



# Building Customer Value

## Noteworthy



*Business 2.0* magazine named Martha Rogers, Ph.D., one of the nineteen most important business gurus of the past century.

Recognized for the last decade as one of the world's leading experts on customer-based business strategies and growing customer value, Dr. Rogers is an acclaimed author, a world class-class speaker, and a founding partner of Peppers and Rogers Group, the world's leading customer-focused management consulting firm.

With Don Peppers, Dr. Rogers has co-authored six best-selling books – the first five in the "One-to-One" business series. Peppers and Rogers's newest book is **Managing Customer Relationships: A Strategic Framework** and was sponsored by the **Teradata Center for Customer Relationship Management** at Duke University.

As an Adjunct Professor at the Fuqua School of Business at Duke University, Dr. Rogers has helped to spearhead the customer strategy coursework at the MBA level and is a co-director of the Teradata CRM Center.

## An Interview with Martha Rogers, Ph.D., Founding Partner, Peppers and Rogers Group

### **1. We hear a lot these days about understanding customers' needs and communicating with the customer. Is that enough? What else should businesses be doing to develop a true relationship with their customers?**

Actually, many companies misunderstand just what customer strategy and building customer value is really all about! In fact, those companies who do not achieve the greatest value from their customers are those who do think of building customer value only as understanding customer segments and communicating cleverly with those segments.

That view – understanding and communicating with customer segments – is a step beyond mass communications to all customers, but the truth is that we could do customer segmentation and communication before interactive technologies and affordable data warehousing appeared.

**Today, if companies aren't truly taking advantage of interactivity, data management, and mass customization technology to conduct their businesses in a fundamentally different way that was not possible before these technologies, then they're missing out on a compelling advantage.**

The real competitive advantage now is using the information we have about each customer to build customer value by changing our own behavior to deliver value to that customer. Instead of just promoting our brand or product or service to a customer segment, our goal is to find out what each customer wants and needs, and then to set up what we offer a customer next to fit those needs. To ask the customer: "What do you need from us?" and "How can we do it better?" and then to deliver it. To evaluate and understand each customer's value – not just what he or she is purchasing from us today, but forecasting what he or she is likely to purchase from us tomorrow and the next year and the next – and then building our relationship, what we offer, how we communicate, how often we communicate, based on that more and more accurate understanding.

Strategically, that's quite different from fine-tuning what we communicate about what we have to offer based on segmentation. And the only way it can be achieved is by gathering and analyzing detailed data on each customer interaction at every touchpoint.

You've never seen your business like this before.

### 2. How do you define customer value? Would you define customer value differently than you would customer profitability? Please explain.

Traditionally, we think in terms of customers adding value by paying our company for services or products. But the actual value of a customer is what he or she is spending with us today, plus what he or she is likely to spend with us in the future. So, to use a simple example, a customer who spends a thousand dollars today but is not likely to ever spend with us again is actually less valuable than a customer who spends half that amount today, plus a hundred dollars more each month over time, on, for example, accessories or extended services and products that relate to the initial purchase.

Additionally, customers have a non-monetary value. Are they willing to recommend your service or product in a positive way to friends? Provide testimonials to prospective customers?

The current value plus the potential value plus the non-monetary value equals the total value of any given customer.

And the reason we go through the effort of measuring customer value is because it is important to manage customer relationships based on their value to us. Everyone deserves and should get a basic amount of good service, of course. But that service and how we communicate with our customers should be upgraded for customers based on how valuable the customers potentially are to us. It's a waste of time and effort and money – and, frankly, confusing to customers – to use the old “billboard” methodology, giving the same message to everyone.

Instead **it's now more important than ever to differentiate the needs and the value of each customer** – understanding the value and knowing what to do – what behaviors and messaging to change – to increase that customer's equity for your company. New technologies as well as **an organizational and strategic commitment to customer relationships makes it possible to put the right message and the right product or service before the right customer, to spend the right amount of money and time on the right customer.**

### 3. What role does technology play in enabling companies to develop customer relationships and manage customer value? Are there limits to how technology can help? Are there ways that technology can be a tool to enable these aims that companies aren't embracing today... but could and should?

It's an interesting paradox: Without new technology, this discussion wouldn't even happen! It wouldn't be possible to discuss one-to-one customer relationships or customer value without these new capabilities.

Yet, technology by itself doesn't ensure success. Technology instead requires us to think differently about our business models. If we don't do that, then we miss our best opportunities for competitive advantage. In our experience at the Peppers and Rogers Group, there are three reasons a company with the right technology in place can still fail to understand and build customer value:

- > Many companies purchase technology just because their competitors do, but they don't think through what they really expect from their technology in terms of major strategic changes. They focus too much on smaller issues – for example, thinking about how the technology will make a given process faster – when what they really need to do is look at the big picture to see if perhaps the whole process is the right one for developing customer value.
- > Many companies fail to use their technology to get a true 360° view of their customers and of their company. Their technology might give them that ability, but they philosophically don't make the switch from a data mart view to true data warehousing. They fail to connect the dots in order to see a complete view of each customer.
- > Many companies say they are all about being customer centric and building customer value, but their internal organizations still focus on product wins, or brand equity, or increasing sales in one geographic region or another. Executives must be accountable for building customer equity, for making every decision every day based on building customer value. Only once that becomes a company's fundamental philosophy – across all levels of management and across all departmental functions – can a company truly start to reap the full value of a customer relationship focus.

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#### 4. What is the number one thing a leader could do better when transforming her company to focus on customer value?

Business people are smart. But the number one thing they need to focus on is not to make decisions in old-fashioned ways. It's hard to unlearn what we've been taught or what we've experienced on the job, first in a mass marketing business world, and then in a customer segmentation world. But hard as it is, business leaders must now learn to **approach business from a different point of view – building customer value in one-to-one relationships, and constantly redefining those relationships based on new customer data and on an understanding of that data in the context of a 360° view of the customers for our business.**

How one goes about making that switch to the individual customer's point of view and understanding how to develop customer value, as well as the particulars of making management designed to grow the value of the customer base is the focus of the Duke executive education course that I team-teach with Dr. Julie Edell, called "**Managing Customer Value.**" The program is geared to both decision-makers and implementers of customer management strategies, and we hope we'll see many of your readers at the session.

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