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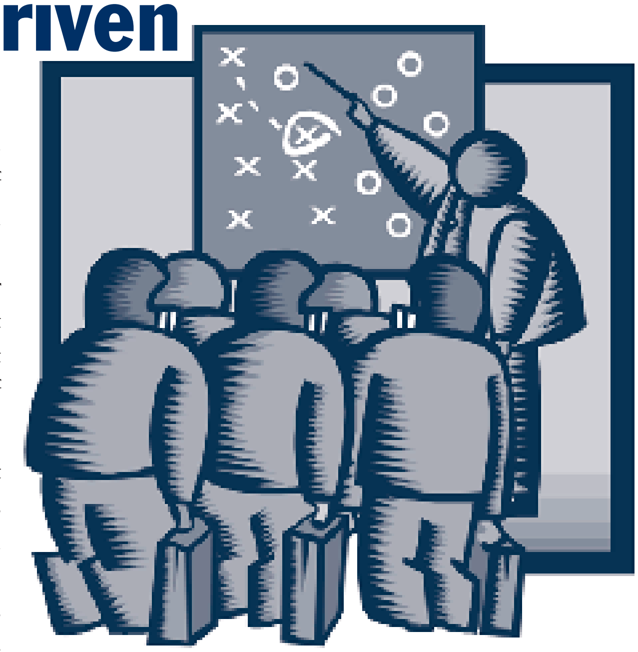
Executive Forum

The CEO's Agenda on Strategic Customers: How to Make Your Company Customer-Driven



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While most CEOs readily pay lip service to the virtues of running a customer-driven company and repeatedly stress the importance of customers in their public remarks, it is also apparent that customers are generally not a critical part of the core management processes of most companies.

It is now widely recognized that Human Resources, financial resources and management strategy are all essential to the survival of the modern, publicly-traded company. This recognition has resulted in all levels of management, from the Board of Directors on down, having a direct involvement in the management processes that focus on people, management development, financial planning and strategic control[1]. The CEO today spends a considerable amount of time actively participating in these management processes—processes that help translate strategic objectives into actions at all levels of the company.

IF STRATEGIC CUSTOMER ASSETS ARE NOT PART OF THE MESSAGE THAT SENIOR MANAGEMENT IS COMMUNICATING TO THE INVESTOR COMMUNITY, CAN WE REALLY ARGUE THAT CUSTOMERS ARE CENTRAL TO THE LONG-TERM VALUE OF THE ENTERPRISE?

Should customers be given the same importance in the core management processes of the company? Should the management of strategic customer relationships be a part of the governance procedures of the company? While CEOs can point to the many customer events that they have attended in the recent past, few can detail their company's management processes for strategic customers with the same degree of familiarity that they have with the management processes for Financial and Human Resources.

For CEOs who are considering how to accord Customer Assets the same level of importance as Human and Financial Assets, our research and consulting experience suggests that they need to address five sets of inter-related questions.

1. To What Extent Does the CEO Explicitly Link Strategic Customer Relationships and Shareholders?

Today's Senior Management is finely attuned to the needs of Institutional Investors and spends a meaningful percentage of its time communicating with this constituency. If strategic customer assets are not part of the message that Senior Management is communicating to the investor community, can we really argue that customers are central to the long-term value of the enterprise?

THE RECOGNITION THAT STRATEGIC CUSTOMER RELATIONSHIPS ARE KEY DRIVERS OF LONG-TERM SUCCESS SHOULD PERVADE ALL LEVELS OF THE COMPANY.

Should customers be part of the normal quarterly reporting of business performance to Institutional Investors? Should the Board of the Company have a process to measure progress and performance against a clearly identified group of strategic customers? Should the company's performance on strategic customers become part of the CEO's balanced scorecard metrics? Can we show that there is a connection between the company's performance with its strategic customers and its marketplace valuation?

The governance of the Corporation has received a great deal of attention over the past few years as a consequence of accounting scandals, stock market collapse in certain sectors, excessive CEO compensation and a more stringent set of regulations on reporting to shareholders. Boards of Directors have been increasingly involved in providing oversight of the central management processes that drive superior long-term corporate performance. The first test, then, of a company's commitment to the importance of customer assets is the extent to which the company includes strategic customer management among its central management processes.

Our suggestion to CEOs is to consider the following issues for the beginning of a CEO agenda on customers:

- Define a set of strategic customers for the company. The "strategic customer portfolio"[2] represents a target group of clients that will drive performance and shape the company's strategy. Is the company gaining share of wallet with these strategic customers? Is the strategic customer portfolio gaining relative to the competition? (i.e., are your strategic customers long-term winners?) At a minimum the Board should be given the results of the summary performance metrics of the strategic customer portfolio. Some companies may even consider reporting aggregated financial, wallet share and customer relationship data to external constituencies.

  Many CEOs are quite naturally reluctant to report customer data in any degree of specificity to the Investor community. While this is understandable given the regulatory and litigation risks involved in financial reporting today, customer reporting adds a critical dimension to explaining corporate performance and provides investors a more complete sense of the company's strategic position. Reporting on the management of strategic customers provides a level of detail and insight that is often more valuable than the customer segment reporting that many corporations routinely provide today.

- Performance against metrics related to the customer portfolio should be integrated into the balanced scorecard of the company. The recognition that strategic customer relationships are key drivers of long-term success should pervade all levels of the company, creating a common benchmark for success across all business units. These customer metrics need to focus on the "leading indicators" of success with customers—i.e., on the growth of the customers' wallet and the trend line of the company's share of wallet with these customers.

- Regardless of the level of the involvement of the Board or the extent of external reporting, the CEO of a customer-driven company should put in place a systematic process to manage the strategic customer portfolio. The careful selection of the portfolio and the long-term development of these customer relationships as "Assets" should be a minimal requirement for the CEO of any customer-driven company.

2. How Are You Linking Your Strategic Customer Relationships to Your Company's Strategy?

A Litmus Test of whether a company is committed to the strategic management of its customer portfolio is the extent to which customers are embedded in the communication and management processes of the company. A central question for all Strategic Account Programs is the degree to which a company can influence its customer's business strategy. In a previous article[3] we argued that the objective of Strategic Account Programs should be to influence customers' strategic business performance. In fact, very few companies are able to achieve this degree of customer impact. Most companies are in the uncomfortable position of their top customers having greater impact on their strategy than they have on their customers' strategy.

How does a company systematically manage the connection between its strategy development process and its Strategic Account Program? In our

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consulting experience, the core of the problem centers on the management and development of the "long-term customer wallet," i.e., on "the wallet of the future." The company's strategy should address how it will foster the growth of the long-term wallet of its strategic customers and secure a disproportionate share of this newly created wallet.

The dilemma of the long-term wallet is that it is often influenced by people with whom the salesforce does not deal during its normal customer interactions. The buying processes in many large corporations have shifted over the past decade. Increasingly, there is a widely recognized separation between the buyers of a product, who are generally few in number, and the users of that product, who tend to be dispersed across the company. The buyers of today's products have the technology and the processes to better manage the suppliers of these products. They have been aggressively segmenting their suppliers, defining specific roles for core suppliers and holding all suppliers accountable for meeting rigorously defined service standards.

On the other hand, the relationships between the buyers and the users of services are often increasingly strained. While the wallet of today is generally influenced by the buying process, the wallet of the future is often shaped by the users of the products. Today's users do not always believe that buyers of the product fully understand their business priorities or are responsive to their needs.

The bigger the share of today's wallet that a company has, the more likely it is that the buyers of the services will not want the company to talk to the users unless it is through them. Very often, the buyers will not permit this because they believe they will be disintermediated from their users. There is a risk that only those vendors with little to lose, i.e., those with low share of wallet today, are likely to go directly to the users. Hence, the dominant vendors today are often not able to secure share of mind with the users. The problem is that today's share of mind is very often tomorrow's share of wallet. The challenge for Strategic Account Programs is to manage deep relationships with both the buyers who make purchase decisions today, and the users who control the future wallet.

For large companies that have focused on deepening relationships with buyers, but that have not developed close relationships with users, there is a distinct possibility that they will be surprised by market transitions initiated by unhappy users. We have seen cases of companies with superior financial performance that receive strong customer satisfaction scores from users while receiving poor satisfaction scores from buyers. On the other hand, we have also seen numerous cases of companies losing market share with high satisfaction scores from buyers but poor scores from users. Developing a process to systematically partner with the users of your company's services in developing the wallet of the future, and in shaping your company's investment strategy, is essential to long-term corporate success.

3. Are You Managing Your Strategic Customer Relationships as Assets?

If customer relationships can impact the value of the enterprise and the company's strategy, then there is a need to manage these relationships using a systematic process that allows senior management to have a high degree of assurance that the company is both growing its customer wallets, and also getting a larger share of them. The key to any strategic management process is investment. If customer relationships are indeed assets, then we need investments to match the normal depreciation in any assets that tends to occur over time.

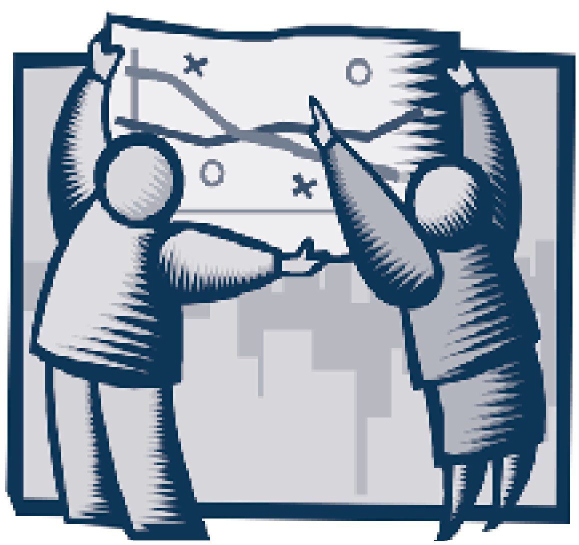
While almost all companies have well-defined processes to manage investments in plant and equipment or other physical assets, they tend not to think of investing in customer assets in the same disciplined matter. An aggressive investment program targeted at developing "customers of the future" or growing the "wallet of the future" are essential ingredients of any successful growth strategy. These investments often take many forms, from higher sales costs that might be incurred in developing user relationships that do not deliver short-term returns, to the cross-subsidization across product lines that might be needed in order to sell a broader set of connected products, to developing specific products or processes tailored to the unique needs of a particular strategic customer. The bottom line is that the returns on these investments should be as carefully reviewed as the financials for any other capital investment. In a previous article[4] we discussed the six core processes that we regard as essential to the management of customer relationship assets.

4. Is Your Salesforce Capable of Meeting the Challenge of Building Customer Relationship Assets?

Many of the CEOs in our research and consulting work have shared with us the frustration of having a salesforce that may not be capable of meeting the challenges of the 21st century customer. Many believe that the salesforces of their companies have gone through very little change over the past decade, while both their customers and other parts of the company have been actively re-inventing their business models. The 21st century B2B salesforce will have to contend with the following issues:

- As products commoditize because of increased competition and more sophisticated buyers, the way the product is sold and supported will increasingly become a critical way, often the only way, for companies to differentiate themselves. Is your salesforce capable of actively differentiating your product through its method of client coverage? Are you certain that your customers are willing to pay a premium for this differentiation?
- While there is a clear need to "invest" aggressively in certain customers, there is also a growing realization at many companies that the costs of the salesforce are unacceptably high in an environment of relentless margin pressure. The challenge for sales leaders will be to dramatically re-design their core customer coverage processes to substantially lower these sales costs so that the savings can be reinvested in creating the wallet of the future. Without a redesign of the core coverage processes to deliver substantial savings, it is unrealistic to expect companies to incur the "investment" in strategic customer programs. The productivity miracle that is occurring in Corporate America today started initially in the manufacturing area but is now spreading to other functions. Historically, sales productivity growth has been below the average, but early indicators suggest that this is about to change.
- While there has been substantial progress in applying quality and process improvement methodologies to manufacturing processes, there is only limited experience with what happens when these practices are applied to high value, complex sales processes. We have applied the Six Sigma® methodology at several of our clients and have found that while most of the manufacturing processes operate at 4 Sigma or better, the sales function is able to deliver only 1 to 2 Sigma in many core sales processes. Our experience suggests that there is a tremendous opportunity to improve the overall effectiveness and quality of the salesforce, and that Six Sigma® could deliver B2B sales processes results similar to those achieved by other functions within the company. The impact of going from 1 Sigma to 2 Sigma consistently could result in massive productivity gains that would also be accompanied by better loyalty scores, deeper relationships and greater levels of innovation.
- The increased use of "strategic sourcing" by the buying organization has combined with the specialization and sophistication of the user base to bring about the advent of the "smart customer." A better informed and more confident buyer has much less need for a trusted adviser in order to make key buying decisions. This means that the salesforce of the future will need to have a "knowledge advantage" over the customer in order to be successful. There are different ways to develop a smart salesforce that has a knowledge advantage; among the most frequently used is specialization by type of customer or industry. Such specialization often gives the salesforce a much deeper insight into the customer organization and allows salespeople to help the users within the customer organization to embed the company's products into the customer's business system.

IF CUSTOMER RELATIONSHIPS ARE INDEED ASSETS, THEN WE NEED INVESTMENTS TO MATCH THE NORMAL DEPRECIATION IN ANY ASSETS THAT TENDS TO OCCUR OVER TIME.



There is little doubt that we will see the transformation of the corporate salesforce over the next 10 years. Forward-thinking CEOs will demand that their sales leaders develop a transformation agenda for the people who will be managing the customer assets of the company. Sales leaders will have to consider how their salesforces will deliver the relationship advantage of a differentiated salesforce, the cost advantage to afford investments in strategic clients, the quality advantage to deliver process efficiencies and the knowledge advantage to help clients create the wallet of the future.

THE CHALLENGE FOR SALES LEADERS WILL BE TO DRAMATICALLY RE-DESIGN THEIR CORE CUSTOMER COVERAGE PROCESSES TO SUBSTANTIALLY LOWER THESE SALES COSTS SO THAT THE SAVINGS CAN BE REINVESTED IN CREATING THE WALLET OF THE FUTURE.

5. Is Your Company Linking Your Sales Metrics to Creating Customer Asset Value?

The sales function in most companies has had an unrelenting focus on the short-term. It has developed the ability to consistently deliver on its quarterly budget. Given the financial pressures on most CEOs to produce predictable earnings and sustained revenue growth, this severe pressure on the short-term financial metrics is unlikely to be mitigated. However, the salesforce of the future needs to develop a dual agenda and, like other functions, needs to be able to manage the trade-off between short-term revenue results and long-term investments in value creation that could result from superior customer relationship management.

At many companies, the metrics of the salesforce have been altered from a strictly revenue-driven focus to an emphasis on profitability. When measured on profitability, the salesforce is compelled to consider the trade-off of sacrificing revenue growth for higher profitability. While profitability metrics provide a useful additional window into the salesforce performance challenge, it is an incomplete measure. The challenge of building customer relationship assets, of course, entails investing in customers of today for a payback over a longer period of time. The salesforce of the future will increasingly be adopting Return on Investment metrics in addition to traditional short-term metrics. Furthermore, the sales metrics need to move away from measuring the short-term wallet to focusing on the creation and development of the long-term wallet and the share that the company is getting of this wallet. Increasingly, the sales metrics will focus on leading indicators of both long-term wallet share and long-term wallet growth.

Conclusion

The macroeconomic forces of global consolidation are bringing many companies to the realization that a few large customers are likely to have an increasingly critical influence on their companies' long-term health. Furthermore, the commoditization of the company's products has shifted the drivers of enterprise value away from an exclusive focus on brand and products to the recognition that customer relationships are equally important to the institution's value. Given these factors, it is natural that many more CEOs will be considering how to include customers both in their strategic agenda as well as among the core processes that they use to manage their companies. As this happens it will require the leaders of the sales functions in their companies to have a well considered position on the five sets of questions that we have raised.

1 Execution *by Larry Bossidy and Ram Charan.*

2 *Dr. Mathias is developing this concept and its implementation in a separate article with Professor Noel Capon of Columbia Business School.*

3 Is Your Business Strategy Shaping Your Strategic Account Program?, *Dr. Peter F. Mathias and Professor Noel Capon,* Velocity™, *Volume 6, Number 1, 2004.*

4 Managing Strategic Customer Relationships as Assets: Developing Customer Relationship Capital, *Dr. Peter F. Mathias and Professor Noel Capon,* Velocity™, *Volume 5, Number 2, 2003.*

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