

Identifying disruptive customers to nurture for long-term growth

By

PRANAB SHARMA

Master of Business Management
Indian Institute of Technology, Kharagpur, 2006

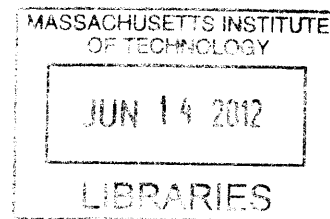
SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF SCIENCE IN MANAGEMENT STUDIES
AT THE
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

June 2012


© 2012 Pranab Sharma. All rights reserved.

The author hereby grants to MIT permission to reproduce
and to distribute publicly paper and electronic
copies of this thesis document in whole or in part
in any medium now known or hereafter created.

ARCHIVES




Signature of Author: _____




May 11, 2012
MIT Sloan School of Management

Certified by: _____



Dr. Sharmila C. Chatterjee
Senior Lecturer, Marketing
MIT Sloan School of Management
Thesis Supervisor

Accepted by: _____



Dr. Michael A. Cusumano
SMR Distinguished Professor of Management
Program Director, M.S. in Management Studies Program
MIT Sloan School of Management

(This page intentionally left blank)

Identifying disruptive customers to nurture for long-term growth

By

PRANAB SHARMA

Submitted to

MIT Sloan School of Management

on May 11, 2012

in Partial Fulfillment of the requirements for the Degree of
Master of Science in Management Studies.

ABSTRACT

A subset of customers in a service-company's portfolio, seem unattractive to serve. Such customers neither align with the core of the company's business nor do they represent a straight-forward investment opportunity that the company aims to harvest in the short-to-medium term. However, serving such customers could lead to a significant change in the business model of the firm in the medium-to-long term and help the firm build competencies to remain relevant in the evolving business environment.

The thesis proposes a framework that firms can use to identify such disruptive customers and to manage project execution with such customers. Depth interviews are used to validate the framework. Interviews are conducted with executives from firms that focus on business-to-business customers in the service industries, specifically consulting, technology and telecom.

Thesis Advisor: Dr. Sharmila C. Chatterjee

Title: Senior Lecturer

(This page intentionally left blank)

TABLE OF CONTENTS

ABSTRACT	III
TABLE OF CONTENTS	V
LIST OF TABLES	VI
LIST OF FIGURES	VI
1: INTRODUCTION	1
2: HYPOTHESIS DEVELOPMENT	2
2.1 LITERATURE REVIEW	2
2.2 WHEN TO SERVE AN UNATTRACTIVE CUSTOMER	5
2.3 HOW DO YOU SERVE AN UNATTRACTIVE CUSTOMER	8
3: METHODOLOGY	12
4: FINDINGS AND ANALYSIS	14
4.1 IDENTIFYING WHICH CUSTOMER TO SERVE	14
4.2 SERVING SUCH CUSTOMERS	20
5: CONCLUSION	27
5.1 RESULTS	27
5.2 MANAGERIAL IMPLICATIONS	30
5.3 NEXT STEPS	32
APPENDIX 1: DEPTH INTERVIEW GUIDE	VII
APPENDIX 2: INTERVIEW TRANSCRIPTS	VII
APPENDIX 3: WORKS CITED	XXXIII

LIST OF TABLES

Table 1: Major Factors in Customer Portfolio Management	3
Table 2: Interviewee Profile	13

LIST OF FIGURES

Figure 1: Conceptual model of situations when a firm will serve unattractive clients	5
Figure 2: Conceptual model of tactics used when serving unattractive clients	8
Figure 3: Conceptual model of figure 1 with considerations based on interviews	27
Figure 4: Conceptual model of figure 2 with considerations based on interviews	28

1: INTRODUCTION

"We will go broke with opportunity" - TOF

Serving customers effectively is an objective of every service business. However, the set of potential customers is often heterogeneous in terms of attractiveness. Some customers are more attractive than others because they may be more profitable, align well with the core capabilities of the firm and/or are less risky for the business. On the other hand, relatively unattractive customers may be unprofitable, demand complex solutions, lack sufficient buying power or challenge the capabilities of the firm. Despite these shortcomings, firms often choose to serve a subset of these unattractive customers.

The thesis explores why services oriented organizations would choose to do so, how they execute such projects with unattractive customers and what results they have seen by serving such customers. The key hypothesis is that on many occasions these customers tend to be disruptive in the longer term and help firms develop capabilities and remain competitive in the business environment over the long term.

The thesis is based on depth interviews with senior executives of major services firms. These executives are in a position of responsibility where they have the discretion to choose which customer to serve and the independence to allocate resources to serve them. The focus is on services firms that work in a business-to-business (B2B) setting.

2: HYPOTHESIS DEVELOPMENT

2.1 LITERATURE REVIEW

Relationship marketing has been a key focus area in the marketing literature over the last several years. Establishing buyer-seller relationships and maintaining them in the long-term is viewed as a critical activity for firms to succeed (Dwyer, Schurr and Oh, 1987). Relationship marketing has been translated by firms in practice as having a *customer management orientation*. The focus with such an orientation is on conducting *customer lifetime value (CLV)* analysis, retaining and managing the evolving relationship (Kotler 1994).

A firm needs to understand how to manage its heterogeneous customer base. Anderson and Narus (1991) suggest that different industries have different transactional and relational exchanges. Some studies have indicated that customers tend to be financially unattractive if they have low switching costs and short time-horizons (Jackson, 1985).

There have been multiple models that have been developed that use *customer lifetime value* as a key criterion to calculate *Return on Marketing* (Rust, Lemon and Zeithaml, 2004), while other studies such as the one by Reinartz, Thomas and Kumar (2005) develop a model to balance acquisition and retention resource to maximize customer profitability.

Marketing think-tanks consider customer portfolio management important. The Marketing Science Institute stated one of its priority areas for research as *Understanding Customer Experience and Behavior*¹ in 2010-2012. Within this priority area, *Market Segmentation and Target Marketing* were indicated as one of the three important sub-research areas.

¹ <http://www.msi.org/research/index.cfm?id=271#RP3> Retrieved April 8, 2012

The following table looks at the various factors that have been considered when choosing to segment customers and devising strategies to serve them.

TABLE 1: MAJOR FACTORS IN CUSTOMER PORTFOLIO MANAGEMENT

Study	Key Factors suggested for Portfolio management
Fiocca (1982)	Length of relationship; Volume of business; Importance of customer; Influence; Friendship; Cooperation in Development; Management “distance”; Geographic distance
Campbell and Cunningham (1983)	Power Balance (Suppliers/Buyers); Growth rate of Customer’s markets; Competitive Position; Sales volume to each customer
Shapiro, Rangan, Moriarty and Ross (1987)	Net Price; Cost to Serve; Management of customers
Krapfel Jr., Salmond, and Speakman (1991)	Criticality of goods purchased, Quantity of output consumed, Replace-ability of this customer, Cost savings from buyer’s practice and procedures
Zeithmal, Rust and Lemon (2001)	Profitability ; Costs of time, effort and money; Loyalty; Ability to spread Word of Mouth;
Dhar and Glazer (2003)	Estimated cash flows from customer/customer portfolio; Required rate of return; Risk appetite; Desired rate of return

(Adapted from Sanchez and Sanchez, 2005)

While customer lifetime value (CLV) is a useful tool to understand profitability, an organization often needs to look at factors beyond CLV. Dhar and Glazer (2003) suggest that while some customers might be bringing in the revenue and profit today, it is important to look at other customers who may offer steadier cash flows over the longer horizon. Johnson and Selnes (2005, p. 13) make this explicit by stating:

“When analyzing the forest rather than the trees, weaker customer relationships, judged unprofitable on a CLV basis, may, over time, actually create value as part of a broader portfolio.”

This brings us to the crux of the thesis – development of criteria for the identification and service of *disruptive customers*. The thesis defines *disruptive customers* as customers who seem unattractive today but can yield significant returns in the form of capabilities, credentials and clout over the long term. The term *disruptive* has been used in the manner used by Bower and Christensen (1995) in the context of technologies. Christensen describes disruptive technologies in his book – *Innovator’s Dilemma* (1997 p. XVIII) as follows:

“Occasionally, however, disruptive technologies emerge: innovations that result in worse product performance, at least in the near-term. But they have other features that a few fringe (and generally new) customers value.”

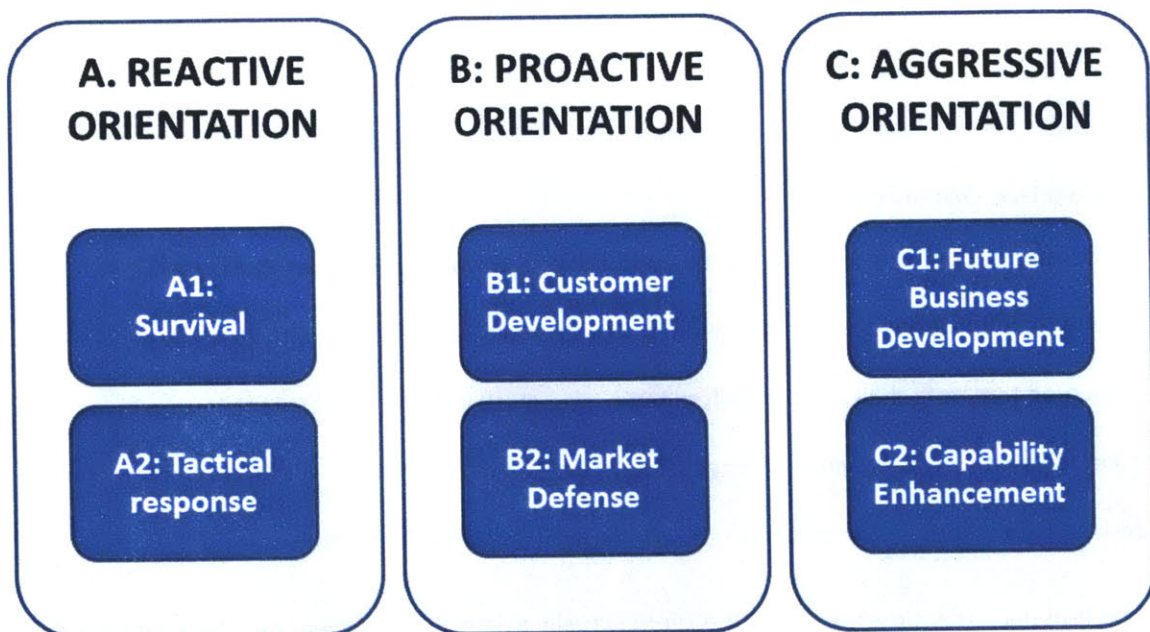
Disruptive customers, similar to *disruptive technologies*, have a weak fit with a firm’s customer portfolio and thus potentially weaker customer relationships as stated by Johnson and Selnes (2005). They do not align with the *core competence* of the firm (Prahalad and Hamel, 1990) and are considered a deviation from the norm. However, it is hypothesized that if managed properly these customers can transition from being unattractive to attractive customers with the potential to yield significant benefits for the organization. The thesis explores how Business-to-Business firms in the Services sector, specifically consulting and technology services, can identify such *disruptive customers*, serve them in their transition period and see results in the longer term.

2.2 WHEN TO SERVE AN UNATTRACTIVE CUSTOMER

The thesis proposes that there are compelling reasons why a firm might want to serve an unattractive client. These can be classified broadly into three major categories based on the strategic orientation of the firm (Figure 1).

FIGURE 1: CONCEPTUAL MODEL OF SITUATIONS WHEN A FIRM WILL SERVE UNATTRACTIVE CLIENTS

When would you serve unattractive clients?



A. Reactive Orientation²:

In this orientation, a firm takes on unattractive clients because it is a matter of survival. The firm is looking to cover the fixed costs of its resources and hence would take on any work it can get. This can happen when a firm is starting up and does not have an established client base or during a recession when there is not enough work to engage its resources to full capacity.

A firm may also serve unattractive customers in a reactive manner when it is acting in an opportunistic manner. If the client has the capability to pay for the firm's services, the firm may decide to take on the client for a one-time transaction without a specific long-term objective. From a set of unattractive customers, it may choose the ones closest to its core competence.

B. Proactive Orientation³:

In this orientation, the firm is proactively looking to develop customers. It may take on unattractive customers with intent to gain follow-on work and build relationships with that client. The firm starts evaluating the profitability of the customer by using models such as Customer Lifetime Value. This forms a key criterion and the current engagement can even be done at a loss if there is enough work downstream whether for the firm directly or for its subsidiary/partner firms.

The firm may look closely at what the client is really asking for. The client may be asking for something specific but the root cause may be totally different. A firm in this orientation would take on an unattractive client if it feels the real need is closer to its competency area and hence sees follow-on work.

² Reference to Reactive orientation as described by Narver, Slater, and McLachlan (2004)

³ Reference to Proactive orientation as described by Narver, Slater, and McLachlan (2004)

Finally, the firm may look to keep competition out of a specialized area. In this case it would work with unattractive customers so that other proactive competitors cannot enter the market.

C. Aggressive Orientation⁴:

In an aggressive orientation, the firm is ready to invest significant resources to achieve an end objective. A major reason is to build credentials of serving specific industry segments. These credentials may not help the firm win more work with the customer but rather position it to get other customers. Often the firm is looking to get a key customer who has a lot of influence in the market. This key customer may offer poor terms or challenging complexity but the firm agrees to enter that level of play.

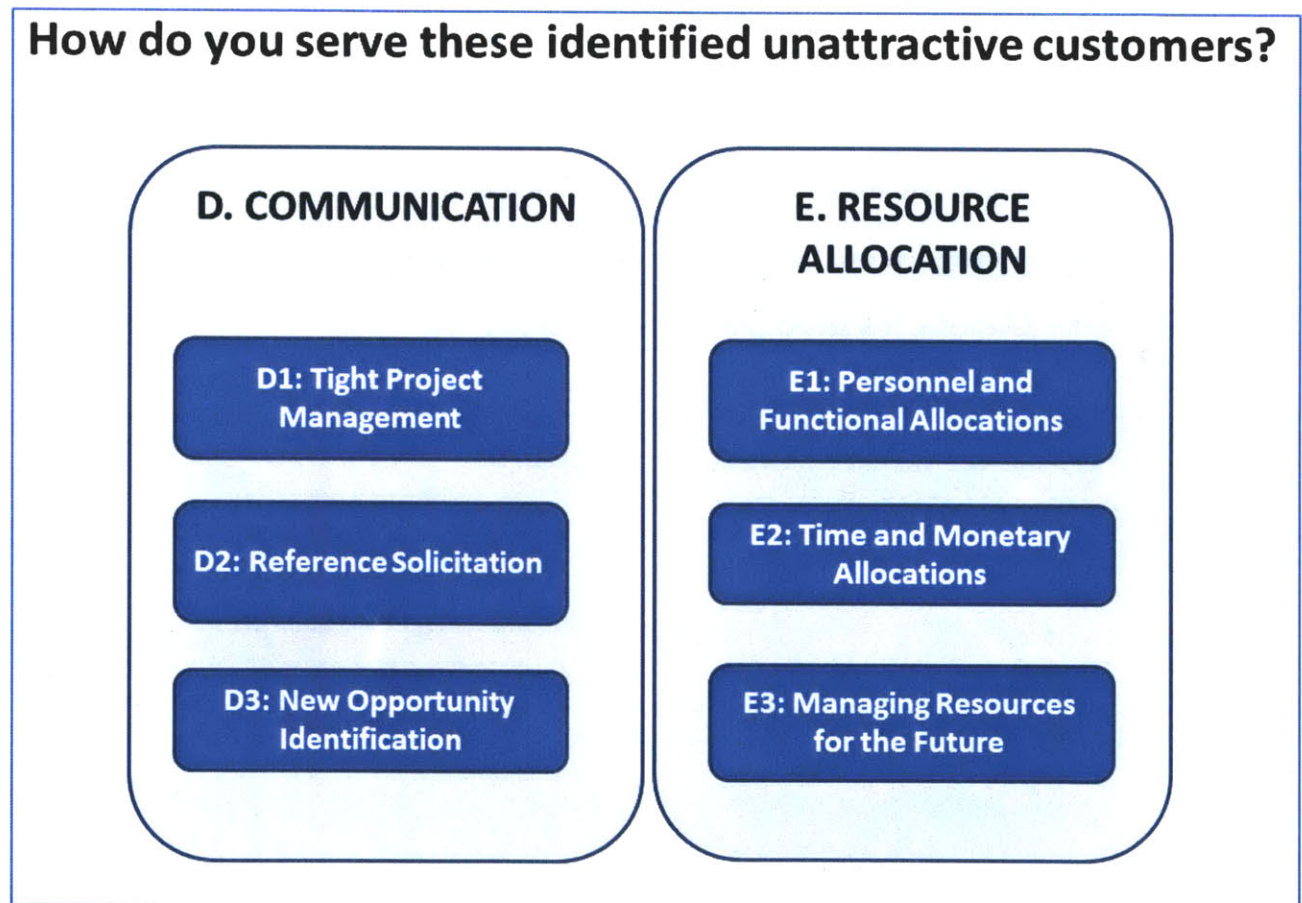
Another reason could be to develop new service offerings and the firm is ready to invest in an unattractive client to test and develop that capability. In that case, the first customer could become a pilot project for trial purposes. The customer may not be clearly attractive but the idea of having this incubator for developing new service offerings may be important for the firm.

⁴ Aggressive orientation can be associated with Market-driving proactive orientation as described by Jaworski, Kohli and Sahay (2000)

2.3 HOW DO YOU SERVE AN UNATTRACTIVE CUSTOMER

There is a transition period during which an unattractive customer would either become an attractive customer or be pruned out of the customer portfolio. The thesis hypothesizes a model that can be used to specifically manage unattractive clients. Figure 2 summarizes the hypothesis.

FIGURE 2: CONCEPTUAL MODEL OF TACTICS USED WHEN SERVING UNATTRACTIVE CLIENTS



D. Communication⁵:

Projects with unattractive customers are challenging. Effective communication is important and can ensure that the engagement is moving in the right direction. While normal projects usually have some slack built into the model, the projects with unattractive customers have smaller buffers. Thus, strong project management component with a focus on communicating issues both within the firm providing the service and to the customer is required. The project managers will closely manage the time, schedule and budget. Any deviations from plan would be discussed, acted upon and addressed promptly.

In such projects, the scope of the project can change. This may happen if the project is more complex than others, if firm has less capability or if the customer demands are high. Project managers, senior management and executives would get involved to ensure the scope is closely managed. Conditions of contract may need to be renegotiated from time to time. As a last resort, strong communication can also be the basis for a smooth termination of the project when appropriate.

After successfully completing such a project with a client, the firm would highlight the role of the firm in the delivery of the project. Successes would be documented and publicized within the client's organization to build a case for follow-on work and where possible formal references would be sought for building credentials to get similar work from other organizations. Finally, any subsequent contracts floated by the customer in related areas would be bid upon aggressively. The demonstration of the successfully delivered project would be a key point in the bid. The focus would be on ensuring that this one-time transaction with this unattractive customer gives the necessary return – whether through more work or reference for a job well done.

⁵ Communication is defined here as the a combination of Project Communication Management, Project Risk Management, and Project Scope Management as defined by Project Management Institute (2004)

Strong communication would ensure that the unattractive customer would transition into a *disruptive customer* giving significant capabilities, business or credentials to the firm. Alternatively, in an adverse case, the complexity or challenges would be managed without harming the firm's reputation.

E. Resource Allocation⁶:

Investments are often required to convert unattractive customers into disruptive customers. Specifically looking at the project team, the most capable resources may sometimes be allocated to the project. This allocation could be part-time or in other delivery models. For example, the practitioners may be engaged on a part-time basis with an unattractive customer. This would ensure that the project gets access to the expertise while also allowing the experts to work on other attractive clients where the objective is not only to succeed but also to delight.

Senior management would spend more time with unattractive customers. This is because the executives would build relationship across the organization for future and follow-on work, while also identifying significant departures from scope and helping negotiate corrections and if required in an extreme case end the engagement.

The project team will be supported by involvement from other non-billable support functions including Research and Development (R&D). R&D would devote time to the project to ensure it is a success and the customer is delighted to help transition the client to being a disruptive one. R&D may often be better prepared to support challenging requirements in such projects. These teams may use this opportunity to develop their own skills/capabilities by testing their own models. New offerings may be tested and developed in these environments.

⁶ Resource Allocation is defined here as the a combination of Project Time Management, Project Cost Management, Project Human Resource Management and Project Procurement Management as defined by Project Management Institute (2004)

The marketing function would help in relationship building with the client. Marketing would look to engage the customer through thought-leadership, marketing events and customer workshops. Even if the firm decides to stop/reduce the scope of the engagement, marketing could continue to engage with the firm.

3: METHODOLOGY

Motivation

The thesis writer is a former consultant who has been involved in several engagements to help clients plan their customer portfolio. He observed that clients chose unattractive customers and that many times these same customers became a key segment for them in the medium term. With this thesis, the writer hopes to verify and conceptualize this phenomenon.

Initial hypothesis

The thesis writer framed the initial hypothesis with guidance from his advisor. A literature review was done to see what similar work had been conducted in this area. After a few iterations and refinements, an initial statement for investigation was developed. Based on this, research questions were developed. The model used to validate the framework was to conduct depth interviews (Appendix 1) with top management professionals (Appendix 2) from leading organizations who make decisions related to customer portfolio management.

Framing interviews and updates to hypothesis

The first few interviews were used to help frame the thesis further. Based on inputs from this exercise, the initial hypothesis was updated and refined.

Interviews with executives

After this initial phase, multiple interviews with executives were conducted to understand the way they handled unattractive customers. The objective was to talk to executives who have authority to choose

which customers to work with, align resources and in the extreme case, end an engagement if necessary.

Hence, partners/directors at leading services firms were chosen. To add more perspective a few interviews were conducted with marketing managers and business development managers. The focus was on firms with business-to-business interactions in the service industry.

The names and the firms of the interviewees have been kept anonymous to protect the confidentiality of the discussions. The interviews have been summarily transcribed (with limited edits to make them more readable) and are attached in the appendix.

TABLE 2: INTERVIEWEE PROFILE

Name (Initials)	Industry	Function	Position
EDN, VIM, DAA, MIS	Management Consulting	Business Unit Head	Partner
RIV, ROA	Management Consulting		CEO
FRS, IND	Information Technology Consulting	Business Unit Head	Partner
JEC, FRB	Information Technology	Strategy	VP/Director
RIM, CHB	Information Technology	Sales & Marketing	Director/Head
MAB	General Management Services	Business Unit Head	Partner
TOF, CHK	Industrial Products/Electronics	Sales & Marketing	Director/Head

Analysis of interviews

The interviews were analyzed in light of the initial hypothesis. Managerial implications were drafted based on this analysis. A few closing interviews were conducted to validate the findings and recommendations. These were typically follow-up interactions with prior interviewees.

4: FINDINGS AND ANALYSIS

4.1 IDENTIFYING WHICH CUSTOMER TO SERVE

Overall, the conceptual framework presented in chapter 2 (Figure 1) received strong support. Support for the proposed framework as obtained from the depth interviews follows:

A1: REACTIVE ORIENTATION: Survival

In the consulting business, a typical B2B services setting, one of the first considerations is to cover the fixed costs. This criterion is especially relevant in recessionary conditions:

“... we would be willing to serve an unattractive customer if we are in a slump ... we do not want our consultants to sit idle during a slump ... A (few) times during our history we were willing to do something that otherwise we would have not considered otherwise because of the slump” – ROA

“In this economy, no customer is unattractive ... The euro area in general is going through major crisis. In this environment, there are no unattractive clients, since each Euro counts.” - DAA

A firm, sometimes, serves large corporations at a lower cost because it helps it bring in a large volume of predictable revenue.

“Some big customers ask for major discounts as they have a bargaining power. These customers would negotiate very hard and get a very low price for our services. They were relatively unattractive to us ...” - CHB

This trend is more emphasized when the firm is relatively small but it is also true for larger brand-name firms operating in a geographic region where the size of operations is small. Once scale is achieved, the firm is more discerning regarding which customers it would like to take.

“Sometimes you would serve an unattractive customer when you need scale. You need a minimum number of customers to survive in the industry ... ” – CHB

However, on many occasions, for multi-year contracts such as in IT outsourcing or highly competitive private equity auctions, profitability is better known after one or more years because it is based on learning curves. Customer lifecycle value projections are used as a tool. However, such tools, despite their sophistication, remain mere projections in such complex projects.

“In operational outsourcing contracts, there is a winner’s purse ... One does not know until a year or two in whether such contracts are going to be profitable.” – EDN

A2: REACTIVE ORIENTATION: Tactical Response

Firms adopt a cautious approach about the client’s ability to pay. The customer is far more unattractive if there is a risk that the client may be unable to pay for the firm’s services.

“I need to see whether they have funding, how committed the funding is” – FRS

After looking at the above criteria if there are still other customers, then the criteria used is whether the work aligns with the core capability of the firm. In a choice between two clients, the one with better alignment with a firm’s capability is chosen even if relatively unattractive.

“For us, if a project that is more profitable but is outside our core capabilities, we would still choose unprofitable clients that align to our core capability” – EDN

“Low-value customers can sometimes be addressed if we have a fast transaction or if a relationship exists within our team, then we would go after those customers.” – FRB

“... when I am looking to build a new offering and I am looking at customers outside my typical target, I will focus on customers that have either the momentum or the money to pay for my services.” – RIV

B1: PROACTIVE ORIENTATION: Customer Development

Leaders sign relatively unattractive customers if there is significant downstream work or if they feel there is momentum in the industry in that domain.

“... (once) you are in, you can grow it from an unattractive customer to an attractive customer. Significant relationship building efforts are put in to ensure there is follow-on work. That is reason you stepped in.” – FRB

“Decisions have been made and it literally works according to the momentum of the business. The managers are looking for a return on their employees’ time.” – CHK

Signing a project with an unattractive customer is used as a loss-leader tactic. This is more emphasized for firms that have complementary services such as consulting and accounting or consulting and technology.

“I would also look to set up a beach-head, as a hook ... the intent is clear and I know that I will lose money and make low/zero margins. But, once I am in, I can take the legal team, I can take the tax team and I can take an entry manager. I can then open up for other solutions” – DAA

“... consulting work is done at a loss, if there is substantial downstream work for other parts of the organization” – FRS

“... (We need to) understand how much more work could come from this customer – is it 0 or 1 more units, 10 more units or a 100 more units or even a 1000 more units” – TOF

Another approach is to go deeper and understand what the customer is actually asking. A client could be asking for a specific unattractive service but the root cause could be something else.

“... maybe we do not understand their needs that well ... the problem you have may be right or wrong, but the source of the problem maybe something else.” - MAB

“Although they (the client) were asking for commodity service, their needs were different. The organization looking to outsource was under pressure from their internal customers to be more innovative and to get ahead of the trends ... only 25% of the(proposal) response was on what they wanted to buy, the rest was on how we can help them become an innovative organization” – VIM

B2: PROACTIVE ORIENTATION: Market Defense

In many cases, a firm works with unattractive client to block competitor entry. This is more applicable to firms that are larger and have majority market share. Firms take on smaller contracts that are clearly unprofitable to prevent competitor entry into a customer account.

“it may be a commodity low-margin unattractive deal but it could lead a competitor to enter a market. We aggressively go after a (relatively small contract) of business to restrain the competition from entering that customer” – VIM

C1: AGGRESSIVE ORIENTATION: Future Business Development

Leaders are willing to take on unattractive, unprofitable clients to build their reputation in the field. These credentials are used to build credibility about expertise in the market. Such a model is very successful and leaders regularly use this tactic to enter/develop a new market.

“... there are customers on whom I will not make a lot of profit on, but they are relevant as they will give me credential for future work ... I might be ready to sell at a lower fee and hence have a lower profit to give me the credentials”- DAA

“GE was looking for a partner in India. Several major IT services firm agreed to go with a Joint-Venture ... The firms that went for it saw this deal as an entry point for the big league ... They knew the margin would always be at threat with the name but it would add a lot of credentials for their future work... (and) that they knew they will grow tremendously and mature their own capabilities. ” - IND

A special case is working with key influencers such as governments and regulatory bodies. A firm engages such clients even though they are relatively less profitable/unprofitable, are more demanding and have challenging tendering/sales process. This is because projects with such customers position the firm to work with future non-government clients in this area.

“A group of intermediaries wanted to study the (mortgage) market to present to the political candidates to push their political agenda ... We knew they do not have the money for paying for our services but we decided to serve this client to build our reputation ... we knew our name (was) being built ... We started being known for mortgage consulting.”- ROA

C2: AGGRESSIVE ORIENTATION: Capability Enhancement

Projects with unattractive customers are often used to build capabilities that a firm may not have.

“I have to decide to invest time and energy for the future. So even though they are ‘unattractive’, we will serve him as we will develop capabilities by serving the customer and use them for future customers.” – MAB

"I would also ask the guys who work on those projects to do a deep dive of the work and share the knowledge within the organization so that the new capabilities are shared within my organization." - **RIV**

A firm takes on unattractive customers when it is looking to enter new markets. It uses such projects to build relationships in the new market and as a tool to learn how the market works. These are strategic investments with a long-term view of developing capabilities

"... based on strategy and growth projections of the firm, the developed markets were growing slowly compared to the emerging markets ... The firm did a lot of economic projections ... and decided to cultivate them so that a (few) years on we would be a position to gain from this growth. These markets were small then but are becoming a larger part of the portfolio." – **VIM**

When firms are developing new service offerings, some customer projects are experiments. The customer is used as a test-bed to evaluate, refine and build a new service offering for the firm.

"... we would also do (serve a customer) to test a new solution. We will create a new service offering and we use the client as a research and development club." – **DAA**

"... the first project in a topical area that is new ... but considered a growth area according to the leadership of the firm. There is sometimes an initial client that is interested in this new area and the firm decides to invest resources in that client to develop the area. It is almost a product development process" - **EDN**

4.2 SERVING SUCH CUSTOMERS

Using the various criteria in the previous section, a firm is able to determine which unattractive customer it would like to serve. However, as mentioned before, there is a transition period during which the firm needs to manage the customer closely, before the unattractive customer becomes a *disruptive customer*.

This section talks about the tactics that the interviewees described about serving the customers during this transition period. There is always unpredictability about whether the bet will be pay off despite due diligence in the earlier phases. Once again, the framework for serving unattractive customers proposed in chapter two (Figure 2) received strong support from the interviews.

D1: COMMUNICATION: Tight project management

Projects with unattractive customers are more challenging than others. Executives, project managers and consultants closely manage the time, schedule and deliverables and ensure the project executes successfully.

“... there is more pressure to finish on-time or ahead of schedule. In other projects in our sweet spot there is some slack. But in such projects there is pressure to perform.” – ROA

“... the basis of model is ... communication ... don't be afraid to ask questions and don't be afraid to talk about what are the issues and how do we overcome them ... I think clients are always happy to think through issues and admitting you have a problem does not necessarily harm your brand, since (the clients) are also interested in finding a solution” - MAB

Growth in a project's scope, because the project is often not defined properly or completely, is a common feature in projects with unattractive customers. Managing scope requires firms to

communicate clearly and explicitly about planned, completed and projected milestones in the project. The firm communicates on scope issues regularly and builds a common understanding of the requirements with the customer from time-to-time.

“We will make sure that the client understands (our investment) and we put it in the proposal / kick-off document that our firm is investing in this. We make it clear that this is not going to be the rule but it will be an exception.” – DAA

“When talking about user requirements, they can be deceptive in what is actually required. There is a proportion of the iceberg is under the water. They would say let’s change a little here and little there. Well that does not work very well and you need to be careful when you go into such projects” -

TOF

Project managers/Executives define milestones and track the project against them closely. In case of a significant deviation, these managers are empowered to renegotiate terms and even suspend execution if required.

“... (I would) keep a trained eye on the ongoing scope of work, oftentimes such clients are looking to get services for free and are looking to expand the scope of the project even whilst not paying ... I would manage the schedule closely, for example I would say this engagement is for 12 weeks...if they say they would like to go for 16-17 weeks I am looking to cut them off.” – FRS

“I started discussions with an organization but things got tougher as I reached out to other parts of the organization. Even though they are part of the same company they do not think in the same way.” – MIS

D2: COMMUNICATION: Reference Solicitation

On completing such challenging projects with unattractive customers, firms focus on formally communicating the value delivered by the firm and highlighting the successes.

“I will also make sure I go back at the end of the project and state that this was a project that we invested and that the impact was high and the customer needs were fulfilled above and beyond the requirement. We make sure we document that we provided value above and beyond.” – DAA

The firm, on many occasions, has formal agreements to receive credentials such as reference letters for future work in the field for other clients.

“It was a pre-condition, given that they were unattractive, we said that we will do quality work for you Mr. Client but we do ask you give us strong references over the next (few) years. They signed off on this clause that is not a usual clause, but was one that we put in as this was a bet.” – FRS

D3: COMMUNICATION: New Opportunity Identification

When a project is being executed, the objective is to ensure that the original objective with which the project was taken on is achieved. Executives are constantly looking to expand the footprint of the firm in the customer through downstream/ follow-on work with the customer.

“We were working with a customer where a project should have ended in the 10th week. But we are already in the 18th week now, but we continue to serve the project as we have already negotiated two follow-on engagements based on this work” – ROA

“The role of the top management (is) to manage the monitoring mechanism and keep an eye to the future. They are responsible in Q1 not only for looking at the opportunities in Q1 but also for the opportunities in Q3.” – JEC

"The yardstick is always the same whether it is a complex or non-complex project and that is repeat business." - **MIS**

When looking to grow presence at a customer, executives evaluate if there are factors at the customer site that prevent the customer from accepting the firm's value proposition. In those cases executives reduce the engagement over time.

"... (there needs to be) acceptance and need for our offering. Are they ready to change behavior if they see results from our work? Are they comfortable if they see their work in a different light?" – **MIS**

"One of the situations when you would look to reduce the effort on this engagement is when there is an observable bias against the company ... if there is an emotional rejection of the firm it's very difficult to sell to them and I would look to cut them off." - **VIM**

E1: RESOURCE ALLOCATION: Personnel and Functional Allocations

There is no special allocation when assigning practitioners to such projects. Executives aim to get the work first and then hire or train relevant skills specifically for the project.

"... first you sell and then you staff the team. You always need to run short on resources" – **DAA**

"If we signed up we are looking for a positive outcome. So if (we) sign up and do not give our best the project would be compromised." – **ROA**

"From a team allocation process, we put the team that is appropriate for the project. We do not distinguish if the client is an invest client or not. Every project is important for us." – **DAA**

Strong project management and communication skills are critical for resources allocated to such projects.

"(I would put) people who have a good (at) dealing with clients and have a good idea of managing financials closely and running it as a tight operation." – **IND**

"you want to put the people who have strong communication skills. You have to match your team with the client." - **MAB**

Sometimes strong practitioners are allocated part-time on projects with these customers. The practitioners may be taken out in case other competing priorities prevail.

"... if a salesperson is spending a lot of time developing (an unattractive) client and a big opportunity comes along ... (and the opportunity) is tangible and will happen quickly, then I would take that person off." - **VIM**

In this transition phase, when a firm takes on unattractive customers, support functions such as Research and Development (R&D) work with the project team to ensure success of the project. Groups such as R&D have specialized skills to deal with challenging projects. These groups also try out new techniques, products and service offerings during the projects.

"So only the delivery organization is on the clock, other teams such as the Sales, top management and R&D teams they do not have a clock, they are looking to nurture the opportunity. There is a cost involved in nurturing this opportunity to build this differentiated value-propositions but this is the cost of doing business." - **JEC**

"There will be investments from the R&D and Marketing departments to be involved in the customer. The idea is to have a wider involvement from a strategy perspective." – **IND**

"I would allocate R&D to that customer and give them to an executive in my organization to run and test if that works. And the beauty about this is that there is process built within the organization, the process in the organization will keep the checks and balances to ensure this client becomes interesting." - RIV

E2: RESOURCE ALLOCATION: Time and Monetary Allocations

Firms use many different models to serve these unattractive and potentially unprofitable customers. One model is to use shared resource where practitioners working on the project with unprofitable customers while working on other less complex projects. This way some or a significant part of the practitioner's fixed cost is covered.

"... there could be simultaneous projects that are related and can share costs. One would not take on these projects individually, but one might take them on together as you may be able to make it work." – EDN

Incentives for Sales team are sometimes changed to encourage delivery and success of such projects.

"An interesting project may not be very interesting to your sales force ... If the salesperson is incentivized, he will get the work required. A lot of time it is not the best service or offering, it is often the sales incentives."- CHK

E3: RESOURCE ALLOCATION: Managing resources for the future

Senior management puts in time to ensure that the project is closely run and the expectations are managed. Projects with unattractive customers tend to have thin margins and very little buffer in the pricing of projects. Typically, management time is allocated to buckets such as marketing time even

though the executives may play a key role in the execution of the project. These leaders focus on building relationships not only to ensure success in the current project but also to secure downstream work.

“When serving these unattractive customers, it’s important to know what the customer is interested in. It is important to do low-cost high-value things with them. A lot of face-time in the firm is encouraged. The client constantly gets to see (the firm) being involved” - VIM

Customers that were previously unattractive may transition into very attractive customers or conversely lost investments. In either situation, executives diagnose and take relevant action quickly and decisively.

“... (it is) important to have a checkpoint every year/six-months to check whether it is necessary to invest all these efforts. At the checkpoint, we would see if there is still potential pipeline within that unattractive customer to continue our effort.” – FRB

“... we sometimes look at them as customers and sometimes as transactions. It is very difficult to say whether which one will become a long-term one” - RIM

“This phenomenon in the last 3 years, they have been difficult years. We worked with clients that were less profitable in about 10% of the cases and probably half of them are clients now and half of them are not.” - DAA

The marketing function acts as an intermediate engagement mechanism. Marketing engages customers in events such as marketing conferences and industry events. The function also publishes and communicates information on thought-leadership papers that highlight the firm’s expertise

“In addition, there are mechanisms through Marketing such as conferences, preparing industry thought-leadership materials, exposing them to products, capabilities and white-papers.” - VIM

5: CONCLUSION

5.1 RESULTS

In conclusion, there is definitely evidence for *disruptive customers* specifically in the service industries serving business-to-business customers. The difficult question is how a firm chooses from a portfolio of relatively unattractive customers. The thesis proposes a conceptual framework to aid in that choice. The thesis also provides guidance on how customers, once identified, can be managed effectively to transition them to be an attractive customer or to complete engagements without harming the firms' reputation. The interviews validated the proposed conceptual framework. Figures 3 & 4 summarize the results.

FIGURE 3: CONCEPTUAL MODEL OF FIGURE 1 WITH CONSIDERATIONS BASED ON INTERVIEWS

When would you serve unattractive clients?

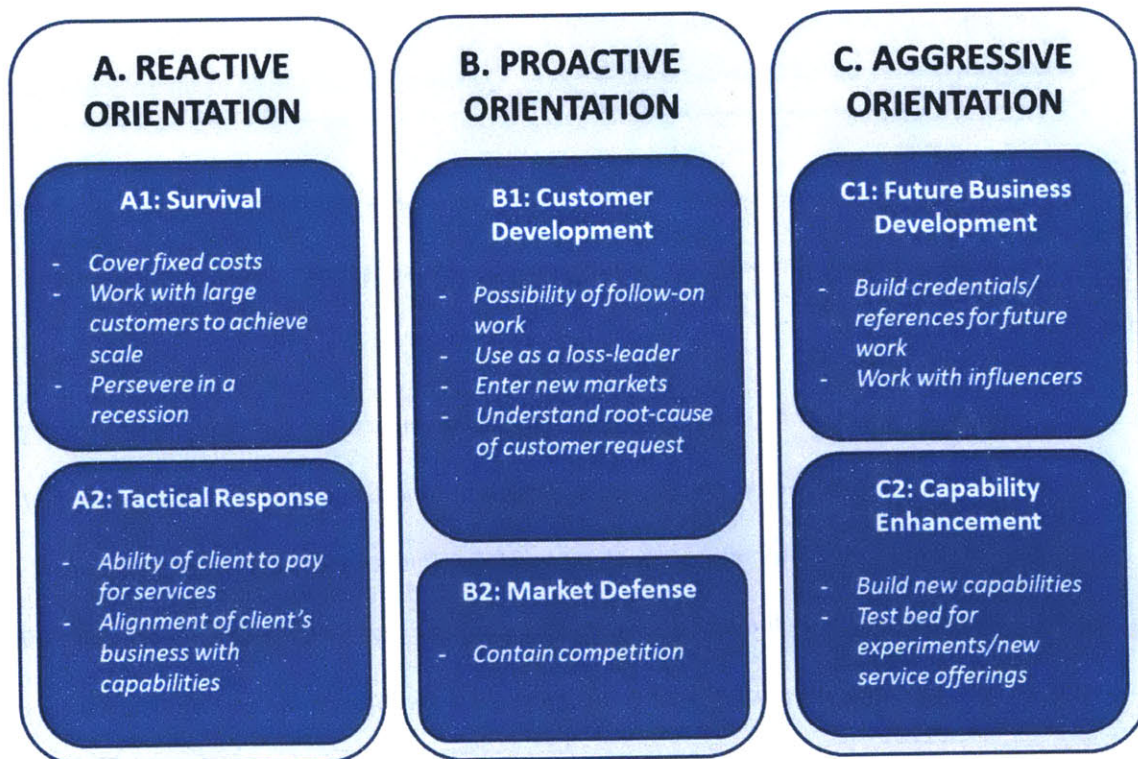


FIGURE 4: CONCEPTUAL MODEL OF FIGURE 2 WITH CONSIDERATIONS BASED ON INTERVIEWS

How do you serve these identified unattractive customers?



In effect, the interviewers mentioned that by using the criteria mentioned to identify unattractive customers and by serving them using the models proposed, a subset of these customers often become disruptive.

"This happens once in a while. But it can have substantial impact. For example, three years ago a snapshot of my portfolio would reveal that a particular 'unattractive' client was only X% of my portfolio but today that customer is 7X% of my portfolio. This strategic bet we placed 3 years ago has paid off handsomely. In the process we built capabilities that have made us more competitive today. In the beginning, we started with contractors. Midway through the contracts, we were able

to bring in other experts who could help us with this customer. We started off two other engagements and then the client floated a big contract and we won that big contract.” – FRS

“This is very common phenomenon in the services industries. In the product industries may be not more so, but in services this is very common. This trend keeps happening.” – IND

“There were positive results when serving unattractive customers. We ran several campaigns which led to good business results across the business. We built capabilities by serving such customers. So in my first job, we built up capabilities that were useful not only for our own business but also helped us offer new services to existing customers” - CHB

Disruptive customers become central to the firm and help the firm develop capabilities and credentials that it can use for newer projects. Given the nature of B2B services specifically consulting and technology, it is important to do this activity proactively as the customer portfolio tends to keep changing rapidly.

5.2 MANAGERIAL IMPLICATIONS

When looking at a portfolio of customers, it is important to identify unattractive customers. These customers:

- Do not align with the firm's core competencies
- Are not as profitable as other clients
- Do not have simple or clearly-defined needs

Despite unpredictability, on average a subset of these customers can become disruptive customers. Specifically, if nurtured they could help the firm become more capable, more profitable or more competitive in the longer term.

However, the challenge is to identify and curate the disruptive customers from the unattractive ones while managing unsuccessful attempts to limit the impact on the firm's profitability and reputation.

Based on the findings of the thesis, the following are guidelines to identify which unattractive customer to serve:

- **Reactive orientation:** Serve unattractive customers when looking to scale or survive in a recessionary environment. These customers have the necessary funding to pay for the firm's services and align broadly with the firm's core capabilities.
- **Proactive orientation:** Seek out unattractive customers when anticipating significant follow-on work or to restrict competition or if there is a deeper understanding of a customer's need.
- **Aggressive orientation:** Invest in unattractive clients for building credentials for future work with other clients, launching new service offerings, using such clients as a test-bed for experiments or building out capabilities. In this scenario, the firm may be required to make investments for a positive future return.

It is important to note that the process is a dynamic one and requires constant readjustment of priorities and investment.

Once an unattractive customer is chosen, project execution becomes important. During this phase, it is important to either transform this customer into a disruptive customer or restrict the investment and protect the firm's investment if the engagement needs to be reduced or discontinued.

Based on the findings of this thesis, the following guidelines can help during execution of projects for unattractive customers:

- **Communication:** Focus on managing the project more closely than other projects. Scope creep tends to happen more often than normal projects. Any changes must be deliberated, discussed and accepted after considering the impacts on the project. On successful completion of the project, document and publicize the success story within the client organization. At this time, get references that can be used for credentials for future work with the current customer as well as with other customers.
- **Resource allocation:** Use specialist practitioners selectively or on a part-time basis in these projects. Ask Research and Development to help the project team for smoother execution as well as new service development. Invest senior management time in such projects not only to build relationships within the organization to not only identify new opportunities but also call out challenges and even stop projects where appropriate. Encourage Marketing to provide support in the form of engagement through conferences, thought leadership and targeted messaging.

5.3 NEXT STEPS

There is definitely scope for future work in this area. The following is a non-exhaustive list of the areas that could be explored further:

- Empirical studies to evaluate the relative effectiveness of the various criteria that can be used to identify disruptive customers
- Analysis to evaluate the applicability of the model in other B2B service industries including financial services.
- Studies to understand the impact of change of allocation of practitioners on unattractive projects
- Empirical research to quantify the impact of disruptive customers on the firm in various industries
- Studies to determine the effectiveness of various alternate project delivery models when delivering projects with unattractive customers
- Research to evaluate the impact of senior management, marketing or research teams in converting unattractive customers to disruptive customers
- Empirical research to determine the effectiveness of products developed during projects with unattractive customers
- Studies to elaborate techniques used by firms to contain customers during the transition period (from unattractive customers to disruptive customers)
- Analysis to determine the relative impact of communication and resource allocation during project with unattractive customers.

APPENDIX 1: DEPTH INTERVIEW GUIDE

This interview is a depth interview and is typically conducted one-on-one. The preferred medium of communication is face-to-face; however alternate remote options are explored when that is not feasible.

Context

- Please give us a brief introduction and describe the role that you play in the organization
- What role do you play in managing the customer portfolio i.e. what level of influence do you have to allocate resources (time, money, assets) to customers?
- How long have you done this activity?

Segmentation

- How do you segment your customers – high-value vs. low-value / core-opportunistic-others? OR What criteria do you use to segment customers?
- What makes a customer low-value or non-core classification? OR What attributes make a customer unattractive?
- Do you service certain customers despite being unattractive?
- If so, how do you distinguish from one unattractive customer to the other?

Disruptive Customers

- Have there been any customers that looked unattractive initially but changed significantly and have become key customers for you?
- What changed for these customers?
- Did your service offering change for such customers?
- Was this new offering attractive to other customers and did you get any new customers based on this skill?
- Were there any skills/capabilities that these customers helped develop that were useful for the company and its employees?
- What lessons did you learn from serving such customers?

Wrap-up

Thank you for your time. Are there any other comments, questions, or observations that you would like to share about this topic?

APPENDIX 2: INTERVIEW TRANSCRIPTS

Note: These interviews have been transcribed verbatim. Please disregard inconsistencies.

Interaction with EDN

Certainly there are customers that are more profitable than others.

In consulting, there is a fixed cost base and highly fluid revenues. The first consideration is about covering the fixed cost and ensuring you make breakeven. And once the cost base aligns with your revenues, you can be pickier.

In some operational outsourcing contracts, there is a winner's curse. The market is competitive and the lowest bidder or provides the most service wins the contract. Oftentimes, one loses money in the first year or first (few) periods. One makes money only in the subsequent periods. One does not know until a year or two in whether such contracts are going to be profitable. A similar situation is in highly competitive private equity auctions. Whoever wins pays the highest price, and if everyone has the estimated the returns essentially one gets the lowest return.

...

Once one has achieved the fixed cost, it depends on the horizon of the firm. A firm with a short term focus might only focus on a transactional basis, whereas a firm with a longer term view would look to answer every call from a customer. For us, if a project that is more profitable but is outside our core capabilities, we would often choose unprofitable clients that align to our core capability. In the end, we are choosing to take one project over the other.

...

In consulting, there are many relationships whose value is not clear on day one and do not seem as profitable initially. Let's consider a first project in a topical area that is new to a consulting area but considered a growth area according to the leadership of the firm. There is sometimes an initial client that is interested in this new area and the firm decides to invest resources in that client to develop the area. It is almost a product development process. This project is probably less profitable than others because of the complexity. Based on the learning on this, the firm would focus on developing framework or best practices that it would look to apply on other similar projects which would be more profitable.

Other instances, there could be simultaneous projects that are related and can share costs. One would not take on these projects individually, but one might take them on together as you may be able to make it work.

These projects would typically be very complex and one would tend to put in a lot of consultant time and senior management time to ensure that the project succeeds. It is hence less profitable than other projects. If one looks at the margin of this project alone, it is probably a better idea to do something else. It is easier to make a profit in an established project area than it is for launching such a new area for future business. There is a need to be investment to build such capability so that one remains competitive in the future, even though the profit maximization philosophy might not be completely implemented here.

Interaction with FRS

My role as a Partner is to manage our Information Transformation practice. I have to design service offerings based on market needs to the marketplace and then customize them to a client's specific needs from a vertical or horizontal point of view. I also have recruiting responsibilities to build a team, bring them in and indoctrinate them with our methodologies, processes, tools, and templates. Then get them to go out and work with the clients on their own.

...

I do have client portfolio management responsibilities. Every client for me starts as a Suspect, then on to a Prospect and then ultimately they become a Client. At the moment they go from a Suspect to a Prospect, I have the authority to say whether I would like to take them on or not because I may not like their business model, fundamentals, industry or position in the marketplace.

At the beginning of every year, I create financial targets for every service offering. For the individual services, I review the clients that I have served over the past years, how I have served them and what I have done well. If there are whitespaces, I try to choose a client in the whitespace. I ask myself whether the client is mature enough to consume my services and also if we have capabilities that are coherent and attractive to the client. Given the whitespaces, I also look out for other clients (other suspects or prospects) who may fit better with my portfolio of services.

...

I look at attractiveness from two perspectives –

My own organizational capabilities (client has a need and I have resources/capabilities to address that need now). If I have the requisite capabilities then I evaluate whether I would like to pursue this relationship further. If not, will it be worth my while to invest to develop these capabilities and whether I would be able to scale the required capabilities across other clients in the future. If the answer is yes-no-yes, then the client starts looking very attractive. The challenge is also that sometimes I have to go out and hire people with those specific capabilities; if I ultimately become unable to consistently deploy

them to other clients then I would have to consider letting them go and that is not the dynamic I would like to have.

Attractiveness of a client (suspect or prospect). Do I really want to be able to use this client as a reference? If I can use them as a reference, do I already have a footprint in that industry? If yes, great, if no then I ask myself if I would like to spend my time in this industry.

By running through these screens I can be reasonably assured that this client's need is worth addressing today. Next I need to see whether they have funding, how committed the funding is, and whether or not they can give me good references and whether it is a client I would like to keep.

...

Once I have decided to serve this previously "unattractive client", I would like to see if other services from my within organization can resonate with the client. Even if my consulting work is done at a loss, if there is substantial downstream work for other parts of the organization, we may be willing to entertain consulting services as a loss leader. Once I engage such a client, I follow a 'penetrate' and 'radiate' approach. At first, I would keep working with the key stakeholders to see if I can sell on other services beyond my core service.

I would do some exceptional things for these "unattractive" clients. One is to keep a trained eye on the ongoing scope of work, oftentimes such clients are looking to get services for free and are looking to expand the scope of the project even whilst not paying. I would tend to project manage them very closely. I would manage the schedule closely, for example I would say this engagement is for 12 weeks...if they say they would like to go for 16-17 weeks I am looking to cut them off. I would also invest a lot of time on the relationship front where a significant amount of my time is spent on meeting and greeting, while pitching and looking to get new services to this client. If I am not able to do this very quickly, then the attractiveness is going down even further. Another thing, I would keep a record of the timelines. I would say I started it as a suspect on this date, I want it to be a prospect and a client on these definite future dates. I keep myself honest to the timelines and that helps me decide whether to continue or start backing off.

...

This happens once in a while. But it can have substantial impact. For example, three years ago a snapshot of my portfolio would reveal that a particular "unattractive" client was only X% of my portfolio but today that client is 7X% of my portfolio. This strategic bet we placed 3 years ago has paid off handsomely. In the process we built capabilities that have made us more competitive today. In the beginning, we started with contractors. Midway through the contracts, we were able to bring in other experts who could help us with this client. We started off two other engagements and then the client floated a big contract and we won that big contract. We managed the relationship closely and aggressively.

It was a pre-condition, given that they were unattractive, we said that we will do quality work for you Mr. Client but we do ask you to give us strong references over the next X years. They signed off on this clause that is not a usual clause, but was one that we put in as this was a bet. We have used these credible references for other work and have won big contracts based on that.

...

There are a lot of heuristics that are used to identify potential clients and that is a very attractive topic.

And look at both sides of the coin - from your own point of view but also from a client's point of view. It is important for me to keep the client interested and to demonstrate my expertise and perspective on where their industry is headed and help them deduce any emerging trends that actionable.

Interaction with VIM

My last firm managed to change itself completely from being a products company to a highly-competent services industry player. It has been able to do so by serving different customer segments and different product-service areas. They are a good example of how when the needs to the customer changes, the firm is able to respond to them very quickly.

Having a Broad Footprint:

We segments customers based on the way the customers buy. It looks at customers in two matrices - the buying behavior (value for money, trusted advisor, and partner). What that allows the firm to do is to understand what the value of the customer today is as well as understand the value of the customer on an ongoing basis is. The investments, the research and executive effort all follow these evaluations and outlooks of the customer. This helps the firm form at least some sort of relationship with a broad set of clients. It might not be the relationship that the firm wants with the client but it establishes a relationship with the client. It creates this really large footprint by catering to how the client buys as opposed to the way you sell. This is in contrast with other firms I worked that where the investments are aligned to what you sell rather than what the customer buys.

Aligning with what the client needs rather than the way you sell

When the client needs change the organization is able to change and adapt the service offerings quickly. For example, 10 years ago, we were doing program management for a large logistics client. Our competitor had 100 people in the company, we had 4. Then 9/11 happened and they started getting the Anthrax letters. The client did not know how to respond to this threat. How do the many branch offices around the country react when they see something suspicious? How do you report it back and how you communicate it back. Our firm happened to be there with them, the client asked whether we could help them. And within a day, we had a basic application for them to start reporting the activity. The application grew to become the central nerve system for emergency service for the postal service. We

went from 4 people to more than 100 people in a few months. Our competitor was not able to do so because it was not the way they sold. Aligning yourself to the way the client buys is important.

Second, the important thing is to look at the relationship. It is not see the relationship with organization but between two people. The way many firms are structured especially in the B2B space is aligned to an industry or a product area and hence the selling function is aligned to that. So what happens if a customer moves from buying products to services, that relationship is gone. What our firm does is that Sales & Distribution (S&D)) is a matrix. The S&D function is independent of the product or services offered. This over-investment in the S&D team makes it easy to move the people around and respond to the needs to the customer as required. The relationship can be aligned with what the firm sells.

Aligning your proposition to see what is the client buying

An example is a company in MN who was looking to outsource its applications development for operations. The RFP was out to our firm and others. At the outset, it looked as a straightforward value for money purchase and we decided to walk away from it. My boss suggested I go dig around and see what the client really wants to do. Because we had nothing to lose, I had a chat with several executives. Although they were asking for commodity service, their needs were different. The organization looking to outsource was under pressure from their internal customers to be more innovative and to get ahead of the trends. This completely changed to the outlook of what we wanted to propose. We put in a proposal and in that only 25% of the response was on what they wanted to buy, the rest was on how we can help them become an innovative organization. Understanding the need behind the need. It was a big deal for us, which we won, only because we looked beyond the immediate need and at the right problem.

...

In general, we usually never walk away from a deal because you did not have people to put on it. The firm is typically built with a buffer. That is carefully thought out risk in this business.

We would consider positioning, it may be a commodity low-margin unattractive deal but it could lead a competitor to enter a market. We aggressively we go after a small piece of business to restrain the competition from entering that customer. So competitive positioning is important.

At a firm, one looks at both the short-term and the long-term. A view is based on strategy and growth projections of the firm, the developed markets were growing slowly compared to the emerging markets. These markets were growing in high single/double digits. 5-7 years ago, using these projections the firm starts. The firm did a lot of economic projections. We saw a lot of potential in these markets and decided to cultivate them so that 4 years on we would be a position to gain from this growth. These markets were small then but are becoming larger and larger part of the portfolio.

There are also exploratory business units that look at evaluating and experimenting with new technologies. The firm spends a lot of money on such projects. This is revenue spent on serving relatively unattractive clients.

...

When serving these unattractive customers, it's important to know what the customers is interested in. It is important to do low-cost high-value things with them. A lot of face-time in the firm is encouraged. The client constantly gets to see our firm being involved in various activities. In addition, there are mechanisms through Marketing such as conferences, preparing industry thought leadership materials, exposing them to products, capabilities, white-papers.

...

When staffing people on such projects, I would not put my highest-performers. Not so much from a return on investment perspective, but high achievers needs to see quick returns. When they do not see that it demoralizes them. They might be doing alright but the situation in the client side leads them to not that successful. So I would not make special investments in people but I would invest in Marketing, broad outreach.

...

One of the situations when you would look to reduce the effort on this engagement is when there is an observable bias against the company. There are people that do not have coffee at Starbucks, they will just not go to Starbucks. Similarly, if there is an emotional rejection of the firm it's very difficult to sell to them and I would look to cut them off.

When one is a big company, one really does not really cut off contact completely. The engagement is reduced through Marketing and outreach channels.

One would also cut them off when there is a short-term high-return opportunity somewhere else. So if a salesperson is spending a lot of time developing a new client and a big opportunity comes along that is tangible and will happen quickly, then I would take that person off.

...

In my experience in other consulting firms, I have seen them respond only in an opportunistic manner. They would invest in people and wait for people to call them to start work. They would rely on their people to do great people and hope they get called back for more work and hence build their reputation. Even big customers might have heard of firms and that they do consulting but do not know how they would specifically help with the client. The brand is relatively nebulous for them.

Interaction with ROA

There are certain customers that are unattractive and we are not willing to serve. These could be customers who have the means to pay for the services and are interesting project as well, but they could pose a reputation risk for the firm. For example, we might think that the client has too much of a political risk with serving the customer or it not seen well with the authorities and peer companies. In such cases clearly we would not choose to associate with such entities.

A case where we would serve the customers would be when these customers have the means to serve and are interesting but do not align with our skill set. Specifically these customers have access to specific markets that we would like to enter or make our presence felt. In those cases we choose to serve such customers. This helps us build credentials necessary for future work in the area. One specific example could be lower-end consumer credit which was an area we had never worked in the past. We decided to engage the market as we thought that is an area we would like to enter and decided to start working with a customer to develop that capability. That would be one case when we would serve an unattractive customer.

Another case we would be willing to serve an unattractive customer if we are in a slump. In a slump we would be struggling to keep our consultants busy. All consulting firms do that, we do not want our consultants to sit idle during a slump. A couple of times during our history we were willing to do something that otherwise we would have not considered otherwise because of the slump.

...

One example is mortgages. A group of intermediaries wanted to study the market to present to the political candidates to push their political agenda. We knew they do not have the money for paying for our services but we decided to serve this client to build our reputation of being able to do that type of work. We know that when this work is presented as part of a presidential candidate's view and is attributed to us, we know our name is being built and get strong industry influence in this area. We started being known for mortgage consulting.

...

We are small boutique consulting firm, we would like to be able to tackle different engagement. Sometimes clients would ask us to do engagement where do not have specific expertise in the area. The client is willing to do such work with somebody they trust even though the partner might not have a lot of depth in the area. We know it is not the most cost-efficient model of executing an engagement, but we are always eager to develop our capabilities through such projects. We have conducted several such projects and have developed expertise in our people.

...

We were working with a customer where a project should have ended in the 10th week. But we are already in the 18th week now, but we continue to serve the project as we have already negotiated two follow-on engagements based on this work and we have a chance to work with one of the largest banks in Mexico. We were aware of the risks when we signed this client but we decided to go ahead with that risk as we anticipated follow-on work from them.

...

We were working with the government. We have done engagements with multiple engagements with various stakeholders. These engagements are marginally profitable and are unattractive. Such work helps us build a better perception for our firm. So when we start working for other bodies such as the regulator we would be seen positively based on our work. This is another consideration which would come into play.

...

When we start working with a client, we are looking for the best results possible. If we signed up we are looking for a positive outcome. So if sign up and do not give our best the project would be compromised. However, there is more pressure to finish on-time or ahead of schedule. In other projects in our sweet spot there is some slack. But in such projects there is pressure to perform. Resource allocation will be dependent on the specific situation but not in the context of the engagement.

This phenomenon does happen but it has happened less for us as we are small firm. For larger consulting firms it is more frequent.

Interaction with IND

First of all, the definition of an unattractive customer is very subjective. An attractive customer to me could be unattractive to you. It depends on an organization's strategy, where they are playing and where their revenue and profitability are coming from. Hence organization's strategy is important.

Consider India's telecom companies, in the early years it was adopted a different strategy of not targeting the top of the pyramid and target enterprise or business users, but rather focused on the bottom of the pyramid. At the time bottom of the pyramid would be very unattractive. But fast forward to now, the game has changed and now these customers are critical. The telecom companies considered the original strategy and tried searching for new customers and develop it into a business. This is true for any business – be it the telecom business or the IT business. This is a common strategy where we have on many occasions' targeted customers that are unattractive but will help us open a new revenue growth channel. Similar examples are there in the Consumer Package Goods industry with Unilever, P&G who have done that. Such customers and developed new revenue streams by serving the so-called unattractive customers. This is because one sees growth down-the-line with these customers.

Another reason could be that sometimes big customers could become unattractive for service companies. They would move away from working with very large organization. This is because there is a lot of price pressure and the margins are driven down to the bare minimum. In 1990s, GE was looking for a partner in India. Several major IT services firm in India agreed to go with a Joint-Venture but others did not work with GE as it was not culturally aligned and was not attractive for them. The firms that went for it saw this deal as an entry point for the big league and in that way the customer was really attractive. They knew the margin would always be at threat with the name but it would add a lot of credentials for their future work. Another consideration for taking it was that they knew they will grow tremendously and also mature their own capabilities.

...

If you do not serve that customer, you will not be in on the table to be able to serve other customers. I have seen sometimes the customer is very demanding and is asking for things beyond the contract and push things for the contract. But it is tough to walk out of that customer as that will have a repercussion in the industry about the reputation of the servicing firm. The CEO/C-levels talk to each other and in the industry forums they will keep talking to each other. We had a client in the telecom space, they were small telecom operator. Our firm signed a deal with them. The customer was asking for too much and we were of the opinion that we should move out of this customer. But we decided against it as we felt the CEO/CIO were very well connected and the word would percolate that our firm was not able to deliver on their word. That will have an implication when we go to other clients in the industry. This is a phenomenon I see in other industries I have worked in too. And this is a trick on many occasions when you start working through a client and realize it is not working out and it's tough to come out of the contract. So you are looked at as you signed the contract and you went out of the contract because you could not deliver and that will impact your branding in your industry.

There could be other ways to classify these customers as unattractive when they are not in the same industry but this could be looked at as the first point of opening a new revenue channel.

...

When you are serving unattractive customers depends on how you classify these unattractive customers. If it is an unattractive customer and I am expecting new revenue potentially down the line. Then there is a strategic intent. Vis-à-vis a situation where I am locked into a bad contract and I have to serve that customer else I will have a bad reputation in the industry.

At that point one would align resources depending on that view. So for the first case where there is future strategic intent then I would look at putting in investment money into that client. There will be investments from the R&D and Marketing departments to be involved in the customer. The idea is to have a wider involvement from a strategy perspective.

In the second case, you are locked in. There it is not about the new area but just closing the contract. In that case you put in people who can run a tight operations and project manage the situation closely. The idea is to put the bare minimum as there may be questions about what is in the contract and what is not. In that case, the focus would be to put people who has a good handle on dealing with clients and has a good idea of managing financials closely and run it as a tight operation.

...

As an executive, I personally would allocate more investment money for the first one. It is like a new product or service that we are looking to launch. In this case you do it in a planned manner for a few months and there is clear investment view. The idea is to understand what the client thinks about it and understand what could be improvements.

There could be a third case is when we are rebuilding the relationship. At that time we are looking to get the project to be rescued and bring it back on track. In that case, there would be a lot of executive time in having conversations so that we move in the right direction. Unlike the first one where there is intent, here depending on the situation one would invest time as required. It is a like a firefight unlike the first one which is more strategic and planned.

When do you cut/reduce the engagement?

In the second and third situation it is clear there we are anyway looking to close out the relationship and end it in a cordial manner until the contract is up for renewal.

In the first situation, the investment would be determined by various models used during new service/product introduction where we can look at several models available such as the ROI. From a pragmatic end-point, I would look at it after every 3-6 months and have a check-point to see if the project is moving in the right direction. Are the customer revenues moving in the right direction? I would not look at the profitability. If we see a positive trend or not? If it is growing, we continue our investment. In other case if we see a couple of reviews where in spite of putting all our energies in that area, then we have to take a hard call and compete in that industry. Structured approaches such as ROI/Business cases are good tools during this evaluation.

...

This is very common phenomenon in the services industries. In the product industries may be not more so, but in services this is very common. This trend keeps happening.

Interaction with DAA

In this economy, no customer is unattractive. I am Italian and based in Spain. The euro area in general is going through major crisis. In this environment, there are no unattractive clients since each Euro counts.

My focus is on strategy and operations. I work with clients who need to grow or are growing. I am working with a textile company whose revenue increased 40 times in the last few years and I also working with other firms locally who need to grow traditionally or they may not survive and a third type of client would be companies in trouble requiring a major restructuring. So I work with companies in three different areas – growth, strategic issues and crisis.

When I try to select and identify clients, I first look at what is the differential value I bring to the client or put another way why should the customer want to be my customer. An attractive client to me is one who has a problem that has an angle I can work with. Are they multi-disciplinary in nature i.e. does the firm need somebody focused on operations, somebody on tax, labor and legal. Out of these customers, I look at those where there is less risk of competition. I look for customers where I have access and more specifically sustainable access. So clients where I can get quickly to the top management or I have contacts with people close to the top management such as board members. And finally I look for clients that can pay for my services. This has become more important in the current situation. In the past the order was to sell and then collect the money. These days the order is to collect the money and then serve customers.

...

I was employee number 1. For me the issue was not to cover the fixed costs, the idea was to build a practice. Hence the idea is first you sell and then you staff the team. You always need to run short on resources. Always! Sometimes there are customers on whom I will not make a lot of profit on, but they are relevant as they will give me credential for future work. For example if I would like to demonstrate that I am an expert in Retail, then I need to work and prove my expertise in Retail. In some cases I might be ready to sell at a lower fee and hence have a lower profit to give me the credentials. If I think the business is not sustainable, I do not take risks to serve such unattractive customers. I cannot, it's a tough environment.

...

I will look to sell a project at lower than normal profit if there is follow-on work. If Phase 1 is leading to Phase 2 and Phase 3 and I will be able to recover my margins in Phase 2 and Phase 3 then I will do so. In Phase 2 and Phase 3, I do not need to spend on marketing because I am already at the client so there will be no commercial activity. So if there is no need for commercial activity and there is follow up opportunity I will sell at a lower profit.

Sometimes, I would also look to set up a beach-head, as a hook. For example, a company is going into Chapter 11. I use the hook and I do crisis management. My role in Phase 1 is usually to take control on the cash. The intent is clear and I know that I will lose money and make low/zero margins. But, once I am in, I can take the legal team, I can take the tax team and I can take an entry manager. I can then

open up for other solutions. This works as it is partnership and this works. We split the profits, so my division may not make profits but the other divisions would.

Sometimes, we would also do to test a new solution. We will create a new service offering and we use the client as a research and development club.

...

When serving such customers, we will make sure that the client understand and we put it in the proposal / kick-off document that our firm is investing in this. We make it clear that this is not going to be the rule but it will be an exception.

I will also make sure I go back at the end of the project and state that this was a project that we invested and that the impact was high and the customer needs were fulfilled above and beyond the requirement. We make sure we document that we provided value above and beyond.

I will also make sure that during the project, if I am investing, that I develop relationships in the company. So once I am in the firm, there is nothing to stop us from going over to other people in the organization. Talking to them and making them aware of what we do.

And I also make sure that usually by the end of such a project. We put together ideas and possible engagements that we can do with the client. We outline specific timelines and deliverables from that effort. So we make sure that we quickly capitalize on what we did for the client. If we let too much time pass then the client will forget.

We would do these things always, but when we invest we do this much more.

...

From a team allocation process, we put the team that is appropriate for the project. We do not distinguish if the client is an invest client or not. Every project is important for us.

...

Regarding my time specifically, we have a project code and we put the hours in the relevant activity. We try to track time closely and mark it as a marketing activity and any other activity. We track it closely.

...

I would stop one project, only if a project is not going well. But then that is my problem or if the client is not delivering what they promised to do such as providing data or making decisions.

But specifically for these projects, there is more tension on these projects. We tend to keep specific conditions on these projects that if the contract is longer, then the client will have to pay us for extra time. So I would be more stressed about making sure that everything works.

...

This phenomenon in the last 3 years, they have been difficult years. We worked with clients that were less profitable in about 10% of the cases and probably half of them clients now and half of them are not.

Interaction with FRB

I am developing a new practice from scratch in this new emerging market in my current role. This is in some sense similar to the way it was in my last role in another emerging market four years ago. So the idea is to first try to identify the high-value customers on the basis of the company roadmap. The imperative is to have growth with predictable margin. We have to align with the global strategy. We first look at the high-value customers that bring us there and then you look at where are the relationships, where is the business, what is the current situation. Then we look at each segment for the industry and then you start growing from there. First, you look at the clients with the most potential. For example, similar to my last experience in this emerging market too there are similar trends of privatization from the government. We are targeting a subset of the companies being privatized which we consider to have the highest potential. We put them as the target.

Other clients are the unattractive customers as they have a whole set of unfavorable aspects such as unfavorable terms and conditions for contract, smaller companies that do not have significant market share. We look to define a few high-value clients and we determine that by seeing what our firm did in other markets, where are the skills, what can we bring to the new market. We also look at things such as do we have any alliances or contacts from our other markets. We start replicating things and building skills. So the idea when building a new market is a kind of trial-and-error and checks what works in the market. You have to put in a lot of effort in trying to enter a new market and win clients before we look at unattractive / low-value ones. On many occasions we have to reposition our value proposition, often clients look at us to provide only one type of service and we will develop our image of a company that provides consulting services too. We have good support from global marketing teams who are also looking at new markets and they help us with who are the key players, the relationships and how we can approach these clients.

...

In fact, my deployment in this country is actually part of this work. I have experience across countries in this industry and I am helping them set up this new practice in the country. This is truer for a multinational company like my firm from the local players. And hence there is a bigger challenge of being able to differentiate our value proposition from other customers.

Low-value customers can sometimes be addressed if we have a fast transaction or if a relationship exists within our team, then we would go after those customers. But that is not the main objective of growing the business.

...

When we are looking to serve such a customer, we know that the unattractive customers would take time to develop. Each year, we have to choose again and identify whether it is still worthwhile to go after those customers. For example in one of our clients, we had very good interactions and we all thought the client would become attractive for us. But over time, we needed to start positioning ourselves for large consulting and technology projects that come out of the relationship. Then each year you need to review to ensure. Sometimes, these customers would give very big carrots about future work and large growth projections. However, in growth markets, it is important to learn to judge when it actually happens. There are a lot of expectations, people go after the short-term but it is very important to keep the larger picture in mind. The client may commit but they may not commit in the speed that you expect it.

...

When we are working with unattractive customers, it is a challenging question as we do not have local skills and expertise. In my last emerging markets assignment, there were local teams of experts that not only served the local country but also other countries in the world. Here in this assignment, this is a big challenge from a local skills point of view. We do not know how to grow quickly here as the local team does not have the knowledge and we need to transfer knowledge from the global team of skilled resources from abroad. This tends to strain the pricing as international resources really skews the pricing of contracts vis-à-vis the local players. We have to prove what additional value we bring to the client over the local price-fighters.

When serving unattractive customers, we would look at the new ways to get additional opportunities to grow the customer. Because if you are in, you can grow it from an unattractive customer to an attractive customer. Significant relationship building efforts are put in to ensure there is follow-on work. That is reason you stepped in.

However, it is important to have a checkpoint every year/six-months to check whether it is necessary to invest all these efforts. At the checkpoint, we would see if there is still potential pipeline within that unattractive customer to continue our effort. We would look to complete our first project and then try to identify additional opportunities and add to the pipeline. If the new opportunities are sparse or very small then you need to reconsider whether you would want to work with the client. The idea is to invest our limited resources and invest them on core customers that yield best returns for the company.

It is not only that the client is changing but that the market of the client as that might be changing too. We had a client that we did brilliant work for them but they did not have any budgets to do any further work. They are very operational driven and they do not have much room to maneuver. On the client side there are continuously things. The larger clients tend to have more room for development.

Interaction with JEC

We start with the market opportunity and we would like to know if the opportunity is big enough. For instance, we are looking at a natural resources company today, they do not have anything today but they offer a fairly large opportunity in the near future. In the middle to end of next year, we believe there will be favorable regulation in place and the company would be in an ideal spot to reap the benefits. For example, the power sector in an emerging economy, we know the demand for power will keep rising and there is a trend towards privatization of state units. Hence those companies would be ones we would like to serve. When we start with the market opportunity, we look at the strategic priorities going forward and we plan for what we call horizon 2 and horizon 3 opportunities. We may have our focus in one industry this year, but we will plan for opportunities in horizon 2 say two-three years ahead and horizon 3 as say three-five years ahead. We work with selected companies and start build relationships and capabilities to serve that client and look to build that client as an anchor client.

...

We use a model we have developed that looks at a balance of strategy and execution. We look at the strategic intent and combine them marketplace insights. For example, in a recent review we saw certain industries as important and when we made our 2015 plan, we dropped a few of them. So even though we thought that these industries align from a strategic point of view, my marketplace insights are telling me that those sectors are not going to develop as fast as we think. We use this to do business design to understand which customers to serve and how to serve them. And how do we position ourselves whether as a differentiated players or otherwise. Then we look at the execution phase, what kind of talent, organization structure and capabilities that we need to build and what tasks we need to do to go through the execution aspect of our strategy.

...

When we are serving such customers, it comes to the organization structure. We have the sales organization that identifies the opportunity identification. The focus is to identify the H1 (Half 1)/H2/H3 and quarter-wise pipelines and look far-ahead and you see what opportunities are coming up and plan for actions about those opportunities. Especially during these review sessions, we would get a cross-functional team including research and development and delivery organizations too and examine how we can leverage each other's strength. For example, we have skills in a particular area and for example we may come to a play where our skills combined with the R&D skills may allow us to differentiate ourselves.

...

So only the delivery organization is on the clock, other teams such as the Sales, top management and R&D teams they do not have a clock, they are looking to nurture the opportunity. There is a cost

involved in nurturing this opportunity to build this differentiated value-propositions but this is the cost of doing business.

When doing the actual projects our firm would add overheads to the practitioner's costs on the ground. This is used to cover the costs of organization mentioned earlier. So one would not usually allocate such costs directly and this is not an exact accounting of the time allocation of the other support organizations.

...

The role of the top management to manage the monitoring mechanism and keep an eye to the future. They are responsible in Q1 not only for looking at the opportunities in Q1 but also for the opportunities in Q3. By having such pipeline discussions and planning for future opportunities and determining a budget for them.

...

Managing this transition is in essence the primary role of business leadership. For example, we were working with a telecom company when it started out, it was not the typical company our firm would work for in general. And we worked with them and helped them and they became a big and key customer for us.

Interaction with RIM

I run a program where the objective is to look at relatively unattractive customers and try to convert them into attractive customers over a period of time. It is a life-stage marketing program where we are trying to get customers in certain points of their lifecycle where they are more attracted to short-term incentives and then try to do actions to make them better long term customers.

When looking at such projects, we sometimes look at them as customers and sometimes as transactions. It is very difficult to say whether which one will become a long-term one. The profitability of some transactions can be very low in the beginning. We often look at one transaction that may not be very profitable but downstream over-time, we would like to see whether there is enough revenue for us and then understanding that providing that price does it have an impact on us in terms of long-term profitability or about the brand of our work and we are sensitive about that. So we do these downstream analyses about when something occurs and the impact on the downstream revenues.

...

It's a common way of thinking about customers in our organization. Often, this analysis leads us to identify certain customer segments but other times we only get to know about a transaction. We want to know what happens when that transaction happens and how it plays out.

We would like to know which transactions are not very profitable and understand if it is a problem or not. We are starting to see observing results in form of running promotions and see unexpected results in form of behavior. We offered promotions to a customer and saw different behavior from what we expected. We are trying to understand what is going on and what changed in the long term.

...

We would like to understand what kind of unanticipated changes can we expect when we work with a customer or do a transaction and we are looking into that.

...

We are looking at concepts such as life-stage marketing. We are trying to understand when a customer changes their buying behavior. We are looking to understand if we can identify indicators to show that the buying behavior is changing for the customer and how we can influence that and look to get more downstream revenues from them.

...

When we people in the program that I run, they tend to buy a lot more as the privileges in the program tend to reduce the minor costs of transactions. It has predictable results but a layer deeper; we are looking to understand other things that we should be doing.

This analysis has given us a perspective on buying behavior and why it is more important. We are looking to use this model in our other offerings too. We are now investing in more CRM research to further develop such capabilities. The success of the program is helping us getting us investment in the area.

...

A lot of people are focused on customer segmentation. It can be challenging at times as it is sometimes not actionable. You can segment the customer and then say what we do next. There are certain to segment customer, one also needs to look at the specific actions that customers takes. One should understand whether it is a good or bad action.

Interaction with CHB

Sometimes you would serve an unattractive customer when you need scale. You need a minimum number of customers to survive in the industry and then sometimes you can see a churn in emerging markets. This has been a strategy employed by other multinational firms in emerging markets too. Once a customer is within the system, various techniques are used to segment and distinguish customers.

In contrast, in information technology when we were working with enterprise customers this was different. If the IT/IT enabled services in the country go down we are in trouble, since a majority of our revenue came from enterprise customers.

Some big customers ask for major discounts as they have a bargaining power. These customers would negotiate very hard and get a very low price for our services. They were relatively unattractive to us. However, we have to meet our top-line numbers and one starts becoming dependent on such customers to get the volume.

...

Another parameter we used was the growth of the industry and that would define which customer we would go after. So a particular customer maybe unattractive today but it would become attractive in the medium term.

Another ploy that we used was to develop a bare-bones offering for price-sensitive clients. Our idea was to evangelize this. However, this only had a limited effect on customers. We saw some traction but it was not very effective.

...

With big data and data analysis available, these analyses can start improving with a focus on customer relationship management.

...

We would look at people on an old solution and we would look to move them to a new solution. The focus was whether we could influence them to upgrade and update their work. These were all very basic spreadsheet based evaluations. We would keep looking at options and we used this technique extensively. On the B2B side, there was money invested to the sales team to help sell the product, unlike the B2C side where promotions and partner promotions were big expense areas too.

...

Another trend that is emerging is that B2B customers are looking for a pay-as-you-use model. We are now more open to building such models for delivery for our services. And in all this, there is good investment in marketing and salespeople along with analytics people who can analyze and suggest which customers we can move up and meet our sales targets.

...

There were positive results when serving unattractive customers. We ran several campaigns which led to good business results across the business. We built capabilities by serving such customers. So in my first job, we built up capabilities that were useful not only for our own business but also helped us offer new services to existing customers. There is lack of data in the B2B space and the institutions that can

capture such data. With better data this can become more of a science. It is tough for even large organizations that I worked for too. We also recognized more effective techniques such as joint-marketing campaigns. The results from these campaigns was way higher too and played the right way in the B2B space, there is definitely money to made if the execution is effective.

Interaction with MIS

My company is a small establishment in the sense it is only me and one administrative assistant. The reason is that I subcontract lot of tasks that I provide to my clients with big companies that could be market research institutions or communication agencies. These companies are part of the project that I deliver to my clients without a burden of a high-fixed cost structure.

I am the founder of this company. What I provide as I service as event-driven consulting in a focused discipline in marketing. I work with large organizations that spend a lot of money on multi-channel communications and marketing to reach the prospects. These corporations do not know the relative contributions of each of the channels and what is the best way to do the resource allocation of marketing and communication budget. The service I provide, I delivery a piece of market research that give metrics on the marketing effectiveness. To derive from these metrics, I help in allocation and optimization of resources of the communication budget. My work is clearly in a B2B environment but my clients have a B2C model.

...

The decision about attractive versus unattractive customer happens prior to the selling of the project. Because the consulting cost is relatively low, the major barrier for corporations to engage in this project is not money as they spend a lot of money on their marketing budget anyway. The most important factor of acceptance is more managerial. Are they ready to change behavior if they see results from our work? Are they comfortable if they see their work in a different light? Most of my job is to be able to detect those managers who will not be responsive to these type of missions, because they do not want to change their behavior even though verbally they might think it is a good idea. Deep down they may not want that.

On the other side, if I convince a manager to embark on this mission then there is no such thing as an unattractive client. Because they accept the process before they become clients. Sometimes it takes 10-12 months for a decision to be made in such organizations and to embark on this work. There is a long dialog prior to signing up to mission. I am ready to sometimes drop out a new business opportunity if I feel that there is a strong disconnect between project's mission and goals and the manager's motivations

...

I have sometimes succeeded turning a prospect into a client even though in the course of the first exchanges it could have appeared it was a very difficult objective to achieve. This because certain change in context at the client side suddenly made the missions objective more in line with corporation. For example, they are asked to reduce their budgets, they do not know where to cut. It seems to be necessary in a recessionary environment. Conversely, sometimes I started discussions with a few stakeholders of an organization but things got tougher as I reached out to other parts of the organization. We often find conflicting interest within the same company.

...

There is a certain distribution of projects that make it feasible to serve all my customers. So far in my business, I have not been in this situation where client wanted to do a project and I said no.

...

I tend to focus on the areas where the clients can see most results and/or where they can act, specifically for those that turn out to more complex than I originally thought. Marketing and communication is a vast area, there is freedom in certain parts of the business and are less so in other parts of the business. My job is to unveil these things and try to understand and bring the client to effectiveness.

All my projects are end-to-end. I may delve into an area because it is intellectually rewarding even though it may not detailed out in the original scope.

...

The results were two-fold. One is the reward for me is higher when I am able to do something with a client that is more challenging/difficult. As you put a lot of energy, you want to be able to see the effort you invested to end doing something. The yardstick is always the same whether it is a complex or non-complex project and that is repeat business. Because once I have convinced one client with one project, then the actions of this work that it has to be repeated so often so that one can measure your progress. When you are able to work with a client over the years.

There is no better yardstick for success. The end game is did I achieve more business or not. If not, then I know something went wrong.

Interaction with MAB

When you look at unattractive, you need to look at whether your service is unattractive to the customer. For example, communication people do not understand what the actual service is and may provide a superficial approach. One has to better breakdown what the service actually is and/or understand the market better, try to understand the clients more specifically one by one. Try to

understand where they are coming from and where they are going. What could be varied, what are the challenging situations both internally and externally for the client? And then try and see if there is a service that aligns to those requirements. If you can then serve them in a simpler, faster, better manner. Hence it translates in the matter that the service that you offer needs to be flexible in terms of what is included and what is customized for the client. You have to meet the client's need, it is absolutely unattractive to the clients it may be difficult for you to serve those clients. One should look to understand what they are after, why they are using your service and what is desired outcome. Your client should be able to buy your services and be happy. If not, that is unattractive proposition for the client. Many times it is important to see not only why they are unattractive to you but also try to evaluate why you maybe unattractive to them.

...

There are many occasions when a client looks unattractive. But the reality maybe that may we do not understand their needs that well. One of the issue as a consultant / advisory work is when the time comes on looking at a problem, getting to rethink or challenge the situation. Because the problem you have may be right or wrong, but the source of the problem maybe something else. If one does not do that one may try to solve the wrong problem and may not come to the solution. We think we need to look at the client problem and see if it is a preconception of what he needs and not come back to a quick decision. Hence, some of them appear to be unattractive, but when you challenge them on their problems/situations/objective, it may change their mind and there might be a better understanding of what they are after. And hence in some cases you might be able to serve if you are able to articulate the right problem.

...

I think that one of the decisions one makes is whether you think you can invest the time or resources to develop this customer. So, do you have the resources and do you see a potential for growth for future work with the client. I will learn with the client on that and will learn from the client to develop my own capabilities and make an attractive in the future. Capabilities - I can use in the future in many combinations. I have to decide to invest time and energy for the future. So even though they are "unattractive", we will serve him as we will develop capabilities by serving the customer and use them for future customers.

...

The other reason could be to branding or raising brand awareness. You might want to invest time and energy initially to build a brand and position yourself in a certain market or with certain type of customers. You don't think you would be able to do much with the capabilities developed with the customer but other projects with customers. By penetrating the market by making a loss, you can be better positioned to serve a certain type of customer. What might happen is may be branded as the #1

firm to provide certain type of services to specific customers. You can serve those clients and in time you can provide services on which you can make money. You can work at a loss but you get a return on investment by positioning yourself in the market.

...

When serving such “unattractive” customers, the basis of model is on communication. You got to communicate as much as possible. It is typically a complex situation and if you communicate and don't be afraid to ask questions and don't be afraid to talk about what are the issues and how do we overcome them. A lot of problems happen because of lack of communication. The fact that you misunderstood or the client misunderstood and you went in a direction that you did not intend to. You got to communicate early and as much as possible. You need to honest and say what issues you have and what you are trying to do. You want to communicate your proposal and get buy-in from the client on that. You want to protect your brand. I think clients are always happy to think through issues and admitting you have a problem does not necessarily harm your brand. Since they are also interested in finding a solution too for their business. The process of communication and clarification is paramount. And special care should be taken when there are third parties or intermediaries when talking to the client.

...

I think when you are staffing such projects; you want to put the people who have strong communication skills. You have to match your team with the client. There is always an opportunity cost of putting people on complex projects versus other projects. One has to balance this with your regular work. You got to be flexible as things can change very quickly in such projects.

...

In any project or any customer, the thing is that the environment keeps changing. It could start as being an unattractive customer and it turns out to be easier in the later stages making it more attractive. This pattern does happen from time to time. While there are also other projects that seem to be easy and turn out to be nightmares if we have misdiagnosed the market, the client or the problem. An unattractive customer becomes an attractive customer.

There have been situations where clients have given us tough challenges and we know that it will be complex project. But in those situations, the client is aware of it and the client tends to balance his expectations. With an unattractive customer, one tends to be more cautious, more attentive, and tend to worry more about the project delivery. And that tends to lead to better management of the project. Whereas for attractive customers the projects are expected to be walk in the park and they turn out to be very difficult. In one way, with unattractive customers when you are serving them, you are looking to see it as a development of new capability to differentiate yourself from the rest of the world but not necessarily where you make your money. One tends to think about them more and be concerned

whether to take him on and whether to keep him. With the attractive customer it is never that easy or simple or the client would do it themselves. It is not that easy and sometimes easy is not good enough; you have to go beyond what is expected and delight the customer.

When you attribute a customer as unattractive, you have spent the time to understand what is unattractive about them and you can focus and discover what is going wrong and you can help them become more attractive. And since this is a challenge, if done right it is appreciated more as it brings more value to the firm. We are willing to support it and go the extra mile. The unattractiveness of the client tends to be subjective as it evolves over time.

...

In the end, whatever the business, the real assets are the people. All other factors are uncertain the only certain value are the people. If you have great board of directors, the right talent you can make any project happen. There is a cultural element too, one needs to understand how people work across cultures when looking at executing projects. The acquisition of the right talent and understanding their cultural specificities is important.

Interaction with TOF

When identifying market segments, there are sometimes customer segments where customers require more attention and more specialization.

The focus is on laying out the relevant market segments and targeting the high value segments. It is difficult to figure out which customer is unattractive.

...

In every case that I worked on, almost all the customers are interesting at some level but they may also be attractive. My boss used to say there is so much work – we will go broke with opportunity. We need to know which customer to serve. The basic challenge is to identify where to focus your energies on and understanding that as a firm you only have so many hours to dedicate to clients. What you have to do is some level of filtering – to identify what is more important. The other way you can do so is to understand how much more work could come from this customer – is it 0 or 1 more units, 10 more units or a 100 more units or even a 1000 more units. And you have to spend money doing this.

...

When talking about user requirements, they can be deceptive in what is actually required. There is a proportion of the iceberg is under the water. They would say let's change a little here and little there. Well that does not work very well and you need to be careful when you go into such projects. So you do have to evaluate the customer. You have to spend some money on the filter.

Interaction with CHK

It depends a lot on what the market segment looks like, what the customers look like. In my last job, we were looking at get into managed services. One chunk of the business customers' needs was very different from the other. What we were marketing to that team, we were looking to bucket-ize the customers the various segments of the market. That helped us really understand what was happening in the various segments. Now, within these segments we were looking at what were the generic needs of companies in those segments. That allowed us to match the customer needs and wants against our capabilities and then we could say if we had high-capability, low-capability, etc. In the B2B business, it is a finite set of one of two needs for each segments... the segments are not perfect.

In contrast with a B2C business, in the B2B business we do not have a direct relationship with the customer but with the distributor. One can establish framework (of customer segmentation) that reside within these markets - whether North America or Brazil or France – each market has its very own dynamics.

...

Each company has a unique footprint and unique business model. One can talk about a feature-based differentiation, but that same feature could be implemented by 15 different players in 15 different combinations.

The CIO or CTO whose problem is confidentiality and not have information leaked out. Now with cloud based data that may be very tough fear to quell. And hence customers' needs and wants keep changing. It is not that the need is not well defined, it may very well be – for example the CIO would say my need is security – the reality is that the ability to serve that need changes over time. Initially that need may only mean A with A being able to do a particular relatively simple activity, but over time the CIO may want B, C or D as more things as an interpretation of that need and just the technology constantly changes. Hence, what was considered acceptable earlier now becomes inadequate. Hence solutions you have today may or may not be enough to serve a customer over time. Hence what might be your competitive advantage today may not be your competitive advantage tomorrow.

...

Customers may not align with what you can offer them today in the right cost or timely manner. So there are customers who you serve despite everything. There might be two customers you have to serve in a market, both those customers are a major part of the market and you cannot not serve those customers. You can work with other customer, but you have to work with those. The other smaller players' advertising budgets may be very small compared to what the bigger players would be. You have to work with the larger players to get critical mass. So in some industries, it is important to serve key customers.

An executive's goal is to foster relationships. That is critical in a B2B business. Sometimes you pick a customer because of the reputation of the customer. So you may pick up a big, well known investment bank because your firm will get visibility for that work. Other people will look at you and think yes this firm has done work with that other client. But at the same time you want to be careful while serving unattractive customers as those would not necessarily pay the bills.

If you are looking to focus on a client that has an interesting challenge, you need to be careful while dedicating resources. Especially, if that means devoting resources to win the project and if it does not translate into a sale then it is very tough situation. Even if you win, you want to make sure you make money on it because it may mean you get a brand association but it does not mean it will pay for the bills.

An interesting project may not be very interesting to your sales force. The sales force usually has incentives based on the volume of sales, so one has to be careful when working with the sales force on these new projects. If the salesperson is incentivized, he will get the work required. A lot of time it is not the best service or offering, it is often the sales incentives.

...

As a senior manager, most people think their businesses are momentum based businesses. Decisions have been made and it literally works according to the momentum of the business. The managers are looking for a return on their employees' time. Managers are looking to evaluate when they are going to see revenue coming out from their investment. Most managers are looking to optimize from where they can make revenue and achieve their targets too. They tend to optimize employee allocation according to that and plus there is a reputation risk too.

...

I think internal R&D at most companies gets bogged down in the minutiae of the company. The R&D needs to be market sensitive and focus on the new opportunities. The other thing is that sometimes R&D will fall in love with a project and you cannot kill the project. It is important to remain grounded with what the market wants and reduce investments when appropriate.

...

I have seen such projects succeed. In that case the offering was interesting and we saw some success too but the problem was it did not fit with the company profile. We sold a few but we lost a lot of money on it. So we decided to cut it back.

Interaction with RIV

I will go to my customer and say this is my value proposition and then I will look at who I would want to target and with what products and how. Then you put forth your value proposition and you hire the people, train the people, and prepare the organization for the customer.

Given that these are not new industries, at some point someone takes a call on which customer segment to serve. In order to be interested in the new customers, you are in some way reassessing the business priorities. One way to understand this is to identify a subset of customers that you are not targeting.

We define preferred segments. How do we define them? First of all we look at our capabilities. Second, we look whether the segment has good momentum in the customers and decide to serve them. Once I identify that I will serve those guys proactively using tools such as key account management. There are other clients that are part of the market but not in my target. Maybe there is some momentum, are attractive in some way but do not really align with my business priorities. So a typical model I would use is to serve on a proactive-reactive manner i.e. work those in my target proactively and the other reactively.

I would also serve a customer if they have a big voice in the market. This would help me build influence over other customers in the sector too. It is all about trade-off. The challenge is at some point to identify who do I not serve? I do not want my resources to be spread very thin.

What I have done in the past, when I am looking to build a new offering and I am looking at customers outside my typical target, I will focus on customers that have either the momentum or the money to pay for my services. Being there for them when they really need you.

...

When I am working with such clients, as a CEO I would allocate R&D to that customer and give them to an executive in my organization to run and test if that works. And the beauty about this is that there is process built within the organization, the process in the organization will keep the checks and balances to ensure this client becomes interesting.

...

Say you get R&D or a Product Specialist to work with this client and say they work on a particularly challenging project, if the result is successful then I know I have strong capabilities being built in R&D that I can use with other customers. The interesting part is that it is collaboration with the client and are trying to come out with a question that is not straight-forward. I would also ask the guys who work on those projects to do a deep dive of the work and share the knowledge within the organization so that the new capabilities are shared within my organization.

APPENDIX 3: WORKS CITED

- Anderson, J. C., & Narus, J. A. (1991). Partnering as a focused market strategy. *California Management Review*, 33(3), 95-113.
- Berger, P. D., & Nasr, N. I. (1998). Customer lifetime value: Marketing models and applications. *Journal of Interactive Marketing (John Wiley & Sons)*, 12(1), 17-30.
- Bower, J. L., & Christensen, C. M. (1995). Disruptive technologies: Catching the wave. *Harvard Business Review*, 73(1), 43-53.
- Bowman, D., & Narayandas, D. (2004). Linking customer management effort to customer profitability in business markets. *Journal of Marketing Research (JMR)*, 41(4), 433-447.
- Campbell, N. C. G., & Cunningham, M. T. (1983). Customer analysis for strategy development in industrial markets. *Strategic Management Journal*, 4(4), 369-380.
- Christensen, C. M. (2003). *The innovator's dilemma: The revolutionary book that will change the way you do business* HarperCollins.
- Churchill Jr., G. A. (1979). A paradigm for developing better measures of marketing constructs. *Journal of Marketing Research (JMR)*, 16(1), 64-73.
- Dhar, R., & Glazer, R. (2003). Hedging customers. *Harvard Business Review*, 81(5), 86-92.
- Dwyer, F. R., Schurr, P. H., & Oh, S. (1987). Developing buyer-seller relationships. *Journal of Marketing*, 51(2), 11-27.
- Fiocca, R. (1982). Account portfolio analysis for strategy development. *Industrial Marketing Management*, 11(1), 53-62.
- Gotteland, D., Haon, C., & Gauthier, C. (2007). Market orientation: Synthesis and new theoretical directions. *Recherche Et Applications En Marketing (English Edition)*, 22(1), 45-59.

- Gupta, S., Hanssens, D., Hardie, B., Kahn, W., Kumar, V., Lin, N., et al. (2006). Modeling customer lifetime value. *Journal of Service Research*, 9(2), 139-155.
- Gupta, S., Lehmann, D. R., & Stuart, J. A. (2004). Valuing customers. *Journal of Marketing Research (JMR)*, 41(1), 7-18.
- Jackson, B. B. (1985). Build customer relationships that last. *Harvard Business Review*, 63(6), 120-128.
- Jaworski, B., Kohli, A. K., & Sahay, A. (2000). Market-driven versus driving markets. *Journal of the Academy of Marketing Science*, 28(1), 45.
- Johnson, M. D., & Selnes, F. (2004). Customer portfolio management: Toward a dynamic theory of exchange relationships. *Journal of Marketing*, 68(2), 1-17.
- Johnson, M. D., & Selnes, F. (2004). Use dynamic approach to manage customers. *Marketing News*, 38(6), 30-30.
- Johnson, M. D., & Selnes, F. (2005). Diversifying your customer portfolio. *MIT Sloan Management Review*, 46(3), 11-14.
- Khalifa, A. S. (2004). Customer value: A review of recent literature and an integrative configuration. *Management Decision*, 42(5), 645-666.
- Kotler, P. (1994). *Marketing management: Analysis, planning, implementation, and control* Prentice-Hall International.
- Krapfel Jr., R. K., Salmond, D., & Spekman, R. (1991). A strategic approach to managing buyer-seller relationships. *European Journal of Marketing*, 25(9), 22.
- Kumar, V., Lemon, K. N., & Parasuraman, A. (2006). Managing customers for value: An overview and research agenda. *Journal of Service Research*, 9(2), 87-94.
- Lemon, K. N., White, T. B., & Winer, R. S. (2002). Dynamic customer relationship management: Incorporating future considerations into the service retention decision. *Journal of Marketing*, 66(1), 1-14.

Marketing Science Institute. *2010-2012 research priorities*. Retrieved April 08, 2012, from

<http://www.msi.org/research/index.cfm?id=271#RP3>

Narver, J. C., Slater, S. F., & MacLachlan, D. L. (2004). Responsive and proactive market orientation and new-product success. *Journal of Product Innovation Management*, *21*(5), 334-347.

Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review*, *68*(3), 79-91.

Project Management Institute. (2004). *A guide to the project management body of knowledge: PMBOK guide* Project Management Institute, Inc.

Reinartz, W. J., & Kumar, V. (2003). The impact of customer relationship characteristics on profitable lifetime duration. *Journal of Marketing*, *67*(1), 77-99.

Reinartz, W., Thomas, J. S., & Kumar, V. (2005). Balancing acquisition and retention resources to maximize customer profitability. *Journal of Marketing*, *69*(1), 63-79.

Rust, R. T., Lemon, K. N., & Zeithaml, V. A. (2004). Return on marketing: Using customer equity to focus marketing strategy. *Journal of Marketing*, *68*(1), 109-127.

Sanchez, R., & Sanchez, R. (2005). Analysis of customer portfolio and relationship management models: Bridging managerial dimensions. *Journal of Business & Industrial Marketing*, *20*(6), 307-316.

Shapiro, B. P., Rangan, V. K., Moriarty, R. T., & Ross, E. B. (1987). Manage customers for profits (not just sales). *Harvard Business Review*, *65*(5), 101-108.

Storbacka, K. (1997). Segmentation based on customer profitability--retrospective analysis of retail bank customer bases. *Journal of Marketing Management*, *13*(5), 479-492.

Thomas, J. S., Reinartz, W., & Kumar, V. (2004). Getting the most out of all your customers. (cover story). *Harvard Business Review*, *82*(7), 116-123.

Ulaga, W., & Eggert, A. (2006). Value-based differentiation in business relationships: Gaining and sustaining key supplier status. *Journal of Marketing*, *70*(1), 119-136.

Venkatesan, R., & Kumar, V. (2004). A customer lifetime value framework for customer selection and resource allocation strategy. *Journal of Marketing*, 68(4), 106-125.

Zeithaml, V. A., Bolton, R. N., Deighton, J., Keiningham, T. L., Lemon, K. N., & Petersen, J. A. (2006). Forward-looking focus: Can firms have adaptive foresight? *Journal of Service Research*, 9(2), 168-183.

Zeithaml, V. A., Rust, R. T., & Lemon, K. N. (2001). The customer pyramid: CREATING AND SERVING PROFITABLE CUSTOMERS. *California Management Review*, 43(4), 118-142.