

Week 5 – CUSTOMER CENTRICITY:

The Opportunities and Challenges of Customer Centricity

What is Customer Centricity?

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Customer centricity is a strategy that aligns a company's development/delivery of its products/services around the current and future needs of a **select set of customers** in order to **maximize their long-term financial value** to the firm.

The big difference comes from the mindset:

How do you approach your business to provide the best to some of your customers?

Customer centricity requires the company to be willing and able to change:

- Its organizational design
- Performance metrics
- Employee/distributor incentive structures

to focus on this long-run value creation/delivery process.

Example: Difference between backward looking and forward looking for salespeople. In a customer centric approach, it's better to use forward looking incentives to salespeople so that they build relationships with customers and don't just try to close sales that they would have closed anyway.

Advice to Airlines:

If airlines were smart, they would provide big advantages to students because they will be big travelers tomorrow. It's what customer centricity is about.

Living in a Customer-Centric World

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The goal of the firm is to **maximize shareholder value**, in both systems.

Celebrate **customer heterogeneity**: distinguish the profitable customers from the less profitable ones

Focus on future profitability (**customer lifetime value = CLV**) rather than past profits.

Success arises through enhanced (and/or more efficient) customer:

- Acquisition
- Retention
- Development

These ideas are not on the priority list in product-centricity marketing.

Customer-centric organizational structure: example of P&G (Procter & Gamble) and the “My Black is Beautiful” campaign



They try to position themselves as advisors. They don't try to make money out of black women; they just want to be known by these people. They just targeted black women. This is **Customer-centricity**.

The competitive advantage: “relationship expertise” with respect to focal customers.

- With datas
- Forecast
- Deep analysis...

It can never be taken away from you! Customers are your asset!

Table 1.1 Product-Centric versus Customer-Centric

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

The mental process is very important: go from divergent to convergent thinking.

It's difficult and can't be achieved overnight.

More Reflections on Customer Centricity

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You have to focus on your most valuable customers; it doesn't mean you have to "fire" the other ones!

Customer centricity does NOT suggest that "non-focal" customers should be ignored or "fired"; to the contrary, it's important to have a healthy proportion of such customers to add a high degree of stability and robustness to the overall customer base. (Think of them like cash in an investment portfolio).

Taking this idea further, there is a **paradox of customer centricity**: the more that a firm tightens its central focus on a select group of customers, the more it needs its "non-focal" customers to stabilize the overall mix.

No company can be only customer-centric. They have to find the right balance between product and customer centric according to the value of customers.

Questions on Customer Centricity

Discussion Questions

Who is the customer? Can your organization come up with a single, consensus answer to this question, or can you at least reconcile the roles/relationships of the different potential customers?

What are the major barriers to account for? Develop a comprehensive list, ranked by the importance/difficulty of each barrier.

- The data: hard to gather
- Regulatory problems
- Cultural problems...

What resources can you utilize to overcome these barriers?

- Money: to build the information systems
- Cultural: use the right persons to solve the problems.

Thoughts about what competitors are doing in this area?

- Competition pressure is a good way to move to customer centricity
- But the fact to be the first in your domain is a great motivation too!

Does it make sense for your organization to become customer centric? If so, what should be your immediate goals and medium-term expectations?

- Scan & Go program of Wal-Mart...

All companies should think about what customer centricity means for them!

Major Points

- ✓ Customer centricity is about focusing on the best customers, those who have the greatest value = **Celebrate customer heterogeneity!**
- ✓ It doesn't mean you have to "fire" the other ones
- ✓ Focus on CLV = Customer Lifetime Value
- ✓ Think about what customer centricity is for your own business and how you can be more customer-centric
- ✓ Customers are your asset