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***The customer-  
centric  
organization***

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**From pushing  
products to  
winning customers**



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# *Executive summary*



**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.

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# *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 Strategy& study of product and service companies in North America and Europe found that businesses that successfully combine value-creating customization with cost-effective delivery outperformed industry peers two-to-one in revenue growth, and generated profit margins 5% to 10% above their competitors'.<sup>1</sup> 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, next page*).

*Exhibit 1*  
**From product-focused to customer-centric**



Source: Strategy&

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# *The building blocks of a customer-centric organization*

Strategy& 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:

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# ***#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.

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## #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, next page*).

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.



*Exhibit 2*

**Solutions advance the customer value proposition**

<b>Industry</b>	<b>Traditional product</b>	<b>=</b>	<b>Traditional value proposition</b>	<b>+</b>	<b>Value-added services</b>	<b>=</b>	<b>Customer-centric value proposition</b>
<b>Truck manufacturing</b>	– Trucks	=	“We sell and service trucks”	–	Financing Service	=	“We can help you reduce your life-cycle transportation costs”
<b>Aerospace components</b>	– Aerospace fasteners	=	“We sell high-performance fasteners”	–	Application/design support	=	“We can reduce your operational costs”
<b>Utilities</b>	– Electricity	=	“We provide electricity reliability”	–	Energy asset maintenance	=	“We can help you reduce your total energy costs”
<b>Chemicals</b>	– Lubricants	=	“We sell a wide range of lubricants”	–	Usage and application design Lubricant analysis	=	“We can increase your machine performance and up-time”
<b>Pharmaceuticals</b>	– Drugs	=	“We sell pharmaceuticals”	–	Product support Outcomes-driven information database	=	“We can help you better manage your patient base”

Source: Strategy&

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## #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 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, next page*).

Exhibit 3

Pre-sales support enables companies to migrate up the customer purchase chain

Citibank uses Citipro financial planning tool to drive product penetration

**Overview of citibank's marketing efforts for Citipro**

- Targets all customers
- Uses statement inserts, service center calls, some outbound efforts, and advertising on Web site



**Face-to-face meeting with financial client analyst**

- Set up at convenience of client
- Free, with no obligation to purchase any products/services
- Client provides his or her financial information
  - Account statements
  - Tax statements
  - Debt statements – mortgage/education
  - Proofs of assets – car/home
  - Insurance
- System generates customized plan and proposed Citibank products to fulfill it (approximately 60 minutes)



**Outputs**

**1. Client financial plan**

- Debt-to-income ratio
- Current net worth
- Cash flow
- Retirement plan analysis

**2. Proposed financial solutions**

	Target date	Completion date
<b>Cash management</b>		
<input type="checkbox"/> Direct deposit	_____	_____
<input type="checkbox"/> Citigold account	_____	_____
<input type="checkbox"/> Overdraft protection	_____	_____
<input type="checkbox"/> Citibank automatic savings program	_____	_____
<b>Budget management income protection</b>		
<input type="checkbox"/> Begin process for insurance protection qualification	_____	_____
<b>Debt</b>		
<input type="checkbox"/> Debt elimination program	_____	_____
<b>Investment management</b>		
<input type="checkbox"/> Mutual funds	_____	_____
<input type="checkbox"/> Citicorp brokerage	_____	_____
<input type="checkbox"/> Citibank/IRA account	_____	_____

Source: Strategy&

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## **#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.

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## ***#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 Strategy& 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.

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## ***#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.

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# *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.

## *Endnote*

<sup>1</sup> Strategy&, "Smart Customization: Profitable Growth Through Tailored Business Streams," November, 2003.

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