

Business – It's about the customer!

“A customer is the most important person whether he comes to us in person, writes us or telephones. A customer is not dependent on us; we depend upon him for our living. A customer is not an interruption to our work; he is the purpose of it. He is doing us a favor by giving us the opportunity to serve him. A customer is a person who comes to us because he needs certain goods. It is our job to provide them in a way profitable to him and ourselves. A customer is not a cold statistic, he is a flesh-and-blood human being with emotions and prejudices like our own. A customer is the most important person in this firm, for without him there would be no business.

Mahatma Gandhi (1869-1949)

It may be surprising to see this excerpt, from Gandhi's writings in 1890. One hundred and twelve years later, we need to remind ourselves yet again, that the customer is what it's all about.

Customers and customer relations have been at the core of every business transaction that has ever happened in the history of mankind. For a while, in the mad days of the tech boom, it was almost easier to get investors, enthusiastic over technology and cheered on by analyst hype and a 'hot' stock market, to be generous with their money, than to get new customers to buy a product or service.

Flush with funds, many companies spent more money to acquire a customer, than they would ever get back during the life of that customer relationship. When the bubble burst, the source of easy money vanished. Overnight. Getting money into the business by selling to a customer became important, once again. Once again, companies began looking for ways to earn their money from customers. PR firms got under pressure to show tangible returns on investment for their clients – shift away from their focus on

ephemeral goals such as branding and image.¹

Gandhi touches on two more aspects that are critical – first, we must be ready for him “whether he comes to us in person, writes us or telephones” (of course, now we would add fax, email and the Internet), and, second, we must find a way to satisfy him in a way “profitable to him and ourselves”.

CRM systems help companies to develop and implement multi-channel business communications strategies, and improve the flow of customer information with sales and support personnel. CRM Analytic systems help to gain a deeper understanding of customers and predict their behavior, in turn impacting profitability and growth.

However, in today's tougher times, when budgets are tight, and capital is not easy to come by, there is increasing pressure on money spent on customer relationship management. The 'ROI' mantra is heard a lot more now when it comes to budget approvals for marketing or CRM initiatives. The pendulum has swung to the other end – from adding customers at *any cost*, to deep budget cutbacks on all customer acquisition initiatives.

In this situation, there's the risk of throwing the baby out with the bathwater. Instead, a focus on “lifetime value” can help companies serve their customers in a way “profitable to him and ourselves”. Lifetime value of a customer is the present value of all future profits

generated from that customer. Measuring the lifetime value of customers using an approach presented by Columbia University Professors Sunil Gupta and Donald R. Lehman makes it possible to better assess the ROI of marketing and CRM implementationsⁱ. The authors found “that while a 10% reduction in acquisition costs improves the overall value of the

Impact of acquisition cost, profit margin, and retention rate.				
	Customer value (in \$B)	% Increase in customer value for 10% improvement in:		
	Base case	Retention	Acquisition	Cost margin
Amazon	\$2.54	28.34%	0.51%	10.51%
Ameritrade	\$1.45	30.18%	1.19%	11.19%
eBay	\$2.11	30.80%	1.42%	11.42%
E-Trade	\$1.89	29.96%	1.11%	11.11%

Base case: 70% customer retention, 12% discount
Data: Sunil Gupta and Donald R. Lehmann; company information

customer base by only 1%, a 10% improvement in customer retention increases value by 30%. (See chart).

We come across the knowing-doing-gap often – A friend recently traveled from the US to Delhi, connecting in Europe, and enjoyed an excellent movie, ‘Kate and Leopold’, on the leg to Europe. The next flight, a few hours later, also featured ‘Kate and Leopold’, from Europe to Delhi!

Question: How hard is it to coordinate an entertainment schedule?

Recently, one of us was invited to attend a major CRM software vendor's prestigious executive conference, but declined. A few days after the event, the person was surprised to get an email from the company saying “While you may already have filled out evaluation forms at the (event), we’d like to ask for your feedback one more time...” It is amazing how many companies are surprised when their “million dollar” CRM initiative fails to live up to their expectations. The system vendor, ISV or implementation experts are blamed – everybody, except themselves. They simply don't get it.

Customers are not cold statistics in a CRM system. Customers are human beings with emotions and prejudices. Investments in CRM are to acquire and retain customers, because business is about the customer. “For without him, there would be no business”.

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ⁱ The Mercury News, May 26, 2002

ⁱⁱ Optimize, May 2002. See full article at <http://optimizemag.com/issue/007/roi.htm> for a discussion on how to calculate lifetime value using retention rate, cost of capital, and profit margin.