White Paper

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Linking 'Customer Focus' with 'Business Performance'

Abstract

The concept of the 'customer-centric business' is pervasive, with companies small and large, across every industry, making efforts to improve customer focus. This is no doubt good as businesses would not exist without customers. However companies run the risk that efforts to increase customer focus become disconnected from business performance. If they do not deliver business value, customer-centric initiatives are not likely to stick.

In this paper, we discuss the need for a direct connection between efforts to increase customer focus and performance of the business. We introduce a framework to define how customer-centric initiatives drive value, and then isolate metrics to measure and manage. Our framework is built on the premise that 'value to the business' is the ultimate objective of customer-centric initiatives. We differentiate between two paths to value, 'improving effectiveness' and 'generating shared value'. By clearly defining the value 'outcomes', we create the basis for identifying 'drivers' of value, using customer data. These drivers of value are the basis for selecting a focused set of metrics to measure and manage customer-centric initiatives. We show how advanced analytics are critical for leveraging available customer data to establish relationships and quantify value to the business. Having identified and quantified 'drivers' of value and the desired 'outcomes', we are then able to design customer-focused initiatives that influence these drivers.

Managers should insist that customer-centric initiatives link to specific business objectives and use an analytics-driven approach to define the metrics that matter. 'Customer focus' can then become more than a good intention: it can be a powerful tool that delivers true business value.

The customer-centric business

The tenets of customer-centric business are well known, typically addressing some version of the following:

- **Understand your customer.** Segmenting and profiling are common. Customers are divided into distinct segments which are profiled on behavior, attitudes, and needs to develop a nuanced picture
- **Differentiate treatment.** Segments are valued and choices made on which to target and not target. Product features, customer service, marketing initiatives are tailored to the needs of specific target segments
- **Create the experience.** Capabilities are developed to achieve differentiated treatment by segment, ensuring each customer receives the desired experience consistently across touchpoints
- **Deliver value.** Customer-focused products and services, tailored to each customer's needs, create a favorable brand image, increase loyalty, and earn you the right to broaden your relationship with the customer.

The customer-centric approach holds the promise of substantial rewards for your business: targeting allows you to go after only the most profitable customers; tailored products with highly desired features lead these profitable customers to choose you over competitors; an ongoing customer-focused experience enables you to retain (and upsell) these profitable customers. And all at lower cost given the ability to focus marketing efforts.

Conventional wisdom

Discussion of the customer-centric business is pervasive, and it seems all but mandatory that companies undertake efforts to gain a '360 view of the customer', listen to the 'voice of the customer' and so on to become more 'customer focused'. Marketing driven industries such as consumer products and financial services have a long history of focus on the customer; this mantra has been extended to all companies from packaging manufacturers to your local electric utility. It is rare to read an annual report or view an investor presentation without coming across a statement of 'customer focus' as a guiding principle along with a list of initiatives for improvement.

Customer Focused
From plastics to electrical power

"Alcan Packaging creates new customer-focused group dedicated to growth, innovation, sustainability and increased brand value"
– alcanpackaging.com

"Smart utility companies can get ahead of the customer experience curve, drive more value to the bottom line and ultimately become truly customer focused."

– mThink.com (IBM)

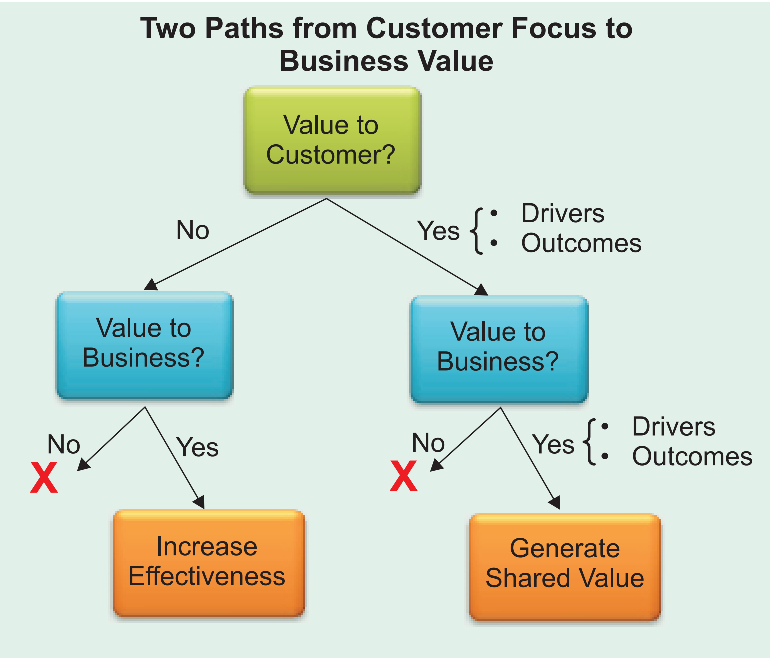
An entire ecosystem of suppliers and capabilities exists to support the customer-centric business: technology providers offer enterprise systems to capture customer data; software vendors deploy CRM solutions that promise new customer insights; consultants offer their expertise in identifying valuable customer segments; market researchers boast methods such as ethnographic studies to get ever closer to the customer.

How much business value is created from these efforts to increase customer focus? We assume a higher level of customer focus is always better. However, development and implementation of customer-centric initiatives consume scarce resources: time and cost of segmentation studies; effort to develop segment specific marketing programs and materials; sales rep training to target selling by segment; maintaining a broader set of product configurations and a variety of price points; CRM platforms to gather customer data; expense of systems integration to share customer data across channels. Is it possible that some efforts to tailor the customer experience provide value to the customer but little value to your business? Might some efforts produce little value to you or the customer?

A basic tension exists between value to the customer and value to the business: while the customer is interested in receiving the highest value possible from your products and services, he also wants to receive these at the lowest cost in terms of price, commitment, etc. Unless we know how customer-centric efforts deliver value, to the customer and the business, and have established the right metrics to monitor and measure, there is potential for disconnect between achieving customer focus and driving business performance. What should be a win-win can become a downward spiral: initiatives to increase customer focus are judged low value; efforts are abandoned and customer experience deteriorates; business performance suffers.

Effectiveness and shared value

To link customer-centric efforts with business performance, we must be explicit about the objectives. An increased 'customer focus' is a means to an end – increased value for your business. Customer-centric initiatives can deliver value to your business either through increasing your effectiveness or generating shared value for you and your customer.



Efforts that increase effectiveness provide value to the business but minimal value to the customer: they might lower cost by reducing scope of marketing initiatives to a targeted set of prospects; they may drive revenue through focus on higher value customers; they might increase profitability with better alignment of price and value to capture consumer surplus. Efforts that generate shared value provide value to both the customer and the business: they increase value to the customer by providing a product and service better tailored to the customer's need; they provide value to the business through the ability to charge higher prices, capture competitor share, and improve customer retention.

Having determined the path to business value, we can then specify outcomes and isolate drivers. Outcomes are the specific measures of customer value and business value we intend to achieve. Drivers are the factors we influence to achieve outcomes. To be useful, our drivers must meet two criteria: 1) a causal relationship between driver and desired outcome; 2) we have the ability to impact the driver.

We have outlined a general framework that distinguishes between customer and business interests, and between drivers and outcomes. By establishing these linkages, we can identify the 'customer drivers' that achieve our desired 'business outcomes'. We can then focus our customer-centric initiatives on influencing these drivers.

Accountability through measurement

Stating desired outcomes defines how customer-centric efforts should deliver value. With outcomes clearly stated, choosing metrics to measure outcomes is straightforward. For example, assume a life insurance carrier has identified 'mass middle class families with children' as a customer segment with high potential for growth, given the segment size and extent of under-insurance. Growth might be measured in several ways: annualized premiums; in-force policies; growth in premiums; share of premiums. Specificity in the desired outcome is needed, e.g., achieving 8% share of annualized new premiums written while maintaining current product margins.

Given a clearly defined outcome, we can turn to identification of the relevant 'drivers'. Any number of factors might be important:

- Products. What products appeal to new prospective customers in this segment? Is simplicity and clarity most important, or is a more complex, tailored product needed to create differentiation?

- Price. Given competitor offerings in the product categories above, what pricing is needed to win business? How do we price to drive growth while maintaining margins?

- Brand. What brand attributes appeal to this segment? Which can differentiate from the relevant competitors?

- Channels. Which channels are effective for reaching this segment? Is the objectivity of an independent agent an advantage?

Aligning Customer And Business

	Customer Focus	Alignment with Business Performance
Understand the Customer	• What distinct customer segments exist? What are the behaviors, attitudes and needs?	• Which opportunities are attractive and what outcomes do I want to achieve?
Differentiate Treatment	• How do I tailor product features, marketing initiatives and customer service to each segment?	• What elements of the experience must I get right because they drive my desired outcome?
Create the Experience	• What capabilities do I need to deliver the desired experience, consistently, across touchpoints?	• Which capabilities are priorities given my objectives? What is the ROI?
Deliver Value	• What is the value to the customer?	• What is value to the business?

We need to find drivers with a causal relationship to the desired outcome. A broad net should be cast, encompassing customer metrics from many sources: metrics captured internally in BI systems, gathered externally from secondary sources, and commissioned in primary research. We need an in-depth understanding of the customer: who they are, actions they take, what motivates their actions.

Power of data and advanced analytics

> "Acquiring good data requires tenacity, creativity and persistence... but the effort returns dividends"

Analytics plays a key role in linking customer data to outcomes. CRM and other initiatives to organize customer data typically provide dashboards with a wealth of descriptive statistics. Too often, the application of this data to implement customer focused initiatives is driven by convenience and untested hypotheses. As a result, managers may be overwhelmed with data and at the same time lack the critical, actionable information they need.

The breadth of available customer data can present challenges. Various factors may be highly correlated with each other but loosely correlated with the desired business objective, giving the manager a false sense that all is going well. Different factors may give mixed signals, and without guidance on which signal matters the manager is free to create any story from the data that fits his needs. The factors may be well chosen but lacking in sensitivity, leaving the manager no better off than if he had no data. In each case, by the time it becomes clear efforts are not producing desired outcomes, a valuable opportunity to diagnose and course correct has been lost. Identifying the drivers of a desired outcome requires both good data and good analytics.

Getting to good data requires a simultaneous top-down and bottom-up approach. The top-down approach is hypotheses driven, using knowledge of the business to establish a list of factors that may matter, and then seeking out data to test these factors. The bottom-up approach is data driven, assembling all available customer data and then testing for drivers. The top-down approach forces you to look beyond the set of data that is readily available. The bottoms-up approach creates the possibility you will find unexpected relationships, which can lead to new insights about customers. Tenacity, creativity and persistence are important skills in the quest for good data. Good data is a key source of competitive advantage in customer-centric marketing – enabling more refined customer segments, deeper insights about those segments, and better alignment of marketing initiatives with segment needs.

Considerations In Identifying Causal Factors

Correlation between factors. Many data elements may measure the same thing and contain redundant information. Choose the best individual factor, use transformations to remove colinearity, or apply principal component analysis to define composite factors

Spurious relationships. Relationship exists but there is no causal link. Eliminate these factors.

Confounding factors. Simple crosstabs may miss relationships hidden due to interaction effects. Use multivariate approaches to account for these factors

No link to business objective. Logic suggests factor is important; but logic may be flawed or data quality may be poor. Insist that each factor have a significant, quantifiable link to business objective

Limited business value. Statistical significance may indicate link to objective, but magnitude of impact is small. Focus on factors that can drive meaningful bottom line business value

Customer Lifetime Value (CLV)

Metrics such as Customer Lifetime Value create a natural link between customer focus and business performance:

- CLV translates the customer relationship into a tangible dollar value
- Dollar value is calculated from the customer's perspective, given the mix of products and services aligned with customer needs
- The 'lifetime' view quantifies the benefit of customer loyalty – a key source of value from customer-centric initiatives

As an example, in retail banking, FICO® scores are often used to screen prospects, match them with appropriate offers and set pricing. Offers and pricing can be further tailored with the use of public records data including utility bills and traffic violations. This data can be complicated to obtain and manage. No national, standardized source is available, so data needs to be gathered by state, and each state captures slightly different information, each in a different format. The effort to acquire each source, understand differences and similarities, merge sources together, integrate with other customer data, and establish a process to maintain is not trivial. However, the ability to more accurately identify valuable prospects and deliver offers better suited to their needs can create a significant competitive advantage.

The ability to synthesize the breadth of available customer data to uncover factors linked to our business objective requires the power of advanced analytics. Advanced analytics can add value by:

- **Narrowing focus.** Often several data elements measure a similar concept. When different factors contain related information, monitoring all of these factors is redundant and can cause confusion. Choosing a single best factor or creating a composite factor is more effective
- **Uncovering relationships.** Many factors will appear relevant but when tested show no significant relationship to the stated business objective. Customers' perceptions are often at odds with reality – use analytics to verify that what customers say drives behavior matches observed behavior. Customers are complex, which demands accounting for a multitude of factors when testing drivers of behavior – simple crosstabs do not control for confounding factors and can mask important interactions. A range of statistical tools can be useful in clarifying and quantifying these relationships: from generalized linear models including multivariate logit and survival analysis, to decision tree techniques including CART and CHAID

- **Quantifying impact.** Identifying a significant relationship is important but not sufficient. A driver may be statistically significant but barely move the needle in business impact
- **Sequencing actions and forecasting performance.** Choices around marketing, product, price, channel, ongoing support and many more interact to drive results with any given customer. Analytics can help you solve for these simultaneously, so you pull the right levers in the right order to optimize results

Having a focused set of drivers with a demonstrated link to a desired outcome prepares managers to act quickly and with confidence, in a way that is aligned with customer needs.

Applications

No matter where companies are along the continuum of improving customer focus, they can take steps to better align with business objectives and realize maximum value. For companies early in the process, this alignment can help choose the highest gain investments. Companies later in the process can determine how best to leverage capabilities such as CRM systems and closed loop marketing platforms. Applications can include:

Marketing effectiveness diagnostic. Objective is to determine where opportunities exist to improve effectiveness or generate shared value from marketing efforts. First, business objectives are reviewed to ensure clarity and specificity. Marketing opportunities are then assessed, including segmentation of customers, segment targeting, and opportunities by segment. Where opportunities exist, we identify the types of data and analytics needed to develop initiatives that could help achieve business objectives.

Customer experience analysis. Objective is to determine the aspects of the customer experience that drive customer behavior, and identify opportunities to enhance the customer experience and realize business value. An audit of the customer experience is completed, from first contact through customer attrition, across channels. Data is gathered at points throughout the customer experience to determine the relationship between customer experience and business value. Key metrics for assessing the customer experience are defined. High-gain improvements to the customer experience are identified.

Value assessment for marketing initiative. Objective is to measure ROI of a marketing initiative, determine drivers of value, and identify refinements to improve value going forward. Data is gathered in order to establish link between marketing initiative and key measures of business performance. Critical aspects of initiative are examined to understand drivers: targeting, product, price, positioning, competitive context. Optimization techniques are used to simultaneously assess the significant drivers and generate alternative scenarios that would improve results.

Value-based management dashboard. Objective is to identify key performance indicators (KPI's) that provide managers performance metrics tied directly to business objectives, as well as drivers of performance to serve as early indicators. We begin with a clarification of business objectives, then analyze and build consensus around the KPIs that best link to these objectives. We link current marketing and sales initiatives to these KPIs, using customer data to define possible factors and applying analytics to validate relationships and quantify impact.

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