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HOW ALIGNED ARE B2B EXECUTIVES WITH THEIR CUSTOMERS?

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Executives Are Confident They Know Their Customers

"I have more than 23 years of industry experience as a client and a vendor, in the field and as an executive. With all due humility, I know our customers' needs."

- ***Chief Commercial Director of an oilfield services company, $12 billion annual sales***

"*I've worked with customers who were engineers, procurement managers, quality inspectors, commercial analysts, HSE analysts to name a few. I know their needs."*

- ***Director of client relations at a chemical company, $2 billion annual sales***

"We have a very robust customer listening process. My team meets with them on a monthly or quarterly basis. They tell us their needs and we respond to them."

- ***CEO of an industrial software services company, $320 million annual sales***

"Asking customers is the best way to find their value drivers. Unlike the consumer sector, B2B customers are very analytical. They know what they want."

- ***SVP sales, software and enterprise resource planning company, $45 million annual sales***

These quotes reflect conversations that C-CUBES™ has had with more than 250 managers, executives, and CEOs at 53 B2B firms. These have $5 million to over $50 billion in annual sales and cover industries including oilfield services, facilities management, website development, parts distribution, executive recruiting, software development and deployment, and transportation services.

Executives are confident they know their customers' needs. That is, they can rank order the different strategic areas that drive value for their customers. Their high confidence is based on many factors:

- Number of years of experience in their industry
- Breadth of experience across different B2B sectors
- Listening to customers in sales meetings and quarterly review meetings
- Asking customers about their needs and responsively fulfilling them
- Conducting Net Promoter Surveys and analyzing customer feedback
- Spending time with clients on offsite activities such as golfing. When customers are relaxed, they reveal their "true" underlying needs
- Sales team routinely asks customers "How can we do better?" or "What more can we do to better serve you?"
- Monitoring competitor offerings to better understand customer needs

CEOs Worry

Discussions with the CEOs of 53 B2B companies paints a different picture.

CEOs know the success of their company's strategy depends on identifying the right customer value drivers. If their executives identify or work with the wrong set of customer drivers, not only will the company's strategy be flawed but implementation will also suffer. CEOs need to be confident that the executives can correctly identify their customers' value drives.

CEO's worry is reflected in statements such as:

> *"Everybody believes they know what customers want and is genuinely interested in serving customers. And that is the problem. Product development wants more investments in R&D. The SVP of sales wants to manage prices. The commercial group wants different contract negotiations with key customers to increase profitability. We are running in many different directions."*

> *"Frankly, we don't really know what drives customer value. I've hired many people in my company from the client side hoping they can provide direction as to what our customers value. I'm surprised each of them has very different recommendations."*

> *"Yesterday, at the employee townhall, I said our company's strategy would be to focus on technology and product differentiation. To be honest, I just made it up. My executives are very divided—the Middle East group wants to focus on pricing due to the tendering. The U.S. group wants to focus on technology. They all think they are right. Maybe they are, maybe they aren't."*

> *"How do I know if my senior executives have identified the right customer value drivers? Our entire strategy is based on them, but it seems such a crapshoot."*

CEOs genuinely want to understand if their company's strategy is based on their executives prioritizing the right customer drivers. Ideally, the company's strategy implementation would direct effort and resources on drivers that create the most value for customers and not on drivers that create little to no value for customers.

Answering CEOs' Questions

CEOs ask: ***How correlated are executives' rankings of customer value drivers to customers' rankings of the same value drivers?***

Think of an interaction between a physician and a patient. If the physician's diagnosis had no correlation or a negative correlation with the patient's actual needs, the treatment strategy for the patient would be ineffective. The treatment strategy can only succeed if the physician's diagnosis is highly and positively correlated with the patient's actual needs.

Similarly, in the context of a B2B interaction, if the executives' ranking of customers' needs has no correlation or a negative correlation with customers' actual needs rankings, the company's strategy will be unsuccessful.

Before proceeding, write down what you believe is the level of agreement among executives' rankings and customer's needs.	
Agreement between executives' and customers' ranking of customer needs (0% to 100%)	**% agreement: ___________**
NOTE: Write down your answer, before turning to the next page.	

Evidence-Based Answers

C-CUBES™ answers this question in five case studies using evidence from:

- 144 B2B companies
- 364 executives from B2B companies
- 23,994 customers of B2B companies
- 10-K statements of 127 B2B companies

C-CUBES™ B2B Customer Benchmark Study

Since 2017, C-CUBES™ B2B Customer Benchmark Study has tracked overall customer value and its drivers among more than 35,000 customers of over 6,000 B2B companies. This represents the largest known research sample of B2B customers.

Overall Customer Value (CVI™): Each customer provides an overall CVI™ score for a B2B supplier.

Strategic Areas Driving Customer Value: C-CUBES™ uses a validated set of eight strategic areas that drive customer value. The eight strategic areas are shown in Figure 1 with examples in Table 1.

These customer value drivers:

- Represent the entire engagement cycle of a B2B customer starting from sales and bidding to ongoing service and support
- Account for 70-85% of overall customer value for an individual firm
- Apply universally to all types of B2B firms in virtually every sector possible
- Have been used by more than 100 B2B firms in their strategic planning process
- Demonstrate very high statistical reliability and validity confirmed by research studies published in the very top peer-reviewed journals.[i]
- Enable a CEO to formulate and implement a customer-focused strategy

Figure 1: Eight Strategic Areas Driving Customer Value in B2B Firms

Table 1: Eight Strategic Areas Driving Customer Value in B2B Firms

Strategic Area	Example from B2B Customer Interviews (n=600)	Example from B2B Company 10-K Statements (n= 900)
Initial Sales & Bidding	The clarity of the initial bid saves time and effort in evaluating the bid.	We also expanded our new retail marketing network in Mexico, with 135 stations opened as of year-end 2018.
Product / Service Quality	The success of our business depends on our ability to develop, produce, and market quality products that meet our customers' needs.	Our AutoTrak™ rotary steerable system drilled 7,000 miles globally, an increase of 37% compared to 2017.
Pricing & Billing	The implementation of any price increases to our customers could negatively impact the demand for our products.	Despite significant challenges from persistent inflation and tariffs, we applied our business operating system to execute a combination of pricing actions and operational excellence initiatives to offset these costs effectively, driving improved leverage and margin expansion throughout the year.
Communication	Timely and consistent communications are key to our customers.	We use social media and other platforms to create access to information, remove organizational barriers, and bridge vast geographic expanses to exchange ideas and communicate.
Project Management	A tremendous amount, thousands of policies and procedures that need to be followed to execute a project.	In the Permian Basin, we have made tremendous improvements in efficiency and productivity over the last three years.
Safety	Oil and gas companies are very strict on safety. Without a good safety record, you cannot get work. It is a must have.	A safe business doesn't just protect people, it also helps improve operating performance, leading to improved business and financial performance.
Social Responsibility & Sustainability	Enabling our global customers to leverage our network efficiency and thereby reduce the greenhouse gas emissions intensity of their supply chains.	At the beginning of 2019, we made a commitment to further reduce our CO2 equivalent emissions by 50% by 2030, and to net-zero CO2 equivalent emissions by 2050.
Ongoing Service & Support	For many contracts, we will need to have a guarantee that no issues will be happening after delivery.	Our customers rely on our product and application knowledge, global supply chain expertise and ability to mobilize 24/7 to support their operations.

Case Study 1: Automation Parts Distributor

The company has roughly $80 million in annual sales with 120 employees. The CEO wanted to develop and implement a customer-focused strategy.

C-CUBES™ measured 38 senior executives' rankings of the eight strategic areas. Next, C-CUBES™ conducted an assessment with 365 customers to statistically derive the customers' ranking of each strategic area on overall customer value.

The results are shown in Table 2. There is no correlation between the top-5 rankings identified by executives and customers.

Table 2: Correlation of Strategic Area Rankings - Senior Executives and Customers

	Strategic Areas Rankings	
	Senior Management	Customers
Ongoing Service and Support	4	1
Initial Sales/Bidding	3	2
Product/Service Quality	1	3
Communication	5	4
Pricing and Billing	2	5
Project Management	8	8
Sustainability and Social Responsibility	8	8
Safety	8	8

Corr. = -.02, n.s.

Case Study 2: Facilities Management Company

This service provider has roughly $2.3 billion in sales worldwide. Its 12,000 employees serve clients in more than 2,500 locations. The CEO engaged in a strategy development and implementation process with C-CUBES™.

Table 3: Correlation of Strategic Area Rankings - Senior Executives and Customers

Facilities Management Company

	Leadership Ranking	Customer Ranking
Initial Sales/Bidding	1	5
Safety	1	4
Product/Service Quality	3	2
Pricing and Billing	4	3
Client communication	5	8
Ongoing Service and Support	6	1
Project Management	7	8
Sustainability and Social Responsibility	8	8

Corr. = -.14

A total of 73 senior executives and 878 customers provided input during the strategy development process. The results are in Table 3.

Senior executives' rankings are negatively correlated with customers' rankings. *Ongoing service and support*, which was the most important customer need, was deemed as the least important by senior executives. In contrast, senior executives ranked *Initial sales and bidding* and *Safety* as the most important.

Case Study 3: Evidence from 14 B2B companies

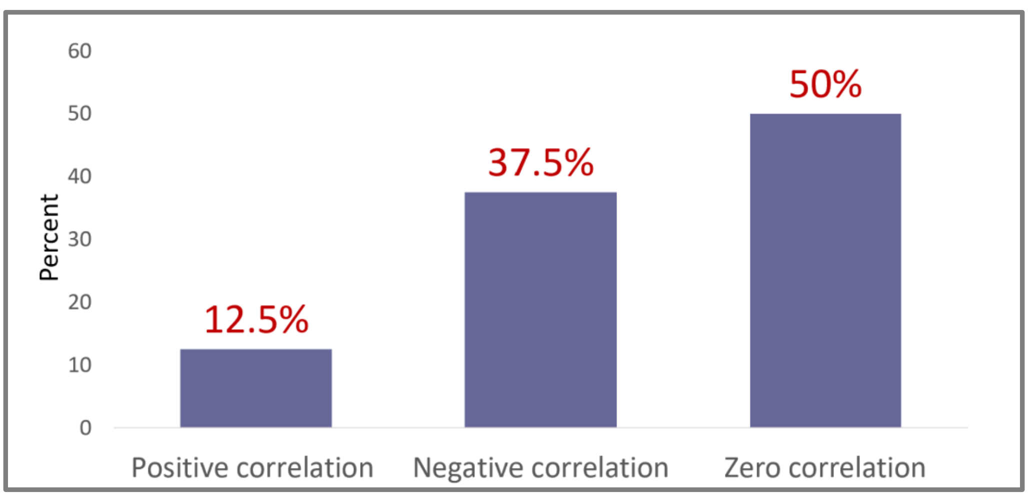
Since 2018, C-CUBES™ has repeated this study with 14 additional B2B companies including their 250 executives and over 3,500 customers. They participated in the same process as Case Studies 1 and 2.

The correlation between executives' rankings and customers' rankings was zero or negative for 12 companies, and positive for two companies. To summarize, executives correctly identify the strategic areas that lift customer value in only 14% of the companies. They were wrong in 86% of companies.

Case Study 4: Large-Scale Evidence from 127 firms

C-CUBES™ scholars examined 17,251 customers of 127 publicly traded B2B companies using three steps.

Figure 2: Correlation Between Executives' and Customers' Importance of Eight Strategic Areas Driving Customer Value in B2B Firms



Step1: We examined each company's annual-10K forms, a legal document filed with the Securities and Exchange Commission that captures management's view of their company's strategy. We used machine learning to create a reliable and valid index of the relative emphasis senior executives placed on the strategic areas in Figure 1.

Step 2: We surveyed customers 17,251 customers of the 127 companies to derive the lift potential or importance of each strategic area.

Step 3: For each company we calculated the correlation between the executives' and customers' rankings of the eight strategic areas.

As shown in Figure 2, in 87.5% of the companies the correlation between executives and customers' rankings was either negative (37.5%) or zero (50%). The correlation was positive only in 12.5% of the companies.

Case Study 5: Measurement Services Company

The CEO of this company has made it a point to hire customers in senior executive positions stating, "hiring our own customers in executive positions gives me the most clear-eyed perspective on customer needs. I talk to them daily and they help the company's strategy. It's 100% customer focused."

The CEO and two senior executives (both former customers) wrote down the most critical customer needs that drove this company's strategy. Before we revealed the results, we asked how much overlap would be in the needs and their rankings? All three said there would be 100% overlap, and each was more than 90% confident in their claim. Results are shown in Table 4.

Table 1: Strategic Areas and Their Rankings

CEO	Executive # 1 (former customer)	Executive # 2 (former customer)
Product Quality	Customer responsiveness	Safety culture
Ability to set industry standards	Measurement accuracy	Bid accuracy
Sales process	Sustainability	Customer savings/pricing

Summary of Evidence

To repeat, we have summarized evidence from:

- 144 B2B companies
- 364 executives from B2B companies
- 23,994 customers of B2B companies
- 10-K statements of 127 B2B companies

The evidence shows **the correlation between senior executives' rankings and customers' rankings of value drivers is zero or negative in more than 87% of the cases. Only in 13% of the cases could B2B executives correctly identify their customers' value drivers**. If a physician's diagnosed patients wrong 87% of the time, would you take medicine from them?

Senior Executives' Reaction

When presented with this evidence, many executives push back really hard. Some reactions include:

- **"I don't believe…the evidence must be flawed"**: They argue the evidence must be flawed because it is inconsistent with their decades of experience. "I hear you, and I totally believe in science. Your methodology only looked at 140 companies. They don't represent my industry. When I talk to customers I hear differently. They tell me they care about X, Y, and Z. And we are winning."

- **"Yes, but…we are different"**: They state the study may be correct, but it does not apply to *their* company because their company is unique. They argue: "We are very different than the companies out there. We are constantly in touch with our customers more than you can imagine. They tell us what they want, and we will do everything possible to deliver."

- **"We agree, but don't care…broad focus is fine"**: Most justify their strategy of simultaneously addressing many different drivers. "There is no harm in simultaneously driving pricing, selling, quality, communication, safety, service, sustainability, and project management. We can walk and chew gum at the same time! It's better to offer a broad value-proposition to gain competitive advantage."

Well-meaning executives react in this way due to several reasons discussed next.

Reasons For Senior Executives' Reactions

Well-meaning senior executives fall prey to salience and selection bias, egocentric decision-making, and the experience trap.

Salience and Selection Bias: This bias is a common denominator of the low correlation in many B2B companies.[ii] Executives pay attention to information that is salient. The salience can be based on intuition, internal hunches, gut feelings, or biases. It may happen when executives select a few customers to base their opinion on—large accounts, vocal customers, or customers with whom they have had repeated interactions. The salient factor gets "selected" for discussion in future discourse and is then deemed more important than others.

The founder and CEO of Acme, a $20 million company believes that the quality of its product offering is the critical factor in its success. To understand the role of customer quality, she meets several clients gathering their views and perspectives on the role of product quality. After three such meetings, she concludes:

"This diversity of customer perspectives confirms that we need to continue focusing on product quality. All our clients value product quality, our main differentiator."

Next, she talks to the VP of Research who confirms, "I agree. I was recently at a technology conference where our main competitor was showing their next-generation products. We need to spend more on quality to stay ahead in the game."

The VP of sales meets with customers asking them, "What more can we do for you? How can we create value?" Different customers provide different answers such as:

> *"We need faster delivery. Your quality is excellent though."*
>
> *"Not much, we love your delivery time."*
>
> *"It may be better if you can review your pricing. Your quality is great, but competitors are really undermining your pricing."*

Because quality is salient, it gets selected as the focal value driver. The VP of sales concludes "We need to double down on quality, our biggest competitive advantage. Meanwhile, we cannot ignore value, pricing, and convenience." Naturally, the CEO and VP of Research agree.

Salience and selection bias are extremely prevalent in B2B companies because senior executives tend to rely on a conversational approach to engage with customers. Senior executives often meet with customers to ostensibly listen to them and identify new ideas for continuous improvement.

Despite their best intentions, they based their strategy on an outdated practice that only elicits what is salient to the customer, not what creates value for customers.

Because they do not use a statistically valid and reliable way to rank order customer needs, senior executives' salience comes into play. Sub-consciously they pay more attention to whatever is salient in their mind and selectively reinforce it even more during subsequent conversations. Over time, the salient feature is deemed as important in driving customer value.

Note, Acme had no statistically valid way to determine if product quality (versus price, sales and bidding, safety, communication, service support, etc.) was the biggest or smallest driver of customer value. Rather, the conversational approach simply reinforced product quality, a benefit that was salient to the CEO. This is a typical scenario in many B2B companies, leading to a low correlation with actual customer-value drivers.

Egocentric Decision Bias: Egocentric decision-making occurs when executives believe that their experience is more prevalent than it really is; as a result, they project their ideas and preferences on *all* customers.[iii]

Egocentric decision-making results from and reinforces salience and selection bias. Executives become progressively more comfortable with conversations that reinforce their own ideas and seek more information that enables them to project their notions to others.

In the case of Acme, executives sought out and continued to talk with more and more customers who valued quality (as opposed to those seeking service, safety, pricing, etc.). Those conversations were not only easy to have but also helped executives believe they were listening to customers. When, in reality, they were seeking out information that helped their pre-existing beliefs. Some examples:

- Supported by the CEO, the VP of Research conducted a day-long offsite with all other VPs and directors entitled: "Enhancing competitiveness through product focus." Each participant did a short 10-minute presentation discussing how they were supporting the company's emphasis on product quality.
- The VP of Sales identified the company's top-10 customers arranging to get feedback on product quality.
- The metrics dashboard was re-designed to track product quality.
- During all this, there was no evidence that product quality, and not another strategic area, delivered the biggest lift in customer value.

Egocentric decision-making cannot be mitigated by encouraging B2B executives to seek alternative perspectives or listen to opposing points of view, and other bias-mitigation strategies. Unless executives have a valid and reliable way to rank order the strategic areas based on their customer-lift potential, the bias mitigation strategies lead to the same outcome. Despite best intentions, executives end up reinforcing their salient bias and egocentric decisions.

Experience trap: When making decisions, many B2B executives rely on preexisting knowledge and mental models of cause-and-effect relationships in the environment.[iv]

For example: "Providing more quality will improve sales because quality is important to customers."

Unfortunately, most of these experience-based models are enhanced forms of mental stereotyping reinforced by the selective use of supporting information while discarding or ignoring data that refutes the hypothesis. Moreover, experience-based learning uses fallible estimates based on salient events that oversimplify reality ("We got this one big order because of quality improvements").

Just like egocentric decision making, executives cannot escape the experience trap by seeking contrary information. When contrary information is presented, it can be accepted or ignored depending on the goal of the executive. The more specialized an executive's experience, the harder they fall into this trap and the harder it is for them to get out of it.

A Way Forward

The best way for a CEO to improve their executives' alignment with their customers' value drivers requires a systematic approach.

Step 1: Gain a realistic view of the implicit rank ordering of the strategic areas among the executive team using an executive strategy assessment.

By having the executives rank order the strategic areas, companies not only introduce the team to a structured strategy approach but also understand the level of agreement within the executive team. This measurement also provides the basis for comparing the executives' rankings to customer rankings.

Step 2: Statistically derive the lift potential of different strategic areas and execution levers from the customers' perspective: As this research shows, executives cannot use their intuition, gut feeling, judgment, or experience to rank order customer needs. This requires a structured approach that enables customers to rate a company on the eight strategic areas, and their component execution levers, compare the results to a benchmark database, and derive statistically reliable and valid results.

Step 3: Bridge the gap among executives, and between executives and customers through a customer-based strategy: A 2023 review of 245 papers found firms companies perform better across a wide variety of outcomes--sales, profits, cash flows, stock price, and firm value—if they increase customer value.[v]

The best way to increase customer value is by aligning executives to focus on the top drivers of customer value. This requires a structured way to rank order customer needs and develop a structured approach to implement a strategy that helps the company excel on the single most critical driver of customer value. This simultaneously increases revenue and margin.

Author Bio

Vikas Mittal, Ph.D., has published more than 100 articles on customer-focused strategy and worked with senior executives at more than 200 organizations. He is the co-author of a 2021 book: ***FOCUS: How to Plan Strategy and Improve Execution to Achieve Growth*** and a 2023 book: ***Market-Based Management, (7th edition)***.

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[i] See these studies:
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

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, 396-409. https://doi.org/10.1016/j.indmarman.2020.05.036

[ii] Mittal, Vikas, and Shrihari Sridhar (2021), *Focus: How to Plan Strategy and Improve Execution to Achieve Growth*. Springer Nature. See chapters 7 and 8 of this book.

[iii] Herzog, Walter, Johannes D. Hattula, and Darren W. Dahl (2021), "Marketers project their personal preferences onto consumers: Overcoming the threat of egocentric decision making," *Journal of Marketing Research*, 58(3), 456-475.

[iv] Sengupta, Kishore, Tarek K. Abdel-Hamid, and Luk N. Van Wassenhove (2008) “The experience trap,” Harvard Business Review, February. Reprint: R0802F https://hbr.org/2008/02/the-experience-trap

[v] Mittal, Vikas, Kyuhong Han, Carly Frennea, Markus Blut, Muzeeb Shaik, Narendra Bosukonda, and Shrihari Sridhar (2023), "Customer satisfaction, loyalty behaviors, and firm financial performance: what 40 years of research tells us." *Marketing Letters*, 34(2), 171-187. Available at: https://link.springer.com/article/10.1007/s11002-023-09671-w