The Customer Learning Curve:
Creating Profits from Marketing Chaos

Introduction

As we move forward into the twenty-first century, business-to-business marketing is being turned upside-down, inside-out and sideways. Recent crises include dealing with e-commerce and economic downturns, but crisis itself is nothing new. Fallout from ever-larger mergers and acquisitions, the impact of flattened organizations and “streamlined” staff, globalization of suppliers and customers, ever-accelerating technological change—all are challenges that can keep the most skillful business-to-business marketing manager awake long into the night.

Each of these changes amplifies the impact of another and the complex, almost chaotic situations that result do not lend themselves to simple answers: one more analytic model or set of “help yourself” guidelines can only address parts of the problems.

What companies really need is a methodology for understanding complex challenges at a deeper level—a level that looks beyond today’s crisis. The Customer Learning Curve (CLC) is that methodology. With the CLC, you can ferret out the most important problems your company is facing today, pinpoint your biggest opportunities, and develop insights on how to forge success quarter after quarter and year after year. The Customer Learning Curve suggests intelligent questions to ask about what a company accepts as conventional wisdom.

The Customer Learning Curve is grounded in years of research and consulting with business-to-business and consumer goods companies which have consistently achieved breakthrough results from their CLC-guided marketing efforts. This book will give you the information you need to join these marketing success stories, to make the Customer Learning Curve work for your business.

How Can You Use the Customer Learning Curve Today?

In the office of almost every marketing manager in the country, there is a shelf full of books filled with wonderful ideas for improving business. They have usually been read an average of .2 times and must be dusted regularly by the clearing team. This book is not likely to meet their fate. Why? Because The Customer Learning Curve offers you a perspective that you can put into practice beginning today, as soon as you have read this introduction, while providing you with new ideas and approaches that will continue to build your business well into the future.

Here are just some of the things that reading The Customer Learning Curve will help you achieve in your company.

The CLC Will Help Everyone Develop a Marketing Perspective

In most companies, not everyone who has marketing responsibility has a well-developed and sharply honed set of marketing skills. The managers at
Dunamis, an Atlanta educational software company, for example, were experts in software development but had virtually no marketing training. Suddenly they were faced with marketing chaos: they had success stories, testimonials and happy clients but the company badly needed to increase sales and profits.

How could the Dunamis managers figure out what to do first, next, and next again? By using the questions suggested to them by the Customer Learning Curve approach, they were able to break their problems into discreet components and develop a clear understanding of how to use marketing to address each issue they faced.

Even if most marketing managers in your organization are skilled, there are always newcomers or marketers who enter from other disciplines or functional areas of the company. Sharing the CLC model with them can help them develop a perspective on their product or service that will form the basis for greatly strengthening their marketing contributions.

The CLC Will Let Your Company Cope with Too Many Choices

One product group at a major telecommunications company was developing its marketing plans using the Customer Learning Curve model. They were comfortable with the “go forward” model they had developed after plugging in their hard numbers and fine-tuning the estimates the CLC Web tool (discussed later in the Introduction) provided to them. They had even chosen three steps of the CLC in which to intervene. But now they were stymied because they felt that they did not have enough information to come up with and cost out good new program ideas.

Each group member searched for relevant information and came up with nothing. As a last ditch measure, the most junior member of the group was given the assignment of checking with the market research department one last time to make sure that there was no useful information in the archives. His findings? Hidden away were half a dozen relevant studies, all less than two years old. Suddenly the group that had been faced with an information gap was deluged by knowing too much and by having to choose between too many alternatives.

At this point, the product group might have either floundered for months making choices or ended up choosing programs whose performance was less than optimal. Instead, they returned to the Customer Learning Curve model to evaluate the program intervention ideas that these studies generated. After choosing the most relevant interventions, the group was able to compare their options and come up with a set of programs that, when implemented, raised sales and profits substantially.

The Customer Learning Curve turned having too many choices into knowing what was important and where to take action.

The CLC Will Enable You to Deal Effectively With Disruption

Marketplace disruption can come in many forms. There are technological disruptions such as the rapid, on-going changes that characterize the computer industry. There are communications disruptions, most recently fueled by the spread of Internet usage. There are logistical disruptions: overnight package delivery or
airline hub systems. There are product life cycle disruptions, when an entire industry might spring into being or decline into obsolesce in a matter of months. And almost always, these disruptions are accompanied by a flood of new information.

Garry Betty, President of Earthlink, describes how he has used the CLC to deal with the disruptions that Earthlink faces almost routinely. “During times of change, strategic marketers are faced with a combination of too much new information and the chaos of trying to organize the information usefully. The Customer Learning Curve provides a framework for sorting through and making sense out of the overwhelming amount of information available today. Getting information is not the problem. It’s understanding it and taking correct action in these disruptive situations that’s the challenge.”

The CLC Will Facilitate Mid-Course Corrections

One product group in a major food manufacturing company found itself in the difficult position of having to respond to a major competitive advertising assault in the middle of the planning year. Annual budgets had been proposed, negotiated and approved, all months before. Now the group believed it needed to invest an extra million dollars in powerful and convincing new campaigns to defend its position in the marketplace in the face of much higher advertising expenditures by competitors.

A team at a regional telecommunications company was in an even worse situation. The team was formed in a mid-year corporate restructuring, too late to present any marketing plan at all. They had no budget, no money for market research, no access to marketing program resources, and no data from the corporate accounting system to help them propose expenditures to top management. All they knew was that they currently had less than 1% share of a market worth $250,000,000 annually. This share had been generated almost solely generated by a direct mail piece sent to customers when the product was part of another group. The newly structured marketing team believed that if they could spend $4 million wisely, they could increase sales to over $30 million. But they had no leverage to ask for the budget.

How could these two groups of marketing managers make a case for funding their products? In both situations, they used the Customer Learning Curve model to perform a kind of sensitivity analysis of their two options: “Do nothing” and “Implement programs.”

The food products group investigated what would happen if their competitor’s ads reduced their current purchase numbers. They found that a loss of only four percent of volume reduced profit contribution beyond the $1 million they wanted to invest. They were able to demonstrate that if they did not take action, the parent company would likely suffer losses beyond the costs of investing more in advertising. Furthermore, as the product entered the next planning year, it would do so with lower share of market, a situation that would require even more advertising investments in the future.
The telecommunications group used the CLC model in a similar way. They began by brainstorming specific programs they thought would increase volume, costing these programs out, and estimating their impact on total sales and profit contribution. They used these as their "Most Likely" business case but also reran the model to show "Best" and "Worst" cases. Even in the worst case scenario, the parent company would benefit substantially from investing in the product group’s programs. When the marketing team went to top management with such clear support for their proposals, management "found" the money to invest in the program and the group went forward with their plans before year-end.

The CLC model can provide the perfect tool for opening discussion regarding the kinds of course changes and corrections these groups were proposing. If your company needs to make mid-course corrections or overcome the hurdle of having limited resources, the Customer Learning Curve can definitely help.

The CLC Will Let You Assess the Progress of a New Product or Service

Waiting for internal systems to tell you the progress of a new product is risky. Bad news can come too late and, when it does arrive, you typically will not know what problems need to be fixed. The Customer Learning Curve tells you what you need to measure to assess progress. The CLC will help you know if you should be asking “Are my targets aware of what I’m selling?” “Am I getting distribution?” “Do customers who have purchased consider my product a good value?” or something altogether different.

You Will be Able to Use the CLC to Update What You "Know"

The Customer Learning Curve suggests intelligent questions to ask about what a company accepts as conventional wisdom. For example, conventional wisdom at many companies is that the awareness building task is complete when buyers know their product exists. The Next Day Air℠ delivery service product team at United Parcel Service® understood that just because 90% of their target knew their service existed did not mean that customers would choose UPS Next Day Air® over the competition. Yes, they measured awareness of the service’s existence, but they also asked customers if they knew reasons they should choose UPS® over the competition.

In setting up their original Customer Learning Curve, they initially put in the 90% (the proportion of their target that knew their service existed) in the awareness step. But after they put in all the other numbers they had available in the CLC and performed the math, they found that they should have much higher sales volume than they actually attracted. The conclusion? They needed to use the lower number—those who could cite a reason to use UPS Next Day Air®. And putting the lower number in the awareness step brought predicted sales in line with actual experience.

By pinning down their estimate of the proportion of targets making it through the awareness stage in the CLC, they were guided to focus attention on developing new programs to increase awareness of their points-of-difference and thereby increase sales and profits.
Perhaps your company has competing truths. (For UPS®, the “truth” that 90% of prospects knew about the service competed with the other “truth”—that their target customers were not aware of a compelling point-of-difference for the UPS Next Day Air® service.) Or perhaps there are things that everyone in your company “knows” are true (such as “Our customers aren’t interested in buying products on-line”) but that no longer make sense. (You have lost 25% of your share of market while your biggest competitor, which has pushed hard for on-line selling with a sophisticated web site and customer support function, has increased share by 25%). By using the Customer Learning Curve as an objective tool to look at these “truths,” you can avoid the battle of opinions that often is more successful in creating strife than in improving the business.

The Customer Learning Curve Will Help Top Management Make Good Choices

In the interactive reality of most companies, more than one product or service is usually vying for scarce dollar resources. This creates frustrations on both sides of the discussion. Talented strategic marketers have a hard time communicating their “gut feel” about why funds should be invested in a certain program, and top management has a hard time making “rational” choices about where they should allocate funds.

In such cases, the Customer Learning Curve provides a level playing field for the evaluation of programs to support different groups of products or services. It enables top management to make realistic comparisons and choose which products or services in the corporate portfolio to support. As General Manager of Coca-Cola’s Fountain Division, David Kennedy assessed the value of the CLC this way: “It translates the intuition of the professional marketer into the dollars and cents language of the general managers who have to make investment decisions.”

On the other side of the interaction, the Customer Learning Curve supports the professional marketer’s intuition with realistic number projections. As David Bridges, a marketing consultant at Georgia Tech University says, “When I was a product manager, I always knew I had good marketing programs. I had research and analysis that told me I had developed good programs. But there was always one question from management I could never answer. ‘How do you know there is not another program that would give us a better return?’ The CLC provides the answer to that question.”

The Customer Learning Curve Approach

The Customer Learning Curve is a unique tool with two robust components: a technique for developing deep insight into customers’ decision-making and a practical financial model to use in determining marketing leverage points and the returns on alternative marketing expenditures.

Traditionally, the term “learning curve” refers to the phenomenon that repetition enhances performance. The first time a player ever serves a tennis ball requires a lot of effort to produce what is often an out-of-bounds ball. But the thousandth serve is usually relatively effortless and often results in a well-placed shot. The concept of the learning curve is well established in management: it was first described in a 1936 aeronautical science journal suggesting a model for
projecting improvements in assembling airplanes. The customer learning curve describes how a customer “learns” while moving along the curve from knowing nothing about your product or service to being comfortable enough with your offering to become a loyal, repeat user.

Many companies—particularly in business-to-business settings—have not used a consistent, strong model to understand customers. Their approach has been piecemeal because different departments within the company look at things differently and no one consistently integrates their observations. The engineers might consider what technology customers want in products or services, the sales force at how price-sensitive customers seem, the Help Desk at what kind of problems customers encounter as they try to make a product or service work for them. Meanwhile, the marketing department is conducting research that focuses on marketing logistics, such as how to create memorable ad campaigns or what kind of trade promotions might increase distribution and sales volume. From the point of view of the customer, these components—technology, price, service, communications, distribution—are parts of a whole, an integrated bundle of benefits. The process of learning about, deciding to buy, purchasing, and using a product or service is a single continuum; the selling company’s organizational division of labor is irrelevant.

By looking at everything related to selling a product or service from the customer’s point of view, the Customer Learning Curve forces a company to take an integrated, customer-centered approach to their business. It is this approach that guarantees that the marketers themselves will also move through a learning curve, improving both their understanding of their customers and the effectiveness with which they reach those customers.

**The Customer Learning Curve Component One: Technique for Insight**

The CLC’s power to help business-to-business marketers improve performance comes from its core insight: the marketing process that matters most happens inside the customer’s head. Whether this customer/decision-maker is an individual in a company wearing his corporate hat or a committee charged with choosing a product or service, the process is the same. A potential buyer must learn that he needs what you are selling, where to find it, how to buy it and use it, and experience value. The result of successful marketing is customer learning.

To be sure, there are many marketing tasks, including advertising, research, promotion, product development, public relations, packaging, and more, that are required to facilitate and support the customer’s learning. One business-to-business company, for example, identified 110 discrete marketing tasks woven into over a dozen internal business processes. Unfortunately, successfully working through each of these disjointed tasks had not improved their bottom-line results. They found that they achieved little business leverage and enjoyed no measurable sales lift, no matter how much they improved on each of these individual marketing activities.

Using the CLC perspective, this company revised its approach by thinking about these 110 activities from the customer’s point of view. By clustering the
specific activities so they helped customers learn what they needed to know to move along the curve, towards purchase and re-purchase, the company substantially increased sales and profits while building the kind of customer loyalty they had been seeking for years.

Plotting the CLC

Let’s say a business-to-business company has a great product or service: the best available in some applications or perhaps even in all applications. But... before the company can succeed, their potential customers must learn why, where, how and when to become their customers.

To become their customer…

- Prospects must need their product or service and learn that they need it. No need means no customer.
- Prospects needing their product or service must become aware of why they should purchase from this particular company. No awareness means no customer.
- Prospects aware of their product or service must learn where to find it. No access means no customer.
- Prospects who can find their product or service need a compelling reason to buy it. No motivation means no customer.
- Motivated prospects must then actually buy their product or service. No purchase means no customer.

If a prospect has stayed on the learning curve this far, then a sale is made. Traditional business-to-business marketing often views this as success - the end of the story. But, from the customer’s point of view, the total learning process is still far from complete.

The Customer Learning Curve Does Not End with a Purchase

The business-to-business company now has a purchaser. But does that mean they have a customer?

Many marketers think so. They feel satisfied that a company has actually reached into pocket, purse, or expense account and bought what they are selling and they are right to feel that way. It is a critical point.

However, the customer-centered view of the Customer Learning Curve does not end at the point of purchase. Remember - the marketing process that matters most happens inside the customer’s head.

To become a real customer, a loyal, repeat customer…

- Purchaser must learn to use the product or service. No proper use means no loyal, repeat customer.
- Purchasers who have learned to use the product or service must experience value, feel they got the benefits they expected and that the benefits were worth the price. No value experienced means no loyal, repeat customer.
• Purchasers who have experienced value must still be cared for and perhaps given extra incentives to remain continuous, *loyal* customers. No *loyalty* means the company may have to start all over again with these customers.

When a purchaser continues to buy and use a product or service, tells colleagues to use it, and becomes a friend of the firm, then and only then does the business-to-business company have a true customer.

Because moving a customer from needing what you are selling to being a loyal user is such a complex process, selling a business-to-business product or service is never an easy proposition. Someone must make it all work. Someone must use the customer-centered Customer Learning Curve approach to spot the places where potential customers run the risk of not moving forward and design programs targeted at getting prospects over those barriers. The person who takes responsibility for developing such a perspective becomes not just a regular marketer charged with maximizing performance in one or another step of the Customer Learning Curve or in one particular aspect of developing the marketing mix, but rather a *strategic marketer* whose perspective constantly encompasses the entire of continuum of actions that create a loyal customer.

The strategic marketer may be a product manager, a category manager, a marketing vice-president, even a chief executive officer or company owner. Regardless of title, this is the person who takes responsibility for keeping the entire Customer Learning Curve in mind as she evaluates and manages marketing activities. (The role and identity of the strategic marketer is discussed in more depth near the end of Chapter One.) For the strategic marketer, each step of the Customer Learning Curve approach raises specific strategic questions.

• At Step One, the key question is "Exactly who *needs* my product or service—whether they already know they need it or not?"
• At Step Two, ask "Who is *aware* not only of my product or service’s existence but also of its potential benefits for them as users?"
• Step Three questions "Who has *access* to what I’m selling?" This can be especially important in service industries.
• At Step Four, the key question is "What does it take to *motivate* people to want to *buy* my product or service?"
• Step Five raises the question, "What does it take to generate actual *purchase*?"
• At Step Six, ask "What is involved in teaching my customer to *learn how to use* my product or service effectively?"
• Step Seven focuses on the question "How can I make sure that my *customer experience* value once they have bought and learned to use what I am selling?"
• Step Eight asks "What actions are necessary to create *loyal* users or to *generate repurchase* of my product or service?"

The Customer Learning Curve: A Financial Perspective
The CLC’s financial model enables the strategic marketer to select the best marketing program, one that increases revenue the most per dollar of marketing expenditures. This selection process is central to the second component of the Customer Learning Curve.

Business-to-business marketing strategies and programs usually evolve without a strong, customer-centered framework against which to evaluate them. Consequently, marketing managers may find it difficult to evaluate one program versus another.

The CLC can provide the required framework because each of its eight steps represents a mental or behavioral gateway through which prospects must pass. The easiest way to see how the math works is to open “The Customer Learning Curve Model” on the CD-ROM that accompanies this book, or you could access the same model by going to the website, www.resultrek.com and clicking on “The Customer Learning Curve Model.” Just follow the directions.

For those of you who prefer words, here is how the Customer Learning Curve works in words and charts:

Suppose through market research you have learned that half the companies in a particular industry or geographic territory need your product and that the total number of prospects in that target market is 4000. At this point, you know that you maximum number of customers would be 2000, that is, 50\% of 4000.

Next, let’s say that your market research has also told you that only 40\% of those who need your product are aware that it even exists. If Need is 50\% and Aware is 40\%, the most your penetration could be is 50\% times 40\% or 20\% of 4000 is 800. If this is not clear to you, break out the CD-ROM or go to the website. If it is clear, let’s continue.

Exhibit 1 shows the numbers we’ve already described as well as values for the percentage of prospects making it through each of the next six mental or behavior gateways. Multiply the percentages together to determine penetration, the percentage of customers who make it through all the stages.

You are left with only 40 customers in this target market, 1\% of the original audience, who can actually be considered loyal customers; the rest of the potential customers drop out of the progression from need to retain. What should you do? The Customer Learning Curve provides a tool for determining both where to intervene in this customer-education process and to identify which programs to implement to effectively improve performance.

In the CLC model, each marketing program has a specific numerical objective: to raise the percent of “throughput” in one or more of the CLC’s steps. Exhibit 2 shows what would happen in our example if you implemented two marketing programs which generated specific increases in throughput: an advertising program which increased awareness from 40\% to 60\%, and a sales training and incentive program which increased the close rate (percent of purchase) from 50\% to 75\%.
The result of these two interventions? Penetration went from 1% to 2%. Your sales doubled!

Now let’s turn to a more complex situation, one like those that confront business-to-business strategic marketers every day. In this case, Samantha Hathaway, the Vice-President of Marketing for Aries Software, a hypothetical Silicon Valley company, faces too many marketing options. Her objective is straightforward: double sales. But her options are varied. Adding sales people has increased sales in the past. Would this work again? Or should she spend her money in advertising? Aries’ hot-shot advertising agency just presented a brilliant campaign idea with high recall among potential software buyers. Or maybe Aries should invest in reengineering its software to integrate new user-friendly features from the product development department.

The Customer Learning Curve provides Hathaway with a way to make an informed and profit-maximizing choice. First, by working through the discipline of eight steps that describe how customers actually make decisions, she can identify exactly where her prospects need support. If her product already has a high level of awareness among customers, for example, investing in advertising may look less attractive. By organizing her insights about her customers, the Customer Learning Curve will make sure that she is headed in the right strategic marketing direction.

The current CLC for Aries is pictured in Exhibit 3.

Analyzing the current situation shows Hathaway where her problems lie. Things begin well: 60% of the companies who need the software know that it exists. So advertising to build awareness is not necessarily her first priority.

Next, however, is a severe problem: most prospects never have an opportunity to buy her product because only 20% of them have access to it. And none of the programs she was considering are designed to address this problem. Hathaway needs to consider new programs and approaches rather than simply choosing between what others have brought to her.

Over Steps Four and Five the numbers look better, although there is definitely opportunity for improving both motivation and purchase itself. Here, adding to the sales force may be a good option—it all depends on what the marketing team’s research shows will influence customer behavior.

But Step Six presents another disaster area: customers just are not learning to use the product once they buy it. Investing in making the software more user-friendly now looks like a very good option. And, while they are at it, the software engineers need to improve the product with new core features to raise the 50% figure for those who experience value.

Let’s assume for a moment that Hathaway has unlimited money and that the positive programs she has been considering are all successful: she adds to the sales force, improves the quality of the software, and adds a new program she had not originally considered to increase distribution through a number of Internet
distributors so that access rises substantially. Here, in Exhibit 4, is how Aries' Customer Learning Curve might look now with changes highlighted:

**Insert Exhibit 4 here**

After a lot of hard work, planning, and a substantial financial investment, Hathaway sees her loyal customers grow from 200 companies to over 4000!

Of course, few, if any, marketers will find themselves with both unlimited budgets and such a long series of programs that all strike gold at the same time. In a more realistic world, Hathaway may have extremely limited marketing funds and serious time constraints in improving the business. Let's assume that she is limited to choosing only one program and it must be quick and relatively inexpensive to implement. In this case, Hathaway sees that Aries could fairly easily increase distribution via Internet sellers; this is clearly a weak spot in Aries' relationship with its customers. So in this more realistic scenario, Hathaway makes only one change in how Aries does business.

What happens is pictured in Exhibit 5.

**Insert Exhibit 5 here**

Even though Hathaway has made only one change in the Customer Learning Curve, this change has rippled through the rest of the customer decision-making process so she still has moved from having only 200 customers to having 600, a 300% increase.

**The Customer Learning Curve Component Two: Choosing High-Return Programs**

So far, our examination of the CLC has focused on choosing marketing interventions based on their impact on the absolute number of units of a product or service that will be sold. But now comes the part of the Customer Learning Curve that takes marketing insights one step further: the financial model.

Let's return to Aries Software to see how this component of the CLC works. Hathaway knows that increasing the size of the sales force is going to cost $200,000. Making the software more user-friendly will require a $300,000 investment. Which should she choose, if either? Which investment will pay off most handsomely? The mathematical side of the Customer Learning Curve will help Aries pick the best leverage point for its money based on a clear-cut analysis that will show how many more software packages will be sold under each option and what the bottom line profit contribution will be with each. The model does this by building in another component, one familiar to even an entry-level marketer: cost.

Hathaway can look back at her original set of options and consider the incremental revenue per dollar of marketing expenditure each will produce. This would be one way in which she could decide, in a world of limited resources, which program or programs to fund out of the following options. Here are the costs of each program:

- Run a new ad campaign: $120,000
- Add new channels of distribution: $200,000
- Add two additional sales people: $200,000
- Add easy-to-use features: $300,000
Add new core features      $500,000

When cost and revenue implications are added in, the new Customer Learning Curve, Exhibit 6, now looks like this:

**Insert Exhibit 6 here**

(For the numerically-inclined, details of the computations used for Exhibit 6 appear in Appendix 1.)

Hathaway now has very interesting additional information to use in evaluating programs, both absolutely and relative to one another. There is one program that does not even pay for itself: adding new core features generates less additional income than it costs to make changes.

As she begins to compare positive programs to one another, she finds (as often happens in the Customer Learning Curve analysis) that the traditional business-to-business marketing answer—add salespeople—generates the second lowest positive return while a program not even considered before, adding additional channels, produces the highest return by far. Clearly, using the Customer Learning Curve model will help Hathaway eliminate some program alternatives, at least at their current cost level, and begin to choose between others.

You can go still further by using the Customer Learning Curve analysis as a springboard for thinking about your marketing situations in new ways, such as identifying new marketing programs that address several steps at once. For example, Hathaway might develop ads that include educational information about how to use the software more effectively, followed by commissioning market research to see whether these ads will not only increase *awareness* but will also increase *learn how to use*.

If she finds that *learn how to use* will increase from 33% to even just 40%, the gain from *learn how to use* plus the gain in *awareness* ($560,000) would generate a revenue-to-expense ratio of $4.66. Consequently, the educational ads become the second most attractive program. Since these ads cost $120,000, less than the $200,000 for additional sales people, this option may be a better fit for Aries' budget. Hathaway may also consider advertising to be a simpler alternative than hiring new salespeople and reorganizing the sales force.

In summary, the *mathematical* aspects of the Customer Learning Curve equip you to build knowledge of the marketplace and support program decisions with reliable numbers. Having a method to evaluate the costs and revenue contributions of different programs will lead you to better choices as well as more accurate sales projections. Here are some questions to consider in making those evaluations.

- How much will the new program actually cost, including hidden costs such as media placement, benefits and training for new salespeople, or add-ons in corporate overhead as sales increase?
- Will increased sales be truly incremental or will they cannibalize from other products, services, or even divisions of the company?
• Will new anticipated sales levels be lasting or only a short-term response to a new program? Will long-term effects be as good as short-term effects?
• Would sales increase \textit{without} this program? How can you determine what is causing an increase?
• Will the program set up expectations that will make it difficult to return prices to their original level if there are price reductions and special promotional pricing involved?
• How will competition respond to this program? How will that affect the success and cost of the program?
• Will any of the programs cost more to implement than they will generate in increased revenue?

Then there are questions that compare the programs to one another:
• Which of these programs has or will have the greatest impact on sales?
• Which programs have the greatest return per dollar of expenditure?

\textbf{The Customer Learning Curve in the Corporate Context}

The Customer Learning Curve offers marketers in particular and the whole company in general some specific benefits:

• The CLC identifies leverage points in both mature and new businesses. By looking at decision-making from the customer’s point of view, you will see where a product or service already has success and where the path is blocked. Consequently, your efforts can concentrate money and energy where they will create the greatest incremental sales and profits.

• The CLC fosters integrated marketing. The Customer Learning Curve demonstrates that focusing on one discipline, advertising, sales, training, and so forth, is not sufficient by itself to take the customer all the way through the learning process. By examining a whole \textit{continuum} of marketing plans and programs, you will end up with integrated and interdependent marketing approaches. Furthermore, each aspect of these approaches will be measurable, with well-defined objectives.

• The CLC focuses attention on the customer. Internal issues can cloud the waters of insight. Using the Customer Learning Curve approach moves you past internal distractions and keeps the strategic emphasis where it belongs: on closing the gap to attaining the full potential of the company’s products and services.

• The CLC expands opportunities. Right from the beginning—developing a new understanding of who \textit{needs} a product or service—the emphasis is on broadening marketing perspectives to identify completely new targets.

• The CLC supports fact-based creativity. The more specific the marketing barrier to overcome, the more creative and effective you can be.

• The CLC helps its practitioners focus \textit{attention on improvement, not blame}, freeing up even more creativity and focus for what really counts -
building the customer base, sales, and profits—rather than looking at disasters in retrospect and trying to figure out who or what went wrong.

**A Chapter by Chapter Overview**

Here is how this book will help you understand and use the steps of the Customer Learning Curve.

**Chapter One: Who Needs What Your Company Sells?** illuminates two opposite aspects of target definition: on one side, the expansive, creative search for new prospects; and on the opposite side, nailing down the numbers and defining the target so programs can be implemented accurately. This chapter also discusses segmentation of business-to-business markets and positioning to capitalize on each segment’s unique characteristics and variable needs.

**Chapter Two: Who Is Aware of Your Offering and Its Benefits?** presents a deeper definition of “awareness” that encompasses knowledge of your product or service’s benefits as well as its existence. This chapter then turns to ideas on how to communicate benefits: the relationship between using the sales force, advertising, and other communication tools, including electronic media. This chapter will also show you how classic awareness-building tools need to be adapted to the business-to-business environment—answering the perennial questions: “How much advertising is enough?”, “How do I choose between communication tools?”, and “How to I measure awareness in a meaningful way?”

**Chapter Three: Who Can Access Your Product or Service?** focuses on how customers who are aware of your product or service’s benefits can be blocked from readily accessing it and what you can do about it. This chapter begins to explore the implications of e-commerce for business-to-business marketers: why old approaches are no longer enough, what the current and future trends in e-commerce look like, and how to use e-commerce to build a competitive advantage for your company. It also identifies red flags that warn you that access changes need to be addressed and discusses ways to design new or amended channels.

**Chapter Four: Are Your Customers Motivated?** is about firing up customers to overcome the inertia that plagues so many business-to-business situations. Key issues addressed include determining who to motivate and how to excite a wide variety of potential purchasers—from administrative assistants to chief executive officers. The chapter describes the different uses for intrinsic and extrinsic motivators and how to identify demotivators that may be blocking purchase. It closes with information on how to determine the true cost of motivation programs, a key component to the mathematical analysis offered by the Customer Learning Curve model.

**Chapter Five: Who Is Purchasing Your Product or Service?** looks at closing the sale from the perspective of the strategic marketer, the person responsible for integrating the efforts of sales and marketing in bringing about actual purchase. It includes a section on how e-commerce changes the role of the sales force and how it blurs the lines between selling and marketing.

**Chapter Six** covers a second vital aspect of purchase: price. How to evaluate the impact of your prices on purchase, how to deal with competitive
pricing activities, and how to manage pricing within your own company are all covered in depth.

Chapter Seven: Who Learns How to Use Your Product or Service? probes how you can make sure that customers successfully learn to use the product or service they have purchased. This chapter provides fresh techniques for helping customers: reaching into their organizations to gain insight into barriers to effective usage and to determine how to customize learning programs; using segmentation to understand different customers and their learn-how-to-use needs; dealing with rapidly changing learning environments and products and services to be learned about. It includes a description of ways to create effective learn-how-to-use programs which serve as loyalty-builders to provide market insulation in competitive environments.

Chapter Eight: Do Your Customers Experience Value? moves into another area often overlooked by marketing: making sure that customers experience value, that they feel that the benefits they received from purchasing a product or service are worth the price they paid. This chapter explores new techniques for measuring customer satisfaction and approaches for converting insight about satisfaction levels into competitive advantage. Chapter Eight also discusses approaches to integrate efforts within a company to present a seamless program for generating customer satisfaction, even when this means involving a number of different functional areas in the company.

Chapter Nine: Are You Creating Loyal Users? turns to the last step of the Customer Learning Curve: building loyalty that leads to retaining customers. The first question this chapter addresses is how to accurately determine customer loyalty, including information on research approaches that track individual customers and their characteristics. Next, the chapter discusses customers the marketer does not want to retain and why it is important to know who these customers are. Finally, Chapter Nine describes a number of fresh and effective loyalty-building programs.

Chapter Ten: Summary and Conclusion reviews how the entire Customer Learning Curve fits together and how both the mathematical and insight components interact throughout the CLC. This chapter then addresses the important question of how to lead an organization to use the Customer Learning Curve approach, including decisions about both investments and marketing activities. Finally, it turns to a top-line review of the role of the strategic marketer and ends with a call to action for marketing strategists poised to enter the high-potential chaos of the twenty-first century.

And now—let’s begin!

Insert Appendix 1 here
INTRODUCTION
EXHIBIT 1
HOW THE CUSTOMER LEARNING CURVE NUMBERS WORK

Potential = 4000 customers

Penetration = 40 customers

50% x 40% x 60% x 60% x 50% x 60% x 70% x 40% = 1%
INTRODUCTION
EXHIBIT 2
IMPACT OF CHANGES IN THE CUSTOMER LEARNING CURVE

Potential = 4000 customers

50% × 40% × 60% × 60% × 50% × 60% × 70% × 40% = 1%

50% × 60% × 60% × 60% × 75% × 60% × 70% × 40% = 1%

Penetration = 40 customers

80 customers
If the targeted geographic or industry market is 400,000 companies, the number of companies making it through each stage is as follows.

Potential = 4000 customers

Penetration = 200 customers
### INTRODUCTION – EXHIBIT 4

**ARIES SOFTWARES REVISED CUSTOMER LEARNING CURVE—MULTIPLE CHANGES**

<table>
<thead>
<tr>
<th>Step in the CLC</th>
<th>Number of companies thru this step</th>
<th>% who make it thru this step</th>
<th>Marketing Programs</th>
<th>Resulting % making it thru this step</th>
<th>Number of companies thru this step</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need your product</td>
<td>100,000 companies</td>
<td>25%</td>
<td></td>
<td></td>
<td>100,000 companies</td>
</tr>
<tr>
<td>Are aware of the product</td>
<td>60,000 companies</td>
<td>60%</td>
<td>Ad campaign</td>
<td>75%</td>
<td>75,000</td>
</tr>
<tr>
<td>Have access to it</td>
<td>12,000 companies</td>
<td>20%</td>
<td>New channels</td>
<td>60%</td>
<td>45,000</td>
</tr>
<tr>
<td>Are motivated to buy</td>
<td>6,000 companies</td>
<td>50%</td>
<td>Additional salespeople</td>
<td>70%</td>
<td>31,500</td>
</tr>
<tr>
<td>Actually purchase</td>
<td>2,400 companies</td>
<td>40%</td>
<td>Additional salespeople</td>
<td>60%</td>
<td>18,900</td>
</tr>
<tr>
<td>Learn to use</td>
<td>800 companies</td>
<td>33%</td>
<td>Easy to use features</td>
<td>75%</td>
<td>14,175</td>
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<tr>
<td>Experience value</td>
<td>400 companies</td>
<td>50%</td>
<td>New core features</td>
<td>60%</td>
<td>8,505</td>
</tr>
<tr>
<td>Retain</td>
<td>200 companies</td>
<td>50%</td>
<td></td>
<td>50%</td>
<td>4,253</td>
</tr>
<tr>
<td>Step in the CLC</td>
<td>Number of companies thru this step</td>
<td>% who make it thru this step</td>
<td>Marketing Programs</td>
<td>Resulting % making it thru this step</td>
<td>Number of companies thru this step</td>
</tr>
<tr>
<td>----------------</td>
<td>-----------------------------------</td>
<td>-----------------------------</td>
<td>--------------------</td>
<td>--------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Need your product</td>
<td>100,000 companies</td>
<td>25%</td>
<td></td>
<td></td>
<td>100,000 companies</td>
</tr>
<tr>
<td>Are aware of the product</td>
<td>60,000 companies</td>
<td>60%</td>
<td></td>
<td>60%</td>
<td>60,000 companies</td>
</tr>
<tr>
<td>Have access to it</td>
<td>12,000 companies</td>
<td>20%</td>
<td>New channels</td>
<td>60%</td>
<td>36,000 companies</td>
</tr>
<tr>
<td>Are motivated to buy</td>
<td>6,000 companies</td>
<td>50%</td>
<td></td>
<td>50%</td>
<td>18,000 companies</td>
</tr>
<tr>
<td>Actually purchase</td>
<td>2,400 companies</td>
<td>40%</td>
<td></td>
<td>40%</td>
<td>7,200 companies</td>
</tr>
<tr>
<td>Learn to use</td>
<td>800 companies</td>
<td>33%</td>
<td></td>
<td>33%</td>
<td>2,400 companies</td>
</tr>
<tr>
<td>Experience value</td>
<td>400 companies</td>
<td>50%</td>
<td></td>
<td>50%</td>
<td>1,200 companies</td>
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### INTRODUCTION – EXHIBIT 6
COST/BENEFITS ANALYSIS OF ARIES SOFTWARES OPTIONS IN CHANGING THE CLC

<table>
<thead>
<tr>
<th>Step in the CLC</th>
<th># of cos. thru this step</th>
<th>% thru this step</th>
<th>Marketing Programs</th>
<th>New # of cos. thru this step</th>
<th>Additional revenue from just this program</th>
<th>Cost of program</th>
<th>Additional revenue per $ of expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need</td>
<td>100,000</td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aware</td>
<td>60,000</td>
<td>60%</td>
<td>New Ads</td>
<td>75%</td>
<td>$350K</td>
<td>$200K</td>
<td>$2.92</td>
</tr>
<tr>
<td>Access it</td>
<td>12,000</td>
<td>20%</td>
<td>New channels</td>
<td>60%</td>
<td>$1,400 K</td>
<td>$200K</td>
<td>$7.00</td>
</tr>
<tr>
<td>Motivated</td>
<td>6,000</td>
<td>50%</td>
<td>Add sales-people</td>
<td>70%</td>
<td>$770K</td>
<td>$200K</td>
<td>$3.85</td>
</tr>
<tr>
<td>Purchase</td>
<td>2,400</td>
<td>40%</td>
<td>Add sales-people</td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learn to use</td>
<td>800</td>
<td>33%</td>
<td>Easy to use features</td>
<td>75%</td>
<td>$875 K</td>
<td>$200K</td>
<td>$4.38</td>
</tr>
<tr>
<td>Experience value</td>
<td>400</td>
<td>50%</td>
<td>New core features</td>
<td>60%</td>
<td>$140 K</td>
<td>$300K</td>
<td>Negative</td>
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<tr>
<td>Become loyal</td>
<td>200</td>
<td>50%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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INTRODUCTION – EXHIBIT 6 (CONTINUED)

[*Note: Additional revenue assumes that only one program changes at a time and that all other percentages remain the same as they were in the original Customer Learning Curve. The Appendix provides details of these calculations.]
<table>
<thead>
<tr>
<th>New Ad campaign</th>
<th>Incremental Revenue</th>
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<tbody>
<tr>
<td>100% 60% 20% 50% 40%</td>
<td>0.3% 50% 50% 0.2%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $700,000</td>
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</table>

<table>
<thead>
<tr>
<th>New ads</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100% 75% 20% 50% 40%</td>
<td>33% 50% 50% 60%</td>
</tr>
<tr>
<td>100000 75000 15000 7500 3000 999999 500 300 300 $1,050,000 $350,000</td>
<td></td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>New channels</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>100% 60% 20% 50% 40%</td>
<td>0.8% 33% 50% 50%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $700,000</td>
<td></td>
</tr>
</tbody>
</table>

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<td>0.8% 33% 50% 50%</td>
</tr>
<tr>
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</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $700,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional sales people</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100% 60% 20% 50% 40% 33% 50% 50%</td>
<td>0.2%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $2,100,000 $1,400,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Easy to use features</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100% 60% 20% 50% 40% 33% 50% 50%</td>
<td>0.2%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $2,100,000 $1,400,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Easy to use features</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100% 60% 20% 50% 40% 33% 50% 50%</td>
<td>0.2%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $2,100,000 $1,400,000</td>
<td></td>
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<table>
<thead>
<tr>
<th>New core features</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>100% 60% 20% 50% 40% 33% 50% 50%</td>
<td>0.2%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $2,100,000 $1,400,000</td>
<td></td>
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<thead>
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<th>New core features</th>
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<tbody>
<tr>
<td>100% 60% 20% 50% 40% 33% 50% 50%</td>
<td>0.2%</td>
</tr>
<tr>
<td>100000 60000 12000 6000 2400 799999 400 200 200 $2,100,000 $1,400,000</td>
<td></td>
</tr>
</tbody>
</table>