



Asset failure: why businesses are putting their customers last

According to International Financial Report Standards, the definition of an asset is: *a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.*

An asset has the potential to earn revenue, its value is managed over a 'life-cycle' and its failure leads to irrecoverable commercial loss. Managing your assets carefully is fundamental to good business management.

So if this is an immutable axiom, why are customers a company's most valuable, yet often most poorly managed asset?

The answer is simply that **Customer Value** has, until recently, been a management intangible.

Customer Value has evolved into a mature business concept over the last decade. It can best be described as an asset based on the quality of the customer relationship, as experienced from both sides of the coin.

Expressed in financial terms, it is a function of cashflow, profitability and customer service status. The constituent stakeholders of customer value are spread across the organisation in various business units / functions - in particular, sales & marketing, customer service and finance. Each stakeholder manages an element of the customer relationship, but normally only from the perspective of the functional silo they are in (Accounts Receivable manages cash collection, sales closes transactions, etc, etc).

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Each function uses disparate customer descriptions, policies, processes, metrics, etc, to manage their slice of the customer relationship. And because of this incongruity, no single stakeholder group (including the board-level management team) can gain a complete joined-up picture of all customer activities.

This means companies are unable to coordinate customer interactions to deliver an experience of optimal value to both parties. For example, how can one part of the organisation ask for payment of invoices if another part is resolving an administrative error that prevents payment?

The bottom line of all of this is that businesses cannot maximise asset productivity over the customer life-cycle.

At best, potential process synergies and internal collaborative opportunities to enhance customer value slip by. At worst, companies risk damaging relationships resulting in unfulfilled revenue opportunities and higher churn. Companies have ended up putting the cart before the horse – business-driven customer relationships rather than customer-driven business.

Indeed, analysis of financial data from Europe's top 1,000 publicly-quoted companies¹ revealed that they have more than €274bn of overdue debt outstanding due to disjointed customer service and poor collection practices. Customer disputes due to poor service (involving problems related to products, pricing, invoicing, delivery or documentation) result in €103.3bn in unpaid invoices. €82.6bn of accounts receivable goes uncollected because of customer queries and service issues that have not yet been identified by suppliers because of poor account administration. This problem of disjointed service and poor collection is impacting the Euro 1,000's profits by more than €13.7bn per year.

The imperative, therefore, is to implement effective Customer Value Management, creating a virtuous cycle where the company invests in its customers and its

¹ *The research was undertaken by CVG in May 2006 and was based on financial data from Idexec, Thomson Financials, other publicly available sources and data collected by CVG during client engagements. A detailed breakdown of the results, data sets and methodology is available on request.*

customers invest in it. By doing so, a company will be able to maximise the value of its 'customer assets' and customers benefit from a positive, responsive organisation that is focused around them and their needs.

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By addressing the three core denominators of customer value (**cash** (cashflow & payments), **cost** (administration and support) and **service** (sales & retention)) in a fully integrated way, Customer Value Management enables businesses to optimise customer revenues, profitability and relationships through:

- Optimising cashflow to support value generation across the enterprise
- Reducing the impact of bad debt and write-offs through enhanced credit risk management
- Minimising the cost (and complexity) of managing and supporting customer relationships (including reducing interest cost charges)
- Reducing churn and minimising the cost of having to acquire replacement customers
- Enhancing cross- and up-sell opportunities
- Extending customer relationships to sustain revenue contribution

Customer Value Management requires:

- Process & workflow automation
- Resource optimisation
- Enhanced collaboration and information sharing
- Improved customer insight
- Implementation of best practices

Many organisations have attempted to build in-house solutions or re-purpose legacy systems to tackle elements of Customer Value Management, but with only partial success. The heterogeneous nature of systems used in most large organisations simply means that it is impossible to link processes, share common data sets, integrate workflows and processes, etc. CRM systems were never designed for 'global' asset management, and Phil from finance's spreadsheet is hardly the most flexible or robust tool. Even with ERP implementations, companies often end up

running several different versions, making it an almost Herculean task build a robust solution in-house.

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The demand for purpose-built solutions has driven the emergence of a new class of business process software over the last couple of years, and early implementations of Customer Value Management (CVM) solutions by blue-chip multinationals have already generated hundreds of £millions of bottom-line value.

CVM solutions bridge the worlds of accounts receivable, customer service and sales & marketing, enabling joined-up 'asset management' of customer relationships.

They introduce a collaborative platform - including ***shared*** language, policies, processes, metrics & software tools - for the management and cultivation of sustainable customer relationships that grow in value over time.

Using CVM solutions, businesses can generate significant reductions in overdue & outstanding debt through more effective cash collection; cost savings through greater administration and process efficiency; and improved service levels and customer retention through enhanced communication and faster resolution of customer issues & transactions.

Sector leaders such as RWE, Arcelor, KPN and Xerox are using CVM solutions to manage customer relationships worth more than €12 billion (and counting).

CVM solutions address the business management of customers in a way which financial and CRM point-systems simply cannot do, meshing internal function silos together to create a truly joined-up customer-orientated environment. This means customers can maximise the RoI on their existing systems.

These solutions take a federated approach – layering over and connecting to existing systems, processes, data repositories, etc. This means stakeholder groups

can continue to operate at a 'local' level as normal to fulfil their specific business function requirements whilst at the same time contributing to the 'global' management of customer value.

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CVM solutions are typically designed to be implemented in a phased approach, enabling businesses to deliver strategic wins at each stage of the deployment - typically starting with working capital and automating accounts receivable processes including credit, collections and customer query/dispute management.

CVM enables businesses to gain an understanding of how to invest in customer relationships in order to deliver maximum impact on the bottom-line. They amplify the contribution of existing operations and infrastructure, and, because they occupy a new space in the enterprise / business software ecosystem, any organisation can derive significant benefits (as it's effectively a greenfield opportunity).

So what was a management intangible, is now an asset that can be measured, managed and maximised. For the first time, businesses can understand the symbiotic relationship they have with their customers and put them exactly where they belong: First.

(1,222 words)

About the author

Dickie Bielenberg is Managing Director of The Customer Value Group, and has spend the last two decades helping blue-chip organisations around the world optimise customer value

www.thecustomervaluegroup.com