

Inside the Customer Universe

**How to Build Unique Customer
Insight for Profitable Growth and
Market Leadership**

Henrik Andersen & Thomas Ritter



John Wiley & Sons, Ltd

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West Sussex PO19 8SQ, England
Telephone (+44) 1243 779777

Email (for orders and customer service enquiries): cs-books@wiley.co.uk

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John Wiley & Sons Canada Ltd, 6045 Freemont Blvd. Mississauga, Ontario, L5R 4J3 Canada

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Library of Congress Cataloging-in-Publication Data

Andersen, Henrik, 1953-

Inside the customer universe: how to build unique customer insight for profitable growth and market leadership/Henrik Andersen, Thomas Ritter.
p. cm.

Includes bibliographical references and index.

ISBN 978-0-470-69424-4 (cloth : alk. paper) 1. Customer relations. 2. Marketing.

I. Ritter, Thomas, 1970- II. Title.

HF5415.5.A525 2008

658.8'343—dc22

2008015120

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN 978-0-470-69424-4 (HB)

Typeset in 11/16pt Trump Medieval by SNP Best-set Typesetter Ltd., Hong Kong
Printed and bound in Great Britain by TJ International Ltd, Padstow, Cornwall, UK

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Preface

Learning is often described as a voyage of discovery. Our voyage into the customer universe began in the fall of 2004. While talking about challenges in business life, we realized that we both were trying to solve similar problems: These problems were with customer segmentation. And as travel is often nicer with company, we embarked on a joint voyage.

Our original idea was to find a valid segmentation framework useful for firms – that was as precise as we were able to put it at the time. We had been down the road of statistically significant segmentation models realizing that no matter how many Greek letters we employed, implementing segmentation gave no significant impact on profit. Something was wrong – not with the models but with the customers who apparently behaved like moving targets showing little if any sign of consistency. In contrast, by looking at ourselves, our family members, and friends and colleagues, their behaviors seemed reasonably consistent to us and they did not seem to

change. And thanks for that: If they constantly changed their behaviors in unpredictable ways how could we trust these people being close to us? Generally, people are not changing behaviors radically as implied by some segmentation models. If so there would be no social order, no collaboration, no friendships, no trust and no loyalty.

Many hours have since been spent in our offices, in meeting rooms, at conferences (scenes) discussing concepts, running workshops, implementing sales tools (roles) – oh yes, ever since we worked out that types, roles and scenes are the dimensions, we couldn't stop using them.

There was no tour plan for the voyage, nor did we make tour shirts of our voyage. In hindsight, the first leg was on customer types. Henrik had done some projects on identifying “real customers” and this soon became our dimension customer types. And then roles and scenes. It has taken us a few discussions to sort these dimensions out – we had the cases but we were missing the words. We finally had a segmentation framework that worked. Actually, after knowing the result, we cannot imagine that it seemed difficult at the start. That reminded us of the Egg of Columbus:

The story about Columbus goes that after he had discovered America he attended a dinner which a Spanish gentleman gave in his honor. At the dinner a person began scoffing at the admiral's success in finding the new world, stating that what Columbus had been doing was the simplest thing in the world. Anybody can do it – just sail across the ocean and coast along the islands!

In reply, Columbus asked all the gentlemen in attendance to make an egg stand on end. After all the men tried and failed, they stated that it was impossible. Columbus then placed the egg's small end on the table, breaking the shell a bit, so that it could stand upright. Columbus then stated that it was "the simplest thing in the world. Anybody can do it, after he has been shown how!"

(adapted from Wikipedia)

For us, CUBEical segmentation is like the Egg of Columbus: It is easy once shown how. While preparing for landing from our voyage and writing the first book draft two years ago, we ended up with a problem. The conclusion chapter became longer and longer as all these things kept appearing which our segmentation model solved. So instead of disembarking and publishing a book on good segmentation, we refueled and continued our voyage. Despite having the customer universe map, we didn't have a map for this part either. We just went after the stars – but we found three maps which today are our version of developing a strategy.

From here, it was turbulent. We did implement solutions, saw how people in organizations started sharing knowledge without being pushed to do so. We were also allowed to fly through fast moving consumer goods universes and key account management universes to explore some challenging territory. Some jolly good trips.

Now we have landed. Maybe a bit overwhelmed by the trip's impressions. We hope that our travel guide transports the enthusiasm we have for the topic, the richness of ideas and data which is in that area, the appreciation of all those people we are indebted to. And we hope the business management framework CUBEical Thinking makes as much sense to you as it makes to us.

What did we learn on the voyage? Well, it is in this book. Enjoy it.

Henrik Andersen

Thomas Ritter

Copenhagen, January 2008

1

A quick guide to Customer Universe Based Execution

EVERY EXECUTIVE STRIVES HARD FOR BETTER EARNINGS before interest, tax, depreciation and amortization – EBITDA has become the language of executives. While focusing on building long-lasting profitable customer relationships based on true customer loyalty, most find themselves in a position where fulfilling this objective seems to be an uphill battle where one essential framework is missing – a model of the customer universe.

In this book we present our view on the customer universe and on how executives can base their execution on insights about the customer universe. Our main message is that profitable revenue growth can only be achieved by Customer Universe Based Execution, we call this CUBEical Thinking. CUBEical Thinking is a business management framework – a new way of thinking business. It is strongly rooted in understanding customers in their universe, so we apply a holistic view of customers with all the complexities of today's

markets. We do not make the universe flat to achieve simplicity; rather, we try to describe the customer universe as complexly as necessary but in consistent terms thereby making the description simple and intuitively recognizable. CUBEical Thinking enables strategy development and implementation and does not stop at customer insight – so it is not “only” a marketing tool. It provides a common view and language about customers to firms – so it enables firm-wide implementation and avoids island solutions.

CUBEical Thinking – a business management framework

By introducing our concept of CUBEical Thinking, we will demonstrate how any firm can make sense of customers, create true customer loyalty, realize profitable revenue growth and potentially obtain market leadership. CUBEical Thinking is a business management framework building on three elements (Figure 1.1):

1. **CUBEical segmentation**, which provides a stable segmentation framework predicting customer needs and thereby providing firms with the platform for becoming market leaders by understanding and setting customers' expectations. Based on the three dimensions of customer types, roles and scenes, the competitive arenas of a firm are defined. These arenas or submarkets, where the interactions with customers take place and where the firm meets its competitors, are easy to understand for everybody and thus easy to communicate across the organization. The unique features of CUBEical segmentations are:
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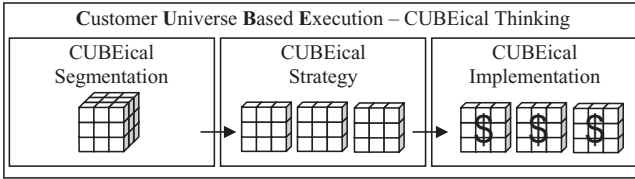


Figure 1.1 The CUBEical Thinking business management framework.

- The stability of the segmentation – overcoming unpredictable segment membership changes;
- The recognizable real life description of customers – overcoming the artificial average driven statistical segment descriptions;
- The handling of customer complexity through roles and scenes – overcoming the unrealistic one-segment-fits-all-occasions problem.

Herewith, CUBEical segmentation is breaking new ground in customer segmentation by overcoming the shortcomings of current segmentation practices that block the road for customers to become the pivotal focus for the executive agenda of driving profitable revenue growth.

2. **CUBEical strategy**, which builds on CUBEical segmentation and provides a firm with a roadmap of where and how to compete. Identifying competitive arenas, which are important to customers, possible to access for the firm, and profitable to serve, is the key foundation of a sound business strategy to achieve true customer loyalty. CUBEical strategy provides the framework for generating

true loyalty by securing that all three areas of the customer and supplier universe are aligned: (1) mutual value is created (delivery for both parties); (2) customer needs and expectations match the firm's competencies and offerings (promise for mid-term developments); and (3) customer and supplier types fit, roles are aligned and scenes matched (foundation match for long-term development). The unique features of CUBEical strategy are:

- A truly customer-driven strategy foundation – not just lip-service, but insight based;
- A strategy defined towards detailed competitive arenas, not markets – by understanding markets as combinations of competitive arenas, resource allocation becomes more precise and action oriented – instead of pointing out a target market and leaving the inner market mechanics as a black box.

Herewith, CUBEical strategy is breaking new ground in strategy development as it is directly rooted in the customer universe through the CUBEical segmentation framework. It integrates all functional substrategies into one strategy for where and how to compete within a market in general and the individual customer universe in particular.

3. **CUBEical implementation** is our way of implementing the strategy through tailored and highly targeted marketing (i.e. targeted communication), sales (i.e. realizing cross- and up-sales potential) and new product develop-
-

ment initiatives (i.e. focused innovation efforts). The unique features of CUBEical implementation are:

- One common language, from top management to shop floor level, from sales and marketing to accounting, from business people to engineers;
- One face to the customer – because everybody knows the customers;
- Targeted sales and marketing efforts to increase sales and marketing effectiveness;
- Targeted customer relationship management (CRM) system to support sales and marketing in realizing cross- and up-sales potential.

CUBEical implementation improves strategy implementation by providing a platform for learning from customers and markets. CUBEical implementation enables harvesting, structuring and sharing customer and market knowledge. It leads the way to effective marketing and sales programs where resources are invested with great impact on customers. Impact is measurable and CUBEical implementation can be documented at the top and bottom line as profitable revenue growth.

CUBEical Thinking reveals customers' needs and enables firms to proactively set customers' expectations beyond the reach of the competition. The strange marketing claim that firms have to surprise their customers by exceeding

expectations in order to be successful is not only outdated, but conceptually wrong. Exceeding customer expectations every time is simply impossible – at least for a profit. Furthermore, surprised customers have not paid for the feature they are so happy with, so revenue potential has not been utilized.

The dimensions and elements of the customer universe

Managers need to think beyond expectations and uncover the drivers of expectations. But this is easier said than done. Expectations are, of course, driven by customer needs. But there seems to exist some general agreement that customer needs are inaccessible with respect to market research and that the drivers of customer needs are unknown – at least they have been until now. Through our research, we have decoded the foundation of the customer universe and thereby identified the drivers of customer needs: customer type, roles and scenes. These three dimensions define the customer universe and are the building blocks of CUBEical segmentation.

But let's start in the well-known sector of the customer universe (Figure 1.2). Being unable to pin down the needs of customers, firms try to reveal the extent to which customers feel that the firm fulfills their needs. In order to gain an overview of the situation, these firms spend millions of dollars on customer satisfaction reviews and on segmenting their customer base accordingly into ambassadors, neutral customers, or "terrorists". But still, even the highly satisfied ambassadors

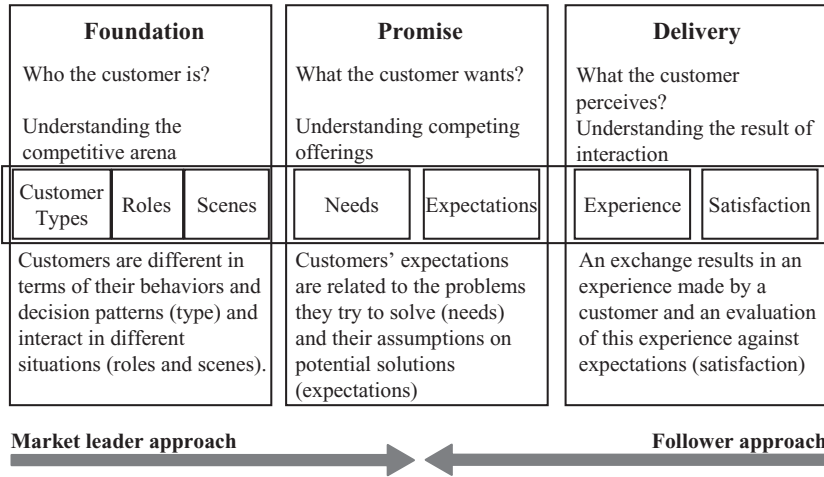


Figure 1.2 Dimensions and elements of the customer universe.

are churning. Executives start realizing that satisfaction scores are not only weak loyalty predictors but that satisfaction studies offer little, if any, insights into possible improvements. Goods and service improvements cannot be derived from satisfaction reviews because the causes of dissatisfaction are not revealed sufficiently.

In order to overcome the blindness of customer satisfaction reviews, progressive firms engage in customer experience studies. When a customer signals dissatisfaction, the natural question is: What did you experience with our firm that made you dissatisfied? By mapping customer activity cycles, insights are gained into the experiences made on a customer's trip through the cycle. Therewith, improvements can be made to give customers a better experience – within the cycle. Insights regarding radical innovations are hard to find that way around.

Digging deeper into the customer universe, firms start to analyze customer expectations, i.e. what customers want to experience throughout their activity cycle. This type of analysis opens executives' minds towards new thoughts and innovations. But one fundamental problem remains: If firms want to become market leaders, i.e. they want to set an industry agenda and move customers' expectations, executives need to explore customers' expectations before customers tell them. Marketing has to do with expectation management – so firms need to know and predict customers' expectations. This is what CUBEical Thinking is about.

One striking characteristic of satisfaction, experience and expectation is their dynamic nature. Customers' expectations, their experiences and their satisfaction scores change frequently. Insurance companies and banks are now expected to send personalized letters, aircrafts feature internet connections and food is supposed to be ecologically produced. With technological development progressing, expectations are moving targets. Likewise, experiences depend on many things along the customer activity cycle. Every experience is new by definition, and thus satisfaction is subject to change. Satisfied customers become dissatisfied, and vice versa. Consequently, expectation, experience and satisfaction seem to be moving targets and thereby doubtful as a bearing point for strategy and execution. To base corporate strategies or innovation programs on such measures is a dangerous undertaking.

The concept of customer loyalty implies that long-term relationships are founded on shared values and beliefs vis-à-vis the firm and its customers, not just on satisfactory fulfillment

of promises (Figure 1.2). Taking this approach to loyalty, CUBEical Thinking explains the stable foundation for building long-lasting relationships based on aligning the customer universe with the supplier universe. True customer loyalty is the result of setting customer expectations beyond the reach of competition and is based on insights into the customers' universe. Customers are not moving targets, as many believe them to be. Dynamics exist within the stable competitive arenas of the customer universe.

Discovering the customer universe

The first part of the book invites the reader to discover the customer universe. In Chapter 2, we discuss the executive challenge of driving EBITDA growth and how customers fit into this challenge. The lack of customer focus in boardrooms is a result of a translation problem between the customer-facing departments (e.g. sales, marketing, service) and the C level (e.g. CEO, executives, management). In order to solve this, we define three executive requirements and translate them into criteria for good segmentation. Only by meeting the criteria for good segmentation can customers become the pivotal focus on the executive agenda.

In Chapter 3, we discuss current segmentation practices in relation to the criteria of good segmentation. We follow up on this discussion by introducing customer types in Chapter 4 and roles and scenes in Chapter 5. These three aforementioned elements provide firms with a deep insight into their customers' needs. We combine these three dimensions and outline our CUBEical segmentation approach in Chapter 6.

Customer types

The values and beliefs of an individual person or an organization are generally assumed to be mirrored in the behavior and the decisions of the person or organization in question. Thus, it is widely accepted that people and organizations differ; for example, in terms of their risk orientation (some like uncertainty, others prefer predictability), their orientation towards others (extrovert vs introvert), their orientation to nature and sustainability, etc. Values and beliefs drive people's and organizations' overall behaviors either consciously or unconsciously and define their type. In Chapter 4, we explain how firms can identify customer types and why such segmentation lives up to the executive requirements of good segmentation.

Roles

Many firms regard a customer as one customer. That is in most cases a fatal mistake. Having this one-face-fits-all attitude mistreats customers and is often a sign of not being customer oriented. Customers are multi-individuals, i.e. they perform different roles in their interaction with a supplier. Like an actress, customers have, or play, different roles. Therefore, we use the role concept to capture these differences.

Roles are defined in relation to other people – or firms in case of business markets. Typical roles are egoist (only thinking of oneself, i.e. being alone), mother-father-sister-brother (in relation to family), employee (in relation to a boss), colleague (in relation to co-workers) and functional position

(in relation to customers and suppliers). We are very used to shifting roles, often many times a day. Sometimes, we are even performing different roles simultaneously such as when taking a mobile phonecall (business) while minding the kids (father/mother).

Airlines, railway operators and car rental agencies often express blindness to customer roles. These firms have customer loyalty cards and claim they know their customers, but they never know in which role the customer is in when standing in front of them. The busy executive is not interested in a stay-over deal when the plane is overbooked, but the romantic partner on a weekend getaway may consider it. A simple question about the purpose of the trip at the desk would not only be friendly, but could make a big difference in the level of customer understanding and interaction.

The focus on roles solves some major problems conventional segmentation approaches have. First, it allows treating a customer according to his current, actual role and not to some average expected behavior of that customer. Understanding customers as “multividuals” goes one step further towards true customer orientation, i.e. understanding customers in their complexity and situational environment. We explore roles in Chapter 5.

By now we have a character (customer type) with a script (role), but we still need a scene to play to complete our CUBE-ical segmentation approach and thereby picture where and how interactions with customers take place and where and how competition unfolds.

Scenes

A firm meets a customer in different scenes. Scenes are physical objects, the resources which a customer has at hand. It makes a major difference if a person sits in a car, a train, on a bicycle or is walking. By varying the resources, i.e. the scene, different needs occur.

Scenes are the places and spaces of interaction – the environments. Customers move through different scenes: People drink Coke at home, on the go, in the office, or in a restaurant. Again, different needs are connected to different scenes, e.g. the two-liter bottle is more suitable for home drinking than on the go. Consider another scene shift, i.e. change in resources: The kind of beverage wanted changes with different meals, e.g. a hotdog, a salmon sandwich, roast beef, or a cake. Some will suggest other terms like occasion and situation to capture resource variation but these terms confuse more as they collapse customer type, roles and scenes. Our experience shows that executives can easily understand scenes in parallel with a theater – and they fully understand the business implications of finally being able to set the scene. Scenes are further discussed in Chapter 5.

Competitive arenas

Bringing the three elements, customer types, roles and scenes, together, we get our CUBEical segmentation framework (Figure 1.3). We call the subcubes “competitive arenas” because it is here competition unfolds. Customers with similar

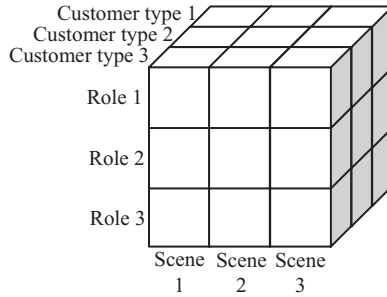


Figure 1.3 CUBEical segmentation framework.

needs search for solutions and firms compete to serve these customers. Firms that do not address the needs of a competitive arena are not competing because customers do not recognize them as interesting – these suppliers are simply not in the customers' universes.

In the CUBEical segmentation framework we capture the dynamics of customers in role and scene changes without having to change the segmentation model. This is a major advantage and differentiates CUBEical segmentation from other segmentation frameworks, which have problems in capturing and explaining customer complexity. Our approach offers a stable, intuitively understandable and easy-to-implement segmentation which is extremely powerful for strategy development and implementation.

Looking at the example of the cube shown in Figure 1.3, with its 27 distinct subcubes, or competitive arenas, many executives will at the first glance judge such a model as being perhaps too complex. However, the beauty of CUBEical segmentation is that it does not represent an artificially

constructed framework but a structure within which all elements in all three dimensions – customer types, roles and scenes – are intuitively understandable and recognizable. Furthermore, it is not 27 segments that have to be memorized. In this case the segments are represented by the three customer types together with the few selected combinations of three roles and three scenes. Thus, customers are easily segmented, and the framework is easily adopted by firms and implemented across units, divisions and functions.

Activating the customer universe

In the second part of the book, we use the insights gained from the discovery of the customer universe to develop a strategy. CUBEical segmentation lays the foundation for CUBEical strategy, our concept for understanding and building true customer loyalty as further explained in Chapter 7. After having gained an understanding of the drivers of customer needs by performing CUBEical segmentation, executives must map the universe of their firm against their customers' universes. Firms also have values and beliefs (firm type), play their roles, and act in different scenes. But not all firms need to play all roles or in all scenes (e.g. some may not be present in all countries). A firm must have competencies that match the needs of the customer. These competencies enable the firm to create offerings that set customers' expectations. The offerings will be implemented (delivered, sent) leaving the customer with a satisfactory or unsatisfactory experience, and the firm with fulfillment and performance realization (see Figure 1.4).

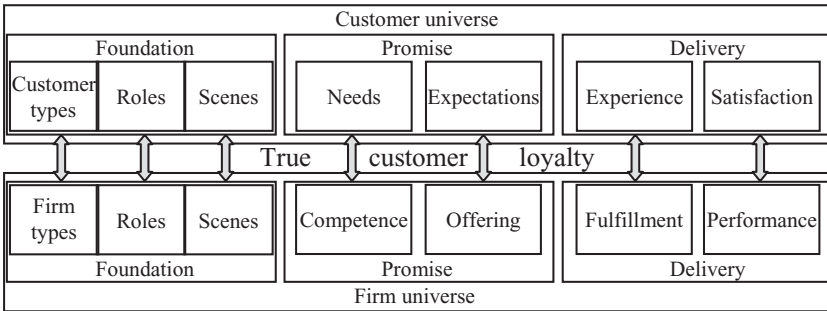


Figure 1.4 Aligning the customer and firm universe for true customer loyalty.

The CUBEical strategy framework has true customer orientation along the total customer universe at its core. True customer loyalty – commonly stated as the strategic target of firms – can only be achieved when a firm and a customer are aligned along the whole universe. A customer’s initial experience must be positive and followed by a high degree of satisfaction; additionally, the firm must realize a positive delivery experience and satisfactory performance. Only when both sides create value for themselves will they be interested in conducting further business.

However, the firm–customer relationship develops over time. As such, both sides need to offer each other long-term perspectives which are based both on the firm’s competencies and resulting offerings as well as on the customer’s needs and expectations. This fit secures, at a minimum, a mid-term relationship as the basis is not only here and now but also tomorrow and the day after that.

Finally, true long-term relationships can only exist when firms and customers share their values and beliefs, play all

necessary roles for each other, and meet in the scenes they enjoy playing in. True customer loyalty is achieved by capturing customers in their complexity and totality.

No firm has the resources to address all competitive arenas as identified through CUBEical segmentation. Thus, CUBEical strategy – in addition to addressing true customer loyalty – also provides the platform for making well-informed, transparent decisions of where and how to allocate and further develop the scarce resources of the firm.

Understanding the interplay between customers' segments and resources, firms realize that some customers are too far away to be reached, some are too insignificant to be interesting, and others are the black hole of losses. It is obvious that other suppliers' universes may be differently positioned – closer or further away from customers. It is in laying this strategic puzzle that firms decide which competitive arenas to compete within.

Once the overall strategy of the firm and the customer strategies have been defined through applying the CUBEical strategy framework, marketing and sales can develop their plans in order to gain a customer, to make the deal and utilize cross- and up-sales potential. We focus on CUBEical implementation in Chapter 8.

Marketing and sales plans take their departure in customer types and, through addressing the specific roles and scenes, firms can turn the gained insights into business action. CUBEical implementation in marketing is realized through better targeting of corporate branding, product branding and

customer communications, while CUBEical implementation in sales is realized by leveraging customer relationships for up- and cross-selling. Through understanding customer needs by determining customer types, roles and scenes, firms can actively work with customers, efficiently brand themselves and sell the relevant part of their product portfolio.

Living the customer universe

The final part of the book deals with living the customer universe in day-to-day operations. In Chapter 9, we combine the different elements of segmentation, strategy and implementation into CUBEical Thinking, our business management framework. We explore CUBEical Thinking from a knowledge management perspective and discuss how CUBEical Thinking improves inner-firm communication on a day-to-day basis. One of the main headaches in business is lost customer knowledge – the lack of a consistent structure to accumulate customer intelligence. Not speaking the same language and not sharing vital customer information is the best way to waste resources. It is of paramount importance for firms to collect, distribute and act on customer knowledge. While this claim is not new, our frameworks offer the tools to achieve higher levels of customer knowledge management and avoid typical traps. Therewith, CUBEical Thinking provides a framework for integrating and consolidating all customer-facing activities in one transparent plan, across all functional areas within the firm.

We also dive into typical settings in business, the fast moving consumer goods universe (FMCG, Chapter 10) and the key

account management universe (KAM, Chapter 11). In addition, we address the management of mergers and acquisitions – a major challenge for firms in their growth efforts (Chapter 12). We explain how CUBEical Thinking helps firms to live the customer universe in a consistent and effective manner. Our frameworks help reduce the inherent complexity – not by discarding complexity but by structuring complexity and, thus, making the customer universe manageable.

Summing up

Many executives are obsessed about customer retention: “Are my customers loyal?” This is, of course, extremely important. But true loyalty is more complex than satisfaction – true loyalty is built along the whole customer universe. By measuring and managing the end of the customer universe, i.e. satisfaction, executives are truly myopic and miss the opportunity to develop a sound foundation for customer loyalty. True loyalty is built on joint values and beliefs, matching roles and setting the scene – and by turning this into communicating and selling which is relevant for customers. Understanding this logic transfers business from reactive followers into loyalty leaders who set expectations.

Success depends on Customer Universe Based Execution – if executives understand customers in their universe, competitive advantage can be gained. This is the CUBEical logic. Firms can become market leaders by setting the rules of the game to the benefit of both their customers and themselves. As pointed out, customer types, roles and scenes are predictable and, therewith, behavior is predictable and stable. Since
