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CRM

customer relationship management

Clients, Customers, Buyers: Which Do You Have?

Measuring Markets With Web-Based Surveys

AT YOUR SERVICE

B2B COMPANIES ROLL OUT THE RED CARPET FOR THEIR MOST VALUED CUSTOMERS

Freedom Technology Media Group

CLIENTS, CUSTOMERS and BUYERS

TELLING THEM APART CAN MEAN THE DIFFERENCE BETWEEN PROFIT AND LOSS.

ILLUSTRATION BY BRAD YEO

By Dennis J. Chapman

We've all been faced with those trying accounts: extraordinary service demands, minimal follow-on business, sometimes even a twist of rudeness, little if any concern for suppliers and an expectation of buying quality products and services—all for a price that no company can afford to provide profitably.

Many businesses, seemingly up against the wall to meet these buyer demands or lose the account, have caved in for the sake of revenue.

We have all been well schooled in servicing all accounts equally. News flash: Our teachers were only partly right. All accounts are important; however, our servicing models cannot be the same for all accounts. It is now time to refocus our efforts, priorities and expectations on our approach to account servicing.

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The 80/20 Rule?

During some recent research and analysis, one of The Chapman Group's accounts discovered that while they were busy servicing all accounts equally, their business revenue base and sources of profit had dramatically shifted. Where once they could point to 70 to 80 percent of their revenue coming from 20 to 30 percent of their accounts (the old 80/20 rule, or so they assumed), financial analysis with all account servicing costs accounted for now show a much different profit picture.

Less than 15 percent of existing accounts were generating greater than 90 percent of their margin (a new 90/10 profitability model, versus the old 80/20). Conversely, the other 80 to 90 percent of accounts were now only representing approximately 10 percent of profit dollars.

With a business world shaped by years of mergers, acquisitions, consolidations, buying groups and buying exchanges, this shift should have been expected. It is time to change old models and servicing practices.

Servicing, Not Funding

Being "account-centric" is the correct business model, but account-centric means servicing clients, not funding them. There is a distinct difference. Servicing means providing the products and services (human and technological) commensurate with account needs and expectations, all for a fair and profitable price. Funding means providing those same products and services (human and technological) at below costs, an inevitable "out-of-business" practice. Yet many times, this represents the model toward which accounts drive their suppliers.

All supplier-servicing models have a cost-base associated with them. Suppliers must implement the appropriate servicing solutions while bearing in mind two important principles:

When the cost-of-servicing exceeds gains in margin, it is the wrong servicing model, but not necessarily a bad account.

Accounts need to be given servicing choices. Suppliers need to develop multiple servicing models that allow accounts to choose the servicing option that best aligns with their needs, expectations and business practices.

Customers vs. Accounts

For many years, in many industries, terms are sometimes used so loosely that their meaning becomes unclear, inaccurate, ineffective or sometimes just lost. An example of this is the word *customer*. Throughout the business world, specifically in B2B businesses, *customer* is used interchangeably or synonymously to mean a large account, a potential account, an account that we are losing, a specific person within an account or even all accounts in a supplier's portfolio. The impact of the generic meaning and use of the word *customer* can even be realized in the acronym *CRM*, Customer Relationship Management.

Does this acronym infer that all accounts are customers? Are those accounts who provide none, some or significant revenue and profit all customers? Do they all have the same value? Do they all need similar or different management and servicing models? Do we differentiate? How do we differentiate?

We do know that all accounts in business are different. In many situations we need to manage the non-customer relationships differently, those not yet providing sales revenue for a supplier's goods and services, to spawn new "revenue-generating" account relationships. We also know that some customer relationships are more valuable to our organization, and we need to service them accordingly.

Additionally, in the new "e" world, true customer relationships are not always desired or practical. That's not to say that all users of the acronym *CRM* are in error. We support the implementation of a unified relationship management process between an account and a supplier, and in many B2C environments the term *customers* is very appropriate. However, it is now necessary to create a call-to-action for a next generation of CRM complete with more clarity, specificity, understanding and change in our approach to differentiating between types of accounts (buyers, customers and clients) based on a set of pre-determined, yet flexible business criteria.

One thing is certain: All businesses are someone's accounts.

Clients, Customers and Buyers

Over the past 30 years, the common denominator across all businesses, most specifically in the B2B arena, is the term *account*. All references to selling, servicing and relationship management should be centered on that term. An account may be one person; an account may also be an enterprise organization of many thousand workers. Accounts may or may not be customers, however they will always be accounts—and yes, users of some organization's similar products and services. Therefore, we at the Chapman Group recommend that our clients in the B2B business space start thinking about Account Relationship Servicing (ARS).

Within ARS, accounts are segmented into three categories:

- Client Accounts
- Customer Accounts
- Buyer Accounts

Here's a brief look at these account segmentations.

CLIENTS collaborate with the organization on attaining

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Better Client Segmentation Pays Off for Hercules Pulp and Paper Division

Four years ago, the Hercules Pulp and Paper Division, a provider of complete solutions for the worldwide pulp and paper industry, took a hard look at the future of its segment of the specialty chemical industry. Its client base was shrinking through consolidation and becoming more global, giving the survivors a different buying leverage. Competition was also intensifying among the suppliers who served as sole source vendors. Hercules needed to anticipate, understand and respond to these changes.

Hercules' strength lies in providing mills with complete solutions for manufacturing needs and operating problems. Functional chemistry programs enhance the properties and value of finished products. Process treatments improve paper machine efficiency and product quality. Water treatment technologies keep boilers, cooling towers and other utilities running trouble-free.

It's an impressive package, and delivering it involves much more than shipping a drum, skid load or tank car of chemicals. System evaluations, application engineering, sampling, analysis and a strong on-site presence are often required to solve problems, improve performance and assure consistent results. In many mills, the Hercules site manager becomes a hands-on, front-line participant in product development and manufacturing protocols.

The Pulp and Paper Division realized that it was selling and servicing every customer identically. Its 350-plus salespeople treated everyone the same, regardless of size or strategic importance, or how well they fit Hercules' new business profile as it expanded through acquisitions. The allocation of resources, from mill visits to delivery schedules to research and development programs, did not match company objectives or bottom line results.

"We treated everyone like gold, although many were clearly not gold, nor did they want to be," recalls Tom Zaiser, director of corporate accounts for North America.

The answer was better client relationship management, not by doing more, but often by doing the right things as identified by the client. That's when Hercules turned to The Chapman Group to help develop a new client segmentation and selling model.

"We discovered that 72 percent of our business came from only 22 paper companies," Zaiser notes. "Chapman helped us segment our business base into buyers, customers and clients and to understand the differences between them."

Buyers were primarily the small volume and price-driven purchasers, often of commodity products readily available from other suppliers. Customers could be significant purchasers of higher margin proprietary products, but didn't need or couldn't justify the full range of value-added services. Clients were the gold standard, the mills that needed and qualified for high-level solutions, R&D support and 24-hour turnarounds. Hercules turned its attention to this group.

Smart Start

One of the first steps taken was to improve the way that critical information was shared among all those serving a client. Hercules formed cross-functional Strategic Mega Account Resource Teams (SMARTS) with representatives from sales, marketing, R&D and production. Clients also participated. Corporate account managers were appointed to head up the teams, each of which was customized to identify needs and develop synergies for a specific client.

By January 1997, there were three SMARTS in action. A year later, the number had doubled. By June of 1999, Hercules had 26 teams handling 22 clients.

"Every company is important to us," says Zaiser. "We just treat them differently now. We use client segmentation to confirm our selling model and set up solutions. It allows us to deliver our products and technical representation better, to avoid overservicing and inappropriate pricing. And the companies are happier with this arrangement because it is a more realistic and workable alignment of our mutual strategies."

For example, when asked if they needed the extra services they had been receiving, many customers and buyers said "No." Other companies converted to client status when they made a conscious decision to establish a close partnership with Hercules. This client status affords them access to valuable total solutions support that they might not have had otherwise.

Before segmentation, Hercules' client sales in North America were following GDP. However, with the implementation of the SMARTS, revenue increases for client organizations have been significantly higher. In one example, Hercules increased revenues by a factor of three in just four years. "That is excellent performance in an industry that is only growing at a rate of 3 to 4 percent per year. We attribute this performance to our SMARTS business model," says Zaiser.

"We know that industry consolidation is still in its infancy and will continue to grow," he adds. "But we now have the methodology for aligning SMARTS with our key clients. It's not that complicated. We train our people well, know what our clients want and bring them together." *—DJC*

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mutual goals of profitability. They appreciate support, offer profitable revenue on a consistent basis and are reasonable in their expectations of services for prices paid. They embrace client teams and expand relationships between both organizations. They are willing to buy-off and embrace agreed upon "economic value" delivery models.

CUSTOMERS many times act and look like clients, with one significant exception: They want most goods and services for lower than market prices. Customers are very costly to service. They must be transitioned to clients or buyers.

BUYERS emphasize and focus on price. They primarily prefer to live in a "commodity-based" environment. Buyers are tasked with acquiring quantities for "best" prices. Value, relationships and services seldom offset significant pricing differentials in this account segment.

Note: Many times individuals within accounts reflect these behaviors and practices. The sum of these individuals' practices helps to determine the specific account type. Extensive account knowledge needs to be gained and evaluated prior to any typing of an account. Many times diverse account behaviors and practices are prevalent within a single account. This requires adaptation within your overall account servicing practice to meet these "inner" account expectations and requirements.

We need to establish and administer this differentiation into our account servicing practices. This suggests that many suppliers will now have three different, yet integrated, servicing approaches for accounts that offer them different levels of revenue and profitability: a client account approach, a customer account approach and a buyer account approach. Only through this type of differentiation can servicing profitability and account servicing expectations (supplier and account) be met. The good news is that accounts are driving this evolution. They are also experiencing similar issues and needs for segmentation within their own account portfolio.

More good news: Technology has matured to the point of being able to support these innovative servicing approaches. Web-based technologies have enabled accounts to access delivery information, collaborate in real-time with customer support centers to solve issues and in some situations even price their own purchases by product type, quantity and pricing levels while receiving an immediate ship date online.

Servicing Options

The following summarizes recommended servicing practices for client, customer, and buyer accounts:

Account Model	Recommended Servicing Practice
Client	In-depth, collaborative cross-functional teams partnering with extensive network of client contacts able to provide a breadth of services based on return on services investment
Customer	Streamlined cross-functional team aligning with only select customer requirements and expectations. Services are cost-sensitive and based on long-term profitability projection.
Buyer	Customer service; e-servicing solutions, mostly indirect services; and technology-based support due to current and projected levels of profitability.

The Chapman Group has assisted organizations through its proprietary account management "best practice," Strategic Mega Account Resource Teams (SMARTS), which integrate process, methodology and technology into one client-servicing practice. SMARTS align client teams and supplier teams (client-centric and cross-functional) into one unified and collaborative workgroup. It enables clients and suppliers to take a proactive approach to achieving mutual visions, missions and business goals (that is, profitability and new marketplace gains).

It is also important to understand the account profiles and appropriate strategies in order to optimize profitability:

- Client accounts offer long-term upside. Use team-based servicing, relationship networking and collaboration on joint profit-gaining initiatives to promote a sharing of vision and mission.
- Customer accounts are very costly. Transition them into client or buyer accounts.
- Buyer accounts. Utilize technology gateways.

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5 Tips for Ensuring the Successful Execution of ARS

- Establish a Total Cost of Servicing model (TCS)
- Identify and define the criteria for account segmentation
- Segment and differentiate between buyer, customer and client accounts
- Identify a "practice" model for each unique account servicing requirement
- Ensure total company buy-in and support

Account Segmentation

There are 10 benchmarks for segmenting and differentiating between client, customer and buyer accounts. Use this grid as a worksheet for segmenting your accounts:

	Characteristics					
Benchmark	Clients	Customers	Buyers	Degree of (1-5)	Trend (To/Away)	Openness to (1-5)
1. Relationship Network	Valued/In Place	Indifferent	Non-existent			
2. Economic Value Delivered	Focal Point	Want for Minimal Cost	Price only			
3. Mutual Profitability	Expected	Indifferent	Unacceptable			
4. Visions and Strategies	Integrated	Aligned	Individualized			
5. Collaboration	Joint Teams	Mini-teams	One-to-One			
6. Cost of Servicing	Mid-level	High	High			
7. Strategic Importance	High	Mid-level	Mid to low level			
8. Portfolio Profit Percentile	Top 20%	Top 20%-30%	30% +			
9. Long-Term Business	Excellent	Above Average	Average			
10. Depth of Dependence	Anchored	Linked	Available			

How to use the grid:

1. Select the dominant account characteristic for each benchmark criteria.
2. Determine strengths of Degree, Trend pattern (to/away), and Openness level toward the specific benchmark criteria to help validate exact account profile.

   These measurements should be used to evaluate further the account benchmark criteria that was selected from one of the first three columns and assist in determining strategies to either keep status quo or transition to a more favorable account status.
3. The heading that has the most selections under characteristics determines the probable account type (client, customer, buyer).

   Client and buyer accounts may offer acceptable levels of profitability. The important thing is that profitability is enhanced through implementing the correct servicing model. Customer accounts should be transitioned to either client or buyer accounts.

   Client, customer and buyer characteristics may be prevalent within a single account. This requires that multiple servicing models be employed within one team-based account-management model.

Value, most specifically economic value, is the most critical element of any account segmentation effort. Suppliers and their accounts are all measuring their efforts primarily on what each economic value is obtaining through their relationship. It is important that we detail and understand this new business driver.

Total Costs of Servicing

One of your most challenging initiatives will be to lock-down on your Total Cost of Servicing (TCS). This calculation is often difficult since it requires assimilation of internal and external costing numbers that have traditionally not been accurately tracked. The components of this calculation include the following:

- Salaries, commissions, bonuses and the like for personnel associated with servicing a specific account (account-specific activity-based costing process required)
- All expenses; travel, lodging, meals, entertainment, product (installation/evaluation), technology (communication systems)
- Employee benefits and other reward costs for all team members
- Specific training expenses (employee or account)
- Senior management, marketing and corporate overhead factors

Economic Value Proposition

Businesses have become bottom-line practitioners. The era of social values—the three-martini lunch, tickets to ball games, golf outings and meetings filled with many hours of family chatter—have all taken a second position to delivering an Economic Value Proposition (EVP). EVP is the formula for optimizing account relationships: When X is economic value delivered (economical gains from products and services provided), and Y is all account costs (direct and indirect) of goods and services purchased, then X minus Y equals EVP (the supplier's economic value proposition).

It is recommended that a supplier collaborate with its account and reach an agreement on the criteria for EVP delivered, and the exact EVP formula that the account agrees applies to its business model.

Therefore, all account models (clients, customers and buyers) now require their suppliers to deliver economic value. It is the responsibility of a supplier to develop an EVP process and model that their accounts accept and buy in to for validation purposes.

EVP is also the mechanism for maintaining clients for the long term and for transitioning customers to clients. And EVP is the mechanism for valuable differentiation within a commodity-buying arena. It is strongly recommended that teams support clients. The main premise for this account servicing practice is that only through diverse cross-functional teams can suppliers create, deliver and validate the necessary EVP to maintain and justify long-term client relationships.

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What About CRM?

Customer Relationship Management is the springboard for migrating to a more finite Account Relationship Servicing (ARS) practice for the B2B marketplace. CRM embeds the culture, systems and processes to position an organization to become "Best-In-Class" at account relationship servicing. ARS is the next generation of CRM for B2B businesses.

ARS aligns the proper servicing practice to the account's business practice model, and thus ensuring realistic and accurate long-term return on account investment, thus profitability. Based on this new "by unique account" segment-servicing model, organizations can now build service processes and teams that align with profit expectations and provide service according to profit expectations. This new business servicing evolution is required in the new-world economy.

In the beginning, we discussed how one account was immersed in challenges associated with their business transformation because of their new profit mix from different account segments. They, as others, are now finding success through focusing on aligning services with account value. Their journey has just begun, however they now have defined process and methodology to meet their challenges. They are now collaborating with their accounts, one team, one vision and one mission, all united by one goal: long-term mutual profitability and success.

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