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SPECIAL REPORT

BUSINESS VALUE OF INFORMATION TECHNOLOGY

CUSTOMER INTIMACY

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BUSINESS VALUE OF INFORMATION TECHNOLOGY AND CUSTOMER INTIMACY

OVERVIEW

This report is one of a series of reports highlighting the findings from the annual Intercorporate Measurement Program (IMP) Executive Survey of corporations. The IMP survey seeks to measure the impact of information technology (IT) on business value for both services and manufacturing corporations. Business executives are asked to rate their perceptions of the IT impacts actually realized by their firm on eight dimensions of business value as shown in Exhibit 1. Building upon the work of Tracy and Wiersema in the Harvard Business Review[1] and their recent book, "The Discipline of Market Leaders" (Addison-Wesley, 1995), these eight dimensions are further grouped into three strategic foci: Operational Excellence, Customer Intimacy and Product Leadership. For any one corporation, emphasis may differ in the strategic use of technology to enhance the profitability and viability of the corporation. Many would agree that it is ineffective to equally emphasize all dimensions, but rather to differentially emphasize the strategic use of technology. Indeed when executives are asked to assign percentage weight to the three strategies listed in Exhibit 1, very few assigned equal weights of one-third. In this report, we will cover the dimensions included under the strategic focus of **Customer Intimacy**. As a strategic factor, both manufacturing and services on average assign 'customer intimacy' a weight of 40 out of 100 points.

Exhibit 1. Dimensions of Business Value

Operational Excellence	Customer Intimacy	Product Leadership
• Organizational Efficiency & Effectiveness • Supplier Relations • Economies of Production	• Customer Relations • Marketing Support	• Product Service and Enhancement • Competitive Dynamics • Business innovation

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[1] Information Week September 18, 1995

IT IMPACTS ON CUSTOMER INTIMACY

The strategic importance of customer intimacy is a major topic of discussion. For many companies, it is becoming clear, for example, that product differentiation is insufficient competitively, and that customer service distinguishes the success of some companies. One study by Information Week[2] of 500 corporations showed that customer -- oriented companies had markedly superior productivity performance. And, Bill Gates recently spoke of how Microsoft plans to provide the technology for businesses to deliver value by focusing on customer intimacy[3]. This report summarizes the responses of 168 executives in 51 organizations (22 manufacturing and 29 service companies). The executives were asked to rate the impact of IT in their business unit, on a 1 to 10 scale, compared to other business units with which they were familiar. From four to eight detailed questions were asked for each dimension

Customer Intimacy includes two distinct dimensions: customer relations and marketing support. *Customer relations* focuses on the value of IT in providing support and service to the firm's customers. *Market support* focuses on the value of IT in providing the firm with the means to effectively sell their product or service. The specific <u>questions</u> asked of executives are shown in Exhibit 2

Exhibit 2. Customer Intimacy Indicators

| Customer Relations Items	Market Support Items
To what extent does information technology …	
• Allow your corporation to provide administrative support (such as billing, collection, inventory, management, etc.) to customers?	• Play an important role in identifying market trends?
	• Assist your corporation in serving new market segments?
• Provide on-line access of your corporation's products/services database to customers?	• Enhance sales forecast accuracy?
	• Track market response to discounts?
• Position customers to rely increasingly on your corporations' electronic support systems (e.g., order entry terminals, order tracking)?	• Track market response to promotional or introductory pricing?
	• Facilitate targeted response to competitors' pricing strategies?

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[2] Treacy and Wiersema, "Customer Intimacy and Other Value Discipline," <u>Harvard Business Review</u>, 1993
[2] 1994 CIES Annual Executive Congress Keynote Address

FINDINGS

Overall, the ratings of executives in services firms are higher than those in manufacturing firms on the contribution of information technology to dimensions of customer intimacy. Services firms significantly differ from manufacturing firms with respect to customer relations. Market support is less distinguishable although here, too, service firms show an advantage over manufacturing firms.

Exhibit 3. Business Value Through Customer Relations and Market Support in Services and Manufacturing
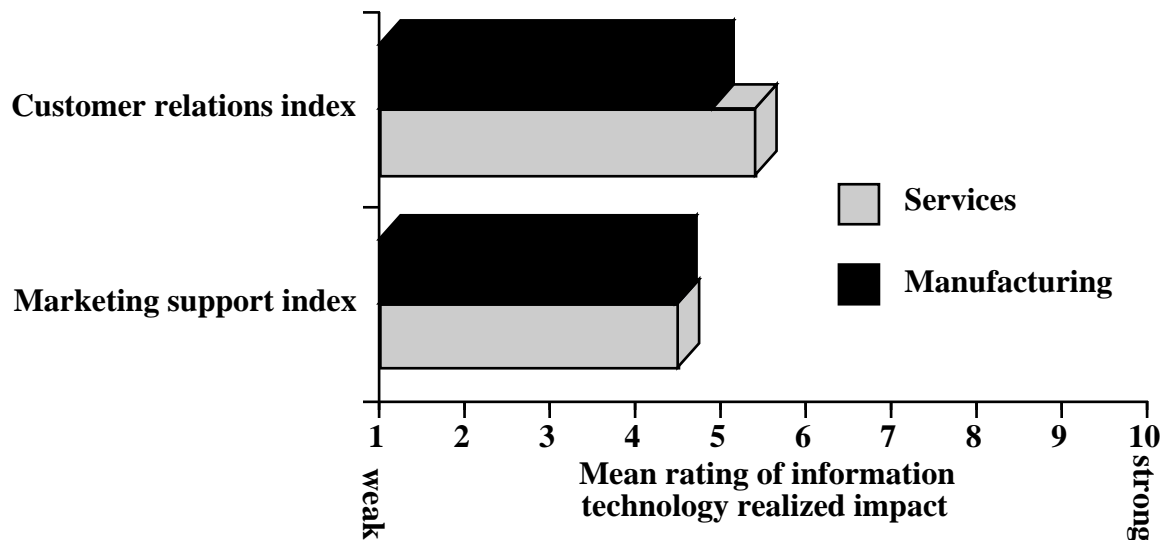
Customer Relations

The use of IT in customer relations has come a long way. In the past, when business executives were asked about the use of IT for customer relations they usually said "Oh yes, we have customer billing and customer inquiry applications." Today, customer-oriented use of IT is more distinctly focused on the customer and the customer's business, in addition to the sales and service representatives who deal with the customer. This broader use of IT for customer relations is relatively more recent in business, and service firms in general have forged ahead of manufacturing. The survey results reflect this trend.

**Exhibit 4 Customer Relations - Service vs. Manufacturing Executives**
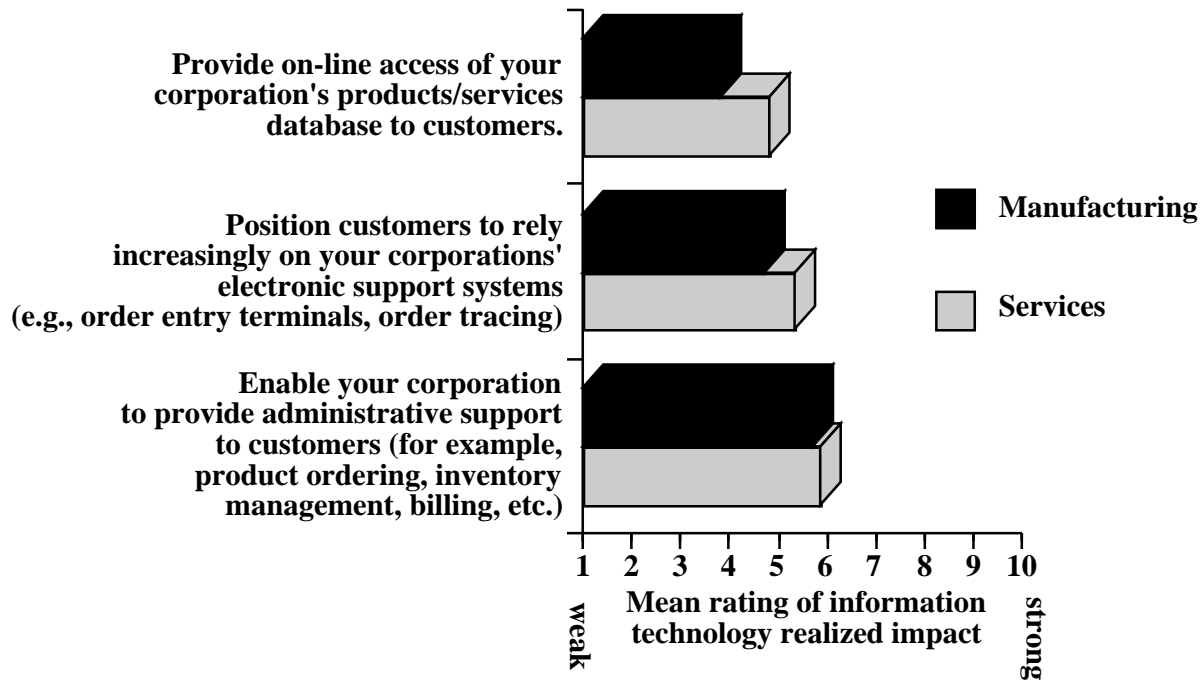
Three critical features are seen in Exhibit 4:

1. *Customer On-line Access to Corporate Database* stands out as the major difference between how executives in service and manufacturing companies view IT. While this technological strategy is less frequent than other strategies, the service industry appears to dominate over manufacturing in its development.

2. *Positioning Customers to Rely on Corporate Database*, a factor closely related to providing on-line access to corporate databases, is not surprisingly also one of the factors that shows differences between service and manufacturing executives.

3. *Providing Administrative Support to Customers* is equally realized by service and manufacturing firms. Corporate executives, on average assign a moderate impact of technology on the integration into their clients' operations for product ordering and inventory control.

Marketing Support

The use of IT for marketing support has evolved also. While marketing support is a traditional application of IT and its use is relatively widespread among firms and industries of all types, the use of IT to target and track market promotions is relatively new. The ratings by the executives reflect this, in that the impact of IT is rated lower on these sub-dimensions. In general there is little differentiation in the responses of executives in services and manufacturing. However there are some interesting differences:

Exhibit 5 Marketing Support - Service vs. Manufacturing Executives
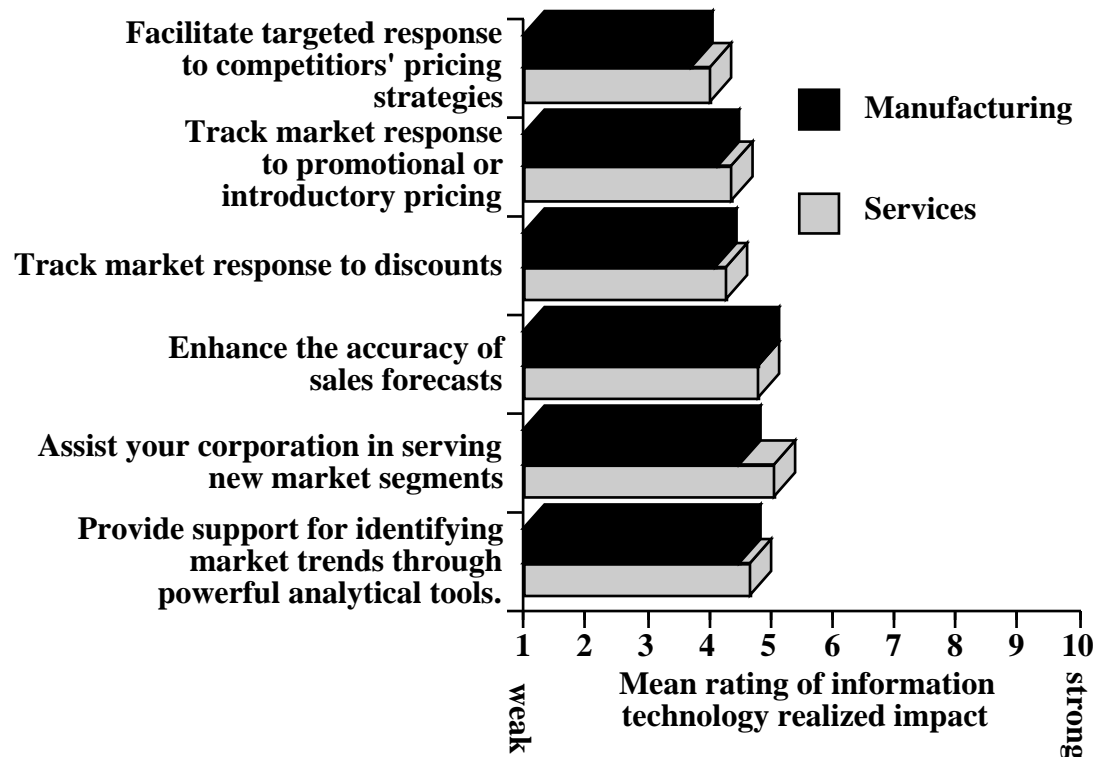
- *Facilitated Targeted Response to Competition Pricing*, the second largest difference in the Marketing Support responses by the different types of executives possibly reflects the newness of using IT in this application. Service firms use of IT tend to be more leading edge, while manufacturers tend to be more mainstream.

- *Track Market Response to Discounts* and *Track Response to Promotional Pricing* are two other factors where service firms exhibit more advanced application of IT and their interface with consumers, where such applications are more prevalent.

- *Enhance Sales Forecast* and *Identify Market Trends* are traditional applications of IT in the Marketing Support role. Not surprisingly, only small differences are shown by service and manufacturing executives.

DISCUSSION

Executives in service firms clearly perceive greater value from the use of IT for Customer Intimacy than those in manufacturing. Given that there is no a priori reason for this difference, it is possible that manufacturing firms are behind in the use of IT to promote "Customer Intimacy." The survey shows that service firms harvest more business value in general from customer intimacy than manufacturers. Manufacturing companies may be neglecting to use IT to monitor and respond to customers and thereby missing a technological 'leg up' on their competition. Service firms are clearly further ahead in using customer intimacy as a competitive strategy. They depend on a deep relationship with their customers, provide advice and coordination, and often integrate operations, even to the point where they assume some customer administrative functions. This is a hallmark of customer intimacy.

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