

The CEO Refresher

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You Can't Save Your Way to Growth

Lessons Learned from Sears' Mistakes

by Curtis N. Bingham

A penny saved is a penny earned - or is it?

Financier Edward S. Lampert has proved this maxim cannot sustain growth. When his firm first took over Sears, he horrified analysts and traditionalists by steadily cutting back on capital spending and aggressively reinvesting the savings in financial markets.

The result? A 40% skid in share price, dismal holiday sales results, stores that are dimly lit with worn, stained carpeting that customers are beginning to shun.

Sears' customers aren't the bargain basement discount shoppers, willing to close their eyes to a dirty warehouse environment to obtain the rock-bottom discount prices. No, they've traditionally been more upscale "yuppies" that have helped build the enormously successful Land's End brand.

Theodore Levitt wrote in his book, *The Marketing Imagination*, "The purpose of a business is to create and keep a customer." However, a 2001 study conducted at the country's top 11 business schools concluded that students were socialized into believing that the purpose of business is wealth creation as they did not enter their MBA programs with such attitudes. Lampert clearly believes that wealth creation for shareholders is the Sears' sole purpose, and the shareholders are now suffering for this erroneous belief.

In difficult times, cost-cutting may be imperative. However, as proponents of the balanced score card and activity-based costing methods have been advocating for 25 years, the belt-tightening targets must be those non-value-add activities that don't have a direct impact on the company's ability to serve customers.

At all stages of a company's development, a clear focus must be maintained on understanding critical customer needs and the value they place on company activities. Customers base their purchase decisions on the attributes of a product or service that enable them to do four things:

1. Make more money
2. Reduce costs
3. Mitigate risks
4. Satisfy an emotional need

By understanding these Customer Purchase Drivers™, companies are then qualified to evaluate their internal processes to find ways of reducing costs while at the same time increasing customer value, loyalty, and retention.

These Customer Purchase Drivers can help you choose carefully your investment and cost-cutting efforts by categorizing proposed activities into 4 categories:

Value to Customers	High	Critical (Invest)	Consider (Evaluate ROI)
	Low	Unimportant (Stop)	Wasteful (Reduce Investment)
	Low		High
	Cost to Deliver		

Providing they aren't required for regulatory compliance, activities in the "Unimportant" category should be ruthlessly and immediately cut as they do not provide any appreciable customer value.

The "Wasteful" group is self-evident. In its early days, Lucent Technologies found that Latin American telecommunications companies didn't value the same level of reliability as their American counterparts. Cutting R&D as well as manufacturing costs could have saved millions of dollars. Instead, they continued to insist on an unrealistic standard of quality that many of their customers didn't value-and they lost the resulting price war.

Fidelity found that a group of their low-value customers were consuming huge amounts of support resources for simple questions. In response they developed their PowerStreet online investing portal to provide more cost-effective means of servicing lesser-valued customers.

As well, the "Critical" group is fairly obvious. Anything that customers place a high priority on that is easily implemented should be implemented immediately. Extremely busy customers of a small private investigation business wanted to have their monthly service subscriptions automatically renewed and save them from service interruptions. By signing up for a \$14.95 monthly service from their credit-card processor, they realized more than \$5,000/month in increased revenue.

The "Consider" group is a bit more difficult because it requires a trade-off and the potential ROI needs to be carefully evaluated. A segment of Cardinal Health's customers wanted more of a relationship with Cardinal as they themselves were in high-touch relationship businesses. By providing these customers with dedicated account and customer service reps, Cardinal expects to increase demand and profits that will far outweigh their investment.

All of these examples point to two things: Through a thorough understanding of Customers' Purchase Drivers, you can decrease your investment in attributes customers care little about and conversely, find the minimum investment threshold required to develop innovative ways of providing them with an acceptable (not always spectacular!) level of service at an acceptable cost. The money saved on eliminating discretionary activities is permanent, continuing to provide gains beyond the austere periods. The money spent on enhancing the ability to satisfy Customer Purchase Drivers is priceless and provides both immediate and long-term results.

As head of Sears, Lampert deemed lighting, maintenance, and customer service as "Wasteful." In retrospect, perhaps some of the expenditures should've been labeled as "Consider" because in the end, Sears has two options: refocus on customer needs or abandon customers and continue with further divestitures. One of these options is terminal.

About the author :

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