Week 4 – CUSTOMER CENTRICITY:

The Limits of Product-Centric Thinking

From Product-Centric to Customer-Centric Management

The Product-Centric Approach

The main goal of most companies is to maximize the value of the company and to increase shareholders value.

Maximum profits through: **Volume** + **Cost Reduction**

Main question: “Will it scale?”

The metrics:
- Volume delivered
- Reduction of costs
- Market share = Key performance indicator

Sources of growth:
- Finding new customers
- Innovation (R&D): new products, extensions of existing products
- = **Extending the product!**

Most companies have a Product-oriented organizational structure!

The competitive advantage: **product expertise**

This model = **Product-Centricity**

More and more companies jump “out of the water” (fish metaphor), to see how they can do in another environment.

		Product-Centric Company
Strategy	Goal	Best product for customer
	Main offering	New products
	Value creation route	Cutting-edge products, useful features, new applications
	Most important customer	Most advanced customer
	Priority-setting basis	Portfolio of products
	Pricing	Price to market
Structure	Organizational concept	Product profit centers, product reviews, product teams
Processes	Most important process	New product development
Rewards	Measures	• Number of new products • Percentage of revenue from products less than two years old • Market share
People	Approach to personnel	Power to people who develop products • Highest reward is working on next most challenging product • Manage creative people through challenges with a deadline
	Mental process	Divergent thinking: *How many possible uses of this product?*
	Sales bias	On the side of the seller in a transaction
	Culture	New product culture: open to new ideas, experimentation

Cracks in the Product-Centric Approach

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What are the cracks in product centricity?

- **Commoditization**: technology enabled product development. Product life cycle is shorter than ever.
- **Smart customers**: technology enabled information flow. Customers are more informed and demanding thanks to internet. Customers are no more passive.
- **Retail saturation**: technology enabled delivery. Today distribution technology delivers everything everywhere.
- **Globalization**
- **Deregulation:** companies need to be more competitive, they are no more "the only one in town"
- **Customers want "end-to-end solutions":** which may require products/services from multiple vendors
- **Customer-level tracking:** thanks to information systems. Henry FORD had no idea if he was selling 1 car to 10 million people or 10 million cars to 1 people. Now companies have more information.

Example: IBM (International Business Machine), in the middle of the nineties, started being a solution adviser and not only a Business Machine retailer. They went from Product-Centric to Customer-Centric Approach.

Data-Driven Business Models

Examples

Harrah's (Casinos, USA) and Tesco (Supermarket, UK) are two good examples. They didn't have as many resources as their competitors to be at the top of the market, so they had a look at insights to focus on their customers: who they were, what they wanted exactly…

- **Harrah's:** Developed an amazing Royalty Program with a member card to study all the actions of their customers: what games they played, what meals they ate, what room they preferred…The goal was to optimize what to do so that the customers spend the most money in the casinos. Example: if a guy loses 150$ at the table, they offer a meal so that it "resets" his mind and he forgets about that loss. That way he goes back to the tables and plays more.
- **Tesco:** Developed a Loyalty Program to study the buying habits of their customers. That way they could send targeted coupons to the right customers and make them come again to buy more.

These 2 companies focused on a **deep analysis of datas** about their customers, which allowed them to pivot their business model in a way they could never achieve through product and services alone.

Three Cheers for Direct Marketing!

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The first companies that used data analysis were in **Direct Marketing** domain.

- The individual customer is the unit of analysis
- Know who their customers are and what they buy
- Aim to determine marketing communication based on past purchases
- Constantly determine (and leverage) individual **customer value**. Try to figure out who are the best customers and how you can provide them the best value.

Interesting book: Being Direct by Lester WUNDERMAN

Which Firms Are Customer Centric?

Which of these retailers are highly “customer centric”?

Wal-Mart, Apple, Starbucks, Nordstrom → None of them!

- **Wal-Mart**: they don’t have a Loyalty Program, they don’t really study what their customers do and buy…They understand geographical differences; they consider their customers as a group but not as individuals. It’s a **wonderful success of Product-Centricity**. They focus on **Operational-Excellence.** They start focusing on some customer-centric strategies (Scan & Go).
- **Apple**: they don’t really study and target their audience; they just try to provide the best high-tech products. They focus on **Performance Superiority**!
- **Starbucks**: they focus on customer-centricity on a local level but not on a national level.
- **Nordstrom**: story of the guy who had his tires repaid whereas Nordstrom didn’t sell tires. It can be a good idea only if you know that this customer is very valuable and will come back and spend a lot of money. But, you can only know that by studying the data about customers.

Major Points

- ✓ Product centric approach has some cracks, because the world has changed
- ✓ You need to gather as many information and datas about your customers as possible to be truly customer-centric
- ✓ The individual customer is a the center of the customer-centric approach
- ✓ Most firms are not customer-centric