

## View Point



### Customer Relationships

#### Why It's Important to be a Wise Investor

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#### Abstract

Market leaders have realized they must zero in on the right customer segments to maximize profitability. This is driving a new Boardroom-level agenda to build lasting relationships with key customers, and to maximize the value of those relationships over time. "One size fits all" programs to manage customer relationships have often met with mixed results. A new paradigm is required to truly engage high-value customers. By acting on a model of the customer's lifetime value, companies can tailor and deliver a premium customer engagement program. Companies who plan and successfully execute a value-based customer engagement strategy can expect to be rewarded with industry-leading profitable growth.

## Acquisition? Retention? What is the right investment?

An old business proverb states, “Customers are the most valuable part of your business”. If this is truly the case, then wisdom dictates that successful businesses will invest in their customers, both existing and new. As a wise investor, you need to look into the trends of customers in your market and across industries.

- Over 80% of the profit is generated by 20% of the customers;
- 75% of sales and marketing budgets are spent on acquiring non-customers that generate 20% of the total revenue;
- Cost to acquire new customers is 5 to 8 times higher than the cost to maintain an existing customer;
- Over 54% of buying decisions are influenced by friends, family, and consumer reviews;
- Only 10% of complaints are ever voiced to the company, leaving 90% which can impact the customer relationship in negative ways;
- A 5% reduction in churn can result in a 20% improvement in profitability.

In most sectors, companies are primarily focusing their marketing investment on expanding their customer base, or in some cases, developing new customers to replace those customers that have fled to a competitor. Unfortunately, for most companies, “investments” in their existing customers are focused on saving customers that are threatening to defect. Companies that are leaders in their industry, in terms of profitability and customer satisfaction, understand these trends and have developed investment strategies that balance their marketing spend on developing new customers and developing “engaged” customers.

A related, but commonly overlooked, business proverb states “All customers are not created equal”. As companies quickly learn, every customer is unique, their individual needs are unique, their purpose for purchasing individual products and services are unique, what motivates them as an individual is unique, and why they do business with you is unique. Just as importantly, in assessing the business relationship with each customer, it becomes obvious that the amount each of these customers impacts the bottom line is not the same. For long-term success, companies must be able to identify their best customers and begin to invest in each based on the value they deliver to the business.

## Managing Customer Relationships: Is CRM Enough?

Building around the world have invested in becoming “customer-centric”, recreating their corporate culture in order to empower every part of the business to deliver a quality customer experience. To enable customer-centricity, companies have invested in customer relationship management (CRM) systems to centralize the information on each customer and more effectively and consistently manage the relationship with each customer. The end goal of these investments was to develop “loyal” customers that spend more and commit to a relationship with the business over the long haul. Although many positive benefits have come from these investments, more often than not, these programs have not achieved their intended objectives. Why the failure of these CRM initiatives? Was it the initiative or the implementation? In general, CRM programs fail to deliver when CRM is seen as a system and not as a long term, customer-centric business strategy with a goal to maximize profitability through customer loyalty.

Customer loyalty results from successful and effective engagement with the customer. The ability to engage with a customer is enabled through understanding the needs and motivations of each customer. As business and markets evolved over the years, CRM systems were intended to fill the relationship gap with each customer by centralizing the “corporate” knowledge of the customer into a single location and enabling people access to this information in order to understand who they are interacting with. What has become obvious, customer insight is not enough. It is imperative to be able to define actions (or more appropriately interactions) with customers that are personalized for each individual within the context of their relationship with you.

## Lasting Relationships: Everyone must be a winner

The customer relationship has to be a positive and rewarding experience for both the consumer and the business for it to last. For programs designed to develop loyal customers to be successful, two key perspectives must be explored. First, from an “outside in” perspective, at the most basic level, the individual consumer must be open to a “relationship” with the business that extends beyond the “next best” price offer. This implies that the customer has committed, and will continue to commit, their long-term patronage to the business even through individual issues that arise. These customers will be advocates for

the company, contributing value well beyond their own regular spend. In return, these customers believe they have received additional value from the business and anticipate that they will continue to do so even if they do not always receive the “best price”.

From the other perspective, the company must recognize the value that “loyal” customers contribute to their business and be prepared to deliver additional value to the customer in terms of an enhanced experience, attentiveness to the individual customer needs, discounts, value added services, and potentially money (or cash equivalents). To make this investment, the company must be in a position to answer the questions, “Do I want a long term relationship with this customer?” and “Is the relationship worth additional investment?”

In situations where the relationship between the customer and the business becomes unbalanced, equity must be restored or the relationship will end. From a customer perspective, it is a simple decision to stop buying the company’s products and services. At these times, the business must determine if this customer relationship is worth maintaining and if so assess the amount of money (profitability) that they are willing to invest to entice the customer to stay. Today, most companies only make decisions about customer value at times when customers are at risk. The ability to measure customer value at any point in the lifetime of the relationship will position a company to quickly determine individual customer relationships in which to invest and those relationships that should be abandoned. How much impact to the company’s profitability could be derived by managing the business based on customer lifetime value?

## Making the right investment in each customer

As markets continue to evolve, a new approach to build lasting and mutually beneficial customer relationships is beginning to emerge. This new approach pivots on the effective measurement and management of a customer’s complete value to the business, commonly referred to as their lifetime value, and is measured through a set of key metrics including:

- Profitability, not revenue;
- Consistent and frequent interactions over time, not just the duration of the relationship;
- Relational / social (word of mouth) value, not simply individual customer activity; and
- Potential value of the individual customer throughout the lifetime of the relationship.

In response to identifying these best customers, businesses must demonstrate their commitment through a strategy to Value, Reward, and Engage top customers by:

- Telling your best customers they are important to you and thanking them for their commitment;
- Listening to customer’s opinions and being responsive;
- Delivering on your promises and making good when you fail to fully deliver; and
- Enabling a positive view of your company within a customer’s social network.

Utilizing this approach to customer delight and engagement enables companies to create programs that target specific customer segments and individual customers to drive the desired behaviours and produce real returns on the investment in each customer relationship. To start, businesses must view customers not simply as accounts and transactions, but instead look at the complete at each customer as a person and each transaction as part of a long-term dialog. The customer lifetime value management approach to managing customer relationships provides a practical vehicle in which to drive your bottom line by correctly aligning your investment in every customer.

### About the Author

**Ronald Ramsey** is a Principal in the Communications, Media, and Entertainment Consulting practice at Infosys. With a goal to enable service providers to maximize the lifetime value of their customers, Ronald is focused on the design and implementation of innovative solutions that assist service providers to deliver on customer experience promises while maximizing the value of each customer relationship to the shareholders.



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