

CUSTOMER CENTRICITY: BEYOND THE THEORY



CUSTOMER-CENTRICITY ENTAILS A COMPANY UNDERSTANDING INDIVIDUAL CUSTOMER NEEDS AND IMPROVING THE CUSTOMER EXPERIENCE THEREBY CREATING SUSTAINABLE AND PROFITABLE CUSTOMER RELATIONSHIPS IMPERMEABLE BY COMPETITORS.

More Than An Idea

Customer centricity is much more to electronics retailer Best Buy than an idea — it's a new way of life for the Fortune 100 company. Any retailer who still doubts the customer-focused way of doing business needs only to look at Best Buy's most recent results. The company finished fiscal year 2006 with 12 percent revenue growth. It returned \$922 million to shareholders through stock repurchases and dividends, "nearly a three-fold increase over fiscal 2005," according to Best Buy's 2006 Annual Report.

CEO Brad Anderson gives credit to the company's growing customer-centric philosophy.

The customer-centric theory may, at first blush, seem a backwards approach to profit-

ability. The focus is not on the customer's wallet, but the customer himself. By putting the individual's needs before the company's, businesses earn customer loyalty that, in turn, generates fiscal growth.

"If we understand our customers better than our competitors do, and if we can inspire our employees to have richer interactions with customers, then we can more effectively compete," Anderson said. "I strongly believe that our decision to accelerate customer centricity contributed to our 22 percent increase in earnings from continuing operations this year."

The Challenge

Becoming customer centric seems a daunting on several levels. For one, acquiring the

data to make it work requires months of time, planning and effort, plus with a significant front-end investment — tough at any point in a company's life, but particularly difficult under current weak economic conditions. Instinct tells companies to seek immediate profitability. But it's shortsighted and, in the long run, likely to cost a company far more than it profits it.

And data collection is just the beginning. Using it to execute effective programs is the most important, and most difficult, step toward customer centricity.

"Globally, 75 percent of commercial businesses believe they are losing money through missed business opportunities because they are unable to quickly and effectively profile customer and prospect data

due to data quality issues,” according to a 2006 survey from QAS, a division of Experian Marketing Services Business. “In the United States, this figure is above average, with 77 percent of companies admitting that shortcomings in data quality are having a detrimental effect on their bottom line.”

Fewer than 15 percent of retailers who aim for the customer-centric experience are satisfied with their programs to date, according to the National Retail Federation’s CRM Retail study.

“Virtually every company claims to be customer-centric, but few really are,” said Professor Larry Selden, co-director of a new University of Pennsylvania Wharton Executive Education Customer Centricity program. “Companies need to understand the different needs of different customers and group them into operational customer segments and sub-segments based on common needs. They then thrill their customers by delivering knockout value propositions that competitors cannot match. Customer-Centricity is at the heart of their success.”

The Look of Customer-Centric

So what does a customer-centric company look like? It looks like Best Buy, but it also looks like Amazon.com, Dell and Nine West. And how do they spin profitable programs using the

same types of data collected by companies still missing the customer centricity mark?

Selden and co-program director, Fortune editor Geoffrey Colvin, sum up the five of commonalities of customer-centric businesses:

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1. They see themselves not as a group of products, services, territories or functions, but as a portfolio of customers.
2. They know how much money they make or lose with each of their customers or customer segments and understand why.
3. They understand the individual needs of different customers and group them into operational segments and sub-segments based them.
4. They continually innovate by updating their customer segments and sub-segments, improving their value propositions as customer needs change.
5. They create a completely unassailable customer-innovation advantage based on models grounded in continuous testing at customer touch-points.

Selden and Colvin agree that, “Products come and go and new technologies develop at ever-increasing rates, but relation-

ships with high-value customers must be established and deepened over time to generate truly sustainable profitable growth”.

Armed with facts, companies can turn those cold, hard numbers into programs that

reach the customer’s hearts — what an NRF report on the “Art and Science of Customer Experience” calls the art of customer centricity.

For instance, WestPoint Stevens’ data revealed how often people purchase its bath and bed items and remodel bedrooms and bathrooms. It further tracked purchases that allowed it to divide customers into three spending segments: value-oriented, moderate and fashion. The creative message was then tailored to address the motivations of each group. For example, fashion customers received mailings that reinforce the feeling of luxury, while messages to value-oriented customers focused primarily on everyday items. The segment based communication strategy generated high response rates and ROI.

The science of data roots programs in reality. If the data is

faulty or the company's vision is unclear, even the best programs are doomed to fail.

Armed with accurate data, companies can begin to see common factors linking customer lifestyles and purchase patterns. They can determine which products are profitable and which aren't, if new products will be well received and find the basis for customer dissatisfaction.

Learn who they are — age, income level, gender — what they buy and when.

> *Do some customers only purchase at certain times of year?*

- > *Specific times of day?*
- > *Are your customers affluent?*
- > *Thrifty?*
- > *Fashion conscious?*
- > *Outdoorsy?*
- > *How old are they?*
- > *Do most of them have children, and if so, how old are the children?*

Then, track how they respond to your programs. Time your messages for the greatest impact, based on those patterns. Tailor your messages to each customer segment. Identify your best customers and focus your best

efforts there. Use a proactive approach and make changes as trends evolve and fade.

Companies can never afford to rest on their laurels, count dollars and bask in the glow of successful programs.

The authors of the 2006 NRF "Art and Science of Customer Experience" report advise, "Once you think you have it all down, think again. It's time to reinvent yourself all over again. With your ear to the customer's voice, and with a flexible, customer-centric organization, innovation is now a way of life."



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ABOUT THE AUTHOR:

Sallie Burnett leads the strategic marketing field with 16 years' experience in strategic marketing, sales management and customer relationship management.

As the founder of Customer Insight Group, she helps her clients utilize customer information to develop customer-centric strategies that drive bottom-line success.

Renown for her out-of-the-box thinking and wealth of experience, she's helped many of the nation's top companies cultivate actionable opportunities throughout the customer-value relationship to better align sales, service and marketing while generating the greatest return on investment based on the voice and value of the customer.

CUSTOMER INSIGHT GROUP:

Customer Insight Group is a strategic marketing company that uses customer information to help its clients build successful and profitable long-term relationships with each and every customer.

It provides marketing strategy, customer research, data analysis, program development, implementation and refinement of customer-centric programs including: loyalty, retention, win-back, and new customer acquisition.



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