Customer-Customer interaction – though there has been recent interest in the power of online community-building for fostering customer relationships (Bressler & Grantham, *Communities of Commerce*, 2000).

Where Company-Customer interactions are relatively tightly structured, Customer-Customer interactions are relatively loose, and frequently unknown to the Company. Yet it is in the Customer-Customer interactions that much of the public story of the company gets formulated and told. Here, the medium of communication is precisely in stories and through stories about the company, and it is here that the official version of the mission, vision values statement meets the real world of the collective customer experience, and becomes the tangible expression of the company's brand.

Some companies deliberately seek to harness this by fostering space and resources for this interaction to take place. They reason that by bringing Customer-Customer interaction within their own sphere, they can at least hear what is being said about them, and at the most hope to influence it positively. Amazon is well-known for its community building and enhancing activities. Powerbar, a new energy food for athletes, deliberately seeded groups of sportsmen and women to promote its products. Harley Davidson engineered its dramatic revival as a cult brand by recognising, fostering and resourcing clubs of devotees.

Perhaps the most important feature of the Customer-Customer interaction is that the tacit knowledge being exchanged here is expressive not merely of the customer experience in the midst of their lifecycle, but has rich veins of knowledge about how customers enter and leave the company's value space. Hence this domain is especially critical to the ability to map the entire customer lifecycle and not merely the transactional lifecycle. It explains why customers arrive, what they aspire to, and why they depart.

Conclusion

We have examined a full cycle of activity around the role of knowledge management in proactive CRM. Probably the most exciting and least developed areas are in the tacit-knowledge rich domains of Business-Customer interaction and Customer-Customer interaction, precisely because so much emphasis has been placed on technologically enabled explicit knowledge processes. The ability to integrate human skills in employees with the knowledge transfer that technology enables is critical. Understanding the mind of the customer goes far beyond clever technology, and it is a challenge yet to be widely met.