



TenStep Supplemental Paper

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Customer ‘Centricity’ and Innovation!

Innovation and customer centricity go hand in hand...

Every company today is under immense pressure to add new value, not just for itself but also for its customers and even for the society at large. It is no longer enough if companies just try to get better...they need to be different. This is the basis for innovation, a top priority for most companies. Equally important are the company's customers. Now, how closely are the two priorities related? How have companies successfully managed to balance the priorities? The answers emerge as we delve deeper here.

The customer is ‘king’!

In his book titled ‘24/7 Innovation’, author Stephen Shapiro explains how today's customers, who have an unprecedented number of choices and unparalleled access to product information (while making purchase decisions), are in complete control of the buying process. We all know from experience that this fact is undisputable.

In response to this trend, companies have grown to become more customer-focused in recent years. Consequently, sophisticated market research and analysis techniques have become routine activities and customer satisfaction measures have become a part of the balanced scorecard of performance in many companies. Yet the gap between needs and their fulfillment still persists. This is because regardless of their claims, many companies are still focused on products and not on the customer.

The convention in most companies is to make products first and then find and persuade customers to take them at a good price. Stephen Shapiro rightly says that very few companies have an answer to the question “What else can we deliver to customers that goes beyond what they are getting today?” Most companies forget to ponder over why customers buy their products and how the products contribute to customers' growth or success.

New challenges, new abilities!

Survival and growth of companies in today's global markets requires an unprecedented ability to assimilate and analyze customer needs based on data inputs. This apart, they require an ability to change rapidly in response to customer preferences and market signals and to develop new solutions. Today, the traditional paradigm of pursuing excellence in existing business processes may lead to failure.

Thereby, the biggest challenge today for any company, leading or emerging, big or small is to innovate in response to emerging customer trends. What drives the innovation engine is the ability of a company to listen to, understand and lead in the delivery of new solutions to customers based on emerging trends.

Understanding and pleasing the customer is not a simple task. It requires a redefinition of most business processes and technology underpinnings associated with the customer. It

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calls for a new agility and new sensitivity towards customers and their preferences. In short, it may even require a new outlook with a set of new practices aimed at anticipating and meeting customer needs.

Understanding customer centricity...

The solution to this is simple ... customer-centric innovations. Before we move on, let us first understand what exactly is customer centricity.

The basic idea goes thus. With ever-increasing technological advancements and continual ongoing shifts in customer requirements over the last decade, companies had to identify and comprehend a new set of business value drivers focused on the customer. Moreover, they had to codify, articulate and evolve relevant strategies that also recognized the fundamental differences between customers (in terms of needs, value, expectations and behavior). Customer centricity looks at products and services from the viewpoint of a customer right from the point of purchase, through use, and service up to disposal, not forgetting other related services and information.

A customer-centric innovation strategy enables a company to think in terms of unmet customer needs. Designing business processes with the customer at the core and involving key customers in innovations help a company to differentiate its products and services from competition. Hence Shapiro suggests that companies 'hire' their key customers and make them an integral part of their new product development and business redesign processes.

The champion traits!

Companies like General Electric (GE), Dell, Best Buy, Whirlpool, and Hewlett-Packard are champions of customer centric innovations. This is why they flourish in the midst of formidable competition. Here are some characteristics of such companies:

- They do not consider themselves as a group of functions or units that make products or services, but as a portfolio of customers.
- They understand differing needs of various customers and group them into operational customer segments and sub-segments based on common needs.
- They take complete responsibility and ownership of the customer experience and accountability for the financial performance of each unit. This apart, they thrill customers by delivering excellent and unmatched value propositions.
- They continually innovate and evolve their customer segments and sub-segments and improve value proposition with changing customer needs.
- Innovation is based on a customer R&D model focused on continual experimentation at key customer touch points.
- They understand how much they gain or lose with every customer segment and why.



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- They are fully aware of how their customer relationships contribute to or take away value from the business. Since they manage their customer portfolio on this basis, they know where to invest to create sustainable, profitable growth.

All these cannot be achieved overnight. It requires careful planning and strong commitment to innovation and the customer.

Gone are the days when companies were obsessed with cost cutting. The pendulum has swung back from cost cutting to growth in recent years. Growth and innovation are the buzzwords driving companies today. Now, what exactly does growth imply? Does an increase in sales quotas imply growth? Most companies believe this despite knowing that selling more of the same will be met with customer resistance and reluctance. How then does one resolve the issue?

Creating value

Rather than spending considerable resources and time in streamlining, cost reductions and the like, companies should work to create products/services that add value for themselves and their customers. Creating incredible products every now and then is futile unless there is sufficient demand (note the relation between innovation and growth). Industry experience proves that less than 10 percent of new products cover their development expenses in the initial years.

Very few companies have accepted that the strife for efficiency has come at the expense of the customer. Many companies that claim to be customer-centric dilute their own value proposition in the name of efficiency. They reduce their customer relationships to the lowest common denominator namely, price. Such efforts often damage customer relationships and limit the company's growth.

We have already discussed some of the traits of customer-centric companies. Now let us analyze the need for customer centric innovation.

Towards customer centricity!

Companies have largely tried to innovate through product and service R&D. Despite the huge spend, the returns are incredibly low. Recent trends reveal that for successful product and technology innovations, the focus should be on the customer.

Innovation, growth and customer centricity are all interdependent. Products and new technologies enter and exit the market at ever-increasing rates. Companies, however, need to build on and strengthen existing relationships with high value customers over time. This leads to truly sustainable and profitable growth.

Creating true customer centricity is a challenging task. However, the returns in terms of consistent, sustainable and profitable growth even in the face of powerful competition are worth the risk. Many champions like HP, Whirlpool, Target, Dell and the like vouch for this.

Steps to customer centricity!

Here are some steps that companies can follow to create true customer centricity:



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- Organize the business into operationally significant customer segments that represent the value creation opportunities for a company
- Create a customer-centric learning process to drive customer innovation
- Develop, communicate and execute customer value propositions that are competitively dominant
- Measure customer profitability and understand key drivers
- Communicate key customer performance metrics to investors to enable them to understand value creation

To begin with, companies need to understand not only their customers, but also their current and potential profitability. When General Electric (GE) Corporation began to ponder over a roadmap to customer-centric innovation, new measurements were included. The company decided to report on the status of its customer-related initiatives to its investors.

Some of GE's compelling customer statistics include customer longevity, the number of unprofitable customers still retained by GE and the churn rate in every business unit. These numbers are reflected within the status of customer relationships. They are the true pointers of the state of a company and its business viabilities.

Hewlett Packard's (HP) classic customer-centric innovation!

According to the Executive VP of HP's Imaging and Printing Group, customer centric innovation is all about "putting customers at the centre and creating the experience around them". He adds that technology is no longer the only vital piece. Instead, how a company makes a technology easier for customers, with choice, control and convenience is the ultimate differentiator.

HP's Lightscribe printable Compact Discs were made with the above fact in mind. An analysis of customer feedback and inputs showed HP that most customers did not want to print separate labels or write on their CDs. Brainstorming resulted in designing a new product that used a laser to burn information to a disc and then print a label on it. Lightscribe was the result of a company's sincere efforts to first solve a customer need. Another interesting point to note here is that it is not HP's marketing or after sales team that meets its customers, but the engineers and designers. They attend 'live demos' at retail stores and speak to customers to know about product performance. HP's mantra is "Understand customer problems and then fix them from a product and marketing perspective".

When 'differentiation' becomes Target's bull's-eye:

Leading retail chain Target does not compete based on price or in niche markets. The company's strategy is to lead in "uniqueness perceived by customers". The stores are top priority for the company followed by the Internet and direct mail initiatives. Target aims at building stronger customer relationships. According to the head of Target group, the company's website has recorded more than 400 million visits. A treasure trove of product



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information the website has product ratings and reviews including those from its customers. It is used to drive sales, test customer response to new products and provide accessories that need not necessarily be brought to the store. The aim to enhance unique customer experience also compelled Target to build one of the largest customer databases to track customer behavior both online and in the stores.

Whirlpool looks far beyond products

Customer-centric innovation is a part of Whirlpool's annual achievements. The company is striving to ensure that its employees worldwide are brand ambassadors and customer advocates. It believes that customers deserve professionalism. Hence when problems arise, a representative takes ownership of the customer experience and ensures a fair resolution process.

Another successful initiative of Whirlpool that has facilitated customer centricity is the creation of an updated database of customer information. Information from this database is frequently drawn into the company's strategic plans.

Yet another crucial driver of customer centricity for Whirlpool is its social responsibility activities. The company realized that customers prefer to have a strong emotional bond with the brands they purchase. They like to feel good about their relationship with the brand of their choice. Apart from being a major partner with the Habitat for Humanity in the USA, Whirlpool played a major role in providing relief efforts after Hurricane Katrina. The impact was obvious only when a study early this October revealed a 10 percent increase in loyalty behaviors.

Creating an innovative organization that reinvents itself in response to ever-changing customer needs is the key to success. This requires a redefinition of the processes, people and technology employed to define and deliver service to customers. With such customer centricity at the core, success cannot be far away.