NOT ALL ARE WORTHY

When Giving Your Customers Less Is More

By PETER FADER

If you, like me, have teenage children, you'll know they're a demanding, impatient lot: They know exactly what they want, and they want it now. Maybe you have these kids as your customers, but unless you are prepared to meet their every demand, they may not remain your customers for long. In sports parlance, they are *free agents*: their loyalty extends only as far as their next passing whim.

In this regard, the modern teenager is emblematic of the changing face of business. It is a world that is becoming less forgiving of the product-centered model that has dominated for the past 100 years, and more demanding of a customer-centric model – a model based not so much on expertise in the realm of product development, but rather on a deep understanding of what customers actually want, when and how they want it, and what they're willing to give you in exchange.

The rules of the game have changed, and consumers now have all of the choices – and, by extension, all of the power – in today's ultra-competitive business landscape. This leaves product-centric companies vulnerable, or at least more vulnerable than before, to their competition – competition that is coming from all angles, on all fronts and from every corner of the globe.

As such, even enormously successful companies known for their customer orientation will need to start thinking in new ways and questioning the status quo. The fact is, product centricity may well have worked for the

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likes of Walmart, Starbucks and Apple for a long time, but it won't work forever because, at some point, having the best product, the best service or the best technology won't be enough. The world has changed, and companies must change with it.

In this article, I will explore the key trends that are reshaping the business world, forcing companies to reevaluate their strategic focus – from the products they produce to the customers they serve. I will also debunk many of the myths surrounding customer centricity, showing how managers need to recontextualize the role of customer relationship management as part of a customer-centric strategy.

My insights are derived from years of research and work I have undertaken with firms from a wide range of industries, such as consumer packaged goods, interactive media, financial services and pharmaceuticals, to explore customer relationship management, customer lifetime value and sales forecasting.

The Decline of Product Centricity

Ever since Henry Ford introduced the wonders of the assembly line, companies of all kinds, even service firms, have followed the same path to growth and profitability. Ford's model – the product-centric model – worked. And it worked because of the virtuous cycle that underpinned the entire thing.

As Ford understood when he unveiled the Model T back in 1908, and as companies still understand today, the more products you sell, the cheaper it becomes to manufacture those products, which means you can make more products, sell more of them and make even more money.

Although the product-centric model is not entirely obsolete, there are certainly cracks showing in its foundation, which can be traced to three factors.

TECHNOLOGY. Because of the near incomprehensible pace of technological advancement and the spread of technological knowledge around the globe, whatever you invent today can be knocked off tomorrow. Where once a top-performing product or cutting-edge technology used to reign supreme without competition for years and years, that window of dominance has been shaved to months, weeks or even days.

GLOBALIZATION. The borderless reality in which businesses operate today has wiped out almost every company's geographic advantage. Where a product is manufactured is irrelevant to today's increasingly demanding consumers.

CONSUMER POWER. Consumers are smarter than ever before; and the market is more saturated, more competitive and changes more quickly than ever before. This has created the perfect storm. For companies to survive and thrive in

EXECUTIVE SUMMARY

Contrary to popular belief, most of the world's household brands are not customer-centric; they're product-centric, which isn't enough anymore. Companies may say they care about the customer; they may even have installed a CRM system – but that's the problem. Customer friendliness is not the same thing as aligning your entire company's development and delivery of products and services with the current and future needs of a select set of customers in order to maximize their long-term financial value to the firm. Turning CRM into a data-gathering exercise run by IT is not the same thing as extracting value-added insight into your focal customers.

This article debunks many of the myths surrounding customer centricity, showing how managers need to recontextualize the role of CRM as part of a wider customer-centric strategy. Understanding, first of all, that there is tremendous heterogeneity among your customers, and that, consequently, some customers deserve less, and it is okay to give them less, presents a radically different approach from the way most companies operate.

Customer-centric firms do not just acknowledge this truth, they actually celebrate it, because they understand that it offers immense opportunities and maximum profits in the long term.

the long-term, they must understand and cater to the whims and needs of newly empowered customers.

The good news is that companies can collect previously unthinkable amounts of important, actionable data about their customers. They can know what their customers buy, when and where they buy it, plus a whole lot more. This data explosion is possibly the most important reason why the product-centric model is imperiled.

With so much customer-level data available to you today, the important thing is to use it. Really smart companies are already leveraging such data, often with enormous success. You can be sure that if you don't do it, your competitors will.

Beyond Customer Friendliness

Contrary to popular belief, most of the world's household brands are not customer-centric. They may be customer-friendly, but that's not the same thing as being customer-centric (see **Missing the Boat**).

Take two of the biggest U.S. store chains, Walmart and Costco. Both companies stock their shelves with an unmatched variety of products, and then sell them cheaper than almost anyone else can.

Yet for all their retail sector dominance and massive sales numbers, both firms are flying blind when it comes to their individual customers. They may collect data via customer transactions at checkout, but it's not clear what they do with that data, apart from making aggregated decisions about which products to sell, and where and when to sell them.

Do they leverage all that rich customer-level data to discern who their best customers are? Do they make a concerted effort to target those individuals with customized offers?

It's not apparent if they do. Their main goal seems to be to continue to sell in huge volumes and keep their costs low. It's a wholly product-centric model, and it's simply not worth their while to start doing anything deeper.

A Radically Different Approach

What, then, is customer centricity? In essence, it's a strategy that aligns a company's development and delivery of products and services with the current and future needs of *a select set of customers* in order to maximize their long-term

Missing the Boat

Don't confuse customer friendliness with customer centricity.

Every day millions of people start their day with a trip to their neighborhood Starbucks where local baristas will generally know what their regular customers want. Apple, meanwhile, designs, manufactures, distributes and promotes trendy products that are enormously popular among fiercely loyal legions of fans. Indeed, Apple goes out of its way to treat its fans well, as my son can attest: If your iPod breaks, the good folks at the Apple Store will treat you wonderfully while you await the repairs.

Which of these companies would you say is the most customer-centric: Starbucks or Apple? The answer is neither.

What are the chances that an extremely loyal Starbucks customer from Philadelphia can walk into any random Starbucks in Kansas City and say, "I'll have the usual, please," and the local barista there will know as much about them as the one back home? Starbucks gathers virtually zero data at the customer level. It simply delivers its product. Starbucks, it seems to me, is leaving huge amounts of money on the table by failing to take advantage of the deeply ingrained buying habits that many of its customers have established over the years.

The same goes for Apple: For all its cutting-edge hipness, Apple is fairly old school. In fact, it's one of the most product-centric operations on the scene today. Product centricity is how Steve Jobs built the company in the first place. The folks at Apple are geniuses when it comes to developing new products and convincing customers to buy endless versions of them. In that respect, Apple has utterly perfected Henry Ford's model: develop a product, market a product, sell a product and repeat.

Yet Apple, like Starbucks, knows surprisingly little about the millions of customers buying its products. For proof, look no further than iTunes, which was actually quite late to the party for something as basic as a recommendation engine using past purchase history to tell customers what other songs they might like. Amazon had been doing basically the same thing for 10 years before Apple introduced it.

I'm not saying Apple and Starbucks don't know what they're doing: Obviously their models work well for what they are. But eventually they will need to start thinking in new ways and questioning whether their product-centric models will be as viable and profitable in 10 years' time. I doubt it, because in a customer-centric world, just having the best product, service or technology won't be enough.

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financial value to the firm. This distinction – that *not all customers are created equal* – flies directly in the face of the product-centric approach, which may explain why some firms are slow to accept it.

Customer-centric firms are committed to identifying their most lucrative customers: These are the "right" ones, the "important" ones, the ones you should be spending a disproportionate amount of your time and resources not only thinking about but planning around, producing for and working for, in order to deliver exactly what they want.

Of course, in the product-centric world, there are no "right" customers, with a select few "important" ones divided off from the rest. There is just the archetypical "customer." But, in reality, the monolithic "customer" does not exist, because each and every customer is so different.

Understanding, first of all, that there is tremendous heterogeneity among your customers, and that, consequently, some customers deserve *less*, and it is *okay* to give them less, presents a radically different approach from the way most companies operate. Customer-centric firms do not just acknowledge this truth, they actually celebrate it, because they understand that it offers immense opportunities and maximum profits in the long term.

Even if a firm does accept the need to focus on a select few customers, the reality of putting it into practice demands a great deal of effort and quite possibly a willingness to suffer a short-term hit in the pursuit of long-term gain. This is something that shareholder-beholden firms are generally loath to do.

Organizational & Financial Challenges

In focusing on your most lucrative customers, this is not to say that you should stop serving your less valuable customers altogether. Knowing almost everything there is to know about your customers will require an investment of resources – people, technology, man-hours – and before you can reap the long-term rewards of this investment, there is the short-term reality of paying the bills, making payroll and staying in business.

This is where your other customers come in. As you spend more and more of your time and money focusing specifically on the "right" customers, it turns out that you need those other customers rather a lot; indeed, it is unlikely your business can survive without them.

However, while you want those other customers to keep being your customers, you don't want to burn any calories worrying about them. Instead, view them as low-hanging fruit: They are the easy money that will allow you to continue on your path to long-term customer-centric success.

Admittedly, the path to customer centricity is an uphill one, so be prepared for the following challenges on two main fronts.

ORGANIZATIONAL. Customer-centric companies don't make and sell the products they *think* their customers want; they make and sell the products they *know* their customers want. It's a fundamentally different way of doing things, and one

ABOUT THE AUTHOR

Peter Fader is the Frances and Pei-Yuan Chia Professor of Marketing at the Wharton School of the University of Pennsylvania. He is also the codirector of the Wharton Customer Analytics Initiative, a research center focused on fostering productive collaborations between data-driven firms and top academic researchers around the world. He earned his bachelor's from the Massachusetts Institute of Technology, and a master's and PhD from MIT Sloan School of Management. His work has been published in, and he serves on the editorial boards of, a number of leading journals in marketing, statistics and the management sciences. He has won many awards for his teaching and research, which is related to the use of behavioral data to understand and forecast customer shopping/purchasing activities.

Armed with customer insights, you must position your company – from the top to the on-the-ground sales force – to deliver on those ideas. That may require a complete transformation of your company culture.

that requires a lot of effort up front to separate the "right" customers from the "wrong" ones.

Once you have identified your "right" customers, you must mine them for information. That means finding out what they want, what they need and what they will demand in the future. You must also find out how to acquire new customers who share some of the characteristics that distinguish your best customers.

Armed with these customer insights, you must position your company – from the very top right down to the on-the-ground sales force – to deliver on those ideas. That may require a complete transformation of your company culture, as well as a root-and-branch reorganization of the structures and functions that make your company work.

FINANCIAL. Doing this will cost money. You will have to invest in whatever resources – technological, human or otherwise – that will be necessary to collect and sort customer data, as well as make your organization more nimble, flexible and responsive to your core customers. Any company that undergoes a strategic change of this magnitude must be prepared to assume some short-term pain for the sake of long-term gain.

Three Key Benefits

Given these challenges, why bother going down this path at all? Quite simply, because customer centricity delivers healthy profits – albeit in a manner more complicated than product centricity, but certainly less cyclical and more sustainable. Customer centricity allows companies to excel in three areas.

CUSTOMER ACQUISITION. You can better understand the true cost and value of new customer acquisition, know where you should look for new customers, and increase the number and quality of referrals via existing customers.

CUSTOMER RETENTION. You can prolong your relationships with your best customers, and maintain those relationships at lower cost.

CUSTOMER DEVELOPMENT. You can boost the frequency with which your customers purchase a product or service from you, and sell more varied products via cross-selling. Among your best customers, you can realize price premiums with existing products or services, while also up-selling to higher margin products or services.

The First Step: Customer Relationship Management

To realize these benefits, companies must first buy-in a customer relationship management (CRM) system. CRM is the first major step toward transforming the focus of your company's strategy from the products it creates to the customers it serves.

The mere mention of CRM may provoke groans from the reader. That's because many companies have spent millions of dollars installing CRM systems over the years, with disappointing results. Indeed, an estimated 70 percent of companies that put CRM systems in place have deemed their efforts as failures.

To understand why, we have to define exactly what CRM is – or more accurately, what it was supposed to be before it lost its way. The best way of grasping this is to use an illustration from Main Street, U.S.A.

Natasha runs a beauty salon. She has been running her shop for years, providing her small town with all manner of services. Her customers keep coming back and sending their friends and family, too. She makes a tidy profit, quarter after quarter, year after year. Her business is not just stable, it is growing, even though the services she offers are the same as other salons in town.

How Natasha pulls this off is by keeping a big stack of index cards with notes to herself reminding her of important details about each of her key customers: birthdays, anniversaries, kids' names, likes and dislikes, product preferences, spending limits, favorite vacation destinations and so on. Those index cards are her

Data With a Purpose

Clubcard is a leading example of customer centricity.

"The reason many CRM projects have a bad name is that they've been sold on the hype that knowing the customer was going to somehow magically make the customer more loyal. Well, it didn't. In fact, what it tended to do was show up flaws in the business because it actually made it easier to do things badly for customers. It [CRM] automated call centers because you were a lower-value customer, and you couldn't get directly through to a person. Or it bombarded you with offers that you didn't really want because it was cheap to send and you were clearly a good prospect."

So says marketing consultant Clive Humby, who helped launch the highly successful loyalty program for the U.K. retail giant, Tesco. While countless other retailers have similar "clubcards," Tesco was one of the first, launching in 1995, and few have come close to rivaling it. Today, Tesco is first in its home market and third in the world, with annual growth rates of 7.5 percent predicted through 2015 – the highest in the global retail sector.

Every time a Tesco Clubcard member buys something at one of its stores, these customers get points that are then paid back to them four times a year and can be used to buy more Tesco products. The customer wins, but Tesco wins, too, with data. Armed with that deep customer knowledge, Tesco is able to target individual customers with special offers or deals customized to their wants, needs and habits. This makes each and every customer feel valued, which, in turn, generates value back to the company.

Many other stores have introduced initiatives similar to Tesco's. They appreciate what CRM is supposed to be about: gathering data must serve a purpose; it is not where the work ends, but rather where it begins.

CRM. They are the memory chips by which she knows her customers' wants and needs, and what they might buy, given the right opportunity. She knows which customers can be developed into bigger spenders, as well as which ones will demand more of her time than they are worth.

Because she knows all this, she can succeed on two fronts: in the bottom-line sense, but also on a personal level, using her vast well of information to establish connections between her business and her customers that even the mightiest of multinationals would envy.

Vitally, Natasha also understands that the baseline functionality of her simple CRM system – the gathering of informal data – is merely the first step toward her customer-centric success. After gathering the data, the real work begins.

Her success rests on having the savvy to *know what information* about each customer to track over time, the genuine desire to *care about* that information, the ability to *use* that information and the persistence to *continually update* that information.

It sounds easy, but given the frequent disappointment companies express with CRM, it's hard to replicate Natasha's example on a systematic, enterprise-wide basis.

What CRM Is and Isn't

A standard definition of CRM might be "a coordinated set of systems that a company uses to help create and extract more value from its customer base."

A much more suitable definition would be "CRM is a direct manifestation of a firm's customer-centric philosophy in action, representing its front-line efforts to gather data about, and better understand, the unique characteristics and expected value of its focal customers, as well as use that information to allocate resources appropriately."

When implemented properly and used intelligently, CRM systems can be of tremendous use to any company aiming to become more customer-centric, enabling companies to:

- identify who their focal customers are and aren't.
- estimate two vital customer-centric indicators more accurately: *customer lifetime value*, i.e., the value of the future net cash flows associated with a particular customer; and *customer equity*, i.e., the sum of the customer lifetime values across a firm's entire customer base.
- segment customers into distinct groups to execute subsequent marketing activities more efficiently and effectively in relation to acquisition, retention and development.
- create the infrastructure to conduct this process on a consistent, regular basis.

CRM gives us nothing less than the most important and actionable information about all of our customers – their wants, needs, levels of loyalty and long-term value. Without it, true customer centricity cannot be achieved.

CRM has fallen short of such promise. Somewhere along the way, CRM devolved from a potentially groundbreaking strategic tool into an expensive, burdensome, disappointing exercise in systems engineering. CRM was taken away from marketers and salespeople and handed over almost entirely to the IT department. In doing so, CRM lost virtually all connection to what the acronym stood for: customers, relationships and management. It became an end unto itself, instead of a means to an end – that end being customer centricity.

No matter how big CRM systems may grow, no matter how massive our customer base becomes, it remains paramount to understand that all of these efforts are about our companies' relationships with each and every customer we have, on a highly individualized level. It's not about mass marketing, company-wide promotions or seasonal sales. It's about relationships – and more specifically, strengthening those relationships.

Getting Back on Track

If your firm suffers from aimless, improper implementation of CRM, it's important to get it back on track. Marketing experts need to be brought back in to return CRM to what it was meant to be in the first place: a crucially important step toward the achievement of customer-centric success.

There are signs that this is happening. Two years ago, had you spoken to anyone with even a passing understanding or experience of CRM, your conversation would likely have been marked by the repeated use of the word "system." Today, you'll hear "interaction" and "recommendation," maybe even "nurture" – evidence that CRM is finally being recontextualized toward customer centricity (see **Data With a Purpose**).

Turning back to Natasha, consider this list of 10 items that could be easily generated from her CRM system. Which of these are essential for customer centricity?

1. A red-flag warning that a customer is overdue for her next appointment.
2. A red-flag warning that a product is running low.
3. The average value of all customers who have bought that product more than once.
4. The total sales associated with a Groupon promotion.
5. Among customers who tried that promotion, the percentage who made a repeat visit.
6. A breakdown of revenue based on the use of credit cards vs. cash.
7. The weighted average value of customers associated with each payment method.
8. The number of vacation days that her colorist took last year.
9. The number of customers who use that colorist but no other services.
10. Total revenue associated with that colorist.

All of the odd-numbered items are important for customer centricity, and even among those five, some are more essential than others. This shows where CRM needs to move from mere data collection to genuine value-added insight – a step that more companies are starting to appreciate.

Many companies have great products and services to sell. But the truly customer-centric ones know their success is based not only on those products and services, but on the means they use to leverage those products and services to reinforce relationships with customers; discern the value of their customers; identify the worthwhile ones; and build operations and systems that will allow them to fine-tune their understanding of their principal sources of profit and growth.

It's time to banish talk of "the customer." It's not enough just to be "nice" to your customers. Start dealing with *your* customers. They are there, waiting to be served. They don't all expect, require or deserve the same level of service or attention. Ignore their heterogeneous needs – and their heterogeneous value to your company – at your peril. □

TO KNOW MORE

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