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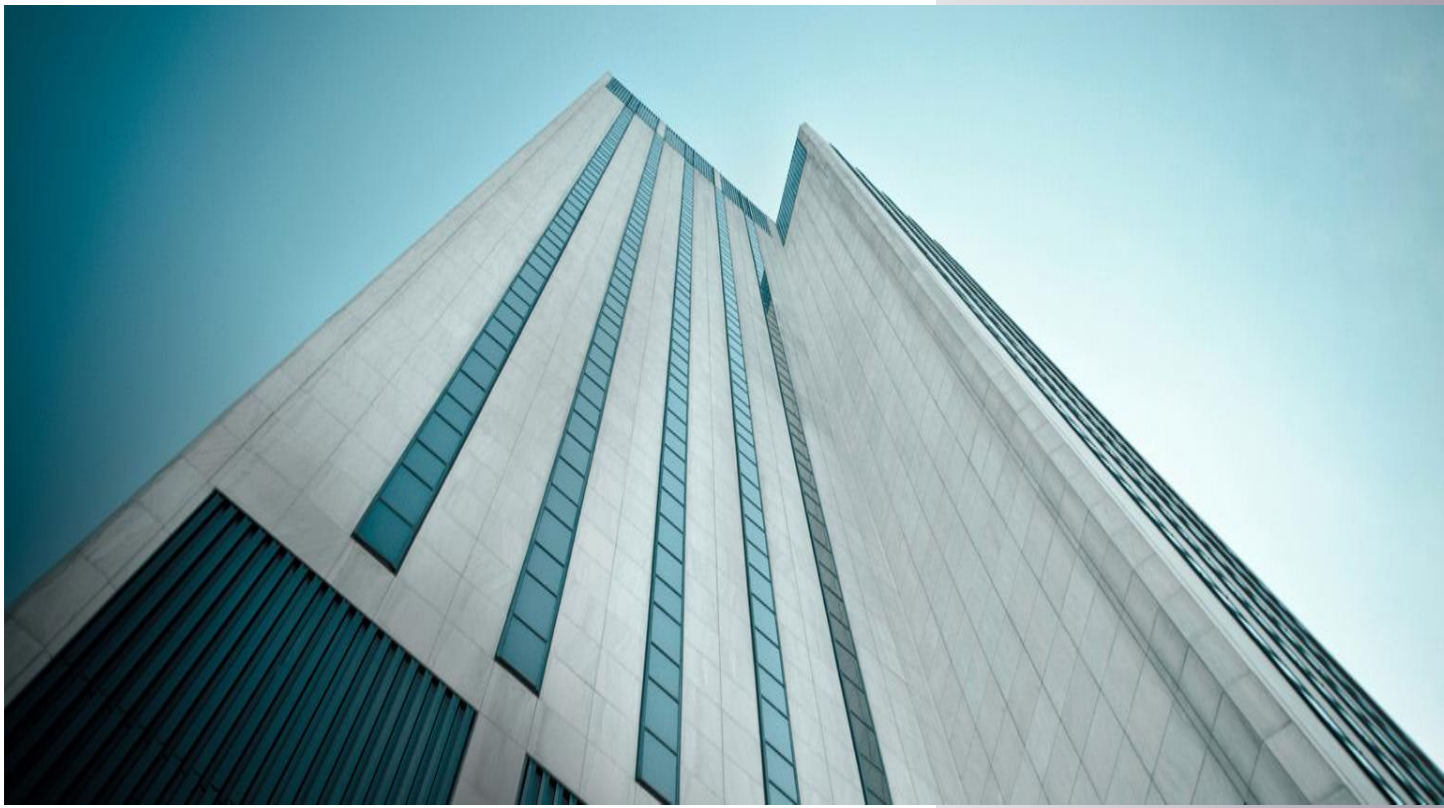


BUSTING THE SALES TRAP IN STRATEGY PLANNING

LINKING CUSTOMER VALUE AND SALES GROWTH

Many CEOs want their strategy to be truly customer focused. Yet, typical strategy planning starts with a sales target and cascades to creating elaborate prospect lists and sales plans to achieve the target sales. As one CEO stated[i]:

> *They all have ideas about what customers want. Some may even have talked to customers or accessed industry reports that summarize customer trends. But none of them have really brought the customers' needs squarely into the strategy planning process. They've bypassed customers and become internally focused with sales as the blanket excuse for doing so.*

This happens because most senior executives do not realize the strategic potential of increasing customer value. An assessment of more than 400 executives showed more than 70% underestimate the impact of increasing customer value on sales growth.

Absent this knowledge, senior executives fail to develop a strategy based on customer value. Senior executives need a way to anchor their strategy by linking sales to customer value.

Customer Value

A company creates customer value when it satisfies the most important needs of a large majority of its customers.

Creating customer value is different than responding to the momentary desires, impulsive demands, wishes, yearnings, and proclivities that a small selection of customers may express in unstructured conversations. Pleasing such customers does not create customer value for the long term or at scale.

Measuring customer value

Customer value measures the extent to which a company satisfies the most important needs of its customers. Customers perceive a high level of value when the company excels on the strategic areas that are most important to them.

Customer value is measured by asking customers to rate their satisfaction, which is converted into a Customer Value Index (CVI) score. CVI© is a valid and reliable measure of customer value created by C-CUBES™.

A company's CVI can range from 0-100 and gauges a company's customer value for its existing customer base.

CVI is reliable because of the systematic, structured, and validated measurement approach.[ii] CVI is comparable across industries, companies, geographic areas, and business units, and over time.

Why use customer value (CVI) for strategy?

Strategies for growth must be customer centric and driven by customer value as customers are the largest source of a company's cash flow.[iii] The benefits of using CVI for strategy planning include:

- CVI provides a predictive model for strategy planning, so executives do not have to use assumptions and unreliable scenarios.
- CVI gets rid of actions based on gut feel, intuition, and unstructured conversations.
- Though some companies use NPS (net promoter score), NPS is a poor measure of customer value, unable to predict financial outcomes, and incapable of diagnosing value drivers.[iv] *Wall Street Journal* labels NPS a "management fad."[v]

Customer Value (CVI) & Sales

To base their strategy on customer value, executives need to answer two basic questions: How is CVI related to sales? What does this relationship mean for my company's strategy?

Unfortunately, most companies cannot answer these questions. Although they believe customer value and sales are related, executives lack a formal way to quantify their relationship. C-CUBES™ answers these questions for CEOs.

Since 2016, a national panel of more than 13,000 B2B clients of more than 840 companies have participated in the CUBES® assessment. The researchers measured overall customer satisfaction with a proprietary scale.[vi] The scale is converted into a company's CVI score, ranging from 0-100.

Sales data are from publicly available financial information. Thus, CVI is related to objective sales making CVI far more robust than subjective or self-reported sales measures.

The CUBES® team statistically merged the CVI data with sales, and statistically minimizes the confounding effect of non-focal factors related to a firm (e.g., size, liquidity, leverage), industry (e.g., industry concentration), and time (e.g., recessions or booms).[vii]

This process provides the unvarnished and unconfounded relationship of CVI and sales.

Customer Value Index (CVI) and Sales

The average CVI in the marketplace is 81.5. On average, companies create value for their customers.

Figure 1 shows a clear linkage between increasing CVI and sales growth.

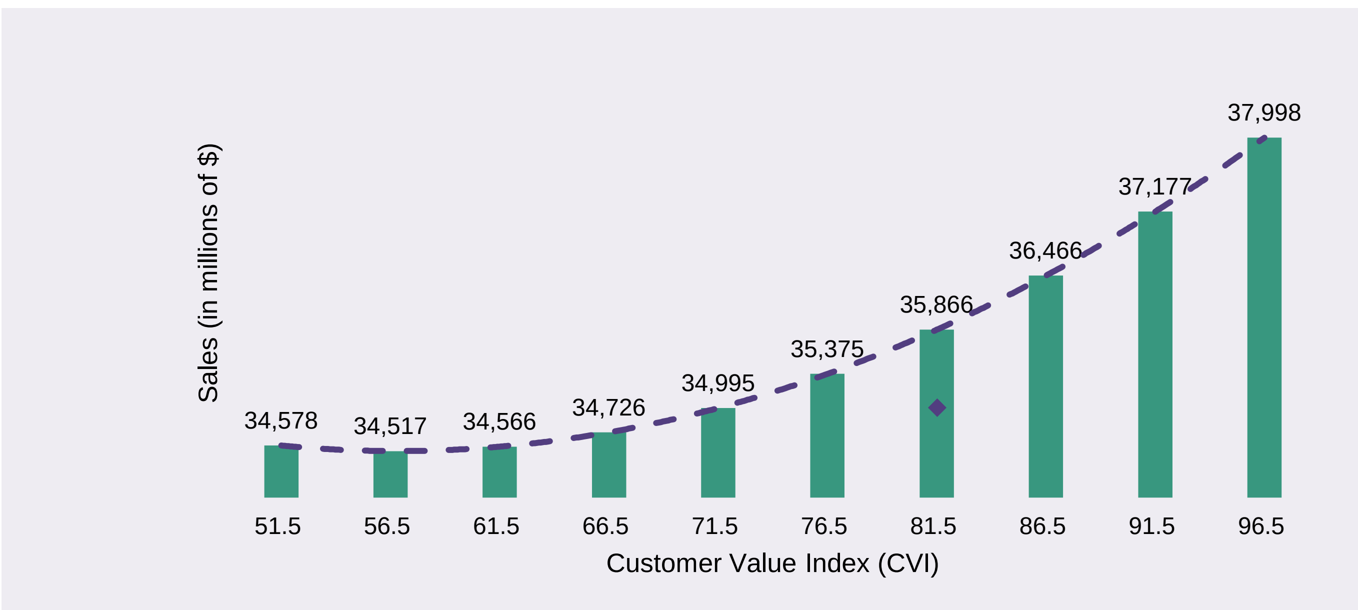
But there is a nuance.

For companies with a CVI lower than 71.5, sales are low and relatively flat. Going from a CVI of 71.5 to 81.5, the lift in sales increases meaningfully.

Among companies with a CVI higher than 81.5, there is a relatively sharp—almost exponential—increase in sales.

On average, sales jump from $35.9 billion to $37.8 billion when CVI increases from 81.5 to 96.5.

Figure 1. C-CUBES™ CVI and Sales



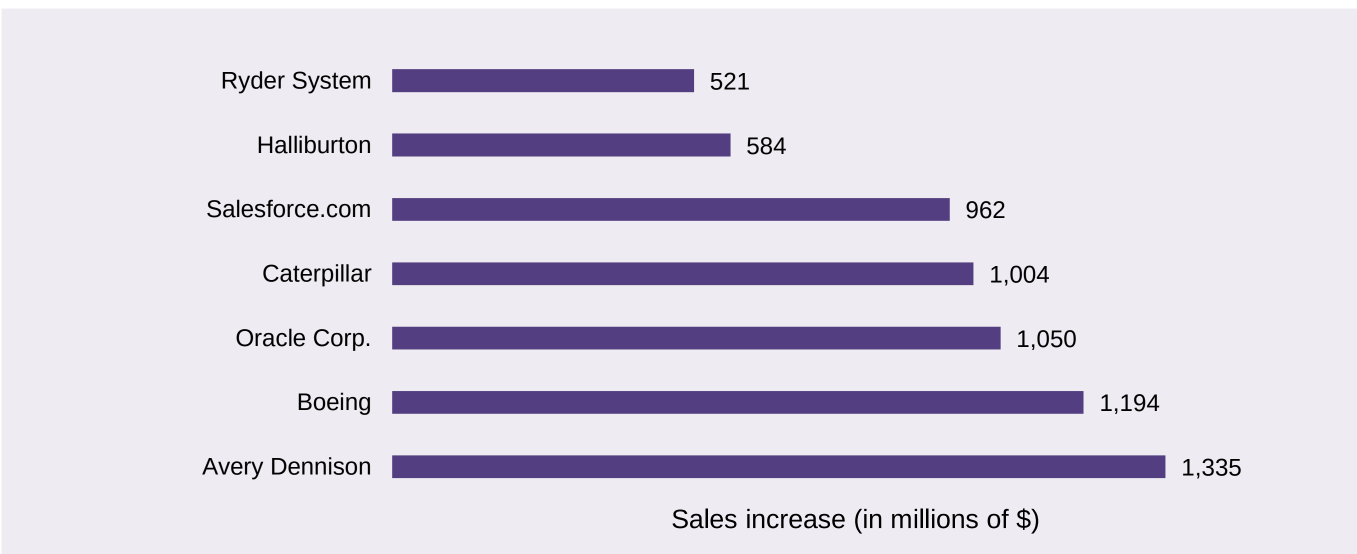
CVI and Strategy Planning

CEOs are accountable for financial results—sales, margins, and firm value. Their strategy plan is based on the premise and goal of increasing sales!

C-CUBES™ provides a concreate way to link sales to customer value, which can help CEOs tune their efforts to customers' needs. Using this link, CEOs can use customer value to predict sales, and use CVI in their strategic plan.

C-CUBES™ calculated the increase in sales for several prominent B2B companies when the CVI increases by 10 points." For Avery Dennison, the increase in sales amounts to $1.34 billion. Ryder System would increase sales by $521 million.

Figure 2. Sales Increase for a 10-point CVI Increase



What's Next?

Strategy planning efforts can become customer focused if CEOs can measurably base their strategy on customer value. For this, they need to know the precise lift they would get from customer value increase.

C-CUBES™ solves this problem by linking CVI and sales. This enables CEOs to using precise estimates, and not rely on gut feel, hunches, or emotions to become customer focused.

Citation

Kyuhong Han, Vikas Mittal, Shrihari Sridhar (2021) "Busting the sales trap in strategy planning," *STRATONOMICS© Insight Series,* November 10, 1-6, Available at: https://ccubes.us/briefs/

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[iii] Mittal, Vikas, and Shrihari Sridhar (2020), "Customer based execution and strategy: Enhancing the relevance & utilization of B2B scholarship in the C-suite," *Industrial Marketing Management*, 88 (July): 396-409. https://doi.org/10.1016/j.indmarman.2020.05.036

[iv] For further details see: Best, Roger J., Vikas Mittal, and Shrihari Sridhar (2022), *Market-Based Management,* Chapter 1, 7th edition.

[v] *Wall Street Journal (2019)* "The dubious management fad sweeping corporate America," May 15, 2019. By Khadeeja Safdar and Inti Pacheco.

[vi] The Likert scale is balanced with three categories indicating dissatisfaction, one showing indifference between satisfaction and dissatisfaction, and three categories indicating satisfaction. Each category has a numeric value and verbal descriptor.

[vii] Mittal, Vikas, Kyuhong Han, Ju-Yeon Lee, and Shrihari Sridhar (2021), "Improving Business-to-Business Customer Satisfaction Programs: Assessment of Asymmetry, Heterogeneity, and Financial Impact," *Journal of Marketing Research,* 58(4), 615-643. https://doi.org/10.1177/00222437211013781