



Profits suffer when no one's keeping customer score

By Jeanne Bliss

The perennial cry from CEOs worldwide is that they are focused on their customers. It is their number one mission, and the critical job of their company emanating from understanding what customers need and want, and delivering on it.

However, CEOs and their businesses are unable to effectively manage customers as assets without up-to-date information on which customers are profitable and what is driving the best customers away. Because internal leaders and managers sometimes act independently, CEOs react to the random issues landing at their feet. They should rather focus on the key issues that may be eroding customer loyalty and profitability.

For example, marketers in a highly regarded financial services company charged with improving customer loyalty sold their CEO a concept touted as a "customer assistance program." The goal was to up-sell and cross-sell customers who called in for service. This inwardly focused program paid no regard to who these customers were, why they were calling or how profitable or loyal they were. This gave the front-line a case of priority whiplash. In prior training sessions, operators were told to build relationships and rapport with each caller, even though the process resulted in longer call times (a tactic sold to the CEO a month earlier). But this new customer assistance program meant operators were to limit the length of calls, and up-sell. So, with one eye on the timer prompting them to end the call, the operators would try to build rapport. Then with talk-time dwindling, they'd rapid-fire offers to up-sell and cross-sell. Disappointing service and sales pitches alienated some of the company's best customers. Ultimately sales did not increase.

CEOS: YOU MUST TAKE HOLD OF CUSTOMER PROFITABILITY

The easily understood and well-defined quarterly sales goals win out and stay top-of-mind. But organic customer growth drives long-term profitability, so why isn't it as important to you as quarterly sales goals? This is where the customer commitment falls apart, because what's actively asked for, measured and rewarded doesn't always line up with what's actually good for customers.

As an example, one business-to-business company was counting the number of customer accounts, but not the flow or the quality. The sales team was led by an ex-fighter pilot who sent the sales force off on what they actually called "speed kills." They were fired up to get as many customers in as short a time as possible. But they weren't keeping track of the difference in the value of business that each new customer would bring. To them, one unit was one unit: customers had become widgets. Each "speed kill" carried the same weight on the tote board used to measure success. The sales team exceeded its goal for new customer accounts that year, but sales became a drag on profits, which actually declined. This is because they didn't focus on the profitability of customer accounts, just the number of them. And no one actively identified, prioritized and eliminated issues driving profitable customers out the door.

THE FIVE QUESTIONS CEOS SHOULD BE ASKING IN ORDER TO MANAGE THEIR CUSTOMERS AS KEY ASSETS

There are five questions that help an organization understand the customer end game. The questions establish a language for

CEOs to ask about customers, and place the customer front and centre on their agenda. They are a potent first step to kick-start or re-energize a faltering customer focus.

1. **New customers: Ask about the volume and value of your incoming customers as often as you ask about sales goals.**

You may find that you are tracking incoming customers across a multitude of company areas, with conflicting definitions of what it means to be a new customer. Has the company aligned or normalized its methods of classifying customers internally? The part that's not likely tracked is the quality of incoming customers. This is especially important as the market becomes more saturated and new, profitable customers are harder to come by.

2. **Lost customers: Ask about the volume, value and reasons that the company may be losing customers.**

Pair this question about lost customers with the one above about new customers. The volume and value of lost customers paired with the new customer information portrays the true state of affairs for your company. You must reconcile "customers in" with "customers out" to know if you are properly managing customers as an asset of your company. In addition to knowing which customers left, seek the reasons why so you can drive change across the business. Without this information, the organization misses a massive opportunity to galvanize front-line people into taking action.

3. **Renewing customers: Define customer behaviours that indicate renewed commitment to your business.**

The key is to understand patterns that

indicate loyalty based on continuous purchase habits. You must ask for reasons why customers are staying with you, and to ensure that you are aware when these reasons shift or begin to erode. This metric is called “renewals with reasons,” with the “reasons” part of these metrics as key to taking a leadership role in demanding focused actions to drive customer profitability. This is better than reacting to random pitches that come across your desk.

4. Existing customers: Know revenue and profitability by customer group.

The ability to classify customers this way is no small thing. You need to understand the movement of customers from one profitability group to another so you can strategically lead the customer agenda. Your goal should be driving efforts that cause your costliest customer groups to decline and those most profitable to grow. If you are not demanding that the business be tracked this way and if you do not ask for accountability around these metrics in the regular language of meetings, it won't happen. Getting this data in line to achieve a regular pattern of accountability around customer profitability patterns will take some time, but stay the course. It will optimize your ability to manage customers as an asset of your business.

5. Referring customers: Which customer groups are giving your company referrals?

If your customers are willing to stick their necks out vouching for you, they have become your marketers. Keeping these customers, growing them and developing other customers like them, is key. You need to know how far you are down this path of building a customer base that would refer you. If you can track the rate of referrals in general and by customer group, you'll know the strength of your ongoing revenue stream before you even spend another dollar on marketing. Companies completely focused on customer profitability will learn how referral rates differ by customer group and why some are not referring. The goal

is to then apply this learning to constantly adjust and improve.

With all these questions, it's what you do with the answers that matters. To use them to steer the actions of your business, you need to take them out of the hordes of reports and paperwork and put them front and centre as part of your personal vision. Accountability reveals what's important to you; it also motivates performance and may start a friendly horse race among peers.

According to a November 2004 *Harvard Business Review* article entitled *Bringing Customers into the Boardroom*, customer management issues discussed at board level meetings are on the decline. Among the large U.S. companies surveyed for that article, over a third of them said that their boards spent less than 10 percent of their time on customer-related or marketing issues. You need to be clear with your board that managing the value and trend of profitable customers is not negotiable. You can use the answers to these five questions to collect data — “Guerrilla Metrics” — to define, quantify and connect the dots on why customers must be discussed and managed as a key asset of your corporation. Guerrilla Metrics will give the perspective you need so you can elevate high-priority customer issues, and get your board to sanction investments required to keep them.

Jeanne Bliss is the author of *Chief Customer Officer: Getting Past Lip Service to Passionate Action*, which is based on her 25 years reporting to company presidents and driving customer focus and customer profitability. She runs CustomerBLISS (www.customerbliss.com) helping leaders connect their company for customer growth. You can get a complimentary audit of your customer profitability effort when you visit her site.

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