

Understanding the Customer

Is there any doubt that the customer is king? The customer has numerous purchase options and this abundance of choice has led to an increase in the demands now placed on providers. In fact, the amount of choices today's consumer has redefines the meaning of competition and, by extension, the competitive strategies companies need to implement.

Changes in Perception

One of the primary strategic challenges is the development of customer relationships that lead to loyalty, and if possible, even dependency. In other words, you need to own your customer. Merely coming to terms with this new reality can be a huge undertaking, as it requires that customer considerations become part of your operations in areas where, until now, they were not contemplated. Used to be that customer considerations included quality, price and, sometimes, convenience. These were the magic three. Now providers need to add additional elements like appearance, functionality, and service to the mix, all the while getting even more competitive on the price.

Your Customer is an Asset

The very calculations you apply to your customer should be inclusive of the new reality. Beyond the idea of market share now comes the notion of customer share, the idea being that each customer divides his or her spending between more than one provider and the objective is to capture as much of that spending as possible.

In addition to customer share comes the calculations called Lifetime Customer Value, which in essence is a forecast of spending over a period of years by each customer. The ideal scenario is both to maximize the amount spent per customer, as well as the number of years during which the spending occurs. This effort in essence becomes a marketing challenge as the company must devise programs and products that instigate spending while establishing loyalty.

If you create the appropriate mechanisms and achieve a large share of your customers buying dollars you will find that each customer becomes an asset affecting not only your profitability but also your company valuation. Succeed in establishing strong lifetime value and you will see the worth of company dramatically increase. Both of these factors are indeed testimony to the centrality of the customer in today's business world.

Compensate on All Levels

One of the more curious elements of company behavior – and one that reflects how poorly many of us have adapted to the new reality – is the payment of serious sales commissions for new customers only. It seems that most companies pay the higher rewards for customer acquisition only, even though retention is as important, and profitability is most important. Certainly in real dollar terms the larger the sale, the larger the commission, however no consideration is placed on the profitability of the sale or whether the sale is a repeat order (indicating the presence of a relationship). As companies adjust to the changes in the market, it is Tudog's belief that these models will witness adjustment as well, with compensation being offered not only for customer acquisition, but equal (or greater) compensation offered for retention and profitability.

Expand Your Perception of Value

Another key change in perception that's required is how you view profit. This quite profound change revolves around the standard practice to treat profit on a per transaction basis. Under this model, each item we sell needs to generate a specific percentage of profit. In most cases this percentage is a function of not only cost of goods, but also overhead. Price differentials from one shop to the next have to do with cost efficiencies, buying power, and elements of marketing and branding.

But that's how it is now, not how it should be. What needs to happen now is that the maximization of profit should be coming from the value assigned to the customer. So, rather than extracting profit on a per transaction basis, you might agree to minimize (or even forego) profit on one or more initial transactions in order to be able to secure the long term patronize of the customer, and the profits that this relationship will generate.

Categorize Your Customers

There has always been a trend toward characterizing customers and working to meet their needs according to our perceptions of those needs. But today, with customers being understood as a corporate asset, the need to classify them transcends the desire to satisfy and is propelled into the realm of profit management. So how do we categorize customers so that they fit into our profit needs while at the same time balancing the reality that they are kings? Consider the 4 classifications below:

1. **Significantly Profitable Customers** – low maintenance, high volume customers. They are deserving of a great deal of our attention.
2. **High Potential Customers** – customers that are most likely to grow over time as indicated by their current buying habits or potential needs. They are nurtured through long term attention programs.
3. **Vulnerable Customers** – customers that are at risk of switching to another provider. These customers require intervention and incentive to stay on board, after which loyalty programs and other techniques can be employed to ease them into more stable customers.
4. **Expendable Customers** – as contrary to some teachings as it may be, Tudog believes there could be customers that you are better off without. There are some customers that extract such a nuisance factor that they expunge any profit you may have been able to gain from them. These customers need to be eased out of your system. Having said this, keep in mind their level of dependency and monitor their reactions. You aren't foregoing them as retribution, but rather because they do not permit you to be profitable. If your releasing them sparks a change of heart on their part, be open enough to let them back in. Once their in, treat them like vulnerable customers and try to encourage them toward stability.

Understanding the customer means, more than anything else, recognizing how powerful they are. Once you have come to this conclusion you can begin the process of adjusting your thinking in order to maximize your profit.