

Headline	Are customers really at the center of your business?		
MediaTitle	Business Mirror		
Date	16 Oct 2017	Language	English
Section	Banking and Finance	Journalist	n/a
Page No	A6	Frequency	Daily



KPMG Perspectives

Are customers really at the center of your business?

BY creating a customer-centric business, you can decide where to play, what to do and how to win—and be better placed to deliver the growth that stakeholders expect.

“The purpose of business is to create and keep a customer,” observed management guru Peter Drucker in the 1950s. For manufacturers and retailers serving the consumer, that mission remains, it’s just that creating and keeping customers has become significantly more difficult in the past 60 years—and particularly in the past five years. Companies have not been complacent, pumping billions of dollars into customer-service programs—but is the investment really paying off?

Retaining customer loyalty

YET, in an uncertain marketplace, even iconic brands and retailers are vulnerable—a fact their leaders seem to recognize. The 2017 Top of Mind Survey shows that customer trust/loyalty remains a top 3 priority for 33 percent of companies over the next two years. Nearly three out of four executives identified this area as very critical to critically important to the success of their business. The other top-ranking priorities were product and pricing strategies (29 percent) and customer experience (26 percent). In comparison, such previously hot issues as talent management, geographic expansion and social and environmental responsibility were a priority for less than 20 percent.

Brand loyalty is a particular concern because, as the 2017 Edelman Trust Barometer shows, distrust of business has seldom been higher. Brands have not been immune to this skepticism, with studies showing consumers have less faith in them, don’t trust them to handle their data and are more cynical than ever about the traditional forms of advertising that are used to promote them. One intriguing finding from the Top of Mind Survey is that only 56 percent of executives in China considered brand loyalty/consumer trust as a key issue. This does not necessarily mean they are ignoring the challenge—it could be that they recognize that brand loyalty is just weaker among Chinese consumers than in some developed markets.

The suggestion that “The customer is king” is one of the oldest marketing mantras, but this is not the same as actually having a customer-centric organi-

zation. As Julio Hernandez, global head of customer, KPMG International, says: “Many companies define their customer strategy with a slogan—and underpin that with a few key attributes. But they still fall into the trap of focusing on what they can sell to the customer—not what the customer wants to buy from them.”

KPMG’s research suggests that truly customer-centric organizations have a number of common characteristics. They are more likely to:

- Collaborate with partners/suppliers.
- Embrace a culture of innovation and collaboration.
- Personally engage with end-users/customers.
- Use social media to promote their brand and engage with consumers.
- Drive digital transformation through the business.
- Have an agile, demand-driven supply chain.
- Invest in the right technologies.
- Provide a compelling customer experience.
- Have an effective pricing strategy across channels.
- Use data analytics to predict customer preferences and behaviors.

For the purposes of this research, firms with “excellent” capabilities in seven or more of these areas were considered to be more customer centric.

How to transform your company

IN terms of corporate evolution, Ranjay Gulati, professor of Business Administration at Harvard Business School, has identified four stages in the journey to customer centricity. Initially, companies are product-driven, focused on the excellence of their technology, with a diffuse understanding of their customers. Once they start investing in market research, they acquire a basic understanding of their customers and can begin to target them in a much more segmented way, but the research they have is not used to influence product development or inform strategy. This is the stage at which many companies become complacent, thinking they are “customer centric” because they know more about their customers. One large US consumer electronics retailer offers striking proof of this tendency. Management thought they knew their customers pretty well and were shocked to discover that 55 percent of their customers were women—and they didn’t

like the in-store experience which, given that the shops had been designed to suit men, was understandable.

Organizations only begin to become genuinely customer centric when they turn insight into action and shift their focus from selling products to solving customer problems. This, Gulati suggests, may lead businesses to become agnostic about whether they produce all the outputs needed to solve customers’ needs and develop an ecosystem of partners and collaborators to meet demand. The return on investment (ROI) for this kind of corporate transformation is, Gulati’s research suggests, both clear and dramatic. Between 1999 and 2007, his study of 500 companies showed that those with a deeper commitment to customer centricity grew sales by 233 percent, rather than the 10 percent achieved by the typical company in the Standard & Poor’s 500. The Top of Mind Survey also shows a clear correlation between high-growth companies, and their level of customer centricity.

With that kind of ROI—and the realization, reflected in last year’s Top of Mind Survey, that companies need to become customer centric, why have so many businesses found this goal difficult to achieve? One reason is that too many companies focus on a single customer metric—the Net Promoter Score (NPS) is particularly popular—as if this is a magic formula that guarantees success. The need for clarity and focus—particularly during times of great organizational change—is understandable, but executives need to put such data into a broader, subtler context. Knowing that a customer is satisfied is useful, understanding why they are satisfied—and applying that knowledge—can help transform the business.

The article “Insurers are on the road to strategy-aligned deal-making” by Ram Menon, KPMG in the US was taken from KPMG’s publication entitled The Frontiers in Finance.

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