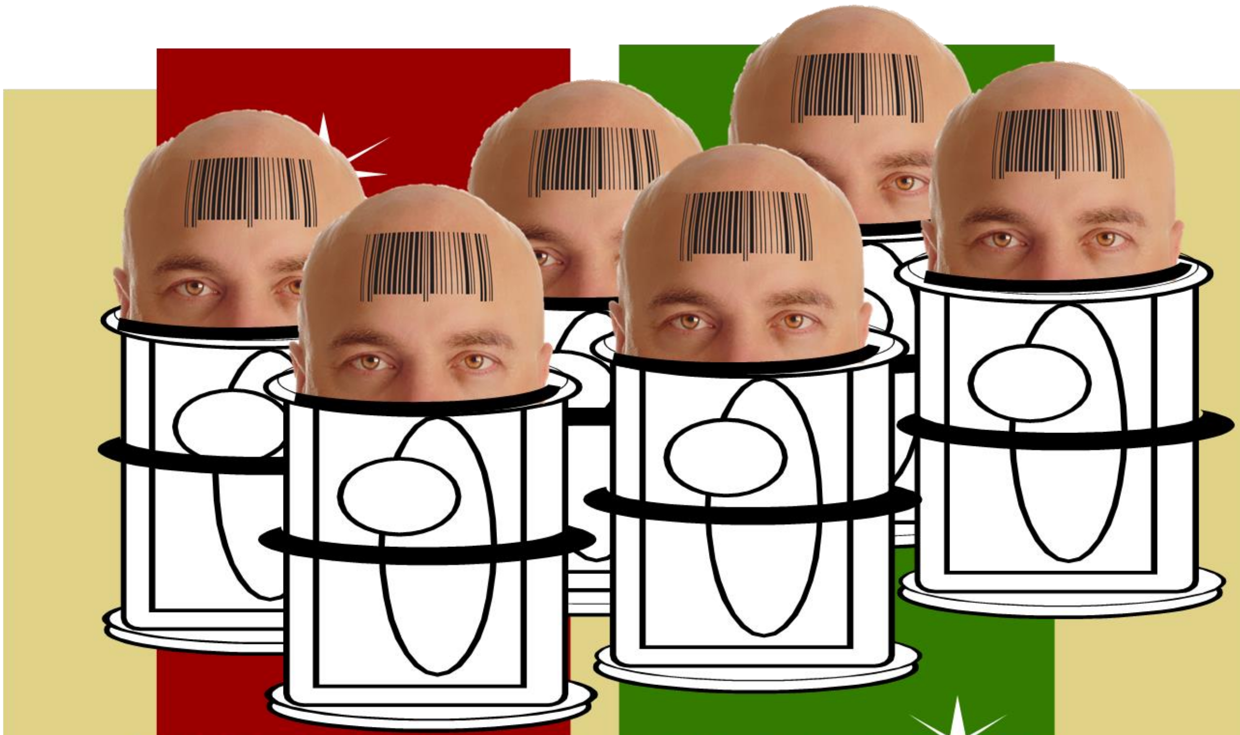

THE SIX PACK MODEL
BRINGING MUSCLE TO YOUR GROWTH STRATEGY

Henrik Andersen & Thomas Ritter

Ever seen a growth strategies fail because it was not connected to the firm's customer base? Or a customer relationship strategy falters just because it was the wrong thing to do with that given customer? This article presents the six pack model, a tool that makes growth profitable and predictable. Not all customers can and should grow – thus a firm needs to classify its customers in order to implement the right customer strategy.

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Many executive management teams and boards of directors make plans for further turnover growth and increased profitability. These plans must solidly be founded in the firm's customer base because it is the firm's customer who ultimately must buy to generate turnover and profitability. While common sense states that customer differ in their ability to generate profits for a firm, in their ability to develop a working partnership with a firm, and their ability to increase their spent with a firm, these critical issues are ever so often overlooked when developing strategies and making budget and forecasts. Thus, a handy tool for classifying customer is in demand.

The Six Pack Model Dimensions

The Six Pack Model has three dimensions: customer profitability, customer loyalty, and customer potential.

Customer profitability

Customer profitability is the contribution of a customer to a firm's profits. Many firms focus on margin and volume in their calculations of customer profitability driven by accounting data from enterprise resource planning systems (like SAP, Baan, Microsoft Dynamics). While calculations of various margins are extremely important, a customer has much more ways of contributing to a supplier's business success. The relationship value radar (Ritter & Walter, 2012) suggests eight areas of potential contributions:

- Payment: value is created through higher margins and faster payments;
- Volume: value is created by higher volumes of a product (volume per product), larger width in purchased product portfolio, and longer-term contracts (volume over time);
- Quality: value is created by demanding the right products in relation to supplier's competencies (thus avoiding waste of high-value resources on low-value demands);
- Safeguard: value is created by short notice supplies of excess capacity or low quality products.
- Innovation: value is created by developing new products and new markets.
- Information: value is created by providing insights about the customer firm, customer market developments, and technological advances.
- Access: value is created through references to new customers, access to industry associations, and contact to important players both in the political system, the technology arena, and the business system.
- Motivation: value is created by using the customer to motivate employees – either by public status of the customer or access to unique resources.

Customer loyalty

Customer loyalty has long been on corporate and marketing dashboards. Most customer loyalty measures capture customers repurchase pattern, their development of purchase size, customers' referral and feedback/complain activities. Therewith, a loyal customer is defined as a customer who comes back, buys more, talks positive to others, and offers inputs for improvements. While these are good criteria for behavioral loyalty, these items do not explain the motivational drive which makes the customer do just that. Our research revealed that three fundamental elements drive customer loyalty – and that the drivers have a much stronger explanatory power for customer loyalty than the measure of the consequences.

Figure: three on one side, loyalty, four behaviors on the other

What might appear as a complex customer loyalty assessment is in practice readily available: customer facing personnel does know the status of the three loyalty pillars and loyalty is therewith readily assessable.

Customer potential

Customer potential is the customer's ability to buy more. Some customers do already buy everything they want from a given supplier, in terms of volume depth in single source purchasing and in terms of volume breadth across the product portfolio. These customers have no potential, their potential has been realized. Alternatively, customers may purchase only a fraction of their demands (multi-supplier strategies) or only a fraction of the product portfolio. Such customers have potential to sell more.

The Six Pack Model Clusters

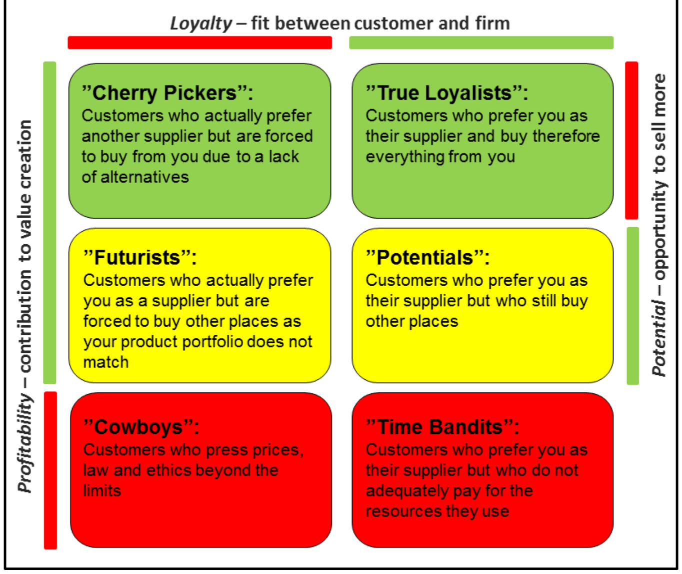
The three dimensions span a portfolio of six clusters of customers any firm has (figure 1).

True loyalists

True loyalists truly like doing business with a given supplier; they do all their business possible with this supplier. So they buy as much as they can, there is no further cross-sales potential left, all possibilities are utilized.

Firms need to maintain relationships with true loyalists in order to secure continued business. True loyalists are the prime target for loyalty programs – not to waste resources beyond business impact but to appropriately continue business. Actually, most firms can safe resources by optimizing their relationship maintenance processes.

Figure 1: The Six Pack Model Clusters



Cherry pickers

Cherry pickers do only buy what they cannot buy other places. They are not customers out of free will, because they like buying. They are customers because the offerings are so unique in terms of technology, price or convenience. The likelihood for them to leave is very high when alternative supplies emerge.

As the relationship with cherry pickers is based on offering features, the firm has to ensure "best offering" to ensure continued business. The true business driver with cherry pickers is the optimization of pricing (let them pay for the features, do not discount) and the reduction of ill-fated loyalty programs (do not bond, they do not want to).

Potentials

Potentials are loyal but have untapped business opportunities – there is sales potential. As they like interacting with the supplier, potentials represent the low hanging fruits for immediate profitable growth in the customer portfolio. The supplier has contact, goodwill, and suitable products.

The relationship strategy for potentials is straight forward – develop the relationship towards full supply and move therewith the customer into the true loyalists section.

Skeptics

Skeptics are customers with high risk for churning – the supplier cannot be sure about the future of these customer relationships and needs to invest significantly in order to develop these customers. As such, this is high hanging fruit. Skeptics are either cherry pickers who are not any longer sure about the advantages of the offerings, or they are customers with high loyalty basis but who are disappointed about the treatment and as such skeptical about the basis of the relationship.

The relationship strategy is either taking the risk (harvest as long as it lasts), or to make significant investments in the next generation of leading products or in the development of the relationship.

Time Bandits

Time bandits are those loyal customers who are there all the time but do forget to make business with the firm. They come to every seminar, they visit our trade show stand and drink our wine, they happily talk to our employees – but they do not offer sufficient value in return. They steel time and other resources.

The relationship strategy for time bandits is either up or out. Upwards development is often achieved by informing the customer about the low profitability – in most cases, they di simply not know that they are a pain to the organization. Because there is a good fit between the firm and the customer, the profitability issue can often be solved by changes in pricing, transacting a different, more standard product portfolio, increased use of cheaper interaction channels. Alternatively, the relationship can be faded out, or actively terminated.

Time bandits live a secret life in customer portfolios; they are loyal and pleasant so no-one expects harm from them. Thus, a key issue is their identification. Who are the time bandits in your organization, and how can the problem be solved?

Cowboys

Cowboys, or at least the wild ones, enter the salon, make a lot of noise, try to get everybody's attention, potentially violate the law – and leave as sudden as they came. But they leave behind a lot of headaches, clean up costs and lost opportunities. In business, cowboys often ask for a full tender, a detailed offer – and suppliers spent lots of resources into such project and business proposals. All of that work is lost because the high potential customer only wanted a price to compare with, or they simply were not ready for their own ideas. An alternative version of cowboys are those who ask for illegal treatments (bribes, deliveries around certain systems, etc.) or for all too low prices. In common they share one characteristic: there is no good business in them.

As such, the appropriate strategy is to spot them early and keep them out of the business: do not let them disturb.

Nightclubs have doormen to deal with this issue: who is the doorman in your organization?

The Six Pack Model Implications

There are three direct implications from using the Six Pack Model:

Allocating suitable customer relationship strategy

As reported above, each cluster has its own relationship strategy implication, i.e. its own agenda what to do with customers in that cluster in order to improve business results. This leads to immediate improvements in relationship effectiveness. Over are times with wasted resources in loyalty programs towards transactional customers, discounts for cherry pickers, and free coffee for time bandits.

Defining sales objectives and suitable customer dash boards

For each cluster, firms also need to adapt their internal objectives and dash boards. Giving incentives based on growth for people dealing with true loyalists is a motivation drain – there is no growth in these customers. Not rewarding growth with potentials means underutilizing business potential.

Customer satisfaction measures are on many corporate dash boards these days – and most often reported as averages. But time bandits should be dissatisfied if we want them to leave; cherry pickers should be dissatisfied with our prices but very satisfied with product performance. The only cluster where satisfaction really works are the true loyalists.

Projecting growth potential

Projecting growth is often a magic task, close to foresee the future in a coffee cup or a glass bowl. One firm had a magic experience: The executive team promised the owners the usual 10% growth. After analyzing the customer portfolio using the six pack model, they realized that 10% growth implied 50% growth for potentials and 20% termination of time bandits – numbers which are totally unrealistic. As a result, the firm was able to make concrete sales plans to actually realize the potential they had – but the executive board was also able to communicate with the owners early in the year that 5% growth was ambitious, yet realistic.

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