



Customer Focused Strategies™

The Menon Group



Turn your customer data into gold!

Surviving in tough times...

You are probably in the same boat as many businesses all over the world today. The global economy has turned considerably sluggish and many companies are facing issues like excess capacity, a significantly reduced sales pipeline, and more demanding customers asking for not only cheaper, but also better and faster at the same time. Management teams in the United States as well as elsewhere in the world are faced with the prospect of cutting costs in every department from sales and marketing to operations, human resources and administration. Managers are

As you deal with the realities of the current market conditions, you have probably recognized the need for developing and/or refining a coherent corporate vision for customer focus. This vision should be internalized by all departments in the organization and should be understood by every employee. Then, and only then can each employee implement specific tactics in their day-to-day jobs in a manner that is consistent with, and that will facilitate achievement of the corporate mission.

This white paper outlines a framework for analyzing your existing customer data which will help you develop a consistent, firm-wide understanding of your customer and the notion of customer value.

Are you concerned about any of the following?

- Increasing firm-wide profitability
- Increasing revenues from existing customers
- Getting more bang for your marketing buck
- Getting better customer satisfaction ratings
- Developing a consistent understanding of who your customer is
- Understanding Customer Lifetime Value
- Figuring out your Most Valuable Customers
- Setting a framework for consistent growth
- Focusing each and every employee and each and every activity to create Customer Value

actively evaluating options and considering opportunities to extract greater bang-for-the-buck from their marketing dollars or euros or rupees.

It has been consistently and repeatedly shown that focusing on the customer's perspective and building deeper and more meaningful business relationships with customers almost always results in higher growth and usually results in higher profitability.

Knowing exactly what your customers are worth is the first step towards developing specifically targeted and customer focused strategies. We also outline seven habits of highly customer focused organizations - which are strategies used by successful companies to become and remain profitable.

The Idea of Customer Centricity

At first glance, the notion of Customer Focus seems to be a very obvious and ubiquitous one. After all, management guru Peter Drucker noted several years ago that, “There is only one valid definition of business purpose: to create a customer.”¹

So what, then, is the big deal?

Well, customer focus goes beyond simply focusing on existing customers and serving their needs. A customer focused or customer-centric organization is one in which every asset or resource of the organization is fully geared towards figuring out the specific needs of *current* as well as *potential* future customers and then aggressively, efficiently, and effectively fulfilling those needs. Every decision in such organizations is made after asking the question, “What difference will this decision make for the customer?”

The organizational structure of a customer focused company is defined not by some “convenient” or “arbitrary” internal definition of product lines or service lines or geographic divisions. Rather, it is based purely on the customers’ view point. In other words, the company organizes itself not by products and services, but by customer needs.

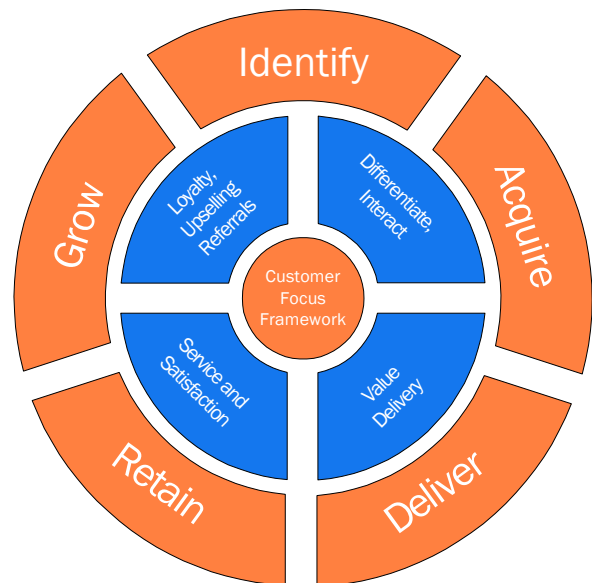
A Customer Focus Framework

Our Customer Focus Framework, shown below, will allow you to develop a common, firm-wide understanding of who your prospects are, of who truly is your customer, and of how a contact with a prospect turns into the start of a relationship with a customer. The framework then allows you to develop a holistic view of the entire customer lifecycle and track the customer from acquisition through delivery (of product or service) and from customer support all the way through retention and referral.

Customer Identification.

A consistent understanding of who exactly is your prospective customer (or prospect) is key. Whether you are in a consumer oriented business or a business-to-business company, your end customer needs to be uniquely identified. Also, realize that your prospect may not necessarily be the decision maker in the sales process. For our framework, we like to define “the customer” as the

smallest entity that derives (and therefore *defines*) “value” from our product or service.



Customer Differentiation.

As soon as a prospect is identified, most companies will have a database, preferably electronic, where information about this prospect and the interactions with this prospect can be maintained. Based on knowledge about the prospect and her needs and preferences, the prospect is automatically differentiated into one of several buckets or customer *segments*.

This segmentation and any information you have about the prospect results in a set of established preferences associated with the prospect. For example, if the prospect signed up on your website, you may note that electronic interactions are preferred. Or if the prospect visited your trade show booth and requested more print literature about your Widget A or Service B, you know that is a preference and a need that the prospect has identified for you.

Customized Interaction or Personalization.

Personalized, customized and consistent interactions with prospects are essential for developing a one-to-one relationship with a prospective customer. Personalization means that customers provide you, the seller, with “personal” information about their preferences and habits and you in turn agree to use that information in all interactions with the customer in order to serve them better.

According to Don Peppers and Martha Rogers, the one-to-one marketing gurus, successful customer relationships are ones in which the customers preferences are solicited, remembered (in an electronic database, for example) and consistently honored in every interaction with that customer.²

Remember, uniqueness is reciprocal. Just as you want your customers to see your company as being uniquely positioned vis-à-vis your competitors, so also each of your customers expect you to treat *themselves* as having unique needs. If your products or services are customized or personalized for your customers, it is an efficient economic exchange and the inherent elimination of waste can be beneficial for you as well as your customers.

Customer Acquisition.

If you have done everything right till this point, there is a good chance the prospect will become a customer. You have identified her needs, solicited and recorded her preferences (and continue to do so throughout the life cycle), and you have a solution that solves her problem.

Value Delivery.

The next logical step in the interaction is the actual delivery of goods or services to the customer. Most companies take this step for granted – because their product or service is what they are good at; that's what they produce and deliver, and that's the one thing they know and understand well. However, you must remember that as you deliver your product or service, in exchange for revenues, it is most important to remain focused on *value* delivered to the customer. Here, we define value delivered as the value gained by the customer through her interactions with you and your company *in excess* of what she paid for it. Note that there is no focus on pricing *per se*. As long as the customer gets a positive, non-zero value from the interaction, price is not really an issue.

To be sure, value is an evasive term, but what is important is that it is *always* in the eyes of the beholder (i.e. defined by the customer). Companies that want to remain customer focused are always obsessed with delivering superior value to the customer. Successful companies excel at finding the right mix of customers for whom the purchase of the companies' product or service results in a high positive value. Creating and sustaining increased value for your customer (while remaining profitable yourself) is the *sine qua non* of a sustainable, mutually rewarding business relationship.

Customer Service and Satisfaction.

Superior customer service is often what differentiates one company from another – especially when the product or service itself is a commodity in the marketplace. Customer service includes all activities that are above and beyond the direct product or service that is sold. This could include things such as telephone support for a software product or convenient invoicing and payment terms for a service.

Customer Retention.

Building customer loyalty implies repeat customers that come back to buy your products or services, and keep coming back. Loyal customers expect to be identified and treated differently, and will provide you with information about their preferences in return. They will try new products, offer suggestions for new products and services. They will trust you and tell their friends about your products and services. Classic examples of loyalty programs include Frequent Flyer Programs at Airlines, and Frequent Buyer Clubs at grocery stores.

Customer Referrals.

Companies tend to systematically undervalue the power and importance of customer referrals. Referrals can be one of the most effective means of marketing to prospective customers, and as such it is important to recognize the referral component of CLV – Customer Lifetime Value. In other words, even if a customer is not directly responsible for a lot of revenues, s/he may be valuable because of the referrals s/he provides.

In the foreword to a recent book, Geoffrey Moore, author of “Crossing the Chasm,” talks about the four levels of deepening customer relationships as being: Maintenance, Referenceability, Participation, and Evangelism.³ When you have referenceable customers, you have a passive level of support or passive referral. But at the deepest or most meaningful level of a customer relationship – your customers may provide hyperactive support by proactively marketing your product or service without any urging on your part. Clearly this has huge economic implications.

Customer Focused Strategies SM

There are many definitions and interpretations of the term “strategy” in use in the business literature today. There are various popular definitions and interpretations of the word. How-

ever, the broadest and most general meaning of the word is synonymous with the word “plan” and involves answering the question “HOW” to reach a goal or an objective. Strategy has been compared to a bridge that links businesses from “where they are” to “where they want to be.”

Michael Porter’s famous article in the Harvard Business Review⁴ defines competitive strategy as “being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.”

“Customer Focused Strategies” extends the notion of being different from your competition. We formally define customer focused strategies as follows:

A plan or a road-map for businesses and organizations to structure or re-structure themselves such that they become fully geared toward continuously figuring out and serving the specific, unique needs of each individual customer or customer segment,

and/or

A vision and methodology to ensure that all of a company’s plans, activities and decisions will always address the needs of one or more customers and that any changes to plans or activities will be made after evaluating the impact of such changes on one or more customers.

Thus, organizations that are customer focused constantly refine their strategy by choosing a different mix of activities for each customer segment.

Seven Habits – What works...

The following paragraphs outline seven steps that you can take or recipes you can follow to increase customer centricity in your organization. One or more of these steps may be particularly relevant or appealing in your specific case. Go ahead, order à la carte, mix and match as you like it!

1. Create a vision, align the troops

According to author Richard Whiteley, “A vision is like an artist’s rendering of a building under construction.”⁵ Creating and maintaining a coherent, customer-centric vision for the company or organi-

zation is perhaps the most important step in the process. It is convenient if this vision comes from the very top of the organization. However it does not always have to be that way. What is important is that the customer focused vision provides an exciting inspiration for a future state for the company and that it acts as a guiding light for each and every decision made within the organization.

2. “Listen” to your customers’ perspective

One piece that is often overlooked is tracking customer satisfaction. In fact, a May 2002 study summarized in the Harvard Business Review showed that surveying customers and asking them for their opinion alone increased profitability over the long term.⁶

Another valuable piece that is often ignored is the impact of employee empowerment. I know of one organization where there were a lot of good ideas and changes that were constantly proposed by junior employees on the “front lines” of the company. These ideas were based on customer interactions and customer feedback and were generated through direct contact with the customers. However, most of these initiatives never reached the boardroom because the top executives were perceived to be “closed” to receiving inputs. Thus the initiatives were never implemented and the company eventually lost a significant portion of their customers and market share because the whole company did not effectively “listen” to the customer.

This is extremely challenging to implement and is hard work. The bottom line is that you have to give your customer a voice within your company. And that voice needs to be echoed constantly throughout the hallways of your organization and should manifest itself in every decision that you make. And most important, what you don’t hear is as important as what you do hear. Too often, companies see customers leaving “for no apparent reason” – because they have not paid careful attention.

3. Gather, organize and analyze your customer data

Ask any manager or executive where their biggest revenues come from and they will rattle off the names of their largest accounts. However, if you ask them for the names of their most *profitable* or

most *valuable* customers – it is usually quite a different story. For most small- and medium-sized companies, it is just a matter of compiling data that is already available from your accounting department. A good start is to create a sorted list of all your customers by revenue for the current year, the immediately past full year and for the past five years.

These lists can also be partitioned by business unit or geographical region, regional office or even down to the specific salesperson, as applicable.

4. Build customer value models

The term “customer value” is probably one of the most misused terms in marketing literature. There are two possible interpretations of the term, both of which are equally important. One of course refers to the “lifetime value” of a customer which is the net present value (NPV) of all future expected profits from that customer. The other definition, of customer value, to which we referred earlier, is the net value that the *customer derives* from transacting with you. This is the differential of the value that s/he derives from purchasing goods or services over whatever the customer has to give up (i.e. the “price”) to acquire those goods or services.

Needless to say, successful customer focused organizations concentrate on both of the above metrics and seek to maximize each for sustaining mutually beneficial as well as progressively deepening relationships with customers.

A relatively newer, and probably more appropriate term is a firm’s “customer equity” which is defined as the total of the discounted lifetime values summed over *all* of the firm’s customers.⁷

Some experts like the Peppers and Rogers Group recommend identifying your Most Valuable Customers (MVCs) as well as your Most Grow-able Customers (MGCs). This latter group of customers are the most important ones to retain. You may not be making much revenues or profits from these customers today, but these are among the most profitable customers in the industry – and you would do well to steer them towards you.

Professor Ronald Rust (formerly of Vanderbilt University) and his colleagues discuss the perils of being slavishly product focused as opposed to being customer focused.⁸ They define Customer Equity (the value of a firm’s customers) as being the

most important metric for driving strategy. You can read more on this topic in an upcoming white paper from The Menon Group, Inc.

5. Create your customer pyramid

There are innumerable ways that companies choose to segment their customers. Of these there are a handful that are commonly used. However, two of the most fundamental ways to segment customers are (i) by customer need and (ii) by customer lifetime value (or profitability). Successful companies as well as entire industries (such as banking) have recognized that segmenting customers by profitability can be a very useful tool which can provide valuable insights into overall company profitability.

“All customers are created equal, but some are more equal than others “

We have found that in many cases customer revenues and profits follow the famous Pareto principle. As a rule-of-thumb, only 20% of your customers are usually responsible for 80% of your revenues. Profits are split the same way as well – although it is quite common to find that the top 20% of your most profitable customers generate more than 100% of your total profits! That is because there are usually several customers at the bottom of your profit pyramid that cost too much to serve and are usually loss generators.

Jay Curry’s well known Customer Marketing Method⁹ is a very useful tool to start segmenting customers by profitability. Using this tool, it is possible to identify your most profitable customers and more importantly, to track these customers by department, by office or even down to the sales person level. Thus you can measure, motivate and reward your sales and marketing organizations for bringing customers into your profitability pyramid, moving them up the pyramid (so that they generate more revenues, and usually contribute a higher profit margin) and keep them in the pyramid.

6. Track retention, loyalty, and referrals

Customer Loyalty has been an area of much hype as well as much analysis recently. Sure, it sounds logical that loyal customers are great. And there certainly are benefits to building deep relationships with loyal customers. However, it is critical to examine this in the context of your own business. Every business is unique and would be well ad-

About The Menon Group

The Menon Group, Inc. is a world-class customer strategy consulting firm headquartered in the Dallas metroplex area, with offices worldwide.

Our mission is to help you, our customer, increase profitability and achieve successful growth by analyzing and unleashing the potential value in your customer data. We can build and implement any of the analytical tools outlined in this paper such as models for customer value and segmentation, customer loyalty, customer retention, and customer equity, to name a few. Such tools will provide the basis for developing and/or strengthening your company's customer vision and for executing "Customer Focused Strategies"™ which incorporate your customers' perspectives, and help you build deeper, more valuable customer relationships.

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vised to build and analyze customer loyalty models which help identify the relationship between loyalty and profits. This was highlighted in a recent study on loyalty published in the Harvard Business Review, where four companies' customer databases were examined vis-à-vis customer profitability.

More important than retention and loyalty *per se* is to understand the reasons and motives behind customer loyalty – i.e. understanding the customer's loyalty profile.¹⁰ As discussed in a recent McKinsey Quarterly article, by focusing on patterns and reasons for customer migration (i.e. from a highly satisfied customer who spends more to the downward migrators who spend less) companies can increase loyalty in a meaningful way.¹¹

7. Appoint a Chief Customer Officer, but eventually get rid of the position!

According to recent estimates, as many as 40 percent of major companies globally now have a "board-level champion responsible for customer-relationship management and the customer experience. Hewlett Packard calls the position 'First Vice President of Total Customer Experience,' whereas Kintana refers to the 'Vice President of Customer Value.'¹² The titles may vary – but having a high level person within your organization as an advocate of the customer's perspective makes

a lot of sense. He or she is basically the custodian of your most valuable asset – your customer base.

However, customer focus is not an attribute of the marketing department or the sales force alone. Done right, it is an attitude that permeates the entire organization in a concerted manner. The role of the Chief Customer Officer is to coalesce the customer focus activities in the organization, to make the entire organization self-aware of the voice of the customer and to energize the organization into maintaining its customer focus on a sustained basis. If the CCO is truly successful, his or her position should eventually become redundant!!

Summary

Today, businesses operate in a very complex and rapidly changing world where the *rate* of change is not only the fastest it has ever been, but is also increasing. Companies of all sizes are facing a hyper-competitive environment where they are forced to provide higher service at lower cost. At the same time, the general expectation of what is *good* customer service has gone up dramatically. Market leaders such as Amazon.com, Nordstrom and Charles Schwab have raised the standards for all companies. The demands for Better, Faster, or Cheaper are now

made concurrently, such that the operating word is not “or” but “and” as in: Better *and* Faster *and* Cheaper.

We have discussed the notion of a customer-centric or customer focused organization and discussed some reasons why this is so important today. Applying a customer-centric approach to all aspects of a company’s operations is a foreign concept for many organizations – but one that is gaining rapid approval and acceptance as more and more companies successfully implement such strategies and notice a difference in their bottom lines.

Finally, advances in technology, have made it possible and quite economical for companies to invest in any one of a broad array of systems and tools to implement customer focused strategies via a whole host of (often confusing) software applications for automation, data gathering, data analysis, personalization, cost efficiency, and productivity improvement. Such technological advances have made it relatively easier and cheaper to provide personalization and customization in the online environment. These advances have been some of the key drivers for the movement towards greater customer-centricity or customer focus in the late 1990s and the early 21st century.

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