Short-term focus leads to long-term erosion of value

When companies of the magnitude of Coca-Cola, the world's largest soft-drink maker and most valuable brand, advise that they are withdrawing from the practice of forecasting quarterly earnings, then it is clear that something fundamental has changed in the market, says Doug Leather, CEO of Knowledge Factory.

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Quarterly forecasting, against which companies are then measured and their perceived value determined and share price influenced, is deeply entrenched in the US, and leads to a similar focus in other markets.

Late last year Coca-Cola became the first major corporation to advise that it would no longer play by this rule; rather, it would focus on long-term strategies, it advised world markets.

The motivations behind such an action are relatively easy to understand. Quarteritis, the practice of constantly reporting on what is expected to happen, and what has happened, has been a major factor behi the downturn of the market over the last five years. Part of this is the fact that companies are frantically driv by the desire to satisfy analysts, market commentators, regulators and others with an interest in their success. Another factor, unquestionably, has been the fact that companies themselves and analysts and commentators are unable to determine the true value of companies. As a consequence, they are trying to measure and satisfy stakeholders based on incomplete criteria.

For instance, there are no measures on balance sheets to reflect customer satisfaction or dissatisfaction; and executives, who are responsible for delivering on shareholder expectations, are typically not directly responsible for or involved in customer satisfaction.

Yet, empirical research has shown, corporate performance is inextricably linked with customer manageme principles.

"Global research has drawn a direct link between excellent customer management and a positive bottom line," says Leather.

This research was conducted by London-based QCi, with South African partner Knowledge Factory participating in its role as QCi's local representative and partner. The study, termed State of the Nation III, released in March 2003, shows the direct causal link between customer management and business success, and points out that today's corporate structures tend to shield the CEO from overall responsibilit and answerability for success with customers.

"The world has shifted dramatically over the last three decades," notes Leather. "In 1970, 50% of a company's value was reflected in its intangibles, which exclude profit and loss statements. Today, it's 80% and one of these intangibles is the way in which companies manage their customers.

"Customer management, it has been shown, can make or break a company in today's competitive, produc commoditised world. Over time, it is likely that customer management competence will be made a mandatory item on the balance sheet for reporting purposes."

Such an item would likely be a customer management index, a meaningful, empirical measure; an independent, audited statement of fact, measurable against other companies' performance.

Customer management, Leather stresses, is the way an organisation behaves in order to identify which customers to manage, how they want to be managed, and then how to organise channels and infrastructur (people, partners, processes, IT) to manage them effectively.

However, given the clear importance of customer management, CMAT research has shown that the true state of most companies' relationship with their customers never actually reaches top management.

"CEOs and their fellow board members should no longer be able to make excuses and claim they don't know what's happening at the coalface of customer relations," Leather warns. "They should listen more to people like academics, risk managers and others, who warned during the long bull run of how damage to a company's reputation could wipe billions in goodwill off the value of the share price."

Profits and successful business are by-products of other, successful, appropriate activities, Leather notes This makes a focus on financial performance without prior consideration for these other, synergistic activit a self-defeating activity.

Instead of investing time, effort and money in dealing with the symptom (financial under-performance), companies should be investigating and resolving the causative issues, one of which is customer management. "Reacting to rather than being able to drive and manage issues is key to improving business performance overall," concludes Leather. "Executives spend millions on 'managing' their earnings, which can imply financial engineering - as we've seen - that ends up being unhealthy for customers, employees, and investors. For short-term success they make inappropriate product development decisions, and pursu new clients while forsaking existing ones.

"In short, sustainable businesses are those which make long-term decisions and put in place structures which support such an approach. Reporting by the quarter may or may not be one of them, but what we do know is that while business trends come and go, customer innovation and retention are timeless and will yield long-term sustainable advantage."

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