HOW IBM AND OTHER

The CUSTOMER-

WORLD-CLASS COMPANIES

CENTERED

ACHIEVE EXTRAORDINARY RESULTS

ENTERPRISE

BY PUTTING CUSTOMERS FIRST

HARVEY
THOMPSON

The Customer-Centered Enterprise

How IBM and Other World-Class Companies Achieve Extraordinary Results by Putting Customers First

Harvey Thompson

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For Rosalyn

Preface

One of the biggest problems facing CEOs today is how to continuously attract customers and attain growth, often in an environment where products and prices among competitors are steadily moving closer together. Traditional bases for differentiation, such as product features or cost, are becoming less tangible and senior management is forced to look for new ways to stay attractive to a target market. CEOs and senior management across virtually all geographic and industry lines have now put the word "customer" into their formal business vision and mission statements, and all are searching for a vehicle to operationalize that "customer focused" vision, differentiate themselves and compete upon value delivered by processes and services.

—*FROM HARVEY THOMPSON*
AND PROFESSOR MERLIN STONE,
"CLOSE TO THE CUSTOMER
— CUSTOMER VALUE MANAGEMENT"

The purpose of this book is to provide senior management with the means to take a vision (for a company, a business unit, or a business process) of being "Number 1 in the Eyes of Our Customers" and to make it a reality.

What keeps you awake at night? IBM conducted global research to identify, in effect, "What will keep CEOs and senior management awake at night as we begin the twenty-first century?" The overwhelming response was a passion to become closer to the customer and to achieve a more customer-oriented culture and business vision. It seems that no matter what the industry or geographic locale, managing customer relationships (attracting, developing, and retaining customers) is the single most powerful issue for businesses today, and it is expected to be the biggest issue tomorrow. With the emergence of the Internet, this will become even more pronounced as customers' expectations are dynamically reset and increased almost daily. As industry boundaries are redefined and creative new e-business value propositions are introduced, companies will experience relentless pressure to understand and meet their customers' rapidly changing needs.

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The desire to become customer-centric and the preferred provider of products and services is familiar territory. Over the past several years, as a management consultant for IBM, I have worked with the CEOs and top-tier management of major corporations throughout the world. Their companies were in diverse industries, such as automotive, insurance, banking and financial services, retail, distribution, public and private utilities, petrochemicals, manufacturing, and federal, state, and local public agencies. What impressed me most was that, although they represented a broad array and variety of personalities, management styles, and business environments, they had much in common. Virtually all shared a mission or vision statement with a focus on the customer, but most lacked a methodical approach and an operational framework to accomplish that mission or vision.

They repeatedly stated that a customer-focused strategy was one of their most serious and troublesome challenges. They spoke of an inability to develop and then institutionalize or operationalize such a strategy enterprisewide and of the difficulty to migrate to a customer-focused culture. Understanding the customer and managing the full relationship (end to end, across multiple channels and touch points) were felt to be critical issues. Time and again, CEOs and senior managers said that customer-facing processes represent the greatest opportunity to differentiate a business and to attract and retain market share.

As customer centered as these comments seemed, they were from executives whose offices typically featured a chart on the wall proclaiming the company's product distribution channel strategies rather than channel strategies to provide customer-defined, ideal access to the company and its products. If the objective is to bring an enterprise closer to the customer and to have a customer-focused culture, which phrase communicates a better channel strategy:

distribution channels for products or
ideal access channels to those products for the customers?

Which one would your customers believe is better?

Each CEO articulated a vision with an outside-in point of view to be perceived by customers as ideal. But the strategy to attain it reflected traditional inside-out thinking (to distribute or push their products and services toward customers). In other words, there was a disconnect between the pictures on the wall and the narrative. They were incredibly inconsistent. And I found this to be a common pattern that went beyond the channels to virtually all of the customer interactions with each company's people, processes, and services. Their expressed (outside-in) customer-focused visions were not in alignment with the plans, programs, and strategies generated by traditional (inside-out) management methods and approaches. As my wife is fond of reminding me, "We human beings are not yet perfected." Apparently that also applies to business management, especially on the critical topic of making a customer-centered vision a reality. In today's environment, good managers with good intentions are simply not good enough. New and innovative management skills and approaches are required. Without such innovation, CEOs will have sleepless nights well into the new millennium.

The development of new approaches to align a dynamic marketplace with the institutional structure and culture of a business has been the focus of extensive IBM research, development, and management attention. For the past several years, the corporation has undergone a transformation, unprecedented in scope and scale, to become horizontally (process) managed and customer centered. We, too, have a vision and mission to be the premier provider of (in our case, technology-related) products and services to our customers. And when we began the journey to fulfill that vision, we also found an absence of methods in the existing management sciences to address the issues.

The business literature of the time emphasized process management and reengineering simply as a means to reduce internal costs and increase productivity, and our early efforts were not immune to that thinking.

However, as our process work matured, our focus moved from an internal view of improvements to an external one to create exceptional value for our customers. Initially, my job was to define, document, reengineer, and manage the continuous improvement of customer-facing business processes for IBM in the United States. This evolved to a corporate mission to develop creative new techniques that used the voice of the customer (a customer-defined vision) to drive business improvements and process engineering based on what the customers themselves valued. Ultimately, as we gained experience, these approaches further evolved to become global client consulting.

The benefits of combining business process management (continuous process improvement) and customer-focused process reengineering were quickly apparent. They resulted in improved delivery of value to our customers and to our clients' customers, and they greatly increased our internal management effectiveness and flexibility. For example, prior to introducing these process concepts into the IBM management system, it would have been much more difficult to restructure several large divisions with product-focused missions into smaller, more customer-focused organizations. Major companies that do not have cross-functional business process management can envision ideal new organization structures, but they often lack the flexibility to implement them. The horizontal flow of business activities can be so poorly understood and documented that if a portion of that workflow (say, a person or a division of the company) were to be removed as the result of reorganization, the work might actually stop. Potentially, no one beyond that (now missing) individual or division would know where the workflow came from or went to. In other words, if you lost the elevator operators, you couldn't run the elevators. The connections between the various vertical functions, or "floors" of the business, are often held together by the information in people's heads, not by institutionalized knowledge and formal documented processes. This exposure can have a chilling effect on organizational creativity and performance.

I wasn't an elevator operator, but I was in the right spot when IBM realized it needed to identify, document, and improve the company's cross-functional processes so that vertical organizations might be rearranged or realigned for effectiveness without damaging the business.

To fulfill the vision would require new techniques and approaches. We conducted research to identify and integrate the very best available methodologies worldwide. Where no such frameworks existed, we created them. For instance, during our early work, there were few examples of how to conduct competitive benchmarking for nonmanufacturing processes (e.g., ways to use primary or secondary research to identify world-class business process practices). So we visited practitioners of manufacturing benchmarking at other companies, and we met with leading academics. Then we developed our own nonmanufacturing approaches to identify the best practices for customer-facing processes. After testing these with benchmarking partners, such as Xerox and Hewlett-Packard, we were invited to share these approaches at international forums on benchmarking, where they were recognized as "best practices" in their own right. The same is true of many of the topics discussed in this book.

It has been an exciting time that has resulted in the development and formalization of major new customer-centered management frameworks and ultimately the writing of this book. In the chapters that follow, we share what we have learned from our research and associations with some of the finest minds and thought leaders in business and academia. We cover best practices that will help your firm become customer focused and customer preferred. We review the art and science of attracting and retaining loyal customers. New, differentiating best ways to be close to the customer are identified and documented. These include customer-visioning methods that use customer-defined needs, wants, and values to design new business capabilities and infrastructure. Ongoing business process management system frameworks are also covered to make these approaches part of your business fabric. The term applied collectively to these disciplines to become customer centered and the ideal provider of customer-defined value is customer value management (CVM).

Harvey Thompson

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Introduction:

Ready, Aim...No, Really Aim

On a recent business trip to Atlanta, I used my Hertz gold card account to reserve a car. It was typical Atlanta weather when I arrived—nearly 100°F and humid. As any global traveler and road warrior knows, what can go wrong will go wrong, so I wasn't expecting exceptional service when I picked up my rental car.

I couldn't have been more wrong. There at the Hertz lot was my name in lights—"Welcome Harvey Thompson," it said—right above "my car." The engine was running and the car's air conditioner was cranking away. All I had to do was drop my bag in the luggage compartment and drive off in complete comfort. At that moment, in my mind, the name Hertz was also up in lights.

Then I arrived at my hotel. As a Platinum-level member of the hotel's customer loyalty program, I had stayed at many of their locations in the past and was looking forward to relaxing in my room. Finding a parking place took several minutes, however, and there was a line at check-in. So I waited. And fumed. And jingled the change in my pockets, impatiently. Eventually, I made a caustic remark to the person in line behind me that this hotel apparently never had anyone stay there before. We must have been the first customers they had ever dealt with. Why else, I reasoned, were they unable to check people in more efficiently—like, like...like the rental car company I had just visited?!

At that moment, the hotel was not aware of the level of dissatisfaction that a valued customer was experiencing. Worse, they were not aware that my expectations for service from them had been reset not by their competitors, but by a rental car company. And this phenomenon occurs thousands of times a day, worldwide, across millions of customers, and for all industries, not just hotels and rental cars. The rush to attract and retain customers by providing differentiating service is creating an upward spiral of expectations that effectively raises the bar for everyone. This puts pressure on all businesses to stay in tune with changing customer needs and wants and to ensure alignment between what customers want and the ability of the business to deliver.

To be fair, the hotel has and deserves a stellar customer-service reputation. It uses one of the most sophisticated reservations and check-in systems in the hospitality business and, overall, is a big user of leading-edge technology. But all this did little good when I and a group of other business travelers had to wait to check into a room. For many of us (e.g., Hertz gold card holders), our expectations had been set by totally different industries, which had effectively eliminated customer lines or queues to obtain services.

But how could the hotel know that I just had a great experience with Hertz? Or whether the fellow behind me had received terrific service from an airline and would now also have a higher standard of service in mind when approaching the counter at the hotel? Or maybe he was delighted with a hotel he stayed at the day before. How could the hotel, or any business for that matter, track and respond to the rapidly changing expectations of so many diverse customers?

And which of their customers' opinions should count most from the hotel's standpoint? For example, I travel on business for a large corporation. It is safe to say that I represent a very large customer grouping or segment. Maybe the fellow in line behind me does, too! How are the expectations of such major customer segments set? How often do they change? Which of their expectations or needs impact bottom-line business results? How can the company identify and weave those changing needs into the plethora of process interactions and management activities that represent how that company does business?

To be successful in today's environment of rapidly changing customer needs and perceptions of value, these questions must be answered, and the answers must be institutionalized and used to prioritize and drive business investment and improvements. In other words, a means must be found to incorporate the customers' viewpoint into every business's management system.

Customer value management (CVM) has become a leading approach to attract market share and customer loyalty by making the customer's view an integral part of the business design. It is the means by which companies can balance the demand for service, even create that demand, with an infrastructure that (a) is customer-centered, (b) delivers increased productivity, and (c) benefits the company's bottom line. Successful CVM boils down to understanding the complex system wherein customer expectations are set and devising ways to meet those expectations consistently.

Companies today must continuously monitor and maintain an alignment between their customers' dynamic vision of ideal value delivery and the capabilities of the business to deliver that value. This is done by identifying and targeting desired customers and then having those very customers develop a vision of receiving ideal delivery of value from each interaction with your company. The company can then develop a strategy to have the specific business capabilities and enabling infrastructure to deliver the ideal value. This engineering of business capabilities with a focus on customer-envisioned value can be accomplished via an IBM framework for customer value management. The approach is not a project, but an ongoing management system to consistently monitor changes in what your customers demand and to maintain an alignment with the business infrastructure and capabilities to meet those changing demands.

Customer value management provides the basis to become customer centered and attain growth by enabling an organization to be "Number 1 in the eyes of its customers." This book describes what CVM is, how it is deployed, and presents case examples to illustrate its key principles. Ideally, after reading it, you'll find out who is setting your company's name up in lights and who's grumbling while waiting in line. You will be able to act on that knowledge to drive business improvement and growth.

To test your current CVM capabilities, each of the subsequent chapters in the book concludes with a set of management issues and strategic questions that your organization must be able to answer to become ideally customer centered.

1

Customer Value Management

Achieving the Vision

Vision without action is a daydream.
Action without vision is a nightmare.
JAPANESE PROVERB

Virtually every corporation you can think of has a vision and a strategy to achieve it. I can't tell you what each of them says, but most share the same theme: "Where do we want to be in three to five years, and how are we going to get there?" To get there, many of these companies have also consistently tried the same things. Both their efforts and results have a lot in common. For starters, in the late 1980s many corporations began downsizing in order to boost profits. Critics said such moves amounted to little more than trying to save your way to profitability. Business results said the same: Surveys of companies that downsized revealed that fewer than half had experienced improved operating profits, very few had actually increased productivity, and in many instances, the stock price (shareholder value) of downsized companies was significantly lower than that of similar firms which had not downsized.

Point taken. So corporations did more than simply cut back. In the early 1990s, companies began to reorganize or reengineer themselves to increase productivity. That can be an easy target for criticism, too. If you've reorganized, fine. But for whom? And why? Who's actually going to buy your product or service once you've finished laying everyone off and reengineering? And so on.

So corporations went on reinventing themselves: creating product segmented groups, industry-specific this and niche-marketing that,

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