

# GETTING MORE AND BETTER BUSINESS FROM SERVICE CUSTOMERS

Increasing customer-delivered value is a simple and profitable growth strategy.

By Stephen D. Wood



**MARKETING SHOULD LEAD** the service organization in obtaining the greatest benefit possible from its customers or, said differently, achieving the highest “customer-delivered value” (CDV). CDV is a generation of thinking beyond customer loyalty. It focuses on getting more and better business, in direct and indirect ways, from existing customers and recognizes the important ways for customers to benefit the organization.

Customers can continue to purchase the same and additional services over a longer period of time, thereby providing a greater and more predictable revenue stream; advocate on your organization’s behalf, thereby reducing per-customer acquisition costs; complain to you more frequently than they complain to others, enabling you to identify and fix prob-

lems, which increases customer loyalty and minimizes negative word-of-mouth; and collaborate more frequently and intensively with your organization, thereby reducing service costs and perhaps suggesting new service opportunities or refinements.

To gain more and better business from service customers, companies must correctly identify the differential value each customer provides, or can provide, and tailor marketing strategies accordingly. Our research and experience in designing and implementing CDV strategies in a variety of service organizations suggests four steps necessary to achieve higher customer-delivered value.

**Step 1: Get executive support.** To successfully launch and sustain a CDV

initiative, senior management must visibly endorse and support the effort. This includes dedicating an adequate budget, articulating clear expectations for outcomes, and continually communicating the importance and progress of the initiative throughout the organization. In communicating, executives must link the value of the CDV initiative to the strategic imperatives of the organization and show how the initiative benefits every employee. For example, one of our clients computed the additional commission and bonus that regional account managers could receive by increasing the average wallet share, the proportion of available and relevant customer revenue your business obtains, of customers in their region by 1% and 5%—in both cases substantial.

It is important for marketing managers to calculate the economic value of increasing customer-delivered value and present it in a form that senior managers will understand. In most cases, this is not a challenging task. A relatively simple approach is computing the annual revenue and profit the company loses as a result of customers who voluntarily defect or reduce their purchases.

In the health industry, managed care plans discovered that efforts to reduce voluntary member disenrollment are highly profitable. Largely marketing managers computing the revenue and profit lost from member defection prompted retention efforts. In most cases, a small percentage of lost members (or customers) results in lost revenue and profit of several million dollars. These calculations elevated the

issue on senior executives' radar screens and motivated organized customer retention initiatives.

Personal involvement by executives signifies the importance of an initiative and encourages others in the organization to embrace it. Our recent research demonstrates that senior managers, with dedicated budgets, specific performance targets, and attending compensation incentives increasingly are championing CDV initiatives. Senior managers are engaging cross-functional teams of director-level and higher individuals who share specific CDV objectives and potential rewards.

**Step 2: Focus on best bets.** To gain more value from an existing customer base, businesses must understand which customers are delivering the most value and why. A surprising number of businesses still define their "best" customers based solely on revenue contributed to the organization. At the very least, organizations should broaden this definition of "best" to include revenue, profit, and wallet share.

As a simple exercise, every business should segment its customer base into eight categories made up of the permutations of high and low revenue, profit, and wallet share. Marketers should begin by assigning customers who provide high revenue, high profit, and high wallet share to the top category, and continue assigning customers down through the hierarchy of categories, concluding with those who represent low revenue, low profit, and low wallet share. With this segmentation, the marketing professional should be able to identify differential strategies for each customer category, thereby increasing the focus and productivity of marketing investment. For example, with the high revenue, high profit, and low wallet share customers, one approach would be to defend the customer against competitor incursions. Other approaches include growing the business by collaboratively reviewing the customers' business needs, dedicate value-added resources to enhance the perceived value your organization provides, and seek the customers' assistance in advocating for your organiza-

tion. With low revenue, low profit, high wallet share customers, the approach would be different and might involve a reduction in dedicated resources and attention. Also, as profit is low, discussions with the customers about how they can be more compliant with your business processes is in order to reduce servicing costs.

**Step 3: Enable your workforce.** As services are often consumed concurrently with production, the workforce is a primary driver of customer-delivered value. Marketers tend to make many promises to customers, either explicitly or implicitly. Others within and sometimes outside, the organization usually are required to deliver on those promises. Yet there is relatively little effort to enable delivery personnel to meet or exceed customer expectations. The workforce must be prepared and enabled to do what is necessary to obtain higher customer value. Preparation begins by explaining to employees the crucial roles they play in achieving higher CDV and educating them about the behaviors expected in their interactions with customers. It continues with some form of enablement that assists employees in meeting or exceeding customer expectations as interactions occur.

An example of enablement is the Ritz-Carlton Basics; a list of expected service behaviors captured on a pocket card to be carried by every employee. Number eight on the list says "Any employee who receives a customer complaint 'owns' the complaint," reinforcing the employee's ongoing responsibility to ensure resolution to customer problems. This simple and conveniently available reminder enables Ritz employees to know what is expected in frequent and important customer encounters.

**Step 4: Reward greater value.** When employees and customers are rewarded for certain behaviors, they generally repeat them. Forward-thinking service organizations provide incentives for retaining targeted customers and increasing wallet share from more profitable customers. Using the managed care example, a number of health plans

pay bonuses to the sales force for retaining plan members. On the flip side, some plans penalize the sales force with commission charge-backs if customers do not remain with the plan for a minimum period of time. One Fortune 100 IT company we advised actually carved out a portion of sales commission to motivate account managers to grow wallet share in the more profitable accounts.

The Charles Schwab organization provides an excellent example of rewarding customers for behaviors beneficial to its business. Schwab reduced commissions in half for its most active traders, people who funnel more than 60 trades a quarter through its Web site.

## In Conclusion

It's well recognized the cost to acquire a customer generally is several times greater than the cost to retain a customer. Yet, keeping all customers longer is a myopic view of the path to greater profitability and customer-delivered benefit to the organization. Identifying the customers most beneficial to the organization, on a broader paradigm of contributions, and targeting them for differential, more intensive attention is the path to higher customer-delivered value. Thoughtfully and actively enabling the workforce to provide high levels of service in their interactions with customers is a companion imperative. Rewarding both employees and customers for delivering increased customer value to the organization also results in more and better business from service customers. All of this must begin with understanding the economic value that customer-delivered value brings to the organization, and using that understanding to have the organization, from top to bottom, embrace the opportunity. ■

## About the Author

**Steven D. Wood**, is chairman of The HSM Group Ltd., a services loyalty research and consulting firm based in Scottsdale, Ariz. He has been an active researcher, educator, and consultant for more than 20 years, and is widely published and a frequent speaker on services topics. He can be reached at wood@hsmgroup.com or (800) 776-8078.