

DECODING CUSTOMER CENTRICITY



DECODING CUSTOMER CENTRICITY

Autores

**María Eizaguirre, PhD
María Alvarado**

María Eizaguirre, PhD

Marketing Professor at IE University



Upon completion of her PhD as a Rhodes Scholar at the University of Oxford and a Research Fellowship at the UCL. Dr. Eizaguirre started working on the private sector where she spent 18 years: first as Strategic Planner for Young&Rubicam, she later joined her main client, Kraft Foods within the Consumer Insights & Strategy team (CIS) and ultimately lead the Innovation CI function across the EU (Senior CIS Manager, EU).

María then took up a position as Marketing Director for a new venture by IE Business School: IE University (2010). She subsequently became Director Insights & Strategy for IE Corporate, leading efforts around repositioning programs (e.g. IMBA, MIM) and portfolio management (e.g. part-time executive programs and IE Law School).

After 6 years at IE, she moved back to a multinational setting, taking up an executive position as VP Marketing & Sales at Laureate International Universities.

After 18 years of business experience, she went back to IE where she is Academic Director of the MCMC (Master Corporate and Marketing Communications), Academic Lead for Marketing Fundamentals and Director of the Innovation Lab at IE University.

In 2017, she co-created IE's Centre for C-Centricity, an IE venture that provides leading edge applied research on driving growth through Customer Centricity. The Centre is also responsible for the Executive Program on Driving Growth through Customer Centricity.

María Alvarado



María has more than 30 years of experience as a Consumer Insights & Analytics leader in CPG global companies and for the last two years as an advisor to global and regional organizations through BLG a “people driven brand growth” strategy firm, where she is a Senior Partner. Her experience lies in driving brand growth through embedding consumer & shopper understanding in business strategy. She is a passionate believer in Consumer Centricity as a key driver of business growth, as well as a believer in the power of applied marketing science.

Across her career in General Mills, Kraft and Mondelez International, and lately with BLG, María has led Insights & Analytics teams, driving business impact, with maximum efficiency; she has launched globally a program inspired by marketing science based principles of growth, impacting strategy, innovation and brand communication. She also has designed and implemented consumer landscape maps and leveraged them to set the foundation for brand and corporate growth strategies, for Kraft, Mondelez International, Bahlsen among others.

In 2017, she co-created IE’s Centre for C-Centricity, an IE venture that provides leading edge applied research on driving growth through Customer Centricity. The Centre is also responsible for the Executive Program on Driving Growth through Customer Centricity.

Decoding C-Centricity

Evans (2016) eloquently argued that “digital disruption has brought about a change in the producer/customer dynamic (...). Information is power, and the digital technology gives access to it in a way unparalleled in history”. Indeed, the knowledge that consumers are more empowered than ever because of their ability to quickly access information about products and services over the internet in real time has resulted in not only significant changes in the market place, but in an overarching imperative to ensure business growth by focusing on those with both the knowledge and the purchasing power: consumers and customers. This has been known as the Age of the Customer. Efforts have since focused on “putting customers first” or making “customers king”, and on how best to leverage technology to take full advantage of this new customer reality.

Consultants have more recently started to measure the positive consequences of working with C-Centricity for both the top and the bottom line. In its Insights 2020 report, Kantar established that “the results of the first wave of Insights 2020 research are conclusive: there is a positive correlation between Customer Centricity and revenue growth over-performance”. Deloitte then proved that customer-centric companies are 60% more profitable than companies who do not focus on the customers.

Perhaps the clearest (and best) example of a technology company built around the customer has been Amazon, with Jeff Bezos setting out his mission to make Amazon to be “Earth’s most customer-centric company, where customers can find and discover anything they might want (...)” from its very conception and launch back in 1995. And it is since then that the words “Customer Centricity” have been inevitably linked to any effort to “put customers first”.

It is the ambiguity of these two terms and their relationship to each other that has formed the focus of research for the IE Centre for C-Centricity, in an attempt to decode what Customer Centricity actually is and whether it is the same as the commitment by companies to consider customers as central to their business model.

From an academic perspective, the lack of coincidence between these two concepts (Customer Centricity and “putting customers first”) has added complexity to what appears to be a simple decision for companies. Scholars have published extensively about Customer Centricity, but on closer examination they have not always agreed on what that actually is—almost matching the heterogeneity of companies and their attempts. Consequently, the discipline of Customer Centricity looks at this concept from so many different angles, making it a rather heterogenous branch of knowledge that spans marketing, finance, culture, governance, digital transformation and organizational structure. Perhaps the only truly holistic work is Galbraith’s (1999) *Designing the Customer-Centric Organization*, an attempt to bring all the different points of view together. To date it remains the most relevant piece of work published on the topic from an organizational perspective, beyond silos, departments or functions, together with Fader’s (2012, 2016) distinctively unique work defining what Customer Centricity actually is from the point of view of the value it brings back to the company, and how this becomes a strategic advantage for companies looking for long-term growth.

Customers or consumers: an observation

Part of the observed heterogeneity in the subject of Customer Centricity comes from the constant use of the word “customer” over other terms (e.g. consumer, shopper), particularly consumer. Though they clearly mean different things, with customer being the person who buys or purchases the products or services and the consumer being the person who uses them, in many sectors in which customer-centric companies operate, the two are the same and are thus used indistinctively.

Consumer Packaged Goods (CPG) and Fast-Moving Consumer Goods (FMCG) companies, however, have kept the two terms distinct from each other, with customers referring to big retailers (and any intermediary used to reach the final consumer or user of the product) and consumers to the end user of the product or service.

Though these companies have always taken pride in their advanced knowledge of their consumers, and have thus traditionally considered themselves to be consumer-focused, when talking about Customer Centricity these companies are never represented or highlighted as excellent examples of good practice.

Our own research carried out by Dr. Carmen Abril has shown that there are three main reasons for this absence:

- 1 The overarching need to focus on economies of scale gives CPG companies limited ability for granular segmentation (which customer do we put first?), which places these companies at a disadvantage to the for-profit channel and market hyper segmentation. Unfortunately for big players, growth in CPG comes mainly from smaller players who are able to focus on hyper segmentation and more agile delivery.
- 2 The limited opportunities for co-creation between companies and consumers, normally happening only at the start or the end of the journey and mostly as screening of new ideas or validation of those ideas with the most market potential. This inevitably leads to poor market differentiation and high price sensitivity, typical of commoditized categories where CPG products exist.
- 3 The lack of opportunities to interact with consumers, due to decoupled value chains where experiences along the consumer journey are delegated to third parties, and where some touch points are very difficult to control. In this decoupled value chain, third parties are able to exert unbalanced power, increasing competition and making it increasingly difficult to exert control with partners themselves (e.g. retailers), who are suffering from their own profit pressures due to hyper-scale and giant competitors (e.g. Amazon hijacking Walmart’s growth in the US).

Meanings behind Customer Centricity

So what does Customer Centricity actually mean?

A review of the literature and benchmarking have shown that there is no working definition of Customer Centricity—certainly, no universal working definition.

Furthermore, the use by both companies (mainly) and scholars of vague phrases like “putting customers at the heart of everything we do” or “putting customers first” in place of Customer Centricity requires specific attention. Indeed, **are these attempts enough and what does this mean for Customer Centricity?**

The recognition that businesses rely on customers to innovate and prosper is an old notion, introduced by Peter Drucker back in 1965. This realization that efforts by companies to satisfy customer needs and wants has led to several terms related to Customer Centricity, even if clearly differentiated from it—for instance, customer friendly, and any collection of actions that organizations take that are “good” for the people who are buying. Through time, it also results in consumer closeness programs, in the form of organized opportunities for a company’s staff to engage directly with customers.

Sometimes, these consumer closeness programs are confused and overlap with market research activities such as ethnography or focus groups.

This collection of customer-oriented approaches has helped companies to be more customer focused, of course. More knowledge has increased customer satisfaction with some of the companies they engage with. Technological improvements have enabled continued dialogue with customers and have highlighted the important role of marketing as a dual value-creation function: “Customer Centricity is concerned with the process of dual value creation. Its central paradigm is how to create value for the customer and, in the process, create value for the firm” (Shah et al., 2006).

Advances in dual value creation that incorporate true customer orientation have helped more sophisticated efforts around customer service processes, designed to ensure customer satisfaction with products and services offered. They have also ensured an organizational effort around the creation of optimum customer experiences that lead to positive emotional responses and, ultimately, loyalty and advocacy.

Are these attempts enough and what does this mean for Customer Centricity?

These efforts around (1) recognizing the important role customers play in businesses and (2) ensuring an optimum dialogue with them to ensure positive emotional responses that eventually translate into economic return are necessary, but not enough. They help “put customers at the center” of businesses, but they only partly fulfil true Customer Centricity. Thus, they tend to be more tactical than strategic for the business and end up being deprioritized because they are ultimately found to be difficult to execute, unprofitable or too slow to ascertain their return on investment in the short term.

However, the deprioritization of these activities impacts customers and leads to the huge delivery gaps, as identified by Bain & Co (2005). Research among 362 firms showed that although 80% of companies assume they are consistently giving customers what they want and delivering against a superior customer experience, only 8% of customers agreed that to be the case in relation to those same companies.

This problem is aggravated by silos and the assumption that responsibilities for the customer depend only on marketing or insights. When these departments become the only “voice of the customer”, organizations suffer in their Customer Centricity advances. “Parking customers” in functions (e.g. a marketing responsibility) and silos disincentives their strategic role. It is very difficult to put customers first or be customer-centric when customers belong to a function and are important but not central to the organization.

The realization that putting customers at the center required a reorganization to break these silos and functions was introduced by Galbraith in 1999, when he suggested that adopting an outside-in perspective that truly put customers at the heart of business decisions inevitably would lead to a full reorganization of the business. Here, Galbraith was giving the whole concept of customer orientation a very interesting spin, building on an approach to help customers meet their long-term needs and wants by “introducing management and employee processes that ensure alignment of both individual and team objectives around satisfying and retaining customers.”

When customers are not at the center of the business, organizations suffer from a short-sightedness that has been consistently referred to as product centricity.

Customer Centricity is often defined in contrast to what it's Not



Goal is best product for customer

What products/services can we sell to our clients

Cutting edge products, useful features, new applications

Divergent thinking: how many possible uses of this product

Product profit centers

New product culture: open to new ideas, experimentation

Inside-out



Goal is **best solution** for customer

What does our **client need** to get done now and how can we help

Personalized packages of products/services.
Customizing for best total solution

Covergent thinking: what combination of products is best for this customer

Customer segment teams and P&L's

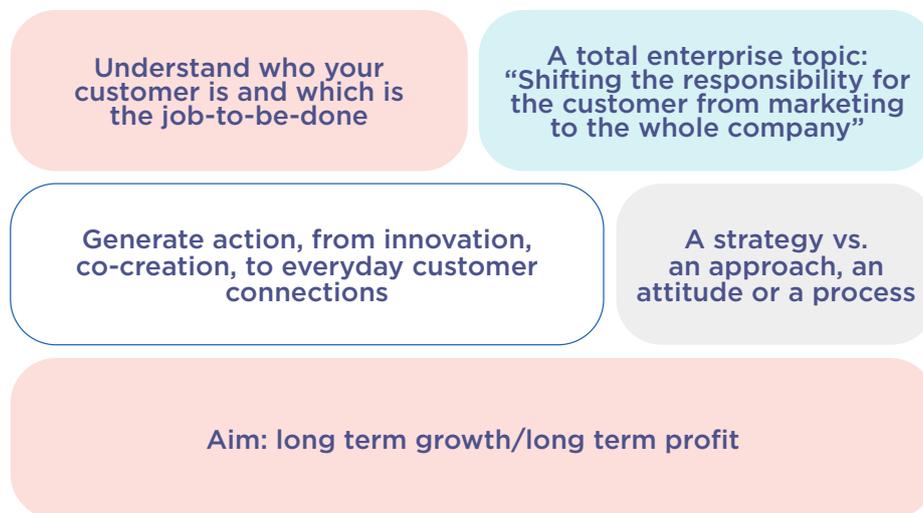
Relationship management culture:
searching for more customer needs to satisfy

Outside-in

Defining Customer Centricity

It is clear from the above that any working definition towards Customer Centricity should encompass a combination of all this information, namely:

- 1 A deep understanding of who your customer is, so you know “who” to put at the center of your enterprise. Implicit in this concept is Clayton Christensen’s (2016) “Jobs to be Done”, which establishes that customers don’t buy products; they hire products to do a job.
- 2 A commitment to shift responsibility for the customer from a function (generally marketing) to the whole company.
- 3 A recognition that putting customers at the center requires strategic thinking and is much more than just an approach, an attitude or a process.
- 4 A willingness to generate action from the knowledge acquired around customers, spanning innovation, co-creation and everyday customer connections throughout the customer journey.
- 5 A conviction that this focus provides long-term profit and growth.



With these five building blocks, the IE Centre for C-Centricity has created the following workable definition:

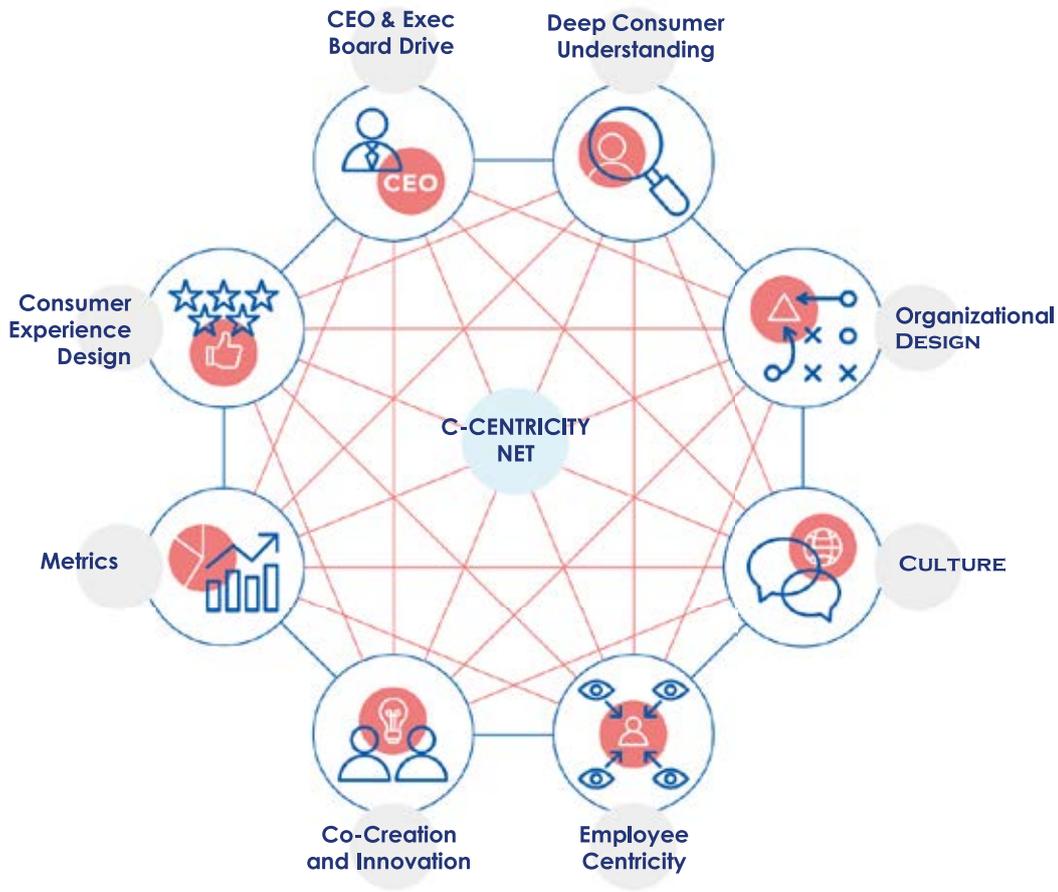
“C-Centricity is a total company strategy that, based on in-depth understanding of customers, is able to align the whole organization towards maximizing the customer experience in order to drive sustainable growth”

Bringing C-Centricity to life: the C-Centricity net

To fully understand C-centricity, the IE Centre for C-Centricity has developed a lever model that rings true for best-in-class customer-centric organizations.

There are three critical elements to this model:

- 1 Eight identified dimensions that work as levers to build C-Centricity.
- 2 A narrative around C-centric transformations that suggests the levers may act sequentially if companies are created customer-centric. However, the concept of the net was developed to acknowledge the connection between all levers, since not all companies will start at the same place or the same time, and companies can transform towards a customer-centric business model.
- 3 A pivotal role of employees (internal customers) in the whole process that, in very advanced C-centric organizations, not only overlaps but may even overtake in importance the role of external customers in the success and growth of the organization.



Our benchmarking and research have shown eight key dimensions that need to be leveraged in order to achieve a full transformation towards a C-centric organization. These dimensions need to exist in a certain “order” for the transformation to be effective:

- 1. Governance:** Customer-centric organizations require a fully committed leader, with a vision and strategy not only to “live” the values of Customer Centricity but to be able to transmit these to his or her Board, ensuring the full buy-in of the C-Suite to place Customer Centricity as a top strategic priority in their agenda. Only this buy-in ensures strategic direction towards the customer, ultimately allowing for all other dimensions to be implemented. The most advanced customer-centric organizations will reflect this strategic priority in their company’s vision or mission.

“Leadership commitment is critical for both initiating as well as sustaining all initiatives for Customer Centricity, including those related to organization realignment, systems and process support, and revised financial metrics.”
(Shah et al., 2006)

- 2. Customer Understanding:** Once the full buy-in of the C-Suite is established, the first step towards implementation is to ensure in-depth customer understanding by the whole organization of everything pertaining to the customer. This, of course, includes the jobs-to-be-done theory, big and small data set analytics and all insight capabilities traditionally more associated with market research and customer/shopper insights.

“Customers don’t buy products. They ‘hire’ products to do a job for them. When we buy a product, we essentially ‘hire’ something to get a job done. If it does the job well, when we are confronted with the same job, we hire that same product again. And if the product does a crummy job, we ‘fire’ it and look around for something else we might hire to solve the problem.”
(Christensen, 2016)

- 3. Organizational Design:** It is only with the consistent retrieval of suitable data about customers that companies can then reorganize themselves to serve customer needs and wants. This is one of the most challenging steps to take towards C-centric transformation. Customer Centricity is only fully completed when businesses move away from a product-centric model, adopting significant structural changes in workflows, processes, systems and procedures to realign the organization around a customer-centric strategy.

“Few companies can actually deliver on the promise of Customer Centricity because they are organised into product—focused business units that allow deep knowledge and expertise but obscure a holistic picture of customers and their needs.” (Gulati, 2009)

- 4. Culture:** When organizations adopt an outside-in perspective that organizations are then able to focus on culture. Culture is an interesting topic in itself, since in organizations it precedes any emphasis change towards Customer Centricity. However, our evidence shows that despite culture being an important topic that fully correlates with governance and leadership, it is only able to fully see the light in customer-centric organizations once they have reorganized themselves. It is only then that critical elements of customer-centric organizations (as we will see later on) can come to life.

“Customer-centric companies live by a set of values that put the customer front a centre, and they reinforce those values through cultural elements, metrics and the right behaviour.” (Vermeulen, 2003)

- 5. Employee centricity:** is not only the next critical dimension; it is at times the base on which the rest of the C-centric net is truly built. C-centric organizations have consistently proven that merely granting employees the role of internal customers can dilute the boundaries of the organizations and build the case towards C-Centricity. This is particularly important because it challenges traditional notions of emotional salary and other HR processes to make the employee happy, and requires a chapter of its own. Richard Branson was clear about this type of arrangement very early on, arguing “If you take care of your employees, they will take care of the clients.” Since then, the whole subject has evolved towards what is now known as “Balanced Centricity”, by which the internal and the external customer are almost one and the same in terms of importance for long-term business growth.

- 6. Customer Driven Innovation:** It is when an organization is able to redefine its boundaries and grant different names and roles to traditional stakeholders that it is ready to engage fully in co-creation and customer-driven innovation. Many companies have started co-creation processes at different stages and to different degrees, and many believe they are engaging in customer-driven innovation by integrating customers in their innovation processes (e.g. anything from concept testing to other levels of involvement).

“Customer co-creation has been defined as an active, creative and social process, based on collaboration between producers (retailers) and customers (users). Customers are actively involved and take part in the design of new products or services. Their co-creation activities are performed in an act of company-to-customer interaction which is facilitated by the company. The objective is to utilize the information and capabilities of customers and users for the innovation process.” (Piller et al., 2009)

However, true Customer Centricity around this subject is taking organizations to whole new levels of discourse that can go as far as remuneration packages for customers in their innovation processes, as if they were company employees.

It is clear from the above that organizational redesigns that adopt an outside-in perspective to fully build Customer Centricity inevitably lead to fluid organizations that can shift their definitions of who their stakeholders are (beyond classic definitions) and engage with them at will. Of course, this can only take place if the whole culture is supportive of such open environments, and necessarily requires an entrepreneurial mindset that is open to failure, experimentation and dialogue—aspects most commonly associated with growth mindsets as opposed to the fixed mindsets still very commonly found in most organizations, particularly those with a strong commitment to their financial targets in the short term.

- 7. Customer-Centric Metrics:** It is at this point that suitable metric systems need to be implemented to measure the success of all these changes. Adopting an outside-in perspective necessarily challenges traditional metrics of growth and adopts new metrics that are bespoke for the organization. The problem most organizations face is that they still use “comparable” metrics—whether the very old “market share” or the newer “new promoter score”—and systematically reduce complexity to a single number. C-centric organizations have these measures but have also adopted new ones that pertain to their organization alone.

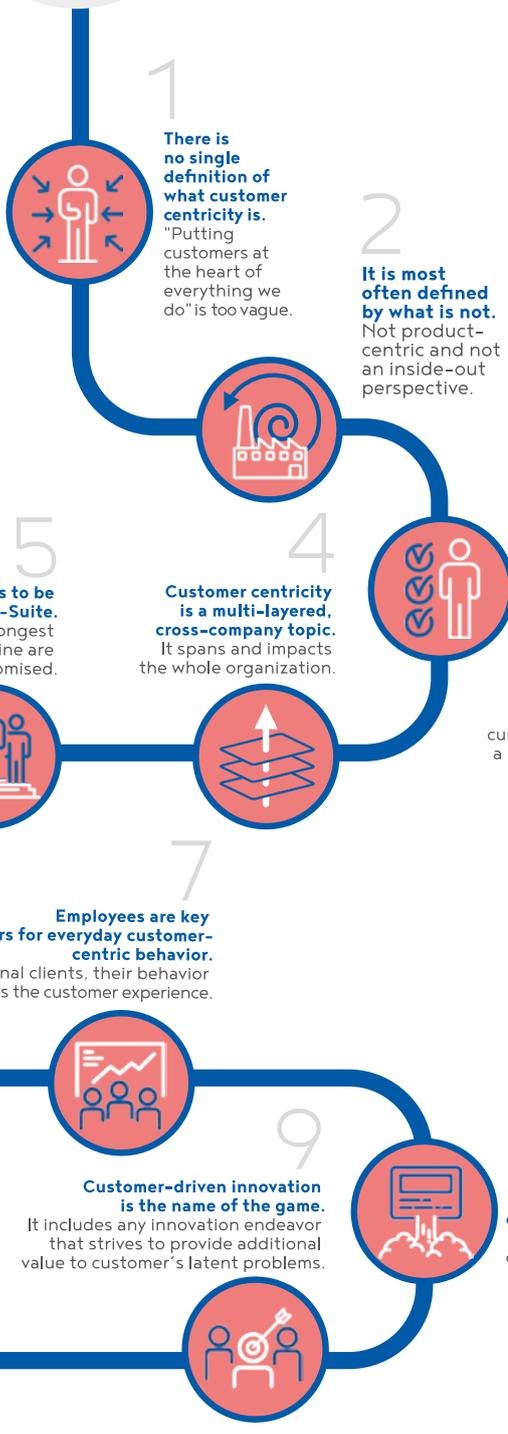
“The adage ‘You can’t manage what you don’t measure’ applies to Customer Centricity, too. Managers will be motivated and equipped to cultivate a customer-centric culture if they know if and how it impacts results, so organizations should ensure they establish and track the link between culture and customer impact.” (Yohn, 2016)

18
...

- 8. Customer Experience:** No definition of Customer Centricity is complete until one acknowledges the important relationship of this topic with customer experience and its overlaps and conceptual frameworks, which are related but significantly different from each other. Since it is the aim of a customer-centric organization to maximize customer experience at every single touchpoint, no transformation towards C-centricity is fully complete without a commitment to design best-in-class customer experiences. Unfortunately, most organizations still believe this “chapter” belongs in marketing, as part of the customer journey. Research from Thompson (2017) has shown that as part of the organizational design, C-Centric organizations rethink who in the organization should be in charge of designing these customer experiences, granting the subject a dignity and status that helps them stand alone while being transversal to the whole organization.

“The term “customer experience” has been so widely used and abused that a potentially important construct is in danger of being dismissed because of the ambiguous manner in which it has been applied.” (Palmer, 2010)

TEN KEYS TO CUSTOMER CENTRICITY



1
There is no single definition of what customer centricity is. "Putting customers at the heart of everything we do" is too vague.

2
It is most often defined by what is not. Not product-centric and not an inside-out perspective.

3
Customer experience is often (mis)understood as customer centricity. CEx is a (personal) emotional response but customer centricity is a (company) strategy.

4
Customer centricity is a multi-layered, cross-company topic. It spans and impacts the whole organization.

5
It needs to be born in the C-Suite. Otherwise, the strongest links down the line are compromised.



6
Culture is the single most important enabler for a proper execution. Fluid organizations must retain an outside-in perspective around and committed tribe.



7
Employees are key drivers for everyday customer-centric behavior. As internal clients, their behavior enhances the customer experience.



8
Organizational design is critical to the success of customer centricity. Customer centricity demands flexibility and speed around horizontal project-based structures.



9
Customer-driven innovation is the name of the game. It includes any innovation endeavor that strives to provide additional value to customer's latent problems.



10
Processes and KPIs are key tools in the transformation towards customer centricity. It requires shifting away from standardized market-focused to bespoke customer-led metrics.



Working definitions

CEO & EXEC BOARD DRIVE



The CEO and/or owner and his/her immediate reports have Customer Centricity as a top strategic priority in their agenda.

C-Centricity is reflected in Company vision and/or on purpose.

A deep understanding of customers is at the base of any C-centric organization. It's about knowing their needs to design products and services that will meet and even exceed their expectations. It's also about staying in close contact with them throughout their journey to know what is satisfying them and which are their pain points, to deliver best experience in every occasion.



DEEP CONSUMER UNDERSTANDING

ORGANIZATIONAL DESIGN



Organisational Design refers to the structural changes in work flow, procedures, structures and systems needed in order to realign an organisation around a customer-centric strategy

A customer-centric culture refers to the way that the deep belief that the customer is central to the business. It establishes a set of values and beliefs, attitudes, rituals and symbols that adopt an outside-in perspective around a tribe committed to make customer experience a priority.



CULTURE

EMPLOYEE CENTRICITY



Employee Centricity refers to the strategically conscious decision to widen the definition of customer to include their employees, prioritizing their experience too. Thus operating under the logic that employees are key drivers for an everyday customer-centric behaviour.

Customer-centric innovation (CCI) includes any innovation endeavour that really starts with an open or latent problem of a customer and strives to provide additional value to a customer and not just to the Company by delivering complete, satisfying experiences to real customers.



CO-CREATION AND INNOVATION

METRICS



Customer Centricity must incorporate customer input. This means shifting away from standardised market-focused to bespoke customer-led metrics that are really capable of evaluating the extent to which the business model is being successful with customers.

Customer experience is the emotional response customers have to expectations being met or not in every engagement with an organization. An excellent customer experience is the ultimate consequence of a good customer-centric strategy.



CONSUMER EXPERIENCE DESIGN

Corporate members



Electrolux



MAHOU
SANMIGUEL

PALLADIUM
HOTEL GROUP



Ricola



What do we mean by C-Centricity?

The term C-Centricity acknowledges the distinctively different meanings ascribed to customer and consumer, despite the clear overlaps in some sectors, when putting customers at the heart of business. Businesses need to reinforce both their customer and consumer focus, if there is a difference in who buys and who uses the products and services. The end benefit is the ability to create value for retailers and other intermediaries used to reach the final user, ensuring impact along customer journeys.

In addition to this, the growing debate on social aspects of customer centrality focuses on the application of customer-centric practices to improve the life of citizens. In doing so, it addresses the importance of customer centrality for forging a socially responsible culture within companies that ultimately creates value for society as a whole.

Customers, Consumers and Citizens must sit at the heart of organizations, never displaced or relegated to a particular department or group of people in order to ensure successful organizational growth and overall human satisfaction at a societal level.

A solid education for business leaders, those of the future and those of today, requires a strong muscle in this broad definition of C-Centricity.

Our purpose

Impulse the practice of Customer, Consumer and Citizen Centrality to drive satisfying human experiences & sustainable business growth.

Our dual role

- 1 Generate and curate leading edge research & foresight on Customer, Consumer and Citizen Centrality and its drivers.
- 2 Share & leverage that knowledge to inspire satisfying human experiences & sustainable business growth.
 - Promoting (and guiding) the application of the Center's knowledge in the business world
 - Educating the business leaders of today and tomorrow

-
- Abril, C. (2019) Customer Driven Growth: The Case for Consumer Packaged Goods. In Progress.
 - Allen J., Frederick F.R., Hamilton B. and Markey R. (2005) Closing the Delivery Gap – How to Achieve Customer-Led Growth. Bain & Company.
 - Christensen C.M., Hall T., Dillon K. and Duncan D.S. (2016) Competing Against Luck: The Story of Innovation and Customer Choice. Harper Collins Publishing.
 - Deloitte Report (2014) Customer Centricity – Embedding it into Your Organization’s DNA.
 - Drucker, P.F. (1965) Innovation and Entrepreneurship. Harper Perennial.
 - Evans, G. (2016) Customer Centricity: Why it is Critical to Your Business and How to Measure It. CreateSpace Independent Publishing Platform.
 - Fader, P. (2012) Customer Centricity: Focus on the Right Customers for Strategic Advantage. Wharton Executive Essentials.
 - Fader, P. (2016) The Customer Centricity Playbook: Implement a Winning Strategy Driven by Customer Lifetime Value. Wharton School Press.
 - Galbraith, J.R. (1999) Designing the Customer-Centric Organization: A Guide to Strategy, Structure and Process. Jossey-Bass.
 - Gulati, R. (2009) ReOrganize for Resilience: Putting Customers at the Centre of Your Business. Harvard University Press.
 - Kantar Report (2015) Insights 2020 – Driving Customer-Centric Growth.
 - Palmer, A. (2010) Customer Experience Management: A Critical Review of an Emerging Idea. Journal of Services Marketing 24(3):196-208.
 - Piller F.T., Ihl C. and Vossen A. (2009) A Typology of Customer Co-Creation in the Innovation Process. SSRN Electronic Journal 4.
 - Shah D., Rust R.T. and Parasuraman A.P. (2006) The Path to Customer Centricity. Journal of Service Research 9(2):113-124.
 - Vermeulen, F. (2018) Breaking Bad Habits: Why Best Practices are Killing Your Business. Harvard Business Review Press.
 - Yohn, D.L. (2016) Design your Employee Experience as Thoughtfully as you Design your Customer Experience. Harvard Business Review.



© de la edición: Editorial Instituto de Empresa S.L.
© de los textos: los autores

www.center-for-consumer-driven-growth.ie.edu/