Connecting with Customers

By Linda Gorchels

“Even good ideas, carried to an extreme, can have unintended consequences.”

Take this quiz

Imagine doing a warehouse audit for your company and discovering that 15% of your products are missing. What would you do? Most likely, you’d launch a study to determine what happened. Why don’t companies do the same when they lose customers? What steps should YOU take to connect with customers, both current and prospective–as well as re-connect with lost customers?

Let’s start with a quick quiz. Respond to the following statements before jumping ahead to the answers.

T F 1. Your top customers are your largest customers.

T F 2. The customer is always right.

T F 3. Customer loyalty results from customer satisfaction.

T F 4. It’s wise to develop separate strategies for customer acquisition and retention.

T F 5. You should plan carefully to be in charge of your company’s future.

Let’s see how well you did.

“*1. Your top customers are your largest customers*.” This statement is *false*. Although large customers *might* be A-customers, it’s not always the case. Your top customers are your *highest-equity* customers. Many companies have key account programs, but the selection of these accounts is often based on size rather than strategic importance. Typically, high-equity customers are those whose needs fit your capabilities, who can grow with you, and whom you can honestly define as strategically important. Revenue and profit are just two factors to consider in this evaluation. Your strategy with these types of customers is to increase share-of-wallet, extend the length of their relationship with you, and/or avoid losing their business to the competition. To increase share-of-wallet, look for cross-sell and bundling opportunities. To extend the length of their relationship with you, explore time-based (cumulative) reward offerings. To avoid losing them to the competition, demonstrate appreciation for their business.

"2. *The customer is always right."* This statement is true *only* if you are listening to the appropriate customers. The customer is always right IF it's the right customer. Identifying high-equity customers (as discussed previously) helps in this task. Consider what the target (high-equity) customers want in terms of products, services, advice, price points and buying factors and build those into your strategies. Focusing on the right customers will help you use your resources more effectively (with less waste), and increase customer profitability. But you may also need to say *no* to the *wrong* customers. All companies have customers who demand special services (with no additional revenue generated), who demand "rock-bottom" prices for everything, or who require changing the basic product or service to fit their unique needs. When this is the case for non-target customers, there are only a few options available: raise the price, reduce the cost of servicing the customer, or discontinue doing business with the customer.

"3. Customer loyalty results from customer satisfaction." *False*. Although customer satisfaction is a prerequisite to customer loyalty, it is insufficient. How strong are your competitors and how easy is it for customers to switch to the competition? Sometimes customers *seem* to be loyal when it's hard or inconvenient for them to switch. Once the switching costs (monetary and non-monetary) abate, turnover begins. Frederick Reichheld, in his Harvard Business Review article, argued that perhaps the best question to determine loyalty is to ask customers if they would recommend you to their friends and colleagues. Customers who promote your company or its products become "sales ambassadors" for you. These are truly "loyal" customers.

"4. It's wise to develop separate strategies for customer acquisition and retention." This statement is correct. Different customers require different marketing approaches. Customers who don't know what you stand for have different information needs than those who are familiar with you. If you discover non-customers with needs and profiles similar to customers, ask yourself what is preventing them from buying from you, and make changes. You may need to

establish new channels or expand media coverage to reach new prospects. Beyond acquisition and retention strategies, you might consider strategies to re-connect with lost customers. Confirm whether the lost customers are "high equity" as defined earlier. If so, determine why they left you, acknowledge their past patronage, and point out what you have done to re-earn their business.

"5. You should plan carefully to be in charge of your company's future." Another *false*. You should *plan* carefully, but realize that *customers* are in charge of your company's future. Too often, companies study historical data to define probable tomorrows. That's not enough. How will your customers of today be different five or ten years from now? Is a generational divide, a shift in lifestyle preferences, or a different attitude toward certain technologies taking place? Not everything about the future is knowable, but there are clues out there if you are open to them. Identify catalysts to and predictors of change in your customer base and prepare for the impact of the changes.

Understanding and managing these customer connections is at the core of successful strategy and competitive differentiation. Identify and profile your high-equity customers and use the information to grow your business. Determine whether acquisition, retention, or re-connection strategies and tactics are most important and allocate resources accordingly. But don't get so caught up with the present that you ignore the strategies necessary to be successful in the future.