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The Importance of Customer Centricity: **CRM STRATEGIES**

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CRM Strategies

Companies can only predict what their customers will do in the future if they keep a record of past behavior and know how to translate this information into knowledge about customers. Successful customer relationships draw on this knowledge. And that is where the potential added value of customer relationship management lies.

Mass customization for lasting customer satisfaction and loyalty

The Personal Touch



To survive in today's marketplace, a company cannot afford to choose between low costs on the one hand, and high quality, innovative technology, quick delivery, or high variety on the other. A hybrid strategic approach is needed, teaming high quality or the latest technology with a strong cost position.

Mass customization is the perfect way to bridge the gap between cost pressures and customer-specific requirements. This strategy combines customer-specific products and services with the efficiency of mass production. The customer who previously bought a standard product can now walk away with a tailored solution. Similarly, companies that traditionally produced custom-made solutions can still manufacture to order, but on a large scale, thanks to powerful new processes and product structures. Naturally, this cuts costs. Furthermore, mass customization provides the basis for successful customer relationship management (CRM) through direct interaction with each customer.

Used effectively, mass customization holds considerable potential:

- Differentiation through individuality: Products that are created specifically for a customer do not face price wars. The emphasis is shifting from price to value, and research shows that a customer who previously bought a standard product is often prepared to pay up to 100 percent more for a personalized product. Despite higher production costs, therefore, the margins for mass-customized goods are often greater than those for comparable standardized goods.
- New ways to cut costs: Direct interaction between a company and each of its customers makes production more efficient and drives down costs. The "on demand" principle prevents inaccurate forecasting of final products and reduces high inventory costs. On the manufacturing side, inventory is restricted to raw materials and components, some of which are also procured to order. Elimination of

finished product stock can dramatically lower storage costs. Moreover, less surplus stock means less depreciation when models become outdated. For example, in the fashion industry, a considerable €300 million (approximately U.S.\$370 million) is wasted each year on unsold products and inaccurate planning. This figure underscores the huge cost-saving potential of mass customization.

- Long-lasting customer retention: A further benefit of customer-specific services is improved customer satisfaction and retention. Personal interaction between the manufacturer and individual customers is vital if the company is to gather customer-specific information and translate it into tailor-made products. This interaction forms the basis for a long-term customer relationship.

Mass customization as the basis for lasting CRM

It is the manufacturer's job to use the information received during the customer interaction effectively and profitably. Customers supply mass customizers with a great deal of information about themselves, either by stipulating their own needs or by enabling the provider to infer their requirements from the configuration process. Not only do providers ascertain their customers' preferences, they use this knowledge to create additional benefits for the customers. U.S. consultants Don Peppers and Martha Rogers talk of "learning relationships" that grow and become more intensive and intelligent with time.

Adidas-Salomon demonstrates this perfectly with its mass customization program "mi adidas" (see graphic): A customer

wants to buy personalized running shoes for around U.S.\$150. The more the customer tells the vendor about his/her likes and dislikes during the integration process, the better chance there is of a product being created that meets his/her exact needs on the first try.

After delivery of the customized product, feedback from the shoe-wearer consolidates adidas-Salomon's knowledge of the customer. The manufacturer can draw on detailed information about the customer for the next sale, ensuring that the service provided becomes quicker, simpler, and more focused. The state of information is increased and finely tuned with each additional sale. This data is also used to propose subsequent purchases automatically once the life of the training shoes is over (for many adidas customers who train intensively, this can be every couple of months).

The potential of learning relationships

When adidas-Salomon enters a learning relationship with its customers, it increases the revenues from each customer because, in addition to the actual product benefits, it simplifies the purchasing decision, so the customer keeps coming back. Why would a customer switch to a competitor – even one that can deliver a comparable customized product – if adidas-Salomon already has all the information necessary to supply the product? A new supplier would need to repeat the initial process of gathering data from the customer.

Moreover, the customer has now learned how his/her integration into the process successfully results in the creation of a product. Such learning relationships boost loyalty. In many CRM initiatives, only the communication with the customer is personalized – and often just through advertising materials. Such initiatives do not reach far enough and are usually unsuccessful. Customers do not want personalized communication with a company – they want products that cater to their individual needs.

Learning relationships are also the basis for expanding knowledge about customers. Companies that gather and compare information about individual customers are in a better position to address their sales market in a targeted and efficient way.

By collecting and aggregating information from a segment of customers, adidas-Salomon gains valuable market research

knowledge that is similar to panel data but without the usual effects of panel surveys. As a result, new products can be planned more efficiently and market research is more effective because of unfiltered access to data on market trends and customers' needs. This is of special benefit to companies that unite large-scale make-to-stock production with tailored services.

Two requirements for sustained CRM

There are two prerequisites for a successful CRM program. The first is an offering based entirely on the wishes and needs of the customer – not simply on standard processes “cosmetically personalized” through irritating promotional letters. A sensible customer-company liaison begins with personal contact, continues with the creation of sales activities according to customer-specific specifications, and finishes with a learning relationship, whereby the provider is the student, not the teacher.

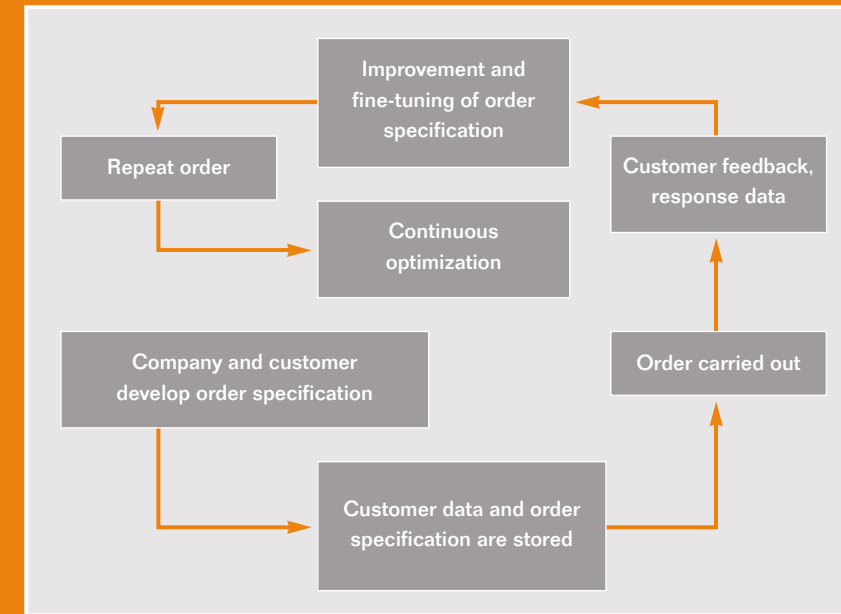
Second, high-quality processes must underpin these customer-specific services. Using new information and communication techniques effectively is just as important as having well-trained, motivated staff to interact with customers. The aim is to create an atmosphere conducive to customer integration and ensure that every communication between customer and company is a positive experience – leaving the customer convinced that to remain loyal is more convenient than to turn to a competitor.

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Further information:

The Customer Centric Enterprise: Advances in Mass Customization and Personalization, edited by Mitchell M. Tseng and Frank T. Piller, Springer New York / Berlin, 2003

*For more information and examples, check out the free newsletter at www.mass-customization.de
Third World Conference on Mass Customization and Personalization (MCPC 2005), Hong Kong, September 18-21, 2005 (for more information, visit www.mcpc2005.com)*



Developing learning relationships

Made to Order

When the subject of mass customization is raised, the successful model of computer supplier Dell is often named as one of the most impressive examples. But many other companies have also sustained lasting relationships with their customers through mass customization. More examples are described at www.mass-customization.de, but here are a few:

Dolzer, a leading German manufacturer of women's and men's clothing, is a fine example of how a company interacts well with its customers both in the traditional store and online. Dolzer enables its customers to create their own garments by choosing from a variety of fabrics and cuts. Trained consultants provide advice in the company's six stores, the online shop offers made-to-measure shirts and blouses at a fixed price of €50 (approximately U.S.\$62). The customer is led through the process, selecting the fabric and cuff style and finally entering detailed measurements (www.dolzershop.de).

A personal cosmetics series for every woman is the vision of U.S. Internet supplier reflect.com – a subsidiary of Procter & Gamble. Customers configure their own makeup to match the precise requirements of their skin type and complexion. The appealing innovative nature, coupled with a high degree of integration and a strong customer engagement mechanism, has made the company the most successful supplier of cosmetic products over the Internet in the United States. Now reflect.com has its sights set on store retailing with a multi-channel strategy (www.reflect.com).



Dr. Frank Piller has researched mass customization and customer integration for many years. He has produced five books and numerous papers on the subject. He teaches in the Department of General and Industrial Management in the MBA program at the Technical University of Munich (TUM), Germany, and lectures at international universities. As a managing partner of Think Consult, a management consultancy, he helps companies achieve long-term customer retention using customer-individual products and services. His research areas are technology and innovation management and strategic marketing.

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