# CMO-CFO HANDSHAKE ON CUSTOMER LOYALTY

## YOUR FIRST STEP TOWARDS ENTERPRISE-WIDE CUSTOMER CENTRICITY

**Customer retention is of prime importance for any business to be profitable, so its strategies and approach have to be customer centric. Realising this, the financial and marketing executives have now started working collaboratively. Anirban Dutta shares his thoughts on this developing relationship between the CFO and CMO of retail organisations. Though they have different set of responsibilities, their ultimate objective is same**

If we haven't already heard and spoken enough about the importance of customer loyalty, let's consider it one more time – from another perspective. Forrester Research nails the reason behind the importance of customers and loyalty when it says: "We have entered the age of the customer — an age in which customer obsession matters more than any other strategic imperative, requiring firms to focus their strategy, energy, and budget on processes that enhance knowledge of, and engagement with, customers." We all know that in today's commercial world, strategies and operations are more customer centric than ever before. Everything surrounding the customer is an obvious priority for businesses as that is what drives value and helps them build competitive advantage.

### IT IS TIME TO START THE CONVERSATION

The idea of building business value through customer loyalty is changing, and it demands amendments in the roles and outlook of key stakeholders, particularly in that of the CFOs and CMOs. We know they can no longer operate as singular entities, exclusive of each other. They have a lot more in common than ever before.

Businesses are under intense pressure to build value, while minimising costs and risks. They are required to justify and multiply the return on investments on assets. But how tangible assets (such as property, plant, equipment and inventory) and intangible assets (such as customer, brand, loyalty and intellectual capital) drive the value of a company has changed massively. Intangible assets now contribute almost 80 percent of return on investment, as against the earlier 20 percent. And in achieving this, CFOs and CMOs share crucial and common objectives. Both the C-level executives are under tremendous pressure to deliver sustainable financial results in the near term and in the longer term. And they are also under pressure from a tenure perspective, with an average of 24 and 36 months.

Customers, loyalty and customer intelligence, therefore, form the bedrock of growth and strategies for CFOs and CMOs. And it is imperative for both executives to share common ground if they want to know where the business should be investing and what kind of returns they should be expecting in the near term and in the longer term.

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### MAKING LOYALTY A STRATEGIC PRIORITY

Even today only few executive teams treat customer understanding and intelligence as a strategic imperative. Look at the agenda or the minutes from your last several executive team meetings or board meetings. How much time was devoted to understanding customers better or to leveraging that customer knowledge in new ways to drive business success?

Forrester Research says that fewer than only 15 percent of firms operate at a strategic level of customer intelligence. These are the firms that have managed to turn customer knowledge into a corporate asset and they apply it to drive corporate strategy and business operations. Using customer intelligence, the majority of such firms drive improvements in customer acquisition, retention, satisfaction, revenue, profitability, and customer value in the short term as well as in the long term.

Strategically intelligent firms are far more likely to have a senior-level sponsor or champion: Most of these firms have a C-level customer intelligence evangelist. This is what sets strategically intelligent firms apart from the ones driven by marketing or functional intelligence.

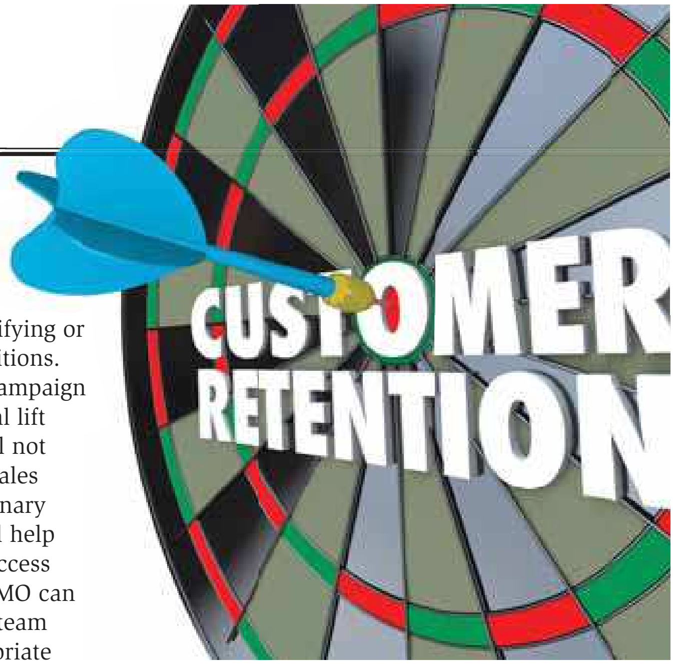
### SPEAKING THE SAME LANGUAGE

For decades now, the CFO and CMO have shared a natural tension, which is motivated by their individual business objectives. They are gradually rising above that now. The CMO's goal is to drive brand, customer experience and new growth, which tend to be achieved in a longer time horizon, whereas the CFO is the chief driver of the strategy, custodian of the numbers and is also responsible for achieving the quarterly financial results. Both these C-level executives are trying to drive the business from two different perspectives: CMO is targeting the business from a customer experience perspective and CFO is trying to drive it from a financial perspective. And many times they tend to be at odds.

Measurement is a major roadblock that often resists CFOs and CMOs to be on common ground. More often than not, CFOs and marketing departments do not have robust methods that can be applied to drive and measure customer experience, loyalty and things like that, so they struggle in presenting their case to the CFO to make investments in brands, customer loyalty and employee training to drive better customer experience. As such these investments become the first things to be ticked off the list by the CFO when there is pressure from the financial perspective, especially in rough economic times.

The best-run companies understand the obstacles and work around them to build competitive advantage. In such companies, the relationship between CFOs and CMOs has evolved radically, and for good. They understand what is crucial in today's commercial environment is to multiply value. This is a common goal and they work together to understand what drives value for their businesses. What drives value and is consistent with the execution of the company's strategy? These questions have become easier to answer after the CFOs and CMOs have joined hands, understood requirements and constraints and found solutions, strategies and implementation methods (together) for long-term growth and success.

In many instances, high-performing companies go a step ahead. They adopt a more methodical and data-based




approach and use the idea of business value as a competitive advantage. These companies acquire numbers and analyse data to get insights about what drives their strategy, as against looking at multiple things from a non-financial perspective. As such, it becomes essential for CFOs to work with CMOs to understand that in the crossover data they could potentially measure what's most critical to the execution of the overall strategy.

### WORKING THE MAGIC TOGETHER

CFOs and CMOs understand they have a common objective: To build value and increase profitability. They approach similar objectives from different perspectives. To be able to complement each other's functional objective for achieving their larger strategic goals, CFOs and CMOs are increasingly building a working relationship. They are finding time in their busy schedules to meet, share interests and build rapport. This way it becomes easier for them to understand each other's initiatives, arrive at agreements and finally create a unified dashboard.

To be able to work collaboratively, CFOs and CMOs have also adopted an objective approach. And to do this, both the CFO and CMO have to agree on the dashboard after quantifying or at least figuring out the definitions. For instance, if a marketing campaign aims to deliver an incremental lift or achieve higher sales, it will not be easy to determine which sales are truly incremental. Preliminary discussions with the CFO will help establish clear definitions, success criteria, and formulas. The CMO can also rely on the CFO and his team to assist in developing appropriate models that will help achieve clear and unambiguous results.

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Understanding both sides of risk is critical for both the CFOs and CMOs. They should think creatively and collaboratively about the risks of not only the proposed marketing action but also of not acting. Generally speaking, CFOs are familiar with a variety of risk assessment. With the help of the CFO, CMOs should perform risk assessments of marketing strategies and become comfortable with the appropriate assessment tools. While CMOs are often not adept at assessing risk, CFOs are often not comfortable at assessing the risk of not acting. By collaborating on both sides of risk, it is more likely that the business will arrive at a decision that best fits the situation and the organisation.

In the end, we know that the mantra is always to rely on trust if things get rocky. No one can foresee everything: Competitors may change plans, markets may get choppy and complicated and results are many times inconclusive. It is best not to second guess and trust each other to do the best thing possible for the business. And this can only happen if the CFO and CMO have trust and a relationship in place.

### FOR THE LONG HAUL

As businesses, we unanimously agree that the three major pillars that set the base for long-term competitiveness are efficiency, innovation and customer intimacy. It is absolutely essential to maximise efficiency as realistically as possible. New ideas and innovations are good ways to achieve it. Innovation is the lifeblood of growing organisations, particularly the ones in manufacturing and technology businesses. But beyond everything else, it is crucial to retain the customer-centric approach. This will help achieve continuous progress and make growth more sustainable.

Jerry Rebel, the CFO of Jack in the Box, suggests: "The CFO-CMO relationship is one of the most important in today's risk-sensitive and growth-focussed environment. In the end, the real emphasis — and real business value — hinges on prioritising the relationship, learning to speak the other's language, and respecting the unique point of view that each brings."

The paths of CFOs and CMOs rarely crossed in the past because earlier the value of most companies was driven by hard, tangible assets. Today majority of a company's value is driven by intangible assets, and these assets start with the customers, brand and customer loyalty. As a result, the companies that are vying for the "most high performing" slots will have to determine the specific customer strategies where they will make investments and what exactly these investments will result in (in terms of revenue uplift, margin, and return on capital). Such an approach will help CMOs make appropriate decisions and give enough reasons to CFOs to support them in building value and profitability for the company. IR

*About The Author:*
*Anirban Dutta is managing director, LoyaltyOne India, and a senior loyalty leader with deep expertise in the retail and financial services sector.*