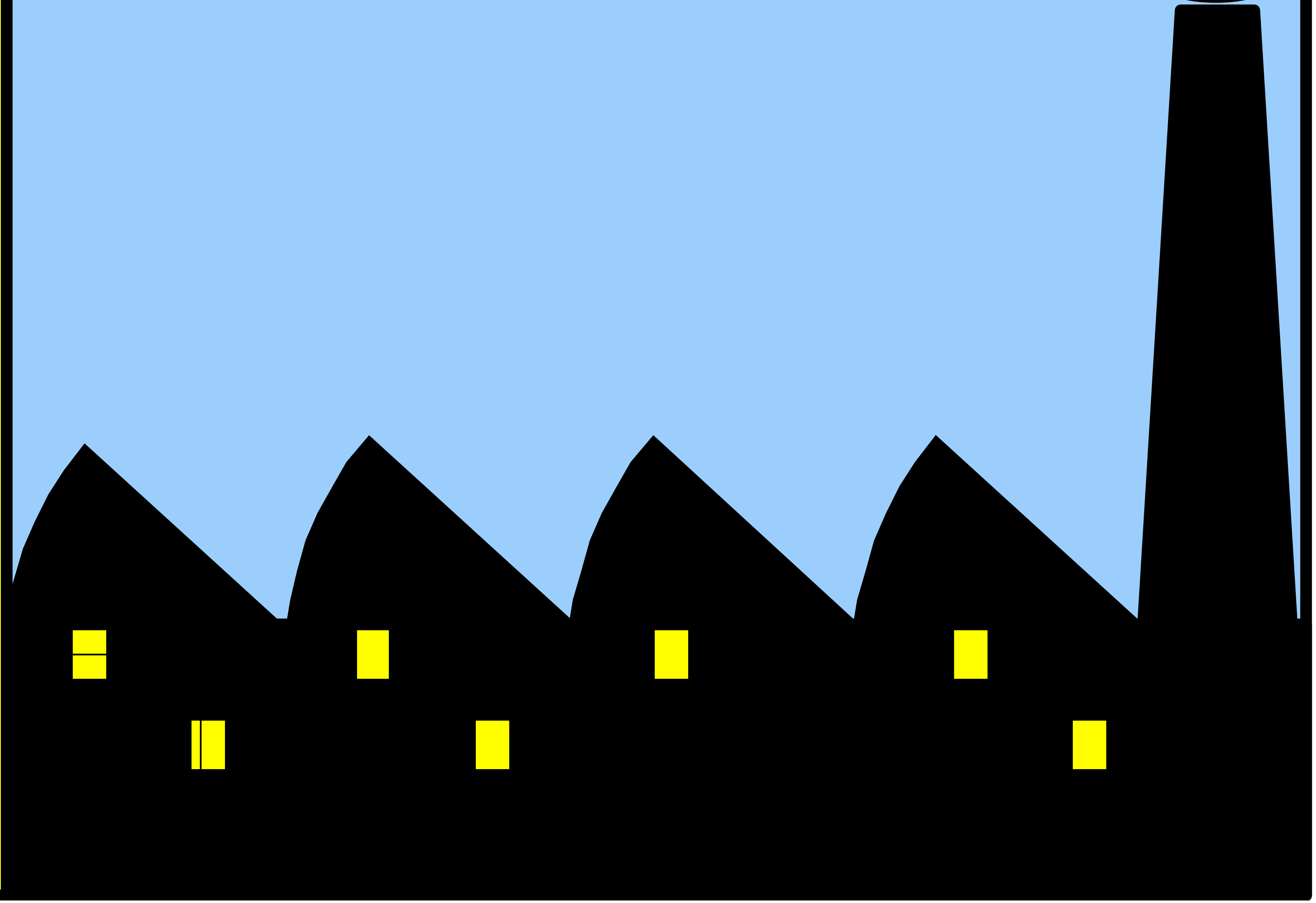
The ClientFactory

Michiel van Mens

A 7-Step Approach to Operational Marketing



The Client Factory
A 7-Step Approach to Operational Marketing

If you have any questions, comments or criticism about this book, or would like to make a suggestion or provide additional information, I would greatly appreciate it if you would e-mail me directly at mens@XS4ALL.NL. All responses are welcome and will receive a reply and, if possible, will be incorporated into the next edition!

Michiel van Mens, 2004.

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For Rens, Puck and Max

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This chapter in a nutshell

This chapter describes the essence of operational marketing. It examines the notions of “client”, “client contact” and “client relationship”. And to enable the reader to better understand operational marketing, it compares the “market approach” process to a factory (assembly line) process. The goal of this book is to lay the foundation for the systematic optimization of one’s market approach by leading the reader through seven steps. In other words, a cyclical and optimized market approach process can be initiated by following the seven steps described here.

Results

- You’ll learn how to unambiguously define “client”.
- You’ll gain insight into when and whether or not to invest in a client relationship.
- You’ll learn how to distinguish between the three different types of clients: new, existing and former.
- You’ll gain insight into the seven steps necessary for a standardized and optimal market approach process.

The Client Factory

The success or failure of a marketing strategy lies not only in the strategy itself, but above all in the realization thereof, i.e. the marketing operation. The question we therefore need to ask is, "How do we translate a marketing strategy into concrete actions?" And, equally as important, "How do we convert the knowledge gained from operational marketing into an improved marketing strategy?" Marketing is not a one-way process, but rather an interaction between long-term planning and short-term practical application.

To improve their strategy, companies must learn how to effectively use their knowledge and experience. To do so, they must first seek out the right knowledge and experience and, most importantly, gather it systematically. But the systematic accumulation and application of this knowledge can only be optimally effective if companies also organize their strategy and market approach in a systematic fashion.

In this book, I argue in favor of standardizing your market approach by following a set methodology. Businesses that standardize their market approach grow more rapidly than businesses that do not. Considered from this perspective, the 7-step plan described in this book is a concrete growth strategy.

This strategy can be summed up by three key actions:
1) Organizing your marketing operation according to a set methodology,
2) Finding out what works and what doesn't as far as your intended goals, and
3) Making sure you systematically gather and use this knowledge to adapt your operational marketing and strategy.

In *The Client Factory*, I argue in favor of standardizing your market approach by following a set methodology.

This book is first and foremost intended as a practical guide to a method[1] based on these principles. This method is illustrated by comparing it to a factory process. A factory process is characterized by the rationalization of operations and the systematic improvement of these operations.

If you approach your market approach as a factory process, you can organize it as such. A better term for this would be a "Client Factory", a factory where an assembly line carries out operations on stocks of new and existing clients. The planning department determines which stocks of "dissatisfied clients" can progress through the production process and when, the financial administration department safeguards the value of the stocks of clients and prospective clients, and the sales office staff is the "machine" that processes incoming and outgoing phone calls. Other available "machines" are the Internet, television and radio commercials, and printed advertisements.

[1] According to Merriam-Webster's dictionary, a *method* is "a way, technique, or process of or for doing something; a body of skills or techniques."

There is a data entry "machine", for instance, for converting reply cards into digital information, resulting in stocks of information requesters that are in turn followed by another "machine". The result is a supply of semi-finished products - new clients - that must be processed into the final product, regular clients. Satisfied or retained clients roll off the assembly line at the end of this production line.

Viewed from this perspective, the factory process is a well-tuned production system of departments and individuals that know precisely when and what must be done, and by whom. If an error occurs somewhere along the line, each of the subsequent links in the chain will be affected. With a factory process, we are therefore primarily interested in where errors could occur. It is only after identifying such errors that we will be able to adjust and improve the entire process systematically.

THE CLIENT AND THE CLIENT RELATIONSHIP

You make money on clients and clients alone. Before fleshing out your operational marketing policy, it is essential to answer the question: "What is a client?" No two answers will be the same. One person might answer, "The client is the person who pays my salary", whereas the other might say, "The client is the one who buys my product". Yet another might mention the user of his product or service. Each of the employees within a single company will probably have their own definition, and assume that all the others share that definition. Not only will employees (commercial and otherwise) have their own interpretations of the client, but also departments.

The financial administration department, for instance, considers the client the person to whom the invoice is sent. The marketing department, on the other hand, defines the client as the user of the product. The logistics and distribution department considers the client to be the destination of the delivery. And the ICT department views the client as a record with a variety of characteristics. If every department approaches different aspects of the client, each of them will develop and use a different data system. These systems will be unable to communicate with one another, which is not only ineffective but also time-consuming and costly.

To implement the "Client Factory" approach, it is essential to answer the question: "How do we define our client?" The specific definition a company formulates is irrelevant. What is important is that the company have a clear-cut impression of who its client is. In a Client Factory we define "client" as follows: The client is a person, household or legal form with whom a business maintains a financially profitable relationship.

The client is a person, household or legal form with whom a business maintains a financially profitable relationship.

That last part might seem self-evident, but it is worth noting. After all, not all clients are financially profitable. It has been proven time and again that 20% of clients account for 120% of profits, and that the remaining 80% siphon off 20% of these profits. The question you therefore need to ask is, "What are you going to do about that 80%?" Are they really clients?

The definition used in this book includes a breakdown into persons, households and legal form. A household is considered a collection of persons, similar to a company. The reason for this breakdown is that we can distinguish several client "roles". A person may be the "decision-maker" but not the "user". The user of a product or service is not necessarily the one paying for that usage. We also have the role of "influencer". Take, for example, a family that decides to go on vacation. The children want to go camping in Spain. The father makes the final decision and the mother pays for the trip with her credit card. The family as a whole is the "user" of the "camping" product.
The same role distribution can be found at any random company[2]. Suppose a company needs a new client information system. The marketing and sales department is the user of the new system and the ICT department is the one influencing the decision, since it is responsible for maintaining and managing the system. Although it might be the director who makes the ultimate decision, the finance department is the one that determines the budget and pays the bills.

In both examples we focus on payment, whereas our definition clearly mentions a "financial profit". In other words, even if no payment is involved, there could still be a financial advantage. Take the Yellow Pages or free local newspapers, for instance. Both are products that are distributed free of charge. Are their readers clients? According to the definition given in this book, yes. After all, these products would not exist without readers. And because there are people who read them, it is a financially profitable relationship, the reason being that companies who are willing to pay for advertisements due to the large numbers of readers.

Consider this: *Formulating an unambiguous definition of "client" is harder than you might think. The following example clearly illustrates this. Company X organizes trade fairs for the business-to-*

[2] A company is a legal form. It could be a foundation, association, sole proprietorship, commercial partnership, closed corporation or limited liability corporation.

business market. Every fair has its own product manager and sales manager. A company that participates in a specific fair may also be profitable for a different fair. One fair manager considers Company X a client, whereas the other considers him a potential new client. Yet this concerns one and the same company.

It is also a good idea at this point to define "client relationship". In a Client Factory, this is approached from a pragmatic point of view: a client relationship is a series of successive contacts with a client[3]. This contact can take on many forms, as long as it involves contact. It could be a request for a brochure, a complaint or a purchase. Or it could be seeing a company's newspaper advertisement or television commercial, or hearing its radio announcement. Either the client or the company can initiate this contact. If an individual sees an advertisement, requests information, and then buys the product in question, this translates into three incidents of contact.

[3] We can use this definition to fine-tune our definition of "client". A client is now a person, household or legal form with whom the company has a series of successive contacts with the objective of financial gain.

A client relationship is a series of successive contacts with a client.

Depending on the communication channel used, every incident of contact with the client costs money (face-to-face contact is also considered a communication channel). Every client who calls a service desk costs the company $1.50 per call on average. If a specialist from a bank answers this very same question, the contact with the client can amount to hundreds of dollars for every conversation.

Let's say you see an ad in the paper for a pair of shoes. This particular form of contact with the client costs the company $0.05 (total costs divided by the number of readers). You then go to the store to check out the shoes. The store, the staff, the stock, and so on, all cost money. The cost per client contact rises or falls depending on the number of people who try on and buy the shoes. If you return to the store a week later to buy the shoes, this would also count as an incident of contact. But even this involves costs. The store must maintain its records, order new supplies, write off its inventory, etc. In other words, these three incidents of contact with the client have cost money, costs that are offset by sales. These sales minus the costs determine the financial profitability of this client relationship.

The expenses you incur for every contact with a client are an investment in that client. If you define a client relationship as a succession of contacts – which cost money – the client relationship represents a figure. This amount must be offset by future revenue. A company's products and services differ in their margin (sales volume minus costs) and clients differ in their buying behavior. Depending on the revenue, a company can decide to invest more or less in a client relationship. This legitimizes a differentiated approach to the client and the relationship.
Taking our departure from the costs and revenue on an individual client level, you need to consider the following from a marketing point of view:

- Which communication and sales channels do you use for the different client groups?
- Which clients does your business wish to acquire and retain?
- Which category of clients has priority?

A client relationship can only be optimized using a systematic market approach. This means finding the right combination of contact, usage of sales and communication channels, and investment budget. If you determine your contact strategy and formulate concrete measurement points beforehand, you can continuously "adjust" your contact strategy to your ultimate goal based on the knowledge and experienced you have gained.

MARKETING AS A FACTORY PROCESS

When viewed as a process, marketing is a series of interrelated events.

In a Client Factory, marketing is viewed as a process. A process is a series of interrelated events. The market can only be approached effectively and manageably if these processes are formulated in advance, and subsequently monitored and improved. And in order to be manageable, a process must be measurable. Otherwise, it is not possible to determine whether or not the desired series of events has actually taken place. This means that you need to incorporate "meters" into the process design, i.e. performance indicators. The knowledge created as a result will enable you to improve and systematically optimize your market approach.

Formulating a market approach in advance boils down to the question: “How do you want this series of interrelated events (i.e. incidents of contact with the client) to take place?”

In this book, a factory assembly line is used as an example of a cyclical process. An assembly line entails a succession of activities and machines for converting stocks of raw materials or semi-finished products into end products. The first step is to decide which machines are required. During the start-up phase, various errors occur when setting up and adjusting the assembly line. But because thought was given beforehand to how the cyclical process should be organized, the machines can be geared properly to one another. The ultimate result is an error-free production process in which you know exactly what goes in and what comes out, and what it all costs. The same exact process can be applied to your market approach. You have a number of different “machines” at your disposal, you know exactly how many potential new clients enter and how many clients should come out, and precisely how much the entire process costs.

It can be assumed that this working method will yield the intended results. But it is only after you have rationalized the entire process to a large degree that:

- You’ll know why something goes right and why it does not.
- In the event of an error, you’ll know where the error occurs in the process and whose responsibility it is.
- You’ll be able to formulate concrete goals and calculate their feasibility beforehand.

This can also be illustrated by examining the case of a company participating in a trade show. In this instance, the show is the machine, consisting of a specific number of square feet, a certain number of salespersons and various products. The machine only functions if specifically instructed to carry out a task. Should the machine produce clients? Should it generate offers? Or should the machine focus on customer relations and PR? You need to be concrete about the quantities concerned. Do you want 20 offers, 50 new contacts or 3 items? These details must be known in order to be able to determine the exact size of the machine and its setup. A machine that can generate 20 offers functions differently than a machine that produces free publicity. Once you know what the output should be, you'll know how the machine should function, as well as what kinds of raw materials and semi-finished goods should be put into the machine.

You are now ready to put the machine into operation. This particular machine produces invitations. The list of addresses, notepaper and text are entered at the front, while mailed invitations come out the other end. You can determine beforehand or afterwards whether the output quantity of the first machine produced sufficient input for the second machine, i.e. the trade show.

You will also have to use a variety of different machines and capacity after this machine (trade show) in order to further process the semi-finished goods (potential new clients). Is there enough sales capacity available to follow up on all the requests for information? And what should you do with the stock of interested buyers who saw the company at the fair but the company did not see? And how should the company organize its machinery the next time? Will you need to lease more or fewer square feet? Employ a smaller or larger stand staff? Demonstrate more or fewer products?

Company Fellow-U is an Internet service provider that is primarily oriented towards the ADSL sector. An important link in this process is the installation of cable modems at consumers' homes. The company focuses on maximizing sales. One strategy for achieving this objective is to minimize complaints and costs. A large number of complaints result from the fact that there are not enough installers available to install the large number of connections sold. The installers are under too much pressure, thereby increasing the chance of mistakes being made. Another consequence is a lengthy waiting list for installation.

Based on these facts, Fellow-U defines an optimization problem based on the number of connections the installers can process per day. Fellow-U strives to attain a permanent flow of sales that keeps pace with the number of orders needing to be processed. This is only possible with an approach that involves well-balanced communication by targeted direct mailing campaigns and proper follow-up activities.

If the number of sales threatens to exceed the maximum number of installations that can be processed, the volume of direct mail must be reduced and replaced with direct response advertisements. Experience has shown that newspaper ads result in fewer responses than direct mailings, and primarily stimulate requests for brochures. They do, however, directly result in an inventory of potential clients (the people requesting information), who can then be contacted by phone when sales are down.

This working method results in a fully balanced business process with various homing devices. Fellow-U can now make optimum use of its client database and automate the process to a large extent. The advantages of this method are fewer mistakes and more room for optimization.

THE PHILOSOPHY BEHIND THE CLIENT FACTORY___

Although every assembly line is different, the essence of standardization and optimization is the same in every instance. You achieve standardization by dividing up your ultimate goal into smaller actions. Every production unit carries out the same action repeatedly, as a result of which production can take place at a minimum of cost. A logical sequence of these production units results in an assembly line. An important prerequisite for this is that the entire process be calculated and worked out beforehand. Nothing may be left to

chance. However, this is not possible without optimization. In other words, we need to make sure that the assembly line is "fitted" with a large number of "meters". But measurements are only worthwhile if goals have been formulated. Are we producing the right amount at the right time and of the right quality? Optimization is nothing more than reducing fluctuations in the outcomes to a bare minimum. We use any differences that

If you compare the functioning of a thermostat to a systematized market approach, you arrive at the same seven steps.

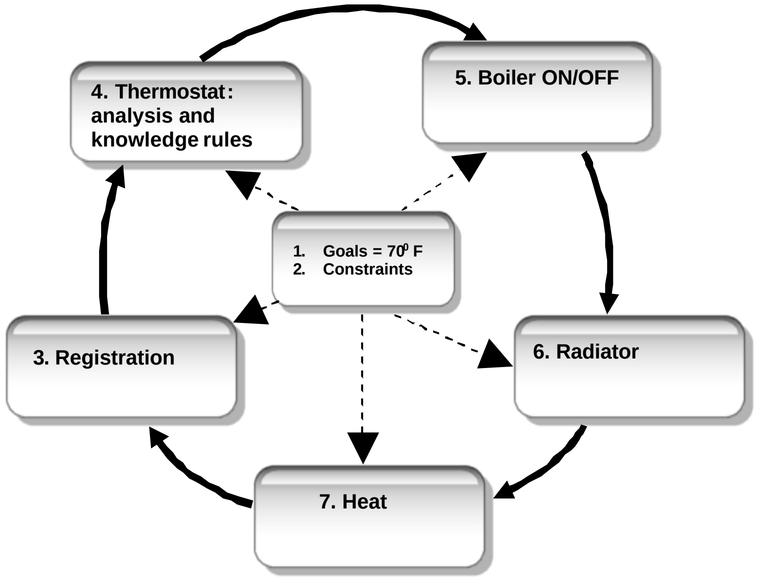
are detected to implement changes as needed, until the end result fully satisfies our goals.

The essence of standardization and optimization is always the same, so why not apply this to our market approach? To answer this, we need to be able to translate our market approach into a number of concrete steps.

Before embarking on this, I would first like to illustrate it using the most elementary example of standardization and optimization that I know of, namely the regulation of the temperature in a room.

A thermostat compares the measured temperature with the desired temperature, which is indicated in advance. If a difference is measured, it has become colder for instance, the thermostat transmits a signal to the central heating boiler, which then starts working harder, i.e. consumes more gas in order to heat the water. The water then flows to the radiator, which gives off heat. The temperature in the room is measured once again and compared to the desired temperature. Once the desired situation has been achieved, the boiler switches off. In determining the desired temperature, it is important to take into account factors that the system is unable to influence, but which determine whether or not the goal will be achieved. These are the constraints. For example, if there is an open window in the room and the temperature outside is below zero, the central heating boiler will probably continue operating, but the goal will not be achieved.

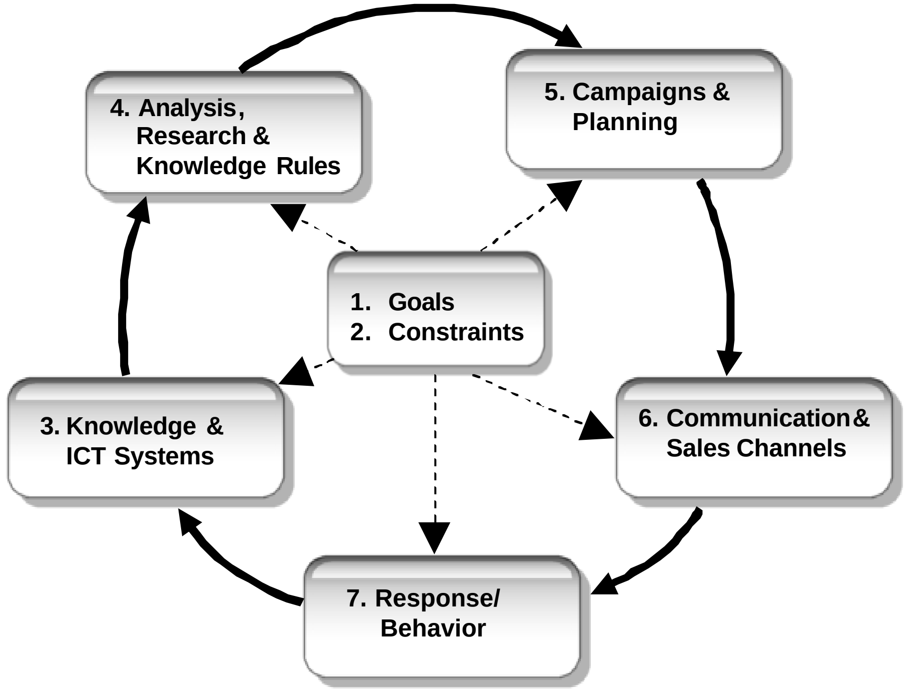
This example demonstrates that achieving the desired temperature and maintaining that temperature is a cyclical process that repeatedly runs through the 7 steps described here. If you apply this principle to



Figuur 1

marketing, you'll see that you need to follow the same seven steps. The sole difference lies in the language used. For example, instead of "registration", we speak of "ICT" or a "knowledge-based system". This could be a person's memory (stored knowledge and experience), a card tray, or a client database. Knowledge rules fall under what's called "business intelligence", which covers all aspects of knowledge analysis and interpretation. Database marketers and market research bureaus are well versed in this. Business intelligence entails using analyses to determine what actions should be taken. Marketing campaigns come in a variety of forms, from price cuts to rebates. To inform clients about these special offers, you need to use communication and sales channels. This in turn stimulates specific behaviour on the part of the client, which is then registered, directly or indirectly. The results can then be compared with the intended goal, after which follow-up activities can be launched.

Suppose you have a sales worker who meets with a prospective client. This meeting generates a certain form of response. Although the specific response cannot be known beforehand, it is still possible to imagine conceivable responses. Either the new client will be interested and request a offer, or he or she will not be interested. If there is no interest, naturally



Figuur 2

you want to know why. Has the company not yet reached that stage? Is this the wrong person to talk to? Is the offer not attractive enough? Is there a competitor involved?

And, most importantly, is it possible to register the client's behaviour in a database, such as a client management program? Every type of response initiates a new process, even rejection. The process may be to do nothing at all for the time being. Or, a follow-up process could be that you remain in contact with the new client through a monthly newsletter.

The above example starts with a new business conversation. The question is, how do you get to that point? One way is to make a selection from your company's address file, after which your sales manager contacts the businesses selected. This contact takes place by way of the communication channel of direct mail. A certain percentage of the individuals approached will respond, requesting additional information or a personal meeting.

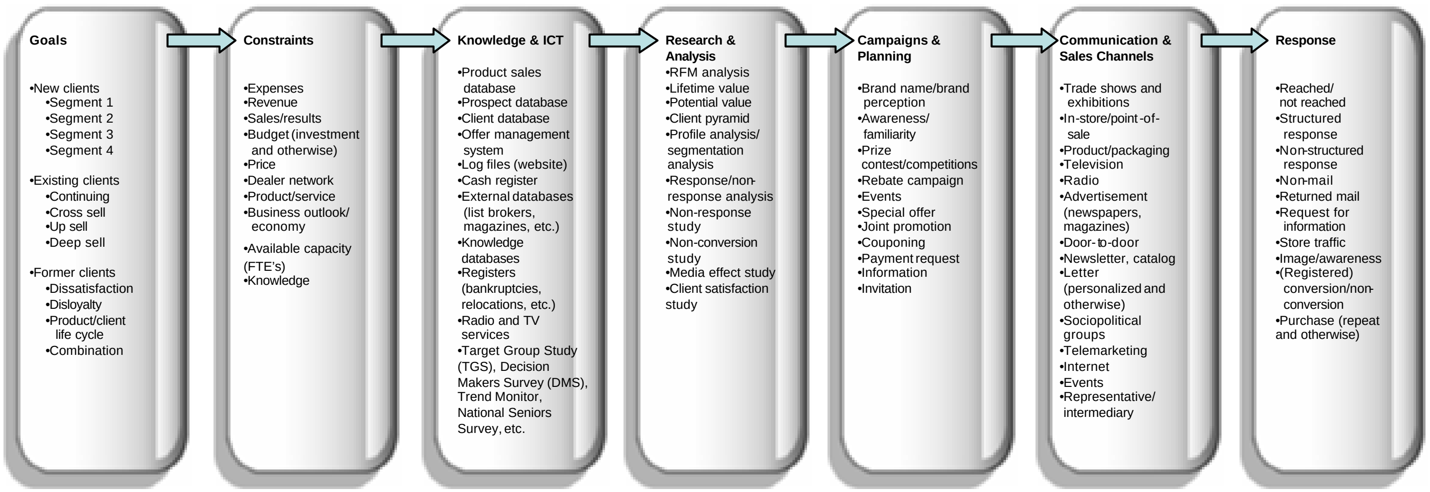
Every form of response (by the client or company) sets a new cycle in motion. A request for additional information must be granted, of course. Likewise, a failure to respond must also be recorded as a form of response. As you can see, the first cycle has set three new cycles in motion, each of which takes place simultaneously. This eventually results in a highly complex chronicle of actions and reactions. It is therefore a good idea to standardize the process at this point. This means that you will need to make plans beforehand. It is possible to plan, estimate and optimize right down to the very last detail, provided you systematically follow the 7-step plan described in this book.

A new process can only be initiated once you have stored the acquired knowledge in a database. If you do so systematically, you will see that it results in a learning process. Is there a connection, for example, between the time the meeting took place and the client's response? Is there a connection between the offer and type of response? Or is there perhaps a connection between the age of the company and the type of response? By systematically recording this kind of information, you can increase your knowledge on different client groups.

If you organize your market approach as a standardized, cyclical process, it is possible to reduce it to seven steps. The advantage of this is that you can describe each of the steps in advance. Every step has a detailed and thorough list of possibilities (Figure 3). After all, the numbers of communication and sales channels are limited, although there is still a wide range of different types of channels to choose from, from posters to face-to-face conversations. Every communication or sales channel stimulates a specific behavior on the part of the client. Similarly, you can also draw up a detailed list of all possible and conceivable ways in which the client can respond. Once you have drawn up such a list for every step in the process, you will have made your entire market approach transparent and practicable.

Figure 3 describes the outline of the Client Factory method, showing every aspect that could be relevant to your market approach.

1. Goals. The goals form the point of departure. There are only three relevant goals from a marketing point of view: those pertaining to former clients, to existing clients and to new clients.
2. Constraints. Once you have formulated your goals, you will need to look at the constraints within which you plan to realize those goals. There are only a limited number of relevant constraints from a marketing point of view, including available budget, capacity, knowledge, product or service, price, and distribution.
3. Knowledge & ICT Infrastructure. Just as with the previous steps, you can now make a detailed account of your current client knowledge versus your desired client knowledge.
4. Analysis & Research. You can take stock of the current analyses and studies



Figuur 3

being carried out within your company. Starting with your desired client knowledge, you can make a detailed “sample card” of desired analyses, reports, studies, and selections.

5. Campaigns & Planning. You can make a detailed list of all current marketing campaigns. You can also draw up a detailed list of desired marketing campaigns, given the desired analyses and reports.
6. Communication and Sales Channels. It is possible to make a detailed list of all conceivable communication and sales channels for reaching clients. You can then compare these to the channels being used in your current situation.
7. Response. In keeping with the previous step, a detailed list of all conceivable forms of client responses can be made, which you can then compare to your current situation.

The 7-step plan makes a distinction between the proactive description of the following step and the evaluation. Every step (worked out in more detail in individual, upcoming chapters) describes the most desirable situation. A clear understanding of your current situation, acquired by completing the assignments required of each step, enables you to compare it better to your desired situation, after which you can decide whether or not you wish to accept your current situation, given the goals you aim to realize. Are you able to meet your goals with your current means? This brings us to the evaluation stage: providing feedback on the previous step.

This can be illustrated using the first three steps of the 7-step plan. Suppose your goal is to generate twenty percent more sales with your existing clients. This requires an investment. You first need to determine your marketing budget. This budget is a given, a constraint within which you will need to operate.

You then need to map out your existing clients and compile all your information on them. What volume of sales did you achieve per client last year? What means were used to achieve this? When did you enter into a contract with the client? The more relevant the information on your clients, the easier it is to apply it. Without such information, you cannot map out your current situation. Say you were to continue using your current knowledge on your existing clients. In what way could you analyze that knowledge? In other words, what knowledge could you extract in order to come up with an effective campaign oriented towards your target group?

Suppose you decide not to accept your current lack of information. It is essential that you learn what it is you need to do in order to acquire more information. How much time will this require? In effect, you need to re-evaluate steps one and two. You may have to adjust your goals as a result because, for example, you are unable to communicate specifically with the various market sectors and/or because you are unable to formulate any specific goals for the various market sectors. You could then ask yourself what kinds of analyses you could carry out in order to arrive at a better, segmented target group approach. The result is that you will have to use different media and means. This, of course, has an impact on your marketing budget. You evaluate the desired situation (availability of client data) using your current client knowledge. You then determine how you can arrive at the desired situation. What kind of budget does this require?

Consider this: *The most standardized business process is often the easiest to automate. Take accounting, for instance. It is only logical that this business function be the first to be considered for automation. It is also interesting to take a look at those business processes that are the least standardized. These are often the most difficult processes to automate. Marketing, communication, and sales are the least standardized (compared to other business processes) and utilize ICT the least. Automation is not possible without standardization. Is it then any wonder that a large number of e-commerce and CRM (Customer Relation Management) initiatives (i.e. automation) ultimately fail?*

In his book Principles of Marketing , Phillip Kotler writes, “Implementation is difficult; good marketing strategies are devised much more quickly than they are carried out. Many managers think that ‘doing things right’ (implementation) is just as important as ‘doing the right thing’ (strategy).” What this boils down to is this: the need to carry out the right activities as best as possible.

Many people are involved from the initial planning stage through the actual execution of daily operations. These activities are generally divided into three levels: strategic, tactical and operational. Strategic marketing primarily targets the long term and the company as a whole. At the strategic level, coordination also takes place with other areas of policy within the company. The following questions are relevant at this level: What product are we going to produce, for which markets, and at what price? How does the company plan to position the product in the market? And at what cost? Tactical marketing translates a long-term policy into a medium-term policy. At the tactical level, the focus is chiefly on the relationship between the product groups and the marketing policy. Operational marketing is derived from two higher levels. Operational marketing views the market, product or service (and product range) as a given. The only question we need to ask ourselves is, given the product, price, distribution and promotion, how can organize our operational marketing as efficiently and effectively as possible? Operational marketing determines the tactical policy. The time horizon is usually 1 year and the focus is on a product or product group.

There is a direct exchange of information between each of these three levels. A company cannot make a decision on a strategic level without knowledge of what takes place on the shop floor. In fact, it is precisely the knowledge and experience on an operational marketing level that indicate the direction of the strategic policy. The better the flow of knowledge and experience, the greater the chance of success. It is because of this continuous exchange of knowledge and experience that a dividing line cannot be drawn between the strategic and tactical levels. This will be different for every company of course, as will the tactical and operational levels.

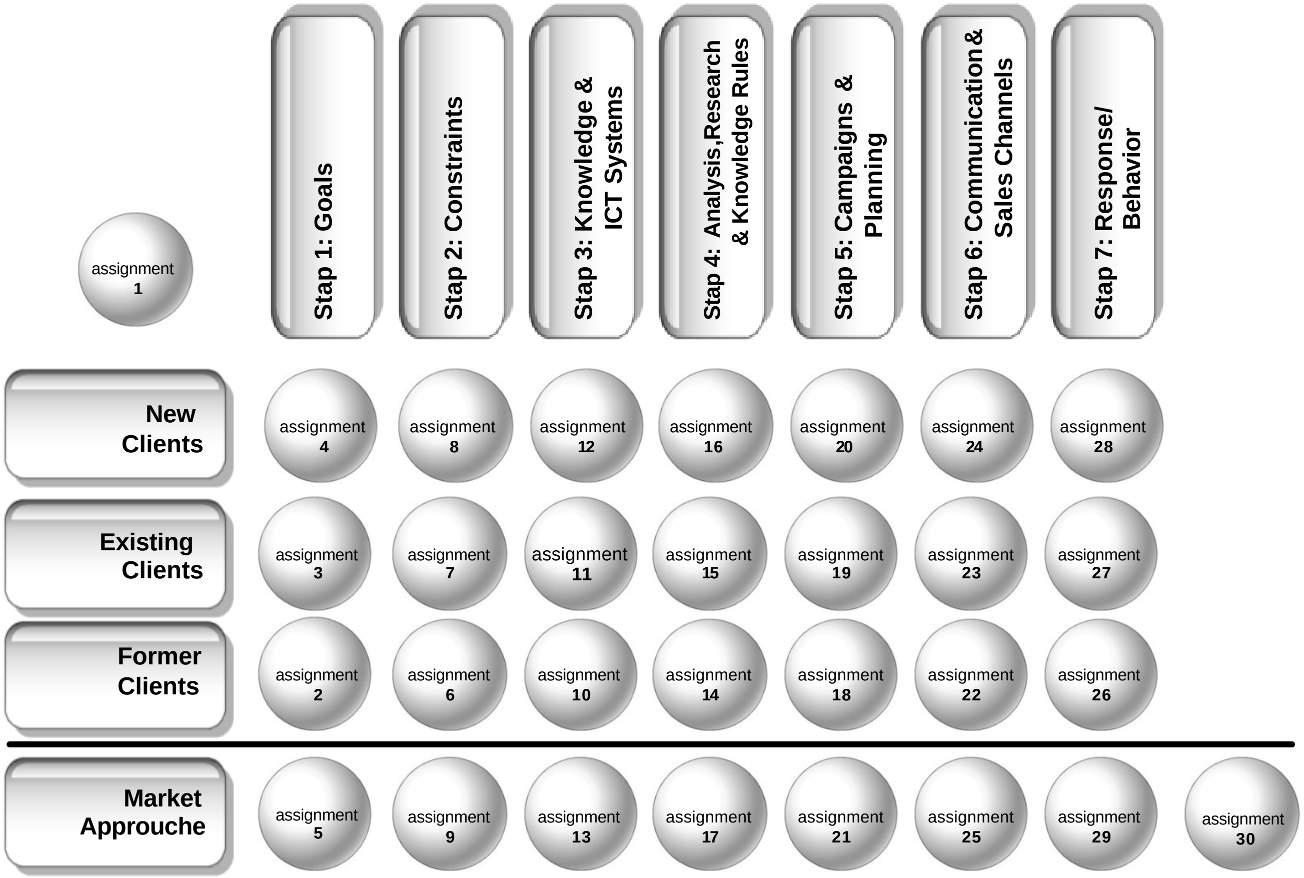
The objectives that are formulated as part of your market approach are derived from your preferred marketing strategy. Only once you have formulated a well-defined and explicit marketing strategy can you formulate your actual marketing objectives.

Your marketing strategy is based in part on a thorough analysis of the following focal points:

- Internal business situation:
  - Company's mission and vision.
  - Company's internal situation:
    - Current situation, with the focus on the strengths and weaknesses of the current marketing policy.
    - An analysis of the current management and organization, again with the focus on strengths and weaknesses.
    - A financial analysis, with the focus on the strengths and weaknesses of the marketing policy.
- External business situation:
  - Buyer analysis, with the focus on opportunities and threats.
  - Competition analysis, with the focus on opportunities and threats.
  - Distribution analysis, with the focus on opportunities and threats.
  - Business sector analysis, with the focus on opportunities and threats.
- SWOT analysis:
  - Description of strengths and weaknesses.
  - Description of opportunities and threats.
  - Conclusions.
- Marketing goals and strategy.

The Client Factory assumes that the above analyses have been carried out. Using the results of these analyses, the formulated strategy and objectives can be translated step by step into a tactical and operational market approach plan. If these analyses are unavailable, this does not necessarily mean you will be unable to follow the method described in this book. A company's marketing policy is a continuous interaction between the three levels described above. It is precisely through the implementation of the 7-step plan that you can provide knowledge within your company for adjusting the strategic and tactical policy.

This book describes each of the 7 steps in detail and breaks down each step as to how it pertains to each of the three client types:



Figuur 4

new clients, existing clients and former clients. Both the theory and practical application are described, culminating in a research assignment. There are a total of 30 assignments, the goal of which is twofold: First, to provide you with insight into relevant questions and topics within the field of operational marketing and, second, to enable you to apply the research questions directly in practice. This book therefore also serves as a practical and concrete handbook. If you carry out the assignments in the order they are given, you will be laying the foundation for an effective market approach plan. But keep in mind that it may not always be possible to answer the research questions in the detail described in this book. The inability to answer certain questions (because the information is simply unavailable within the company, for example) also yields knowledge and insight. The assignments also distinguish between the current situation and the desired situation. The desired situation will have to be described based on your knowledge of and insight into your company, as well as what is required in order for you to achieve the desired situation.

E-mail can be an efficient tool in answering the research questions. Simply e-mail the questions to a number of coworkers, asking for their opinion. For the questions involving figures and financial values, you'll need to calculate the average of all your coworkers' answers for each category, take the average of all these figures, and e-mail them back to your coworkers. Give your coworkers a day to respond if they do not agree with the final answer. If no one responds, you can use your average as the final answer, thereby enabling you to carry out all subsequent assignments.

Emphasize to employees that the accuracy of the answers up to the last decimal point is not at issue. If the company does not have its own client database, this would probably not even be possible anyway. The goal is for employees to make an estimate based on their own knowledge and experience. Depending on the final answer chosen by the group, you can always attempt to retrieve the exact data from within the organization. If you succeed in finding this data, you will have taken the first step towards initiating a process of change.

The qualitative answers (such as the kinds of marketing activities aimed at existing clients) can be answered in much the same way. Even if a precise answer is not available, the goal is to create a shared image within the company and similar linguistic usage. And this will only be possible once differences in perception are revealed.

The assignments are sequenced in logical order. There is therefore no point in completing only a few or doing them in random order.

ASSIGNMENT 1: DEFINE "CLIENT"

Give a definition of "client". Also ask your coworkers (both in your department and in other departments) to give a definition. Next, compare the definitions.	
How would you describe the notion of "client"?	
How would you define a "former client"?	
Give a clear-cut description of what you understand by a "new client".	
Compare your definitions with those of your coworkers. Next, point out the similarities and differences.	
Can you arrive at a common definition based on the similarities?	

Explanation: *To effectively carry out operational marketing, it is essential to have a clear-cut understanding of the notion of "client". Only then can you define a "new client" and a "former client". You are free to use the definition given in this book, although the purpose of this assignment is to obtain a picture of the ideas and definitions of the "client" that exist within your organization.*

PRACTICAL EXAMPLE: THE PAPER

This practical example illustrates how a company deals with the question: What is a client? I asked this question of the members of the board of a regional newspaper. Each member wrote down his or her definition on a sheet of paper. The result was as many different descriptions as there were board members. This was a real eye-opener for the board. Their views differed much more than they had expected, making them realize that a unanimous policy could never be developed if everyone had a different perception of the client.

After a lengthy discussion, the board members agreed that, as far as they were concerned, a client was someone with a subscription to their paper. With this definition, they were making a direct link between the product and the user, i.e. a paying subscriber. This definition has a number of consequences, however. I asked them whether those who bought the paper from a newsstand - still good for twenty percent of sales - would not be considered clients. And what about hotel, restaurant and catering establishments with multiple subscriptions? Who is the client if two neighbors share a paper? And is the client a person, or could an entire household also be a client?

According to the board, the person who buys their paper from a newsstand is a new client. The thought of neighbors sharing a paper appalled the circulation manager, who felt

If we fail to take our departure from the product, but rather from the costs and revenue of a client, we arrive at a different interpretation of the notion of "client".

that the neighbor should immediately be “manipulated” towards a subscription.

The way in which the board viewed their clients had even more consequences, as the following discussion clearly shows.
Michiel: So, if only a subscriber is considered a client, what do you do for that client?
Board: We deliver a paper to our subscribers seven days a week, 365 days a year.
Michiel: And what other kinds of products and services do you offer from a marketing perspective?
Editor-in-chief: We organize guided tours and place coupons in the paper that offer readers discounts at local museums and movie theaters.
Michiel: The fact that you deliver the paper daily goes without saying; after all, that’s what the client is paying for. But how much do you invest in your clients?
Circulation manager (who is also responsible for acquisition): Nothing, in fact. Our entire budget goes towards bringing in new clients. We lose ten percent of our customer base every year. If we want to avoid getting caught in a downward spiral, we obviously have to compensate for that loss.
Michiel: Then why don’t you devote more effort to keeping your existing clients? Or do you not focus more intently on clients who want to subscribe for a longer period?
Director: That’s exactly why we hired you; to help us refocus.

One of the consequences of their “client” description was that the board considered all clients to be the same. No distinction was made between the various client groups. More importantly, the costs and revenue of the different client groups were not taken into consideration. During our meeting, the board members considered the notion of “client” for the very first time, and quickly agreed that their old definition was far too narrow. And that it had had a profound effect on their client approach.

If we take our departure from the costs and revenue produced by a client instead of from the product itself, we arrive at a different interpretation of “client”. A client is a person, household or legal form with whom the business maintains a financially profitable relationship. According to this definition, a neighbor who shares a paper is also a client.

After all, the advertising rates are based not only on the number of subscribers, but also on the fact that the newspaper is passed on to other readers. After all, these readers also read the ads in the paper. At the same time, this client is of a different type than the neighbor who subscribes, and who probably brings in more money for the publisher. After all, the delivery of the paper is a cost item. People who buy their paper at a newsstand entail fewer expenses than do subscribers. The neighbor who shares the paper is therefore less expensive for the publisher than his paying neighbor. This discussion resulted in a different conceptualization of the "client" and, consequently, a different market approach.

SUMMARY

The 7-step plan emphasizes the importance of an unambiguous definition of the client. The definition used in this book is as follows: the client is a person, household or legal form with whom a business maintains a relationship with the purpose of financial gain. By way of logical extension, a "client relationship" is a series of successive contacts with a client.

An incident of contact with a client consists of any form of communication between the company and the client - from face-to-face meetings to reading or seeing an advertisement. Every incident of contact costs money and is therefore an investment in the client. The client relationship represents a value that must be offset by revenue. To

calculate the profitability of clients, all costs and revenue must be known (the difference between the two is the profit). The company can decide to invest more or less in the client relationship based on the result of this calculation. A systematic market approach is essential in order to optimize the client relationship. This means finding the right mix of incidents of contact with the client, use of sales and communication channels and the investment budget.
The 7-step plan views the market approach as a process, i.e. a series of interrelated events that can be compared to the

assembly line process in a factory. The process can only be controlled (designed, managed and improved) if it is measurable. This is why “meters” (i.e. performance indicators) must be incorporated into the process design. The measurement results can be used to improve the efficiency of the production process and the quality of the product (i.e. the client). This working method is only effective with a rationalized process in which continuous measurement is a key aspect.

The rationalization of a process means breaking down that process into smaller actions that are carried out at minimum production cost. A logical succession of these production units results in an assembly line. This requires optimization, i.e. keeping fluctuations in the results to a minimum. The process must be adjusted based on the differences observed and as often as it takes to achieve the final objective. A cyclical market approach process can be broken down into seven steps:

1. Goals: The goals with regard former clients, existing clients and new clients.
2. Constraints: Which ones can be influenced and which not?
3. Knowledge & ICT: Drawing up a list of current (available) knowledge and desired knowledge with regard to clients.
4. Research & Analysis: Taking stock of current and desired studies and analyses.
5. Campaigns & Planning: Listing current and desired marketing actions.
6. Communication & Sales Channels: Listing current and desired channels.
7. Responses: Listing all conceivable client responses (including non-response) compared to the current situation.

If the 7-step plan as described here is followed properly, it should result in a description of the most desirable situation, which can then compared be to the current situation and evaluated. These processes influence each other, as every form of response initiates a new cycle. The ultimate result is a highly complex cycle of action and reaction. It is possible to plan, calculate and optimize accurately down to the smallest detail, provided you systematically adhere to the 7-step plan.

Assignments

1. How would you criticize the 7-step plan?
2. Many marketing books provide definitions of the client relationship. Find five such definitions. Now compare these to the definition given in this book. What similarities and differences can you find? How would you criticize the definition used in this book?
3. Figure 3 contains a list of possible alternatives for every step. Which alternatives are lacking in your opinion?
4. What is the difference between a methodology and a model?

Group assignment:

This book describes a 7-step plan as a working method. Look through the marketing literature and see what other kinds of methodologies you can find. For every methodology, indicate its level (strategic, tactical or operational). What are the differences between these methodologies?

This chapter in a nutshell:

This chapter describes the first step of the Client Factory approach: the formulation of concrete, measurable goals for the three client types (new clients, existing clients and former clients). Sub goals can also be formulated for each of these groups. This chapter examines these goals and sub goals.

In this chapter, you'll learn to:

- ✓ Differentiate between the three client types: new clients, existing clients and former clients.
- ✓ Formulate operational goals and subgoals for each of the three client types (new, existing and former).
- ✓ Translate these goals into three client strategies and client contact processes.

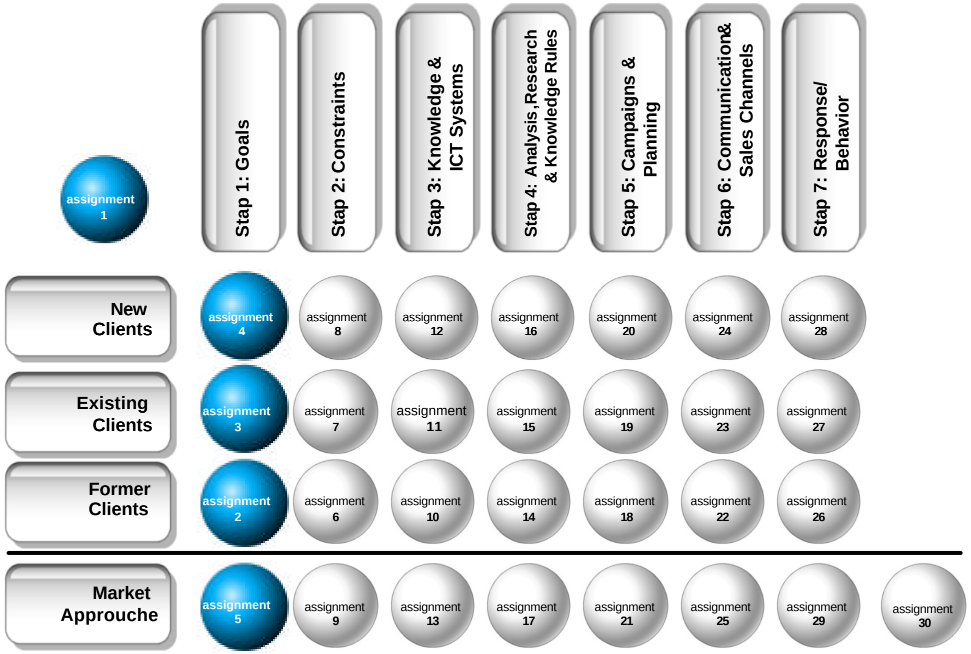


Figure 5

1 STEP 1: GOALS

The Client Factory is about the market and marketing, about money and making money. In other words, it's about earning a profit. If you do not keep this profit objective explicitly in mind when formulating your marketing policy, your means will quickly turn into your objective. This chapter describes the first step towards arriving at an effective market approach: formulating your goals. We do this for three client groups: new clients, existing clients and former clients. You will also need to formulate concrete, measurable goals for each of these three client types.

An effectively set goal is not only ambitious, but also concrete and well-defined, both quantitatively as well as qualitatively[4]. There is a direct relationship between the formulation of goals and the attainment of the final goal.

Let's say I want to run a marathon. My goal could then be one of following:

- ✓ To run a marathon. To run the New York Marathon.
- ✓ To run the New York Marathon a year from now in 4 hours and 10 minutes.

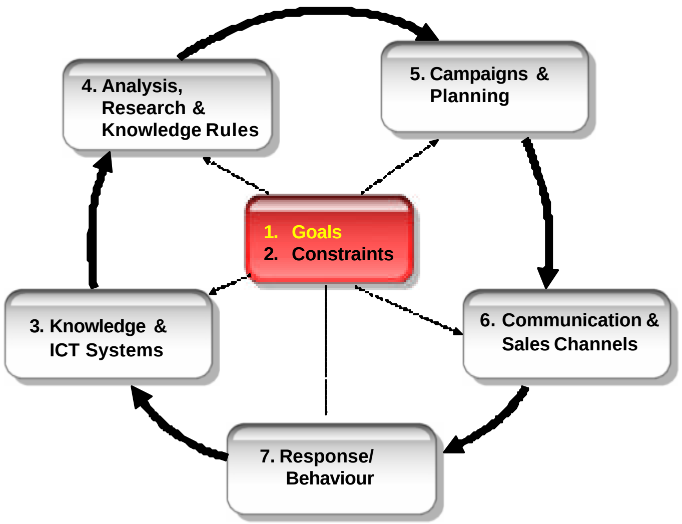


Figure 6

[4] And in accordance with the SMART principle. SMART stands for: S = Specific (concreteness and tangibility), M = Measurable (number or amount), A = Acceptable (ethicality), R = Realistic (feasibility) and T = Time-based (turnaround time and investment timeframe)

The first goal is the most noncommittal one. As is your chance of success. The third goal is the most concrete one, thus enabling you to make adjustments and initiate new activities in the interim in order to ultimately achieve your intended goal.

1.1 WHAT DO YOU NEED AND WHAT CAN YOU DO WITH IT?

The formulation of an operational marketing policy begins with the formulation of goals. In order to formulate effective goals for your market approach, it is advisable to examine your customer portfolio. Gather (or estimate) the following data:

- ✓ Last year's sales figures[5]. In other words, how much did you sell to clients who bought from you for the first time last year? How much did you sell to clients who have been buying from you for a long time? And how many clients did you lose? Now break these down into new clients, existing clients and former clients.
- ✓ This year's sales figures. In other words, how much have you sold to clients who are buying from you for the first time this year? How much have you sold to clients who have been buying from you for a long time? And how many clients have you lost so far? Again you need to break these down into new clients, existing clients and former clients.

Taking your point of departure from the definitions described in the previous chapter, you can now calculate the relevant indicators. This will enable you to establish clear-cut priorities and monitor the effectiveness of your market approach and, equally as important, calculate the right marketing budget.

Consider this: *The formulation of an operational marketing plan is often rendered more difficult because the work is divided into*

[5] The period of 1 year is chosen at random. You could also use the average life span of your product.

functional areas on the operational level. Most companies, for example, have a communications department, a PR department, product managers, a marketing department and a sales department. Each of these individuals and departments is responsible for a specific function. Together they carry out the operational marketing policy. However, it is difficult to create a consistent and coherent policy because of the division into functional areas.

1.2 RELEVANT GOALS

A number of goals are relevant to marketing. These goals can be formulated both qualitatively and quantitatively. To arrive at a measurable process, we need

to focus our attention on quantitative goals, the most relevant of which are the following:

Increasing sales, income and the profit contribution from new clients or specific target groups/market segments.

- ✓ Reducing the number of incidents of contact with clients in the pre-sales phase with new clients (lowering selling expenses).
- ✓ Lowering the costs per order/sale.
- ✓ Lowering the number of post-sale complaints.
- ✓ Increasing sales, income and the profit contribution from existing clients.
- ✓ Increasing cross, up and deep selling for specific client segments (these terms are explained in section 1.5 “Existing Client Goals”).
- ✓ Reducing client loss by a certain percentage.
- ✓ Reducing the number of incidents of contact with clients in the pre-sales phase with existing clients.

Consider this: *One of the goals of advertising is to improve the image and name recognition of a company or product. In a Client Factory, this is not a goal, but a means. Why?*

Because these are activities that companies carry out in order to increase sales to new and existing clients. It is possible, of course, to formulate specific goals for each of these means, though the fact remains that they are secondary to the primary business objective, which is to earn more money.

1.3 GOALS IN PRACTICE

The approach used in The Client Factory uses the most straightforward categorization: new clients, exiting clients and former clients.

Those who work in the field of marketing use a wide range of designations when it comes to clients in the various stages of the sales process. These terms range from "suspects" and "prospects" to "hot prospects" and "clients" to "very loyal clients". This lingo is more or less only used by insiders in the field of marketing, and only serves to make it more difficult to obtain a common definition of the client. It is interesting to note that former clients are not included in this list.

Financial profitability is the essence of the "client" definition. We can distinguish between three different client types based on a difference in financial profitability. These three types are new clients, existing clients and former clients. This breakdown is visualized in the client "barrel" shown in Figure 7. New clients "flow" into the barrel from the top and former clients "seep out" through the

bottom. In between you have the group of existing clients. Marketing is analogous to this barrel image, with its continuous flow of clients - from new to existing to former. The trick is to optimize this flow.

If more clients flow out than in, the company has a problem. This means fewer sales are being achieved, as a result of which the company will be forced to take measures. But the opposite can also be problematic. A company that brings in more clients than it loses will face (production) capacity problems and be unable to pay enough attention to its existing clients, leading to client dissatisfaction and a loss of clients in the long run.

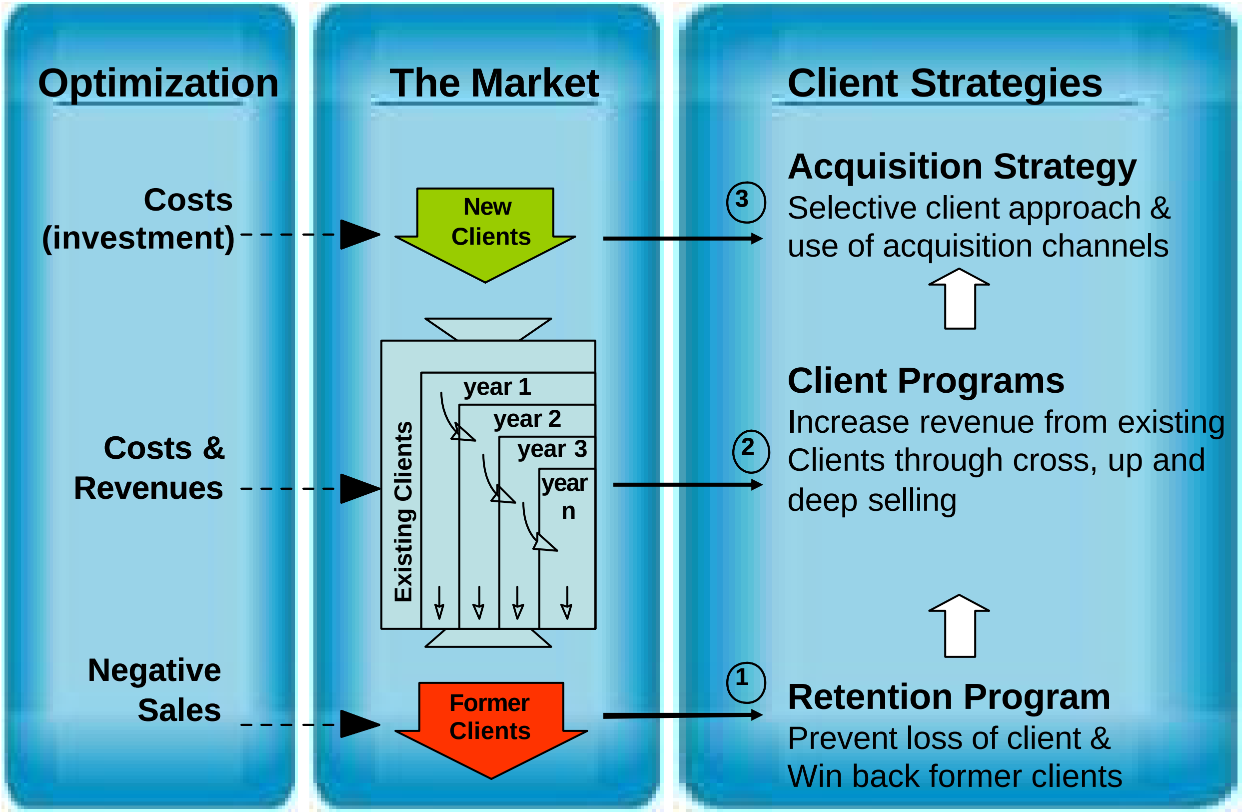


Figure 6 The Client Barrel

The breakdown into three different client types is also based on the difference between costs and revenue. You invest in a market approach at a point in time when you have no certainty as to your future revenue, as you still lack a contact history with and knowledge of the new client. New clients are also expensive because they are still unfamiliar with the product and services, and therefore usually have questions, complaints or comments after the sale.

You earn the most on existing clients, provided you continue to invest in this relationship. The longer a client remains a client, the more profitable he becomes. There are several reasons for this. One reason is that, once you have established a relationship with the client, there are no longer any acquisition costs. Another reason is that existing clients mean lower communication, service and sales expenses.

Compared to new and existing clients, former clients are costly and translate into negative sales for the company.

We can demonstrate this using the example of a software package. After purchasing new software, new clients frequently call the help desk for detailed explanations on the various functions of the software, with which the client is still unfamiliar. A client who has been using the product for some time naturally calls the help desk less often. A satisfied client will want to buy every new release of the software, which will require little marketing effort on the part of the company. The company can also achieve extra sales at lower selling costs. After all, there are other options for bringing different products and services to the attention of clients that do not entail additional sales efforts. In short, the longer a client remains a client, the more profitable he becomes for the company.

Compared to new and existing clients, former clients are costly, as they translate into negative sales for the company. Negative sales are the sales a company would have achieved if the client had not been lost. This also involves additional costs, as former clients can have a negative affect on the acquisition of new clients due to negative word-of-mouth advertising. Considerably more effort is needed to win back former clients than to bring in new clients.

The distinction between the three client types is based on the differences in costs, revenue and profitability.

The distinction between the three client types (new, existing and former) is based on differences in costs, revenue and profitability. With the Client Factory approach, the goal is to achieve a well-balanced division of the available capacity and budget among these three client groups. This means that you need to devote more attention to existing clients, and particularly to former clients.

A maximum of three client strategies are possible with these three client groups, namely:

- ✓ A client strategy that targets former clients. The goal of this strategy is to learn why clients have stopped buying from you. You need this knowledge to improve your product or service and in this way avoid losing more clients. This strategy produces relevant knowledge for keeping existing clients, as well as for bringing in new clients. After all, you can learn a considerable amount from clients who no longer buy fom you. At the same time, this strategy is aimed at winning back former clients.
- ✓ A client strategy that targets existing clients. This strategy is oriented solely towards cross, up and deep selling. The objective is to improve the profitability of existing clients.
- ✓ A client strategy that targets new clients. Such a market approach is also called an acquisition program. This strategy entails dealing with new clients more selectively. Which clients do I wish to serve and which do I not? And how much should I invest in them?

When formulating your marketing goals, you need to start with hard figures. How many new clients do you bring in annually? How large is your "inventory" of existing clients? And what about former clients? To be able to answer such questions, you need to know the average lifecycle of your product or service. This number is the answer to the question, how much time elapses before a repeat purchase is made? With a passenger car, this is 3½ years on average. In other words, clients who buy a new car will purchase another new car after around 3½ years. With a newspaper subscription, the lifecycle is equal to the subscription period, even though it is renewed automatically. The automatic renewal can therefore be considered a repeat purchase.

You then determine how many clients you have during one "working lifecycle" and what percentage thereof subsequently makes a repeat purchase. These kinds of figures can be used to estimate how many clients will not make repeat purchases, i.e. the amount of clients that will be lost.

The Client Factory approach aims to achieve a balanced distribution between available capacity and budget among these three client groups.

Suppose a company sells its products on a subscription basis. Each subscription is valid for a year. By comparing this year's subscriber database with last year's, you can determine how many new clients you have acquired this year. This also tells you what percentage of your subscribers held a subscription last year, as well as how many clients have cancelled their subscription. A comparison of the databases for these two years can easily be entered into the table shown in Figure 8. This data can be used to determine two relevant ratios.

- ✓ Client ratio: the ratio between new clients and existing clients. The relationship between new and existing clients is important if you wish to gain insight into your rate of client loss. Experience shows that client loss is highest among the group of clients that have only started buying from the company recently. A client ratio of greater than 0.3 also usually implies a high percentage of client loss.
- ✓ Client loss percentage: the number of clients that do not make a repeat purchase after the average working lifecycle. In the example of the company that sells products through subscriptions, this would be the number of clients who cancelled their subscriptions divided by the total number of subscriptions during the year in which these clients subscribed.

In a marketing operation, it is advisable to find a balanced distribution between available capacity and budget among these three client groups. The question you should now ask is, in what order should these three strategies be carried out? This can vary, depending on where you are at in the process. If you have just begun implementing this working method, you should give priority to a strategy that targets former clients.

The reason? The former client category is the most important of the three client types. Former clients can tell you why your product or service does not meet their needs. It is precisely this kind of information that is crucial for adapting your product or service to the needs of the market. Existing clients are satisfied with what you offer. They cannot supply you with the feedback you need to combat client loss. New clients are naturally unable to provide you with such information because they are buying your product or service for the first time.

This working method is at odds with what actually takes place at most companies. Virtually all companies implement a strategy that is oriented towards new clients. Market research is used to try to locate market needs. This method can be successful with a new product introduction, but not with an existing concept. There is where former clients come in. They can tell you why your product or service does not satisfy their needs. Adapting the formula (concept, product or service) in response to this feedback initiates an evolutionary process. A strategy involving former clients is therefore comparable to a client retention program, in which the former client strategy results in the retention of current clients.

In a Client Factory, the product is adapted to the needs and desires of the former client. As someone responsible for marketing activities, you are obviously doing something wrong when it comes to this group of clients. There is a reason they no longer want to buy your product or service. But what is that reason? Does your product no longer meet their needs? Is it too expensive? Does the product not fit in with their lifestyle or desired image? The knowledge you gain from former clients can be used as a tool to systematically improve your product or service, resulting in fewer lost clients in the future.

A strategy that targets former clients should therefore be given priority. The knowledge yielded can be used to deal with existing clients more effectively and more efficiently. Our final focus is on new clients, as former clients and existing clients teach you which clients you want, which ones you do not want, and how much you should invest in the various groups.

	Last year	**This year**	**Number**	**%**
Potential new client	no	no		
New client	no	yes		
Existing client	yes	yes		
Former client	yes	no		
Total				

Figure 7. In this figure, “new clients” are considered clients who have bought for the first time recently. “Potential new clients” are clients that have not yet bought anything.

Consider this: *The categorization into three client types is based on costs and revenue, and is intended to simplify the market approach. This does not mean that terms like "suspect" and "prospect" are of no use here. On the contrary, as is clear from the words of Hans Snel, Managing Consultant at the Berenschot Consultancy Firm: "The terms 'suspect' and 'prospect' can actually be quite useful, but only if properly defined. We define a suspect as a contact in which we observe a demand for which we may have a solution. A prospect is defined as a contact who has explicitly requested a proposal or offer."*

1.4 FORMER CLIENT GOALS

A former client is a person or household that does not make a repeat purchase after the average working life of the product.

In Chapter 1, you defined the notion of "client". You now need to redefine it to include "former client". According to your new definition, at what point is a client no longer a client? This question challenges you to incorporate the working life[6] of the product and repeat purchases into your definition.

If I buy a pack of sugar, I am a client of the sugar refinery. The working life of a pack of sugar is four weeks in my case. After four weeks, I buy a new pack of sugar of a rival brand. Am I a former client if I buy a pack of sugar of a rival brand after one working lifecycle, or only after two working lifecycles? The working lifecycle of a pack of sugar is relatively short. This is not the case with a car. The average time a person drives a car that was purchased new is 3½ years. If I then buy a new car of a different make, this would be considered a "client loss".

In a Client Factory, a former client is any business, person or household that does not make a repeat purchase after the average working lifecycle. You must therefore be able

[6] Working life is not always sufficient for defining a former client. In retail, for example, the average working life of a pair of jeans is three years, though the client may very well make other purchases at the same store in the meantime. In that case, it would be better to speak of the average visiting frequency.

to indicate the average working life of the product for existing clients.

If you take the average working life and repeat purchases as your point of departure, you will be able to answer the following questions:

- ✓ What is your current rate of client loss? How many clients do not buy the same product again after the working lifecycle?
- ✓ Obviously it's not possible to please everyone, and so you'll always lose clients at some point. The question you therefore need to answer is, what is your "desirable" (i.e. acceptable) minimum rate of client loss?

Make your goals for former clients more comprehensive. One way of doing this is to take the reasons for your client loss into account. All possible reasons for your client loss can be grouped into the following four categories:

- ✓ Client loss due to dissatisfaction.
- ✓ Client loss due to disloyalty.
- ✓ Client loss due to product or client lifecycle characteristics.
- ✓ Client loss due to a combination of the above.

A detailed explanation of the four reasons for client loss is given in step 5 of the 7-step plan.

Consider this: *With former clients, we need to distinguish between two groups. The first group comprises potential former clients, i.e. existing clients who will probably stop buying from the company in the near future. The second group is persons, households or companies that no longer buy from the company. A marketing policy aimed at former clients will therefore have to take these two groups into account. The prevention of client desertion is called an "anti-churn" policy. This is a policy aimed at identifying risk groups in the client database. Based on statistical analyses, which groups of clients have the greatest risk of becoming former clients in the near future? Just as with "real" former clients, we can trace the causes back to the four groups described in detail further in this book.*

1.4.1 ASSIGNMENT 2: CURRENT SITUATION VERSUS FORMER CLIENT GOALS

This assignment focuses on your current percentage of client loss in each of the four categories. Give an estimate of your current situation and your desired situation[7] for the upcoming year for each category.

	Current situation		Goal	
	Current percentage of client loss	(Average) loss of revenue per former client $__, _______	Percentage of client loss in the coming year	(Average) loss of revenue per former client $__, _______
Client loss due to dissatisfaction		- $		- $
Client loss due to disloyalty		- $		- $
Client loss due to product or client lifecycle		- $		- $
Client loss due to a combination of the above		- $		- $
Total		- $		- $

Assignment 2: Determine your current and desired percentage of client loss.

[7] The desired percentage of client loss obviously is 0%. But naturally this is not realistic. You could also give an estimate of a tolerable percentage of client loss for the upcoming budget year.

Explanatory note to Assignment 2: The hard figures necessary to carry out Assignment 2 in full are often lacking. This assignment generates a new discussion on the value of clients. In order to be able to calculate your amount of lost revenue, you need to know your amount of revenue per client. The realization that this requires a clear-cut answer is the next step to formulating an effective market approach. It is not uncommon for many employees within a company to be unfamiliar with these exact *figures. You'll notice that the terms "client dissatisfaction", "disloyalty" and "product lifecycle" also elicit questions. Keep in mind that the way in which employees respond is also significant. A lack of knowledge is a form of information. And when a large number of employees cannot give an answer, what does that say about the company? Do they not know the answer because that information is unavailable, or because they have never given it much thought before*?

1.5 EXISTING CLIENT GOALS

When it comes to existing clients, the basic question is, how many do I have now and how many do I want to have next year? If you offer only one product and no additional services, this is an easy question to answer. But this is not the case with many companies. These companies must refine their goal for existing clients.

To achieve additional sales with existing clients, you need to ask the following five sub-questions:

- ✓ Could you sell more of the same product or service to the same client ?
- ✓ Could you sell additional products or services to the same client[8]? This could be a car kit or headset, for instance,

[8] With some products, such as retirement insurance, it is obviously impossible to sell more of the same to the same client.

when the client purchases a new cell phone. This is called “deep selling”.

- ✓ Could you sell different products or services to the same client (“cross selling”)?
- ✓ Could you sell a more expensive product to the client? If someone has a BMW 316, it may very well be possible to sell him a BMW 318 the next time. This is called “up selling”.
- ✓ With which group of clients do you want to continue achieving the same sales? (It is sometimes even possible to advise a client to buy less of a product).

You need to answer the following questions for each of the four subgoals:

- ✓ How many clients does this concern?
- ✓ What is the desired number of clients for the coming year?

Suppose you have a database containing 1,000 existing clients. How many of these clients always buy the exact same product? And is this even desirable? How many clients within this group could you sell more of the same to next year? What percentage of these 1,000 buys additional products? How large is the group of clients to whom you could sell a more expensive product? The more concretely you define these client groups and subgoals, the better you will be able to implement this strategy.

Consider this: *Experience has shown that many people do not understand cross, up and deep selling, or interpret them differently. So make sure you have a clear-cut understanding of these terms.*

Together with AXA

Shell to Offer Insurance

From one of our editors

ROTTERDAM, November 5. The Shell oil company plans to offer its Dutch clients insurance products together with insurance company AXA. Shell Holland and AXA Insurances announced this decision yesterday.

Fuel customers can now take out car, truck, motorcycle, trailer home and continuous travel insurance policies from Shell, which are being offered under the name "Shell Policy". The policies are not purchased at the pump, where information is available only, but rather are put together and requested directly from AXA by phone or online. Loyal Shell clients are at an advantage because the more they fill up, the higher the discount they receive on their insurance premium.

"It's an attractive and innovative package of insurances", H. van Campenhout, Retail Director of Shell Holland, claims in the accompanying press release. And according to Managing Director P. Lefèvre of AXA Insurances, "Market studies have shown that clients want different options for taking out basic insurance policies." AXA Insurances, which is a subsidiary of the French insurance giant AXA, currently sells policies through intermediates and is contending with a crumbling market share in the Netherlands.

The Dutch-British oil company Royal Shell Group has been offering its clients financial services for several years now. In early 1998, they set up a separate division for developing financial products for industrial clients (laying of pipelines, for instance) and consumers. In Great Britain, for instance, Shell offers credit cards together with the Bank of Scotland. "I'm not ruling out the possibility that we'll do the same in Holland, just as it is not inconceivable that insurance products will be offered in England at some point," a spokesperson for Shell Holland explains. According to Shell, today's clients believe that "freedom, flexibility, and convenience are increasingly more important."

Shell is not the only energy company in the Netherlands to expand its activities to include financial services. Texaco offers insurance products together with the insurer Orion Direct and Nuon, a supplier of gas, electricity and water, announced yesterday in this paper that it plans to offer insurance products, lease contracts and loans starting early next year. The premium discount given to buyers of the Shell Policy can run to 10 percent if they pay using Shell's electronic customer card. To promote the policies, Shell is offering insurance customers vouchers for a free car wash and additional accident-passenger insurance. According to Shell and AXA, what makes the Shell Policy so unique is that the consumer is the one who determines the coverage and deductible.

A training and educational center has its head office in the south of the country. The company is split up into three divisions. There is a training division that deals with the development and sales of training courses and teaching materials for companies. The second division is responsible for the commercial exploitation of its accommodations, including training, meeting and small conference rooms. The third division is responsible for catering activities. Each of the sales divisions has its own sales volume and profit objective and operates independently.

Given these three sales divisions, three sales strategies are possible on a corporate level (see Figure 8):

- ✓ Stimulating existing clients to purchase higher quality and more expensive products and services within each of the three sales divisions.
- ✓ Stimulating companies to purchase more products and services within a single sales division.
- ✓ Increasing sales by offering more combined products and services.

The board of directors wants to develop a new strategy aimed at cross selling. But before they can formulate concrete goals, the company needs a quantitative foundation. They need to know exactly how many companies buy products and services from each of the three sales divisions. To answer this question, the database containing all client data must be analyzed in detail.

If we consider the average sales volume per client, the group of companies that have an invoice relationship with all three sales divisions is the most important client segment: 15.6% of all clients has an invoice relationship with the training, operations and catering sales divisions. This group represents 28.7% of training program clients and 29% of sales within the division. The average sales volume per client within this group of companies is $10,904. The average sales value of all companies that purchase products and services from the training division only is $6,090. This is also the largest group of clients, totaling 1,775.

Based on the ratios calculated, we can determine the sales value of the various client groups.

- ✓ The market approach can be directed towards increasing sales in numbers of products and services within this group (selling more of the same). Improving the

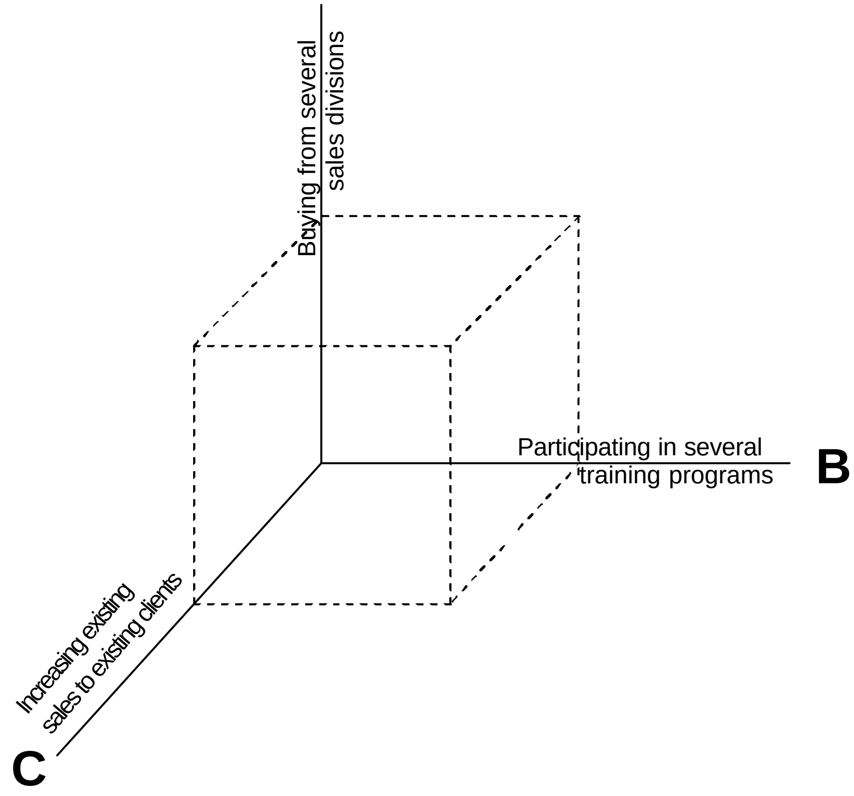


Figure 8

sales volume by 1% generates additional sales worth $591,167.20.

- ✓ Or increasing the percentage of companies that buy from each of the three sales divisions. An improvement of 1% (assuming this pertains to 32 companies) generates an additional sales volume of approximately $230,228.80.

1.5.1 ASSIGNMENT 3: CURRENT SITUATION VERSUS EXISTING CLIENT GOALS

Ask this question of various people within your company. How many clients are buying exactly the same amount of products or services now as in the previous period? How many are buying more? How many clients are buying other products as well? Also ask about desired goals. Determine the average number of each based on the answers you receive.

	Current situation		Goal	
	Current number of clients	Average sales: $__, ______	Future number of clients	Average sales: $__, ______
Continue sales/returns		$		$
Up selling: More sales to the same client		$		$
Deep selling: Additional products and services to the same client		$		$
Cross selling: Different products and services to the same client		$		$

Total		$		$

***Explanatory note to Assignment 3:** As with the last assignment, you'll notice that many of the employees within the company will give an answer based on their "gut feeling". Is this a bad thing? No! Work out an average based on their answers and you'll probably arrive at an approximate answer. Here again you'll have to ask yourself why the employees can't give a precise answer. Is the information unavailable? Or have they never given it much thought before?*

In the business market, this information is always available. The financial administration department should know exactly which companies have bought which product and when, the exact amount of sales and which other products they have also bought. If you study this information, you'll be able to calculate the exact indicators.

My experience has been that the financial administration department is surprised when someone from the commercial division stops by to request information. For my own projects, I always make sure to befriend the financial department staff. I try to have lunch with the financial controller at the start of the project, as this is the individual who can obtain the relevant information.

1.6 NEW CLIENT GOALS

A lot of companies formulate their goals in terms of sales or market share. There are various reasons why these goals are ineffective. Take market share, for instance. It is difficult to know after the fact whether the market share you achieved was achieved because you better organized your market approach, or because your competitor was doing even worse. Did you achieve that market share because you lost fewer clients or because you brought in more new clients? And what about sales? There can be several reasons why a larger volume of sales is achieved. If you formulate your goals without taking these reasons into consideration, you'll only be taking a shot in the dark.

In a Client Factory, goals are formulated as concretely as possible, i.e. in terms of numbers of clients. The volume of sales is a derivative of this. This also applies to the category of new clients, as the market share achieved is a result of your efforts.

You should therefore formulate concrete goals for acquiring new clients for the upcoming budget year. Start with a good understanding of how you interpret new clients. It should be possible to discriminate between the various groups of new clients based on your definition. Also estimate the average sales volume your company achieves with a new client. New clients usually spend less on average as a rule.

Consider this: *In defining "new clients", a number of aspects must be considered. According to your definition, when does a potential client become a new client? Is it a person, household or legal form that has never bought from the company before? Or is it a client that bought for the first time from the company during the last budget year? In this book we opt for the latter. There are two reasons for this. The first and most important reason is that a new client who buys the product or service for the first time exhibits a different behavior than someone who has bought the product repeatedly. The second reason is that many analyses show that the largest percentage of client loss occurs precisely among this group of clients. But then how do you define the group of potential clients that has not yet bought anything from the company? The most common term for them is "prospect", although in this book we have chosen to use the term "new client". A new client is therefore anyone who has either bought the product or service for the first time or has yet to do so.*

1.7 ASSIGNMENT 4: CURRENT SITUATION VERSUS NEW CLIENT GOALS

This assignment focuses on the question of how much additional sales can you achieve with your new clients. You can probably subdivide the group of new clients into various segments.

	Current situation		Goal	
	Current number of new clients	Average sales: $__, ______	Future number of new clients	Average sales: $__, ______
New clients		$		$
Segment 1				
Segment 2				
Segment 3				
Segment 4				
Total		$		$

Assignment 4: Current situation versus goals

***Explanation**: Companies can identify several client segments. This is usually done on a company level. In this book, the goal is to draw up an operational marketing plan on a product or product group level. A product group is a collection of interrelated products and services, usually from a cross, up and deep selling point of view. The purpose of describing client segments is to better define the market and develop more targeted marketing campaigns. It is therefore relevant to formulate concrete goals for each of these segments. If you are unable to define these client segments, you can formulate your goals for the entire group of new clients for the coming year. Step 4 teaches you how to acquire the knowledge and techniques to define these client segments, after which you can return to this assignment and improve or add to your goals.*

1.8 ASSIGNMENT 5: DEFINE YOUR GOALS

Describe the answers you gave to the above questions. Once you have completed this table, you will have taken the first step to establishing a Client Factory.				
	Current situation		Goal	
	Number	Sales	Number	Sales
New clients		$		$
Existing clients • Continue • Cross sell • Up sell • Deep sell		$ $ $ $		$ $ $ $
Former clients • Competition • Satisfaction/dissatisfaction • Client-product lifecycle • Combination		(1) $ $ $ $		(2) $ $ $ $
Total		$		$

Assignment 5: The first step to achieving a Client Factory. (1)How many sales have you lost because your clients stopped buying from you? Break down the amount of lost sales into the four causes of client loss.

(2) What is the minimum amount of client loss you are aiming for? The difference between the current situation and your goal is additional sales.

Explanation: Assignment 5 combines your answers to Assignments 2, 3 and 4. If you are successfully able to complete the chart, you will have taken the first step of the 7-step plan. If for whatever reason you are unable to complete the assignment, this fact is also relevant. It is important, however, that you understand why you were unsuccessful.

1.9 PRACTICAL EXAMPLE: THE HOME & LEISURE EVENT (1)

This practical example examines the impact on a company's market approach with a company that formulates concrete goals, like the ones described in this chapter. The company Event Management Inc. is a nationally operating company that organizes events, from large-scale general interest fairs to specialized trade fairs. Their goal is to bring together the businesses that exhibit at the fair and the consumers who visit the fair. One of the most popular events they organize is the annual Home & Leisure Event.

The first question that needs to be asked is, who is the client and how do we describe this client? In fact, there are actually two groups of clients. The first is companies who display their products and services at the fair to a wide audience. Visitors to the fair are the second group. In the case of the Home & Leisure Event, the focus is solely on the exhibitors, i.e. the B-to-B market.

In the past, the product manager spoke of former participants when talking about exhibitors. Former participants are all the companies who took part in the Home & Leisure Event in the past. This description of the client is far too narrow because all companies are now designated as "former participants". This limitation can clearly be seen in their market approach. Every year, their attention is focused solely on acquiring new clients. No mention is made of client loss, let alone the size of that client loss. Nor are differences in the numbers of square feet rented or the revenue mentioned. All their energy, each and every day, is put into selling square footage.

A new approach and client characterization was chosen at the start of the new event year. After some debating, the following categorization was chosen:

- ✓ New client: Businesses that have never taken part in the Home & Leisure Event before.
- ✓ Existing client (recent): Businesses that first took part in the fair the last time.
- ✓ Existing client (loyal): Businesses that took part is the last two editions of the fair.
- ✓ Former client: Not a participant of the last edition, but of an edition in the past.

Because this is an annual event, the "working lifecycle" of the fair is one year. To better understand the customer portfolio of the

Home & Leisure Event, the client data for the 2001 and 2002 editions are compared. The 2001 participants consisted of 408 businesses. In 2002, this was 364. This meant a decrease of eleven percent. An analysis of the customer portfolio yields the following results.

Participation in 2001	Participation in 2002	Type of client	Number in 2002	Ratio	Client loss
No	No	New clients	-		
No	Yes	Recent clients	121	33%	
Yes	Yes	Loyal clients	243	66%	
Yes	No	Former clients	168		41%
408 businesses	364 businesses				

Table 1: Participation in Home & Leisure Event classified by client type

The figures in Table 1 show that 169 businesses took part in the Home & Leisure Event in 2001, but not in 2002.

This number translates into a client loss of 41 percent. A total of 243 businesses took part in the fair both years. In 2002, 121 businesses took part for the first time. That means that fully one-third of the floor area was rented by businesses that were participating for the first time.

	Number	Avg. sq. footage	Avg. price	Avg. sales per client	Total sales per client type
Recent clients (in 2002)	121	130.38	$119.38	$5,188.25	$627,778.25
Loyal clients (in 2002)	243	159	$110.19	$5,840.07	$1,419,137.01
Former clients (in 2002)	168	170.76	$109.46	$6,230.46	- $1,046,717.28

Table 2

Differentiating between the three client types is not only a numerical exercise. It is particularly important for sales and the contribution towards total profits. Experience has shown that recent clients achieve fewer sales and therefore contribute less to the total volume of sales. This is immediately apparent with the Home & Leisure Event, where a recent client rents an average of slightly more than 129 square feet. Businesses that participate more often rent an average of 30 square feet more. We see yet another effect here. Loyal clients have a better understanding and knowledge of the price structure and can therefore make a better price agreement. The Home & Leisure event rewards loyal clients with an average of ten dollars off the rate per square foot.

The average sales volume per recent client in 2002 was $5,188.25. This number was more than $650.00 more with loyal clients, and considerably more with former clients. The difference in sales and therefore in profit contribution has several implications. The loss of a (loyal) client (in square footage) must be compensated for by 1.31 new clients. This equals 29 businesses that took part in the Home & Leisure Event for the first time in 2002. Measured in total sales, the loss of a (loyal) client must be compensated for by

1.2 new clients. This equals 21 businesses that took part in the event for the first time in 2002.

The percentage of client loss has increased since 1998. It is interesting to note that the loss of clients among loyal clients in particular displays an upward trend, based on which it is possible to conjecture the expected amount of client loss for both types of clients for the upcoming event year.

	Participation in 2002	% client loss	Participation in 2003	
Recent clients (in 2002)	121	40%	73	
Loyal clients (in 2002)	243	60%	97	
	364	100%	170	= Loyal clients in 2003
		53.2%	194	= Former clients in 2003

Table 3: Calculation of the expected client loss for the upcoming event year.

Taking our departure from the average number of square feet and the average price, we can now calculate the average sales per client type for the upcoming event year while at the same time gaining insight into the "loss sales" due to former clients.

	Participation in 2003 (trend)	Avg. sales per business	Expected sales per category
Recent clients (in 2002) and Loyal clients (in 2002)	170	$5,840.07	$992,811.90
Former clients (in 2003)	194	$6,230.46	- $1,208,709.24

Table 4: Calculation of the average sales for two client types for the upcoming event year.

The above calculation – if the policy remains unchanged – provides insight into the trend-related negative change to the customer portfolio. To turn this trend around, goals must be formulated. How many of the businesses that took part in the event for the first time in 2002 do we want to see return in 2003? And what about loyal clients? How many businesses that participated in 2001, but not in 2002, do we want to see participate again in the future? The answers to these questions help us answer the question of how many new clients we need to acquire in order to end up with a minimum of the same number of exhibitors as in 2002?

	Goal for 2003
New clients	100
Recent clients (in 2002)	
Loyal clients (in 2002)	254
Former clients (in 2002	10
	364

Table 5: Quantified acquisition goals for future events

The event manager then formulates the following goals for the upcoming edition of the Home & Leisure Event. Of the companies that took part in the 2002 fair, 254 must participate in the upcoming edition. Of the companies that took part in 2001, but not in 2002, ten will have to be won back. To end up with an equal number of exhibitors (or more), one hundred new businesses will have to want to participate. The event manager then sets to work based on these goals.

The formulation of these goals greatly influences the way in which the event manager organizes his market approach. The goals function as “milestones” that form the basis for adaptations to the policy throughout the year. Whereas, in the past, everyone was sent the same acquisition letter, different letters are now sent to the various client types. Client Relationship Management has become an important tool for existing clients and a separate program has been established for recent clients in order to combat any client loss. The most important change is probably the more effective distribution of capacity and budget among the various client types.

1.10 SUMMARY

Goals should be ambitious, concrete and clear-cut, both quantitatively as well as qualitatively, and should be derived from the chosen marketing strategy. The strategy and goals must then be translated into a tactical and operational market approach plan. To formulate market approach goals, a number of information is required on the company's client database, including sales data from both the current year as well as the previous year. In doing so, a distinction

must be made between new clients, existing clients and former clients, and an estimate made of the average amount spent per client type. This allows you to calculate relevant ratios, establish clear-cut priorities and carry out an interim evaluation of your market approach regarding its effectiveness, and calculate a practical marketing budget. A client database is useful, but not necessary. The same ratios can be calculated based on estimates obtained from various individuals within the company.

An effective market approach involves the optimization of a continuous flow of new clients to existing clients to former clients. If more clients leave than enter, the company will obviously run into problems, but a company that brings in more new clients than it loses could also run into problems. The division into three client types is based on differences in costs and revenue. It is costly to bring in new clients and new clients themselves are costly. You earn the most on existing clients, provided you continue to invest in the relationship. Former clients are the most expensive because of the costs and negative revenue involved in winning them back. Organizational and technical reasons for making a distinction between the three client groups are differences in strategy and the use of communication and sales channels, the maintenance and management of databases, and the validity of the information on the three client groups.

A maximum of three client strategies are possible with these three client groups. The 7-step plan describes a former client as any person, household or company that does not make repeat purchases after the average working life of the product. If you start from the average working life and repeat purchases, you can determine the current percentage of client loss and acceptable minimum percentage of client loss.
By taking the causes of client loss into account, you can fine-tune your goals for former clients. The reasons for client loss can be grouped into four categories: dissatisfaction, disloyalty, product or client lifecycle characteristics, and a combination of any or all of these three categories.

A former client strategy is comparable to a client retention program. Client retention therefore results from a former client strategy.

Goals for existing clients center around the achievement of additional sales by selling more of the same to these clients, or by deep, cross or up selling. Another relevant question to ask is with which client groups can the current sales volume be maintained?

New clients are the last group examined. The other two groups provide information that tells you which clients you want to acquire, which you do not, and how much you can invest in the different groups. The formulation of concrete goals for new clients starts by defining a new client and the average sales volume that can be achieved with these clients.

1.11 ASSIGNMENTS

1) What is the difference between a company's sales goal and profit goal? What is meant by the profit contribution per client? Which is better, formulating goals in terms of sales volume, profit, numbers of clients or profit contribution per client?

2) Why are communication and PR goals not mentioned in the 7-step plan?

3) Suppose the company does not know its percentage of client loss. Which steps could be taken to figure this out?