Business Strategy Series

The Secret Weapon in Building Customer Strategy: The Chief Customer Officer

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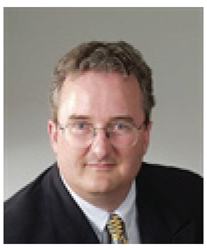

Introduction

Customers are savvier and more demanding than ever. Competition is increasing and competitive advantage is fleeting. Once-strong relationships have weakened, customers faced with an exploding array of choices, are easily swayed by competitive offerings at lower prices. How can you possibly stay ahead of this juggernaut? The answer lies in a clear and concise customer strategy, led by a Chief Customer Officer.

Customer Strategy is the means by which you align yourself with your most profitable customer segments and maximize the value you deliver to and derive from each customer. It incorporates satisfaction, loyalty, and customer experience as tools that can be used to varying degrees with each desirable customer segment. A customer strategy cuts across functional boundaries and examines customer needs and behaviors holistically across all touchpoints. To be effective, it requires an executive-level customer champion.

Just like the CEO, CMO, and COO are uniquely accountable for shareholder value, market awareness, and operations, the Chief Customer Officer (CCO) is uniquely accountable for driving profitable customer behavior and creating a customer-centric culture by leveraging in-depth customer insight to drive corporate strategy.

Based on conversations with more than 50 Chief Customer Officers from around the world over a six-year period, it is clear that the CCO role is gaining traction and fast becoming a powerful force. CEOs and the boards of companies large and small hire a CCO for three primary reasons:

1. Address chronic customer crises
2. Create sustainable competitive advantage
3. Protect and retain existing customers

There are an increasing number of different types of CCOs, each with different objectives, measures, and deliverables that must be considered before hiring a CCO.

Over the past six years, a number of CCOs have been hugely successful, whereas others have not. This research identifies the most critical success criteria and resources that must be in place for the CCO to be successful.

Evolution of Customer Strategy

The notion of "customer focus" is evolving from being "nice to have" to mission critical. Past literature is replete with companies punished for developing products in a vacuum without customer input and which ultimately failed Many (but not all) companies now regularly incorporate customer feedback in product development.

Customer focus as triage

In more recent years, customer insight was a way of triaging customer problems to stem the tide of defecting customers at rates approaching the same as those newly acquired. Sadly, an increased customer focus is still being used by some companies to diminish the alarming frequency and severity of customer lawsuits pursued by hugely dissatisfied customers whose business is severely impacted by underperforming and sometimes even misrepresented products and services.

Satisfaction to Loyalty

As a way of measuring and driving this increased customer focus, Customer Satisfaction surveys were born and customers were bombarded with survey after survey at the end of every call. Companies were horrified to learn that so-called "Satisfied" customers were defecting to competitors at the same rate as those who were dissatisfied. Enter the Loyalty movement where satisfaction is but a precursor to loyalty. A loyal customer has an emotional connection to a company that drives repurchase and may forgive minor mistakes that would otherwise damage customer relationships.

Need for Customer Strategy

> *"The CCO provides the comprehensive and authoritative view of the customer."*
>
> Jeb Dasteel,
> CCO of Oracle

A major manufacturer of fire prevention systems found that six years of investment had produced strongly improved satisfaction and loyalty scores. Yet, executives were vexed as to why, despite increased investment, scores hadn't improved during recent years.

Like this manufacturer, many companies are finding that despite their best efforts loyalty scores have plateaued. Continued investments in loyalty initiatives are not preventing customers from defecting. Profits are still under pressure. Competitors are still a constant threat.

Loyalty cannot overcome the possibility that your customers may be the wrong ones, or that you simply don't have a viable product/service strategy, and even worse, that some customers will remain fickle and price conscious—and even unprofitable, no matter how much money is invested in changing their behavior.

Peter Drucker said in 1954: "The purpose of a business is to create and keep a customer." It's not revenue. It's not profits. It's not shareholder value. It's not logistics. It's not operational excellence. All of these things are ancillary. If you create and keep the right customers, the rest follow. A customer strategy will help you profitably acquire, serve, and retain your most valuable customers.

Customer Strategy Defined

Properly defined, a Customer Strategy is the means by which you align yourself with your most profitable customer segments and maximize the value you deliver to and derive from each customer.

The customer strategy identifies the most valuable customers that must be attracted and retained at all costs, uncovers their most critical purchase drivers, and helps make sure the company is uniquely positioned to deliver products & services against these value drivers more effectively and profitably than competitors. As well, this strategy orchestrates every facet of the customer's experience with the company, ensuring the experience across all channels including marketing, sales, service, support, etc. is consistently reinforcing the value being provided the customer and the value of the customer to the company, creating loyal and profitable customers.

Customer Portfolio

A diversified investment portfolio typically contains growth investments, a core of stable, long-term investments, and some in the middle that are neither low nor high-risk. A customer strategy provides for a diverse customer portfolio.

Many companies have a "one-size-fits-all" approach to their customers, treating them all the same. In treating all customers equally, they end up adequately serving none. Margins suffer, with some customers providing inordinately large contribution margin and others actually destroying value. Loyalty scores, suspect to the law of averages, don't represent severe problems in critical accounts and sometimes seem to justify spending on customers that will never be loyal.

Within a balanced customer portfolio, the profitable, stable, and long-term customers are kept satisfied and loyal at nearly any cost. Doing so allows you to protect your "principal" investment, or the recurring revenue. The growth customers are those that must be nurtured to become loyal. Those in-between may never become loyal, which is perfectly acceptable.

This customer portfolio model ensures you:

1. focus on increasing the loyalty of only the most valuable customers and those likely to become such
2. Maintain an acceptable level of profit for those that will never become loyal

Using a customer portfolio enables you acquire and retain more of your best customers, and ensure they remain extremely loyal. It also allows you to (profitably) manage the rest of the customers without worrying about loyalty.

Need for Executive Accountability

One of the most critical elements of an effective customer strategy is executive-level accountability. The customer must be well-understood and well-represented at all levels within the company. There must be an executive that ultimately "owns" customer insight that can guide and focus the organization on that which the customer cares most about.

CCOs should focus more on overall profitability improvement as the core KPI as such is the hallmark of a successful customer strategy and the key to competitive advantage.

The Evolution of the CCO

Six years ago there were fewer than 20 people in the world with a relatively obscure title of Chief Customer Officer. These included a small handful of trailblazers including Marissa Peterson of Sun Microsystems, Doug Allred of Cisco, and Jeff Lewis of Monster.com. Since then, Predictive Consulting Group has been publishing a semi-annual report of Executive Level Customer Champions that summarizes roles, responsibilities, and key success metrics and has been instrumental in the definition, selection, and success of numerous Chief Customer Officers.

There are now more than 300 officially-titled Chief Customer Officers in the world and hundreds more serving the same purpose but without the formal title. The role is evolving dramatically and spectacularly, with some particularly impressive results.

In 2008, the Predictive Consulting Group began interviewing these CCOs, and this article is based on more than 50 direct interviews of CCOs from companies like Oracle, Cisco, SAP and numerous other mid- and small-cap companies.

CCO Role is crucial to customer strategy

For these companies, the CCO role is crucial to establishing and executing an effective customer strategy. CEOs of companies large and small are recognizing that customer strategy is the core of their competitive advantage, and they are introducing the Chief Customer Officer as the fulcrum that helps create corporate and customer strategy, as well as the customer-centric culture required to create and leverage this competitive advantage.

Examining the CCO Role

Within the C-Suite, each executive is uniquely accountable to a specific audience and for specific, measurable results. The CEO is accountable for shareholder value, the CFO for financial performance, the CMO for marketing awareness and VP of Sales for quarterly revenue. In this traditional model, there is no accountability for increased customer value—nobody owns customer relationships, nor does anyone own the task of growing the value of the customer franchise. In the absence of ownership and accountability, it becomes nobody's job.

Just like the CEO, CMO, and COO are uniquely accountable for shareholder value, market awareness, and operations, the Chief Customer Officer (CCO) is uniquely accountable for driving profitable customer behavior and creating a customer-centric culture by leveraging in-depth customer insight to drive corporate strategy.

Jeff Lewis, the former CCO of Monster.com said, "To be successful in delivering real customer value, a company needs to hold accountable a senior executive who can affect operations and strategy across operational silos."

The CCO Role Defined

CCOs are executive-level customer champions with enterprise-wide responsibility for customer relationships.

Jeb Dasteel, the CCO of Oracle said, "The CCO provides the comprehensive and authoritative view of the customer." Marissa Peterson, the former CCO of Sun Microsystems, viewed herself as "the customer conscience" for the company.

CCOs share three common goals:

- **Drive profitable customer behavior:** To help customers spend more, and more often, the CCO must focus on initiatives such as profitability segmentation, customer retention, loyalty, satisfaction, and improving the customer experience. As well, many CCOs will use in-depth customer insight to inform the sales and marketing efforts to acquire more of the "right" and profitable customers.
- **Create a customer-centric culture:** One of the most important roles of the CCO is to help create a strong, customer-centric culture complete with accountability and ownership at all levels in the company. CCOs that fail at this imperative incessantly put out fires and burn out as nobody else takes ownership. CCOs must prioritize customer initiatives to drive the most profitable initiatives with the greatest customer impact. They must put a face on customers and help employees (especially the non-customer-facing employees) remain focused on driving customer value.
- **Drive customer and corporate strategy into the C-Suite and throughout the company:** Because CCOs can provide the authoritative view of the customer they are uniquely qualified to shape corporate strategy to guide the company in the coming years. As well, CCOs must be the authors of customer strategy to define customer portfolios, prioritize customer retention and acquisition efforts, create greater customer value, and increase loyalty.

The successful CCO:

1. Grows the customer base
2. Enhances profitability
3. Increases the strength of the customer base as an asset

4. Balances the C-suite and Board of Directors with their traditional focus on cost cutting and revenue-growth

The CCO Title Isn't Important

Chief Customer Officer, Chief Client Officer, Customer Experience Officer—the titles are not important. What is important is that in the end, the customer recognizes the intent of the title, and the power that it provides the bearer to act in the customers' best interests.

Average tenure of the CCO

The average tenure of the CCO is approximately 24 months, with some notable exceptions on either side of the average. There are a remarkable number of CCOs that are relatively new in their job in the past two years. Others, like Kevin Kahn of the Colorado Rockies have been the CCO for more than five years.

Approximately 60% of CCOs are promoted from within and the remainder is hired from the outside. Jeb Dasteel, CCO of Oracle mentioned the greatest challenge of his job is the sheer size and complexity of the company and his job. Marissa Peterson, former CCO of Sun credits her significant operations background with Sun prior to becoming the CCO as a key part of her success during her tenure. On the opposite side of the coin, CEOs that bring someone in from the outside do so because they feel the need for a fresh, more customer-centric perspective.

A customer strategy will help you profitably acquire, serve, and retain your most valuable customers.

Which companies have a CCO?

Six years ago there were only four Fortune 500 companies with CCOs: Cisco, Sun, HP, and Pacific Gas & Electric. Of the more than 300 today, 25 are Fortune 500 companies.

Larger companies experience a greater payoff for installing a CCO than many because the loss of a single, large B2B customer or distributor can be devastating to their business. In addition, large companies tend to stratify away from customers, focusing on self-perpetuating behavior at the expense of customers. They lose sight of current and future needs, lose relevance in the eyes of the customer and are more vulnerable to competitive poaching.

CCOs of large companies have the greatest challenge in changing an ingrained culture, much like turning a supertanker on the open seas. Oracle, long known for aggressive sales behavior, received a huge boost when they acquired PeopleSoft, a very customer-centric company and another boost upon acquiring the highly customer-focused Siebel. After a string of acquisitions, more than one in three employees are from another company. With this assimilation of customer-centric employees, CCO Jeb Dasteel states that Oracle has been able to make enormous strides in driving customer-centric strategy and culture, which aids the retention of nearly 100% of newly acquired customers.

It is far easier to install a CCO in a smaller company of perhaps less than $100M in revenue, often because the CCO can directly influence all the employees. The CCO can more easily establish and enforce policy. However, these CCOs are often resource-starved. In one extreme case, the company failed because the growth rate surpassed the CCOs ability to support and sustain current customers, destroying customer relationships and resulting in their defection.

The greatest concentration of CCOs is found in mid-size companies. These companies tend to have the maturity to avoid the "growth at all costs" mindset, the resources to support the CCO and care for customers. They also have the willingness and resources to invest in customer measurement and improvement.

And they have few enough employees to easily shape behavior around customer needs.

Why do companies hire a CCO?

While the reasons are varied, CEOs hire a CCO for one of three primary reasons.

To address unresolved and chronic customer crises

In 2001, Sun Microsystems had a rude awakening. A quality problem had plagued them for months. It was crippling customers' mission-critical operations. A large number of quality initiatives were launched but none were fixing the problem. Marissa Peterson was tapped to become the Chief Customer Advocate with a clear mandate to find and eradicate the root cause of these issues. Employing Sigma techniques, she and her team were hugely successful in a relatively short period of time.

Like Sun, companies experiencing unresolved customer crises that they have not been successful in fixing on their own, such as extremely dissatisfied customers due to chronic product issues, customer lawsuits arising from unmet expectations, etc. turn to a CCO to focus their customer initiatives and drive immediate results.

To create competitive advantage and help acquire new customers

In small and mid-cap companies, CEOs recognize that they need to differentiate themselves from their (oft-times larger) competitors. They appoint a CCO to prove to their customers and prospects that they are singularly committed to customer success. Many a deal has been inked after a visit from the Chief Customer Officer.

To better retain existing customers

CEOs recognize they can grow revenue & profitability by reducing customer churn. Customers were defecting, revenues were plummeting. The Chief Customer Officer was able to provide operational stability by focusing on retaining customers to protect revenue. Rudy Vidal is the CCO of inContact which provides contact-center software under the Software as a Service (SAAS) model, meaning that they pay for web-based software on a monthly basis, promised to defend 80% of his company's recurring revenue by focusing on making these customers extremely loyal. In doing so, he was able to smooth out variability in revenue fluctuations and ensure the company could grow intelligently.

In the absence of ownership and accountability, serving the customer becomes nobody's job

Interestingly, there are a handful of CCOs that were hired by a newly-appointed CEO that had come from a highly-customer-centric company. These CEOs hired the CCO as part of their overall growth strategy to change culture and help reach revenue, margin, and operational goals.

Different types of CCOs

The CCO role has matured significantly in the past six years. CCOs used to have discrete job functions and could be classified into one of three types: Service Driver, measured according to service revenue and customer retention efforts, Sales Driver measured on revenue/new account growth, and Generalist with a dual focus on both acquisition and retention.

In recent years the role hase become more complex. The demarcation between the discreet types is blurring, with more CCOs leveraging customer insight to drive unified customer strategy through both acquisition and retention efforts. CCOs can be classified according to two axes as shown in Figure 1: The CCO Continuum. The horizontal axis represents the split of responsibility between customer acquisition and retention activities particularly those measured by the specific performance indicators they are held accountable for. The vertical axis classifies type of positional and organizational authority.

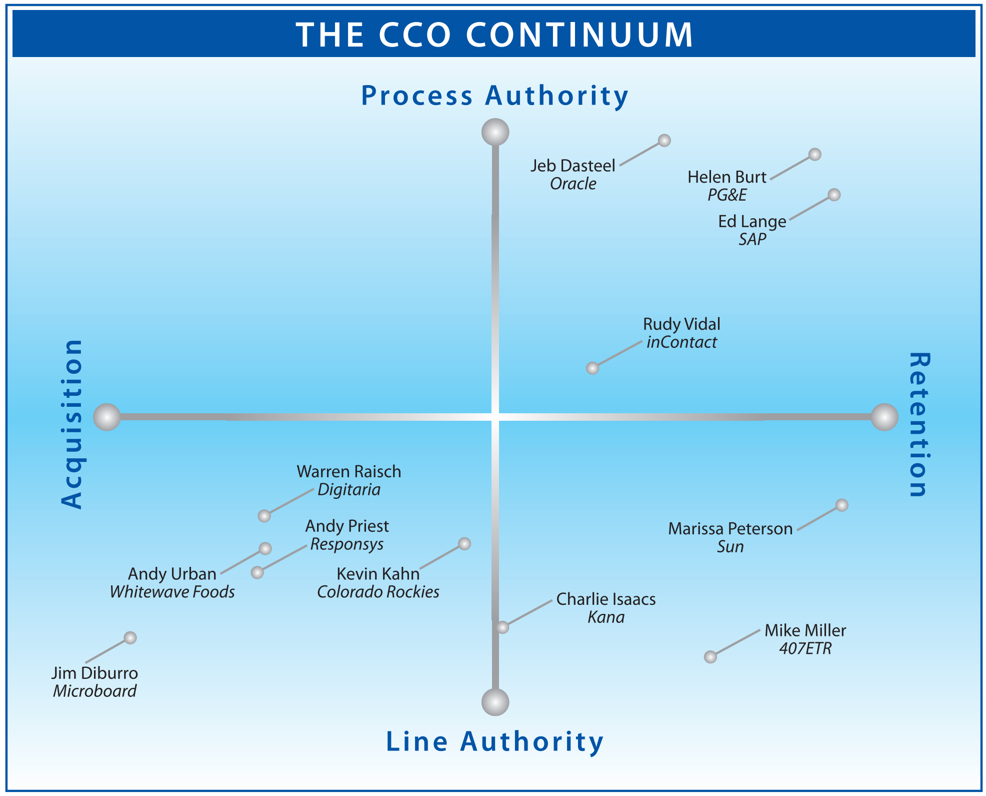

Figure 1: The CCO Continuum

Line Authority

Many CCOs, especially those in smaller companies have "line authority" over many of the customer-facing functions in the company. These may hold EVP of Services or EVP of Sales titles in addition to Chief Customer Officer. With this positional authority, it is easy to shape employee behavior to better serve customer needs and improve the customer experience. However, there are still customer-impacting processes that lie within other departments such as billing, product development, R&D, etc., making it impossible for the CCO to truly control all functions that shape the overall customer experience.

Process Authority

The greatest challenge for CCOs having line authority is that the model cannot scale as the company grows and the demands on the CCO increase. With growth comes the need to sacrifice line authority for vast matrix authority over task teams brought together to resolve specific issues.

Rudy Vidal, in addition to line authority over services, has "process authority" throughout the entire customer value chain. This means that even though he doesn't directly control resources, with this CEO-given mandate, he can examine and drive improvements in any process at any customer touchpoint to improve the overall customer experience.

The CCOs acquisition/retention ratio can be plotted on the horizontal axis of the CCO Continuum. Jeb Dasteel spends approximately 30% of his time on customer acquisition and the remainder in customer retention efforts. Jeb's role is a pure staff function; he and his team help business units gather customer insight to refine process as part of the overall customer strategy.

Jim DiBurro, CCO and VP of Sales for Microboard Processing until December of

2008, was nearly 100% focused on new revenue and held line authority over the entire sales organization, placing him at the far lower left quadrant.

While still at Sun, Marissa Peterson had significant line authority as the EVP of Worldwide Operations in addition to her staff role as CCO. As CCO she focused the vast majority of her time on overcoming quality issues for existing customers.

In general, small and mid-cap company CCOs are often found below the horizontal (more line authority). Small company CCOs frequent the lower left quadrant (more focused on customer acquisition). Larger company CCOs tend to be clustered to the right of the vertical towards customer retention, and almost all are found in the upper right quadrant by virtue of their staff function.

Creating the Chief Customer Officer

There are a number of considerations a CEO and Board must make in creating the CCO role, namely the type, reporting structure, and support necessary for success.

Determining the Right Type of CCO

CCOs can be categorized according to their accountability for customer acquisition vs. retention, and their degree of line or process authority.

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 tasking the CCO with the primary function of retaining customers and protecting current revenue. 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, making an acquisition focused CCO more appropriate.

Regardless of the primary focus, all CCOs should have some measure of process authority as a mandate from the CEO so as to forestall turf wars in the CCOs efforts to provide customers with a loyalty-inducing customer experience.

Critical Success Factors for the CCO

In creating a successful CCO role, CEOs consider the following critical success criteria.

CCO Must Report to the CEO

Without this direct linkage, the CCO is hamstrung in his or her ability to affect change inside the company on behalf of customers. Companies where the CCO doesn't report directly to the CEO but is instead buried in a marketing or service organization are not serious about the role or the customer-centric function it offers. They are merely paying lip-service to their customers and when customers find out the CCO is powerless, their relationship is at risk of terminal failure.

Vocal and Visible Support from the CEO

If there was one thing that every single CCO agreed upon it was that the CCO must have a very visible mandate from the CEO to act for and in behalf of the customer. One relatively new CCO said that he was spending nearly 50% of his time justifying his value to executives and business functions. Clearly, customers are not getting the value they deserve and the company isn't generating the results for which they hired the CCO. With extreme support from the CEO, the CCO doesn't need to spend inordinate amounts of time proving value and can focus on driving profitable revenue through effective customer strategy.

Performance Metrics

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 CCO must show tangible results to firmly establish value even in difficult times. The following are key performance metrics that CCOs should be measured against:

Revenue or Profitability Improvement

The vast majority of CCOs today are tied in some fashion to either the creation or preservation of revenue. Six years ago, many CCOs were embroiled in a battle with their Utopian customer view, taking care of customers because it was “the right thing to do.” But they couldn’t justify their existence. Without being measured on revenue or profit improvement their position was the first to be eliminated when revenue fell. CCOs should focus more on overall profitability improvement as the core KPI as such is the hallmark of a successful customer strategy and the key to competitive advantage.

Over the past six years the ranks of the CCO have swelled from 30 to over 300, 25 of which are from Fortune 500 companies such as Oracle, Campbell Soup, Cardinal Health, Cisco, and more.

Corporate Strategy Development/Execution

By definition, the CCO owns the voice of the customer and the shaping of corporate strategy. Thus, the more closely tied to this corporate strategy are the CCOs goals, the more likely he or she is to succeed.

Customer Strategy Development/Execution

The creation of and execution of customer strategy based on clear customer/market insight to drive profitable customer behavior is a hallmark of the most successful CCOs.

Customer Centricity

Creating a customer-centric culture and driving organizational accountability to customers is a critical measure of the success of the CCO. Motivating and holding people accountable ensures that customers are integral into everyone’s mindset and not just “someone else’s problem”.

Customer Loyalty Improvements

Loyalty improvement is a more tangible and easily measured proxy for the preceding metrics. Nearly all CCOs are measuring satisfaction and many are measuring loyalty on a regular basis. As previously mentioned, satisfaction alone is insufficient because satisfied customers defect, unlike loyal customers.

Selecting a Chief Customer Officer

The role of the CCO is complicated and requires a unique individual to fill it. It is perhaps one of the busiest role in the C-Suite, and clearly the most visible to customers. Successful CCOs have:

- **Wide experience in organizational functions.** The CCO deals with issues that cross all boundaries and which look and feel different to different groups.
- **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.

- **Powerful Communication Skills.** The Chief Customer Officer may perhaps be recast as a Customer Communications Officer, for the vast majority of their job boils down to three areas
  - Gathering customer insight through numerous listening, monitoring, and measurement methods
  - Communicating the voice of the customer to internal constituents (especially important for one with more process than line authority)
  - Communicating corporate strategy to customers and prospects

Experience and Background

Six years ago I was adamant that there was no room in the CCO role for anyone from either IT or sales. Until recently, CIOs have been denied a seat at the boardroom table because they've been unable to extricate themselves from technology and aid in managing the business. Charlie Isaacs has disproved this assertion. As the Chief Technical Officer and CCO of Kana, he is responsible for global customer support and customer experience teams. Isaacs finds that his engineering background is critical to understanding customer workflow, needs, and ways to improve current uses of technology, and his business background enables him to effectively trade off business value, technical challenges, and the service experience.

Similarly, a salesperson by definition is focused on near-term revenue which is often at odds with longer-term customer relationships. I postulated that salespeople couldn't manage this natural tension and would end up damaging customer relationships to deliver against their performance metrics and earn their bonuses.

However, in recent years there are an increasing number people in smaller companies with a dual title of EVP of Sales and Chief Customer Officer. Skip Aldridge, the EVP of Sales and CCO of Pharmavite has balanced this natural tension by abstracting himself from day-to-day sales operations, which enables him to take the longer view without significant customer pressure. Interestingly, most people in this situation firmly believe that nobody can be a CCO unless they've been beaten up by customers in a sales role.

Regardless of the experience and background, the CCO must have the ability to champion the customer cause and balance customer needs with business growth objectives so as to help the business grow while profitably serving the right customers.

Conclusion

The Chief Customer Officer is a powerful asset that can help resolve chronic customer issues, create sustainable competitive advantage, help retain profitable customers, and drive profitable customer behavior through the effective customer strategy. The CCO is also the most well suited to create customer-centric culture. Creating the role is a serious undertaking and executives must be firmly committed to supporting the role vocally and visibly to ensure the CCO has the authority and credibility that is necessary for success. May we all enjoy greater customer success that results in pronounced business growth.