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Knowledge Area Review (KAR)

Global Best Practices in Building Customer-Centric Organizations – Product Brochure
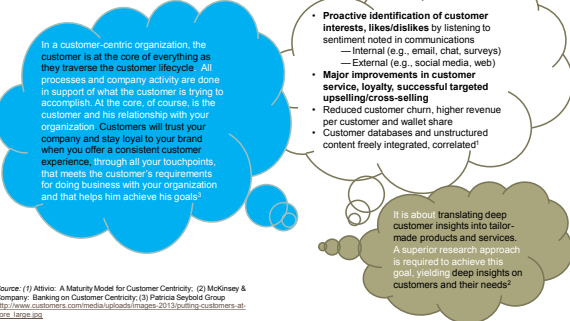
November 2014

Product Sample: Building a Customer-Centric Organization

PRODUCT SAMPLE: **Global Best Practices in Building a Customer-Centric Organization** (total of 89 pages)

Commercial research relevant to executives of any organization seeking to better understand how to be more customer-centric in their businesses.

Research suggests that there are many paradigms of customer centricity, some simple and some comprehensive, some come with a 'silver bullet' – e.g. technology and CRM systems – and some do not. Our review found a variety of points of view on the most important components and how to achieve true customer centricity. However, all were aligned in a common view of the importance of choosing a core customer set, knowing and responding to their needs, building connections, and generating valuable outcomes for these customers over a relevant timeframe (e.g. working in years), while enabling a mutually profitable relationship.

To support dialogue on that question, we set out to answer four key questions:
- What is customer centricity and why is it important?
- What is the existing state of customer centricity, what success have organizations had in implementing it, and how has it evolved?
- What are the key dimensions of a customer-centric model?
- What should organizations do to execute a customer-centric strategy and ensure its long term sustainability?

To purchase this KAR, contact your preferred ICG Affiliate or local ICG office.

Global Best Practices in Building Customer-Centric Organizations
The Story of the Evolution & Future of Customer Centricity

1 — Customer Centricity

- What it is?
- What it isn't
- Why is it important?
- Trade-offs
- Broad footprint across geographies and industries

What is 'Customer Centricity' and why is it important?

2 — History & Current State

- Changing dynamics (transparency, channels, behaviours, etc).
- Where? geography, industry, etc.
- Conduct regulation
- Financial ramifications
- Success, failures and why?
- Challenges and perceived gaps

What is the existing state of customer centricity, what success have organizations had in implementing it, and how has it evolved?

Building a Customer-Centric Organization

- Governance
- Process and system(s)
- Customer experience
- Culture
- Structure
- Stakeholders (regulators, customers, shareholders) and their needs
- Processes

3 — The Model & Its Component Parts

What are the key dimensions to be considered to make an organization customer-centric?

- Metrics and evaluation framework
- Leadership and governance
- Design principles
- Customer experience

4 — Roadmap

What should organizations do to execute a customer-centric strategy and ensure its long term sustainability?

Source: ICG analysis

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Taxonomy of Customer Centricity

Underlying structure, key stakeholders and pressures from each in a customer-centric environment

Sample Exhibit 1

CUSTOMERS:
- Fewer, more expensive products
- More transparency but less flexibility
- Offered what the regulators allow, not necessarily what they want or need.

Become genuinely customer-centric; replace product push with a culture of serving customer interest

Meet capital, liquidity and resolvability requirements to mitigate "too big to fail"; rebuild trust, not least through cultural challenges
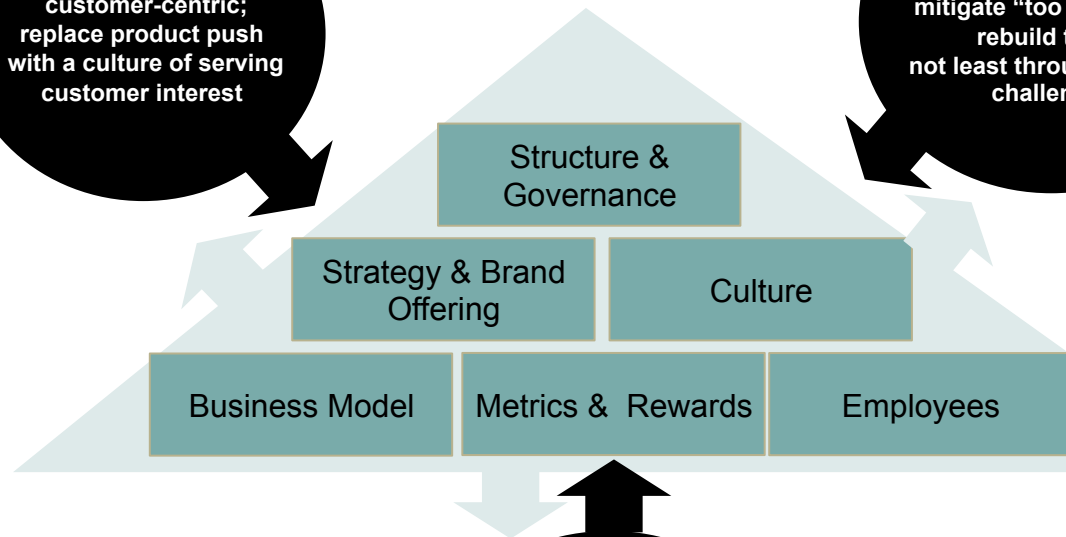
REGULATORS:
- Regulatory demands increase the cost of capital
- Mistrust of banks, capital markets and shadow banking
- Emphasis on personal responsibility and improved risk governance.

Structure & Governance

Strategy & Brand Offering

Culture

Business Model

Metrics & Rewards

Employees

EMPLOYEES:
- Expect to be rewarded in line with value created – often only short-term
- Incentives vary and are migrating to customer needs- and team-based.

Drive ROE above the cost of capital; facilitate issuance of new capital through delivering on strategy, business model, and cost reduction

INVESTORS:
- Will not put up more capital without adequate returns
- Prepared to accept lower returns if risk is correspondingly lower
- Debt coupons will need to reflect the threat of bail in.

Source: ICG analysis, Adapted from Lancaster University, *Is Customer Centricity Movement or Myth?*; KPMG international, January 2014

Being Profitable
Helps to increase profitability by increasing the revenues while decreasing costs

Customer Centricity
Leads to Business Benefits

Customer-centric activities around acquisition, retention, attrition prevention, and share-of-customer programs can have a positive impact on revenue and long-term strength.

Increased Profitability

Increased Revenues
Before — After
+70-90%

Decreased Costs
Before — After
-10-30%

Get — Customer Acquisition: 5-25%^

Keep — Customer Retention: 45-65%^
Customer Reactivation: 20-40%^

Grow — Revenue per product: 20-40%^
Cross-sell: 60-80%^

Marketing Effectiveness: 60-80%^

Process efficiency: 40-70%^

CAPEX utilization levels 5-15%^

Illustrative figures from Peppers & Rogers Group clients.

Source : Peppers & Rogers Group, 2011

Timeline & Evolution

Perhaps surprisingly, even with early discussion by Drucker and others, Customer Centricity has only evolved (and slowly) as a concept since the mid 1980s

Levitt proposes that firms should not focus on selling products but rather on filling customer needs

Sears introduces a 'change in the logic and culture of the business' by rebuilding the company around its customers and develops the employee-customer-profit model that changed the way managers and employees think and behave

Sheth and his colleagues defined 'customer-centric marketing' as understanding and satisfying the needs, wants, and resources of individual consumers or customers rather than those of mass markets or market segments

Forrester: 37% of firms surveyed were not yet on the path to EBD maturity. Of the firms that were, nearly two-thirds were in the first two stages of maturity

1954 — **1960** — **1986** — **1993** — **2000** — **2003** — **2007**

Drucker writes in *The Practice of Management* that "it is the customer who determines what the business is, what it produces, and whether it will prosper"

Peppers & Rogers publish their concept of 'one-to-one marketing', the idea that companies should analyse the precise needs of every customer and deliver a product or service personally to tailor to those needs (early stages of 'mass customization')

Gartner: "by 2007, fewer than 30% of marketing organizations among Global 1000 enterprises will have evolved enough to successfully leverage customer-centric, value-added processes and capabilities

Source: Is Customer Experience a Movement or a Myth?; Ruci, Kim and Quinn, The employee customer profit chain at Sears, Harvard Business Review; Peppers and Rogers, The one to one future: Building relationships one at a time; Sheth, Sisodia, and Sharma, The antecedents and consequences of customer-centric marketing; The Path to Customer Centricity, Shah et al, Journal of Science Research, Nov 2006; The Customer Experience Journey, Forrester, Sept 2008

Customer Centricity Frameworks
We found a number of frameworks describing a customer-centric organization

Source	Date	Summary of Main Components
Marsh, Sparrow & Hird	2010	• The six core and distinguishing features are mass customization, customer engagement, structuring around the customer, empowerment of front line staff, democratization of customer relationships and knowledge and the capability to filter massive data sets to add value to products and service offers
McKinsey	2012	• Vision and positioning • Customer engagement model • Development agenda • Organization, capabilities and insights
Peppers & Rogers Group	2011	• Generate customer insight by leveraging analytics • Understand the different needs and characteristics of customers, and manage them accordingly • Manage the customer relationship in the most appropriate channels
PWC	2014	• Customer insight • Customer experience • Customer-centric operating model

Each of the models shared some common ground:
- Choose customers
- Understand them
- Manage their experience
- Review the organization to support their experience
- Empower frontline people

The following pages outline the "6 Building Blocks" model presented by Marsh, Sparrow & Hird as it represents a good representative framework for customer centricity

Source : ICG based on the mentioned sources.

When to Empower?
The relationship between customer needs, task complexity, and discretion

Need for Empowerment

Customer Needs, Complexity/ Variability

	Low	High
Task Complexity/ Variability — **Low**	Little or no routine discretion No creative discretion e.g. Checkout Assistant	High routine discretion Low creative discretion e.g. Salesperson
Task Complexity/ Variability — **High**	Moderate to high routine discretion Little creative discretion e.g. Service Engineer	High routine discretion High creative discretion e.g. Doctor Lawyer

Complexity Characteristic	The greater the:	Impact
Service Product Complexity	Product Complexity	The greater the need empowerment
Customer Needs	Complexity/ variability of customer needs	The greater the need for empowerment
Importance of Service Speed	Speed of service	The less empowerment is important
Customization	Requirement for customization	The greater the need for empowerment

- The Flexibility Matrix is a tool for decision makers on the degree of empowerment appropriate for their organizations. This can be used to organise the degree of empowerment given to service employees.

- The following are the major characteristics of customer needs complexity:

Source: CPHR, Marsh, Sparrow and Hird: Is Customer Centricity a Movement or Myth? Open the Debate for HR, Dec 2010

Customer Maturity Models
We identified several customer centricity maturity models with similar structures and content – we outline 6 different ones here

Maturity Model Levels by Source

Source:	Level 1	Level 2	Level 3	Level 4	Level 5
Infosys	The customer is ignored	The customer is heard	The customer is understood	The customer is engaged	The customer is passionate
Koert Breebaart	Product Heritage	Customer Enthusiast	Customer Activist	Experiential Champion	Experiential Master
Forrester	Interested	Invested	Committed	Engaged	Embedded
PWC	Product Centric	Agent-Centric	Consumer Centric	Connected Consumer Centric	n.a.
Arthur D. Little	Fragmentary	Basic	Established	Excellent	State of the Art
E&Y	Undeveloped	Emerging	Developing	Advancing	Leading

Source : ICG research derived from the different sources as outlined above

Observations

The dimensions may vary somewhat in the different models, but a number of common elements emerge, including the need for:

- in-depth understanding of targeted customers
- a differentiated experience
- customized delivery capabilities
- culture change.

Although all have similarities, we have outlined Forrester's maturity model over the next few pages as it provides a number of quantitative and brand references, and looks at the organizational experience from 3 vantage points: voice of the customer, centralized customer experience, and the perspective of senior executives.
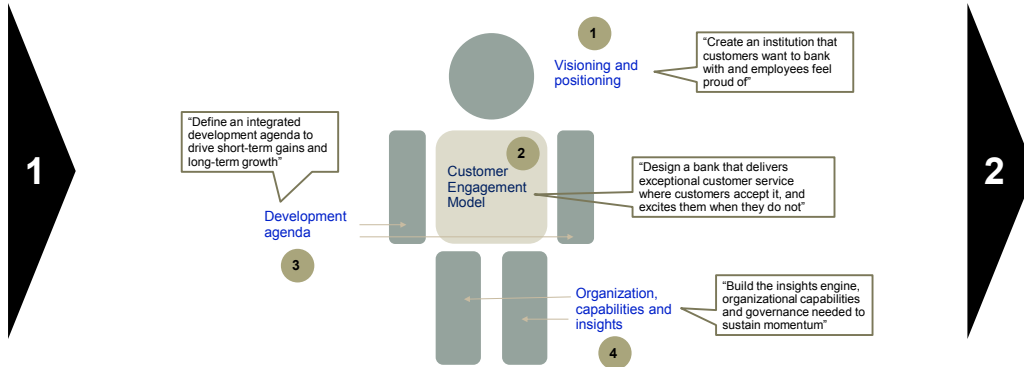
In Summary: Pulling It Together for Effective Execution
Leading organizations draw on governance and business strategies to deploy their customer strategies

Four strategic leadership and governance tests needed to set the stage for a true customer-centric transformation[1]
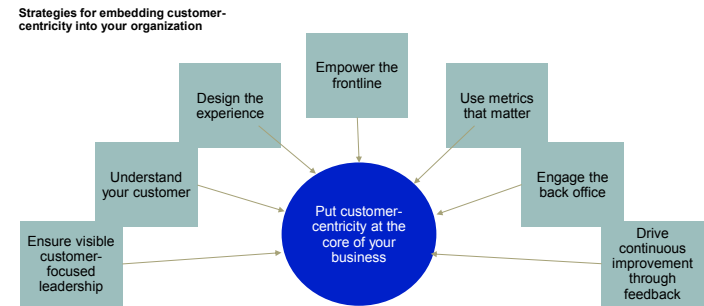
Leadership and Governance
Four strategic leadership and governance topics need to be addressed to enable true customer-centric transformation

The Roadmap

1

1 Visioning and positioning

"Create an institution that customers want to bank with and employees feel proud of"

"Define an integrated development agenda to drive short-term gains and long-term growth"

2 Customer Engagement Model

3 Development agenda

"Design a bank that delivers exceptional customer service where customers accept it, and excites them when they do not"

Organization, capabilities and insights

"Build the insights engine, organizational capabilities and governance needed to sustain momentum"

4

Source: McKinsey & Company – Banking on Customer Centricity

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Then develop strategies for embedding customer-centricity into your organization[2]
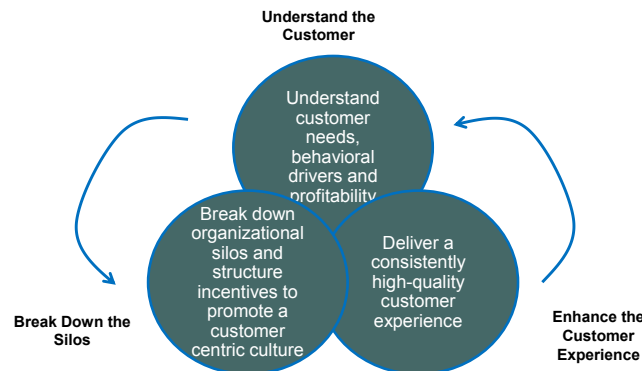
Client Experience
The past decade has seen consumer expectation exceed the conventional capacity of traditional customer service functions – in 7 critical areas

Strategies for embedding customer-centricity into your organization

2

Design the experience

Empower the frontline

Use metrics that matter

Understand your customer

Put customer-centricity at the core of your business

Engage the back office

Ensure visible customer-focused leadership

Drive continuous improvement through feedback

Source: Deloitte, Customer Centricity: Embedding it into your organization's DNA

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3 **Finally, deploy your strategy[3]**

Understand the Customer

Understand customer needs, behavioral drivers and profitability

Break down organizational silos and structure incentives to promote a customer centric culture

Deliver a consistently high-quality customer experience

Break Down the Silos

Enhance the Customer Experience

Source: (1) McKinsey & Company – Banking on Customer Centricity; (2) Deloitte, Customer Centricity: Embedding it into your organization's DNA; (3) PWC Getting to Know You

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