IS YOUR COMPANY READY FOR ONE-TO-ONE MARKETING?

by Don Peppers, Martha Rogers, and Bob Dorf

PRACTICED CORRECTLY, one-to-one marketing can increase the value of your customer base. The idea is simple: one-to-one marketing (also called relationship marketing or customer-relationship management) means being willing and able to change your behavior toward an individual customer based on what the customer tells you and what else you know about that customer. Unfortunately, too many companies have jumped on the one-to-one bandwagon without proper preparation. The mechanics of implementation are complex. It's one thing to train a sales staff to be warm and attentive; it's quite another to identify, track, and interact with an individual customer and then reconfigure your product or service to meet that customer's needs.

So is your company ready to implement a one-to-one marketing program? In large part, the answer depends on the scope of the program. For some companies, being ready simply means being prepared to launch a limited initiative. Substan-

Implementing a relationship-marketing program is a complex endeavor. This will get you started.

tial benefits can be gained from taking steps – even small ones – toward one-to-one marketing in specific functional areas. For others, being ready means being positioned to implement an enterprise-wide program. To help you assess the type of program you should begin with – and determine what you need to do to prepare – we've developed a list of activities and a series of exercises designed for executives, managers, and employees at all levels in your company, as well as for your cus-

tomers and channel partners. Reviewing the list and working through the exercises will help you determine what type of one-to-one marketing program your company can implement immediately, what you need to do to position it for a large-scale initiative, and how to prioritize your plans and activities.

Why One-to-One?

Before determining the correct scope of your company's one-to-one marketing efforts, you need to understand the rationale for undertaking a one-to-one initiative and the basic components of such a strategy. Relationship marketing is grounded in the idea of establishing a learning relationship with each customer, starting with your most valuable ones. (See B. Joseph Pine II, Don Peppers, and Martha Rogers, "Do You Want to Keep Your Customers Forever?" HBR March–April 1995.)

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Think of a learning relationship as one that gets smarter with each interaction. The customer tells you of some need, and you customize your product or service to meet it. Every interaction and modification improves your ability to fit your product to this particular customer. Eventually, even if a competitor offers the same type of customization and interaction, your customer won't be able to enjoy the same level of convenience without taking the time to teach the competitor the lessons your company has already learned.

There are four key steps for putting a one-to-one marketing program to work: identifying your customers, differentiating among them, interacting with them, and customizing your product or service to fit each individual customer's needs.

Identifying your customers. To launch a one-to-one initiative, your company must be able to locate and contact a fair number of its customers directly, or at least a substantial portion of its most valuable customers. It's critical to know customers in as much detail as possible: not just their names and addressable characteristics (such as addresses, phone numbers, or account codes), but their habits, preferences, and so forth. And not just a snapshot – a onetime questionnaire. You need to recognize the customer at every contact point, in every medium used, at every location, and within every division of

Getting Started

The following activities are keyed to the four steps of a one-to-one marketing program: identifying customers, differentiating among them, interacting with them, and customizing your product or service to meet each customer's needs. Most companies should be able to accomplish these activities fairly readily. If you have not yet identified your end-user customers, you can apply these suggestions to your channel partners. At some point, however, you will need to identify and interact with your end-user customers to get the most out of your relationship-marketing program.

IDENTIFY

ACTIVITY	STEPS TO CONSIDER
Collect and enter more customer names into the existing database	• Use an outside service for scanning or data entry. • Swap names with a noncompetitive company in your field.
Collect additional information about your customers	• Use drip-irrigation dialogue: ask your customers one or two questions every time you are in touch with them.
Verify and update customer data and delete outdated information	• Put your customer files through a "spring cleaning." • Run your database through the National Change of Address (NCOA) file.

DIFFERENTIATE

ACTIVITY	STEPS TO CONSIDER
Identify your organization's top customers	• Using last year's sales or other simple, readily available data, take your best guess at identifying the top 5% of your customers.
Determine which customers cost your organization money	• Look for simple rules to isolate the bottom 20% of your customers (such as customers who haven't ordered in more than a year or those who always bid you out) and reduce the amount of mail you send them.
Select several companies you really want to do business with next year	• Add them to your database, and record at least three contact names per company.
Find higher-value customers who have complained about your product or service more than once in the last year	• Baby-sit their orders: put a product or quality-assurance person in touch with them ASAP to check on your progress.
Look for last year's large customers who have ordered half as much or less this year	• Go visit them now, before your competition does.
Find customers who buy only one or two products from your company but a lot from other businesses	• Make them an offer they can't refuse to try several more items from you.
Rank customers into A, B, and C categories, roughly based on their value to your company. (Don't try to isolate the top 5% or bottom 20% – any "blunt instrument" criterion such as annual spending or years doing business with the company will work.)	• Decrease marketing activities and spending for the C's and use the savings to fund increased activities for the A's.

your company, no matter which product line is involved. Remember, however, that the "customers" who benefit from your one-to-one program may not be limited to the end users of your product or service. If, for example, you are a manufacturer selling to retailers, then you will also want to apply the principles of one-to-one marketing to create better relationships with your channel members and other intermediaries in your demand chain.

Differentiating your customers. Broadly speaking, customers are different in two principal ways: they represent different levels of value and they have different needs. Once you identify your customers, differentiating them will help you to focus your efforts so as to gain the most advantage with the most valuable customers. You will then be able to tailor your company's behavior to each customer in order to reflect that customer's value and needs.

The degree and type of differentiation in a company's customer base will also help you decide on the appropriate strategy for a given business situation.

Interacting with your customers. Improving both the cost-efficiency and the effectiveness of your interactions with customers is a critical component of a one-to-one marketing program. Cost-efficiency improves by directing customer interactions toward more automated and

INTERACT

ACTIVITY	STEPS TO CONSIDER
If you are focusing on channel members, call the top three people at your top 5% of customers	• Don't try to sell – just talk and make sure they are happy.
Call your own company and ask questions; see how hard it is to get through and get answers	• Test eight to ten different scenarios as a "mystery shopper." Record the calls and critique them.
Call your competitors to compare their customer service with yours	• Repeat the above activity.
Use incoming calls as selling opportunities	• Offer specials, closeouts, and trial offers.
Evaluate the voice response unit at your customer information center	• Make the recordings sound friendlier, be more helpful, and move customers through the system faster.
Follow the interaction paper trail through your organization	• Seek to eliminate steps: reduce cycle times to speed up your response times to customers.
Initiate more dialogue with valuable customers	• Print personalized messages on invoices, statements, and envelopes. • Have sales reps sign personal letters rather than mass-mailing letters signed by a senior manager. • Have the right people in your organization call the right customer executives. (That is, have your CIO call another CIO, or have the VP of marketing call the business owner.) • Call every valuable customer your company has lost in the last two years and give them a reason to return.
Use technology to make doing business with your company easier	• Gather the e-mail addresses of your customers in order to follow up with them. • Offer alternative means of communication. • Consider using fax back and fax broadcast systems. • Scan customer information into the database.
Improve complaint handling	• Plot how many complaints you receive each day and work to improve the ratio of complaints handled on the first call.

CUSTOMIZE

ACTIVITY	STEPS TO CONSIDER
Customize paperwork to save your customers time and your company money	• Use regional and subject-specific versions of catalogs.
Personalize your direct mail	• Use customer information to individualize offers. • Keep the mailings simple.
Fill out forms for your customers	• Use laser equipment to save time and make you look smarter.
Ask customers how, and how often, they want to hear from you	• Use fax, e-mail, postal mail, or personal visits as the customer specifies.
Find out what your customers want	• Invite customers to focus groups or discussion meetings to solicit their reactions to your products, policies, and procedures.
Ask your top ten customers what you can do differently to improve your product or service	• Respond to their suggestions. • Follow up and repeat the process.
Involve top management in customer relations	• Give them lists of questions to ask based on the history of individual customers.

therefore less costly channels. For example, a company that provides helpful, up-to-date information at its Web site won't need to spend as much as it once did supporting a more expensive call center. Effectiveness improves by generating timely, relevant information, providing either better insight into a customer's needs or a more accurate picture of a customer's value. Every interaction with a customer should take place in the context of all previous interactions with that customer. A conversation should pick up where the last one left off, whether the previous interaction occurred last night or last month, at the call center or on the company Web site.

Customizing your enterprise's behavior. Ultimately, to lock a customer into a learning relationship, a company must adapt some aspect of its behavior to meet that customer's individually expressed needs. This might mean mass-customizing a manufactured product, or it could involve tailoring some aspect of the services surrounding a product – perhaps the way the invoice is rendered or how the product is packaged. In any case, the production or service-delivery end of your business has to be able to treat a particular customer differently based on what was learned about that customer by the sales, marketing, or any other department. In rushing to reap the rewards of relationship marketing, it's easy for a business to overlook this critical fourth step, leading many to misunderstand the entire discipline as simply an excuse for direct mail and telemarketing. (See Susan Fournier, Susan Dobscha, and David

The Broad View

Is Your Company Ready for One-to-One Marketing?

Administer this exercise to a number of people at different levels and in different areas of your company. Also ask a representative group of customers to participate, although you'll need to tailor the language appropriately. There is enormous value in hearing what your customers have to say about your company's readiness to engage in one-to-one relationships with them as well as in comparing the answers from the various constituencies.

Note: If it seems impossible to identify even your most valuable end-user customers, then your best option may be to concentrate on developing relationships with the intermediaries in your demand chain whose identities you can readily acquire. If so, then complete this exercise (and "The One-to-One Gap Tool") as if it applied to channel members. But keep in mind that sooner or later you will almost certainly want to deal with end users themselves, even if your relationships with them will always include channel members.

1. **How well can your company identify its end-user customers?**

   a. We don't really know who our end-user customers are or how much business they give us.

   b. We have some information about our end-user customers in various files and databases around the company, but we're not sure what proportion of customers this really represents.

   c. Some of our business units know many of their customers' individual identities, but not all the units do. Our business units don't have a central database of customer identities, and we don't share much data on customers with one another.

   d. We sell to businesses or organizations, and although we know the identities of all or most of these organizations, we don't really know the individual players at each business.

   e. We know who most of our customers are individually, but we don't know much about their relations with one another. If a customer refers another customer to us, we don't track this in our database. And if a customer moves from one location to another, our database might show this as a customer defection followed by a customer acquisition.

   f. We know most of our customers individually, and we can track them from place to place, division to division, or store to store.

2. **Can your company differentiate its customers based on their value to you and their needs from you?**

   a. Because we don't have much, if any, information on our customers' identities, naturally we are unable to differentiate our customers either by their value or by their needs.

   b. We have no real knowledge of how to rank our customers individually by their long-term value to us.

   c. We have an idea about how to calculate our customers' individual long-term value to us, but we don't have enough data to generate a reliable ranking of individual customers based on this calculation.

   d. We have identified a number of different needs-based segments of our "most valuable customers" (MVCs), but we don't have a reliable way of mapping particular customers into the right segment.

   e. We know how to rank most of our customers individually by value, and we can also identify, at least for most of our MVCs, their appropriate needs-based segment.

Glen Mick, "Preventing the Premature Death of Relationship Marketing," HBR January–February 1998.)

These four implementation steps overlap considerably. Nevertheless, they are roughly in order of increasing complexity and increasing benefit for a company. Identifying and differentiating customers, the first two steps, are largely internal "analysis" steps, whereas interacting with your customers and customizing products and services are external "action" steps, visible to the consumer. From that perspective, the four steps can be used as a kind of general checklist to guide your efforts in implementing a one-to-one marketing program. If you can't identify your individual customers, you have no hope of differentiating them, much less adapting your behavior to address each one's needs.

Starting Small

Many managers dismiss the possibility of one-to-one marketing because they feel it is an unattainable goal. And yes, it's true that there are numerous reasons to think twice before launching a full-scale program. For one, your company's information technology department may be too swamped – or not sufficiently developed – to handle all the tasks that one-to-one marketing demands. Maintaining a customer database, having one system communicate seamlessly with another, tracking each customer's contacts with the company – all of those activities require IT development, direction, and support. In addition, one-to-one marketing requires a certain amount of capital investment

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3. **How well do you interact with your customers?**

   a. We have no practical mechanism for interacting with our customers on an individual basis.

   b. We interact with some of our MVCs through personal sales calls and other forms of contact, but we don't systematically record these interactions through sales force automation or contact management systems. We rely instead on the initiative and memories of our account directors, salespeople, and others to manage these customer interactions.

   c. We interact with most of our MVCs through sales calls and other forms of contact, and we maintain fairly good records of those interactions and contacts in an automated system or customer database.

   d. We have direct interaction through mail, phone, or on-line media with a small proportion of our customers, but we don't coordinate these interactions across media.

   e. We interact through mail, phone, or on-line communication with all or a substantial number of our customers, and we coordinate the dialogue we have with any single customer across these different media.

4. **How well does your company customize its products and services based on what it knows about its customers?**

   a. We provide standard products and services and tailor few, if any, aspects of our behavior to the needs of individual customers.

   b. We offer a range of options for our customers so they can choose specific product features for themselves, but we don't track or remember which features each customer chooses.

   c. In the case of our MVCs, we sometimes customize our peripheral services – contract terms, billing formats, delivery modes, pallets and packaging, service options, and so forth – and we track each MVC's preferences.

   d. We have modularized at least a few aspects of our core product or our peripheral services or both, and by configuring these modules in different ways, we can produce a variety of product-service combinations fairly cost-efficiently. For a substantial number of our customers, we track and remember which customers choose which options, so when a customer repeats a purchase with us we can automatically configure our product to that customer's previously stated preferences.

   e. We have modularized many aspects of our core product or our peripheral services or both, and we can render a wide variety of product-service configurations cost-efficiently. Rather than asking customers to sort through all the options themselves, we interact with most or all of them to help them specify their needs. Then we map each customer into a particular needs-based category, propose a particular product configuration for that customer, and remember it the next time we deal with that customer.

across the board, and many companies are unwilling or unable to provide enough funding to all relevant areas to make the initiative worth the effort. And, of course, there are organizational puzzles to be solved. It's easy to assign responsibility for a product, but who takes responsibility for developing a customer relationship across different business units? Which business unit "owns" the customer, anyway?

Those are serious considerations – and they don't even scratch the surface of the scope of cultural change a one-to-one marketing strategy may demand. But even a very modest one-to-one initiative – one that affects just one area, such as your sales force or your call center or your Web site – can produce substantial benefits. Besides hinting at the value of a full-scale program, often these short-term results are themselves enough to justify the funding required for an incremental effort. Among them:

■ **Increased cross-selling.** A retail bank, for instance, that is able to increase the average number of accounts per customer from 1.8 to 2.5 will enjoy a very significant, and measurable, financial benefit. If you can track just a few of your business's transactions, you can compare the amount of added benefit you're getting from cross-selling and up-selling. You ought to see higher unit margins as well, provided you're tracking this metric on a per-customer basis.

■ **Reduced customer attrition.** One of the primary, and early, benefits of a one-to-one marketing program is that it generates increased loyalty among customers. Try tracking defections among customers exposed to a relationship-marketing initiative compared with a statistically identical control group not exposed to the initiative. What would it be worth to your business, just in terms of reduced acquisition costs, for instance, to increase average customer tenure by 10%? Or what about increasing the average likelihood of repurchase by 10%?

■ **Higher levels of customer satisfaction.** Granted, this is a "soft" rating. But it's easily measured and can provide quick support of one of the benefits of a relationship-marketing

program. To get at *real* customer satisfaction, you might want to measure your customers' "likelihood to recommend" your product, or something more tangible than most traditional customer-satisfaction indices.

■ **Reduced transaction costs and faster cycle times.** One-to-one marketing is basically oriented around making it increasingly convenient for a customer to buy, which translates directly into a more efficient organization. The fewer things a customer has to specify each time business is done, the more efficient the transaction will be.

In the exhibit "Getting Started," we've listed activities that most companies can accomplish fairly readily in each of the four key implementation areas of relationship marketing. Some of these activities may work for your business today; others may stimulate your thoughts for future initiatives. If at least some of the ideas make sense to you, then you should generate your own list and begin to identify the most important activities to put into practice. In any case, the activities we've listed here make some of the more basic concepts of customer-relationship management practical, and they can help your company take the first step.

Assessing Your Situation

If you are considering launching a full-scale one-to-one initiative, the first critical task is to assess your current situation. How big is the gap between where you are and where you want to be? What should you work on first? Where are you in relation to your competitors? The exercises entitled "The Broad View" and "The One-to-One Gap Tool" will give you a clearer picture of just how much work lies before you.

The principal groups whose evaluations would be helpful are:

■ anyone involved in conceiving or developing one-to-one marketing strategies at your company;
■ all senior managers;
■ a selection of relevant middle managers and field managers;
■ channel members, if applicable;

■ line employees who interact directly with customers (sales and service people, call service representatives, and retail clerks);
■ a representative group of your customers.

Responses will probably vary widely among those groups, and that is exactly the way the exercises should be evaluated – by comparing how different groups rate your company. It is important to value the answers in inverse proportion to the respondents' position in the corporate pecking order. The best lessons, in fact, will likely come from hearing what your customers have to say about your company's readiness to engage in one-to-one relationships with them. Beyond that, however, there is enormous value in comparing the answers given by different constituencies, in different locations and functions, facing different agendas and issues. Being relatively concise, "The Broad View" can be widely circulated to ensure breadth of coverage. "The One-to-One Gap Tool" will capture a more robust analysis of how your company sees itself – both culturally and organizationally.

Setting Priorities

Once you evaluate your business's ability to begin implementing a customer-relationship-management program, the next step is to think through the one-to-one marketing issues that are most (or least) relevant to your own particular business situation in order to prioritize your

> The more customers' needs vary, the more attractive they will find a learning relationship.

efforts. For instance, what role should a Web site play in your company's plan to create better relationships with customers? Instead of designing a Web site, should you try to customize your product offering, perhaps by lining up strategic alliances with businesses that provide complementary services?

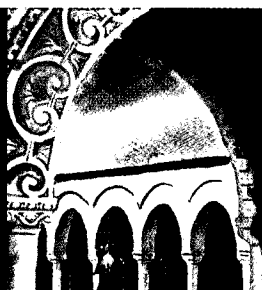To set priorities, you need to consider how differentiated your cus-

tomer base is in terms of customer needs and value. You also need to determine how capable your company is at interacting and customizing – the two "action steps" in the four-step implementation process. For instance, if the needs of your customers vary widely, then you probably should focus first on customization: the more your customers' needs vary, the more attractive they will find a learning relationship.

Consider the contrast between a bookstore and a gas station. If a customer who enters a bookstore is reminded that his favorite author has a new book out that has been reserved in case he wants it, he is likely to become very loyal to the store. People's tastes in books vary widely, so it's a real service for a proprietor to remember a particular customer's preferences.

But if the same person pulls into a gas station and the attendant announces he has a new shipment of 93-octane in, just the way he knows the customer likes it, the "service" of remembering customer preferences is not nearly so attractive.

When customers' value to the enterprise vary widely, the top customers account for the vast majority of the business. We call this a *steep skew.* Relationship marketing is more cost-efficient for businesses with a steep skew than with a shallow one. The greater the skew, the more feasible it is to cultivate relationships with the most valuable customers. If the top 2% of your customers generate 50% of your profit, you can protect 50% of your bottom line by fostering learning relationships with just the top few customers. But if the top 20% of your customers make up 50% of your profit, then it will be ten times as costly to achieve the same bottom-line benefit.

There are specific strategies – we call them *migration strategies* – appropriate for dealing with a customer base that is not well differentiated in terms of needs or value. These strategies involve either expanding the definition of customer needs or value, or improving the interaction or customization capabilities of the enterprise.[1] For example, when dealing with a customer base

The One-to-One Gap Tool

How Far Do You Have to Go to Prepare?

This exercise, to be administered to employees at various levels and in various functions, is designed to capture a robust analysis of how your company sees itself both culturally and organizationally. It should also be given to a representative group of customers, with the language tailored appropriately, in order to expose the gap between internal and external perceptions.

For each question listed below, select the statement that most closely reflects your opinion of the company as you view it today – not as you think it should be or it might be in the future.

PROCESSES

1. Does the company have established quality-assurance processes?

a. We do not consider quality-management practices.

b. We would like to have formal quality-management initiatives.

c. We have some methods in place to ensure quality-management initiatives.

d. We have a formal quality-management organization.

2. Are the company's business processes customer-centric?

a. We do not pay any attention to how our customers and our business processes interact.

b. We have some understanding of the link between customers and our business processes.

c. We understand most of the interactions between customers and our business processes.

d. We have a full understanding of all the possible interactions between customers and our business processes.

TECHNOLOGY

3. Does the company take customers' needs into consideration when selecting and implementing technology?

a. Our IT department is rather autonomous and in charge of technology acquisition.

b. We ensure that our customers' needs, not just our own internal needs, are considered when selecting technology.

c. We use some degree of customer validation when selecting technology.

d. We ensure that all technology selections are customer-centric. For instance, we research how to improve customer convenience.

4. Does the company provide its employees with technology that enables them to help customers?

a. We are not particularly advanced when it comes to technology.

b. We encourage the use of technology that helps our daily interactions with customers.

c. We provide technology in many areas to improve our daily interactions with customers.

d. We provide the most effective technology available to all employees who interact with customers.

KNOWLEDGE STRATEGY

5. Does the company maintain a strategy for collecting and using information about customers?

a. We handle information about customers poorly.

b. We encourage the collection and use of information to gain knowledge about customers.

c. We have programs to collect information and use our knowledge about select customers.

d. We continually enhance our strategy to collect and use our knowledge about our customers.

6. How effectively does the company combine information on customers with its experiences to generate knowledge about its customers?

a. We have poorly developed and inadequate processes for combining our data on customers with our own experience and views.

b. We encourage using processes and systems that support the collection of both customer information and experiences about some customers.

c. We have implemented systems and processes that collect and combine information and experiences about selected customers.

d. We have rigorous processes to combine information and experiences about each customer.

PARTNERSHIPS

7. How does the company select its partners?

a. We pay little or no attention to whether the partners we select are customer-centric.

b. We try to select partners that are customer-centric.

c. We evaluate strategic partners based on their customer centricity.

d. We evaluate all potential partners based on their customer centricity.

8. Does the company understand the relationships among its customers and partners?

a. We have little or no understanding of the relationships among our customers and our partners.

b. We try to understand the relationships among our customers and our partners.

c. We understand the relationships among our customers and our partners.

d. We understand and use the relationships among our customers and our partners.

CUSTOMER RELATIONSHIPS

9. How effectively does the company differentiate its customers?

a. We do not differentiate among customers.

b. We try to differentiate among customers.

c. We collect and use information gleaned from interactions with customers to differentiate each customer and to evaluate the importance of each relationship.

d. We have a continuously updated customer-knowledge database that provides all the critical business information about our relationships with individual customers.

10. What steps has the company taken to improve the total experience of its customers?

a. We pay little or no attention to the total experience of customers.

b. We know all the points where customers are in contact with the business, and we manage these areas effectively.

c. We conduct frequent surveys with selected customers and make improvements based on their feedback.

d. We have a continual dialogue with each customer and use well-developed methods to improve our relationships.

11. How effectively does the company measure and react to customers' expectations?

a. We make no effort to understand our customers' expectations.

b. We have some idea of our customers' expectations and use them in building relationships.

c. We periodically solicit customers' input about expectations and take actions to improve the relationships where possible.

d. We work as a team with our customers to ensure that their expectations are met or exceeded.

12. How effectively does the company understand and anticipate customers' behavior?

a. We pay little or no attention to the behavior of our customers.

b. We understand the trends and buying patterns of our customers and consider them when making critical decisions.

c. We collect data on our customers' preferences and other behaviors and use that information in our business planning.

d. We maintain a profile of each customer and refer to it when dealing with customers.

EMPLOYEE MANAGEMENT

13. To what degree are employees empowered to make decisions in favor of the customer?

a. We encourage employees to strictly follow procedures and policies developed by top managers.

b. We encourage employees to make independent decisions within the guidelines set by management.

c. We strongly encourage employees to make decisions that positively affect our customers' satisfaction.

d. We require every employee to take whatever action is appropriate to ensure the ultimate satisfaction of the customer.

14. Has the company formally linked employees' rewards with customer-centric behavior?

a. We make no link between employees' rewards and their treatment of customers.

b. We use ad hoc methods to reward customer-centric behavior.

c. We make customer-centric behavior a part of performance appraisal criteria.

d. We make customer-centric behavior a significant part of performance appraisal criteria.

COMPETITIVE STRATEGY

15. To what extent does the company understand how customers affect the organization?

a. We attach little significance to the views and opinions of customers.

b. We place some importance on understanding the impact of our customers on the business.

c. We place importance on understanding how a select group of customers affects our business.

d. We place vital importance on understanding how each customer affects our business.

16. How much influence do customers' needs have on the company's products and services?

a. We pay little or no attention to the needs of our customers when we design our products and services.

b. We attempt to develop products and services that meet our customers' needs.

c. We use input from selected groups to assist with the development of products and services.

d. We design products and services to meet the needs of individual customers.

17. How effectively does the company build individualized marketing programs?

a. We build all marketing programs to reach a mass market.

b. We build all marketing programs to fit a perceived niche market.

c. We build some marketing programs that are specific to each customer's needs.

d. We build all marketing programs to be specific to each customer's needs.

18. How aware is the company of other organizations' approaches to building customer relationships?

a. We pay no attention to the customer-centric strategies of other companies.

b. We know which companies are customer-centric regardless of the industry.

c. We know how our competition approaches customer centricity.

d. We know the best-in-class approaches to customer centricity.

that is characterized by a shallow value skew, one strategy would be to improve the cost-efficiency of the company's capability to interact – adding a call center, for instance, or a Web site. Basically, the less costly it is to interact, the less important it is to reserve interactions for top customers only.

Consider the example of the bookstore again. Although it might have a customer base with widely different needs, it also has a fairly flat value skew. Very few bookstore proprietors actually remember the preferences of their individual customers because it is simply not cost-efficient to do so. Even if the proprietor could remember the tastes of her top 100 customers – and teach her salespeople to do so as well – these top customers would probably account for less than 10% of the proprietor's business.

But if the bookstore were to increase its capability to interact cost-efficiently – say, by adding a Web site – then the amount of effort required to remember customers' preferences would decrease dramatically. Amazon.com really does remember its customers' individual tastes – and not just for a top few, but for thousands. As a result, Amazon.com is able to create the kind of learning relationship with its customers that will keep them loyal. It will always be at least a little easier for the customer to return to Amazon.com to find a book than to go someplace else and explain his preferences anew. This is one reason 59% of Amazon.com's sales come from repeat customers – roughly twice the rate of typical bricks-and-mortar bookstores.

Of course, Amazon.com and other companies that do such a good job of remembering their customers' tastes need to allow them to adjust their preferences freely. For instance, a customer might buy a book as a gift for someone with different interests, or he might simply change his mind about topics he's interested in.

A Foundation for the Long Term

It's been our experience that implementing even a relatively limited one-to-one program tends to motivate a company to take a more integrated, enterprise-wide view of its customers. String a few of these projects together and pretty soon you'll have to deal with a series of enterprise issues. People in different functions and from different business units will be working together more frequently on an ad hoc basis. Managers on one project will be trying to relate their metrics to the outcomes of other projects.

As you begin to take a more integrated view of the enterprise, certain organizational issues will arise. Considering the following questions may give you some advance warning:

• If you measure a customer's value across more than one division, will one person be in charge of that customer's relationship? If so, how will this be structured?
• Should the enterprise set up or modify its key-account selling system?
• Should the enterprise underwrite a more comprehensive information system, standardizing customer data across every division?
• Should the company be thinking about investing in a data mart or a data warehouse?
• Should the sales force be better automated? If so, who should set the strategy for how sales representatives interact with individual customers?
• Does it still make strategic sense to have different sales forces for different divisions?
• Is it possible for the company's various Web sites and call centers to work together better? That is, do Web pages coming from different divisions and locations make sense to a customer looking at them in total? Can callers be "hot connected" between call centers? Should you combine your call centers?
• Should the company package more services with the products it sells? If so, how should those services be delivered?
• Should the business seriously explore investing in mass-customization manufacturing technologies?

To be ready to tackle issues like these, you might want to create a few programs now. Set up a multidepartment committee to agree on a standard way to report customer information, for instance. Agree on a cross-divisional standard format for customer service calls. Come up with a weighted measure to rank customers by their overall value – not just their worth to one division.

Obviously, it's impossible to simply "strap on" a one-to-one marketing campaign and continue to do business in a traditional manner. Many companies – Dell, USAA, American Express, and Amazon.com, for instance – will be more successful at creating learning relationships with their customers because their businesses were built on the basis of direct customer interaction.

But it's also possible to make steady, incremental progress by concentrating on the four implementation steps and applying them to different aspects of your current business. Large, well-established enterprises like Pitney Bowes, Wells Fargo, 3M, Owens Corning, British Airways, and Hewlett-Packard have begun creating stronger, more interactive relationships with their customers. They implement these strategies piece by piece, in one business unit at a time, wrestling with one obstacle at a time. But they are making progress and gaining a significant competitive advantage as a result.

So instead of asking, "Is your company ready to implement a one-to-one marketing strategy?" perhaps the better question is, "How much of a one-to-one marketing program is your company ready to deal with today?" Clearly, putting relationship marketing to work properly involves much more than simply sending out personalized mail, training your call center personnel in phone etiquette, or designing a user-friendly Web site. But when correctly executed, the process of making even incremental progress toward becoming a one-to-one marketer can pay immediate dividends as you strengthen and deepen your company's relationships with its customers.

1. For a more comprehensive explanation of these concepts, see Don Peppers and Martha Rogers, *Enterprise One to One: Tools for Competing in the Interactive Age* (New York: Currency/Doubleday, 1997), especially chapter 3 and chapter 13.

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