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IMPROVING THE PRACTICE OF MANAGEMENT

## Sustaining profitable customer relationships requires real leadership

By Robert Angel

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# Sustaining profitable customer relationships requires real leadership

*Would-be customer-focused companies often invest in customer relationship technology, only to find that incremental top-line growth and more profitable customer relationships remain elusive. Poor technology choice or poor project implementation are often blamed. Customer-service culture transformation-and the leadership needed from the CEO and a Chief Customer Officer to bring it about- is rarely considered.*

By Robert Angel

Robert Angel is president of the Gilford Group Ltd., a Toronto-based consultancy that specializes in customer strategies, risk and performance management. He wishes to thank Dr. Hubert K. Rampersad, president of QM Consulting in the Netherlands, who contributed to this article. The author and Dr. Rampersad are CEO and president, respectively, of TPS Performance Canada Ltd.

As knowledge power shifted from the sell side to the buy side over the past decade, a stealth revolution was quietly changing the balance of power in marketing. Once, vendors had a near-monopoly on competitive intelligence and research data. However, thanks to communications technologies, especially the internet, huge amounts of data are now widely accessible.

Armed with a wealth of information not previously available, customers are now informed about their options, and are much more value-conscious. As a result, customers can no longer be relied on to buy the messages being pushed at them (see chart below). This is perhaps the most significant marketing development since the rise of

the Madison Avenue advertising culture more than 50 years ago.

Even Procter & Gamble, the icon of product marketing, has acknowledged the shift. "Consumers today are less responsive to traditional media," says Jim Stengel, global marketing officer of P&G. "They are embracing new technologies that empower them with more control over how and when they are marketed to.....Consumers are making more purchase decisions in environments where marketers have less direct influence [in-store, word of mouth, professional recommendations, etc]."

This is big news indeed. It goes right to the heart of every organization's business and organizational strategy. It calls for renewed CEO leadership, to adapt the enterprise to the new customer-centric market reality. This article will discuss the steps a CEO can take to provide that leadership.

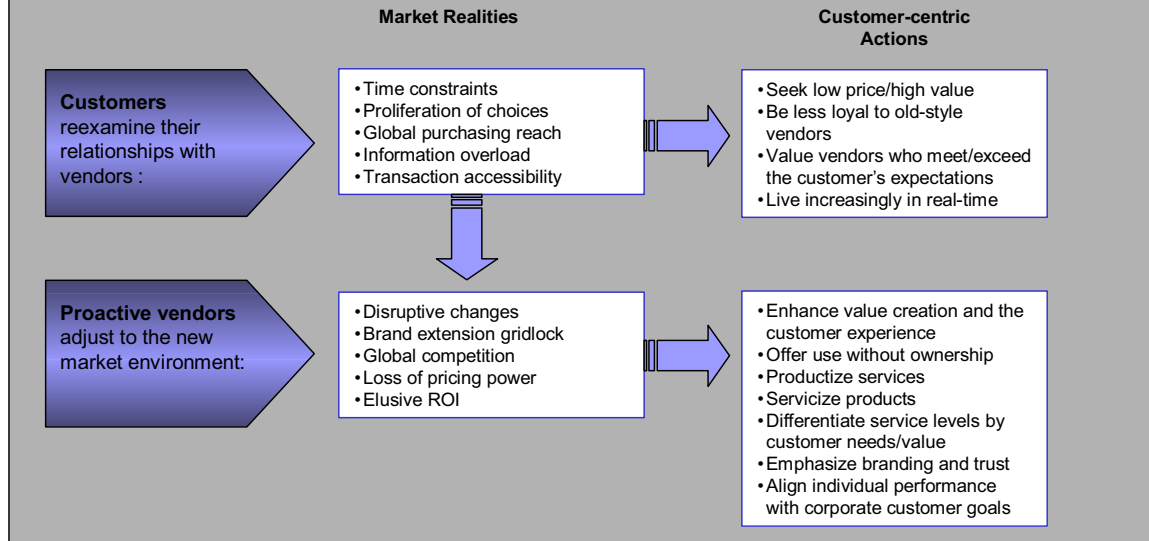
## Riding the investment escalator to customer-centricity

CEOs have certainly made large investments in customer-focused technology, especially frontline sales tools. AMR Research reports that customer relationship management spending was close to \$10 billion in 2003; it is expected to climb a further 10 percent in 2004. However, this spending has generally failed to generate significant gains in top-line growth or add more profitable customers. It is also failing to close the gap between customer relationship intentions and results.

Forrester Research data show that U.S. customer satisfaction has actually declined in financial

## Adjusting to the new market reality

*Technology advances (internet, wireless, data bases, computing power, etc.) have triggered customer-centricity – calling for a range of adaptive actions by vendors*



services, the flagship industry for customer relationships. Fewer customers in 2003 than in 2002 were either very satisfied or satisfied with their primary financial services provider (71 percent compared with 78 percent). This trend will continue as younger, more tech-savvy customers continue to enter the market.

Gartner Group research in mid-2003 tells a similar story about the retail industry. Poor customer experience in one retail store led to \$20 million of lost revenue from customer defections in one year-almost 10 percent of the store's annual revenue. Gartner estimates that the competitive position of companies will erode by 15 percent to 20 percent per year without strong relationships with their customers.

Companies have recently been investing in customer-experience business processes and customer analysis tools. Examples include call-centre preferential-service tiering, web-based

customer-case management, and multi-channel delivery consistency-to create superior experiences that customers will appreciate enough to tell other people about. Sophisticated propensity and attrition models are sending out ever more personalized messages, as well as flagging customer potential or those at risk. Web transaction analysis is becoming more pervasive. Permission marketing (now a guiding principle at P&G) is helping to address customer privacy concerns. B2C companies have adopted behavioral techniques based on event triggers (my own specialty in my customer strategy and performance management consulting practice) that help companies identify and react to changes in individual customer circumstances.

The real question is whether such process improvements and more sophisticated tools will be enough to bring about sustainable change in relationship profitability. Modest revenue and profit growth in many companies suggest it will not be easy.

## Culture change and leadership

Why do investments in customer relationships often produce such mediocre results, even with sound technology choices and effective technology implementation -two scapegoats for shortfalls in return on customer investment? The missing ingredients are culture change and the leadership to adapt the behaviour of frontline staff to customer expectations.

Executives may assert that their marketing strategies are built on "customer-centricity." But claims of customer-centricity are contradicted by the attitudes of individual employees-not all that surprising, since everyone is under huge pressure to perform. Customers can see that their experience is inconsistent with the vendor's brand promise.

A consumer services company illustrates the point. It has invested heavily in putting "customer-centric" information on call-centre desktops, but the company's executives and frontline managers are still locked in a traditional mindset: Avoid credit risk, raise promotion hit rates, and push product sales.

Traditional competitive marketing promotions and stringent cost controls continue to generate modest, short-term revenue and profit growth. However, longer-term performance indicators like share of wallet, customer willingness to recommend the company to others, and customers' own service-experience anecdotes are not improving appreciably.

What does it really mean to have a customer-centric culture? Simply stated, it means being driven (selectively, because of profitability considerations) by customer needs over organization needs. Customer knowledge, branding and marketing communications are unified right across the organization and supported by a continuous learning process.

Those customers with high needs and high value should be understood as individuals in order to recognize their changing priorities and circumstances. All customers should be supported by dynamic customer knowledge that recognizes customer perspectives. Communication of what is called an "outside-in" treatment of customers is one of the strongest signals to customers that a customer culture

### **A Chief Customer Officer Blueprint**

The Chief Customer Officer should provide strong customer direction and organizational clarity, with the following main responsibilities:

- Define and prioritize customer-centric business requirements and take charge of the actions required to execute them
- Establish a consistent and unified outside-in culture orientation across the organization, and enlist executive support through two-way communications
- Design a customer knowledge management framework, such as business rules and infrastructure
- Talk to customers continually to understand their needs, and facilitate other executives in maintaining close contact with customers in their respective areas
- Capture an enterprise-wide service delivery view of the individual customer

- Drive continual improvement of the customer experience, through customer-facing process enhancements
- Build the business-case foundation-metrics and measurement for return-on-customer investment

The Chief Customer Officer must work with the rest of the enterprise to ensure organizational structure, job descriptions, metrics and compensation plans evolve continuously to support desired employee behaviours.

The Chief Customer Officer has parallels with the Chief Knowledge Officer -for example, in collaborating in capitalizing on customer knowledge. The experience of the Chief Knowledge Officer role may be useful in understanding how the Chief Customer Officer might work.

prevails.

Truly customer-centric companies like to find out customers' needs through dialogue (see "A new dawn for CRM: This time it's B2B," Ivey Business Journal, July/August 2003). So strong is the commitment to satisfy their customers' requirements that selective, daily customer dialogue has become an integral part of their brand values.

Peter Drucker, one of the most eminent names in the practice of management, set out in a recent *Harvard Business Review* article what makes a leader effective: obtaining needed knowledge, converting this knowledge into effective action, and ensuring that the whole enterprise feels responsible and accountable. Given the central role of customers in any organization, Drucker's leadership formula can be put into a customer context: Know your customers as individuals, concentrate on serving those with highest needs and lifetime profitability potential, and make sure that a culture of customer knowledge and service delivery is acted on consistently throughout the enterprise.

A shift in culture of this magnitude calls for a business transformation of epic proportions, not to mention top-level leadership. The CEO needs to take overall command of customer strategies and the culture, organization and processes to support it. The CEO needs to act as a sponsor of a consistent and determined approach to customer-centricity that permeates all levels of the organization. The CEO must communicate a unified approach to customer knowledge, branding and marketing communications right across the organization.

### **Elevate to the CEO suite**

Today, customer responsibilities are often spread widely through the organization- across marketing, sales, logistics, operations and the like. There is often no one in the executive suite with responsibility for customers (comparable, for example, to HR's responsibility for employees, the "organization's most

important asset"). Typically, the several people carrying actual customer responsibilities are middle managers.

The consumer services company referred to earlier is organized into silos that have different customer responsibilities and views. Operations sees customers as people they own for merchandising purposes; Finance sees the customer as a collection challenge and potential credit risk; IT sees customers as generators of transactions to be processed. Only the marketing-database group has a knowledgeable perspective on customers, but its voice is not well-heard in the executive suite. This company may be somewhat protected because its largest competitors are following a similar approach. Not surprisingly, static market share and profitability are the norm in this industry.

While the CEO drives customer-centricity as sponsor and visionary, an executive is needed to take charge of that other important asset-the customer-and the day-to-day customer-centric transformation.

It may be a challenge to get marketers to take on this role. According to Nirmalya Kumar, author of *Marketing as Strategy: Understanding the CEO's Agenda for Driving Growth and Innovation* (Harvard Business School Press), CEOs are losing faith in marketers. They are often seen as specialists and tacticians who talk about the Four Ps" (product, place, price and promotion), rather than as strategists who help CEOs lead organization-wide initiatives that have a strategic, cross-functional, bottom-line impact. .

The leadership team is already populated with chiefs: chief executive officer, chief operating officer, chief financial officer, chief information officer, chief marketing officer, and so on. It is time for a Chief Customer Officer to be appointed as change agent-to be both the implementer of the customer culture (see sidebar, "Chief Customer Officer Blueprint") and an evangelist for it.

The Chief Customer Officer becomes the

operational centre of a dynamic environment by presiding over short- and long-term goals, allocating scarce resources, and keeping the scope manageable.

The concept of a CEO-CCO team approach to customer-centricity also applies to non-profit organizations, including local and national government departments. Citizens, conditioned by their experience as consumers of private-sector service, now expect comparable treatment from their governments. The role of leadership in this will be critical.

For instance, the Ontario government is gradually consolidating its service delivery to streamline its customer interactions. "There is a difference between sponsor leadership and day-to-day implementation leadership," says Debbie Farr, director of service design & implementation at the Ontario Ministry of Consumer and Business Services. "Leadership at the top means sponsorship and overall guidance, while leadership of actual delivery of services means bringing together all the participants, setting the right priorities, breaking it down into achievable milestones, and taking charge of implementation

steps."

The difference between CEO sponsorship and project-level leadership goes deeper still. According to Jim Evans, a senior consultant with the same Ontario ministry, "In government, sponsor leadership calls for a command of the customer-service context, and ability to describe it to staff to sustain the macro vision." This means being conscious of the changing environment and the consequences of not being able to adapt fast enough. Agility is something that now confronts governments on a broadly defined basis more forcefully than it ever has in the past. "In a stable environment," says Evans, "project-level leadership may suffice. In today's volatile environment, both top leadership and project-level leadership are necessary right from the outset to make the requisite culture change happen."

So far, the Ontario government has mostly focused on transactions-making them more accessible and customer-friendly and offering them over new channels. While it is too early to measure success, much will depend on how rapidly the senior policy executives and senior managers can transform an

#### **Learning from the CKO experience**

The Chief Knowledge Officer position had its origins in the desire to come to grips with the growing volumes of information that were seen to be the potential business driver in the information age. Lester Thurow expressed it succinctly in *Fast Company* Magazine (January 2004); he said that all companies, especially maturing companies, face decisions that their operating executives find difficult to confront. They need "a Chief Knowledge Officer, someone who provides honest, unbiased intelligence about the world around a company and where the company stands in that world.... The Chief Knowledge Officer's duties may be as varied as recommending whether a company should buy, sell or make its technologies, or determining where technology is going and where new competitors may arise."

Recently, the Chief Knowledge Officer's role has lost ground, victim to cost-cutting, especially those who came from an IT background with knowledge expertise but relatively little industry expertise. "Doubts set in when CKOs were unable to make total decisions, were unable to override the culture." So says Ted

Graham, who is worldwide Chief Knowledge Officer of Hill and Knowlton and one of the leading exponents of knowledge management in Canada. "This was compounded by local profit goals that discouraged managers from sharing their information."

When Chief Knowledge Officers have been successful, success comes from ensuring early on that there is a basic information infrastructure, and then evolving the value aspects of the job. "The role evolves with the needs of the business," says Graham.

Chief Customer Officers must take the broad view that their role is to drive better decisions and processes and help the business achieve its goals, rather than sticking with the more limited perspective that only improves technology. With this kind of view, and only with this kind of view, the Chief Knowledge Officer can add measurable value for both the customer and the organization. Every day, the Chief Customer Officer needs to be able to demonstrate how customer knowledge can be turned directly into measurable value.

operating culture to a service delivery one.

### **Changing organizational culture for the right results**

Performance standards-the right metrics, employee commitment, granular results measurement and feedback-must reinforce stated corporate objectives. The need to reconnect individual performance measures to corporate strategy has led an increasing number of organizations to adopt Kaplan and Norton's Balanced Scorecard approach, especially as the market continues to shift from hard assets like buildings and machinery to intangible assets such as brand equity, dynamic processes and employee performance.

"A vital part of Royal Bank's balanced scorecard approach is to link customer loyalty to employee engagement by measuring individual performance against strategic goals and tying incentive compensation to it," says Richard McLaughlin, SVP Marketing at RBC Financial Group. "A strategic goal might be to use deep client insights to develop products and services that are uniquely designed for a segment of the client base. Scorecarding enables us to evaluate the resulting package; Snowbirds and the Access USA programs are prime examples of how it comes to life."

The challenge is to get people to line up with the organization's goals. In his book *Total Performance Scorecard: Redefining Management to Achieve Performance with Integrity* (Butterworth-Heinemann Business Books, 2003), Hubert K. Rampersad, president of QM Consulting in the Netherlands, addresses this challenge with a Total Performance Scorecard approach that aligns individual culture to that of the organization and improves organizational performance.

Rampersad describes organizational culture as being coloured by our preconceived ideas of reality. Our observations of the world influence our

creativity. In short, our mindsets determine our opinions, assumptions and prejudices.

Organizational culture determines whether employees are motivated to learn and are willing to develop their competencies. In practice, much available knowledge is in conflict with the organization's cultural norms and values, making it difficult for the information to be absorbed and shared. Optimal use of people's capabilities through the Total Performance Scorecard helps realize the highest organizational performance and mobilizes the entire organization to continuously satisfy the needs of the customer.

Following balanced scorecard principles, Rampersad uses performance measures, continuous process, and personal improvement to achieve the maximum personal development of all corporate associates. The cornerstone of his approach involves defining the organization's norms and values in an organization scorecard, and defining the culture and behaviour of the organization's people in individual scorecards. The personal culture and behaviour are then brought into alignment with the organization's values.

The Total Performance Scorecard approach tells us it is not necessary to be stuck in a management-by-objectives time warp, which communicates itself to customers as "the organization does not understand me." CEO recognition of the need to change the culture is the mark of true leadership, and is followed by aligning the performance of individuals to the goals of the organization.

### **Driving through culture to results**

The thrust of this article has been that leadership is needed at two levels-CEO and Chief Customer Officer-to transform the organization's goals, attitudes and processes in dealing with customers. Resistance to change has helped open a gap between an organization's attitudes and actions, between brand-service messages and customer needs and

expectations, and between the expected returns and actual results from investments in customer relationships. The job of the Chief Customer Officer, guided by the CEO, is to close these gaps.

Some organizations are adjusting to this new market environment, led by CEOs with sufficient vision to recognize the scale of strategic change under way. In most organizations, changes in customer culture have not kept up with marketplace changes, and results from customer relationship investment have been substantially below expectations. These two points are interconnected and give rise to some of the most pressing leadership issues confronting CEOs today. ■