

The Customer-Centric Organization:

From Pushing Products to Winning Customers

As the economy moves from recession to expansion, companies are shifting their focus from pruning costs to stimulating growth, particularly organic growth. Launching new products and services is one way of generating organic growth, but this growth is short-lived because competitors almost immediately mimic innovations. Thus, astute companies are increasingly looking to their customers to drive growth—tailoring offerings, indeed their whole organizations, to customers’ unique needs. The problem many companies face, however, is: How do you cater to customers without incurring debilitating costs in complexity? Building a truly customer-centric organization is the solution.

Customer-Centricity Defined

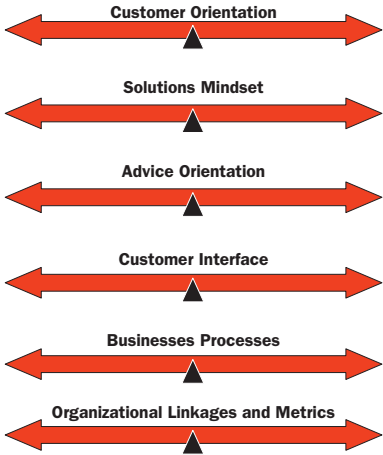
What distinguishes customer-centric organizations from other companies that proclaim their customer focus? In short, they’ve moved beyond lip service and re-oriented their entire operating model around the customer, increasing customer satisfaction and their own profitability in the process. Customer-centric companies understand not only what the customer values, but also the value the customer represents to their bottom line. They align their operating models behind a carefully defined and quantified customer segmentation strategy and tailor business streams—product development, demand generation, production and scheduling, supply chain, customer care, etc.—to delivering the greatest value to the best customers for the least cost.

A recent Booz Allen study of product and service companies in North America and Europe found that businesses that successfully combine value-creating customization with cost-

Exhibit 1
From Product-Focused to Customer-Centric

Product-Focused

- Discrete transaction at a point in time
- Event-oriented marketing
- Narrow focus
- Narrow definition of the customer value proposition
- Off-the-shelf products
- Top-down design
- Perceived as outsider selling in
- Push product
- Transactional relationship
- Individual to individual
- Centrally driven
- Limited decisionmaking power in the field
- Incentives based on product economics and individual performance
- "One size fits all" processes
- Customization adds complexity (e.g., one-off workarounds)
- Rigid organizational boundaries
- Organizational silos control resources
- Limited trust across organizational boundaries



Customer-Centric

- Customer life-cycle orientation
- Work with customer to solve both immediate and long-term issues
- Build customer understanding at each interaction
- Broad definition of the customer value proposition
- Bundles that combine products, services, and knowledge
- Bottom-up. Designed on the front lines
- Working as an insider
- Solutions focus
- Advisory relationship
- Team-based selling
- Innovation and authority at the front line with the customer
- Incentives based on customer economics and team performance
- Tailored Business Streams
- Balance between customization and complexity
- Complexity isolated within the system
- Cross-organizational teaming
- Joint credit
- High degree of organizational trust

Source: Booz Allen Hamilton

effective delivery outperformed industry peers two-to-one in revenue growth, and generated profit margins 5% to 10% above their competitors'.¹ However, to deliver these results, organizations really have to walk the talk. They have to make dramatic internal organization changes. Only then can companies evolve from pushing product to delivering genuine value to the customer *and* the company (see Exhibit 1).

The Building Blocks of a Customer-Centric Organization

Booz Allen has studied companies across many industries to determine what makes an organization customer-centric. The key is striking the right balance between customer pleasure and company profit. To achieve this balance, organizations must demonstrate—not just advertise—the following six winning traits:

#1: Customer Life-Cycle View

While companies today tout their rich, ongoing customer relationships, most are organized and equipped to treat clients as a set of discrete, unrelated transactions over time—a series of “events.” Their lens is set to tele-photo; their focus, narrow. As a result, these companies have little insight into what motivated the customer to buy their product or service in the first place and even less information about his or her needs and aspirations moving forward. To guess what else a customer might want and increase penetration, they default to more product push in the form of cross-selling, a technique that, despite billions of dollars of CRM investment, has proved largely ineffective.

Truly customer-centric companies take a different, wide-angle view. Moving beyond event-oriented marketing, they have developed a holistic and continuous view of each customer’s evolving life-cycle needs as he or she moves through marriage, home ownership, parenthood, and other transforming life experiences.

Some companies have used technology to tailor their approach, Amazon.com perhaps most visibly. Amazon

uses a customer’s past purchases and browsing behavior, as well as the purchases of similar customers, to tailor recommendations to the customer’s distinct preferences. That’s life-cycle marketing.

#2: Solution Mindset

Becoming a customer-centric organization presupposes a fundamental shift in mindset from selling products to solving problems. Solutions replace products as the basic element of the customer value proposition (see Exhibit 2).

In line with this concept, companies in many industries have migrated from selling “off-the-shelf” products to customizing solutions. The objective is to design a suite of modular product bundles that, when coupled with an advisory relationship, can deliver cost-effective tailored solutions to clients’ specific problems. The challenge is to make money doing it.

Truly customer-centric companies regularly open their minds (and their addressable market) to working with competitors to fulfill customer needs. GE Transportation’s Aircraft Engines unit, for example, moved beyond manufacturing and selling its own jet engines to repairing and maintaining *all* manufacturers’ engines and spares. Now, instead of selling engines, the unit sells thrust and reduced engine life-cycle costs to airlines, and today services as many of its competitors’ engines as it does its own.

#3: Advice Bundling

To develop customer intuition and offer relevant advice, customer-centric companies engage in a continuing dialogue with customers that starts long before a product or service is purchased and continues long after the sale. The trick is to do this cost-effectively.

Many industries, including financial services, have historically restricted this sort of tailored, advisory relationship to high net-worth individuals. Leading banks, however, are increasing their penetration of the mass market banking segment by

Exhibit 2
Solutions Advance the Customer Value Proposition

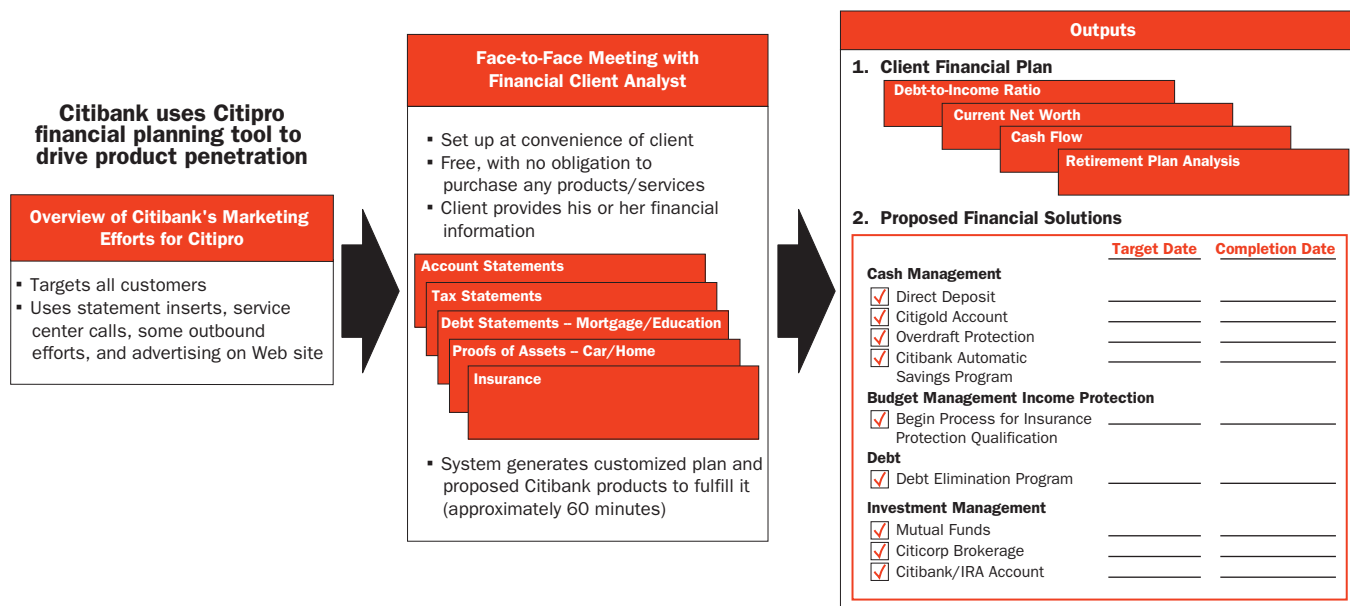
Industry	Traditional Product	=	Traditional Value Proposition		+ Value-Added Services	=	Customer-Centric Value Proposition
Truck Manufacturing	▪ Trucks		"We sell and service trucks"		▪ Financing ▪ Service		"We can help you reduce your life-cycle transportation costs"
Aerospace Components	▪ Aerospace fasteners		"We sell high-performance fasteners"		▪ Application/Design support		"We can reduce your operational costs"
Utilities	▪ Electricity		"We provide electricity reliability"		▪ Energy asset maintenance		"We can help you reduce your total energy costs"
Chemicals	▪ Lubricants		"We sell a wide range of lubricants"		▪ Usage and application design ▪ Lubricant analysis		"We can increase your machine performance and up-time"
Pharmaceuticals	▪ Drugs		"We sell pharmaceuticals"		▪ Product support ▪ Outcomes-driven information database		"We can help you better manage your patient base"

Source: Booz Allen Hamilton

¹Booz Allen Hamilton, “Smart Customization: Profitable Growth Through Tailored Business Streams,” November, 2003.

Exhibit 3

Pre-Sales Support Enables Companies to Migrate Up the Customer Purchase Chain



Source: Booz Allen Hamilton

developing innovative “advice bundling” and technology-enabled tools. Citibank’s Citipro is an example. Citipro is a no-obligation, financial planning tool that clients complete with the help of a branch-based financial analyst or relationship manager. Clients provide their financial information (e.g., account statements, tax records, insurance), and the system generates a customized plan along with a list of proposed Citibank solutions to fulfill it. The relationship manager can apply for and approve these products on the spot. Clients receive an education; Citibank gains an early advantage in securing a larger share of these clients’ wallets. Citibank has now significantly increased its average product penetration among Citipro users (see Exhibit 3).

#4: Can-Do Customer Interface

Customer insights and intelligence invariably dwell where the customers are—on the front line—so retail distribution channels should be armed with the skills and authority to tailor solutions at the point of contact. However, too frequently customer management, pricing, marketing, and innovation are dictated from the top down, relegating the sales force to the status of order takers.

Ritz Carlton has taken the opposite approach, delegating authority and accountability for local decisions to the customer interface in their hotels. Front line employees have great latitude in addressing and anticipating guest needs. Hotel staff fully own customer complaints and have the authority—within broad corporate guidelines—to compensate guests on the spot for any problem or inconvenience.

Of course, not every decision and customer interaction need happen at the physical point of contact; that would likely be

cost-prohibitive. Instead, winning companies strive to offer customers an integrated, multi-channel experience in which the retail outlet serves as the hub. Self-service channels (e.g., Web site, telephone) efficiently handle routine servicing needs, while skilled sales and customer care personnel deal with more complex sales and consultative transactions. Hitting the sweet spot between personal service and administrative scale is one of the secrets to a successful customer-centric strategy.

#5: Fit-For-Purpose Business Processes

The #1 reason companies fail in their efforts to shift from a product to a customer focus is the cost of the organizational complexity that results. Too often, companies try to customize by layering one-off workarounds on top of old product-focused processes, which drives up costs. A successful technique for avoiding this trap is what we at Booz Allen call Tailored Business Streams. Using TBS, companies flow their most basic and stable products and services through the most efficient, least expensive business streams. More complicated and less predictable elements of offerings are diverted to more customized streams. This technique isolates complexity within the system and minimizes its costs.

As client experience shows, this modular approach can ensure cost-effective delivery of a unique experience. For instance, TBS enabled the service center for a leading U.S. bank to halve implementation time and increase customer satisfaction by 50%. Similarly, at an aircraft producer, the shift to TBS cut billions of dollars from the company’s cost structure. TBS also helped double the installation rate at a telecom service provider.

#6: Collective, Cross-Functional Effort

Finally, a customer-centric organization demands a new culture of collaboration. The product-oriented sales culture of old was, by definition, territorial with little sharing across organizational silos. Not so in the customer-centric organization. Tailoring solutions to customers' ever-changing needs requires a level of cooperation across functions, across product and service lines, and across company boundaries that is unprecedented and not a little uncomfortable.

To develop the necessary esprit de corps, companies must build linkages across their organizations. Key financial and operating metrics will change. Employees at every level in every division will also need to deeply understand customer needs to make the end-to-end client experience streamlined and satisfying. Stimulating the right attitude and creating cross-functional teams will require a full-scale change

management program, one that motivates participants at a basic human level to invest in a customer-centric future.

Progressing Past Platitudes

Customer-centricity is, in the end, only an exalted form of the customer focus companies have touted for years in annual reports and values statements. Treated as window-dressing, this focus has produced merely platitudes and hollow gestures. The steps described here, however, are anything but superficial; they are the building blocks for a full-scale transformation of a company's operating model and the priorities on its executive agenda. Failing to execute this transformation will relegate many an organization to the sidelines of its respective industry, and many will fail. Success hinges on progressing past platitudes to the real, substantial work of building a truly customer-centric organization.

What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for 90 years. Booz Allen combines strategy with technology and insight with action, working with clients to deliver results today that endure tomorrow.

With over 14,000 employees on six continents, the firm generates annual sales of \$2.5 billion. Booz Allen provides services in strategy, organization, operations, systems, and technology to the world's leading corporations, government and other public agencies, emerging growth companies, and institutions.

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for **strategy+business**, a quarterly journal sponsored by Booz Allen.

Contact Information

NEW YORK

Paul Kocourek
Senior Vice President
212-551-6627
kocourek_paul@bah.com

John Jones
Vice President
212-551-6713
jones_john@bah.com

Matt Egol
Principal
212-551-6716
egol_matthew@bah.com

Paul Hyde
Vice President
212-551-6069
hyde_paul@bah.com

Frank Ribeiro
Principal
212-551-6677
ribeiro_frank@bah.com

CHICAGO

Andrew Tipping
Vice President
312-578-4633
tipping_andrew@bah.com

Worldwide Offices

Abu Dhabi

Charles El-Hage
971-2-6-270882

Amsterdam

Peter Mensing
31-20-504-1900

Atlanta

Joe Garner
404-659-3600

Bangkok

Tim Jackson
66-2-653-2255

Beirut

Charles El-Hage
961-1-336433

Berlin

Rene Perillieux
49-30-88705-0

Bogotá

Jaime Maldonado
57-1-628-5050

Boston

John Harris
617-428-4400

Brisbane

Tim Jackson
61-7-3230-6400

Buenos Aires

Alejandro Stengel
54-1-14-131-0400

Caracas

José Gregorio Baquero
58-212-285-3522

Chicago

Chris Disher
312-346-1900

Cleveland

Mark Moran
216-696-1900

Colorado Springs

Glen Bruels
719-597-8005

Copenhagen

Torsten Moe
45-3393-36-73

Dallas

Tim Blansett
214-746-6500

Düsseldorf

Thomas Kuenstner
49-211-38900

Frankfurt

Rainer Bernnat
49-69-97167-0

Göteborg

Anders Sewerin
46-31-725-93-00

Helsinki

Kari Iloranta
358-9-61-54-600

Hong Kong

Ghassan Salameh
852-2634-1878

Houston

Matt McKenna
713-650-4100

Jakarta

Tim Jackson
6221-577-0077

Lexington Park

Neil Gillespie
301-862-3110

London

Peter Bertone
44-20-7393-3333

Los Angeles

Tom Hansson
310-297-2100

Madrid

Mercedes Mostajo
34-91-411-8450

McLean

Martin J. Bollinger
703-902-3800

Melbourne

Tim Jackson
61-3-9221-1900

Mexico City

Alonso Martinez
52-55-9178-4200

Miami

Alonso Martinez
305-670-8050

Milan

Enrico Strada
390-2-72-50-91

Munich

Richard Hauser
49-89-54525-0

New York

David Knott
212-697-1900

Oslo

Karl Høie
47-23-11-39-00

Paris

Bertrand Kleinmann
33-1-44-34-3131

Philadelphia

Molly Finn
267-330-7900

Rio de Janeiro

Paolo Pigorini
55-21-2237-8400

Rome

Fernando Napolitano
39-06-69-20-73-1

San Diego

Foster Rich
619-725-6500

San Francisco

Bruce Pasternack
415-391-1900

Santiago

Alejandro Stengel
562-445-5100

São Paulo

Letícia Costa
55-11-5501-6200

Seoul

Jong Chang
82-2-2170-7500

Shanghai

Edward Tse
86-21-6100-1696

Stockholm

Torbjörn Kihlstedt
46-8-506-190-00

Sydney

Tim Jackson
61-2-9321-1900

Tampa

Joe Garner
813-281-4900

Tokyo

Eric Spiegel
81-3-3436-8600

Vienna

Helmut Meier
43-1-518-22-900

Warsaw

Reg Boudinot
48-22-630-6301

Wellington

Tim Jackson
64-4-915-7777

Zurich

Jens Schædler
41-1-20-64-05-0