7 Steps to Transforming a Marketing Plan to a Customer Centric Strategy

Digital Cement
Introduction: Why is Transformation Needed?
Corporations are being challenged to deliver growth by a variety of factors that are creating a widening gap in their ability to connect with and influence customers. While most organizations claim to be focused on their customers, in reality they lack coherent and executable customer-centric strategies. Transforming to a true customer-centric approach can unlock future growth potential and lead to corporation innovation.

This paper will discuss this transformation process and cover the following key elements.

1) The Challenge Driving the Need for Transformation
2) The Marketing Innovation Gap
3) 7 Key Steps in the Transformation Process
4) Key Benefits of the Customer-Centric Approach
5) Foundational Elements to Support the Transformation
6) Future Implications of a Customer-Centric Approach
1. The Challenges Driving the Need for Transformation

**Intensity Of Competition Across Every Category**
The first factor is the increased number and intensity of competitors in every product and service category. Factors such as *deregulation* (e.g., telecommunications, utilities, financial services), *globalization* (automotive, technology), *technology advancement* (business-to-business, technology devices) and *category innovation* (retail, healthcare) are increasing the intensity of the competitive landscape.

**Reaching And Engaging Customers**
A second major factor in the marketing performance decline is the increasing challenge of reaching and engaging customers and prospects.

Several factors cause this to be challenging:

1) Consumers have increased choice due to the growing number of competitors in each category.
2) Consumers are using new media 45% of the time, and these mediums require different approaches (Source: Veronis Suhler Stevenson Communications Industry Forecast 2005).
3) Consumers are subdividing into smaller niche markets.
4) Consumers employ their own filtering capabilities (e.g. screening calls, removal from lists, spam controls, personal video recorders, etc.).

**Key Challenge: Declining Performance Trend In Marketing**
The third major factor in the decline of marketing performance is the sole use of a *campaign model* against these challenges. Campaigns have not changed markedly in twenty-five years despite the growing complexity of *category intensity* and *customer reach*.

For example:

1) **Methods**: acquisition techniques (TV, radio, print) account for 80% of marketing spend (Source: DMA Fact Book 2005).
2) **Channels**: consumers report using new media 45% of the time, yet new media spend is 17% (Source: Veronis Suhler Stevenson Communications Industry Forecast 2005).
3) **Tactics**: Direct mail represents over 80% of direct marketing spend yet response rates are at an all-time low (Source: DMA response statistics, Economist article "On the mat", November 24, 2005).
2. The Marketing Innovation Gap effect on Marketing Plan Performance

Marketing is at a crossroads due to rising category intensity and customer reach challenges, combined with declining campaign performance. The marketing discipline now spends twice as much money than it did in 1993 yet is at an all-time low in terms of performance (Douglas C. North Nobel Nominated Economist, McKinsey Research Institute, *A Revolution in Interaction* 1997). This Marketing Innovation Gap is the result. Marketing has not innovated itself like other functional areas of the organization.

For example:

1. **Human Resources**: has experienced significant advancement in the past twenty years, with the advent and innovation around key stages of the employee lifecycle of recruitment, training, performance measurement, etc. The continual innovation in this discipline has led human resource strategy to become a vital plank in a corporation’s strategy.

2. **Operations**: has experienced significant innovation with key milestones in operational management theory including measurement and efficiency metrics, supply chain management advances, process engineering. Examples such as these have led to the operations of a corporation increasing its performance capabilities.

3. **IT**: has impacted corporate performance positively in several key areas. Corporations have felt the positive impact of IT and technology innovation through employee productivity, increased reach, information sharing.

**Roots Of The Problem: The Configuration Of Corporations**

The Marketing Innovation Gap is rooted in the structural construct of every major corporation. Corporations are typically architected in a business silo format. This structure was a positive in a growth era when the acquisition of customers was imperative.

Each business silo, regardless of industry pursues its own target customer. Yet each category that these business silos represent has far more competitive category intensity and the requisite customer reach complexity. Consider cheese, credit cards, and Internet Service Provision. Each of these categories contains niche players, local players, national players, and private label players.

Each business silo pursues its target customer with the same declining campaign model employing declining methods, channels, and tactics. Inappropriate use of methods (e.g. acquisition methods consume 80% of spend yet consumers are increasingly not reachable by
3. The 7 Steps to Transitioning To A Customer-Centric View From A Product-Centric View

Digital Cement believes that marketing innovation starts with a different approach. Digital Cement starts from a customer-in rather than product-out perspective.

Moving from a product-focus approach to a customer-focus approach has several major differences:

1) Moving from a market share to wallet share objective
2) Moving from a campaign-driven mentality to a customer relationship driven philosophy
3) Moving from a product-based dialog to a sustainable customer dialog such that customers begin to expect communications tailored to their interests, segment, and individual relationship cycle.

Step 1: Accountability For Customer View
An internal group must be mandated to take a customer-view rather than a product-view. This group should have clearance from senior executives to manage from the customer’s perspective rather than any one-business silo.

A key step in the movement to a customer centric approach is to appoint individuals to have a customer rather than a product mandate. These individuals should have clear accountability and authority from senior executives to make decisions on behalf of the most valuable customers (MVC).

Step 2: Identification Of Most Valuable Customers (MVC)
The second step in Digital Cement’s efforts is to identify the most valued customers (MVC). These are customers who are using (or demonstrate the propensity to buy) several of the company’s products across the enterprise.

They are usually:
- More loyal
- More trusting of the brand
- Not buying on price
- More likely to tell others about your brand
- Less likely to defect or churn

Finding the MVC is not simply finding customers who are transactionally valuable at a point-in-time. It requires significant analysis including:
1. Which customers represent the greatest opportunity for growth?
2. Which customers have needs that closely align with the brand’s products & services? How do they use the products and services?
3. What primary business behavior denotes MVC behavior?
4. Which customers are usually not homogenous? What subsegments do these customers break into?
5. Which customers are likely to be advocates?
6. What future value and cost will each customer segment represent?

Generally, a segmentation exercise will reveal that 20% of a customer base generated 80% of its volume. However, further analysis will show that there is significant opportunity to grow share of wallet with these same customers.

**Step 3: Determine A Sustainable Basis Of Engagement Or “Basis Of Conversation”**

A basis of conversation is grounded in the needs of the customer. The intersection of a customer’s needs and corporation’s marketing objectives forms the basis of conversation premise.

Developing a basis of conversation involves:

1. **Research the targeted customer group.** What are their primary challenges vis-à-vis the product or service category? How could the corporation help?

2. **Determine the broad discussion topics that are engaging to customers and would drive value for the corporation.** In which specific discussion topics/themes do customers wish to engage the corporation?

3. **Determine segments:** do certain customers require a different conversation than others? Are their needs unique enough to justify either a separate basis of conversation, or specific discussion themes?

4. **Build a conversation plan:**
   - What is required to support the chosen discussion topics?
   - How will this conversation be generated?
   - How do we ensure the conversation is as relevant as it can be?
   - How do we make sure the basis of conversation contributes business value over time?
Step 4: Shift From Campaign Framework To Relationship Lifecycle Framework

Digital Cement believes that the intermittent campaign method of targeting customers must be adapted to include a continuum approach that more accurately reflects an individual’s behavior.

Customers do not think in campaign time, they think in their own time, and each has a different tenure, needs set, and perception of the brand.

In short, each customer has his/her own relationship lifecycle with a brand. These stages include:

**Acquisition**: the acquisition of a new customer

**Welcome**: the crucial stage of welcoming a new customer to the brand

**Engagement**: the ongoing engagement of the individual according to his/her own individual timetable, needs, etc.

**Advocate**: the ability to get customers to tell others about the brand, product or service

**Reward**: the reward of those who are loyal, engaged and interested

Key criteria in building these plans include:

1. Specify the specific customer behaviours we are trying to drive. Are there intermediate behaviours?

2. What are the drivers & barriers to the desired behaviour? What challenges must we, as marketers, address?

3. Iterate the consumer experience elements (communication touchpoints, etc.) to create an experience that addresses these challenges and drives the desired behaviour.

Step 5: Create A Relationship Experience Plan

The purpose of the experience plan is to design the customer experience over time to maximize value to the corporation. This is done by ensuring ongoing engagement and driving business behavior.

1. Specify the specific customer behaviors we are trying to drive. Are there intermediate behaviours (e.g. drive to certain channels, call sales or customer service staff, diagnose his/her individual needs etc.)

2. What are the drivers & barriers to the desired behavior? What challenges must we, as marketers, address?

3. Iterate the consumer experience elements (communication touchpoints, etc.) to create an experience that addresses these challenges and drives the desired behavior. An experience plan should involve all channels and touchpoints. For example, advertising, direct mail, web, email, call centers, sales forces, viral components, incentives should all work in concert.

Key driving forces in the channel chosen include:
1) Cost of channel relative to customer value
2) Predisposition of customer to channel
3) Degree to which channel is effective in driving desired behavior
4) Potential impact on customer experience of a relative channel

**Step 6: Leverage Existing Infrastructure**

Many companies falsely assume that a customer-centric approach requires a large technology installation. “This is the number one reason why 61% of Siebel customers indicated that they did not achieve return on investment (ROI) after 2 years of use” (Source IDC: Worldwide and US CRM Services 2004-2008 Forecast & Analysis).

A true customer-centric strategy does not usually require additional technology infrastructure. Rather, a basic data and systems infrastructure are simply required to manage:

1. Customer transaction data
2. Customer profile data
3. Customer response data, by channel
4. Subscription & preference data
5. Segmentation data to support outbound communications
6. Additional third party source data

Generally, existing systems are capable of managing most of this effort. What is required is good project management with the necessary expertise to use existing systems to deliver the customer insights necessary to drive relationship programs.

**Step 7: Create And Monitor A Performance Scorecard**

Tying customer behavior to a performance scorecard can help produce strong connectivity between the relationship focused approach and key performance indicators.

1. Performance dashboard to optimize investment (channel mix, rewards, etc.)
2. Market against opportunity (actual value vs. potential value)
3. Monitor engagement & indicators to better understand customer needs.

Most importantly, however, a rigorous measurement regimen allows a company to ‘test its way in’. Based on financial metrics, these relationship lifecycle approaches will outperform traditional marketing methods, growing their budget.

A partial list of example indices include:

- Number of customers engaged: Channel engagement
- Interactions with brand preferences (eg. channels, products, etc.): actual value (actual transactions or modeled value) potential value
4. Key Benefits Of A Customer-Centric Approach
There are a number of key benefits of a customer-centric approach including:

- Speaking to customers on their own terms and their individual time
- Better knowledge of customer need and choice
- Improved brand equity & affinity
- Customer satisfaction (can choose channel, experience)
- Higher customer value due to higher effectiveness
- Higher profitability due to elevation of the customer relationship from solely transactional and price-based decisions
- Research insights on a scale and immediacy not previously available

5. Foundational Elements to Support Transition to Customer-Centricity
To support the movement to a *customer-centric strategy* there are three key foundational elements:

**Strategy**
A strategic shift in thinking from a product-focus to a customer-focus. Specifically, this involves translating business objectives into actionable customer strategies & plans. The activity involves diagnosing existing marketing and customer processes that lead to the declining return on marketing spend being experienced across so many categories.

**Value**
A measurement plan that can drive and monitor the customer-centric approach. This function is expressly dedicated to transforming data into customer knowledge and real-time experience enablers. This should involve the development of performance dashboards for senior executives to manage and monitor the transformation. It would also include the planning and measurement of the impact of the new approach to certain categories of customers from program level (program metrics, interactions, channels engaged, behaviors) through to a corporate scorecard (Revenue, Margin, Stock Price).

**Experience**
A relationship experience plan is a plan that recognizes that customers have a *relationship lifecycle* with a brand rather than a campaign. This function transforms marketing plans into relevant, compelling and targeted experiences that deliver sustainable business results. It involves the planning of customer interactions across the *relationship lifecycle* across multiple channels and touch points (not just marketing communications, but also other touchpoints around the customer including call centers, sales forces, invoicing and the like).
6. Future Implications of Customer Centricity

Appointment of a Chief Customer Officer (CCO)

To optimally deliver a customer-centric view, it is likely that in the future, a Chief Customer Officer (CCO) may be appointed to own the mandate. The CCO would have a customer group that owns all touchpoints that touch the MVC group. Today, most organizations have separated out the touchpoints (eg. billing, customer service, sales, marketing) that touch this customer group. The result is often a stew of uncoordinated and less than customer friendly experiences. Each of the channels constitutes a part of the customer experience and thus the plan to interact with that customer, should be driven by a group that is responsible for the customer.

Optimally, these channels would be orchestrated by the customer group, to ensure that the organization is delivering the optimal customer experience.

Enhanced Product and Service Lifecycle

Another key mandate of the CCO would be to drive innovation in the form of better products and services. Here’s why:

If an organization takes a relationship lifecycle view, the research they garner by interacting frequently with their MVC group can drive insights that fundamentally transform the R&D and product/service pipelining that needs to happen. MVCs are most likely to tell the corporation what they want in the future based on their own personal needs. This can drive innovation for a corporation.

The result is crisper R&D rooted in the fundamental needs of MVCs combined with better product/service trials and launches to the very group (MVC) who has requested the innovation. The result is an enhanced probability of product innovation.

Given the CCO is responsible for driving financial success of key customer groups (MVC, etc.), owning and orchestrating key customer touchpoints, driving product and service innovation through dialogue with key customers, it follows that the CCO should be seen as a key member of the corporate executive.

Example of Financial and Innovation Benefits

For the past several years, BMW has conducted insights and research around its key customer groups and designed specific BMW experiences for these individuals. Example experiences include VIP parking at major events, factory tours in Germany, invitations to receive BMW magazines and access to web properties where BMW lifestyle content is made exclusively available.
By producing excellent products and providing an excellent relationship experience to BMW owners across the customer lifecycle, BMW has an excellent track record of “graduating” customers up through its various series (3, 5 and 7 series of BMW cars) over time. Accordingly, BMW sits at the top in profitability per car among all automakers.

Through its relationship experiences, BMW is able to gain insights into the development of future cars based on direct customer interaction and feedback. The latest success for BMW was the relaunch of The BMW MINI. Not only was the MINI design based on insights gained from BMW owners over a number of years, the MINI was launched first to those same BMW owners who had helped in the design. The result was that the first launch of the MINI was pre-sold before one car even entered production.

Summary: Driving Growth through Customer-Centricity

There are clear and definitive steps in implementing a customer-centric approach within a traditional business unit structure. These can be summarized as follows:

1. Clear executive mandate for customer focus
2. Define the most valuable customers (MVC)
3. Establish a basis of conversation
4. Employ a relationship lifecycle framework
5. Create a relationship experience plan
6. Leverage existing infrastructure
7. Create and monitor a performance scorecard

Growth is being hampered in virtually every business category due to technology, globalization and deregulation. This increasing number of players drives a category competitive intensity. Despite this growing competition, each player generally relies on the same traditional marketing spend, despite the fact that customers are now proving to be far more complex to reach with these traditional approaches.

The net effect is a declining effectiveness of marketing. The campaign-marketing decline plotted against the rising complexity cited above produces a Marketing Innovation Gap.

A true customer-centric strategy can drive the growth that a corporation seeks. By focusing a corporation’s marketing efforts around the customer lifecycle of its best potential customers, money can be reallocated to ensure that these customers receive the customer experience that will drive growth performance. Today these customers are underdeveloped by the reliance on traditional marketing tactics that do not provide an optimal experience.

A customer-centric approach focuses on moving more products to the right customers at the right time by offering the right experience based on that particular customer’s individual customer lifecycle. A customer lifecycle approach facilitates the movement of full priced products and services rather than the mass discounting strategies that so many players are forced to rely on today. The net effect can be an exponential growth effect that directly links through performance measurement to the financial performance of an organization. Generally a customer will be proven to be worth more and more profitable.

In addition to the near-term financial benefits, those organizations that begin to move parts of their marketing spend to build the bridge to customer-centricity will be those that have a future pipeline of innovation fueled by the insights gleaned from the same customers.
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