



Are you becoming customer-centric?

An OMC Group White Paper
Version 4.0
November 1999

IMPORTANT NOTE: This paper was written in 1999. An updated version will be available shortly.

Executive Summary

There is an ongoing debate about the scope and influence of relationship marketing and what is meant by customer loyalty. This paper synthesises opinion by arguing that loyalty can only be earned by having a superior customer value proposition in the first place. It describes a four-zone “customer value impact” framework for the measurement, planning and implementation of strategies designed to grow firm customer-centricity. It highlights the key principles that must be followed for any development programme to be successful. Although recognising that most initiatives will be highly context dependent, the paper concludes that in all situations, an optimised programme of change is the only route to enhancing levels of organisational “customer-centricity”.

Introduction

We all know that to we need to “get closer to the customer” to increase share and fight off the competition, particularly in these fast-moving and turbulent competitive times. But how can you be sure that your organisation is fully optimised towards meeting customer needs and if it isn't, how do you go about changing what you do or the way you are organised? What are the key principles that have to be considered? In this paper, a simple framework is presented to help organisations overcome these challenges, to identify key barriers and to plan and implement an optimised set of strategies for the development of firm customer-centricity.

Relationship marketing, CRM and customer-centricity

There is confusion regarding the nature, scope, role and influence of customer relationship marketing. From a *functional perspective*, many marketers believe that the route to customer loyalty is through the operation of a number of mechanistic, tactical initiatives such as loyalty cards, points schemes, events and promotions. It is hoped that customer incentives and rewards are a sufficient basis to build loyalty, generate knowledge and change customer behaviour. On the other hand, an *organisational perspective* views relationship marketing as a total firm-customer orientation - one that seeks to integrate and align multiple sources, processes and activities for creating superior customer value on a consistent basis.

In this paper, we propose a measurement, planning and strategy development framework for organisations wishing to embrace relationship marketing, and customer relationship management, as a total business philosophy. By focusing on each of the customer value “impact zones” of the framework, we argue that firms will be able to discover new means to boost their overall levels of “customer-centricity”.

The Four Zone Customer-Centricity Development Framework

We identify four “customer value impact zones” for measuring and benchmarking “customer-centricity” and for identifying new opportunities to adopt a total customer orientation. (See Figure One).

The four zones are as follows:

- **Customer orientation** - A company's organisational structure, its employee behaviour, performance measurement and rewards, internal working relationships and processes, its culture and its overall alignment and fit with a customer relationship management orientation.
- **Customer insight** - A company's customer information assets and how they are used to allow the organisation to take a strategic approach to customer management.
- **Customer innovation** - An organisation's attitude to and methods for creating and

delivering new, superior customer value.

- **Customer interaction** - The actual interactions a company has with its customers - its channels, communications and service processes and the need for integration.



Figure One - The Four Zone Customer Centricity Development Framework

Each zone is described by referring to a company who is, in our opinion, advanced in its approach, capabilities and competency. The key factors and principles for success in each zone will also be described.

Customer Insight

A company's customer information assets and how they are used to allow the organisation to take a strategic approach to customer management.

We begin with the Customer Insight Zone because exploiting customer data is of critical importance for identifying new value, balancing resources and building closer relationships with customers.

The Tesco Clubcard statement is sent to ten million customers every quarter, itemising the points they earn from their shopping. Each statement also contains additional coupons and vouchers, targeted to reward and provide incentives for shopping behaviour. In fact, there are now *over 250,000 different targeting variations*. The programme is highly sophisticated, yet it consistently achieves sales uplift results. Yet the application of Clubcard shopper data is much broader than the customer reward statement alone. The major benefit of the scheme for Tesco (and ultimately its customers) is that the data and analysis drive *organisation-wide customer decision-making* to direct promotions, category management, local store ranging and even store location.

Indeed, customers are analysed and grouped into hundreds of different segment permutations and combinations, according to factors such as recency, frequency and value, lifestyles, lapse rates, promotional responsiveness, coupon redemption behaviour and many others.

Obviously, Tesco clearly recognise the value of the customer knowledge created by the scheme yet there is another significant dimension to their success at applying customer data. Rather than analyse the data in a random fashion, Tesco maintain a carefully constructed "knowledge profit and loss account" to measure customer investments in the scheme, the amount of analysis resources applied and the additional returns and new customer value created.

Tesco's approach to advanced data mining has helped them to drill to the earth's centre and beyond. Yet, many other companies, in comparison, are still tending to their company's flowerbeds! Indeed, for every one Tesco, there are a hundred companies that do not exploit the customer data they own or have the potential to own. According to our research, only two to three per cent of companies make adequate use of their customer information to inform business strategy.

One way to kick-start change in the Customer Insight Zone is simply to *raise the profile of customer measures* in the business. Yet this does not seem to be happening. A study by the Marketing Society for example found that only 40 per cent of UK companies actually track customer measures on the board's agenda. Indeed, too often companies have built their whole customer strategy around the average customer, but in reality, there is no such thing as the average customer, particularly in terms of their individual profitability and how well their needs are satisfied. And so, to really understand the dynamics of your business, you've got to de-average and segment your customers. Only then can you make informed decisions about which customers to acquire and retain, what products and services to offer them, at what price and how to reach them.

We argue that the true value of a "customer-centric" business is found in its customer knowledge. That is why for many companies, they are only ever going to *be as good as what they measure*.

Successful customer management also hinges on an ability to link and integrate customer information across the entire business, at different customer interfaces and throughout the duration of the customer relationship. As Bill Gates comments in his recent book, "Business at the Speed of Thought", "Information flow is the primary differentiator for business in the digital age"

Yet in many businesses, customer and other information follows a tortuous route around the organisation.



Figure Two - Measuring Competency in the Insight Zone

Figure Two depicts some of the key success factors in the Customer Insight Zone. They include depth of customer knowledge, a focus on retention, profitability and segmentation and the organisation-wide dispersal of customer information. How do your current competencies measure up on these critical dimensions and what opportunity exists to improve? How would you measure and benchmark them?

Customer Orientation

A company's organisational structure, its employee and customer relationships, internal working relationships and processes and its culture. Also includes the role and scope of the marketing function.

Advocates of customer-centricity argue that it is impossible to develop long-term, profitable customer relationships if you are not organised to track and process customers across business units, product lines, functions or regions. Yet actually undertaking such a reorganisation around customer processes or segments can be hugely complex and time-consuming, and with a very distant pay-off. For this reason, most solutions are more likely to be a *mix and match* of integrated product and customer orientations, implemented in an incremental fashion rather than through wholesale, up-rooting change. In fact, there are few companies organised purely around customer segment.

Instead, a company's *culture* and *commitment to customers* are in the first instance, more important than the way you are organised. It's no good picking up a couple of ideas and trying them as quick fixes or installing an expensive CRM system, if you don't have a customer orientation culture.

Your ability to go the extra mile to deliver personalised service is what really counts - and using technology to support you where appropriate to do so. Some even argue that the culture of a company is the strongest competitive asset of any business. It's the intangibles or the spirit of the company that is the hardest thing for competitors to emulate.

One highly important factor in the Customer Orientation Zone is your employees, their behaviour, how they are motivated and rewarded. We all know that effective recruitment and retention of employees can be a powerful strategic weapon. In fact, studies from the US have proved that a link exists between high customer satisfaction and retention on the one hand and low employee turnover and high morale on the other. But how many companies actually measure the financial and strategic costs of high employee turnover and the relationship between customer turnover? Also, how many employees are trained to even understand the simplest concepts of CRM, such as the long-term financial value of a customer? And how many are empowered and rewarded for bending the rules *a little* and employing discretion to tailor customer service and deliver personal value?

One company that has enjoyed long-term success by following these principles is Richer Sounds. Here is a business that places the utmost emphasis on the relationship between employee morale, motivation and rewards and customer satisfaction and service. This is a company that:

- Trains its staff the skills they need to have useful and respectful communication with customers
- A company that once a month, encourages and finances its staff to meet after work usually down the pub to brainstorm new customer service ideas
- A company that rewards top store performance with the loan of a Bentley or a Jag for a month.
- A company that provides one of the friendliest customer service environments around.

Within the customer orientation zone, an area of some *importance* to most readers is the role of marketing! When CRM is a total customer management philosophy, the best people to champion and manage transition should be the marketers, simply because they are closest to the customer and their needs. They also sit at the centre of the huge customer-facing network that includes agencies, suppliers and partners.

Although companies will still need to adopt traditional marketing planning processes to determine where they are now, where they want to be and how they want to get there, marketers will have

to go beyond their traditional roles. They will increasingly have to become more multi-skilled and multi-dimensional, identifying opportunities in the four zones for improvement.



Figure Three - Measuring Competency in the Orientation Zone

We've touched some of the key elements of the consumer orientation zone - including culture, organisational structure, employee motivation and rewards and the role of marketing - again, how would you rate your business on these critical dimensions (see Figure Three). Don't forget too that your external relationships with partners and suppliers are equally influential here.

Customer Innovation

Alternative attitudes and methods to market, product and service innovation that lead to the creation of superior customer value

The third critical element of “customer-centricity” is a company’s attitudes and approach to customer innovation. You might think it is unusual to isolate innovation as a key success factor in its own right. It should of course permeate everything we do. But creativity will become increasingly critical as it shapes an organisation’s ability to create new markets, relationships and customer value, particularly in the current fluid, fast-paced and highly experimental environment.

Credit Card Provider, Capital One’s commitment to innovation is second to none (other than the likes of 3M maybe). As their annual report states and indeed the front covers of their two most recent annual reports,

“innovation is the company’s lifeblood - it is built into the company’s strategy, employees, departments, every piece of technology, every process and every test of new ideas”

Rather than wait for the competition to obsolete its products, Capital One does it itself. In fact, half of what they now market did not exist six months ago. What’s more, their innovation is founded on a rigorous customer information analysis and micro-marketing strategy, designed to tap into smaller and smaller market segments and to tailor credit limits and pricing to each customer accurately and quickly.

Capital One is a company that is continually and fundamentally re-evaluating its customer needs. It does not make incremental improvements to its core business. Rather it takes an outside-in perspective to identify where advances in customer insight, interaction and orientation can fundamentally improve customer value. That is certainly good innovative practice for even the most successful business.

Yet half the problem with *an inability to “customer innovate”* is simply an outcome of the *baggage of thought* and conservative thinking that exists in organisations. Quite often, we forget that the most effective source of new ideas is our own employees. Richer Sounds for example, has the highest average number of suggestions (20) per employee per year than any company in the UK. As the MD, Julian Richer, says,

“I probably used to come up with 90 per cent of ideas for improving the company. It felt like pushing a wagon up-hill. Now 90 per cent of suggestions come from staff and I am sitting on the wagon, being pulled up the hill”⁶

Traditionally, the decision to pursue innovation was justified on the basis of the future return on investment. This was fine in times when all the variables were constant and relatively well understood. Yet in 1997, a group of economists won a Nobel Prize for proving that in volatile times like now, where it is almost impossible to predict the future value of a new idea (particularly one that is technologically-driven), it is better to “just do it”. They argue that without a more aggressive attitude to risk-taking, it is almost impossible to realise substantial growth and success in the future.

Indeed, many of the most recent successful business innovations grew from this “Real Options” approach - Amazon’s whole business model and Federal Express’ parcel tracking service for example. What’s more, Microsoft manages all of its new business ventures on this “real options” basis.

And so today, you have to be relatively aggressive in your spending to preserve the future. If you want to find new and superior value for your customers, it is important to adopt a new attitude to innovation, one that:

- Institutionalises a professional approach to customer research and development

- Motivates and rewards employees for innovative contributions (a coffee-mug will no longer suffice)
- Involves (and maybe rewards?) customers as co-developers
- Uses new frameworks for managing innovation investments

Again therefore, how would you measure yourself in the customer innovation zone and what can you do to improve your ability to identify and quickly implement new customer value (figure four)?

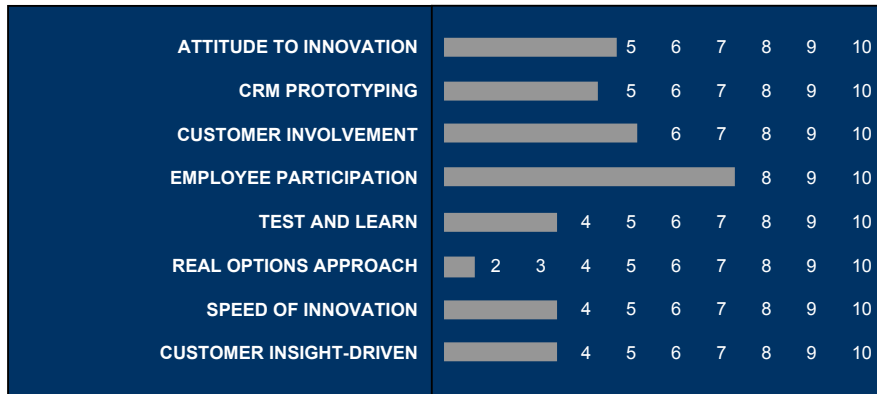


Figure Four - Measuring Competency in the Innovation Zone

Customer Interaction

The interplay between INSIGHT, INNOVATION and ORIENTATION to deliver excellent, tailored customer service, communications and stronger customer relationships

The final piece of the framework for customer-centric change, Customer Interaction, is the ultimate outcome of the other three areas: Orientation, Innovation and Insight. It concerns how you actually **deliver** excellent, tailored customer service and products to deepen customer relationships.

In the US, a maverick company, Progressive, is rapidly transforming a sluggish, non-customer focused motor insurance industry with its revolutionary ideas about *speed, customer interface and service*. It is driving circles around the competition. At the heart of its breakthrough is Immediate Response - its ultra-fast claims service. When Progressive's policyholders are involved in an accident, all they have to do is call a freephone number. A specially marked and outfitted Immediate Response Vehicle will then move directly to the accident scene to begin the investigation and settlement process.

Given the tools, the technology and the power to make decisions on the spot, Progressive's representatives can settle claims in minutes, instead of months or days. They can even write a cheque on the spot at the accident scene.

The Progressive Model demonstrates the critical importance of getting your customer processes *absolutely right*. They recognise that every contact with the customer is a critical episode, particularly after an accident. They know that a quick response and settlement is what their customers really value. Their strategy is founded on the 21st century addiction - speed.

But there are several other aspects to Progressive's skill at managing its customer interface. These skills are rapidly becoming - If they are not already - key success factors for any business.

At Progressive, customer contact is seamless and transparent. As one of their customers, you only see one company. There is no conflict across its different channels. Yet many companies struggle to implement such an integrated perspective. In many cases, this is not a problem. In many others, it can severely inhibit the move towards customer-centricity. This is why many organisations are spending millions of pounds on CRM IT systems.

Dispersed Intelligence

We saw in the Insight Zone the critical importance of knowing your customer inside-out. This is a huge skill in itself but it is a completely different skill to then be able to tailor a relevant and consistent marketing message to them. Tailoring messages in a call centre or via direct mail is relatively simple. Yet it would be of huge competitive advantage if we could speak to our customers intelligently in remote locations such as a branch or a retail outlet when they have just come in off the street. This is what "*dispersed intelligence*" is! For example, a Bank in Norway is already experimenting with a process that identifies their best customers as they walk into a branch.

Unfortunately, not everybody has the opportunity to interface directly with customers because they sell commodity products or they sell to intermediaries. This should not however prevent obstacles. As long as it is possible to find out who is buying, it is nearly always possible to create a new direct interface, to acquire customer data and to get started. Sharwood's Foods, for example has created a Far Eastern cooking telephone hot-line where loyal brand buyers can tap into the culinary expertise of Oriental and Indian chefs. It helps Sharwood's to identify its customers and to begin a dialogue.

If you can't connect to your customers yourself, somebody else may be able to do it for you. Cash2Register is a new Internet-based program that rewards consumers with instant cash incentives for registering their product purchases online, providing manufacturers with immediate demographic and contact information that can be used for targeted, timely and personalised cross-selling and up-selling.

In the last couple of years, there have been huge advances in customer connection technology yet in many organisations, nobody is keeping abreast of them! What's more, nobody is asking customers about what they want before they commit to the new technology. For example, a recent Peppers and Rogers survey found that only one in ten companies actually asked their customers what they wanted before they built their web site!

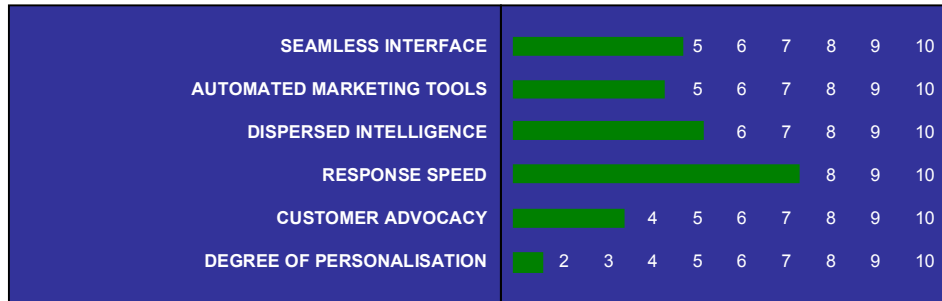


Figure Five - Measuring Competency in the Interaction Zone

It is therefore important to have a customer advocate in the organisation, particularly for testing new customer interfaces. At British Airways for example, it is the full time responsibility of a few individuals to continually champion the customer's cause.

Again, how do you measure up in the interaction zone? How integrated are you to present a single customer view for example? What is the opportunity to do so?

Pulling the Four Zones Together

And so, how and where do you start? How does it all come together? How can the four-zone framework be used to launch a new approach to customer management or to boost your existing initiatives? (see Figure Six)

First of all, why not use the four zones as a framework for painting a vivid picture of what your organisation wants to be doing with its time and resources in the future. This could be based on a review of what your competitors are up to or defined by an evaluation of the opportunity in each zone. Because, only by examining the *opportunity* in *each zone* will you be able to define a clear strategy and plan for implementation.

This opportunity will ultimately depend on the type of business you are in and the propensity for your customers to form a relationship with you. It will then be determined by the information intensity of your business (Insight), the number of channels and presence of a direct customer interface (Interaction), your current organisational structure and culture (Orientation) and your attitude and ability for customer innovation (Innovation).

You will then need to assess your current weaknesses in each zone and identify the key problems that will impede your move to customer-centricity. This will define an “Opportunity Framework” and will enable you to evaluate priorities. Once you have established a strategy, you might even be able to map your current position in each zone and then measure your progress towards the centre.

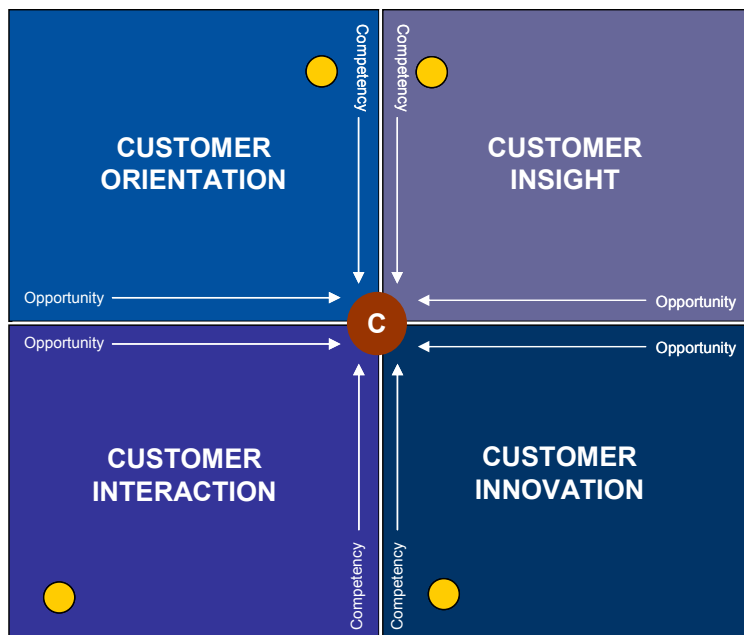


Figure Six - Identifying Opportunity and Competency in the Four Zones

One key question is whether you can leverage one zone faster than the others to deliver the biggest initial impact. Alternatively, a combined two-zone strategy (e.g. Insight and Orientation) could achieve better returns. Ultimately though, you will need to optimise, choreograph and achieve excellence in **all four zones** to meet your organisation-specific goals.

Then, speed, focus, consensus, and setting measurable objectives will be the difference between success and failure.

The Four Zones Applied

Figure Seven maps how the four companies profiled in this paper managed the move towards customer-centricity.

- **Richer Sounds** achieved success through the adoption of a unique Employee-Customer Orientation and by an innovative attitude towards new customer service initiatives.
- **Tesco** first of all implemented superior value in its stores and then harnessed customer data and insight to influence organisation-wide customer decision-making. It also has a very strong customer orientation
- **Progressive** focused on the customer interaction and a strategy founded on speed and its unique claims management breakthrough.
- **Capital One** empowers its employees to adopt an innovative mindset and is able to develop new customer initiatives linked to a rigorous Customer Insight strategy

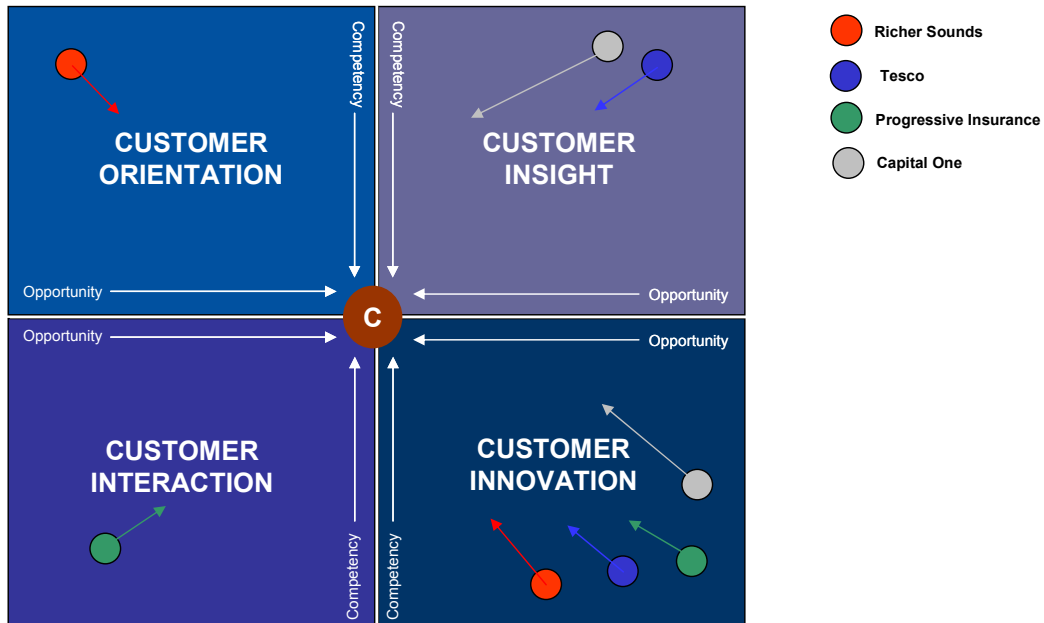


Figure Seven - How the four companies became customer-centric

Summary

Organizations who identify opportunities for improving customer relationships and who co-ordinate and measure change in all four-customer impact zones will have a greater chance of success. A disciplined approach to customer management will help them to:

- Redefine the interior and construct new interactions between itself, its customers and partners (Orientation and Interaction)
- Identify new markets, new relationship opportunities, new service processes and new customer value to create loyalty (Insight and Innovation)

Finally, although it is impossible to instil lasting change overnight, there are some things you can do quickly. For example:

- Identify the four to six problems that consistently impede your move to a customer orientation
- Analyse customer complaints - a source of existing "value failure"
- Hold customer panels and find new value
- Develop and instil a new attitude to creativity and innovation - lead by example
- Launch a special program for your best customers
- Look for new customer opportunities
- Hold a CRM training workshop with customer-facing employees
- Mine customer data and seek expert help
- Think of one single additional CRM function that you can add to your call-centre or website and do it tomorrow!
- Appoint a new team with the specific brief to identify opportunities in each of the four zones. Give one individual specific responsibility for each zone and appoint a senior board member to champion the whole vision. Ask each zone champion to identify all the issues that prevent your business from moving towards customer-centricity, then rank, prioritise and begin the change process.



A time for opportunity... is a time for fresh thinking

Your market is transforming. New technologies, deregulation, globalisation and falling infrastructure costs are providing value-creation opportunities in a wide variety of industries. But at the same time, competition is intensifying and margins are shrinking. Competing through new products and brands does not always produce desired results. Your best efforts do not always lead to highly satisfied customers. And, all the while, you are under increasing pressure to create customer value that leads to profitable growth...

Critically, your customers are changing too. They are more connected, informed, “multi-channelled” and marketing-savvy. Today, they seek to extract value on their own terms from the growing range of brand and product choices on offer. In short, the active customer is calling into question basic assumptions about value and the processes that lead to its creation.

So what can be done? Well, responding by pursuing traditional approaches to innovation is no longer sufficient. The incremental stuff just isn't going to cut it in the future. Neither value nor innovation can be successfully generated through a company-centric, product and service orientation alone. Instead, we need fresh perspectives, new thinking, clear concepts and a new approach to innovation strategy and customer value creation...

About The OMC Group

The OMC Group is a network of expert customer innovation, research, strategy and analysis consultants. Our proven insights and methodologies enable companies to:

- Identify and successfully create new high-growth market opportunities
- Build winning new customer experiences
- Improve the relevance and performance of existing products, services, marketing and brands
- Create new forms of customer value and respond to changes in customer behaviour
- Develop and apply new measures, analytics and knowledge competencies to drive a customer-learning organisation
- Quantify and capture return on investment from customer innovation initiatives

We work across industry sectors providing expertise to start-ups, small and large companies. Our consultants and associates have worked with over 100 companies in more than 15 different industries.

Find out more at www.theomcgroup.com

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