REDDAL

Market leadership in the digital and customer centric age

Reddal Insights — 10 June 2020
Giao Le, Viivi Tyni

As enhanced customer experience, customer centricity and intimacy become increasingly common as a winning strategy across the B2B world, we argue in this article that they no longer provide sufficient and clear strategic direction to drive companies toward market leadership. We also propose a revision to a classic framework on market leaders' value disciplines in today's digitalized business world.

Executive Summary

Problem
Customer experience is increasingly recognized as a key element for B2B company success. However, customer centricity is relatively new for B2B as B2B market leadership has traditionally been built on operational excellence or innovativeness. Therefore, many B2B companies struggle in truly transforming the company toward customer centricity but rather stay 'in between' the old and new era. At the same time, they risk becoming an average player without a clear value differentiator.

Why it happens?
The requirements to succeed with each value differentiator differ. An organization under transition without clear value discipline choices might have organizational structure, mindset, and ways of working oriented toward different directions and risk losing its competitive edge in all dimensions. In addition, the long lead time to transform these fundamental organizational elements creates a limbo that can cause further misalignment between the management expectations and actions in the frontline.

Why it happens?
Market leaders still need to make a clear choice to focus on one value dimension. As digitalization brings much of companies' cores closer to customers, one could question whether customer centricity is still a valid differentiator. We cautiously suggest that customer centricity has become a central force underlying all differentiators. In addition to product and process excellence, one could explore employee empowerment as another key differentiator in the digital age.

B2B business experiences higher customer expectations on multiple fronts

A success recipe for industrial B2B business used to be rather simple: find the competitive advantage by identifying the optimal ratio between product price and quality. However, B2B business world has become increasingly complex and multi-faceted. The bar has risen in many dimensions: offering the most competitive price is not sufficient anymore, but customers expect at the same time also quality service and high-quality products. For

instance, Davie et al. (2010) highlighted that today's B2B customers want it all – simple, fast and customized products with low cost[1].

B2B customer expectations have increased especially because of digitalization and higher customer expectations initiated by changes in B2C business. Consumers who have gotten used to fast, seamless and customized customer experience in B2C side also expect the same as customers of B2B companies. Up to 80% of B2B buyers surveyed by Salesforce expect the same buying experience as consumer-level experience[2]. Higher customer expectations have pushed B2B companies to develop more customer centric and data insight driven business models to increase value-add and customize their customer experience.

The trend of becoming more customer centric is also increasingly visible in B2B companies' public materials. We analyzed the 2018 annual reviews of the 20 biggest industrial B2B companies in Finland and found out that customer orientation is seemingly strong. On average, 'customer' was mentioned 132 times in annual reports and nine out of 20 investigated industrial B2B companies highlighted customer centricity as one of their key strategic focus areas. According to annual reviews, B2B companies want to "become the champion in serving customers", make customer centricity to become the "cornerstone of their culture" and "win with customers". Customer experience has made its way to B2B top management agenda.



Market push for B2B transformation towards more customer centric is seemingly strong but transformation from product and process driven companies to more customer oriented may turn out to be challenging. Too often, companies believe that customer experience can be successfully brought in as 'add-on' in their operations and company culture. In one case, an industrial equipment manufacturer company has established a global customer experience team to drive the transformation towards customer centricity. Despite the high ambition, the transformation has turned out to be challenging as team's resources are limited, all departments and functions are not ready to adapt for such a radical mindset change and at the same time other corporate goals do not always support the goals of customer experience team. Therefore, B2B companies need to critically consider whether it is possible to 'have it all', namely, to become a customer experience champion while continuing B2B business-as-usual with high focus on cost efficiency and process standardization.

Traditional management theory emphasizes the need to remain focused as a market leader

According to Treasy and Wirsema (1995), a market leader must excel in one of the value disciplines, either in operational excellence, product leadership or customer intimacy. Delivering value to customers in one specific value dimension enables companies to focus and exceed customer expectations and beat competitors in the area that matters most to their customers. On the other hand, a company trying to excel in everything risks becoming an average player in all value dimensions – and thus is not able deliver superior value in any dimension.



Figure 2. Value disciplines and examples of market leaders in each discipline.[4]

However, the world has changed since the 1990s when the book by Treasy and Wirsema was published. One could argue, very justifiably, that rising customer expectations in all of these three areas have changed the game – and eventually force companies to run in all fronts if they want to succeed. At the same time, technology has tied the three value disciplines more closely together than during 90s. For example, mastering in automation to bring superb customer experience means that company can create value for customers both through operational excellence and customer intimacy. In case of Motorola B2B division, systematic process, data and incentives are used to guide employees to meet customer needs at the right time with what matter most to them, making it one of the top B2B customer centric company nominated by Forbes in 2019[5] [6].

Although there might be more interlinks among these value disciplines today than in the

business context of the 1990s, we still believe in the importance of staying focused as advocated by Treasy and Wiersema (1995). Based on our experience with industrial B2B companies' strategy renewals and operating model transformation, we argue that the management need to make a conscious decision on the key value driver where the business's competitive advantage rest on. Otherwise, given increasingly high and multifaceted customer expectations, it is easy to fall into the trap of trying to please the customer in every front – which eventually leads to misalignment of priorities inside the company, unclear resource allocation and contradicting operating model elements that delay the realization of any transformation benefits.

For example, for operational excellence, it is important focus on standardized and streamlined processes to minimize costs while product driven company focuses on recruiting the most creative and entrepreneurial individuals who might not thrive under standardization. On another hand, customer centric companies must empower its employees to tailor their approaches to solve customers' specific problems in customized and unique ways – a set up in which standardized processes may hinder. For a product-centric company transforming to differentiate with customer experience, without decisive and concerted efforts to redefine its operating model, skill set and culture, these elements can become desynchronized, thus preventing the company from achieving the desired results with a new discipline.

	Product leadership	Cost leadership	Customer experience leadership
Core processes	Quick commercialization of innovations and flexible work procedures	Standardized and streamlined processes to minimize costs	Developing nurtured long-term relationships through offering customized solutions
Organization	Highly skilled individuals and teams operating in loosely-knit organization	Centralized functions and standardized skills at customer interface	Highly skilled, flexible and entrepreneurial customer teams
Culture	Experimental, future-driven and win oriented	Disciplined team work in process focused teams	Customer and "have it your way" driven
Management systems	Rewards based on innovation and focus on profitability of innovations	Compensation fixed to cost and quality; "Command and control"	Revenue driven and rewards based on customer experience
IT	Encouraging collaboration and information sharing	Integrated systems focused on achieving lowest cost	Detailed customer databases, combining both external and internal expertise

Figure 3. Required operating model elements to support each value discipline market leadership.[7]

Customer experience is now more a means to an end rather than an end in itself

While arguing that staying focus is still important, we see a need to modify Treasy and Wiersema's value discipline cornerstones to reflect the changing nature of the relationship between product, cost and customer intimacy driven by digitalization.

Digitalization brings new ways to create value for customers by bringing many of the company's core processes and value creation activities more transparent and closer to customers. Rarely any product company nowadays competes merely on products but rather

a combination of product-service offerings which require deep understanding of customer needs to create the best tailored solution. For example, in order to fully reap the benefits from the data retrieved from connected devices, a manufacturer's sales team needs to embark on a long term relationship building journey to understand the needs from different customer stakeholders in order to build a solid business case and an optimal product-service package for their client. Research and development are no longer only done in R&D laboratories but in collaboration with customer solution teams. Therefore, product leadership in Treasy and Wiersema' framework could become offering leadership – companies who provide the best solution for their customer's problems with an integrated suite of product and service offerings.

Digitalization also brings new ways of working and collaboration between suppliers and customers, breaking business processes' boundaries which require deeper understanding and alignment with customer's processes to optimize one's own processes to achieve operational excellence. For example, in one industrial equipment manufacturer's attempt to transform their sales process that traditionally only started from tendering activities, they had to first conduct a deep-dive study on their customer buying process to find ways to create values in earlier phase. Improved customer understanding is both a requirement and an enabler to create differentiating factors through finetuning one's own internal process.

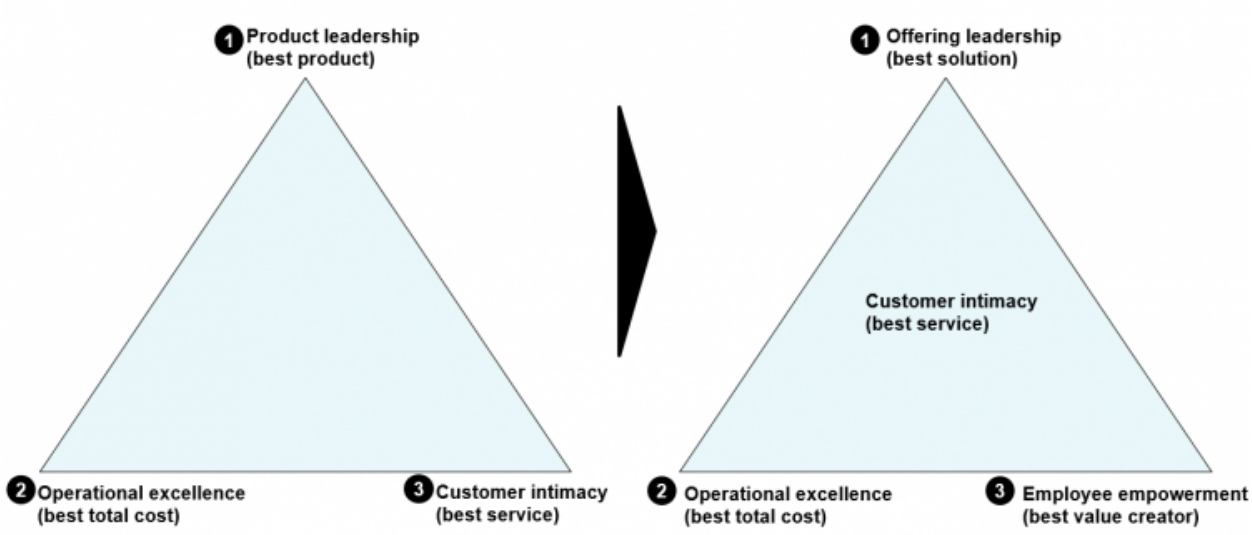


Figure 4. Proposed shift in value discipline framework driven by digitalization.

The fact that services have increasingly become integrated with product and customer intimacy is becoming central to delivering other value disciplines to customers brings us to the next interesting question – what is then the new third value discipline if customer intimacy moves to become an enabler, rather than an end in itself? If solution and process excellence being the other two value disciplines, we would argue that employee empowerment is the third cornerstone in this "trinity" of value creation. We define employee empowerment as the ability of a company in systematically training and enabling its staff from customer facing to supporting employees to collaborate efficiently, leverage insights from customer data analytics and excel in problem solving to create values for different customer stakeholders in all interactions. Value creation thus extends beyond the end

product-service package offered to their customer organization to include how the employees help their customer counterparts perform best in their own jobs.

The ability to act on facts and problem-solving leadership are essential skills for professional service companies such as management consulting, law, and business development firms. However, we believe that companies in other sectors can and should leverage these skills to create comprehensive values for customers during every touch point. We already see that transition in the IT and digital native companies, to the extent that many articles are talking about employee experience is the next big thing. As the old saying goes, take good care of your employees, they will take good care of your customers.

In conclusion, if customer centricity will become more of a prerequisite rather than a market differentiator, B2B company management should acknowledge and communicate to their organization that customer centricity as a winning strategy is not enough. Instead, it is a must and central in every processes and transactions. On the one hand, companies must focus on getting the basic right by bringing more and more customer insights to drive operations. On the other hand, the management needs to make a conscious and clear strategic choice on which customer centric-enabled value discipline the company would rely on to differentiate in today market. Employee empowerment might be the new value differentiator, for which professional service providers would provide good references for traditionally product-centric companies.

References

[1] Davie, T. *et al.* (2010), “Three trends in business-to-business sales”, retrieved at https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/three-trends-in-business-to-business-sales on 22 May, 2020

[2] Gandhi *et. al.* (2019), “Why customer experience matters for B2B”, MIT Sloan Management Review, retrieved at https://sloanreview.mit.edu/article/why-customer-experience-matters-for-b2b/ on 22 May, 2020

[3] Annual reports of the 20 biggest Finnish industrial B2B companies

[4] Treacy, M. and Wiersema, F. (1995), *The Discpline of Market Leaders: Choose Your Customers*, Narrow Your Focus, Dominate Your Market. Perseus Books Group, New York.

[5] Forbes (2019), “100 of the most customer-centric companies”, retrieved at https://www.forbes.com/sites/blakemorgan/2019/06/30/100-of-the-most-customer-centric-companies/#238788763c3e on 22 May, 2020

[6] NIST (2002), “Malcolm Baldrige National Quality Award, 2002 Award Recipient, Manufacturing”, retrieved at https://www.nist.gov/baldrige/motorola-inc-commercial-government-and-industrial-solutions-sector-cgiss on 22 May, 2020

[7] Based on Treacy, M. and Wiersema, F. (1995), *The Discpline of Market Leaders: Choose Your Customers*, Narrow Your Focus, Dominate Your Market. Perseus Books Group, New York.