

# SSME—Let's Not Forget About Customers and Revenue

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# Cost Reduction vs. Revenue Expansion

- Profit = Revenues – Costs
- Cost Reduction = Productivity = Efficiency = Inward Focus (Engineering, Systems, Operations view)
- Revenue Expansion = Customer Attraction & Retention = Customer Choice = Outward Focus (Marketing, Psychology, Economics, Sociology, Anthropology view)



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# Tradeoffs

- Efficiency focus can lead to downward revenue spiral (Oliva & Sterman 2001)
- Tradeoffs between productivity and satisfaction in service (Anderson, Fornell & Rust 1997)
- A dual emphasis (strong focus on both costs and revenues) is usually less profitable (Rust, Moorman & Dickson 2002)



# ROI from Revenue Expansion

- Cost savings are easily measured
- Revenue increases involve a chain of effects
- Customer lifetime value is the key customer metric
- Customer equity (CE) is the key corporate metric (ROI based on change in CE) (Rust, Lemon & Zeithaml 2004)
- “Soft” measures just as important as “hard” measures



# Grants and Research

- Don't limit grant funding to engineering/systems/operations
- This limits research to internal cost reduction efforts
- Revenue expansion requires funding marketing/social science research



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# Conclusions

- Currently SSME is too narrowly focused
- Need to increase attention to revenue expansion
- Need more focus on the marketing/social science view



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# SSME=A Big Tent



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# Thank You!

## Questions/Discussion?



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