

Placing value on relationships

The value of business relationships is a key component of the 'intangibles' that constitute the goodwill element that's deemed so important in valuing organisations. Yet, the events of the last two years taught many companies a harsh lesson in how they'd previously valued their business relationships. Supposed deep understandings turned out to be merely transactional connections, and long-standing 'partners' seemed quite happy to do their business elsewhere.

One banker commented at the time, "We thought we had strong client relationships, but when times got hard we had some nasty shocks. Clients who had been with us for many years simply walked away."

In his book, *The Trusted Advisor*, David Maister estimates the cost of winning work from a new client to be up to seven times higher than winning more work from an existing client. Yet few organisations are really aware of the power and long term financial value of building sustainable relationships with customers, where trust, insight and understanding make all the difference. But with a new business world emerging as the global economy slowly turns around, the awareness around this value is growing: not least because of a number of organisations now applying metrics that link such relationship equity directly to business performance.

In the UK, Andrew Brown, Managing Director of Predaptive OD, works with organisations to move their sales relationships with clients up the value chain. "In good times, it's easy to think you have really great sales relationships," he told *Connections*. "But the reality is that many salespeople are simply service providers or product fillers. There's no real relationship based on insight or mutual understanding. The recession has amply demonstrated that. Now, post-recession, customers are much more challenging: they're using professional procurement techniques and building their internal capabilities to create new forms of value. Unless salespeople can engage at a much deeper level

they will become sidelined in that on-going process.

"So, we believe that sales organisations have to think and operate differently. They have to be seen as creative individuals whom the customer can rely on and engage with, bringing real value to the relationship – that's how they'll build equity with their clients.

"We work at an organisational level measuring the impact of all the interfaces between an organisation and its customers. We look at the current relationships, map these against organisational aspirations and measure the gap. We classify relationships along a line that runs from dysfunctional through transactional and functional to reciprocal and partnering. Clearly the aim of the selling organisation is to move

"Customers are far more sophisticated than ever before – it's time that the way we do business with them evolved too."

along that line – and very probably to consider if there's any value at all in expensive sales people operating in dysfunctional or even transactional arrangements. The goal has to be to enable salespeople to build such interesting, insightful conversations that the client chooses to ring them, creating a pull rather than push relationship with clients, one where clients are ringing wanting access to their problem solving insights. This is relationship equity in action.

"The benefits of such an approach are clear: first it increases the long-term value of the relationship, and second, it locks



out transactional competition. Although the effort has to start with your sales function, it has to ripple throughout the whole organisation. Everybody can contribute to equity building. If you can crack that, it has a very positive multiplier effect."

Meanwhile, Keith Dugdale of IOWEU has married the principles of relationship equity with software that analyses the value of client relationships. In his view, 'relationship capital' is a new business currency that will provide genuine differentiation for businesses that really put clients at the heart of their operation.

"We have to move from customer service managers being reactive problem solvers to an attitude of building real trust with everyone we want to do business with. But we also need to be able to measure how effective these relationships are so that we can leverage off the really good ones but also work to improve those that aren't so good

yet – but could be really valuable in the future.

"Technology is part of this solution, but relationship capital has a huge human element – and for many organisations it will mean major changes in the behaviours encouraged in the business and, crucially, the way people are rewarded.

"More than ever, people are rewarded on hitting short-term tactical targets that don't square with the overall social, technical and business relationships that people in organisations have with customers and other stakeholders. Focusing on increasing relationship capital has to change that model. The focus will move from the short-term hit based on meeting today's target to a trusted relationship which, through the strength of its mutual understanding will keep the price point where you want it to be – and also open the door to a greater breadth and depth of business interaction." ■

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