

Customer Asset Management: A New Paradigm for the Modern Business Firm

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Because of the massive shift in economic activity from manufacturing and mass production toward service and information exchange, the modern economy is quite different from the one about which most economic theory and measurement were developed. Economic growth, for firms and for nations, is no longer simply a matter of producing more with fewer resources (i.e. productivity), but rather a matter of better matching supply to a progressively heterogeneous demand. Living standards and economic growth depend on the productivity of economic resources as well as the quality of output that those resources generate.

The implication of the modern economy for companies is immense. Let us try to understand this by isolating what has changed and what has not. For example, the value of fast, reliable, and accurate data for decision making will continue to grow, but at an accelerating pace. As before, few things are as important to the performance of firms as its measurement. And data are the basis for measurement. The problem is that many of the most critical areas of performance measurement are not yet well established.

It is not that the major economic objective for companies has changed. The objective is still to create assets that maximize economic returns. However, the nature of the assets and their measurement have changed. Tangible assets, such as factory, plants, inventory, etc., are not the most important assets in the modern economy. For most firms, the so-called intangible assets are now much more meaningful. They contribute more to market value than traditional (and tangible) assets. The most critical intangible asset is the strength and magnitude of the firm's customer relationships. A good measurement of these relationships makes it possible to relate such assets with the income derived from them. This is fundamental to management and to investment. Traditional accounting leaves the customer relationships (and other important intangible assets) off the balance sheet and thus produces financial reports that give a distorted view of how a company makes money. If accounting were to incorporate customer satisfaction as an asset on the balance sheet, there would be a better

understanding of the relationship between a company's current condition and its future capacity to produce wealth.

A good deal of the modern economy is, of course, related to advancements in information technology, but there have also been major philosophical changes that have driven more national economies toward market economies. As a result, we now have a world economy with more global competition, more buyer information, less monopoly power, and fast movement of money. This means that time is becoming even more precious and that the balance of power between buyer and seller is now more tilted in favor of the buyer. Sellers need to compete harder (and faster) for buyer preference. This is why performance measures from the buying side, external to production, are becoming more useful. It does not matter how much a company can increase the quality of its products and services, unless the satisfaction of its customers is also increased. The degree of customer satisfaction tells the managers and investors two things:

- What the company **has done** to its customers. This relates to the company's current condition.
- What the customers **will do** to the company. This relates to the company's future capacity to produce wealth.

Thus, satisfied customers represent a real, albeit intangible asset to the firm. By definition, an economic asset generates future income streams to the owner of that asset. At CFI Group, we now have considerable evidence that, if measured properly, customer satisfaction can be used in predictions of a company's financial results. Proper measurement, however, is difficult. It is certainly not enough to simply ask customers how satisfied they are and what they consider important. Such simplistic approaches are afflicted by a great deal of error and instability. Establishing a Customer Asset Management system is what is needed. It relies on a much more powerful measurement technology and integrates measures of customer satisfaction with the operating business functions. The CFI Group Customer Asset Management system provides:

- A monetary measure of the customer asset
- A diagnosis of what to do in order to grow the customer asset
- A linkage of the customer asset value to the firm's operations, processes and personnel
- A prognosis for future income streams and asset appreciation.

A large US retailer provides an interesting example of how the system has been used. This major retailer had what can only be described as a "near death experience". The losses were almost 4 billion dollars, 113 stores had to be closed, and 50,000 jobs were cut. Five years later, the company had a profit of 1.3 billion dollars and the total return to investors was 298%. How was this turnaround possible? In short, what this retailer managed to do was to grow the customer asset by concentrating on an underlying asset: the human capital — often a key in the service sector. In other words,

the company made its employees understand the business of its customers. CFI Group showed that that an increase in employee satisfaction by five points led to an increase in customer satisfaction by two points, which, in turn, led to a measurable customer asset growth.

Successful competitors in the modern economy actively manage their customer

assets. Customer Asset Management calls for scientific measurement and analysis of intangible assets, and how they are linked together. Its goal is to increase shareholder value. For firms where the difference between what investors have put in and what they can take out is the greatest (i.e. Market Value Added), the strength and magnitude of the customer relationships have also been shown to be the greatest. In order to be successful

in the new economy, managers should not evaluate new business programs or initiatives on how they will increase sales or market share, but on how they will grow the customer asset. This is what leads to long-term sustainable shareholder value.

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