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CUSTOMER SATISFACTION

SERVE THEM RIGHT

A portrait of Don Peppers, a man with short dark hair and a slight smile, wearing a dark sweater with a light-colored collar. He is positioned on the right side of the page, partially overlapping the large text 'SERVE THEM RIGHT'.

CRM expert Peppers says build customer relationships thorough trust, get lifetime value in return

By ALLISON ENRIGHT
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In 2005, Don Peppers and Martha Rogers laid down their thoughts on one of the eternal challenges of marketing management—how to measure value. The authors' train of thought, however, veered away from traditional measurements of sales, assets and returns. Instead, the pair looked at something historically considered immeasurable—the value of customers. In *Return on Customer*, which was ranked by Fast Company magazine as one of the best 15 business books of 2005, the authors give marketers a way to justify the

value of consumer marketing programs and the relationships they create in terms C-suite management can appreciate.

Don Peppers, a longtime ad guy-turned-leading-CRM authority and founder of Norwalk, Conn.-based Peppers & Rogers Group, recently sat down for an in-depth interview on the metric's origin, the business world's current zeitgeist and the companies that put customers first.

Management today demands accountability for all expenditures, and the money allotted to marketing programs to build customer

loyalty usually returns intangible results. How do you match a number to the value of a customer?

The big deal in all marketing today is accountability. One of the benefits of better customer relationships is the future value that customers give to you. The real question is, 'What is the value today of treating a customer better; or of treating a customer badly?' That surely has to be a value-creating event.

Lifetime value is a time-honored concept and has been used in direct marketing for decades, but when we looked to the literature (we) didn't find a single reference

that tried to measure the change in an existing customer's value as an indication of the value that an event or (marketing) initiative had.

The return on customer metric (finds that) customers determine value. Say a customer calls with a complaint and you screw up and he hangs up the phone angry. When he hangs up angry, your company lost value that very minute, the same way your company stock would go down tonight if your CEO were to project lower earnings today. We felt that the same things were happening with customers. Return on investment measures the efficiency with which a dollar of capital creates value. Return on customer measures the efficiency with which a dollar (invested in) customer lifetime value creates (overall business) value.

Creating value is what marketing is all about. Why do you think management isn't taking the long-term value of the continued satisfaction of customers into account?

Well, we're trying to change that. The most receptive audiences for return on customer's metrics are financial audiences—CFOs, comptrollers, the people who talk and breathe finance. They are saying, 'Finally, now I understand and know what I'm getting from my marketing.' They know, fundamentally, that the limiting factor on a business' organic growth is not access to capital, it is access to customers.

The simple fact is, customers are probably a scarcer resource for most companies in most Western economies than capital. The supply of money is infinite. I can borrow it, or sell stock—I can get that money. But it requires customers to create that value, and ... I can't just go out and procure (customers). It is a finite, simple, limited number. The truth is, customers create value because their intention and likelihood of buying in the future changes. It is in every investor's interest not to have just the current quarter's business figures met, but to also have the business value preserved and enhanced (by building on customer value). A company can create a good balance of short-term and long-term value by concen-

trating on acting in the customers' best interests all the time.

How do you demonstrate a positive return on customer calculation?

In some industries it's pretty easy to do return on customer calculations from publicly available data—(take) Verizon Wireless, for example. From 2002 to 2004, Verizon Wireless reduced monthly customer churn from 2.6% to 1.3%. During that period they reported \$13.7 billion dollars in operating income to shareholders. They also added customers, increasing their customer base by over 50%.

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The combination of increased customer base and reduced churn increased customer lifetime value. Those two events generated \$13.9 billion in additional customer equity. That's more than the operating income during the period.

If you calculate Verizon Wireless' overall return on customer, the average annual return is about 70%. To put that in perspective, that means every year Verizon Wireless creates about as much value for its shareholders equal to two-thirds of (the value of) its whole company for the period. Now, they can't lower the churn much more, so change will be slower in the future, but it is phenomenal growth.

When a business puts the customer first, how does this change corporate-level behavior and its perception of customer value?

It requires you to create a culture among your employees of always acting in the customers' interest so that the answer to tough problems always begins with, 'Now, what's in the customer's interest in this situation?' That is your guiding principle. You put boundaries around it in terms of losing money or how much you are going to pay, but that's the guide you are using. In order to create that culture you have to empower employees to solve problems, and the really great companies like the Ritz Carlton, they've empowered their employees to do these things.

If I say to my employees that the right

answer to every problem is 'How would you like to be treated if you were the customer,' think about the culture that creates among the employees; it creates a better, more interesting place to work. My job is to solve problems, not sell stuff. Now imagine that my company gets a renegade CFO that comes down to the ranks and says, 'Let's work on the balance sheet and focus (on quick profits).'

(In that case) there will already be antibodies against that in the culture. It's not to say that it won't happen entirely, but there will be resistance. The problem today is that there is no resistance—the true culture at most companies is that customers are just obstacles that lie between them and a profit.

Companies today are being whipsawed by Wall Street and (its demand for) short-term profits. If you don't sell your investors on this idea (of building customer value) you won't get a long enough leash to apply it. If you don't tell your investors what you are doing as soon as you run into a rocky period, your investors will yank your chain and you will be right back to where you started. They will not accept it. A proof point of that is Costco, which had a great second quarter in 2004. Afterwards, Deutsche Bank analysts downgraded the stock, and basically said it's great to be a customer or employee of Costco, but it's not so good to be shareholder, complaining that the prices are too low, service is too good, that salaries are too high, (and that) they should take some of that money and give it to shareholders. If (Deutsche Bank analysts) were measuring value using return on customer they could show how much value (Costco was) really creating for shareholders and (the analysts) wouldn't have that objection.

What companies do you see taking action on building customer trust and long-term satisfaction with their products?

You build customer trust by advocating for them. Taking the customers' side of things is the No. 1, by far, indicator of cross-sell success. USAA Worldwide Insurance is the classic. People who are subscribers to USAA swap stories about how they look out for you. If you call them up and you want to buy more insurance than you need they will

counsel you out of it.

General Motors, which gets no one's vote as most innovative marketer, did an experimental car show in Las Vegas last year at which they opened the doors to 100,000 consumers.

Attendees put their car preferences to a salesman on the kind of car they'd like, and based on parameters like how many people they'd be driving and their luxury index, the (GM representative) would then recommend a car for you. And about half the time it wasn't a GM car—it was a Jaguar or Ford or BMW or Daimler Chrysler vehicle. They had most of these models on their floor available for a test drive—at a GM car show. The benefit for them is they know consumers are going to shop around for those cars anyway. Why not be there for the shopping process? Why not be a present and trusted adviser to the customer?

It's the same benefit USAA finds for making a recommendation for a less expensive product because they know that while they might collect less money, (they are) likely to gain much greater value than that in the future. If (the customer) thinks my recommendation is based on what (they) are going to want, and not on what I'm trying to sell, then they are going to want to do more business with me. These companies are coming to embrace that idea that earning the customer's trust is the highest point you can have on the marketing food chain. ■

Can't get no (customer) satisfaction? Join a discussion on the topic by visiting www.marketingpower.com/marketingnewsblog.

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