

What About The Customer - Perspectives 02/15

The impact of customer centricity on profitability

Insights from the Customer Centricity Clinic[©]



Introduction

In the last ten years, it has become increasingly difficult for companies to improve their profitability. Between 1990 and 2000, the growth rate in Europe and the USA was 2.3% on average. Since 2001 this rate has fallen to 1.2%. For this reason, many companies have optimised their cost base so much that the management is left wondering why their company is not among the most popular employers. Let's take the Swiss beer industry as an example. In 2012, the growth rate was 0.7% with a simultaneous increase in the number of brands and depressed budgets for market development. The question for these organisations is: how can profitability be increased in such a situation?

Based on findings by the Customer Centricity Clinic[®], we are able to demonstrate that improving the customer centricity of an organisation has a positive effect on profitability. Although a great deal has been written and discussed about customer centricity, there is still no generally accepted understanding of it. Customer centricity is usually associated in a limited way with value creation for the customer, but we have a holistic approach. Customer centricity is composed of two central building blocks:

- (1) Mutual value creation
- (2) Inclusive culture

“Mutual value creation” serves to ensure balanced value creation both for the customer and for the company. It represents the ability of an organisation to get their customers on board and to entice them to recommend the company to others. It also encompasses the optimisation of investment decisions based on knowledge of the value of the customer to the company.

An “inclusive culture” supports “mutual value creation” by integrating the customer as a

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resource and by abolishing the “silo mentality” in the organisation. The culture of an organisation influences the mindset and behaviour of employees during change processes and when providing customer experiences. Aside from wowing customers, trust is the key aim of a customer relationship, and trust is maintained by avoiding inconsistencies. In their journey along the various touch points of the company, customers are responding faster and faster to inconsistencies by terminating the relationship. Therefore, consistency should be guaranteed in individual customer experiences with the help of an “inclusive culture”.



Figure 1. Customer centricity model by WATC

Both dimensions of customer centricity are closely connected to each other and have a strong influence on the development of profitability.

Summary:

In stagnating markets organisations are forced to improve their customer centricity. By our understanding, customer centricity consists of two dimensions: “mutual value creation” and “inclusive culture”. Based on our innovative online research, Customer Centricity Clinic[®] we were able to identify three success factors of customer centricity: (1) knowledge about the value of the customer and quality of the customer value model, (2) an understanding among all employees with regard to their strong influence on customer centricity and (3) the promotion of customer-centric behaviour through correction during the employees’ performance reviews. Organisations which master these three factors show a 15% higher profitability. Customer centricity thus has a positive influence on profitability.

Introducing success factors

The relationship between profitability and customer centricity is reinforced by the latest scientific findings (e.g. HSG), but the success factors have been unclear until now.

The **Customer Centricity Clinic**[®] was set up in 2012 to determine the success factors of customer centricity. More than 200 managers from various industries evaluated their level of customer centricity with the help of an online tool. In-depth analysis of the results of the Customer Centricity Clinic[®] revealed three success factors to improve profitability. The main finding was that companies that take all three factors seriously experience **15% higher profitability** on average.

The result is surprising, as this influence of customer centricity on profitability seems to be independent of industry, company size and company developments.

With regard to “mutual value creation” (1), the most important success factor is **knowledge of the value of the customer and the quality of the customer value model**. Most companies can produce relevant offers; however, the potential of a customer with regard to the “share of wallet” as well as “up-selling and cross-selling” is often left unrecognised. This lack of knowledge is supported by the observation that, in practice, there is a fundamental aversion to numbers and customer value models.

With regard to “inclusive culture”, the two most important success factors are (2) the **understanding among all employees with regard to their strong influence on the customer experience** and (3) the **promotion of customer-centric behaviour through correction during the employees’ performance reviews**.

Both success factors are necessary in order to manage change successfully while maintaining consistency at the touch points.

Organisations should establish a shared awareness of the high importance of customer centricity. This is a basic requirement. Furthermore, management needs to exert a positive influence on the behaviour of employees by agreeing on targets and regularly evaluating them.

In our projects we regularly come up against a lack of understanding with regard to the influence of the culture on the success of projects and on the success of the organisation in general. Often, the culture is not evaluated and, for this reason, potential weak areas are not identified. This neglect, in turn, has a negative effect on implementation. If all employees are aware of the high importance of customer centricity, and their behaviour is appraised, then changes can be realised much more effectively. Nevertheless, the skills and tools currently being put into practice are often inadequate.

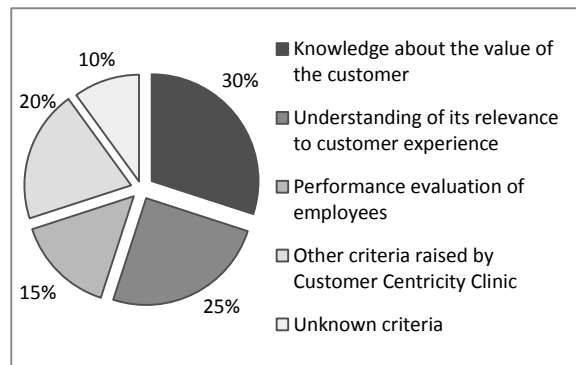


Figure 2. Average weight of influential factors on customer centricity

The influential factors depicted in Figure 2 have great explanatory power in terms of their effect on the profitability of an organisation. The percentage distribution makes it clear that “mutual value creation” with 30% and “inclusive culture” with 40% have a similarly large effect on profitability. Thus, the findings from the Customer Centricity Clinic[®] substantiate our conceptual understanding of customer centricity.

Outlook

Customer centricity has a large influence on profitability. However, a more holistic understanding of the concrete meaning of customer centricity is required. In the coming years, organisations will face many profound changes. A number of publications predict that digitalisation will be an important driver of change. Looking ahead, Google Switzerland CEO Patrick Warnking puts it succinctly. There is no such thing as digitalisation. In order to become successful, organisations must develop a strong, consistent customer focus and incorporate customer centricity into their DNA.

Over the next two years, we will delve deeply into the success factors of customer centricity. Internal factors such as IT systems, processes, structures and management style will have a significant role to play in this. However, full consideration will also be given to the ability of companies to use knowledge about the customer to define offers and experiences that differentiate, inspire and enhance the company's value. Previous studies have focused intensely on the topic of customer experience management. Our goal is to provide an in-depth analysis of the impact of customer centricity on the creation and implementation of new business models and to develop tailor-made recommendations.

Sources:

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Schneider et al. (2009): Organizational Service Climate Drivers of the American Customer Satisfaction Index (ACSI) and Financial and Market in *Journal of Service Research* (12) No. 1, p. 3-14

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An introduction to the Customer Centricity Clinic®:

In 2012, WATC set up the Customer Centricity Clinic® in order to determine the success factors of customer centricity. More than 200 managers from various industries evaluated their level of customer centricity with the help of an online tool.

The Analytical Hierarchy Process (AHP) was established in the heart of the Clinic. This serves to monitor the consistency of the responses. Furthermore, metric results for each individual participant can be calculated. WATC uses this method within the context of the Customer Choice Analysis® in order to determine the relevance of choice drivers and communication content. The average response time was 10 minutes. At the end, each participant received a customised PDF analysis with a benchmark of his or her results.

Owing to its great success, the Customer Centricity Clinic® has been adapted to gain further knowledge on the relationship between customer centricity and profitability. The first results are expected to be available at the end of 2016.

For more information or to discover the Customer Centricity Clinic® for yourself, please visit:

www.customercentricityclinic.com

(in German only)

For more information, please contact:

Jörg Staudacher
joerg.staudacher@wadc.ch
Tel +41 44 289 60 00

Author:

Jörg Staudacher

About WATC Consulting AG

What about the Customer (WATC) is the specialist consultancy for customer centricity with an international focus. Our concept: a deep awareness of the customer's perspective is the most important lever to build and manage profitable organisations. We accompany our customers' top management from analysis, to strategic development, through to implementation. We help them gain a unique insight into their customers, optimise their business models and their customers' experiences and manage change in the company. Everything we do aims to strike the ideal balance between value creation for the customer and for the organisation.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; applications of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. WATC Consulting AG would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances.

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