

## **“Corporate Intelligence - The Sales Edge”**

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*“On average, the CEOs of U.S. corporations lose half their customers every five years. This fact shocks most people. It shocks the CEOs themselves, most of whom have little insight into the causes of the customer exodus, let alone the cures...”*

Frederick F. Reichheld, Harvard Business Review, March-April, 1997

Today I have been asked to talk about corporate intelligence - the sales edge. There is no dearth of information - there is more information than ever before, and it's being generated at an increasing rate. I will focus predominantly on customer based corporate intelligence. At Roy Morgan Research we begin with the premise that **the goal of corporate intelligence is to contribute to making the organisation more competitive and more profitable. This is more about how you use information.**

In a recent paper presented at the Inch Club, Roy Morgan Research showed how understanding what your target audience reads, and watches on television and making use of that intelligence, can save \$s - up to 50%, while reaching more of your target audience (see appendix).

Today I would like to do two things:

- First to introduce you to a powerful values-based framework for understanding your customer, “Roy Morgan Values Segments” and suggest that understanding your customer can be the real sales edge .

- I would like then to move on to the concept of “owning the customer” - and show you how many companies these days are going about identifying their most profitable customers, and winning more of their business.

But first the context.



“AMP Bank takes on the Big Four.”

Financial Review January 3-4, 1998

“4.97% p.a. One year Flexi-fixed Home Loan. Ten years ago rates were three times this. Now you can lock in either 4.97%pa fixed for one year or 6.79%pa for three years. You'll also get building insurance, life insurance and a pre-approved Visa Card or MasterCard. It's all in our Stocktake Sale Pack. Offer also open to investors.”

The Age January 5, 1998

**Shell MasterCard.**

Apply now for the credit card that pays you back in petrol.

What has your credit card done for you lately? We suspect very little.

So what about a credit card which:

- Pays you back in Shell petrol\* - earn rebates every month on every purchase you make.
- Gives you a 1% rebate towards petrol on all goods purchased whenever MasterCard is accepted. And, whenever you make a purchase at a participating Shell service station, we'll double it - you get a 2% rebate towards petrol.
- Charges you no annual fee in the first year.

**Two examples of how you can earn rebates every month on every purchase:**

Shell Purchases	A	B
Petrol	70	70
Greases from ShellShop	20	20
Car Washes	10	10
Auto Care Services	100	100
Total Shell purchases	\$100	\$100
Shell Purchases x 2%	\$2.00	\$4.00
<b>Other *Non-Shell Purchases</b>		
Groceries	150	300
Telephones/Alcohol	50	100
Clothes/Shoes	75	150
Restaurants/Entertainment	100	200
Gifts/Flowers	75	150
Hobbies/Books	50	100
Total Non-Shell Purchases	\$500	\$1000
Other *Non-Shell Purchases x 1% = \$5.00	\$10.00	\$10.00
<b>Total Rebate earned: \$7.00 \$14.00</b>		

**Call now: 1300 36 9936**

or pick up an application from a participating Shell service Station.

\*on any other purchase at participating Shell Service Stations in Australia. For all programme conditions call 1300 36 9936. Shell MasterCard is a credit facility provided by GE Capital Consumer Card Co. ABN 679 857 513. (Incorporated in China, USA - Limited Liability).

The world of what we loosely call “sales and marketing” has entered a new era. This new era is one which is defined by globalisation, technology and communication, reduction in traditional boundaries, and stronger focus on quality of service and customer relationships.

Globalisation means that efficient supply is increasingly taking precedence over geographic proximity. Global alignments are increasingly impacting on many industries. The virtual organisation has become a reality.

Technology has increased the speed with which we do almost everything - from the speed with which a highway or a car must be built, to the speed with which new technology itself can be created. Technology has also increased both the speed and complexity with which information can be transferred and processed with dramatic impacts on the speed of communication.

If globalisation has removed or weakened traditional geographic boundaries, the combined impact of globalisation and communications/technology has weakened the boundaries which separated industries, eg a credit card is now in many ways doing what a bank does; a utility company which installs a direct line to its customers is potentially in the business of telephony; a manufacturer plus internet can be a retailer. There are opportunities and threats in abundance.

We believe today this industry is at what Andrew Grove in his book “*Only the Paranoid Survive*” calls a strategic inflection point. Andrew Grove points out that, managed wrongly, a strategic inflection point can mean the end of the game. Managed right, it can turn into a powerful force.

Clearly, we all want to manage it right - so we have tried to address the topic of corporate intelligence within this new paradigm. **So how do we go forward?**

At Roy Morgan Research we believe the way forward is to look at what’s changed or changing, and what’s stayed the same.

We all know what’s changing - almost everything: products, services, channels, whole markets, ownership, regulations, etc. The one thing which remains “constant” is the reality that at the other end of all the multitude of offerings is a person - a person making choices.

More than ever before we need to understand that person- and the choices he or she will make.

However, because of the changing world in which we are operating, we must go beyond asking the person what he or she wants from a product or a service. It is essential to understand what he or she wants from life, and to recognise that banks, utility companies, products and services etc, are only a means to an end - instrumental in the person pursuing what he or she wants from life. (In the case of an organisation, what the organisation seeks to achieve in terms of corporate goals.)

Every one of us looks at the world through particular “windows” or mind sets, to help us make choices about our lives. We choose what we will do when we get up for the day, what we will wear, how and where we will travel, who we will talk to and what we hope to achieve by the end of the day. Our insight into these Roy Morgan Values Segments draws on analysis and algorithms developed by Colin Benjamin of the Horizon Network, and the Roy Morgan Single Source database which includes detailed personal interviews with around 500,000 people across Australia over more than a decade. (Currently 120,000 interviews annually.)

The Roy Morgan Values Segments and Roy Morgan Single Source were developed to provide as detailed as possible an understanding of the person, or consumer in each target market.

- **Who** is the consumer?
- How does the consumer **think**?
- What life **goals** and **aspirations** does he/she have?
- How do they see **economic conditions** impinging on him/her?
- What **motivates** him/her?
- What **channels** of communication **reach** him/her?
- What forms of communication **move** him/her?

If we could now have the video you can meet each of the Values Segments. As we watch imagine yourself in a sales situation with each of the people.

SHOW VIDEO

I’m sure we all saw parts of ourselves, and our family and friends. We are all probably a little wiser about why those family get-togethers don’t always run smoothly.

We should also be a lot wiser about the importance of knowing our customer. We saw the disdain with which “Visible Achievement”, Stephen, was held by his “Socially Aware” brother, Gordon. It’s hard to imagine Stephen being able to relate well enough to Gordon to sell him anything. Similarly “Something Better” Liz with her unashamedly materialistic goals and aspirations was clearly not impressed by the Social consciousness of Gordon. This doesn’t necessarily mean that the sales person has to be the same as the customer, more that in sales we must be cognisant of the differences and sensitivities that make a difference.

Our research has identified very different buying processes for the “Socially Aware” and “Visible Achievement” markets.

The “Socially Aware” buying process appears to be one of **seeking information**, including price, and then making their decision. “Socially Aware”, who do not usually enjoy negotiating on price, appear to factor the price into the information collection and decision process, rather than engage in negotiations. They will, however, seek and wait for sales/specials.

For the “Visible Achievement” purchaser however, **brand recognition** and **references** from friends act as pre-qualifiers allowing the “Visible Achievement” purchaser to be efficient in the buying process. “Visible Achievement will seek to bargain on price and **enjoy being able to win** (or feel like they have won).

The “Something Better” shopping process is highly **comparative** ie. comparing prices, value, and looking for a deal

But corporate intelligence with a view to “Owning the customer” is bigger than the sales process. Our view is that regardless of how information has been used historically within industry, well-focused organisations are increasingly now taking a very strategic and practical approach.

From an organisational point of view customer or corporate intelligence must relate to the business direction of the organisation, and the degrees of freedom the organisation has to follow that direction. The focus must be clearly on the uses to which the intelligence will be put - decisions which will be made based on the data. What kind of decisions?

- “How do we identify and target those segments with the most profit potential?”
- “What are the most appropriate products and services for our target customers?”
- “How do we make sure our people understand the expectations of our target customers, and through effective work processes satisfy them better than our competitors?”
- “How do we communicate effectively with our target customer? Advertising - how much? What kind? Where?”

It is also essential to understand the environment of **competitors** and **substitutes**.

So where does the Customer Survey fit? This is at the heart of the question,

In our experience, Customer Surveys and many customer feedback programs fit firmly under point three:

*“How do we make sure our people understand the expectations of our target customers and through effective work processes satisfy them better than our competitors?”*

Historically and up until now, for the most part, good customer measures have been directed at the needs of ‘management’ (essentially middle management who are expected to implement the findings) and at the needs of ‘customers’ (after all that is what it is all about).

For managers, measurers have sought to ensure that the measurement is actionable, believable, correct, and sensitive to change.

For customers, measurers have sought to ensure that the measurement is relevant, important, confidential, and easy to do so that customers will give honest, well-considered answers.

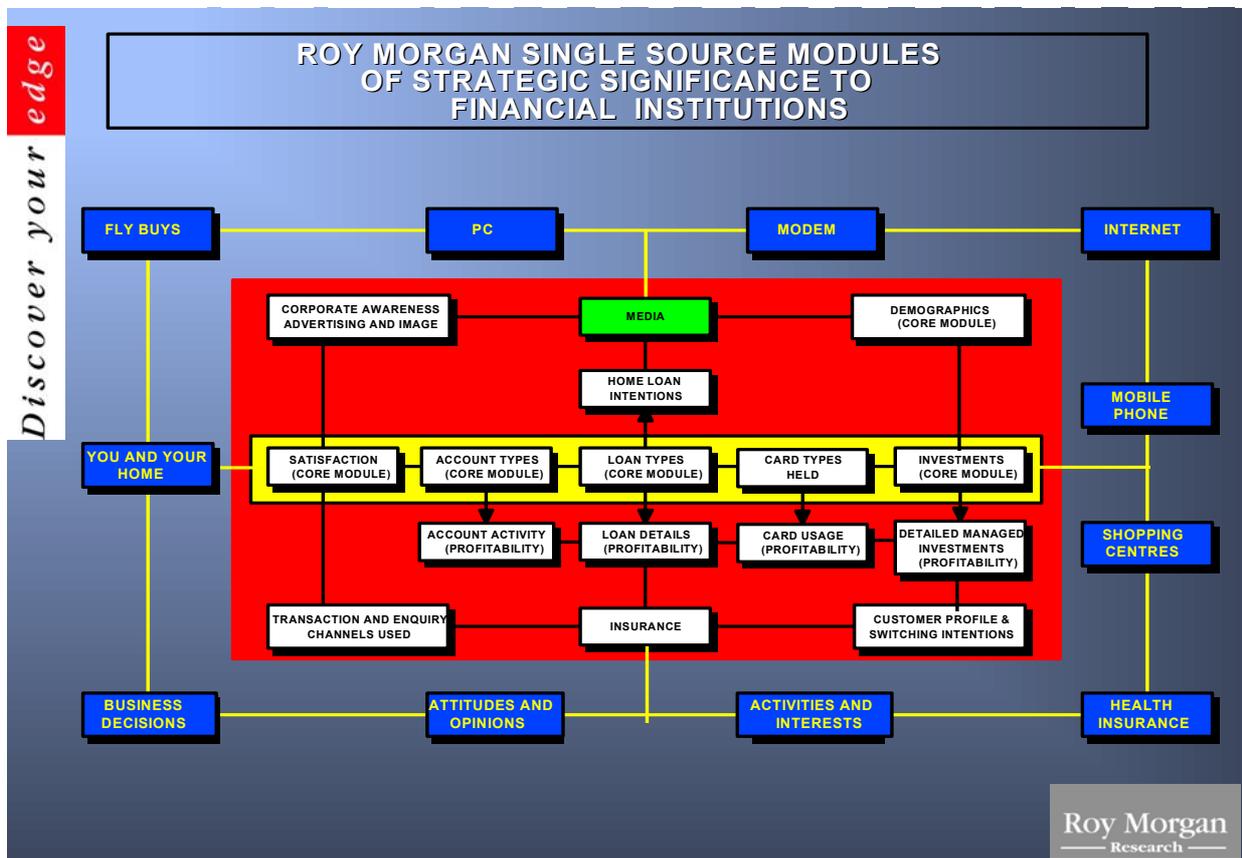
There are many casualties of such well-conceived customer measures - by casualties we mean either companies who, despite increased performance according to their customer satisfaction measures, have lost customers; companies who have had their measurement instruments “removed”; or companies which no longer operate today.

It is our firm belief that the traditional measurement of customer satisfaction is too limited for today’s environment - and definitely for tomorrow’s.

Many of the issues raised in customer surveys can only be addressed at the most senior level within an organisation. For instance, an organisation with relatively isolated vertical structures as profit centres, may not be capable of providing the integrated customer service which will lock their customer in.

How will our well-tuned financial organisations of the near future use consumer information?

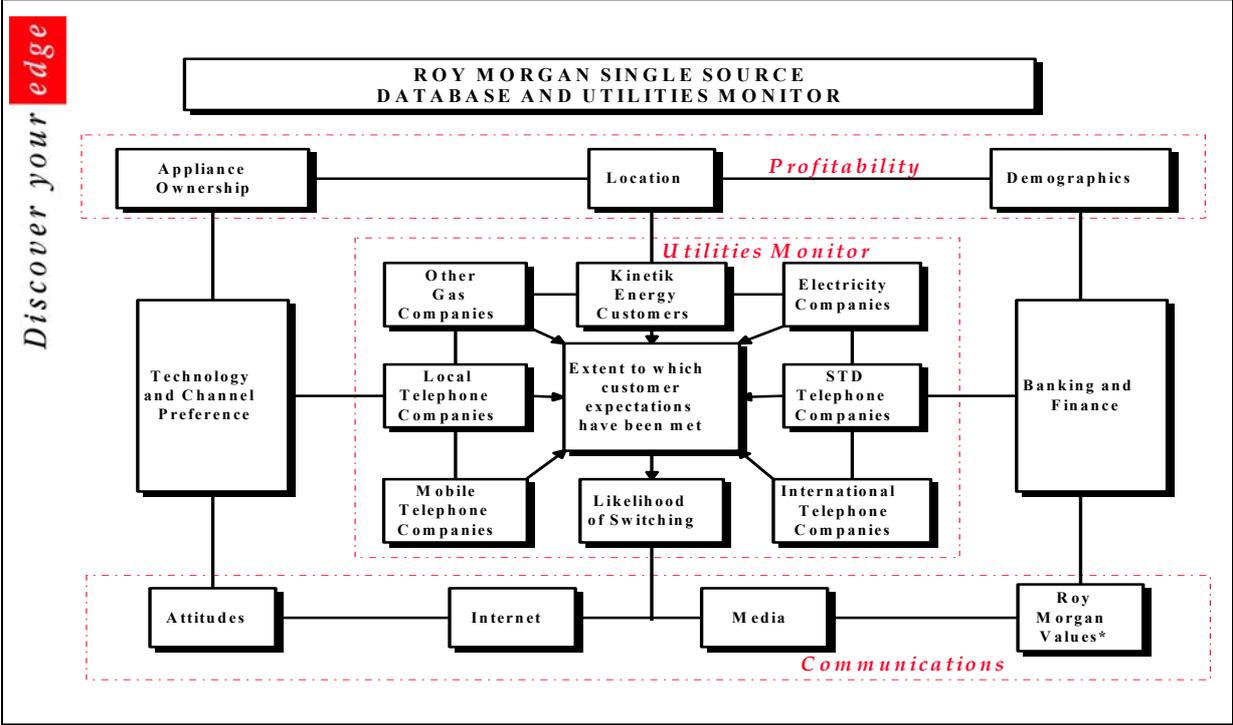
We know companies such as GE Capital, Merrill Lynch, Visa, Amex and Microsoft are looking at research data with the big picture in mind.



They are looking not only at their current product and service offering, but at various linkages to other services their customers are using, which they could possibly offer, or bundle, so as to own more of their customers' minds, hearts and wallets.

The question on their lips is, "Who owns the customer?" Is it Microsoft - they own the gateway to the WEB? Is it Telstra - they own the cable to the house?

We know the more enlightened of the telephone and utility companies are also looking at the big picture - but from a different angle - looking to find their most profitable slice.



Imagine the situation of Telstra approaching Roy Morgan Research and offering to fund our total telephone bill for, say, 8%. Our annual telephone bill is \$1.4 million, we wouldn't need an overdraft at 10.5%. Imagine the situation where the NAB offered Roy Morgan Research access to their telecommunication network (marginally costed).

The test may be to consider how your own organisation would respond to this situation if you were Roy Morgan Research's current bank.

- **Would your system have a mechanism to catch it?**
- **How would it be coded or classified?**
- **Would it be recognised as a serious early warning signal for your organisation and an opportunity? Is there a mechanism to ensure the information got to the people who would act?**

For many organisations a decrease in business probably wouldn't attract a great deal of concern. Our bank only ever calls me when the overdraft is over the limit - not when it goes down.

It is highly likely that an event like this would not be easily classified - after all there may not have been any dissatisfaction recorded; there almost certainly would not be any point of the service cycle which could be identified as the root cause. It is highly likely that an event like this could be passed over. There is little middle management or anyone in the service delivery could, perhaps there would even be a sigh of relief.

Core to a company's planning must be a thorough understanding of the customer. The means is a single focus - from strategic planning through product development, service delivery marketing and media planning into media buying and sales - on the customer. The well-tuned organisation will have a structured approach to defining roles of product development, bundling, communication, advertising, media and sales within the total mix.

The customer survey and corporate intelligence must be relevant to this endeavour, and an integral part of the planning. The goal must be to contribute to making the organisation more competitive, and profitable.

Customer Surveys and corporate intelligence if they continue to be focussed on the needs of middle management and down, focussed on products and services used today, by existing customers, will continue to be less than effective - and we believe grow increasingly irrelevant.

A Customer Survey to be effective must be absolutely single-minded about contributing to the organisation being more profitable.

**Capture the customer** - ensure your measurement is capable of looking at the total customer across the entire organisation and related entities and competitor/substitute organisation.

**Don't be afraid to segment** - identify your most profitable customers (or potential profit)

- identify your "at risk today" customers
- identify your "contributors to churn"
- consider "values" (Roy Morgan Values Segments<sup>1</sup>)

The right segmentation may be critical when it comes to prioritising actions and associated resource allocation.

**Review Critically** - Don't let your organisation be a statistic like the US CEOs who lose half their customers every five years without knowing, without knowing why or what to do about it. Ensure your measurement is in place to identify and learn from defectors. It may be a simple service problem, or it may be the dawning of a mega-competitor. Your defectors can be a vital early warning sign.

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<sup>1</sup> Developed in conjunction with Colin Benjamin of The Horizons Network.

**Integrate** the customer measures and link them to business measures that resonate with those looking at the bottom line of the business. There is a good argument that says customers' actions speak louder than their words.

Customer Surveys must continually evaluate their role in relation to other measures within the organisation: for example, Internal customer relationship measures, system measures, output measures, and profitability measures. The survey should not be seen to have such a life of its own that it can't change, or can't move over when there are better measures available.

Include or relate to such measures as:

- new customers
- growth in \$ per customer (or decline)
- # transactions in different areas
- use of new services/continuation of old services
- % of customers' business (in relevant area)

Much of this information will be available from your own inhouse information systems (although perhaps it hasn't been asked for before - so it might be hard to get, and require programming).

The aim of the Customer Survey is to add value to these numbers, to put the people back into the statistics, to help explain why, which customers, and then help you do something about it.

**Communicate - Customers are everyone's business.** Communication up is as important if not more important than dissemination down through the organisation.

- **Marketing** - many of your target customers are already existing customers of some part of your business.
- **Board** - acquisitions are more and more being seen as strategic acquisitions of customer bases.
  - decisions as to which business an organisation is in, need to be informed of the potential of the customer base. Will being in a particular business increase \$ profit per customer? Will *not* being in a particular business enable a competitor or substitute to gain some of your customers?
- **Operation/R&D/Re-engineering** - prioritising and allocation of resources needs to be informed by knowledge of customers, and the choices they have before them and the choices they will likely make.

If customer measures are able to be related to the business measures mentioned earlier, then the strategic thinkers and drivers in the organisation will be able to make the right decision. The customer measurement doesn't have to be large or expensive. It must be smart and focussed on the organisation's competitive edge now and into the future.