The Customer-Obsessed Enterprise

Lead The Competition With A Clear Vision For Customer Obsession

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Summary

Customer-obsessed firms already enjoy higher revenue growth, customer satisfaction, and employee satisfaction — and will prevail as the age of the customer intensifies. Forrester surveyed more than 1,000 executives in the US and Europe and conducted in-depth interviews with C-level execs to learn what practices firms use along their journey to becoming customer-obsessed enterprises and distinguish the common core of their success. This report details the strategic and operational reset that companies have to make to drive customer obsession.
THE RACE FOR CUSTOMER OBSESSION IS ON

The age of the customer recasts how firms operate and create value. Unprecedented access to tools, information, and scalable tech platforms and the blurred lines between B2C, B2B, and B2B2C erode the influence of manufacturing, distribution, and even information as sources of competitive advantage. Firms now compete to deliver experiences that meet ever-rising customer expectations. The ideal success strategy is customer obsession — a mode of operation that uses insights and engagement from customer relationships to create a virtuous cycle. But time's running short to make the transition: The age of the customer continues to intensify as digital disruption, tech innovation, and consumer hyperadoption collide with market volatility, creating a world where (see Figure 1):

- **Empowered customers crave conversation.** Advanced mobile, social, artificial intelligence, and cloud technologies have primed customers for rich conversations. (see endnote 1) Nearly half of US online adults say they currently use some form of digital assistant. (see endnote 2) As data-driven machine intelligence advances, conversations will seem less like they're with bots and more like they're with people. These conversations will create valuable relationships that feel natural and emotionally rich and conform to customer preferences.

- **Every firm targets the end customer.** Digital disintermediation alters ecosystems, reducing the separation between a firm and its end customers. To some degree, this makes every firm a B2C company: Nike, Philips Healthcare, Procter & Gamble, and General Electric (GE) tap digital to enhance their end customer relationships. Emerging tech like blockchain and the internet of things (IoT) will accelerate this trend. Blockchain’s promise to decentralize trust and information exchange and IoT’s ability to transform products and services with customer and context insights have the potential to reshape ecosystems as structurally deep as finance, healthcare, and advertising. (see endnote 3)

- **Industry boundaries erode.** Unlimited access to digital tools and capital creates a no-rules environment where competition can come from anywhere, even outside of traditional industry confines. Apple was an early mover with iTunes, displacing traditional music distribution channels and altering media consumption patterns; eventually, it turned to disrupting banking via Apple Pay. Tesla's meteoric rise to one of the highest market caps in the well-established automotive industry belies its disruptive potential in energy markets. Healthcare industry boundaries continue to
Drugstore giant CVS — already in the healthcare business with MinuteClinic — acquired medical insurer Aetna.

Figure 1: The Age Of The Customer Demands A Customer-Obsessed Vision

1-1 Change accelerates as power shifts to end customers

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing</th>
<th>Distribution</th>
<th>Information</th>
<th>Customer</th>
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<tbody>
<tr>
<td>1900</td>
<td>3M, Ford Motor Company, General Electric</td>
<td>Sears, BASF, McDonald’s</td>
<td>Microsoft, IBM, AOL</td>
<td>Amazon, Apple, Philips Healthcare</td>
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1-2 Customers, businesses, and industries adapt to volatility

Empowered customers crave conversation

- Tech-enabled conversations are more human than ever
- Experiences conform to customers’ preferred emotional states
- Conversations create emotionally rich relationships

Every firm targets the end customer
Customer Obsession Fuels Growth

Embracing the age of the customer and aligning business and operating models to exploit the forces catalyzing it primes companies for sustained growth (see Figure 2). When we analyzed the success of customer-obsessed businesses, we found that they have the highest:

- **Revenue growth.** Customer-obsessed companies have the highest median three-year growth in sales. And from 2011 to 2015, customer experience (CX) leaders’ revenue grew more than five times faster than CX laggards in the same industry. (see endnote 4) Customer obsession also often decreases a firm’s cost to serve customers. (see endnote 5) This powerful combination boosts shareholder value and increases the funds available for further investment and innovation.

- **Customer satisfaction.** Companies that are customer-obsessed have a 93% customer satisfaction rate — far above the 65% experienced by firms that are not. (see endnote 6) High customer satisfaction lowers costs (e.g., reducing customer churn and the cost to acquire customers) and adds value (e.g., increasing the number of new customers and revenue per customer). (see endnote 7)

- **Employee satisfaction.** Employees at customer-obsessed companies are more engaged: They report better morale and more emotional fulfillment with their work and are 40% more likely to report that they are happy at work than those at other firms. (see endnote 8) This positive energy produces higher levels of employee accountability and innovation; it also lowers attrition and increases a firm’s ability to attract and acquire new talent. (see endnote 9)
Figure 2: Customer Obsession Creates New Value

Customer-obsessed companies have the highest:

**Revenue growth**

- **Largest** median three-year sales growth
- Increased shareholder value
- Increased investment
- Business expansion

**Customer satisfaction**

- Outperform others by a margin of 93% to 65%
- Lower customer churn
- Lower cost to acquire customers
- More revenue per customer
- More new customers

**Employee satisfaction**

- 40% more likely to report being happy at work
- Higher employee accountability
- More employee innovation
- Lower attrition rates
- Easier to attract new talent

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KICK-START CUSTOMER OBSESSION WITH A COMPLETE RESET
We’ve spent the past three years analyzing the practices of firms at various stages in their journey to becoming customer-obsessed enterprises. Our executive surveys and in-depth conversations with C-level execs have uncovered what it takes to win in the age of the customer — and what trips up many companies along the way. Most importantly: Customer obsession requires harnessing every employee, every customer data point, and every policy in the organization. There are no corners to cut. The only path to customer obsession involves a systematic operational and cultural reset.

**Embrace Four Principles Of Customer Obsession**

Four operating principles guide everything customer-obsessed companies do. At all levels of seniority, and across each arm of the organization, customer obsession requires that firms move:

- **From customer-aware to customer-led.** Customer-obsessed firms embrace advanced techniques like ethnography that go beyond the "what" and "how" of customer behavior. They reveal the "why" by eliciting customers’ deep-seated needs and motivations and engage their customers in co-creating new experiences. Kaiser Permanente tapped internal and external data sources to serve new markets in response to the rollout of the Affordable Care Act. (see endnote 10) It systematically shares customer insights across the organization and engages customers to co-create solutions that meet patient and subscriber needs.

- **From data-rich to insights-driven.** Most firms are swimming in data, but roughly half still do not connect business or customer insights to their decision processes. (see endnote 11) Even incorporating that information on a case-by-case basis won’t suffice. Customer-obsessed firms go beyond merely applying data to harness insights via closed-loop software systems that allow them to make data available, visible, and secure in the moment of need. The city of Buenos Aires systematically captures citizen feedback and uses it to improve its smart-city initiatives. (see endnote 12) Etsy democratizes insights by treating research and implementation as a collaborative process, partially embedding members of its insights team in business operations. (see endnote 13)

- **From perfect to fast.** Empowered customers adopt new experiences willingly and rapidly — a phenomenon we call hyperadoption. (see endnote 14) For businesses to thrive, the process must match the pace of hyperadoption from design to innovation to execution. Few leaders deliberately exploit these opportunities; instead, they get lost in their own bureaucracy and preference for legacy processes. In contrast,
customer-obsessed firms like IBM and Fidelity Investments have created a bias for action by integrating design thinking processes throughout their operations to quickly test and develop innovative ideas that can transform their business. (see endnote 15)

- **From siloed to connected.** Traditional siloed command-and-control models can drive clear accountability and predictability but also lengthen decision cycles and create competing and conflicting customer experiences. But firms like Lloyds enable frequent cross-functional interactions by focusing small, scrum-like teams on improving customer journeys that help to establish this new way of working. (see endnote 16) These teams also consistently stretch beyond their four walls to an ecosystem of partners that help meet customers’ needs in their context.

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**Evolve Three Customer Obsession Competencies**

Reshaping an organization to become customer-obsessed entails evolving competencies that seasoned execs will find familiar in scope but novel in application. Context matters. Customer obsession is different from other transformations in that execs must ingrain and maintain an outside-in perspective throughout the organization. Success will depend on how effectively the C-suite calibrates its approach to (see Figure 3):

- **Leadership.** Galvanizing customer obsession requires an aligned executive team to create a broad, deep, and at times controversial vision. When the CEO charges the firm to improve CX, as Delta Air Lines’ Richard Anderson did, it has a head start. Others need a nurturing period; Liberty Mutual’s chief customer officer found that it took nearly nine months for her vision to gain acceptance. (see endnote 17) Every level of leadership must model customer obsession by measuring, recognizing, and rewarding customer-focused behaviors; removing obstacles; and providing needed resources. (see endnote 18) Firms like Timpson in the UK instill these traits in all leaders from day one; others, like Bank of Montreal, ensure success by providing customer-obsessed leadership training for their executives.

- **Strategy.** A customer-obsessed strategy is not a static plan; it’s an oath to continually adapt to the pace of change determined by your customers. It requires constantly challenging what to do and what not to do to maximize customer value. Vanguard’s strategy uses its client-ownership structure to align with investor interests to make big but well-informed bets like the design and launch of its personal advisor services — a product that attracted more than $37 billion in assets.
within six months. (see endnote 19) For firms like GE and Philips, customer focus and fundamental market changes lead to tough decisions to restructure existing businesses to better serve customers, employees, and shareholders; for others, they inform expansion strategies. Amazon’s Echo devices, acquisition of Whole Foods, and billions spent on TV content exemplify a strategy of tightening relationships with customers. (see endnote 20)

• **Operations.** A long list of must-do’s spanning all six operational levers of your business — structure, talent, culture, metrics, process, and technology — make or break the experience customers have with your brand. (see endnote 21) To deliver the biggest impact, you must orchestrate when and how hard to pull these levers in a way that embeds continuous improvements into your organization. Realizing that people were its most crucial operational lever, TXU Energy’s CEO led an initiative to connect each role to customer obsession, complete with a quarterly contest to celebrate customer-obsessed employees. Domino’s famously revamped its culture and embraced technology to attract digital-savvy customers looking for convenience and fun. It made big investments in custom technology to create differentiation, making its operations more like a top eCommerce firm than a pizza shop.

Figure 3: Four Customer-Obsessed Operating Principles Recast Leadership, Strategy, And Operations

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**WHAT IT MEANS**

**Customer Obsession Will Spur A Wave Of Intense Competition**

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Early in the age of the customer, innovators like Airbnb, Tesla, and Uber caused massive disruption in their respective industries by harnessing the forces of customer empowerment, digital disruption, and disintermediation. As the number of customer-obsessed enterprises surges, so too will the power that customers wield. Firms will embrace business and operating models designed to exploit the age of the customer. Competition will intensify as:

- **A handful of brands cocoon customers.** In the age of the customer, firms like Amazon, Apple, Facebook, and Google have cemented their status as digital winners by building ecosystems that are deeply embedded in customers’ lives. Today, you might use Alexa to order a pizza; tomorrow, Amazon could be your gateway to all household purchases. These firms will further envelop customers in cocoonlike relationships — if they can maintain customers’ trust. Trying to outmaneuver them will prove futile, and resistance will undermine brands’ growth.

  The result: The disintermediation of experiences that we saw early in the age of the customer will erode as these ecosystems become veritable gateways to the consumer.

- **Innovation is the new norm.** Shaking things up with innovation has traditionally served as a pathway to new revenue or stave off disruption. But once most firms embrace customer obsession, endurance will be the measure of innovation, as digital transformation requires constant efforts to keep pace with rapidly evolving marketplaces. Customers will reap rewards in the form of better products and more amenable experiences. The likes of Netflix, Siemens, and Spotify will continue to refine experiences or reinvent business models to stay relevant. Organizational structures designed for predictability and stability will give way as execs learn that injecting a little instability makes innovation a habit for even the most mature organizations and that innovation’s value is as much about longevity as survival. (see endnote 22)

- **Financial volatility magnifies the power of the customer.** A healthy economy can mask underlying business problems. The age of the customer has so far benefited from a relatively healthy economy. Retail is embattled, but that’s due to rapid changes in purchasing patterns, not a spending crisis: Consumers are using technologies that support convenience and personalization while continuing to put a higher value on CX. Now consider what happens when customer empowerment meets financial anxiety: Expectations of quality and value will magnify; subpar experiences will draw ire; and hyperadoption will shift into overdrive as consumers
frantically search for the best brand experiences. Firms that neglect the customer now will bear the brunt of any business-related economic hardship.

- **Customer-obsessed firms become business platforms.** Business and technology strategies synthesize within customer-obsessed operating models, turning firms into platforms for creating and delivering customer value. Tech initiatives once managed in isolation are no longer separate from business outcomes. Concepts like Agile and DevOps (development and operations) are shaped for everyday business practices across the enterprise. API-like environments allow firms and their brands to change rapidly — even shifting strategies within the same year — based on emerging technologies or opportunities discovered through internal innovation efforts.

**SUPPLEMENTAL MATERIAL**

**Survey Methodology**

Forrester’s Q3 2016 Customer-Obsessed Operating Model Online Survey was fielded in July and August 2016. This online survey included 1,024 respondents in a leadership role from companies with 500 or more employees in Germany, the UK, and the US. Research Now fielded this survey on behalf of Forrester. Survey respondent incentives included points redeemable for gift certificates.

**Related Research Documents**

- The Customer Obsession Assessment
- Leadership In The Age Of The Customer
- The Operating Model For Customer Obsession

**Endnotes**

1. See the Forrester report "The Consumer Tech Stack."


3.
See the Forrester report "Blockchain Technology: A CIO's Guide To The Six Most Common Myths" and see the Forrester report "Predictions 2018: IoT Moves From Experimentation To Business Scale."

4. See the Forrester report "Improving CX Through Business Discipline Drives Growth."

5. Higher-quality experiences mean fewer customer issues to resolve. That translates into fewer calls to customer care and a subsequent reduction in call center costs. In an extreme example of CX-driven cost reduction, Sprint focused on fixing the problems that caused customers to reach out to its contact centers and managed to save a staggering $1.7 billion per year. See the Forrester report "The ROI Of CX Transformation."


7. See the Forrester report "Improving CX Through Business Discipline Drives Growth."


9. See the Forrester report "The Employee Experience Imperative."

10. See the Forrester report "The Six Key Steps To Instituting Good Customer Research."

11. Half of companies inform their decisions with customer insights; 46% inform their decisions with business insights. Source: Forrester's Q3 2016 Customer-Obsessed Operating Model Online Survey.

12. See the Forrester report "Case Study: How Buenos Aires Became Insights Driven."

13. See the Forrester report "Insights-Driven Businesses Set The Pace For Global Growth."

14. We define hyperadoption as the rapid and simultaneous uptake of unprecedented behaviors. New technologies from drones to wearables and the services that they afford us will be in common use — in many cases, by the hundreds of millions, and
in a few cases, by the billions — by 2025. See the Forrester report "Will People Really Do That?"

15. See the Forrester report "CIOs: Position Yourself As The Business Innovation Leader In The C-Suite."

Source: Fidelity Labs (https://www.fidelitylabs.com/).


18. See the Forrester report "Leadership In The Age Of The Customer."

19. See the Forrester report "Improving CX Through Business Discipline Drives Growth."

20. See the Forrester report "Amazon Will Own Your Customer In The Future."

21. See the Forrester report "The Operating Model For Customer Obsession."

22. See the Forrester report "Regularly Rejuvenate Your Marketing Talent."
We help business and technology leaders use customer obsession to accelerate growth.

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At Forrester, customer obsession is at the core of everything we do. We’re on your side and by your side to help you become more customer obsessed.

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