Original Article

Customer development strategies for exceeding expectations – An exploratory study

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Lawrence Ang
is Associate Professor of Marketing at the Faculty of Business and Economics, Macquarie University. He teaches and researches in customer relationship management, advertising and marketing research. When he is not teaching or consulting, you can find him enjoying a glass of Australian wine on the beach.

Francis Buttle
is Founder and Principal of Francis Buttle & Associates, Principal Consultant with Listening Post P/L, and Adjunct Visiting Professor of Marketing and Customer Relationship Management at Macquarie Graduate School of Management, Macquarie University.

ABSTRACT Our article reviews the literature on customer development and reports findings from an exploratory survey of practices in Australian companies. We find that companies that build customer development plans around increases in revenues, rather than reductions in cost-to-serve, achieve better development outcomes. Outstanding performance in customer development seems to be strongly associated with managing the revenue side of the profit equation. We conclude with recommendations for further research.

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Correspondence:
Lawrence Ang
Macquarie University,
Faculty of Business and Economics, North Ryde, Sydney, Australia.
E-mail: Lawrence.ang@mq.edu.au

INTRODUCTION

A number of marketing scholars have developed conceptual notions of a customer journey, life cycle, ladder or staircase[1–3] along, or up, which customers advance. Terms such as suspect, prospect, first-time customer, majority customer, partner and advocate are used to describe the deepening relationship between customer and supplier.

Whereas other researchers have focused on customer retention and customer acquisition,[4,5] we have chosen to focus here on customer development.

Customer development is the process of growing the value of retained customers.[6] Companies can take two approaches to enhancing customer profitability.

1. On the *revenue* side of the profit equation they can aim to sell more product or service to the retained customer. Cross-selling and up-selling are the main options. Cross-selling involves selling additional products and services. Up-selling means selling higher-value (and margin) products and services.
2. On the *cost* side of the profit equation, customer profitability can be enhanced by becoming more efficient at cost-to-serve. For example, a customer that presents

little up-sell and cross-sell potential might be migrated from face-to-face selling to telesales.

In mature markets, where organic growth through customer acquisition is difficult or expensive, the development of retained customers is an important source of additional profit.

The mobile telecoms and grocery retail markets provide good illustrations of customer development practices. The penetration of mobile phone handsets is at a very high level in many economies. Around 48 million Britons, 87 per cent of the population, are connected to mobile networks.[7] Conversion of laggards is regarded as too difficult and expensive. Network operators have therefore focused on enhancing Average Revenue per User by converting pre-pay customers to contract and cross-selling and up-selling additional voice, data and media services to their existing customer bases.

Another customer development example is provided by Tesco. A key enabler of Tesco's customer development programme has been its Clubcard, which is used it to retain customers and grow their value. The Clubcard has become the largest loyalty programme in the United Kingdom, with over 11 million active members.[8] Tesco attributes an average 34 per cent increase in customer spending since 1995 to the programme.

LITERATURE REVIEW

Very little research has been published specifically about customer development. A search of the Business Source Premier database reveals that one academic paper has been published using 'customer development' as a keyword; some 23 papers use the term in the author-supplied abstract, though the majority of these are not germane to our research. However, since 1979, 16 papers have been published about 'cross-selling', with a further four papers on 'up-selling'. The cross-selling literature can be classified into two major groups. The larger subset of papers investigates cross-selling in the banking, financial services or insurance industries (see, for example, Wong *et al*,[9] and Li *et al*)[10] and the second, smaller, subset reports the use of database or customer relationship management (CRM) applications for cross-selling purposes (see, for example, Kamakura *et al*).[11] The finance and insurance sector provides a good context for cross-selling research because these companies normally offer a suite of products that make cross-selling an important strategic option. One industry study found that for a diversified insurance services company that has 5 million customers, an increase of only 5 per cent in cross-selling can result in US$140 million in additional revenue or $20 million in additional profit.[12] Another study across four industries including the finance sector[13] confirmed the importance of 'customer maintenance' as a driver of company profit. As in other industries, successful cross-selling creates multiple product ownership, which raises switching costs and promotes longer customer tenure.[14]

Cross-selling and up-selling are dependent upon opportunity recognition, that is, the ability of a salesperson, customer development manager, account manager, campaign manager or retention manager to identify an appropriate selling opportunity. One study found that although 94 per cent of insurance advisors believe that the ability to cross-sell is important, only 46 per cent consider themselves competent in doing so.[14] Furthermore, up to 35 per cent of frontline employees feel uncomfortable when called upon to cross-sell.[15] A common barrier to opportunity recognition is poor data quality, which may be a result of ineffective system integration. This in turn hampers the successful implementation of marketing analytics. One recent Gartner study (cited in O'Donnell)[12] found that only 25 per cent of life insurance companies use customer profiling to facilitate cross-selling and other marketing campaigns.

Marketing analytics contribute importantly to cross-selling success[16] by enabling companies to make the right offer to the right customer, with the right communication in the right channel, at the right time. One bank study has found that it pays to target the right person in the first place. This means finding prospective customers who will not only respond to the offer (of a loan) but are also likely to qualify for the loan.[17] Profile-based marketing campaigns and rule-based (if–then) event-based marketing are increasingly being applied in CRM-enabled cross-selling and up-selling implementations.[18,19]

Against this background of a rather meagre body of research, we decided to conduct an exploratory investigation of customer development practices across industry. We were neither attempting to develop nor to test theory. Rather, we were seeking to understand practice with a view to developing research hypotheses or propositions for further testing.

METHODOLOGY

Population and sampling

Our population of interest is Australian industry and commerce. A stratified random sample of 732 companies was contacted from the Dun and Bradstreet database of the top 1000 companies in Australia. The population was stratified into three annual turnover groups: \$50–\$99 million, \$100–\$500 million and above \$500 million.

Data collection

We first contacted the 732 selected companies by telephone, over a period of 2 months. We asked to speak to the person in charge of marketing, and then more specifically the person/s in charge of customer acquisition, retention or development. The target person was encouraged to participate by offering a free one-page report of the study. Following agreement to participate, the instrument was mailed to the sample. Respondents were given 1 month to complete the questionnaire. If the questionnaire was not returned within the month, a series of follow-up calls and reminders were issued to lift response rates. This persistence lifted the response rate by an average of 4 per cent per month. It took approximately 6 months for a total of 170 questionnaires to be returned, yielding a response rate of 23 per cent. There is no significant difference in the type and size of companies that answered the survey in the first 3 months versus those that answered in the second 3 months.

Instrument development and data analysis

Items in the instrument were developed from a literature review, and piloted and refined over several iterations. All the questions used nominal scales, requiring ‘yes’, ‘no’ or ‘don’t know’ responses. These questions investigated the presence or absence of a range of customer development management practices, objectives and tactics. The ultimate dependent variable is whether customer development expectations have been met in the past 12 months. This was measured using a 7-point Likert scale. The appendix shows the questions.

RESULTS

Response rate

One hundred and seventy responses were obtained (23 per cent response rate). The dominant sectors were manufacturing (43 companies); wholesale and retail (24 companies); and health, community services, accommodation, cultural/recreation, personal and other services (23 companies). These sectors made up

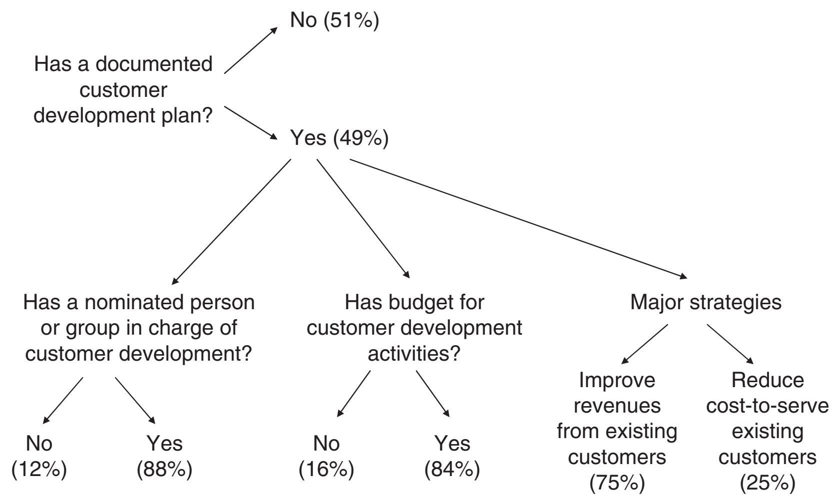

Figure 1: Frequency of companies with customer development plan and strategies.

more than half (55 per cent) of our sample. Thus, our sample covers both business-to-consumer and business-to-business sectors.

We now present a number of *univariate* summary statistics (Figure 1).

- Nearly half (49 per cent, $n = 80$) of the valid sample ($n = 164$) have a documented customer development plan (6 respondents were not sure whether the company had a plan).
- Eighty-eight per cent of those companies with a customer development plan have a nominated executive or group in charge of customer development.
- Eighty-four per cent of the plans specify a budget for customer development activities.
- The most common strategy described in the customer development plan is to increase revenue stream from existing customers (75 per cent), rather than reduce cost-to-serve (25 per cent).
- Specifically, revenue growth across the customer base (82 per cent) and revenue growth per identified customer (77 per cent) are the most frequently mentioned customer development objectives.
- Increasing the number of products bought by the customer (74 per cent) or margins to be earned from existing customers (71 per cent) or increasing share of customer spend (66 per cent) are mentioned less often.
- The least-cited objective is reduction in cost-to-serve (54 per cent) (Table 1).
- Twenty-three per cent of companies said that they had greatly exceeded or exceeded their expectations of customer development in the prior 12 months (they checked the top two boxes on a 7-point expectation scale).

We ran a number of *bi-variate* correlations to explore the relationships in our dataset. We wanted to find out what accounted for companies excelling at customer development. In our research, the companies that excel at customer development are those who rated the dependent variable (that is, 'In the last 12 months, to what extent have your customer development plans met your expectations') above the mid-point, 4 (on a 7-point scale). To identify companies that excel in customer development, we transformed the data for this dependent variable into ordinal form according to procedures recommended by Siegal and Castellan.[20] (On a 7-point scale where 4 is the mid-point signifying 'meeting

Table 1: Percentage of companies with different customer development objectives

Customer development objectives	*N*=78
Growth in sales revenue per retained customer	82
Growth in revenues from specific named customers	77
Number of product lines used by customer	74
Margins to be earned from existing customers	71
Share of customer spend on the product/service category	66
Reductions in cost-to-serve existing customers	54

satisfaction', all the data from 1 to 4 were recoded as '1', while data from 5 to 7 were recoded as '2'). The reason we carry out this transformation is that the parametric assumptions of homogeneity and normality were not satisfied. Thus, for our correlations, non-parametric (Kendall's tau) correlations were computed. Several important findings follow:

- Companies that exceed their customer development expectations tend to possess a documented plan ($r=0.19$; $P<0.02$).
- These companies are also moderately more likely to adopt the objective of increasing revenue from *all* retained customers ($r=0.23$; $P<0.057$) rather than from specific identified customers ($r=0.08$; *not significant*), even though these two indices are significantly correlated with each other ($r=0.38$; $P<0.001$).
- Companies that have a documented customer development plan are also more likely to have an executive responsible for this business activity ($r=0.31$; $P<0.0001$). However, there is only a *moderate* relationship between having a responsible executive and being able to excel in customer development ($r=0.11$; $P<0.07$).
- Companies that have a responsible executive are more likely to adopt reduction in cost-to-serve as an objective ($r=0.25$; $P<0.03$), rather than growth in revenues, margins, product ownership or share of customer spend. Note that the correlations in the last row in Table 2 are not significant for these indices.

DISCUSSION

The most important finding is that companies whose customer development expectations were exceeded tend to have an explicit customer development plan. This is consistent with previous research, which also implicated the importance of having a dedicated plan for customer acquisition.[5] However, despite the importance of having such a plan, less than half of our sample (49 per cent) actually has one. We hypothesise that inadequate customer-specific insight, such as is found in many business-to-consumer contexts, or a lack of resources may be responsible for companies not developing an explicit customer development plan. This is a hypothesis worth pursuing in future research.

Our second major finding is that companies that excel in customer development tend to concentrate on growing sales revenue from their customers rather than reducing cost-to-serve. Indeed, this is the strategic option that is most preferred by most companies. However, we also found that other more sophisticated customer development objectives (for example, margins to be earned, share of customer spend, focus on specific named customers) were not associated with outstanding performance in customer development at all. It seems as if having a simple generic objective is sufficient for excellent customer development performance. However, this simple 'truth' may also be explained by companies not being very sophisticated in their customer analytics, and a consequent

Table 2: Non-parametric correlation table (Kendall's tau)

	Exceed expectations	*Have customer development plan*	*Plan specify budget for development activities*	*Growth in sales revenue per retained customer*	*Growth in revenues from specific named customers*	*Reductions in cost-to-serve existing customers*	*Margins to be earned from existing customers*	*No. of product lines used by customer*	*Share of customer spend on the product or service*	*Has nominated person or group*
Exceed expectations	1.000	—	—	—	—	—	—	—	—	—
Have customer development plan	**0.194***	1.000	—	—	—	—	—	—	—	—
Plan specify budget for development activities	0.081	n/a	1.000	—	—	—	—	—	—	—
Growth in sales revenue per retained customer	**0.225**#	n/a	−0.123	1.000	—	—	—	—	—	—
Growth in revenues from specific named customers	0.083	n/a	−0.085	**0.378****	1.000	—	—	—	—	—
Reductions in cost-to-serve existing customers	−0.019	n/a	0.162	0.063	0.074	1.000	—	—	—	—
Margins to be earned from existing customers	0.152	n/a	0.009	0.210	**0.246***	**0.290***	1.000	—	—	—
No. of product lines used by customer	−0.089	n/a	−0.037	−0.013	0.038	**0.223**#	0.146	1.000	—	—
Share of customer spend on the product/service category	0.019	n/a	0.041	−0.138	0.066	0.191	0.184	**0.337****	1.000	—
Has nominated person or group	**0.108**#	**0.308****	0.054	0.040	−0.103	**0.254***	0.030	−0.108	0.027	1.000

# $P<0.10$; *$P<0.05$; **$P<0.01$.

lack of specific customer-by-customer insights.

Our third major finding is that we did not discover a relationship between having a responsible executive for customer development and outstanding performance. In fact, we found that having such a person in charge tends to result in adopting cost reduction as a strategy. This suggests either that the managers in charge of customer development in our sample are not skilled at revenue growth activities or that it is simply easier to cut cost rather than to think of, or implement, new ways to increase revenue. If so, this might suggest that the 'farming' skills necessary for customer development are typically less well developed in our sample than the 'hunting' skills necessary for customer acquisition. Again, this is a hypothesis worth pursuing in future research.

This unexpected result begs the question – if having an executive in charge of customer development is not associated with outstanding customer development performance, who is responsible for customer development? – a question to which our data supplies no definitive answer. One possibility is that the responsibility for customer development is dispersed among the salesforce where it is part of the reps' regular job description, and where, as noted above, 'farming' skills are less well developed than 'hunting' skills. This is certainly a question that deserves further investigation.

CONCLUSION

Our most important finding is that excellence at customer development is associated with the presence of a documented plan. Only 49 per cent of companies have a documented customer development plan but they are more likely to outperform expectations. Furthermore, the more the plan emphasises revenue growth from customers generally, the more likely it is that the company will be successful. Outstanding performance at customer development seems to be strongly associated with managing the revenue side of the profit equation. Future research should investigate the counterintuitive finding that there is no strong association between executive responsibility and customer development performance.

Finally, it should be noted that although factors other than those investigated here might possibly influence excellence in customer development, our literature review did not unearth these. In fact, there is very little published research on this question. Our findings represent a step forward in understanding what differentiates companies that excel in customer development from those that do not, but we make no claims about causality. Future research can take a longitudinal (or even an experimental) approach in order to identify the causes of outperformance in customer development.

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APPENDIX

Definition of customer development plan – this is a plan consisting of explicit steps and tactics taken by the company to earn additional value (for example revenue or profit) from retained customers. This plan may be part of a larger customer management or marketing plan but must be dedicated exclusively to customer development.

Q1. Does your company have an explicit, documented customer development plan?

Yes	1
No	2
Don't know	3

If yes

Q2. Does the plan specify a budget for customer development activities?

Yes	1
No	2
Don't know	3

ASK IF YES AT Q1 OTHERS GO TO

Q3. Does the customer development plan specify any of the following targets?

	Yes	*No*	*Don't know*
Growth in sales revenue per retained customer	1	2	3
Growth in revenues from specific named customers	1	2	3
Reductions in cost-to-serve existing customers	1	2	3
Margins to be earned from existing customers	1	2	3
Number of product lines used by customer	1	2	3
Share of customer spend on the product/service category	1	2	3
Other targets *(please specify)*	1	2	3

Q4. Has your company nominated a particular person or group to be responsible for customer development?

Yes	1
No	2
Don't know	3

Q5. Rank these two major strategies for the importance in your customer development plan (the more important should be ranked number 1; rank the less important number 2)

	Rank
a. We try to improve our revenue streams from existing customers	—
b. We try to reduce our cost-to-serve existing customers	—

Q6. In the past 12 months, to what extent have your customer development plans met your expectations?

Greatly under performed expectations			*Met expectations*			*Greatly exceeded expectations*	*Don't know*
1	2	3	4	5	6	7	9