B to B SERIES

WALKER
Customer Strategies, Business Success

DRIVING PROFITABILITY WITH VoC

INCREASING THE ODDS OF PROFITABLE GROWTH WITH VoC STRATEGIES

B-TO-B CUSTOMER STRATEGIES

Not all companies are alike, and most organizations can't identify with the strategies of large, consumer brands often used as case examples. At Walker, we feel the unique nature of B-to-B customer strategies does not receive adequate focus, and that's why we're developing a series focused on voice-of-the-customer strategies for B-to-B organizations.

We recognize the unique challenges associated with complex accounts, complicated purchasing processes, layers of supply chain relationships, and other characteristics that affect customer relationships. We'll address these issues, provide real examples, and cite best practices to help customer strategists.

Join in the conversation! Let us know if you have a best practice to share or a topic to request. You can contact me at *pgibbons@walkerinfo.com*.

Pat Gibbons

Patrick Gibbons
Principal, Senior Vice President

INCREASING THE ODDS OF PROFITABLE GROWTH WITH THE VOICE OF THE CUSTOMER

In B-to-B companies, the thinking around growth is focused on acquiring new business, overlooking that there is much to be gained from seeking out operational efficiencies that drive profit and growth through positive customer experiences and reallocated resources. In short, one of the best strategies to increase your odds of profitable growth is to ensure you are operating optimally. This applies as much to individual account management as it does to systemic process and functional management. In both cases, the customer perspective can and should guide resource allocation and operational efficiency.

THE PURSUIT OF PROFITABLE GROWTH FROM TWO PERSPECTIVES: PROCESS AND ACCOUNT

Keeping the voice of the customer at the center of our discussion, this paper will focus on two perspectives – process and account – that allow companies to reap the benefits of operational efficiencies.

DRIVING PROFITABILITY WITH CUSTOMER-LED PROCESS IMPROVEMENTS

There are two aspects at the process-level where companies can increase profitable growth – identifying the right process priorities, and reducing operational waste. Essentially, it is critical for a company to get the basics right. Many organizations become paralyzed when it comes to making operational improvements – there is a feeling that change needs to be made on too large a scale for them to implement easily, so in the end they take no action at all. It may sound obvious, but starting something is key to its completion, and in fact, a series of small changes can lead to a large impact.

DRIVING PROFITABILITY THROUGH BETTER ACCOUNT RELATIONSHIPS

Improving profitability by leveraging the account perspective is fundamentally about managing the cost to serve accounts. In many organizations, accounts receive equal time and attention regardless of their value, or resources are allocated based on revenue tiers. Companies who look beyond pure revenue to assess the true value of their accounts can use that information to make smart resource allocations and redirect newly available resources toward the systematic pursuit of profitable growth.

PROCESS PRIORITIES – KNOW THE BASICS

Operational improvement does not have to be complicated. B-to-B companies must resist the temptation to bring unnecessary complexity into the improvement process. Instead, focus on knowing what the basics really are, and set priorities based on that information. With a voice-of-the-customer program in place, the answers are easy – your customers will tell you what you need to know.

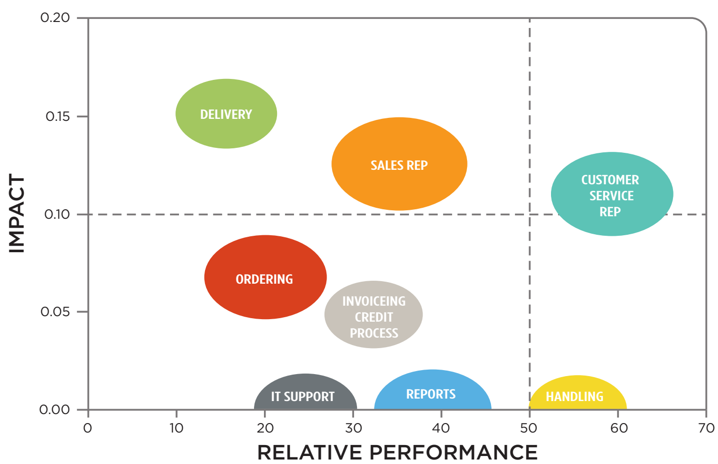
3 WAYS TO PRIORITIZE IMPROVEMENT

1. **Focus your efforts on the experiences that are most critical to your customers**
   In most B-to-B voice-of-the-customer programs, these are identified through a key driver analysis that will tell you which of the points of interaction a customer has with your company have more impact on their ultimate loyalty to you, and therefore to your business success.

2. **Prioritize based on what they tell you will make a difference**
   Combine the key driver information with customers' ratings of your performance to identify those areas that combine high impact with low evaluations – these are your critical improvement areas.

3. **Look for opportunities to build competitive advantage**
   If you are collecting evaluations of your competitors, look at the gap between your performance and theirs to identify key driver areas that will also create or strengthen competitive advantage.

CRITICAL IMPROVEMENT AREAS



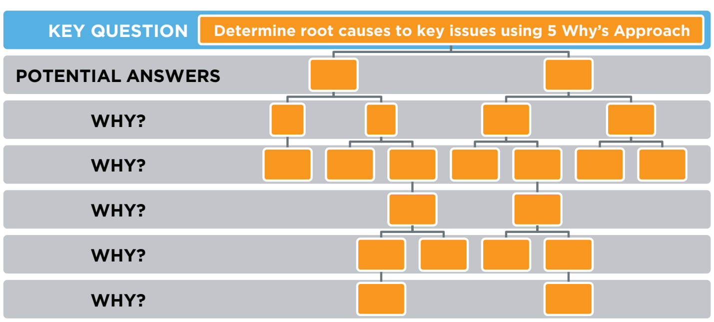
This is a view of prioritization. The chart incorporates performance, impact, and competitive information, and allows companies to use the outputs of voice-of-the-customer models to prioritize improvement areas by identifying the experience areas where customers say improvement is needed.

REDUCE WASTE – DO THE BASICS RIGHT THE FIRST TIME

Reducing waste in any process is about figuring out how you can build in more efficiency by doing things right the first time, based on what you know about your customer relationships. This leads to increased profitability by pulling out unnecessary costs, however, it is important to be mindful of the repercussions the changes could have on customers. Companies should turn to their voice-of-the customer programs as a guide for putting improvement plans in place that will maximize efficiencies without having a negative impact on the customers' experience.

3 WAYS TO REDUCE WASTE

1. **Disrupt the status quo without negatively impacting the customer experience**
   Look to your key driver results to identify areas that are NOT having an impact on customers' loyalty to you. Remain thoughtful about the cuts you make (in key driver analysis "no impact" does NOT mean "not important"), but these areas should be the first candidates for changes or reductions.
2. **Reduce waste by streamlining operations to eliminate unnecessary activity**
   Even within high impact areas, there may be aspects of the experience that customers see as being less influential on their overall experience. Examine all touchpoints from a process flow perspective to identify activities that could be eliminated or combined to create efficiency.
3. **Reduce rework by maximizing efficiencies according to what your customers want/expect**
   Voice-of-the-customer programs are also effective at highlighting "failpoints" in your processes that typically lead to additional cost in the form of rework and a reduction of resources available for growth-focused activity. By understanding the root-cause of these points, companies can resolve underlying issues and eliminate or reduce the inefficiencies of rework.



One way to focus efforts around reducing waste in operational processes is to do a root cause analysis. This will put the focus on solutions that address the true cause of an issue, and not just mask the symptoms. Once improvement areas are identified, a solid action plan is necessary to guide implementation.

ENABLING PROFITABILITY AT THE PROCESS LEVEL

PREPARE → PLAN → IMPLEMENT → REVIEW

Voice-of-the-customer program owners are often not given the luxury of being able to hold the business accountable for taking action on the results to capture the upside potential. However, it is still possible to be a strong advocate for action and to provide a framework that will drive success within your organization. Four tips in support of driving profitability through process level improvement are:

1. **Align with process improvement planning**
   Don't try to create a new process if something already exists – capitalize on the familiar.
2. **Engage the process/functional owners**
   Get buy-in from these leaders early and collaborate with them throughout the process.
3. **Facilitate the action planning sessions**
   Many teams are overwhelmed by the prospect of creating an action plan based on voice-of-the-customer feedback. Solve this by providing a facilitated framework for working through the results to arrive at a plan of action.
4. **Support and monitor the implementation**
   While you may not have ultimate responsibility for the execution of the plans, keeping tabs on the implementation helps to ensure the planned actions are actually taken, so the profitability benefits are realized.

— CASE STUDY —

INCREASE PROFITABILITY WITH PROCESS EFFICIENCY

CHALLENGE

Customers of a multi-billion dollar bottling company were frustrated by delayed deliveries, empty shelves and lost sales. Working harder wasn't the answer. Change required a significant understanding of the issues and relevant process changes.

SOLUTION

Walker helped surface this issue based on insights from customers. Analysis quickly led to Walker's recommendations for changes within the supply chain process that would result in timely deliveries and stocked shelves, particularly on the weekends. The company responded with important technology advances and staffing adjustments which forged better relationships with customers.

RESULTS

The famous bottler streamlined processes to ensure Saturday deliveries to 97 percent of accounts, up from just 60 percent a year before. Relationships with one retail giant improved so much that they gave them priority status at loading docks, enabling quicker deliveries, an opportunity for more stops, and increased profitability.

ACCOUNT LEVEL– IT'S ABOUT COST TO SERVE

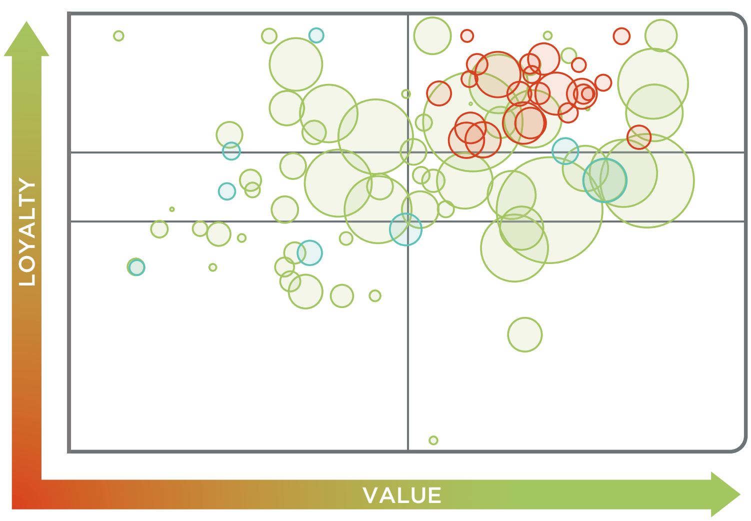
In addition to increasing profitability by making improvements at the process level, there are also opportunities to drive profitability at the account level. Here, the focus is on managing the cost to serve accounts – first by allocating the account management resources appropriately, then by redeploying in the pursuit of growth.

RESOURCE ALLOCATION

When it comes to resource allocation in B-to-B companies, the level of resources afforded to any one customer should be reflective of that customer's full value to your organization. Too often, we see accounts assigned resources based on revenue size, without consideration of other value components, such as future potential revenue, or willingness to collaborate with your company on new developments. Applying an established set of rules to categorize accounts based on elements beyond just their current value in combination with their degree of loyalty or commitment to your organization will allow account teams to strategically reallocate resources to improve profitability and capitalize on growth opportunities.

Consider these guidelines as you confirm resources are being devoted to the right customers:

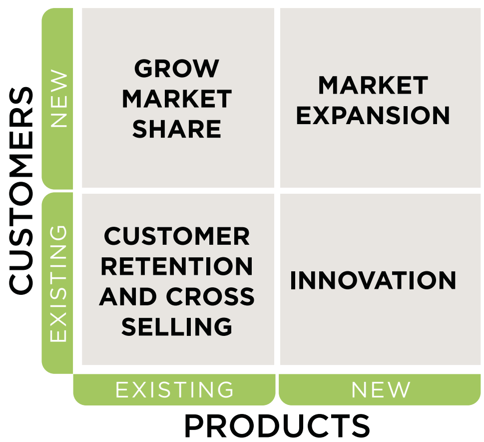
- **Identify accounts more deserving of your company's resources**
  Which customer accounts have the potential to be much larger than they are? Be sure these customers are getting the attention required to capitalize on that potential.
- **Identify accounts who need more service, and those who need less service**
  Most companies find there are not only accounts more deserving of service or attention, but also some that are being over-serviced relative to the value they are bringing. For example, a high revenue account may be highly resourced, but it may be an unprofitable account. In scenarios like this, consider reducing resources.
- **Improve profitability and capitalize on growth opportunities by reallocating resources**
  Removing resources from one account means they are free to be allocated elsewhere, in places where they can be used to pursue growth opportunities and drive profitability.



Value mapping is a powerful tool that moves beyond simple financial measures to a deeper knowledge of each customer's value to you. It makes it possible to compare customers across accounts and make strategic decisions about how you will service and resource those accounts.

PURSUIT OF GROWTH

With resources now allocated appropriately, account managers are in the position to do two things. First, those assigned to accounts with growth potential can begin actively pursuing any up-sell or cross-sell opportunities. Second, newly freed up resources can be redeployed to pursue new customer acquisition. Each account owner needs to look within their set of accounts to identify and maximize opportunities for growth and increased profitability.



The growth matrix can support decisions about where to deploy resources. The categories of customer retention/cross-selling, innovation, growing market share, and market expansion help companies organize their strategies for organic customer-focused growth.

ENABLING PROFITABILITY AT THE ACCOUNT LEVEL

Classifying customer accounts properly is the first step to driving profitability at the account level. The following are steps in an account mapping exercise:

1. **Identify a group of accounts where resources may be misallocated**
   Companies will often start with one segment of their customer base, which helps to keep things manageable.
2. **Involve key stakeholders to define value**
   You'll want to define several metrics for each of the value pieces (payoff, potential and partnership) based on the measures or behaviors your company pays attention to and considers meaningful and relevant.
3. **Enlist account owners to map accounts**
   Account owners are the go-to source for scoring each account according to the established metrics.
4. **Reallocate resources and refocus efforts on growth opportunities**
   With the map complete, you're ready to start advocating for adjustments that will enable increased profitability.

— CASE STUDY —

INCREASE PROFITABILITY BY PRIORITIZING ACCOUNTS

CHALLENGE

A global, market-leading technology company found when prioritizing and resourcing accounts and/or partners based solely on revenue, they missed opportunities for strategic focus, profitability, and growth.

SOLUTION

Working with Walker they implemented a new method to determine which accounts were most strategic. This was accomplished through a formula that measures customer loyalty as well as Walker's three Ps – Potential, Partnership, and Payoff. This analysis assigned a value to each account/partner to enable better prioritization of resources and growth.

RESULTS

Not surprisingly, the company discovered there were relationships that deserved more attention and others in which they had overinvested. Equipped with this clearer picture of their customer and partner portfolio, they are in the process of deploying new strategies to more efficiently manage this base, and take advantage of growth opportunities.

OPERATING WITH EXCELLENCE AND DRIVING PROFITABILITY WITH VOC

Driving profitability with the voice of the customer is about operating with excellence – sticking to your process, knowing the basics, and executing them correctly. Operating with excellence begins with your company's process for taking action on customer feedback.

TAKING ACTION

Turning customer feedback into action is the number one challenge for customer strategists. It requires moving beyond simply gathering and disseminating information to guiding business strategy and key initiatives. Optimal use of customer programs means taking action at all levels – corporate, functional, business unit, geographical, and account levels.

Once you are comfortable with the process, recommit to driving it at both the process and the account levels. Below is a recap of how to drive profitability in your company.

ENABLING PROFITABILITY AT THE PROCESS LEVEL

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ABOUT THE AUTHOR

JENNIFER BATLEY

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Jennifer is responsible for ensuring her clients are using their customer loyalty information as effectively as possible to drive bottom-line business results. She collaborates with clients' senior management to develop programs that take strategic advantage of company strengths, reduce competitive weaknesses, and allocate corporate resources to enhance customer and other stakeholder relationships. Jennifer also provides deployment consulting and facilitates presentations and workshops focused on communicating key results and recommendations and supporting clients through development of action plans.

In more than fifteen years with Walker, Jennifer has been responsible for managing programs at both the business-to-business and the consumer levels. While she has served clients in a variety of industries, her specialization has been on working with key clients who operate with complex and/or global business models.

RELATED BLOGS

The following pages include blogs related to the topic of driving profitability with voice-of-the-customer strategies. Hopefully these will prompt additional ideas that you can put to use in your organization.

Want more? Visit our extensive collection of blogs at *blog.walkerinfo.com*. Or check our Knowledge Center to find additional resources including Blog Books, white papers, and videos. *walkerinfo.com/knowledge-center*

FIRING CUSTOMERS TO INCREASE PROFITS

Phil Bounsall
President

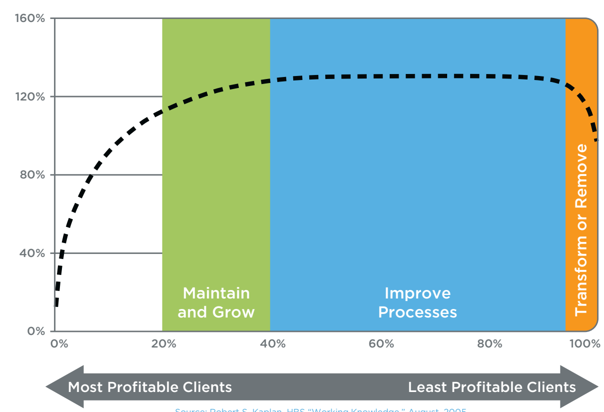
Revenue is the life blood of business. I absolutely abhor the thought of giving up any revenue or suggesting that any business should do so. But sometimes, it is simply the right thing to do. Businesses are quick to deal with problem employees, but employees are a vital part of the value equation just like customers. Shouldn't we deal with problem customers similarly? Problem customers, just like problem employees, harm our relationships with good customers.

The profitability equation is simply out of whack with some customer relationships. Some customers just cost too much to serve. See if any of these sound familiar...

- The customer that starts your relationship with their procurement department negotiating all the value added components out of the relationship—then the customer accuses you of bringing no value. In order to deliver the value that you are accustomed to providing your customers, you add more resources, do more work, all under the contract and price negotiated originally. Profitability suffers.
- The customer that negotiates your contract to the bare minimum level of acceptability, effectively commoditizing your business, yet continues to ask for more and more and more. Then, when you present or suggest a billing for the additional work, they accuse you of "nickel and diming" them. You don't bill them, profitability suffers.
- The customer that is so difficult to work with that none of your talented people wants to work them. Someone is assigned, tries to power through the combat duty and eventually you lose a good employee that you have invested in training and developing. Your profitability suffers.
- The customer that continually pushes your people to cross ethical or moral boundaries. Your people can respond several ways to this dilemma (hopefully acquiescing is the way they refuse to respond!), none of which is generally healthy for the customer relationship (although taking the high road is always the best answer, but this is a more in depth topic for another time). Regardless, profitability suffers.

In all of these cases, your company might be better off without these customers. But companies often feel they are not in a position to do without and, therefore, they live with the drain on their business.

In a study done by Robert S. Kaplan of The Balanced Scorecard fame, he found companies have a few unprofitable customers that could be costing as much as 20% of the profits of the company. The following chart was published in that study.



Source: Robert S. Kaplan, HBS "Working Knowledge," August, 2005

Remember, the objective is to serve our customers in a way that helps them be more successful. Some of these problem customers prevent us from helping them and our other customers that aren't problems. That simply cannot be a customer-focused way of doing business.

So, should we fire these customers? Maybe, but as a last resort. There are many other things we should do first. That's the topic for next time.

Do you have any scenarios of customers that drain profitability?

PROCESS FOR ACTION

Kitty Radcliff
Vice President, Consulting Services

How does your company operate? Are you “winging it” or do you have a plan and a process to get things done?

According to urbandictionary.com “winging it” means to improvise with little preparation.

There may be successful companies that don’t plan much. But in my experience, without a plan and process to improve the customer experience – nothing happens.

Companies are much more likely to achieve their goals when their systems and processes work together. This was recently reinforced when a business colleague shared a successful example of using customer feedback in a very tangible way.

- The VOC program identified issue resolution as a priority area for the support organization. Open case age was over 50 days. A customer could easily get lost in the shuffle. Eventually many had to call in again and start all over. (How frustrating would that be?)
- The team put a big focus on managing and reducing open case age in their action plan. They created global visibility around the issue and built accountability into the process. (No winging it here!)
- As a result, open case age has dramatically declined. The customer experience is better and customers are more satisfied with the time it takes to resolve issues.

Case age has been reduced by 67%, but they’re not done yet. The team is working to reduce it even more – and they will. They have the discipline to stick with the process and make a difference.

“Winging it” usually isn’t enough to execute a customer focused strategy. Aligning the customer results effort with process improvement is critical to your success.

THE MORE THINGS CHANGE...

Troy Powell, Ph.D.
Vice President, Statistical Solutions

Over the past American Idol season, my colleague, Brad Linville, wrote two blogs about plotting each Idol contestants' probability of winning the crown. The corollary to customer management is the benefit of accurately determining the future value of customers by using something like Walker's Value Mapping process.

But it's his second blog on the topic, that inspired my current post. In that post, after the season finale of Idol, Brad shows how the Idol Map changed over the course of the season and discusses why businesses also need to periodically update their customer value segmentation.

The idea of changing your customer value segmentation got me thinking about a number of things, but I want to focus on one of them here. The underlying tenet of segmenting customers by their value is that higher value customers should get more resources/services than lower value customers.

But what happens when a customer's value decreases to a point that you have to take away those resources or services?

The common sense answer is they will not be happy. But how unhappy will they be? What happens to their future behavior with your company? Can anything help offset the "demotion"?

Luckily a recent article in the Journal of Marketing has taken a step toward empirically answering these questions. The article, titled "Does Customer Demotion Jeopardize Loyalty?", provides these conclusions:

- **Demoted customers have significantly lower loyalty intentions, lower revenue, and fewer transactions after the demotion.** All the empirical evidence points to these outcomes being affected by the demotion, not the reason why they were demoted.
- **The negative effects of demotion far outweighs the positive effects of being promoted to a higher value segment in the first place.** Demoted customers end up with significantly lower performance than similar customers who were never promoted.
- **Clearly outlining the criteria for promotions/demotions reduces the negative impact of a demotion.** This is achieved by shifting the locus of control to the customer ("you are being demoted because your actions did not meet the criteria, not because we wanted to"), but it does not fully offset the negative effect of the demotion.
- **Treating the demotion with sensitivity and sympathy also helps reduce the negative impact but does not fully offset it.**

We are now left with two somewhat conflicting facts: 1) It is important, even necessary, to segment your customers based on their future value and to update that segmentation at regular intervals; and 2) The process of demoting a customer to a lower value segment can have a significant negative impact on their attitudes and behaviors toward your company.

Is there a way to structure an account valuation system in a business-to-business environment that minimizes the downside – the negative impact of demotion?

There are probably a host of ways to do this, but here are a few I've been thinking of:

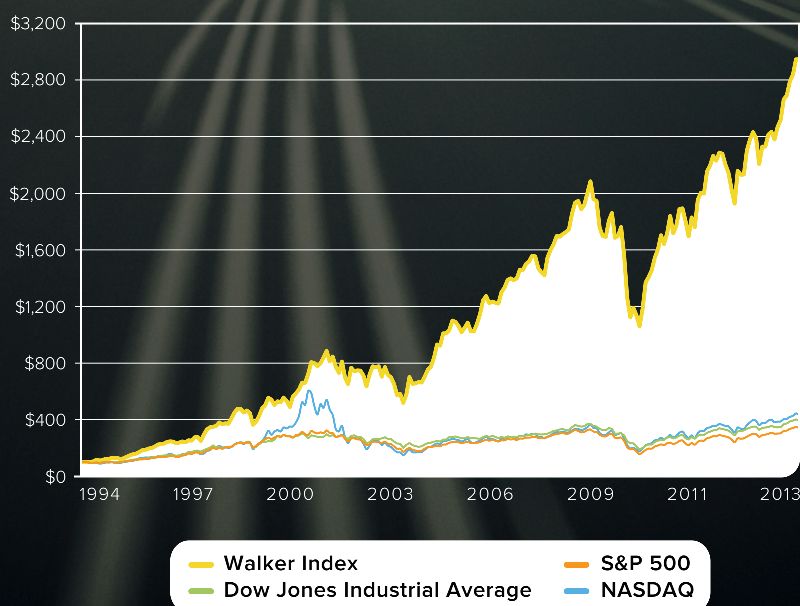
1. **Develop a valuation method that accurately predicts a customer's long-term value.** Value segments based on things like revenue or the number of product lines purchased will be inherently unstable over time and result in a constant flow of promotions and demotions. A more stable segmentation scheme will include things like customer potential and the level of partnership between your company and the customer.
2. **Determine if it's even necessary to tell the customer what segment they are in.** Another colleague of mine has a post addressing this point that you can read here.
3. **Create a value proposition for each customer segment that is perceived as a win-win scenario.** If you segment your customers correctly, and fully understand the segments and their unique needs, then you can create a service package that meets your customers' needs and ensures that you are maximizing your profitability on those accounts. For instance, a large account that is already giving you a large portion of their share of wallet will not mind that you do not assign an extra resource to expand your penetration of the account like you have with a similar large account and a low share of wallet.

Like I mentioned above, I'm sure there are many more ways to minimize the prevalence of customer demotions but these are good ones to start with. Whatever strategies you employ make sure you're taking a long-term view of your customers' value so the more things change, the more you're able to provide value to, and get value from, your customers.

ABOUT WALKER

Walker specializes in customer loyalty and related customer strategies, including innovative approaches to segmenting, valuing, obtaining, serving, and growing customers. Walker's diverse team of consultants provides tailored, comprehensive solutions to help companies achieve their business objectives and, ultimately, grow shareholder value. Walker's consultants regularly conduct workshops and assessment programs to help organizations improve their ability to administer customer listening programs.

THE WALKER INDEX™



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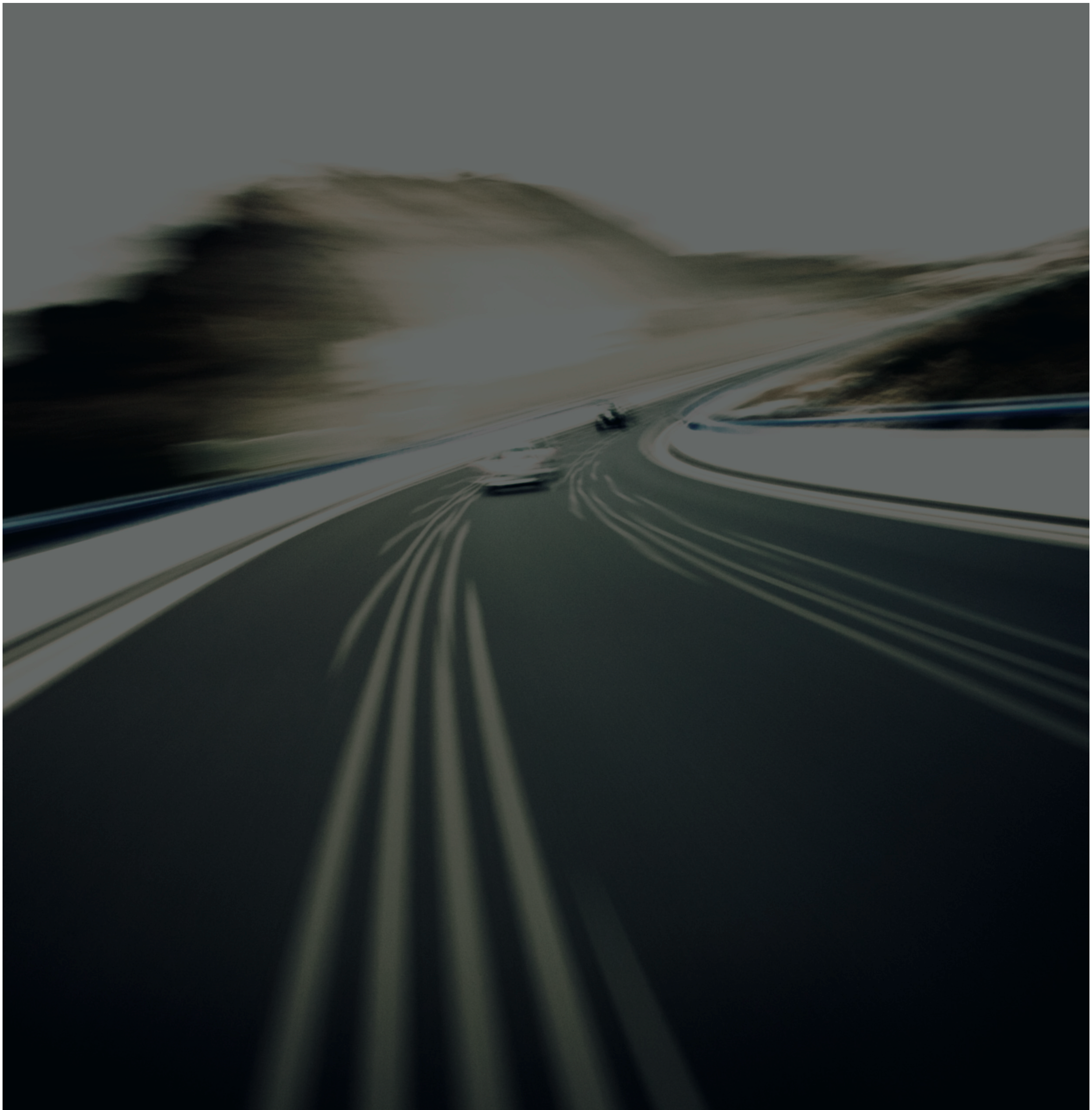

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