

CHAPTER 2

THE IMPLICATIONS OF CUSTOMER CENTRICITY ON PERFORMANCE

The Implications on Results

Every CEO wants a return on their investment, and the financial investment to become customer centric makes sound business sense. In addition to the abundance of research on this topic, consider the following.

1. Every organization has a “reason to be”.

That is, an organization or company can have many different ultimate priorities or measures of success, such as:

- Improve shareholder value
- Earn a profit
- Meet social needs
- Invest in R&D for long-term success
- Protect the environment
- Accelerate growth
- Demonstrate social responsibility

One or more of these define an organization’s “reason to be”.

2. Against that reason to be, there’s only one thing that matters: results.

That’s it.

If you are the CEO presenting to your Board, the only thing they care about is results against the agreed “reason to be” mandates.

You present results against what you are charged with accomplishing. So then, the next question becomes...how do you get, influence or improve results?

3. All the results, in every company, without exception, come from the behaviors of people.

People's behaviors, in their aggregate, produce an organization's results.

Companies heavily dependent on robotics require people to manufacture, program and maintain those robots. Organizations in the digital space need people to drive creativity, design and programming. Marketing based companies with massive brand equity would see the quick erosion of that equity if they were to shut their doors and lay off all their staff.

Results come from the behaviors of people. Therefore, if you want to change results, concentrate on changing the behaviors of the people, which, by the way, is no easy task.

4. Tools can help drive behavior change.

Tools have a place because tools can help you make behavior changes. They cannot do the job in and of themselves, but they can help. Unfortunately, many organizations decide simply to focus on tools and then hope they get the results they want. For example, a company may introduce new software thinking it is going to produce great results; but people must use the software and if they are inadequately trained to use it, then the results don't come as you envisioned. Being equipped with the necessary behaviors to appropriately use the tools was not made a priority.

Two key areas must become a focus for true behavior change to happen.

1. Frontline Leadership Capabilities

Leaders are the greatest influencers of behavior. Organizations follow leaders. Individuals follow their immediate supervisor. Changing how these people lead results in changing the behaviors of the people who follow them.

2. Skills of the People

If we build, improve and enhance the skills of the people in an organization, then their behaviors change. This must include three things:

- i. The reason behind acquiring the new skills (to build conviction)
- ii. The knowledge of how to behave differently (to build confidence)
- iii. The capability to apply that knowledge in practice (to build competence)

In short, if you make people more skilled and train leaders to be better, then you subsequently change the behaviors of the people inside your organization.

When we link this overall approach back into the behaviors related to customer centricity, results improve: Net Promoter Score, your customer statistics, online ratings – whatever it is by which you measure results.

This recognition of importance of the potential contribution of every single person moves the organization from thinking: “We should be customer centric” to: “Changing the behaviors of the people to be more customer centric will improve results”.

The rationale behind customer centricity is: if you change behavior, you change results and if you change results you then influence your reason to be. If one of your reasons to be is to improve shareholder value and profitability, then there is a wealth of data that says improving the customer experience will positively impact those objectives.

When every single person is thinking about how their actions are impacting the end customer, then the customer’s experience will be significantly improved – which means significantly improved results.

The relationship between customer centricity and perceived value

You may be fully committed to your customer’s experience, but if your idea of a great experience is significantly different from that of your customer, then your efforts go to waste; or worse – you might even end up with an angry, dissatisfied customer.

Focus your customer centricity efforts on what your customer really values.

When any customer comes to a particular company, they are looking for a product or service for which they are willing to pay money. How much they pay is linked directly to the value they believe they get from that product or service.

If you want to be customer centric, you must know what your customer values, otherwise you run the risk of making wrong assumptions and investing time, effort and resources into the improvement of an experience in a way your customers may not even care about!

The concept of value is defined by the customer as an exchange between what you are giving, and what you are getting; and how important it is to you. This value concept is then tied to the notion of personal importance, which is in turn linked to two things:

- 1) The practicalities of life - the tangible elements.
- 2) The emotional side of life - things that may not have any extrinsic value but they are of meaningful intrinsic value.

Think of an old clunker of a car. From a tangible perspective, it is worth next to nothing; perhaps a few hundred dollars at most. But from an emotional standpoint, it is pure gold in its owner's world; it was gifted by a well-loved grandfather who passed away 11 months ago. It is the only vehicle the owner can currently afford and it will get them from Point A to Point B to see a grandmother who will pass away shortly as well. Clearly the actual value is much greater than its extrinsic blue book price.

The importance of something to the user is, in large part, what determines its value. You need to think about what the customer values when you start thinking about improving their experience, which means you need to understand the factors that influence value.

Think of the big dipper that has seven stars. In the Customer Value Constellation, there are also seven "stars" that represent the seven factors valued by the customer, and on what they might come to place the greatest weight.

1 - Personal preference

"I bought this phone just because I like the way it looks and feels."

Very often, customers make decisions based primarily, if not solely, on what they like and what they want. There is no real logical reason behind those choices - it is just what they prefer. These preferences might be tied to obvious factors such as a product that tastes better or looks better than another. In other cases, it might be a completely intangible situation: someone who likes the rain better than the sun, or who'd rather read a book than watch TV, or who prefers furniture that's upholstered in fabric than in leather.

In the world of customer centricity, to neglect personal preference is to ignore a huge driver of human behavior. As humans, we often do things simply because we prefer them. Having said that, at times there may very well be a logical reason for the identified preferences.

Why do people buy one brand of handbag over another equally priced one? It is not necessarily because they are better - they just want that brand. They prefer it. Nothing more, nothing less. It may be possible to deconstruct what drove that preference, but it is critical to understand value is often based simply on personal preference, and is independent of everything else.

2 - Reputation

"I bought this phone because everyone I talk to who has one, and everything I read about it, says, it is the best in every way."

Some customers tend to be heavily influenced by the reputation of a product or service. They look at reviews, they tally up the number of stars and they look back in time to see what kind of reputation an organization has. If yours is a company that you know your customers are evaluating according to reputation, then you need to think about how you are communicating your reputation to your customers. Every day buying decisions are made according to your company's reputation, and by extension your company's products and services.

Picture owning a dentistry office, and you are aware of the fact that in this space customers place significant weight on internet reviews to help them decide what dentist is most worthy of their business. Consequently you decide to hire a digital marketing agency to help you focus on the "reputation star" in the value constellation.

That team is there to help you figure out how to get your current patients, who presumably think highly of you, to go the extra step to write a review and give you a rating online. The fascinating thing is that this type of influencing by reputation is not directly linked to what is happening in your dentistry office as it is to how you are going to convince patients to leave a positive review. How do you make that task easy? Seamless? Effective? Is it a prompt sent via text? Email? Now we are talking about software design - a software design company is driving your reputation, which is in turn enhancing the perceived value of your services, which is important to a portion of your potential customer base.

3 - The package

"I bought this phone because of how it looks, the features it comes with, the after purchase care, and the easy-to-access help line."

"The package" is what's included with the product or service for sale.

Many customers make a decision according to that total package (not to be confused with a product's packaging). The package is the product, the related service, the ancillary items included, the options available and the way all of it is presented.

The CEO of a large corporation wants a luxury company car program that they can offer their executives. After evaluating many of the luxury car brands they select one in particular...because its *package* is unbeatable. The sales person delivers the car personally and directly to the corporation or individual's home, whichever they prefer; and brings with them an individual who knows and can explain every detail about the car and all its features. When the presentation is complete, they then provide the buyer with the name and personal cell phone number of the person to contact in the case of regular servicing needs, or if at any

time there is a problem with the car. They also explain that a driver will come promptly to pick up the car either at their home or office, and leave a loaner for them to use whenever service is required.

For busy executives, it's clear why this package drives the purchase decision: it allows them additional time to focus on running the company.

4 - Price

"I bought this phone because it is the cheapest one available with the features I want."

Oftentimes, customers place value on price. It can be either high (most expensive) or low (least expensive) - but as you might assume, in this category most of the time customers place value on low price points. If this is the case, as an organization you need to be a low-cost producer. Your entire team must focus on taking costs out of the business and doing what they can to service the customer's value emphasis on price.

When customers go to a "bargain basement store", they likely don't care deeply about how spotless the uniform is on the person behind the cash register. On the other hand, if they go to an upscale store in the same industry, they might very well expect to see a crisp, clean, sharp looking uniform on all the employees. In the first case, the customer's primary value star is: low price. In the second scenario customers are charged more money, and therefore, their expectations are higher in accordance with the price they're paying. Price has determined their expectation.

5 - Differentiation

"I bought this phone because it has features none of the others have, and a product replacement plan unlike, and better, than all the other companies."

The customer needs the product or service to be different. This can be seen in situations where there are two very comparable products. Think of airlines. If you are like most customers, you probably do not see any discernable difference between the airlines flying to your location of choice, so you merely choose the one that fits your schedule. In the case of airlines, the customer may not really be concerned with differentiation. In their mind, airlines may all essentially be the same, and they just want to get from Point A to Point B. Alternatively, some aspect of the travel experience may be very important (i.e. legroom, or no flight cancellations) and airlines can choose to differentiate themselves in those areas.

There are industries in which differentiation plays a huge role. Take cosmetics, for example. Cosmetics lines differentiate themselves from one another in noticeable ways. One line emphasizes its use of only organic ingredients, another line focuses on the fact that it never

tests on animals, another line manufactures all its products in Canada exclusively, and so on. If you are a customer who cares deeply about the Canadian economy, you will buy the line that manufactures in Canada. If you are a lover of animals, you choose the line that differentiates itself on the premise that it never tests on animals. If you are a customer who wants to buy makeup but could not care less about differentiation, then you will probably choose whatever you see first.

When differentiation is important to customers, knowing how they differentiate becomes crucial.

6 - Quality

"I bought this phone because it is the best made, never breaks, always works as promised, and is completely reliable, always."

Quality is when a customer makes a purchasing decision based on the quality of a product. When you buy a top-rated cell phone, you might pay \$1,000 even though you can buy a different phone from the telecommunications store down the street for \$99. The quality of the first, however, is of the highest. Similarly, at the grocery store, when you buy a brand name product off the shelf, you get better quality than if you grabbed a no-name version.

When customers value quality, they are not focusing on price. Whether it is coffee, technology or dinner out, they are looking for something they would tell others about, or that is visually appealing, or functional, or durable, or reliable - whatever their "quality" definition may be.

In all of these cases, in a customer centric organization employees are engaged, caring, owning and doing what they can to accomplish the quality they know their customers value.

7 - Impact

"I bought this phone because I want to be seen as trendy and 'in fashion'."

OR

"I bought this phone because it connects seamlessly to all my other devices and so enhances my productivity."

This star is a particularly intriguing one. It asks the questions: "What is the impact I will get as a result of buying this specific product or service?"

You have a job interview next week and you want to know what impact you will make if you buy one power suit versus another. The impact you want to have is to make a great first impression.

Or, you are a woodworker on the market for a new saw. You buy the one with a very specific kind of blade that only needs to be sharpened every 6 months, as opposed to many other types of saws that require sharpening after just 4 to 5 passes. The impact you want to have by purchasing the saw is greater efficiency in your work because you can get hundreds more cuts, which means less time spent sharpening.

Celebrity endorsement in big-brand marketing is a great example of the impact star in the Value Constellation: millions of consumers absolutely adore one particular movie star and want to be just like her so when they see her endorsing a particular line of skincare products, they choose to purchase from that one.

The implications of the Value Constellation on customer centricity

When we think about customer centricity, it becomes clear what is needed to be successful. This focus comes from the customer and what they value. Ignoring or overlooking this leaves the commitment to customer centricity without a clear vision to pursue, and so extremely difficult to create a great customer experience every time.

About the 7 stars in the Value Constellation

Clearly your customer may not value simply, and only, one star. They may value many, each to a different degree. If this is the case, identify the appropriate “blend” of impact made by the stars they do value, and work towards that vision. Further, this may change by product line within a single company, or by segmentation of your customer mix by age, demographic, income, etc.

Lifetime value

Every customer has a “lifetime value”. It is important to bear this in mind because it puts the real value of the customer to organization in perspective; that is “what is the potential revenue that a single customer could bring our company if they were to buy from us their entire life?”

Think of a grocery store. A customer spends \$150 each week on groceries and lives in the area. They are consistently happy with the quality of the food, the friendly service and the fast checkouts. If this customer shops at this grocery store every week for the next 20 years of their life, that equates to \$156,000 over the lifetime of the customer. This is their lifetime value. If, on the other hand, the customer becomes disappointed with the poor fruit selection, for example, or the personal service they had come to expect, they may decide to try the grocery store three blocks away. They like it, and decide to start buying from there. The first store did not just lose \$150 that week; it lost the lion's share of \$156,000 because it had the potential to keep this customer for life.

Organizations should not only focus on the experience the customer has today, but also on doing everything it can to make sure the customer comes back time and time again. When you start to think about customer centricity, you need to think beyond the single transactional moment. It is not just about one experience, but rather the potential for a lifetime of experiences that equate to a significant amount of revenue for the organization. This shift in thinking results in this essential truth:

Never lose a customer for a reason under your control.

The goal is to ensure that every experience a customer has with your company is such that they wish every other company were like yours!

Two other truths worth bearing in mind within this context, which you can then work to deliver accordingly, are as follows.

1. It is generally much harder, and more expensive to find, attract, and then engage new customers than it is to keep existing ones. However, organizations often take existing customers "for granted", and hence do not allocate enough focus on keeping them. Customer centricity addresses that, and is a key force in optimizing lifetime value.
2. There is a very powerful "side effect" of following the strategy: "never lose a customer". That is, over time, your customer base continues to grow, and will grow much faster, because there is limited "erosion" due to customers leaving you.

Given the powerful impact of social media on consumers in today's world, an ever-expanding group of very satisfied customers dramatically increases your reputation and presence as they share with others.