

WHARTON EXECUTIVE ESSENTIALS

PETER FADER

CUSTOMER CENTRICITY



Focus on the Right Customers for
Strategic Advantage



WHARTON EXECUTIVE ESSENTIALS

PETER FADER

CUSTOMER CENTRICITY

Focus on the Right Customers
for Strategic Advantage

SECOND EDITION

Wharton
DIGITAL PRESS
Philadelphia

© 2012 by Peter Fader

First edition © 2011. Formerly titled
Wharton Executive Education Customer Centricity Essentials.

Published by Wharton Digital Press
The Wharton School
University of Pennsylvania
3620 Locust Walk
2000 Steinberg Hall-Dietrich Hall
Philadelphia, PA 19104

All rights reserved. No part of this book may be reproduced, in any form or by any means, without written permission of the publisher. Company and product names mentioned herein are the trademarks or registered trademarks of their respective owners

Ebook ISBN: 978-1-61363-015-0

Paperback ISBN: 978-1-61363-016-7

Contents

Introduction	7
CHAPTER 1:	
Product Centricity: Cracks in the Foundation.....	19
CHAPTER 2:	
Customer Centricity: The New Model for Success...37	
CHAPTER 3:	
Customer Equity: New Views on Value	57
CHAPTER 4:	
Customer Lifetime Value: The Real Worth of Your Customers.....	71
CHAPTER 5:	
Customer Relationship Management: The First Step Toward Customer Centricity	91
Conclusion.....	109
Acknowledgments.....	119
About the Author.....	125

Introduction

Let's start in Fairbanks, Alaska. Specifically, at the Fairbanks location of one of the most successful brands in retail: Nordstrom.

Nordstrom is a high-end retailer that, of course, sells many wonderful products. But as we all know, Nordstrom is not really famous for *what* it sells; it is famous for *how* it sells—with truly outstanding customer service. Nordstrom is known far and wide as the most customer-friendly retailer in the business, and that reputation is richly deserved. It's also no fluke. Indeed, the company to this very day gives all new employees a one-page company handbook that very simply states, "Our number one goal is to provide outstanding customer service."

Nordstrom executives *demand* outstanding customer service. And their employees deliver it. That's why Nordstrom sends thank-you cards to its customers. That's why Nordstrom clerks walk all the way around their counters to hand shoppers their bags. And that's also why, more often than not, if you ask to return an item to Nordstrom, your request will be granted.

Which brings us back to Fairbanks and one of the most well-worn tales in all of business history—the Nordstrom tire story.

According to legend, the year was 1975, and an unhappy owner of a set of worn-down tires walked into the new Alaskan Nordstrom outpost and asked to return them. The request was an odd one for several reasons, the most notable being this: Nordstrom not only did not sell the man the tires in question, but also *did not sell tires at all*.

No matter, the story goes; the store granted the request anyway. And all at once, Nordstrom had a handy little story on which to hang its customer-service hat. Indeed, in the years since this story originated, company spokespeople have on several different occasions backed its authenticity.

Of course, why wouldn't they? Every retailer wants to be known as customer friendly. Every retailer wants to be trusted. Every retailer wants to be known as the store that not only *says* the customer is always right, but actually *believes* the customer is always right. Nordstrom, apparently, is precisely that company.

But here's what you need to understand: Nordstrom was probably wrong to do this.

Despite everything you may have ever learned about business; despite all that you've been told about customer relations by your bosses, peers, and mentors; and despite even your gut instinct, I am here to let you in on this little secret: *the customer is not always right*.

Rather, the *right* customers are always right. And yes, there is a difference.

Not All Customers Are Created Equal

This is not a book about customer service. This is not a book about being customer friendly, either. This is a book about customer centricity. And although you may be surprised to hear it, there is nothing inherently customer centric about Nordstrom taking back a set of tires that they didn't sell in the first place.

As you'll learn in *Customer Centricity: Focus on the Right Customers for Strategic Advantage*, customer centricity is not really about being nice to your customers. It is not a philosophy. It is not something that can be fostered through a company handbook or mission statement.

Customer centricity is a *strategy* to fundamentally align a company's products and services with the wants and needs of its most valuable customers. That strategy has a specific aim: more profits for the long term.

This is a goal that every business would like to achieve, of course. And it's a goal that your company can achieve as well. But you'll only be able to get there and put customer centricity to use if you are willing to start thinking in new—and in some cases, truly

radical—ways. That starts with scrapping some old ideas about company-customer relations, and it continues with a willingness to radically rethink organizational design, performance metrics, product development, and more—all in the name of finding new and unique ways of serving the customers who matter most.

The way I see things—and the way I want you to start seeing things—is that not all customers are created equal. Not all customers deserve your company's best efforts. And despite what that tired old adage says, the customer is most definitely not always right. Because in the world of customer centricity, there are good customers . . . and then there is everybody else.

That latter group shouldn't be ignored, of course. I'm not suggesting that you ditch them, treat them shabbily, or ignore their wants and needs. I am suggesting, however, that you would be well served—and so would your stockholders—if you started spending more of your time working with the former group. Those are the customers who hold the key to your company's long-term profitability.

Customer centricity is about identifying your most valuable customers—and then doing everything in your power to make as much money from them as possible and to find more customers like them. These customers give you a strategic advantage over your competitors; it's a strategic advantage that could be the best path forward for many companies.

This is something that airlines and hotels have long understood. It's something Amazon, the massive (and creative) online retailer, has understood almost from the very start, way back in 1994. Wells Fargo understands the importance of customer centricity. So, too, do the executives who run Harrah's casinos; the powers-that-be at IBM; and maybe most especially, the leaders of British retailer Tesco, who state very openly that the data they gather from their customer-centric initiatives drive every major strategic decision they make. As this list suggests, there is great variety in the types of companies (and industries) that have put customer-centric practices into use, but these customer-centric savvy companies are hardly in the majority; they are the exception, not the rule.

Although the idea of customer centricity has been around for years (decades, really, as you'll learn later in this chapter) and although customer centricity has been proven in practice to be an incredibly effective means of maximizing customer lifetime value (you'll learn more about this later also), a shocking number of really well-run companies still don't seem the least bit interested in building a customer-centric culture, even though doing so would very clearly be to their benefit.

Costco, which has been helping its customers save pennies for years, isn't truly customer centric. Apple, which was recently named as the most valuable brand

in the world, isn't customer centric—at least not yet. Walmart isn't customer centric. Starbucks isn't customer centric. And no matter what your gut may tell you, Nordstrom—sainted, famously customer-friendly Nordstrom—isn't truly customer centric, either.

A Path to Customer Centricity

The aim of *Customer Centricity: Focus on the Right Customers for Strategic Advantage* is simple: to give you a clear and concise understanding of what customer centricity is and isn't; to help you understand why a customer-centric outlook might prove crucial to your bottom-line success in today's superfast, supercompetitive environment; and to guide you around the pitfalls that other companies have faced when attempting to implement customer-centric initiatives.

The topics I'll cover include the following:

- Why the traditional means of doing business—the product-centric approach—is more vulnerable than ever before.
- How the strategies underlying customer centricity can help companies gain a competitive advantage in today's challenging business environment.

- How some cutting-edge companies and leading business minds are rethinking the idea of equity—and how the ideas of brand equity and customer equity help us understand what kinds of companies naturally lend themselves to the customer-centric model and which ones don't.
- Why the traditional models for determining the value of individual customers (something we call customer lifetime value, or CLV) are flawed—and how a rather simple tweak to that model can deliver a much more accurate picture of what individual customers and entire customer bases are really worth.
- How executives can use CLV and other customer-centric data to make smarter decisions about their companies.
- How the well-intended idea of customer relationship management (CRM) lost its way—and how your company can properly put CRM to use.

This book will give you the knowledge and tools you need to succeed in a world that, in the years to come, may well *demand* a customer-centric approach. In other words, by the time you're done reading this book, you'll be ahead of the game. It's a game that has been in the works for decades now. In fact, I should point out that there is nothing necessarily new about

customer centricity—or at the very least, nothing new about the ideas on which it is built. The roots of customer centricity can be traced all the way back to the late 1960s, when a relatively obscure ad agency executive by the name of Lester Wunderman gave birth to the idea that we know today as direct marketing. Many of the concepts you’ll read about in this book, including the basic overarching notion that businesses would be well served to know absolutely everything about their best customers, are derived in some way from the ideas of Wunderman, who understood long before anyone else the value of keeping records (frighteningly detailed records, actually) about customer buying habits.

What is new, however, is the competitive landscape and the incredibly demanding world in which you and your company are doing business. Today, more than ever before, many companies *need* customer centricity. They need it to compete in the short term and thrive in the long term.

The world has changed dramatically in the decades since Henry Ford first proved the viability of the tried-and-true product-centric business model—the model we’ll explore in detail in chapter 1. That model worked wonderfully in the 1920s, and indeed, it still works pretty well today. It is not my contention that the product-centric model is broken; rather, I simply believe the product-centric model is no longer *enough* in many situations.

Technology, deregulation, globalization, and other factors have conspired to rob even the most wildly successful product-centric companies of the full set of inherent advantages that used to arise automatically from a well-executed product-centric strategy. Technological barriers have been broken down. Geographic barriers are all but nonexistent. But what remains are the relationships that companies have—or don't have—with their customers.

Most companies have been able to get by without customer centricity in the past. Many may be able to get by without customer centricity today. And some will be able to get by without customer centricity for years to come. But *most* companies in *most* sectors probably won't be able to get by without customer centricity forever, so they might as well start moving in this direction sooner rather than later.

I believe the companies that will enjoy the most success in the years and decades to come will be the companies that dedicate the resources necessary to not only understand their most loyal and committed customers, but also make the effort to then serve these valuable customers—and serve them in a way that will not only make them feel special but also maximize their value to the company. Make no mistake: your competitors want to steal your customers, and some of those competitors may be plotting at this very moment to do precisely that. Maybe, like National Car

Rental, they are creating a unique customer loyalty program that will allow them to serve their customers more efficiently than anyone else in the marketplace. Maybe, like Harrah's casinos, they have come to the understanding that although they might not be able to compete on sheer size, they can compete with kindness—that is, “kindness” delivered via a sophisticated patron-tracking program that ensures each customer visit to a Harrah's floor is a *profitable* visit.

Or maybe, having just heard the famous Nordstrom tire story for the umpteenth time, your competitor's top executive is starting to reconsider her strategy by asking whether that Nordstrom clerk's kindly action—the decision to take those tires back even though Nordstrom didn't sell the tires in the first place—actually made any sense. In the realm of customer centricity, at least, it's a question that can only be answered if one is given the right information—the kind of information that customer-centric companies use every single day to identify, serve, and leverage their best customers and maximize profits. Was the tire guy a regular Nordstrom shopper? If so, how often did he stop by—and how much did he spend? Was he really committed to Nordstrom? What was his business really worth? And if it turned out that business was worth a lot (or not much at all), well, what then? Accepting that bizarre return request may have been a good public relations decision, judged by the wisdom

of hindsight. But it probably wasn't a good business decision.

In this book, you'll learn how and why those questions should be asked and answered. I'll explain where customer centricity came from, how it evolved into its current form, and the advantages it holds in a changing marketplace—a marketplace still dominated, at least for now, by companies holding fast to the product-centric model. I'll take a look at successful customer-centric companies, explore the “paradox” of customer centricity, and guide you around some potential challenges en route to customer-centric success.

By the time you are finished with *Customer Centricity: Focus on the Right Customers for Strategic Advantage*, you'll understand all of the basics of the customer-centric model—what it is, how it works, and how you can use it to maximize your profits. You'll also understand, as I do, that Nordstrom was probably wrong to take back those tires in 1975.



Thank you for downloading your complimentary preview of

WHARTON EXECUTIVE ESSENTIALS
Customer Centricity: Focus on the Right Customers
for Strategic Advantage, Second Edition

by Peter S. Fader, PhD

To purchase the complete book from a retailer of your choice,
please visit the Wharton Digital Press website:

<http://wdp.wharton.upenn.edu/books/customer-centricity-essentials>

Wharton on MARKETING

Wharton's **Marketing & Sales** programs are designed for speed-to-value learning so you can apply new knowledge immediately upon return to work. At Wharton, you'll adopt the innovative thinking that catapults companies through today's complex global markets.

WHARTON MARKETING & SALES PROGRAMS:

- **Brand Leadership: Strategies for Driving Growth in a Global Marketplace**
- **Bringing Customer Lifetime Value to Life: Practical Methods and Applications**
- **Competitive Marketing Strategy**
- **Customer Driven Marketing — India**
- **Leading the Effective Sales Force**
- **Pricing Strategies: Measuring, Capturing, and Retaining Value**
- **Strategic Marketing Essentials**
- **Strategic Value of Customer Relationships — ONLINE**
- **Wharton Marketing Metrics™**



For the latest programs and dates, visit www.execed.wharton.upenn.edu.
Talk to us at execed@wharton.upenn.edu or **+1.215.898.1776** (worldwide).