



DIRECTIONS

A QUARTERLY NEWSLETTER FROM THE COMPETITIVE BUSINESS STRATEGY GROUP

A Customer Paradigm Shift

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[REPRINTED ADV MAGAZINE, MARCH 2000]

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CBSG NEWS

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WHY CUSTOMERS LEAVE

IS YOUR COMPANY
CUSTOMER DRIVEN?



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Everyone thinks they know their customers, but that may not be the case. The point is, what you don't know can hurt your bottom line.

Many people hold three commonly held beliefs about customers that, upon examination, just aren't so. They appear below, along with three new ways of looking at customers that will guide your business to a more profitable future.

Here's the first mistaken belief:

New customers generate profits; existing customers drain profits.

Think about this statement in terms of the investment of time and money spent in an attempt to turn a prospective client into a paying customer. Calculate your customer acquisition costs — all the marketing materials, research and preparation time, meetings, entertainment expenses, dog and pony shows, proposal writing, and more meetings.

Let's assume the prospect signs on the dotted line. At what point does the company recoup this sales investment and break even? Is it in three months, six months, or a year from now? Generating additional sales from existing customers costs five to ten times less than adding new customers to your client list.

Try this step to determine your customers' profitability:

1. **Measure client profitability.** The calculation starts at the prospect stage and continues throughout the customer life cycle. Track all sales/marketing time and expenses just like you track billable time and materials.

This leads us to the next customer fallacy:

Every business values its customers.

In reality, every business values its new customers, but few companies really value their current customers. If you're like most organizations, your sales force is focused on attracting new customers. And, when all is said and done, everyone else in the company is consumed with performing tasks that satisfy internal needs. Where does this leave the customer? Surveys reveal seven of ten customers stop doing business with a company because they feel ignored. On to step two:

2. **Designate someone or some group responsible for advancing the client relationship beyond the initial sale.** The primary objective here is to cultivate the three Rs: repeat, recurring and referral sales opportunities. Responsibilities include going beyond typical support services provided by most companies. Don't forget to reward those responsible for generating these sales.

By designating responsibility for current customers you can begin benchmarking profitability. It's also easier to target your service resources appropriately.

Which leads us to the final myth:

All customers are created equal.

The Pareto Rule dictates that by assessing customers based on profits rather than sales revenue at least 20 percent of your clients generate 80 percent of your business profits. This assessment may reveal existing clients that are unprofitable. Support existing customers

(continued inside)



WHY CUSTOMERS LEAVE...

49% leave for poor service quality

20% leave for lack of contact or attention

15% find a cheaper product or service

15% find a better product or service

96% of your customers will go away without a mention of their dissatisfaction but they will tell eight other people about their negative experience. That means only 4% of your customers will report their dissatisfaction.

How about sending your customers a reply postcard or email asking them for comments?

EDITOR NOTES

DIRECTIONS is published four times annually. Designed by Robert Michael Communications, Inc.

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CBSG II E U S

→ Much has happened at CBSG since our last issue of *Directions*, so let's get right to it... After more than two years in development, CBSG conducted its inaugural **Continuous Customer Contract** workshop in May. Sales and service managers from four financial services companies attended the program to learn our customer acquisition and retention model. We are also pleased to report that two other organizations have requested CBSG conduct the program specifically for their companies.

→ We have started working on our first book. The working title is "Customer Sense: Integrating Sales and Service." We envision the book as an easy read offering useful ideas and tips to integrate sales practices with service delivery. If things go according to plan, expect the book to go to print next summer. Stay tuned. Selected excerpts from the book are planned to be released toward the end of this year.

→ CBSG's customer acquisition and retention methods were featured in the *Courier-Post* in January. We wrote an article on customer profitability for *ADV Magazine* in March and penned a customer retention feature for Philadelphia *Small Business News* in May.

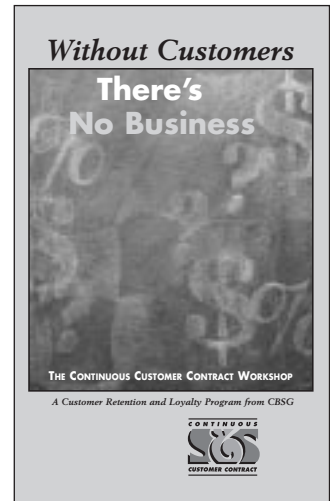
→ Fresh off of our customer retention presentation to the **Investment Company**

Institute National Operations Conference in Florida, we spoke at a sales conference for **Amoroso Baking Company** and presented our customer acquisition and retention model at the **National Association of Tax Sheltered Annuity Annual Conference** and for **Penn State University**.

→ Things are also quite busy on the client front. Work is continuing with **Kades Margolis Corporation** to design the technology infrastructure to support its new Client Services Center. We are also providing continued strategic support to the **Thomas Seely Agency**.

→ Finally, CBSG is pleased to announce that an old friend, **ReliaStar Life and Annuity**, as well as a new partner **Investors Brokerage Services, Inc.** have retained us to support their customer acquisition and retention efforts.

That's all for now. ←



ON-LINE AFFAIRS



Are your customers satisfied with your company's on-line experience? It's apparent from the recent e-business meltdown that many companies were so busy establishing an Internet presence that they forgot to construct a "service wrap."

While the Internet may remain a promising distribution channel, it's time to get back to basics. Here are steps to put your Internet house in order:

1. Make your site "customer accessible." Establish a "Net Group" made up of targeted users with limited computer literacy. Watch them navigate your site. Then conduct interviews or a focus group for further impressions.
2. Think speed. Customers will only wait an average of 8 seconds for every on line transaction, so watch the bells and whistles. Waiting for stuff to load is no different than standing in line or being placed on hold.

3. Look beyond technology solutions. Your site may be a technologic marvel, but still ineffective because your "backroom" is not designed to support your site. Refocus energies to ensure your structures, resources and work processes are integrated with your on-line sales and service functions. ←

WHAT DO AMERICANS RELY ON AS A SOURCE WHEN MAKING INVESTMENTS?

The Internet	26%
Professional Advisors	24%
Newspapers or Magazines	14%
Financial Print Media	9%

Source: PRSA Credibility Index Survey

A Customer Paradigm Shift *(continued from front)*

based on the impact they have on your business, not by how good they look on paper.

Time for step three:

3. **Create “Tiered” Service Levels.** Begin by grouping customers by profitability into three categories: “A” is the top 20%, “B” is the marginally profitable customers and “C” is the “unprofitable” ones.

We are not suggesting you disregard unprofitable clients. On the contrary, all customers deserve to have their needs met. Profitable customers, however, deserve special status. Be ready to take action prior to a problem occurring. Reach out to profitable customers and let them know you are thinking of them even when they don’t “need” it.

Try these suggestions. Have a senior executive personally contact or meet with “A” client decision makers periodically if only to thank them for their business. When an internal problem occurs that may impact their business, make sure they are called before they call you. Finally, provide some services or certain materials at no charge.

By implementing these customer strategies, you will develop information to make better business decisions resulting in more focused sales efforts and targeted customer service support. And that will help grow just about any business.

Mark Heisler and Suzanne Baldino Jones are founding partners of the Competitive Business Strategy Group (CBSG), a management-consulting firm located in Mount Laurel, NJ. They are nationally recognized for their consulting, training and speaking on customer retention issues. They can be contacted through their website at www.cbsg.com or by telephone at (888) 411-5800. ←

SATISFACTION IS NOW NO GUARANTEE

Recent surveys of customers who leave companies conclude that between 30% to 40% were “satisfied” with the company prior to leaving. How well are you keeping your satisfied customers?

IS YOUR COMPANY CUSTOMER DRIVEN?

Ask yourself the following questions and circle any of the characteristics that are not exhibited by your organization:

- Top management demonstrates with their actions that all customers are important.
- Our sales initiatives avoid promising more than we can deliver.
- Sales and service work in partnership to advance the customer relationship.
- We monitor customer complaints.
- We make it easy for customers to do business with us.

Electronic Newsletter

CBSG is pleased to now offer our newsletter, *Directions*, through email. If you would like your newsletter delivered to you electronically please send us your email address. Just go to our website, www.cbsg.com, and click on Contact Us, Request Information and enter your name and email address. Then press Submit.

HIGHLIGHTS

A Customer Paradigm Shift

Three mistaken beliefs:

- New customers generate profits; existing customers drain profits.
- Every business values its customers
- All customers are created equal

Three new ways of looking at customers:

- Measure client profitability
- Designate someone or some group responsible for advancing the client relationship beyond the initial sale
- Create “Tiered” Service Levels by profitability