

## WHITE PAPER

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# Delivering Customer Value: Innovative Approaches to Maintain Competitive Success

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## INTRODUCTION

Do your customers think you are treating them as well as you have in the past? Have you been keeping up with their changing needs and concerns? Are you learning as much from them as you used to? As companies grow bigger and more successful, and as the size of their customer base grows, the quality of customer support can sometimes suffer, as can the ability to listen to and learn from customer feedback. Maybe new practices and procedures don't provide the same level of personal attention delivered previously. Maybe old practices haven't been revised so that too many customers are supported by too few people with less than satisfying results. When companies are small, sales staff and even senior management know their customers (especially the good ones) and what support they need. With success, though, that personal engagement becomes harder to maintain, and there is a risk that customers can feel shortchanged. The most successful companies work hard to ensure that this doesn't happen because they understand that sustaining a strong relationship with their customers is essential for future growth.

Customer satisfaction helps renew and expand business relationships, of course, but the benefits extend beyond gaining more business with a single account. Customers can provide important feedback on products, which can help in new product designs or new business development (like identifying new customer segments or product applications). Customers can also serve formally or informally as reference accounts to add impact to marketing efforts. But if you are not encouraging or actively participating in what was once a two-way flow of information, you may find sales growth harder to come by.

At the heart of customer satisfaction is the delivery of customer value through the products or services that customers are looking for. But that's not the whole story. Increasingly, a customer's definition of "value" extends beyond what's being sold to include the nature of the relationship, the quality of an engagement, and timely access to critical information. These can be just as important in maintaining a strong relationship as the product delivered and the price charged.

Effective information access, an important part of "customer intimacy," includes external (to the customer) information access and internal (to key sales and accounting staff) information access. Externally, it can be very useful for self-managed resources to be available to customers so that they can access details on account status and order delivery whenever they want. Internally it is useful to have similar customer information available to sales and support staff, but the information can be an especially valuable resource to help in understanding the nature of customer profitability over time.

This paper looks at the customer value experience from both internal and external perspectives: How do you ensure that your customers and suppliers have access to the critical information that will make them successful and want to keep working with you? How do you ensure that your own people have access to the resources needed to sustain value from the customer's perspective to maintain continued company success? In effect, how can you continue to deliver the unique value you have traditionally brought to your customers while you grow? These questions will be answered in this paper as we explore the concepts of sales growth, understanding who your customers are, connecting a go-to-market strategy with technology, and using technology to sharpen internal practices.

## **SALES GROWTH AS AN OPERATING PRIORITY FOR MIDMARKET FIRMS**

Sales and revenue growth is a natural priority for successful firms. After all, the very first line in a P&L statement is "revenue." The most successful managers in any company are often among the most successful in selling, even if they do not formally carry a quota. In many respects, though, sales growth is a second-order effect that results from the delivery of satisfactory customer experiences. There is a clear link between follow-on sales, including referrals, and a reputation for delivering strong value. Driving revenue through low price alone can work initially, for example, but without the appropriate level of customer satisfaction, it will not be the recipe for long-term survival, let alone growth. (All it takes to be replaced is someone else with a lower price.)

Sales and profit targets are appealing to pursue directly, not only because of their obvious innate value but also because they are relatively easy to measure. It is much more difficult to measure — and in fact, even define — customer value, although optimizing customer value on a continuing basis will set the stage for financial success as your company grows. This accounts for the appeal of "customer satisfaction" measures, which can serve as a surrogate for customer value, although it really is just one part of a richer and more complex calculation. Customer satisfaction and retention go hand in hand. Traditional wisdom correctly holds that for every \$10 paid to bring in a new customer, it may cost only \$1 to retain an existing customer. For the most profitable customers, you should be even more willing to invest in programs that will improve satisfaction. Churning the customer base to generate new business is not only an inefficient way to build revenue but also a sure way to erode profits.

IDC has found that in small and midsize companies, there is a very real connection between sales growth and a willingness to invest in technology. In a similar way, there is a strong association between the use of advanced technology to help in customer support — specifically customer relationship management (CRM) — and higher levels of revenue growth.

In a recent IDC survey, over one-third of midmarket firms cited sales increases of 10% or more over the previous 12 months. This growth came in spite of profit-reducing pressure from an increasingly competitive environment and rising energy and transportation costs. Of special note was the improved financial performance posted by firms that agree with the idea of investing in technology to support revenue growth and customer care. As seen in Table 1, those firms with 10% or more annual sales growth strongly agree with the statement "We invest in technology to grow revenue, to help our company expand into new areas, reach new customers, and increase sales." Sales success is the result of a variety of factors, of course, but willingness to invest in technology resources is certainly one factor.

**TABLE 1**

Agreement with Attitude Statement: We Invest in Technology to Grow Revenue, to Help Our Company Expand into New Areas, Reach New Customers, and Increase Sales (% of Respondents)

	Total Midmarket Firms	Fast-Growing Midmarket Firms (10%+ Annual Revenue Growth)	Fast-Growing Midmarket Firms (20%+ Annual Revenue Growth)
1 — Strongly disagree	1.4	2.3	0.5
2	4.7	1.4	6.0
3	9.6	4.9	8.0
4 — Neutral	29.2	21.2	22.1
5	25.5	28.9	19.2
6	15.0	20.2	23.4
7 — Strongly agree	14.5	21.2	20.9
6 or 7	29.5	41.4	44.3
Mean	4.76	5.10	5.07

n = 418

Source: IDC, 2007

Deploying resources to support sales growth can take a variety of forms, but the empowerment of sales staff with investments in technology is at the heart of a successful effort.

## FOCUSING ON THE CUSTOMER: WHO REALLY IS HELPING PAY THE BILLS TODAY, AND WHO ARE TOMORROW'S KEY ACCOUNTS?

An internal assessment of each customer — or just your top group of customers — can yield some very interesting and sometimes surprising results. The idea is to conduct a formal evaluation of each account across a number of attributes that you think are important — some related to business you do today, others related to how you expect to service customers in the future. Table 2 shows some of the variables you might want to use to build a rating. See Table 3 in the Appendix for a more detailed worksheet.

**TABLE 2**

### Potential Variables to Evaluate Current Customers

Near-Term Impact	Long-Term Impact
Current spending	Our share of customer's total spending
Spending growth over past 12, 24, 36 months	Expected spending growth over next 12, 24, 36 months
Strategic value of customer as reference account	Opportunity to add new product categories to what customer buys
Company is growing; it is successful	Company is in a growing business where we can add customers
Enjoyable to work with, respects our people and what we do	Forward looking — company encourages us to add operating capabilities that will be important for us to have in the future
Company among earlier adopters of the new products we introduce	Company challenges us to expand our product portfolio, which could increase our appeal to different customer segments

Source: IDC, 2007

You can start with the most basic variables such as current and potential spending, but you should then look beyond the dollars to the intangibles that will help your company grow in the most productive way. For example, some customers may be perceived as difficult, but only because they demand the best of you; they can still be helping you in ways beyond the revenue they provide.

Once you develop a rating scheme, you can decide on a scale to use (e.g., 5 points or 7 points) and you can also decide which factors are most important and weight them appropriately (e.g., on a scale of 1–10). Multiply each factor rating by its weight, add the factors for each customer, and compare. You can see how customers stack up against each other. You can also fine-tune the scale to see the effect of different assumptions. Needless to say, gathering the internal information needed to make an assessment can also be a valuable process. The goal is to make sure you are taking care of your most important customers and not spending too much time on accounts with only limited potential.

The next step is to see if your most important customers have common needs or interests. You can also use the results to highlight the customers that will be most valuable to you in the future. Are they from related industries, or do they have distinct information needs that should encourage you to provide special levels of support?

Ultimately, the key questions to consider are the following: How are customer support requirements changing? How might needs differ between current customers and prospects? This sets the stage for strengthening both current and future market position through anticipation of the requirements of your next generation of customers. Don't miss the opportunity for product and process refinement as well: Are you providing the right products to the right customers through the right channels? By examining the needs of specific customer types, you can help ensure effective product and marketing coordination as well as the kind of information support needed.

## **MAKING THE CONNECTION BETWEEN GO-TO-MARKET STRATEGY AND TECHNOLOGY SOLUTIONS**

Technology can play a key role in sustaining the kind of support and intimacy your customers appreciated in less complicated times. However, in contemplating any applications solution, from Web hosting and accounting solutions to classic CRM, a company must remember that an application's role is to support the organization's strategy and that the application does not exist in a vacuum. An application can help provide process and order, especially where there may be acute need, but it can be even more powerful when associated with corporate goals. This is where improvement in your company's competitive position can be won or lost.

Customer value may seem pretty distant from basic business applications such as accounting, accounts payable, accounts receivable, and other internal resources. But, of course, any application that provides your staff with the latest information on a customer (e.g., status of different orders in progress) will help strengthen relations with that customer. Effective internal information can help companies avoid the kinds of mistakes (such as billing errors) that can drive a customer to a competitor. Information can also be useful in supporting proactive engagement (checking up on past purchases or calling with a recommendation on a new product) that can strengthen a relationship.

Being aware of the different ways you engage your customers and ensuring that they are coordinated and optimized can set the stage for significant improvement in the delivery of customer value. How you sell to customers, how you maintain relationships for ongoing success, and how you plan to refine processes to support your growing customer base are all critical issues. Each element is part of your firm's customer strategy, independent of whether you have specific software resources in place to support the process. Effective coordination of the different ways you engage your customers will ensure that you don't lose your edge in providing the kinds of support that helped build your business in the first place.

For a growing number of firms, CRM solutions are the natural next step from accounting and contact management software to track customer engagements and improve the access of information for both sales and customer support. The most

successful CRM implementations evolve with and complement an organization's changing go-to-market strategy. A CRM application should bridge the changing business climate and an organization's growth over time, from driving new business initially to sustaining and growing existing accounts for the long term.

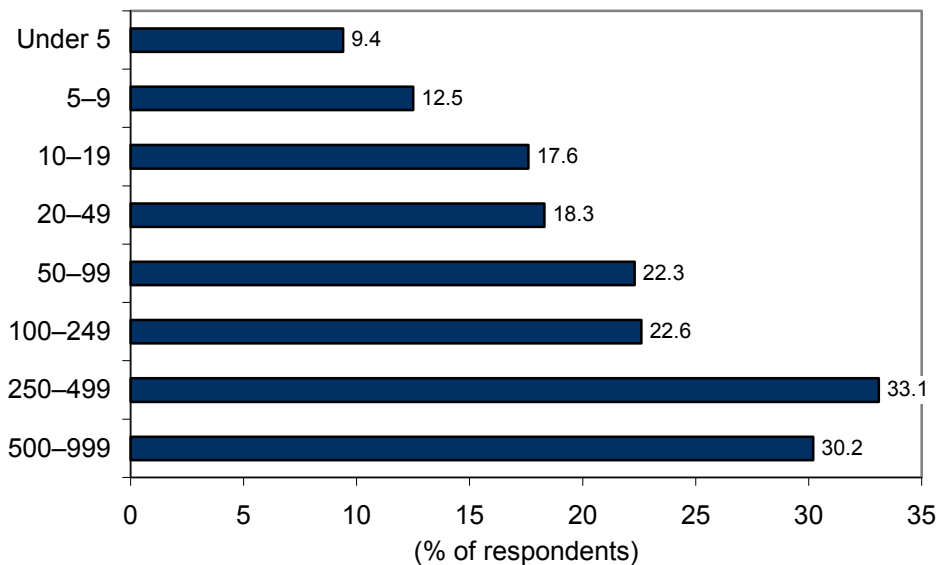
## USING TECHNOLOGY TO SHARPEN INTERNAL PRACTICES, EXTERNAL EXPERIENCES

For midmarket organizations, the use of CRM technology tied to their go-to-market strategies can dramatically leverage resources and deliver focused customer value. This type of value can mean providing updated order status from informed staff or new recommendations about related products of potential interest. Improving information access can strengthen relations with a variety of your constituents, not only customers downstream but also suppliers upstream. Better understanding of customer requirements can improve order timing and quantities from suppliers that can strengthen relations and provide access to more attractive pricing.

Basic CRM resources represent an important starting point for midmarket firms looking to centralize and organize information on accounts in a way that will have maximum value internally. As Figure 1 indicates, access to CRM increases with company size through the small and medium-sized business (SMB) community, although use is still very modest given the importance of the capabilities provided.

**FIGURE 1**

Share of SMBs with CRM Software by Number of Employees



n = 1,032

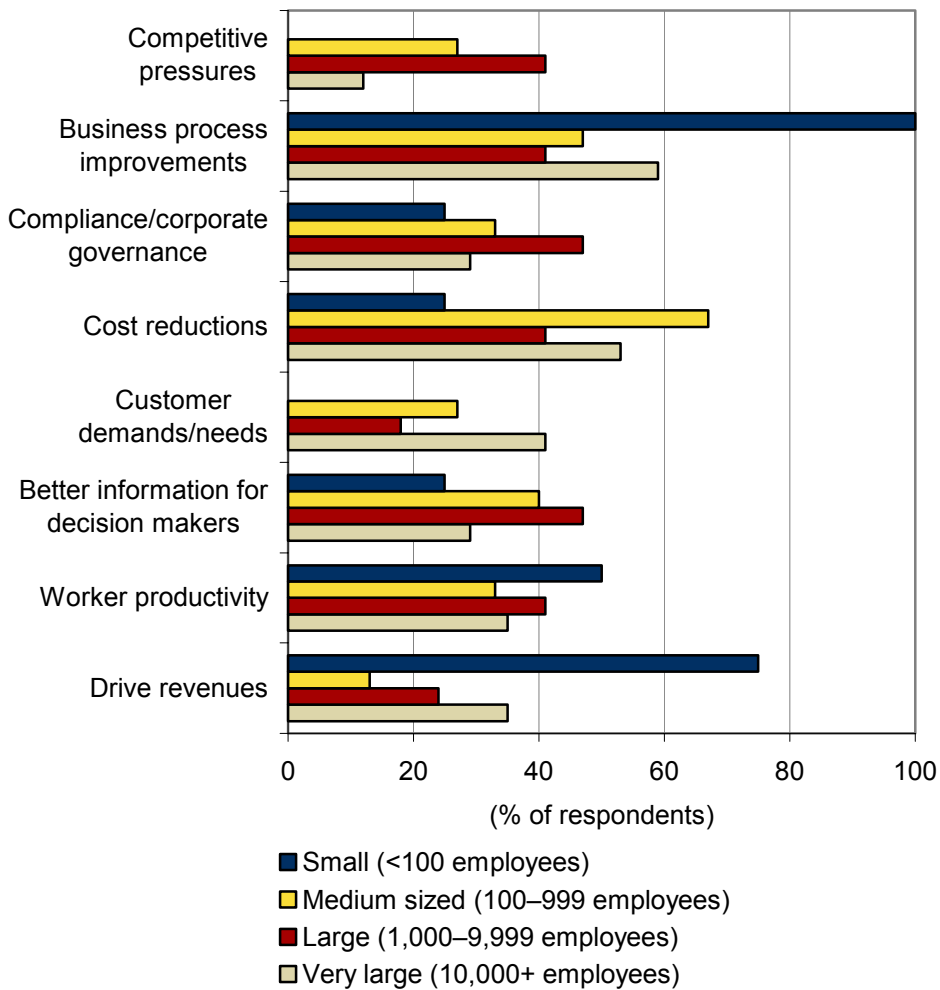
Source IDC, 2007

Figure 2, which is based on data from IDC's AppStats quarterly survey on application buying trends, shows the factors driving enterprise application selection by organizational size. The data shows that midmarket organizations have very high expectations of benefit delivery from the purchase of enterprise applications. Although cost reduction leads the ranking, other business benefits such as meeting customer demands, increasing worker productivity, and providing information to decision makers are of almost equal importance.

**FIGURE 2**

**Factors Influencing Enterprise Software Application Investment**

Q. Rank the top 3 factors that will determine your future enterprise software application investments (top 3 ranked factors combined).



n = 1,032

Note: Multiple responses were allowed. Total may exceed 100%.

Source: IDC, 2007

Of course, the technology challenge in implementing a successful approach to customer management involves coordinating three dimensions of solution components: internal user needs, company infrastructure (including IT constraints), and external customer requirements. The needs of each constituency must be addressed, but again, the most important component of all will be the flexibility to adjust to changing needs over time.

The appeal of a flexible approach to customer management becomes readily apparent as soon as a discussion relating to customer information needs begins. After all, consider what will likely be the conflicting goals of addressing both short-term tactical needs and long-term growth strategies. Any new approach will need to accommodate changes in technology use and available resources.

However, the dynamics associated with resource development and delivery are increasingly complex — just think about the impact of open standards, Web-based solutions, and the customization versus configuration support associated with different levels of control and IT needs. Beyond the technology are the issues of who should have access to information and to what degree. Although there are often strong arguments for limiting the most sensitive information, it is clear that real value can be associated with information sharing and coordination within a company.

So, what is the right way to move forward? Even firms with the most basic customer information resources in place can find their business disrupted if care is not taken when adopting a new approach. An evolutionary progression of sales management resources, as midmarket firms advance in need from contact management to remote access to account information by sales, is almost always a good idea. (And tolerating and even encouraging redundancy from the start can be a good way to avoid major problems while demonstrating the advantages of a new approach.)

The care in following this evolutionary approach will pay dividends to an organization as accurate and reliable customer information is assembled to which appropriate analytics can be applied. As organizations move through the evolution of their technology solutions, the ability to mine customer data for new business opportunities will increase. Although there will be a natural tendency to focus on the major customers that helped build your business, it is useful to look at other customers as well: Is there something that you could provide to lower-volume, less profitable customers that you are missing? Are the product or service needs of these customers not being met by the current offerings as they are presently delivered? Who is the best partner to service these customers? Without the appropriate information foundation, organizations will have difficulty answering these questions.

## CHALLENGES AND OPPORTUNITIES

The changing nature of business in general and customer needs in particular makes effective information gathering and dissemination especially critical for customer support. One of the greatest challenges facing senior management in successful midmarket firms is to "counter the culture of complacency." Although few people in any organization are likely to agree that future success can be ensured only by continuing what has worked in the past, it is surprising how many behave that way. Management needs to counter that attitude when it arises and work hard to encourage an attitude that, while respectful of approaches that worked in the past, rewards new ways of thinking that strengthen customer value in innovative ways.

In crafting effective programs that provide internal and external access to critical customer information, companies must take care in a number of areas:

- ☒ **Listen to sales and understand their role (but within reason).** Members of the sales force can naturally play a key role in identifying and articulating their needs as well as those of customers. But understand that sales staff will naturally have biases, most typically a near-term perspective. That said, members of your sales force will be critical constituents as both developers and consumers of account information. Their buy-in at multiple levels will be critical for success. There is a need to include support staff also.
- ☒ **Seek input from other groups.** Sales will be an important resource in understanding customer interests, but third-party perspectives are needed to avoid sales myopia — a danger in listening only to the same group of vocal customers. Planners will need information on all customer types, especially from different industries (and government should not be forgotten). Look up and down the value chain to suppliers and others that can play in this process.
- ☒ **Make sure you have continuing commitment for self- and customer assessment.** Senior management buy-in to development and delivery of customer information will be especially important. The extent and nature of internal and external customer information needs will continue to evolve in the years ahead. Continuing investment in meeting those needs through changing processes as well as investment in new tools will be essential.

## SUMMARY/RECOMMENDATIONS

Delivering customer value requires continuing attention and focus if a midsize company is to prosper into the next generation. Customer intimacy can be difficult and expensive to maintain, which is why it is always at risk as companies grow. Your view of efficiency and effectiveness may not be shared by your customers, who are more interested in the quality of their experience in working with you than with the loaded costs you incur for an individual support call.

In an increasingly competitive environment, effective access to information can be an important attribute to distinguish yourself from competitors. To that end, there are three essential steps that midmarket companies need to take to sharpen the value proposition they offer to their customers:

1. **Understand who in the organization needs accurate and timely customer information** and ensure that the right information is available. Not everyone in your company needs all of the details instantly, but access to current account information is important not only for sales but also for others who have contact with customers. The highest priority moving forward should be to improve information access to those directly in contact with customers. If you haven't done an "information needs audit" in the past 12 months, the time to start is today!
2. **Build effective customer profiles so that you provide the right levels of support to all.** This will take work but you should identify the most important customers you have (or hope to have) so you can ensure that they are handled in a way that will encourage them to do more business with you. Everyone knows their biggest customers, but do you know what 10 accounts are most likely to double their business with you in the next 12 months? Needless to say, these are the customers you will want to treat with special care.
3. **Listen, learn, refine. Make sure you have ways to leverage customer feedback.** An important way to distinguish yourself from the majority of your competitors is to take the steps above to deliver the right customer information at the right time. But real competitive distinction can come by listening effectively to your customers. Breakthrough ideas in product or market positioning can come from many places, but the largest number of potential new ideas will come from sources outside your company, from those who use your products and services on a regular basis. In addition to your customers, your suppliers and your employees will have changing needs, which you can help meet in ways that will benefit your company. It is important to institutionalize and formalize information collection and delivery, and it is just as important to refine practices to support changing constituent needs.

# APPENDIX

<b>TABLE 3</b>								
<b>Customer Assessment Opportunity Index: Who Are Your Best Customers?</b>								
<b>Sample Data and Factors</b>	<b>Current Spend</b>	<b>Spend Growth</b>	<b>Expected Growth</b>	<b>Industry Leader</b>	<b>Exciting Industry</b>	<b>Our Share of Spend</b>	<b>Enjoyable to Work With</b>	<b>Total</b>
Factor importance (1–9 scale)	5	4	8	5	6	4	6	
	<b>Ratings 1–5 scale</b>							
Customer A (big but stagnant)	5	3	2	4	2	3	4	
Customer B (small, growing)	2	4	5	2	5	4	5	
Customer C (industry leader)	3	3	3	5	3	2	3	
Customer D (big \$, big pain)	5	3	3	2	2	5	1	
Customer E (growing, new industry for us)	2	3	4	4	5	2	4	
<b>Add customers below</b>								
Factor calculation (Rating X factor importance)								
Customer A (big but stagnant)	25	12	16	20	12	12	24	121
<b>Customer B (small, growing)</b>	<b>10</b>	<b>16</b>	<b>40</b>	<b>10</b>	<b>30</b>	<b>16</b>	<b>30</b>	<b>152</b>
Customer C (industry leader)	15	12	24	25	18	8	18	120
Customer D (big \$, big pain)	25	12	24	10	12	20	6	109
Customer E (growing, new industry for us)	10	12	32	20	30	8	24	136
<b>Maximum best</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>35</b>
<b>Maximum worst</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>7</b>
<i>Compare customers to theoretical highest and lowest rating — make sure you have enough factors and rating distinctions to discriminate.</i>								
<b>Maximum best</b>	<b>25</b>	<b>20</b>	<b>40</b>	<b>25</b>	<b>30</b>	<b>20</b>	<b>30</b>	<b>190</b>
<b>Maximum worst</b>	<b>5</b>	<b>4</b>	<b>8</b>	<b>5</b>	<b>6</b>	<b>4</b>	<b>6</b>	<b>38</b>
<b>Your Data and Factors</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>	<b>Factor 5</b>	<b>Factor 6</b>	<b>Factor 7</b>	
Factor importance (1–9 scale)	0	0	0	0	0	0	0	
	<b>Ratings 1–5 scale</b>							
Customer A (big, but stagnant)	0	0	0	0	0	0	0	
Customer B (small, growing)	0	0	0	0	0	0	0	
Customer C (industry leader)	0	0	0	0	0	0	0	
Customer D (big \$, big pain)	0	0	0	0	0	0	0	
Customer E (growing, new industry for us)	0	0	0	0	0	0	0	
<b>Add customers below</b>								
Factor calculation* (Rating X factor importance)								
Customer A (big, but stagnant)	0	0	0	0	0	0	0	0
<b>Customer B (small, growing)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Customer C (industry leader)	0	0	0	0	0	0	0	0
Customer D (big \$, big pain)	0	0	0	0	0	0	0	0
Customer E (growing, new industry for us)	0	0	0	0	0	0	0	0

Source: IDC, 2007

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