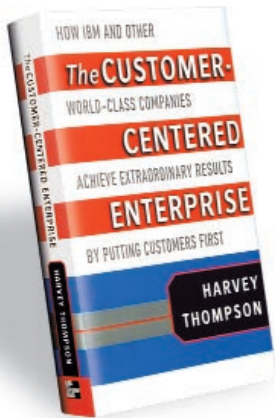




SOUNDVIEW  
Executive  
Book Summaries®



By Harvey Thompson

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## Achieve Extraordinary Results by Putting Customers First

# THE CUSTOMER-CENTERED ENTERPRISE

### THE SUMMARY IN BRIEF

If you are going to succeed in business today, you have no choice but to become customer-centered. Gone are the days when you could compete on price or a unique product alone. Customers can get just about any product they want from a choice of producers at about the same price. Companies who want to distinguish themselves from the competition will have to do so by offering something else. That something else is most likely superior service, delivering exactly what the customer wants when he wants it.

In this summary, you will learn exactly what steps you must take to become customer-centered. You will learn from leaders in the field what they did to change their focus and vision from an *internally* driven idea of what the customer wants to an *outside-in* vision of what the customer wants.

You will see how you can implement an operational strategy that differentiates and competes on service and value to customers rather than merely on products and price. You will begin creating value at touch points to attract and retain customers.

As you learn to listen to your customers, you will see which group can create the greatest profit and be of the greatest value to your company. Then you can tailor your services and products to satisfy the needs of this group by providing value to customers commensurate with their value to you. You will see how you can harvest the information your customers provide to improve your targeting and personalize the services you deliver.

Finally, you will learn how to realign your entire company to meet customer needs and increase profitability. You will harness the power of technology to deliver what your most profitable customers want. Your employees from the top down will see why the changes are being made. You will create an entirely new culture that is customer-focused and able to undergo continuous change.



# CUSTOMER-CENTERED ENTERPRISE

by Harvey Thompson

## — THE COMPLETE SUMMARY

### Customer Value Management

The last two decades have seen companies reinventing themselves over and over. First, they downsized to boost profits. Then they reorganized and reengineered themselves. But through it all, promised profitability didn't soar. What was missing in all these efforts was a focus on the customer. That has to change.

#### Achieving the Vision

In today's business environment, the world can be characterized by overcapacity, and customers have become kings and queens. The old management philosophy, "If you build it they will come," is being replaced with a new executive order, "Find out what they want and give it to them." But putting the wish to put customers first into action isn't easy. The key is the use of customer value management, or CVM.

Customer value management provides a rational set of techniques, methodologies and strategies to weave the needs and wants of customers into the key process designs and management activities of a company. Customer value management is a way of doing business. Employed correctly, it can help you understand what your customers want and how you can go about aligning your business to deliver that product or service consistently.

#### Easy to Say; Hard to Do

Implementing a customer-focused vision requires a major shift in most companies' strategic thinking, often

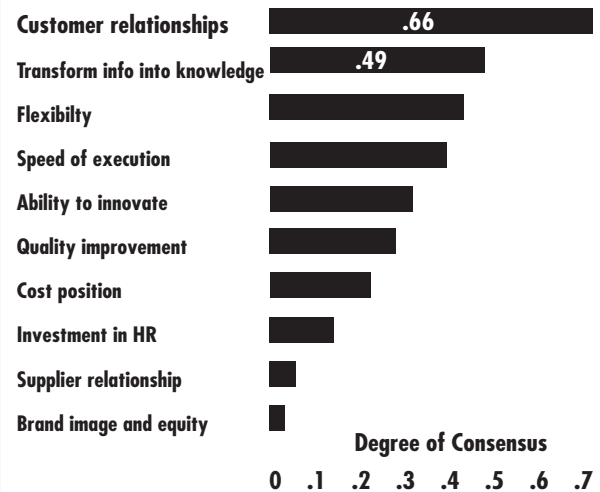
### Stemming Customer Attrition Is Key to Profits

A multi-industry study by the University of Pennsylvania's Wharton School of Business found that companies who managed to reduce their customer attrition by only 5 to 10 percentage points actually increased their profits by an astounding 25 to 75 percent, depending on the industry. When you consider that many American businesses report customer attrition rates approaching 20 percent, the value of becoming more customer centered is obvious. Even if a business doesn't add new customers, keeping the ones it does have can reap rich rewards.

### Top Executive Concerns

Global senior executives see customer relationships as most important to their businesses in the new millennium.

Customer Relationships: The #1 Source of Competitive Advantage



including a radical move from product or price to process or service as the basis for competition. Today, one company's products look about the same as another's. What were once exclusive and unique products have become more like commodities. Virtually any product can be bought from several companies for about the same price.

In order to beat the competition, your company must find something other than product features to differentiate you from a dozen other competitors. That something

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### Customer Value Management

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is customer service and value. The shift requires that you understand what the customer wants and that you align your business processes with the customer's needs. To do that, of course, requires intimate knowledge about your customer. That's where customer value management comes in. Using CVM, you will be able to systematically acquire customer information that is linked to customer behavior. You must get information that tells you what will make the customer buy your product or service.

CVM requires you to take an outside-in customer vision of your company as the ideal provider of goods and services. You start by identifying the target customers and seeing what they really want from your company. This includes identifying:

- what the customer gets out of interactions with your company,
- the minimum value level needed to retain customers,
- the optimal value level the customer imagines, and
- the customer's vision of the ideal vendor delivering ideal value. ■

### Visioning: Let Customers Set the Goals

The fundamental problem that makes it so hard to become customer-centered is that traditional management principles focus on where you want to be and how to get there. This process, embodied in management by objectives, is a process taught for decades in introductory business courses. It has been programmed into the

#### Car Maker Finally Gets It

Becoming customer-centered is a lot harder than it sounds. When a major European automobile manufacturer decided to make customer needs the focus point of its revamped business plan, it was clearly on the right path. But when it came time for the CEO to come up with a new vision statement, his first draft demonstrated exactly how hard it is to move from an inside-out to an outside-in view of business. His draft declared that the company's vision was "Selling a car is the beginning of a lifelong relationship."

The draft had it all wrong. An outside-in view is essential. Only when the CEO changed the vision statement to "*Buying* a car is the beginning of a lifelong relationship" did he get it.

#### Great Execution, Wrong Vision

Consider the case of a utility company that embraced management by objectives and the related concept of total quality control. Realizing that customers didn't like long power outages during frequent inclement weather, the company embarked on a plan to improve their performance, and, in turn, satisfy customers. The utility reasoned that reducing the duration of power outages would be valuable to customers.

The utility managed to cut the duration of power outages from a few minutes to a few seconds, and congratulated itself for a job well done. When customer surveys revealed declining customer satisfaction, management was perplexed. After all, hadn't they improved their processes and met their goals?

Of course they had. The problem was that they had met **their goal**, not their **customer's goal**. What customers really wanted wasn't shorter outages. They wanted **fewer** outages.

decision-making DNA of thousands of business school graduates. If you use management by objectives, you decide what objectives you will meet and then set an agenda to get there.

The fundamental problem with management by objectives is that the objectives you set are yours, **not your customer's**. To succeed today, the end goals must be your customer's. That means you must find out what the customer wants. The old management by objectives paradigm must change from an inside-out model of internally defined goals to a radically different, outside-in, customer-defined set of objectives.

#### Obtaining the Customer Vision

At this point, you may be thinking that it should be obvious that the best way to understand the customer view is to do what thousands of companies have done for years: survey customers. Unfortunately, even that isn't simple. You have to ask the right questions, or you risk collecting a lot of useless information.

Surveys have to ask questions linked to buying behavior to be of any use. An American luxury automaker prided itself with high customer satisfaction marks on surveys, but couldn't understand why those "satisfied" customers were defecting to Lexus and Infiniti. A close look at their surveys revealed that they were asking all the wrong questions. The company learned that its customers appreciated the leather chairs in the waiting room and the clean condition of the shop floors, but learned nothing about what would make the customer buy their

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### **Visioning: Let Customers Set the Goals**

*(continued from page 3)*

brand again. To be effective, surveys must get to what it is that would make the customer buy again. ■

### **Focus: Listen to the Right Customers**

Not every customer is a desirable, high-value customer whose opinions and viewpoint should drive business design and investments. You must identify and focus on a targeted set of customers whose view counts. That customer is the one who receives value from your goods and services, who generates demand and a market for your company.

#### ***The Customer View at the Point of Contact***

Sometimes the customer is the one at the direct point of interaction with your company's products and services. If that person has an impact on the purchasing decision, his view counts. Take as an example the secretary who makes reservations for business travelers. He or she isn't the ultimate consumer of the goods or service, but does control some of the purchase decision. Should his or her view matter? It may very well. The same goes for others your company directly impacts but who are not end users of the product or service. These "customers" include shipping clerks, purchasing staff and accounts payable clerks.

#### ***Customer View from Non-Point-of-Contact Personnel and Influencers***

Those who have indirect decision-making power in the decision to make a purchase also count. These include consultants, reviewers and staff expert advisers. When Comerica bank commissioned a CVM study to understand the needs and wants of a targeted market segment — small business owners — they asked customers from where they received information about financial products. Their answers included from manufacturers, service vendors, journalists and publications, software and accountants. But they also revealed that their preference would be to get the information from the bank with whom they already had an ongoing relationship.

In response to the survey, Comerica took two major steps. They made sure every key customer had access to financing information and made sure the customer's other identified sources of information also knew about the bank's financing programs.

#### ***Customer View from the Channel or Third Party Value Chain Intermediaries***

Another customer whose view must be considered is

### **Harley-Davidson Turns Around**

Harley-Davidson Motorcycles has gone from the edge of bankruptcy to cult-like loyalty and high customer retention by focusing on two customer groups: motorcyclists and dealerships. All its products, processes, services, employee team incentives and measures of satisfaction were linked and aligned with the two groups. Central to Harley-Davidson's success are two customer satisfaction indices: a customer satisfaction index and a dealer satisfaction index. By focusing on both groups, the company has managed to grow a powerful brand that inspires dealer and rider loyalty.

the channel. Channels are intermediaries for delivering products or services, and can be internal (i.e., call centers) or external (i.e., retailers, agents, dealerships). Many companies are dependent on channels and the relationship those intermediaries have with the end user. Their views must be considered in addition to the views of the ultimate consumer.

#### ***Customer View from Internal Customers***

Often, companies focus too much on the needs of so-called internal customers at the expense of the paying customer. Programs and processes need to be designed with the paying customer in mind, and you must get internal customers to focus outward rather than inward. Everyone must agree that even internal processes must be designed with the end user in mind.

#### ***Targeting the Right Customer***

You cannot be all things to all customers. The battle to attract and retain loyal customers will be fought and won on the ability to identify potential profitable current and future markets and then meet their specific needs. You must go beyond analyzing current customers and identify non-customers who are members of desirable market segments.

Technology makes it possible to do just that. Customer transactions and behavior can be analyzed to reveal patterns. By taking a look at the characteristics of a profitable segment and seeing if another customer segment shares characteristics with the profitable group, you can identify potentially high-profit customers within your base.

You may discover that in some cases the cost of meeting a customer group's needs is too high. In that case, you must be willing to "fire" the customer. You cannot be all things to all customers, without regard to how profitable the customer actually is. Sometimes the

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### Focus: Listen to the Right Customers

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answer to a low-profit segment is to stop recruiting from that group. Sometimes you actually have to “deselect” the segment altogether.

You may also want to vary the level of service provided to different customer groups based on their profitability. One way to do that is to provide a consistent level of service to everyone with a single common support infrastructure but varying the fees for that service based on the profitability of the customer. Another approach is to provide extraordinary service only to the most desirable customers. Low-value customers get only their basic must-have needs met while high-value customers get high-value services to attract, delight and retain them. Airline frequent flyer Bronze, Silver and Gold level services do this. Travelers are grouped based on their value to the business and provided with a commensurate level of service. If low-value flyers want additional services, they have to pay a fee. ■

### Scope: Select Highest-Leverage Customer Interactions

Once you have identified those customers whose opinion counts, you are ready to focus on the business activities that directly touch those customers, make them feel important, and let you distinguish yourself from the competition. These interactions become **moments of truth** which can be managed and leveraged to affect customer acquisition, retention, loyalty and growth.

The interaction may be a single process. Take, for example, MasterCard. The company wanted to develop call center standards to improve customer service. They began by identifying cardholder and customer demographics (high, low and moderate income; professional and non-professional; location and member banks.) Next, they determined each customer group’s needs and designed the new system to meet those needs.

During the analysis, the company discovered there were far more moments of truth than they had guessed. While the company saw making a call center call as a simple process, customers reported that it was not. The process took a long time and required navigating voice mail systems and providing information several times to several people. What customers wanted was to be able to explain their question or problem once. MasterCard acted on customer needs and developed a system to address those needs. The system was then shared with affiliated banks so every MasterCard customer could benefit from the new design. ■

### Getting the Mittens to Granny

Sometimes you must redesign your processes across the entire enterprise or even to an extended enterprise. That is, the entire company may have to be redesigned to meet customer needs, and others in the chain of distribution may have to be included. A perfect example is the interaction between L.L. Bean and Federal Express. L.L. Bean understands that it must manage the entire delivery process beyond the time the customer’s order leaves its premises. From the customer’s viewpoint, the moment of truth is whether the mittens get to Granny by Christmas. Continued business success for everyone in the value chain depends on the mittens getting where they are supposed to be on time.

L.L. Bean and Federal Express have partnered so that FedEx processes have been integrated into L.L. Bean’s processes. When a customer calls L.L. Bean about an order, she is told exactly where her package is and when it will arrive.

### Value: Identify Actionable High-Leverage Customer Needs

Your customers’ expectations are often set based on their experiences with other businesses. When another industry or company sets its standards high, you will have to respond. The problem is that you don’t always know whose standards you must meet. For example, if your customer gets a loaner when he has his Lexus in for service, he probably expects a loaner computer when his laptop is in for repairs. When Sears offers him a specific time for repairs to his dishwasher, he will also expect you to offer a specific time for automobile repairs.

The performance bar is rising relentlessly. Your challenge is two-fold:

- You must understand what your customer values, especially since those values change constantly, and
- You must maintain a balance between what customers value and what you can actually deliver.

You must keep tabs on customers’ changing expectations by developing new ways of listening. One approach is to meet customer expectations. The other is to exceed those expectations. The first will effectively manage dissatisfaction, while the second will go much farther. It will let you manage loyalty and attract a

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### Value: Identify Actionable High-Leverage Customer Needs

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greater share of the market through competitive advantage. Which approach you take depends on where you are and where you need to go.

If your strategy is to be the low-cost provider, and you want to compete on the basis of price as a commodity vendor, you may just need to meet minimum expectations. Or you may have so many complaints and such a high rate of attrition that simply meeting minimum expectations will turn things around. On the other hand, if you want to distinguish yourself as a high-service premium provider you will want to exceed expectations. Either way, you need to find out what expectations your customers have. The following techniques will let you do that:

- Establish customer complaint outlets like 1-800 hot lines, customer reply cards or Internet-based feedback systems.
- Interview front-line, customer-facing personnel.
- Interview customers who recently defected.
- Interview recently lost prospects.
- Use customer focus groups.
- Use customer satisfaction surveys with blank spaces for write-in comments.

Once you know what customers want and aren't get-

ting, you can go to work closing the gap. You must align your service promises against your ability to deliver. For example, if you promise zero defects in the hotel rooms you rent, customers will expect you to deliver. That means you must set in place processes that guarantee there will be functioning televisions, clean bathrooms and working air-conditioning before a guest checks in. Providing zero defects is the minimum expectation.

Many companies can't stop at just meeting minimum expectations. Instead, they can strengthen their competitive advantage by providing superior customer value and service. This requires a real understanding of what customers want and what drives their buying behavior. There are three steps to this kind of satisfaction. They are:

- Meet basic needs.
- Exceed basic expectations in ways that make the customer feel good about your company. For example, when a bank teller calls a customer by name, the customer feels good about the bank. Remembering a name isn't enough to bring new customers in nor is its absence enough to drive customers away. But it does drive satisfaction.
- Provide so high or unexpected value that a customer would leave a satisfactory relationship with another company to get it. ■

### Finally Hearing the Voice of the Customer

A car rental company held a focus group to determine what improvements it could make for business travelers. The group's facilitator was focusing on a particular moment of truth: when the customer is dropped off at the rental car. The group was asked what would make that moment ideal. One customer replied, "I'd like a light on the side of the bus." When asked why she needed a light, she replied, "Because it's dark out there." After more probing, the real reason emerged. She and the others in the room were worried about their personal safety given that rental lots are often located in high crime areas.

Once the real reason for the request came to light, the group was able to come up with other ways to solve the problem. They suggested that the rental car company bring the car to them instead. The end result was that the company found a way to delight customers by listening to what they had to say.

### Prioritization: Make Investment Decisions Based on Buying Behavior

You cannot and should not strive to be world-class at everything. You must learn what is necessary and what isn't. A perfect example is answering the telephone. If your company doesn't answer the phone when customers call, they won't be your customers for very long. But investing millions to answer the phone on the first ring won't help either. It's unlikely new customers will flock to you because you answer on the first rather than the third ring. Being the world leader in this case won't provide a significant incremental customer value or competitive advantage.

On the other hand, providing access to critical information once the phone is answered can give you a competitive advantage. You must decide how important each need is to your customer and if meeting that need will boost your bottom line.

Once you have identified the "voice of the customer," you must translate it into the "voice of the company." After all, the company has other constituents, such as its

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### Prioritization: Make Investment Decisions Based on Buying Behavior

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shareholders, employees, the community and regulatory agencies. The customer's needs must be converted into business decision-making criteria.

#### **Linking Customer Needs with Buying Behavior and Bottom-Line Results**

If you want to do more than the minimum required to satisfy customers, you will need to use advanced methods to tie needs to behavior and bottom-line results. You can use focus groups to identify creative, new, added-value interactions that move your company from “meeting customer expectations” to “establishing and fulfilling new value propositions that exceed expectations.”

You can also use quantitative surveys to identify actual buying behavior. This serves as a check on whether satisfying the needs you identified actually results in additional buying by those customers.

#### **Prioritization Scenarios**

When choosing and applying CVM methods for prioritizing, there are four methods you can use:

- Design a totally new process or service. The most important needs become the top design priorities regardless of how well they were being performed in the old one.
- Design improvements to an existing process or service. In this approach only those important needs that are being poorly performed move to the top of the improvements list.
- If you choose to focus only on the customer's voice, prioritize according to the customer's identification of which needs are most important.
- If you choose to focus on actual buying behavior, choose to focus on those needs that bring bottom-line improvements. ■

### Design: Envision “Ideal” Customer-Defined Business Capabilities

The contenders for high profits and customer loyalty will be the companies that are willing to make fundamental changes in their infrastructure and process capabilities to align themselves with the needs of their customers. Customer value management can be visualized as a pyramid with three layers. The *customer's viewpoint* is at the top, and it is here that CVM begins. Once the customer's vision is identified and business

### High-Tech Call Centers

Today's high-tech call centers demonstrate the power of designing systems from the outside in. These call centers can identify who is calling before the call is answered. By searching internal databases and analyzing the calling history, the center already knows what language to answer in, the caller's buying history and preferences. External databases can also be searched, giving instant access to credit history, risk management data, and fraud protection assessments. In addition, all the gathered data can be analyzed and a prediction made about what the customer is calling about, or what he or she might want to buy. The call can then be routed automatically to a specialist. All this happens seamlessly.

priorities are established, the focus shifts toward the next two levels of the pyramid: the organization's essential *process capabilities* and the required *infrastructures* (including organization structure, business practices, measures/rewards/culture and technology). The capabilities and required infrastructures are designed to support and fulfill the customer's vision.

Let's look at an example of how this is done. Customized service is quickly becoming a universal chorus from customers who are becoming used to personalized treatment from high-service industries. Today, the customer vision is increasingly to have things “my way.” For your company, the issue is to identify exactly what that means in terms of new business capabilities and infrastructure investments.

Customers also want businesses to recognize them. That means you need to put processes in place that capture information early on in the relationship. Take a bank loan application as an example. Although a new bank customer will have to supply lots of information up front, an established customer shouldn't have to. If you captured basic information up front and made it available to those who need it, the established customer wouldn't have to repeat information.

#### **Designing the Bottom of the CVM Pyramid**

The starting points for CVM are customer desires and company strategy, such as the decision to compete on price or value. Then, you should data mine your company's transactional data to identify high- and low-profit target segments and identify common buying behavior.

With that data in hand, you can conduct primary market research using focus groups and quantitative surveys. This will give you an idea of the relative importance of customer needs, size up where the competition

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### Design: Envision “Ideal” Customer-Defined Business Capabilities

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is, and identify the behavior that drives customers. You can then do on-site benchmarking by visiting other companies in different industries that customers have identified as the best at meeting their needs. You should also do secondary research in journals to see which companies have distinguished themselves. Finally, you and others in your company can brainstorm to come up with the infrastructure and capabilities required to meet the needs identified at the top of the pyramid. ■

### Implementation and Maintenance: The Holistic Approach

For a company to become and to remain customer-centered requires a balanced holistic approach. The challenge is to calibrate and align all the major elements of the business so they are mutually supportive, holistically balanced, and aligned and linked with the things that drive customer buying behavior. Once the alignment and balance are attained, however, the reality is that the environment will not remain constant. Changes will take place that must be integrated into the business without upsetting the balance.

Well-articulated business direction and a clear state-

ment of where the company is going are required to help employees understand and support company goals. Employees need a framework for business decision-making. This requires that customer-centeredness must be incorporated into your company’s values, vision and mission. It also requires that you change employee incentives, measurements and objectives to align with the customer-centered view. ■

### Sustaining CVM, Always

You’re ready. You have arrived at a customer-defined state for your business. Your marketplace has been segmented into groups of customers based on their current and future value and then subsegmented into clusters of customers with common needs and wants. Target market segments have been divided into buying behavior drivers and prioritized based on their relative potential to improve your business. You have redesigned your business capacities and infrastructure to align them with your customer’s vision. Your employees are with you. Congratulations!

*You must institutionalize becoming customer-centered.*

*You must continually monitor changing customer and market perceptions.*

Now, get set to do it again. Because today you are already one day out of sync with your customers. The answer is that you must institutionalize becoming customer-

centered. You must continually monitor changing customer and market perceptions.

Remember that the business world today is characterized by an intense but often disorganized desire to become more customer-centered. Virtually every corporation is grappling with how to develop and implement strategies to move closer to their customers. The pressure for a company to become customer-centered will only increase as more and more consumers get used to doing business on the Internet.

As affordable Internet access continues to rise, so will the number of people using the Internet. These consumers will get used to personalized transactions and will have access to new vendors as never before. They will seek out new deals and expect great service. And if these consumers are unhappy with your service or product, they have the power to let the world know.

In light of these realities, you have no choice but to intensify and accelerate your ability to understand customer needs. But if you integrate CVM into your business approach and management, you can be the leader who sets the bar others will have to meet. ■

### Reaping the Benefits of Being Customer-Centered at IBM

When IBM transformed itself into a customer-centered company, the employees had to be convinced it was necessary; they had to “get it.”

Some of the actions taken to assure they would come onboard included educational programs about the changes coming and why they were being made. In addition, the company elevated the customer to the position of final arbiter of whether IBM’s performance was satisfactory. Employees were ranked and rated on their individual performance and their team contributions toward customer-focused objectives. Executive compensation, which had been based primarily on business unit performance, was now based on overall business results and customer satisfaction.

The result was that the culture changed and aligned around a new set of values and vision for the company. Together, these efforts assured that the employees “got it.”