



Article Reprint

Measurement of Marketing: Keeping Good Customers by Steven Howard

It is with shock and horror that I read in the November 2004 issue of *Marketing* that the Australian Marketing Institute paper *What Value Marketing?* describes “the ultimate role of marketing as delivering increased shareholder value.”

When and how did our industry get so far off the mark?

Contrast this with the new definition of marketing from the American Marketing Association, unveiled in the middle of last year:

"Marketing is an organisational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders."

It is rather sad that even the American Marketing Association (AMA) definition talks about managing customer relationships only in terms of benefits to the organisation and its stakeholders. After all, if the customer doesn't benefit from the relationship, I can guarantee you the relationship will not last very long.

The purpose of business, as the legendary Peter Drucker wrote, is “to create a customer.” Using this quote as a base, a better definition of marketing would read, “the ultimate role of marketing is to create and keep good customers, to the benefit of customers, the organisation, and its stakeholders.” Business is not just about sales, contracts, cash flow, internal rates of return, profitability, and share price. Even Henry Ford recognised this when he said, “a business that makes nothing but money is a poor kind of business.”

Creating value for customers

Marketing – as an ethos and a philosophy for doing business – is central for the survival and prosperity of any organisation. This is why it is far too important to be left to only a handful of marketing specialists.

Marketing must permeate the entire organisation and is not something that should be seen as either a "top-down" or a "bottom-up" approach, but one that infuses the whole

organisation. This inculcation and indoctrination of marketing as a philosophy for doing business, combined with the emphasis on understanding customer needs and creating value for customers, must be led by the top of the organisation.

This point was reinforced to me when reading the January 2004 issue of The Copernicus MZine, a monthly electronic newsletter from Copernicus Marketing (www.copernicusmarketing.com).

This newsletter discusses why the recent CEOs of McDonald's and Kraft became corporate casualties in 2003. In the view of the folks at Copernicus Marketing, these two high-profile CEOs were dismissed from their leadership positions because they each created "a marketing vacuum at their respective companies that sucked the life out of their brands and ultimately their careers." The article is well worth reading, and can be found at: www.copernicusmarketing.com/about/mzine/monthlyeds/jan04.htm.

It is obvious, from reading this newsletter, that the leadership at both McDonald's and Kraft lost sight of what their respective customers value in these two brands. Perhaps, now that each is headed by new leaders, these companies can rebound. But to do so will take not only marketing leadership from the top, but the permeation of customer-focused marketing principles and concepts throughout each organisation.

Too many CEOs these days see their primary roles as cutter of costs and manipulators of financial figures. These duties are best carried out by the Chief Operating Officer. A CEO can better serve his or her customers, employees, communities, shareholders, and board (please note the sequential order of these constituents) by being the guardian of the corporate brand, the motivator of marketing excellence, and the champion of understanding customer needs.

Likewise, marketing also needs to become a central concern of Boards of Directors. Here's what William Parrett, Chief Executive at Deloitte Touche Tohmatsu, wrote in the December 11, 2004 issue of *The Economist*:

"A recent survey by Deloitte and the Economist Intelligence Unit found that management and boards of directors focus far too much on financial results that represent lagging indicators of past performance. We believe they should pay far more attention to non-financial factors such as customer satisfaction, product and service quality, operational performance, and employee commitment – leading indicators of future performance that firms can use to navigate confidently toward a sustainable future. We also encourage corporate management to communicate with stakeholders about these indicators in quarterly and annual reports."

The winners in this next segment of the economic cycle are not going to be the cost cutters and the retrenchers. The winners are going to be the marketing innovators and the ones who create, protect, and enhance the values customers receive and perceive from transacting business with them and from being associated with them.

It is not only your sales force that must create value for your customers. It is your entire organisation. Our personal marketing philosophy is *if it touches the customer, it's a marketing issue*.™ Everything your organisation does *touches your customers and your prospects*. Hence, everything you do not only is marketing related, but also impacts the results of your marketing efforts.

In short, everything you do should be done to create value for customers.

This is how you create and keep good customers. Creating and keeping good customers will enable your organisation to achieve its bottom-line financial goals, and to increase shareholder value.

But you have to take care of your customers first. As Lee Iacocca, former Chairman and CEO of Chrysler, is quoted as saying "if you take care of your customers, everything else will fall into place."

A passion for customers

Create customer intensity everywhere.

That was the message Lew Platt communicated to his employees when he was CEO at Hewlett-Packard.

And that's the message you should be communicating to your staff, colleagues, and business partners. Customer intensity should be the core of any customer-focused organisation.

Business leaders need to have the kind of attitude that Louis V. Gerstner had when he was CEO at IBM. When he was first shown an early version of an integrated computer network that became known as the Internet, Gerstner reportedly said, "This is great, this is a new channel for business. How do we make it real for customers? How do we make money on it?"

Note the order of Gerstner's questions. Instinctively he wanted first to know "how to make it real for customers." Then he asked "how do we make money on it?"

This is a CEO who is exhibiting a true passion for customers and who is asking how his organisation can understand the needs of customers in order to make this new technology real for them. Through his questions, Gerstner was creating customer intensity in his scientists, researchers, and technical staff – not just in his sales, marketing, customer service, and front-line workforce.

It is not market share and quarterly profit figures that create strong rational and emotional preferences in customers. Sure, these may be important criteria to the professional investment community, but they are not the decisive factors that *touch customers* and that

influence purchasing decisions. Rather, it is responsible actions and policies that lead to a solid reputation, especially with customers. For, as Kahn, Peters, and Ponemon of PriceWaterhouseCoopers wrote in their article *Reputation Assurance: The Value of a Good Name*, “a single-minded focus that seeks only to satisfy shareholders may ultimately lead to crises and erosion of shareholder value.”

Organisations that wish to build a growing core base of loyal customers need to move away from concentrating on what satisfies the investment community to a focus on what it takes to keep good customers.

Impact of Customer Loyalty

Customer loyalty has a direct impact on corporate profitability. As one often-cited report in the *Harvard Business Review* showed, a decrease of just five percentage points in customer attrition can increase bottom-line profitability by 25% to 80% across a wide range of industries. This makes your own customer base a highly under-valued asset.

Keeping good customers is an art, not a science. It is an art that requires a change in focus from customer profitability to *customer value*. The difference is that the relationship is no longer defined merely on the current and anticipated purchasing habits of the customer, but also on the long-term value that the customer can provide the organisation by recommending new customers, helping to define future product or service offers, and providing feedback to the organisation that enables it to improve.

This focus on customer value has another benefit to the organisation – it helps to reduce future customer attrition. While a competitor can replicate your product and service offer, or undermine you on price, it cannot duplicate the years of positive experiences that have created a loyal and valued customer relationship. By concentrating your marketing efforts today on customer retention, you help to prevent your good customers from leaving in the future.

How important is the issue of customer retention? Another *Harvard Business Review* article stated that “the average U.S. corporation loses one-half of their customers every five years and these (attrition) rates stunt corporate growth by up to 35 percent.”

It is little wonder that an Economist Intelligent Unit article *Managing Customer Relationships* reported that “the number of businesses citing ‘customer retention’ as a critically important measure in the next five years has jumped to nearly 60%, as companies shift their focus from attracting new customers to retaining their more profitable ones.”

Successful companies today are switching from a transaction perspective with their customers to a customer loyalty-building perspective. The way to do this is to earn customer loyalty by understanding true customer needs, committing to quality, delivering upon the promises you make, and by treating customers as people, not as accounts.

Customers today have more products and solutions to choose from, and more information at their disposal about these products and solutions. They also have more readily available sources of information. And they have more ways to shop and buy – from speciality stores and boutiques to huge mega stores and enormous discount warehouses; from mom and pop corner stores to gigantic shopping centres; and from Internet web sites to around-the-clock TV shopping channels and mail order catalogues.

Organisations create value for customers by meeting their information, product, distribution, quality, and price needs. More important, organisations create greater value for customers by learning about, capturing, and re-designing their product and service offers based on their customers' individual wants, needs, desires, preferences, likes, and dislikes. Such customer focus is a discipline, and a subject for a future article.

In the past, being customer-oriented has meant operating in order to meet the needs of the *typical* customer, or the average customer.

Fewer and fewer businesses today can afford to focus on the average customer. Your future growth, and future profitability, comes from satisfying the needs of your most valuable customers.

To treat your most valuable customers not as average customers, but as *your most valued customers*, requires that they be treated as individuals — with individual needs, wants, desires, likes, and dislikes.

This is the true essence behind the concept of *the art of keeping good customers*TM.

The Author

Steven Howard is a Melbourne-based marketing consultant, author, conference speaker, and Non-Executive Director in both the profit and non-profit fields.

Visit his web site, www.howard-marketing.com for valuable information and links on marketing, customer retention, branding, and corporate image management or to sign up for his free weekly newsletter The Monday Morning Marketing Memo and his marketing blog.

He is a positioning specialist, whose 30-year marketing and sales career in Asia and Australia has covered a wide variety of fields, ranging from consumer electronics to publishing and from a national airline to personal financial products.

He is President of Howard Marketing Services, which provides consultancy and project management services in the areas of Marketing Management, Product Development, Positioning Strategies, Customer Retention Strategies, New Product Launches, Event Management and Brand Management.

He consults on a regular basis to companies in the financial services, industrial products, consumer products, restaurants, petroleum, publishing and hospitality fields.

Contact details:

Phone: (61-3) 5428-1388

Fax: (61-3) 5428-1399

E-mail: steven@howard-marketing.com

Website: <http://www.howard-marketing.com>

Blog: <http://www.howard-marketing.com/marketingblog>

Free Newsletter: Receive Steven Howard's free weekly marketing newsletter, the **Monday Morning Marking Memo**, by subscribing at www.howard-marketing.com.