

# GET, KEEP, GROW

*PETER COLMAN presents the 9th article in his series on behavioural economics in sales management. As companies turn their attention from crisis management towards recovery, customer-base management becomes a critical commercial strategy for recapturing lost revenues and profitability. Excellence in execution requires a balance of sound logic and careful use or mitigation of behavioural biases*

My last *Winning Edge* article, “Leading through the crisis”, was written right at the start of lockdown. In an extraordinary period, I found myself rewriting and updating sections multiple times between draft and final copy, such was the dynamic at that time. There is a long way to go on the road to recovery; while the eye of the first storm may have passed, the predicted second wave is here.

We predicted that this would be a resurgent crisis, where we would have multiple periods of flare-ups. This was not a case of hindsight bias – we thought long and hard about this in our Covid-19 commercial response “think tank” sessions. While this looks like we were correct, it is one of the few times when I’d have been relieved if we’d gotten it wrong.

That said, in the conversations we are having with clients, the focus has definitely shifted towards managing their recovery. They are very conscious of the increased strains on their customer base and

the sensitivity surrounding those relationships, particularly about pricing. With that in mind, we are supporting them in managing their customer portfolios through sales, pricing and product management topics that help “get” (acquire new customers), “keep” (retain and reduce churn) and “grow” (improve cross- and upselling) that base.

In this article I focus on the revenue levers that you can pull to grow the top line, while being mindful of how behavioural biases can help strengthen or weaken customer relationships in the process.

## #1 “WERE THERE ANY SIGNS WE HAD LOST THAT ACCOUNT?” (CONSERVATISM BIAS)

Most customer relationship programmes are set up during more stable times and divide the base into value tiers (most commonly based on account sales). The problem comes when the market shifts. Customer behaviours, preferences and their willingness to pay can all change considerably. This means that the value tiers are usually poor predictors of churn risk. If you’re not careful you can find that once-stable customer accounts are churning with little warning.

Rather than get caught by conservatism bias (the tendency to insufficiently change thinking when presented with new evidence), what is required is a rethink towards better risk scoring of the customer base. Building predictive churn models is complicated but possible using statistical techniques.

At our firm we are using our data scientists to design artificial intelligence/machine learning algorithms to analyse data from clients’ customer relationship management (CRM), billing and customer service systems, and external sources such as credit reference and exchange rate data. This helps clients to spot opportunities that they’d never see with the “naked eye”. It paints a picture of the most likely factors to predict churn, where revenue leakage will likely come from, and helps improve customer lifetime value (CLTV). ▶



« Don't forget too that ex-customers may also have been let down by their new suppliers. Their rationale for leaving you may no longer hold and so a win-back campaign can pay dividends. The value communicated by your sales collateral needs to be tailored to the current, altered situation. For example, we are seeing continuity of supply/service become more important as a buying criteria for many of our clients' customers.

## #2 "I'M HAPPY TO GIVE YOU AN UPGRADE" (ENDOWMENT EFFECT)

A typical reaction of businesses in a downturn is to lower prices and hope that volumes will hold. Analysis of lost orders in our projects shows that price is only one factor behind softening demand. A bigger reason is often that demand is simply no longer there. Therefore, price reductions lead to lower volume movement than in normal

economic situations. As we've discussed in previous articles, reductions in price (as well as volume) will have very quick negative effects on profitability.

Before offering costly discounts, it is well worth thinking about whether there are any discounts-in-kind that customers would value; can you give more value for the same amount of money?

For example, many subscription businesses are offering free upgrades on their packages or free trials of new features. The benefit of this is that it plays to the endowment effect, where once the customer gets used to that feature, they may not want to give it up even when it is then charged for.

Clearly for that to work it means your promotion should be time-bound and has an expiry date. Branding the promotion as a "Covid offer" can be a way to signal that the offer is both situational and temporary. Finally, remember to have your sales team plan out these concessions ahead of a negotiation and ask for something in return.

## PRICE INCREASE CAMPAIGNS

In Q4 budget planning for 2021 will kick in. Thinking about next year's price increase I can imagine will be met with trepidation (can we even attempt it?). Well, you might have no choice. While we are still waiting to see the Brexit effects on currency and tariffs, if costs have started to rise you'll need to decide whether you will absorb them and take a hit on margins or pass them on (fully/partly) to customers.

The key to doing this well is to run it as a project. We call such projects "price increase campaigns", and what is required is a differentiated approach (i.e. across customers, products and services, levels, timing, communication etc.).

The graphic shows part of our action planning process with clients, focusing on individual customers of theirs one by one.

## INDICATIONS PER CUSTOMER



Source: Simon-Kucher & Partners

## #3 "HELP ME HELP YOU" (RECIPROCITY BIAS)

Discounts-in-kind, while useful, sometimes don't cut it. So what to do when you are being pushed for cash discounts? The first thing is to be careful not to offer panic discounts that do not connect with your commercial strategy or long-term retention.

The second thing is to try to make those rewards conditional. For example, "We can grant the discount if we can start immediately" can help pull forward revenue.

The third thing is to consider making them performance-based. While discounts can be granted for predicted targets (volumes etc.) those targets are easily forgotten about by customers. Goodwill has a short lifespan, in my experience. If the predicted targets are not met, there is no mechanism to claw back any money.

My preference would be to change the discount discussion to retroactive or off-invoice rebate. That way you make use of reciprocity bias, where you have a true win-win discussion. This also has the benefit of giving your sales team a good reason to keep regular check-ins with their customers to remind them how they are tracking towards their rebate targets.

## #4 "WE NEED A FIGHTING BRAND" (SELECTION BIAS)

Selection bias is the tendency to notice something more when events cause us to be more aware of it. For example, it could be becoming aware of the size of the lower end of a market when your growth has stalled elsewhere. But while price can beat quality in times of crisis, lowering prices without lowering performance lowers profitability... Make sure if you do target new customer acquisition

within these highly price sensitive customers, you do it with stripped down offers.

If you do create a less expensive alternative to your core offering, make sure that you've fenced it off so you don't cannibalise core sales. For example a boiler manufacturer introduced a second (lower tier) brand with more cost effective components and less favourable warranty conditions to target a new segment while ensuring that it preserved the premium nature of its existing product line.

### #5 “DO YOU NEED FIXINGS WITH THAT?” (POOR HEURISTICS)

We've covered get and keep; let's now focus on grow and, in particular, cross-selling. How well do firms live up to the often rolled out platitude of being a “one stop shop”? In our experience there is usually room for improvement.

In one of my projects for a distributor I remember repeatedly being told by branch managers in interviews that there were limited opportunities for cross-selling. After all, the business model depended on making full use of the wide stock inventory that each branch carried and the branch manager would review their sales at the end of every day. The repeated quote we heard was, “Our teams are good at that, we're traders.”

When we looked at the average order value and volume from those branches the overall sales picture looked pretty good. However, when we started to look at the unique products per order, the cross-sell picture was pretty shocking. Most orders were for a single unique product, albeit there would be multiple units requested. Effectively the customer asked, “Have you got X in stock?” and the response from behind the sales counter was, “Yep, how many?”

This is about what gets measured gets managed. The lesson for the client was if you want to know how well you do at cross-selling, you need to actually measure cross-sell, rather than what turned out to be a poor heuristic of that (average order value). To rectify the situation, we introduced some simple “next best action” prompts to the order screens based on the knowledge of category managers, and “sold with” analyses, and also created some kit bundles that combined the main product with helpful accessories that were often forgotten by the customer at the time of purchase.

### #6 “THEY’LL DO ANYTHING TO KEEP THEIR STATUS” (EGOCENTRIC BIAS)

Status is a very powerful influence on behaviours. Fundamentally, it is a core principle of loyalty and preferred partner schemes. When designed

## CUSTOMER-BASE MANAGEMENT ACTIONS CHECKLIST

Build yourself a checklist to systematically review your opportunities – here's a starter for 10

<b>Get</b>	<b>Acquisition</b>	✓ New target sectors ✓ Less expensive alternative products/services ✓ ...
<b>Keep</b>	<b>Retention</b>	✓ Customer churn assessment ✓ Discounts-in-kind/concessions ✓ Off-invoice rebates (can also help in “grow”) ✓ Win-back campaigns ✓ ...
<b>Grow</b>	<b>Cross- and upsell</b>	✓ Likely accessories ✓ Kits/product bundles ✓ Tiered offerings ✓ Price increase campaigns ✓ ...

**“Use this crisis to challenge the pre-held beliefs of your commercial teams about how customers buy”**

well, differentiated or tiered status levels for customers or channel partners will have clear terms and conditions on order procedures, stock conditions, returns, marketing support etc.

A lightbulb moment happened with one client when we showed in a workshop that they had the power to have a far more structured channel partner scheme, with clearer policies and more standardised rules for its stockists to stick to in order to retain their gold/silver/bronze status. This “certified status” was very important and valued for the entrepreneurial owner-MDs.

Beyond the financial benefit, they took pride in it, including in their social outings with the CEOs/MDs of their competitors. They would not give it up easily. The new scheme helped the client's margins from both a revenue and a cost-to-serve perspective.

## SUMMARY

Managing the customer base is tricky at the best of times and never more so than now. However, if necessity is the mother of invention then now is the time to use this crisis to challenge the pre-held beliefs of your commercial teams about how customers buy, what they need and what that commercial offer should entail. By systematically looking at all the revenue levers you should be able to identify areas for top-line growth that result in bottom-line impact.



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