

A white paper by Pitney Bowes Business Insight
February 2010

Balanced centrality

Delivering on the customer-centric philosophy

A white paper by Pitney Bowes Business Insight
February 2010

Balanced centrality. Delivering on the customer-centric philosophy.

Executive Summary

The term customer-centricity, which is based on the concept of an organization orientating itself around the customer, has been around for the best part of half a century but in most cases has never been realized. There are a small handful of companies that have started the journey but realistically only a small minority can claim any degree of success. So why is it that not more companies have embraced and successfully delivered on a customer-centric philosophy? After all it would seem to make sense and there is strong evidence that success equates to increased commercial return, so why hasn't it happened?

A good analogy is the 'Tragedy of the Commons' which refers to an article by Hardin that describes a situation in which multiple individuals, acting independently, and for their own self-interest, will ultimately deplete a shared limited resource even when it is clear that it is not in anyone's long-term interest for this to happen. Does this sound familiar?

Across a large organization incentivizing individual business units to sell as much as they can to as many customers as possible doesn't, in the long-term, build a firm foundation for future growth. By not recognizing that each individual customer engages with the business as one enterprise where their expectation is that they will be known, understood, cared for and valued, is to invoke 'Tragedy of the Commons'.

This strategy can only ultimately encourage customers to opt out or even take their custom elsewhere as they are bombarded with irrelevant offers from different business groups. This scenario is likely to continue until organizations understand the importance of treating customers with one voice where their needs are firmly recognized and acted upon in an intelligent and fully integrated fashion.

However change is round the corner as organizations start to recognize the importance of the customer as the bedrock for future growth and prosperity, and on account of this, are now directing increased emphasis and investment on delivering enhanced customer value. This customer orientated approach is no longer a talking point. It is in fact seen by some as an absolute necessity in order for organizations to remain successful in an increasingly competitive landscape where customers are more discerning and demanding than ever before.

Organizations now need to embrace this customer-centric philosophy but to do so with a balanced approach where the needs of the customer are effectively weighed against the long-term goals of the organization. In effect a “balanced-centrality” based on a foundation of Customer Governance, acting with one voice to the customer, and Customer Intelligence, making sure that the voice in question is relevant, individualized and respectful of customer preferences. It is the ability of companies to address both these issues that has effectively changed the game.

The driving force for change has been the explosive growth & proliferation in the amount of customer data available, which has accelerated rapidly through the adoption of online channels & social networking. It is the recognition that this customer data forms the basis for future success through the application of two significant initiatives;

- Firstly the implementation of enterprise-wide customer ownership that ensures adoption of a formal customer contact strategy across all business units
- Secondly the ability to derive insight from analytical assessment of all customer data to form a very strong understanding of the customer and their likely interest in the goods & services of the entire enterprise

“In 2009, more data will be generated by individuals than in the entire history of mankind through 2008”

Andreas Weigend

Amazon

Customer governance requires organizations to centralize customer management, achieve alignment across the different business units and product silos and to embed the line-of-business objectives with the longer-term enterprise goals.

Customer intelligence requires organizations to be able to gather data at every opportunity and to bring this together from different sources to establish the 360 degree single view of the customer. It is then the application of predictive analytics to this data which establishes customer insight, understanding and ultimately foresight: the ability to predict future customer behavior, needs and expectations based on a strong level of statistical confidence. This foresight not only provides the basis for making each individual customer interaction relevant, consistent and valuable, but also enables an organization to maximize customer value over the longer-term and ultimately provide the framework for defining an organization’s future vision and direction.

As stated, a customer-centric goal requires balance. A balance between doing what is right for the customer with what is desired by the organization at an enterprise level. The new paradigm for B2C organizations is to combine customer governance with customer intelligence in order to engage with customers in a way that builds long term satisfaction whilst maximizing customer lifetime value for the organization.

Customer-centricity is the ability of organizations to harness enterprise-wide customer data to better understand customer needs and behavior, and then act on this insight consistently through engagements at every touch point to support the long term goals of the enterprise that creates the opportunity for a new level of customer value optimization. In effect deliver, finally, on the age-old mantra that “Our greatest asset is the customer. Treat every customer as if they are the only one!”

Customer Centricity

Customer-centricity refers to the orientation of a company to the needs and behavior of its customers, where the emphasis is on growing long-term customer value rather than internal drivers such as the quest for short-term sales conversions & profit. It is a philosophy or approach that is adopted at the executive level by an organization.

So how does this relate to Customer Relationship Management? Quite simply CRM is the development and implementation of a customer-centric business strategy where “customer-centric” means precisely delivering to customers what they want at the right time through the right channel whereas “business strategy” means accomplishing the goals of the organization. If an organization can accomplish both at the same time, then it has delivered on the utopian goal of CRM.

It is also important to state what customer-centric does not mean, which is “doing what’s right for the customer irrespective of the effect on the business”. It is fundamental that true customer-centricity is about achieving the balance of utilizing the company’s products, services and resources to meet the needs of the customers within the overall enterprise-wide goals of the organization.

Organization to support the business objectives of the different products

Customer Governance

Customer to be engaged based on their preferences & expectations



Organization to optimize long-term customer value & profitability

Customer Intelligence

Customer to receive a relevant offer at the right time through the right channel

Why do it?

For several years now scholars have been advocating that organizations need to shift their thinking away from a brand-centered way of thinking - managing product portfolios, to a customer-centered way of thinking - managing customer portfolios.

Recent research has demonstrated quite conclusively that customer value is an excellent indicator for shareholder value and that companies investing in customer-centric initiatives enjoy higher financial returns.

“2003-2007 Direct marketing balance of acquisition and retention at 75/25. 2008-2009 it has shifted to 62/38. Therefore despite overall decline, there is c34% more retention cross sell and up sell programs than in boom years”

Bruce Biegel
Winterberry Group
March 2009

Is customer-centricity growing?

In the face of growing competition, finite resources, and more demanding customers, leading organizations are striving to increase profitability by better aligning their core proposition to their customers. These organizations are realizing that the adoption of a customer-centric strategy is a key foundation for future growth and that the following key trends need to be recognized:

- Customer-centricity is no longer a luxury, it's a necessity
 - There is an increased focus on generating organic growth from the current customer footprint, due to the high cost of acquiring new customers
 - There is a strong correlation between customer experience and cross sell / up sell (the new retention)
- Increased competition for 'good customers' has driven organizations to shift:
 - Marketing budgets to retention & loyalty themes
 - From traditional above-the-line to below-the-line & online channels (which are more measurable)
- Growth of customer-centric organizations is shifting the battleground from products (which can be rapidly commoditized) to customer relationship and experience
- Customer-centricity is increasingly recognized as a critical differentiator
- There is an increasing investment in “Chief Marketing Officer” or similar roles as organizations seek to orchestrate and drive customer-centricity & experience

Market indicators

Marketing is undergoing a transition. We have already seen how marketing has gradually shifted from mass marketing to segmented marketing as marketers understand the importance of customizing their communication to specific customer groups. In the future it will increasingly move towards customer-centric marketing which is based on the desire to fulfill the needs and wants of each individual customer on a 1:1 basis.

This continuing move to more personalized marketing is driven by both the need for increased productivity / accountability as well as the recognition that it is easier to influence a customer who you know and understand rather than to acquire a new customer who you do not.

Key market indicators that support this include the following:

- Increasing investment is directed to customer retention & cross sell / up sell rather than to acquisition of new customers
- There is a growth in spend in digital marketing (due to the ability to improve both customer targeting and measurability)
- Personalization of marketing messages is increasing
- The number of campaigns is increasing, coupled with an increase in the number of content / messaging adaptations for different identified target groups

“I've had more enquiries about retention in the past 10 weeks than I've had in the previous 2.5 years”

Suresh Vittal
Forrester Research
March 17 2009

Becoming customer-centric

The corporate objective & vision for the company needs to be commercial but the strategy that is adopted to achieve it can fundamentally influence the direction of the organization. Therefore, if the importance of the customer is acknowledged by embracing a customer-centric philosophy then that single decision will drive the structure and content of the entire strategic plan. It's not just a statement of intent, but more importantly, a way of conducting the business.

A key first step is to ensure that everyone has a common and aligned understanding of what customer-centric means. This may sound obvious but most organizations do not have a written definition and this is often where different interpretations may create barriers to successful execution.

A well recognized industry definition is "Aligning the organization, to an enterprise-wide customer contact strategy, that effectively understands and responds to the ever-changing needs of the customer in a way that delivers mutually profitable relationships."

This definition can be broken into four constituent parts:

Aligning the organization; it is important to align the entire company around the customer both in terms of employees as well as all underlying business processes.

Each and every employee needs to live and breathe the customer, to fully understand the corporate vision and brand offering and to be able to support the language of relationships – understanding, feelings, empathy & respect – which is at the heart of every customer-centric strategy.

In addition, all business and underlying processes need to be built around the core customers, based on an Outside-Inside approach, to ensure the customer can engage and interact with the business in the way they wish.

To an enterprise-wide customer contact strategy; ensuring that there is a consistent, structured and coordinated approach to customer engagement across the different business units and interaction touch points that is designed to eliminate contact fatigue, communication saturation, negative sentiment, higher servicing costs and customer opt out

That effectively understands and responds to the ever-changing needs of the customer; listening to the customer is the precursor to building customer understanding and insight in order to ensure that the customer feels you know them, care for them and value them. It is about personal connections, about taking responsibility, and about focusing on the needs and feelings of the customer.

In a way that delivers mutually profitable relationships; achieving the balance between what is right for the customer and the needs of the organization is central to delivering on the concept of balanced-centrality. Success in achieving both these goals needs to be evaluated and tracked through the deployment of customer focused metrics.

It is also important that the customer-centric strategy reflects the key values and culture of the organization to ensure successful execution. To ensure alignment many organizations are now reappraising and redefining their core values to be in harmony with a customer-centric philosophy. Culture and values are no longer just words, they now need to be demonstrated at every opportunity and establishing this consistency and alignment is an important component of future success.

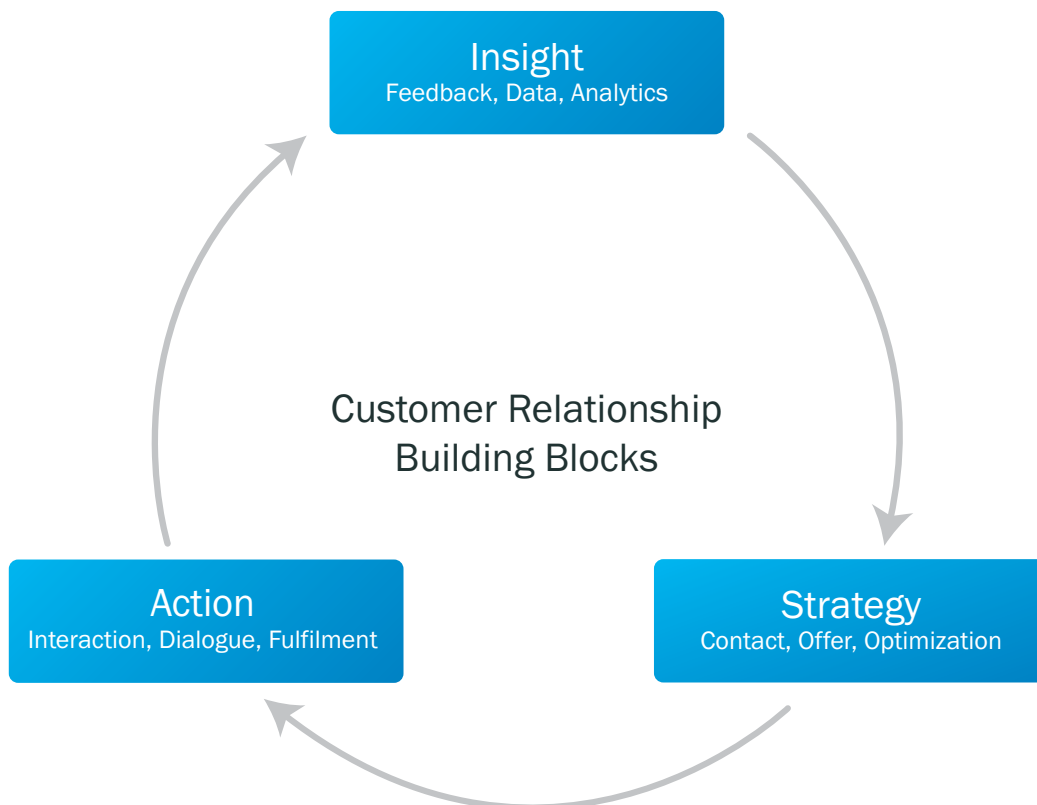
"Last year, the three top functional areas were: customer data management / customer and party centrality (SCD), core banking, and risk management"

Forrester

Global Banking Platform Deals 2008; Functionality

What makes successful execution?

Successful execution is not only dependant on the right strategy but also having the right environment to implement it. This means that the company needs to be aligned around the key customer building blocks and to have these integrated through the application of technology to form a connected customer relationship that fully supports a 1:1 relationship with each and every customer.



Balanced centrality

Delivering on the customer-centric philosophy

There are important differences in the way that customer building blocks are used between a product-centric organization and a customer-centric organization as can be seen in the chart below:

Customer building blocks		Definition	Product-centric	Customer-centric
Insight	Feedback	Listening and acting on the feedback of customers	Limited feedback is captured from customers and future products are driven by the needs of the organization	Highly collaborative with information from every interaction & social media site captured and used to empower future customer needs & wishes
	Data integration	Depth & availability of customer data	Basic customer data, information focused on products & transactions only	In-depth data on the customer including value, preferences and needs
	Analytics	Understanding of the customer	Limited understanding of customer needs	Provide real-time insight at time of interaction to always ensure customer relevancy
Strategy	Contact strategy	Defining the strategy and rules on which customers are engaged across an enterprise	Each line of business deploys their own individual contact strategy	Organization recognizes the need to engage with customers with one voice and has established a customer governance strategy
	Offer strategy	Deciding which offers are made to which customers	Offers strategy is based on generating highest revenue (response)	Offers strategy is based on generating the highest level of customer profitability
	Optimization strategy	Optimizing & measuring the value for the organization	Organization focused on achieving short-term revenue / turnover goals	Organization focused on maximizing customer value over their lifetime
Action	Interaction (single engagement)	Establishing a 1:1 relationship	Customer segments & execution based around products	Customers can be engaged on a 1:1 basis in real-time to ensure that only the most relevant offer is made
	Dialogue (cross-channel)	Managing each and every touch point with the customer	One-way communication, usually broadcast or outbound	Ongoing two-way communication, initiated by the customer and managed based on their preferences across their channels of choice
	Fulfilment	Customer interaction fulfilment	Routine service response to the customer and provided in a way that suits the organization	Differentiated customer treatment processes that are designed & built around the needs of the customer

These customer building blocks form the basis of successful customer engagement as they ensure that the organization is focused on the customer and not around sales, marketing or IT. This customer-centric approach enables companies to gather customer data from wherever it is held, to build customer understanding, to anticipate and predict their needs, to identify relevant offers and then to engage with their customers through their channel of choice. This will increase customer satisfaction leading to more business with the same customer, whilst also defending against customer attrition - so important in these economic times. It is a win-win scenario for both the organization as well as the customer.

Building capability

In many cases, organizations will already have a number of customer building blocks in place but will likely have specific pain points or issues which are prohibiting them from optimizing customer relationships in their entirety. These areas will generally be focused on customer retention or on the opportunity/need to increase the number of products held per customer through both cross sell and up sell.

This has resulted in a need for specific plug in/bolt on applications to enhance current CRM systems, which can be easily integrated onto the existing system architecture. These applications need to be modular so that organizations can choose to implement a specific application rather than to deploy an entire enterprise-wide suite. The requirement to implement "incremental" investments or upgrades is particularly important in the current market when capex budgets are tight and organizations are looking for fast returns (ROI), often within a 12 month period.

However in a utopian world where would one start to build a customer-centric capability if there was a Greenfield opportunity? As a guide, market indicators and industry analysts would suggest that an organization builds capability to support a customer orientated market approach based on the following sequence of priorities:

Insight - Strategy - Action

This reflects the concept that customer data provides the capability for customer understanding which drives both corporate & customer strategy, leading to better management of interactions which results in sales / service fulfillment thereby providing the platform for an ongoing dialogue where customers contribute to further enhancing the long-term relationship.

Conclusion. The foundations for success; customer governance and customer intelligence.

If this paper sets out to portray just one key message what would it be? Well it is the recognition of the ever increasing benefits and need for an organization to establish and support Customer Governance and Customer Intelligence.

Customer Governance - the establishment of a customer contact strategy is the first step and it ensures that the customer is engaged in a coordinated and consistent way across all business units and across all interactions, wherever or whenever they take place. This provides the opportunity for improving customer experience, achieving customer satisfaction and ultimately enhancing long term customer value.

Customer Intelligence - the combination of customer data and predictive analytics is the cornerstone for profitable growth. It not only enables effective customer interactions but it also optimizes customer value and ultimately provides the framework for an organization's vision and direction.

So how does an organization embark on the customer-centric journey? The following details some of the key areas of focus for establishing a successful approach.

Insight

The greater the level of customer data available, the greater the opportunity to build customer insight. This is of increasing importance in the modern era as customers now source products and services from more than one organization resulting in only a sub-set of information available to any one company. It is therefore a necessity to capture as much data as possible to ensure that the organization knows their customers better than the competition do and to be able to use this information to predict their future behavior, needs and expectations. Customer insight must be valued within the organization both as a contributor to future corporate decisions as well as a means to evaluate past performance.

Providing an ear to the customer and motivating feedback at every opportunity; customers are the barometer to an organization's health and it is imperative that customers are listened to and that feedback is gathered at every opportunity. In many cases customers can highlight issues which are not identified within the organization and it is this Outside-Inside view that often provides the means for creating competitive advantage.

organization needs to gather targeted pieces of customer information from every routine interaction. This means that at every engagement employees should be prompted to ask customers for missing information and to have this information captured and available for analysis immediately after each interaction. This process should also include other inbound channels such as on-line where survey responses, feedback and behavior tracking data must also be captured and integrated to help define the single customer view.

Applying predictive analytics; the key component to really understanding customers is to extend the power of predictive analytics to business users, rather than just the data analysts. These are the people who understand the customer journey and what they are trying to achieve. It is imperative that these users are able to drill down for instant answers, perform their own ad-hoc queries and generate their own reports. This requires both 3D visualization, to bring data alive and make it easy for business users to identify and test patterns, as well as rapid analysis to ensure the organization can respond instantly to new opportunities.

Strategy

An organization's strategy is developed based on the understanding and application of customer knowledge and insight. It is vital that not only does the organization do what's best for the customer but also to make sure that the needs of the organization are met. It is achieving the right balance that is fundamental to a successful execution.

Establishing customer governance across different lines of business; each organization needs to ensure that it speaks to each and every customer with one voice, as one company, to ensure that customers aren't bombarded or saturated with too much communication. This requires execution through a set of rules which help lines of business understand how to engage with customers who are common across different product groups, whilst still enabling them to achieve their objectives.

Defining the contact rules of the playing field; every organization needs to establish the parameters by which the company will engage with customers. This equates to a set of policies that help define frequency, capture, recognition and application of customer preferences, channel utilization and customer follow-up. This also helps balance the capacity, constraints and resources of the organization.

Representing the voice of the customer; it is important that the group responsible for customer governance is able to represent the voice of the customer at senior management level and in so doing be able to contribute their knowledge and understanding of the customer to future strategic planning. In this way customer insight can become the foundation for steering business decisions and strategy across the entire organization and ensuring alignment across product groups.

Evaluating and measuring success based on customer criteria; a critical factor is establishing customer value as the key metric upon which an organization measures long-term success. The evaluation of performance based on the level of success achieved in both creating and growing customer value provides the alignment on which sales, marketing and customer service can achieve successful cooperation.

As Arthur C Clarke so rightly pointed out, information or data is the cornerstone to knowledge, wisdom and foresight with each one dependant on the other. So for organizations that recognize the customer as their most important asset and the fundamental building block for future growth and profitability, what does it mean to become customer-centric?

Well, the reality is that they must recognize the value of the customer and thereby orientate their organization around the customer, rather than their products. The organization must act as one company to the customer and to embed intelligence into every interaction and touch point, regardless of which line of business is engaging.

To achieve this they must seek to understand everything about their customers, to capture every piece of data from every line of business that they can. It is likely that they alone are not the only company who offer the same products or services to that individual and therefore they cannot know everything. However if they can use the information wisely to establish a level of customer intelligence beyond that of their competitors it forms the basis for competitive advantage. By coupling this with a contact strategy based on recognition, and respect for customer needs and expectations, then the scene is set for firmly winning the hearts and minds of your customers for the long term.

"The Information Age offers much to mankind, and I would like to think that we will rise to the challenges it presents. But it is vital to remember that information - in the sense of raw data - is not knowledge, that knowledge is not wisdom, and that wisdom is not foresight. But information is the first essential step to all of these."

Arthur C Clarke

About Pitney Bowes Business Insight

Pitney Bowes Business Insight is a software & services company that enables organizations to have lifetime relationships with their customers and citizens.

Our proven solutions enable organizations to engage with each of their customers as individuals and to connect every customer communication—outbound, inbound, marketing, sales or service—into an on-going dialog where customer insight and understanding forms the basis for each and every interaction.

This is achieved through a suite of innovative and compelling capabilities that integrate data management, location intelligence, sophisticated predictive analytics; rules based decision making and cross-channel customer interaction management to deliver enhanced customer profitability and operational efficiency.

UNITED STATES

One Global View
Troy, NY 12180
1.800.327.8627

pbbi.sales@pb.com
www.pbinsight.com

CANADA

26 Wellington Street East
Suite 500
Toronto, ON M5E 1S2
1.800.268.3282

pbbi.canada.sales@pb.com
www.pbinsight.ca

EUROPE/UNITED KINGDOM

Minton Place,
Victoria Street
Windsor, Berkshire SL4 1EG
United Kingdom

+44.800.840.0001

pbbi.europe@pb.com
www.pbinsight.co.uk

ASIA PACIFIC/AUSTRALIA

Level 7, 1 Elizabeth Plaza
North Sydney NSW 2060

+61.2.9437.6255

pbbi.australia@pb.com
pbbi.singapore@pb.com
pbbi.china@pb.com
www.pbinsight.com.au

© 2011 Pitney Bowes Inc. All rights reserved. Pitney Bowes Business Insight is the software division of Pitney Bowes Inc. Pitney Bowes and the Pitney Bowes logo are trademarks of Pitney Bowes Inc. and/or its subsidiaries. All other marks and trademarks are the property of their respective holders.

92745-AM-1104