

THE BUSINESS VALUE

Professor PhD Luigi DUMITRESCU
Lecturer Camelia APOSTU
“Lucian Blaga” University Sibiu

Abstract:

Almost every sales opportunity required us to get involved with our customer's finance department to develop a business case or cost justification. Business acumen (an understanding of how business works) is more than just knowing words and their definitions; it's understanding that poor inventory control has a negative impact on order fill-rates. When order fill-rates fall, customer loyalty suffers, as do accounts receivable. When accounts receivable get out hand, cash flow is impacted. Then a company might have to dip into lines of credit to cover short-term obligations, and the interest that has to be paid on that borrowed money erodes profitability. We call this the “cause and effect of business”.

Key words: business value, consumer satisfaction, consumer fidelity, relationship marketing

Business tracks their operational and financial performance by a myriad of other measures and metrics. Some of these are not so much measures as they are initiatives or objectives, such as improving quality, fostering better customer service, or leveraging intellectual capital. Companies are constantly trying to apply metrics and standards to these somewhat “soft” measures, and any particular company might have, their own unique way of managing to these objectives. In this paper, we will call of these metrics, measures, initiatives, or objectives “*elements of value*”. We will assume that if something can be improved, increased, reduced, or decreased, and if doing so is either “*good*” or “*bad*” for the company, and then it is an element of business value. And the first truth for us to acknowledge is this: every element of value has one or more causes and one or more effects.

When anyone of these measures moves in either direction, it has an effect on others in either a positive or a negative way. That subsequent movement has yet other effects on certain other elements in the value

structure. The chain reaction can be quite substantial. As we develop our business acumen and our understanding of how business works, we are developing a knowledge of “*what causes what*” in business. This knowledge of business cause and is what moves us from amateur to professional status in our customer's eyes.

Learning business acumen can be turned into an academic exercise, complete with memorization and testing, but this only serves to reinforce the theory of cause and effects. While there is tremendous merit in developing a thorough understanding of the possible forces at work in a hypothetical business scenario, its practical value can be somewhat limited. It is very helpful to explore possibilities, such as the three principle causes of customer attrition, or the four major effects of increasing forecast accuracy; but a scenario of a case study is only an example of what might be causing a certain business problem, or what effect that problem might have on the overall performance of a company. What is far more useful is learning what is actually

happening within your customer's business, and more specifically what they think the causes are and how they see the effects impacting their overall success.

Understanding causes

The best way I know to begin learning business acumen is to start by really listening to what your customers are talking about. If we are stuck in constant broadcast mode, waiting for them to take a breath so we can deliver our "messaging", we probably won't learn very much at all. Slow down just a little, listen to what your customer is saying, and when you hear they mention that their company is having problems with *customer satisfaction*, for example, ask a simple question: "What

do you think is causing this problem with customer satisfaction?"

By asking about the causes of any element of value, we hear back how our customer thinks the element can be impacted, for better or worse. Let's assume for a minute that you or I already know that there are three, or four, or six different ways to cause an increase in customer satisfaction, for example. That's not the point. What we really want to know is *what our customer thinks* will cause an increase.

Perhaps our customer tells us that "improving customer service" is one of the ways they think they can increase customer satisfaction. In that case, Figure 1 shows the relationship of these two measures.

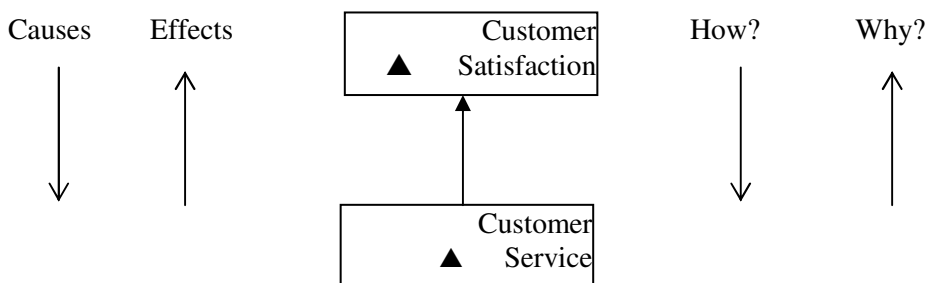


Figure 1. The Relationship of Cause and Effects

Note the two little arrows in the upper left-hand corner of this diagram labeled "Causes" and "Effects". Whenever you hear your customer talking about a problem they are having with any element of value, you can gain a better understanding of that problem and its broader impact by asking questions about its *causes and effects*. Here are some possible questions for this customer satisfaction example:

Question: "What do you think is causing this problem with customer satisfaction?"

Answer: "An issue with customer service".

Or

Question: "What effect is this issue with customer service having on your business?"

Answer: "A problem with customer satisfaction."

Now note the two little arrows in the upper right-hand corner of this diagram and their associated questions "How?" and "Why?". When your customer starts talking about a goal they are trying to achieve, or an initiative they are focused on, we can

get a better understanding of their thinking and of how they see their business by asking questions beginning with “How?” and “Why?”. This applies to the diagram in Figure 1 in the following way:

Question: “How do you think you could increase customer satisfaction?”

Answer: “By improving customer service.”

Or

Question: “Why is improving customer service so important?”

Answer: “To maintain or increase customer satisfaction.”

Earlier, we said that each element of value has one or more causes and one or more effects. To get a broader understanding of how our customer sees their business, we will have to ask,

“What else might be causing this problem with customer satisfaction?”

Or, if we are exploring the possible ways to improve customer satisfaction, we should ask not just “How?” but also “How else?”.

Perhaps you could ask, “How else do you think you could improve customer satisfaction?” or “Are there any other possible causes of this problem with customer satisfaction?”.

As shown in Figure 2, there could be many different causes of poor customer satisfaction, ranging from a sharp edge on a plastic baby toy (poor product quality) to how long a customer has to stay “on hold” when calling to place an order (poor customer service). The ▲ alongside each element of value indicates the direction of movement that is generally considered “good”.

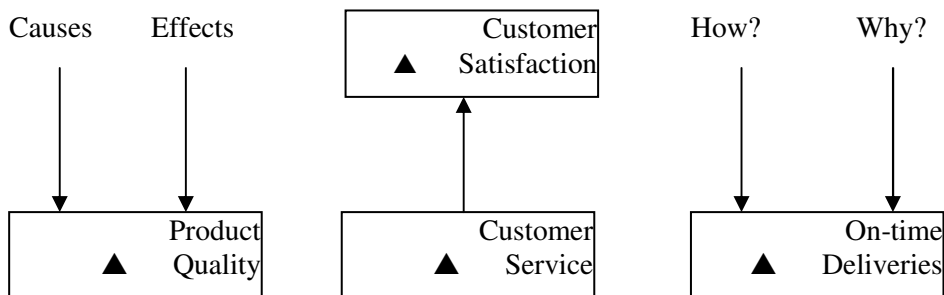


Figure 2. The Causes of Customer Satisfaction

As we are learning this approach and building our own business knowledge, curiosity and a desire to learn makes us naturally inquisitive. But as we get more knowledgeable about how business works, we have to guard against assuming that we already know – or that our customer already knows – the major causes of customer satisfaction, and thereby incorrectly assuming that these questions are unimportant. Asking our customer “How?” and “Why?” they are planning to pursue a certain goal, or asking about the possible causes and effects of the

business, problems they face, is an integral facet of our diagnostic approach.

Listen for what your customer thinks they already have a good handle on, as well as areas where they are not so sure, worried, or maybe even at a loss. If they recognize a business problem, or have identified a certain goal or objective, they’ve already got some ideas about what they want to do to solve the problem or reach the goal. We should try to understand what they already think before we start offering recommendations of any kind.

The real magic of the diagnostic approach is more than simply learning about our customer's business in order to offer a solution to help them achieve their desired results, because more important than our need to understand is our customer's need to feel understood.

One of the major reasons for listening and asking questions is to help our customer arrive at a place where they are ready to hear and have faith in our suggestions or recommendations. Jumping to conclusions, or rushing to offer a solution, is almost always perceived as proof that we are more focused on "B" (selling something) than on "C" (our customer's business objectives). Even if our advice is exactly the same in both cases, our customers simply can't accept it as valid unless they feel we have taken the time to listen and fully understand them before we offer it.

Understanding effects

Now let's look at this from a different angle. What does an increase

in customer satisfaction *cause*? Or put another way, what are some of the *effects* of an increase in customer satisfaction? For this we ask effect-oriented questions such as: "What are the effects of this problem you are having with customer satisfaction", or questions that begin with "Why?" such as: "Why is improving customer satisfaction so important right now?".

One of the effects or results of improving customer satisfaction is an increase loyalty or customer retention. Another effect of having happy, satisfied customers is that they tend to pay their bills on time, or at least closer to on time than the disgruntled ones. This helps to keep accounts receivable down, or at least keep them under control. A third possible effect of higher customer satisfaction could be a reduction in product returns. Figure 3 illustrates these effects of customer satisfaction. The ▲ and ▼ represent an increase or decrease, respectively, and point in the direction that most companies would normally consider to be "good".

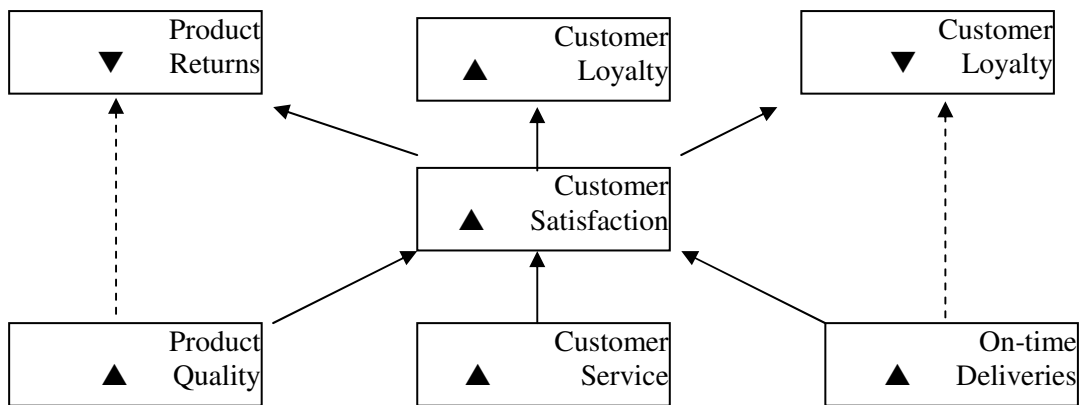


Figure 3. The Effects of Customer Satisfaction

When your customer's customers are more satisfied, they tend to stay around. If they do remain loyal to your customer, instead of buying from the guy across the street, it reduces

customer – acquisition costs, because it normally costs much less to keep a customer than to attract a new one. If a reduction in acquisition costs is good, "Why is it good?". Because it reduces

overall costs and ultimately boosts profit. But that's not the only way that customer loyalty contributes to profitability. Another effect of customer loyalty (repeat business) is an increase in sales revenue. When combined with lower customer – acquisition costs, this also contributes to an increase in profit and earnings.

Let's not forget that a reduction in accounts receivable translates into a reduction in what finance managers call Days Sales Outstanding (DSO), which

is a critical measure that nearly every finance executive and stock analyst watches closely as a factor of financial health. If a company can cut DSO, that frees up cash or capital for reinvestment, which drives asset utilization and profits. Figure 4 shows how – by following the trail of business cause and effect from bottom to top – an increase in product quality, customer service, or on-time deliveries is translated into profitability and earnings.

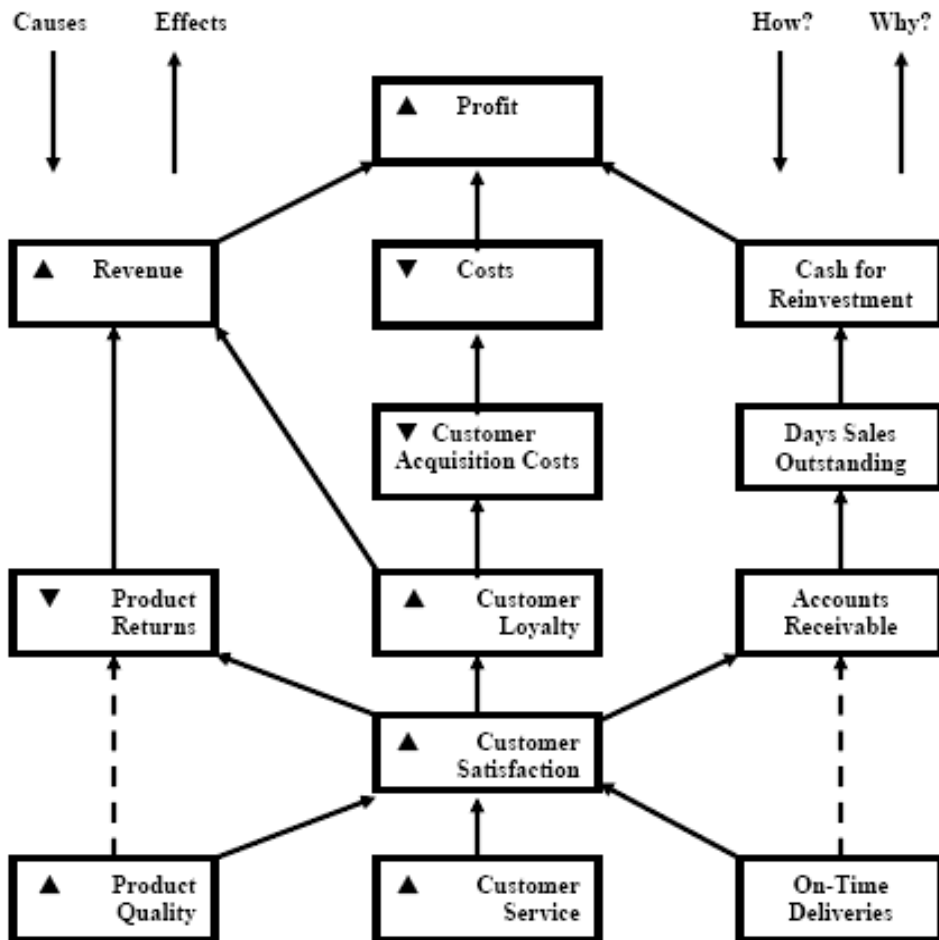


Figure 4. The Causes and Effect of Business

Using this “*How and Why*” model of any organization that depicts approach, and the cause-and-effect how they produce Economic Value. relationships it reveals, we can build a

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