



CHANGING WHAT COUNTS, NOT WHAT COSTS!

"Customer-Driven Transformation"

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Overview

Companies transform themselves, for better or worse, all the time. They spend a tremendous amount of time and effort, not to mention money, trying to change. But how do they determine WHAT to change? And what do these changes bring? The answer is that unless your changes are customer-driven, you may be changing the wrong things, for the wrong reasons. Who needs that?

Customer-Driven Transformation (CDT) is a system that guides business decisions by aligning the outcome of work processes with the expectations of customers. CDT focuses your transformations. CDT techniques help enterprises continually adjust productive resources to correlate with customer demands (and vice-versa) in a cost and time-effective manner. Seems to be common sense, but how is it done? First, let's examine the premises.

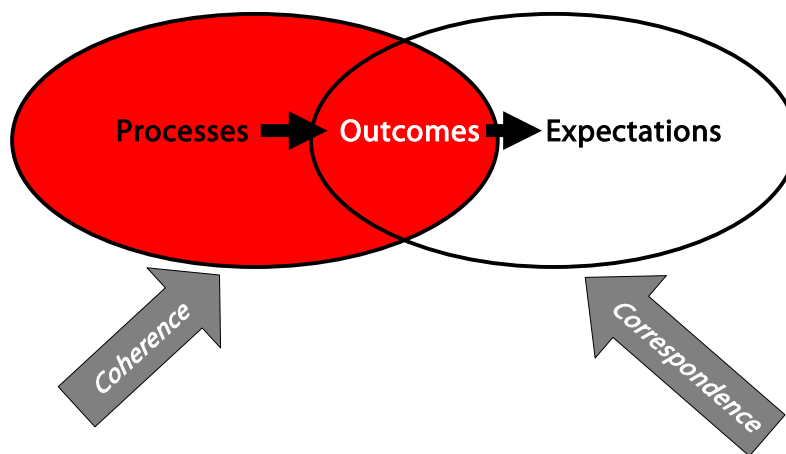
CDT systems and techniques are based on the following axioms:

1. Work **processes** use resources to produce **outcomes**.
2. Customers have **expectations**.
3. Expectations, outcomes and processes are variable and dynamic.
4. Only when outcomes continuously meet or exceed expectations are companies successful.

Customer-Driven Transformation works to continuously align the three key success factors: processes, outcomes and expectations. Expectations are surveyed and quantified; outcomes are inventoried and costed; and processes are evaluated and optimized so that companies produce what is expected efficiently and effectively.

Customer-Driven Transformation therefore implies two related efforts: *coherence* and *correspondence*. Doing things right, and doing the right things. Being efficient and being effective. The coherence of processes and outcomes is defined as *efficiency*. The correspondence of outcomes with the expectations of the market is defined as *effectiveness*.

CDT aligns processes, outcomes, and expectations



Coherence involves:

- efficiency
- productivity
- cost management
- reengineering
- project management
- sourcing
- supply chain management

Correspondence involves:

- Demand generation (marketing, sales)
- Customer service, experience management
- Customer relationship management (CRM)

The Dual Challenge

Coherence is inwardly focused (how do we change?) while correspondence is outwardly focused (how are the customers and the market changing?)

The real challenge lies at the intersection of coherence and correspondence; where they overlap--in their *correlation*. Customer-Driven Transformation stands at those points of intersection. It seeks to align what we make or provide with what customers want. It takes into consideration processes, outcomes and expectations, making sure they work together, and not at cross purposes.

How Does CDT Work?

Customer-Driven Transformation, by definition, relies on knowledge of a company's outcomes (goods, services), how they are produced (processes and resources) and what customers demand (expectations). Each is rated according to its contribution to the success of the company. In general,

1. processes are judged on their ability to bring about outcomes
2. outcomes are rated on their ability to meet expectations
3. expectations are measured as to their impact on customer purchase decisions

A two-dimensional matrix is created to include, on one axis, all the outcomes produced by the company or operation, while the other axis reflects the needs of prospective customers. Expectations are mapped against outcomes, with processes representing the conversion of one to the other.

Factors are calculated to represent the earned, added and actual value of each component of the outcome array. These values measure the planned, incremental and perceived values of each good, service or item produced to determine a satisfaction quotient (SQ) for everything currently done by the company.

If processes are being judged, their SQ represents the contribution of the process to production or delivery of the respective outcome under consideration. When outcomes are analyzed, their SQ quantifies the contribution of each outcome in meeting the expectations of customers. Where multiple outcomes meet singular expectations or vice-

versa, co-factors are calculated to show relative contribution (RC) to the entire effort (SQ). For example, the SQ of a particular outcome (say having a health spa in a hotel) is measured as:

$$SQ = \text{Expectation/Outcome} = \frac{\% \text{ contribution to satisfaction}}{\% \text{ contribution to cost of business}}$$

If $SQ > 1$, the outcome has earned its value and should be kept or reinforced

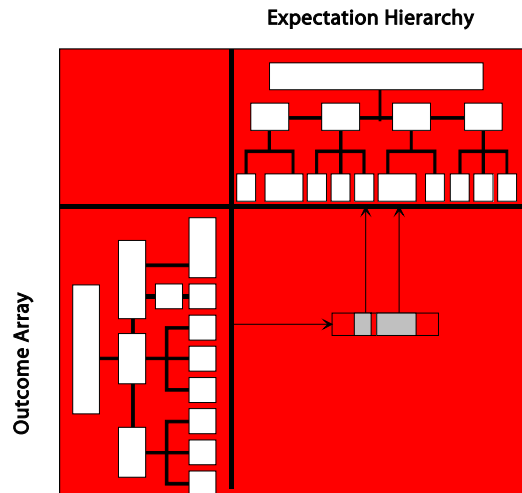
If $SQ < 1$, the outcome is suspect, and should be abandoned or reevaluated

Variances are highlighted by their respective CUE value:

$$\text{Cue}_1 = \text{Cost of Unneeded Effort}$$

$$\text{Cue}_2 = \text{Cost of Unmet Expectation}$$

Allowances are made for outcomes and processes that are required (say, by law or custom), those which support or influence other outcomes (as when a product package is necessary to assure product freshness) or for competitive reasons (to establish barriers to entry, for example).



Customer expectations are based on detailed survey data, purchase histories, and market analysis. Components of satisfaction (the extent to which a particular expectation factors into the purchase decision) are calculated to construct an expectation hierarchy. These may vary by market, demographic sector, or customer profile.

The matrix developed with the outcome array matched against the expectation hierarchy allows management to judge the relative value of each component and focus change efforts accordingly. On the outcome side, attention is given to processes and events that convert expectations into outcomes. For expectations, images and signals are analyzed to determine how best to convert outcomes into expectations.

The junctions among 1) processes and outcomes, and 2) outcomes and expectations yield valuable information regarding 1) efficiency and coherence and 2) effectiveness and correspondence. Most apparent is the surfacing of unnecessary outcomes and unmet expectations.

Typical Discoveries made with Customer-Driven Transformation

Applying CDT to your enterprise can uncover some or many of the following problems:

- misunderstood expectations
- assumption that outcomes correspond to expectations
- chasing unreasonable expectations
- assuming expectations to be monolithic or invariable
- outcomes not contributing to meeting expectations (waste)
- unmet expectations (dissatisfaction)
- service overkill (too many outcomes for an expectation)
- service under whelm (too few outcomes for an expectation)
- presuming processes lead to outcomes
- ignoring customer and company bypass options
- outcomes for which cost exceeds value
- unverified outcomes and expectations
- ignoring or dampening positive feedback from customers and exacerbating negative feedback
- excessive measurement of outcomes and expectations without knowledge of the linkages among them
- allowing organizational structure and processes to drive or limit outcomes and expectations

Summary

Customer-Driven Transformation correlates the work companies perform with the products of that work and the needs of the market. It looks inward, from the customer's perspective. It lets management focus effort and resources in a comprehensive, logical fashion for the benefit of customers and the company that serves them. It's flexible, organized and dynamic. CDT provides the blueprint for value-added change efforts by letting management chose changes that *count* rather than those that *cost*. It organizes and structures massive amounts of customer information for competitive advantage. CDT is driven by facts, rather than fad or fiction. A summary comparison of CDT with traditional improvement methodologies is contained in the following table.

CUSTOMER-DRIVEN TRANSFORMATION	FAD or FICTION-BASED TRANSFORMATION
customer-driven	company or competitor-driven
measurable	immeasurable
objective	subjective
actionable	suggestive
dynamic	static
focused	unfocused
outside-in	inside-out
stimulates champions	provokes guardians
comprehensive	hit-or-miss
connects strategy to operations	assumes strategic-operational link
supports decisions	complicates or confuses decisions
flexible	rigid
results oriented	process oriented
founded on knowledge	founded on faith