INSIGHTS: The Changing Nature Of The Customer Relationship (And How To Respond Effectively)

Perspective

SOLUTION SOURCING: COST SAVINGS VS CLIENT RESPONSIBILITY

Things have changed with the way the customer experience is enacted. It seems as if the rules of customer engagement have been rewritten. Success has less to do with big strategic decisions and more to do with practical, every-day operational decisions – and then getting them implemented.

Customers have more control – much more. Product information, peer reviews and ratings, even competitors are all just a click away. This increased transparency puts brand promises to the test. And, whether you are B2C or B2B, your customers have become accustomed to personalized services, relevant, personalized offers and customizable capabilities. All on demand. How do you meet these demands – let alone exceed them? How do you make the shift to a completely customer-centric organization? You and your company will need to align your operational goals with your customer experience goals – and you will need to look across your entire enterprise: Finance, Marketing, HR, IT, Business Intelligence, Sales and Support, and beyond – everything from how budgets are prioritized and allocated to how compensation targets are defined.

The alternative, however, is to delay and wind up eating your competitors’ dust. If you think you are ready to shift to a customer-centric approach, read on. We have thought about this – a lot – and we have some ideas that can help you meet this challenge.
THE MORE THINGS CHANGE...

If you were to believe the hype, the old customer relationship playbook is now out the window.

It is undeniable that digital communications have created amazing opportunities for connecting with customers and forging stronger customer relationships. Social media and mobile continue to create new customer touch-points and alter the relationships among individuals and between individuals and organizations.

As with every disruption, there’s no shortage of “gurus” saying that the rules have changed and that they have divined the new, right path to success. And while it’s true that any disruption requires adaptations with new technologies and new skills – and may even open the door to entirely new business models – at North Highland, we believe that when it comes to customer relationships, business fundamentals still hold true. Just as the popping of the Internet bubble clearly demonstrated that cash flow, liquidity, and profits still matter, the tried-and-true fundamentals of customer relationship-building must guide decision making in the face of all these changes.

We believe that addressing the changing nature of customer relationships has less to do with big strategic decisions – most core strategies are still applicable – and more to do with practical, every-day tactical decisions and implementations. The current disruption to customer relationships does not redefine basic customer needs; it simply allows us to see them more clearly. Technology is providing speed, volume and amplification to the thoughts, opinions, behaviors and desires that have always existed. We are now just more aware of those messages and, frequently, more directly connected to the sender.

This does not mean, however, that it’s business-as-usual when it comes to managing the customer relationship. As the number of mediums, mechanisms, and channels through which organizations and customers interact has exploded, managing the customer relationship has become increasingly complex. Most large companies lack the focus to accomplish what really needs to be done to retool relationship management. Driven by cost pressures, they may apply near-term “band aid” solutions which cannot stand up to long-term demands. Without the appropriate open and flexible architectures, methodologies, and communication strategies, organizations can lose customers because their relationship needs are not being met, even if the company is delivering a superior product or service.
Many make the mistake of focusing on the evolving technologies alone. Those that do find themselves constantly chasing the next new thing – and end up always being one step behind. The key to success is to separate fundamental customer needs from the enabling technologies. This allows companies to draw a straight line from how customer relationships are evolving to specific operational changes that companies must make to stay ahead – and profitable – in this rapidly changing environment.

As with so many things, the real challenge lies with execution. Too often, organizations pay lip service to the importance of customer service, but fail to appreciate the implications or carry through with concrete actions. Simply put, to succeed, organizations must improve the way they translate their brand into operational behaviors that deliver on the brand promise.

THROUGH THE LOOKING GLASS

While the effects of the digital revolution on the relationship between a business and its customers are certainly broad and wide reaching, we believe they can be summed up in just a single word: transparency. Specifically, there’s far greater transparency today requiring organizations to respond with operational changes in four key areas:

- Product information
- Brand control
- Brand promise
- Competitive landscape

Product Information

Perhaps the greatest impact of the increase in transparency has been to shift the balance of power in the business-customer relationship to the customer side of the equation. With a few quick clicks, customers can research products or services in detail, compare offerings, read reviews from their peers, complete a purchase, and then, in turn, spread the word about their experience.

For many industries and products, pricing, in particular, has become completely transparent. Customers now have detailed information on competitor pricing at their fingertips and can easily source the same product from different providers. Companies can no longer exploit gaps in information that had allowed them to maintain different pricing for different channels, which means margin pressures have increased.
Of course, information availability for customers has an upside for the business as well, and leading organizations have turned this transparency into competitive advantage. Some retailers use the web to steer customers to locations with available inventory, for example, and self-service capabilities such as online package tracking, increase customer satisfaction while reducing support costs.

**Brand Promise**

Greater transparency extends to the brand as a whole. In the past, it was possible for marketing communications to project an image of a brand that outstripped what a company could actually deliver. But no more. With ratings and review sites, blogs, social media, powerful search engines, and more, customers now have complete visibility into any gap that may exist between the brand promise and the actual customer experience, which can negate the effect of even the largest advertising budgets.

The good news is that customers don’t expect “perfect”; they expect “authentic.” Products or services must consistently meet the brand promise. They must do what they say they will do. Shortcomings or failures should be acknowledged and addressed. Every inconsistency between the brand promise and the actual experience chips away at brand credibility, eroding the trust that’s at the core of any relationship with a brand.

**Brand Control**

The shift in power to the customer also means that organizations no longer have nearly complete control over the process of forging brand perception in the minds of their customers. In the past, advertising, promotion, packaging and point of sale were essentially the only means – and they were all under the control of the company.

Of course, traditional word of mouth has always had an impact on brand perception. Long before the digital revolution, customers were exchanging information about their brand experiences – on the phone, across fences, and at family or social functions. The Internet and social media have simply amplified this behavior and increased its speed and scale. These other voices, including ratings sites, online forums, Facebook “likes” and Twitter “tweets”, can reinforce, negate, or alter customers’ ultimate perception of the brand.

Now, through social media monitoring, companies have unprecedented visibility into what’s being said about their brand in near real time, at a cost and scale not previously feasible. The focus group has gone virtual and...
become infinitely scalable. Arguably, this may actually give you more control of the brand perception than before – provided you’re both listening and equipped to respond. If customers feel they’ve shared in shaping the brand, for example, they’re more likely to have a greater emotional connection to that brand.

**Competitive Landscape**

Transparency is the ultimate leveler of the playing field. Unbounded information has expanded the competitive landscape. Technologies such as cloud computing, which give any company instant access to advanced capabilities and economies of scale, have destroyed barriers to entry. Smaller, more nimble companies can now compete on an even footing with larger companies. Product features and functions are easier to replicate. Geographic boundaries have melted away.

The shift in power As a result, competitive pressures have increased dramatically. Every company is now compared to a broader set of competitors. The flip side, however, means that there are many more opportunities for companies who can execute well to enter new markets and increase sales.

**GREAT EXPECTATIONS**

If the effect of the digital age on business has been to increase transparency, then the effect on the customer has been to dramatically increase their expectations.

Today, customers have higher expectations about access to brands and control of the brand experience. They have become accustomed to services such as online banking or e-commerce where they have 24x7 on-demand entree to robust capabilities and personalized, highly relevant information updated in real time, all under their complete control.

As a result, we now see that customers have come to expect the same level of service from everyone – no matter who you serve (B2C or B2B) or what industry you’re in, from healthcare to government. In many cases, customers have even come to expect control over defining and designing their brand experience – the ability to customize features, for example.

Customers also expect that you will apply what you know about them to make their brand experience better. Because they leave vast trails of their digital information behind, there is an increasing expectation of receiving
real value in return for allowing you to use it. The key phrase is “know me” – customers have come to expect a personalized experience based on the information an organization has collected about them. Whether it is personalized recommendations, relevant offers (based on timing, need or location), pre-populated data fields or consistency across channels, customers want added value from the information they know you have about them.

There’s an entire “market generation” that now expects an Amazon-like experience. For some companies – especially those that already have a significant online presence – making such a transition will be easy; for others, this will require a wholesale change in the way they do business. But a failure to evolve will – as it always does – lead to extinction.

While these lessons may seem more applicable to B2C than B2B, we believe the reality may be just the opposite. Since the definition of “customer” for most B2B companies can have far more dimensions than for B2C companies – purchase decisions are often shared among many different roles within an organization – the job of understanding and meeting the expectations of so many stakeholders may be more challenging than for B2C companies, but it’s no less important.

B2B companies can learn much from the success of B2C companies like Amazon. One of the world’s leading manufacturers of pulp and paper products, for example, implemented organizational and technological changes to extract more information from its Customer Resource Management system. As it result, it discovered many customer needs were being unmet by its channel partners, and took steps to remedy the situation.

OPERATIONAL CHALLENGES AND OPPORTUNITIES

Successful companies have recognized the rise in customer expectations and understand that they must continuously meet or exceed them. This requires an understanding of how to improve the way they translate their brand into specific operational behaviors.

Broadening The Vision

This starts with the realization that the customer’s purchase equation goes beyond the utility value of the products or services they buy; the total experience carries weight in that equation. Certainly, the product or service is at the center of this experience, but it’s only a part. The broader
experience encompasses everything from the customer’s direct experience with the product itself – what it feels like in their hands, for example, or how easy it is to use, or how they were greeted by a service employee – to how easy it is to learn about the product, what the purchase process is like, how long they have to wait for it to be delivered, and the ease of service and support should something go wrong.

Less the result of some radical change in customer expectations, this shift to the total brand experience is the outgrowth of issues noted previously: greater awareness of not meeting expectations, minimizing the gap between brand promise and actual experience, information symmetry, and the growth of competitive options.

In addressing that total brand experience, we believe it is critical for organizations to understand every aspect of a customer’s experience with its products and services at every touch-point at every stage in the customer lifecycle, from awareness and research, to shopping and delivery, to service and support, and to the evaluation phase with the goal of increased loyalty and retention. Starting with the customer’s perspective rather than an internal or product-specific one can often make it easier to see what operational changes are required.

In short, it’s a transition from a product-centric approach to a customer-centric one. This change is not without ripple effects to other parts of an organization. For example, a customer experience perspective may impact the financial side of the business by requiring changes to or additional views of customer and product profitability, how budgets are prioritized and allocated, and the definition or components of an ROI model. Typically, it also impacts human resources in areas such as how compensation targets are defined (e.g., who’s accountable for what type of performance), the types of skills and roles needed and changes to the organizational structure.

The customer experience has significant value apart from the value of the product or service itself. By enhancing the customer experience – by increasing its value – it’s possible to compete on terms other than price or features. Successful companies focus on tailoring their operations to improve that total brand experience, which provides more opportunities for differentiation and competitive advantage.
Closing The Information Gaps

As customers demand more access to more information, it’s incumbent upon the company to ensure that this information is not only available, but that it’s also accurate (e.g. inventory availability, consistency across channels) and competitive (e.g. pricing).

This means providing customers with a wide-range of company information – inventory, shipping status, price changes, customer reviews – to secure a competitive advantage. It also means providing customers access to their own personal information. However, making all information accessible is neither wise nor cost-effective; the trick is to know what information is most valuable to customers. All of these requirements obviously trigger impacts to the entire circulatory system of data that flows around an organization – and now necessitates a much higher degree of integration of internal data (e.g., customer records, transactions) with external data (e.g., partner activity, social media).

As you broaden the vision of what defines the customer experience, you must also broaden the way you select, control, manage and analyze information – not just within the organization but outside, too. The right balance must be struck between providing the desired access and transparency with protecting intellectual property and competitive advantage. Often, improving the way information is provided to customers goes hand-in-hand with improvements to your own information management, business intelligence and data analytics capabilities. In turn, these insights can be leveraged yet again for improving or differentiating the customer experience – not only through a better understanding of the customer, but through strategic and operational changes such as dynamic pricing models based on demographics or context. And by sharing the same information across the supply chain, it can become more efficient and responsive to customer needs as well.

Differentiating The Customer Experience

Of course, information flows in two directions: what you provide to customers and what they give you back. Customers today expect that organizations will learn about them as they engage and interact. In return, they expect that the customer experience will be enhanced as a result.

New tools and methodologies make it possible to capture customer data that’s both quantitative (e.g., their demographics or answers to questions) and qualitative (e.g., their behaviors and beliefs), from sources both inside.
and outside the organization. Armed with that information, these tools can then segment customers in new and different ways, often in real time. They offer companies remarkable insights into which groups of customers have the highest value or the most untapped potential.

Organizations that have the capability to capture and analyze customer data in this way and then to make that data actionable – to customize the experience for different segments based on those insights – will enjoy a competitive advantage. These new data demands frequently strain the relationship between marketing and technology functions because of two main factors: speed and flexibility; speed to be able to address fleeting and fickle market demand and the flexibility to use new technologies.

All too often, however, companies fail to turn that insight into action – to provide a customer experience that is different for each segment in a way that’s meaningful for them and profitable for the business. The marketing department may use such segments for advertising and promotion. But for many businesses, the use of segmentation stops there. There’s a failure to operationalize the segments – that is, to treat different people differently throughout the rest of their operations and across the entire customer experience.

RESPONDING TO THE CHANGING NATURE OF CUSTOMER RELATIONSHIPS

With dramatic changes happening all around them – new technologies, greater transparency, increased customer expectations – organizations have no shortage of challenges when it comes to forging stronger customer relationships. But often, we see the biggest challenges to enhancing customer relationships are not external; they lie squarely within the four walls of the business.

Many organizations have created ad hoc teams or even whole new departments with some type of “customer experience” goal. After a lot of great research, strategy development and design, these efforts frequently stall. Sometimes it’s because these programs are designed as massive efforts that are crushed by their own weight. But more often than not, the failure comes down to implementation – there’s a gap between knowing and doing.
To bridge this gap, we believe three basic steps are essential:

1. **Translate high-level customer experience design concepts into specific, tangible operational behaviors that are aligned across channels.**

   Too often, high-level designs are parsed out by channel, based on the way operations are divided, then thrown over the fence, leaving the channels to interpret the operational impact – and prioritize the implementation sequence. Many of these efforts have no quarterbacking function or clear-cut communication strategies or vehicles to ensure cross-channel alignment. Without these, it’s difficult to create a seamless, multi-channel experience.

   Frequently, most of the focus and specificity is directed toward the digital side of the business. Sales, call centers and retail/front-line are not given clear guidance on what they should do differently, which means they are left to their own interpretations and prioritization.

2. **Align operational goals and customer experience goals.**

   Because the customer experience spans so many parts of the business, the ownership of the end-to-end customer experience is typically fragmented. Often, the corporate structure contains functional silos with goals and incentives that are not aligned with the broader view of a holistic customer experience.

   By eliminating competing incentives, with everyone aligned to a common set of goals, and with clear ownership and accountability, you can encourage far greater cooperation and integration across an organization’s internal structure, which leads to improvements to the customer experience as a whole.

   However, these types of changes should not be made without analyzing the impacts to financial reporting and P&L accountability.

3. **Design organizations around the customer experience and continuously communicate goals to the organization.**

   Underpinning any successful improvement in customer experience is a solid organizational change and consistent communications program. Far from a “one and done” situation, effective customer experience management requires ongoing communications, evangelism of relationship management values, and corresponding training. People are one of the most important elements in making customer relationship changes happen and in sustaining
the change into the future. Communications and ongoing training are not only the starting point to ensure that both employees and customers understand what the change is, but are also a critical component of enduring success.

This also requires an assessment of the current work force – not just the organizational structure but the current job positions and associated skills. It may require new training programs, career planning options, and even new ways of handling performance reviews.

The benefits of an effective change management program include: a shared vision regarding the need for change among executives, staff and customers; increased adoption rates among those who must change; faster achievement of performance results; and reduction in unanticipated costs.

Responding to the changing nature of customer relationships requires specific operational changes across an entire organization, incorporating shifts in Finance, Marketing, IT, Business Intelligence and Information Management, Sales and Support, and beyond. While there’s no one right answer to organizational design, the holistic customer experience must be a key consideration in how to shape operational structure. There must be customer-centricity in its design. And while this is always easier said than done, the organizations that can make the necessary changes will reap the rewards.
ABOUT NORTH HIGHLAND

North Highland is a global management consulting firm that delivers unique value, relevant big ideas and strategic business capabilities to clients around the world. The firm solves complex business problems for clients in multiple industries through an integrated approach and offers specialty services via its Data and Analytics, Managed Services, and Sparks Grove divisions. North Highland is an employee-owned firm that has been named as a “Best Firm to Work For” every year since 2007 by Consulting Magazine. The firm is a member of Cordence Worldwide (www.cordenceworldwide.com), a global management consulting alliance. For more information, visit northhighland.com and connect with us on LinkedIn, Twitter and Facebook.

For more information, please contact:

Steve Carter
+86 21-5835-3999
Steve.Carter@northhighland.com

Gerald Dunn
+44 207-812-6460
Gerald.Dunn@quedis.com

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