CHAPTER 2

The Thinking behind Customer Relationships

Things have never been more like they are today in history.

—Dwight D. Eisenhower

So far, our discussion of customer relationships, customer experience, and customer value has shown how businesses are undergoing a vast cultural shift—transforming from the mass marketing, product-siloed thinking of the Industrial Age to the customer-based culture of the Information Age, where the primary goal is building relationships with individual customers who become measurably more valuable to the enterprise. In this new business era, managing individual customer relationships means an organization will use the knowledge gained from these relationships to improve the quality of the overall customer experience. Consequently, it is incumbent on the enterprise to understand what constitutes a relationship, how relationships are formed, and how they can be strengthened or weakened. Many different perspectives have been developed about what comprises customer relationships and how businesses can profit from them. So before we can move forward with our discussion of becoming a customer-focused enterprise, we need to explore a couple of views besides our own about relationships.

By the early 2000s, many companies acknowledged the importance of building "relationships" with customers—of improving customer experience, taking the customer's point of view, and taking steps to measure and manage customer value. In many cases, companies that had been product-oriented changed their philosophy, their culture, their metrics, and even their organizational structure to put customers at the forefront.

Why Do Companies Work at Being "Customer-Centric"?

Becoming customer-centric has not been easy, and not without controversy. Some believed that employees matter more than customers, since without great, engaged employees, an enterprise will have a hard time building strong customer relationships and building customer equity. Others continued to focus on cash flow and on making sure that strong product managers were held responsible for product promotion, distribution, and profitability. Ad agencies continued to tend "brand promise." But while all of these are important to a successful business, a growing number of firms have recognized that three things are true about a company's customers. Because of these truths, a company stands its best chance of success when it focuses on increasing customer value through outstanding customer experiences and relationships.

1. *Customers are scarce.* There are successful organizations that do not have "products," but there is no such thing as a successful firm that doesn't have "customers." And despite the fact that the world has billions of people, only so many of them will ever want a particular company's offering. That company's ability to find them, win them, get as much business from them as possible, and keep them for a long time will be the determining factor in how much it can ever grow the size of its business. There are only so many hungry people, right now, within reach of a neighborhood pizzeria, and each of those people can cook for themselves, or go to a competitor, or start a diet today and not eat at all. Customers are scarcer than products, services, new ideas, or channels. For all but those companies in real financial trouble, customers are even scarcer than capital itself. There is no secondary market for customers. They can't be borrowed at the bank and paid back with interest. Once a company's leaders realize this fact, they may make decisions differently, as we see in Part Three.
2. *Customers are the sole source of all a company's revenue.* Products don't pay a company any money, ever. Neither do brands or services, or employees, or marketing programs, or stores, or factories. Only customers generate revenue for a business—the customers the business has today and the customers it will have in the future. All the other stuff is important to a business only to the extent that it contributes to generating more revenue from customers. Thus the goal will not just be to create value from each product or channel or even the greatest return on the investment of money, but instead to make sure the company creates the greatest value from each of its customers.
3. *Customers create value in two ways.* Today, they are generating profit this quarter (or not), and—also today—the experience they are having with a particular company's product, its brand, its contact center, or any of the rest of what it is selling is also causing them to become more (or less) likely to do more business with the company in the future, to become more (or less) likely to recommend it to friends, to think kindly of it (or not) when they need something else in its category. It's interesting that nearly every company is very, very good at measuring and managing one way that customers create value: Companies know how much they spent making money from customers this quarter and what their revenue was from customers this quarter—since that's the total of the cost and revenue on the quarterly books. But many companies are content not to know the second part of this equation: They don't know, don't measure, and don't manage what is happening to underlying customer equity while the current numbers are falling into place. That means understanding a company's Return

on Customer (ROC) is as important as understanding the return on investment (ROI).[1] We talk a lot more about ROC in Chapter 11.[2]

ROI answers the question: How much value does your company create for the money it uses?

ROC answers the question: How much value does your company create for the customers it uses?

If customers are scarce, if they create all the revenue for a company, and if the value they do create is measurable and manageable in the short term and the long term, as of today, then it's natural for companies to want to understand and remember what customers need and to meet those needs better than a competitor that doesn't know the same things about the customers. Customer information provides a very powerful competitive advantage. Companies want to use this information to provide a positive experience for customers and possibly to engage customers in a "relationship" that enables the company to provide better and better service.[3]

What Characterizes a Relationship?

Merriam-Webster defines *relationship* as "a state of affairs existing between those having relations or dealings."[4] Because we are talking specifically about relationships between businesses and their customers, it is important that we agree on a few of the elements that make up a genuine relationship. And while dictionary definitions are not bad as starting points, the most important issue for us to consider is how well our own definition of *relationship* helps companies succeed in the "customer dimension" of competition. So, rather than settle for a few words from a dictionary, let's list some of the distinct qualities that should characterize a relationship between an enterprise and a customer.

[1]Janamitra Devan, Anna Kristina Millan, and Pranav Shirke published a research finding in "Balancing Short-and Long-Term Performance," *McKinsey Quarterly*, no. 1 (2005): 31–33. They examined 266 companies and grouped them into four groups of High versus Low Short-Term versus Long-Term performance over a 20-year period. They discovered that those companies that balanced strong long- and short-term performance had higher Total Shareholder Return, lasted longer than their more mediocre competitors, enjoyed three years longer incumbency from chief executives on average, and had less volatility in stock prices. Companies with strong short-term performance but weak long-term performance enjoyed less volatile stock prices but came out poorly on other measures. The most successful companies were seen to have "instilled a long-term mind-set."

[2]Don Peppers and Martha Rogers, Ph.D., *Rules to Break and Laws to Follow: How Your Business Can Beat the Crisis of Short-Termism* (Hoboken, NJ: John Wiley & Sons, 2008). Also see Don Peppers and Martha Rogers Ph.D., *Return on Customer: Creating Maximum Value from Your Scarcest Resource* (New York: Currency/Doubleday, 2005).

[3]Peppers and Rogers, *Rules to Break and Laws to Follow: How Your Business Can Beat the Crisis of Short-Termism*.

[4]relationship: Merriam Webster Online Dictionary, January 5, 2010, www.merriam-webster.com/dictionary/relationship.