Designing the Customer-Centric Organization

Jay R. Galbraith
Different Strategies = Different Organizations
Organization is More than Structure
Alignment = Effectiveness

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Rise of the Customer Dimension

- Globalization of the Customer
- Customers Want Solutions
- Customers Want Partnerships-Relationships
  - (Fewer, Closer, Longer)
- Electronic Commerce
- Buyer Power

But... we’re organized by products, countries and functions
Deliver the Company to the Customer

- Build a Customer-Centric Capability
- Perfect a Lateral Coordination Capability
- Create a Leadership Mindset

You compete with your organization!
# Product-Centric vs. Customer-Centric (1)

<table>
<thead>
<tr>
<th>STRATEGY</th>
<th>Product-Centric Company</th>
<th>Customer-Centric Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong></td>
<td>Best product for customer</td>
<td>Best solution for customer</td>
</tr>
<tr>
<td><strong>Main offering</strong></td>
<td>New products</td>
<td>Personalized packages of products, services, support, education &amp; consulting</td>
</tr>
<tr>
<td><strong>Value creation route</strong></td>
<td>Cutting-edge products, useful features, new applications</td>
<td>Customizing for best total solution</td>
</tr>
<tr>
<td><strong>Most important customer</strong></td>
<td>Most advanced customer</td>
<td>Most profitable, loyal customer</td>
</tr>
<tr>
<td><strong>Priority setting basis</strong></td>
<td>Portfolio of products</td>
<td>Portfolio of customers — customer profitability</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td>Price to market</td>
<td>Price for value, risk</td>
</tr>
</tbody>
</table>
Product-Centric vs. Customer-Centric (2)

**STRUCTURE**

*Organizational concept*
- **Product-Centric Company**: Product profit centers, product reviews, product teams
- **Customer-Centric Company**: Customer segments, customer teams, customer P&Ls

**PROCESSES**

*Most important processes*
- **Product-Centric Company**: New product development
- **Customer-Centric Company**: Customer relationship management and solutions development

**REWARDS**

*Measures*
- **Product-Centric Company**: Number of new products, Percent of revenue from products less than two years old, Market share
- **Customer-Centric Company**: Customer share of most valuable customers, Customer satisfaction, Lifetime value of a customer, Customer retention
## Product-Centric vs. Customer-Centric (3)

<table>
<thead>
<tr>
<th>PEOPLE</th>
<th>Product-Centric Company</th>
<th>Customer-Centric Company</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Approach to personnel</strong></td>
<td>Power to people who develop products</td>
<td>Power to people with in-depth knowledge of customer’s business</td>
</tr>
<tr>
<td></td>
<td>Highest reward is working on next most challenging product</td>
<td>Highest rewards to relationship managers who save the customer’s business</td>
</tr>
<tr>
<td></td>
<td>Manage creative people through challenges with a deadline</td>
<td>Manage creative people with challenges of systems integration, search for customer solutions</td>
</tr>
<tr>
<td></td>
<td>Transaction-oriented</td>
<td>Relationship-oriented</td>
</tr>
<tr>
<td><strong>Mental process</strong></td>
<td>Divergent thinking: <em>How many possible uses of this product?</em></td>
<td>Convergent thinking: <em>What combination of products is best for this customer?</em></td>
</tr>
<tr>
<td><strong>Sales bias</strong></td>
<td>On the side of the seller in a transaction</td>
<td>On the side of the buyer in a transaction</td>
</tr>
<tr>
<td><strong>Culture</strong></td>
<td>New product culture: open to new ideas, experimentation</td>
<td>Relationship management culture: searching for more customer needs to satisfy</td>
</tr>
</tbody>
</table>
Solutions Strategy

- Competitive advantage and comparative advantage
- Choice of customers
- Replication
- Customer back
- Vertical and horizontal
- Scale and scope
- Component integration
# Example of Scale and Scope

<table>
<thead>
<tr>
<th>Type</th>
<th>Sun</th>
<th>Best Buy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stand Alone Product</td>
<td>1. Desktop Computer</td>
<td>1. Television Set</td>
</tr>
<tr>
<td>2. Bundle</td>
<td>2. Several desktops linked by an Ethernet and installed as a Local Area Network (LAN)</td>
<td>2. Digital TV set, satellite connection, a subscription service for all NFL games and home installation</td>
</tr>
<tr>
<td>3. Turnkey Lite</td>
<td>3. Computer Aided Design (CAD) solution desktops, server, LAN connected to server, CAD software, installation and maintenance contract</td>
<td>3. Turnkey home office with hardware, software, connections, financing and installation</td>
</tr>
<tr>
<td>X. Turnkey Mega</td>
<td>X. Connected trading rooms for Mitsubishi at all six trading sites worldwide. Turnkey solution plus ongoing service.</td>
<td></td>
</tr>
</tbody>
</table>
Scale and Scope Dimension

1. Two to five similar products
2. Five to ten mostly similar products
3. Ten to fifteen products of different types
4. Fifteen to twenty products of different types
5. More than 20 products of a wide variety of types
Integration of Products

1. Stand alone products to same customer with common invoice and billing. One-stop shopping.

2. Stand alone products which are minimally connected, like common brand, common experience, combined shipment.

3. Themed packages of products that work together for customer segments.

4. Tightly connected products that work as a system but with substitutions of standard modules.

5. Very tightly connected products in integral system with no substitution.
Exercise

**Scale & Scope**

**Stand Alone Product**

Integration

0 1 2 3 4 5

0 1 2 3 4 5

1 2 3 4 5

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Types of Lateral Processes

Management time and difficulty

- Low
  - Voluntary and informal group (minimal or extensive)
  - E-coordination

- High
  - Line organization
  - Matrix organization
  - Integrator (full time, by roles or departments)
  - Formal group (ranging from simple to multidimensional and hierarchical)

Social Capital Foundation:
1. Personal Networks
2. Trust
3. Shared Values
Consumer Banking Segment-Product Matrix

Sales

- Region West
- Region East

Segments

- Youth
- Builders & Borrowers
- Accumulators
- Preservers

Marketing

- Brand
- CRM
- Insight
- Loyalty
- Direct

Mortgage

Credit Card

Loans

Investments

HR
CFO
Legal
Planning

Home Equity
Auto
Lines of Credit
Best Buy

**Jill**
Soccer Mom

**Buzz**
Young male gizmo fanatic

**Barry**
Rich entertainment geek

**Ray**
Budget-conscious family man

**The Extreme Price Shopper**
Demon customer
Connecting the Front and the Back

… Integrating with existing processes and reconciling

- Planning and resource allocation
  - Business unit plans
  - Customer plans
  - Reconciliation spreadsheet
- Solutions development
  - New product development
  - Portfolio development — modularization
  - Solutions development
- Solutions fulfillment
  - Explode into normal fulfillment
  - Pricing
- Solutions delivery — assembly-disassembly of teams
  - Opportunity capture
  - Delivery & installation
- Performance management
  - One company – accountability
  - Learning
The Solutions Star Model

- **Strategy**
  - Customer-facing units
  - Flexible resource units
  - Customer/solutions P&Ls
  - Linking processes

- **People**
  - Account managers
  - Project managers
  - Team skills
  - Conflict management skills

- **Structure**
  - One company
  - Customer-centric

- **Rewards**
  - Linking processes

- **Processes**
  - One company
  - Customer-centric
Getting There

Citi: Restart 1984/1985
- Formed Global Accounts Group: WCG
- Started With a Few Customers; Grew it to a Few Hundred
- Developed Hiring and Training for Global Account Managers (PAMs)
- Formed Global Account Teams (SAMs)
- Trained Hundreds in Global Account Management
- Those Who Liked it Stayed
- Trained Top Management to Manage a Portfolio of Customers
- Developed Customer-Focused Planning
- Developed Customer P&Ls
- In 1995: Customer First Strategy
- Changed Structure to Front-Back

IBM Started in 1993/1994
- Changed Structure to Front-Back
- Redesigned Global Processes: CRM
- Trained and Changed People
- Changed Human Resource System