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Bridging the Gap Between Shareholder Value and Customer Value

A Sutherland Analytics Perspective

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Shareholder value is an increasingly controversial topic in the C-suite. More and more business experts point to the unanticipated risks of the shareholder value approach, arguing that the purpose of a company must be to serve the customer, not to maximize short-term profits for shareholders.

Even former proponents such as Jack Welch, the former head of GE, have declared shareholder value the "dumbest idea in the world"—an idea with disappointing consequences even for the shareholders themselves. But old habits die hard: most corporations continue to privilege short-term profits over the interests of their customers.

Does this mean that the C-suite has to abandon its own self-interest to please its customers? The answer is a resounding—if surprising—"no." Thanks to new developments in technology, organizations can now connect what used to be two separate goals.

Today's corporate ground is littered with the corpses of huge entities (such as Blockbuster, Circuit City, and RadioShack) that could see their customers vanishing and shareholder value plummeting but lacked any systematic, meaningful strategy to connect the two phenomena. By ignoring the pulse of the customer, these firms hung on to the false sense of being able to grow shareholder value sustainably, until they cut themselves to the bone and it was too late to recover.

Using big data analytics, today's companies can manage customer delight to produce a direct impact on shareholder value.

Making the Connection Between Customer Lifetime Value (CLV) and Shareholder Value (SV)

Businesses are traditionally rated based on the value they generate for their shareholders, a figure that's calculated based on estimated discounted free cash flow[1]. Shareholder value is essentially how much cash will be left at the end of the day to distribute to shareholders.

But there's a weak link in the traditional SV formula—it doesn't pinpoint the true source of value or identify the origin of the free cash flow. The formula allows companies to maximize shareholder value by managing major value drivers such as profit margin, tax rate, cost of capital, etc., but it doesn't help them recognize or grow the true source of value, or accurately project future value.

Of all the ways to increase shareholder value as an outcome, the most effective is to identify and grow the true origin of the free cash flow. But what is this origin? The identity of the free cash flow is so simple that you may be surprised: it's nothing other than the value of all your customer relationships projected through time.

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[1] Free cash flow is defined as the measure of how much cash a business generates after accounting for capital expenditures such as buildings or equipment. This cash can be used for expansion, dividends, reducing debt, etc.

Most CEOs intuitively recognize that there must be some relationship between shareholder value and customer lifetime value, but because they don't have any way to pinpoint or manipulate this connection, they ignore it. Customer lifetime value is the business of marketers, they say; our business is to grow SV.

But it's essential to recognize and utilize the relationship between SV and CLV if one wants to grow SV in the most efficient way. The customers are the ones who buy your goods and services; their actions lead directly to revenue and consequently, to free cash flow; and free cash flow is the basis for calculating shareholder value.

If shareholder value is the sum of all the future free cash flow a company generates, then the best way to calculate, predict, and improve shareholder value is to take a sharply focused customer-centric strategy that will have an immediate and direct impact on SV.

If you want to make the most of the relationship between CLV and SV, your first priority is to understand how your company currently calculates CLV, and research how you can track, analyze, and improve it. But mining data is not enough. Your company must have a targeted strategy—specifically an analytics strategy—for turning that data into actionable insights that you can use to systematically grow CLV in a way that will have a quantifiable impact on SV.

By placing your customer squarely at the center of your company's picture, you can maximize shareholder value for the long-haul.

Should businesses maximize short-term profits or delight their customers? The answer is, smart companies—like Amazon—do both. Amazon is perennially tracking the customer and always seems to invest in areas where the customer is "likely to go" rather than limiting themselves to areas where the customer is "right now." The result? Amazon has always been at the top of customer experience ratings and Jeff Bezos is now ranked number 1 among the "The Best Performing CEOs in the World" by Harvard Business Review for delivering top results in the long run.

Don't be a CEO who overlooks this emerging truth because it's hidden by a new thought strategy. The point is not to abandon existing approaches to SV, but to augment them with a powerful

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and accurate method that targets the connection between CLV and SV. By using predictive data analytics to gain actionable insights into your relationship with your customers, you can shape the best future for your shareholders, your customers, and your company alike.

By leveraging the power of sophisticated data analytics, you can grow your greatest asset—your relationships with your customers. When you monetize and extend those relationships through time, you will increase your customer lifetime value—and this will have an immediate and quantifiable impact on your shareholder value.

About the Author

Phani Nagarjuna is Chief Analytics Officer of Sutherland and CEO of Nuevora. A thought leader, entrepreneur, and industry executive with over 16 years of trans-national executive management experience across the software and information technology fields, his diverse expertise extends across corporate and business strategy, global sales and marketing; and product and brand management.

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About Nuevora

Nuevora is a unique big data analytics solutions provider that helps leading organizations achieve positive, high impact business outcomes through the delivery of continuous and context-sensitive predictive insights. Nuevora's analytics platform enables faster, scalable, and intuitive development and application of predictive insights by business users. Nuevora's solutions are dynamic and predictive, targeted to optimize specific business problems across the entire customer life cycle. The company works with some of the leading corporations in retail, financial services, insurance, high-technology, travel services, and other industries. Nuevora is headquartered in California and has been ranked by CIO.com as one of top 10 big data firms.

As a process transformation company, Sutherland rethinks and rebuilds processes for the digital age by combining the speed and insight of design thinking with the scale and accuracy of data analytics. We have been helping customers across industries from financial services to healthcare, achieve greater agility through transformed and automated customer experiences for over 30 years. Headquartered in Rochester, N.Y., Sutherland employs thousands of professionals spanning 19 countries around the world.

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