



The Definitive Guide to the Customer Centric approach to Business

- Background and Benefits
- The Five Tenets
- The Nine Imperatives for Leaders
- The Customer Centric Business
Self-Assessment

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Back when it all started...

When commerce was emerging in human history there was an old path that entrepreneurs used to build networks and relationships with trading partners. Early trading routes grew based on word-of-mouth, reputation, honest dealings and a fair exchange of value.

But then came the Industrial Revolution which changed the game entirely. Producers made more product than they could move and modern sales and marketing was born from the problem of greater production levels.



Today however, as most leaders and managers take their wisdom from the industrial era, the old path - that is based on word-of-mouth and a fair exchange of value - seems like a new path.

This new path leads to deeper levels of engagement with customers and employees, provides higher levels of performance and resilience¹ for the business. This new path is the customer centric approach to business.

Customer centricity is not a fluffy '*customer's are always right*' mindset. It is a disciplined approach to business that is based on deep research² and realigning the business to be

¹ See: *Reorganise for Resilience* by Ranjay Gulati (2009) Harvard Business Press

relevant for the 21st century economy. An experience economy rather than an industrial economy.

Customer centricity is not something that we bolt onto an industrial age business model. We can't bolt customer experience improvement projects and NPS³ targets onto old business models and expect dramatic results. Iteration is not innovation. Today, we are in an experience economy, customers have changed. It is time to get on the new path. At its heart the customer centric approach to business is founded on a solid set of principles.

This definitive (and short) guide to the Customer Centric approach to Business will succinctly describe those solid principles in the Five Tenets to the Customer Centric approach to Business. Then, the Nine Imperatives for Leaders that are required for implementation and realignment of the business. Then a quick Customer Centric Self Assessment is provided so that you can begin to develop your plan to transform your organisation into a customer centric business and reap the benefits.

But first, let's take a quick look at those benefits and then the development of this customer centric approach to business.

² For example: the Harvard Business School; London School of Economics; Forrester (published in summary in *Outside In*, 2012), and supported by the study of behavioural economics by academics such as Richard Thaler.

³ Net Promoter Score

Benefits from adopting the Customer Centric approach

From the research mentioned at the bottom of the previous page the key benefits can be summarised as:

1. Greater levels of profitability (or surplus if you are a not-for-profit)
2. Greater levels of business resilience (in terms of volatile economic conditions)
3. Greater levels of engagement with customers (leading to improved retention and promoter behaviour).
4. Greater levels of engagement with employees (providing alignment of purpose, bringing agility and improved capability).

Additionally, there are a few generic sources of organisational advantage that also come from becoming customer centric:

1. Greater alignment of resources
2. Cost advantage – through productivity improvements found particularly in subsequent stages of the learning cycle of the management of customer information
3. Greater levels of decision-making consistency
4. Focus advantage from the Customer Strategy and Value Proposition with frontline people aligning their activities with the chosen customer groups
5. Improved levels of agility (from dynamically focusing on customer value)
6. Speed and manoeuvrability advantage come through the capability to deliver and adapt with your customers and to changing conditions faster than others.

For those of you who want a bit more proof of these benefits, consider the work done by Ranjay Gulati who is the a Professor of Business Administration at Harvard Business School. He is the author of *Reorganise for resilience: putting customers at the centre of your business* (2009 HBS Publishing). This was one of the first empirical studies into the differences between businesses and organisations that use a customer centric approach and those that don't. He refers to customer centric organisations as being “outside-in”, that is, the leaders of the organisation take the perspective of looking at their business from the outside, in or from a customer's perspective. The opposite is an inside out view, where we look at our organisations from being inside, looking out to the customer or market place.

Here is a quote from an interview⁴ Gulati gave in 2010 that summarises the results of his research.

"When I began this research, I naively assumed that all firms must indeed have an outside-in orientation whereby they put their customers first in all their decisions and actions... It's worth noting that the companies and business units in my study were tracked between 2001 and 2007. I picked these firms for no other reason than their genuine commitment and actions toward embracing an outside-in perspective. In that period these companies have delivered shareholder returns of 150 percent while the S&P 500 has delivered 14 percent. They've also grown their sales 134 percent while the S&P 500 has grown just 53 percent. Clearly, these firms have found something that allows them to be resilient in both good times and bad. If you look at this data for the period 1999 to 2007, the results are even more striking: These companies delivered shareholder returns of over 130 percent while the S&P delivered 0.6 percent. They grew their sales 233 percent while the S&P 500 has grown just 10 percent."

⁴ Gilbert, S.J, (2010), *The Outside-In Approach to Customer Service*, HBS Working Knowledge, Feb 16, <http://hbswk.hbs.edu/cgi-bin/print?id=6201>

Development of the Customer Centric approach

Customer relationship management has existed since the beginning of business transactions, back then it was called, commerce or trading. Early business people, whether they were merchants with goods on camels or farmers producing a surplus, built relationships with people who had something of value to them that could be exchanged for their product. People doing business with other people, having and using knowledge about each other. Villages, towns and whole civilisations developed along the early trade routes as merchants and traders managed relationships with their customers. Since then we have seen these principles utilised in local general stores, where the owner-operator knew everyone that came into the store, their family needs, wants and regular requirements. Developing meaningful relationships with customers has provided the essence of successful business since the birth of commerce.

The industrial revolution triggered a huge change in the way businesses interacted with the market and how the businesses were run⁵. Management became a 'science' with the internal-focus of tasks, processes and systems, rather than the customer.

For example, in the 1980's, Michael Porter (of the 'Five Forces' fame) developed the three generic strategies⁶ that he believed could be applied to any organisation. They were:

1. Cost leadership - this really was an aggressive construction of efficient-scale facilities, cost minimisation and tight cost control.
2. Differentiation - where a product or service is developed to the point where it is perceived industry wide as being unique.
3. Focus - on a particular buying group, segment of the product line or geographic market.

This is not intended to be a criticism of Porter's contribution to management thinking, as his contribution is clearly significant, however the idea focusing on a customer was lost. Buying groups or market segments became the objects that businesses did things to. Additionally, when organisations came to implement these strategies, product

⁵ Consider for example: C.N. Parkinson, *The Rise of Big Business: from the eighteenth century to the present day* (1977) or P.S. Stearns *The Industrial Revolution in World History* (1998)

⁶ Porter, Michael E., (1980) *Competitive Strategy*

differentiation and focus were hard, so cost leadership became the default strategy for many organisations commoditising their offerings over a period of time.

In the 1990's the business focus on the "customer" was being championed as the new thing. Curiously though, in the 1970's, Peter F. Drucker (regarded as the founding Father of the Study of Management⁷) stated that there is only one valid purpose of business and that is "to create a customer". Drucker said,

"It is the customer who determines what a business is. It is the customer alone whose willingness to pay for a good or for services converts economic resource into wealth...what the business thinks it produces is not of first importance...the typical engineering definition of quality is something that is hard to do, complicated, and costs a lot of money! But that isn't quality; it's incompetence. What the customer thinks he or she is buying, what he or she considers value is decisive - it determines what a business is, what it produces and whether it will prosper.⁸"

On the back of the Total Quality Management (TQM) was the idea of managing customer value. Gale⁹ wrote in 1994, "*You can achieve the full benefits of the quality movement by learning to use the tool of the customer value analysis to choose the right markets and win the competitive game with dramatically superior profits in them*". He saw Customer Value Management as the next stage in organisational development, above TQM.

Also during the 1990's a group of prominent thought leaders¹⁰ hailed the customer-centric approach as the *new* breakthrough for organisations to reinvent themselves and find strategic advantage. Around the same time a technology breakthrough occurred with the development of CRM (Customer Relationship Management) systems.

⁷ <http://www.peterfdrucker.com/>

⁸ P.F. Drucker (1977) Management: Tasks, Responsibilities, Practices, Harper Collins Press, New York, pages 56-57

⁹ Bradley T. Gale (1994), Managing Customer Value, The Free Press, New York

¹⁰ Peppers and Rogers led with the 1-to-1 approach; Treacy and Wiersema published "The Discipline of Market Leaders" (1995, Addison Wesley Publishing) that proved exceptionally popular and was followed with "Customer Intimacy" (1996), Fred Wiersema, Harper Collins. See also (for example): Peppers, D. and Rogers, M. (1993), The One To One Future: building relationships one at a time, Doubleday, New York; Peppers, D. & Rogers, M., (2004), Managing Customer Relationships: A Strategic Framework, John Wiley and Sons, USA.

Although the initial implementations of CRM proved disastrous investments for pioneering organisations¹¹, important lessons were acquired and during the late 1990's and early 2000's organisations were reporting more success with the application of customer focused organisational development¹². With reference to Gartner's Hype Cycle, back in 2001, Gartner confirmed that the organisational "expectations" from CRM technology was firmly in the "trough of disillusionment", whilst the "plateau of productivity" (that is, benefits gained from applying the learnings from the failures) would come in around 2005.

While the knowledge and practice of the development of the customer centric approach to business grew¹³, so did the proliferation of concepts and definitions, such as Customer Experience Management¹⁴ (CEM) which today seems to dominate the efforts of organisations.

We have already considered Gulati's research and that of organisations like Forrester and many others. Today, being customer centric is pretty much accepted as a good idea. However the transition to being customer centric is difficult. Implementing CEM and NPS programs seems to be the easier path. However, adopting the customer centric approach to business means that organisational leaders need to accept the Five Tenets and of the customer centric approach, and use the Nine Imperatives for Leaders as their literal and moral compass.

¹¹ The pioneers were mainly banks and telecommunications businesses with large customer bases, the record of the failures and lessons learned are well documented. Consider: Brown, S.A. (2000), *Customer Relationship Management*, John Wiley and Sons, Canada; McKenzie, R. (2001), *The Relationship-Based Enterprise*, McGraw Hill Ryerson Ltd, Canada; Imhoff, C., Loftis, L. & Geiger, J. G. (2001), *Building the Customer-Centric Enterprise*, John Wiley & Sons, New York; Buttle, Francis, (2009), *Customer Relationship Management: Concepts and Technologies*, Elsevier Butterworth-Heinemann, Oxford.

¹² For some examples see: Gupta, S. & Lehmann, D.R., (2005), *Managing Customers as Investments*, Pearson Education, Upper Saddle River, NJ; Bliss, J. (2006), *Chief Customer Officer*, Jossey-Bass, San Francisco; Shaw and Merrick (2005), *Marketing Payback*, Pearson.

¹³ Predominately by pioneering organisations and consultancies, for example: Bain and Co; Beyond Philosophy and Forum in the UK; Satmetrix and the Strativity Group in the USA.

¹⁴ For example, Smith, S and Wheeler, J. (2002), *Managing the Customer Experience*, FT Prentice Hall, London and the publications of Colin Shaw, including, Shaw, C. (2007), *The DNA of the Customer Experience*, Palgrave Macmillan, Great Britain.



5 TENETS OF THE CUSTOMER CENTRIC APPROACH

1. Businesses Exist for Customers

Businesses cannot exist for themselves, however they attempt it. Recognising we exist for customers keeps our perspective grounded, it keeps the people in the business focused on their core purpose - to create and deliver value for the customer. When we deliver value for the customer (better than alternatives), the customer responds, with repurchases and advocacy.

Woolworths/Masters¹⁵ in Australia ignored this First Tenet as did Wells Fargo¹⁶ in the USA, Woolworths paid a huge cost (estimated at AU\$2billion) and Wells Fargo have paid some hefty fines, and yes some people have resigned or been sacked. But worse still, they have lost the trust of 100's of millions of people.

2. It's all about People

People bring businesses to life. Customers are people that provide the revenue and profit for the business. Profit comes from the decisions customers make, not the product or service offered. And it is also about the other people - employees - that interact with these customers and design services and products for these customers.

Businesses thrive when people around them flourish.

¹⁵ <https://www.markhocknell.com/ignore-customer-peril-lessons-masters-failure/> ([link](#))

¹⁶ <https://www.markhocknell.com/targets-hurting-customers-lessons-wells-fargo-youi/> ([link](#))

3. Not all Customers are Equal

Not all customers are right for the value you offer. Your awesome customer is the one that gets the value you offer. And they will reciprocate with increased spend and advocacy.

The sum profitability for the business is made up of the profitability of the customer portfolio. That is, the total sum and value of customers, taking into account revenues minus cost-to-serve giving margins, and retention to recognise the lifetime value of these customers. Then we can add to this the value of the customer's advocacy, the level of positive word of mouth they provide, or referrals they bring to the business.. This moves away from transactional thinking that revenue is a combination of product sales, to accounting business value to ongoing retention, repurchasing and advocacy. In (just about) every customer portfolio there is a smaller percentage of customers contributing to the higher proportion of value for the business.

The challenge for the business is to find the sweet spot of the Two-way Value Exchange. The intersect where the value the business delivers resonates with the awesome customers.

4. Businesses are Systems that Deliver Value

The business is a collective. The collective output is the delivery of value for the customer (good, bad or indifferent). Business results come from this delivery of this value. The optimal approach from Industrial Age management was to create divisions or silos, for clearer accountabilities so individuals can be responsible for a department. Today, we're not that different except we make *collaboration* an organisational value...

As a leader do you manage a system or a collection of parts that compete and conflict..? Your customers know the answer.

5. The Need for Progressive Improvement

Your status quo is an evil abode. Your customer's expectations are changing. There are people out there vying for your customer's attention. There are people out there disrupting your traditional market place. Your team is motivated by knowing and feeling that they are making progress. Make change the thing that does not change.



9 IMPERATIVES FOR LEADERS

Using the Five Tenets of the Customer Centric Approach to Business, these Nine Imperatives for Leaders come into focus.

1. Businesses Exist for Customers

1. *Perspective*

2. *Focus on Results*

2. It's All About People

3. *Connect with your Customers
on Value*

4. *Connect your people with a
Purpose/Vision That is
about people*

3. Not All Customers Are Equal

5. *Know your customer groups & your
intent for each group*

6. *Articulate your Value Proposition
for each Customer Group*

4. Businesses Are Systems That Deliver Value

7. *Design the Optimal Activity to
Deliver Value*

5. The Need for Progressive Improvement

8. *Improve your Delivery of Value*

9. *Monitor and Communicate your
Progress*

Nine Imperatives for Leaders continued.

1. Perspective

This is about the attitude of the leaders. As we know, the culture of the organisation is derived from the perspective of leaders. To be blunt this is about arrogance versus humility. An arrogant attitude or culture in the leadership group destroys businesses. Reflect on the leaders of the Woolworths/Masters¹⁷ mess whose focus was on beating Bunnings, rather than delivering value for customers. Humble leaders serve their customers, serve their employees and use their skills to ensure the delivery of value.

2. Focus on Results

Taking a focus on the outcome or results we are trying to achieve will lead to a prioritised set of actions and learning to how achieve the result. Good leaders set the direction, then empower and coach their teams to learn, strive and improve. Distributing targets and KPIs that are not set collaboratively only leads to gaming the system and getting a number, not an outcome.

3. Connect with your Customers on Value

Most businesses focus on what they do, then tell anyone who will listen what they do. Our customers today seek value, they seek experiences. People connect with brands and ideas emotionally and intuitively. Create a connection with your customers on value and on a purpose. Give them the reason why. Today, that is true differentiation.

"People don't buy what you do, they buy why you do it"

Simon Sinek¹⁸

¹⁷ For more on mismanagement at Woolworths and Masters have a read of these articles on Mark's blog: Ignore the customer at your own peril - Lessons from the Masters Failure ([link](#))
Lessons from Woolworths - customer focus and measure what matters ([link](#))

¹⁸ Start With Why (2009) The Penguin Group, London

4. Connect your people with a Purpose/Vision that is about people

The people that are your employees want to connect with the people that are your customers - not your financial outcomes. Employees want to know their work is meaningful, for other people, your customers. Our vision / mission / purpose cannot be about us, but about others, the customer and difference we can make in their world.

5. Know your customer groups & your intent for each group

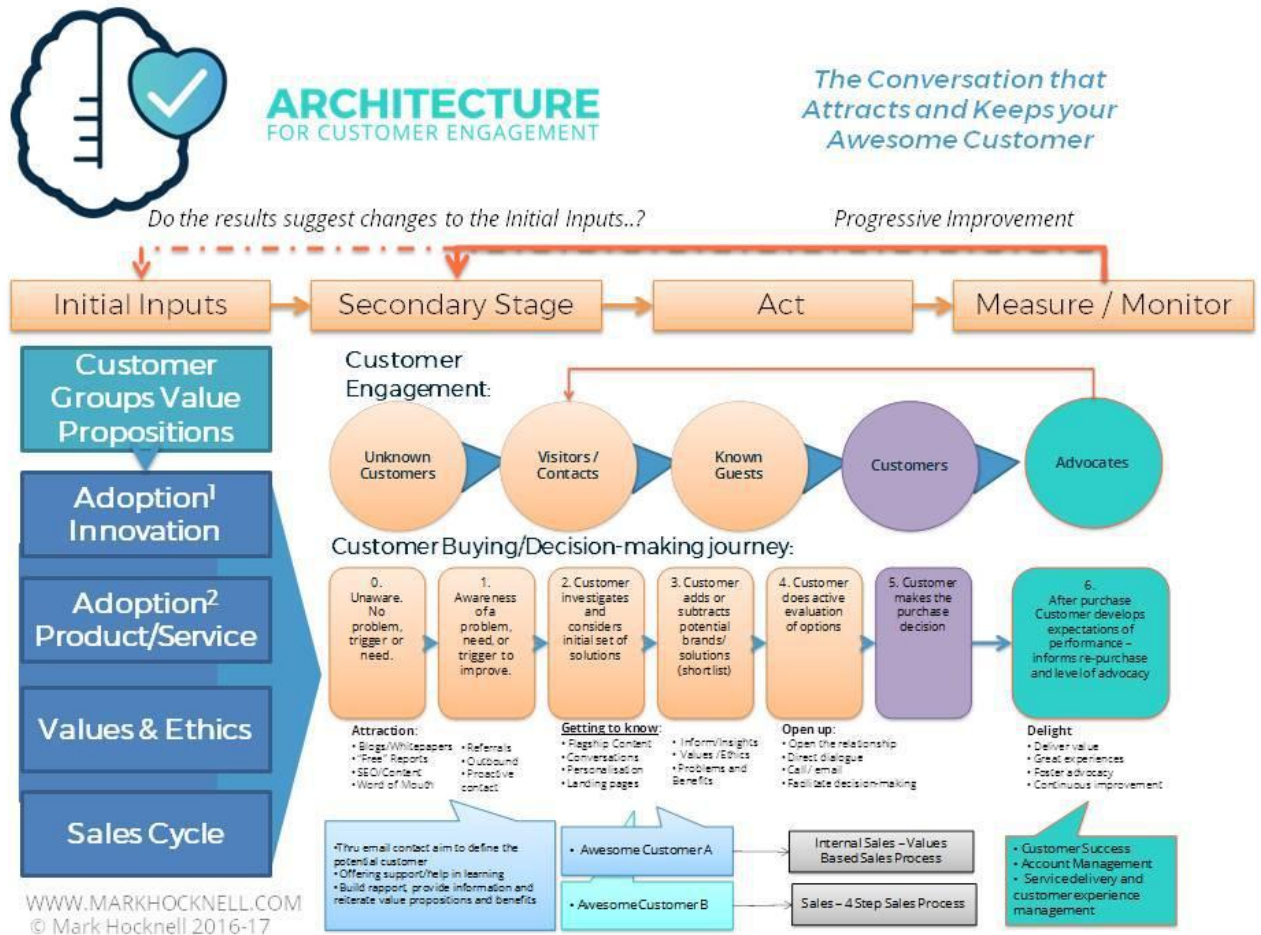
Most businesses go about their daily activity with a financial budget and set of targets to guide them. Then we wonder why our customer portfolio has customers within it that don't get our value, they can't reciprocate the value they don't get, and then wonder why they become 'detractors' on social media. The activity that attracts and keeps our customers, needs to be guided and coordinated to ensure the system delivers the value we have promised to our customers. Not all customers are equal. Engage with the customers that will get the value you deliver and they will reciprocate with value for the business, financially and through positive word of mouth.

6. Articulate your Value Proposition for each Customer Group

To truly resonate with customers value propositions need to be two levels. One: about why your customers should engage with you, your business. Two: about what your products and services do for them. Value propositions are then addressed to specific customer groups. If we only tell people what we do, we do not allow them to connect with us emotionally.

7. Design the Optimal Activity to Deliver Value

Let's know what we need to be doing - let's figure out the optimal activity that delivers value for our customers and for the organisation. That's what we implement, and not with a 'set and forget' mindset but with one that is about learning. The framework I use for this is the Architecture for Customer Engagement¹⁹ (below).



This framework starts with identifying your intent with the various customer groups and flows through to the goal of creating a customer portfolio full of profitable promoters. The design brings alignment of resources to maximise the value for the customer portfolio and from the customer groups. Post implementation an action learning cycle approach is used to ensure a progressive mindset towards improvement.

¹⁹ For more about the Architecture for Customer Engagement you can read the article on my blog "Profit by design - build your business for the experience economy" (here is the [link](#)). Alternatively the Architecture for Customer Engagement video on YouTube (here is the [link](#)).

8. Improve your Delivery of Value

Once we have implemented the optimal activity that deliver values for your various customer groups, we then need to continually improve it. We need to monitor how we are performing (performance measures help here), understand and interpret performance (learning) and initiate action. Repeat and repeat.

9. Monitor, Communicate your Progress

Imperative two had us clearly articulate a set of results that we have chosen to pursue. Now that we have committed to these results and defined the optimal activity that will move us towards those results, we will need to monitor our progress. And then, importantly, communicate with our teams the progress we have made and the learning's we have gained. People thrive on the feeling of making progress²⁰.

***"Monitoring performance, interpreting performance
and initiating action is accountability.
Accountability is not hitting targets, it's pursuing them deliberately."***

Stacey Barr²¹

²⁰ See *The Progress Principle* by Teresa Amabile, or *The Game Changer* by Jason Fox

²¹ Author of: *Prove it!* (2017) Wiley

Conclusions - your call to action..!

Over the last 15 years or so, the world has completely changed, particularly for our customers. They have changed how they buy and how they provide word of mouth. We are now in an experience economy. Most business models and thinking is based on the Industrial Age, where customers needed to be informed about products, where leaders controlled the business by pulling levers and applying pressure when needed.

The economy has changed, and our customers have changed - yet businesses have just added digital channels, customer experience improvements and net promoter score targets to their old industrial-age business models.

Using the Five Tenets of the Customer Centric approach to Business, leaders can get the reframe on their business that is required to be relevant for customers in this age.

Business people can use the Nine Imperatives for Leaders as a playbook to realign the business for optimal results in this experience economy.

The time to act is now.

Begin by completing the self-assessment at the end of this document, then prioritising where you will start to make progress.

About the Author

Mark Hocknell

For the last 12 years (as a consultant) Mark has developed customer strategies with more than 35 organisations (from small businesses to large Government Owned Corporations) to improve business results and the delivery of customer value.



Prior to this, Mark was with Suncorp for 14 years where he held senior customer management roles, during his last three years there he led the implementation of the technology, tools and change to support the 'Allfinanz strategy' which placed Suncorp with the highest cross-selling rate of any Australian financial institution.

From 2003 to 2011 he was a sessional academic (part-time) with Brisbane Graduate School of Business (QUT) where he developed and delivered two electives within the MBA program, Sales Management and Customer Relationship Management (CRM). In 2015 he was appointed as an Adjunct Lecturer to the Griffith University School of Business, where he has developed the Personal Selling and Sales Management course (2038MKT) for the Department of Marketing.

Mark has a MBA, holds qualifications in change management, and certifications in Net Promoter Score and PuMP®(performance measurement).

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This whitepaper is provided for educational purposes only and does not constitute specific advice. Take care and be responsible, seek specialist advice before implementing the ideas in this whitepaper.

Attachment: The Customer Centric Business Self- Assessment

The Customer Centric Business Self-Assessment



The Five Tenets of the Customer Centric approach to Business	The Nine Imperatives for Leaders	Assessment Criteria	Self Assessment Score Does this describe you...? No, give it a 0. Absolutely, give it a 10.
Businesses Exist for Customers	1. Perspective 2. Focus on Results	Our leadership team consistently put the focus on the customer and the value we need to deliver for them. At the strategy level - we have a small number of very clear goals to achieve.	
It's all about people	3. Connect with your Customer on Value 4. Connect your People with a Purpose & Vision that is about people	Our connection with our customers is based on value – not products or features. Our vision is locked in on our customers and our purpose is about the value we deliver for customers.	
Not all Customers are Equal	5. Know your Customer Groups and your Intent with each Group 6. Articulate your Value Proposition for each Customer Group	We know our various customer groups and what we are trying to achieve with each group. We have value propositions that are meaningful for each customer group.	
Businesses are Systems that Deliver Value	7. Design the Optimal Activity to Deliver Value	Our organisation is aligned across functions to deliver value for our customers (we are not siloed).	
The Need for Progressive Improvement	8. Improve your Delivery of Value 9. Monitor, Communicate your Progress	Our improvement efforts are aligned with the delivery of customer value (not solely cost cutting). Our focus is on making progress towards our goals, Vision and Purpose and our leaders regularly communicate the progress we have made.	