

Handbook of Business Strategy

Hottest New Title in the Executive Suite? Chief Customer Officer

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Handbook of Business Strategy Vol. 6 No. 1, 2005
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Chief Customer Officer

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Curtis N. Bingham, President of The Predictive Consulting Group, helps companies appreciate their true growth potential vs. their actual growth and helps them close the gap to grow more dramatically. He helps companies glean customer insight, make it actionable, and drive change throughout the organization—making customer insight a competitive advantage that leads to increased revenue, shortened sales cycles, better products, and improved business health.

Declining prices and margins. Decaying sales. Lackluster market performance. Unprofitable customers. Do you suffer from these or similar problems?

You may have decided to spend more on advertising or promotions, replace the sales force, or cut costs further, but such efforts generally do not counter the declines.

Behind all these maladies lies the customers' perceived lack of value, and behind that lies the companies' lack of customer insight—not knowing well enough, soon enough, what customers and prospects want, need, and will buy, both now and in the future. Without such insight, companies are trying to succeed on luck alone.

The key to overcoming these and many more crippling issues may well lie in creating an executive-level customer advocate, often called a Chief Customer Officer (CCO), who is uniquely accountable for maintaining and enhancing the strength of the customer base as an asset by (a) balancing out the C-suite and Board of Directors with their traditional focus on cost cutting and revenue-growth, and (b) driving customer-centric change throughout the organization. The Predictive Consulting Group recently studied companies with a CCO, including Sun Microsystems, Cisco, Hewlett-Packard, Unica, Monster.com, Fidelity, The MathWorks, and others. This article is based largely on that study.

In many companies, an executive with customer responsibilities appears to stand outside the familiar organizational structure—someone with vague responsibilities and requirements, possibly interfering, possibly irrelevant. However, an effective CCO will make much more sense from the perspective of the Demand Chain.

The Demand Chain

The Demand Chain is the overarching business philosophy that puts the customer at the center. While the mantra of "value creation" has been around for years, its meaning has been largely overlooked. Building value and differentiating services is not all about slick advertising, fancy packaging, and especially not about low price. *To create insatiable demand, companies must build what customers need, want, and are willing to pay for.* The Demand Chain focuses on developing long-term relationships with customers to enable the company to do exactly that.

Companies at various stages of Demand Chain Management can be classified

along three axes: product and service drivers, source of competitive advantage, and how proactively they seek and use customer insight. Using these three axes, companies are categorized into five key stages—ranging from Customer Disdain (Stage 0) to Full Demand Chain Management (Stage 5) —as shown in Table 1. The ultimate goal of Stage 5 is to have every employee listening to customers, finding ways to improve customers’ experience, identifying pain points that are new

business opportunities, and helping the company develop products and services that customers need, want, and are willing to pay for. However, reaching Stage 5 is a difficult task, requiring a very different model of doing business. Companies in Stage 3, in the middle of the continuum, are beginning to hold their people accountable for establishing and maintaining strong customer relationships, often using the Chief Customer Officer role as a stepping stone to help them reach Stages 4 and 5.

Table 1 - The 5 Key Stages of Demand Chain Management

Stage 0: Customer Disdain	
Summary:	Customers are viewed as unrealistic and demanding people who get in the way of interesting work.
Product/Service Drivers:	Engineering ideas based on “cool” technology.
Competitive Advantage:	Strictly technology-based.
Customer Insight:	Little understanding of customers—perhaps even disdain.

Stage 1: Customers as Path to Revenue	
Summary:	Company is enamored with what they think customers want. “This is how I would use it.” Only customer focus is to forecast revenue.
Product/Service Drivers:	Sales quotas and areas that engineering thinks customers want.
Competitive Advantage:	Technology-based, perhaps brute sales force.
Customer Insight:	Used to drive sales forecasts.

Stage 2: Customers as Transactions	
Summary:	Customers are viewed as a series of transactions. Reactive to customer complaints. “I know what customers want.”
Product/Service Drivers:	Sales quotas and areas that engineering thinks customers want.
Competitive Advantage:	Product and technical support.
Customer Insight:	Account transactional history.

Stage 3: Customers as Niches	
Summary:	Customers are segmented, company can adapt to market conditions, customer focus extends throughout sales, service, marketing and sometimes engineering.
Product/Service Drivers:	Modification requests, services and marketing input.
Competitive Advantage:	Niche marketing, some operational excellence may emerge in product and service quality, particularly in niche plays.
Customer Insight:	Customer needs are inferred through approximations of need such as demographics, firmographics, etc. Customer data captured to increase sales and loyalty. Transactional data gathered in CRM system.

Stage 4: Customer Solutions According to Segment Needs	
Summary:	Companies make focused efforts to understand individual customer needs and use it to develop certain products/services. Limited customer experience management via website.
Product/Service Drivers:	Some product lines are designed with specific customer input. Product enhancements are often (but not always) made with customer input. Adapting products to customers.
Competitive Advantage:	Marketing, useful products, support, web site, companies beginning to work backwards from customers and use supply chain management to produce products customers want at profitable prices.
Customer Insight:	Leveraging advisory boards to gather input for modifications and enhancements and occasionally for new ideas. Some customer input coupled with CRM system provide minimal view of customers’ needs.

Stage 5: Full Demand Chain Management	
Summary:	The End-All.
Product/Service Drivers:	Customer pain drives all products and services.
Competitive Advantage:	The breadth and depth of the insight into customers’ needs, prospects’ wants, and marketplace changes, translated into business strategy.
Customer Insight:	Gathered at every touchpoint, made actionable, and disseminated throughout the organization.

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Customer insight is sorely lacking

Michael Porter of Harvard University, said that the “sole reason a company exists is to satisfy a customer.” This may seem obvious, but my own research has shown that most companies do not embrace this philosophy in practice. Too many still develop products and services simply because they can, then shell out millions of dollars to create demand. In fact, competitors often benefit from these missionary efforts by saturating the market with cheaper substitutes.

Even companies professing to be “customer focused” may have a huge gap between what they *think* their customers want and what their customers actually *do* want, often because people inside the company wrongly assume that their needs and preferences represent those of their entire customer base.

Not only do companies need to be better in touch with current and potential customers, they need to be *constantly* in touch. Customer, segment, and market requirements change constantly. How much good is a heart monitor that monitors your heart once a week?

Make customer insight an accountable role

What keeps companies from becoming as customer-centric as they should be, want to be, or claim to be? In a word, it's nobody's job. While many executives, managers, and employees truly have the customers' interests at heart, they have neither the clarity of focus nor the organizational clout to reach across and into divisional silos to effect change based on their customer insight. C-suite and Board members are too often preoccupied with revenue growth and cost reductions.

The only way to guarantee increased revenues, as well as stronger, longer, and more profitable customer relationships, is to establish executive-level accountability for organization-wide customer insight. Only through such a Chief Customer Officer, whatever title he or she may actually hold, will companies be able to (a) adequately gather customer insight, (b) make it actionable, and (c) deliver products and services that are guaranteed to succeed in the marketplace.

Jeff Lewis, the former Chief Customer Officer of Monster.com, said, “A company's value rests in its ability to meet the needs of its customers and prospects; therefore, to

be successful, a company needs to hold accountable for this value a senior executive who can affect operations and strategy across operational silos.” Research into dozens of companies affirms that customer-centric data collection, efforts to make these data actionable, and subsequent change initiatives invariably fail without this executive-level customer champion. Marissa Peterson, the EVP of Worldwide Operations and Chief Customer Advocate for Sun Microsystems, got right to the point when she labeled herself Sun's “customer conscience.”

Key CCO responsibilities

While a Chief Customer Officer's responsibilities will depend on the organization's goals, growth plans, structure, and market segments, all the executives we interviewed shared four critical goals:

- **Increase Revenue.** CCOs can help identify opportunities to secure new customers and a larger share of the customer wallet. Laurie Long, Senior Director of Customer Success at marketing management solutions provider Unica, manages the effort to leverage successful customer deployments into customer commitment to serve as a reference. References are then used to shorten sales cycles and overcome obstacles to closing a sale.
- **Bring customer balance to executive decision making.** CCOs can and must counter the C-suite's and the Board's traditional focus on revenue growth and cost containment, which has often resulted in damaged customer relationships and diminished long-term results.
- **Manage the customer relationship as a valuable asset.** Customer relationships need to be managed as carefully as other assets to control costs and maximize effectiveness. Garland Hall, Chief Customer Advocate of integration software provider webMethods, assigns each account an executive or department head to be executive champion, alongside the account representative. Lessons learned are disseminated throughout the organization.
- **Proactively gather customer insight and drive organization-wide change.** CCOs constantly gather objective knowledge of the needs of customers, prospects, and the marketplace, using

it to drive organizational changes and initiatives, often cutting across departmental or functional boundaries. Sun Microsystems uses its Voice of the Customer activities, managed by Chief Customer Advocate Marissa Peterson, to create a prioritized list of Critical to Quality issues. Executives and managers are measured by successful resolution of CTQ issues.

- **Authority to cross over organizational boundaries and drive change.**

- **Accountability.** The whole organization must be able to see that the CCO is held accountable for producing results (metrics will be discussed below), not just hot air.

Requirements for the CCO role

The responsibilities just mentioned are a tall order, and may well seem impossible if one tries to imagine them being carried out by a typical VP-level executive. And indeed, that's why they aren't carried out in organizations that don't take the step of creating the very different role we are describing. Not only must the person in the role meet certain requirements, but the role itself must be defined with sufficient power and accountability and the organization itself must meet certain requirements.

Organizational requirement:

- **Accountability and incentives at all levels.** Performance reviews and incentive bonuses must be tied to customer value metrics and measurements of change effectiveness, as well as to traditional measures of success. Otherwise, managers and employees will rightly conclude that customer focus is just talk. At Cisco, for example, customer satisfaction metrics are one determinant of compensation for all employees.

Individual requirements:

- **Wide experience of organizational functions.**

The CCO deals with issues that cross all boundaries and which look and feel different to different groups. Marissa Peterson's proven track record in numerous operations positions throughout Sun Microsystems gave her the credibility to succeed as Chief Customer Advocate.

- **Wide respect throughout the organization.**

The CCO must ask others to take risks in changing how they work. A CCO who does not already enjoy such wide respect will need enough power and opportunity to earn it through accomplishments.

- **Diagnostic and negotiating skills.** The CCO must identify problems and guide others towards a joint solution.

Types of CCO

The CCOs in the companies I studied go by different titles—Chief Customer Officer, Chief Customer Advocate, Customer Experience Officer, Director of Customer Advocacy. In some companies the CCO is a COO, VP of Services, or VP of Marketing who is also performing CCO functions. Regardless of titles, companies have implemented the CCO function in at least three different ways:

Generalists

Generalists are focused across markets, customers, prospects, and organizational divisions. They are responsible for market sensing, aiding marketing and sales, managing existing customer relationships, and influencing service and maintenance renewal revenue. Generalists report to the CEO and are not accountable to any particular division, but work to bring objective customer insight to all parts of the organization. Generalists are thus somewhat insulated from end-of-quarter revenue pressures. This position may be difficult to fill, as the candidate must have broad operational experience and diplomacy skills necessary to cross all functions, especially as people may be reluctant to treat someone outside the formal line management structure as a senior player.

Role requirements:

- **The clear support of top management.**

Without active support, the CCO's recommendations will be ignored as yet another "flavor of the month."

Service-revenue drivers

Service-revenue drivers focus on increasing service and maintenance revenue as a percentage of total revenue by concentrating on existing customer relationships. They report to the CEO, but have primary line management responsibility for such service organizations as customer service, technical support, field application engineering, and consulting services.

Champions by committee

Champions by committee are customer advocacy committees formed of various C-levels or VPs across product lines, as described by Patty Seybold in *Customers.com*. At Lands' End, a group of executives meets daily to review customer issues, the potential customer impact of proposed changes, and customer-centric operating metrics. Typically, organizations that are becoming more serious about resolving customer issues that span organizational boundaries, yet remain skeptical about a formal C-level position, will opt first for the champion by committee. As the customer focus broadens throughout the organization and the benefits of the customer champion become clearer, one of the committee members often volunteers to be CCO and is appointed.

Determining the role

Which type of CCO position to create depends primarily on corporate goals and secondarily upon the maturity of the company and the size of the installed customer base. Companies primarily concerned with retaining customers and securing a larger share of wallet through new product/service introductions to a significant installed base may be best served by a service-revenue-driver champion. Conversely, a company seeking significant growth through new customer acquisition needs detailed understanding of early adopters, market needs, ways to leverage current customers to win new ones, and so on. The company as a whole needs to be flexible and specific customer needs must be the primary drivers of design, development, QA, and service, so a generalist customer champion may be more appropriate.

For example, Unica's specific goal is to increase service revenue to bolster total revenues, so it created a

service-driver champion, whereas webMethods seeks to increase total revenues by solidifying customer relationships and meeting market needs, so it created a generalist champion.

The CCO's deliverable: customer insight

The primary goal of the Chief Customer Officer is to develop and execute a customer intelligence process that regularly and continually mines customers and prospects for actionable information about what they need, want, and (most especially) are willing to pay for. At Cisco, for example, every customer interaction is measured on a five-point scale.

Specific CCO tasks are likely to include:

- **Establishing customer value metrics** such as lifetime value, purchase volume, recency, frequency, service difficulty, strategic fit, growth opportunities, and potential share of wallet.
- **Segmenting customers** according to customer value metrics and determining the levels of service and attention for each.
- **Establishing customer relationship health metrics** such as maintenance renewal, share of customer spending, stated satisfaction, and willingness to be an advocate with colleagues, analysts, prospects, and the press. Customer relationships must be benchmarked and retested biannually at a minimum and ideally retested monthly using a rolling sample.

The CCO will often find that different divisions are gathering customer insight in different ways—or not at all—with little effective sharing across the organization. Lacking a consistent view of customer pain or opportunity, the enterprise can easily be at odds with itself about strategic direction, product/service development, resource commitments, and program funding.

CCOs can overcome this fragmentation and gain real insight into what customers need and want by establishing and maintaining what I call Customer Insight Conduits™, channels through which information passes directly from customers to a function able to take action. The conduits serve as an early-warning system for problems, a diagnostic tool to monitor solutions, and a tool to assess overall customer value and other metrics.

Typical Customer Insight Conduits™ include:

- **Customer advisory boards.** A representative sample of economic buyers of your products/services. Some companies rotate membership every one or two years to ensure fresh insight.
- **Technical advisory boards.** Invite only those who are actually going to use your products and services.
- **Customer conferences.** Go beyond rolling out new products and trying to convince customers to upgrade. Garland Hall invites customers to demonstrate how they use webMethods products, share insights with product managers, and so on.
- **Guest customers.** Hall also invites “Guest Customers” to present information about themselves and how they use webMethods products to organizations that don’t normally have customer contact, such as accounting and operations.
- **Product or service “proving grounds.”** L.L.Bean invites outdoor guides to a special weekend escape where they try out new products and give focused and even harsh feedback.
- **Blogs, chat rooms, and discussion boards.** Significant “thought-leaders” can be identified and used to gather insight and to champion products and services.
- **Customer Hall of Fame.** Unica’s Laurie Long organized a Hall of Fame to reward customers for innovative use of their products.
- **On-site assistance for a day.** Companies with a strong service/consulting component can glean much insight by sending an engineer, consultant, or other appropriate person to a customers’ site for a day to help them gain the full benefit of the product or service.
- **Sales and support channels.** Send salespeople to find answers to specific questions. Have support or call center representatives poll callers with a one- or two-question survey.

Turning customer insight into action

Customer insight is worthless unless it drives change that increases revenue. It must impact product development and operational practices as well as sales and marketing. Many companies find they need to broaden their business health metrics to include customers’ attitudes and behavior. Mercury Interactive, a successful maker of software testing tools, realigned its entire business when they began noticing their customers’ anxiety about the management and improvement of business processes. Mercury Interactive now provides business technology optimization software—a pure case of customer insight driving organizational change.

How do successful CCOs turn the insight they’ve painstakingly collected into function-wide, department-wide, or company-wide action?

- **Disseminate customer insight.** Pass key customer anecdotes, issues, and satisfaction/loyalty metrics on to employees. How can everyone care about customers they don’t know? The particular communication vehicle—newsletters, emails, meetings—depends on the corporate culture. Sun Microsystems gathers Voice of the Customer information to create a prioritized list of issues—from the customer viewpoint—that must be addressed for customer purchase/satisfaction. This information appears on their intranet, where everyone can share customer information and perform data mining.
- **Customer issue escalation.** “The buck stops here.” CCOs take whatever action is necessary to maintain key customer relationships.
- **Manage the customer experience.** With an objective view of customer needs, based on constant customer insight gathering, CCOs orchestrate and monitor the customer experience across all touchpoints and channels. Hewlett-Packard’s former customer advocate, Nancy Caldwell, put together a Total Customer Experience initiative, intended to help HP present one company to all its customers and to help it manage the complete life cycle of its relationship with each customer. “It’s the customer who defines a job well done,” Caldwell said.
- **Involve customers in decisions.** CCOs promote company-customer communication so that company decisions will foster the relationship rather

than inadvertently damaging it. Garland Hall regularly invites customers to webMethods business meetings. Information storage and management solution provider EMC included customers on the initial design teams for key products.

- **Obtain referenceable customers.** CCOs seek press releases and agreements to speak with prospects, host prospect site visits, participate in analyst/press interviews, and so on. They coordinate interactions with reference customers.

Here are some ways in which generalist CCOs, in particular, turn their customer insight into action:

- **Market segmentation.** Leverage customer knowledge to identify prospects with the same needs as current customers, generating new customers requiring minimal incremental service cost.
- **Market sensing.** Spend time with prospects to understand new and future needs and to keep abreast of potentially disruptive trends, products, or organizational changes.
- **Identify new products for new and existing customers.** CCOs are uniquely qualified to discover latent customer and even prospect needs and instigate efforts to meet them.
- **Spearhead customer events** such as advisory boards, user groups, and annual customer conferences. Identify key information to be gathered and key customers to incorporate, then allow Marketing, Services, and other groups to execute the events.
- **Oversee strategic and tactical use of CRM.**

Service-revenue-driver CCOs have their own ways to act on customer insights:

- **Ensure renewal of maintenance agreements.** Unica's Laurie Long views renewal of maintenance agreements as the best proxy for customer satisfaction. Be warned, however, that renewals may simply reflect the customers' lack of alternatives—so far.
- **Increase service revenue.** Most service-revenue-driver CCOs have consulting services func-

tions reporting to them and are striving to increase high-margin consulting revenue through customization, enhanced feature deployment, upgrade installations, tiered service levels, and so on.

- **Drive deployment and implementation.** Help customers deploy applications after implementation. Laurie Long said, "Our job isn't done until our customers are up and running." To secure references and case studies, such CCOs explicitly aid the first 3-5 customers in deployment.
- **Identify product enhancements and new products primarily for existing customers.**

Measures of success

Perhaps the most difficult aspect of creating a Chief Customer Officer role is measuring results, which are less easily quantified than the results of traditional roles. Evaluation metrics must be clearly defined and agreed upon from the outset, lest the champion fail. For example, if the company is measured solely on revenue and the CCO is measured on customer loyalty, the measurements may well be at odds with each other. Nevertheless, the customer champion must show tangible results to firmly establish value even in difficult times.

Laurie Long, for example, is measured on the number of customer references, the number of customers who annually renew their service plans, and so on. At Sun, a Customer Experience Dashboard, based on Voice of the Customer data, generates metrics that play a role in executive compensation. Petersen herself is measured according to the Dashboard improvements and the migration of customer satisfaction scores to customer loyalty.

The following measurements are being used successfully:

- **Customer loyalty (vs. satisfaction).** Satisfaction is but a fleeting snapshot of the customers' state of mind, whereas loyalty is a measure of a customers' willingness to take actions such as purchasing again or referring other customers. Satisfaction, although easily measured, is a poor proxy for loyalty. Better proxies are number of referrals, amount of repeat business, longevity of customer

relation, and increasing share of customer wallet.

- **Customer lifetime value.** The reverse of total cost of ownership (TCO), customer lifetime value is essentially the net present value of the customers' purchase potential and strategic value over the life of the customer relationship.
- **Strength of customer references.** Will they take calls from prospects and describe the company as a good partner? Speak with analysts? Be the subject of a case study? Provide insight into their business processes and needs? Is it taking less time to get customers/prospects involved?
- **Customer penetration.** How deep in the organization do the sales go?
- **Customer experience improvements.** For example, has the time needed to solve customer problems decreased?
- **Customer profitability.**
- **Ability to consistently identify needs for new products/services.** This can even work in reverse. Sun's Peterson is said to have been paying such close attention to customers that she identified the pending order declines and halted orders from suppliers long before the market plummeted and would have left Sun with huge inventory stockpiles, as happened disastrously to Cisco. In this case, while she did not increase profits, she averted enormous losses.

test of how well the CCO is doing. Revenue can be misleading, as some very satisfied customers may not need to purchase additional software, but will keep paying the renewal fee.

- **Profitability of service revenue.** Services are frequently offered to sweeten deals and not expected to be profitable. CCOs create more value for the customers willing to pay for it, making the services more profitable.

Why not the best?

The Chief Customer Officer can be a powerful asset to a company seeking to reach the stage in which customer needs are the primary drivers of business objectives and all employees take responsibility for understanding and addressing customer needs. Creating the role is a serious undertaking, as it requires and drives the re-definition of other roles and company metrics. Nevertheless, the many specific methods and opportunities described in this article should encourage companies to try for the very considerable and long-lasting benefits of all-out, company-wide, CCO-led customer focus.

Metrics Specific to the Generalist CCO

- **Impact on Revenue.** Through assistance in the sales cycle.
- **Growth of total number of customers.**

Metrics Specific to the Service-Revenue Driver CCO

Success metrics for revenue-driver customer champions are more easily identified.

- **Percentage of maintenance renewals.** Unica believes that maintenance renewals are the litmus