Why your relentless customer focus isn't delivering enough value

Commercial Transformation

EY

Building a better working world

Every boardroom has an elephant … or two

They're the looming issues everyone would rather discuss another time. The questions yet to be asked — by a person willing to ask them. *Where's the elephant?* focuses on vital business issues that are not being openly discussed in terms of their urgency and impact. Whether in the room, on the horizon or thundering in a massive herd toward the C-suite, this is where elephants get talked about.

Want to know where the elephant is when it comes to balancing the future with the present? Look at your progress on the big bets driving that future. **Take five minutes to find out.**

1 the elephant

In this Transformative Age, companies are increasingly focused on the customer. However, there is a point at which too much focus on the customer can lead to diminishing returns.

The change organizations are experiencing today is more significant than anything they've seen in the last 20 years. In this ever-dynamic environment, organizations are having to chart new paths to sustainable, profitable growth. The days of the three- to five-year business plan are long gone. Instead, companies must now have an agile business strategy with enabling business and operating models that can continually evolve to engage customers and deliver value.

At the heart of this strategy sits the customer — the devotion to which, at least for some companies, has been elevated almost to the level of dogmatic fervor. These companies may be following an assumption that there can never be too much focus on the customer. In fact, there can. There is a point at which unrelenting customer centricity can lead to diminishing returns.

Organizations should be considering three elements: the value of a customer, the level of customer centricity that will unlock that value and the profitability of the value. Yes, you must understand your customers' behaviors (including what triggers purchasing and loyalty). But it also means understanding how to trigger those behaviors while increasing profitability.

> "Companies may be following an assumption that there can never be too much focus on the customer. In fact, there can.

2 the urgency

Too many levers to pull, a disruptive competitive landscape and the lure of innumerable emerging technologies can easily lead companies astray, which is something they can ill afford if they want to survive, let alone thrive.

For the last 10 years, organizations have predominantly taken two paths to deliver increased profits and growth: (1) aggressive cost-cutting and (2) mergers and acquisitions.

For the most part, companies have trimmed as much fat as they can from their organizations. Some have actually taken things too far, digging into the muscle, which has left them weakened as they now face a host of new, disruptive challenges.

At the same time, industry consolidation, which many companies favored to build scale and outpace competitors, is maxing out. There are fewer megadeals to be had, and many that remain are less appealing because the valuation gap between buyers and sellers is higher. In fact, according to the latest *EY Capital Confidence Barometer*, 87% of executives surveyed say the valuation gap is the highest it's been since the global financial crisis.

For a time, these approaches helped companies find growth and profit. However, neither has produced sustainable, profitable organic growth.

To achieve organic growth, companies are turning their undivided attention toward the customer. However, the vast number of levers that organizations can pull, coupled with a disruptive competitive landscape and the lure of innumerable emerging technologies, can easily lead companies astray — something they can ill afford if they want to survive, let alone thrive.

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3 the impact

Leading companies have turned customer-centricity into loyal customers and robust profitable growth.

To gain a better understanding of how leading organizations are growing, Ernst & Young LLP (EY) surveyed 500 C-suite and other senior executives at North American organizations with revenues greater than US$1b. We defined leaders as having over 5% annual revenue and profit margin growth, increasing customer satisfaction, and increasing or steady market share.

We learned that there is a clear correlation between strong financial results and happy customers: 50% of survey respondents with increasing customer satisfaction report average annual revenue growth between 5% and 15% over the past three years. At the same time, 71% of respondents with increasingly satisfied customers report growing market share, vs. only 5% of those whose customer satisfaction is declining.

A deeper look at the differences between leaders and non-leaders is provided on the next page. Examples like these from our research show that there is little question that customer-centric strategies that produce happy customers also provide better financial results. But are they as good as they could be? Obviously, laggards have some work to do in terms of improving their customer satisfaction and the value delivered. By pulling the right levers, leaders may also find there's more room to improve their balance between the level of effort and the return on investment (ROI).

About the EY survey

We queried 500 C-level executives from organizations with more than $1b in revenues about trends in growth and innovation. We identified 28% as "leaders."

Who are the leaders?

In the research, leaders were identified by four characteristics:

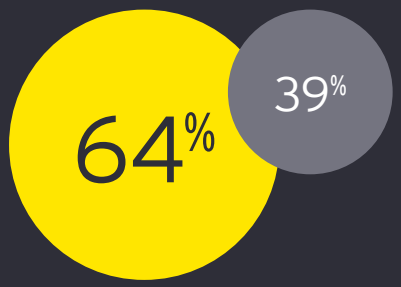
- 5.1% or higher revenue growth
- 5.1% or higher profit margin growth
- Increasing or steady market share
- Increasing customer satisfaction

Our survey found that leaders ...

Leaders Others

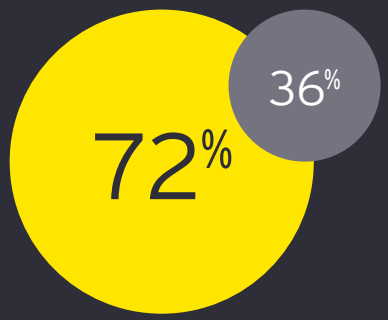
... are customer-centric

"Our company's purpose is centered around customer needs."



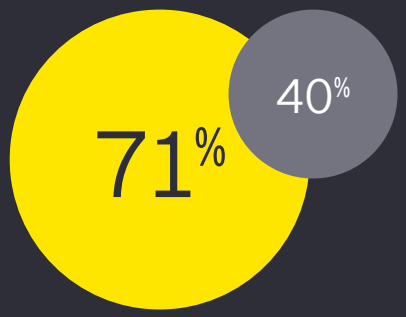
... deliver consistent brand experiences

"Customers experience our company's brand consistently whenever they encounter it."



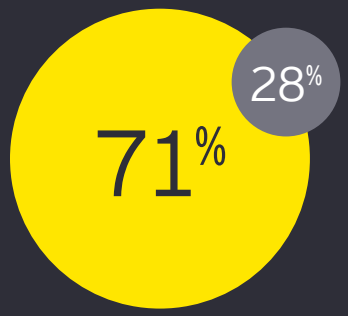
... are agile

"Our business is agile enough to react to changing customer preferences."



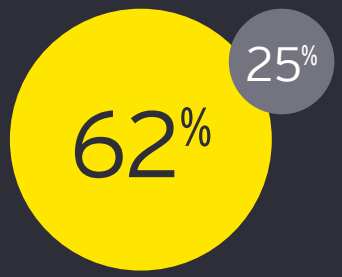
... prioritize innovation

"We made excellent progress, met goal or made good progress (in innovating and improving products, services and/or overall portfolio mix)."



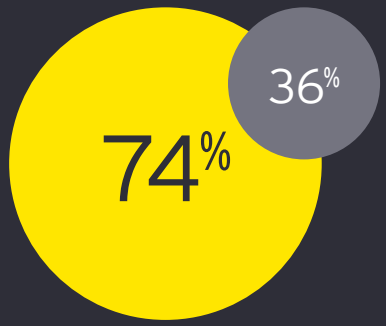
... apply rich analytics

"It's easy for us to analyze customer data at granular, individual level."



... drive cultural change

"Our company offers incentives in line with organizational goals."



4 the way forward

Knowing how much customer engagement triggers purchasing behaviors, using analytics to maximize the ROI of that engagement and enabling high-performance teams to deliver holistically on the customer promise all contribute to better execution and stronger organic growth.

To build, execute and improve returns on the business strategies that drive sustainable, profitable organic growth, companies should focus on the following three key areas.

1. Determine the right level of customer engagement for your market and industry

Companies are constantly looking to up their game in engaging customers to deliver higher customer value and gain a competitive advantage. But to increase the value they can attain from the customer life cycle, companies need to understand how to balance customer centricity against industry dynamics, which can range from customer adoption levels to product characteristics and from competitive concentration to price sensitivity.

For example, most lifestyle apparel companies will benefit from being highly customer-centric, but the level of customer centricity may vary among geographies or product categories. Commodities-based raw materials companies with price-sensitive customers, on the other hand, are likely better off being organization-centric, as too much investment in the customer could result in a lower ROI.

2. Use data and analytics to optimize the ROI of innovation, marketing, sales and service efforts

Once seen as cost centers of the business rather than contributors to the bottom line, today's marketers are seen as key business advisors in engaging customers in personalized ways during "moments that matter" within each customer's stage of the purchase and repurchase journey.

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However, marketers — and the business as a whole — need to evolve their view of costs and benefits by keeping in mind the balance between cost and profitability when triggering the right customer behaviors.

Data and analytics allow companies to leverage more granular insights at a single customer level. Companies can engage with customers dynamically every time they interact with the brand, triggering purchases and driving loyalty, while also understanding the ROI of those interactions so that they can optimize the value in the customer's life cycle.

3. Enable customer-centric, high-performance teams

Customers have higher expectations. It's incumbent upon companies to deliver on those expectations — and be profitable. For example, some companies have several different brands in their portfolios, some of which could be closely aligned to a particular lifestyle, such as sailing, surfing or adventure, whereas others may speak to a broader customer base. Companies need to look at each brand and determine how customer-centric, versus product-centric or experience-driven, they need to be.

To gain this insight, companies need to provide a 360-degree view of the customer to every business function. Companies must also position the right people and technology to decipher and analyze the data, and then action the insights. This allows companies to offer the right experience across the marketing, sales and service journey, while maintaining profitability.

This requires working closely together horizontally, in teams that are incented to tear down functional silos and deliver on the customer promise holistically, while allowing clear, fast internal communication for agile decision-making.

5 the bottom line

With the right strategy, and the right execution, companies can reap benefits to the tune of hundreds of millions of dollars.

Customer needs and desires are constantly shifting. Digital technologies are obliterating industry barriers, intensifying competition and upending traditional business models. It's a level of disruption that's only going to accelerate.

Enhanced customer engagement, leveraging data and analytics to increase the ROI across the customer journey and creating high-performance teams aligned to the organization's purpose can help drive sustainable, profitable growth. But companies will also see a tangible impact because they will be more agile and flexible in meeting changing customer demands.

However, in choosing to follow this path toward customer centricity that produces sustainable, profitable growth, companies will want to remember that, in today's environment, implementation is not a marathon. Rather, it is a series of sprints, with people, processes and technology working hand in hand.

author

Ken Dickman
EY Global Advisory Commercial
Transformation Leader
ken.dickman@ey.com

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