Straight Talk Book No.4

How to get the most out of that bird in your hand

(Ten tips for growing profitable revenue with the customers you already have)

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"There is nothing so deceptive as an obvious fact."

Sir Arthur Conan Doyle

Contents

Bird or bush

Costs have been cut, assets shed. Technology rationalized. And new investments squeezed.

You know the drill. The costcutting cycle repeats. And repeats.

But what do you do when there's nothing left to cut?

The single most compelling business challenge today is no longer how to squeeze more from less. It is how to escape the depressing gravitational pull of the downturn and get back on the upward path of profitable revenue growth.

So where should you start? With that bird in hand or the two in the bush?

The instinct of both client and consultant is to look to the latter. Look for that breakthrough product or service that creates a mind-blowing competitive edge and opens the doors to a host of new customers.

But amidst the buzz of the brainstorms, many overlook the straightforward, practical moves they could make immediately with the bird they already hold in their hand – their current customers.

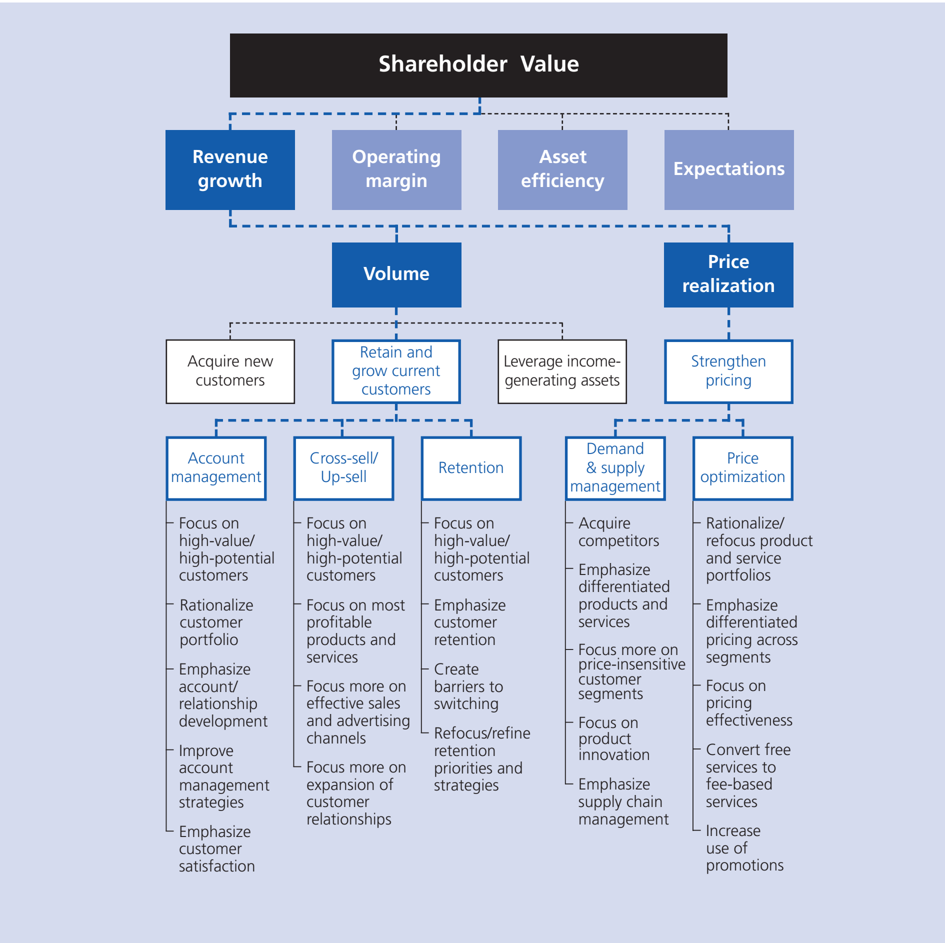
These moves require little to no new investment and might seem obvious to some, which is probably why they are so often overlooked. Yet they're some of the easiest – and most reliable – ways to grow profitable revenues.

So the simple suggestion of this book: Before you get too far with new products, services, channels, or markets, make sure you have invested in profitably growing the customers you already have.

Profit Tip #1: Grow your current customers first.

This book was prepared by Deloitte Consulting LLP.

Make the most of what you've got



Seismic jolts

If what's essential today is growing profitable revenues, how do you get your people in the mood to do it? How do you overcome the malaise that comes from repeated cost cuts, layoffs, and downsizings?

Instead of looking to the usual company-wide sales drive or multiphased culture change program, try giving your organization a seismic jolt. A one-time, perspective-altering change in the way things are done. A brilliant twist in policy that forces everything else into place.

A perfect example is Granite Rock, the Malcolm Baldrige Award-winning cement and asphalt company that generates 30 percent more revenue per employee than the national average. How? It charges a premium for high-quality materials and unmatched service.

To hold itself to that high standard, Granite Rock instituted a short pay policy and added it to every invoice. If a customer wasn't completely satisfied, she could simply not pay for the offending item.

This seemingly small policy sent a seismic jolt throughout the organization. Whenever an invoice wasn't paid, the responsible employee went out of his way to root out the problem, find the cause, and make sure it never happened again.

Every company's jolt is different. Find the one lurking out there that could dramatically move the mindset of your organization and drive a whole new set of profit-reaping behaviors.

Credit to Jim Collins for the Granite Rock example.

Profit Tip #2: Reignite your people's passion for growth.

A sampler

Objective	Seismic jolt	Impact
Increase your margins	Give customers a line item veto. *Invite customers to short pay any invoice if they are not completely satisfied.*	Ensures product and service quality that warrants higher prices.
Increase customer retention	Pay your sales force for keeping customers, not just getting them. *Don’t pay your sales team the entire bonus when the deal is closed; save the lion’s share to reward them for keeping the customer happy.*	Your sales people stay focused on important customers long after the sale.
Improve quality	Pay your people for perfection. *Every day you don’t have an error, or every month that goes by accident-free, everyone gets a bonus. If there’s one error or accident, nobody gets the bonus.*	Your people exert pressure on each other to do the highest quality work possible.
Increase innovation and reduce costs	Put your people in business for your customers. *Assign diverse teams from supply, manufacturing, delivery, service, and sales to a single customer. Reward them for finding ways to improve the customer’s experience or reduce the cost to serve them.*	Your people create value for the customer and the company.

Potemkin villages

Ever heard of Count Potemkin? He was a successful man in 18th century Russia. From time to time, Catherine the Great, his regional manager, would come down to check on the growth of his territory. Potemkin would take her down a route lined with splendid trees and impressive new villages. And they'd stop along the way to chat with all the loyal, happy, productive subjects.

After the tour, C the Great would congratulate him for successfully growing his territory, and go home pleased by the progress in this part of Russia. Potemkin would promptly tear down the fake villages he'd built and send home the actors he'd hired to man the facades.

Believe it or not, there are Potemkins at work in almost every organization. You announce a customer, store, plant, or office visit, and your people go about preparing for your stay. Walls get painted, machines get washed, delighted customers get invited to meet you, and the best employees are put on shift to greet you.

Your people, with every good intention, will try to show you things not as they are, but how they think you want them to be. Customers and suppliers may do it too, especially if you're a high-ranking executive.

But if you're going to grow your current customers, you need to know exactly how they feel about doing business with you. Use the tips on the facing page to see beyond your Potemkin Villages and get to the cold, hard truth.

Profit Tip #3: Obliterate the barriers that prevent you from understanding what it's like to do business with you.

Village wrecking balls

Principle	Situation	Action
Good intentions are not good enough	Every new executive announces that she will stay close to her customers. The road show starts… something comes up… something else comes up… and POOF – a Potemkin Village appears.	Stay out there. Make time with customers the one part of your schedule written in permanent ink.
Use an agent	Funny thing about people – they don't like to bring you bad news. They don't, however, have trouble telling someone else bad news (about you).	Sometimes it takes an agent to pry loose the truth. And winning requires, first and foremost, a fundamental relationship with the truth.
Celebrate paranoia & suspicion	Andy Grove of Intel says: "Only the paranoid survive." *Every piece of customer information can be biased. True performance can be masked. It is easy to miss what customer satisfaction is really about.*	Believe nothing until they show you the wounds.
The unexpected questions	When you do meet with a customer, you can ask the safe questions: *How are we doing? – Good.* *Are you satisfied? – Yes.* *Anything we can do better? – Lower your price.*	Ask the unexpected questions instead: *What do our competitors do better than us? – Hmmm.** *If we lost your business, what do you think the cause would be? – Hmmm.** *If you were us, what would you worry about? – Hmmm.** *Hmmm is good. Trust us on this one.

Big D

Here's an interesting tidbit: No one in business today has operated in a deflationary environment. In fact, the most recent period of deflation came at the end of World War I.

So you're not alone if you find yourself longing for the days when you could grow revenues simply by raising your prices.

But those days are gone.

Welcome to the less-than-wonderful world of deflation. Where prices get cut, competitors follow suit, and customers get used to it. So prices get cut further. And next thing you know, it's a fire sale.

What's the right thing to do with prices in the midst of a deflationary dip?

Try bucking the Big D with a little pricing discipline:

Recoup all the costs of making goods and serving customers.

If your competitors drop prices, make sure you understand why (they may just be trying to move excess inventory).

Invest in real-time information for sales and inventory levels, and use it for dynamic pricing.

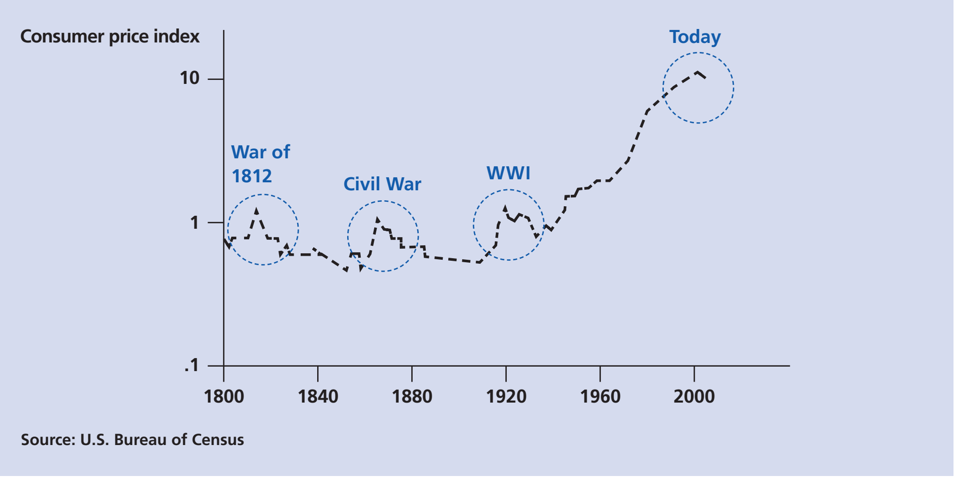
Protect your product from commodity pricing pressure with unique features and private labeling.

Carefully track changes and special requests, and charge a fair price for them.

Keep an eye on volume commitments made at time of sale, so you're not giving away discounts without receiving your quid pro quo.

Profit Tip No.4: Buck deflation by putting discipline into your prices.

Professor Steidtmann's deflation history lesson



Like inflation, deflation tends to be self-reinforcing. Once deflationary cycles start, they tend to persist. Over the past 200 years, the global economy has experienced an extended deflationary cycle during three separate periods:

The first came after the end of the Napoleonic Wars in 1812; prices fell for nearly 50 years.

Contrary to today's gloom and doom, the second period of deflation came during the period of extraordinary infrastructure and technology expansion in the early 1870s and continued up to the beginning of World War I. New businesses thrived and the standard of living rose dramatically, with ever-higher levels of productivity. High productivity led to an oversupply of goods, and prices took a steep downward dive.

The most recent period of deflation came at the end of World War I and was both the most severe and the most destructive (leading up to The Depression).

Deflation did not follow the end of World War II, because governments around the world embraced deficit financing and took responsibility for macro-economic management.

Now it's our turn.

Adapted from Carl Steidtmann, "Deflation: The Oversupply of Everything," A Deloitte Research Economic Viewpoint, 2002.

The profitability paradox

A lot of companies measure customer profitability. As they should. Problem is, many use the wrong measures.

Ideally, your approach should take into account:

What your customers actually pay (after discounts, promotions, rebates, and write-offs).

How much it costs to sell to them (including all commissions and incentives).

What it takes to serve them (ranging from distribution to after-sales support).

But be realistic. Tracking those costs and linking them to customers can cost more in effort than it generates in dollars. Be prepared to use proxies. But consider yourself warned: Proxies can be misleading.

Consider the hotel chain that figured frequent guests were their best customers. They built an affinity program around them. Only to find most of those guests booked online and were paying lower prices than everybody else. So the company was rewarding its least profitable customers.

Call it the profitability paradox:

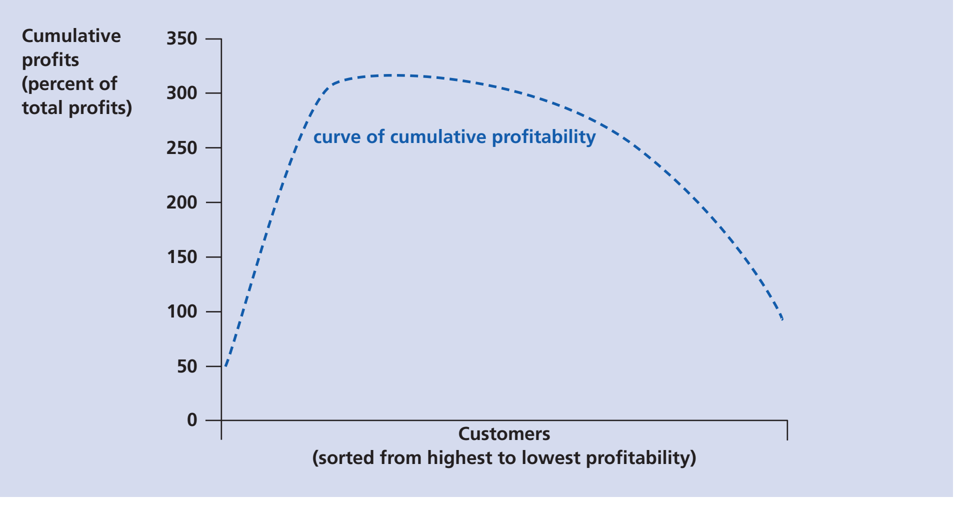
Direct measures can be costly, so companies use proxies.

Proxies can be misleading, so companies turn to more direct measures.

Proceed with care. Sort out your profitability measures. Which do you need? Which can you afford? And for those that are too costly, what proxies can you really count on?

Profit Tip No.5: Understand what really adds up to profit (and loss). Measure that.

Get the picture?



Once you've calculated each individual customer's profit, take some time to plot your Curve of Cumulative Profitability.

Often called the Whale Curve, the plotted data paints a very clear picture of your customers and their impact on your growth. And it's almost always the same curve, much like the one above, where the most profitable customers (top 20%) can contribute up to 300% of profits, and the least profitable customers (bottom 10%) can drain up to 200% of the very same profits.

An interesting thing you'll learn in this exercise: Your largest customers will congregate at one end of the spectrum or the other, but rarely in the middle (that is, they'll be either the most profitable or the least profitable of your entire customer base). You can't lose large amounts of money with small customers; you don't do enough business with them. Only a large customer, working in a particularly perverse way, can be a large loss leader.

Bottom feeders

Unprofitable customers are the pariahs of the business world.

Or so conventional business theory would have you believe.

Weed out your bad customers and aim loyalty programs at good ones.

On the surface, this makes sense.

But in this day and age, customers are scarce. Writing one off simply because it's unprofitable is at best rash and at worst counterproductive.

The question you should be asking yourself is not, "How can we shed unprofitable customers?"

Rather, "How can we make money off the customers that everyone else is shunning?"

Consider Paychex, Inc., a payroll processor that built a multi-million-dollar business by serving small companies – ones that previously established players had ignored on the assumption that they couldn't afford the service. Paychex now serves 390,000 U.S. customers, each employing an average of 14 people.

Or Progressive Insurance, who found a way to make money off customers the competition rejected – young people and drivers with poor records. Between 1991 and 2001, Progressive sported an average underwriting profit of 4.5%, compared with an average loss for other U.S. auto insurers of 3.0%.

Both companies found that with innovative new business models, they could turn a profit off unattractive customers. Can you do the same with yours?

Adapted from article by Deloitte Consulting professionals David Rosenblum, Doug Tomlinson, and Larry Scott, "Bottom Feeding for Blockbuster Businesses," Harvard Business Review, March 2003.

Profit Tip No.6: Scoop up the customers the rest of your industry shuns.

Pariah or profit?

Organization	Product/service and customer segment	Business model breakthrough	Cumulative net profit over last five fiscal years
Charles Schwab (a start-up)	Retail stock buyers	Phone-based stock purchases without investment advice	$2.26 billion
Enterprise Rent-A-Car (a start-up)	Consumers who need temporary replacement cars	Stay out of the business traveler segment and expensive airport locations; strong referral arrangements with auto dealers and repair shops	(privately held)
Paychex (a start-up)	Small-business payroll and HR services	Low-cost payroll services for small-business clients through new approach to data collection and marketing	$961 million
Progressive Insurance (established firm)	Auto insurance for high-risk drivers	Serve customers deemed high-risk by others through superior risk and pricing analysis	$1.6 billion
WellPoint Health Networks (established firm)	Health insurance for individuals and small businesses	Multiple insurance products for different customer segments supported by separate front- and back-office processes	$1.49 billion

Meet Sybil

She bursts through the door and reintroduces herself. Four times.

"Hi, I'm your customer."
"And your supplier."
"And your partner."
"And your competitor."

Meet Sybil. The customer with multiple personalities. She's a veritable marketplace of relationships.

But how can you possibly have a good relationship with her when she buys from you, sells to you, goes to market with you, and competes with you?

Is it time to appoint a Head of Customer Relationship Integration? A Chief Customer Psychiatrist?

Not quite.

But it is time to analyze all the relationships you have with her so you can identify the one where your biggest growth opportunities lie.

Not because you can only have one relationship per customer. But because you may want to give a little in one area to get big gains in another.

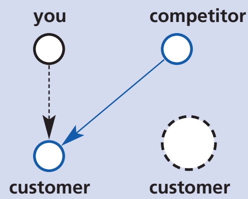
Make those multiple personalities work hard for you.

You might even find yourself mining your list of competitors, suppliers, and partners to see if you can find more like Sybil.

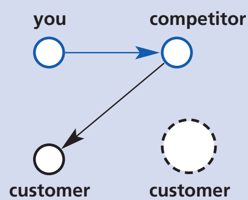
Profit Tip No.7: Exploit growth opportunities in companies where you have multiple relationships.

When customers become competitors (and vice versa)

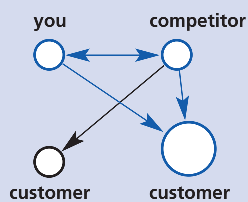
Give up a customer to a stiff competitor…



…to gain favor as a supplier to that same competitor…



…to gain position as their joint venture partner with an even bigger customer.



Ode to losing

While you're counting up your current customers, don't overlook one of the most important customer groups – the ones that got away.

Winning affirms all the things you're doing right. But losing can be a far better teacher. And a more accurate road map to future revenue growth.

So why don't companies spend the time and energy required to understand why they lose customers?

Why? Because successful business people hate losing. Instead, they move on. To the next conquest. And the next elusive win.

But don't let your losses become a lost opportunity. Open a corporate equivalent of the National Transportation Safety Board: an independent team charged with investigating every lost sale.

The beauty of the NTSB is that it has no ties to any organization, and no emotion wrapped up in the subjects it investigates. So it can coldly and objectively examine mistakes, and issue safety recommendations that will prevent future losses.

There's no reason this model can't work in your organization.

Ask yourself:

"Do we really know why we lose?"

"What kind of program do we need to put in place to gain this insight?"

"How can we turn that knowledge into better relationships?"

In your rush toward the next win, don't double your losses by not learning from them.

Profit Tip No.8: Relish your losses for what they can teach you – and put them to use in securing future wins.

A loser's playbook

Ask while it still stings	Time blurs stuff. You need to have a quick strike program in place to speak to customers immediately after a loss. Fresh wounds tell more about the injury.
Place of honor on the executive agenda	Look at your Executive Management meeting agendas. Is there a fixed slot titled "Why We Lose"? If not, put it there.
Check your defenses with your coat	When you walk in the door to hear why you lost, check your defenses – all those perfectly good reasons why you lost. There is nothing to learn from them. Assume you are to blame. Ask hard questions: – How did we fall short of your expectations? – What went wrong from your point of view? – What reasons did we give you not to go with us? – How has it changed your opinion of us? – What will it take to repair that? – What would you have done differently? Then listen even harder.
Deal with the fear factor	One of the biggest barriers to getting good "losing insight" is the fear that the point person will be exposed as the problem. Punishing people who bury and repeat problems will help. Rewarding people who uncover and fix problems will help even more.
Share the failed-play playbook	Make the lessons from losing widely available so others can incorporate the fixes into subsequent pursuits. It's bad not to learn from your mistakes, but it's even worse not to use what you have learned.

When data is key

Okay, so profitable revenue is everyone's job, right? But your CIO might just be holding the keys to the profitable growth kingdom.

Why? Because he can tell you:

Who your customers are.

How much they spend. Where they might spend more.

And how to encourage them to do that.

Who comes back. Who doesn't.

How long it takes you to deliver orders to them.

What it costs to serve them.

Whether you're getting your costs back from them.

And what they contribute to your profit.

Jingle, jangle. He holds the data. And data is key.

What would happen if you took him off technology implementations and put him onto profitable revenue growth?

What would happen if you demanded that he turn all those IT specialists into growth advisors – doubly armed with the answers to your profit questions and their deep knowledge of what technology can do to help?

They'd begin to see their technology initiatives from a different point of view.

You'd avoid running down dead-end technology alleys.

And, ultimately, you'd end up with IT implementations that actually tie back to your profit objectives.

Profit Tip No.9: Sign up the IT department for your profitable revenue growth program.

IT – on the hunt for profits (Moving from a cost center to a profit producer)

To help the business achieve its profitable revenue growth objectives, use this checklist.

Focus IT on profitable growth	☐ Move the IT mindset from updating applications to providing management insights ☐ Make revenue growth a key metric for CIO compensation ☐ Make business objectives a part of IT's daily decision-making process	☐ Educate IT staff in what would be useful management information ☐ Assign IT staff to business units and customer segments ☐ Deliver regular updates to the business about who's profitable and who's not
Close the gap between business and IT	☐ Hold business leaders accountable for responding to IT insights with customer strategies ☐ Create teams of IT/business staff and give bonuses for profitable growth breakthroughs	☐ Agree on common profit objectives for business and technology
Celebrate and share insights learned	☐ Share insights and profit breakthroughs across teams and divisions to demonstrate the potential of IT	

One at a time

“The easiest kind of relationship is with 10,000 people – the hardest is with one.”

Joan Baez

Pricing, profitability, and Potemkins. Where on earth should you start?

With one really important customer. Not necessarily your biggest. But one that offers the most opportunity for growth.

Decide who that is. Then quickly:

Get to know them well.

Measure your cost to serve that customer and its resulting contribution to profit. Factor in lifetime value and growth opportunities.

Set an aggressive agenda for growth (taking into account multiple relationships).

Implement your growth plan – raising prices, reducing cost to serve, or improving that customer’s experience.

Add the jolts, processes, technologies, or training needed to make your growth plan stick.

Repeat with your next most important customer.

Conventional segmentation might tell you to start out with groups of customers.

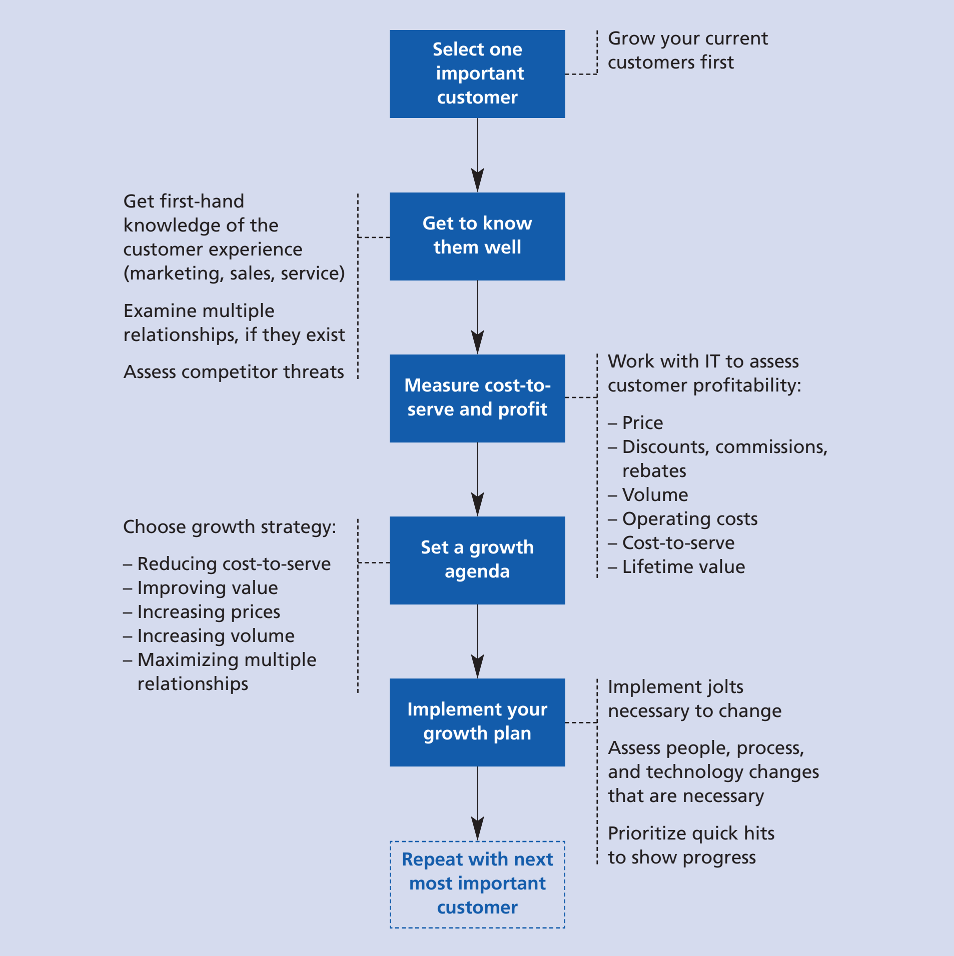
But that involves a long, drawn-out process with a far-away payoff that might be irrelevant by the time you get there.

Instead, pick one customer and work through this process in 100 days.

That way, you’re seeing results quickly. Building momentum. And making major changes, one really important customer at a time.

Profit Tip No.10: Grow your revenues one customer at a time.

Start here


Select one important customer
Grow your current customers first
Get to know them well
Get first-hand knowledge of the customer experience (marketing, sales, service)
Examine multiple relationships, if they exist
Assess competitor threats
Measure cost-to-serve and profit
Work with IT to assess customer profitability:
– Price
– Discounts, commissions, rebates
– Volume
– Operating costs
– Cost-to-serve
– Lifetime value
Set a growth agenda
Choose growth strategy:
– Reducing cost-to-serve
– Improving value
– Increasing prices
– Increasing volume
– Maximizing multiple relationships
Implement your growth plan
Implement jolts necessary to change
Assess people, process, and technology changes that are necessary
Prioritize quick hits to show progress
Repeat with next most important customer

Restating the obvious

This book presents 10 practical tips for growing profitable revenue with the customers you already have. Ten seemingly obvious things you should be planning to do, be doing now, or have already completed.

Which begs the question:

Why aren't they done?

Perhaps it's too easy to put off the obvious.

Our advice: Don't.

Profit tips

No.1: Grow your current customers ***first***.

No.2: Reignite your people's passion for growth.

No.3: Obliterate the barriers that prevent you from understanding what it's like to do business with you.

No.4: Buck deflation by putting discipline into your prices.

No.5: Understand what really adds up to profit (and loss). Measure that.

No.6: Scoop up the customers the rest of your industry shuns.

No.7: Exploit growth opportunities in companies where you have multiple relationships.

No.8: Relish your losses for what they can teach you – and put them to use in securing future wins.

No.9: Sign up the IT department for your profitable revenue growth program.

No.10: Grow your revenues one customer at a time.

About this book

How to get the most out of that bird in your hand is the fourth in a series of books dedicated to making your experience with consultants more positive and productive.

To request additional copies of this book, or to order previous editions, go to: *www.deloitte.com/straighttalk.*

Talk to us

At Deloitte, we believe that great relationships create lasting value for everyone involved. And in our experience, those relationships almost always start from good conversations. We look forward to hearing from you and learning what you think about the ideas presented in this book.

For more information about how we can help you grow profitable revenues, please contact our global practice leader, Jonathan Copulsky (jcopulsky@deloitte.com).

Bull Tested
Bull Composite Index: 8.4
Bull Index: 100
Flesch Readability: 58

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