Section 3

Customer Relationship Dynamics

Customer Relationship Management
Introduction to Customer Relationship Dynamics

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1. Customer Relationship Management Terms and Definitions

Key Points

- Customer relationship management (CRM) is the process of holistically developing the customer’s relationship with the organization.

- Customers include individuals, households and organizations which have in the past (or may in the future) interacted with your organization.

- Customers may be external (i.e., not a part of your organization) or internal (i.e., members of your organization to whom you provide service).

- Relationships consist of a series of contacts between the customer and the organization. In another sense, relationships refer to the level of loyalty and commitment that the organization and the customer have to each other.

- “Business rules” refers to various software (or manual) controls that manage contact routing, handling and follow up.

- Contact management systems are business applications that enable and track each interaction with the customer.

Explanation

Customer relationship management is both deceptively simple and infinitely complex. The roots of managing customer relationships are as old as human interaction, while the technology used to deploy it is often leading (or even bleeding) edge. When fully understood and strategically implemented, a renewed focus on the customer relationship can transform an entire organization, as well as vault the beleaguered call center into an unprecedented position of importance. Today's call center managers must be prepared to guide their organizations through this transition, and then to lead these customer-centric call centers of the future.

Customer relationship management (often referred to as the acronym CRM) may be defined as the process of holistically developing the customer's
relationship with the organization. It takes into account their history as a customer, the depth and breadth of their business with the organization, as well as other factors. Customer relationship management generally uses sophisticated applications and database systems that include elements of data mining, contact management and enterprise resource planning, enabling agents and analysts to know and anticipate customer behavior.

A common misconception of customer relationship management is that it primarily consists of a database or set of technology tools. Technology is an enabler, but customer relationship management includes much more (e.g., processes, organizational structure, information/data and an understanding of which customers you want to serve and how you will address the needs of different types of customers). Customer relationship management is really about assessing, planning and execution. There's a lot more to it than technology.

There are many terms being used for customer relationship management that can create considerable confusion. CIM (Customer Interaction Management) is preferred by some as more action-oriented. eCRM (electronic CRM) tacks on the lowercase “e” to emphasize the ecommerce aspects involved. eRM (electronic Relationship Management) essentially replaces the customer with the Internet, which may explain why this term has not caught on. ERM (Enterprise Relationship Management) echoes Enterprise Resource Planning (ERP) technology, as does EIM (Enterprise Interaction Management). BRM (Business Relationship Management) distinguishes customers that are actually businesses along the lines of B2B (business to business) marketing. There are also other combinations where the small “e” refers to electronic, the large “E” refers to enterprise, the “I” refers to interaction and the “B” refers to business.

Following are the most essential terms to understand about customer relationship management and the technology associated with managing customer relationships. For more terms and definitions, see the glossary in Section 8 of this guide.

**Customer**

Customers are literally where customer relationship management starts. They include individuals, households and organizations which have in the past (or may in the future) interacted with your organization. For the purposes of customer relationship management, the term “customer” includes existing and prospective customers, and may also include members of your own organization. Customers may be external (i.e., not a part of your organization) or internal (i.e., members of your organization to whom you provide service).
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Do You Know Who Your Customers Are?

The biggest obstacle we’ve encountered in helping companies shift their corporate cultures is a deep-rooted confusion about whom the customers are. Pharmaceutical firms focus on doctors, not on patients. Newspapers focus on advertisers, not on readers. Automobile manufacturers are obsessed with dealers, not the drivers. Here’s the bottom line: your customer is the person who uses your product or service. If yours is a consumer product or service, your customer is the individual consumer who consumes or uses the service. If yours is a business product, your customer is the person inside the corporation who selects and uses your product or service. Until everyone in your company is in vigorous agreement about whom your end-customers are and what matters most to them, you won’t be able to make progress in building a great total customer experience.

We certainly don’t mean to imply that doctors are unimportant to pharmaceutical firms, nor advertisers to newspapers, and so on. We are simply pointing out that, without satisfied patients and delighted readers, both types of firms will be out of business in the long run. The trick is to keep your eye on the real end-customer while at the same time streamlining operations for all the interdependent ancillary partners, stakeholders and other kinds of “customers.”


Relationship

Relationship has several meanings. In one sense, it describes the interactions that an organization has with a customer over time. The relationship consists of a series of contacts between the customer and the organization. Jan Carlson, former CEO of SAS Airlines, described each of these contacts as a “moment-of-truth” between the customer and the organization. In another sense, it refers to the level of loyalty and commitment that the organization and the customer have to each other. Each may have different levels of satisfaction with the relationship. In addition, using the same word that couples use to describe romantic partnerships carries implications of interpersonal intimacy and commitment into the modern business world.

The relationship is what sets customer relationship management apart. Much of marketing theory and terminology is adversarial, depicting battlefields upon which the organization will not only tackle competitors, but will seek to capture customers and win market share. Competitors will be outflanked, customers will be targeted and markets will be dominated. But customer relationship management takes a completely different approach, a customer-centric approach that is instantly familiar because it has been so long practiced by successful local proprietors who know and care about their small but loyal customer base.
Management

We’ll refrain from defining management here, but we must note that this is the lynchpin of customer relationship management. Management is the action that must be taken. Customer relationship alone is merely descriptive. What is needed is active, effective management of customer relationships. How to do this is the subject of this study guide.

Business Rules

“Business rules” refers to various software (or manual) controls that manage contact routing, handling and follow up. It is often used interchangeably with workflow. Viewed simplistically, business rules are nothing but a sequence of “if-then” statements. But when the entire range of possible actions that can be undertaken by an organization is represented by such simple statements, the result is a dense and complex forest of decision trees. Computer software and hardware can negotiate the complexity – that’s rarely the problem – but human beings have to develop the business rules. That’s a monumental challenge because of the size of the job and because it is difficult to translate sophisticated problem-solving activity into “rules.”

Simple examples of business rules in action bombard us daily. When we go to our favorite Web site and the screen greets us by our first names, a business rule that checked for a cookie on our computers correctly presented the personalized greeting. When we call our bank’s interactive voice response unit and the selection we choose most frequently is now presented as the first option, a more sophisticated business rule has presented the choice we prefer first, based on past interactions. Business rules are essential for effective customer relationship management.

Contact Management Systems

Contact management systems are business applications that enable and track each interaction with the customer. Contact management systems also create databases that enable informed communications with customers, such as database marketing and proactive communications.

Customer relationship management is built upon knowledge derived from the data maintained in contact management systems. Contact management systems are mistakenly seen as “being” CRM, as in “we’re installing CRM.” While contact management systems are essential enabling technology, customer relationship management is a way of doing business, not a technology project.
2. Key Principles of Customer Relationship Management

Key Points

- There are 12 key principles of customer relationship management:
  1. Continuously learn about your customers
  2. Interact personally with your customers
  3. Handle different customers differently
  4. Retain the right customers
  5. Anticipate customer needs and offer to fulfill them
  6. Increase value for your customers and of your customers
  7. Present a single face to your customers to make their experiences with your organization seamless
  8. Focus on revenue and retention more than on reducing costs
  9. Enable information sharing and interaction across the organization
  10. Create business rules to drive all customer relationship management decisions and automation
  11. Empower agents with information and training
  12. Remember that the effective management of customer relationships is a way of doing business, not just a technology project

Explanation

So much has been written, said and promised about customer relationship management that identifying and understanding its key principles can present a considerable challenge for call center managers. Each of the principles listed below is both compelling on its own and intertwined with the others. There is no question, though, that customer relationship management strategy as an integrated whole is greater than the sum of these parts.

The 12 Key Principles of Customer Relationship Management

1. Continuously learn about your customers: This is the first principle of managing customer relationships because it is the most fundamental. From this everything else follows. When you know your customers, you can make sound business decisions about how to develop your relationships with them. Collect
and analyze information about your customers to get to know them well. Maintain your knowledge in customer profiles that are available to all who need them. But don’t stop there. Apply everything you know to building a customer valuation model. (See Customer Valuation Alternatives, this section.) Knowing the value of customer relationships is essential for managing them wisely.

2. **Interact personally with your customers**: Desirable relationships are not one-way. Relationships result from interaction. Knowing your customers is just the first step. Use that knowledge to develop your relationships with your customers whenever you interact with them. No matter how sophisticated the technology that organizations and customers use to communicate, your customers are people and people appreciate being recognized, listened to and understood. Letting your customers know that you care enough about them to get to know them is an important part of managing the customer relationship.

3. **Handle different customers differently**: This idea has been repeated so many times that it’s practically taken for granted now. But the power of this principle lies in the potential for optimizing the value of each customer relationship through differential treatment. Based on customer segmentation, call centers can assign different toll-free numbers, provide different IVR and Web services, establish different agent groups, present different service levels and offer priority queuing assignments. It is important, however, not to differentiate simply because technology exists that can do so. Segment customers sensibly. There are hidden costs to differentiation that must be weighed against the increased value that personalization can be expected to produce. Effective customer relationship management strategy ultimately seeks to optimize value. (See Customer Profile and Segmentation Strategies, this section.)

4. **Retain the right customers**: Customer knowledge and the capability for differentiated customer treatment significantly improve many organizations’ capabilities to retain customers. One of the truisms associated with customer relationship management is that it is cheaper to retain a customer than to acquire a new one, but that idea can be taken a step further. In order to maximize value, organizations should focus on retaining valuable customers, not necessarily all customers. Be warned, however, that misapplication of this principle can be dangerous. Mistreating “low value” customers, even if you are losing money on them, is hard to justify in the court of public opinion (which is where your future high-value customers are sitting). (See The Value of Customer Satisfaction and Loyalty, this section.)

5. **Anticipate customer needs and offer to fulfill them**: Customer relationship management empowers and alters the selling process in many ways. Knowledge
of your customers presents new opportunities for making the right offer to the right person at the right time. Analysis of customer profiles, especially using powerful tools such as data mining, can provide insight about whom buys what from you when. Contact management systems can detect cross-sell and upsell opportunities and act upon them by presenting scripts to agents during service calls, dynamically responding to customer input or automatically presenting customized offers in Web pages and interactive voice response (IVR) systems. Even government and nonprofit organizations can use these principles to better fulfill their charters and anticipate the needs of their constituents. (See Customer Relationship Management in Government and Nonprofit Organizations, this section and Customer Relationship Management Technologies, Section 7.)

6. Increase value for your customers and of your customers: This is the bottomline reason for implementing customer relationship management. It is precisely because customer relationship management increases value both for customers and the organization that it is such a compelling strategy. There are many ways to deliver increased value, including being easy to do business with, creating efficiencies for your customers and making timely offers of products or services that perceptively address customer needs. Similarly, there are many ways to increase the value of your customer relationships, and the most fundamental of these appear in this list of key principles. When executed properly, customer relationship management is a “win-win” for customers and the organization alike.

7. Present a single face to your customers to make their experiences with your organization seamless: One of the ways to create value for your customers is to simplify the ways that they deal with your organization. Take a holistic view of your customers and consolidate information from across the organization, regardless of geography, department, function or product line. When you have a complete picture of each customer’s relationship, you can design customer interaction processes from the customer’s perspective, thus increasing value and letting customers know that you know them.

8. Focus on revenue and retention more than on reducing costs: Unlike so many management initiatives, customer relationship management is not about cost savings. Customer relationship management strategy aims to increase the revenue received from current customers and increase the retention rate of valuable customers. A renewed focus on the effective management of customer relationships can require so many organizationwide process changes that operational cost savings may well be realized, but in other ways, a customer relationship focus may raise the cost of doing business. Talk time on customer
calls often increases as agents make the most of each opportunity to develop customer relationships. It takes time to service customers well, to listen to them, to collect information about them and to upsell and cross-sell to them. In summary, the return on investment for customer relationship management initiatives should not be expected from operational cost savings.

9. Enable information sharing and interaction across the organization: Customer relationship management affects all parts of an organization, not just the call center. It is both a requirement and a benefit of customer relationship management that organizations improve their internal communication processes. The only way to develop a comprehensive view of each customer’s relationship with the organization is with the full participation of every part of the organization. This requires strong support from top management and across the board. As the central point of contact with customers, the call center has a vested interest in driving the development of organizationwide interaction processes. (See Establishing Essential Cross-Functional Networks of People and Support, Section 6.)

10. Create business rules to drive all customer relationship management decisions and automation: Business rules codify and automate processes, specifying what should happen in specific situations, thus enabling both differentiated customer treatment and automation. Developing organizationwide business rules is a monumental task, and how well it is done directly affects the success of any customer relationship management effort. Business rules define the ways that the strategy is executed. (See The Role of Business Rules, Section 7.)

11. Empower agents with information and training: The “Empowered Agent Desktop,” as described by Vanguard Communications Corporation, may be the sexiest technological feature of customer relationship management applications. Just as the cockpit of an airplane displays all the information a pilot needs to fly in any conditions, the contact management screen should pull together cleanly and clearly all that the organization knows about its relationship with that customer. Furthermore, business rules should dynamically change that screen to support and guide the agent in optimizing the customer relationship. Empowerment is a key principle, however, because no set of business rules can or should fully anticipate every conceivable situation: Agents need training, information and support offered by business rules so that they can make good decisions that are consistent with the organization’s strategy. Even though customer relationship management can and should be used to develop self-service customer access channels, it should not be mistaken as a strategy for replacing agents. Customer relationship management can have far greater
impact by empowering agents. (See Empowering People to Build Customer Relationships, Section 7.)

12. Remember that the effective management of customer relationships is a way of doing business, not just a technology project: A common misperception is that customer relationship management primarily consists of a database or set of technology tools. Technology is an enabler, but as these 12 key principles demonstrate, the effective management of customer relationships is much more than high-powered technology. Customer relationship management is about the way you do business, and technology empowers you with previously unheard of options for how you do business with each one of your customers. Effective customer relationship management requires participation and hard work by people throughout the organization, and if done right, the work never ends. Results from these efforts should be fed back into the process to continuously refine business rules, marketing efforts and information systems. True optimization has a moving finish line that winners never stop trying to cross.

Because these twelve principles require resources that span the organization, they must be driven by the highest levels of management to ensure a successful customer relationship management strategy.
3. The Value of Customer Satisfaction and Loyalty

Key Points

- Highly satisfied customers are more likely to remain loyal to the organization, buy more products/services and recommend the organization to others.
- Relatively few customers contact the organization with their questions or problems.
- Increasing the accessibility of the organization to customer inquiries and complaints can lead to increased customer loyalty.
- Customer loyalty and word-of-mouth advertising is directly impacted by contact-handling effectiveness.
- Maintaining customer loyalty increases the organization’s profitability.
- The linkage between customer satisfaction can be measured using one or all of the following metrics:
  - Actual customer behavior
  - Customer-stated behavior intention (whether they say they will repurchase)
  - Customer-stated recommend intention (whether they say they will recommend the organization)

Explanation

A complete understanding of how to effectively manage customer relationships requires knowledge of the fundamentals of customer behavior and the value of customer satisfaction and loyalty.

Satisfying Customers Can Increase Customer Loyalty

A customer who contacts an organization with a question, problem or request is putting the organization to the test. The manner in which the contact is handled will have a direct relationship on the customer’s future loyalty to the organization’s products/services. As shown in the chart on the next page, the call center must completely satisfy the customer to maintain the highest levels
of customer loyalty. In this chart, with example company-specific data, 40 percent of the customers who contacted the call center (referred to as “contactors” in the diagram) are completely satisfied and 58 percent of those customers will “definitely continue to do business” with the organization. For those customers who were mollified (i.e., satisfied, but not completely), the loyalty drops 20 percentage points to 38 percent who will “definitely continue to do business” with the organization.

Completely satisfying the customer does NOT mean that the call center needs to “give away the store” or that the “customer is always right.” It does mean that call center agents need to handle the customer contact in a professional and courteous manner and that either the question/problem should be resolved or the customer provided with a rationale explaining why it cannot be resolved.

Soliciting Customer Questions and Problems May Increase Loyalty

Research by TARP and others has shown that, if an organization has an effective customer service system in place, many of those customers who have questions or experience problems can be retained. As the next chart illustrates, satisfied complainants can be nearly as, or even more loyal than, customers who did not experience a problem. This phenomenon is a direct result of the more personal relationship that the customer now has with the organization due to
the contact experience. This phenomenon is greater with telephone calls than with electronic contacts where there is a greater opportunity to more personally connect with the customer.

For satisfied complainants, then, complaint solicitation becomes a very effective customer retention strategy. On the other hand, complaint solicitation may actually lose brand loyalty if the customer remains dissatisfied. As the chart shows, the brand loyalty of dissatisfied and even mollified complainants is often lower than that of noncomplainants.

**Customers with Problems/Questions Often Do Not Request Assistance**

Some organizations, citing the relatively low volume of customer complaints they receive, conclude that customers are largely satisfied with their products and services and that customer service may not be an important aspect of their business. Research by TARP has found just the opposite – customer problems/questions are significant, regardless of industry, and the absence of articulated complaints does not mean customers are not experiencing problems. TARP’s industry-specific research has found that often more than 50 percent of customers have experienced some type of problem or question with the product/service within the previous year. More importantly, research indicates that the loyalty of many of these customers could be retained if their problems/questions were aggressively solicited and quickly resolved.

Despite the high incidence of problems/questions in the marketplace, many
customers do not contact the organization for assistance. Depending on the cost of the product/service and the severity of the difficulty experienced, 20-80 percent of the customers who encounter some type of difficulty choose not to contact the organization or its distribution channel. The chart below shows this “tip of the iceberg” phenomenon, with 1-5 percent of customers contacting management or headquarters about their question or problem.

Customers who don’t contact the organization cite three primary reasons for their behavior:

- CONTACTING THE ORGANIZATION WAS NOT WORTH THEIR TIME AND TROUBLE
- CONTACTING WOULD NOT HAVE DONE ANY GOOD BECAUSE NO ONE IN THE ORGANIZATION WOULD DO ANYTHING ABOUT THE PROBLEM
- THEY DID NOT KNOW HOW OR WHERE TO CONTACT THE ORGANIZATION

**Customers Talk to Each Other About Their Good and Bad Experiences**

Customers whose requests for assistance have been satisfactorily handled become an important source of low-cost corporate advertising. These customers generate positive word-of-mouth advertising by telling others about their experience. This positive word-of-mouth induces others to try the products/services of that organization, thereby increasing market share and corporate profits for no greater investment than handling a customer service call.
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contact. Conversely, customers with questions or problems who do not request assistance or whose requests are not satisfactorily handled can create major market damage for the organization. The negative word-of-mouth generated by these dissatisfied customers may cost an organization existing customers and sends potential customers to the competition. Research shows that negative word-of-mouth is spread at twice the rate of positive word-of-mouth. Further, negative word-of-mouth is believed at twice the rate of positive word-of-mouth.

As the chart illustrates, customers who have had a negative service delivery experience will tell twice as many people bad things about the organization than the positive word-of-mouth being spread by customers who were satisfied with their service delivery experience. The online customer is four times more likely to talk about their experience in an online chat room if they were dissatisfied with the experience than if they were satisfied.

### Negative and Positive Word-of-Mouth and Word-of-Mouse

<table>
<thead>
<tr>
<th></th>
<th>Median persons told of the experience</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Satisfied with the contact experience</td>
</tr>
<tr>
<td>Small Problem</td>
<td>5</td>
</tr>
<tr>
<td>Large Problem</td>
<td>8</td>
</tr>
<tr>
<td>Word-of-Mouse</td>
<td>4% go to chat room</td>
</tr>
</tbody>
</table>

TARP cross-industry data, 1995 - 2000

### Loyal Customers Are More Profitable

Maintaining customer loyalty leads to higher profits. The chart on the following page indicates the elements of customer profit and how longer-term customers are worth more to the organization. A loyal customer requires less marketing expense to obtain the sale and is more likely to acquire other products, thus increasing profitability. In addition, by becoming familiar with usage of the product, a loyal customer will require less service effort by the organization. However, it’s important to note that “all-out loyalty” is virtually impossible to achieve in this era of the global marketplace with so many customer choices. Customer loyalty can never be taken for granted.
The call center can measure the linkage between customer satisfaction and customer loyalty using one or all of the following metrics:

- Actual customer behavior
- Customer-stated behavior intention (whether they say they will repurchase)
- Customer-stated recommend intention (whether they say they will recommend the organization)

Actual customer behavior measured after the contact experience and correlated with customer satisfaction is the ideal. However, this is not always possible, depending on the industry and the sophistication of the organization’s sales tracking systems.

A good substitute is to ask the customer how likely they are to “continue to do business,” “repurchase” or to “recommend the organization.” Research has shown that customers are fairly accurate in predicting their future behavior, especially at the extreme ends of the scale. For example, more than 95 percent of customers who say they “definitely will repurchase” do, in fact, repurchase and more than 95 percent of customers who say they “definitely will not repurchase” do NOT, in fact, repurchase.
Often, a “recommend intention” will be more stringent and perhaps more accurate than a “behavior intention” metric. While the customer might be willing to try the organization again, they may not be willing to stake their reputation on recommending the organization.

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4. The Call Center’s Role in Customer Relationship Management

Key Points

- The call center provides an easily accessible communication channel between the customer and the organization.

- Three roles for the call center in building customer relationships are:
  - Respond appropriately to individual customer requests for assistance
  - Cross-sell or upsell when appropriate
  - Collect and analyze data from individual contacts in a way that supports the identification and correction of the root cause(s) of customer problems/questions

- A new and emerging role for call centers is to conduct proactive outbound calls to welcome the customer and provide proactive education about the product/service.

Explanation

As primary customer contact vehicle for most organizations, the call center is positioned as a central part of managing customer relationships. The call center must identify, differentiate, interact and customize each customer interaction. The call center may be the only one-on-one contact that a customer has with the organization. The center’s ability to meet customer expectations is vital to customer retention and organizational profitability. The call center is challenged to provide easy access, deliver excellent service, take advantage of upsell and cross-sell opportunities, gather and disseminate customer information to the organization, and be proactive in educating the customer.

Easy Accessibility to the Organization

In the telecommunications and Internet age of today, customers expect to be able to reach an organization when they want to and how they want to (i.e., through which contact channel). They also expect a timely response to their contact, whether through the telephone, email or other contact channel. The call center is a readily accessible communication channel only if the customer can actually reach someone who can provide a response when the customer wants to talk to the organization and within the timeframe that the customer expects.
Overall, only about 20 percent of call centers operate 24 hours per day seven days per week, (i.e., 24x7); however, many call centers offer extended hours during the week and on Saturday to meet customer needs. The key to accessibility is to be available when most of the organization’s customers would want to contact the organization.

Accessibility is also determined by how quickly a customer receives a response to his or her contact. For telephone contacts, and those that must be handled immediately, this aspect of accessibility is measured by service level (X percent of calls answered within Y seconds). For contacts that may be handled at a later time (e.g., most email, postal mail and faxes), response time is a better measure (100 percent answered in N hours/days).  (See Measuring Accessibility Across Channels, Section 4.) Service level and response time objectives drive everything from staffing to system resource requirements to budgeting so they should be chosen carefully and monitored closely. Achieving service level and response time objectives takes a thorough understanding of queuing principles and sound management practices.  (For more specific information on service level management, see ICMi’s Call Center Operations Management Study Guide.)

Interactive voice response (IVR) systems and self-service Web sites can provide increased accessibility to the call center by allowing customers to access information (e.g., account balances, product/service information) when agents are not available and when the call center is not open. (See Designing and Improving Self-Service Systems, Section 7.)

Building Call Centers Based on Value

The call center industry has come a long way in recent years. Customer expectations are high and, for the most part, leading call centers have learned how to deliver. Collectively, they have spent untold hours training and equipping their people. They have learned the fine art of forecasting, staffing and the behavior of queues. They have invested billions in technology. They continue to improve processes and find new and better ways to meet customer needs and expectations.

However, the convergence of Internet, telecommunications and computer technologies continues to change the rules of customer service and create new management variables. Today’s customers demand user-friendly, self-service systems and the means to reach well-informed and capable service and support representatives when they need them.

Consequently, forward-thinking organizations are re-examining customer trends and expectations, rethinking strategy and building a powerful new breed of call centers—"connected call centers" (a.k.a. e-enabled call centers, contact centers, interactions centers), which provide a thoughtful range of cohesive, user-friendly access alternatives.
Three Roles for the Call Center in Building Customer Relationships

Once the question or problem is received, the call center has three basic roles for the effective management of customers and customer information.

The call center should respond appropriately to individual customer requests for assistance: Customer’s questions should be answered and their problems resolved with no more than one contact by the customer. As shown in the chart on the following page, customer satisfaction, and thus loyalty, decreases dramatically when a customer must contact the center multiple times regarding the same issue. In addition, costs to handle multiple customer contacts on the same issue increase dramatically.

Moving from a traditional call center or an insufficiently supported e-commerce site into an environment that is truly “connected” requires a clear vision, an open and flexible infrastructure, integrated processes, capable people and a strong customer focus. But these steps, as involved as they are, tend to progress nicely once the organization has made a commitment from top to bottom that it will be accessible on customers’ terms; this happens when senior-level managers understand the true value of the call center.

When managed well, the call center’s return on investment, which generally falls into the following areas, is compelling:

• Improved customer loyalty – The call center ensures that the organization is “easy to do business with.”
• Improved quality and innovation – By capturing a constant stream of data from individual contacts, the call center can pinpoint quality problems early and capture customer input that lead to significant product and service innovations.
• Focused marketing – By tracking buying trends, capturing customer feedback and analyzing demographic information, marketing campaigns can be focused around a better understanding of prospects’ needs and wants.
• Efficient delivery of services – By helping customers understand and use the access channels available to them, the call center can give customers the means and confidence to increasingly utilize self-service options.
• Additional sales – By enabling customers to reach human representatives, the call center can decrease the number of abandoned e-commerce purchases at checkout, and provide upselling and cross-selling opportunities.

There has never been a time in which redefining customer service and creating sound customer access solutions have been more important. Today’s successful call centers leverage every contact as opportunities to create value. It’s no wonder that call centers are as important as ever in today’s perilous, hyper-speed economy.

Excerpt from “Building Call Centers Based on Value,” by Brad Cleveland, ICCM Weekly, August 2001.
To respond appropriately, the call center agent should be knowledgeable of any past contacts the customer has had with the organization. This requires the call center to have an integrated database with history of past customer contacts. The advent of electronic media (e.g., email, text chat) has increased the customer’s likelihood of “channel hopping” (e.g., send an email and then call the call center). This has also increased the need for the call center to have access to an integrated database of customer contacts, regardless of contact medium.

The call center should, when appropriate, cross-sell or upsell the customer to additional products and services: Research has shown that in addition to a satisfied contactor (i.e., a customer who contacts an organization and is satisfied with the response) being more likely to buy more of the same products/services, they are also more likely to try other products and services by the same organization. Therefore, after the call center has successfully answered a customer’s question or resolved their problem, agents have an excellent opportunity to let the customer know about other products and services. This is also referred to as suggestive selling.

The call center should collect and analyze data from individual contacts in a way that supports the identification and correction of the root cause(s) of customer problems/questions: This means that the call center should either log the reason for contact for all customer contacts or a representative sample of customer contacts. The logging system should be easy to use and not add significant time to the call handle time for the agent. The classification system used for logging needs to be comprehensive, including all the reasons that a customer might contact the organization, and granular enough to allow detailed analysis and actionable reporting. The call center should act as a consultant to the
rest of the organization in identifying and correcting the root cause(s) of customer problems/questions. (See Isolating Root Causes of Dissatisfaction, Section 4.)

### Customer Contact Logging Systems

Call center staff should have access to a unified customer contact logging file so contacts via multiple channels are all available to any staff member working with the customer. Agents should log both reason and general cause for the customer's contact using a hierarchical numerical classification system that presents no more than 20 options at any level. (Scroll-down lists of more than 20 choices waste time and encourage selection of 15 “favorite” codes at the top of the list.) The codes should be detailed enough for actionable granular analysis and hierarchical to allow rapid selection by agents. Two or three levels, when logically structured, allow the use of up to 200-500 categories with little degradation of data quality or efficiency. As a rule, numerical coding is superior to other classification methods because only such a system supports automated analysis; logged text does not support preventive analysis — analysts never have the time to review the text in hundreds of files, and keyword search engines are too slow and imprecise. However, when used with numerical codes — and as long as they are not overused — verbatim quotes are an asset for researching specific issues.

In many logging systems, the customer must present the data in the order it appears on the agent's screen. If the customer begins the contact with a complaint, the agent stops him/her to ask for the facts — account number, last name, first name, address, etc. — and then finally asks, “How can I help you?” This “just the facts” approach made famous by the character Jack Webb on “Dragnet” negatively affects customer satisfaction and loyalty. A flexible logging system enables the agent to enter all data on a “command line” at the bottom of the screen, designating the field number of each data element. Upon designation of the field number, the data fills the field while the customer continues to talk and the agent enters the next item. This eliminates the impression that the agent is only interested in completing the screen, increasing the customer’s satisfaction with the contact. Once the agent enters some customer data, the computer should automatically fill the remainder of available data and, after verification, the agent can quickly move on with the contact.

Excerpt from TARP.

### Outbound Calling to Educate the Customer

A new and emerging role of many call centers is to conduct proactive outbound calls to welcome the customer and/or provide proactive education about the product/service. Research has shown that organizations which provide proactive education about the product/service and information on how to avoid common problems can achieve a 25 percent increase in loyalty and a 50 percent decrease in customer problems/questions. These proactive calls often take the form of a welcome call and include basic information about how to use the product/service, how to avoid common problems and help reset expectations regarding the product/service.

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5. Customer Relationship Management in Government and Nonprofit Organizations

Key Points

- Customer relationship management principles and the accompanying technology tools and business rules are increasingly being applied to improving how governments and nonprofits accomplish their mission and honor their responsibilities to their constituents and contributors.

- Government agencies and nonprofits can benefit from customer relationship management initiatives by:
  - Using technology to link disparate sources of agency and customer information, providing access to centralized, comprehensive data warehouses
  - Analyzing collected data to understand and predict customer needs, creating a basis for providing customer-focused services

Explanation

Customer relationship management principles and the accompanying technology tools and business rules are increasingly being applied to improving how governments and nonprofits accomplish their mission and honor their responsibilities to their constituents and contributors. As these principles move beyond the “fad” stage and many cost and planning barriers are lifted, these organizations are beginning to embrace the powerful data mining and warehousing tools to provide unprecedented analysis of customer characteristics, needs and expectations, service usage and opportunities for efficiencies.

Governments and nonprofits can benefit from customer relationship management initiatives by:

- Using technology to link disparate sources of agency and customer information, providing access to centralized, comprehensive data warehouses
- Analyzing collected data to understand and predict customer needs, creating a basis for providing customer-focused services
Special Considerations

Government and nonprofit organizations are held accountable by their customers for judicious use of public or donated funds and a high level of responsiveness to customer needs. Because of public input requirements into decision making and the difficult to quantify return on investment in the public sector, these organizations have been slow to adopt customer relationship management principles within their organizations. However, as these principles become more mainstream, executives are realizing the unprecedented opportunity to use these processes and tools to create organizational efficiencies while reaching more customers than ever before.

Customer relationship management processes and enabling technology are best justified by streamlining customer access channels and eliminating redundant data collection across multiple agencies. In addition, the goodwill that results from streamlined customer access channels translates into increased donations, use of services and public confidence in public resources.

Government Agencies

With a customer base of more than 280 million, the federal government is the largest service provider in the United States. In combination with state and local agencies, it provides services far beyond the scope of any private organization. Seeking to effectively use resources and improve services, the federal government is developing Web-enabled systems that use portals to link common applications between agencies. By offering more self-service options and centralizing call center operations, this system will streamline navigation between agency boundaries, permitting smoother paths of communication between citizens and the government.

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Nonprofit Organizations

These organizations run the gamut from large, national organizations (e.g., Red Cross, United Way) to small, regionally based organizations (e.g., independent schools, performing arts groups). Customer relationship management initiatives can assist these organizations in measuring customer expectations and satisfaction levels, integrating the large amounts of data between related agencies and creating personalized communications with contributors and recipients of their services. In addition, strategic data analysis can assist nonprofits in offering more targeted donor solicitations, resulting in a higher rate of contributions.

Traditionally, the cost to harness the power of customer relationship management technology tools has been prohibitive for smaller, cost-conscious nonprofits. However, new off-the-shelf solutions mitigate the need for inhouse technical staff and costly equipment and provide cost-effective, browser-based tools for relationship and fund-raising management.

This item was developed with Jean Bave-Kerwin, Certified Associate of ICMI and President of JBK Consulting.
6. Drivers of Customer Expectations

Key Points

- Effective customer relationship management begins with understanding customer expectations.
- As service improves, customers quickly progress through four stages:
  1. They appreciate it
  2. They get used to it
  3. They expect it
  4. They demand it
- Key drivers of customer expectations include:
  - The global economy
  - More choice with less time to choose
  - Technological innovations in customer-access alternatives

Explanation

The old industrial model for doing business was based on good customer service and product enhancements. Organizations attempted to meet customer needs through fulfillment of their basic expectations – that the product or service was reasonable in price and easy to get. Because this model is transactional-based, it fits with the previous economy.

In today’s global, service-oriented economy this model is inadequate. Organizations have learned that the longer they have a relationship with a customer the greater their profit will be. (See The Value of Customer Satisfaction and Loyalty, this section) This requires a long-term strategy focused on building customer relationships that expand, grow and adjust to changes over time.

Ever-Increasing Customer Expectations

As organizations have focused their attention on improving service to customers, the result has been ever-increasing customer expectations. For example, if one organization allows customers to return an item bought online to a brick-and-mortar store, customers quickly expect this same type of service from other online businesses.
As service improves, customers rather quickly progress through four stages:

1. They appreciate it
2. They get used to it
3. They expect it
4. They demand it

Consequently, it is critical to continually assess customer expectations in order to stay ahead of the curve. (See Identifying and Quantifying Customer Expectations, this section.) The following graphic illustrates the ongoing nature of evaluating and addressing customer expectations. The first step – “What are customer expectations?” – requires the organization to gather the information (e.g., call center data, surveys) that answers the question: What are our customer expectations? Next, the organization asks: Are we meeting them? Using a gap analysis or other measurement, the discrepancy between the service offered and the customer’s expectation of that service is measured. Finally, the organization asks if they are meeting customers’ expectations using the fewest possible organizational resources. This involves finding the balance between achieving customer satisfaction and loyalty and the judicious use of assets.
Current Drivers of Customer Expectations

The global economy: Goods and services are now accessible worldwide. The Internet, electronic commerce and the opening of borders and trade has created a truly global economy. Markets are becoming increasingly decentralized and fragmented. Customers around the world expect to be serviced by organizations regardless of where the organization is located. Customers expect to receive service in a language they understand and when they need it. This global challenge is not specific to large organizations; many smaller organizations have become global through their Web sites.

More choice with less time to choose: In most industries, customers have multiple competitors to choose from, but often have less time to investigate them. Customers may prefer to get multiple services from a single organization. Astute organizations are offering more to their customers – beyond their traditional core business. Such changes are exemplified in the financial industry. Banks are not only offering loans, checking and savings accounts, they now offer extended financial services, such as credit cards, mutual funds, insurance policies and financial planning.

Technological innovations in customer access alternatives: The development of new customer access technologies is changing the landscape of many call centers. Although these technologies may take time before they are widely used, customers continue to demand more convenient ways to access organizations. For example, communication centers are now standard features in many automobiles (e.g., Onstar). Web-based push-to-talk services are proliferating. Speech recognition is enabling a new breed of secure and highly customized voice services.

This item was developed by Cheryl Helm, Certified Associate of ICMI and Principal of Cheryl Odee Helm Consulting.
7. Identifying and Quantifying Customer Expectations

Key Points

- Identifying and quantifying customer expectations ensures that the call center creates objectives that directly contribute to customer satisfaction.

- Rather than creating organizational policies, service level standards and other call center measurements based on what call center executives “believe” their customers expect, the valid approach requires gathering this data from the source: the customer.

- There are a number of customer expectations that are consistently identified in customer satisfaction surveys. They include:
  - Be accessible
  - Treat me courteously
  - Be responsive to what I need and want
  - Do what I ask promptly
  - Provide well-trained and informed employees
  - Tell me what to expect
  - Meet your commitments, keep your promises
  - Do it right the first time
  - Be socially responsible and ethical
  - Follow up

Explanation

The imperative to identify and quantify customer expectations stems from a foundational principle: satisfied customers will lead to increased customer loyalty, retention and revenue. How do you satisfy customers? Meet their expectations. Many organizations have taken this imperative to heart and create their accessibility and service models based on their customers’ expectations.

Identifying the Organization’s Customer Expectations

Rather than creating organizational policies, service level standards and other call center measurements based on what call center executives “believe” their
customers expect, the valid approach requires gathering this data from the source: the customer. This approach ensures that the call center creates objectives that directly contribute to customer satisfaction. Customer expectation data may be gathered for current and ongoing services as well as explored proactively in anticipation of a product or service launch.

Common Customer Expectations

There are a number of universal customer expectations that are consistently identified in customer satisfaction surveys. In *Call Center Management on Fast Forward*, Brad Cleveland and Julia Mayben list a number of universal expectations that can be used as the basis for gathering information related to customer expectations, taking into account individual circumstances:

<table>
<thead>
<tr>
<th>Customer Expectation</th>
<th>Description</th>
<th>Questions to Specify Customer Expectation</th>
</tr>
</thead>
</table>
| Be accessible        | Customers prefer to interact with an organization that makes customer ease and convenience a priority. This includes streamlined contact methods, integrated sales channels, extended call center hours of operation and service levels that align with customer expectations, easy-to-use IVR services (with an option to talk to a live agent), and self-service alternatives for common inquiries. | • How easy is it to find our contact information (e.g., telephone numbers, email addresses, etc.)?  
• What hours should we be open for live assistance? 24x7? Evenings? Weekends? Holidays?  
• What services would you find convenient to access 24x7 via an automated system (e.g., account balances, payment information, locator services)?  
• Do you find our current IVR options easy to use? How often do you use them rather than opt for a live operator? |
| Treat me courteously | In addition to a friendly agent with a smiling voice, customers expect complete solutions that are “courteous.” Hiring and training practices should prepare agents to demonstrate professionalism, attentiveness and appreciation during customer interactions. Processes should show respect for the customer’s time and effort (e.g., not asking the customer to repeat information, not unnecessarily transferring calls) and facilitate timely solutions. | • Was the agent friendly, professional and courteous?  
• Did the agent listen effectively and, when necessary, offer empathy?  
• Do you feel our policies (e.g., return, exchange, refund, shipping) demonstrate respect and concern for your time and effort?  
• Was the call transferred? Did you feel the transfer was necessary?  
• Was your issue resolved during your first contact? |

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### Customer Relationship Dynamics

<table>
<thead>
<tr>
<th>Customer Expectation</th>
<th>Description</th>
<th>Questions to Specify Customer Expectation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Be responsive to what I need and want</td>
<td>Customers expect organizations to incorporate their needs and wants into the products and services they offer. Call center processes that encourage quick decision-making and the ability to customize products and services is paramount. The Internet portal Yahoo attributes much of its success to the ability to allow customers to instantly customize screens and add fee services on an <em>a la carte</em> basis.</td>
<td>• Do our current products and services meet your present needs? Do you believe they will meet your needs in the future? • What are your suggestions for changes or improvements in our products or services? • What are opportunities for customization that would make our products or services more useful and relevant to you?</td>
</tr>
<tr>
<td>Do what I ask promptly</td>
<td>Related to accessibility and responsiveness, the organization’s timely and prompt handling of customer orders, inquiries and problems is a key customer expectation and a major competitive differentiator. Service level, response time, order processing time and time to resolution are key measurements of this expectation.</td>
<td>• Was your request handled within the expected timeframe? Do you feel it was handled within a “reasonable” timeframe? • Did you wait in queue when you called? How long? Did you feel that was too long?</td>
</tr>
<tr>
<td>Provide well-trained and informed employees</td>
<td>The increasing complexity of interactions, sophistication of technology tools and heightened customer expectations, require more — skills, education, professionalism, maturity — of agents than ever. Organizations that empower their agents with knowledge and provide them with the training and tools they need to meet and exceed customer expectations are rewarded with customer loyalty and increased revenues.</td>
<td>• Did the agent have the tools to resolve your issue or answer your question? • Did the agent have access to necessary information about you and your transaction history? • Did the agent have the authority and training to handle your inquiry to completion on first contact? • Was the agent knowledgeable, helpful and flexible? Did he or she appear confident that the situation would be resolved (if a problem)? • Was the agent able to clearly explain what happened and the next steps? • Was the agent able to explain corporate policy and address all your concerns?</td>
</tr>
<tr>
<td>Tell me what to expect</td>
<td>Proactively setting customer expectations enhances the organization’s image as being easy and convenient</td>
<td>• Did the organization clearly set expectations regarding the product, service and associated features?</td>
</tr>
</tbody>
</table>

*continued, next page*
<table>
<thead>
<tr>
<th>Customer Expectation</th>
<th>Description</th>
<th>Questions to Specify Customer Expectation</th>
</tr>
</thead>
</table>
| **Tell me what to expect** (continued) | to do business with. Provide customers with detailed information regarding customer service policies and procedures (e.g., hours of operation, delivery expectations, additional fees, response time) and offer customized, real-time updates (e.g., estimated time in queue, shipping and delivery status, product availability). | • Was it clear when and how you would receive your product after you ordered it?  
• Did the agent tell you what you should do if the solution did not work or if the result was not what you expected? |
| **Meet your commitments, keep your promises** | Customers expect organizations to fulfill their obligations and follow through on their promises (e.g., product quality, delivery timeframe, service level, response time, return or refund policy). Once the customer’s trust in the organization is broken, it can be very difficult to win it back. Toward this end, organizational and call center processes should be geared toward fulfilling the expectations and objectives communicated to customers. | • Were products accurately represented in advertising and by agents?  
• Were the promises made by the agent or the organization completed according to the expectations they set (e.g., account credited, replacement product sent, claim processed)?  
• Did your order arrive when it was promised? |
| **Do it right the first time** | Customers expect the organization to do it right – the order, the payment, the refund, the answer – the first time, saving them the time, inconvenience and cost for it to be fixed. | • Did the product or service meet your expectations when you received it?  
• Did you have to follow up on your request?  
• Did you receive the information you needed the first time you contacted us?  
• Did your order arrive when it was promised? |
| **Be socially responsible and ethical** | Many customers wish to do business with organizations whose practices are socially responsible (e.g., fair labor practices, community relations initiatives, protection of public health) in order to align themselves with organizations whose values match their own. The organization’s commitment to ethical business practices can also negatively or positively impact their | • What social issues are you most concerned with?  
• What do you feel the role of an organization should be in responding to social (e.g., local, national) issues?  
• Would you be willing to pay more for products and services if the organization went beyond what was legally required to create positive working conditions for employees |

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In addition to asking your customers for their expectations, consider the trends of leading organizations in your industry and others. If you are in the financial services industry, you certainly need to stay abreast of the emerging trends in the financial services industry. If banks are offering longer hours of service, then your call center may need to do the same. However, you also need to consider customer service trends of other customer-focused industries. If text-chat is rapidly becoming an expected access channel in the online catalog industry, you can anticipate that your Internet banking customers will expect this soon as well.

### Quantifying Customer Expectations

The ongoing process of identifying customer expectations requires that valid methods be used to gather data. Prudent sampling and statistical methodologies will ensure that organizations make customer relationship management decisions based on accurate information, rather than assumptions or observation. For example, if a supervisor observes an “unusually high percentage of calls” from customers complaining about a defective childproof cap, he or she may believe the organization is not meeting customer expectations regarding packaging safety. If, however, tens of thousands of this product are sold each day and a redesigned cap will require time for customers to learn to use, then the ratio of complaints may actually be quite low. (See Sampling and Analysis Principles, Section 4)
Quantifying customer expectations also provides a baseline for the organization to measure progress toward achieving improvements in customer satisfaction. Accurate tracking and ranking of issues that affect customer satisfaction gives management a comprehensive view of the customer satisfaction landscape in order to set priorities and assign the appropriate resources.
8. Customer Valuation Alternatives

Key Points

- A customer valuation model is a mathematical formula that estimates the value of a customer to the organization over a future time period.

- Value can represent both the tangible and intangible benefits of the customer relationship.

- The appropriate model to choose for your organization depends on several factors, including:
  - Strategic objectives
  - Data availability and analytical capability
  - Nature of your business

- A common approach to determine customer valuation is through customer lifetime value.

Explanation

Among all the possible ways to segment customers, differentiating based on customer value can be at once the most powerful, and the most difficult, approach. This simple, old-fashioned sense – treat your best customers best – is part of the powerful allure customer relationship management has for organizations around the world. But the difficulty of valuing customers accurately is part of the struggle organizations have faced in implementing customer relationship management effectively.

It’s clear why customer valuation is important, but why is it so difficult to measure? The biggest problem in any customer valuation model is the inherent difficulty of predicting the future. “Customer value” accounts for all future cash flows resulting from the organization’s relationship with that customer minus all costs associated with retaining that customer. It’s a simple concept to grasp, but accurate forecasting is the hard part.

Customer Valuation Models

A customer valuation model is a mathematical formula that estimates the value of a customer to the organization over a future time period. The expression
“lifetime value” of a customer simply refers to the entire possible time period that the customer could interact with the organization.

The definition of “value” is important. Value can represent both the tangible and intangible benefits of the customer relationship. The tangible benefits are familiar (e.g., revenue from sales). The intangible benefits should be tied to the organization’s strategic objectives (e.g., strategic importance of penetrating a new market).

A customer valuation model can be as simple as assuming the past will repeat itself, or nearly as complex as the econometric models used by the Federal Reserve Bank. Assuming that the customers who bought the most this year will be your most valuable customers next year may be adequate for some organizations. Estimating how much a customer’s orders will change over time based on analysis of your customer profile data should prove more effective.

The appropriate model to choose for your organization depends on several factors, including:

- **Strategic objectives**: The organization’s strategic objectives drive the choice of a customer valuation model. For example, when an organization sets out to increase market share in a region, then it may estimate the increased value of customers to the organization from that region when building the customer valuation model.

- **Data availability and analytical capability**: A key determinant of the complexity of the customer valuation model is the availability of data and resources to analyze it. Organizations lacking in either of these areas will be limited to simpler models. Many customer relationship management technology components offer the capability to capture reams of customer data, as well as tools to analyze it. It should not be assumed, however, that more complex models will be better models.

- **Nature of your business**: Many businesses have unique characteristics related to their products, services, market or customers. To the extent that these factors can be quantified and applied to the future value of a customer, they can be considered for inclusion in a customer valuation model.

There is no one “correct” customer valuation model. What works for one organization may not for another. And what works today may not work so well
tomorrow. In some ways, the greatest benefit of developing a customer valuation model is the increased understanding of customers that occurs through this process.

**Customer Lifetime Value Calculation**

A common approach to determine customer valuation is customer lifetime value. An example of this calculation follows:

<table>
<thead>
<tr>
<th>Lifetime Value of Customer Segment A</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>5,000</td>
<td>3,500</td>
<td>2,590</td>
</tr>
<tr>
<td>Retention rate</td>
<td>70%</td>
<td>74%</td>
<td>80%</td>
</tr>
<tr>
<td>Average yearly sales per customer</td>
<td>$1,056</td>
<td>$1,552.50</td>
<td>$2,145</td>
</tr>
<tr>
<td>Total sales</td>
<td>$5,280,000</td>
<td>$5,433,750</td>
<td>$5,555,550</td>
</tr>
<tr>
<td>Total variable costs</td>
<td>$5,148,800</td>
<td>$5,081,388</td>
<td>$5,131,826</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$131,200</td>
<td>$352,363</td>
<td>$423,724</td>
</tr>
<tr>
<td>Discount rate</td>
<td>1.00</td>
<td>1.20</td>
<td>1.44</td>
</tr>
<tr>
<td>NPV profit</td>
<td>$131,200</td>
<td>$293,635</td>
<td>$294,253</td>
</tr>
<tr>
<td>Cum. NPV profit</td>
<td>$131,200</td>
<td>$424,835</td>
<td>$719,088</td>
</tr>
<tr>
<td>Lifetime value</td>
<td>$26.24</td>
<td>$84.97</td>
<td>$143.82</td>
</tr>
</tbody>
</table>


In Year 1, 5,000 customers were acquired by the organization. By Year 3, the organization has retained 2,590 of the original 5,000 customers. It is important to understand at the outset that the average customer lifetime value should be calculated for all 5,000 original customers, not the final 2,590 retained in Year 3. This will allow you to determine the profit that can be expected if the organization is able to attract more customers of this type.

To determine the lifetime value for these customers:

1. **Take the gross profit for each year**: The gross profit is total sales minus total variable costs. When calculating lifetime value for customer segmentation purposes, it is usually not necessary to include fixed costs (e.g., building, overhead, etc.) in the calculation. Fixed costs are typically
the same regardless of the customer segment being served, so they do not impact the relative value of each customer segment.

2. **Apply a discount rate to determine the net present value (NPV) profit:** A dollar received today is worth more than a dollar promised in the future, because you could invest a dollar today and earn interest on it. Therefore, you must discount future profit using a discount rate so it can be legitimately added to current profits. The discount rate appropriate for your organization should be determined based on the current interest rate plus a risk factor. Your organization's financial department can provide guidance on the best discount rate to use.

3. **Add each year's NPV profit together to calculate the NPV profit for the customer lifecycle:** Since NPV provides a way to compare profits in terms of their worth today, the profits of each year of the lifecycle can be added together to represent the total profit in terms of today's money.

4. **Divide the cumulative NPV profit by the original 5,000 customers:** The result is a customer lifetime value of $143.82 for customer segment A over a lifecycle of three years.

This example determines the lifetime value of customer segment A over the customer lifecycle of three years. This lifecycle was chosen since after three years, fewer than half of the original 5,000 customers are still retained by the company. The lifecycle that is chosen by your organization may be a shorter or longer timeframe depending on your customers' behavior. For example, a catalog company selling maternity clothes may have a customer lifecycle of less than one year. Alternatively, automobile dealers may have much longer customer lifecycles since many customers will wait three to five years between purchases.

(For a complete discussion of financial principles and application, see ICMI's *Call Center Leadership and Business Management Study Guide*.)

**Referral Customer Value**

Another aspect of customer value is referrals generated by word-of-mouth advertising. Referrals allow you to increase market share without additional marketing costs. Part of determining which customer segments are most valuable to your organization is determining which segments refer the most new customers. The table on the next page illustrates the fact that a customer segment with a lower customer lifetime value may be more valuable to the organization because of its referral customer value.
Although it is useful to consider referral customer value when comparing the value of customer segments, you should not include it as part of the customer lifetime value number. If you do, you run the risk of counting the referred customers twice – once as part of the referring customer’s lifetime value and once as part of the referred customer’s value.

**Cautionary Notes**

The benefits of understanding customers’ value to your organization cannot be dismissed, but the dangers of misapplying customer valuation models should not be minimized either. Beware of blindly trusting mathematical formulas. There are some important factors to consider that customer valuation models cannot account for, including the following:

- **Underestimating customers’ value:** While it might seem better to underestimate and then be pleasantly surprised when higher results come in, the danger of underestimating in a customer valuation model is considerable. If low-value customers are treated less favorably than high-value customers, you better have great confidence in your customer valuation model. If you’ve missed the mark and pegged the wrong customers as low-value, then you may get exactly what you’ve modeled: You may miss opportunities to turn them into higher-value customers. When customer valuation models are used to drive customer relationship management, they not only measure outcomes, they also significantly affect them.

- **Public perception:** Perhaps your customer valuation model is 100 percent accurate and you have identified a customer segment that costs more to service than it yields in revenue. You may conclude, as an investment company did in a well-publicized case a few years ago, that you can maximize the future value of these customers by forcing them into lower-cost servicing alternatives (e.g., IVR and Web self-service).
But consider carefully how this action will be perceived by those customers (what will their retention rate be?), by the rest of your customers (will they feel privileged and pleased or react negatively?), and by prospective future customers (when they learn how you treat these customers will they be more or less likely to become your customer?). Stories about ordinary people being mistreated by greedy corporations are popular reading, so they tend to spread far and wide both through news media and word-of-mouth. In the latter case, the truth about your policy may become distorted to your further disadvantage.

The Customer’s Perspective – Service as We’ve Known It Has Changed Forever

Welcome to the new consumer apartheid. Those long lines and frustrating telephone trees aren’t always the results of companies simply not caring about pleasing the customer anymore. Increasingly, companies have made a deliberate decision to give some people skimpy service because that’s all their business is worth. Call it the dark side of the technology boom, where marketers can amass a mountain of data that gives them an almost Orwellian view of each buyer. Consumers have become commodities to pamper, squeeze or toss away, according to Leonard L. Berry, marketing professor at Texas A&M University. He sees “a decline in the level of respect given to customers and their experiences.”

More important, technology is creating a radical new business model that alters the whole dynamic of customer service. For the first time, companies can truly measure exactly what such service costs on an individual level and assess the return on each dollar. They can know exactly how much business someone generates, what he is likely to buy and how much it costs to answer the phone. That allows them to deliver a level of service based on each person’s potential to produce a profit – and not a single phone call more.

The result could be a whole new stratification of consumer society. The top tier may enjoy an unprecedented level of personal attention. But those who fall below a certain level of profitability for too long may find themselves bounced from the customer rolls altogether or facing fees that all but usher them out the door.

Is this service divide fair? That depends on your perspective. In an era when labor costs are rising while prices have come under pressure, U.S. companies insist they simply can’t afford to spend big bucks giving every customer the hands-on service of yesteryear. Adrian J. Slywotzky, a partner with Mercer Management Consulting Inc., estimates that gross margins in many industries have shrunk because of competition. “Customers used to be more profitable 10 years ago, and they’re becoming more different than similar in how they want to be served,” he says.

The new ability to segment customers into ever-finer categories doesn’t have to be bad news for consumers. In many cases, the trade-off in service means lower prices. Susanne D. Lyons, chief marketing officer at Charles Schwab, points out that the commission charged on Schwab stock trades has dropped by two-thirds over the past five years. Costs to Schwab, meanwhile, vary from a few cents for Web deals to several dollars per live interaction. And companies note that they’re delivering a much wider range of products...
and services than ever before – as well as more ways to handle transactions. Thanks to the Internet, for example, consumers have far better tools to conveniently serve themselves.

Already innovative players are striving to use their treasure trove of information to move customers up the value chain instead of letting them walk out the door. Capital One Financial Corp. of Falls Church, Va., is an acknowledged master of tiering, offering more than 6,000 credit cards and up to 20,000 permutations of other products, from phone cards to insurance. That range lets the company match clients with someone who has appropriate expertise. “We look at every single customer contact as an opportunity to make an unprofitable customer profitable or make a profitable customer more profitable,” says Marge Connelly, senior vice president for domestic card operations.

For consumers, though, the reality is that service as we’ve known it has changed forever. As Roger S. Siboni, chief executive of customer service software provider E.piphany Inc. points out, not all customers are the same. “Some you want to absolutely retain and throw rose petals at their feet,” Siboni says. “Others will never be profitable.” Armed with detailed data on who’s who, companies are learning that it makes financial sense to serve people based on what they’re worth. The rest can serve themselves or simply go away.

9. Customer Profile and Segmentation Strategies

Key Points

- Customer profiles represent what you know about your customers.
- Customer segmentation is the way you group customers based on what you know about them.
- Customer relationship management seeks to segment customers based on their strategic value.
- Customer profiling and segmentation strategies are two distinct parts of one whole. It is best to develop both strategies together.

Explanation

Customer profiling and segmentation are the strategic underpinning of customer relationship management. Customer profiles represent what you know about your customers, while customer segmentation is the way that you group customers based on what you know about them. Strategic decisions about customer profiling and segmentation have far-reaching implications for the success or failure of an organization's customer relationship management efforts.

Customer Profiling

Customer profiles are collections of data that describe your customers and their relationship with you. Contact management technology enables organizations to capture and store types and amounts of data that would have been impractical to maintain just 10 years ago. Customer information systems offer organizations powerful and flexible ways to analyze this information and synthesize it into understandable summary form.

There are several difficulties associated with gathering customer profiling information. Generally, these problems include:

- Customers do not want to take the extra time to provide information
- Customers are concerned about privacy issues
- Customers often do not know what they want
Consequently, customer profiling is the ongoing activity of learning more about customers’ evolving preferences.

Customer profiling also determines what information about a customer is important to the organization. Profiling guidelines should align with the organization’s overall strategic objectives, particularly customer segmentation and customer access strategy. As with most strategic decisions, customer profiling strategy cannot be crafted in isolation. (See Data Warehousing and Data Mining, Section 7.)

Customer Segmentation

Customer segmentation strategy is usually driven by the marketing department, but as the role of call centers grows in importance through the implementation of customer relationship management strategies, call center managers are increasingly recognized as valuable partners in this strategic planning process. Segmentation strategy is an important component of customer access strategy, and the latter is primarily implemented in call centers. (See Developing the Supporting Call Center Strategy, Section 5.) The call center is also a central collection point for customer data in contact management and customer information systems.

Customer Segmentation Strategies as Applied to the Call Center

Customer relationship management requires a different perspective from traditional customer segmentation. Grouping customers by their location, other demographic characteristics or annual sales can be useful for many reasons, but has limited applicability to customer relationship management. These approaches don’t provide enough knowledge about the customer. Segmentation based on profitability goes a step further toward capturing customer value. Segmentation based on customer needs offers opportunities to customize marketing and service strategies by designing products and programs that anticipate and address those needs. Assessment of the potential for customers to change in value is critical to long-term strategy.
Ultimately, however, customer relationship management seeks to segment customers based on their value, or more specifically, their strategic value (not just current profitability). Value segmentation synthesizes knowledge about customers to sort them into actionable groups, based on their importance to the organization. The objective is to allocate the right types and levels of resources to the right customers. Customer strategic value should determine how the relationship with the customer is managed.

### Understanding Different Customers’ Needs

Like many companies, Schwab is aiming for the holy grail of a completely personalized experience for each individual. In the meantime, however, the company has found it useful to begin by segmenting customers into different clusters based on their behavior, in order to be able to monitor and improve the customer experience for each different type of customer. Schwab keeps track of the information that customers freely offer. It doesn’t invade customers’ privacy. However, by using sophisticated analytics to model different customer segments and behaviors, the company is better able to match its customers’ needs.

There are several different aspects of customer behavior that Schwab mixes and matches in order to better understand customer segments. Of course, Schwab knows its customers’ interaction and transaction histories as well as each customers’ assets under management and whether those are being handled by an investment advisor.

Customers also give Schwab demographic information – age, sex, income, etc. And they tell Schwab their preferences – if they want to interact over the Internet, which stocks they want to be alerted about, and so on. Customers also characterize their investment styles (from risk-averse to aggressive.)

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Based on these explicit customer characteristics, Schwab currently groups customers into “investment style” segments:

- **Delegators.** These are the customers who work through an investment advisor.
- **Validators.** These are the customers who like to do their own research and leg work, but then want to have a conversation with someone to validate their hunches.
- **Self-Directed.** Customers who do their own research, most of it online, and prefer to use the automated channels, such as the Web and/or Schwab’s voice response systems.

In addition, Schwab currently divides its customers into three large behavioral segments:

- **Classic Customers.** These are the customers who have less than $100,000 of assets with Schwab and who perform fewer than 12 trades per year.
- **Active Traders.** Customers who trade more than 24 times per year.
- **HyperActive Traders.** Customers who trade more than 48 times per year – many of them hundreds of trades per year.

As you can see, there’s nothing mysterious or shady in these distinctions. Customers know what they are. They know whether they prefer to have guidance or to do it themselves. They know how much money they have invested through Schwab and whether they have delegated some or all of their investment decisions to an advisor.

Customers can also opt into Schwab’s explicit customer segmentation by signing up for Schwab’s Signature Services. This is a program designed to cater to the customers with the largest assets and the largest number of trades or a combination of both.

What does Schwab measure and monitor out of all this customer behavioral information? A lot, of course. There are specialists who are constantly mining Schwab’s customer data looking for patterns and early warning signals. According to Janice Rudenauer, VP of Database and Relationship Marketing, the most promising area of analytics has been to be able to detect patterns that lead to a customer leaving Schwab for another brokerage relationship. Over the past few years, Schwab has experienced some true attrition – situations where customers transferred assets to a competing firm. By tracing back through customers’ behavior in the three years prior to the defection, Janice’s team has begun to spot some interesting patterns in customers’ assets and trading activity. Modeling this past behavior may prove useful in flagging customers who are beginning to exhibit similar behaviors, in order to be able to spot defections before they occur.


For organizations, one of the most attractive benefits of customer segmentation is the ability to identify less profitable customers and shift them over to more cost-effective service options, such as interactive voice response. Consider a study by TARP (conducted for the International Customer Service Association), which reported a cost-per-contact median of $5 for an agent-handled call while a typical IVR contact costs $0.36. While that sounds like good business sense, that practice has come under fire — consumers tend to become incensed at the
idea that they're considered not valuable to a business and aren't important enough to merit individual service from a live agent. (See Designing and Improving Self-Service Systems, Section 7.)

Sometimes, though, even personal service can be tainted by a customer's profile. One of the biggest challenges for call centers during the implementation of customer relationship management is overcoming the misperception that agents will know what to do with the customer profile information the system provides. For instance, if agents access a customer profile and determine that they're talking with a customer who has been identified as not profitable, those customers may get mistreated if the proper service training is not in place.

Trade-offs

There are costs associated with any customer profiling and segmentation strategy. In general, the more detailed the profiling and segmentation, the more expensive it will be to implement and maintain. Technology costs are not the only ones to consider, either. Hidden costs may be associated with expert resources to maintain systems, training costs for users of complex systems, and operational costs from slower system response time or longer transactions required to capture more information.

Developing customer profiling and segmentation strategies also presents a classic “chicken and the egg” problem: Which comes first? The data available to be compiled into customer profiles defines the upward limit of your segmentation options. But, your segmentation strategy also defines your profiling data requirements. The best approach is to consider profiling and segmentation as two distinct parts of one whole, and develop both strategies together.

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Involve Customers in Segmentation

To make segmentation models useful, be explicit. Let your customers know what kinds of criteria you’re using to create categories; let your customers contribute to and verify the kinds of information you’ve collected. Let them know how you intend to use the segmentation schema, and give them the opportunity to tell you how they think their information should be used. Sharing segmentation information gives you the opportunity to tell them how valuable you believe they are to your company, which is an important step in building strong relationships. Airline companies have set the standard here. They group us into frequent flyer categories based on the volume and value of the business we do with them. As consumers we know which category we’re in, what the benefits are of being in that category and what actions we can take to change the segment we’re in.

A permission-marketing approach makes a lot of sense here. Why not send your customers a letter or an email describing the kind of segment and the characteristics that you’ve attributed to them? That way they can tell you whether they believe they fit into the schema or not. They can also tell you how they want you to manage this information and help you avoid violating their rights to privacy. And don’t forget that circumstances and customers’ tastes and needs change. The segmentation and targeting that’s valid today may be irrelevant, insulting or annoying in three months’ time.

10. The Call Center’s Role in Customer Segmentation

Key Points

- Typically, the call center will be involved in customer segmentation in the following ways:
  - Participate in the development of the organization’s customer segmentation strategy
  - Determine appropriate agent group design
  - Match training with customer requirements
  - Carry out planning and management processes at the agent group level
  - Route customers based on business rules appropriate to each customer segment
  - Align contact-handling processes with customer segmentation objectives
  - Collect and analyze data by customer segment

Explanation

While the marketing department generally establishes an organization’s customer segmentation strategy, the call center plays a large role in implementing that strategy. The call center, particularly today’s multichannel connected call center, is responsible for managing customer relationships every time a customer makes contact with the organization. The call center’s people, processes, technologies and strategies all play a role in carrying out a successful customer segmentation initiative.

The call center’s role in customer segmentation begins with participation in the development of the strategy and extends to execution and analysis. Typically, the call center will be involved in customer segmentation in the following ways.

Participate in the development of the organization’s customer segmentation strategy: The center will be able to add insight about current customers as well as articulate the expected impact of segmentation on call center operations. The segmentation strategy will lead to the development of business rules for each customer segment. These rules will affect the entire call center operations, from which access channels will be available, what service levels will be offered and the call center’s hours of operation.
Determine appropriate agent group design: As the call center carries out a customer segmentation strategy, one of the fundamental decisions that must be made is how “segmented” agents must be, as well. The ability to service each customer type effectively may depend on different skill sets (e.g., more emphasis on sales or more decision-making ability). If these skill sets can be easily cross trained, agent groups may be able to be more pooled, often resulting in greater efficiencies. However, if service is compromised by too much information or too many skill requirements, there may need to be more agent groups to accommodate customer needs.

How the center organizes queue groups will affect everything from forecasting processes to training initiatives so great care should be taken to ensure groups are not too specialized or too pooled. (For more information, see the discussion on agent group design in ICMI’s Call Center People Management Study Guide.)

Match training with customer requirements: Customer segmentation, as applied to service delivery, fundamentally implies that different customers will be treated differently. Each differentiation in treatment may require different training requirements for call center agents. For example, if a customer segment is encouraged to use the email contact medium, agents handling these customers will need training in effective email correspondence. Some customers may be given access to specialized services that agents will need training on how to deliver. Agents may also need training in decision-making and rapport-building to carry out customer segmentation most effectively. (See Aligning Hiring and Training Initiatives, Section 7.)

Training is particularly important when less precise ways are used to implement the customer segmentation strategy in the call center. For example, some systems flag customer records to indicate to agents something about the customer’s relationship with the organization. Problems can arise, however, when agents are not trained carefully on how to act on this information. Are agents supposed to be curt with low-value customers? Are they allowed to break the rules to service high-value customers? Without proper guidance, agents may implement customer segmentation inconsistently across the organization and undermine the effectiveness of this strategy.

Carry out planning and management processes at the agent group level: Customer segmentation impacts many call center processes. Since the segmentation strategy will drive contact types, which will in turn drive agent group design, planning and management processes, such as forecasting, staffing and scheduling, will need to be done at the agent group level. A center that
implements a segmentation strategy without fundamentally aligning these planning processes is misguided in its hopes to achieve a certain level of service. (See Planning and Management Processes, Section 7.)

Route customers based on business rules appropriate to each customer segment: Customer segmentation most often requires contacts to be routed by customer type. Different types of callers can be sent to self-service IVR menus or live answer groups, sent to different types of agents, answered promptly or slowly, and so on. Separate email addresses may be provided to different types of customers and areas of the organization’s Web site may be reserved for higher value customers through password protection.

Current technology allows for many routing options, based on customer input (e.g., press 1 for service, 2 for sales), contact location, number dialed or computer-telephony information collected from the Web or database systems. Routing alternatives must be based on sound business rules that are determined by the customer’s value to the organization. (See The Role of Business Rules, Section 7.)

Align contact-handling processes with customer segmentation objectives: Agents need a clear understanding of how policies and procedures differ based on customer type, and systems need to be established to facility their appropriate delivery.

One tool that can help apply segmentation is scripting. Scripting can be applied to any access channel, either through literal scripts that help guide agent conversations or through automated presentations offered by Web or IVR technology. Dynamic scripting takes into account the caller’s response to the script itself by branching into different directions depending on the caller’s input. For example, a caller changing his mailing address may be asked whether he is renting or buying his new home, and the script would branch to offer different products or services depending on the answer. This allows even greater customization of customer treatment.

Another consideration of applying segmentation to contact-handling is personalization options. As profiling and segmentation initiatives provide the organization with valuable information about each customer, agents need to have ready access to this information to provide more personalized service to all customers. Guidelines can be provided as to how to carry this out based on the value of the customer, needs of the customer and data on similar customers. The result of more personalization of services is often greater opportunities for cross-selling and upselling. (See Empowering People to Build Customer Relationships, Section 7.)
Collect and analyze data by customer segment: When customers are delivered service based on segmentation objectives, the collection of customer data must also be segmented to enable sound, future decisions. Marketing can use customer feedback to better target specific market segments. Products and services can be refined and developed to meet the needs of each customer group. The call center can identify better ways to service each customer segment to achieve maximum loyalty and revenue per customer. Centers who do not take advantage of data mining by customer segment are missing out on a key benefit to customer relationship initiatives. Customer information from live contacts as well as self-service applications, including personalized e-commerce services, should be combined to provide the most information for each customer segment. (See Data Warehousing and Data Mining, Section 7.)
Customer Relationship Dynamics

Exercises

Customer Relationship Management Terms and Definitions

1. True or false

______Customer relationship management primarily consists of a set of technology tools.

______For the purposes of customer relationship management, the term “customer” includes existing and prospective customers.

______The relationship in customer relationship management has its roots in the practices of successful local proprietors who know and care about their small but loyal customer base.
Key Principles of Customer Relationship Management

2. Fill in the blanks to complete each key principle of customer relationship management.

a. Continuously ______________ about your customers

b. Interact ______________ with your customers

c. Handle different customers ______________

d. Retain the ______________ customers

e. ______________ customer needs and offer to fulfill them

f. Increase ______________ for your customers and of your customers

g. Present a ______________ ______________ to your customers to make their experience with your organization seamless

h. Focus on revenue and retention more than on reducing ______________

i. Enable information ______________ and ______________ across the organization

j. Create ______________ ______________ to drive all customer relationship management decisions and automation

k. ______________ agents with information and training

l. Remember that the effective management of customer relationships is a ______________ of doing ______________, not just a technology project
The Value of Customer Satisfaction and Loyalty

3. Select the most appropriate answer to each question.

According to industry studies, which of the following type of customer will be the most loyal?
   a. Customers without problems
   b. Satisfied complaintants
   c. Noncomplaintants

Which of the following accurately states the rate at which negative word of mouth is spread compared to positive word of mouth?
   a. Negative word of mouth is spread at twice the rate of positive word of mouth.
   b. Negative word of mouth is spread at three times the rate of positive word of mouth.
   c. Positive word of mouth is spread at twice the rate of negative word of mouth.
   d. Positive word of mouth is spread at three times the rate of negative word of mouth.

Which of the following statements accurately reflects the benefits of loyal customers to the organization:

I. A loyal customer requires less marketing expense to obtain the sale
II. A loyal customer is more likely to acquire other products
III. A loyal customer typically requires less service effort by the organization
   a. II only
   b. I and II only
   c. I, II and III

Which of the following metrics is the ideal way to measure the linkage between customer satisfaction and customer loyalty?
   a. Actual customer behavior
   b. Customer-stated behavior intention
   c. Customer-stated recommend intention
Drivers of Customer Expectations

4. As service improves, customers rather quickly progress through which four stages that affect their level of expectations?

_________________
_________________
_________________
_________________

5. Fill in the blanks to complete each driver of customer expectations.

a. The _______________ economy

b. More _______________ with less time to _______________

c. _______________ innovations in customer _______________ alternatives

Customer Valuation Alternatives

6. Complete the following table to determine the customer lifetime value over a lifecycle of two years.

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>7,500</td>
<td></td>
</tr>
<tr>
<td>Retention rate</td>
<td>69%</td>
<td>72%</td>
</tr>
<tr>
<td>Average yearly sales per customer</td>
<td>$654</td>
<td>$986</td>
</tr>
<tr>
<td>Total sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total variable costs</td>
<td>$4,785,225</td>
<td>$4,695,338</td>
</tr>
<tr>
<td>Gross profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>1.00</td>
<td>1.20</td>
</tr>
<tr>
<td>NPV profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cum. NPV profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lifetime value</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Call Center’s Role in Customer Segmentation

7. Briefly answer the following question.

Why is the affect of customer segmentation to agent queue group design so important to the call center?

Answers to these exercises are in Section 10.

Note: These exercises are intended to help you retain the material learned. While not the exact questions as on the CIAC Certification assessment, the material in this study guide fully addresses the content on which you will be assessed. For a formal practice test, please contact the CIAC directly by visiting www.ciac-cert.org.
Customer Relationship Dynamics

Reference Bibliography

Related Articles from *Call Center Management Review*
(See Section 9)

CRM: Frequently Asked Questions

The Call Center’s Critical Role in Customer Relationship Management

Customer Expectations in 2000

For Further Study

**Books/Studies**


**Articles**


**Seminars**

*Effective Leadership and Strategy for Senior Call Center Managers* public seminar, presented by Incoming Calls Management Institute.