

Idiro Technologies White Paper
Up and Cross Selling in a Customer-driven Organisation

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I. Introduction

Cross selling and up selling are becoming increasingly important in today's hypercompetitive business environment. Businesses now seek to increase incremental revenue while decreasing customer churn. After all, it is much less expensive to maintain current customers than find new ones, or encourage former customers to return.

Companies also have extensive customer data at their fingertips. Managing this data, along with multiple products and various channels of customer interaction, makes cross selling and up selling more challenging. On top of the increased complexity associated with managing more data, several company divisions often compete for the best customers; this can result in over-targeting of a few valuable customers, while other customers are ignored. In order to develop effective strategies for churn management and cross/up selling, it is necessary for companies to re-examine how they view their valuable and less valuable customers and how they expect these customers to behave.

But which customers are considered valuable? Companies often use (either explicitly or implicitly) the 80/20 rule. This rule holds that 20% of your customers generate 80% of your income. In addition to this top tier of valuable customers, another 20% of your customers are considered to be unprofitable or low value (Anton, 2004). These low value customers are thought to be worth little time and effort. This leaves 60% of customers in a grey area. In terms of profit, they are not seen as especially valuable, and little effort is made to service them in a profitable manner.

The 80/20 rule:

- Top 20% customers = 80% income
- Bottom 20% = little or no income

→ ***What about the middle 60%?***

II. Issues in Up and Cross Selling

a. **There are several problems with viewing customers solely in terms of potential profit. The first is that this view assumes that profitable and unprofitable customers will always behave in the same way.** Valuable customers will always spend more, and respond positively to targeted services and offerings. Less valuable customers, by contrast,

will always spend less. The problem with making this assumption is that valuable customers are not only valuable to you. They are also valuable to other companies and are being courted to switch. Additionally, less valuable customers are an unknown commodity. The 80/20 rule does not consider whether these customers could be loyal or could generate incremental income through cross selling and up selling.

Additionally, as O'Dell and Pajunen (2000) have pointed out, customer behaviour is becoming increasingly difficult to predict. These researchers have coined the term "*Butterfly Customer*" to describe the behaviour, beliefs and attitudes of customers in today's marketplace. According to

The "*Butterfly Customer*"

- Not loyal
- Seeks best price, product, service
- Sophisticated
- Cynical

O'Dell and Pajunen, the *Butterfly Customer* is not loyal and flits from company to company seeking the best price, product, service or offering. These customers are both sophisticated and cynical. They are sophisticated because they take the time to learn about and compare products as well as discuss them with friends and other consumers. They

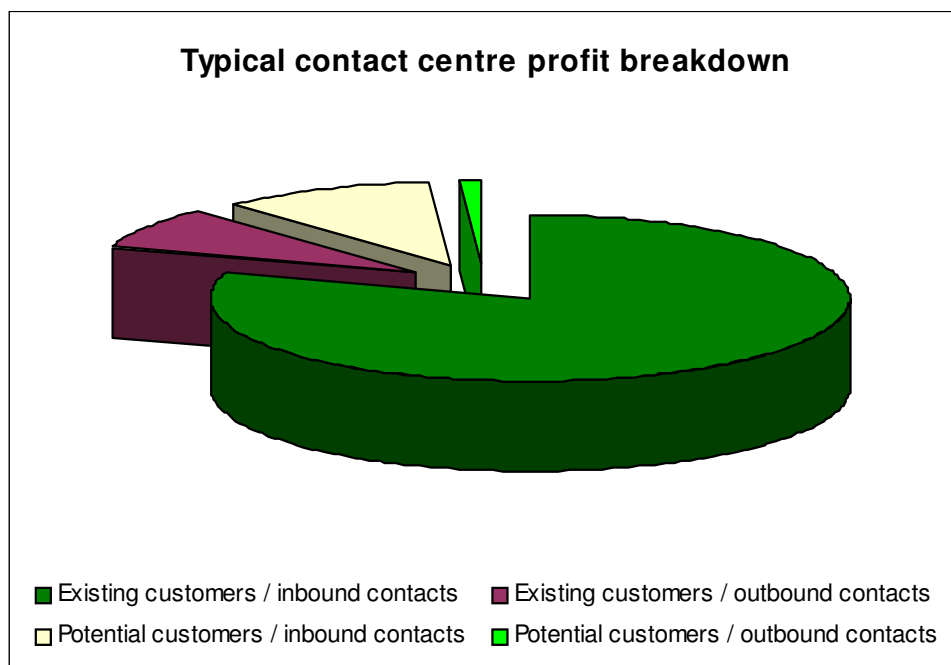
are cynical because they rarely believe ads, sales, or promotions, and are not interested in telling companies what they believe or perceive. This creates a gap between what customers say it will take to please them, and actual customer satisfaction and loyalty that are reflected in customer behaviour and company profits. For example, a *Butterfly Customer* may say they want a loyalty programme. Becoming a member of a loyalty programme, however, will not make them more loyal because they belong to several other loyalty programmes.

This gap in communication between what consumers say they want and how they behave makes the actual company/consumer interaction critical. This interaction is not only critical between people, but also across channels. At these touch points, the customer interacts with the company as they deal with real questions, complaints, service issues, and purchases. Research has *consistently demonstrated that the best time to cross or up sell to customers is when they contact the company or service provider.*

b. The second problem with viewing customers solely in terms of the potential profit is that customers know you view them in this way. If you are not handling 80% of customers

effectively, your customers know this because they experience it. Lack of contact from a company, or lack of positive interaction within contact channels, makes customers indifferent. The solution would seem to be to increase interaction. Companies, however, face considerable challenges when they attempt to market or sell to active and potential customers. Telemarketing and outbound contact generate low profit (Figure 1), whereas inbound calls from existing customers generate the most profit.

Figure 1: The Profit in Call Centres

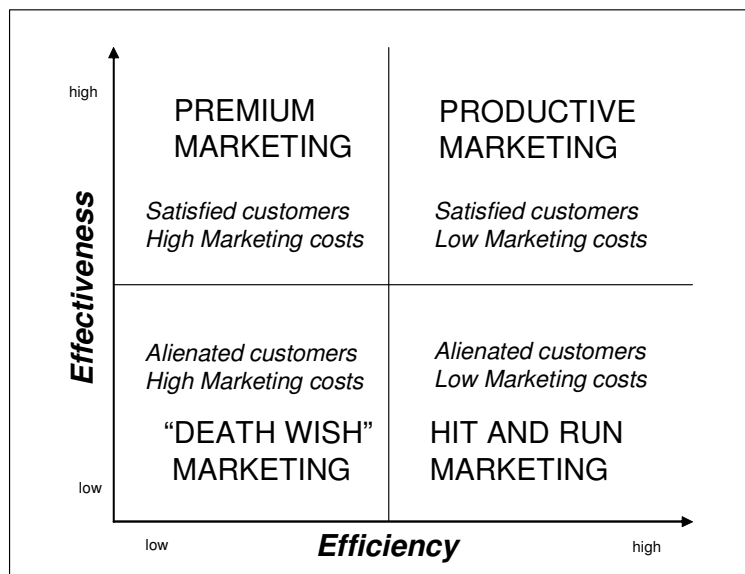


O'Dell and Pajunen also point out that *Butterfly Customers* can become loyal if their real product and service needs are met (not what they say they want, not what they think they want); *and* these customers feel they can trust the company. Trust within the service industry involves knowing that service and product needs will always be met, and any problems and complaints will be dealt with directly. The customer gets an added bonus when expectations are exceeded - they are rewarded, or a difficult problem is easily solved.

Because meeting all customer needs and exceeding most customer expectations is so important, the best opportunity to build a relationship and establish trust with your customers is when the customer contacts you.

3. The third problem associated with viewing customers solely from a potential profit perspective is that, even though we assume that focusing on profitable customers is cost effective, innovative and successful businesses have consistently demonstrated ways of effectively reaching the 60% of customers who fall in the grey area of sales and marketing. With the use of new service capabilities such as improved technology, these innovators turn grey segment customers into a huge source of growth and profits. Figure 2 presents an overview of effective and efficient marketing. Productive marketing occurs when customers have their needs met and marketing costs are low. Premium marketing is less effective overall because of the cost involved, and because it is targeted to customers who are receiving similar treatment from other companies. Premium marketing that is everywhere is viewed as commonplace rather than a valuable service experience. Hit and run marketing refers to short-lived marketing campaigns that ultimately destroy customer loyalty, and death wish marketing is high-cost marketing that backfires, resulting in customer alienation.

Figure 2: Marketing efficiency and effectiveness



Source: Sheth and Sisodia, 2002

So, how do companies improve customer service at the same time they develop strategies for cross/up selling and churn management? Anton (2004) has provided a series of guidelines to improve contact centre performance. These suggestions are not only appropriate for call centres,

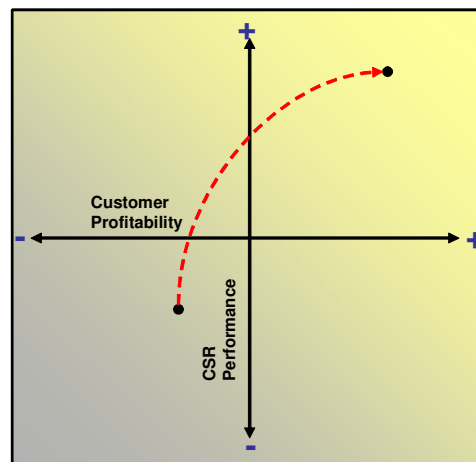
but can also serve as guides to improving relationships with customers across all channels.

These guidelines include:

- (1) the use of technology to change the rules of the game;
- (2) using a Next Best Activity application in service interactions, and
- (3) optimising the profitability of customer service interactions.

Technology can add dynamic touch points in customer service, and can be effectively used both in customer service interactions and across various channels. Technology can reinvent the customer service model by (1) making customer interactions more helpful to the customer, and (2) improving Customer Service Representative (CSR) performance. When this happens, the customer/CSR interaction benefits the customer. As the customer benefits from the interaction, the CSR is also able to perform their job better. As Figure 3 demonstrates, improved CSR performance translates into increased profitability.

Figure 3: Contact Centre Profit Matrix



III. Next Best Activity applications

Adding a Next Best Activity application in service interactions is critical. In customer service interactions companies can engage with, learn from, and advise customers. They can also help customers solve real world (as opposed to hypothetical) problems, complaints, and requests. As part of this interaction, companies can make further suggestions or offers that are designed to strengthen relationships and build trust. The key to this successful interaction is the ability to use

technology to manage extensive customer data which can be used to offer appropriate, tailored solutions to the customer. *Next Best Activity* applications provide this for CSRs effortlessly, thereby making the CSR's job easier. The value of using a *Next Best Activity* application is that the customer interaction is not only used to solve or fix problems, but makes the interaction an opportunity to build the brand by delivering on the promise of assistance and advice. *Next Best Activity* applications are the point at which cross sell and up sell opportunities are identified. This application also ensures the suggested outcome: cross sell or up sell is appropriate for the specific customer.

Next Best Activity Applications

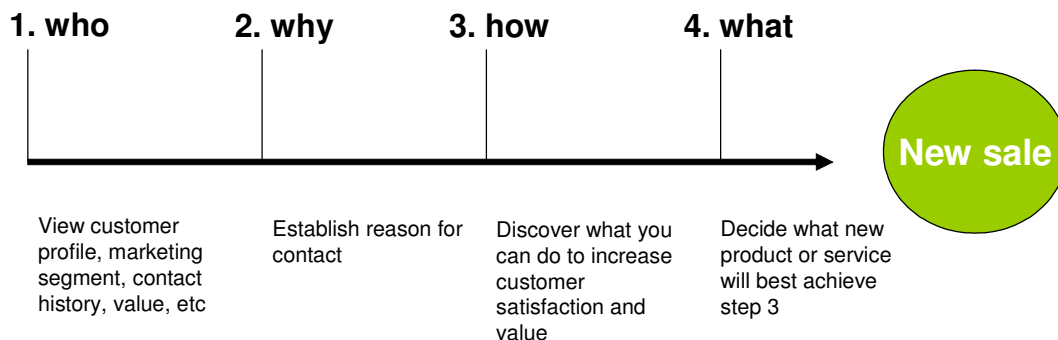
The point at which cross and up sell opportunities are identified

Finally, customers and the interactions they have with businesses should not be seen as a cost but rather as an opportunity to increase profits. Customer service is an important source of feedback for businesses that can generate real value in the customer's mind, build a relationship between the company and the customer, and strengthen brand perception.

IV. Optimising the Next Best Activity Process

At Idiri Technologies, we have developed a *Next Best Activity* application that provides customers service assistance across all channels. Figure 4 presents an overview of the basic steps for up and cross selling.

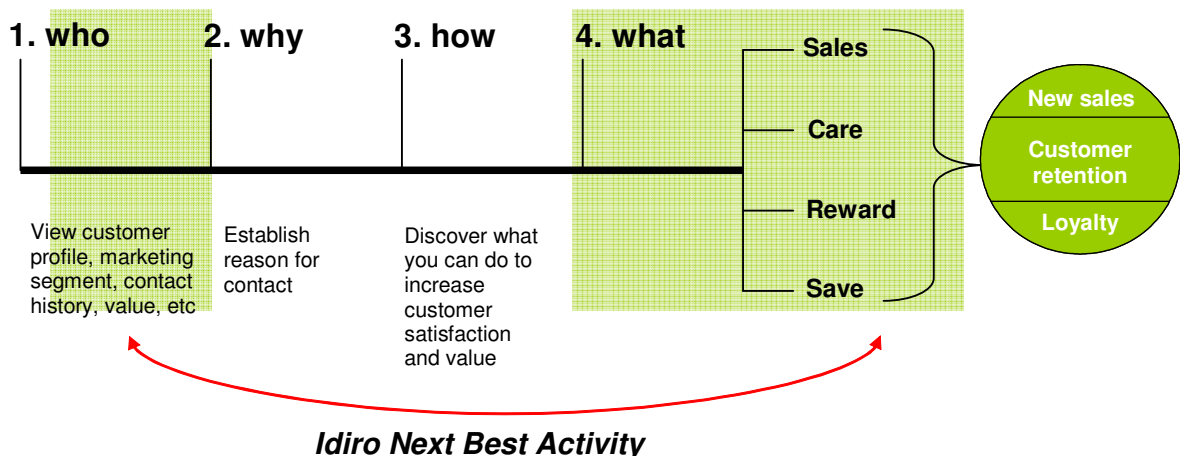
Figure 4: Steps for Up and Cross Selling



1. The first step involves viewing the customer based in individual information such as their marketing segment, contact history, value, etc.
2. The second step involves establishing a reason for the contact. Customers may require care and service on a product, or they may want an upgrade on an existing service/product, and they may also feel they should be rewarded.
3. Once the reason for contact has been identified, the third step is to select the appropriate action that will increase customer satisfaction and value.
4. Once this has been assessed, the fourth step is to match the customer with a product or service.

Idiro Next Best Activity uses this process in a self-learning decision engine that provides a solution for the CSR. Figure 5 shows how Idiro Next Best Activity brings step 4 of the up and cross sell process forward in a productive and dynamic way, allowing the CSR to see very quickly what the customer is likely to want or need, thereby greatly increasing the chance that a new sale will be completed.

Figure 5: Adding Value to Up and Cross Selling



With **Idiro Next Best Activity**, there are two levels of customer analysis to help make customer contacts more productive:

- to make the most appropriate *type* of offer to the customer
- to make the *best possible offer*

CSRs are guided by the system, which predicts the products the customer is likely to take up. If up or cross selling is not appropriate, the system can still improve the bottom line by enabling save, reward and care programmes.

Perhaps most importantly, **Idiro Next Best Activity** allows the point of contact between customer and company to serve as an opportunity to improve the relationship with the customer, thereby strengthening brand perception and trust. Given the new awareness and tendency towards brand switching that pervades modern customer culture, few customer-driven organisations can afford not to do this.

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