Christopher Roberts
Managing Director,
ENGAGED STRATEGY

UNVEILING HIDDEN CUSTOMER ECONOMICS TO UNLOCK UNTAPPED VALUE

In today's fast-paced business landscape, organisations strive to stay ahead by implementing effective customer strategies. However, the calculation of customer economics within these strategies is usually flawed and does not factor in total customer economics, thus leading to large economic implications that board members and senior managers may not be aware of.

This is largely a factor around having a product centric mindset versus a customer centric mindset. Let me explain.

I used to head up large product portfolios worth billions of dollars at a banking institution and my single minded focus was simply – how can I sell more product units? I then went on to head up the customer management function at the bank and my mindset changed to – I have all these customers. How can I extract maximum value from them?

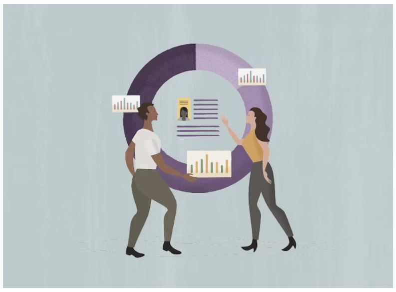
Factors such as loyalty, customer lifetime value, cost to serve and share of wallet became important metrics that informed strategy and contributed handsomely to the bottom line. Unfortunately, many organisations are stuck at the product-centric mindset.

In my column this month, I ~~willshed~~ light on the three important levels of customer strategy maturity –

- **Transactional Level**
- **CLV (Customer Lifetime Value)**
- **TCV (Total Customer Value)**

By ~~illuminating~~ these hidden dynamics, organisations can make more informed decisions and unlock substantial economic value.


STOMER
ERIENCE

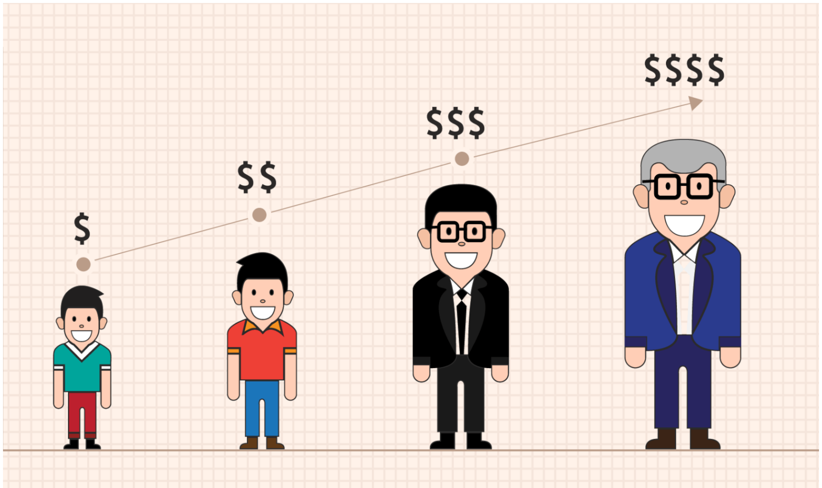


The Transactional Level

A myopic perspective stuck at the transactional level where a business only sees customer value based solely on the sale value of the most recent purchase. This has a heavy detrimental impact on the bottom line. Let me share an incident that I witnessed sometime ago while shopping at a supermarket.

While I was standing in line to pay for my groceries, a customer ahead of me was being difficult. To make matters worse, the service agent was also not putting in a lot of effort to appease the customer. After the customer left feeling disgruntled, her colleague asked her why she did not put in more effort to satisfy the customer. To this, the service agent replied that the customer had only made a purchase of less than $50, so she didn't find the need to appease him. Her colleague then explained that this client shopped at the supermarket every week for a similar amount, so his purchase added up to an average of $200 a month.

Now, calculate this for a 5-year period. Averaging at $12,000 over five years, this customer was actually quite valuable and definitely not just worth $50.



The CLV (Customer Lifetime Value) Level:

Customer Lifetime Value is a direct outcome of aiming to nurture Long-Term Relationships. Taking a step towards maturity, the CLV incorporates customer loyalty and attrition into customer economics.

Consider a subscription-based streaming service that aims to retain customers and reduce churn rates. Let us imagine that the streaming service company has a current attrition rate of 20%. Using simple maths *(in reality the calculation is a bit more detailed)*, it effectively means that for a cohort, given that there are no new customer acquisitions or upsells and cross sells, the company will have zero customers in approximately five years.

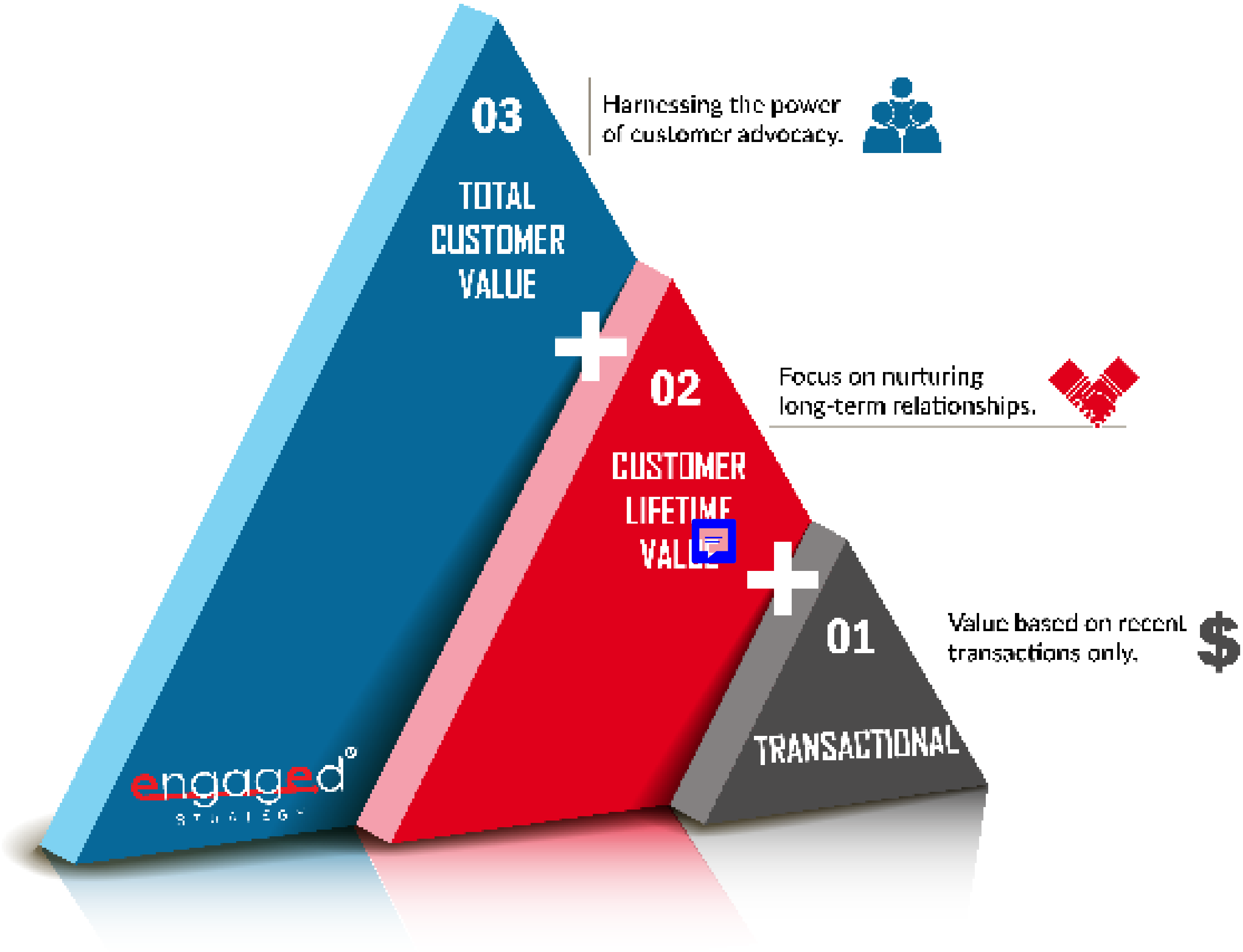
Now, if the brand can reduce customer attrition from 20% a year to 10%, this means it will take almost 10 years for this cohort to get to zero. The CLV in this case is almost twice as much!

Share of wallet or product holdings is also a key consideration as it has a huge impact on CLV. The more products a customer has with your brand, the stickier a customer typically is. This is in addition to the incremental revenue emanating from the additional product purchases.

Note that the final component of CLV is cost to serve. Every time there is an issue and a customer complains, it adds to the cost to serve this customer.

Given the above, this level of hidden customer economics factors in customer loyalty/ attrition, share of wallet and cost to serve.

3 STEPS
TO TOTAL CUSTOMER VALUE ECONOMICS



The Total Customer Value level (TCV):

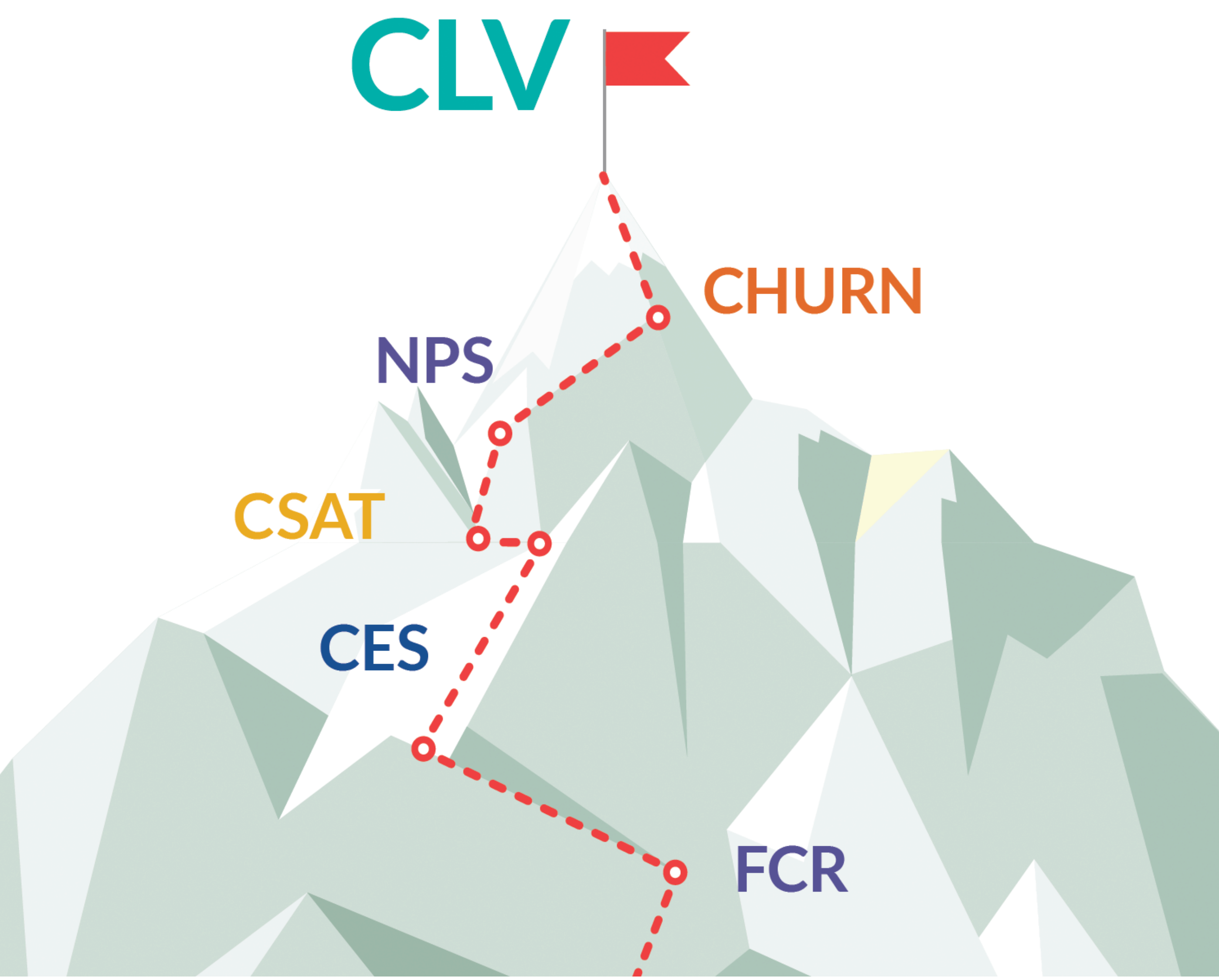
This is the final level which includes everything that I discussed in the CLV Level, and additionally includes harnessing the Power of Advocacy. Let me share a personal incident and the impact of the power of advocacy on customer economics for a business.

This is from many years ago when my eldest daughter was in primary school. There was a brief period when she was getting bullied and the school was not taking any action despite being informed of the ~~bullying~~.

That was a time when a friend of mine recommended that we move her to Sheldon College, a private school in Brisbane *(Australia)* where we were residing. He convinced me by saying that I would not regret shifting my daughter out of her then school and move her to Sheldon College as it was a great school and importantly it was safe for kids as there was a no-bullying policy in place.

We visited the school and were impressed with what we saw. We moved our eldest daughter there and subsequently our two other daughters. Over the years, the school's consistently high quality delivery of education encouraged my wife and I to recommended it to four families, thus contributing to a total of nine other children joining the school on the sheer power of our word of mouth.

Let's now take a look at my total contribution to Sheldon College as a customer. The number of children enrolled there included my three children and nine other children that we recommended over an average lifetime of six years. With the fee back then pegged at around $10,000 a year per student, my contribution as a client of Sheldon College was around $720,000 in total over six years. ***That is the power of positive advocacy.***



But what happens with the power of negative advocacy? When we are unhappy with a brand, we tell anyone who will listen to us about our poor experience and our angst. As you know, bad news sells and spreads. In fact, according to Engaged Strategy's research, it has been found that for a prospect who has heard one negative story about a brand, he/she needs to hear on average five positive stories before reconsidering the brand for a purchase.

When we conducted a **TCV** exercise for an insurance brand, we found that a Promoter is worth 2-times an average customer as they are:

- **More loyal**
- **Buy additional products**
- **Recommend the brand to others**

In comparison, a Detractor is like one negative customer. The negative value was driven mainly by negative word of mouth where they literally stopped prospects from becoming customers.

Board members and senior managers must recognise the economic ramifications of incomplete customer strategies by not having a holistic measure of customer value. By fixating on transactional product centric approaches, organisations risk missing out on significant economic opportunities. For instance, a retailer solely focused on transactional value fails to cultivate customer loyalty, thus resulting in a higher churn rate and decreased customer lifetime value. Conversely, a business heavily invested in loyalty programs without considering the advocacy dimension may fail to tap into the exponential growth potential driven by customer referrals and recommendations.

In the quest for sustainable growth and profitability, it is crucial for board members and senior managers to understand the hidden economic implications within customer strategies. Moving beyond transactional or loyalty-based perspectives and adopting a **TCV** approach allows organisations to develop strategies to unlock the full potential of customer relationships.

By considering sale value, loyalty value, and the transformative power of advocacy, businesses can seize untapped economic opportunities and redefine their path to success. It is time to harness the economic potential of customer strategies and embrace a future where customers become loyal advocates, driving sustainable growth and prosperity.