

Developing and Executing a Customer-Based Strategy¹

Customers are the largest source of cash flow for most firms. Not surprisingly, the market value of a firm increases as the customer base of a firm strengthens. Customers provide cash flow in the form of sales, royalties, and fees. Customers help grow a firm organically by repurchasing, recommending the business to peers, inviting bids for new business, and engaging in positive word-of-mouth.

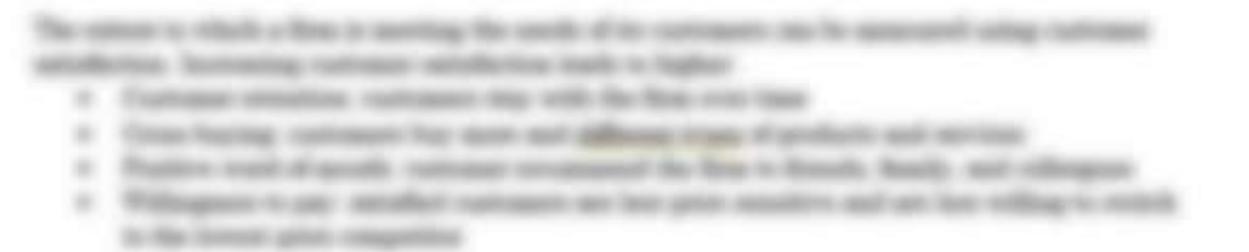


Figure 1: Customer Satisfaction Improves the Quality of Customer Base

Source: Collaborative for Customer-Based Execution and Strategy (Collaborative for CUBES™) <http://www.ccubes.net>

Decades of research shows firms with higher customer satisfaction have higher levels of sales, margins, EBITDA (earnings before interest, taxes, depreciation, and amortization), and stock price.

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A firm cannot satisfy any and every customer. To satisfy customers successfully, a firm needs to focus on its target customer segments, execute with fidelity to fulfill their needs. With relatively higher customer satisfaction, the firm can grow its customer base, and cash flow.

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Customer model: What are our target customers? What are their core needs?

1. Customer segmentation and targeting
2. Customer needs analysis
3. Positioning statement

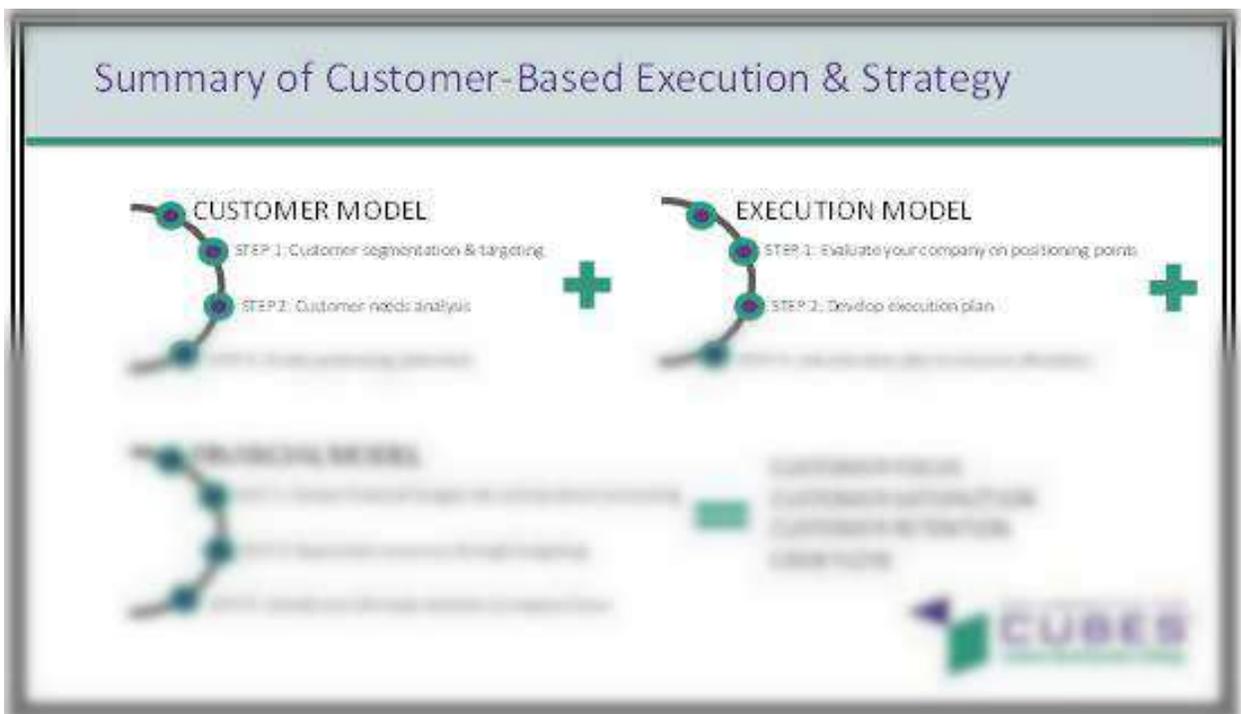
Strategy model: What strategic position should we occupy to satisfy the needs of the target customer?

1. Develop an execution plan based on the positioning statement
2. Evaluate current and potential competitors based on:
 1. Customer segments
 2. Strategic assets

Operational model: How can our budget allocation plan and our support for customer needs and the business model?

They are summarized in Figure 2.

Figure 2. Customer-Based Execution and Strategy



CUSTOMER MODEL

We could stick a sign outside this hall tonight and put 'rock concert' on it, and we have one kind of crowd come in. Amy could put 'ballet', and we have a somewhat different kind of crowd come in. Both signs are fine. But it's a terrible mistake to put rock concert out there if you're going to have a ballet, or vice versa

Warren Buffet, CEO Berkshire Hathaway

[The following text is extremely blurry and illegible, appearing to be a list of bullet points or a series of short paragraphs.]

- The need for outsourced insurance services may be higher among small and medium sized firms operating in the banking, housing, and financial services sector who are exposed to more systematic risk. However, small firms may not be able to afford the services, and thus, medium-sized firms are described the target segment.
- College students may value the ambiance and internet connectivity at Starbucks more than “on-the-go” professionals, who may value the drive-through service more.

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1. Identify the **customer** segments.
2. Analyze the needs of each segment in terms of the customer's different segments. The needs of each segment may differ significantly from the needs of other segments in the market.
3. Measure and evaluate performance goals and objectives in general for each of the segments and their needs.

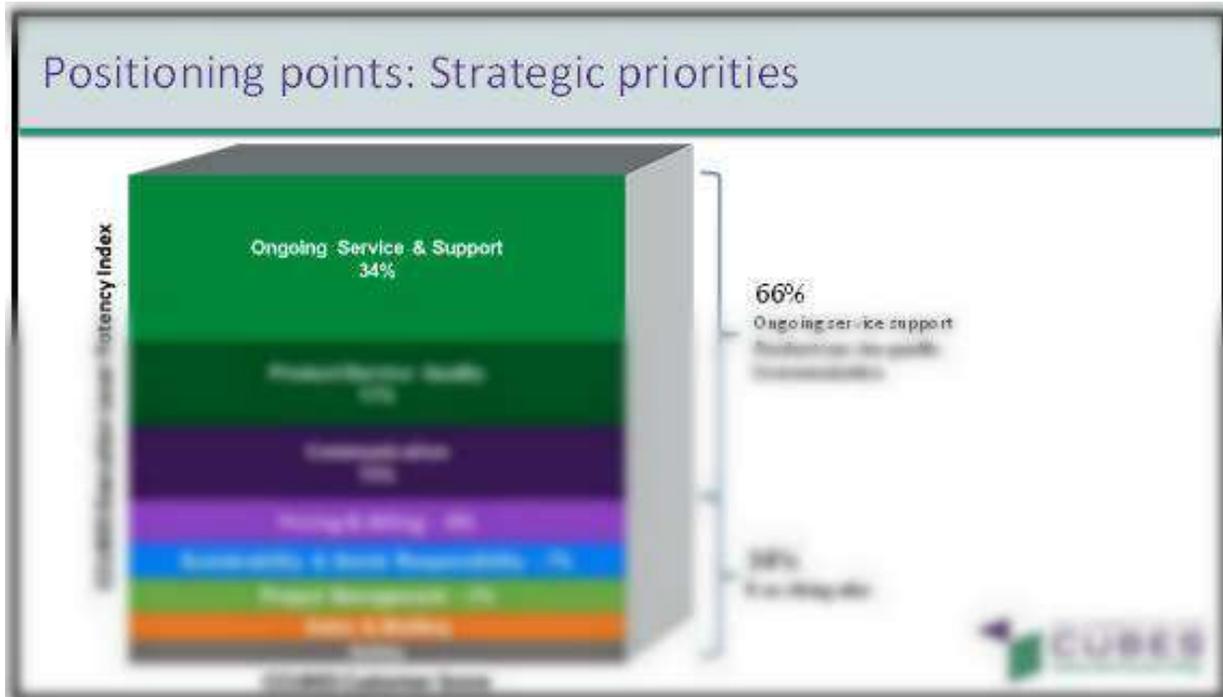
How to use the results of the customer needs analysis and segmentation:

It may be useful to understand how to address the needs of the customer in the different segments. This may require a detailed analysis of the needs of each of the segments and how they differ from the needs of other segments in the market. This may also require a detailed analysis of the customer's different segments and how they differ from the needs of other segments in the market.

The analysis is intended to identify the needs of the customer in different segments and to understand how to address the needs of each of the segments and how they differ from the needs of other segments in the market.

Customer needs analysis is a process that involves identifying and understanding the needs of the customer in different segments and how they differ from the needs of other segments in the market.

Figure 3: Customer-Needs for Contract Buyers of Office Supplies



Based on this, executives focused their efforts on ongoing service support and product/service quality to meet the needs of its target customers. These became the positioning points for the office-supplies company.

Step 1c: Create a positioning statement: To focus the efforts and resources internally, every organization should develop a positioning statement that includes four elements:

- 1) Brand: The name of your product, service, or organization with which the customer interfaces.
- 2) Category: The industry, geographic area, or another way to delineate you and your competitors. Define the category carefully, because it will tell you the competitors against which you need to rate yourself.
- 3) Target segment: Every positioning statement is written with a target segment in mind. Sometimes positioning statements can differ and at other times, they can be the same for different target segments.
- 4) Positioning points: These identify not only the needs that have the highest weight, but also the ones on which your organization can differentiate itself in the eyes of the target segment (in point # 3) relative to competitors (identified in point # 2).

Table 1: Positioning Statement Based on Customer Needs Analysis of Pipeline Coating Firm serving the Energy Sector

Customer Segment	Key Needs	Key Benefits	Key Features
1. Residential	High quality, low cost, easy to install	Low maintenance, long life	High quality, low cost, easy to install
2. Commercial	High quality, low cost, easy to install	Low maintenance, long life	High quality, low cost, easy to install
3. Industrial	High quality, low cost, easy to install	Low maintenance, long life	High quality, low cost, easy to install
4. Government	High quality, low cost, easy to install	Low maintenance, long life	High quality, low cost, easy to install
5. Energy Sector	High quality, low cost, easy to install	Low maintenance, long life	High quality, low cost, easy to install

The positioning statement is based on the customer needs analysis and the identification of the company and competitors' current strategy. It provides the strategy to develop a clear position by offering a customer solution and the benefits.

Key words: positioning statement should be:

- 1. Short and simple
- 2. Clear and distinctive customer solution, benefits, and the differentiation of the firm
- 3. Offer a specific reason to believe in the firm's offering relative to competitors

Key words: positioning statement will:

- 1. Describe the firm's position and value to the customer, the solution, the benefits, the quality, and the competitive edge to set apart the offering from the competitors
- 2. Communicate the firm's value, which is a specific, compelling, and distinctive benefit
- 3. Be concise, clear, and easy to understand. There is a need to understand the benefits of the positioning and the differentiation of the firm's offering from the competitors. The positioning statement should be "easy to understand" and the message should be clear. The message must address the customer's needs, the benefits of the offering, and the competitive edge of the firm's offering.

EXECUTION MODEL

“Marketing isn’t somebody’s responsibility; marketing is everyone’s responsibility.”
Jack Welch, CEO, 1981-2001, General Electric Co.

The goal of an execution model is to develop a consistent, repeatable operating plan to deliver on the key customer needs for target segments. This entails three steps.

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Figure 4a: Customer Needs & Weights for TEDCO



Using this information, executives at TEDCO developed a positioning statement (Step 1c), something that had never been done before. The positioning statement is shown below.

Table 2: Positioning Statement for Electrical Component Distributor

		Value Proposition	Value Proposition
1	Price	Lowest prices	Lowest prices
2	Product Quality	High quality products	High quality products
3	Product Variety	Wide variety of products	Wide variety of products
4	Customer Service	Excellent customer service	Excellent customer service
5	Ongoing Service & Support	Comprehensive ongoing service and support	Comprehensive ongoing service and support

Step 2b: Develop and execution plan: After several rounds of discussion, TEDCO developed an execution plan. It consisted of execution priorities, a timeline, and progress metrics:

Timeline:

- 1. TEDCO will be responsible for the following activities in the 2015-2016 fiscal year:
- 2. TEDCO will be responsible for the following activities in the 2016-2017 fiscal year:
- 3. TEDCO will be responsible for the following activities in the 2017-2018 fiscal year:
- 4. TEDCO will be responsible for the following activities in the 2018-2019 fiscal year:
- 5. TEDCO will be responsible for the following activities in the 2019-2020 fiscal year:

Execution Priorities:

TEDCO will be responsible for the following activities in the 2015-2016 fiscal year:

- 1. Develop a strategic plan for the 2015-2016 fiscal year.
- 2. Develop a budget for the 2015-2016 fiscal year.
- 3. Develop a timeline for the 2015-2016 fiscal year.
- 4. Develop a list of key performance indicators for the 2015-2016 fiscal year.
- 5. Develop a list of key risks for the 2015-2016 fiscal year.

Progress Metrics:

TEDCO will be responsible for the following activities in the 2015-2016 fiscal year:

The following metrics will be used to measure progress in the 2015-2016 fiscal year:

- 1. Budget variance
- 2. Timeline adherence
- 3. Key performance indicator achievement
- 4. Risk mitigation

Progress will be measured through regular reporting to the Board of Directors. TEDCO will be responsible for the following activities in the 2015-2016 fiscal year:

Figure 4b: Execution levers for ongoing service and support



Figure 4c: Execution levers for pricing and billing



FINANCIAL MODEL

“Don't tell me what you value, show me your budget, and I'll tell you what you value.”

- *Joe Biden, former Vice-President of the United States*

An organization's budget allocation reflects its strategic priorities. Over time, organizations that align their budget to customer needs are more successful than organizations that do not.

Tiffany & Co. and Walmart are both successful retailers but with different customer needs. Tiffany's customers require lot of service and advice and do not need 24-hour access (convenience). Walmart's customers are willing to sacrifice customer service for everyday lower price and convenience.

Table 3: Budget alignment at Walmart and Tiffany & Co.

	Walmart	Tiffany
Revenue	\$17,000,000	\$1,000,000
Expenses	\$11,000,000	\$1,000,000
Profit	\$6,000,000	\$0
Profit margin	35%	0%
Operating expenses	\$1,000,000	\$1,000,000
Operating margin	3%	3%
Operating expenses	\$1,000,000	\$1,000,000

Source: Based on 2018 annual reports and financial statements.

Note: The numbers in this table are simplified and do not represent actual data. Tiffany & Co. is a luxury jewelry retailer and Walmart is a mass merchandiser. The two companies have very different business models and customer needs. Tiffany's customers are willing to pay a premium for high-quality jewelry, while Walmart's customers are looking for everyday low prices. This table is intended to illustrate how different budget allocations can lead to different strategic priorities for the same level of alignment. Both are successful.

A more detailed comparison of budget alignment:

- Step 1: Identify the financial budget to focus on strategic priorities.
- Step 2: Identify the budget for representation of resources.
- Step 3: Identify activities for allocation - where can we create value?

Step 3b: Examine budget for reprioritizing resources

After prioritizing strategic areas and identifying execution levers, the executive team likely works with finance and accounting, human resources, sales/marketing, and operations to shift resources. The budget may be re-aligned to reflect the new weight for the major strategic priorities. How might executives re-allocate the above budget if customers highly valued safety and communication? In such a case, the firm should allocate more of the budget towards HSEE, operations and marketing communications and less toward other areas (e.g., accounting and sales).

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- 2. [Blurred list item]
- 3. [Blurred list item]

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ADDITIONAL CONSIDERATIONS

Marketing Communication, Relationship Management, & Customer-Based Strategy

Marketing communication is responsible for communicating with customer using tools such as social media, website, direct mailing, events, and billboards. Relationship management involves the direct interaction of customers with employees such as greeting customers promptly and politely, providing accurate and timely information, and so forth.

The first step in developing a customer-based strategy is to identify the customer segments that are most important to the organization. This requires a deep understanding of the organization's mission, vision, and core values, as well as a thorough analysis of the market and the competitive environment.

Once the customer segments have been identified, the next step is to develop a strategy for each segment. This involves understanding the needs and expectations of each segment and developing a plan to meet those needs. This plan should include a mix of marketing communication and relationship management activities that are tailored to the specific needs of each segment.

The final step in developing a customer-based strategy is to implement the strategy. This involves putting the plan into action and monitoring the results. It is important to be flexible and to adjust the strategy as needed based on the results of the implementation.

Overall, developing a customer-based strategy is a complex process that requires a deep understanding of the organization and the market. However, it is a process that can lead to significant improvements in customer satisfaction and loyalty, and ultimately to increased profitability.

Customer-based strategy is a long-term plan that focuses on creating value for customers. It is a strategy that is centered on the customer and is designed to meet the needs and expectations of the customer.

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