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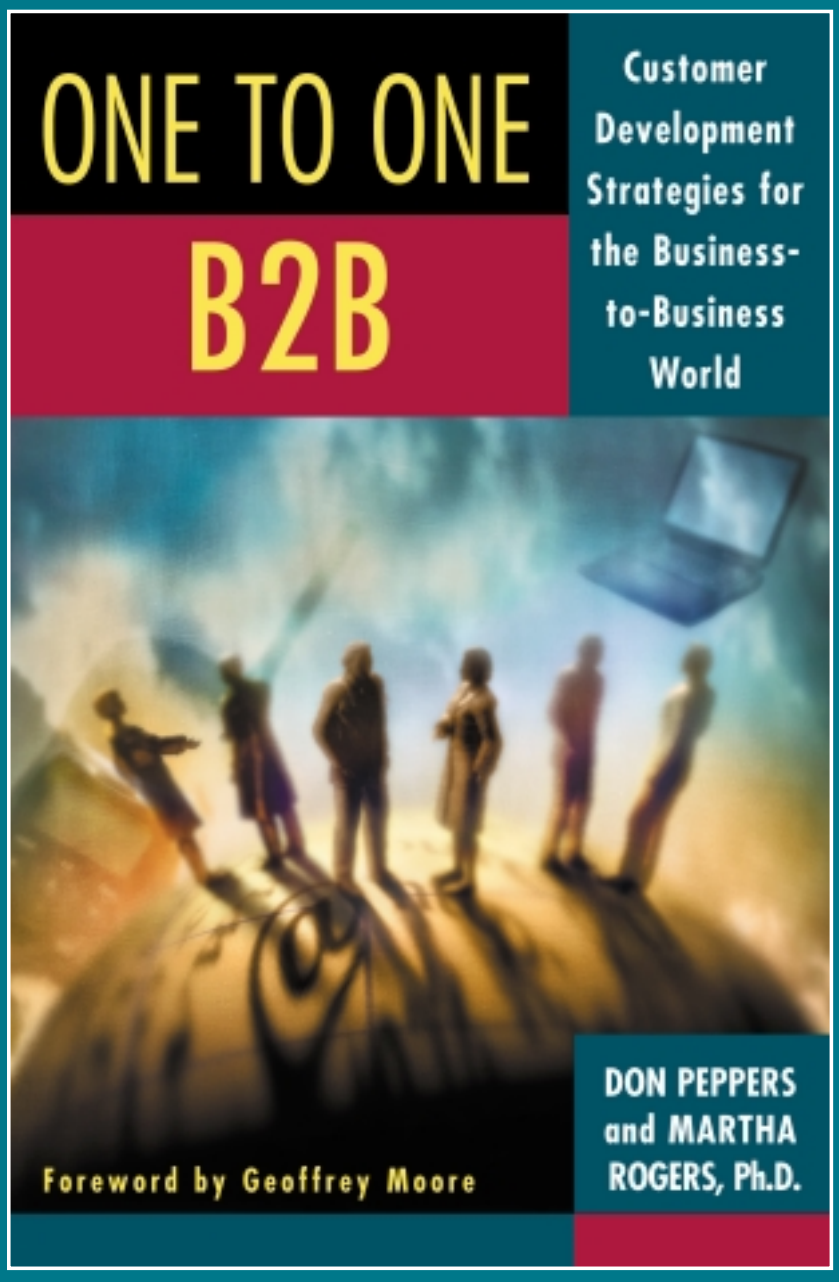

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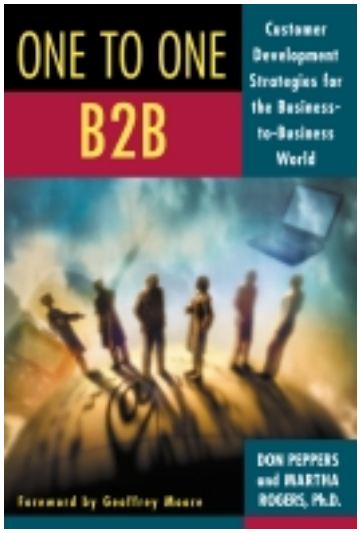


One to One B2B

Customer Development Strategies for the Business-to-Business World

By Don Peppers and Martha Rogers, Ph.D.

Foreword by Geoffrey Moore

Describing the current wave of technology-driven business activity sweeping across the economic landscape as a "sea change" seems an understatement. A global transformation or systemic metamorphosis of this magnitude can only truly be understood in terms of analogy or metaphor. Imagine, for instance, that you lived in a city made of steel and woke up one morning to discover the entire city had been turned to glass. Everything that had been opaque would be transparent, everything sturdy would be fragile. One false move, even the slightest slip and – boom! – everything around you could shatter.

Nowhere is this transformative energy hitting with more sheer force than in the realm of business-to-business commerce, where the Internet is recasting and remodeling nearly every existing relationship.

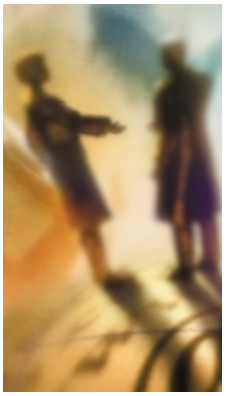
Consumer marketers may have been first to launch a series of high-profile, Web-based, customer-centric initiatives, but in the long term, B2B companies have the most to gain from re-engineering their sales and marketing strategies.

They also have the most to lose by sticking with traditional market penetration strategies. Indeed, the interactive woods are full of dark and ominous implications for the competitive health of B2B firms in

every industry. The rise of reverse auction markets and buyer cooperatives, for instance, threatens to drive margins in B2B situations down through the floor. Market-making Web sites of all types and varieties are springing up in every conceivable nook and cranny of B2B activity, from e-Steel and Water-Online, to the automotive manufacturers' Intranet-based buying cartel. They will have a potentially devastating effect on the financial well being of many B2B suppliers.

It is our belief that in the broad arena of B2B commerce, organizations will rise or fall on the basis of their ability to cultivate one-to-one relationships with their customers. It's important to appreciate the differences between a customer-centric B2B and a customer-centric B2C. It is the very nature of these differences that make it even more critical for the B2B organization to focus on developing and managing customer relationships.

Here are seven critical areas in which B2B strategies differ from B2C strategies:

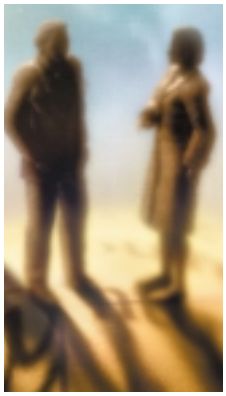


1. Relationships within relationships. The first and obvious difference between selling to an individual and selling to a business is that a consumer is a single decision-making unit, but a business is not. A business is composed of a number of distinct individuals. Many different people will likely have an influence on the decision-making process. There are relationship dynamics on several levels. The B2B organization must not only develop and cultivate its relationship with the business customer as an overall organization, but it must also develop relationships with the divisions, departments, groups, and individuals within that organization.

2. Just a few, large customers. While a B2C is likely to sell to hundreds of thousands, or maybe tens of millions, of consumers, the B2B often sells to just a few dozen customers. So a B2C company can usually rely on a statistical analysis of its customer base to figure out what's going on at any point in time with any particular "type" of customer, but it's often much more difficult for a B2B company to generalize about its clients in any way. Instead, the B2B must look at its customers individually and make what may amount to highly subjective judgments about each one.

3. Account development selling. Because of the complex nature of organizations as customers, a B2B company is much more likely to view success not just in terms of how many new customers it can acquire, but in terms of how deeply it can penetrate its current customer accounts. It's important to remember the difference, however, between *market penetration* and *account development* strategies. The former type is usually product-centric and price-dependent, while the latter type is customer-centric and loyalty-dependent.

4. Channel complexity. Managing consumer relationships, for a B2C organization, often involves important channel issues, such as the company's relationship with its own dealers or with the independent retailers that sell its manufactured product. However, for the B2B enterprise, these same channel issues can be quite a bit more complex.



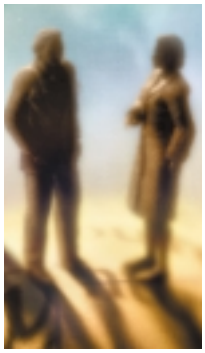
5. Knowledge-based selling. Precisely because the products and services sold in a B2B context are sometimes highly complex, it is often a good practice to base the sales process on educating and training the customers. A B2B company will often find itself in the position of having to teach business customers how to use its product or service more productively, and sometimes even having to teach customers *why* its product or service is beneficial at all.

6. Infrequent purchases. Because B2B products and services are often "big ticket" items, and this usually means the purchase cycle is long, there are sometimes lengthy periods of inactivity between actual purchase events. So, more than is the case in B2C, a B2B company must constantly be seeking to fill in these gaps, by selling services, or by subscribing its customers. For a one-to-one B2B, there is no "down time," only quiet intervals between sales. The challenge is maintaining and managing the customer relationship during these intervals.

7. Helping clients manage themselves. Ultimately, the strongest and best type of relationship with a business customer will be one in which the seller is actually helping the buyer to manage its own business. Businesses are not usually simple operations. As customers, businesses often have problems that a selling organization can help with. So on one level, an IT vendor can

help its customers simply to manage their own purchasing and requisition processes for IT equipment, but on another level the vendor could assist its corporate customers in managing their overall IT budgets and operations, including "TCO" – total cost of ownership.

Inspiring customer loyalty



Contrary to popular belief, a sense of "personality" is not paramount among the qualities required by customers seeking relationships with vendors. Neither is "likability." While likability certainly seems worth striving for, it is by itself neither necessary nor sufficient to generate loyalty. The world is full of customers who switch from one company they were happy with, to another company they become equally happy with – and then switch again to yet another company. And there are customers who stick with vendors they actively dislike. (If you want an example of a business whose customers remain loyal in spite of routinely poor service, you might not have to look further than your own retail bank.)

Yes, customers do have genuinely human needs within the context of any business relationship. But a truly customer-focused business must define those needs carefully and determine which ones are most likely to have the greatest impact on the customer's relationship with the business.

Any company that values long-term customer relationships will learn quickly that customers want four basic things:

They want you to know who they are, and remember them from one event or transaction to the next, no matter what part of the selling organization is engaged.

They want you to remember what they need, or what their specific preferences are.

They want a reliable way of communicating with you.

They want you to provide a product or service that meets their specific needs.

From the perspective of the supplier or selling organization, these specific customer desires map easily into the four steps an enterprise must take in order to develop and manage "one-to-one" customer relationships:

IDIC

Identify your customers

Differentiate your customers

Interact with your customers

Customize for your customers

An organization that is devoted to increasing customer loyalty and unit margins by improving its long-term relationships with its customers, must sooner or later grapple with each of these relationship-building steps. And each step is composed of a variety of different tasks and sub-tasks, many of which can be handled more efficiently and accurately by computers than by humans.

So the question isn't so much, "How can you use technology to *automate* a relationship?" as it is, "How can you use technology to *strengthen* a relationship and make it more valuable over time?"

The answer, of course, depends less on technology than on the structure and organization of a company's sales and marketing efforts. If the sales force is organized around customer needs, and if it is rewarded or incentivized consistently for increasing the value of existing customers as well as for acquiring new customers, it will rapidly discover the advantages of a well-designed sales force automation tool.

The same holds true for the marketing department. If it understands that its role isn't just to create demand for a line of products but also to determine the needs of specific customer sets, then it will quickly perceive the value of an automated system for collecting, organizing, and analyzing customer feedback.

What's in a name?

The blizzard of new technology applications has generated its own snowstorm of techno-terminology. There are literally dozens of abbreviations, acronyms, catchy names, sound bites, and buzzwords now being used

by various companies to describe the same basic, technology-stimulated shift in the way businesses are doing business.

When we wrote our first book, *The One to One Future*, we described this revolution using the words "one-to-one marketing." By our definition, one-to-one marketing takes place when you and your customer interact directly, the customer tells you something about how he or she wants to be served, and then you change your behavior with respect to this individual customer based on that interaction. This would be a "one-to-one" transaction. Note that "one-to-one" does *not* necessarily mean that every single unique customer will be treated uniquely. In almost every business situation, this is completely impractical. Instead, "one-to-one marketing" is a phrase that implies a specific, one-customer-to-one-marketer relationship. A "one-to-one relationship," in other words, is what occurs whenever a customer's input drives some aspect of the marketer's output for that particular customer.

How does one-to-one apply in the B2B space?

As the terms "one-to-one" and "CRM" enter the popular lexicon, we hear more and more people saying, "I get it." When gently pressed to explain exactly what it is about building one-to-one customer relationships that they "get," however, these folks often start talking about database marketing, call centers, Web sites or e-commerce. The fact is, a one-to-one customer relationship program might include some, all, or none of those features. And while one-to-one customer relationships are enabled by technology, the enabling technology should be viewed as the means to an end, not the end itself.

How do we define "one-to-one"? When a customer tells you something about what he wants, or how he wants to be treated, if you then adjust your behavior, *with respect to that single, individual customer,* to address the customer's specific input, then you are engaged in a one-to-one customer relationship.

This probably sounds like a commonplace business activity, especially for a B2B firm, and it is. But for most firms, including B2Bs, adjusting the company's customer-specific behavior to individual customer specifications is not a well-organized activity. It is carried out on an ad hoc basis. So before you jump to the conclusion that "we already do this stuff," let's pursue the true implications of this kind of activity a bit further.

The essence of any relationship is that it is an interactive, adaptive, ongoing process. The more the customer tells you, the more tailored your behavior can be toward that customer. Did you like it like that?

You want it more this way, next time? How about this, is that better? With every interaction you get more input from *this* customer, and you tailor your behavior a little more, and a little more, and a little more. With time, the customer will have invested some effort in teaching you how he wants to be treated.

Now, *even if* your competitor is doing business the same way you are, your customer will want to remain loyal to you, because he won't want to go to the trouble of re-teaching your competitor what he's already taught you. Because you know more about your customer than your competitor, you can serve your customer in ways that your competitor literally cannot, unless the customer starts the long process of teaching all over again.

The more I teach you about my needs – provided that you continue to adapt your service or product to meet my evolving specifications – the less willing I will be to give up my relationship, at least partly because it will mean starting all over with someone else.

This is the essence of what we call a " Learning Relationship." Basically, a Learning Relationship is a relationship with a customer that gets "smarter and smarter" with every interaction. The Learning Relationship represents the central engine of a one-to-one enterprise strategy. A Learning Relationship *is* a one-to-one relationship. It is the single unique and distinct characteristic of any CRM program.

In our newest book, *One to One B2B*, we examine how the Learning Relationship plays a critical role in developing new and existing client accounts to their fullest potential. We explore the value of account development strategies designed specifically to unlock higher levels of profitability, ensure client loyalty, and fight margin erosion in the face of intense worldwide competition. Using five in-depth case studies, we illustrate the competitive techniques and strategies deployed successfully in real-world business-to-business scenarios.

In our research, we have learned that in this dizzying era of globalization, commoditization, and embattled profits, smart companies turn to customer relationship management strategies to get, keep, and grow the most profitable clients. As more of the world revs up to Internet speed, several new business truths have emerged:

- Strategies focusing on customer development are more dependable than traditional market penetration strategies for ensuring steady profitability over time.
- Business-to-business relationships are inherently more complex than business-to-consumer relationships, and must be managed differently.
- CRM technology is not an end in itself, but a means to achieving the goal of profitable customer management.

Increasingly, companies are learning how to mass customize their products and services, delivering uniquely configured products to unique customers, in response to their individual interactions and unique needs. Here are some examples from *One to One B2B*:

Dell Computer has an interactive Web-based service called Premier Dell.com for its business customers. Premier Dell.com allows a business to streamline its purchase order requisition costs and better manage the "total cost of ownership" of its computers. One of the principle benefits of the service is that it gives Dell a one-to-one relationship not just with the purchasing and IT managers at client firms, but with the end users of Dell products within those firms. Consider this:

- Every day, online sales generate $50 million in revenue for Dell.
- Online sales now represent approximately 40 - 50 percent of Dell's annual revenue.
- The bulk of Dell's sales revenues are generated by its Relationship Group customers, all of whom are large businesses.
- Almost all of those large business customers have Premier Dell.com and use it to make online purchases.
- Each online purchase or transaction saves Dell money.
- Each online purchase increases Dell's store of customer information.

Bentley Systems, a Pennsylvania company, sells its CAD-CAM software applications to architectural and engineering firms all over the world, largely through a network of value added resellers. The companies that buy Bentley software manage large construction and engineering projects that require collaboration among many different vendors and suppliers, and Bentley has its eye on participating with its customers in the longer-term management of these projects. Rather than simply selling software licenses, Bentley embarked on a bold strategy to sell subscription services to its top customers. Under the old model, Bentley set annual goals for increasing its sales revenue, and it measured its own performance against

these goals. This essentially kept the company locked into a customer acquisition mode, no matter how many innovative programs or initiatives it designed to break free. The launch of the subscription service (named SELECT), and its rapid acceptance by customers, liberated Bentley to measure its performance with a refreshingly simple set of metrics tied to customer development. Bentley Systems had 300,000 users in 1999 and total revenues of $190 million. About 200,000 users were SELECT subscribers. Their combined annual subscription fees generate $100 million in revenue – more than half the firm's annual revenue.

Convergys, an outsourcer of both inbound and outbound call-center services, found that its previous emphasis on client acquisition was yielding less and less. But pursuing an account-development strategy – trying to sell more and better services to its existing clients – turned out to be a good deal more complicated than it had anticipated. Simply ranking clients by their value to Convergys was difficult enough, but then putting a new relationship-based sales and marketing strategy in place meant re-engineering the structure and compensation of the sales force itself. The company's Customer Management Group took the lead in implementing a one-to-one strategy. In 1999, the first full year the strategy was in effect, the group's revenues were up 28 percent from the previous year. Virtually all of that growth was generated by the group's top 100 clients, a clear validation of the one-to-one initiative.

Novartis, the Latin American agrochemical division of a global company, found its very existence threatened by the biotechnology revolution. However, by setting out to cultivate relationships with the end users of its products – the farm operators it was selling to – rather than its dealer network, the company has been able not just to stem the losses but turn a nice profit. Six months after launching a one-to-one strategy, Novartis CP measured substantial increases in total revenue, share of customer, and share of market. The strategy worked – and continues to work – for three main reasons:

- It was based on established one-to-one principles.
- The unit's 80 employees understood the strategy and got behind it.
- A broad portfolio of products made it possible to mass customize bundled solutions for individual customers.

Despite these impressive success stories, it's imperative to remember that becoming a customer-focused, one-to-one enterprise is not something that will ever be fully "achieved." Being customer-focused is not a *destination* for a firm, but a *direction* in which to point the business. The day is never likely to come when an executive at one of these companies or any other company will be able to say, "Our customer relationships are now as strong and deep as they can ever be." Instead, even when the long-term strategic initiatives they are undertaking now have been largely accomplished, there will always be more to do, farther to go. Competitive success will come from being further along this never-ending path toward managing customer relationships than your rivals. And success will come one customer at a time, as you lock in the business of first one large customer, and then another, and another. □