

The Business Case for a Customer-Centric Culture

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Executive Summary

In today's hyper-connected world, customers have more choices than ever—and they often decide in a split second whether or not to do business with you. At the same time, the commerce model itself has completely changed. Gone are the days when your relationships with customers developed solely through brick-and-mortar stores, one-on-one conversations, or trusted agents. Today, many customers want to build relationships on their own terms, often choosing to get their information directly from other consumers and interacting with your company through a growing array of digital channels. This makes it more difficult to create a customer experience that consistently delivers on your brand promise.

“ How can businesses ensure a positive customer experience in an increasingly fast-paced, and often faceless, digital marketplace? ”

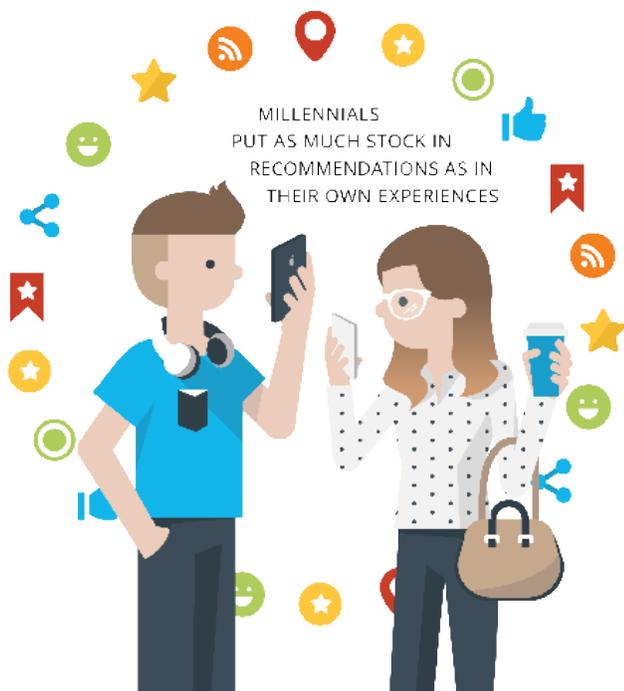
This white paper details strategies to help create a customer-centric culture, utilizing insights from Medallia and the Deloitte CulturePath™ diagnostic solution. Learn ways to empower your employees, create a set of shared beliefs, and understand your company through your customers' eyes. Research shows that a customer-centric culture can drive positive financial performance and be a source of competitive advantage, making this white paper a great starting point for any customer-focused business¹.

¹ Mark G. Ehrhart, Benjamin Schneider, and William H. Macey, *Organizational Climate and Culture: An Introduction to Theory, Research, and Practice*, Routledge, 2014.

A New Consumer, A New Customer- Centric Imperative

More empowered and shopping differently

Using the internet and other online tools, customers increasingly draw on the assessments of thousands, even millions, of people sharing their experiences online.² A Deloitte study found that 81 percent of people read reviews and check customer ratings.³ Among digital natives, this trend is even more pronounced. Three times as many Millennials as Boomers say online reviews influence their purchasing decisions,⁴ according to a Medallia study. And nearly half of Americans (45 percent) have used a cellphone while inside a physical store to look up online reviews or find better prices, according to a 2016 survey by the Pew Research Center.⁵



More demanding and accustomed to getting what they want

As technology lowers barriers to entry, it is easier for unorthodox competitors to enter and disrupt markets. With greater access to reviews and online ratings, customers are better equipped to switch to new products and services. To maintain customer loyalty and retain their business, companies may need to better track the quality of their customers' experiences far more closely.

With so many ways to shop—in stores, online, or via a mobile device—consumers want to buy products and services when, where, and however they like. They expect companies to interact with them seamlessly, in an easy, integrated fashion with very little friction across channels.⁶ For example, customers may want to buy online and pick up their purchases in a store. Or they may browse in the store, check prices on their phones, visit a company's app, and wait to get home to decide what to buy. When they log in from home, these customers expect to see their items in their shopping cart.

In short, customers want companies to anticipate their needs through a maze of purchasing channels and technologies. When companies get it right, they can reap rich rewards through greater customer spending and loyalty.⁷

When companies get it wrong, they lose.

Increasingly diverse

Consumers don't want products designed for people in other markets. They want products and services that fit their own lifestyles, incomes, and cultural traditions. As global populations age and growth opportunities shift to emerging markets, companies are having to adapt to a far greater range of tastes and preferences. For example, nearly half of global GDP growth between 2010 and 2025 will come from cities in

² Itamar Simonson and Emanuel Rosen, *Absolute Value: What Really Influences Customers in the Age of (Nearly) Perfect Information*, HarperCollins, 2014.

³ Deloitte Consumer Review: *The Growing Power of Consumers*, 2014.

⁴ Carly Kontra, *Millennials: Your Most Powerful Brand Advocates*, Medallia, 2016.

⁵ Pew Research Center, *Online Shopping and E-Commerce*, 2016. pewinternet.org/2016/12/19/online-shopping-and-e-commerce/

⁶ Beth Benjamin and Emma Sopajjeva, *Retailers Have Long Feared Showroomers. Maybe They Should Love Them Instead*, *Forbes.com*, May 16, 2017.

⁷ Bernadette Doerr, Beth Benjamin, Emma Sopadjeva, and Carly Kontra, *Accounting for a Great Customer Experience*, Medallia, 2017.

emerging markets.⁸ These new growth markets are at different stages of development, and the customers in them come from numerous ethnic and cultural backgrounds. As customer expectations continue to evolve—accelerated by the amplifying forces of interconnectivity and technology—markets are becoming increasingly fragmented, with demand for greater product variety, more price points, and numerous purchasing and distribution channels.⁹

Companies should be able to adapt to these increasingly disparate demands quickly and at scale. They should be able to discern a greater variety of preferences and tailor offerings to local tastes and needs. Staying close to the customer experience across an increasingly diverse customer base changing over time is no longer a matter of choice. It is a business imperative and a matter of corporate survival.

Competing in the Age of the Customer

In the Age of the Customer, business as usual is not enough. Companies must deliver faster innovations, better service, and an overall experience that delights people so much that they want to share it. How do companies—especially big companies with far-flung operations and increasingly diverse customers—do this? They do it by empowering each employee with the resources that come with scale, and the autonomy to use those resources in the best interests of both the customer and the company.

While this sounds good in theory, companies are often uncomfortable entrusting so much to their employees without proper controls. But many organizational controls limit rather than enable employees' efforts to be responsive to customer needs, let alone innovate to make the customer experience better.

Leading companies in the Age of the Customer are managing their way through these tensions. Many of the most successful have discovered that building a customer-centric company depends, first and foremost, on building a customer-centric culture. An organization's culture can both empower and control employee behavior by prioritizing the common understanding, sense of purpose, emotional commitment, and resilience that employees need to deliver exceptional customer experiences.

When knowledge is so diffuse and ongoing adjustments are needed at every level of the organization to keep in sync with customers, a company's culture is critically important. Values, norms, and belief systems should align with corporate practices if companies wish to achieve the cross-company collaboration needed to manage holistic relationships with customers, not just isolated interactions at specific touchpoints. Companies should listen to, learn from, and empower employees when it comes to improving the customer experience.

Broadly speaking, culture is the “way we do things around here,” a system of values that shapes the behavior of leaders and employees across the organization.¹⁰ In a customer-centric culture, leaders and employees understand the company's brand promise and are committed to delivering an exceptional customer experience. Commitment to the customer is woven into the very fabric of the organization, and it plays a critical role in aligning functions, enabling agility, and spurring innovation.

Research suggests that a customer-centric culture can drive superior financial results and be a rich source of competitive advantage. Medallia, for example, has found that creating a more positive customer experience can enhance financial performance through increases in customer retention, acquisition, and sales, and through lower churn and costs to serve.¹¹ And Forrester reports that a full 73 percent of businesses view improving the customer experience as a strategic priority.¹²

Understanding culture and customer-centricity is difficult for many management teams. Despite the importance of developing a more customer-centric culture, many leaders have difficulty simply understanding the culture they have. In a 2016 survey of more than 7,000 executives in 130 countries,

⁸ Richard Dobbs, James Manyika, and Jonathan Woetzel, *No Ordinary Disruption: The Four Global Forces Breaking All the Trends*, Public Affairs, 2016.
⁹ *Ibid.*

¹⁰ Anthony Abbatiello, Sonny Cheng, Alyson Daichendt, Marc Kaplan, and Sara Shapiro, “Take Your Corporate Culture Off Cruise Control,” Deloitte, 2016.

¹¹ Bernadette Doerr, Beth Benjamin, Emma Sopadjieva, and Carly Kontra, *Accounting for a Great Customer Experience*, Medallia, 2017.

¹² Forrester Research Customer Experience Index, 2015.

fewer than one in three (28 percent) said they understand their company's culture, and only 12 percent said their companies are driving the right culture.¹³ The good news for these and other executives is that culture can, in fact, be assessed, shaped, and changed over time. But change requires an ability to measure culture and take actions that align it with an organization's strategy and value proposition. Tools are available that allow leaders to measure an organization's culture and take action to align that culture with the company's strategies and value propositions.

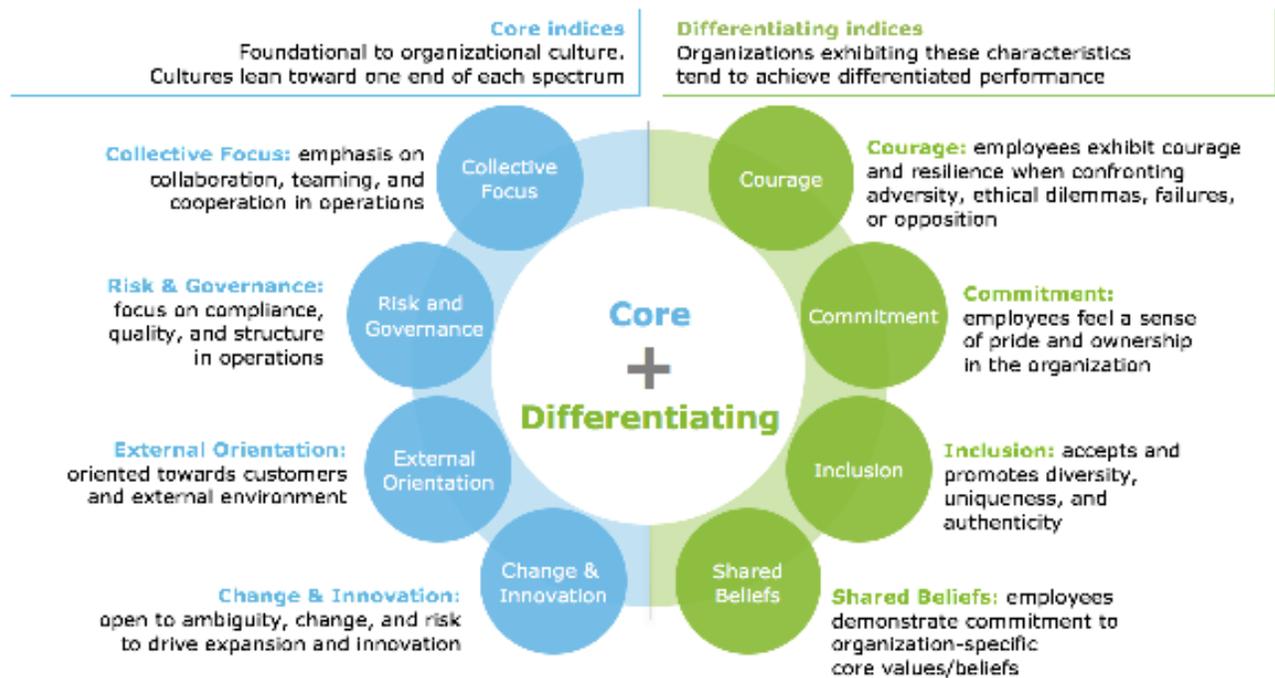
One such tool is Deloitte's CulturePath™, a diagnostic solution designed to guide leaders in their culture change initiatives. CulturePath™ assesses a company's culture along eight dimensions, evaluating the existing culture and the extent to which it aligns with a company's stated business strategy. It also helps to identify culture-strategy misalignments, evaluates the potential impact of any gaps on strategy execution, and provides guidance to form actions that can accelerate a company's culture-strategy alignment.

The CulturePath™ framework (see Figure 1) consists of four core and four differentiating indices. The core indices (in blue) represent the strategic and operational choices a company makes as it decides how to execute its strategy. Each dimension represents a spectrum, with companies ranking high or low on each—for example, high in collective focus, but low in change and innovation. The dimensions are analogous to personality traits, expressed through the policies and practices that guide a company's decision making.

Differentiating dimensions (in green) measure emotional connectedness between the organization and its employees. These traits—courage, commitment, inclusion, and shared beliefs—are key to collaboration, which is critical to providing consistently positive customer experience across the enterprise.

¹³ Global Human Capital Trends 2016: The New Organization: Different by Design, Deloitte University Press.

Figure 1:
The Deloitte Culture Framework



The Profile of a Customer-Centric Culture

Companies with a customer-centric culture exhibit a common profile across the eight CulturePath™ indices, demonstrating a similar pattern of values, beliefs, and behavior to support their strategies and objectives. Four cultural attributes in the Deloitte model are especially critical to helping build a customer-centric culture: **collective focus, external orientation, change and innovation, and shared beliefs.** Customer-centric companies show a similar pattern along the other dimensions as well, but the strength and character of these first four are critical to delivering an exceptional customer experience.

Primary Indices

Collective Focus

Companies that provide an exceptional customer experience invariably have a strong collective focus. Employees across all functions and departments—virtually everyone, from product developers and designers to sales staff and service agents—see customers as the company's number one priority. This encourages a commitment to customers that supersedes other priorities when conflicts arise.

To cultivate a strong collective focus, customer-centric companies pay attention to articulating a shared vision of what it means to deliver a great customer experience. They devote significant resources to communicating the customer value proposition, and they work hard to ensure that employees at all levels understand the role they play in delivering that value.

Customer-centric companies reinforce their collective focus by defining core principles and common standards that guide

employee behavior. Well-defined principles and standards direct attention and influence decisions across the organization, among employees who interact directly with customers, and among those who impact customers in less direct ways, through product design, procurement, payments, and other activities.

At Disney Resorts, for example, every employee (not just those who interact with guests) knows Disney's four key values for creating guest happiness: safety, courtesy, show, and efficiency.¹⁴ In addition, they know how the values are prioritized (safety is always first) and the types of actions and behaviors that go along with each. Because Disney recognizes that providing a great customer experience requires having managers who support that experience, leaders are also expected to uphold the principles in their work, making decisions and allocating resources in line with the company's standards.

Customer-centric companies encourage, support, and reward cooperation across operations. This is because teamwork and collaboration are essential to creating a smooth and consistent customer journey. Not surprisingly, customer-centric companies often invest in extensive employee training and coaching to ensure that a company's vision and value proposition are systematically represented in its service offerings and products.

Practices Important to Creating Collective Focus:



Provide customer feedback in real time to all employees.



Invest heavily in employee training and development to reinforce the company's vision for serving customers.



Listen to employee input to identify ways to improve the customer experience.

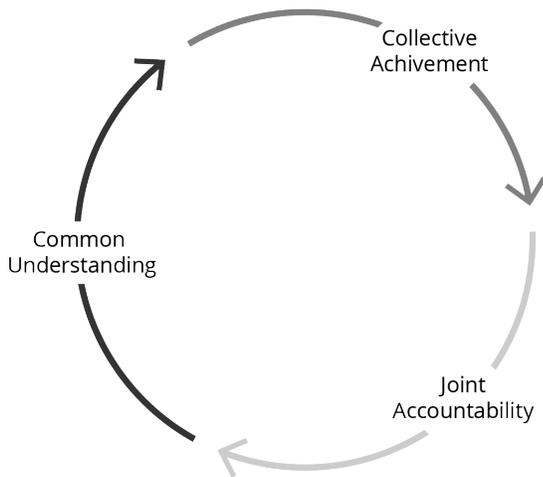


Link employee and customer feedback systems so that employees can add important context.

¹⁴ Disney's Four Keys to a Great Customer Experience

Customer Feedback

Making customer feedback accessible to all employees helps strengthen collective focus in three ways: it helps employees develop a common understanding of what customers are saying; it creates a sense of collective achievement when customers rate their experiences positively; and it creates a sense of joint accountability when problems arise.



In addition, integrating customer feedback ratings with other data, such as call center records, operational indicators like churn or up sell, and social media monitoring, can strengthen collective focus. When people across the company see the same information in the same way, they are far more likely to draw similar conclusions and form a common understanding of what customers want, need, and expect.

External Orientation

Almost by definition, customer-centric companies have a strong external orientation that keeps them squarely focused on customers, competitors, and results. In a customer-centric culture, an external orientation means understanding the company through customers' eyes. Rather than looking first at internal goals and capabilities, customer-centric companies take an outside-in perspective, trying to see themselves—everything from their brand promise and reputation to their services, operations, and products—as their customers see them. They continuously track customer feedback, combined with operational and behavioral data.

Customer-centric companies aim to make it easy for customers to share their thoughts and suggestions, through surveys, web intercepts, and follow-up conversations, for instance. When companies use multiple channels to create an active dialogue, customers provide valuable information a company can learn from. A study by the Medallia Institute found that companies collecting feedback from multiple sources and channels not only had higher response rates to their surveys, but also higher customer loyalty scores, on average 14 points higher than other companies' scores.¹⁵

Practices Important to Creating External Orientation:



Determine which metrics are key to measuring the customer experience and link them to outcomes that drive the greatest value for the business.



Consider customer acquisition, social dialog, and referral rates, not only retention and churn.



Operationalize customer feedback by distributing it across functions, including marketing, product, sales, and service.

¹⁵ Beth Benjamin, Emma Sopadjieva, Carly Kontra, and Bernadette Doerr, From Data to Action: Profiling the Modern Insights Team, Medallia, 2017. Results based on a comparison of more than 250 customer experience programs, controlling for industry, number of employees, survey type, customer base (B2B vs. B2C), and whether a program was linked to a call center.

Change and Innovation

Customer-centric companies must innovate continuously to respond to fast-changing customer needs and expectations. This requires a corporate belief system that values failing fast and learning quickly. The notion that mistakes are learning opportunities is embedded in the organization.

To promote innovation in the face of risk, customer-centric companies empower employees with information and give them the autonomy to make decisions that can improve products and services. Many employees become more comfortable trying out novel ideas, take smarter risks, and feel greater ownership of the customer experience.

Because customer-centric companies place a premium on change and innovation, they put in place policies that make risk a virtue if it produces an exceptional customer experience. For example, the Ritz-Carlton hotel brand, renowned for the quality of its customer experience, allows every Ritz-Carlton staff member to spend up to \$2,000 to ensure that a guest has a wonderful stay, without having to get approval from a hotel's general manager. Employees seldom do so, but the policy displays a deep trust in their judgment and signals that creating a wonderful stay sometimes requires going beyond standard procedures.¹⁶

Many customer-centric companies empower customer-facing employees with the autonomy to experiment and with the tools needed to learn from those experiments (see Box). Disney, for example, encourages its employees, who have a strong understanding of customer experience, to experiment and improvise so that they can “create happiness for every guest.”¹⁷

When companies like Disney and Ritz-Carlton create cultures that emphasize collaboration and intelligent risk taking across thousands of employees who are in direct and indirect contact with customers, their businesses ultimately innovate more effectively and adapt faster to customers' needs.

¹⁶ Robert Reiss, “How Ritz-Carlton Stays at the Top,” *Forbes*, Oct. 30, 2009.

Case Study: H&R Block

When employees throughout the company—from the C-suite to the frontline—have direct access to customer feedback, learning accelerates at all levels, including where it matters most, at the front line. H&R Block management believes that it's not enough to offer the same service year after year. “Exceptional service is not simply the absence of a problem,” says Pam Kennedy, who leads the company's customer experience program. “Exceptional service is doing everything perfectly and then finding a way to do more.” Because retention is a key driver of revenue—about 50 percent of all customers return to the same tax preparer year after year—H&R Block provides each of its 90,000 tax preparers with direct access to customer feedback so they can build stronger relationships with customers and identify new ways to do more. “We used to share customer feedback only with office managers, but timing is everything” said Kennedy. “We learned that when we put that information directly into our pros' hands right away, they self-correct.”

Source: [Free the Data: Engaging Every Employee With Customer Feedback, Medallia](#)

Practices Important to Promoting Change and Innovation:



Empower employees with data to personalize the customer experience and with feedback to facilitate learning.



Adopt a learning mindset; view mistakes as learning opportunities.



Give customers multiple ways to provide unstructured feedback, and use technologies like text analytics to discover opportunities for innovation.



Reward risk taking.

Shared Beliefs

In virtually every strong culture, employees share a common ideology and commitment to core values. When employees' beliefs align with a company's values, an emotional connection forms. In the case of customer-centric companies, these beliefs often include a strong service mentality and a desire to help others. Customer-centric companies go to great lengths to nurture and reinforce these beliefs. They look for them when recruiting and selecting new employees. And they create processes—like extensive onboarding and recognition programs—to reinforce customer-centric values and to make them more relevant to each new employee.

A culture with strong shared beliefs increases employee engagement. When values naturally align, employees tend to become more energized and persist in overcoming obstacles. They may also find it easier to set the right priorities, which, in turn, makes it easier to perform well and succeed. In a customer-centric culture, employees share the belief that serving customers well is the priority, and they find it personally fulfilling.

Practices important to Ensuring Shared Beliefs:



Look for customer-centric values when recruiting and selecting new employees.



Survey employees to identify where shared beliefs may be misaligned.



Create accountability systems that measure and reward employees for delivering or contributing to a great customer experience.



Ensure that leaders remain emotionally connected to customers.

Taken together, these four indices—collective focus, external orientation, change and innovation, and shared beliefs—are the most important to creating a customer-centric culture. Additional secondary customer-centric indices may be less pronounced, but they tend to be consistent.

Secondary Indices

Risk and governance

Sometimes providing a great customer experience means taking a few risks. In customer-centric companies, governance tends to be lower as employees are encouraged and empowered to come up with new and better ways of serving customers, which often entails experimenting with different options. These companies can encourage this experimentation because they have a strong collective focus and shared beliefs about the boundaries of acceptable risk and appropriate behavior. In addition, risk taking tends to be guided by access to customer feedback, clear accountability for addressing customer issues, and cross-functional governance systems. New ideas are usually tested and piloted first at the local level, where risks are contained and the investments needed to fix mistakes are typically small.

Courage

One potential obstacle to delivering a great customer experience is fear, whether it is the fear of breaking a standard protocol or the fear of not delivering on a quarterly sales number. Employees in customer-centric companies have the courage to take risks, the willingness to say what is right to serve customers, and the resilience to bounce back when things don't go exactly as planned. Similarly, leaders have the courage to “let go”—to empower frontline employees and trust that they will do the right thing.

Commitment

In customer-centric companies, employees tend to demonstrate commitment through their dedication to the customer-centric ethos and their persistence in delivering great customer experiences. For example, Thermo Fisher Scientific, a B2B company in the biotech industry, considers cultivating a commitment to customer-centric culture one of the keys to its success. After investing in and developing a unified customer feedback system accessible to all employees, Thermo Fisher

demonstrated its commitment to customer experience by weaving the customer feedback system into core metrics across the organization. Leadership reinforced the value by lauding customer-centric initiatives on earnings calls and encouraging business units to innovate core processes using customer data. With this shared commitment to the customer, Thermo Fisher has seen customer loyalty scores increase, while cutting costs.¹⁷

Inclusion

In the CulturePath™ framework, inclusion is the extent to which an organization accepts and promotes diversity, uniqueness, and authenticity. When companies are more inclusive, they can build respect among employees and listen to suggestions no matter where they originate. This helps increase a company's sensitivity to changing customer expectations and supports the collaboration needed to adapt quickly. When a company values diversity, authenticity, and uniqueness, it can also stimulate greater creativity and innovation. Employees with different backgrounds approach problems from different angles and have greater insight into an increasingly diverse customer base.

¹⁷ Jennifer Ortegon, "Building Broad Buy-In About the Customer Experience in B2B," Medallia Blog, October 3, 2016.

Culture as a Sustainable Competitive Advantage

In the Age of the Customer, companies should consider delivering faster innovations, better service, and an overall experience that delights people so much that they want to share it with others. Without a deep understanding of customer needs, companies will likely find themselves quickly losing ground to competitors more in tune with—and responsive to—customers' changing expectations. To lead effectively, executives must fully leverage the talent and ingenuity of each and every employee. A customer-centric culture is one of the most powerful levers that executives have to instill the understanding, sense of purpose, and emotional connectedness that employees need to consistently deliver exceptional customer experiences in line with a company's strategy and value proposition.

As a company and its markets change, diagnostic solutions and customer feedback systems work hand in hand to assess alignment both in and out of the organization, among employees as well as customers. Together, they can provide a comprehensive understanding of how well an organization is executing its intended strategy, delighting its customers, and adapting to the changing demands of its target markets.

ABOUT MEDALLIA

Medallia's mission is simple: to create a world where companies are loved by customers and employees alike. Hundreds of the world's best-loved brands trust Medallia's Software-as-a-Service application to help them capture customer feedback everywhere the customer is (on the phone, in store, online, mobile), understand it in real-time, and deliver insights and action everywhere—from the C-suite to the frontline—to improve their performance. Founded in 2001, Medallia has offices in Silicon Valley, New York, London, Paris, Sydney, Buenos Aires, and Tel Aviv. Learn more at www.medallia.com.

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