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Knowledge Rules in Developing a Balanced Customer Strategy

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For SAS in conjunction with David Norton



What is Balance ?

- **Short and Long term Goals**
- **Leading and Lagging indicators**
- **Internal and External Measures**
- **Financial and Nonfinancial Measures**
- **Easily Quantifiable Outcome Measures and Subjective Performance Drivers**



“ Thinking like your customers think today is not enough. You must think like your customers will think tomorrow by correctly anticipating their evolving needs and expectations ”

Sam Geist

“ Every product that is truly innovative and flies of the shelf will be copied! ”

Peter Drucker



The Marketing Concept - Traditional

- An organization should try to provide products that satisfy *the customers' needs* through a coordinated set of activities that also allow the organization to achieve its goals



The Marketing Concept - Now

▪An organization should try to provide products that satisfy *the evolution of your customers' needs* through a coordinated set of activities that also allow the organization to achieve its goals.

Grow up with your customer !

▪Leading a horse to water is not enough you must know how to make the horse thirsty !



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***A consumer case study about the
importance of understanding your
customer***

Ford versus Chrysler



The Business Issue

- **Marketing conducted research to gauge consumer satisfaction with the Ford Minivan**
- **Initial results indicated that consumers wanted a left side door for easier access**
- **Marketing needed to build a strong case to convince Accounting, Engineering and Manufacturing modify the van**



Ford's Measurement Tools - Lagging Indicators

- Gross Margin
- Production Productivity by Line
- Return on Investment

Conclusion
Do not build a van
with
a left side door

Marketing:

Consumer demands it!

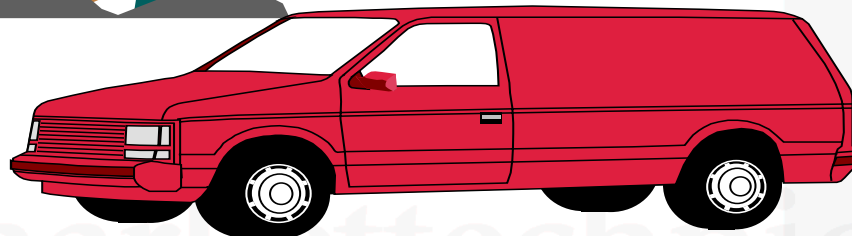


Accounting:

Costs too much and negatively impacts margin !



Engineering: **Negatively impacts productivity!**





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The Result : Chrysler built a van with a left side door and Ford is still playing catch up at a much greater cost than was initially determined !



Food for Thought

- **Would Ford arrive at the same conclusion if the decision was based on a combination of Leading and Lagging Indicators?**



Customer Perspective

- **Market share**
- **Customer Acquisition**
- **Customer Retention (Loyalty)**
- **Customer Satisfaction**



Customer Perspective Leading versus Lagging Indicators

Key Performance Indicators

▪ Goals

- Market Share
- Acquisition
- Retention
- Satisfaction
- Profitability

▪ Lagging

- % Market Share
- Cost of acquisition
- Rate of Retention
- Satisfaction Index
- Profitability

▪ Leading

- # New Products
- Reputation Rating
- Customer Satisfaction
- Breadth of Products/Service
- product/Service Mix

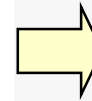
▪ Targets



Customer Profitability Life Cycle

- Customer Value
- Proposition

- Market Share
- Customer acquisition
- Customer retention
- Customer satisfaction
- Customer profitability



- Life Cycle
- Customer
- Profitability



What happens when you miscalculate?

- **Boo.com**
- **Green Ketchup - Heinz**
- **Peanut Butter and Jam Swirl - Various Companies (Kraft, Best Foods)**
- **Green Ninja Cookies - Nabisco**
- **BETA versus VHS**

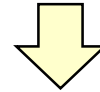
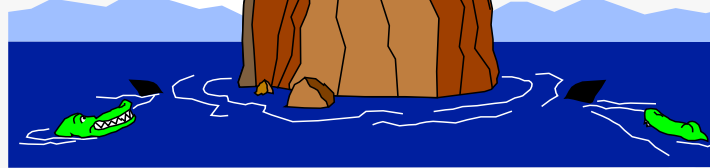
Customer Expectation versus Customer perception

Is there a gap?



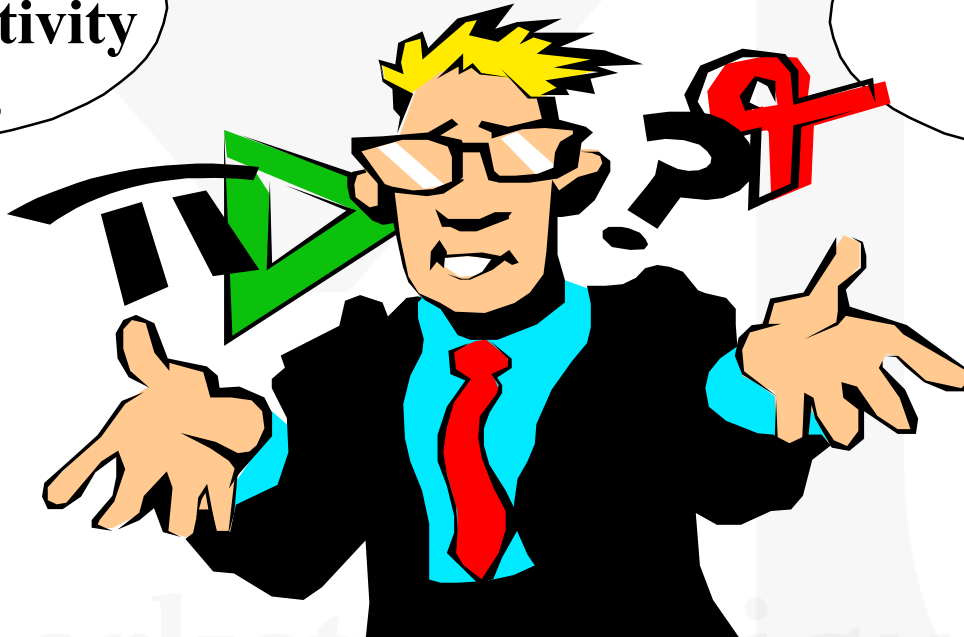
LONG TERM GOAL

SHORT TERM GOAL



**Growth
Productivity
Process**

**Sales
Bonus
Profit**





Consumers Distributing

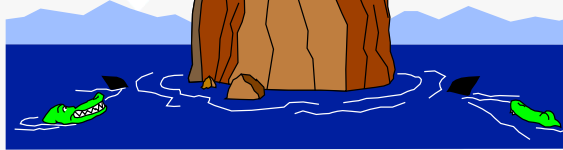
LONG TERM GOAL



Effectively
Manage
Inventory



**Strategy : Improve Process
of Managing Inventory**



SHORT TERM GOAL



Maximize
ROI to earn
bonus



**Strategy : Stop Shipping
Inventory 4th Quarter**



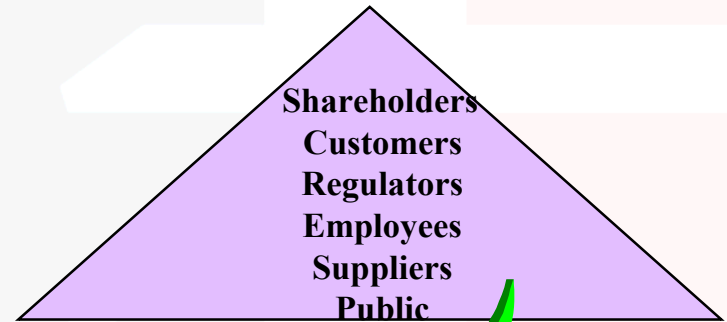


Key Performance Indicators Should ...

- **Tell us something *important* about our products services and processes**
- **Provide information that facilitate understanding**
- **Help us to get closer to**
 - **How well we are doing**
 - **How our customers feel**
 - **Whether we are meeting our goals**
 - **Whether improvements are necessary**



Key Performance Indicators



- Measure Goals
- Measure Processes
- Measure Activities



Data → Information → Knowledge → Decision



Key Performance Measures Must Tell you ...

- **If your goals and strategy are on track**
- **If you are meeting the needs of your Stakeholders**
- **If current performance is aligned with Strategy**
- **Level of Customer Satisfaction**
- **Level of Employee Satisfaction**
- **Whether Processes are effective and efficient**
- **If improvements are necessary**

Performance Measures for Federal Express
Customer Satisfaction, Employee Satisfaction
EVA, Market Share, Cycle Time

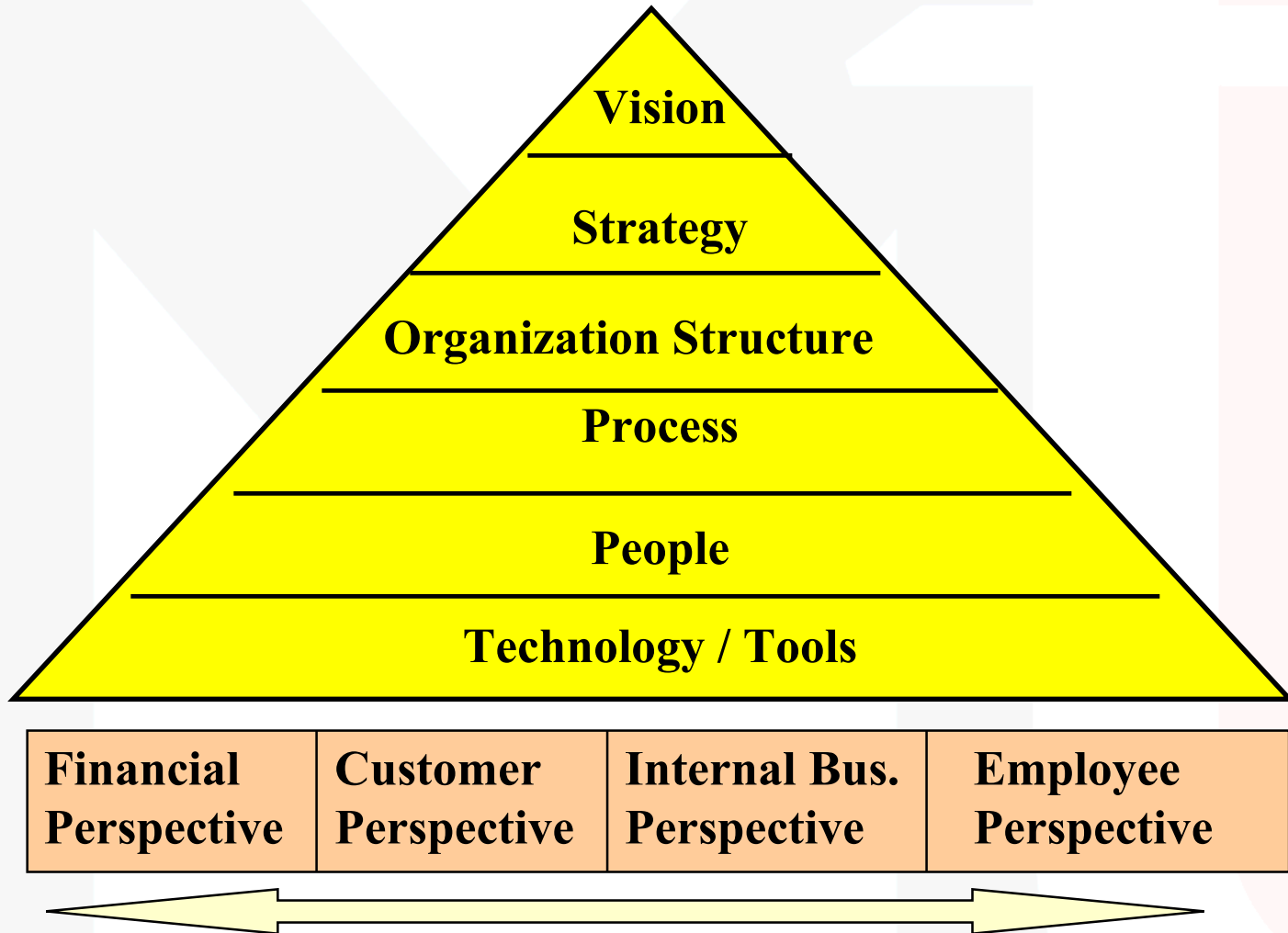


Correct Customer Perspective

- **Determine what dissatisfies customers**
- **Analyze profitability by customer by channel**
- **Determine how to leverage customer relationships**
- **Understand where you are making and losing money**
- **Understand Cross selling opportunities**
- **Determine what customers are willing to pay for new products and services**



Performance Measurement Framework

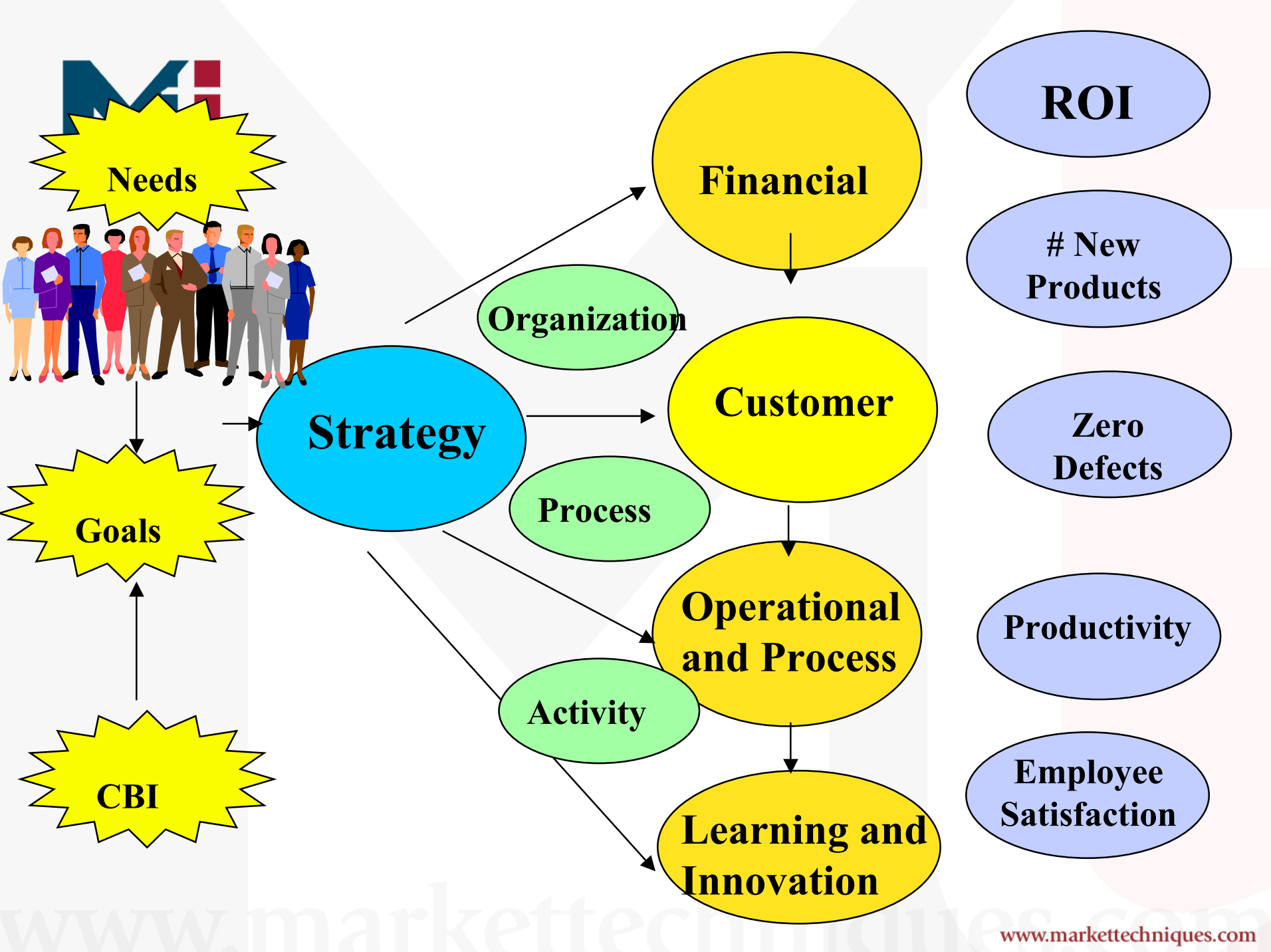




Cause -and-Effect Relationships

Causal relationships exist between :

- **Employee Satisfaction**
 - **Customer Satisfaction**
 - **Customer Loyalty**
 - **Market Share**
 - **Financial results**
-
- **Financial:** Economic Value Added
 - **Customer:** Loyalty
On time delivery
 - **Internal/ Business:** Process Time
 - **Learning/Growth :** Employee Learning



Needs

Financial

ROI

Organization

New Products

Strategy

Customer

Zero Defects

Goals

Process

Productivity

CBI

Activity

Operational and Process

Employee Satisfaction

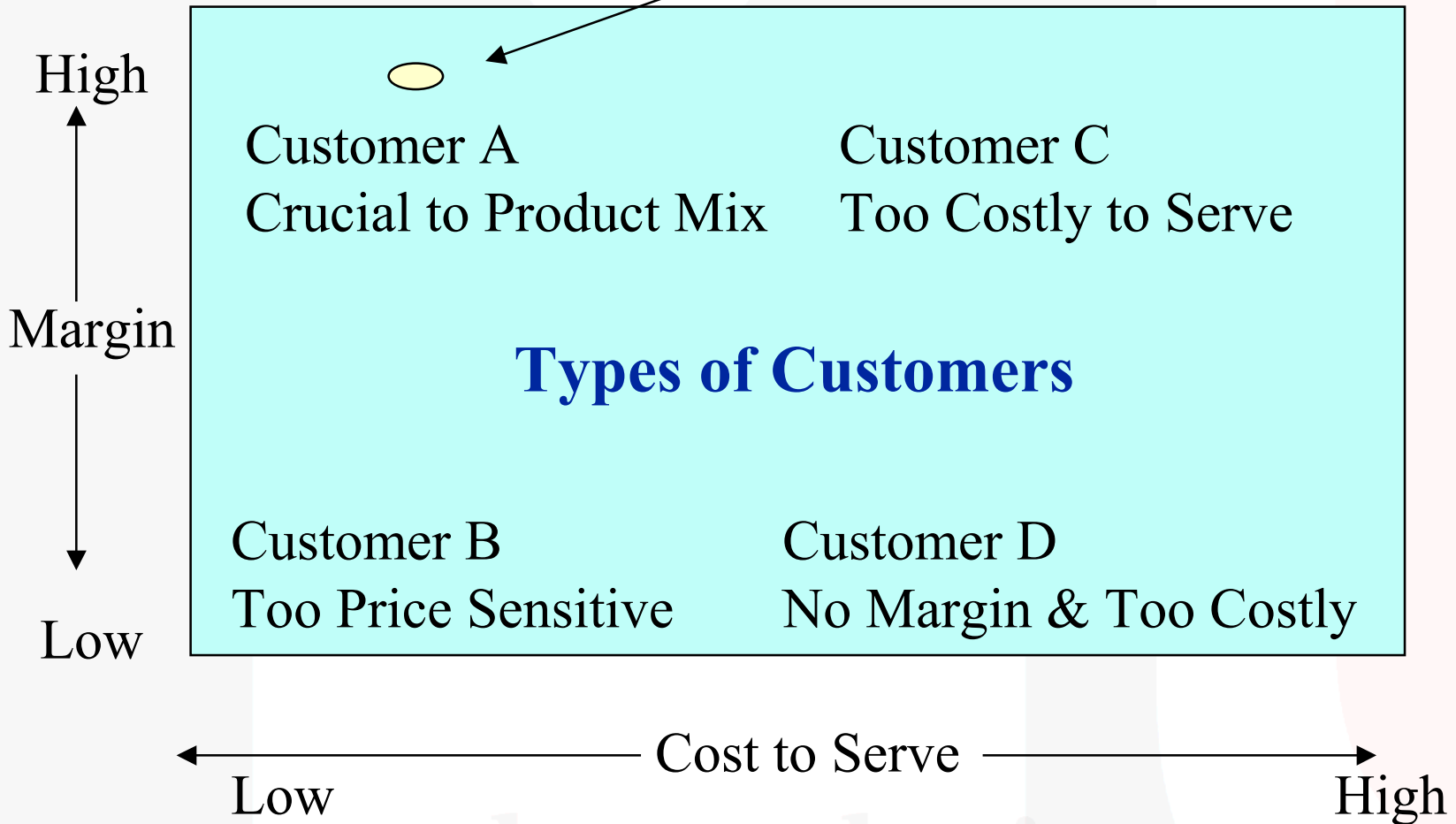
Learning and Innovation



Do Customers Support Goals

Profits

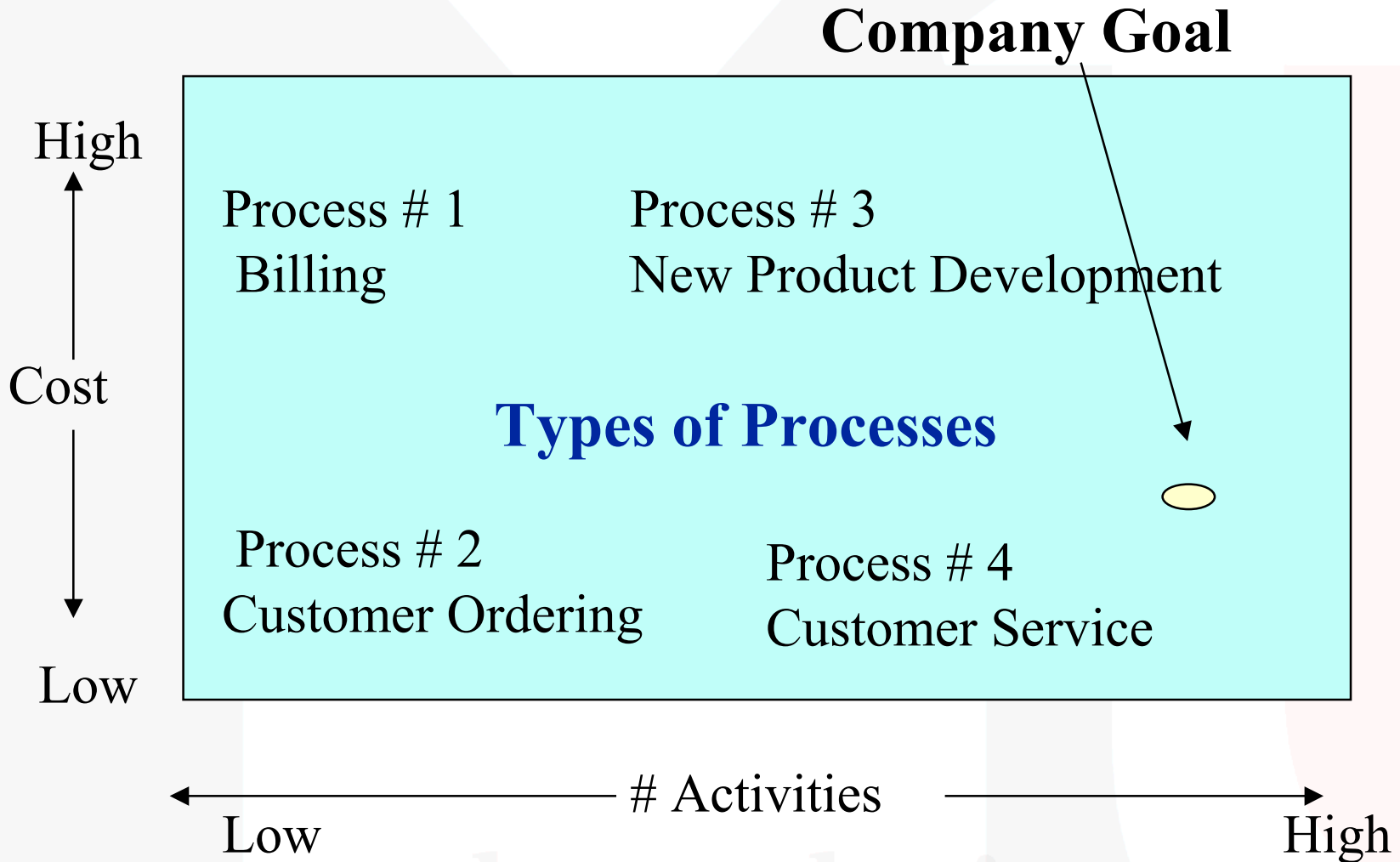
Company Goal



Types of Customers



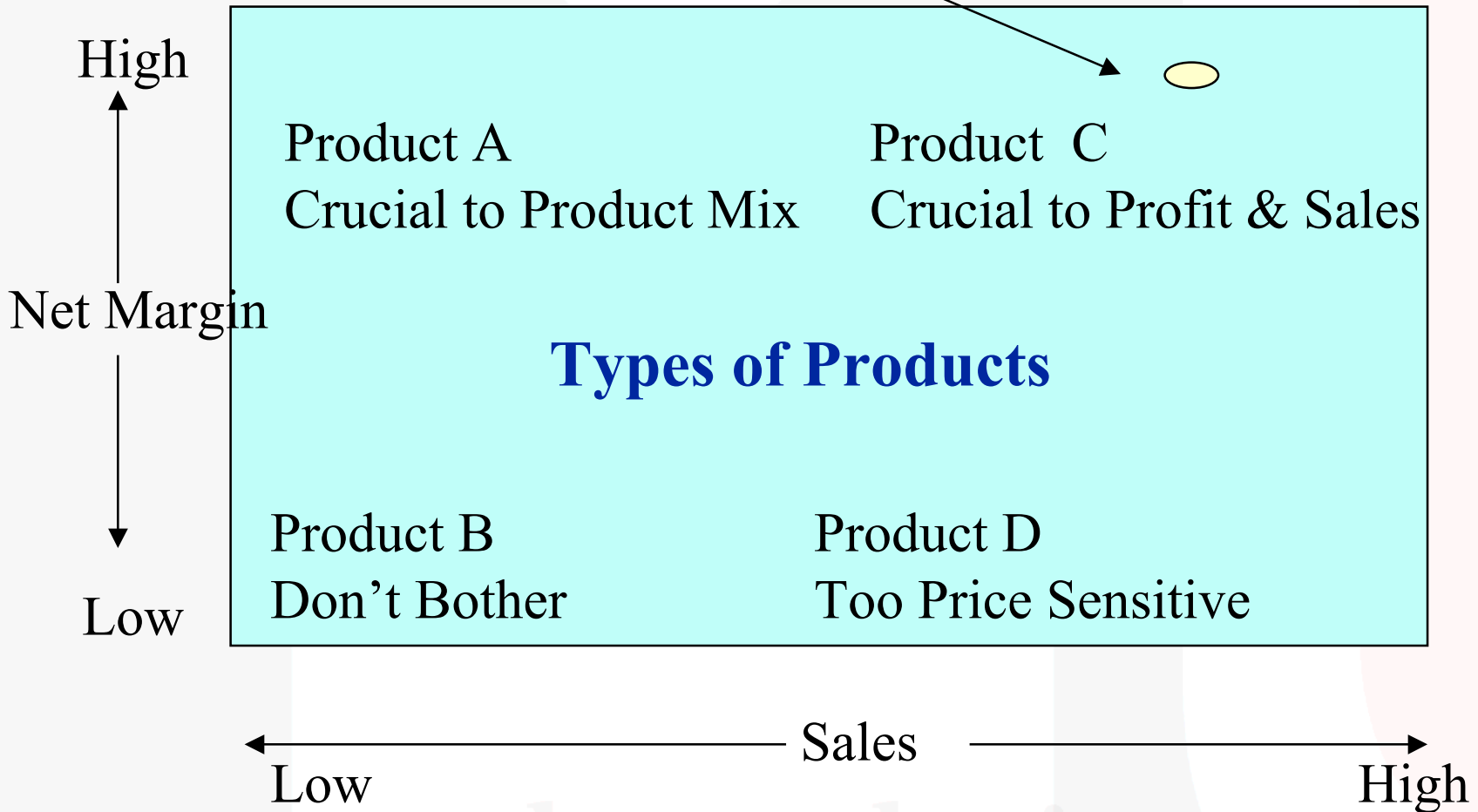
Do Processes Support Goals





Do Products Support Goals

Company Goal





The competitive world we live in will has two possibilities for you. You will loose . Or if you want to win you will have to change.

BUT...

You will never know if you win or loose unless you keep score.