

## The Customer Centric Strategy

U.S. businesses spend more than \$4.5 billion dollars annually on market research, yet most companies remain uncertain about what drives customer behavior. By way of example, consider the following:

According to recent Product Development Association findings, more than 40% of new product introductions fail. That's a startling number and points to the fact that many of the common tactics we employ to generate sales growth are no longer "up to snuff" – to put it mildly.

As remedies, the "best and brightest" consultants offer us two choices: The first is *operational* – a quantitative approach characterized by cost cutting, and *sold* as re-engineering, downsizing, right-sizing, focusing on core competencies, etc. The second approach is *market-driven*. This is packaged as "differentiating strategies," new products as a percentage of sales, total quality management, or servicing customers to the point of slavery, in the hope that *virtuous behavior* will be rewarded.

But, as we all know, in the epic struggle between cutting costs and increasing sales, the low-risk, bottom-line approach always wins. (Anyone who says otherwise would probably bet that a Model T could beat a Formula 1 racecar.)

Ultimately, both strategies are severely limited, causing us to pursue short-term *tactics*. Very often, we create marketing programs designed to attract new customers, which typically replace only the 10% - 20% of customers we lose every year. So, the sales force targets customers who can be easily converted – people who are (by definition) the least loyal. This means that management rewards the sales force for orders from *marginal* customers, not long-term value.

Most companies are willing to settle for these Pyrrhic victories, knowing the short-term approach works well in a robust economy, especially for low-cost producers. Salespeople understand that this tactic is weak, and that a customer's value to the company differs over the long haul. As those closest to the action, they understand the cost and profitability differences between customers. BUT ... they also *know* on which side their bread is buttered, so in the absence of better strategies, measurements and incentives, they're more than willing to chase marginal orders for the bonus dollars.

### **A Customer Selection Approach to Growth**

Drawing from Robert Wayland's and Paul Cole's book Customer Connections, Jeremy and Tony Hope's Competing in the Third Wave, and various articles, we propose a more modern, thoughtful and sustainable approach to growth.

Customers are not monolithic buyers of products and services; they are distinctive. They are distinctive according to size, frequency of orders, culture, location, terms, sensitivity to price and support needs ... which means the cost of acquiring, developing and retaining customers is also distinctive. Most companies ignore this, and pursue orders almost indiscriminately, with little regard to long-term profitability, operational fit and brand impact.

A mind-shift needs to take place. We must accept the notion that customer relationships are assets that should be managed as we would any financial or physical asset. The *relationship is the asset* that holds value, not the customer. The relationship produces future cash flows that can be estimated and assigned a value. In essence, this is the same approach that financial analysts use when evaluating stocks and bonds. It's based on expected values and cash flows – what we might call “customer capital assets.”

From this, we can conclude that the sum of our customer capital equals the value of our company. Therefore, the value of the company can only grow by increasing the number of customer relationships. A firm maximizes its value by maximizing its customer relationships portfolio.

### **Customer Centric Strategy**

Wayland and Cole's survey revealed that "it is not a lack of information about the customer, per se, that stands in the way of building better customer relationships, but rather the lack of a disciplined process for managing (analyzing and leveraging) that knowledge."

Companies that excel at managing customer relationships have the tools, culture and the *will* to generate, manage and leverage customer knowledge. They understand the economics of their customer portfolio, act on this understanding, and make full use of technology. Customer knowledge management involves effectively leveraging relationships and technology to acquire, nurture and retain a profitable customer portfolio.

Many companies possess plenty of customer-related information. Usually, it's scattered across various departmental databases, or resides in the heads of employees who seldom interact, and often resign (taking "customer knowledge equity" with them). As a result, companies fail to systematically develop and utilize customer knowledge to improve their customer relationships.

Unsurprisingly, one survey revealed that 36% of Fortune 1000 companies are losing ground in their quest to satisfy customers. These companies reported that their customer satisfaction ratings had actually fallen over the past year. Many of them know a great deal about their customers and what they want, but failed to use that knowledge to measure and drive performance.

Frederick Reichheld and W. Earl Sasser, in their September-October, 1990 *Harvard Business Review* article, “Zero Defections: Quality Comes to Services,” documented that a 50% reduction in (customer) defections will more than double the average company’s growth rate. Therefore, customer selection is clearly one of business’s mission-critical tasks.

But superior customer selection requires (1) knowing who your most profitable customers (long-term) are, or who they should be, and what they need; (2) moving beyond collecting and analyzing data to applying customer knowledge; and (3) enabling, with technology and authority, all employees to add value to improve customer relationships and grow the business.