Next-Generation Customer-Centricity

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I. Introduction

One of the most popular business concepts today, *customer-centricity*, has a dirty little secret. It is the concept with one of the loosest definitions out there. Most researchers, and business executives alike, are content with the widespread and broad definition of customer-centricity as the capacity to understand and respond to the customer's needs.

But in an increasingly dynamic and competitive business world, this is not enough. A deeper understanding and focus on the customer is required in order to succeed.

Over the years, several researchers have highlighted the limitations of customer-centricity's conventional definition. Unfortunately, most (if not all) research initiatives have failed to see the various interpretations as evolutionary stages of the same broad concept.

Instead, these analyses have focused on either dismissing conventional definitions while introducing new alternative theories (i.e., "torment your customers, they'll love it"), or taking the existing conventional definitions too far (i.e., "winning the customer's love").

In practice, both approaches proved to be unproductive and confusing, leading to potential conflicts with the conventional beliefs. Additionally, at best these approaches can only be applied in limited situations.

Following the concept's evolution from a historical perspective as well as from a customer knowledge and focus perspective, this article aims to explore a new, higher level of customer-centricity - *Customer Issues Centricity*. It also shows how to achieve this level of customer-centricity by identifying the basic steps to follow.

II. The Evolution Of Customer-Centricity

It is important to begin our analysis with an overview of the evolution of customer-centricity. As expected, every new generation builds upon the previous, raising the level of customer understanding and focus, and therefore increasing the benefits for the adopting company.

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While the chronological evolution is essential to point out breakthroughs in the thinking process (like the one presented here!), for executives it is more beneficial to understand this evolution from a different perspective, the level of knowledge and focus on the customer.

Since new generations can also be seen as new levels of customer-centricity, the terms *generation* and *level* will be used interchangeably.

First Generation Customer-Centricity

In ancient times, mankind discovered the advantages of trading. In parallel, they also learned the importance of matching the offer to the demand, which was an essential condition for a transaction to take place. Centuries later, this condition remains intact, serving as the foundation for commerce as we know it.

This coordination between vendor and customer can be considered the most basic level of customer-centricity. It represents the vendor's capacity to respond to an expressed demand. In this case, the vendor is solely focused on generating a supply of what the customer is specifically asking for.

Second Generation Customer-Centricity

During the 1960s, in conjunction with the rise of marketing as a discipline and a period of economic explosion, it became increasingly important for vendors to understand what lies behind a customer's expressed demand. Ever rising levels of marketplace dynamics and competition demanded this. Pioneering a new approach to customer-centricity, Prof. Theodore Levitt, author of the classic Harvard Business Review article "Marketing Myopia," famously stated, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole."

This level of customer-centricity helped vendors understand the customer's real need, and identify not only the right product but also its substitutes, which could be seen as a threat or an opportunity. This is the most popular definition of customer-centricity, and probably the level of customer knowledge and focus most common in companies today.

Third Generation Customer-Centricity

The nineties were marked by a technological revolution of unprecedented magnitude. The widespread adoption of communications technologies (i.e., the Internet) increased the rate of information exchange within the marketplace. This led to an acceleration of the commoditization process, continuously squeezing the profit margins in many marketplaces.

In order to survive, many companies had to reinvent their offerings by bundling more services or products that would allow them to increase their margins. But, successfully creating these bundles required a deeper understanding of the customer, which gave birth to a new generation of customer-centricity.

This new level of customer-centricity allows vendors to identify clusters of customer needs, or systems of interrelated activities. Not only do they know the real need behind an expressed demand, but they also understand and act upon all other related needs.

For example, let us consider a company for which a direct marketing campaign may include distinct activities like printing and stuffing envelopes. Currently, the printing services are provided by a service provider, while the stuffing activities are performed in-house.

One way for the printing services provider to increase the revenue and profit captured from this customer is to develop a new, bundled printing-stuffing offering. More services means more revenue, while more interrelated services can translate into synergies, which will lower the unit cost.

This level of customer-centricity also covers the increasingly popular concept of *customer experience*, which refers to the customer's overall experience related to a transaction. For example, when shopping for a particular product in a store, in addition to the best price, the customer may be also looking for accessible parking, knowledgeable sales associates, the store's capacity to accept credit cards, etc.

III. Customer Issues Centricity, A New Generation

The new generation of customer-centricity provides the vendor with the understanding that every customer possesses a unique hierarchy of issues. It starts with the customer's fundamental issue, which may be his mission as an entity. After a disaggregation process, this hierarchy of issues ends with highly ordinary issues. This hierarchy is referred to as the *Customer's Hierarchical Issues Tree*.

While the higher-level issues in this hierarchy are unique to the customer, requiring solutions that most likely don't exist in the marketplace, the lower-level issues are fairly common and can be addressed by offerings common in the marketplace. Therefore, these lower-level issues can also be considered *customer needs*, in the most common sense (see Second Generation Customer-Centricity).

The Hierarchical Issues Tree has a dynamic structure, evolving as a result of the customer's accumulation of knowledge. More information about an issue will push it lower within the issues hierarchy, being replaced by an issue that is more specific to the customer. This dynamic is a continuous process driven by the customer's natural impulse to make the most out of the available options.

To understand the evolution of an issue within the issues hierarchy, let us take the very basic case of an individual who purchased a cell phone three years ago. At the time, he was addressing his *cell phone* issue or, in other words, his basic mobile voice communications needs. Not long after, passionate about photography, he also purchased a digital camera, which he religiously carries every day (along with his cell phone).

Recently he learned that cell phones with incorporated cameras are available, and that the pictures generated by these cameras have a satisfactory quality. Considering the advantages of integration (i.e., carrying less equipment), he decided to purchase a new cell phone. This time he was looking to address the *cell phone with camera* issue, while the *cell phone* issue was demoted within the issues hierarchy due to a lower significance.

Although the objective is not to identify a customer's entire issues hierarchy (which would be impossible!), this level of customer-centricity allows the vendor to identify diverse clusters of issues and, additionally, to anticipate the issues' evolution.

IV. Why Is Customer Issues Centricity Important?

Each generation of customer-centricity has built upon previous generations, bringing additional value for the adopting company. The *first generation* allows the vendor to respond to the customer's demands, making transactions, and therefore commerce, possible. The *second generation* allows the vendor to understand the customer's needs and identify the right offerings and their substitutes. The *third generation* allows the vendor to identify the opportunities for diversification through higher-value offerings, based on his existing portfolio.

As expected, the next-generation of customer-centricity, the Customer Issue Centricity, maintains all of these benefits. Additionally, it brings to the table two more very important benefits.

Benefit 1: Direct Relationship Between An Issue's Position And The Vendor's Approach

Customer Issues Centricity uncovers the direct relationship between an issue's position within the customer's issues hierarchy and the basic approach that the vendor should adopt.

On one hand, the issues that are positioned high within the hierarchy are very unique, specific, complex, and sensitive to the customer. Therefore it is unlikely that a corresponding solution would even exist in the marketplace. More so, the customer is not shopping for a solution here, but rather trying to address the issue by disaggregating it into simpler issues.

Attempting to sell a solution for an issue positioned at this level would require a highly consultative approach, backed by a close relationship and established trust. Good examples are some outsourcing services, also referred to as *transformational outsourcing*, because of their potential to address some of the customer's higher issues.

On the other hand, the issues positioned at the lower end of the customer's issues hierarchy present a reduced degree of uniqueness and complexity. Issues at this level can usually be addressed with solutions abundant in the marketplace (i.e., consumer electronics). Looking to optimize the potential value of a transaction, the customer considers factors like price, convenience, and speed of delivery. Therefore, for a smooth transaction, the vendor's approach should match these "requirements."

In reality, the vendor's approach is a combination of consultative and transactional actions. Customer Issues Centricity shows that the vendor's approach can be represented along a continuum of which the ends are defined by highly consultative actions, corresponding to the top-positioned issues, and by highly transactional actions, corresponding to the bottom-positioned issues.

This should also dismiss the myth that a higher level of customer-centricity means that a company will pamper its customers. As shown here, independent of the level of customer-centricity, a company's market approach is dictated by the issues' position within the customer's issues hierarchy.

Benefit 2: Dynamic Perspective Of The Customer's Issues

Customer Issues Centricity provides a dynamic perspective of the customer's issues. Used in conjunction with the previous benefit, this one is extremely valuable for the adopting company.

We learned not only that an issue evolves within the issues hierarchy, but also that the customer's behavior relative to this issue changes. Therefore, the new level of customer-centricity will allow a vendor to understand that, to be successful over time, he must make choices.

- a. He can either change his approach, if he wants to continue to offer the same solution(s) for the same customer issue(s); or
- b. He can change his offering(s), if he wants to maintain the current approach.

V. Take Action

Not without debate, which stems from the lack of a solid theoretical base, it is increasingly accepted that in order to be successful, an organization must adopt a customer-centric culture at every level and within every department. Still, many companies have yet to become customer-centric, even in a conventional way (second generation customer-centricity).

But, as illustrated earlier, reaching the highest level of customer-centricity is essential for lasting success. Therefore, concluding this article, it is important to mention the basic steps that a company must take in its efforts to become Customer Issues Centric.

Step 1: Train Your Employees

The first step that a company striving for long-term success must take is to educate its employees about customer-centricity.

It may sound like a cliché, but in a successful company everybody should think in terms of customer benefits rather than product features. More specifically, every employee should be aware of the issues that their customers are trying to address. This would allow them to take the right actions in helping customers with their issues.

The literature on training is abundant. Therefore, we will not develop this subject here.

Step 2: Refine The Organizational Structure

The next step that a company should take is to ensure that the information about the customer flows as smoothly as possible to all levels of the organization. This is not about restructuring an organization, but about fine-tuning the information channels, allowing knowledge about the customer to flow freely throughout the organization.

Additionally, a complex organization could create a committee or *virtual department* in which the leadership team and departmental leaders could meet periodically to share their individual knowledge about the customers. Based on this collective knowledge, this department could make further decisions regarding the company's market approach.

Step 3: Ensure The Right Market Approach

The final major step that a company should make is to ensure a match between its approach and the customers' behavior.

As we showed earlier, to be successful, a vendor should be aware of the customer's issues evolution and make the necessary choices over time. Either change his approach, or change his offerings. Bottom line is that for smooth operational activity, the vendor's approach should match the customer's behavior when solving particular issues, at any time.

This match is extremely important for the vendor. It is not only vital for the health of the transaction, but it is also a fundamental factor in employee motivation. An inappropriate approach can lead to employee actions that may be in conflict with their customers' behavior, leading to frustrations.

It is also important to note that while some employees perform better in highly consultative environments, others do better in highly transactional environments. This is natural. But, despite this, any frustration that may lead to a lack of motivation can be avoided if the match between the vendor's approach and the customer's behavior is ensured.

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