Surviving climate change in the property & casualty industry by growing customer advocacy
IBM Institute for Business Value

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The property & casualty (P&C) industry is facing significant change. Shifting demographics, evolving consumer expectations and new distribution channels are dramatically impacting how policyholders think, interact and work with their insurance companies. Providers need to effectively respond to and proactively improve their policyholder’s experiences to help build policyholder advocacy for their company and their products. To do this, providers should ask themselves: “Who are our advocates? How do we confirm that our products and services meet or exceed policyholder expectations? How do we assess and verify that our distribution models are attracting and retaining the policyholders that contribute to our success?” The ability to grow policyholder advocacy will be one of the most effective strategic weapons that an insurance company can use to help build a sustainable competitive advantage.

The insurance environment is facing evolutionary change. The policyholder base is becoming increasingly segmented, with existing policyholders who are aging and comfortable with traditional insurance models. In contrast, younger, newer policyholders tend to be Internet savvy, and expect instantaneous interactions and tailored selections.

Insurance providers continue to see changes to their distribution channels, with the consolidation of independent agencies and demands for quicker quotes and streamlined claims processing. Providers must work to balance the increasing demands of policyholders, while supporting the growth of their agents. Striking a successful balance requires a different approach designed to improve the customer experience.

Improving customer experiences and enhancing service delivery are not new concepts. However, without a clear approach, many companies (both within insurance and
across other industries) have responded in a narrow fashion addressing distinct operational needs, often focusing on cost reduction and streamlining, rather than fully addressing their customers’ needs in a more integrated way. An effective and practical approach is needed to incorporate policyholder perspectives into the evaluation of programs and improvements intended to drive service delivery, product innovation and subsequently, profitability.

To address these challenges, we surveyed over 3000 P&C policyholders regarding their needs and attitudes toward their insurance providers, including their perspectives on service, product and value. We looked at trends across key interactions to determine what insurance providers ought to be doing now so that they can identify not only their advocates, but also their advocates’ preferences. Armed with this understanding, providers can then use this information to help tailor their business models to drive improvements to the customer experience and drive growth. Key findings derived from our analysis are:

- **The P&C environment is changing** – The traditional business environment is changing *from within the industry* as new business models evolve (for example, direct/Internet channel, including virtual environments), and *from external forces*, such as cross-industry consumer expectations about what a purchase/service experience “should be like.” While providers have often focused on the agent as their primary customer, understanding policyholder service priorities and what they value is becoming increasingly important.

- **Demographics matter** – Different demographics have different service and product expectations AND differing levels of advocacy

- **Advocacy decreases the further the carrier is from the policyholder** – Although advocacy is generally higher in Insurance than other industries, it varies by business model. We found that the less directly involved the insurer was with the policyholder, the lower the level of advocacy. This may be partially driven by the demographics that different delivery models attract and level of support provided

- **Proactive responses to the changing climate are essential** – Policyholders need to have an “emotive” connection with the “insurance experience” (agent and carrier) and the products that they own. Carriers should focus on both improving the service delivery experience and increasing the number of products each policyholder owns. Insurance providers need to become more flexible and agile, and understand that they can’t rely on a “one-size-fits-all” approach across demographics.

To deal with such significant change, providers must find ways to intelligently evolve and differentiate their business by understanding and incorporating an understanding of what drives advocacy to enhance the policyholder’s experiences. Continued reliance on traditional competitive levers will likely contribute to a slow erosion of business value for today’s leading insurance providers.
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The P&C environment is changing
In the near future, the growth rate for insurers is expected to decline in line with global industry trends. The expected decline is on the back of cessation of price increases in most business lines and price declines in several product areas. Additionally, the maturity of the P&C insurance product sets and value propositions may not be clearly understood are increasingly driving policyholders to make their choices based on price.

Capturing market share and driving growth through product innovations (that is, new features tailored to policyholder needs) have been limited, or the value of the innovations has not been well articulated by the industry. The overall result is increasing commoditization of insurance products.

Despite commoditization of insurance products, some companies have been successful at differentiating themselves. Visible examples include direct-to-consumer companies (like Geico and Progressive) with their strong media campaigns targeting an evolving demographic.

Geico, for example, reported 2006 Internet sales that were 28 percent higher than 2005's level – Internet sales as a percentage of voluntary new business accounted for 52 percent in 2006, up from 44 percent in 2005.

Increasingly, price-sensitive policyholders are surfing the Web to access multiple insurance quotes to find the best deals. While the local, family insurance agent is far from extinct, the presence of younger customers and a range of sales models will continue to tax traditional business models.

Who is our customer? The agent and the policyholder are both important
Depending on the distribution model employed, insurance companies may consider agents to be the primary customers, others consider policyholders, and still others take a hybrid approach. Often the definition of the primary customer changes, such as focusing on the carrier-agent relationship during the sales process, and then the carrier-policyholder relationship for administration and claims. This paper focuses on the policyholder as the customer that the carrier and the agent seek to serve.

This is not intended to discount the importance of the agent as a customer or to understate the importance of the agent as a key part of the policyholder experience. When looking at the attitudes and expectations of the policyholder, many companies will wonder, “Is the policyholder an advocate for us, or for the agent?” or “Has the agent done something to improve or damage the policyholder’s image of us?”

Insurers that rely primarily on their agents for customer interactions will benefit by understanding the attitudes of the policyholder. These insurers should and do understand that managing the policyholder experience will be a delicate and complex process, one that requires a careful design, integration of disparate channels, and the ability to influence the experience even when the carrier has little direct contact with its policyholders.
A new view: Advocacy and antagonism

Insurers can better align their operations, customer experiences and investments for growth if they clearly understand customer attitudes toward their companies. A view that focuses on whether customers are advocates (those who embrace and promote the company), apathetics (those who are indifferent or passive toward the company) and antagonists (those who harbor negative feelings and can adversely influence business economics and other customers) can provide new insight into customer attitudes and behavior.

To effectively capture and measure advocacy, a new and concise metric is needed. IBM has developed a simple but compelling metric, the Customer Focused Insight Quotient (CFiq)™ – see sidebar “A new type of metric: The Customer Focused Insight Quotient (CFiq).” It was created by surveying over 18,000 consumers across multiple industries (retail banking, wealth management, grocery, apparel retailers and communications) and correlating key attributes of a healthy commercial relationship to drive advocacy.

Understanding advocacy provides the support for more targeted customer experience strategies and improvements. Figure 1 shows a range of customer attitudes and treatments, with advocates driving the highest positive impact on shareholder value.

FIGURE 1.
A concise understanding of key policyholder advocacy attributes drives strategic decisions and investments.

Key attributes of customer advocacy
(policyholders’ attitude toward carriers)

Advocates are policyholders who would:
1. Recommend their insurance company to others
2. Look to their insurance company first for future insurance products
3. Stay with their insurer if offered competitive products

A new type of metric: The Customer Focused Insight Quotient (CFiq)

This study seeks to understand customer advocacy or, in other words, the positive attitude customers have toward their insurers that promotes healthy commercial relationships and referrals. Unlike other satisfaction or advocacy measures, the CFiq goes beyond a single measure of satisfaction or a likelihood to recommend. After all, a happy customer isn’t necessarily one who automatically converts into new sales or even stays as your customer. The CFiq takes a more sophisticated approach by combining the policyholder responses to three statements to obtain a more predictive and commercially viable view of advocacy.

The three statements advocates agree with are:

1. I would recommend my insurance agent/carrier to friends and family.
2. I would buy my next product from my agent/carrier.
3. If another insurance carrier offered me a competitive insurance product I would remain with my insurance agent/carrier.

Benefits of the CFiq to the P&C provider

In addition to being more valuable, this new metric enables us to assess specific implications about what policyholders expect from their providers in building advocate-level relationships. It also supports the development of prescriptive recommendations for the insurance industry, key industry segments and ultimately, individual companies.

Insurers can use the CFiq in different ways. As a benchmark, a good or bad CFiq score can be used to make the case for change and rally support for customer focused initiatives. As an operational design input, the CFiq metric and tool can help those designing customer experiences to focus on the right attributes of customer needs and wants at the right time. As an ongoing performance indicator, the CFiq can inform the company of what it is doing right and what needs to be changed as it continually improves and focuses on its customer-facing operations. Successful companies will use the CFiq (or a similar metric) to address all these goals on an ongoing basis.


Demographics matter

Young policyholders coming of age are both price-sensitive and technology-savvy. They are more likely than other demographics to access a variety of distribution channels and have expectations formed by broader access to information, multiple product choice options and, in many cases, little human assistance.

In the short-term, though, it would appear that not all customers are ready to move completely to virtual transactions. Today’s older consumers demand service and quality, are more brand loyal, and may be more likely to continue their agent relationships. Baby boomers, on the other hand, continue to redefine the market as they age, forcing suppliers to accommodate their needs and develop customized products. They are also becoming increasingly comfortable with technology and alternate channels.
Figure 2 forecasts the impact of different age segments and their expectations in the year 2020. We expect that the traditional market will continue to evolve, and not just across younger demographics. We anticipate that older demographics will continue to expand their use of a broader range of channels to support their research and buying of insurance products. While traditional models will continue to provide value, changing demographics will require companies to provide a variety of flexible channel and sales models to stay relevant and competitive.

Demographics provide a first step toward thinking about customers and their attitudes. If we accept that any particular channel or sales model will eventually be copied and widely adopted, the end battle ground for growth will reside with the customer experience.

Approached proactively, this insight can enable insurers to make important decisions about how they compete, even if they can’t predict how the market is going to change in the future. In other words, a loyal and advocating customer base will likely be the foundation for growth, as all players perpetually adjust their sales and delivery models for insurance products.

Advocacy in the P&C industry
According to the new IBM Customer Focused Enterprise P&C Insurance survey, over half of insurance policy holders are advocates (see Figure 3). Although there is still significant room for improvement, this number is relatively healthy compared to other industries, such as banking or retail, where only one in four customers is an advocate.

Advocates are much better customers than antagonists. Advocates trust their insurance companies 98 percent greater than antagonists and advocates strongly agreed that they value their products. Beyond their clear value as referrers and credible promoters, they deliver better financially.

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**FIGURE 2.**
**Within the next 10 to 15 years the demographic composite will continue to drive changing expectations and demands on insurers.**

<table>
<thead>
<tr>
<th>Ages in 2020</th>
<th>Gen Zers (8-25)</th>
<th>Gen Yers (26-43)</th>
<th>Gen Xers (44-54)</th>
<th>Boomers (55-74)</th>
<th>Seniors (75+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value in 2020</td>
<td>10% of population</td>
<td>20% of population</td>
<td>15% of population</td>
<td>30% of population</td>
<td>15% of population</td>
</tr>
<tr>
<td></td>
<td>5% of assets</td>
<td>10% of assets</td>
<td>15% of assets</td>
<td>35% of assets</td>
<td>35% of assets</td>
</tr>
<tr>
<td>How will they seek production?</td>
<td>Demand that loyalty be earned early</td>
<td>Expect personal control and high level of service</td>
<td>Taking longer-term approach</td>
<td>Demand multi-channel service options</td>
<td>Seek products that match their conservative, cost-conscious approach</td>
</tr>
<tr>
<td></td>
<td>• Fit products into hard working, high consumption, minimal savings lifestyle</td>
<td>• Want products that support major life events (moving, marriage) that trigger financial decisions</td>
<td>• Seek support for wealth-building via investments, educational savings, retirement assets</td>
<td>• Seek support for transition to wealth preservation, such as transfer and retirement</td>
<td>• Want high-touch service and advice</td>
</tr>
</tbody>
</table>

Advocates are more likely sales prospects that are willing to hold more products and be sold on them more easily. The data supports this: advocates have, on average, 1.8 products per customer, a full 22 percent greater than antagonists. Advocates also tend to be long-time policyholders, with more of them staying over 10 years with their insurance companies, nearly double the amount of antagonists. This naturally means more premiums collected and fewer sales investments made.

Insurance companies may have an opportunity to better leverage the goodwill they have produced. Insurers lag retail banks in the number of products held per customer by 19 percent. One way to improve this metric may be to increase policyholder involvement in product development. Today, only a small minority of policyholders (20 percent) feel that insurance companies seek their input when developing new products and just 31 to 43 percent agree that insurance products are customized to fit their needs. Increased product differentiation can drive more products held per policyholder and increased levels of advocacy. These statistics suggest that insurers may be leaving money on the table.

Advocacy decreases the further the carrier is from the policyholder

The business and sales models insurers employ continue to shift and evolve as insurers work to find the most effective model to meet their customer and financial objectives. While many companies employ multiple sales models, we can break down the industry into four general categories: affinity, captive, independent agent and direct/over-the-phone insurers. Each model has different advocacy scores and distinct demographics (see Figure 4).
We found that affinity members have the highest level of advocacy and the longest tenure with their carriers, with 51 percent stating they’ve held their insurance relationship for over 10 years. This might suggest affinity and captive companies encourage more loyalty from their customers, as measured by their relative advocacy scores. The data, though, may skew this way due to the relative “youth” of direct firms. They may not have been around long enough to have garnered a deep base of long-tenured clients.

Direct providers had the lowest advocacy scores and proportionately the highest antagonist scores. The top reason for switching to a direct player was price. Policyholders in this segment tend to be the youngest, and perhaps most price-sensitive insurance consumers.

While a streamlined, direct model may be able to offer more affordable coverage, it may not provide the customer experience that many policyholders desire. The perceived product

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**FIGURE 4.**

P&C Insurance business and sales models attract policyholders with different advocacy and demographic profiles.

<table>
<thead>
<tr>
<th>Delivery model</th>
<th>Definition</th>
<th>Advocacy impression</th>
<th>Demographic view</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Affinity-based insurers</strong></td>
<td>• Requires membership as part of the overall experience. Provides related services, and drives to have a strong understanding of the policyholder.</td>
<td>• Strongest percentage of advocates (77%)</td>
<td>• 45% of customers are over 45 years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Select their company based on coverage, reputation and customer service</td>
<td>• Longest tenure, with 51% holding relationships for 10 years or more</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 84% policy renewal rate</td>
<td></td>
</tr>
<tr>
<td><strong>Captive agent-based insurers</strong></td>
<td>• Insurers who maintain their own base of agents who are trained, branded and managed by the provider</td>
<td>• Advocates represent 53% of the total</td>
<td>• 48% of customers are 25 to 44 years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Value accessible and highly knowledgeable agents/employees when dealing with insurance companies</td>
<td>• Rank a close second in customer tenure, with 42% sustaining relationships of 10 years or more</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 78% renewal rate</td>
<td></td>
</tr>
<tr>
<td><strong>Independent agent-based insurers</strong></td>
<td>• Insurers who distribute through independent agents and channels. These companies typically interact with policyholders in terms of brand marketing, and administration/servicing of the product post-sale including claims support</td>
<td>• Advocates represent 44% of the total with older policyholders demonstrating stronger advocacy than younger ones</td>
<td>• Balanced range of ages with 44% over age 45 and 36% between the ages of 18 to 34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Value good coverage, excellent customer service and lowest price</td>
<td>• Share the most age 65+ customers with affinity insurers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Renew over the phone with their agent and 33% research products on the Internet before renewing</td>
<td>• Tenure is well distributed across this segment with 46% under 5 years and 49% over five years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 80% renewal rate</td>
<td></td>
</tr>
<tr>
<td><strong>Direct/over-the-phone-based insurers</strong></td>
<td>• Insurers who market, sell, and service directly to the consumer without any (or minimal) agent interaction, often via the phone and Web</td>
<td>• Lowest advocacy rate at 40%</td>
<td>• 56% of customers are 18 to 34 years old</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The number one reason for switching to direct/OTP insurers in the last year was price (23%)</td>
<td>• 36% of the policyholders in this segment have only 2 to 5 years tenure</td>
</tr>
</tbody>
</table>

Source: IBM Customer Focused Enterprise P&C Insurance survey.
complexity and longer commitment horizons (6 months to 1 year) of most insurance products may require a higher level of support than direct providers currently deliver. The lower scores may also suggest that the direct players have yet to refine the key delivery attributes of the customer experience for direct channels.

If either is the case, direct providers may experience a backlash as their antagonists flee back to traditional players and communicate to the market that “if you pay less, you get less.” However, if the direct providers continue to improve their customer experiences, they may find themselves in an enviable position as the policyholder base matures.

**Proactive responses to the changing climate are essential**

While there is no one direct path for any one company to find success in building advocacy, the data and its implications highlight some key areas to address. Most importantly, finding the right mix of experiences and operations will be come from increased focus on a combination of activities:

- Enhancing current models and demographic focus
- Strengthening customer focus to drive customer advocacy.

**Enhancing current models and demographic focus**

The existing correlation between demographics and distribution models suggest some initial, near term actions that can be taken.

- **Affinity model** – Grow wallet share: With an advocacy score of 66 percent, affinity-based insurers need to focus on product and channel innovations to drive wallet share across their existing demographics while implementing strategies to attract younger customers. Measuring and understanding the lifetime value of policyholders should help to shape product strategies to attract younger policyholders.

- **Captive agent model** – Shift the balance: Enhance the Internet channel by integrating highly valued policyholder experience attributes that appeal to advocates 25 to 44 years old, while creating new products for older segments that are marketed through agent/employee-based channels.

- **Independent agent model** – Make it easier to do business: Advocates love their agents and agents need insurance companies that make it easy for them to understand their policyholders and to deliver personalized service. Insurance companies need to continue to invest in advocacy and efficiency improvements to support agents as well as to help them better understand policyholder needs and wants. Successful carriers will reward agents based on the levels of advocacy that they drive for the company.

- **Direct/Over-the-phone model** – Provide more bundles and offers: Insurers need to appeal to this growing population of young, price-driven, technically-savvy group by increasing site appeal and providing discounted bundles to capture wallet share. Focus on improving “stickiness” by implementing innovative interaction approaches and improving product relevancy.
**Strengthening customer focus to drive customer advocacy**

Customer focus is an overarching discipline of understanding customers’ wants and needs, aligning operations to meet customer needs AND improving the effectiveness of operations. Insurers need to begin to build a basic foundation that will enable them to move to a more customer focused organization by increasing the relevance and attractiveness of their products and services.

Given the velocity of change in the marketplace, insurers should develop approaches that are flexible enough to adapt to an industry likely to remain in flux. We recommend a focus on five key areas that address the findings of this study.

1. **Build a deeper understanding of what is important to the policyholder**
   - Create or repurpose customer research, and apply research techniques to capture and analyze customer data from key interactions across the policyholder experience and distribution channels.
   - Leverage the Internet, blogs, feedback and other tools to better understand policyholders’ attitudes and perspectives on key insurance interactions. Also, use focus groups and ethnographic research, (that is, observe clients in real settings trying to assess insurance product options, obtaining help with billing questions and the like) to help define the desired client experience outcomes.
   - Correlate operational and financial performance factors to movement in customer advocacy scores to understand how to best drive value.

2. **Design customer experiences based on an understanding of customer expectations and perceptions of operational performance**
   - Use customer advocacy and demographic data to drive improvements at key “moments of truth” across distribution channels, such as when a policyholder calls to file a claim.
   - Integrate customer advocacy metrics into daily operations and performance compensation, within the company and across agencies.
   - Use customer focused metrics to help drive prioritization of key initiatives, confirming that value is realized, and learnings are incorporated.

3. **Communicate and transact with customers intelligently during key interactions, on a customer-by-customer basis, making them feel that “you know me”**
   - Encourage customers to provide feedback and reward them for sharing information through personalized service and relevant offers.
   - Find methods to share information (two-way) about policyholders through the agencies.
   - Capture the right information the first time. Enable predictive decision engines to proactively configure responses and customize offers.
   - Capture and use customer information in an integrated manner, across the enterprise.
   - Increase sales communications and incentives to target high-value customer advocate segments.
4. Improve the coordination of key activities across the delivery channel to improve effectiveness and quality of the overall policyholder experience

- Provide agent and direct-based channels with real-time access to key customer data to increase visibility into customer needs and wants.
- Simplify the tools and systems used to support the experience. Automate the applications process by incorporating business rules-based engines. Integrate common underwriting algorithms to provide timely pricing.
- Move low-value transactions (changes, renewals) and underwriting support activities to centralized processing centers and define service level agreements to improve speed and quality.

5. Increase policyholder involvement in the development and customization of insurance products

- Collaborate with both advocates and antagonists (for example, through Internet surveys, blogs, “Customer Jams” and the like) in the development of products and services.
- Develop full-lifecycle, lifestage and product bundles that address the needs of specific policyholder groups and that work to migrate policyholders to appropriate products and services as they mature.
- Develop and deploy easy-to-use product selection/configuration tools to support customization of insurance products based on need, risk, price and service assumptions for all customers, employees and agents.
- Develop innovative, flexible, multi-product bundles that combine customized pricing and increased “portability” to meet customers’ changing needs and maintain long-term, profitable relationships.

Conclusion

The future competitive climate is going to center around the policyholders’ experience and improvements in advocacy levels. Insurance companies must begin asking questions about what they can do to evolve their business and industry. Some of these questions might include:

- What do we know about the advocates for our company?
- What differentiates companies with high levels of advocacy from those with lower levels?
- What do some insurers do differently that causes them to have such a high level of advocacy?
- What is causing our antagonists to distrust us and not value our products?
- How well do we understand how advocacy can drive new revenue and improved profitability for our company, such as the number of products owned per customer?

Companies that ask the right questions and seek to find the right answers will be better prepared to overcome the financial drag imposed by commoditization. While those that build large bases of advocates may still be wondering how the future of the industry and market will change their business, they should feel more confident that they’ve worked to secure the most valuable part of the equation: the customer.
Related publications

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References


