



www.ioweU.com

The importance of understanding your customer / client relationships as the economy tightens

We recently had a conversation with two senior execs in competing organisations in Australia. Both very confident that they were leading the market in terms of growth and that the other was really struggling. To each we posed the question. "Forget the competitor, is your growth attributable to a) your great offering; b) how highly your customers think of you; or c) is it because of the incredible economic growth in Australia over the last decade?" The answer, from both people, after some probing, was, 'I don't know'. And here lies the challenge we think many of the world's companies face. They don't know.

As the economy starts to tighten, companies need to know why their customers buy from them. i.e. what relationship they have with their customers.

Some companies are already in shock and many others could still be in for a nasty shock.

The most common relationship we find is where the customer uses a particular seller because the seller has a great offering. It is as good as or better than any competitor's offering. Now, this can be a very profitable relationship in good times, when people spend freely. However, any loyalty is often superficial and can disappear very rapidly if the customer finds a product that is better or is as good and cheaper.

Moreover, while most organisations feel that their offerings are technically superior to their competitors' in one way or another, the customer typically perceives little or no real difference. And, in today's ultra-competitive world, where new offerings appear constantly, it is very hard to differentiate the technical excellence or quality of an offering for long. We label this kind of relationship a "technical" relationship since it is based largely on the technical quality of the offering.

In a tightening economy as price becomes more important, this is a very risky relationship to have.

It would have been interesting to find out 12 months ago what sort of relationship the up-market hotels and retail chains in the UK thought they had with their customers. The UK Daily Telegraph in April 2008 reported that while high street sales have recently fallen, Primark, the discount clothes retailer, has seen trade increase by 4 per cent. Aldi, the budget supermarket, has reported a 25 per cent increase in sales, with rising numbers of middle-class customers. Travelodge, the low-cost hotel chain, has increased sales by a quarter. This is in sharp contrast to the overall hotel sector, where occupancy rates fell 1.3 per cent in three months.

"With household incomes increasingly squeezed by the rising cost of energy, food and housing costs, consumers are seeking economies in their regular expenditure. In this environment it is products that offer clear value credentials that will fare best.

Brand owners that have invested in their products and built up trust with their customer base will be able to defend price points and margins much more effectively than those that haven't, but ultimately even they will be vulnerable to a fundamental shift in consumer preferences towards lower priced products."

**Nick Gladding, Lead Analyst
Verdict Research (London)**

The above is great news in the short term for the lower cost provider, but possibly only temporarily. The response from Tesco, the UK's largest supermarket chain has been to launch its own versions of the discounters' products

within its existing stores. This way it hopes it can keep its existing customers happy while hopefully attracting new ones too.

And so the downward price spiral will continue until one of them changes tack or becomes non-profitable. It is simply not sustainable to keep on reducing the price.

There is also significant commentary in the USA about the "Latte Indicator" which uses the public's appetite for coffee as a way of measuring the economy. Whilst this may at first appear to be a fairly superficial measure, it does have merit. Here is an industry where one brand in particular had become



embedded so well into the psyche of many Americans that it was felt that it was no longer a “discretionary” purchase. The tightening up of the US economy has challenges this hypothesis. Whilst the profits in the company are growing, that is due primarily to the number of new stores being opened. The customers and profit per store are falling and this is having a direct impact on the bottom line. Customers are either drinking less coffee or finding a cheaper caffeine kick. This trend may have been inevitable, however we believe that it’s impact could have been mitigated to some extent by building a customer loyalty based on more than a brand and decent coffee.

Now, many would argue that all customers are principally interested in price and we would agree that it is always a factor. However, it does not have to be the only, or even the key, factor.

There are “price-busters” out there, however as often as not, it is the seller who drives the relationship to be about price. Let me give an example. One chain we know of is an excellent Saturday day trip with the family. They have a coffee shop, kids play ground and we can buy what we want from people who are very helpful. We have never compared their price. Why is it then that the marketing campaign is all about it being the cheapest place to go? They are driving customers into a price driven, technical, relationship.

If you get your marketing right and your interaction with your customer right, then you can shift the buying criteria of many people from price to value. From buying the product alone, to buying the way the salesperson interacts with the customer.

An electrical goods chain almost seem to have a policy of the first question they ask being “What is the best price you have been offered”? What follows is a conversation about the various products they can offer and how cheaply they can offer them and what extra technical features we can get if we pay more. They create a price-driven, technical relationship.

If instead the salesperson bothered to ask a few simple questions such as “what do we want out of the TV?”, “Have we had a plasma before?”, “What will you use the plasma for?”

“How big is the room?” “How often will you use it?” etc, not only will we buy the right product, we will appreciate the help and I’m far more likely to buy from the shop where we was helped. That shop will also be the most likely destination for my next electronic purchase. We know this sounds obvious, but we find this approach

in most B to C and B to B selling very rare.

A different scenario is a where a customer has an urgent and possibly significant need. They may or may not ask for competitive bids, but they will probably ask for a proposal and a quote – because price is still a key selection criteria. The sale may be significant and the unexpected revenue can be very welcome.

In such situations many organisations forget to take care of the underlying relationship whilst addressing the project at hand. They may do an excellent job or sell an excellent product – but they define the relationship as ending when they raise the invoice and thus behave accordingly through the project. One challenge of these types of relationship, which we label “ad-hoc” (because they are intermittent and unplanned) can be the “real” profitability. We have seen situations where the proposal process alone takes out all the perceived profit. Price negotiations can be very severe too. Sometimes sellers will even “buy” the work thinking that they will raise the price of future work – and then discover that not only can they not raise the price of future work – the future work does not come to them. All they achieve with this strategy is setting a precedent for low price.

In a tightening economy these surprise calls do still come, however price becomes even more of an issue and “beauty parades” between competing providers become common, mostly as a device to drive down cost.

“We believe our strong position is a function of having a product which is the best in the market. Our concern is that if this is the only reason people buy our product we are in danger if a competitor manages to produce a better product. We want to make sure we have the right relationships as well – just in case”

Quote from a senior executive of a company who outsell their nearest competitor 2-1. An insightful and sadly all too rare observation. Someone who recognises a technical relationship and understands the dangers.

Customer behaviour can rapidly move from “deal-hunter” to “price-buster” – where all that matters is the dollar because the seller has given them no other reason to buy from them.

As the profitability of the above relationships reduces in a shrinking economy, so sellers reach out to new potential customers. That makes sense, but the key is how you reach out. There can be a temptation to try to socialise with or entertain potential customers. This is done because it is easy. We believe there are two fundamental risks with starting such a social relationship. Firstly, not everyone enjoys social activities and by inviting the roughly 50% of people who are “introverts”, you may have taken a step backwards, as the last thing they want to do is be sociable – especially with strangers. You have just invited them to their idea of hell!

The other and possibly more significant and frustrating aspect of a social relationship is that of converting it to significant revenue. It can be very hard to turn a relationship that has been going on for months in terms of fun, to a relationship involving business. And if you succeed, you can be sure a “mate’s rate” will be part of the deal.

If you are going to reach out to potential customers then do so, but do so in a way that moves from no relationship to one of trust. Trust can be partly a function of time but it is more a result of behaviour. If you get the opening conversation or email containing the right language, you can immediately demonstrate to your customer that you are different, are there to help them and can be trusted.

We often find it easier to move to a trusting relationship with someone we have never met, than we do to shift a current poor relationship. This challenges the hypothesis that it is easier to get more money from current customers than from new customers, but we have found it to be true. 75% of our current customers were not customers 12 months ago.

If the relationship is so important, why is it that most organisations simply measure the revenue from the customer and not the relationship? We think it is partly that it is easy to measure numbers and hard to measure feelings. But partly as well we don’t think most companies have stopped to really think about it, especially when the numbers have been so good for so long.

Many companies do of course survey their customers, but surveys are often ignored or filled in too quickly. Also, they may hint that you do not care enough about what your customers think to ask them personally.

Our suggestion is that you seek face-to-face feedback – but make sure the person asking for feedback isn’t the person who delivers the service or product! If the person conducting the meeting is part of the sales team then it is unlikely that the customer will be honest as many people will tend to avoid uncomfortable situations. Giving bad feedback can be a very uncomfortable situation. Better to employ an independent party to speak to your clients asking hard and revealing questions such as “What would we have to do to lose the work?”.

Then, once you have some feedback, put in place a programme to help your people develop the mindset to help, and the skills to build trust.

To finish, let us leave you with a question to ponder. If your nearest competitor in terms of offering, quality and price were to drop their price by 20%, would your customer still buy from you regardless, would they expect you to drop your price accordingly or would they move their purchase to your competitor. The answer may give you an indication of where your relationship sits.

Written by Keith Dugdale and David Lambert, Directors of IOWEU International and co-authors of Smarter Selling, published FT-Prentice Hall, 2007 (ISBN 0273712462).

