

CMO VIEWPOINT

A CRITICAL TOOL FOR THE NEW IT ENTERPRISE CMO: THE CUSTOMER HIERARCHY OF NEEDS

DRIVING REFERENCE VALUE FOR TECHNOLOGY BUYERS AND SELLERS

Over the years, a variety of approaches have been used to extrapolate and evaluate customer information in an effort to understand and replicate what keeps customers satisfied and loyal. As efforts are steered toward retention rather than acquisition, particular attention is being paid to cultivating high-value customers, and in some cases, abandoning low-value ones.

Particularly in IT enterprise companies, CMOs have utilized detailed customer segmentation models, satisfaction surveys and costly programs and initiatives designed to improve customer satisfaction. The results, however, have often been less than expected, sometimes improving satisfaction by a mere percentage of a point. Even more telling, satisfaction and loyalty are no longer reliable indicators for a company's success. In fact, those measures rarely correlate with sales or corporate growth, metrics that CMOs are increasingly being expected to contribute.

We propose that CMOs have a new role — Chief Customer Steward. While the sales organization is mostly responsible for acquiring new customers with the support of marketing, and various organizations touch the customer throughout the lifecycle, no one organization is chartered with cultivating the customer relationship. Why is the relationship important? Because it's the one asset that cannot be replicated. And, according to customers, the relationship is becoming a critical part of the value proposition.

In a recent survey, we asked over 60 CIOs, VPs, directors and managers from a number of industries what influenced their willingness to testify to peers on behalf of a vendor. An overwhelming 98 percent of respondents indicated that the overall vendor relationship is the most important factor — even more so than the robustness of product features (84 percent), technical support (82 percent) and the cost-benefit ratio of products and services (64 percent).

Put another way, the ultimate measure of a customer's satisfaction and loyalty can be demonstrated in their

willingness to serve as a reference. That willingness is a direct indicator of the relationship the customer has with their vendor. The more needs the vendor can meet, the deeper the relationship. The deeper the relationship, the more sticky it becomes, the more satisfied and loyal the customer. The more satisfied and loyal the customer, the more traction the vendor can achieve with that customer.

DISTINGUISHING TRANSACTIONS FROM CUSTOMER TRACTION

The Customer Hierarchy of Needs is a tool that helps companies move customers along a continuum from transaction to traction. Transactions are point-in-time experiences where organizations exchange products or services for money; to be expected, these dealings and interactions are governed by stated agreements, contracts and money. There is a risk, however, that a company would have an entire base of 'transaction customers.' These interactions are not inherently negative especially since most customer relationships begin at this level and they immediately impact revenue. But customers who remain at this level are more difficult and costly to retain. Capturing true customer value and leveraging customers to help attract new customers requires solid, strategic relationships.

Traction powers amazing companies. It brings mutual financial and competitive gain to vendors and customers. It enables vendors to build not only market share, but also innovative and customer-centric products along with a pool of credible advocates who proactively share successes and lessons learned. Traction customers are motivated to give constructive feedback about a product or service rather than to defect to another vendor. They are motivated to proactively encourage their colleagues

to adopt the technologies and services they use. Traction customers are also motivated to buy more from the vendors they trust.

UNLOCKING CRITICAL RELATIONSHIPS: THE CUSTOMER HIERARCHY OF NEEDS

Through our research, The Phelon Group has developed the Customer Hierarchy of Needs, a simple, yet powerful model that helps CMOs unlock and leverage significant value through customer relationships. Our model parallels Maslow's Hierarchy of Needs, developed in 1943 by Abraham Maslow as a means to understanding complex questions about human motivation. Maslow's Hierarchy of Needs is widely accepted; it is the foundation upon which much of modern psychology is founded.

As is illustrated by his Hierarchy, Maslow deduced that humans must meet basic needs before pursuing increasingly greater human accomplishments. For example, an individual without food may forsake safety concerns to meet the body's physiological need for it. An individual without safe shelter is unlikely to pursue relationships, familial or otherwise. And an individual without the support of some external network is unlikely to pursue a higher education. The model's sequential, hierarchical order illustrates that people seek to meet primal needs first, and only once those needs are met do they move toward an ultimate, inner satisfaction. The Phelon Group's Customer Hierarchy of Needs permits a full understanding of the intricacies of customer relationships and illuminates the sequential path that IT enterprise customers must travel for the vendor relationship to deepen. Designed to demonstrate its

commonality and alignment with Maslow's Hierarchy, the Customer Hierarchy of Needs illustrates what is required to evolve customer relationships.

Armed with this perspective of customers and how your company is meeting their needs, CMOs can ensure that the gap between the profitability of the initial transaction and the lifetime value of the customer is greatly narrowed.

Our research has clearly illustrated that customers struggling at the transactional levels are inherently less loyal, and are less likely to buy more or invest in a deeper relationship with their vendors. Similarly, customers who don't feel they received products that work or that technical issues are quickly resolved are less likely to encourage peers to adopt a company's technology, and to contribute to mutual success. Customers' tendencies toward traction are much lower when they view a company and its products as merely providing a certain utility.

When customer relationships do not transcend the lower levels of the Customer Hierarchy of Needs, price — or the 'what's in it for me' attitude — becomes paramount in future interactions. In this state, customer defection is high and customers are generally unwilling to participate in marketing, to refer their colleagues and to forgive their vendors when things go wrong. For a company to be successful they must achieve credibility among their influencers, they must continuously innovate their offerings and their customers must continue to buy. Each of these is greatly affected by deep relationships with existing customers, which no one organization owns.

Maslow's Hierarchy of Needs



Physiological Needs: The strongest human biological needs, such as needs for oxygen, food, water and a relatively constant body temperature.

Safety Needs: The human need for safety and the ability to predict the outcomes of one's environment.

Needs of Love, Affection and Belongingness: These needs involve both giving and receiving love, affection and a sense of belonging.

Needs for Esteem: These needs include both the need for self-esteem and self-respect, and the need for esteem and respect from others.

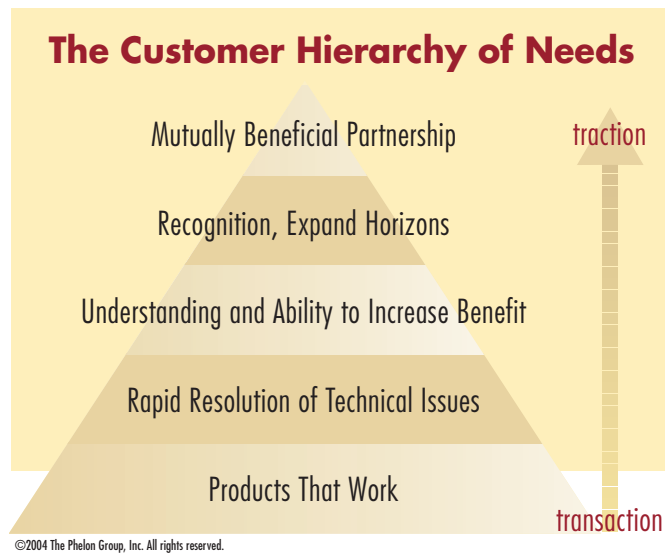
Needs for Self-Actualization: These needs include the human need to be and do that which one was "born to do."

THE PHELON GROUP'S CUSTOMER HIERARCHY OF NEEDS IS DEFINED AS FOLLOWS:

Products That Work: This is a need for sustenance; the most basic of needs. Products that work may from time to time experience problems, but those problems should not cause major business interruptions. Major interruptions are equivalent to starvation in the Maslow concept.

Rapid Resolution of Technical Issues: This is the customer safety net; companies only care about it when problems arise. If problems that do arise are not rapidly resolved, customers experience fear and a sense of vulnerability.

Understanding and Ability to Increase Benefit: On a solid product/service/support foundation, customers can experience and realize success. They gain a sense of belonging from being a part of the success, and are ready to foster increased benefit. At this level, the "two way street" begins; both customer and company are free to give and receive in the relationship; fear, vulnerability and anxiety are no longer "normal" experiences.



Recognition, Expand Horizons: Here, after customers experience and understand their successes, they receive recognition and respect, both internally and from external sources. Here, also, customers expand their horizons as their influence and recognition increases.

Mutually Beneficial Partnership: Maslow said people reach self-actualization when they do what they are born to do. We say the vendor-customer relationship reaches its full potential when each side fulfills its

promises to the other — when individuals act in ways that are beneficial to both parties, not just to themselves. This is the level to which we believe every company should aspire.

APPOINTING THE CMO AS CHIEF CUSTOMER STEWARD

To CMOs who may be unsure whether the transaction state reigns in their companies, we ask: can you name one person within your company with the responsibilities and rewards for evolving customer relationships, for making them more mutually valuable (not just more profitable) and for ensuring that customers stay tied and true to your brand? If not, the likelihood is great that your company's customers are simply enduring until they can make a change, not thriving in their relationship with you.

The emerging role of today's CMO is not only to raise the flag when relationships are stuck in transactions, but also to act as the customer steward. While no one person or organization can own a relationship, it is critical that a single entity be responsible for managing and guiding the customer so that they successfully move up through the Hierarchy of Needs.

As customers move along the Hierarchy, their value to companies increases manifold. Customers at the higher, tractable levels contribute not only to bottom lines, but to high-impact activities that thrust companies ahead of their competitors. And as customer relationships evolve, the roles of marketing organizations become more significant.

Marketing organizations, no matter how successful, cannot effectively engender loyalty or leverage customers if their companies' foundations — or beginnings — are not sound. In the words of the ancient poet Manlius, "finis origine pendent"; the end depends on the beginning.

Companies must fulfill their pre-sales promises to customers; they must provide safety nets through solid, rapid technical support. If these basic needs aren't met, customers will be ineffective for marketing, they will be susceptible to competitor poaching, and the cost to keep and upsell them will be high.

Customer traction requires organizational-wide acknowledgements that customer relationships are

fluid and must continuously evolve. The Phelon Group calls this principle Customer Leverage, which is based upon two underlying concepts: **1)** customer reference programs, being well-positioned to evolve customer relationships, should be viewed and managed strategically; and **2)** creating “traction” with customers can only be achieved when both customer and company mutually benefit.

Implementing Customer Leverage involves a multi-pronged approach, which includes establishing bi-directional customer communication vehicles; building networks to support customer-to-customer and customer-to-company communication; creating a solid structure and process to collect, manage and share customer intelligence; and, finally, developing a comprehensive program to identify, cultivate and enable a community of active customer promoters.

MINING THE HIERARCHY BY PUTTING RELATIONSHIPS TO WORK

The Customer Hierarchy of Needs is a powerful model. It challenges companies to rethink how they approach and view customer relationships. It reminds executives that customers are collections of people with collective psychological needs and desires. The Hierarchy can awaken a new understanding within marketing organizations that relationships are critical to loyalty and traction, and that unless the basics are covered, no matter the program or incentives, customer loyalty and traction will be fleeting.

In our travels and through our research, we have encountered many companies that, despite the best efforts of marketing and customer reference teams, are unable to achieve their goals of leveraging customers. We have observed that in most cases,

companies fail to leverage their customers because they pursue activities that solicit cooperation from customers at the transaction level, and their higher-level needs have not yet been met. In summary, we believe that:

- 1)** Marketing can play a major role in the fulfillment of customer needs and wants; it is also a catalyst that fuels the customer’s movement through the hierarchy.
- 2)** By demonstrating their relationship with a vendor, customers can greatly contribute to new customer acquisition.
- 3)** Relationships cannot be built unless the strong foundations of safety, trust and commitment exist.
- 4)** Sales and other efforts can be accelerated with this model.

We recommend that marketing organizations use this model to take an honest look at their customers. Where are your customers in the Hierarchy today? What do various organizations within your company expect to gain from customer relationships? What and where are the disconnects between what your customer needs, and what you are asking them to do? By asking probing questions marketing leaders will gain insight that helps formulate next steps. And with those next steps, CMOs will help their companies make the leap from supporting and promoting transaction customers to enjoying the mutual benefits of loyal, traction customers.

To sign up to receive upcoming editions of CMO Viewpoint or read more about Customer Leverage and the enterprise, visit our web site at www.phelongroup.com.

You may also reach us at 1-877-717-9210 or info@phelongroup.com.

ABOUT THE PHELON GROUP The Phelon Group is a privately-held consultancy that has established itself as a major force in defining and implementing Customer Leverage as distinct business initiative to help enterprise technology companies build and sustain powerful reference programs. Led by customer experts Promise Phelon and Steven Nicks, The Phelon Group defined Customer Leverage to increase the value of referencable customers and offer actionable and sustainable strategies based on key benchmark research and client work. Areas of expertise include critical path intelligence, strategy and execution, research and analysis, and training and education. Since its founding in 2002, The Phelon Group has conducted successful Customer Leverage initiatives for leading enterprise solution providers such as Intel, Adobe, HP, Oracle, and EMC.

