



Treat Customers Better, Make More Money

Linda Sharp is the author of the forthcoming book, *Customer Relationship Intelligence: A Breakthrough Way to Measure and Manage Sales and Marketing*. She spoke at the May 14, 2007 SDForum Marketing SIG meeting on, “Treat Customers Better, Make More Money—A Vision for the Customer Focused Company.” She offered three ways to get started.

Introduction

There is a fundamental disconnect between the customer experience that companies perceive they are offering and what customers experience as being delivered. Bain and Company found that 80% of executives thought they delivered a “superior customer experience” whereas only 8% of their customers thought they actually delivered it.

In most companies, including startups, almost seven times more funds are spent to acquire new customers by sales and marketing, than upon retaining existing customers. Ironically for most established companies, 80% of their business comes from repeat business and referrals from existing customers. This suggests that a prudent strategy would be to shift some resources from customer acquisition and closing to retention.

All Customers Are Not Equal!

It is important to systematically analyze which customers account for the majority of your revenues and profits. In many companies, 20% of their products and their customers account for 80% of the revenues and all of the profits. In the financial services sector, the numbers are even more dramatic. For banking relationships, 20% of the customers typically account for 250% of the profits.

Making intelligent decisions requires in-depth knowledge of customers. Sharp gave a manufacturing client as a typical example. The manufacturer has hundreds

of SKUs, but only a dozen SKUs account for over half of their profits. But many of the less profitable SKUs are demanded by Franchise customers that make their numbers.

In analyzing customers, you can divide them into four profit categories: (A) Franchise—fewer than ten, that often account for half of your profits; (B) Bread and Butter—you make a nice profit on each order; (C) Okay—they are marginally profitable; and (D) Losers—you lose money on every order. Between them, the Franchise and Bread and Butter customers often account for 100% of profits.

Attracting More Profitable Customers

Attracting more profitable customers has to be important to senior management. Once this support has been enlisted, the next step is to segment customers by profitability, as just described. Then by conducting one-on-one interviews with existing customers in the segment you wish to grow, you determine where you stand with them. It is important to ask why they think as they do. (People are inundated with surveys, resulting in poor response. Also, secondary and quantitative research alone will not provide the necessary customer insights.) But it is better not to interview customers if you’re not going to do anything with the information they give you.

A problem for many companies is that customer feedback is not shared or used effectively. Gartner Group noted that while 95% of companies collect customer feedback, only 50% of these companies share the information with their staff. Furthermore, only 30% made use of the information, only 10% made changes as a result of the information, and only 5% told their customers of the changes made as a result of the information. In large part, the problem may be due to companies not devoting the resources to manage an effective response.

Retaining Profitable Customers

There are many tactics that can be used to enhance customer relationships. An example Sharp gave for a service contract provider included:

- Periodic executive briefings
- Celebration of milestones
- Asking for and thanking for referrals, testimonials, and references
- Providing a web portal where customers can access equipment status
- Obtaining optimization suggestions
- Facilitating collaboration with other users
- Obtaining feedback on service and product ideas
- Providing links to related products and services
- Periodic reports and updates to management

Most importantly, you need to be continually communicating with your customers, returning their phone calls and emails, and partnering with them. Systematically monitoring customers enables you to quickly identify unhappy customers and resolve their problems.

Summary

Being a customer focused company requires support and commitment from all areas of a company. In addition to active participation from sales, marketing, and customer service, it is essential to involve executives, finance, and operations personnel. Sharp recommended getting started by segmenting customers by profitability, conducting primary customer research, and becoming proactive about retention.

When seen as a process and measured and managed as described in her upcoming book, the end result is achieving a competitive advantage from your customer relationships, dramatically increasing high-profit revenues, and establishing the means to repeat and improve upon your success.

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helps companies use wireless networks to keep track of assets. One application is locating medical equipment like infusion pumps in hospitals. The network tells where it is and if it is ready to use or needs maintenance. Ekahau can also help in the placement of transmitters to optimize a wireless network. The software is so simply designed that users can download and immediately begin using it.

Howard Hartenbaum focuses on investments in enterprise and consumer software and services, wireless network solutions, and peer-to-peer technology. His current directorships include BlackFoot, LucidPort and DecentralTV. He led the founding investment in Skype (acquired by eBay), and was also a former member of the board of directors where his achievement resulted in his joining the Forbes Midas List of top 25 venture capitalists for the year 2007.

Hartenbaum's experience with Skype is a lesson for doing business in Scandinavia. Skype was a small company with a big vision of a simple product. He believes the commitment to simplicity and great utilitarian design is the hallmark of their culture. He was impressed with Skype's model that didn't need a lot of money. They gathered a lot of information and took their time to make the right decision. Making something simple is very complex. When Skype grew too large, they figured out how many people they really needed and scaled back. It turned out that managing a large mediocre team is more difficult than a small talented team.

He thinks their new peer-to-peer on-demand video service called Joost will be at least as big as Skype. He also sees potential for a small affordable utilitarian car from the region over the next few years.

Jyri Huopaniemi is Head of Interaction Core Technology Center at the Nokia Research Center. The ICTC is responsible for strategic and long-term research in usability and user interfaces, multimedia and personal content technologies, immersive communication and collaboration

technologies. Nokia started out as a paper company and diversified through long range planning into the world's largest maker of mobile devices. In Finland market penetration of cell phones is now an astonishing 105 percent! Globally, Nokia sells 10 phones per second.

Huopaniemi looks for the next big thing but keeps the consumer in mind. Consumer behavior drives new products. Cell phones are evolving into multimedia computers with Internet access, Radio Frequency ID (RFID) sensing and Global Positioning Systems (GPS). Imagine looking at a cell phone display and seeing the street in front of you with superimposed descriptions of store and street names. They call this augmented reality, where details stored in RFID chips and GPS can guide consumers through physical space.

Pekka Parnanen is the Director of FinNode, the new Finnish innovation center in Silicon Valley. He works with trade groups to encourage investment and development between Finland and the United States.

DJ Cline writes about business, media, policy and emerging technology for SDForum.

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About Religence and Linda Sharp

Linda Sharp is the CEO of Religence (www.religence.com). The Religence Framework came from her efforts to quantify marketing that resulted in a patent pending business process. Religence was formed to commercialize this discovery. The framework links strategic planning to operational execution and customer relationship metrics to profitability. Linda Sharp can be contacted via linda.sharp@religence.com or 415-771-7473.

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