20:20 Customer Experience
Forget CRM – Long Live the Customer!
If you could wave a magic wand and produce the ideal experience for your customers, what sort of experience would it be? The Customer Experience Study 2005 (“the Study”), based on research conducted by IBM in conjunction with OgilvyOne worldwide”, sought to answer this question.

The Study confirmed that it’s never been more difficult to win – and keep – business through product and price distinctions. Brand loyalty is no longer just about product quality or features – the quality of a customer’s interaction with a company (e.g. how fast, easy, efficient and reliable the process is) can make or break the relationship.

The Study confirms that customer experience management (CEM) is the key for companies hoping to maintain if not improve that relationship: successful CEM initiatives have demonstrated significant customer impact according to 68 per cent of respondents in the Study, and quantifiable revenue growth in 50 per cent of cases.

The trouble is, for years, customer relationship initiatives focused on operational aspects such as complaints or queries, or general customer satisfaction levels. The Study confirms that customer experience is defined by every touch point between a company and its customers, across all channels – customer expectation can be damaged during a single transaction if it is let down by even one channel (from website to email and then call centre). And the proliferation of channels means it is cheaper and easier than ever for a customer to find a better experience.

Customer experience is based not just on operational concerns, but emotional aspects as well. And for the first time, marketing, sales and services acknowledge that this is the case – the “silo mentality”, in which departments work on their own agendas, is being broken down.

The challenge is to convert this knowledge into an integrated, managed, enterprise-wide initiative in which marketing, sales and services contribute to the goal of the best possible customer experience. To do so, companies need to build on the CRM activities of the past and develop a complete picture of the customer journey, both in functional and emotional terms.

Both emotional bonding and operational attributes must work together to produce the ultimate customer experience. However, while the Study shows that 78 per cent of companies surveyed measure customer experience through functional (transactional and operational) information they have captured, only 64 per cent measure emotional (bonding) aspects – and even these may be confusing “customer satisfaction” for bonding, which is far more powerful.

There is a disconnect here between company and customer, and the Study demonstrates that this needs to be resolved. This disconnect may explain why only 57 per cent of companies surveyed for the Study believe they are responsive to customer needs.
More rigorous metrics need to be introduced that offer specific insight into the customer across all touch points. Only then will companies be able to evaluate exactly what kind of experience they are delivering, and how customers are responding. As the Study shows, companies that succeed in providing the right experience develop stronger emotional bonds with their customers. This improves customer loyalty and prompts customers to advocate the brand to others.

According to the Study, effective CEM brings together data from across an organisation to create a map of the customer's journey with the brand – from both the customer and the company perspective. It involves continued support from senior management, to drive and manage change across the organisation, and motivated, engaged employees who understand their part in delivering brand promise. Only then will an organisation develop an integrated approach to improving the customer's experience.

The Study found that effective customer experience management offers big gains in customer advocacy, emotional bonding, sales and cost-effectiveness, and yet the majority of businesses spend more time on operational concerns.

Customer experience management is a not a stand-alone project, but an enterprise-wide business philosophy. Are you prepared to make the move to improved CEM? More importantly, can you afford not to?

The Customer Experience Study 2005 was conducted in association with:

OgilvyOne worldwide
Defining the customer experience

Introduction

The 21st century marketplace is brutally competitive. There are fewer ways for companies and brands to stand out. How can a business differentiate itself? Improving and enhancing the customer experience may be the answer. The customer experience – good and bad – reflects the characteristics of a company’s brand, if not defining them, but few companies have taken this on board. According to the latest IBM research described below, those businesses that have taken the extra step to build customer experience into their brands have enjoyed measurable success.

Customer Experience Management is the key to future brand growth.

In 2005, IBM Business Consulting Services Institute of Business Value, together with OgilvyOne worldwide™, conducted extensive quantitative and qualitative research with consumers, companies, and industry experts, to determine how companies are managing the total customer experience: The Customer Experience Study 2005 ("the Study") uncovered some striking perspectives and examples of best practice for organisations seeking to implement successful customer initiatives.

Increasing product commoditisation and a more competitive global marketplace mean that price, features, quality and service are no longer enough to differentiate competitors.

The Study revealed that, to set themselves apart, and to create a new and lasting source of competitive advantage, organisations must manage customer experience – how the customer experiences the brand at every interaction and in every channel.

But what drives customer behaviour? How do customers perceive the purchasing process and how does this match up with the organisation’s view? How can customer experience be profitable to a brand? What are companies doing now to tackle customer experience – and what should they be doing in future?

Companies are focused on revenue growth (66 per cent) through retention and cross-selling strategies (52 per cent), combined with the introduction of new products and services (32 per cent). Controlling costs through operational efficiency (28 per cent) now ranks fifth in priority after customer experience optimisation.

[Source: IBM Customer Experience Study 2005]
Customer experience is a journey that a consumer takes along a series of touch points: they become aware of a brand, consider what’s on offer, make enquiries, make a purchase and use the product or service. Customers can choose to stay or go at any of these touch points.

Effective customer experience is a blend of product and service performance capabilities, and sales and marketing strategies, the interaction between customer and company along these touch points, and the extent to which this all reflects a brand’s “promise”.

Businesses need to understand and respond to individual customer needs and circumstances, and design an experience that creates value for both parties.

**Great expectations**
The Study revealed that customer interaction with brands is based around expectation, interaction and reflection.

**Expectation** is linked to what an individual has heard and perceives about a particular company or brand, influenced by factors like “word of mouth” from trusted sources as well as the brand’s communications and marketing activities. This defines initial expectations and the customer’s level of self identification with the brand.

There are common expectations. Consumers will look for a product or service that is safe/reliable, performs well and is accurately described. As expectations are raised by a brand, they will expect commensurate improvements in such areas as product/service performance and the level of customer service provided.

**Interaction** is the act of dealing with and experiencing the brand, including the emotions and attitudes this interaction evokes.

**Reflection** is the critical cognitive process that creates a memory of the experience. This either reinforces or modifies the individual’s perceptions and expectations of the brand (positively or negatively). Consumers can adopt all-inclusive views of sectors – a positive or negative story about one company can, in some cases, affect consumer perception of the whole category.

**Bonding – the first moment of truth**
There are “moments of truth” along the journey, when a customer interacts with a company, the outcome of which can affect how they feel about a brand.

The Study confirms that the first “moment of truth” occurs when a customer’s expectations are compared to their initial, actual experience. At this point, the customer’s journey – or the CEM cycle – is shaped by two key elements:

- **Functional**: what customers expect and experience of the operational aspects of the product or service.
- **Emotional**: how the customer is made to feel by the purchasing experience.

According to the Ogilvy Loyalty Index – an OgilvyOne worldwide analysis of the annual Millward Brown study of 28,000 worldwide brands (BrandZ™) sponsored by WPP – companies that were successful in creating both functional and emotional bonding had higher retention ratios (84 per cent versus 30 per cent) and cross/up-sell ratios (82 per cent versus 16 per cent) compared to those that did not.

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**Seventy per cent of companies have undertaken a customer management improvement effort and 16 per cent are planning to do so. The majority of these projects have been enterprise-wide (68 per cent), with the others being segment/channel driven (24 per cent) or divisional/function (22 per cent) in scope.**

[Source: IBM Customer Experience Study 2005]
Defining the customer experience

The Study, meanwhile, identified a series of emotional responses – or “customer-bonding attributes” – that differentiate a brand in customers’ minds. These are:

- **Integrity** (sincerity, authenticity, empathy, recognition and dignity).
- **Reliability** (responsiveness, availability, consistency and timeliness).
- **Efficiency** (customer needs met quickly and effectively, by helpful, knowledgeable employees who “get to the point”).
- **Convenience** (location of or access to products or services, and their ease of use; intuitive store layout/product placement).

According to the Study, integrity, reliability and efficiency are important for more intrusive or “significant” purchases, while convenience may be more important for lower-value, impulse purchases.

The Study shows that customers want to feel that people they are dealing with – whether remotely or face to face – are trustworthy, professional, well informed and empathetic, and recommending the product or service best suited to their needs in a timely manner.

If a brand’s customer service experience can deliver these high-level traits, the chances that prospect will bond with that organisation and become a customer, and – according to the Study – a source of repeat business are increased. When expectations are exceeded, or when a range of personal, functional and/or aspirational needs are met more effectively, the consumer’s emotional bond with the brand should be strengthened. They may speak well of the brand, recommend it to friends and colleagues, and are more likely to assign the brand a high share of wallet in the category.

The trouble is, as the consumer-specific element of the the Study shows, the more the customer has to do – in terms of investing time and effort researching options and reaching a decision – the greater the emotional involvement. In such cases, the quality of the operational attributes of the product or service are insufficient as a basis of differentiation.

Yet, according to Gartner research, more than 80 per cent of CRM strategies will fail to articulate the brand values in the customer experience. The result will be a large decrease in benefits from CRM.

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**Case study: Royal Bank of Canada**

**Challenge:** Royal Bank of Canada (RBC) customers were demanding integrated, multi-channel experiences, and expecting access to services “anytime, anywhere, anyhow”.

**Solution:** An enhanced Web experience, leveraging the brand and implementing a multi-channel interaction brand strategy. The team has positioned the refined brand strategy at all channel interactions beginning with the Canadian consumer retail base and is now extending this body of work over the next year to all other lines of business within the global RBC organisation.

**Benefit:** This refined strategy has contributed to improvements in RBC’s bottom line growth.

External factors play a part
In the Study, interviews with industry experts across a range of enterprises highlighted numerous external factors that increase the need for customer experience initiatives:

More supply than demand: Consumers have a range of choice between multiple offerings from scores of rivals. Catching people's attention is an increasing challenge.

Competition on a global scale: Organisations have more rivals than ever, some with lower cost bases. More travel, international media, customer confidence and Web purchasing means that consumers' repertoires are no longer confined to familiar brands.

Non-traditional rivals: Companies can be challenged by mega-brands that span several sectors. Insurance companies no longer just compete with each other; they also compete with supermarkets.

Commoditisation and cost pressures: The speed with which product differences are closed or exceeded, and the continual drive towards reduced prices and costs means that standing out from the crowd is increasingly difficult. Consumers may be less easily swayed by new feature additions to products. They may also perceive little difference (other than price) between competing products or services. Customer experience management is a vital way to differentiate your company from the competition.

Regulation and compliance issues: In some sectors, interaction with customers is tightly controlled and customer expectation is carefully regulated (eg pharmaceuticals, financial products). In others, external legislation can have an indirect impact.

New channels and technology: Web-based companies and channels with lower overheads represent new challenges for companies trying to reach an increasingly multi-channel customer and manage corporate reputation. Consumer habits – particularly among under-25s – are different in the digital domain. They will multi-task (eg surf the net while watching TV) and filter out ads with PVR technology, which means they are harder to reach. At the same time, adverse reactions to a product or service can travel more widely and faster than before, through email and Web logs (“blogs”), potentially raising the cost of bad customer experience.

Cost reduction: Companies must focus on channels that reduce “cost to serve” without impairing the experience. They need to establish the extent to which customers value interactions that can be automated – from check-in kiosks at airports to automatic phone services – without impairing the service. The key is understanding the extent to which customers are willing to dispense with the “human touch” in return for a fast, “hassle-free” service.

According to IBM research, 78 per cent of companies in Europe measure customer experience based on accumulated transaction and operational data, but only 64 per cent measure relationship and bonding levels. This may explain why only 57 per cent of companies believe they are responsive to customer needs.

[Source: IBM Customer Experience Study 2005]
Defining the customer experience

Customers see events, not touch points
Customer experience is defined by front office touch points (e.g., salespeople, call centres, marketing and product brochures, invoices, websites, direct and mass-media advertising), though it is dependent in large part on back office capabilities (e.g., fulfilment, follow-up, delivery) and product performance.

While brands rightly look at touch points containing moments of truth, customers usually “bundle” them in their minds as a series of larger events. The Study emphasises the fact that the best results are achieved when a company manages the customer experience holistically, integrating all points.

A customer may need to deal with a central heating supplier to discuss available models, buy a boiler and arrange for installation. In cases of breakdowns or servicing, there will be more touch points: reporting the fault, making an engineer appointment, the repair itself and then a follow-up customer-service call.

These are important touch points for the brand. But for the customer, these are separate events. Did they have a good experience buying the boiler? Was the after-sales service good? Customers are likely to consider the outcome more than the constituent parts.

Advocates, loyalists and defectors
The Study shows that all of these factors shape a consumer’s attitude to a brand and determine whether they become an advocate, loyalist or defector.

Advocates are always loyal to the brand. They recommend it to friends, family and colleagues. The Ogilvy Loyalty Index shows that brands with the highest level of advocacy, which is characteristic of emotional bonding, are almost without exception the brand leader.

Loyalists have a preference for a brand but stop short of advocating it. They will consider rival offerings and can be swayed if they feel they can find a better experience elsewhere – but loyalist customers usually translate into higher profit.

Defectors are advocates in reverse. If dissatisfied, they will not return to a brand and will tell their friends, family and colleagues to avoid it.

Case study: Museums

Challenge: The value propositions of ten different museums (five in Italy, five international) were examined, across all of their channels, to determine if the customer experience was consistent and the value realised.

Solution: Analyses of customer segmentation (family, student, elderly, teacher, manager) and the channels for delivery (location, Web, call centre, email and audio-guide) highlighted areas where individual museums were exceeding or failing to meet customer expectation.

Benefit: A richer value proposition and areas for improvement. Potential improvements in Wallet Share (average expenditure per customer, average revenue increase per transaction, etc), Market Share (increase of new customers, etc) and Profitability (decrease of new customer acquisition costs and retention costs, etc).

The right measure
In order to follow each customer on their journey, you need to use the right approach to measurement. For years, companies focusing on customer satisfaction relied on metrics based on general customer attitudes towards operational performance, which often bore little relationship to subsequent customer behaviour. This is no longer enough.

The Study indicates that many earlier customer insight investments do not adequately support the latest CEM agendas, because they are rooted in the more general approach to customer satisfaction that evolved in the eighties and nineties.

Customer satisfaction research falls short primarily on three levels. First, insufficient attention is paid to understanding the level of brand advocacy/commitment of different behavioural segments within the customer base. “Traditional” customer satisfaction research typically takes a generalist view of the customer base, often failing to recognise significantly different customer segments, some of which may be small in number but highly important in terms of their impact on sales and profits.

By contrast, CEM is typically concerned with tailoring the experience (and the corresponding level of investment) to the needs of different customer groups. It will then assess how this changes customer attitude and behaviour positively at key points along the customer journey.

Second, customer satisfaction research seldom, if ever, reveals the impact that different components of customer experience can have on levels of brand advocacy and emotional bonding. As such, it lacks diagnostic insight that would allow companies to effectively refine the customer experience over time.

Third, customer satisfaction, as it is often currently measured, is a very poor predictor of future behaviour in most categories and therefore a poor “compass” by which to plot an effective customer experience.

According to the Study and the Ogilvy Loyalty Index, movements in levels of emotional bonding and advocacy are proven predictors of future purchase behaviour, as well as market share and business health.

As such, CEM initiatives must have predefined measurement criteria and a clear business case. Including metrics such as key performance indicators will focus the business on delivering customer and hence business value – which is important for effective customer experience management.

As one interviewee recommended in the Study, in order to have clear objectives, any CEM initiative must be clear about how the company will measure the relevant indicators and how it will implement the defined plans (and refine them) at different stages over time.

“Loyalty is the core of growth and growth is the engine of profits. To realise those goals, you need an effective system for gathering loyalty data and putting in front of the people who need to see it.” – Fred Reichheld, author of The Loyalty Effect
The growing importance of customer experience management is clear and business is responding. But how can a business introduce customer experience management (CEM) effectively?

There are a number of options for businesses implementing CEM, but based on the Study, there are four key steps that will make the process easier:

Know your customer and their value drivers: who are they, what are they looking for and how can you best fulfil their expectations? Is the customer experience easy, complete, time efficient, trusted and consistent, and does the uniqueness of the brand’s “DNA” shine through?

Know your industry: the organisation must understand what the competition is offering and how it’s being offered, as well as the relevance of each of the channels involved. Benchmarking your customer experience management capabilities versus those of your competitors can be a worthwhile activity in the planning stage.

Assessing your value drivers: what is actually driving or enabling value through the company and what is proving to be an irritant or inhibitor to customers?

Make it happen: once the organisation has assessed its customers and channels, and understands what it does well and what needs to be improved, the final stage is making any changes needed to improve the customer experience.

With these as a starting point, companies should be better prepared to take on customer experience management across the board. But they are only the beginning. The Study has confirmed that there are a number of specific steps that can create mutually rewarding value from the customer experience for a company and its brand.

Find out what channel your customer is watching

Respondents in the Study highlighted the fact that customers select channels of preference, pursuing whatever phone, Web or in-store interactions will help them meet their goals. They will avail themselves of different channel combinations according to their circumstances (whether in the home, at the office or on the move), the time available and their stage in the information-seeking or purchase decision process. “Mood, mode and moment” all play key roles.

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**Case study: Umpqua Bank**

**Challenge:** Umpqua Bank in Portland, Oregon, was unable to differentiate itself through its products.

**Solution:** Umpqua assessed the needs and expectations of its customers, and implemented new ways to offer the best customer experience, focusing on a community centered branch.

**Benefit:** “A bank like a store”, where customers can “surf, sip, shop, read, bank” – and consider themselves part of a community.

However, the Study also demonstrates that customers do not care about the channels. They are only concerned if their preferred channel works, is useful and available at the right time/place. As was discovered in an IBM Institute of Business Value study conducted in 2002, 59 per cent of customers interacting with a brand across multiple channels will stop doing business with the brand after just one bad experience in just one channel.

According to the Study, to improve the customer experience, organisations must understand their customers (including how their customer base is grouped/segmented), develop appropriate propositions for different customer groups, recognise the channel preferences of different customer segments and then drive the offering consistently and effectively across all channels used.

**Take the pain out of touch points**
Customer dealings with companies should be as smooth and hassle-free as possible – even face-to-face contact with an organisation’s representatives should, in some cases, be avoided.

Companies that ensure that their touch points are trouble free and do not turn into “pain points” should see improvements in customer experience – and can often achieve cost reductions through greater operational efficiencies, provided of course that such efficiencies are seen in the context of the desired business outcome (increased customer bonding and value).

**Consider different channels**
Providing a consistent customer experience across different channels can often be a major stumbling block. This is further compounded when different products are offered through different channels.

In financial services, for example, insurance products can be easily sold over the internet or the Web while more complex mortgage products generally require personal contact. Channels that are not integrated add to the frustration.

According to the Study, overall, the track record for multi-channel projects has been quite good – 40 per cent of the projects have been fully used (55 per cent somewhat used).

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**The exchange of value is key to success**
*Customer experience is about how the brand is experienced in every channel and at every interaction – the objective is to serve customers intelligently and profitably***

- **Value Proposition**: defines a company’s strategy in terms of unique mix of product, price, place, service and image
- **Value Realisation**: consists in the outcome (in terms of market share, wallet share and profitability) of relationship between company and customer
- **Value Perception**: is the customer evaluation of the interaction with the company through channels
- **Value Expectation**: derives from customer wants and needs, previous experiences, company communication and word-of-mouth

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The Study shows that the major obstacles preventing effective implementation include:

- A lack of resources (26 per cent).
- Insufficient change management focus (22 per cent).
- Insufficient employee involvement (20 per cent).

The main enablers of success when it comes to improving customer channels, again according to the Study, are:

- Technology (56 per cent).
- Customer organisation (43 per cent).
- Systematic collection of consumer data (40 per cent).

Based on this feedback, it’s vital that senior management be committed to and involved in any such project and that a phased implementation approach be used, so employees fully understand the changes being introduced. Involving the right stakeholders and having a good governance model for the project are also important factors.

**Same customers, new leads**

Producing a thorough and actionable understanding of customers helps companies anticipate how best to service them, according to the Study. But obtaining a complete picture is not always straightforward – departmental silos can obstruct such a view. And further obstacles can occur when customers start to interact with an organisation in a new way.

**Segment customers better**

The Study makes it clear that, as well as providing a quality service at every touch point, customer retention can be improved by sophisticated segmentation of an organisation’s customer base. By using value and loyalty-based metrics, working on understanding the lifetime value and risk of clients (their volatility) and identifying customer lifecycles, companies can improve the allocation and focus of marketing to improve customer experience and achieve a better return on investment.

**Focus on retention**

New companies, particularly in the technology or telecommunications industries, tend to grow rapidly.

However, in-depth interviews conducted for the Study with representatives from a range of industries, highlight the fact that a focus on customer acquisition can diminish margins – retained customers typically generate steady improvements in profit margins, while acquiring a new customer usually costs money.

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**Case study: American Express**

**Challenge:** American Express Financial Services UK needed a holistic customer experience to support its role in the 2004 UK International Motor Show. It wanted to get its message and offers across to an audience in a timely fashion and in a way that would change customer perception of card membership.

**Solution:** IBM and KANA Software worked with the AMEX card acquisition team to establish the current methods of card application. Captured “soft data” was used to support marketing collateral (e.g., SMS messages with offers specific to the event).

**Benefit:** The results of this activity are still being measured, though anecdotal evidence gathered from applicant and sales advisors suggests that it has been a success from the customers’ viewpoint.

Nevertheless, all too many fast growth categories fail to pay attention to value creation through improved knowledge of customer behaviour and intelligent management of the customer experience.

As the organisation develops, it realises the need to develop relationships and improve the profitability of its existing customer base, thereby securing better ROI on marketing expenditure over time.

**Develop brand advocates**

To help generate true brand advocates, you must have the right tools and enablers in place, such as an effective customer organisation and the systematic collection and management of customer data. According to the Study, from a technology systems point of view, the three priorities are data mining (54 per cent), customer segmentation (50 per cent) and contact centre optimisation (50 per cent).

**Turn interest into sales**

Ultimately, according to the Study, managing the customers’ cumulative experiences, or touch points, and ensuring they consistently align with the most valuable bonding attributes (integrity, reliability, efficiency and convenience) will create loyalty and advocacy among customers, and hence generate repeat business. The only question is whether companies are prepared to make the effort required to first improve and then manage the customer experience from beginning to end.

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**“I worry about employees first, customers second and shareholders third.”** – Sir Richard Branson, CEO Virgin Group, State of the Nation IV: 2005 (QCI)
The Emotional Loyalty Pyramid
There is a link between consumers’ emotional loyalty – the way they feel about a brand – and their financial value to the brand, according to analysis by OgilvyOne worldwide™ of the BrandZ™ database (a comprehensive research study sponsored by WPP & conducted by Millward Brown).

Customer loyalty translates into growth for a business, though understanding the fundamentals of customer loyalty remains a challenge for many businesses.

Emotional loyalty is proved by concrete evidence and is value based, universal, sustainable, customer-wide. It involves the customer in a total experience with a brand.

The Emotional Loyalty Pyramid (below) offers some much needed insight into the customer journey:

- **No presence**: the foundation of the pyramid. Consumers at No Presence have never tried the brand and are not spontaneously aware of it, and are not familiar with its promise.

- **Presence**: consumers have tried the brand, or are spontaneously aware of it or know about its promise. They are likely to have some emotional loyalty to the brand, but at a low level.

- **Relevance & performance**: consumers believe the brand can meet their needs, is about the right price, is their kind of brand and performs its job adequately.

- **Advantage**: the brand is one of the consumer’s favourites and they rate it highly on at least one emotional loyalty attribute.

- **Bonding**: The brand is the consumer’s favourite by a wide margin – it beats them all and they often recommend it. This is the ultimate degree of emotional loyalty – consumers have a sense of “owning” the brand, rate it highly on many emotional loyalty attributes, especially those most important to brand choice.

The Business Case for Loyalty
According to the Ogilvy Loyalty Index, most brands only succeed in bonding less than 10 per cent of their customer franchise, although clear market leaders and “category busters” can be characterised by bonding levels as high as 20 to 30 per cent.

In addition, a customer at Bonding is worth more than seven times a customer at Presence. The average value of a customer almost triples between Advantage and Bonding in all value segments.

Globally, brands with customer experience management initiatives have a much greater percentage of customers at Bonding (than comparable brands without).

Source: BrandZ™ and the Ogilvy Loyalty Index – data provided by OgilvyOne™ worldwide.
The Study reveals that companies are focusing on revenue growth primarily by extending customer value. They are recognising that an improved customer experience is the key to brand health and sustainable revenue growth over time. This approach is replacing the traditional focus on acquisition of new business by silo.

Companies must now determine how to take advantage of each unique touch point and integrate them into a unified, positive experience – the total customer experience. Before they begin, according to the Study, organisations will need to keep a variety of issues in mind:

- Customer attrition/churn – customer retention is at least as important as customer acquisition.
- Identify customer journey inefficiencies and ineffectiveness – including poor or inconsistent customer experience.
- Build revenue through cross-selling and up-selling opportunities.
- Customer satisfaction measurement issues – the generalised satisfaction metrics of the past need to be updated with a more focused and diagnostic approach to understand how components of customer experience management drive behaviour/value.
- CEM is a business philosophy. Communicate change effectively – everyone in the organisation must be aware of new CEM activity and know that it is a permanent, core capability; not just a project.
- Brand “True” – delivering on the brand promise by reflecting the brand’s core attributes, personality and tone of voice, leverages the brand asset and helps to ensure that the customer experience meets expectations.
- Promotional rewards used as a substitute to loyalty – short-term rewards may stimulate short-term shifts in behaviour and even help recruit new customers, but they do not generate long-term customer loyalty and may even undermine the value of customer behaviour by increasing the proportion of promotionally promiscuous customers. This is a case of “reaping what you sow” – if you win customers through promotion, you will most likely lose them the same way.

Setting up the project

Customer experience can be managed successfully and many companies are already doing so, but how does a company get started? In the Study, companies that had introduced successful CEM initiatives highlighted some key factors that made the difference for them, including:

- Define the customer management strategy.
- Define clear responsibilities and objectives.
- Treat CEM as part of the company, not as a project – create a service culture.
- Ensure the process includes marketing, sales and services.
- Establish stakeholder management and change management programmes.
- Keep the project simple and small, then roll it out.
- Define short term ROI objectives. Understand how longer term value will be created and then track this.

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**Case study: Finnair**

**Challenge:** Faced with increased competition in the airline industry, Finnair needed to retain its customers by better understanding their needs.

**Solution:** Customer Equity Lifetime Management (CELM), which provided more in-depth knowledge of the airline’s customer base.

**Benefit:** Finnair has reduced marketing costs by 20 per cent and improved response rates by 10 per cent, and now delivers consistently at all touch points.

Customer experience management in action

- Build a solid business case.
- Keep customer retention and profit as central objectives – CEM initiatives must be designed to encourage lifetime value and systems should be put in place with improved customer insight and management in mind.

Get boardroom buy-in

Top-level commitment to change is vital. The Study demonstrates that effective customer experience initiatives are all-encompassing. Touch points must be identified and analysed, and data collected, across the organisation. Departmentalised thinking – the silo mentality – must be overcome and there must be a willingness to engage with the customer at boardroom level. A CEO with a strong customer vision is a great start (eg Sir Terry Leahy at Tesco, Sir Richard Branson at Virgin, JW Marriott Jr of Marriott), but failing that, momentum must be created within the company.

Senior executives should notice if a project is beneficial to the long-term business, especially if it controls costs from the start. Interviewees in the Study had adjusted spending to focus on increased efficiency, or sought self-funding business cases. Identifying “sweet spots” for improvement, such as channel rebalancing, in order to generate cash flow for more substantial customer experience transformation is another option.

According to the Study, appointing a senior customer champion can be an effective option. This individual should be accountable for aligning processes, people and technology to create a “joined up” marketing and delivery capability that matches brand promises and execution consistently across all customer journeys.

Establish a cross-functional, senior level team to address the big issue, from the CEO to the financial director and the CIO. Senior managers then need to drive change across the organisation and ensure that staff commit to a customer-oriented culture. This team of executives can set up a common strategy for project governance that runs across all lines of the business, including business process and channels.

With this executive team in place, the initiative should receive the necessary enterprise-wide sponsorship and be both cohesive and consistent at all levels.

Case study: Ocado

**Challenge:** Ocado’s online grocery shopping service, in association with Waitrose, was entering a new market that was dominated by big high-street supermarkets Tesco (Tesco.com) and Sainsbury’s (Sainsburystoyou.com). It needed to stand out from the competition.

**Solution:** Working with OgilvyOne worldwide™, Ocado developed and emphasised its core differentiating proposition – a superior customer experience. This became the key to achieving increased delivery penetration and basket size.

**Benefit:** Deliveries were up by 33 per cent (May-July 2004), representing a 238 per cent increase year on year. Basket size was up three per cent, while according to Ocado’s Customer Satisfaction survey, November 2004, 98.5 per cent of customers would recommend Ocado to others.

Source: OgilvyOne worldwide™ case study.
Engage staff

The mantra that the “customer always comes first” is so engrained in marketers that organisations can miss a fundamental point, one that was brought out time and again in the Study: highly engaged and committed staff are key to improving customer experience. Employees who embody the brand promise when interacting with customers leave people with a highly positive view of the brand. IBM’s findings are backed up by external research as well:

- 70 per cent of brand perception is determined by customers’ experiences with people. Source: Market Leader, 1998.
- 41 per cent of customers are loyal because of good employee attitude. Source: MORI, 1999.

Happy and motivated staff also bring strong benefits to the bottom line:

- Over the past five years, companies rated as “a good place to work” have shown 25 per cent growth in share and dividend returns, compared to an All-Share index average of 6.3 per cent. Source: Sunday Times Great Places To Work Survey, 2002.
- If customers rate a company highly, it will outperform the market, in terms of returns to shareholders over five years, by a factor of 1.6. If employees also rate the company highly, it will outperform the market by a factor of 3.2. Source: Vivaldi Brand Leadership Study, 2002.

Employees need to understand the company’s core values concerning customer experience and be properly motivated and trained in order to understand the part they play in delivering these. This requires a strong managerial team that will determine the best roles for employees in delivering the brand promise.

According to the Study, failure to communicate brand values or motivate staff adequately can have an adverse affect on their attitudes and undermine customer service. If the “what” of customer experience involves the company deciding its core customer-service values and capabilities, the “how” – as in how these are delivered – lies primarily with its employees and the organisational capabilities that support them.

Case study: Jet Blue

**Challenge:** American airline JetBlue recognised that aggressive growth would lead to increased queuing times of 30 minutes at check-in if nothing were done.

**Solution:** With assistance from IBM, it analysed and researched current check-in experiences and brought together a self-service solution that focused on redesigning the check-in process, installing kiosks to increase airport self-service and moving to self-printed barcode boarding passes.

**Benefit:** Customers are processed more efficiently while high standards of customer service and innovation are maintained. The deployment of 150 self-service kiosks reduced customer pain – and catered for Jet Blue’s expected growth by decreasing overloaded customer queues.

Form a "company wide" view of the customer

Departments often build walls around themselves, either knowingly or subconsciously. Instead of collating and sharing customer data, it is often stored in silos, creating a fragmented view of consumers. This prompts separate departments to approach consumers according to what they have to offer, or what they know, rather than what the customer wants.

For example, a sales department may think a customer is loyal and satisfied because they have bought goods from the company for the last two years. However, there may well be a record on the customer services department computer system that reveals the customer was extremely unhappy with their last purchase and the after-sales service. Without a means of sharing information effectively, there are two very different views of the same customer, neither of which represents a complete or wholly accurate view of their relationship with the brand.

According to the Study, proactive organisations need to be able to share knowledge and customer insight effectively, pooling resources to achieve an integrated, "wide angle" view of the customer experience. Departments may need to be reshaped to better deliver what customers want rather than what they may have originally been set up to deliver.

Get a return on investment from your value proposition

A company’s value proposition encompasses its overall offering: a summation of what it stands for, what its goods and services are, the positioning of these goods/services in relation to competitive alternatives, as well as their cost, availability and the level of service that can be expected.

According to the Study, customer reaction to that proposition shapes value realisation – the financial return to the organisation, which can be measured in terms of market and wallet share, as well as customer profitability.

Organisations need to examine their value proposition and the value realisation they receive back in terms of market share, wallet share and customer profitability. Then they must assess and segment customers in terms of the current and potential value they offer to the company.

Case study: UK’s Driver and Vehicle Licensing Agency (DVLA)

**Challenge:** Customers of the UK’s Driver and Vehicle Licensing Agency (DVLA) were demanding new channels. No small task – the DVLA handles 43 million transactions a year.

**Solution:** With IBM’s help, the DVLA introduced an Electronic Vehicle Relicensing (EVL) system. Customers can now go online or use an automated phone system to renew and amend their licence or off-road notifications at any time.

**Benefit:** There has been good take-up of the service and positive feedback from customers has been high (91 per cent).

While some customers are worth spending more on to maintain them as loyal advocates, the Ogilvy Loyalty Index demonstrates that others will bring little return on that investment. The ability to identify the value that different customer segments bring to a company and the value proposition they expect to receive is at the heart of successful customer experience management.

Success can be difficult to measure because a company could dominate a market and the wallet share of its customers but still generate inadequate margins.

Such an organisation would need to consider if the level of service it is offering is too expensive and whether customers could be acquired and successfully retained at a reduced cost.

Alternatively an organisation may find its profitability per customer is high but its market share is low, and so would need to consider broadening its value proposition to develop a broader customer base. This would risk reducing customer profitability but presents the opportunity to offset this risk with increased volume.

Based on the findings of the Study, it's apparent that customer experience programmes must make financial sense, with a value proposition targeted at the right audience to deliver an appropriate return on the investment. Otherwise, a company could try to grow by going all-out for marketing domination or for wallet share, only to find the cost involved prohibitive.

Case study: British Telecommunications plc

Challenge: BT wanted to launch a new national pricing package to UK households (“BT Together” with unlimited UK calls), requiring both a successful sales launch and an enhanced customer experience.

Solution: Working with OgilvyOne worldwide™, BT’s value proposition was tailored to each customer segment, even showing the savings the individual customer could achieve, based on previous usage patterns. Specific messaging was personalised to help customers easily migrate from their existing pricing plan to most appropriate new option. BT’s most valuable customers were also given exclusive prior notice of the new tariff.

Benefit: Response and conversion rate targets were exceeded threefold, while customer satisfaction tracking across the target audiences showed increases in overall satisfaction of 15-17 per cent.

Source: OgilvyOne worldwide™ case study.

Value your advocates

As a rule of thumb, the Pareto principle operates within customer bases, with approximately 20 per cent of a company’s customers generating 80 per cent of its revenue. Both the Study and the Ogilvy Loyalty Index reveal that a brand that honours its most loyal “brand advocates” can employ targeted promotions, generating even more frequent custom or encouraging them to introduce similarly minded customers. It can also segment and understand them better, and guard them more effectively from competitive activity.

“In a service business like ours, you can only look after your customers by looking after your staff.” – Sir Terry Leahy, CEO Tesco, State of the Nation IV: 2005 (QCi)
Consider this scenario: two customers have similar problems with a product and only one engineer’s appointment is available. Who should get it? The brand advocate, who has never had a problem before, or the person who is continually calling out engineers for the smallest perceived faults? Without a company-wide customer experience programme that can determine and prioritise high-value customers, and therefore identify potential brand advocates, the customer base can only be treated a homogenous group rather than on an individual, value-related basis.

Find the right measurement tools for the job
Data is a powerful tool for measuring a company’s delivery of its brand promise, but most companies are failing to compile a complete view of the customer, relying instead on somewhat outdated or general approaches to customer satisfaction. With the right infrastructure and technology to collect, store and share customer data, according to the Study, organisations can gain a thorough perspective, measuring reactions to its proposition across its customer base, as well as at an individual level.

As the interviews conducted for the Study reflect, much of the relevant data should be generated by touch points, eg sales, marketing, customer-service reports, though proactive organisations will seek out additional information.

Case in point: a recent customer experience assessment conducted for a client by IBM measured – among other things – 12 key indicators and 20 value drivers on five interaction channels (location, website, call centre, access to additional information and email), representing a total of 87 parameters.

It also determined worldwide best practice in three main areas – the use of brand to increase customer demand, and define development strategies, partnerships and co-operation; value chain enlargement and development of innovative services focused on customer needs; and new interaction channels based on innovative technologies, which could enrich the customer experience and differentiate the client’s value proposition.

The final result was a clear picture of the customer journey, in all channels and across all touch points. The client was able to determine whether its value proposition lived up to customers’ perception of the brand, and make changes to improve the customer experience overall.

Measurement and evaluation metrics such as these will enable a company to analyse how well it is delighting or irritating its customers, and whether customers have bonded with the brand, whether the brand promise is being met and whether the customer is a likely brand advocate.

Create a dialogue with customers
Companies should rethink the way they talk to (and with) customers. They should listen to customers and respond to their needs with their requirements front-of-mind. Organisations shouldn’t assume that they know best or control the interaction. Instead, they should resolve customer experience in a manner that delights the customer.
Step into the shoes of the customer

According to the Study, companies need to establish a baseline for each segment of the customer database, highlighting the customer experience across all touchpoints. They need to understand how the brand’s personality and promise influence customer expectations in each segment, then map the journey from the customer’s perspective, highlighting both defining moments of truth and events.

They should identify where and how value is created and destroyed at each touchpoint – determining what happens if it goes right and what happens if it goes wrong. They should also benchmark performance against peer organisations in their industry.

This applies to senior management as well, who must take steps to view the customer journey from the customer’s perspective – not the organisation’s. For example, imagine a new chief executive of a UK high street bank who returns to the UK after serving with the bank overseas. To see what level of service customers can expect, he walks into a branch to open a current account. He thinks it will be a simple process, but it isn’t.

Not only is there a lot of bureaucracy involved, employees appear more interested in cross-selling additional products rather than concentrating on processing his original request promptly. As a result, the chief executive realises he has to build future growth around the customer, focusing employee attention on servicing customer needs rather than seeing every interaction as a cross-selling opportunity.

Case study: Rabobank

Challenge: The success of Internet banking meant fewer people were visiting branches of Dutch financial services provider Rabobank, and employees were finding it difficult to interact with customers.

Solution: Rabobank worked with IBM to implement a customer management strategy, designed to maximise the benefits of the bank’s multi-channel operations and let employees use customer data to improve the customer experience.

Benefit: It has enhanced Rabobank’s ability, throughout the organisation, to identify new sales opportunities and to follow through effectively. It is better able to oversee and support multi-channel operations and to maintain a self-service channel for improved customer experience. The rollout to the 28,000 users was completed quickly and the bank has already seen a return on its investment.

Source: IBM, “Rabobank maximises the value of its customer relationships in close co-operation with IBM”, case study, 2004.

Demonstrate success through a pilot

Companies should ideally create a pilot project in order to demonstrate success – this will act as a stepping stone in the process, keep stakeholders interested and provide quick wins.
There are initial victories to be won through such pilot projects and in many cases, this may only require, initially at least, relatively minor process redesign in order to address what customers may perceive as major faults in their experience.

But to be successful, as the results of the Study point out, CEM needs to be consistent, “baked” into strategy, the planning process and in every customer-facing activity. Scalability is important, so you can implement the pilot in a phased approach to the rest of the company.

It’s not just about service, but the brand, marketing, sales, and beyond – activities that affect the customer directly or indirectly will fall under its umbrella.

**Align marketing and delivery capabilities**

Once a company has defined the customer journey and key touch points, and run its customer experience pilot, it needs to assess and prioritise the touch points where it is certain to delight customers, and then align these to its brand proposition.

The successful CEM initiative should “join up” marketing and delivery capability across the company’s touch points to ensure there are no gaps or inconsistencies that may irritate customers and turn a potential advocate into a defector.

As the Study suggests, companies should develop, test and evaluate the customer experience programmes and activities, in order to close any gaps for the chosen market segment. They should measure the variance in actual outcomes against the desired brand characteristics for each touch point.

The organisation should implement its preferred customer experience model with ruthless focus on usability and consistent delivery of the brand promise throughout the model. Employees should be aware of their role within this model and the links they must have with all departments – the model should reward cross-functional collaboration in order to ensure the initiative runs across all channels and at all levels of the company.

**Think about brand truth**

As the Study highlights, companies should think about not only their products or services, but also sales and marketing initiatives in terms of the brand promise and compare these to what the organisation believes to be the needs of the customer base.

Consider their perception of the brand – how is it presented? What expectation does it raise among consumers? Is the experience of the brand true – or at variance with brand values and, therefore, somewhat misleading to customers?

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**Case study: Amena**

**Challenge:** Spanish telecommunications company Amena (part of the AUNA Group), acquired a 22 per cent market share by gaining eight million net customers in five years. Amena wanted to develop a unique view of its customers for better retention and care, and to improve operational efficiency.

**Solution:** Working with IBM, Amena focused on technological changes and strategy and process transformational initiatives. The project was guided by three main principles: maximising value, developing a unique and integrated customer view and achieving operational excellence.

**Benefit:** Improved customer experience through a reduction in transaction time, increased capacity of up-selling and retention campaigns and increased capacity of self care for customers.

Source: Amena, case study provided by client, 2005.
Reflect on expectation
Organisations need to think far more about the experience of customers before and after a purchase – not just during it. The Study highlights the fact that the expectation a customer has when approaching a brand and the reflection on the outcome of that interaction plays a key role in determining whether they form an emotional bond with it.

The level of service experienced at touch points and the experience of using goods and service are clearly of great significance, as the Study has demonstrated. But organisations must recognise that more important still is the difference between how customers feel when they come to a brand and what they are left feeling afterwards. To stand out, organisations need to craft expectation carefully and then deliver or over-deliver on it.

Be noticed for something
While the most effective customer experience initiatives will be enterprise-wide, according to the Study, commoditisation provides an opportunity for a company to make a start by picking an area in which it feels it can stand out.

The attitude of “we’re going to take down the current barriers and be the most convenient company to buy product X from” is a winning battle cry that will help your organisation to think smart around customer experience.

Case study: BMW

Challenge: Sales prospects were increasingly talking directly with manufacturers through more and more e-channels, challenging it to enhance the experience of buyers and prospects for new or used vehicles.

Solution: “TOP DRIVE”, BMW’s new customer management programme, designed to increase customer loyalty by strengthening their long-term commitment to the BMW group brands. It covered several core business processes such as customer contact management, relationship marketing and customer data management.

Benefit: Helped improve customer management and closed loop communication cycles, as well as assisting management of marketing and ad content. Facilitated frequency of direct contact between customers and BMW.


Are you ready for customer experience?
Customer experience management is a series of steps that, as a whole, can mark a huge leap forward for a company. As a result, organisations considering such a programme need to examine whether they are in good enough shape to implement it or if some preliminary measures need to be tackled first.

Does the company have a good idea of how its brand values are aligned to the experience of customers? Is there the ability to gather feedback, analyse metrics and act on them? Is there a culture of researching the market and reacting to those findings? Is there a tendency for parts of the business to act alone and defend their territory or is there a commitment to work together for the best interests of the customer?
According to the Study, for customer experience initiatives to succeed, all departments of a company – from sales to service and marketing – need to move beyond a silo mentality to build a single view of the customer and then work together to improve the customer’s journey so they bond with the brand. But if a company has no history of listening to the market and no commitment to improve customer experience by working together, these areas need to be tackled before any programme can be implemented.

Many companies have begun customer experience projects. Here are some of the many powerful early success stories taken directly from the Study:

- A local government body built a strategic plan around citizen experience. It captured citizen issues, needs and expectations, and then established priorities based on that data. Consolidated citizen information was shared with all city council departments and therefore citizen/customer satisfaction measures increased.

- An insurance company put together a team working across sales, marketing and services, and successfully redesigned its processes to be focused on customer excellence. This redesign released funding for improved technology, intended to exceed customer expectations.

- One bank ensures that all their initiatives deliver the brand promise from the moment an account is first opened. They re-engineered the sales process, introduced differentiated customer treatments, built a single customer view and significantly improved service and the number of front line staff. They have achieved market leadership in their country.

- A telecom provider built an integrated customer experience around its loyalty programme, using several channels working together. This resulted in performance that was four times better than any other programme to date.

The Power of Two

If your organisation is considering a customer experience management initiative, IBM Business Consulting Services (BCS) and OgilvyOne worldwide™ have come together to form a powerful alliance to help organisations leverage their brand and generate business value by improving customer experience.

The alliance, known as “The Power of Two” brings together leading-edge brand, marketing and communications knowledge with experience in the strategy, design, build and operation of transformational customer experience programmes.

Both BCS and OgilvyOne worldwide™ were helping to push customer experience management to the top of the agenda at boardrooms around the world and recognised that by working together they could offer clients more effective solutions through a more integrated approach.

The Power of Two alliance provides world-leading branding, communications and business consulting expertise, as well as the creativity, network, software and data skills needed to develop a holistic view of the customer and implement best-of-breed consumer experience programmes.
IBM Marketing and Sales Transformation

Growth is increasingly returning to corporate agendas. IBM seeks to help clients revitalize growth and deeply understands their customers, markets and competitors, and ultimately translate this knowledge into strategies to increase shareholder value.

Our Marketing and Sales Transformation services provide a combination of industry insight, high-powered research capabilities and technology expertise that enables us to analyse, optimize and accelerate business clients. They focus on profitable growth through organic methods, covering:

- product and service innovation.
- customer intimacy/customer experience.
- new markets and globalisation/re-localisation.
- channel innovation.

Our specific service area offerings include:

- **CRM Strategy**: Helps clients develop a platform for managing the CRM journey. Programmes focus on delivering critical capabilities and collaboration across channels and departmental boundaries.
- **Marketing and Sales Transformation**: Helps clients developing specific competencies necessary for creating organic growth and optimising effectiveness with Marketing and Sales operations.
- **Service Transformation**: Helps clients develop and implement a strategic shift to expand services beyond just service call delivery and transform from their traditional product-based business focus to a services led model.

- **Contact Centre Optimisation**: Focuses on improving the efficiency and effectiveness of contact centre operations.
- **Business Intelligence**: Describes an environment where relevant, accurate information is provided in time to respond with speed in making decisions and taking action.
- **Business Transformation Outsourcing**: CRM BTO is all about enriching the customer experience. It is about improvements that yield returns associated with customer satisfaction, loyalty and retention, and customers buying more products or services through a more effective channel.

Client benefits may include:

- Improved customer retention, cross sell, up-sell.
- Optimised marketing and selling resources to drive sales growth and reduce cost of sales.
- Highly accurate forecasting and pipeline control.
- Shortened sales cycle and time-to-market.
- Improved ROI and measurable payback on marketing campaigns.
- Adoption of new processes and technologies that help reduce campaign time to market and costs.
- Improved customer satisfaction.
1. The IBM Customer Service Experience Study 2005:
The findings of this study are based on a worldwide research study of business and consumers, conducted in 2005 by IBM Business Consulting Services Institute of Business Value together with OgilvyOne worldwide™. This study was designed to understand how companies are managing the total customer experience. This forward-looking research illustrates a new approach to the customer experience agenda, highlighting the extended value chain from the employee to the customer to the shareholder and offering both marketing and customer insight.

The Study includes the latest thinking in this space from IBM and OgilvyOne worldwide™, market trends and a primary research effort to elicit consumer expectations and requirements along specific experiences, as well as practical steps companies are taking today along this journey. The Study draws from joint expertise and IBM Institute of Business Value’s research assets. The company survey was based on 50 face-to-face interviews with senior marketing, sales and service leaders in major European companies.

For more information on this study, or for the results, please consult the Contacts list in this publication.

2. The Ogilvy Loyalty Index: OgilvyOne worldwide™’s proprietary analysis tool, which analyses the value of building emotional loyalty for all markets, categories and brands in the BrandZ™ database. For more information, visit www.ogilvy.com or consult the Contacts list in this publication.

3. BrandZ™ – The WPP Brand Equity Study: The raw data for the BrandZ™ study is collected annually by interviewing consumers and professionals. Each person is asked to evaluate brands in a competitive context from a category they actually shop in. In total, Brandz™ has asked over one million consumers and professionals across 30+ countries to compare 300+ product and service categories across 28,000 of the world’s key global and key local brands. For more information, visit www.wpp.com/wpp/brandz or consult the Contacts list in this publication.


5. The Gartner Fellows Interview, Richard Hunter, Gartner, 24 February 2003 (www.gartner.com/research/fellows/asset_53711_1176.jsp)

6. IBM, “CRM Done Right”, published 1 December, 2003. Part of the Global CRM Study from IBM Business Consulting Services (BCS). The IBM “CRM Done Right” online survey was sent to 4,800 panelists in summer 2003. One hundred and eighty-six cleaned responses were received, a 3.8 percent response rate. See Appendix for details on respondent demographics. To support online findings, IBM conducted 20 interviews with CRM Decision-Makers at 17 North American companies.


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