Why Customer Focus is Important

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Almost without exception, companies are facing unprecedented competitive pressure. In some cases (for example in the financial sector) this is further compounded by constant regulatory change. A potent combination of micro and macro-economic conditions; the geographical transparency and increased reach offered by e-Business; mergers and acquisitions, competitor activity and localized market conditions are stretching customer facing staff and processes to the limit.

The impact of market conditions and the actions appropriate to address them differ widely from industry to industry and firm to firm. There are, however, a number of recurring themes for companies in either the “business to business” or “business to consumer” markets.

Start-ups and new market entrants focus as they always have on obtaining market share principally at the expense of incumbent players. Without the benefit of existing brand strength, and faced with prohibitive mass media costs, they are forced to innovate and differentiate by offering more finely-tuned products in a more effectively targeted manner. The ponderous market sizing and segmentation exercises of a few years ago are untenable in many markets where low barriers to entry and short product life-spans mean that time to market is critical. The winners here are therefore firms who best understand the **profile**, **characteristics**, **aspirations** and **buying habits** of their **target market** and who **identify innovative low cost channels to market**. All of this requires an intense **focus** upon and **understanding of the customer** and thus the means by which to capture, assimilate and exploit the information necessary to achieve this. This remains true as the successful entrants evolve into established players.

Established players find their customer base continually under attack from start-ups, new market entrants, mergers and acquisitions and the downsized focus of market leaders. Indeed, so great are the pressures here that many of our clients privately indicate that they would be satisfied with fairly modest growth rates and intend to focus on customer retention and maximising revenues from their existing customer base. The financial basis of this approach is sound: Bain & Co. and many others have identified that it costs between six and ten times as much to sell to a new name customer as it does to an existing one. Datamonitor in a recent exercise uncovered the potential for an 80% improvement in profitability for as little as 5% improvement in year-on-year customer retention. Most firms clearly have some way to go: Marketing Direct in a 1999 study show that most companies lose between 45 and 50% of their customers every five years. Established players are therefore coming to the realisation that their **approach to retaining customers** must **match the innovation** and **differentiation of aggressive market entrants** through the same degree of **customer focus** and **understanding**.

An established player does, however, have two trump cards to play. First, they have **brand recognition and brand value**. **Effective, targeted**, **consistent communication to the customer base to reinforce the very brand values that caused the customer to select goods and** services from the firm in the first place can, in its own right, maintain and enhance customer loyalty. But note again the emphasis on **customer understanding** – this is particularly important with **aspirational brands** where one poorly targeted message may do more harm than good -- and in most markets where brand loyalty is minimal. The demise and poor performance of many of the loyalty schemes of the late 1990s bears witness to this. **Once again, customer focus and understanding is the principal determinant of success.**

The second, and potentially more potent trump card is that of existing customer behaviour data. Most established firms have rich (but fragmented) sources of information ranging from transactional data, cost of sale, marketing campaign response rates and so on. The existence of this information fuelled the data warehousing industry for much of the last decade. If, as a firm, you have recognized the need to focus on the customer, it makes sense to **leverage this existing knowledge**. **Buying habits**, the **profiles** of your **most profitable customers**, their **preferences** and the **most effective routes** to market must surely be identifiable. This has certainly proven true for many firms and, properly exploited, can serve as a **effective differentiator** and means by which a customer base may be defended. Unfortunately, most firms have been forced to act upon the basis of partial data. For example, to properly identify the cost of sale and profitability for a particular group of customers, it is necessary to include all interaction costs. Simply trying to extrapolate these from transactional and "island" system data alone has proved difficult and imprecise – particularly dangerous in high volume, low margin businesses. To truly identify customer profitability, increasing recognition is being given to the need to capture and assign cost to all customer-facing interactions. Within a few months of doing so, most firms are able to more accurately model and predict the real lifetime value, potential and profitability of their customer base and take appropriate action. Interestingly, in response to this recognition, many of the data warehousing or business intelligence software vendors have either partnered with customer relationship management (CRM) vendors or have acquired or developed their own CRM capabilities.

Finally, Market Leaders, by virtue of their scale and diversity generally embody the customer-facing challenges of both new market entrants and established players. Frequent mergers and acquisitions alter the dynamics of the business and customer base on a regular basis. As new companies and brands are acquired, it becomes ever more critical to **retain focus on core values**, balanced with **specialisation, consistent, targeted messaging** and, above all, on the customer. Firms need to quickly **assimilate brand value** together with the **right customer-facing processes, retention mechanisms and routes to market** each time a new organization is acquired and at a time when the customer relationship may potentially be at its most strained. Market leaders thus find themselves in a multi-branded, multi-divisional world where new opportunities to sell across divisions may be the principal or only means by **which customer loyalty, profit and growth** may be achieved, particularly in saturated markets. The economies of scale and **brand strength** that have sustained them thus far must be continuously fine-tuned to meet head-on the ever rising expectations of an ever more complex customer base.

Today, the old mantra of people, price and product merely grants right of access to the marketplace. From the smallest, most agile of new market entrants to the world's largest conglomerates, the **ability to focus** effectively upon the **aspirations**, **habits** and **needs of profitable customers will be a key determinant of a company's present and future success**.