

The obsolescence of market shares

THINK TANK

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Columbia professor *Sunil Gupta* tells why customer experience and customer equity are better measures of a company's success.

Those who can't, teach. That old saw is so pitifully old, it creaks. And to drive home the point is Sunil Gupta.

Sunil Gupta Not only has the Meyer Feldberg professor of business at Columbia Business School taught MBA, PhD and executive programmes at Columbia, Harvard Business School and UCLA for the past 17 years, he also co-founded a strategic consulting firm, the EX Group, through which he practices what he teaches — marketing, pricing and customer management.

It was the need to test the theories and research that is carried out in management education, Gupta says, which pushed him towards getting into consulting. "After 15 years of teaching, I felt there was a need to question whether we can apply theories to practice," he comments.

Also, since he is from an engineering background (IIT, Delhi), his area of interest was more on the quantitative aspects of marketing. "I wanted to figure out if there was a return on investment in the marketing solutions involved; and if any, how much?"

So, what did this curiosity for the quantitative aspect of marketing teach him? Essentially, that marketing people at the mid-management level often do not know the difference between customer experience and customer equity.

"What is needed today is striking a balance between what a company gives the customer (customer experience) and what the customer in turn gives back in terms of profits (customer equity)," Gupta remarks.

That means that in the future, only those companies will succeed that can actually show the accountability of marketing spends all the way down.

How will companies achieve that? Gupta advises taking a leaf out of George Orwell's book. Remember Animal Farm: "All animals are equal, but some animals are more equal." He says that the same principle applies to customers as well.

Studies show that in retail banking, more than half of banks' customers are not profitable for the organisations. So, while you may have an impressive number of customers — who also eat up a huge proportion of resources — they may not be the ones who provide you any substantial income.

"If you start thinking in this two-by-two framework, you find that the market share may be a wrong way to measure your success," points out Gupta. But is it easy to track costs by customers? "No," he confesses, since most accounting systems don't keep those kind of records and merely slot them as "sales cost".

"Of course, in airlines, you have the economy and business classes, but they are obvious examples. With IT and the kind of databases that we can access now, it's easy for any company to go down to each customer level and identify which one is more profitable and which one is not so profitable," he says.

However, herein lies the paradox. Gupta points out that many companies don't want to get to the bottom of the matter. He cites the example of a manager who turned down his offer to analysing the returns on her company's loyalty programme.

"She was in charge of the programme. Naturally, she was too scared to find out — if the research showed that it didn't work, she would lose her job!" But, he predicts, the time will soon come when top management will say, "The budget for the marketing project is all right. But show me the money."

So unless you can show that it works in more "tangible" ways than just the customer satisfaction score going up, your marketing project just may get the boot.

It will help if you look at your business from the customers' perspective, he says. That viewpoint, explains Gupta, is what led 7-Eleven to apply for a banking licence.

The multinational convenience-store chain realised that its customers were not in the habit of carrying too much cash. So, often, they would decide against buying a few items when they realised they didn't have enough money.

But that's bad for business. So, even as the 7-Eleven management toyed with the idea of installing ATMs on its premises, it went a step further and decided to set up its own bank.

The result was IY Bank, which offers transaction-only services via ATM terminals at 7-Eleven stores.

Then there's Starbucks that ventured into selling music. What started as providing customers a "third space" between home and office went on to providing them hotspots (areas where you can achieve wireless connectivity to the Internet) within the coffee shops.

And when Starbucks noted that most people at the hotspots were listening to and downloading music, the idea of having the facility to burn and buy CDs was born. Today, Starbucks is one of the largest sellers of music in the US.

“If it wasn’t for looking at your business from the customer’s perspective, why would a convenience store enter the banking business and why would a café sell music?” asks Gupta, driving the point home.

Where does research fit in? “You need to see how the product fit the customer’s lifestyle,” Gupta says. Marketers need to find out how the customer feels and behaves.

That’s because when customers buy products, their world does not centre on it. But for the brand and brand manager, it is their life. “Everyone talks about being customer-focused and customer-sensitive but we are all more product focused,” says Gupta.

The customer is king is another ancient saying. But its validity is clearly unchallenged.