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Connecting with Customers

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Objectives of the session

- To help you …
  - Identify your “high-equity” customers
  - Clarify your brand image and impact
  - Design plans around these factors

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Market analysis

"It is the customer who determines what a business is. The customer is the foundation of a business and keeps it in existence. What the customer thinks he is buying, what he considers 'value' is decisive – it determines what a business is, what it produces and whether it will prosper."

Peter Drucker, *The Practice of Management,* 1954

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Market analysis issues

- Identify and probe
  - specific accounts and/or current customer segments
  - general market conditions
  - brand equity
- Think like a customer for
  - product, service and pricing decisions
  - improved communications and reach
- Be creative with
  - retention and development strategies & tactics
  - acquisition strategies & tactics
  - re-connection strategies & tactics

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Attracting, keeping and growing the highest-value customers is the cornerstone of a successful marketing program.

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What should you find out? (1)

- Answers to **customer** questions such as:
  - What products, services, advice, price points, buying factors, etc., do customers want?
  - Are their reasons for purchasing factual, or are they “intellectual alibis?”
  - How well do you provide what they want compared to the competition? How do they perceive you?
  - Who are the priority customers (and why)?
  - What is your share of wallet? Can you increase it?
  - What is the buying process? The influencers?
  - Is customer retention or acquisition a bigger priority?

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Customer questions (cont).

- Answers to **customer** questions such as:
  - How difficult is it for your customers to switch to competition?
  - What different segments exist?
  - Is customer retention or acquisition a bigger priority?
  - Should you consider individual accounts or segments (or both)?
    - Does a significant amount of your product's sales come from a few individual customers (i.e., accounts)?
    - Are the accounts "stable" and continuous?

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Identify and probe …

- Strategic importance
- Significance
- Profitability

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Strategic importance

- Fit between customer's needs and your capabilities
- Ability to serve the customer compared with your major competitor
- Health of customer's industry
- Health of customer
- Customer's prospects for growth
- Can you learn from this customer?
- Other considerations
- Based on the above, is the customer strategically important?

Source: Adapted from "*Strategic Renewal for Business Units,*" by John O. Whitney, HARVARD BUSINESS REVIEW, July-August 1996, pp. 84-98.

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Significance

- Does the customer provide substantial revenue or have the potential to do so?
- Are there mitigating factors that diminish this customer's significance, such as extra costs or complexity in the form of multiple shipping points, frequent data entry, or excessive customer service?
- Are there other important considerations?
- Based on the above, is the customer significant?

Source: Adapted from "*Strategic Renewal for Business Units*," by John O. Whitney, HARVARD BUSINESS REVIEW, July-August 1996, pp. 84-98.

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Profitability

- What is the customer's annual profit?
- Are there unusual costs associated with the customer, such as slow pay, unusual fixed-capital costs, order complexity or other costs or considerations?
- Based on the above, is this a profitable customer?

Source: Adapted from "*Strategic Renewal for Business Units,*" by John O. Whitney, HARVARD BUSINESS REVIEW, July-August 1996, pp. 84-98.

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Strategic renewal matrix

Strategic	*Significant*	*Profitable*	
yes	yes	yes	Excellent, high-value customers!
yes	yes	no	Improve profitability
yes	no	yes	Increase share of business
yes	no	no	Reevaluate strategic importance; improve profitability
no	yes	yes	Does customer drain resources?
no	yes	no	Divest customer
no	no	yes	Replace with strategic customer

Source: Adapted from "*Strategic Renewal for Business Units*," by John O. Whitney, HARVARD BUSINESS REVIEW, July-August 1996, pp. 84-98.

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Are you winning or losing?

- Are customers satisfied? What is the percentage of repeat business?
- How effective were your past efforts in teaching, reaching, converting customers?
- Where and why was business lost (or won)?

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Think like your customers

"How likely is it you would recommend [product] to a friend or colleague?"

(See Frederick F. Reichheld, "The One Number You Need to Grow," *Harvard Business Review*, December 2003, pp. 46-54.)

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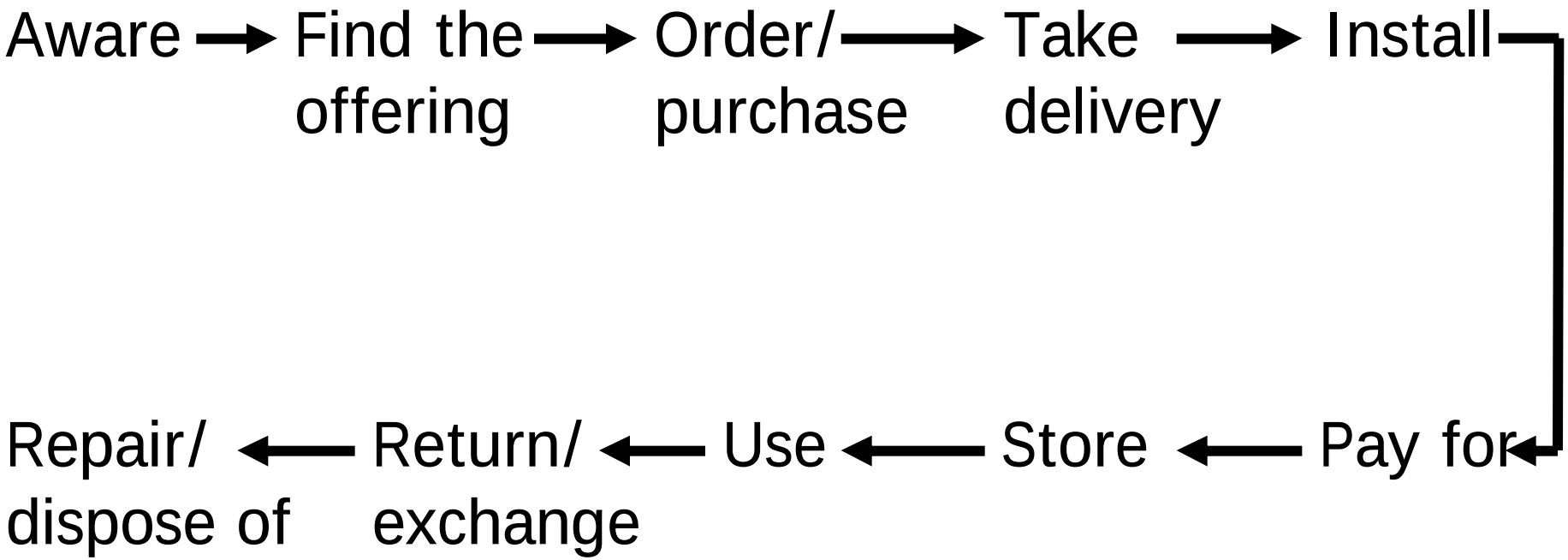
Customer value chain



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General market conditions

- What trends might suggest a change in your strategy or customer relationships?

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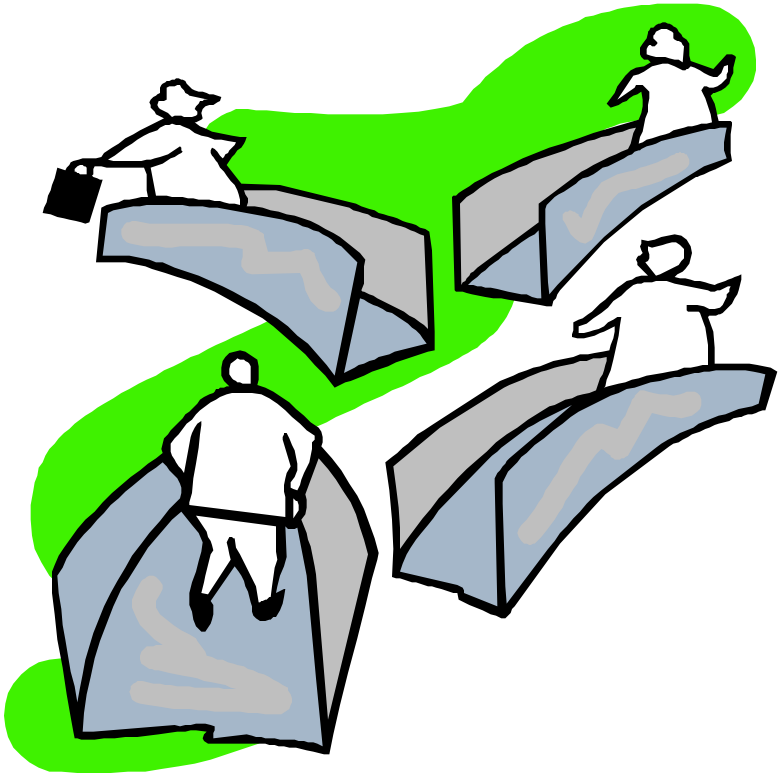
An important strategic question

How will your customers of tomorrow be different from your customers of today?



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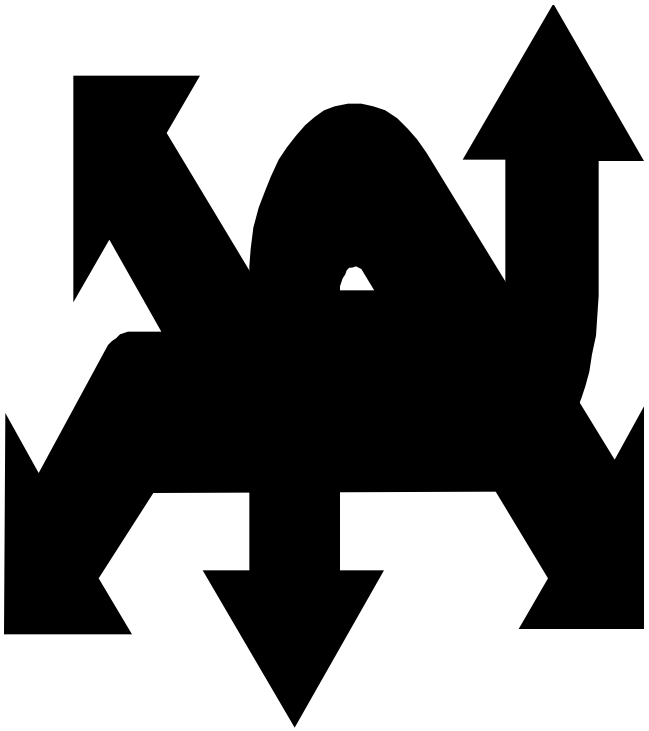
Anticipating market acceptance of new products

Sources of market friction:



- Potential buyers
- Competitors
- Trade intermediaries
- Suppliers
- Other stakeholders

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Look for catalysts to and predictors of change

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Sources of change data

- trend line shifts
- opinion
- inference
- conjecture
- anecdotes
- complaints
- rumors
- futurists
- other industries
- editorials
- talk show topics
- movie themes
- advertising
- alternative uses (aberrations, anomalies, discontinuities)

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Challenge your assumptions (and biases)

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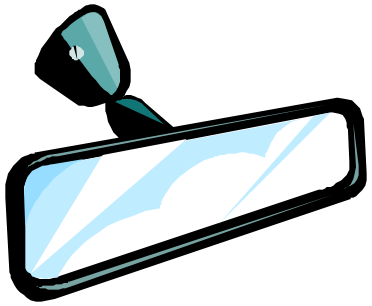
Avoid the mirror paradigms

(a. seeing only what we expect to see)

(b. seeing only what is behind us)



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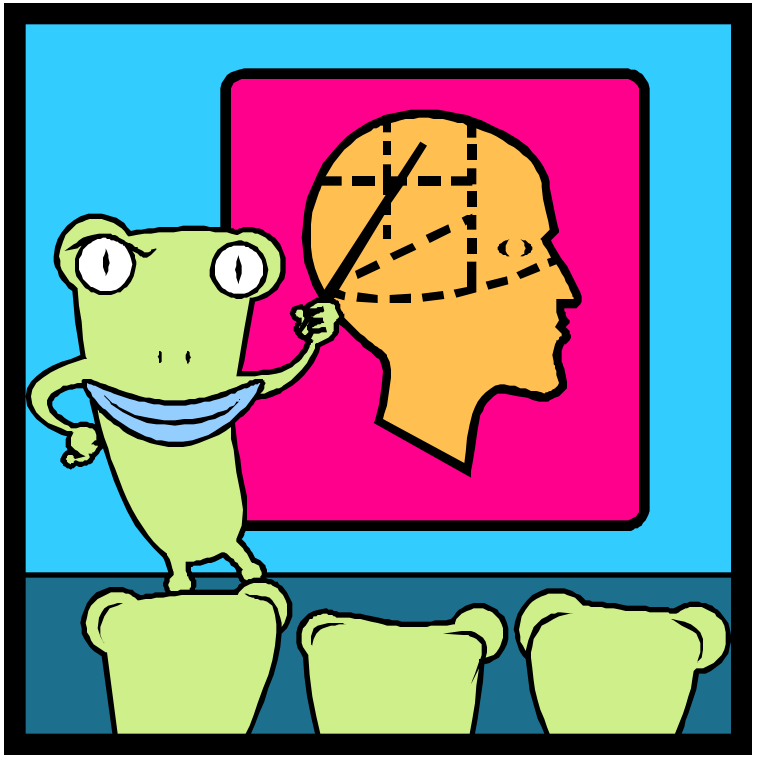
Protect the "alien"

(aliens are people who challenge traditional views)



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"It Won't Happen Here"

- "It is impossible… that competition from outside the United States can ever be a factor whatsoever" –
  - Alfred P. Sloan, Jr., Pres of GM, 1929

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“It Won’t Happen Here”

- “We don’t like their sound... groups of guitars are on the way out”
  - Decca exec, after turning down the **Beatles,** 1962

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"It Won't Happen Here"

- "There is no reason for any individual to have a computer in their home"
  - Kenneth Olsen, CEO and chairman, Digital Computer, 1977

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"It Won't Happen Here"

- The clear-cut favorite stock of CIOs at Fortune 500 companies is Compaq Computers.
  - Barron's, August 23, 1999

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Play devil's advocate

(ask uncomfortable questions)

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Anticipate the impact of the changes

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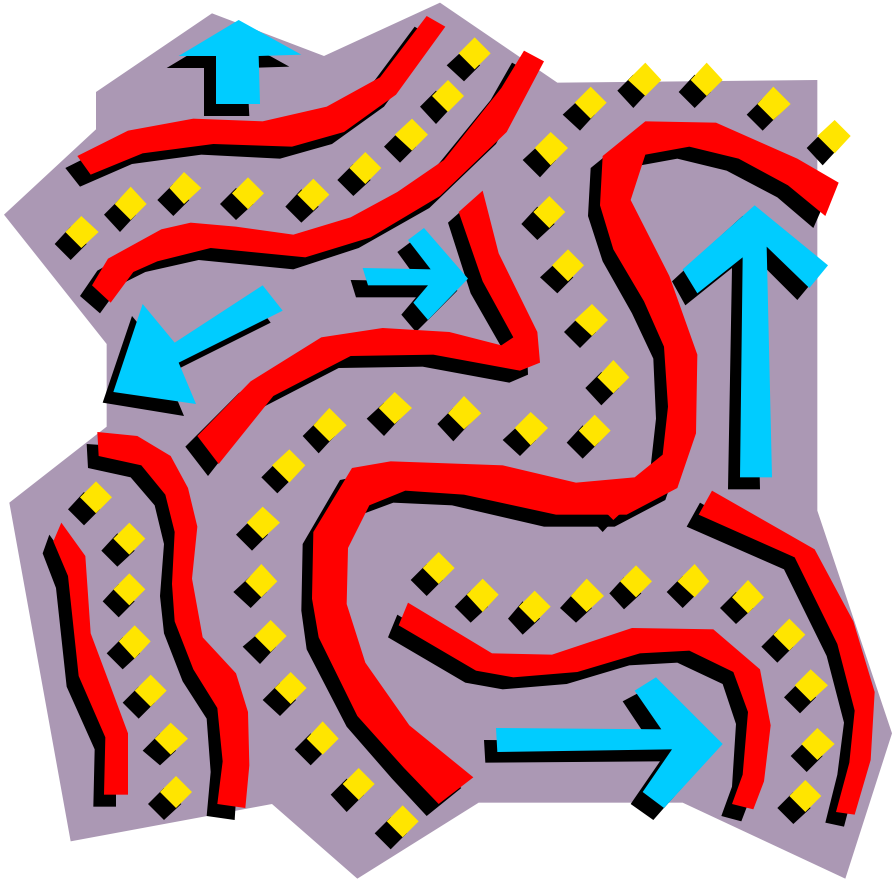
Connect the dots

(look for patterns and early trends)



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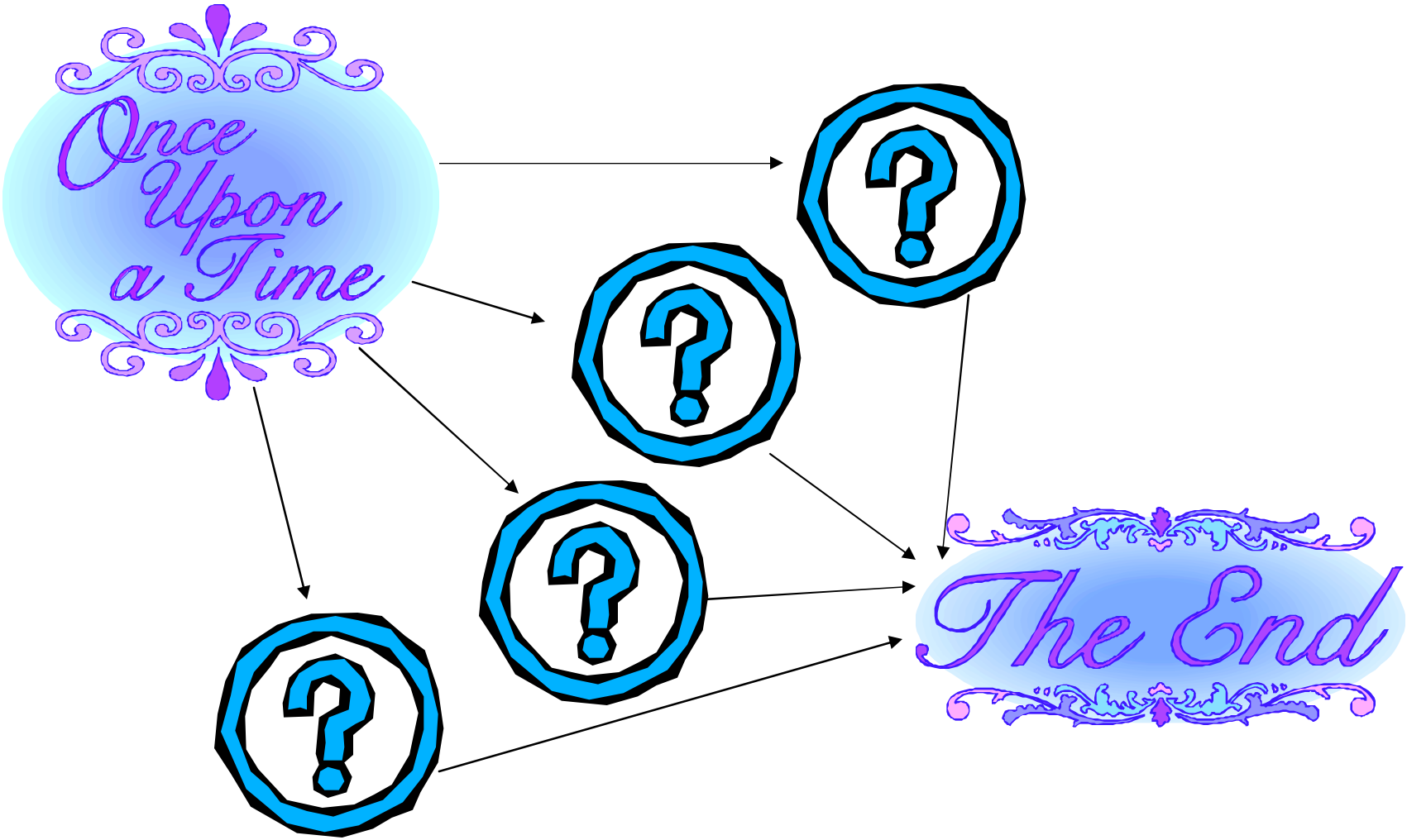
Predict the next chapter

(create metaphors and ask "what if" questions)



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Sarah Knauss - age 119

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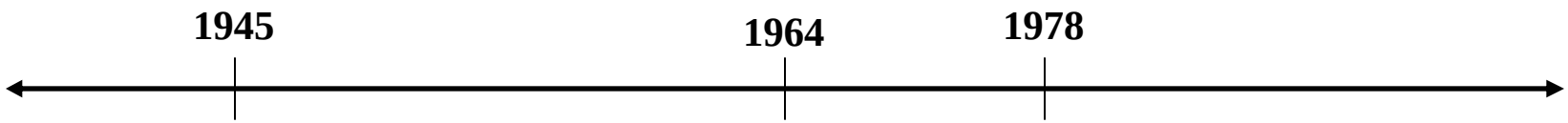
The generational continuum



Seniors

Boomers

Gen X

GenY

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Brand – who you are

- A strong brand is the mental "executive summary" (the image) of what the company or product stands for in the customer's mind. It is ...
  - part of a strategy of differentiation and segmentation
  - built on realities of organizational culture, human resources, and values
  - the implicit promise or contract of performance to the customer(s)

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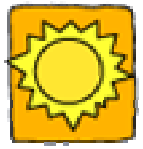
Ben & Jerry's Homemade, Inc., the Vermont-based manufacturer of ice cream, frozen yogurt and sorbet, was founded in 1978 in a renovated gas station in Burlington, Vermont, by childhood friends Ben Cohen and Jerry Greenfield, with a $12,000 investment ($4,000 of which was borrowed). They soon became popular for their innovative flavors, made from fresh Vermont milk and cream. The company currently distributes ice cream, low fat ice cream, frozen yogurt, sorbet and novelty products nationwide as well as in selected foreign countries in supermarkets, grocery stores, convenience stores, franchised Ben & Jerry's scoop shops, restaurants and other venues



Our Social Mission

Environment

Our Mission Statement

Our

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- Brand identities are built on core values that have significance to the market – and must be woven into the culture.

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Mayo Clinic

- Manages the evidence of competence, caring, and integrity
  - Orientation process designed to reinforce patient-first mentality – so that all staff know how their jobs affect patients' care
  - Incentives for collaboration
  - Facility design
  - Dress code

Leonard L. Berry and Neeli Bendapudi, "Clueing in Customers," Harvard Business Review (February 2003)

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What actions will you take?

- Customer and brand knowledge should drive the execution of your plans, strategies and tactics.

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Using the brand as a filter

Does the new product fit your brand identity, personality, positioning, and strategy?

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Why are segmentation and targeting important?

- Segmentation and targeting help a company better understand and serve the various “clusters” that exist in the market.

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Why are segmentation and targeting important?

Segmentation

- refers to dividing the market into groups of customers with similar needs

Targeting

- refers to allocating resources to those specific groups or clusters representing the greatest profit opportunity for the firm

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Why is Positioning Important?

While segmentation is the process of identifying customer “segments” based on common needs or demographics, positioning is a “perceptual” process of making your product or service “stand out” from the competition.

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Positioning

- Refers to differentiating your company, its products and services, or its brand identity from the competition in the minds of customers

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Customer value perceptions

- To make good business decisions a manager needs to understand how customers value the firm's products and services. How price sensitive are the customers? Are there different segments? What are their expectations? Are expectations influenced by the customer's internal processes? By the availability of information?

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Manage customer expectations

- Define what the expectations are and where they come from
- Manage promises made to customers through advertising and sales
- Help customers set realistic expectations

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Retain & develop customers

- Develop customer managers
- Focus on specific types of behavior
- Use database to understand customers and create customized offerings
- Establish cumulative reward offerings
- Build in switching costs
- Remind customers of the value you are providing them
- Demonstrate appreciation for their business
- Pay attention to “at risk” customers
- Reaffirm your brand promise

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Acquire customers

- Establish new channels
- Incent referrals
- Expand media coverage
- Match “best customer” profile
- Create an emotional connection through your brand positioning
- Help salespeople preview a benefit

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Re-connect with lost customers

- Determine if customers are high-equity
- Acknowledge customer's past patronage
- Determine *why* they left you.
- Point out improvements or changes
- "We miss you!", "We're sorry," "We've changed," etc., campaigns
- Special promotions
- New products & services

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Key points

- Define your high-equity customers in terms of
  - strategic importance
  - significance
  - profitability
- Clarify and strengthen your brand equity
- Use this information to connect with customers and prospects and re-connect with lost customers

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