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Profit by Design

So many businesses put a huge amount of effort into the development of their products and services. Yet, when the product is ready, it's a quick hand-ball to the sales and marketing teams and "go sell it". This worked just fine during the last century.

In the industrial age, the whole focus was on production at lowest cost, on mass, then distribute the product to eagerly awaiting consumers who would be converted by clever advertising and armies of salespeople. In this digital age many things have changed - predominately how customers behave. Due to the amount of information available to them, customers have changed how they buy. Due to the huge ability to share their opinions, word of mouth is more potent than ever before. Today we are in an economy driven by the experiences of our customers.

Profit by Design takes an approach that recognises the changes in how customers buy. It looks at how we can build a profitable business in this age and in this experience economy. Profit by Design is founded on six key principles (described below) and then applies the Architecture for Customer Engagement to achieve higher levels of business profitability and resilience.

The Six Key Principles

1. Revenue and profitability for any business comes from customers. Products and services may be the thing that customers buy, but it is the total sum of customers who buy, how they buy and what they say about the products and services that determines the profitability and resilience of the business. Essentially, your customer portfolio is the key determinant of the profitability of your business. How these customers reengage, spend and what they say about you is a huge determinant of your future.

2. Most businesses have a customer portfolio configuration that has 80% of profit coming from around 20% of their customers - and conversely 80% of their customers only contribute about 20% of profit back to the business (for some businesses it is pushing 90/10..!). I first discovered this in financial services and then as I consulted to a broad range of businesses, I found the pattern to be consistent across industry and businesses.

3. Organisations create these customer portfolios (that roughly follow Pareto's 80/20 principle) through an obsessive focus on revenue generation and sales numbers. These businesses are mislead by the 'eight-great traditions of sales' that are a hang-over from the last century.

4. Not all customers are equal. A business that recognises this will see the folly in selling to anyone who will buy - you will end up with a customer portfolio where 20 percent of customers represent 80 percent of value. But it is not only about the dollar value of these customers. Different customer groups also represent different value to the business based on their will to be advocates. Word-of-mouth has always been important to businesses, but today customer word-of-mouth is on steroids, which leads on to the final two points.

5. Engagement with customers should be about attracting and keeping your awesome customer - these customers are the ones where there is a mutual *Two-Way Exchange of Value*. Sometimes businesses take advantage of customers, sell them something at a healthy margin and see it as an opportunistic win for the business. Some customers 'cherry-pick' value from suppliers, they take the best deals for them from one supplier,

but stay (somewhat) consistent with another. However, most customers are looking for value, which can be defined in several different ways, but the main thing is about how they perceive the value from the business. For businesses the challenge is to understand how the *Two-Way Exchange of Value* works for them and the customer, then attract those awesome customers.

6. Customer engagement is not about closing sales but opening relationships with promoters of what you do. These are your awesome customers, the ones that get the *Two-Way Exchange of Value* - the point here is that it is an ongoing relationship, not a deal that is closed. Even if your customers only buy your product or service once, the power of their advocacy is enduring.

The role of the leader is to design

the optimal activity to be delivered,

then implement, coach and fine-tune

the design over time.

The Architecture for Customer Engagement

The Architecture for Customer Engagement provides a framework for the leader to design the optimal activity needed to attract and keep awesome customers.

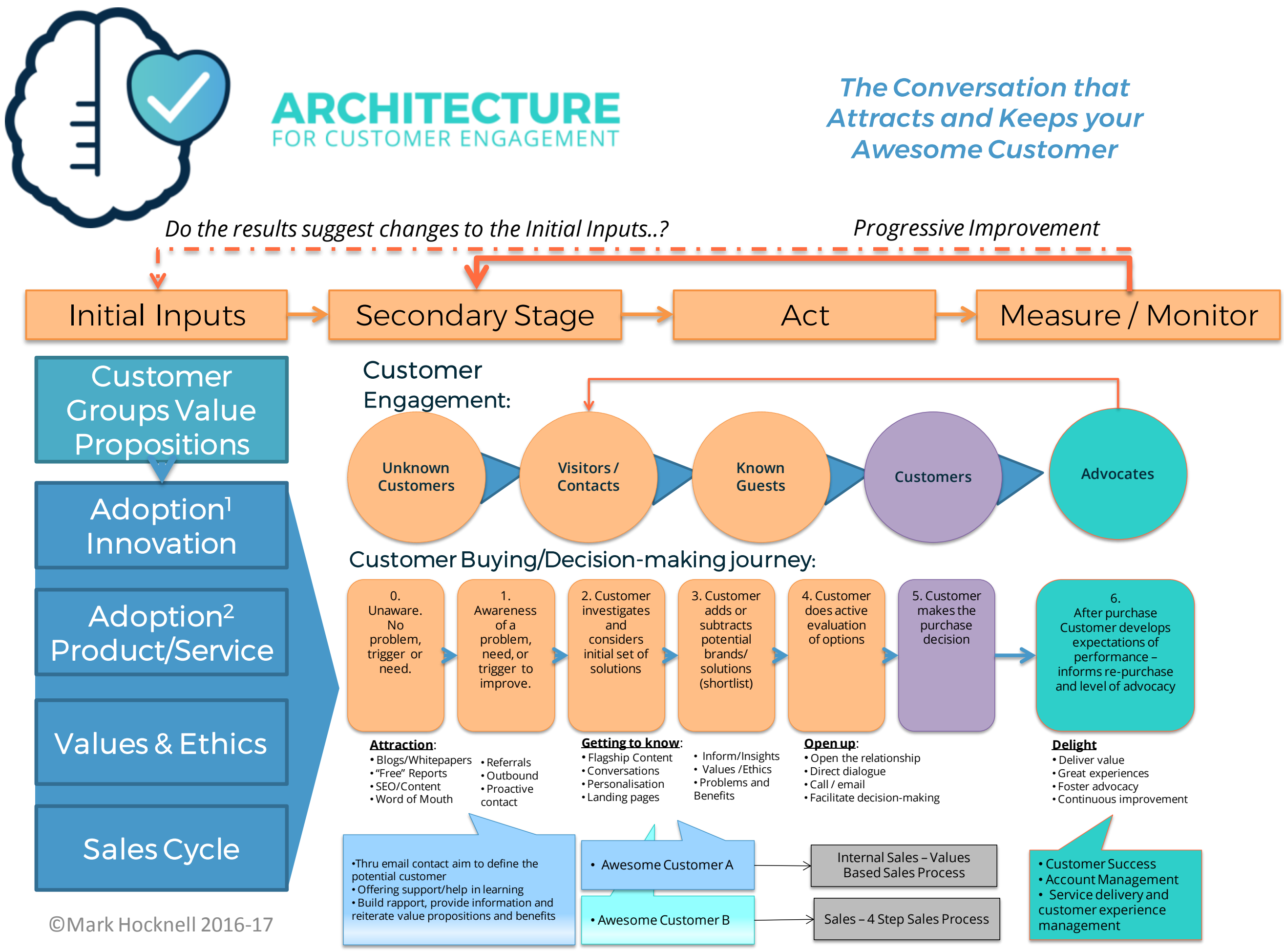
The key inputs are driven by the six principles of Profit by Design. Then how the customer buys takes over and activities need to be developed that will guide and nurture the customer along that buying journey, with the goal to create a profitable promoter.

Congruence is also a key guide for this design. Customers (humans, all of us) make decisions emotionally, then we find ways to rationalise the decision[1]. Because we buy emotionally we need to ensure that throughout the journey the customer goes through, there is harmony or congruence at each point. Perhaps a customer engaged with you through your website and some content you produced. Then the review by another customer drew them further along their journey. If this customer then encounters a sales person that does not represent the same values or motive they initially felt when they were drawn to you, they will do one of two things. One, they will disengage, 'it didn't feel right'. Second, they might buy your product, but they are unlikely to be an advocate. These days we need both. Congruence of the journey is key.

[1] One reference for this is Martin Lindstrom, *Buy-ology* (2008)

The Architecture

Here is the Architecture for Customer Engagement. There is a larger diagram at the end of this document as well as a template for you to start your design. The following pages describe each of the key components of the framework.



The Initial Inputs

We need to start with the customer. The first step is about identifying your awesome customer groups and then getting your value proposition right for those customers at two levels (why you and then about what you do).

Your awesome customer is the one that gets the value you deliver. Firstly because this customer is more likely to be engaged with your brand and products/services and therefore more profitable[2]. Secondly, when your customer is engaged and getting the value you offer, they are highly likely to be promoters of what you do.

The best way to do this is to break your customer portfolio down into groups, and look for the behaviours and characteristics that could lead to revealing your awesome customers. If you are a start up, start with defining exactly who would get the value you deliver, but this is not just a persona or description of the person. It has to be about what they value and how they would engage with your offerings, emotionally.

Using the Diffusion of Innovations[3], Adoption is firstly knowing what customer-market you are in. If you truly have an innovative offering, then your customer market is innovators, about 2.5% of any given market. Your challenge here is to find the customer. Many businesses are making offers to early adopters, or the majority. This is a big factor in how you find and reach out to your awesome customers. Then, adoption is also about how you want your customers to adopt your products/services - do you have a subscription to software, are you offering an experience, or a new type of toothpaste - either way, how you want the customer to adopt your product has to match how you initially engage your customers.

Define the behaviours that align with your values and ethics. Then integrate these behaviours across your engagement approach with your customers. People buy emotionally, then seek rational information to support that decision.

[2] When I am using the term 'profitable' for customers I am referring to the lifetime value of the customer. This value is a discounted cash flow method that combines the margin of the product/services used, and the retention rate of the customer.

[3] Everett M. Rogers 1962 to 2003

Secondary Stage

This secondary stage is about developing the optimal activity and behaviours (the what and the how) that will nurture the engagement with the customer.

Once the initial inputs are figured out, we then need to understand how your awesome customers make decisions. This is best mapped out in the key steps they take, from their perspective.

Then we align the optimal engagement activity to support the goal of creating profitable promoters. Congruence across the engagement activity is critical as customers buy emotionally, then seek rational information to justify the decision - if the customer gets the feeling something isn't right, they will opt out of the process .

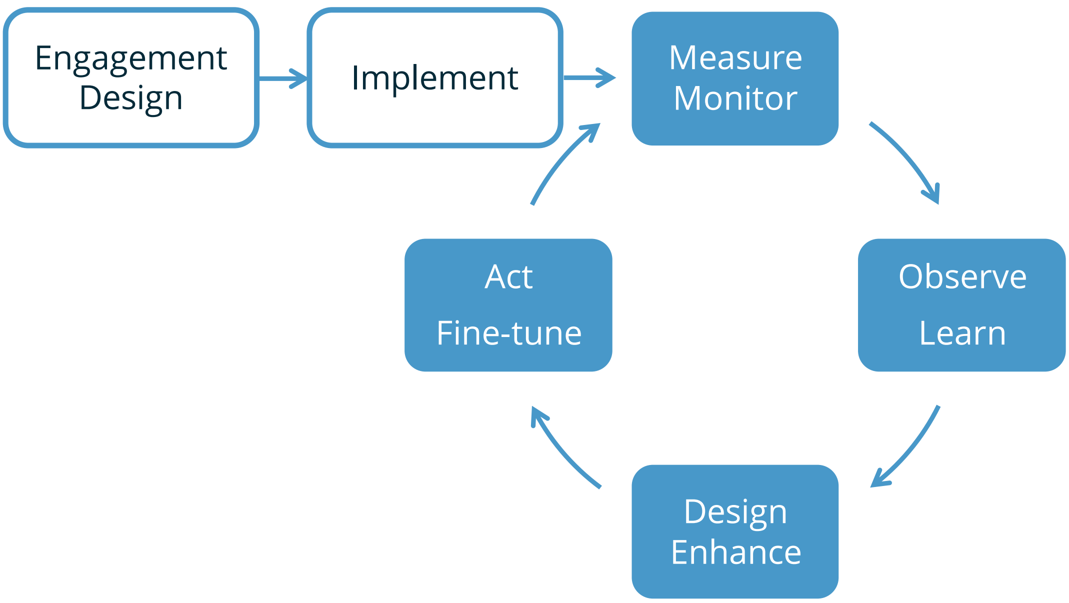
And the Goal is: to open a relationship with your awesome customer where there is optimal Two-Way Value Exchange. The Result is: profitable customers who are promoters of what you do.

Act Measure Monitor.

Once we have designed the Architecture for Customer Engagement, we need to implement - but this is not a once only, set and forget approach, it is ongoing.

- Act - execution/implementation. Stop designing and get it done. Once you have implemented you can start learning more about what is working.
- Measure / Monitor - Measures give us feedback on how we are achieving our goals and results. Design performance measures to give you meaningful feedback on how your implementation went, and how accurate the design of your engagement activity is. Learn, fine-tune, progressively improve.

Essentially the process is an action learning cycle, we design the engagement approach and implement it into our business. Then we move into the action learning cycle where we measure and learn what is working, what needs improvement. Fine-tune the design, measure and monitor, learn. Repeat and repeat.



About the Author

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For the last 12 years (as a consultant) Mark has developed customer strategies with more than 35 organisations (from small businesses to large Government Owned Corporations) to improve business results and the delivery of customer value.

Prior to this, Mark was with Suncorp for 14 years where he held senior customer management roles, during his last three years there he led the implementation of the technology, tools and change to support the 'Allfinanz strategy' which placed Suncorp with the highest cross-selling rate of any Australian financial institution.

From 2003 to 2011 he was a sessional academic (part-time) with Brisbane Graduate School of Business (QUT) where he developed and delivered two electives within the MBA program, Sales Management and Customer Relationship Management (CRM). In 2015 he was appointed as an Adjunct Lecturer to the Griffith University School of Business, where he has developed the Personal Selling and Sales Management course (2038MKT) for the Department of Marketing.

Mark has a MBA, holds qualifications in change management, and certifications in Net Promoter Score and PuMP®(performance measurement).

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