The Customer Strategy

Whitepaper

How to develop your Customer Strategy: the starting point for leveraging the Customer Centric approach to Business

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Contents

Introduction

This whitepaper will introduce you to the customer centric approach to business and the Customer Strategy.

Most people misunderstand customer centricity as something that means *'we do lots of great things with customer, as they are always right, and therefore our business will be better off...'* This is a naive understanding of customer centricity.

To realise the benefits from the customer centric approach[1] (described in this paper) the business develops a strategy around the realisation that long value for the business is created from customers, not products or services. Many businesses look at their Profit-and-Loss sheets and see that revenue comes from products and services, and therefore strategies are about growing products and services and therefore growing revenue. This has worked for the last couple of hundred years. However, today the environment is different, customers are no longer "sold", they buy. They are sales resistant, have more information than ever available to them and rely on their social networks for referrals and recommendations. Customers today buy, they actively resist sales approaches.

Long term value for the organisation (any type of organisation that has customers), comes from the configuration of the customer portfolio. How profitable are your customers, how long are you retaining them, how much positive word-of-mouth do they provide for you..? It is *how* your customers interact with your products and services that drives long term value, for them and for your organisation. This is the essence of being customer centric. Recognising that long term value comes from the customer portfolio, not product/service lines.

The place to start in becoming customer centric is with your customer strategy. How will you approach the challenge of improving the value of your customer portfolio[2] through delivering value for your customers..? That is the challenge the customer strategy addresses.

So, let's have a look at how we get alignment across all the resources you have to achieve that goal. Let's start to formulate what your customer strategy could look like.

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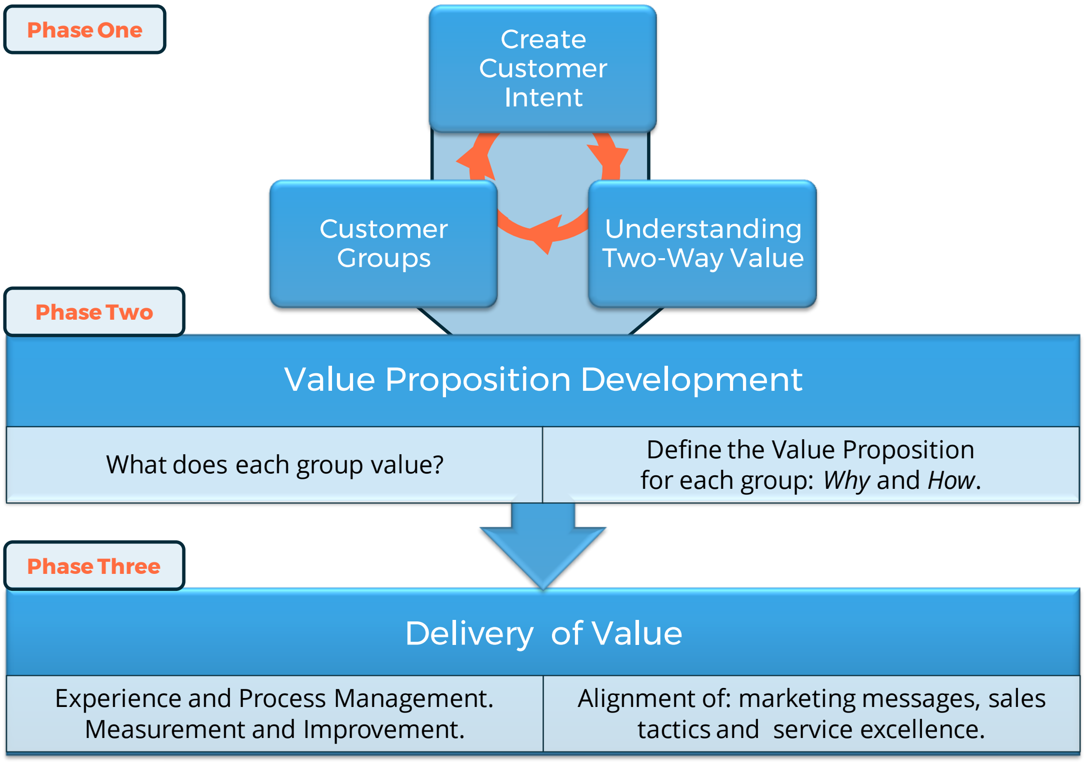
[1] You can learn more about the Five Tenets of the Customer Centric approach and the Nine Imperatives for Leaders in this article.
[2] Read more in this blog post.

Business alignment with customer intent

If we accept that designing the business from a customer centric perspective is a good idea, we might do this using these three phases.



We'll come back to this model later, but just briefly, we can see that Phase One is about developing a customer strategy, knowing your Customer Groups, understanding the Two-Way Value exchange and work out what your intent is with each group.

Phase Two is about value propositions. Most businesses are skilled in telling us why we should buy their products (another hangover from the Industrial Age), but very few are skilled at articulating why we should buy from their organisation. As humans, customers make decisions emotionally, then use rational information to justify the decision. As Simon Sinek[3] says, "*people don't buy what you do, they buy why you do it*". Therefore, the Value Proposition has to be about why a particular customer group should engage with you. What common ground, values and beliefs do you have..?

Phase Three is the part that organisations are addicted to - action..! This is all the doing, the management and the action.

[3] TED talk *Start With Why.*

The key problem we have here is that most businesses operate with Phase One and Two completely under a cloud. Only Phase Three is visible to them. Above that leaders are guided by a financial plan and some numbers to achieve. When this is the case, any tactic will seem okay. In the fray of day to day activity, they negotiate and barter their efforts and resources in an attempt to reach their KPIs (key performance indicators - measures with targets). These behaviours and trade-offs are perceived as being connected to a strategy, but most often they are linked more directly to the financial plan and individual KPIs.

There are benefits from focusing on improving the value of the customer portfolio. This is, also supported by research from Harvard Business School (Ranjay Gulati in *Reorganise for Resilience*, 2009), Forrester (summarised in *Outside In*, 2012) and the London School of Economics (a series of papers showing the economic benefit of promoters and customer lifetime value).

In summary, the research demonstrates the following four primary benefits.

1. Greater levels of profitability - mainly from focusing on the right customers, and a value exchange that improves retention.
2. Greater levels of business resilience (in terms of volatile economic conditions)
3. Greater levels of engagement with customers (leading to improved retention and promoter behaviour).
4. Greater levels of engagement with employees (providing alignment of purpose, bringing agility and improved capability).

To begin to leverage these benefits, the organisation needs to be designed for maximising profit by improving the value of the customer portfolio. This starts with a customer strategy.

Why your business needs a customer strategy.

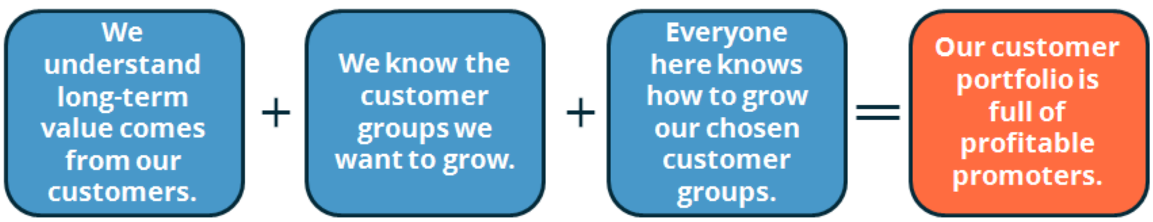
There are three key reasons why your organisation needs a customer strategy.

1. Revenue from products does not constitute the profitability of your business. When we deliver value for our customers they become ongoing streams of revenue and advocates of what you do. Perceiving customers in this way will drive success in any form of business (including not-for-profits).

2. Not all customers are equal. Not in the way they get the value you deliver, nor in the value they reciprocate to you (in the form of their financial lifetime value or their advocacy).

3. In the absence of a customer strategy (that addresses the above two points), your teams and people will take action that seems best to them to meet their financial targets, quotas or KPIs. In this scenario you will have effectively fragmented your 'strategy' allowing individuals to interpret the goal. Rather than determining and cascading the optimal approach.

The Cascade Equation



Delivering value for customers drives revenue streams, not products.

We often look to the number and value of products sales as being income, which it is. We often talk about products like they have a life of their own, *'this product sells itself...'* and so on. However we often forget about the customer who made the decision to buy the product. What we know now is that decision for the customer is fairly complex, it's not rational but far more emotive as decision-making connects with memory. Therefore, the number of sales is dependent on the decisions made by these, potentially irrational customers. Particularly considering that most customers are influenced in their decision-making by others, such as social influencers, family, friends and colleagues. How many of your customers in your portfolio are advocating your brand..?

If your customer makes repeat purchases, or they subscribe to your product or service, then their decision-making is based on their experiences with you and their overall perception of the value you have delivered. This value is a trade off between their perception of benefits over sacrifices, and this perception may not be reality, but it is reality for the customer.

Value for the business comes from customers. Customers who make decisions to buy, to repurchase and stay with you. Customers who make the decision to tell people they know about you, what you do and why you do it.

Not all customers are equal.

I leaned this principle many years ago when I worked with a financial services group, we found within the customer portfolio a specific type of customer that represented less than 20% of the overall portfolio, yet were contributing a significant portion of value back to the business. We discovered Pareto's 80/20 principle was alive and well within our customer base, that is, 80% of value was coming from about 20% of customers. From working with more than 50 organisations since, this principle is consistent across all sectors and industries, with some businesses easily getting to 90/10.

So what does this have to do with needing a customer strategy..?

Well, you do not want your people (with the best intentions) forming relationships with customers that will eventually form part of the 80% of the customer portfolio that does not add much value. Nor do you want them establishing those relationships in a way that does not ensure that the customer will get the value you deliver and therefore reciprocate. What you do want is for your people to know which customers represent the best value for you (and the customer) and how to establish a relationship that ensures a mutual exchange of value. This is done best by understanding the ideal (or awesome) customer for you - ones that will be profitable promoters of what you do - and grow that portion of your customer portfolio. This is what your customer strategy can do for you. The determinant for long term success, just ask Amazon or Apple.

Cascade your strategy rather than fragmenting it.

All too often in leadership and management we take our lead from the Industrial Age. In those days (just last century) it seemed like a good idea to split up the organisation into departments with sub-teams, and then hold one person accountable for the outcome, which was mainly a financial target. These financial targets, as you probably know, were revenue targets, staying within budgets (spend, for marketers and service teams) and potentially the number of units sold for sales teams.

As we know, the world has completely changed in the last 10-15 years. We have transitioned into an experience economy. Customers are different in how they behave, employees are different in how they feel at work. However, in most cases we have not upgraded our practice. Figuring out the overall organisation-wide return to shareholders, or earning per share, or gross profit, then determining the revenue and cost base required to achieve those numbers, and then dividing it up across the organisation, does not recognise where value comes from, nor the collective value of the sum of the parts. Most leaders are still trying to control their organisations with 'siloed' financial targets.

As a manager, if I am provided with my financial goals (budgets, targets or quotas), then I will make the decisions about what actions to take, because I am accountable for those numbers. The stated strategy might be one thing, but my survival depends on getting those numbers. As each manager takes the same approach, any idea of achieving strategy (vision, mission and/or purpose) is lost. The goal then is to hit the numbers. Across the organisation (large or small) *'strategy'* is fragmented.

The difference today is that we need our teams to collaborate to achieve a single goal. Sure, teams might contribute to that goal in different ways, but we need them all working towards the same outcome. We need teams to be learning how to improve. We need teams to be providing the optimal value and experience for customers, so that those customers stay, spend more and advocate to their friends, family and colleagues about the value we deliver. Therefore, we turn to use the customer strategy as a way to allow the strategy to cascade through the organisation, rather than fragment.

So what is a customer strategy..?

Your Customer Strategy is a re-articulation of your Business Strategy, but in the context of the customer. Recognising that the realisation of the goals in your business strategy will come from changes within your customer portfolio, such as: a decrease in the portion of lower value customers; and increases in the portion of higher value; changes to the relationship types (to improve value exchange), and growing the number of advocates. The Customer Strategy makes these business goals clear and aligns all resources towards making progress towards the goals. The Customer Strategy provides guidance for approaches and tactics that make sense for the product-design, sales, service and marketing people so they can collaborate to achieve the single outcome - a higher value customer portfolio.

The best Customer Strategy needs to:

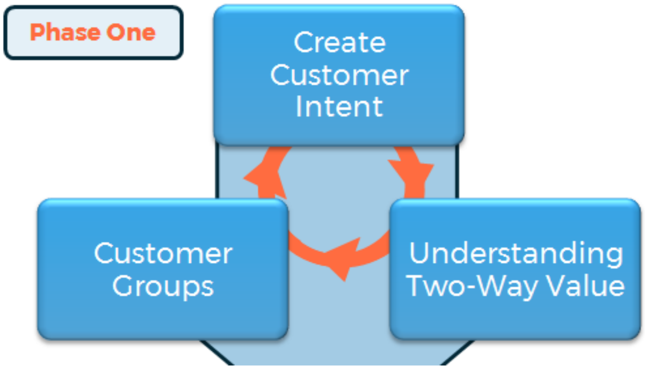
- Identify your various customers groups - recognising their unique characteristics and how they define value different to other groups.
- For each group identify what represents absolute value to them.
- Understand from each customer group the value they represent to you (the business).
- Seek to understand the optimal, mutual two-way exchange of value.
- Select strategies for each customer group (which ones do you want to *grow*, *maintain*, or *reengineer the relationship*, or perhaps *retire*..?).
- Value propositions are then developed for each customer group (the why and the what).

From these strategies and value propositions, we then develop the optimal tactics for the business to achieve the goal of improving the value of the customer portfolio.
Armed with a Customer Strategy, an organisation can gain greater alignment of resources and purpose. The resources of your people, processes and budgets are aligned to deliver value for chosen customer groups, that will in turn increase the value of your customer portfolio. When your whole teams collaborates together on a common purpose for customers, you get more agility and learning about how to improve performance.

Are you fragmenting or cascading the development of you customer portfolio..?

How to build your customer strategy.

There are three steps to building your customer strategy. The first step is to define your customer groups, then for each group gain an understanding of the two way exchange of value. When you have your groups and an understanding of the two-way value exchange, then you can determine what your intent is with each group. Do you want to have more of these customers, change the way the relationship works, or perhaps let some of these customers go..?



1. Defining your customer groups.

I am deliberately not using the term segments. When most people think of a segments they consider things like demographics (for example: age, gender, life-cycle stage, occupation), geographic (where they live) and perhaps psychographics (perhaps their social class or lifestyle). From a marketer perspective this is the place to start. Segments might be a good place to start with your customer groups but you really need to take it further into understanding the differences in the various groups.

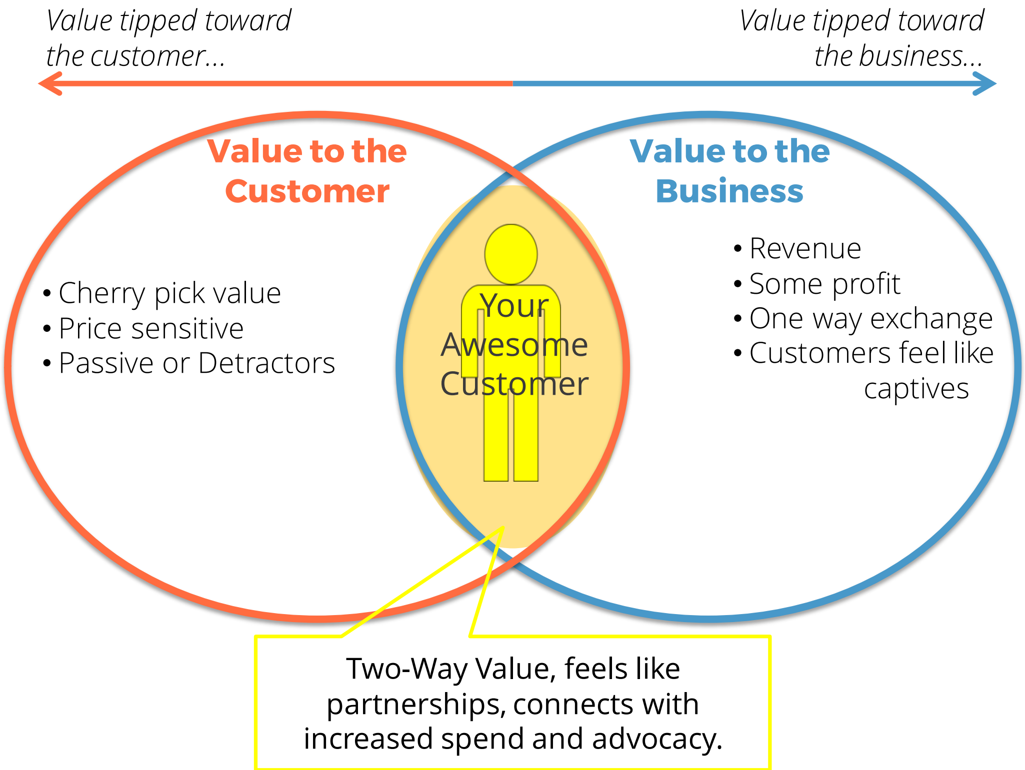
First, create a list of the different customer groups, then consider what defines one group from another. What attributes do they have, what is their potential spend, how do they buy, spend and promote..? What do they value, and how do they define that value..?

Start the process by listing the obvious grouping of customers. Then examine them for what defines one group from another. What attributes do they have, what is their potential spend, how do they buy, spend and promote..? What do they value, and how do they define that value..?

2. Understanding Two-Way Value.

There are some customers that endeavour to get more value than they return. These customers were seeking deals and bargains. They would often pitch different suppliers against each other to get a better deal. For the business they were low margin, high maintenance customers, and what word of mouth would they provide..? Probably nothing except bragging rights on the deals they had extracted from the supplier. Value is this context is tipped too much towards the customer, for the long term relationship to work, there has to be a fair and mutual exchange of value.

Likewise, some businesses like to get more from their customers than they return. Big banks are often in the negative-word-of-mouth spotlight because their customers feel the fees (for just about everything) are way out of control, and completely only about improving bank profits , rather than value-adding services for the customer.



When value is tipped more towards the customer, the business doesn't receive the value it deserves for the products and services provided. When customers are in this zone they tend not to provide positive word of mouth, because they are not really getting the value the business delivers. They become passive or possibly detractors by encouraging others to treat this business the same way. Similarly, when businesses are perceived to get more out of the relationship than their customers feels they should, then these customers will complain to anyone that will listen.

The sweet spot is where the customer gets the value the business delivers, and the business in turn receives a fair price for these services and advocacy from the customer. The customers value the solutions and services the business provides. The business has profitable promoters in their customer portfolio.

(You can look more into how customers vary in value in your customer portfolio in these blog posts: Customer Lifetime Value explained; and Net Promoter Score.)

3. Create Customer Intent.

Now that we have defined our customers groups, and figured out (or estimated at least) the value these customers are getting from us and the value they reciprocate, we should be much closer to knowing which customers we want to grow, the ones that we want to be a larger portion of our customer portfolio. Sure this might be a little trial and error, but until we develop a hypothesis and test it, we won't learn. In this step of creating the customer strategy we will determine the intent we want to have with each group.

The table below describes the seven core intents an organisation may have with a customer group and the expected outcomes or results from the intent. The idea or challenge is to only select one or two intents with each customer group. This will give your customer strategy focus and clarity.

Intent	Description	Expected Result
Grow	Acquire more of these types of customers.	Increased portion of the customer portfolio
Protect the relationship	These customers are strategically important (value/leverage) and we will apply proactive retention approaches to engage with them with the net effect of not losing any customers.	These customers are retained
Maintain the relationship	Goal is maintain a transactional relationship with these customers; service is provided with the view of minimal cost and basic needs provided to the customer.	Many of these customers may be retained Cost to serve reduces
Re-engineer the relationship	Our goal here is to change the way the customer interacts with us, or how these customers behave in the environment. A goal might be to reduce the cost to serve these customers, and therefore change the way the relationship works.	Portion of the customer portfolio grows Cost to serve reduces
Enhance the relationship	Similar to 'Re-engineer', however Enhance is about delivering additional value to the customer.	Retain the customers that accept higher value
Win Back	Identify customers of value that have been lost and develop tactics to win them back.	Re-engage with these customers
End the relationship	These customers represent no value to the organisation. This is where we can see no other alternative to Maintain, Re-engineer or Enhance the relationship.	These customers are dropped from the portfolio

Pulling the Customer Strategy together

Let's refer to the Three Phase model back on page 2. Your Customer Strategy is now at a stage where you have defined your customer groups and from insights into the two-way value exchange, you have formulated your intent with each customer group. The overall objective is to improve the value of your customer portfolio. By delivering value for your chosen, awesome customers you will increase the level of advocacy and lifetime value of your customer portfolio.

Value propositions can be added to the Customer Strategy for each customer group. Level one value propositions articulate "*why*" the customers should engage with you, and level two value propositions can describe the value your customers get from your products or services. You need to be speaking directly to each customer.

Our Customer Strategy now informs all the activity we do with customers. The activity in marketing, sales, service, and customer experience initiatives will all be informed by the Customer Strategy. All resources need to be aligned to delivering the optimal value - improving the number and percentage of profitable promoters in your customer portfolio.

Phase Three of the model on page 2 is about the Delivery of Value, and our improvement efforts are guided by how well our delivery is performing and progressing us towards the results we seek in our Customer Strategy. Your measurement system[4] will provide feedback on how well your initiatives are impact on your results.

[4] You can read more about the formulation of your measure system in this [blog post] and the associated whitepaper.

Some organisations use templates like these to align planning with the customer strategy.

The templates need to identify the Customer Group, and Sub-groups. Profiles can be created using all the available information, which can include estimated customer lifetime value, or revenue, retention rates, cost to serve, and some measures that relate to advocacy, or satisfaction. We start with whatever information we have to develop the group profile. Then the strategy, influencing actions and teams involved.

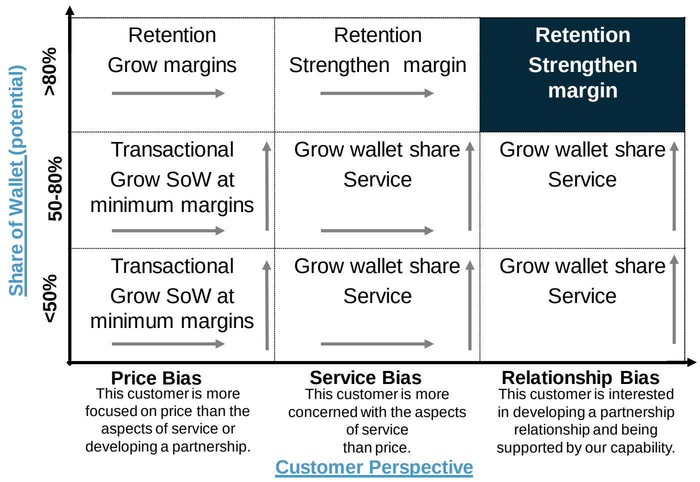
Customer Sub-group Profile

Customer Group:	**1. Consumers of our service**					
Sub-group:	**Residential**					
Core needs	Affordable, Dependable service					
Number of customers	% of Total Customer Group	Total Revenue from Sub-group	% of Revenue (sub-group/Customer Group)	Average Rev per customer	Average cost to serve	Value to customer measure
518,084	78%	$834,591,877	60%	$1,610.92	To be determined	6.9
Our Strategy for this Sub-group:	1	Re-engineer the relationship				
	2	Enhance the relationship				
Key influencing actions:	1	Communication				
	2	Education				
	3	Incentives				
Key Teams for this Sub-Group:	Customer Service					
	Communications					

Customer Sub-group Profile

Customer Group:	**3. Our partners in the delivery of customer value**	
Sub-group:	**Contractors**	
Core needs	Safety, Engagement, Feeling of Confidence	
Role	Collaborators in the delivery of customer value	
Our Strategy for this Sub-group:	1	Enhance the relationship
	2	N/A
Key influencing actions:	1	Account Management
	2	
	3	
Key Teams for this Sub-Group:	Stakeholder Relations Team	

A business-to-business organisation summarised their Customer Strategy in this format for their National Account Management team. The matrix identifies the two of the key attributes for these customers, (1) share of wallet and then the behavioural attribute of the (2) customer perspective. The matrix could then be applied to customers of different size. The first step for each of the account manager was to identify where each customer was on the matrix. With this information the goals and tactics for account management were consistent.



Your Customer Strategy informs all interactions with the customer, with the single goal of improving the value of your customer portfolio.

Summary - your call to action..!

In this white paper we have discussed the key benefits from taking a customer centric approach to building value for your chosen, awesome customers and in turn then creating more long term value for your organisation.

Your starting point is to develop your customer strategy. Do not try to perfect it. It is an iterative approach.

Start with what you know, take some steps forward, learn some more, refine your approach and continue. Shifting from product-centric to customer centric will take some effort, the rewards proven and worth it.

The steps for creating your customer strategy are described here. It is now up to you to get started. Start looking at your customer portfolio, who are the customers that stand out (not the noisy ones), the ones that seem to get the value you deliver. What are they getting that others don't quite see..? These could be your awesome customers.

The point is to get started on actively creating a more valuable customer portfolio than you have today. Use the Customer Strategy approach to start looking at things differently, the insights will start to flow once you take a different perspective.

About the Author

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Mark has 25+ years experience spanning corporate leadership roles, academia and consulting. The last 13 years in management consulting delivering more than 200 client engagements and a further 15 years in senior management, mainly at Suncorp. In addition to this, Mark has nine years (part-time) experience as a sessional academic with QUT in the Graduate School of Business, where he developed the Sales Management, and Customer Relationship Management courses. In 2013 Mark was asked to join the Industry Advisory Board (Marketing) for the Griffith University School of Business and in 2015 he was appointed as an Adjunct Lecturer and developed the Selling and Sales Management Course (2038MKT).

Mark has a MBA, holds qualifications in change management, and certifications in Net Promoter Score and PuMP® (the Performance Measurement methodology). Today Mark is a pragmatic consultant, author and speaker who applies a natural business talent together with a broad set of methodologies and deep experience to bring about results and demonstrable change within the organisations he works with. He is also the PuMP® Partner for Australasia.

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