Customer Transformation: A Pragmatic CEO's View
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Executive Summary

During the past ten years, organisations in an ever-wider range of sectors have found themselves faced with a different world, where the competitive differentiators they have trusted in the past, don't matter as much. Technology rarely provides an advantage in this new world, since what was cutting edge a year ago is now ubiquitous – and even inexpensive "me too" products can provide adequate or at times remarkable performance. Defect-free, sustainable service, is now merely an entry requirement for successful competition – not a differentiator, but simply table stakes. The media industry is a poster child for this new reality, but it is hardly the only one. Customers routinely expect that they won't have to deal with the inconvenience of products or service experiences that don't work as advertised and will instantly turn to competitors if they so choose.

The trouble arises because it is harder to create a sustainable, growing business than building a well-made product. If it's not precisely the offering, be it a manufactured product or service, that customers in today's Internet-informed age want, it simply won't sell. What's missing is the obvious next piece of the quality puzzle – a disciplined way to take customer expectations and insight and weave them into the quality processes that work for the manufacturing and operations segments of the organisation.

The evidence suggests that most organisations fail to take full advantage of Customer Insight (CI) and miss out on the opportunity to monetize the significant return that comes from embedding customer insight throughout their organisation. The result is misdirected spending and most importantly missed opportunities for growth.

As the CEO of Harcourt Education, the UK's leading educational publisher, I led a customer centred change programme with the support of Mulberry House Consulting (MHC), which established CI at the heart of the company and within three years established a level of proficiency in CI that was unrivalled within its industry.

The Principles of Customer Insight

Harcourt learnt how to really understand their customers insights – developing an intimate understanding of needs, behaviours, expectations, and attributes.

Harcourt used knowledge, tools, and processes that let it quickly act on the customer information it gathered. The end result was the development of a continuous process that ensures a "closed-loop" customer feedback system.

Harcourt embedded the use of customer insight throughout all of our business systems: processes, organization and culture, and enabling technologies.

Organisations, like Harcourt, with a successful focus on customer satisfaction build their operations around three organizing principles. They can be characterized as Learning, Action and Embedding. Let's take a closer look at them.

Learning
Successful firms learn how to really understand their customers' insights – developing an intimate understanding of needs, behaviours, expectations, and attributes.

CI proficient organisations turn data into insight.

Most organisations collect various kinds of customer information, ranging from transactional data (i.e., point-of-sale transaction data) to perceptual data (i.e., customer surveys), and experiential data. Very few organisations successfully capture and integrate all three types of information to drive superior business performance through an intimate understanding of customer needs. Transactional data tells us what happened in the past (i.e., what was purchased and when) and offers limited information as to why a product or service was purchased. In some cases, point-of-sale technologies (i.e., scanner data, POS systems) have significantly changed the relationship between manufacturers and retailers. Today, the balance of power favours retailers – who now have a more intimate understanding of their customer than do manufacturers. They have significant information to profile the distinct customer segments but perhaps with the exception of Tesco have done little to understand the motivations and characteristics of their loyal customers.

What are often missing are the contextual factors, the presence of key indicators that drive customer behaviour. Sophisticated modelling of transactional data can identify causal relationships between key marketing variables and business outcomes.

Harcourt began to utilize school level transaction data to do much more than monitor sales. By identifying the impact of incentives, promotions and product configurations, Harcourt was able to quantify the impact of these key variables to better understand their impact on purchase behaviour. Sales managers and publishers could use this to understand how customer behaviour was impacting the sales of different brands and product lines both locally and nationally. The data was immediate, and it was transformed into insights that shaped both tactical responses to quickly changing markets and long-term product strategies.

We had the prerequisites for the second leg of *Customer Insight Proficiency*: Action.

Action
Industry leaders use knowledge, tools, and processes that let them quickly act on the customer information they gather. The end result is the development of a continuous process that ensures a "closed-loop" customer feedback system.

CI proficient organisations use closed-loop systems to systematically improve product and service quality.

Technology is an important part of any strategy to drive usable customer insight, actions and processes throughout an organization, but it is not a standalone solution. It is well

documented – and evident to anyone in business – that today's customers are increasingly time sensitive and demanding. In the past, customers spent time to save money; now they spend money to save time, but they will not accept lower-quality service. Successful organisations tackle this by empowering front-line employees with new technologies and communication tools to get the job done faster and more reliably than in the past.

More channels of insight are better

Harcourt has significantly improved its business performance by driving customer service improvement through a programme that relies on multiple channels of customer feedback. The programme incorporates customer feedback and couples it with mystery shopper input, information from schools that reject Harcourt products as well as a rigorous assessment of sales team practices. By forging a link between sales team practices and customer experiences and the reasons potential customers reject Harcourt products, the company has successfully focused its operations and practices on its customers. The positive business impact of this programme has been substantial. As a whole, Harcourt linked customer feedback to their publishing and sales processes, enhanced the customer experience in their sales channels and subsequently derived large financial benefits from increases in new account close rates and gross profitability. By improving the buying experience, Harcourt also found that their customers became advocates for the brand at much higher levels than before, and this allowed it to lower advertising spending.

CI orientated organisations integrate customer feedback into new products.

Given the range of available choices for customers, the value of clearly differentiated new products has never been higher, but the vast majority of new products launched fail – even though many industries successfully improve their product quality and performance. The rate of success for breakthrough products is often even worse than for "incremental" new products. The main reason for this failure is improper identification and understanding of customer expectations. Often, organisations are collecting the right type of customer insights but from the wrong customer segments. For instance, some organisations utilize customer satisfaction feedback only for new product and service ideas. Current customers can often be a good source of new product or service input, but it is usually helpful to also include "lapsed shoppers" and "early adopters."

Using the wrong type of customer information and capture methods often leads to "me-too" products. Typical market research methodologies rarely enable customers' voices to be heard in terms that are helpful to product developers. Customers like to speak in terms of solutions or specifications (e.g., *I want a safer car or I want an air bag with a 70 litre capacity*). The problem with this is that customers are limited to only their own experiences and are rarely able to convey their opinions in a way that product engineers can understand. The result is three-fold: input that reflects a very narrow scope; direction that is vague and difficult for engineers to translate into product specification; and a process that restricts developers from using their creativity to provide breakthrough products.

To develop an intimate understanding of customers and anticipate their needs, it is critical to treat them as valued partners and involve them in new product development. Harcourt

created a programme called Success Partners that provided a forum for customers to react to and collaborate on new product concepts.

This relationship allowed Harcourt to modify its new product and marketing strategies, build its brand advocacy further and create strong recommenders. Clients avoided unnecessary purchases that failed to deliver on learning outcomes and Harcourt was able to focus on developing targeted solutions with higher sales – and profitability. A win-win situation.

Embedding

Industry leaders embed the use of customer intelligence throughout all their business systems: processes, organization and culture, and enabling technologies.

Customer Insight Proficient organisations have the customer at their core.

CI is not an "initiative of the week;" it is the essence of the business, a strategy that must be the focus of the entire organization. The design, initial delivery and continued improvement of world-class customer service becomes the key source of competitive advantage. In these organisations, there is a clear expectation that all employees will act in the best interest of the customer at all times. This is a cultural dynamic that has to be present in the executive suite and driven by the company's most senior leadership. The day-to-day reinforcement of the value that executives place on delighting customers has to be genuine so that employees given the authority and tools to service and delight customers are encouraged to pursue that goal. With that visible leadership, the focus can be extended beyond customer-facing employees so that all departments within a company, including support departments, have a constant external customer focus. Without it, it can all too quickly become another "tick-the-box" activity that has little impact.

Organisational performance metrics reinforce this focus

Some organisations have examined (and tried) using a single metric to gauge their performance. Most often this metric is intended loyalty. The shortcoming here is that the company is unable to detect the reasons for changing performance. Industry leaders focused on serving their customers cascade performance metrics on that element throughout the entire organization. All employees understand company performance at all customer touch points. They are highly visible and a part of the regular work environment – in very much the same manner that visible quality metrics are now a part of every highly successful manufacturing floor. Performance targets are based on these CI metrics. These have "stretch" built in, but are achievable. Harcourt, in addition to using the Net Promoter Score (NPS) as a gauge for future growth also measured and targeted improvements in the time taken to open new accounts, the number of customer enquiries resolved in one phone call, the time customers spent online before buying and the speed by which returns and credit notes were processed.

CIP organisations recognise the impact of people on service quality.

Successful organisations are better at training and retaining their employees than their competitors. They expand the scope of the training beyond the technical aspects and in turn

place a significant focus on customer experience training. For some businesses, hiring decisions hinge more on attitude and personality than technical skills or experience. These organisations correctly realize that technical training alone cannot create employees who are passionate and committed to customers.

Competing priorities between cost control and customer focus are carefully balanced

There is always an ongoing tussle between resources focused on the tactical improvement of the next quarter's numbers and the long-term investment in larger initiatives that can drive long term sustainable growth. Supply chain management is one popular business trend that has arguably hurt CI proficiency by cutting fat and muscle. As customers demand customized product and services, the breadth of offerings becomes an extremely complex challenge for manufacturers and service providers, and is made worse as the rate of innovation accelerates. This continues to challenge the operational scale of organisations, at times contradicting the supply chain management goals of simplicity and reduced cost.

Modelling progress

Very few organisations believe they have mastered the ability to effectively use customer insights, even though they accept the premise that a disciplined customer focus needs to be a key part of their business strategy.

There are four levels of Customer Insight Proficiency.

For organisations looking to improve their performance, the first step is to get a comprehensive view of how well they excel at the more than 150 benchmark leading practices that MHC has singled out as characteristic of industry leaders in customer insight. The practices gauge proficiency across six broad filters - Understanding Customers, Brand, Customer Experience Activity, People, Technology and Measures.

Fewer than half the organisations they've studied have reached even an operational level of customer proficiency at this time – and the number of businesses that can claim to be good at that discipline is very small.

Where does your business fall? The ability to make these skills a core capability is what separates successful organisations from the rest of the pack.

The MHC analysis helps organisations consistently deliver world-class product and service quality as well as healthy financial results. There are four clear performance levels in which organisations can be grouped, with distinct gaps that must be bridged in order to drive sustainably higher performance.

1. Discovering:
Organisations at this level are performing at the lowest levels of proficiency. Some typical characteristics of organisations at this level include the following:
- o There is uncertainty at a senior level where the lead on CI is
- o The ownership and responsibility of CI for each customer group is not agreed
- o There is little encouragement of staff to feedback on customer related issues
- o The roles that impact CI have not been identified

- o Customer related competences are only defined for obvious sales, marketing and service roles
- o Customer feedback is not generally used to identify learning requirements
- o There are no explicit links between CI objectives and incentives/rewards

2. Understanding:

Organisations at this level are making a meaningful effort, often for the first time, to improve their focus on customers. Typical characteristics include:

- o A senior manager is progressing the CI programme and co-ordinates initiatives
- o Owners for each customer group are appointed but cross functional influence is limited and ad-hoc
- o There is active encouragement of staff to feedback on customer issues in order to seek improvement
- o All roles impacting on CI have been identified and competences defined
- o Some customer based measures are being implemented in staff objectives
- o There is a recognition of the need to link performance and learning and plans are in place

3. Mastering:

Organisations at this level have critical practices in place governing their relationship with their customers. Typical qualities include:

- o CI is sponsored at Board level - Board members have personal KPI's around CI
- o There is clear ownership of the CI for each customer group and a framework for cross functional working is in place.
- o A no blame culture that identifies and pursues opportunities for improvement is evident
- o Testing is in place to ensure staff understand the basis of their rewards/incentives
- o Training and recruitment plans address competency gaps and the required performance/experience standards
- o Information on performance in CI delivery is feeding into training initiatives

However, while they have "closed loops" at customer touch points; they haven't integrated customer insights throughout the organization (i.e. its technologies, strategic planning processes, organizational culture).

4. Excelling:

Organisations performing at this level are world class in terms of integrating customer requirements throughout their entire operation. Organisations in this category typically have the following qualities:

- o The senior team give clear and visible leadership in progressing CI.
- o Senior brand owners actively promote cooperation across functional boundaries and channels
- o Managers visibly take actions that address issues raised by employees in pursuit of improvement
- o Personal KPI's are in place that relate directly to CI objectives and are unambiguously defined
- o Reward structures are in place that relate to performance in delivery of CI

o There is a clear link between performance and incentives for staff to develop their capabilities

Well-run organisations value customers as their most important asset. There is a direct relationship between CI and an organisations ability to deliver consistent market leading growth in profitability. The "excelling" stage of CIP should be far more common than it is, since a failure to achieve that state leads to significant waste and sub-optimal performance. This is beginning to change. The CI agenda is upon us. Organisations are now starting to realize that developing and maintaining a CIP organization holds the key to growth, if not survival.

About the Author
Chris Jones is Director General of City & Guilds and formerly CEO of Harcourt Education.

About Mulberry House Consulting
MHC is a specialist consultancy focusing on customer centred change. To find out more visit www.mulberryhouseconsulting.com or email davidhicks@mulberryhouseconsulting.com