Chapter Two

Customer-Centricity: How Much is Enough?

In this chapter you will learn:

- ❒ That different solutions strategies will require different levels of customer-centric organization.
- ❒ That solutions strategies vary in their scale and scope and integration requirements.
- ❒ How to determine your solutions strategy with the strategy locator.
- ❒ How to use the strategy locator to position your company on the customer-centric continuum.
- ❒ How to use lateral forms of organization to align the power and authority of your organization with your solutions strategy.

No two snowflakes or companies are the same. But while the strategic requirements of a snowflake are relatively simple—fall to the ground—those of a product-centric company are far more challenging; it could be said that, in today's marketplace, specific and fundamental changes are necessary to *prevent* a company falling to the ground—and because no two companies are the same, a one-size-fits-all application is not the answer.

In this chapter, we will determine the level of customer-centricity necessary for your company. First, we will describe the different kinds of customer relationship strategies, from which will be determined the level of customer-centricity to be implemented.

Customer Relationship Strategies

A number of authors, using slightly different language, have argued the case for becoming customer-centric (Day 1990 and 1999; Vandermerve, 1999; Wiersema, 1998; Peppers and Rogers 1997 and 2001; Selden and Colvin, 2003), and have described the details of a customer relationship strategy. They make several points that need to be underlined here.

First, many customers want relationships with key suppliers. While companies are using auctions and reverse auctions to purchase commodities, they are choosing a few long-term suppliers for their unique requirements.

Second, customers want close relationships through which they can dialogue with suppliers, for the purpose of detailing their customization desires.

Third, these dialogues create opportunities for astute suppliers to discover unmet customer needs and requirements, and can then expand their offerings to include more products and services. More importantly, however, these suppliers can create packages of products and services that create value for customers. These packages or solutions make the customer more effective, and the more effective the customer feels as a result, the more the customer will dialogue with and use the supplier. A virtuous circle can result.

Following this prescription to establish a relationship ultimately leads a corporation to offer more than stand-alone products; it leads you into offering what are now called "solutions." Let us now look at several solutions strategies that will determine the level of customer-centricity.

Strategic Choice

The different types of solutions described below will guide the choice of organization to implement that strategy. But first there must be the conscious choice of a customer relationship strategy for the company. The contrast between Nestlé and Procter and Gamble is illuminating. Both are consumer packaged goods manufacturers delivering a large number of products to the same retail customers. On our strategy locator (to be described below) they would both measure 5 on the scale and scope dimension. Yet Nestlé has chosen to remain a product-centric company and only uses informal processes to coordinate account management around the large, global retailers. P&G, on the other hand, has chosen to focus on these retailers and form global supply-chain partnerships. Some retailers, like Wal-Mart, even outsource the management of product categories and aisles to them. So a company still needs to do its strategy homework to decide whether becoming customer-centric will be an advantage for it.

In other industries, gaining customer-centricity is becoming a necessity. Both HP and Motorola saw that the digital revolution held out opportunities too good to pass by. Currently almost all product-centric consumer electronics companies, like Sony and Philips, are experiencing the digital pull to provide solutions. In the automotive industry, the tier-one suppliers to the auto OEMs are finding themselves faced with a few very large customers. For the tier ones, becoming customer-centric is less of a choice and more of a necessity.

The points being made here are that there are industry- and company-specific factors that must be weighed when choosing whether or not to implement customer relationship strategies. However, in many—if not most—industries these factors are leading companies to become more customer-centric and to offer solutions. The following types of solutions strategies will help to determine how customer-centric you need to become.

Different Types of Solutions

Companies that follow a relationship strategy that leads to solutions bundle their products together and add software and services. These packages create more value than the customers can create for themselves by buying only the stand-alone products. For the customer, solutions constitute a limited form of outsourcing, which allows them to focus on their core business. For the suppliers, solutions constitute an alternative to products that commoditize rapidly. The challenge to the supplier is to create an organization that can package and deliver the solutions.

The organization that can deliver these solutions is one that fits with the solutions strategy. There are four dimensions of solutions strategy—two major and two minor—that appear to make a difference to the organization. The major dimensions are the scale and scope of solutions, and the degree of integration of products and services; the minor dimensions are the types of solutions, and the percentage of total revenue deriving from solutions.

Scale and Scope

The first major strategic factor having a great organizational impact is the scale and scope of the solution. Scale and scope refer to the number of products and the number of different kinds of products that are combined into a solution. For example, a small-scale and -scope solution would be a local area network for a work group. A dozen desktop computers, a shared printer and disk storage could all be linked by an Ethernet cable and form a network.

A larger-scale and -scope solution would be computer-aided design (CAD) system for an engineering department of several hundred engineers. This CAD solution would require desktops, servers, storage units, CAD software, database software, network software, installation and maintenance services. It may also require financing and training of the engineers. This CAD solution comprises many more products and many different kinds of products—software and services as well as hardware products.

At the extreme end of scale and scope, Mitsubishi Trading Company could order state-of-the-art trading floors for 10,000 traders at six worldwide sites. This solution requires hardware, software, and services for computers, telecom, financing, and training. Large turnkey projects such as these are an extreme challenge to organization design, and require a highly integrated approach.

Integration

The second major dimension is the degree of integration between the components that comprise a solution. Integration varies from a loose assortment of products to a highly integrated combination. In between are combinations that use modular architectures. Little integration is needed between products supplied by agriculture firms to farmers. The firms try to bundle seeds, herbicides, insecticides, and consulting. However, the farmer can easily buy each as a stand-alone product from a different supplier.

An example of larger-scale—but still limited—integration can be found at ISS in Europe and ARAMARK and ServiceMaster in the US. They try to provide as many simple services as possible, with one-stop shopping for security, catering, janitorial, parking lot management, landscaping, building maintenance, and many other similar services. But each is a relatively independent service that could be provided by an independent service company. A more integrated offering is the set of solutions from computer companies. Figure 2.1 shows what Sun Microsystems calls "the Integrated Stack." The stack shows hardware on the bottom, software in the middle, and services on the top.

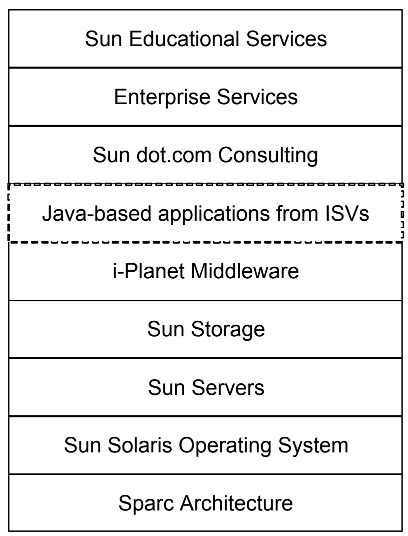

Figure 2.1—Sun's Integrated Stack

All hardware and software components have to operate in an integrated manner. (The services are somewhat more independent.) But thanks to standards like the Java programming language, components using Java can be substituted for other components. For example, a customer could choose BEA's middleware or IBM's Websphere and substitute it for Sun's i-Planet middleware. Therefore components in the information technology industry must be able to operate with other-branded components; by following standards, the customer has the choice of mixing and matching.

At the extreme are integral solutions in which the components are unique but are designed specifically to work together. A simple integral solution would be an anti-lock braking system (ABS) for an auto manufacturer. Each ABS is unique to an automobile model. Johnson Controls is a more complex example. The company designs and manufactures interiors for Toyota, Chrysler and other automobile original equipment manufacturers (OEMs). Each Toyota model has a unique interior comprised of unique parts. These parts cannot be used on a Chrysler interior. The significance of the integration dimension for the organization is the coordination required. The organization reflects the solution. The more interdependent the components are, the more interdependent are the organizational units responsible for those components and the larger the challenge is to rapidly mobilize them.

The combination of scale and scope with integration determines the coordination requirements and the organizational features to provide the necessary coordination. Figure 2.2 shows this combination and some different solutions strategies that have been discussed.

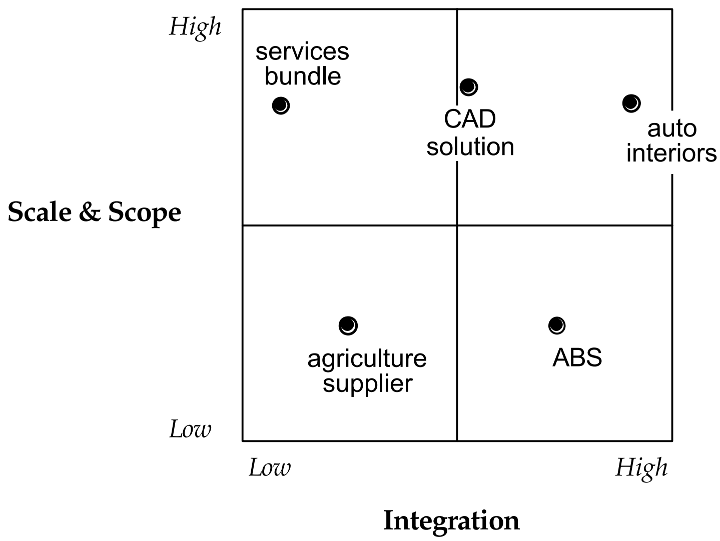

Figure 2.2—Coordination requirements of different solutions strategies

Figure 2.2 shows that scale and scope and integration increase as the solutions move from the lower-left to the upper-right corner. The consequence is that the coordination requirements increase in the same manner. We will focus first on the low levels, then examining the medium and then the more complex solutions and customer-centric organizations.

Types of Solutions

There are two main types of solutions, horizontal and vertical. Horizontal solutions are generic and apply across customer categories. For example, Sun Microsystems creates and delivers a human resources portal solution. This portal can be used for the human resources function across all industries. IBM, however, also delivers industry-specific solutions. For example, e-Agency is a solution to put the agency network of an insurance company on the Internet. These industry-specific solutions are referred to as vertical solutions. Clearly, the vertical solutions require a more customer-centric organizational unit than do the horizontal solutions.

Revenues

The last strategic dimension is the percentage of total revenues that comes from solutions. If, like Motorola, solutions contribute 10% or less, the firm can simply add a solutions unit whose task is to integrate the firm's products into solutions. When the percentage gets higher, like at IBM, the company has sufficient volume to specialize the solutions units that serve different customer segments. Instead of one solutions unit, IBM has about twelve, each specializing in a customer segment as several in Global Services for the generic horizontal solutions.

The Provider Challenges

In summary, a solutions provider desiring to respond quickly to customer opportunities faces greater challenges as its strategy increases in:

1) the scale and scope of the solution provided, and
2) the degree of integration of the components comprising the solution.

Scale and scope increase the number of organizational units that must be integrated quickly. Integration relates to the coordination effort needed to accomplish the requisite integration. In combination these two factors determine the amount of customer centricity that is needed and the strength of customer-facing organizational units.

THE STRATEGY LOCATOR

Now that customer relationship strategies have been defined and detailed, it is time to determine your specific company's requirements in these areas.

Of utmost importance to your company is the level of customer-centricity that should be implemented. Too little or too much could prove significantly counterproductive, so ascertaining the proper level is key.

The following lists have been compiled to help you determine the level—low, medium, or high—that will give your corporation or division optimal performance. Locate your company on each of the lists for scale and scope and for integration. Pick the location on the list that best describes the offerings of your company or division.

Scale and Scope list:

- My company has two to five similar products or services to sell to the same customer
- We offer five to ten mostly products and services
- We have ten to fifteen products or services of different types to sell to the same customer
- We have fifteen to twenty variegated products or services to sell to the same customer
- We have more than twenty products or services of various different types to sell to the same customer

Integration list:

- My company provides stand along products to the same customer with common invoice and billing ("one-stop shopping")
- My company has a set of minimally connected stand-alone products (like a common brand, common experience, combined shipment)
- My company has minimally packaged (themed) components that need to work together for customer segments
- We have modular components of products and services that need to work tightly together as a system

➢ We have very tightly integrated packages/bundles/full solutions of products and services to offer the customer

If your total from both lists is **one to three**, then you will benefit most from the information for the **light-level** implementation of the customer-centric application.

Locations on the two lists totaling **four to seven** would require the **mid-level** implementation of the application.

A total of **eight to ten** means that your corporation will gain the most benefit from the full, **strong-level** implementation of customer-centricity.

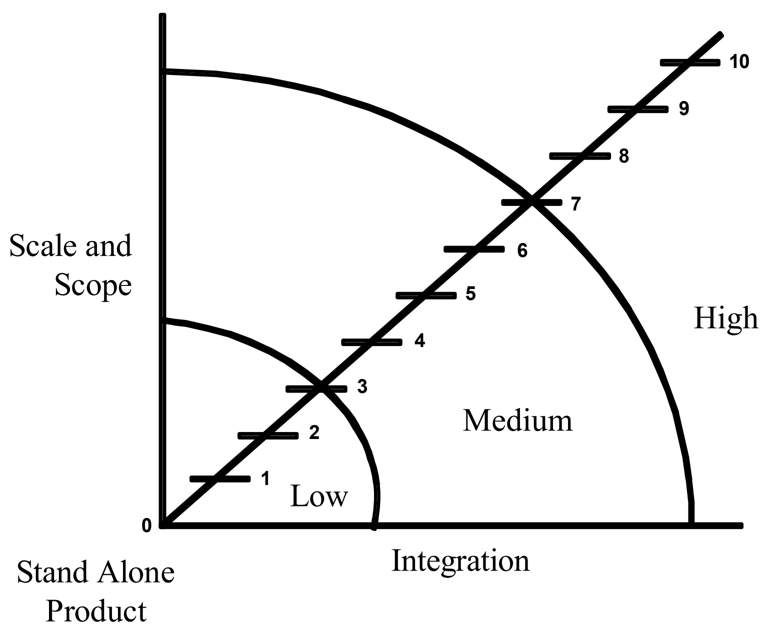

Figure 2.3—Customer-centric strategy locator

Chapter three will begin the process of actual implementation, for the company falling into the light-level category. This information will be supplemented in chapter four with the additional information necessary for the mid-level application. If yours is a complete-level company, you will require the full cumulative information of chapters three through eight.

CREATING A LATERAL NETWORKING CAPABILITY

In order to implement a responsive customer-centric capability, companies also need a lateral networking capability. Because they have been organized by business units, countries, and functions, organizing around the customer requires that they create networks across these dimensions.

To create multi-product solutions for global customers, a company must work through lateral networks. A simple company with a few local customers selling a single product can work through a functional hierarchy. But a company with multiple product lines in multiple countries using multiple functions must work less through hierarchy and more through networks. Indeed, a company needs a network for each strategically important dimension. Some companies like Philips have organized around global product lines called business units. They have created country and functional networks to coordinate across product lines. Other companies like Nestlé have organized around country and regional profit centers. They have created product (called strategic business units) and functional networks to coordinate across their geographical structure.

There are different kinds of networks, and the organizational design challenge is to match the right kind of network with the strategic importance of the customer dimension. Some networks are informal, while others are formal with varying degrees of strength. These formal networks vary in power and in the cost to coordinate across the other dimensions. A list of these networks is shown in Figure 2.4. This is an ordered list, with the simplest, cheapest, and easiest to use listed first. The further up the list, the more powerful the networks—and the more costly and difficult to employ them. The designer should start at the bottom of the list and proceed up until a network is found that matches the coordination requirements of the customer dimension for their business. This list corresponds to the score on the strategy locator. The bottom of the lateral forms is for stand-alone products and the top for highly complex solutions. The low and medium levels of complexity require increasingly more powerful forms of lateral returnables.

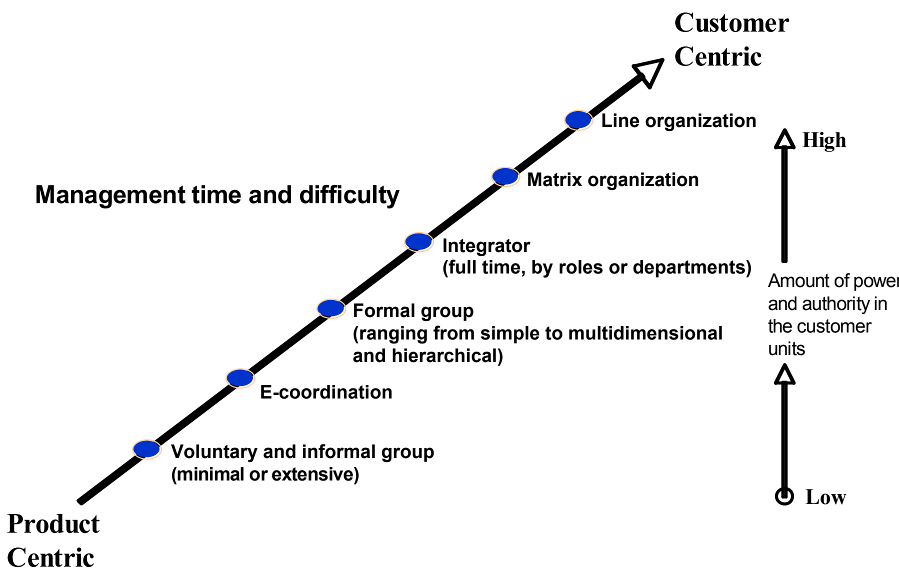

Figure 2.4—Types of networks for customer-facing units

Informal Networks and E-Coordination

Informal or voluntary networks form naturally in all organizations. Management, however, can initiate them and then let them proceed under their own energy. Nestlé is an example of this, with informal networks that have formed around global customers. Though Nestlé—unlike a corporation such as P&G—has not strategically focused on cross-border customers like Carrefour or Wal-Mart, the Nestlé country managers and country account managers for Wal-Mart routinely exchange information and ideas about the global retailers on an informal basis.

This informal exchange was judged to be sufficient until the Internet allowed more formal communication (while still maintaining informal coordination). Now the country manager in the headquarters country of the global customer maintains a database about that customer, and issues e-mails and updates about the customer. Anyone dealing with the customer can add information and ideas. But, as mentioned, this is still an informal network: each country treats the information as an input and then acts in the best interest of its product lines and country P&L. This form is called e-coordination in Figure 2.4.

More intensive and more formal versions of e-coordination can be used. (A version will be illustrated by an investment bank in chapter four.) The formal communication among all people interacting with customers is the approach taken by companies, such as the investment bank, wanting to show one face to the customer. Each contact is recorded and entered into a database. Others can see this running record when they deal with the customer. Each person then deals with the customer according to their function but records all information, to be used across functions. This electronic coordination is a slight increase in the cost and effort to coordinate across units for the customer.

Formal Teams

Formal teams are the next level of strength that can be applied to a customer network, usually implemented when a customer desires more than informal coordination. Citibank started with teams for a few accounts, and expanded them to over 450 within a few years to accommodate all customers that wanted a coordinated, cross-border service. An example of this level is the formation of global or key account teams, which are created by appointing all of a customer's sales and account representatives to an account team for that customer. These representatives—from all product lines and all countries—exchange information, like the Nestlé informal networks, but also meet regularly, prepare an account plan, and agree upon customer-specific goals. The account manager in the customer's home country usually leads the team, which consists of a few core members and a larger extended team to encompass the sales people from every customer location.

The customer teams can be strengthened and assume more activities when customers want partnerships along the supply chain. Wal-Mart and P&G provide an example. P&G initially formed a team of its sales people that represented all products that P&G provided to Wal-Mart. The team was expanded to include manufacturing, distribution, marketing, information technology, and finance. This team of about 80 people—representing various functions from all product lines—worked to synchronize the product and order-flow from P&G factories to Wal-Mart warehouses, to minimize inventories and cut cycle times. Today, as Wal-Mart expands globally, this team consists of 250 people from different functions, product lines, and countries.

Degussa Automotive Catalysts takes the team one step further, including R&D participation. The Degussa sales people serve Daimler-Chrysler by coordinating across borders (like the lower-complexity Citibank application), and also partner along the supply chain to synchronize their production with the Daimler-Chrysler assembly lines (as P&G does with Wal-Mart). In addition, Degussa engineers also determine Daimler-Chrysler's new product needs and coordinate with them on creating new catalysts for new engines on Daimler's automotive platforms. Degussa creates customer-specific, engine-specific and platform-specific catalysts for exhaust emissions. Their formal team structure will be described and analyzed in the next chapter, as an example of the low level of customer-centricity and solutions complexity.

Formal customer networks, therefore, can vary from a few key account teams for sales people; to supply-chain-partnership teams of sales, logistics, and other functional people; to new-product-development teams that represent all functions, including the various engineering functions.

For companies like Degussa, this customer team organization is sufficient to meet the needs of its most important customer. Other companies, like Citibank, choose to take the further step of creating a full-time coordinator to manage all of the customer team activities.

Integrator

The next step to escalate the customer dimension to a more powerful position is creating a coordinator for key accounts. When a company creates 50 or more teams and the customer wants still more coordination, the Key Account or Global Account Coordinator role is a useful addition to the informal networks and formal customer teams. The coordinator provides two new factors.

First, the coordinator becomes a voice for the customer on the management team, which usually consists of managers of product lines, geographies, and functions. The coordinator gets the leadership thinking in terms of a portfolio of customers, customer priorities, and customer-centricity. Customer teams can also appeal to the coordinator in resolving conflicts. The teams can solicit a high level voice to defend them in conflicts with other more product-centric parts of the company.

The second task of the coordinator is building and managing the infrastructure that supports customer teams. The coordinator assumes the role of managing customer information systems and communications across customer teams. The coordinator usually creates training programs for managers and team members regarding the role and operation of key accounts. Many coordinators create a common planning system for customer plans: 50 customer teams are likely to create 50 planning formats, and the coordinator agrees on a single, common one.

Another key addition to the infrastructure is a customer accounting system, which leads to customer P&Ls—customer profitability is a key measure in setting customer priorities. Asymmetries in costs and revenues always occur across geographies: The customer account manager and team in the customer's home country put in extra efforts to make a sale to their customer. Often the initiative is successful but the customer's first purchases are for its subsidiaries in other countries. Thus the costs are incurred in the home country, but revenues are booked in other countries. A global accounting system for customers can identify these asymmetries, and management can correct for them. When companies like Citibank expand to over 450 teams, the network coordinator is often expanded into a network coordination department. At Citi, the 450 customers were organized into industry-specific units, and a network coordinator was appointed for each industry group.

All of these infrastructure additions can be combined in the planning process. The countries and product lines can set customer-specific goals for key accounts, and then customer teams, countries, and product lines will pursue an aligned set of goals.

When a higher level of organization is required to coordinate the countries and product lines, a further step up the lateral organization ladder may be chosen.

Matrix Organization

The next step to enhance the power base of the customer dimension is the formation of units within countries and product lines that are dedicated to customers, customer-segments, or industries, and which report to the network coordinator for the customer unit. In countries where the company may not control 100% of the equity, joint ventures that serve multinational clients are often created between the parent company and the local subsidiary.

The assumption here is that the customer dimension has attained a strategic importance equal to the countries and/or business units. This importance is expressed by making the customer organization an equal partner in the decision-making process.

When the customer needs still more prominence in the organizational structure, there is one more complexity that may be added.

Separate Customer Line Organization

A final step is to create a separate customer-facing structure by gathering all dedicated customer-specific resources from the product lines, countries, and functions. Companies serving the automotive customer like Johnson Controls have formed Customer Business Units. Companies like IBM form customer segment profit centers by gathering all relationship managers into industry groups. These industry groups call on product profit centers for additional staffing as the opportunities require. They are usually profit centers themselves, and measured on customer profitability. These separate customer-facing units are the most powerful—and most customer-centric—form of organizing around the customer.

Matching Organizational Units and Solutions Strategy

The important point of this chapter is that the level of power and authority vested in the customer-centric organizational units should match the level of solutions strategy. As a company introduces a low solutions strategy, it should use a level of lateral forms such as formal teams (as will be demonstrated in chapter three, with the example of Degussa). When it chooses a medium level of solutions strategy, it should include a higher level of coordination—such as a network coordinator—in addition to the informal lateral forms (as will be illustrated by the investment bank example in chapter four). Finally, the high level of solutions strategy requires a separate customer unit to achieve the necessary level of customer-centricity. Chapter five will illustrate IBM's organization to implement their high-complexity solutions strategy. Thus, the choice of type of strategy shown in Figure 2.3 should be matched by the strength of the customer organizational form shown in Figure 2.4.

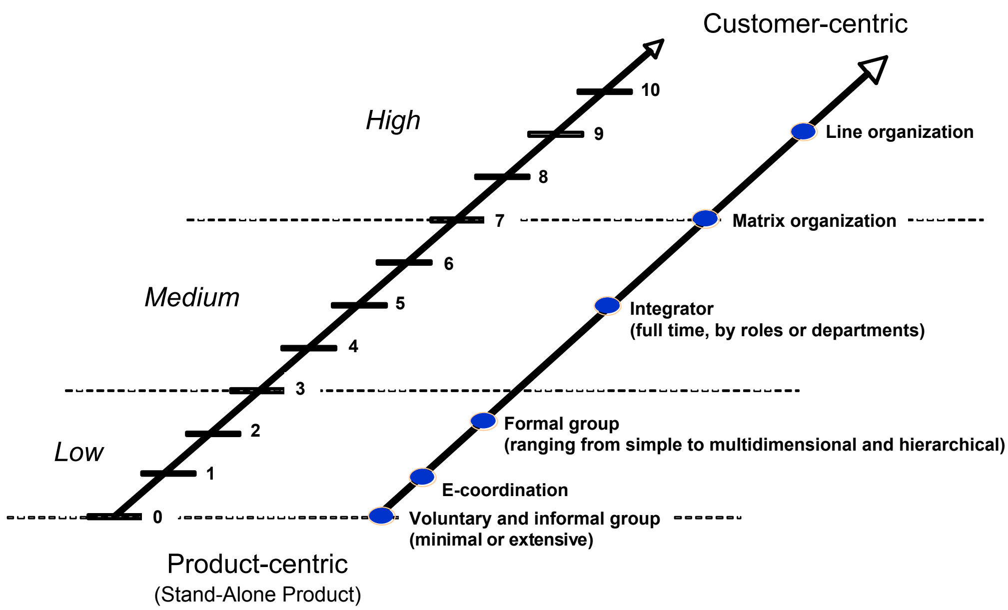

Figure 2.5—Matching strategy location to lateral coordination requirements

CONCLUSION

An essential tool for the implementation of the application is the lateral networking capability, which can be delineated in five cumulative levels of complexity.

The art of the implementation process comes from discerning the appropriate amount of the customer-centric application, and choosing the requisite solutions and a corresponding level of lateral network complexity.

The next chapter begins this process with the first steps, referred to as light-level application.

In this chapter the different solutions strategies were described and placed on a strategy locator. You can locate your strategy using the strategy locator and then determine how much power and authority you need to allocate to the customer dimensions of your organization. Lateral forms were described as the means by which power and authority can be aligned with the strategy locator. In the next chapters examples are given for light- to complete-level strategies and how the companies aligned their organizations with their strategies.