

Interaction Optimization

The Power of delivering Real-Time
Customer Insight to the point of
Interaction

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A white paper by Portrait Software™

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Return On Interaction: the new ROI

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There's an unspoken truth haunting most major consumer markets. It's called commoditization and it expresses in jargon what just about every consumer has known for years: a mortgage is a mortgage; electricity bought from one supplier is identical to electricity bought from another; and one mobile network is pretty much the same as the next.

It pains marketers to admit it, but this is the age of commoditization. Today's breakthrough innovation – whether in product features, distribution method or design - is quickly copied and becomes the norm by next Tuesday.

That doesn't mean differentiation isn't every bit as important as it ever was. It just means it's harder than ever before to achieve and sustain.

Against this background, the next frontier for differentiation between B2C brands has emerged: customer experience. How we treat customers and how they experience our services will increasingly determine our market share and our profitability.

A brand is the sum of its interactions

Customer relationships and customer experience always boil down to a sum of their interactions. A forty-second visit to a cash machine; an online loan application; a complaint call; a billing query; a branch visit; a direct mail offer... these apparently insignificant events actually add up to the greatest single asset of any B2C company: its brand.

Your slick television advertising tells the world what you want to be. Your interactions tell the world what you are.

As consumer brands wake up to this fact, the interaction has started to move up the agenda for marketers, sales directors and customer service teams. Soon, it will arrive where it really belongs: smack in the middle of the boardroom table.

And as the interaction becomes recognized as the heart of the B2C brand (especially the service brand), new metrics will emerge to improve our ability to measure and manage our interaction quality.

These metrics will include a range of indicators - everything from 'first time resolution' and 'customer satisfaction'

measures to cross-sell levels and campaign response rates. But they'll all feed up to the mother metric: Return on Interaction.

Return on Interaction is simply the upside of a given interaction, however you choose to measure it, minus the cost of the interaction (including the cost of any offer or discount redeemed).

An example: Campaign Optimization

One form of customer contact, outbound marketing campaigns, have the most to gain from an approach that looks at Return on Interaction.

Today's outbound marketing campaigns - direct mailings, email shots and telemarketing – typically experience response rates of 1-2%. Even when basic analytics and targeting of specific customer segments are added, response rates almost never climb above 10%.

Clearly, improving the return on these interactions would have a major impact on revenues and would dramatically improve marketing campaign effectiveness.

One obstacle to this improvement is the belief that marketing furthers the

company's goals while service furthers the customer's. In fact, effective marketing is a service to customers. Shining a service light on the marketing effort results in significant differences:

- **Inbound interactions become more important than outbound** – as they present real opportunities to better serve the customer with added products.
- **Rigorous predictive analytics becomes essential** – as coarse segmentation moves towards one-to-one personalization.
- **Real-time insight replaces static models** – so offers can reflect the precise context of each interaction.

Turning marketing campaigns around in this way has been shown to multiply response rates by as much as forty times without changing the offer itself.

By mid 2006 more than 85% of consumer orientated firms plan to target marketing messages in one or more inbound interaction channels. But more than half of firms that do this today only use basic rules to determine the message the customer receives. Firms that use inbound channels to push poorly chosen pitches will have limited success. Worse, these firms risk decreased customer satisfaction and sub-optimal long term value.

Forrester

Cost versus Customer Experience

Today's most progressive and most successful brands realize that the best interactions are not only the ones customers notice and appreciate, they're also the ones that are the most efficient and effective. The ones that sell more and cost less.

These companies have discovered that consistently delivering optimized interactions lets them do some very important things:

- **Drive more value from existing customers** by keeping them longer and selling them more things at higher margins.

One bank doubled its cross-sales using intelligent prompts that guided branch and contact center staff to the right offer for each customer at the right moment.

- **Turn inbound enquiries into revenue and loyalty** – reducing the dependence on notoriously inefficient outbound campaigns.

Online retailers such as Tesco.com and Dell have turned the outbound paradigm on its head, turning customer-initiated contacts into sales dialogues.

- **Unleash word-of-mouth power** – by turning customers into brand evangelists.

One of the reasons that Apple's customer base is more like a fan base is its breakthrough in in-store interactions, including free tutorials and 'Genius Bar' in-person tech support.

For almost every B2C company, these interaction dynamics are becoming the new drivers of success:

- Six out of seven points in the 'Expedia Promise' to customers involve interaction and customer experience issues. The seventh is about price.
- British Airways is pioneering better interactions with online check-in and self-service executive club account management.
- The Automobile Association uses text messaging to let people know their van is on the way.
- British Telecom uses text messaging and the Internet to keep customers up-to-date on progress regarding a line fault, and proactively forward all calls to your preferred mobile.

– Orange has moved some of its tech support to the handset, including service provisioning tutorials that please customers while lightening the helpdesk burden.

– Amazon has raised cross-selling and personalization to a high art, generating massive revenues through recommendations.

All of these are examples of better interactions driving brand leadership.

What makes an optimized interaction?

From the consumer's point of view, a great interaction is one that demonstrates these characteristics:

Empathy – 'They're open, friendly, easy to deal with.'

Recognition – 'They know who I am and have a sense of my relationship with them at this moment.'

Understanding – 'They know how they can best help me right now.'

Anticipation – 'They make relevant suggestions without my having to ask.'

Efficiency – 'They do what they promise, quickly and with no hassle.'

Successful brands have come to realize that these characteristics are not the enemy of interaction success – they're the very things that lead to loyalty and revenue. The optimized interaction is a win-win proposition.

The challenge is to deliver the five characteristics consistently in billions of opportunities across every channel – in person, on the web, through the contact center and at self-service points.

Interaction constraints

Traditional interaction management environments actually inhibit the ability to optimize interactions. The front end systems are often different for every channel; the analytics are divorced

from, and lag behind the interaction; campaign management is standalone rather than integrated.

These legacy silos are only starting to join up, often using middleware to create bespoke integrations between applications or channels. These hard-wired links can prove as limiting as the silos they're trying to breach.

Today, most interaction environments are based on a spaghetti of application links that cross different channels. This infrastructure inhibits a customer-centric view of the business, depresses return on interaction and stifles insight before it can be turned into action.

The five drivers of the optimized interaction

Delivering optimized interactions for millions of customers, a wide range of products, in different markets across many channels is not a trivial task. It can only be achieved by mastering five interaction optimization drivers:

• Quality of Insight

Knowing each customer's history, preferences and interactions and being able to accurately predict their behavior and propensities based on that knowledge.

Benchmarks:

– Can you pull together customer insight from interactions across all channels (contact center, internet, branch)?

– Do you have all the information about your customer, personal details, preferences, products held with competitors, significant events?

– Are your customer segments dynamic and based on predictive analytics or static data mining?

– Are you able to apply models for propensity to churn, campaign uplift and customer retention?

– Do your analytics lag behind current customer behavior or do they reflect up-to-the-minute decisions?

Success Measures

To measure your 'Quality of Insight' maturity level, your organization must know everything about the customer 100% of the time across all channels, products – missing information means a lost opportunity to serve or to sell. Information must be up to date reflecting the latest customer behavior.

• Availability of Insight

Getting the relevant customer insight to the point of interaction in time to do something about it.

Benchmarks:

– Can you deliver a 'single view of the customer?' A 360 degree view, not just name, address, and transactions but all interactions from all channels and competitive insight?

– Can you deliver analytic insights to the interaction in real-time?

– Can you generate the best possible and most relevant offer during the interaction?

– Can you deliver this insight to all channels or just a few?

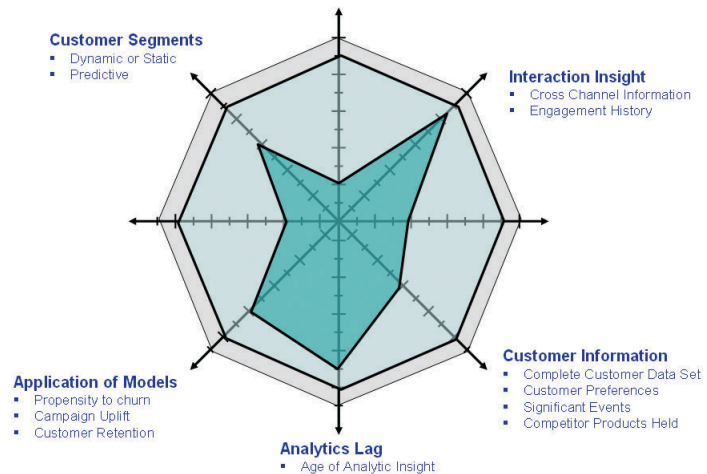
– Is your insight static or living – changing dynamically by reevaluating the customers needs?

Success Measures

To measure your 'Availability of Insight' maturity level, this information must be accessible across all channels not just one – for example the contact center must know that a customer has just made a complaint on their last branch visit. The information must be timely and close to real-time rather than manually pulled together from different sources. Analytical and customer behavior data needs to be real-time and available across all channels to dynamically respond to changes in customer information.

• Application of Strategy

Being able to combine timely insight with business rules to generate the best treatment strategies at the moment of interaction.



Benchmarks:

- Can your interactions be guided by business rules and best-practice policies?
- Can you apply strategic and engagement rules to every interaction across all channels? Or through just one channel?
- Can your interaction platform combine analytic outputs with business rules to generate live recommendations?
- Can the business adapt the business rules and rules flow or is it embedded and hard-coded in to the channel application?
- Can you respond rapidly to competitive pressures and campaigns from other organizations and new product launches?

Success Measures

To measure your ability to 'Apply Strategy' effectively your organization must be able to respond to maximize cross and up-sell opportunity, deliver campaigns rapidly in response to competitive pressure and bring new products to market fast. There should be the ability to change and apply new rules quickly, within minutes and days as opposed to weeks and months.

- **Fulfillment Efficiency**

Being able to deliver on promises efficiently and drive the processes that lead up to and follow on from the interaction (e.g. processing a credit card application quickly and accurately).

Benchmarks:

- Do your interactions automatically invoke efficient business process follow-through or is there a lot of manual intervention?
- How do your response and fulfillment times compare with competitors?
- How quickly can you change or introduce new processes?
- Can you integrate different departments and third parties into seamless fulfillment processes?

- Do you often have to pass the customer to another team or group to follow up the lead to convert to a sale?

- Does this lead to ineffective lead management resulting in sales leakage due to inefficient timely follow up at the point when the customer is interested... Interest lasts only as long as the moment of interaction...

Success Measures

To measure your 'Fulfillment Efficiency' maturity level, your organization should be able to quantify customer retention, referrals, sales conversion rates, customer complaints, end-to-end process cycle times. There should be clear auditability and traceability of all customer interactions and fulfillment processes and the ability to introduce and automate business processes and change them rapidly.

- **Performance Feedback**

The ability to analyze interactions and processes and feed the analysis back to continuously improve interaction effectiveness.

Benchmarks:

- Do you feed back interaction performance metrics to the interaction design process?
- Can you follow sales leads all the way through to the sale?
- Are your feedback mechanisms built in to each engagement?

Success Measures

To measure your 'Performance Feedback' maturity level, your organization should be able to provide management with the key metrics relating to Optimized Interactions – number of leads generated, leads converted, ROI on each marketing campaign, offers made, offers refused, etc.

Most B2C companies are still at the earliest stages of maturity along these five dimensions. They may be able to generate

a 'single view of the customer' but they can't deliver it to the point of interaction. Or they can use analytics to create fairly coarse customer segments without being able to accurately predict the behavior of these segments.

The winners will be the companies that progress fastest along these five dimensions, exceeding customer expectations rather than simply playing catch-up.

The real-time imperative for inbound interactions

The five drivers are hard enough to coordinate for outbound interactions, like marketing campaigns. But they're even harder to apply to inbound interactions, the millions of incoming calls, emails and web hits that far outnumber outbound contacts.

The traditional approach to customer interactions – built with isolated analytics, campaign management and interaction silos - struggles under the pressure of inbound contacts:

Inbound interactions are unpredictable – you don't know who will contact you, why they're getting in touch, when they'll call, how often they'll call, what channel they'll use and what mood they'll be in.

Inbound interactions are real-time – you don't have the luxury of launching a new data mining query every time the phone rings or the website gets a click.

Inbound interactions are highly charged – the customer sets the agenda and the agenda is urgent.

Under these conditions, traditional CRM systems – and even the newer interaction management front-ends – start to struggle.

“During the next three years, customer- and context-specific inbound marketing communications will assume an increasing importance in the marketing toolkit, enhancing (and in some cases replacing) unsolicited or non-personalized mass outbound communications.”

META Group

Explore, Engage, Evolve: a process view

Interaction optimization is an iterative process that can be summarized in three Es:

Explore – Analyze historical data (customer profiles and past transactions) to discover the hidden drivers of behavior. Then add business rules (e.g. ‘don’t offer credit to under 18s’) to create predictive models that guide interactions.

Engage – Deploy the models to the point of interaction, across all channels by generating ‘prompts’ for call center agents, web pages, ATM screens, etc.

Evolve – Analyze the transactions deployed and make changes to improve results.

Today, these three steps exist as silos, with each passing its information ‘over the wall’ to the next. Interaction Optimization calls for uniting these three steps into an integrated, real-time process.

In this view, the three Es cycle occurs in real-time during the actual interaction.

This real-time element delivers interactions that appear to ‘sense’ the customer’s needs, moods and expectations – even in self-service environments such as the web or ATM.

It all adds up to living interactions as opposed to static exchanges.

A process-centric approach to Interaction Optimization

Interaction Optimization calls for a new way of combining the building blocks of CRM with the new generation of process management and analytics tools into a real-time interaction infrastructure.

Such an infrastructure brings to bear everything you know about each customer – including interactions made only seconds ago and insights gained during the interaction itself – to take the best possible action at every opportunity.

- **Quality of Insight** is delivered by predictive analytics capable of generating real-time results.

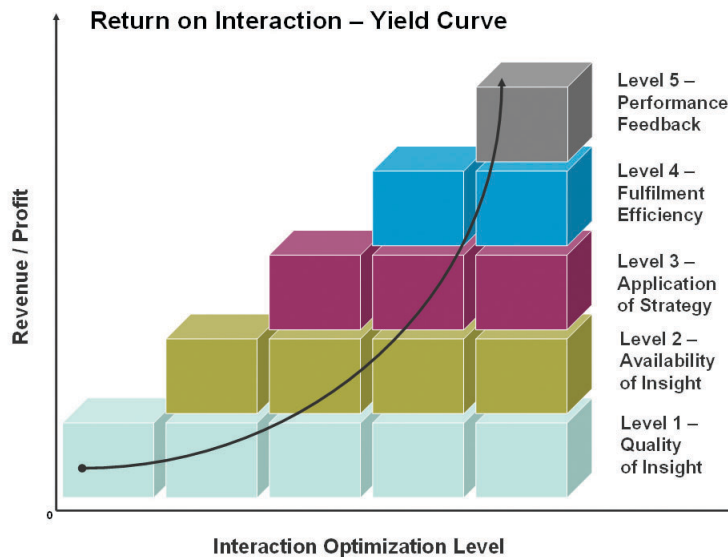
- **Availability of Insight** is made possible by a run-time engine that delivers the new insight to the point of interaction.

- **Application of Strategy** is achieved by building models from business rules and analytics that generate prompts to guide each interaction, outbound or inbound.

- **Fulfillment Efficiency** is handled by an interaction platform that lets users design and deploy efficient, effective interaction processes and manage follow-up workflows.

- **Performance Feedback** is built in through a feedback loop that automatically delivers new interaction results to the analytics engine.

These pieces of the puzzle must be joined through a service-oriented architecture that packages new results into services for use by downstream systems, applications and modules.



Return on Interaction rises steeply as organizations mature along the Interaction Optimization yield curve.

The Building Blocks of the Optimized Interaction

Optimized Interactions are built from these technology building blocks:

- **Predictive analytics** – that create living behavior models
- **A real-time rules engine** – that can generate recommendations on-the-fly
- **A campaign management toolset** – to design, deploy and monitor campaigns
- **A configuration suite** – to design and deploy new models, rules, processes and interactions
- **A process management platform** – designed for customer interaction processes
- **An interaction platform** – to guide each interaction in each channel
- **A monitoring and reporting suite** – to gather performance data and feed it back

Most large B2C companies have some of these building blocks. Few have them all. Even fewer have them integrated into an end-to-end interaction optimization environment.

IO in action

Here are three examples of Interaction Optimization in real world scenarios:

A bank customer calls to get their account balance.

- The customer's up-to-the-minute interaction history is automatically called up and fed into the model designed for his customer segment.
- The model scores five different potential offers for context relevance, overall value and propensity to accept.
- The agent is presented with a prompt for the best possible action with the highest return: *increase overdraft facility to X and waive the charge.*
- After answering the customer's question, the agent makes the relevant, timely offer.
- The customer's response triggers the appropriate fulfillment process – a quick, easy overdraft extension.
- The result is fed back to the analytics system.

An insurance customer whose contract is about to expire visits the website to download a free guide.

- The customer's high value, excellent payment history, contract expiry date and recent complaint (made two hours ago) triggers the 'high priority retention' model.
- The model is run in seconds, determining that the standard contract offers are more likely to trigger churn.
- The system pushes a web screen offering the best possible deal... but a two-minute offer expiration.
- Offer accepted, churn prevented, high-value customer delighted.

A mobile phone subscriber calls to query their bill.

- Their current tariff, account details and contact history are displayed to the agent.

- A real-time tariff recommendation model generates a better tariff for the customer's usage pattern.
- The customer mentions anticipated travel to two countries on a regular basis.
- The model takes in this new data and the agent is able to recommend an even better tariff.
- Customer happy, churn avoided.

The IO transformation

Interaction Optimization turns traditional, data-centric CRM into a real-time interaction infrastructure by:

Accelerating insight generation and its delivery to the point of interaction, replacing Insight Lag with real-time insight.

Closing gaps between analysts and business users, between insight and interaction, between promise and follow-through.

Integrating predictive analytics, campaign management, interaction platforms and process management tools.

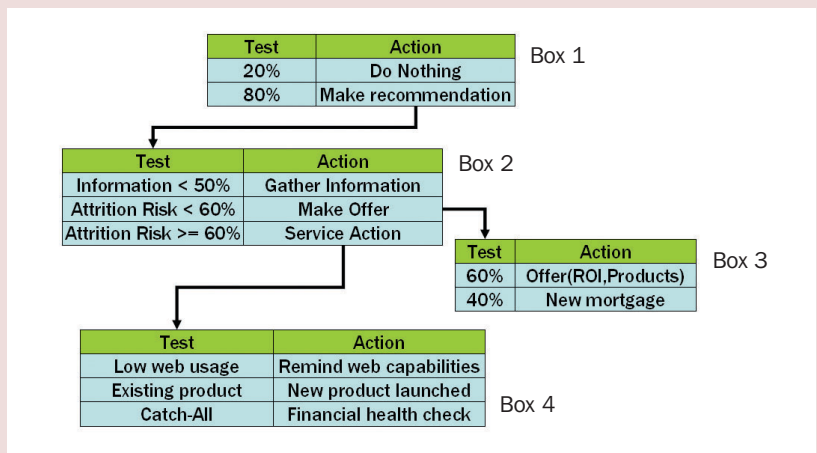
Harnessing the power of inbound contacts to optimize your marketing spend and improve campaign response.

Responding to customer needs proactively rather than reactively by leveraging the insight you already have.

Because it's service-oriented, this approach to Interaction Optimization can be deployed in any legacy CRM environment or implemented whole as an end-to-end solution.

The Best Next Action

This simple decision tree summarizes a basic interaction strategy in action:



Box 1) At the start of every interaction a random decision is made about whether any recommendation will be made to this customer. Neutral ('Do Nothing') interactions are essential as control groups to allow proper measurement of the 'uplift' of specific actions.

Box 2) We now choose between three options: if the customer data is less than 50% complete, then gathering information is the priority (with the option of returning to this box); if the attrition risk is less than a given threshold (in this case 60%), the best offer will be made; otherwise, a proactive service action will be taken.

Box 3) For the customers who receive a cross-sell/upsell recommendation, an ROI calculation determines the best offer. But for 40% of customers, a new offer is tested to determine uplift potential.

Box 4) For the customers who receive a service action, the model looks at whether the customer is better serviced through a different channel, whether the customer should be moved to a new product or offered a financial health check with a customer relationship manager.

Strategies like this can be deployed at different levels of sophistication depending on a company's modeling capabilities and level of integration. But in any case, the strategy itself is wrapped within the Interaction Optimizer delivery rules to ensure the best available action – and to continuously test alternatives.

Interaction Optimizer deploys this kind of strategy through one channel or across all channels, with any changes propagated instantly to every touchpoint.

“In B2C markets, organizations are increasingly interested in turning service-oriented interaction... into valuable, revenue-generating activities. One way to support this transition is to add insight-driven recommendations for activities such as cross-selling”

Gareth Herschel, Gartner May 2005

The Portrait Customer Interaction Management Suite

For twenty years Portrait Software has been helping large B2C organizations optimize their interactions. Through our front-line experience with banks, insurance companies, credit card issuers, mobile operators, utilities and public sector organizations, we have developed a comprehensive software suite that today delivers on the promise of real-time Interaction Optimization.

The Portrait Customer Interaction Management Suite includes pre-integrated, best-of-breed solutions across the interaction cycle:

Collaborative Customer Analytics – A Gartner ‘visionary’ solution that delivers powerful predictive analytics to the business user.

Based on the award-winning Quadstone analytics (a recent Portrait Software acquisition), Collaborative Analytics presents a clear picture of how to segment your customer base and how each segment is likely to behave.

Portrait Interaction Manager – The platform for designing, deploying and driving customer interactions across all channels.

Combining a graphical configuration suite with a run-time environment, Interaction Manager drives more profitable interactions in real time.

Three kinds of Prompts

All interactions are guided by some kind of prompt – an indication of what to do, say or offer. There are three kinds:

Dumb Prompts – treat all customers and situations the same way.

Intelligent Prompts – base recommendations on pre-established rules and historical customer insight from activity across all channels.

Insightful Prompts – base recommendations on ‘living’ behavior models and real-time, multi-channel customer insight.

Intelligent Prompts are the first step for any organization currently deploying customer- and context-ignorant interactions. But only Insightful Prompts deliver the full promise of real-time interaction optimization.

Portrait Interaction Optimizer – A ‘CRM turbo-charger’ that brings the power of real-time scoring to legacy CRM environments.

Interaction Optimizer includes a rules flow server that combines real-time scores and contextual data from the interaction to generate specific recommended actions, delivered as a web service to any front end.

Portrait Foundation – The process-centric solution for designing and managing customer-critical processes and fulfillment workflow.

Foundation lets business users create the best possible customer-critical processes for complex, multi-stage processes that cut across different departments, systems and third-party partners.

Portrait Process Frameworks – Pre-packaged processes to drive many of the most important interactions and workflows, including Lead Management, Feedback Management, Complaints Management and Campaign Tracking.

Process Frameworks are built in Portrait Foundation, so they’re ready to be integrated as web services or as links in any real-time interaction infrastructure.

The Bottom Line

In an age of product and service commoditization, customer experience has become the primary source of differentiation for many B2C brands. At the same time, major B2C players have realized the massive opportunities represented by inbound interactions.

As static, data-centric CRM gives way to dynamic, real-time interaction optimization, the benefits are clear:

- More revenue from existing customers
- Greater loyalty and lower churn
- Turning inbound cost centers into cross-sales profit drivers

It’s all made possible by delivering the power of predictive analytics and the strategic logic of business rules to the moment of interaction, in real-time. Then picking up that optimized interaction and following through efficiently and effectively.

Anything less amounts to leaving money on the table and ceding market share to your competitors.

“As the world’s largest building society, Nationwide manages many millions of customer interactions across multiple channels. Portrait helps Nationwide optimize its interactions, delivering millions of intelligent prompts to employees in contact centres during customer calls and customer facing employees in branches. The result is a significant volume of additional sales and uplift in customer satisfaction.”

Simon Baines, Head of Customer Insight, Nationwide Building Society, UK

**Portrait Insight:
Getting it right first time**

Portrait Insight is a proven methodology that uses Portrait Analytics tools and your customer data to build a business case for transformation.

It starts with an assessment of your current customer interaction processes to determine your organization’s Interaction Optimization maturity level against five benchmark drivers: Quality of Insight, Availability of Insight, Application of Strategy, Fulfillment Efficiency and Performance Feedback.

Against each of the drivers, Portrait Insight then identifies the key opportunities for progressing towards Interaction Optimization, including a

business case and phased deployment roadmap. This process mitigates risk and maximizes business benefit early in the project lifecycle.

Using Portrait Analytics we can reveal the true value hidden in your customer data, demonstrate measurable ROI and analyze the costs and benefits of the recommended deployment.

Talk to us about running a short, powerful Insight Survey that proves the value of Interaction Optimization.



About Portrait Software™

Portrait Software™ specializes in Customer Interaction and Analytical software that helps organizations build more responsive, long-term and profitable customer relationships. Portrait Software's™ solutions combine analytical capabilities with a process-centric customer interaction management platform, providing organizations with the ability to deliver the most highly optimized customer processes across all sales and service channels.

Portrait Interaction Optimizer™ enables organizations to exploit customer insight, evaluate in real time the “next best action” and automate the follow-up processes to maximize the value of each and every customer interaction. It comprises Portrait Foundation™ for Intelligent Interaction Management and Portrait Quadstone™ for Collaborative Customer Analytics into a single integrated suite.

Portrait Foundation™ is a specialized Application Platform Suite that enables organizations to quickly build process centric, multi-channel interaction management applications such as Channel Renewal and Sales Advisor platforms.

Portrait Quadstone™ delivers collaborative customer analytics that allows large consumer businesses to explore and exploit customer insight. It combines multiple sources of data to graphically discover, model, and predict trends and relationships in customer behavior.

Our 200+ customers are organizations that lead the world's most demanding customer-intensive sectors, including Financial Services, Public Services, Telecoms and the Independent Software Vendors that support these markets. UK customers include Nationwide Building Society, The Woolwich, Chelsea Building Society, Cheshire Building Society, British Telecom and the largest police force in Europe. Mainland European customers include Komerčni Banka (Czech Republic), SNT (Netherlands), Mapfre (Spain) and NovaKBM (Slovenia); US customers include KeyCorp, Wells Fargo Bank, Fidelity, Washington Mutual, Merrill Lynch, Rainier Pacific Bank, T-Mobile and Fiserv CBS and in Asia Pacific our customers include Bank of Tokyo, Bank of New Zealand, China Automobile Association and IAG

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