

Enabling a Customer-Focused Organization

An Overview

Executive Roundtable Series
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Enabling a Customer-Focused Organization*

Thought Leadership Summit on Digital Strategies

*An executive roundtable series co-founded by the
Center for Digital Strategies at the Tuck School of Business and Cisco Systems*

Cisco and the Center for Digital Strategies at Dartmouth's Tuck School of Business recently convened the fifth in a series of thought leadership summits. This roundtable discussion focused on the shift toward customer-centric organizations, the steps necessary to implement this shift, and the circumstances under which it is profitable. The sessions were moderated by the publisher of Forbes and included business leaders and academics from Cargill, Cisco, Colgate-Palmolive, Eaton, Hewlett-Packard, Indiana University, Lowe's, Staples, the Tuck School at Dartmouth, the Ohio State University, Owens Corning, the University of Notre Dame, and Whirlpool.

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* A synthesis article by Scott Borg, Research Fellow, Center for Digital Strategies.

New Urgency to Being Customer Focused

This is the decade, or even the century, of the customer. That is the proposition Rich Karlgaard, publisher of *Forbes* and summit moderator, puts forth for consideration. The increase in information availability, emergence of global markets and changes in competitiveness have moved the balance of power towards end customer and away from the manufacturer or distributor.

“Weren’t the 1980s,” asks Ivona Piper of Staples, “already the decade of the customer? Weren’t the 1990s a decade of customer empowerment?” If being customer focused is a key theme in today’s business world, Piper suggests, then we need to understand why. And if today’s customer focus is different from the customer focus of the last two decades, we need to explore the differences.

Developments in the contemporary business economy are driving businesses towards a new kind of customer focus. Brad Boston of Cisco says that during periods of economic growth, being customer-focused simply meant *filling* demand. In a slow economy, being customer-focused means *looking for* demand and *looking into* demand. Declining or flat demand, Boston says, forces sensitivity to customer needs and especially to customer costs.

Just as important as the slowing of demand is the fact that more competitive alternatives are available. Products that were unique are now in danger of turning into commodities. This is due in part to the ‘second mover’ wave of products that follows technological innovation. But this time the internet has greatly intensified the trend toward commoditization. Rich Karlgaard notes that the internet has enabled customers to be better informed. Instead of relying on established brands to guarantee quality, customers can now exchange and download detailed product evaluations. With a few clicks of the mouse, they can shift their business to anyone who offers sufficient quality at a lower price.

Meanwhile, efficient, low cost operations are becoming commonplace. This is partly because the techniques for re-engineering processes to gain greater efficiencies are becoming widespread. It is also because the new information-based efficiencies do not require large concentrations of capital equipment to produce economies of scale. New entrants and smaller enterprises are able to present themselves as serious competitors to the bigger, longer established players. What’s more, they can begin competing on price in a remarkably short period of time.

Globalization has intensified all these developments. Companies are able to leverage the talent pool and labor costs of emerging economies, and combined with advanced production techniques, deliver cost savings, quality improvements or other benefits to their customers.

In the face of these changes, companies need new ways to differentiate themselves. Rita Heise of Cargill says differentiation must be a top priority of almost any company today. Companies, she says, need to find their own distinctive way of creating value.

Creating value cannot be done by looking inward. It is not enough to simply deliver a product, no matter how well engineered that product might be. It is not even enough to deliver a unique product. It is necessary to think about what task the product is being used to accomplish and how that task might be accomplished better. That way the company's offerings can be made distinctive where it really matters: in creating value for the customer.

This is the crux of the shift that companies need to make. Instead of just focusing more on the customer, corporations need to change in significant, often structural ways, so that the customer becomes the center of everything they do. The new customer focus is a *customer-centric* focus.

Dealing with the Deluge of Customer Data

It might seem ironic to say that companies need to pay more attention to customers in a period when they are inundated with customer data. But, as many of the summit participants pointed out, very little of this customer data is being utilized to make companies more customer-centric.

One reason the data hasn't been used to make companies more customer-centric is that it wasn't originally collected with this goal in mind. Brad Boston of Cisco says that many companies began collecting customer data because they had a general sense that it would be useful. But apart from monitoring fluctuations in demand, they hadn't figured out exactly what data they were going to use or how they were going to use it. There was no thought of reorganizing the company's activities—changing its value proposition—in response to the data being collected. The customer data was treated as a merchandising tool and as a device for adjusting production levels.

This led to large gains in efficiency and contributed to the business boom of the 1990s. But it only scratched the surface of what customer data can be used to accomplish. How can companies utilize customer data in a deeper and more insightful way? How can they reap the full benefit of the huge amounts of customer data it is now possible to collect?

The key to utilizing this data in a deeper way is seeing the whole customer. This means understanding the customer's activities and the way they fit together. It means appreciating the customer's systems for getting things done and how that customer's activities will develop over time. This requires in-depth, human insights, often based on hands-on experiences.

If we recognize the importance of human insights, we need to take account of this in the way we deploy people. Tom Lamb of Lowe's stresses that numbers can't tell you what intuition and curiosity can. Numbers are teachable, whereas intuition and curiosity aren't, he adds. This means that we need to bring the spontaneous intuition and curiosity of the entrepreneur back into day-to-day operations. We need to put that entrepreneurial spirit in the middle of our customer interactions to help understand the ongoing story of each customer. Then, he says, we can build on the insights these in-house entrepreneurs provide.

It is *after* someone has come up with an insight into customer activities that customer data becomes genuinely useful. Once the company has grasped something new about customer needs and activities, quantitative data can be used find out how widespread these needs and activities might be and what correlates with them.

Redefining the Product in Terms of the Customer

The core of the customer-centric approach is defining everything the company is doing in terms of its customers. This means, in particular, using insights and data about the customers' activities to redefine the company's products. It means understanding the uses of products, not in some general way, but in a rich, contextual way.

Choosing what product to offer and shaping it to fit the customer's needs is a process that needs to take equal account of the company's capabilities and customer's goals. Rita Heise of Cargill points out that, when it comes to redefining your product to suit your customers, the biggest gain often comes from discovering your company's own distinctive capabilities. Often a company possesses special value-creating capabilities that it is not fully utilizing. These capabilities may go unrecognized internally, because they are taken for granted. Frequently, Heise suggests, it is when a company looks more closely at its customer's needs, that it will discover what it can do that its competitors cannot.

Often a company will discover that crafting a solution to its customers' problems requires capabilities that the company doesn't possess. When this is the case, the most profitable course is often to partner with a company whose skills are complementary. Ray Huber of Eaton describes how combining Eaton's switches and controls with Caterpillar's generators has allowed Eaton to provide its customers with a complete electrical power backup system. This kind of customized solution goes a long way toward removing a supplier's products from the ever-expanding commodity trap.

Building a Customer-Centric Organization

To receive the full benefits of being customer-centric, companies must find ways to extend it through all the levels and parts of the company. This requires adjusting priorities in nearly everything a company does. As John Marshall of Digitas puts it, being customer-centric means moving the organization's center of gravity outside the organization, closer to the customer.

Senior management from the CEO on down must set the tone and—more important—set the example. Policies that require senior executives to deal regularly with ordinary customers can be particularly valuable here. One tangible step is to have every senior executive deal personally with a few customer complaints every month. Esat Sezer of Whirlpool reports that his company has been doing this with considerable success. An alternative approach is to have every senior executive make three ordinary sales calls or deal directly with customers in other ways. Meg Ressler of Owens Corning reports that her CEO has not only achieved great results by doing this himself and requiring senior management do the same, but also by

having every technical and operations person in Owens Corning do something similar. Having senior executives listen in on the calls that come through the call centers can be another valuable way to put them in touch with customers. Peter Ryan of Colgate-Palmolive reports that when he does this, the human emotions in the live call always teach him things he couldn't have known from a dry tabulation of the facts.

The new customer focus must become part of the company's basic culture—its thinking, its spirit, its values. Artur Landwehr of Hewlett-Packard says that from his perspective 70% of being customer-centric is about behavior and mindset change. If an engineering-oriented company is making the transition to being customer-centric, the employees need to learn new categories for thinking about customer needs. They need to be taught how to reformulate questions about what they should be doing and the plans for doing it, so that these questions and plans constantly take account of the customer.

The new customer focus must be reflected in the metrics and incentives for each employee. Manny Rivelo of Cisco says that the new customer-centric information must be given an explicit place in the regular work process. There has to be some way of verifying that this information is actually being put to use in this work process. Finally, Rivelo says, there has to be a clear benefit from using the information that goes to the employees who are assigned the job of putting it to use. If you really want to instill in your employees a passion for customer results, it helps if you pay them for those results.

This adjustment of metrics and incentives is especially important when a company is first making the transition to being customer-centric. Artur Landwehr says that in addition to the metrics and incentives that will be part of the new customer-centric organization, employees will need special metrics and incentives to make sure they make an effort to adopt the new systems. Furthermore, Landwehr adds, these temporary metrics need to be strict, and the corresponding threats and benefits need to be large.

A genuine customer focus usually requires employees to develop new skills. Ray Huber of Eaton points out that if sales people are offering solutions with several components, they need different skills than they would for selling individual products. They not only need to know how the components fit together; they also need to know how to deal with the several different levels and departments in the customer's organization that will need to approve a complex purchase.

In every part of a company, being customer-centric requires employees to become more skilled at listening. Everyone dealing with customers needs to listen closely and patiently to what the customers are saying, both explicitly and implicitly. Then, within the organization, everyone shaping or producing the product needs to listen to what the people dealing with customers are passing on to them. There especially needs to be much closer communication between sales and operations.

To extend through every part of a company, the new customer focus generally requires an enormous amount of boundary crossing. In the opinion of Staples' Ivona Piper, the most important boundaries to be bridged are the ones that separate the more methodical, technical, operations-oriented parts of the company from the more creative, human, marketing-oriented parts. People who can bridge the gap between customer needs and technical procedures are especially valuable. In fact, they are probably more important in making a customer focus work than the people who specialize in dealing with customers. Brad Boston of Cisco identifies these as "the project manager types," who he says are always in short supply. In a customer-centric era, companies need to be giving thought to how such people can be identified, cultivated, promoted, and rewarded.

Extending the Customer Focus Throughout the Value Chain

Leading businesses in recent years have learned that it is not enough to compete individually; it is also necessary to compete as a member of an extended value chain. Being customer-centric cannot be treated simply as the strategy of an individual company, it must make this a key strategy of the entire value chain.

One implication of this is that companies need to think about who the customers are who drive their industry, even if those customers are not the ones to whom they are directly selling. Donna Samulowitz of Whirlpool cites her own company as an example of how this can work. Whirlpool's direct customers are mainly retailers, such as Lowe's. But the customers who actually drive Whirlpool's industry are people who buy appliances to use in their homes. The customers that Whirlpool most needs to focus on are not the ones that place orders with Whirlpool or that are normally visited by Whirlpool salesmen. Understanding this, in all its operational implications, can help a producer get a much clearer sense of its organizational priorities. This can help a producer like Whirlpool develop a much more productive partnership with a retailer like Lowe's.

There are immediate benefits to be gained in most industries from getting in touch with end users. Eric Johnson of the Tuck School at Dartmouth cites a medical products company he has worked with as a particularly striking example. One of the company's products requires users to give themselves deep muscle injections every day. Although the patients required the medication, there was a more than 30% drop off rate in the treatment program. They began investigating why individual patients were unable to stay with the program and set about getting those patients the extra assistance they need. This reduced the drop off rate to under 10%, improved the patient's health, and amply repaid the company's efforts, because the cost of the treatment was about US \$10,000 per patient per year. It helped connect the entire value chain more closely to the end customer and benefited everyone involved.

To make their value chain customer-centric, producers of all kinds need to build better channels for communicating with end users. In the case of Whirlpool, this is task where the internet has been particularly useful. Through its website, Whirlpool has a means of communicating with the ultimate consumers of its products. This provides a wealth of data

that is then supplemented by retailers and market research. The result is a relatively new set of metrics that enable Whirlpool to track how it is doing with the customers that matter most. The most important of these customer metrics are the ones that concern customer loyalty. Samulowitz stresses that customer loyalty, however strong its emotional component, is not a matter of attitude but of actual behavior. It's the degree to which end users are buying and recommending Whirlpool products that Whirlpool needs to track.

Over the last few years, there have been enormous improvements in supply chain coordination, due to extensive sharing of information among trading partners. But communications along the supply chain need to be about more than the quantities of things that need to be supplied. In a customer-centric world, businesses need to find ways of sharing information that will help the entire value chain to collaborate in crafting better customer solutions.

Connecting Customer Interactions into a Whole Picture

Ultimately, being customer-centric comes back to better interactions with the customers themselves. This doesn't just mean responding better to the customer. It means reaching out to the customer in ways that are more flexible and richer in information. Denis Malin of Staples says that many companies are already using point-of-sale data effectively in managing the back-end supply processes. But there are still huge opportunities, he says, to use this data more proactively in managing the front-end customer interactions.

To accomplish this, businesses need to understand the whole cycle of interactions they will have with their customers over time. Esat Sezer of Whirlpool points out that there is an identifiable set of touch points where the business will interact with a given customer. Managing these effectively, he says, is crucial. It requires coordinating the touch points for each customer, so that an earlier interaction shapes the interaction at a later point. More important still, it requires connecting each interaction to an understanding of the entire customer, so that transactions that seem at first to be unrelated are eventually recognized as connecting to an ongoing customer activity.

What it means to track an ongoing customer activity is well illustrated by Lowe's at the retail level. Tom Lamb says that when customers' purchases indicate they're engaged in a large home improvement project, they might be given additional financing offers to help them complete their purchases for it at Lowe's. If the purchases indicate the customer is installing a deck, then that customer will later receive promotions for deck furniture, grills, flower planters, and other products that would complement the deck. Any additional purchases that seem relevant will contribute to that customer's profile as a deck owner. After several years, when the deck is likely to need refinishing, the customer will receive promotions connected with that as well.

If a business is going to be truly responsive to customer needs, it will often need to respond to those needs *as they arise* without pausing to study the needs or to plan a response. John

Marshall points out that being genuinely committed to responding to customers often means allowing the customers to lead you, even when you don't know where they're going or why. This means that businesses need a strong bias for action where customers are concerned.

But a strong bias for action needs to be balanced by an equally strong awareness of what is cost effective. Roger Blackwell of the Ohio State University points out that providing broader service to a transaction oriented customer can be a losing proposition. Donna Samulowitz tells of senior Whirlpool executives who, during their monthly session of taking customer complaints, were in danger of remodeling entire kitchens. Without some kind of cost effectiveness estimate, the price of being customer-centric can easily spiral out of control.

Managing customer interactions means being discriminating about where resources are spent, and deciding which customers you want to build relationships with. Donald Pearson of Cargill reminds us that there is a considerable range in the desirability of customers. Some customers are not worth the cost of building a relationship, or their loyalty could cost more than it pays. Pick the customers, Pearson advises, that you want to make loyal, and focus your efforts as specifically as you can on them.

In practice, of course, the problem is not one of choosing to have a relationship or not; it's about choosing the right kind and right level of relationship. Pearson notes that for a large supplier the question is usually not what to do with the biggest customers who are assigned their own account managers, or with the smallest customers who are handled as economically as possible. The question is what to do with the 500 in the middle.

It's also important to recognize that not all customers want the same kind of relationship. Some customers want an intimate, long term collaboration. Other customers simply want to buy a product and leave it at that. John Mitchell of Lowe's notes that you can see this difference even in the way people shop. Some people go into a Lowe's store with the intention of spending a considerable stretch of time browsing the aisles. Others just want to grab the items on their shopping list and get out. Raymond Burke of Indiana University says his research shows that the different kinds of interactions retail customers want vary even according to the time of day and the day of the week. Esat Sezer of Whirlpool notes that companies operating globally need to make additional allowances for the different types of interactions that are considered appropriate in different cultures.

The returns for getting customer interactions right can be large and immediate. Burke says that his research for retailers has shown that as soon as it's easier for customers to find what they're looking for, their price sensitivity drops.

Maintaining a Customer-Centric Strategy over Time

The new customer focus is something that needs to be managed over time. It is not something that can be done mechanically or that will automatically keep a company on course.

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Senior executives need to make being customer-centric a major component in strategic decisions, not use it as a substitute for them. Although following where the customers lead is good advice over the short term, it is often poor advice over the long term. Brad Boston of Cisco warns that “the customers wanted it” can easily become an excuse for bad choices. What’s more, the cumulative effect of these customer driven choices can put the company into a position where it can no longer supply anything the customers want for a price they are willing to pay. Companies can find themselves adding features or services that customers say they want and that are cost effective, taken one by one. But the collective effect of these features and services can be to clutter and complicate operations, so that there is ultimately a loss in efficiency overall. By scrambling to keep up with customer suggestions, the company may be neglecting to develop the big new capabilities it will need over the longer term.

The new customer focus is a customer-centric approach that puts the end customer at the center of gravity of the mindset, structure and activities of a corporation. It must become an articulated, practiced and vibrant part of a company’s culture, guiding the efforts of the firm. This will enable an appropriate blending of customer data with on-the-ground human insight, building an understanding of the whole of a customer’s needs, and allowing a company’s distinctive capabilities to be matched with market need. Ultimately, this enables true collaboration along the value chain, as the focus of all companies in the chain will be on the same place: the end-customer.

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