

# 1

## **SURVIVING THE CUSTOMER REVOLUTION**

In this chapter you will learn:

- That being customer-centric means literally organizing around the customer.
- The complete definition of organization (it's more than just structure).
- The definition of a customer-centric organization and its contrast to a product-centric organization.
- How your organization compares to a complete customer-centric design.
- How customer-centric your organization really is.

For better or worse, one fact has become increasingly clear over the past ten years: the marketplace is customer driven. The days of customers chanting, “We’ll take what you offer,” have been replaced with an expectant, “Give us what we’d like, with a side order of customization.”

The power in the buyer-seller interaction has been moving systematically to the buyer. In many industries, global competition and industry overcapacity have given buyers more choice, and they are learning how to use it. Electronic commerce and information transparency have reduced seller knowledge advantages. Authors such as Patricia Seybold even see the Internet as starting a “customer revolution” (Seybold, 2001), with “customers . . . wresting control

away from suppliers and dictating the new business practices for the digital age” (p. xv). The competitive game has clearly shifted to one of pleasing an increasingly more global, knowledgeable, and powerful customer.

The need for customer-centricity is not going away, and it is up to each company to determine the level of application—and hierarchical restructuring—required for success in this morphing marketplace.

### **The Status Quo Has to Go**

The product-centric mind-set is an entrenched one and, like the pit bull, does not relinquish dominance easily. Because it has been the application of choice for so long, managers may even be fooled into believing they are leaving it behind in favor of customer-centric applications, when in fact product-centricity continues running the show with merely a cosmetic gloss of customer focus sprinkled around the edges.

The ideas presented in this book are challenging, particularly in the amount of reorganization they demand from the status quo product-centric corporation. While acknowledging the need for a new customer-centric capability, many companies, tensely watching their financial bottom line, may be tempted to apply a “fingertip” version of the capability to their current structure. It may seem to be the most prudent course of action to dabble in a cursory commitment or apply a cosmetic overlay that seems to do the job.

It cannot be stressed enough how detrimental this toe-in-the-water mind-set can be. A company that truly requires a customer-centric capability will not achieve its goals without its full integration. It is not fiscally prudent at all to go halfway, since it will almost certainly be funds wasted in their entirety. In fact, this approach may end up costing the company more than just its initial wasted investment; the harm done to the workings of the entire structure by an incomplete capability at this level of importance can be enormous, leaving a company bereft in areas well beyond its original need for customer-centricity. It will undoubtedly leave disappointed customers behind whose trust will be difficult to earn back.

## The Bottom Line

The bottom line about your bottom line is that customer centricity pays off. For some time, academic studies and consultant studies have demonstrated that being market driven or customer loyalty focused results in higher profitability. The most complete discussion of customer-centered profitability is by Selden and Colvin (2003), who argue that superior results come from managing your business as a portfolio of customers. That means computing the profitability of customers, segmenting them on a profitability basis, and then organizing around those segments. They present a good process for getting started on a customer-centric strategy and the attendant financial systems. This book presents a complete guide to organization design to implement this path to superior economic performance.

## Let's Get Fiscal

Let us examine the financial ramifications. By satisfying a customer who wants to use relationships, the customer-centric firm becomes more profitable. Academic research, using the term *market driven* rather than *customer-centric*, shows strong relationships between being market-driven and profitability, sales growth, and new-product success (Narver and Slater, 1998).

Also, the company that implements a customer-centric capability is situated to steer commissions away from the previously required third-party process suppliers, not to mention winning business over other companies that have themselves already become competitively customer-centric.

The final coup may be the largest. Studies argue that the most profitable customer is the existing loyal customer (Reicheld, 1996; Seybold, 1998). Indeed, Seybold (2001) predicts that in the customer economy, investors will value companies based on the sum of the values of their customer relationships. Customer loyalty becomes incrementally more certain as customer-centricity is implemented. With the tight, customized relationships—the “virtuous circle”—established using applied customer solutions, repeat business

becomes more and more dependable in an otherwise harshly competitive and fickle marketplace.

### **Mind over Mind-Set**

When you have determined in Chapter Two the level of customer-centricity that your company requires, it is in your best interest to commit to that level and no less. Regardless of the level of application your firm requires, your managerial mind-sets require a high-level commitment; even if the implementation proceeds at the recommended level, it can be sabotaged in ways both subtle and blatant by a crew that has not gotten onboard.

Mind-set is important to successful customer-centrization. The manager whose thought processes are mired in the past is destined to venture forth halfheartedly, if at all. Not only is a clear and positive outlook essential to committing to the proper degree of application, a robust and eager anticipation is needed as implementation unfolds. This may sound like a recommendation to chant positive affirmations to compensate for a gloomy outlook. On the contrary, it is an invitation to discover exactly how promising this process is and how little downside is involved. Once the win-win nature of the capability becomes clear, a robust positivity should enter the psyche without effort.

### **The Customer-Centric Imperative**

In this increasingly customer-driven environment, the call for a customer-centric capability rings out loud and clear. As the expectations and requirements of the customer become more pronounced and complex, the casual customer-focused behaviors of the past grind toward a forced obsolescence. What was once an option is now an imperative.

Consequently, there has been an increase in the strategic priority assigned to the customer dimension of the business, with many companies now organizing around the customer. Creating customer-facing organizational units is a challenge because these companies

have structures that are still based predominantly on business units, countries, and functions. It is essential that companies not be tied to their past structures, to the detriment of their existing needs.

### **Product-Centric versus Customer-Centric**

The best way to understand where we need to go is to get a clear picture of where we've been. The contrast between the product- and customer-centric organizations is shown in Table 1.1.

As the table shows, a product-centric company tries to find as many uses and customers as possible for its product. In contrast, a customer-centric company tries to find as many products as possible for its customer, and it has to integrate those products.

From this basic strategic difference, other different organizational features flow. Product-centric companies are structured around product profit centers called business units. Information is collected around products. Business reviews focus discussions around product lines. The customer-centric company is structured around customer segments. Information is collected and profits measured around customer categories. Management discussions are focused on customers. There are similar contrasts around processes, performance measures, human resource policies, and management mind-sets.

Perhaps the most striking difference is that a customer-centric unit is on the side of the customer in a transaction. A server salesperson at IBM is on the side of the seller—the product-centric server business. However, the outsourcing and consulting people at IBM will suggest a Hewlett-Packard server if it makes more sense for the customer. In order to maintain credibility with the customer, the people from the customer-centric global services business must not be biased toward IBM equipment. They must be on the side of the customer in the buyer-seller transaction. More than any other feature, this bias creates a permanent tension between product and customer units.

The argument above has painted the extremes of product- and customer-centricity. Not every solution provider will require the extreme end of this organizational capability; the application can take

**Table 1.1 Product-Centric versus Customer-Centric**

	<i>Product-Centric Company</i>	<i>Customer-Centric Company</i>
Strategy	Best product for customer New products Cutting-edge products, useful features, new applications Most advanced customer Portfolio of products Price to market Product profit centers, product reviews, product teams New product development	Best solution for customer Personalized packages of products, service, support, education, consulting Customizing for best total solution Most profitable, loyal customer Portfolio of customers—customer profitability Price for value, risk Customer segments, customer teams, customer P&Ls Customer relationship management and solutions development
Goal	Main offering Value creation route	
Structure	Most important customer Priority-setting basis Pricing Organizational concept	
Processes	Most important process	
Rewards	Measures <ul style="list-style-type: none"> <li>• Number of new products</li> <li>• Percentage of revenue from products less than two years old</li> <li>• Market share</li> </ul>	<ul style="list-style-type: none"> <li>• Customer share of most valuable customer</li> <li>• Customer satisfaction</li> <li>• Lifetime value of a customer</li> <li>• Customer retention</li> </ul>
People	Approach to personnel <ul style="list-style-type: none"> <li>• Power to people who develop products</li> <li>• Highest reward is working on next most challenging product</li> <li>• Manage creative people through challenges with a deadline</li> </ul>	<ul style="list-style-type: none"> <li>• Power to people with in-depth knowledge of customer's business</li> <li>• Highest rewards to relationship managers who save the customer's business</li> </ul>
Mental process	Divergent thinking: <i>How many possible uses of this product?</i>	Convergent thinking: <i>What combination of products is best for this customer?</i>
Sales bias	On the side of the seller in a transaction	On the side of the buyer in a transaction
Culture	New product culture: open to new ideas, experimentation	Relationship management culture: searching for more customer needs to satisfy

*Source:* This table is a composite of points describing product- and customer-centric companies taken from Peppers and Rogers (1993, 1997, 2001), Treacy and Wiersema (1995), Seybold (1998, 2001).

many forms. It should be noted that the more complex a form is necessary, the greater is the accompanying lateral networking capability will be required to expedite functionality. Chapter Two delineates and helps readers define the level of customer-centric application they require; the requisite lateral networking capability is examined in Chapter Two as well.

The balance of this chapter further delineates the customer-centric capability, pinpointing customer needs and desires and the methods to address them. It then provides a model for strategy and organization.

## **The Rise of the Customer Dimension**

Motivated by the increasing buyer-power influence—and the correct thinking that this is where longevity, competitive edge, and financial profitability lie—most industries are addressing the increasing strategic importance of the customer. The specific factors causing this increase vary with the industry, but either individually or collectively, all businesses are experiencing these factors:

- The globalization of the customer
- The preference of customers for partnerships or relationships
- The rise of e-commerce
- The customer's desire for solutions

### **Globalization**

Since 1985, the process of globalization has been driven by increasing amounts of foreign direct investment. The result is that more companies, and therefore more customers, have a direct presence in more countries. Often these global customers—preferred customers in existing countries—object to receiving marginal treatment from a supplier's subsidiary on entering a new country. These customers want a consistent and consistently high level of service in all countries where they are serviced. Indeed, one supplier was

chastised by a customer who had been dealing with thirty-seven sales forces providing thirty-seven different standards of service.

The global customer is creating pressure on suppliers to coordinate across countries and businesses. This desire for cross-unit coordination can also be an advantage for the supplier. For example, ABB was an early mover into many countries, Eastern Europe in particular, and now uses its extensive presence to host and provide services to its customers as they enter new countries in which ABB is already present.

### **Customer Relationships**

The pressure for coordination across existing structures is even greater when customers want partnerships or relationships with their suppliers. Professional services firms are finding that clients want one or two global advertising agencies, auditors, cash management banking suppliers, and outsourcers for information technology. In most industries, customers are preferring fewer suppliers in order to establish closer, longer-term relationships. For suppliers, these global partnerships mean a coordination of all countries in which the customer desires integrated services.

### **Electronic Commerce**

E-commerce is another integrating force that can be used to focus on the customer. When a company with a single brand uses its Web site as its storefront, it presents a single face to the customer. The Web site should be designed around the customer's needs, not around the supplier's product capabilities. The site should be designed to do business the way the customer wants to do business. In order to appear as a single company to the customer, the company needs to integrate its businesses, subsidiaries, channels, and functions.

Another integrating force is the management of interactivity with customers. Electronic connectivity with customers allows the company to recognize and remember each customer, interact with them

and remember more about them, and then customize the company's offerings based on the knowledge of the customer. Most companies, however, have not mastered integrated customer interactions. Interactivity requires the management of dialogues and content across all media with which the company interacts with the customer: Web site, e-mail, call center, salespersons, service representatives, and so on. The dialogue needs to be managed over time. The last contact with the customer needs to be remembered, along with the last issue of concern and how it was resolved. The resolution needs to be recorded, and the next dialogue must commence from there. All contacts and issues are to be remembered. The idea of interactivity is to collect and integrate all data across all functions, subsidiaries, and product lines in order to get a complete picture of each customer's value and needs. Only then can the company react as a single company and be seen by the customer as a single company. The customer then receives a consistent brand experience across all the touch points with the company.

## **Solutions**

Perhaps the driving factor now facing suppliers is the growing customer preference for solutions or systems instead of stand-alone products. To be sure, customers still order truckloads of desktops from computer manufacturers, but they are also ordering trading rooms or call centers. At IBM, these solutions require the integration of multiple business units in multiple countries with multiple outside suppliers. These solutions are not simply multiple stand-alone products that are bundled together and offered at a discount. The preferred solutions create value for the customers by packaging products and services in ways that the customers cannot easily do for themselves.

Solutions therefore require an in-depth knowledge of the customer in order to identify the solutions that will be perceived as valuable and an ability to integrate product lines. In-depth customer knowledge is needed to identify the solutions that the customer

will see as valuable. Then the supplier will need the ability to coordinate multiple profit centers from both inside and outside the company to create the value. Neither of these capabilities comes easily. Real estate agencies and banks have been searching for years for a mortgage solution for time-challenged home buyers that would combine the home loan, appraisal, title, title insurance, home insurance, and everything else into a single, sign-once package. Most of us are still waiting.

In addition to creating solutions, suppliers are trying to customize them. When everyone pursues the most profitable customers, they compete away the profits. One approach to holding onto valuable customers is to customize the solutions. Customization requires yet more in-depth knowledge of the customer and additional capability to integrate products and services into unique solutions.

So integral are solutions to the customer-centric capability that a large section of Chapter Two is devoted to an examination of the strategies necessary to achieve them.

## **Strategy and Organization Model**

One of the primary barriers to converting to customer-centric organization is the belief that a company is already customer-centric when it is not. Most companies have spent the past twenty years getting closer to the customer using focus groups and measuring customer satisfaction. But just placing customers more prominently on the company's radar screen does not make the company customer-centric. That transition requires that the company literally organize around the customer. The next section defines what is meant by organization (it is more than structure) and then what is meant by a customer-centric organization. Readers can then judge for themselves how customer-centric their companies really are. They will then be able to judge how far their companies need to go in order to make the transition.

A model for linking different strategies to different organizations is shown in Figure 1.1 (Galbraith, 2002). It depicts an organization as consisting of five dimensions:

**Figure 1.1 The Star Model**

- Strategy, which determines direction
- Structure, which determines the location of decision-making power
- Processes, which have to do with the flow of information (they are the means of responding to information technologies)
- Reward systems, which influence the motivation of people to perform and address organizational goals
- People (human resource) policies, which influence and frequently define employees' mind-sets and skills

The message of the star model is that all five dimensions must be consistent among themselves, and the four below must be particularly consistent with strategy, at the top of the model. When the different combinations of organizational dimensions that characterize the more customer-centric capabilities are used, different solutions strategies can be identified and implemented.

## Strategy

The differences begin with the elements that make up the strategy (Table 1.2). The product-centric company strives to have the best or leading products, achieved through a continuous flow of new

**Table 1.2 Strategy: Product-Centric versus Customer-Centric**

	<i>Product-Centric Company</i>	<i>Customer-Centric Company</i>
Strategy		
Goal	Best product for customer	Best solution for customer
Main offering	New products	Personalized packages of products, service, support, education, consulting
Value creation route	Cutting-edge products, useful features, new applications	Customizing for best total solution
Most important customer	Most advanced customer	Most profitable, loyal customer
Priority-setting basis	Portfolio of products	Portfolio of customers—customer profitability
Pricing	Price to market	Price for value, risk

offerings. The company remains at the cutting edge by adding new features that open the market to new applications and new customers. In contrast, the customer-centric company strives to provide the best solution for the customer's needs. This solution may or may not include the best products; the best solution will involve a customized and personalized package of reliable products, services, support, education, and consulting to make the customer more effective.

The most important customer for the product-centric company is the highly advanced customer. This customer challenges the company to stay on the cutting edge and develop new and improved products, which are priced on the basis of the market and competing offerings. The customer-centric company likes the advanced customer as well, but it is the most loyal and profitable customer that is the most important; the customer relationship is the valued asset. Based on this relationship, the customer-centric firm prices its offerings on the basis of the value it creates for the customer. That is, a solution is priced not on the sum of the prices of the products and services that constitute the solution, but on the savings and improvements that the customer experiences.

An example is the recent trend at business schools offering custom courses to companies. These courses were initially offered as products, like a one-week course in supply-chain management. For thirty to forty people, the price would be \$150,000. If the company wanted customized cases and materials, it paid for the faculty time to develop these materials at \$5,000 per faculty day. Now, instead of charging per week and per day, some schools are pricing to value. That is, they charge the company 5 percent of the savings that result from improvements to the supply chain generated by the program. If the company documents \$100 million in savings, the school gets \$5 million for the program. Value pricing shares the risks as well as the rewards: if there are no savings, the school gets nothing.

Pricing to value aligns the interests of the customer and the supplier. It also requires the supplier to have an in-depth knowledge of the customer's situation. In the example, the business school would

need to know a great deal about supply-chain management and about the customer's unique version of supply. If the company were Unilever, the business school would need to know about frozen food supply chains as well as those that operate at ambient temperatures. This in-depth knowledge is best developed over time, through working relationships.

## **Structure and Processes**

Decision making at the product-centric firm revolves around priority setting for a portfolio of products (Table 1.3). These decisions are facilitated by an organizational structure based on product line profit centers. The business plans and reviews are focused on products. When management reviews a business, the discussion is about products—competitors' products and new products. The entire orientation is different at the customer-centric company. The leaders there manage customer or customer segment profit centers. The plans, information systems, and business reviews revolve around customers; the company sets priorities around a portfolio of customers. These structures, conversations, and information systems shape the mind-sets of the leaders of these companies.

The management processes of planning and budgeting are oriented primarily around either products or customers. Likewise, the key business processes and measures of performance will be different. The most important process in a product-centric company is the new-product-development process; product-oriented companies like Sony and Hewlett-Packard devote a great deal of energy to designing and improving their processes for developing new products. The customer-centric company also develops products, but the most important processes are customer relationship management (CRM) and solutions development and product portfolio processes.

A customer-oriented company will invest heavily in a CRM process that captures customer interactions at all touch points for the most profitable customers. And in addition to a product development process, it will have a solutions development process to

**Table 1.3 Structure and Processes: Product-Centric versus Customer-Centric**

	<i>Product-Centric Company</i>	<i>Customer-Centric Company</i>
Structure	Organizational concept	Product profit centers, product reviews, product teams
Processes	Most important process	New product development
		Customer segments, customer teams, customer P&Ls Customer relationship management and solutions development

combine products and services to create value for the customers. Usually the customer-centric firm will invest along with partners in creating a replicable solutions platform when supplying a solution to the initial customer. And finally, a solutions provider must have a process for planning the entire product portfolio. Thus, when a computer company like IBM develops a new high-end server, it also needs a new high-end storage product to complement it. The software business needs to introduce a complementary operating system and an updated version of database software. Global services needs to introduce new courses from its education business, updated practice areas from its consulting and systems integration units, and new-customer service contracts. All of these business units need to have the same set of priorities. A storage business at a product-centric company would introduce the best product to exceed EMC's latest product. The companies therefore measure themselves differently: the product-centric company uses market share measures as well as targets for the percentage of revenue coming from new products; the customer-centric company measures success by the share of customer spending in the business area, as well as customer satisfaction and retention measures.

## **Rewards and People**

The measures employed also become the basis for rewarding employees (Table 1.4). Product-centric companies reward salespeople and managers with commissions or bonuses based on market share, and technical people have as their highest reward being assigned to the most challenging next product. A customer-centric company like Siebel Systems uses commissions as well, but the commission is paid to the salesperson one year after the sale and is proportional to the customer's satisfaction with the software system purchased. (See Table 1.4.)

The most powerful people at a product-centric company are those who develop products. The product development function is the most powerful organizational unit, with people known by the

**Table 1.4 Rewards and People: Product-Centric versus Customer-Centric**

	<i>Product-Centric Company</i>	<i>Customer-Centric Company</i>
Rewards	<p>Measures</p> <ul style="list-style-type: none"> <li>• Number of new products</li> <li>• Percentage of revenue from products less than two years old</li> <li>• Market share</li> </ul>	<ul style="list-style-type: none"> <li>• Customer share of most valuable customer</li> <li>• Customer satisfaction</li> <li>• Lifetime value of a customer</li> <li>• Customer retention</li> </ul>
People	<p>Approach to personnel</p> <ul style="list-style-type: none"> <li>• Power to people who develop products</li> <li>• Highest reward is working on next most challenging product</li> <li>• Manage creative people through challenges with a deadline</li> </ul> <p>Mental process</p> <p><i>Divergent thinking: How many possible uses of this product?</i></p> <p>Sales bias</p> <p>Culture</p> <p>On the side of the seller in a transaction</p> <p>New product culture: open to new ideas, experimentation</p>	<p>Power to people with in-depth knowledge of customer's business</p> <ul style="list-style-type: none"> <li>• Highest rewards to relationship managers who save the customer's business</li> </ul> <p>Convergent thinking: <i>What combination of products is best for this customer?</i></p> <p>On the side of the buyer in a transaction</p> <p>Relationship management culture: searching for more customer needs to satisfy</p>

products they develop; everyone at 3M knows Art Fry and the story behind his development of Post-It Notes. Product-centric companies select and develop innovative types with in-depth product knowledge. The most powerful people at a customer-centric company are the relationship managers serving the most important customers. These companies work to develop general managers for an account, not salespeople for a product. The account managers have an in-depth knowledge of the customer and the customer's business and are skilled at building customer relationships. Whereas product-centric salespeople are transaction oriented, those who are customer-centric have relationship skill sets intended to generate repeat business.

## **Culture**

All of these elements create a new-product culture or customer-relationship culture. While the mind-sets at product-centric companies are focused on creating as many possible uses of the product as possible, customer-centric mind-sets search for the best combination of products for the customer and ways to expand the portion of the customer need set that they can serve. The greatest difference between the two cultures is their allegiance in a transaction: a product-centric company like Sony is on the side of the seller, while the customer-centric consulting, systems integration, and outsourcing businesses at IBM are on the side of the buyer.

One corporation may find its subsidiaries on opposite sides of the culture. The branch personnel at Chase Manhattan Bank are on the side of the seller, promoting Chase credit cards and Chase mortgages for which they will receive a commission. But the relationship managers at Chase Private Bank (for their high-net-worth customers) are on the customer's side, suggesting the best investments—which may or may not be Chase mutual funds or the stocks issued by Chase's investment bankers. The success of relationship managers is measured by customer satisfaction, retention, and asset growth.

Organizing around the customer involves adopting solutions strategies, customer profit centers, CRM processes, and customer-

share and -retention reward systems and selecting and developing relationship managers. These practices create a relationship and a solutions culture.

### **A Word of Caution**

It is possible to be customer-centric to a fault. For example Japanese software companies are usually accused of being dominated by their customers (“Breaking the Keiretsu,” 2001). If a Japanese software company has two hundred customers, it will create two hundred versions of every software product that it offers. These companies have been unable to get scale and expand outside of Japan.

Another issue is becoming too focused on your best existing customers. New disruptive technologies are often adopted by different customers first (Christensen, 1997). Then as the technology improves, customers eventually move to the new disruptive technology. You lose your best customers because initially they were uninterested in the new technology. When they become interested, it is too late for you to change. Christensen’s solution is to always have a unit prospecting for new customers and new technologies. When a possibly disruptive technology comes along, put it in a separate subsidiary and protect it from the core business. As always, a balanced perspective is needed.

### **Conclusion**

With the advent of buyer power, the wise manager will be shifting the ramifications of “keep it simple” from an internal credo to a customer pledge. Companies should stop asking *if* a customer-centric application should be implemented, and instead ask *how much* customer-centricity is mandated to remain competitive and healthy.

The challenges facing implementation include discerning the appropriate level, taking the steps necessary for successful structural reorganization, and doing what is necessary for successful psychological reorientation. Unless the product-centric mind-set of personnel is

updated along with the product-centric organization itself, no true growth can really be expected.

This chapter looked at organization. It consists of structure, business processes like CRM, management processes, reward systems, and human resource practices like selection. All of these areas are aligned around strategy. So when a company wants to become customer-centric, it means literally organizing around the customer. Table 1.1 gives a good idea of what a customer-centric organization looks like and how close or how far a company is from that model. The next chapter begins to address the issue of how customer-centric your organization should be. Not every company needs to adopt the extreme form of customer-centric organization.