



The Business improvement people

KoruConcepts™

Driving better business
results through customer
intimacy as a business
strategy

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Limited

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1. Introduction

Consumers, be they individuals, industrial organisations or public sector bodies continually demand better products (or services), better quality, better value and better service. Meeting these demands is a major challenge for all organisations. In the retail sector on-line shopping has addressed some of the issues; adherence to standards such as ISO 9001 has addressed others; adopting Six Sigma and lean has addressed others and a myriad of other initiatives have been launched to affect other issues. Is there a panacea, of course not? Is there a strategy that can address the bulk of the issues? We believe there is, and that is to focus your efforts on a company's most valuable assets which are its customers.

In this paper we consider the implications and outcomes of addressing business improvement through a strategy of continuously improving the customer experience through customer intimacy.

What does the customer experience mean?

"The customer is delighted with each interaction with their supplier"

What is customer intimacy? Our definition is:

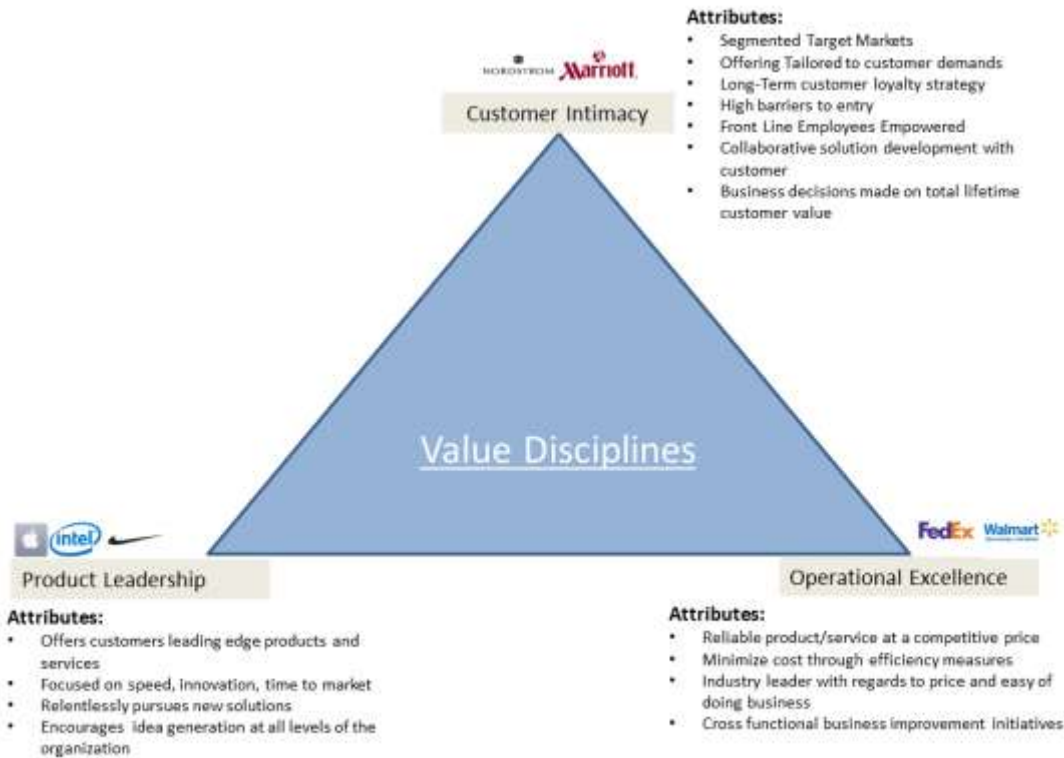
"Understanding your customers' business better than they do, and servicing them better than anyone else"

By combining both of these approaches one creates an organizational ethos where customer focus is absolute, and where continually improving the customer experience is the number one agenda item. Such a company's top 30 - 50 customers additionally have dedicated account managers; their focus is on driving long term partnerships and they are measured on customer life time value rather than individual transactions. This approach also yields sustainable competitive advantage. The alternatives of technical excellence and lowest operational costs are generally not sustainable, but powerful enablers.

2. Differentiation

There are three critical disciplines of market leaders, "Operational Excellence" and "Product Leadership" as defined by Michael Treacy and Fred Wiersema in their book, *The Discipline of Market Leaders*. The final of the three is "Customer Intimacy." The premise of their book is that in order to be a market leader you have to choose a discipline on which to be outstanding while at the same time be good in the other two disciplines. "Customers know that to expect superior value in every dimension from the same supplier is unreasonable. But, for any market leader, whatever value it chooses to

deliver, it must maintain reasonable standards in the other dimensions as well.” The diagram below identifies the three disciplines and the attributes that each has.



In section three below we explore in more detail how customer intimacy is achieved.

3. Customer Intimacy Business Model

In today’s business environment, professional buyers are attempting to commoditise everything. They are seeking to neutralize your value added, your distinguishing features and anything else you may have that warrants a premium. This makes their job easier and yours significantly more difficult. If you are in the operational excellence category then that’s business as usual, but it is not sustainable as cost reduction is finite. If you are a product leader you can buck it initially but not in the long term. However, there are characteristics of a customer intimate organisation, such as company, business and market knowledge, business relationships, and the value these bring to the board or owner that cannot be commoditised, and as such are sustainable.

The diagram below shows the market forces:

| Commodity Tier Four | Enhanced Tier Three | Collaborative Tier Two | Partner Tier One |
|----------------------|---------------------|------------------------|------------------|
| Price differentiator | Value Add | Mutual benefit | Joint Venture |
| Simple service(s) | Specific service(s) | Shared Service(s) | New service(s) |



This model was developed by Cranfield Business School and Koru uses it extensively to identify and improve our customers' business. The further you are positioned to the right the more profitable you are. The orange dot represents the average positioning of companies and the green dot, those that are customer intimate.

The differentiation section above identifies some key attributes of a customer intimate organisation and they are:

- ④ Segmented target markets
- ④ Offerings tailored to customer demands
- ④ Long term customer loyalty strategy
- ④ High barriers to entry
- ④ Front line employees empowered to fix problems
- ④ Collaborative solution development with customer
- ④ Business decisions made on customer lifetime value

There is though a further attribute and it is more general than the empowerment one, and that is highly motivated and satisfied people. Customer intimacy is about generating customer loyalty and loyalty is generated through the people who serve the customer. To the customer your people are your business. The long term customer loyalty programme referred to above is in many ways a people development strategy. According to Gallup sales people generate four times as much loyalty than the product or service. 90% of all loyalty is generated by the top 25% of the sales force. The Harvard Business Review concludes that a 5% increase in employee satisfaction generates a 2% increase in customer satisfaction resulting in a return of up to 1.8% of additional profit.

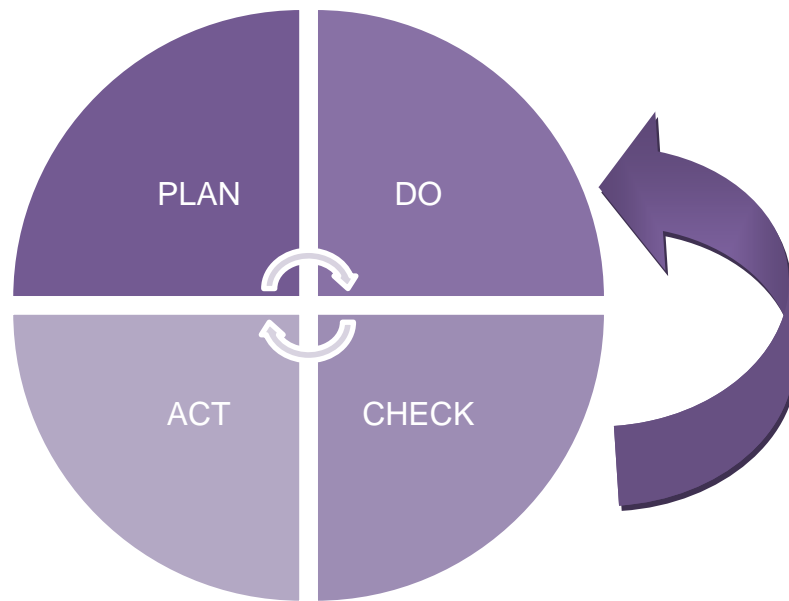
Another key people based activity is management engagement with their peers in selected (key) customers. The diagram below exemplifies this:



The purpose of this is to build business relationships and to understand not only how performance can be improved but also identify partnering opportunities. It also makes the business more approachable rather than remote as is often the case.

Finally, on the people front it must be accepted that this is a transformation programme not an initiative. Most initiatives fail because they run out of steam, or a new initiative is introduced before the previous one had reached maturity. As a result the benefits gained ebb away. Transformation demands leadership not management, it means continually and consistently communicating why the transformation is right; it means trusting and coaching people allowing them to develop. Trust is the biggest motivator and significantly improves employee satisfaction.

A simple model for the development of a customer intimate business is shown below.



i. PLAN

- 📌 Evaluate customer intimacy as a strategy
- 📌 Understand the implications of the transformation
- 📌 Secure Executive Board buy in
- 📌 Identify pilot
- 📌 Communicate

ii. DO

- 📌 Appoint Change leader
- 📌 Educate Management team of pilot business
- 📌 Secure buy in
- 📌 Establish/Review People Satisfaction status
- 📌 Develop and implement improvement plan
- 📌 Introduce problem solving and empowerment
- 📌 Identify and implement sales and key account management needs development programme
- 📌 Identify and implement peer management relationship programmes
- 📌 Baseline customer and people metrics (see section five below)
- 📌 Set and communicate objectives as a result of base lining

iii. CHECK (and continuous learning)

- 📌 Understand progress against objectives and improvement plans
- 📌 Proactively take customer feedback
- 📌 Regular people briefings

- 👤 MBWA to solicit people views
- 👤 Initiate improvement actions

iv. ACT

At the appropriate time a decision to implement or not across the business should be taken. Each business should go through Phases ii and iii to ensure that implementation is successful. Learning is an ongoing process and like business improvement it is continuous.

4. Outcomes

By building a customer intimate business strategy and creating a single “customer experience obsession” approach the primary outcome should be:

“Self motivated people who have a single mindset of continually improving the customer experience yielding better business outcomes for their customers and their company”

The twelve key performance indicators below are not meant to be all encompassing or mandatory, rather they give a basis for setting goals and measuring progress against them, but also indicate the benefits of the approach.

| Performance Indicator |
|---|
| Customer retention metrics have consistently improved |
| Customer satisfaction survey scores have positive trends |
| Customer feedback is predominantly positive and regular |
| People satisfaction increases |
| Market share improves (Competition decreases) |
| Customer lifetime values increase |
| Key customers deliver sustainable revenue/profit growth |
| Sales win rate better than 80% of qualified bids |
| Reducing company costs |
| Customers ask for advice on broad range of topics |
| Customers ask how they can expand the partnership |
| Customers consistently provide you with referral business |

6. Summary

The principle of putting the customer first is not novel, nor is it new. Many organisations claim this, but few can truly demonstrate it. However, customers be they organisations or individuals have more choice, more information, significantly easier access and are more selective in the products and services they choose. Selecting and executing the right values or differentiation strategy is therefore fundamental to achieving business objectives. In a services business customer intimacy should be the primary differentiator.

KoruConcepts™ - Customer Intimacy

Customer intimacy is not for all organisations but having a high customer ethos should be complementary for those who choose operational excellence or product leadership as their primary differentiation.