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Relationship Management

Using Information to Enhance Supplier, Customer and Employee Interactions

BROWN SMITH WALLACE LLC
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INTRODUCTION

Imagine that you are the controller of a medium-sized business. You are aware that at least one customer has been unhappy about his recent invoices, and has complained because credits have not been properly applied. It is a real problem because you cannot easily get critical data from the warehouse related to what was returned and if it really of such poor quality it could not be used. There is no use calling the salesman on the account, he will only yell at you to “get it corrected and take care of the customer”—even if the customer is wrong.

Meanwhile, the salesman is out making calls. He just happens to knock on the customer’s door. The owner greets him with, “How dare you darken my doorstep? You have messed up our last two orders, your invoicing is wrong and cannot be corrected, and I stopped buying from you 45 days ago and you still do not know it. Get out of here and never let me see you again!”

Hopefully this does not happen very often. But variations do occur on a regular basis in the world of hard goods distribution.

Now, consider what could happen if you have a working Business Relationship Management (BRM) system where all data is integrated and available. Now, as the controller, when you get a billing complaint from the customer you have access to data that will allow you to work on solving the problem. The customer can explain that he is angry because he has not been credited for an item that was returned.

With BRM, you are able to see that the product in question was returned from the customer and it arrived at the receiving dock over two weeks ago. It was forwarded to the manufacturer for evaluation and disposition. There is an alert on the account because there has been no word for more than two weeks.

Purchasing has been alerted to the fact that there have been a number of customer complaints related to the same product in the last month or so. They are already looking for alternative suppliers and have opened a conversation with the current vendor to understand what is going on.

You now have a global view and can see all of the activity, so you generate an email to the purchasing department with a copy to the salesman requesting an expedited reply. In it, you remind the salesman that there have been two complaints filed by the customer on why the credit has not been issued. You offer to help with the customer in anyway the salesman thinks best.

The salesman has also received alerts when each of the complaints was received and was notified of a shipping error on an order to the customer. A special alert was received when the system recognized a potential issue because a regular order date passed without an order being received. This could be critical and a copy was sent to the sales manager.

With the support of the rest of the organization, the salesman knocks on the door six weeks sooner. He has his hat in his hand and when the customer’s owner comes to the door, he can say, “I know you probably do not want to see me. We have messed up your last two orders, A/R told me about our problems fixing your invoices, and I noticed you did not make your regular Tuesday purchase yesterday. You are an important customer to us and I wanted to come by and show you what we are doing to straighten out the orders, the invoices and beg your forgiveness. Please give me ten minutes to earn the opportunity to make everything right.”

There will be a very different reaction to your company and there will most likely be a better result since everyone is working together to fix the problems. The big difference is information and the ability to take action based on knowledge. BRM makes it possible for everyone from the controller to the warehouse manager to be involved and take responsibility when it makes sense. Knowing what is happening with all aspects of a relationship with any customer (or supplier) before it is too late will change the way the firm is perceived in the marketplace. This is the value of Business Relationship Management or BRM.

Yes, we are introducing a new acronym: BRM. It is important to recognize that all of the great value that can be realized from a traditional CRM or Customer Relationship Management can be multiplied by using the same application to do so much more.

Why not include information and utilize all of the capabilities of the Relationship Management package to integrate and coordinate activities for all of the internal departments that make the organization work. Include accounting, warehouse, purchasing, and logistics in addition to sales. Then include data in the application about the company's suppliers, business partners, and even employees. Each of these groups is important to the enterprise and its future. Why not use the functionality in the software to better manage all of the relationships that will determine your future success?

CRM first appeared as one of the "killer" applications at the end of the last century. It was a reason to buy new software. It was also a frequent failure. Everyone wanted it because it was supposed to be a silver bullet to improve sales results.

To most, it was just a glorified Contact Management package. Contact Management was an application program that helped people keep track of what they did, were supposed to do, and some data on who they were dealing with. Most of the early users were from sales departments.

The most important function was being able to share calendars within an organization. The application and your peers knew where you were supposed to be and who you were meeting with. This was a very valuable application when it first came out. Then, everyone wanted to get more. It was like an arms race. The simple calendar managers became very complex. They added many fields to gather more information, options to track what had been done, and functions to remind the user of what was coming in the near future.

Then the application was renamed "CRM" and it took off—again. No matter what it was called, the first thing people did was get their calendars working. Today, with many calendaring options online and in the cloud (Internet-based functionality), a basic calendar does not get anyone excited.

There are many reasons to implement a good, fully integrated application that can pull everything together in one place. It has to reach further and do more than traditional contact management or singly focused customer relationship management. New CRM / BRM packages meet all of these requirements.

WHY HAVE SO MANY WAITED TO IMPLEMENT SUCH A VALUABLE CAPABILITY?

So why are so many companies not taking advantage? One problem is there are a great many stories about failures and problems. There are three main reasons (that are easily corrected) to overcome most failures:

- The application was not integrated with all of the business processes (electronic and manual).
- There was no champion other than the person who selected the software and decided to purchase it.
- No one managed the use, training or expectations. No one publicized the value that would be found.

The system was set to fail before it was installed.

INTEGRATION

Complete integration is easier said than done. It is one of the reasons that many CRM packages are developed and implemented by larger ERP software companies. First, they have a large embedded customer base that can utilize the functionality which is available through integration with the publisher's software products. In addition, they have the financial wherewithal to take on the integration to other, common packages in industry.

The ability to make greater use of the application code has many advantages. It provides the developer with many more businesses that can assist in developing "best practices" for many vertical markets or specific business activities.

Development in this manner provides a much greater base of users to share the total cost of development and support. This makes it possible to continually enhance and upgrade the capabilities (ensuring that the investment by the end user in software, training, and management has greater protection) and keep the package current.

Integration with the data and functional capabilities of a general ERP package provides many opportunities for greater usage of the package. For example, there is the ability to create report cards for customers, suppliers, and employees. These are tools that allow the company to constantly track and react to anything affecting their relationships with everyone who interacts with their business. More importantly, it can provide comparative data that will improve the ability to manage limited resources (cash, customer service, sales, training, etc.) and assets (customers, product, relationships, etc.).

As the story above recounts, it would be worthwhile to know anytime a customer missed a regular purchase. Many businesses are very predictable if you have the data and ability to analyze it. The computer has the capacity to search and analyze larger amounts of data on a continuing basis. It is this ability that makes it possible to spot and report trends—or changes to existing trends.

Data and analysis is useful only if the company's management decides to take advantage of the capabilities. It is also their responsibility to manage the use of the data and reactions to the information that is mined from the ERP system.

One easy place to look is the area of Accounts Receivable. Anyone can report on slow pays, credit holds, and other common credit management policies. And yet, with a little extra thought, the combination of A/R into the BRM can make it easier to make better A/R decisions.

Take the case of a great customer who has just sold a major piece of business. They call and explain what they have sold, the product they need, and the schedule on which they will require delivery. In a traditional credit management application, as soon as the customer reached their pre-assigned dollar limit (which may have been set at an arbitrary number with no basis in historical patterns), their ability to purchase more products would be cut off until a management level human being could intervene.

This delay could destroy a customer relationship. By having everyone tied in and looking at all of the data, approval to continue selling can be obtained in real time. The customer may not even know there was anyone looking. The relationship is preserved and the business is retained.

You can use customer report cards which combine capabilities of CRM and Business Intelligence to your advantage. The data will highlight when a customer needs attention. Now you can be proactive instead of reactive—or non-active as so often is the case.

Integration with the ERP and a tie to the email system helps keep everyone informed of problems as soon as they are highlighted. For example, consider an invoice that is overdue. The system is smart enough to know that a given customer is normally a 45-day payer and will not signal an alert until the 46th day. It works the same way with all relationship issues; anything that might upset a customer, supplier, or employee will be reported and tracked.

Good internal communication will assist in getting problems resolved. In a sales situation, all of the interested parties, including sales and general management can be kept in the loop. Built in escalation procedures will make sure problems are not allowed to languish. Each time period (hours or days) in which a resolution is not reported causes specific procedures to be executed. The system will expand the number and level of people in the loop as time goes on. By the second period, sales must be involved, at the third—sales management, and if the fourth period is reached, an unresolved issue should be on the owner's desk.

Now consider BRM and think about the same capabilities for vendors. What would be the value to the business if you knew the average "real time" from order to delivery? What if you were able to measure vendors based on how often they delivered, the exact product ordered, the exact quantity, the expected quality, and on the date requested? What if you knew how many times your customers returned product by supplier and product line?

Do the same for employees. What if you found sudden unexplained absences? Could you be proactive and possibly save a person's life (not just their job)? Could you anticipate scheduling needs? Would there be value in being able to identify persons with a required skill when a client situation appeared? The potential and the benefits are limited only by our imagination.

Get creative. What if you applied the same capabilities to all of your banking relationships? Would it help you to find and utilize the best whenever you had a special situation? Think about ranking your various insurance agents, shippers, consultants, or anyone else you rely upon to help the operation be successful.

CHAMPIONS

The most successful implementations always seem to have an internal champion. This is not the executive who made the "buy" decision. This is one of the staff members who will be using the system on a day-to-day basis.

When you have an employee who is excited about the project, it is easier to sell it to the rest of the staff. Enthusiasm is contagious. Use the fact to your advantage. Whether you start the BRM in the vendor, employee, or sales area, find a "young Turk" and a seasoned professional to work together. Make sure they are part of the selection committee as well.

Give them some general direction. Arrange for education and maybe field trips to see and learn from what others have done. Send them to classes and conferences where they can talk to experienced users and learn what has worked and what does not work as well. Make it their responsibility to develop the plan of attack for implementation of BRM in your company.

Also give them the task of developing metrics so it is easy to see if the package is making a positive impact on operations. Sales might want to measure things like referrals, lost customers, numbers of returns, customer complaints, etc. Purchasing will probably look at the number of returns, on time deliveries, quality, customer service, etc. Human resources can ask to measure lateness, sick days, skill development, advancement, etc. Let each group work with the software vendor to find what other people use and to adapt the best practices.

Encourage the champions to experiment with the application and find ways to use it to create competitive advantages. Give them time to try different things and use the program without constraints. Let them work with the other departments to get the right data integrated and reported. Of course, top management or the owners will have to support the champions and make sure it is absolutely understood that everyone in the organization is expected to participate and help find answers.

The champions will figure out how the package will work best in your environment. Then they will be able to show that it works. The metrics defined earlier will provide proof positive of what is going on. With the first success, others will want to start using the application as well. It should not have to be forced. Allow the staff to self select when they become users.

There will be laggards. Do not worry. Once the tools are in place, everyone will see the measurable results. If you follow Mike Marks at Indian River Consulting, you know he advocates posting results and letting the team see who is "champ of the camp and who is chump of the dump." Those who fall behind will either get with the program or eliminate themselves from the company. It can be a natural progression or it can be moved along at a faster clip as appropriate.

Soon, the champions will become the go-to persons for questions related to the use of the BRM capabilities. Make sure to compensate and not penalize them for taking on the role. If they find the time to help everyone hurts their own ability to be successful, you will not get the sharing and training that is so valuable to success.

Selecting the champions is a critical part of success. Pick individuals who are not afraid to experiment. They should also be well respected by their peers. The more seasoned member of the team will help the more mature (the politically correct way to say older) members of the team see BRM as a tool they can use as well.

If possible, invite the champions to meet with other teams in the organization. One possibility is to ask the first champions to help pick and train the second set of champions. Working together, it will make spreading the BRM capabilities much easier and smoother.

MANAGE EXPECTATIONS AND PUBLICIZE SUCCESSES

A common point of failure for many types of application implementations is caused by a lack of managing expectations. Packages are constantly being oversold. People are told how wonderful life will be. But, no one is told about the hours of training that are necessary, the problems that will creep up in any startup, the chunks of time needed to convert data and then to figure out how to report it to gain the greatest benefit.

There will probably be changes to workflow, new procedures will have to be learned, and some reporting relationships may be changed. Ignore all of these realties and it can sink the ship. Just like enthusiasm, discouragement is highly contagious. Once it is let loose, it will be much more difficult to be successful.

In those cases where the implementation turns out to be easier then expected, everyone is happy. If we do hit some bumps, it is not a surprise or devastating to the users. They are expecting it and will take it in stride.

If people are prepared, it is easier for them to overcome the expected issues that will show up. Murphy's Law has endured so long not because it is funny. It lasts because it is true. We tell everyone to expect the system implementation will:

- Be harder than they think.
- Take longer than is planned.
- Not work as expected.
- Cause pain and suffering.

We tell them that anyone who is associated with the decision or installation will be despised by the rest of the group (say that with a smile). But then, four to eight months after start up, the grumbling will die down. Everyone will start looking back and wonder how did we exist so long without these wonderful tools? Why didn't we do this sooner? And "thank you" everyone who made this possible.

Good publicity is also a help. It keeps everyone informed. If things are running behind schedule, there is no whispering campaign to try and scuttle the whole project. The expectations are clearly stated so that no one is surprised.

Word of mouth is a good starting point, but the reality is there are cliques in all organizations. They do not always talk to each other. Often they do not play well together. Do not trust your success to innuendo. Consider the possibility of having an internal, email-based newsletter that highlights and brags about what is being done and any successes as they occur.

Report on time savings, increased sales, saved sales, better purchasing, more responsive human resources, repaired relationships of every kind, etc. Do not be afraid to be honest. If an expectation is not being met, say so. Executives are always surprised by the many ideas that come from the rest of the staff that are helpful and even generate better use of resources. If you never ask, you will never know.

SOME METRICS

In order to get the most out of your BRM application, you must have metrics that accurately reflect the value that is being received or measure the desired changes that are occurring.

There are many metrics which can be developed for each of the groups that are going to use the BRM application. The leadership group needs to determine what is important.

Again, we can use an example related to the sales team. The process is the same for each and every potential user. The first step is to determine what actions management wants to be performed.

Consider a requirement to increase sales penetration in existing customers. This is usually an untapped opportunity. So many sales people are willing to just allow customers to continue to buy what they have always bought. It is easy and does not take a lot of work to continue to collect commissions from existing accounts.

In one recent example, we found a client who had not kept his customer base up to date on new products and other sales opportunities. By taking a sample of the customer base and requiring that every sales person introduced every customer in that sample to any lines and products that they were not buying (within their vertical markets), the company learned something amazing. In the test group that was introduced to the full line of products, sales were increased to those specific customers by almost 40 percent.

This may have been an unusual group. The sales team was older (average tenure was over 20 years) and not very aggressive. It took some prodding to experiment with even a small sample. But the results were so surprising, that it was easy to ask that the process be carried to the rest of the customer base.

It is interesting that when customers were interviewed, the common reaction was: "I didn't know how extensive your line was." The company worked hard at being easy to deal with, but by leaving out the management of what the customers knew, many dollars were lost for years.

Now, the BRM system tracks when the sales people call and requires that every customer be introduced to every line they have not purchased in the past that similar customers do buy. The system is making it easy to track product categories. The plan is that over an eighteen-month period, every existing customer will be introduced to the whole product line.

BRM is being used to prioritize the customers so the best prospects are called first. The application is analyzing a combination of sales volume, longevity as a customer, the sales person responsible for the customer, and their business. Then it cross references all of the products that are already being purchased and suggests high probability items that other, similar customers buy.

This targeting is a great help to the sales force and the early results are impressive. The company is also reporting the added commissions each sales person is earning from existing customers. The numbers are making it easier for other sales people to be convinced to use the system to help direct their efforts.

Another company is using the application to better manage its purchasing. They have instituted a Vendor Report Card that provides comparative data on each vendor they buy from. By collecting information about the long-term relationship with the supplier, it is giving purchasing more information for better negotiation.

In many cases there are multiple suppliers that can be used to obtain almost all of the products being sold. Being able to compare all three vendors that sell product "XYZ" is a great competitive advantage. It is easy to capture data that shows clearly how well each of the suppliers supports the company's sales efforts and general profitability. By assigning values to various relationship metrics, it is easy to see where lowest price may not be the best way to select a vendor.

Where you might measure the "Days Outstanding" for a customer to get an idea of the cost of money that is required to maintain their payment cycle. With suppliers, one can compare discounts and the value of any special dating. Once you are able to calculate and report the total landed cost for any item (including your share of freight, all discounts, and other costs like the savings from being able to make electronic payments instead of sending physical checks), there is a greater potential that you will be able to negotiate a better deal. No longer will the words "free freight" be able to hide the higher cost of goods that cannot be made up—even with the freight savings.

For employees, the opportunities are also practical and valuable. By understanding the total relationship, it is possible to calculate a cost per period for each person. This will include all benefits, tuition reimbursements, special commissions, awards, etc.

The BRM system can help to manage reviews, ensure you do not forget an employee's birthday, and celebrate anniversaries. Just as with the other areas, the only limits are our imaginations.

Given the cost, it is then possible to use the integration capability to look at productivity. If you want to lower the cost of inventory picking, it is a simple function of extracting the number of lines picked per time period with proper allowances made for the size and location of the inventory.

By comparing individuals, you will know who the best pickers are and what it costs to process an order. Note that this data can be most valuable when deciding processing questions; such as is it more efficient to process many small orders rather than a few large orders. Given data on the true cost, it is possible to charge differently based on order size and composition.

Information is power. Once you know the real cost of servicing a customer—because the integrated BRM application is collecting and organizing the data—you can calculate exactly what a customer is worth. It is relatively easy to calculate the cost of slow pays, returns, special requests, and special services. Management teams are often surprised when they first get good numbers and find that their biggest customers are rarely the most profitable. Being able to fine tune pricing is one benefit of actively working with BRM knowledge.

Knowledge can change perceptions, but then you must manage people to change their actions. Consider three simple definitions:

- A good customer: is one we make a profit on;
- A good supplier: is one who allows us to make a profit on their products or services;
- A good employee: is one who earns his/her pay.

With good data we can manage each of these groups better. Starting in sales, what can happen if we know which customers are good and which are not. It is suddenly possible to adjust the way we charge specific customers to make them profitable. If we cannot make them profitable, then we have to be willing to get rid of any customers where their contribution to gross margin does not meet our minimum targets.

Then it is just a matter of discipline to charge what we are worth. If a customer is not willing to pay for better service, higher quality, and support, let them go elsewhere. We also have to teach the sales force that low price is not the only reason people buy. There are other advantages we can point to if we have the metrics and reports to prove what we say.

It is appropriate to set product pricing based on what it costs to service a customer. One of my clients took the lowest 10 percent of customers based on gross margin contribution and changed the rules. The new guidelines required that these customers:

- Were only allowed to place orders online or through the general order desk (no salesperson was assigned to them).
- Were not allowed to place any special orders.
- Could buy only what was in stock—no back orders were allowed.
- Had to pay by credit card (no invoicing).
- Were required to accept standard shipping.
- Got a 10% increase in their pricing.

While the sales force predicted all of the affected customers would leave, after six months not one of the customers left for another vendor. They were not buying from the distributor because he had the lowest price, but due to service, availability, responsiveness, and quality.

As a result of this experiment, the lowest 10 percent of the customer base was made among the most profitable. More importantly, it taught management a lesson: given good data, it is possible to change the way people work for the benefit of the organization.

Each of us can take the same approach with most of our suppliers. Obviously, it will not work with everyone. There are exclusive brands where if you want to carry the product, you must adhere to their rules. Still, if you cannot make a good profit on their lines, is it really worthwhile to carry them?

This is another place BRM can come in handy. By being able to examine purchasing data across lines, it is possible to see if the customers who purchase the products on which you do not make a higher margin, always buy other products where you do make exceptional margins. Then, overall, it may be worth it to carry the underperforming product.

Decisions like this can only be made if the data and information are available. <u>And</u> management must be willing to use the information to make and stick to the hard decisions.

Finally, consider employees. It is never easy to measure absolute performance, or at least that has always been the excuse. By combining a BRM that is fully integrated with a top notch ERP platform, it is possible to set and report all kinds of important metrics.

Employees can be watched for all of the standard HR-type functions (vacation, sick leave, time, and attendance). But that only duplicates what most HR applications do. Now, include tracking and measuring education (including how to best stock shelves for the warehouse employee, safe driving practices for your delivery staff, study for a CPA in the accounting department) and you start to get the idea.

Use BRM to collect and maintain reviews, letters of commendation from customers, suppliers, and other employees, and other input related to the performance of every individual. Then keep the appropriate metrics that were discussed earlier.

A FEW QUICK IDEAS

When selecting a BRM application, make sure it integrates with your office tools. It does not matter what you use (Microsoft Outlook, Google tools, etc.) Just make sure the tools are integrated so you do not need to keep two databases—which will never be in sync.

All contacts should be available from the BRM, but easily accessed when doing email. It should be easy to capture emails and store in client folders that are accessible by the BRM. Calendars and tasks should all be integrated so each user sees the same things no matter which application they are working in.

Encourage marketing to use the application. Have them identify metrics for each promotion they do (not an easy sell—many people hate to be measured—that makes them responsible). See what is happening by combining data. Was there a difference if a sales person called or did it not make any difference? The results can be used to save sales time and increase the performance of every program.

Support remote devices. BRM that can only be used when in the office is a poor investment. Whether it is an accountant sitting in the office of your banker, a salesman at a customer, or a purchasing agent with a supplier, they all need data at their finger tips to do the best job possible.

The last thing we need to discuss is security. The first worry of most company owners is that it will be too easy for the sales staff to take data on customers. Since the invention of writing, sales people have always kept duplicates of their rolodex (an ancient method of capturing and organizing data on customers).

BRM is no different. Sales people will make copies of their data. There are a few things a company can do to provide some protection. Contracts can help, but it really comes down to the individual. Someone who wants to cheat the system will.

Top-tier systems have security built in that can restrict what any employee can see. It can be used to make it more difficult for an accountant to attack, take, or sabotage sales data. Purchasing data can be secured from the sales force. Employee data can be maintained in a confidential manner.

Security is an important consideration, but do not allow it to keep you from experimenting and gaining benefits from the rest of the application.

CONCLUSIONS

BRM is not necessarily new. The foundations have been around for decades. Some of the uses are relatively new and innovative. They are providing competitive benefits for those willing to push the envelope. The benefits to the operation are immense. It just takes knowledge of what is available, imagination to use it to the fullest extent, and the discipline to stick with it for the long run.

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ABOUT BROWN SMITH WALLACE CONSULTING

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