



Enabling Extraordinary Results

## **Interview with Eric Balinski, co-author of *Value-Based Marketing for Bottom-Line Success: 5 Steps to Creating Customer Value***

*Eric, please tell us what had you write this book.*

I had noticed in the work I did with Dow Chemical, GE and other companies that good leadership and great motivation, while they are really important, are not the primary drivers of bottom-line success. So I did some research on long-term profitability—what was the first and primary driver of companies achieving above-average levels of profitability over the long run? And what I found was that there were companies, even ones operating in bad markets—markets with weak industry performance—that were able to be consistently profitable if they had a strong customer value focus.

*Can you give us an example?*

Sure. Southwest Airlines is a perfect example. Who would start a regional airline with the problems that industry is having, and has had? But Southwest is consistently profitable—over 40 consecutive quarters of profits. Of course they have had a charismatic CEO and a focus on their employees, but the real factor is their attention to customers. That's where everyone at Southwest has their attention. They built their business on an insight about what would improve people's lives—freedom, in the form of cheap, safe, reliable air travel. So ultimately, they created and aligned their business to deliver this customer value.

*Surely there must be other factors that contribute to a company's success?*

As I said, other factors are important, but the primary driver of bottom-line success is customer value. Interestingly, even though people say "marketing makes the company," I found no correlation between classical marketing and profitability. The reason is that classical marketing is often an accomplice in trying to sell more products, but does not necessarily deliver better value to customers. In so doing classical marketing often increases business costs, thereby lowering profitability.

In fact, providing value to customers is why companies are allowed to incorporate—to bring together talent to make a difference in value to their customers.

*We liked this quote from your book: "It's easy for a company to believe it is doing what's best for the customer. It's another matter entirely for the customer to believe it."*

Well, value is in the eye—or more truthfully, in the wallet—of the one who has to pay for the product or service. If the customer doesn't believe it, you're kidding yourself and worse, often making decisions based on false assumptions about your customers.

*How does a company get its customers to see it as a value-added enterprise?*

If a business is a Value Creating enterprise it focuses its people, expertise, processes, resources and

capital—everything—on creating value for its customers. We have found then that customers are smart enough to buy what's in their best interests. In the book, we say that "form follows value," to paraphrase the architect Louis Sullivan, who said that form follows function.

To succeed in today's competitive environment, the business resources must only focus on value that matters to customers. Once customers not only see, but experience that you are providing what will make the biggest impact in their life or business, customers tend to become far more loyal.

*Say a little bit more about that.*

We found that core principles are inherent to running a successful business and achieving great performance with customers, employees and investors. There are three value-creating principles, which are essential to a company's success: Real Value, Superior Value and Profitable Value. Companies learn to ask themselves if the value of everything they do and provide is real, superior to the alternatives, and profitable. Customer value has to become the focal point when evaluating the latest management idea, new product ideas, new processes and systems. The design of the organization then follows the value commitment made to customers.

*What might be some of the differences between a traditional company and one that is customer value driven?*

Traditional companies focus on products and costs. So they will likely prioritize customers by size, volume, the product lines that they buy. They focus on internal goals to maximize productivity. They reward their people on sales volume and revenues.

A customer value driven operation will prioritize by customer segment, customer behavior and customer profit models, rather than internal profit models. They focus on customer value rather than internal goals. And management will reward behaviors that are consistent with each customer segment—for example, rather than rewarding on how much a customer buys, one might be rewarded based on how long a customer remains a customer.

A business run with a customer value process has the belief that their own success and financial performance is a result of developing, aligning and delivering to customers what makes the customer successful. That's a fundamental shift in thinking and acting for most companies.

I also want to get back to the idea of leadership development and employee motivation. Once a company has created a customer value driven business, that's when leadership development and employee motivation become critical—and companies get more bang for the buck investing in those initiatives because they are aligned with the overall business strategy.

*Are you planning any more books?*

As a matter of fact, I am. As passionate as I am about customer value, I am also passionate about fly fishing. The next book is about the business lessons in fly fishing!

*Eric, thanks for talking with us.*

It was my pleasure.