Dancing With the Customer:
Business in a Consumer-Centric Economy

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Despite enormous investments in e-commerce, regrettably much e-business appears to be failing its customers. This article delves beneath the surface and identifies four reasons why e-commerce, though huge in impact, is currently still "missing the mark" in terms of consumer satisfaction and shareholder return. We then identify five new ways of looking at the economy that we believe will foster the creative responses to this situation.

The global e-business market is forecast to reach $240 billion by end of 2002.[1]
Yet according to a comprehensive survey conducted by AT Kearney in September 2000, e-retailers are missing out on $6.2 billion in lost sales, equivalent to 13% in total revenue because online customers fail to complete a transaction[2]. Last summer the Gartner Group warned that 80% of CRM deployments in Europe would likely fail and the Butler Group described CRM as "a technology graveyard, an arena where far too many well-intended projects appear to flounder on the rocks of corporate uncertainty."[3]

Other sources corroborate a series of inadequacies in e-commerce as currently practiced: 75% of respondents abandon their shopping carts without making a purchase according to Bizrate[4] and 80% give up according to AT Kearney.[5]

We believe there are four root causes for the current disillusionment with matters that begin with an "e". These four causes are like the layers of an iceberg – only the top 25% is visible above the surface of the water and is attracting attention. Each layer rests upon and is supported and influenced by a layer beneath and comprise: technology and design, corporate structure, corporate culture and prevailing worldviews of life in general and business in particular.

1. **Technology and design.** The majority of articles, whitepapers and discussion groups that focus on solving the performance issue fixate on technological and design solutions. They include more sophisticated CRM technologies for customer acquisition, retention and service enhancement; site design improvements following intensive usability analyses; increased access via new devices and the adoption of integrated " 360 degree" approaches to deliver consistent service across multiple channels etc. Huge additional investments in software are anticipated. For example, the market for CRM software alone is expected to grow from $9.4 to $30.1 million by 2005[6].

2. **Corporate Structure.** Inappropriate corporate structures - notably the "Silo Syndrome" have only recently been cited as a cause for poor customer service. Service offerings are fragmented across multiple departments (marketing, sales, production, R & D, shipping) each operating in relative isolation often having developed their own legacy applications independently of one another. Most companies organise themselves on a mechanistic model devised in the 1920's that may have been appropriate when capital and value were based on "hard" assets, such as land and resources, but simply prove too rigid for an economy where knowledge, innovation and creativity are the real determinants of success and value. The multi-divisional firm was first modelled by former General Motors President Arthur Sloan in the 1920's and hasn't been questioned until relatively recently.

[1] Satisfying the Global On-line Shopper, AT Kearney Whitepaper
[2] ibid
[3] *Beware the e-business Budget Burners, Mike Simmons, in CW360, 28/11/2001.*
[4] Quoted by Luc Carton in www.eshopability.com
[5] Satisfying the Global On-line Shopper, AT Kearney Whitepaper
[6] *CRM Sector Will Survive Software Spending Slowdown* in www.cyberatlas.internet.com

In the first half of the 20th Century, it was prudent for companies to grow in size in order to reduce and control transaction costs and gain economies of scale. Only in the 70's and 80's when transaction costs started to decrease, thanks to improvements in information technology, privatisation and deregulation, did it make sense to splinter companies into smaller business units. But size still matters and the organisational silos and associated incompatible internal management and information systems have persisted.

Business pundits such as A.T. Kearney[7], Tapscott & Lowry[8], Camrass & Farncome[9], and Aldrich[10] are now urging companies to splinter even more and re-ask themselves what business they are really in?

Rather than organising around integrated business units, a company will evolve around the underlying business capabilities or core competencies. Defined by A.T. Kearney as "a set of value elements (built through knowledge, assets or processes) within the value chain that lead to a specific output. [11]

While we agree this functional and corporate disaggregating trend is probably inevitable and will likely help improve enterprise agility and responsiveness, we also believe it will only go so far and ultimately fail if executives do not probe further and assess the corporate culture and values that drive business in the first decade of the 21st century. Hidden within the A.T. Kearney quote cited above is a perspective that, left unchallenged, will bring with it yet another slew of problems.

3. **Corporate Culture:** The organisational structure of today's corporation is informed by cultures and "ways of doing things" that may have represented brilliant breakthroughs at the time of their inception but that have now outlived their usefulness and relevance. While the practice of marketing has increased in sophistication, it remains essentially a push activity that starts with the Product and deploys Positioning, Promotion, Pricing and Placement to push a product, service or solution to a relatively distant and passive customer.

   Influenced significantly by Freud's devotees – who held a jaundiced and negative view of humans in groups – customers became objects to be manipulated, targets to be exploited or captured. Given the spate of ex-military personnel that were absorbed into commerce following two world wars, it is not surprising that military thinking has dominated the lexicon of commerce. Enterprises, like armies or battalions, compete to "capture a market" using an arsenal of weaponry (persuasive advertising and communications) to "gain the high ground". The prizes in this war are the hearts and minds of consumers that, regrettably, are often de-humanised and objectified by the very statistical approaches used to better understand their behaviours and preferences.

   Organisational structures, like armies, are hierarchical and employees, as the combat troops, are expected to obey orders (stick to the script) and are provided information on a strictly "need to know" basis. These factors have all lead to a growing distance between company and customer and an inherently disrespectful, exploitive culture that treats both employees and customers as objects. Have you ever heard of Friendship Relationship Management (FRM?) I doubt it. I hope not.

   There is considerable evidence that today's consumers are fighting back. Thanks to the ubiquity of information on the net, savvy consumers now occupy a world of near perfect information that is reducing many products and services to commodities.

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[7] *Rebuilding the Corporate Genome: New Ways to Organise Your Company*: AT Kearney
[8] *Digital Capital: Harnessing the Power of Business Webs*, Don Tapscott, David Ticoll, Alex Lowy, Havard Business School Press
[9] *The Atomic Corporation: A Rational Proposal for Uncertain Times*, Roger Camrass and Martin Farncombe, Capstone 2001
[10] *Mastering the Digital Marketplace*, Douglas Aldrich, John Wiley & Sons, 1999
[11] *Rebuilding the Corporate Genome: New Ways to Organise Your Company*: AT Kearney

Consumers are increasingly searching for meaning from experiences not the acquisition of things. In a recent survey, acquiring material possessions was identified as important by only 38% of an adult sample compared to nurturing relationships with family and friends (98%)[12]. Our lack of time – not always money – causes us to value enterprises that appear to help us achieve our personal objectives in a world of seemingly endless choice.

4. **Paradigm or World View:** But to attempt to "fix" or address these cultural problems without understanding and revealing their source would also prove futile. The current subject-object; I win-you lose; mechanistic and exploitive culture that underpins most corporate cultures is based on a collective worldview or paradigm that is also being called into question. While much misused, the term "paradigm" is really the only term that describes something as fundamental as the way that human beings choose to make sense of their world at a given period in history. When established in our societies, paradigms are rarely discussed – in fact, they are so taken for granted, they become invisible. This was the case for medieval Europe at the time of the Inquisition. It took brave folks such as Copernicus and Galileo to challenge the prevailing worldview and create the conditions for a different collective agreement on reality to emerge. The mechanistic paradigm that evolved and was later based on Newton's physics, Darwin's survival of the fittest and Descartes' philosophy (among others) has invisibly dominated our thinking since.

   We live again at a time of shifting paradigms and to "make sense" or find meaning in the world of commerce, we need to challenge all the old, hidden assumptions about who we are and how the world really works because the old assumptions, based on old paradigms have simply outlived their usefulness. Enough of us are challenging them, to cause them to become visible again. The culture and practice of today's commerce is based on a worldview that views the universe as a machine, operating according to linear laws of cause and effect. The language of commerce is loaded with mechanical, engineering terms drawn from a love affair with locomotives, cars and airplanes. Companies and economies are viewed as machines that can be "kick-started", "got back on track", re-engineered and fine-tuned in order to wrest ever-higher productivity from employees and profit margins from customers. Back in the 1920's Frederick Taylor, whose landmark work, *The Principles of Scientific Management* guided Henry Ford, drew his ideas on efficiency of organisations from Newtonian <u>not</u> quantum physics. Workers, he said, were to be viewed as passive units of production and the system or the workplace was like a machine. Old cultures die hard – old paradigms die even harder!

So if e-business is not fulfilling its promise, if customers are in revolt, if CRM isn't working how it's supposed to, then it makes little sense to be tinkering with existing technologies. It also makes little sense to tackle corporate structure, if the cultures on which such structures rest are also being shaken from beneath. Furthermore, it may not be prudent to change cultures unless you can harness the underlying forces on which core assumptions about value and meaning are founded.

On the surface of things, the tourism industry seems to be in crisis but hidden within the dangers are tremendous opportunities for those who think creatively, strategically and innovatively.

Finding those hidden opportunities involves a complete change in perspective. We think there are five different ways of looking at the market that will bear the richest harvest of opportunity in tomorrow's economy.

1. The first and most important shift in perspective involves **moving from a product centric to a customer centric perspective.** The shift in power from seller to buyer is not just necessitating an attention to service quality and consistency at levels unprecedented in travel but is turning the traditional way of conducting business on its head.

[12] From a survey of UK adults conducted by Unmissable.com

Practicing "customer centricity" means far more than personalising a newsletter – it means ensuring that every aspect of an enterprise is devoted to helping a customer complete the task they consider to be important to them at any given time. It means rewarding not penalising your employees when they go the extra mile. It means being able to offer seamless service via multiple points of contact (print, call centre, web site, wireless device, TV, kiosk) and at every stage in the customer's experience from dreaming researching, selecting, reserving, experiencing, reflecting and recommending.

2. The second shift requires that you **start thinking in wholes and not in pieces**.
   If ever there was an industry that needed to re-think its approach to the customer's experience, it's tourism. Our customers don't buy products; they have highly subjective and composite experiences (the trip) made up of various discrete fragments (the hotel experience, the airline experience, the taxi ride, the sports match, the night on the town) all of which are delivered by independent suppliers. Prior to buying something, most customers start with a vague declaration of intent, for example: "I need a break"; "I have to move house"; " I need to plan for retirement"; " I need to educate my children". As soon as a customer declares an intent, he or she embarks on a cycle of need that involves searching for alternatives, comparing, selecting, purchasing, assembling, experiencing and evaluating. Successful companies of the future will be the ones who stop pushing products and start collaborating to support the customer through their cycle of need.

   We call the process of engagement between suppliers and customers *Dancing with the Customer* as we believe all commercial activities in the future will need to be calibrated and choreographed in a "cycle of service" that supports the customers' "cycle of need".

   Note: this cycle of service is event and profile driven – the customer calls the shots and takes the lead. The dance requires a two-way dialogue not only between supplier and customer but also between multiple suppliers who share responsibility for helping customers achieve their original intent.

3. Thirdly, we see a need to **think small, agile and fast, not big, rigid and slow.** The travel industry has blindly followed the rest of the business community and assumed that strength lay in bigness. Tour operators purchased travel agencies to control the sale and then started buying cruise lines, airlines, bus companies, hotel chains and golf resorts in order to control supply. While vertical integration might have been the best way to reduce transaction costs at the start of the Century, it is an irrelevant and downright dangerous response one hundred years later when speed, responsiveness and innovation will determine success.

   And here's an interesting irony – while big businesses in other sectors are busy "unbundling" and focusing on their core competencies in order to form collaborative trading communities, the tourism industry – whose fragmentation is its core characteristic-- is still pursuing outmoded business models associated with an industrial age and the production of tangible goods and services. In the old economy, enterprises strived for production efficiencies. In today's economy, innovation is the driver of success. Value is created by brain not brawn. Knowledge and intelligence are infused throughout all products and services.

   So winning enterprises are those that conceive of themselves as inter-connected business webs or trading communities held together by a common customer. **The customer sits at the centre of an orbit not at the end of a chain.** Winning enterprises are those with the most "intelligence" – i.e. are able to sense and respond to visitor needs in real time. They are able to exchange and circulate this intelligence to all members of the community so that the visitor's whole experience is a positive one.

4. Which leads to the fourth response or source of opportunity and that's **learning the art of effective collaboration and relationship building**. If you as an individual supplier focus on the one element of the customer's total experience that you do really well, yet your

success depends on how the guest experiences the whole, then you simply cannot "go it alone". You have a vested interested in how other suppliers in the network look after your customer!

To survive in the networked economy, companies are learning that they must collaborate with their customers and other businesses in the design, development and delivery of a complete basket of goods and services if they expect to satisfy customer's needs. [13]

For collaboration to work effectively, all parties involved must receive something they value. Furthermore they need to engage in dialogue – i.e., engage in meaningful two-way conversations, share knowledge and ideas.

They need to trust one another and that requires higher standards of honesty and transparency than needed before. It's a whole new ball game of experimentation and of giving up control – learning the art of allowing; creating the conditions for innovative solutions to emerge – often from the most unlikely sources.

5. The fifth dangerous opportunity involves **investing in the technical infrastructure that makes collaboration possible,** that allows your customers to pull towards them the services they need that match their context, circumstances and profile; that frees your employees from the time consuming and repetitive drudgery that distracts them from the art of caring; and that supports dialogue and knowledge sharing. The key word here is open up, connect and automate. Allow machines to do the boring stuff, quietly and in the background. If good staff are hard to find and keep today, the staffing problem is going to be ten times worse in just a few years as the true impact of an aging population is felt in Europe. At DestiCorp, we believe that "web services" and the associated features of distributed, peer-to-peer, service-oriented architectures will really come into their own because there is no other method whereby customers' demands for choice, flexibility, personalisation, affordability and accessibility can be met profitably. For more background on the technologies supporting collaborative commerce, please read our papers "*Shifting Sands: The Tourism Ecosystem in Transition"*, and *"Why Web Services and Grid Computing with Turn the Travel Industry on Its Head*" available on www.desticorp.com/resources.

Conclusion

In today's customer-centric economy, customers should be able to pull towards them the information and services they need that are specific and relevant to their needs, their profile and their context. Winning suppliers will be those who deliver relevant, appropriate and timely services to facilitate those needs. Winning suppliers will also recognise that they cannot go it alone – their best chance of success lies in collaborating with suppliers of complimentary services and forming a supply community to satisfy the diverse and complex needs of today's travellers. Or to quote Reed, "The most successful businesses on the Internet will hunt in packs"[14].

Anna Pollock is CEO of DestiCorp – a strategic consultancy that helps executives, entrepreneurs and individuals make some sense of the commercial world in which they operate in order to ignite innovative insights, dare to do bold things and know they are not alone.

[13] Readers wishing to better understand the critically important role of collaborative communities are recommended to read Don Tapscott's seminal work on business webs *Digital Capital: Harnessing the Power of Business Webs*, Don Tapscott, David Ticoll, Alex Lowy, Havard Business School Press and *Collaborative Communities – Partnering for Profit in a Networked Economy* by Jeffrey Shuman, Jan Twombley and David Rottenberg, Dearborn Trade.

[14] *The Rule of the Pack*, David Reed, Havard Business Report Reprint 1020C