

# BUILDING ORGANIZATIONS



# AROUND THE GLOBAL CUSTOMER



BY JAY GALBRAITH

Over the past decade, companies have assigned a higher priority to the customer dimension of their business operations. As a result, many companies are organizing their operations around the customer in general, and the global customer in particular. Creating these customer-facing organizational units is a challenge because these companies still have structures that are based on business units, countries and functions. This article addresses the challenge that an organization faces in creating and adding a global customer dimension. The first section deals with the increasing importance of the customer dimension. The second section describes the company's need to respond to the global customer priority. Finally, the article discusses how a company can build these new capabilities and integrate them into existing capabilities.

## THE RISE OF THE CUSTOMER DIMENSION

The increasing importance of the customer is a trend in most industries. The factors causing this increase vary with the industry, but either individually or collectively, all businesses are contending with these factors. They are the:

1. Globalization of the customer
2. Preference of customers for partnerships or relationships
3. Customers' desire for solutions
4. Rise of electronic commerce
5. Steady increase in the power of the buyer.

### 1. Globalization

Since 1985, globalization has been driven by increasing amounts of foreign direct investment. The result is that more companies, and therefore more customers, have a direct presence in more countries. Often, these global customers, who are preferred customers in many countries, object to the marginal treatment they receive from a supplier's subsidiary on entering a new country. These customers want a consistent and consistently high level of service in all countries where they buy from a supplier. Indeed, one supplier had a customer point out that 37 sales forces were calling on the firm, with 37 different standards of service. Understandably, that was unacceptable. So then, the global customer is creating pressure on suppliers to coordinate across countries and businesses to deliver better service. This desire for cross-unit coordination can also be an advantage for the supplier. ABB was an early mover into many countries, and Eastern Europe in particular. It now uses its extensive presence to host and provide services to customers as it enters new countries where ABB is already present.

### 2. Customer relationships

The pressure to coordinate across existing structures is even greater when the customers want partnerships or relation-

ships with their suppliers. Professional-services firms are finding that clients want one or two global advertising agencies, auditors, cash management/banking suppliers, and outsourcers for information technology. In most industries, customers prefer fewer suppliers and closer, longer-term relationships with them. For suppliers, these global partnerships mean that they must coordinate activities in all countries in which the customer desires integrated services.

### 3. Solutions

Many customers prefer solutions or systems instead of stand-alone products. To be sure, customers still order truckloads of desktops from computer manufacturers. However, they also are ordering trading rooms or call centres. At IBM, these solutions require the integration of multiple business units in multiple countries with multiple outside suppliers, for the benefit of the customer. These solutions are not simply multiple stand-alone products that are bundled together and offered at a 10 percent discount. The customer-preferred solutions create value by packaging products and services in ways that the customers cannot easily do themselves.

Solutions therefore require an in-depth knowledge of the customer and an ability to integrate product lines. The

in-depth customer knowledge is needed to identify the solutions that the customer will value. Then the supplier will need the ability to coordinate multiple profit centres from both inside and outside of the company to create the value. Neither of these capabilities comes easily. For example, real estate agencies and banks have been searching for years for a mortgage solution for time-short homebuyers. Such a solution would combine the home loan, appraisal, title, title insurance, home insurance, etc., into a single, sign-once package. Most of us are still waiting.

In addition to creating a solution, suppliers are also trying to customize them. Many companies are becoming sophisticated at identifying the most profitable customers. But while competing for the most profitable customers, companies can also "compete away" the profits. One approach to holding on to valuable customers is to customize the solutions that the customer wants. Customization requires yet more in-depth knowledge of the customer and an additional capability for integrating products and services into unique solutions.

#### 4. Electronic commerce

Another force that is focusing attention on the customer is electronic commerce. When a company with a single brand uses its Web site as its storefront, it presents a single face to the customer. The Web site should be designed around the customers' needs and not around the suppliers' product capabilities. The site should be designed to do business the way the customer wants to do business. In order to appear as a single entity to the customer, the company needs to integrate its businesses, subsidiaries and functions and act like a single organization.

Interactivity with customers is another integrating force. Electronic connections allow the company to recognize and remember customers, to interact with them and remember more about them, and then to customize the firm's offerings based on its knowledge of the customer. Most companies, however, have not mastered integrated customer interactions. Interactivity requires the management of dialogues and content across all media the company uses to interact with the customer: Web site, e-mail, call centre, salespersons, service representatives and so on. The dialogue needs to be managed over time. The last contact with the customer needs to be remembered along with the last issue raised and how it was resolved. The resolution needs to be recorded, and then the next dialogue starts from there. All

contacts and issues are to be remembered. The purpose of interactivity is to collect and integrate all data across all functions, subsidiaries and product lines in order to get a complete picture of each customer's value and needs. Only then can the company react as a single company, and be seen by the customer as a single company.

#### 5. Buyer power

One of the main reasons that the factors mentioned above are taken seriously is that the power in the buyer-seller interaction has been shifting to the buyer. In many industries, global competition and industry overcapacity have given buyers more choice. They are now learning how to use it. Electronic commerce and information transparency have reduced the seller's knowledge advantages. So the competitive game has shifted to one of pleasing increasingly global, knowledgeable and powerful customers.

One of the responses that companies have made is to increasingly organize around the customer. Whether it is global accounts, global customer teams or customer business units, the trend is to grow a customer dimension. The customer focus is a challenge for most companies because many of them are organized around product lines called business units, countries and functions. The next section describes the capabilities needed to create a global customer dimension, while the last section describes how a company actually added, and then grew, such a global customer dimension.

#### DELIVER THE COMPANY TO THE CUSTOMER

Organizing around the customer requires three capabilities, and all are intended to deliver the company to the customer. To organize around the customer effectively, the company must:

1. Create a customer-centric capability
2. Perfect a lateral coordinating capability
3. Create a leadership mindset that says, "You compete with your organization."

#### 1. Customer-centric capability

In order to create and customize solutions and appear as one organization on a customer-friendly Web site, the company needs to be customer-centric. This capability is often presented as a contrast to a prod-



uct-centric capability. Table 1 shows the management mindset, culture and organizational features of a product-centric company.

**TABLE 1:  
THE PRODUCT-CENTRIC COMPANY**

1. Best Product for Customer
2. Creates Value Through Cutting-edge Products, Useful Features, New Applications
3. DIVERGENT THINKING  
How Many Possible Uses of Product?
4. Manage Through Product Profit Centres, Product Reviews, Product Teams
5. MOST IMPORTANT PROCESS  
New Product Development
6. MEASURES
  - Number of New Products
  - % Revenue from Products Less Than Two Years Old
  - Market Share
7. New Product Culture—Open to New Ideas, Experimentation
8. Most Important Customer Is Advanced Customer
9. Priority-setting Around Portfolio of Products
10. Highest Reward Is Working on Next Most Challenging Product
11. Manage Creative People Through Challenges with a Deadline
12. Power to People Who Develop Products
13. On the Side of the Seller in a Transaction
14. Price to Market

A product-centric company is one that tries to find as many uses and customers as possible for its product. Sony and its Walkman are typical of such a company and product. Until recently, business units at Sony were even called Product Companies. As shown in Table 1, the profit centres, processes, measures and human resource policies are all focused on creating great products. Taken together, these policies create a culture of product excellence. Many good companies have thrived under this business model, like Hewlett-Packard, P&G and Chase Manhattan Consumer Bank. There is nothing wrong with this model when customers want to choose the best product and do the integrating themselves. But when customers want

solutions and a friendly Web site, a customer-centric capability is also needed. A customer-centric capability is shown in Table 2.

A customer-centric company tries to find as many products as possible. It is based on economies of scope and on turning that scope into solutions that are valuable to the customer. The customer-centric company becomes an expert in the customer's business. It helps the customer become more effective or more competitive. Perhaps the most telling feature of a customer-centric company is that it is on the side of the buyer in the buyer-seller exchange. In order to stay on the customer's side, Amazon.com does not accept advertising from sellers. On its new e-Services Web site, the United Bank of Switzerland will offer competitive products, even those of Credit Suisse. Thus, a customer-centric company will recommend the best product, even if it is a competitor's product, in order to earn the trust of the customer. The customer-centric company then sees these customer relationships as assets to be managed. The business model of Amazon.com and AOL has evolved to the point where they are now selling access to their customer base. A vendor must qualify, then pay a fee and/or give Amazon some of its equity, in order to access its 29 million proven Internet shoppers.

**TABLE 2:  
THE CUSTOMER-CENTRIC COMPANY**

1. Best Solution for Customer
2. Creates Value Through Customizing for Best Total Solution
3. CONVERGENT THINKING  
What Combination of Products Are Best for This Customer?
4. Organized by Customer Segments, Customer Teams, Customer P&Ls
5. MOST IMPORTANT PROCESS  
Customer Relationships Management
6. MEASURES
  - Customer Share of Most Valuable Customers
  - Customer Satisfaction
  - Lifetime Value of a Customer
  - Customer Retention
7. Most Important Customer Is Most Profitable, Loyal Customer
- ...

8. Priority-setting Around Portfolio of Customers, Customer Profitability
9. Power to People with In-depth Knowledge of Customer's Business
10. Personalized Packages of Service, Support, Education, Consulting
11. On the Side of the Buyer in a Transaction
12. Price to Value and Risk Share

The argument above has painted the extremes of product and customer centricity. Not every company will need the extreme model of customer centricity. The main point is that in most businesses today, the forces of the business are requiring a more customer-centric orientation. This orientation is achieved by creating organizational units for global customers or customer segments, and the leadership mindsets to support them. The next section describes a variety of these global customer organizations.

## 2. Lateral networking capability

In order to create multiproduct solutions for global customers, a company must work through lateral networks. A simple company with a few local customers selling a single product can work through a functional hierarchy. But a company with multiple product lines in multiple countries using multiple functions must work less through hierarchy and more through networks. Indeed, a company needs a network for each strategically important dimension. Some companies like General Electric have organized around global product lines called Business Units. They have created country and functional networks to coordinate across product lines. Other companies like Nestlé have organized around country and regional profit centres. They have created product (called Strategic Business Units) and functional networks to coordinate across the geographical structure. The rise in importance of the customer dimension has created a need for a global customer network that crosses product lines, countries and functions.

The organization-design decision is based on matching the right kind of network with the strategic importance of the customer dimension; that is, there are different kinds of networks. Some are informal while others are formal with varying degrees of strength. The job of coordinating these networks across geographical structures will vary according to those networks' power and cost. The list of

networks that follows is ordered with the simplest, cheapest and easiest to use noted first. The farther down the list a company goes, the more powerful the networks will be, and the more costly and difficult it will be to employ them. The implication is that the designers should start at the top of the list and proceed down until a network is found which matches the requirements for coordinating the customer dimension for their business.

List of Networks:

1. Informal or voluntary networks
2. Formal teams
3. Coordinator for the network
4. Matrix across the other dimensions
5. Separate customer line organization

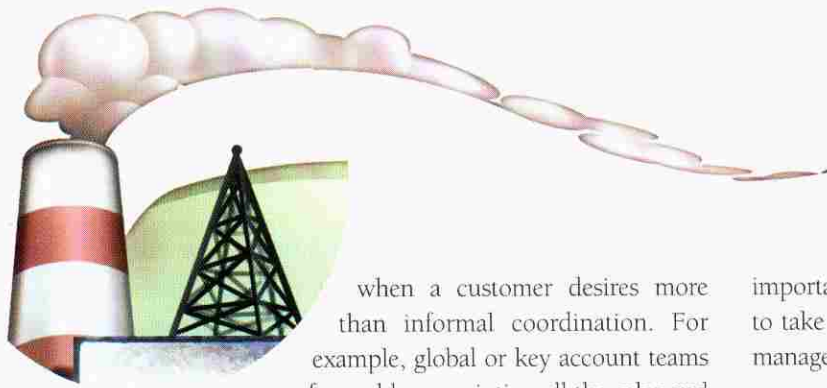
### 1. INFORMAL OR VOLUNTARY NETWORKS

Informal or voluntary networks form naturally in all organizations. Management, however, can initiate them and then let them proceed under their own energy. Nestlé is an example of a company where informal networks have formed around global customers. Unlike P&G, Nestlé has not strategically focused on cross-border customers such as Carrefour or Wal-Mart. However, country managers and country account managers for Wal-Mart routinely exchange information and ideas about Wal-Mart on an informal basis. This informal exchange was judged to be sufficient until the Internet allowed more formal communication. Now the account manager in the country of the global customer's headquarters maintains a database about that customer and issues e-mails and updates about the company. Anyone dealing with the customer can add information and ideas. But while the communication has been formalized, the coordination is still informal. Each country treats the information as an input, and then acts in the best interest of its product lines and country P&L.

Formalizing communication among all people interacting with customers is one approach a company can take to show one face to the customer. Each contact is recorded and entered into a database. Others can see this running record when they deal with the customer. Each person then deals with the customer according to their function, but records all information to be used across functions.

### 2. FORMAL TEAMS

Formal teams are the next level of strength that can be applied to a customer network. This step is usually taken ▶



when a customer desires more than informal coordination. For example, global or key account teams are formed by appointing all the sales and account representatives serving a customer to one account team for that customer. These representatives from all product lines and all countries exchange information, much like Nestlé's informal networks. But they also meet regularly, prepare an account plan, and agree upon customer-specific goals. ABB started with teams for a few accounts, and within a few years it had more than 50 teams for those customers who wanted this coordinated service. The account manager in the customer's home country usually leads the team, which consists of a few core members and a larger, extended team that encompasses the salespeople from all of the customer's locations.

The customer teams can be strengthened and assume more activities when customers want partnerships along the supply chain. Wal-Mart and P&G are an example. P&G initially formed a team of its salespeople representing all the products that P&G provided to Wal-Mart. The team was expanded to include manufacturing, distribution, marketing, information technology and finance personnel. This team of about 80 people from various functions from all product lines worked to synchronize the product and order flow from P&G's factories to Wal-Mart's warehouses. Its goal was to minimize inventories and cut cycle times. Today, as Wal-Mart expands globally, this team consists of 450 people from different functions, product lines and countries.

Degussa Automotive Catalysts, which creates customer-specific, platform-specific catalysts for exhaust emissions, takes the team approach one step further and includes R&D personnel. The Degussa salespeople coordinate across borders to serve DaimlerChrysler, in the same way that ABB serves its customers. It also partners along the supply chain to synchronize its production with the DaimlerChrysler assembly lines, like P&G and Wal-Mart. But its engineers also determine DaimlerChrysler's new product needs, and coordinate with it on creating new catalysts for new automotive platforms.

These formal customer networks can vary in size from a few key account teams for salespeople, to supply-chain partnership teams of sales, logistics and other functional people, to new product-development teams that include all functions. For some companies, like Degussa, this customer-team organization is sufficient to meet the needs of its most

important customer. Other companies, like Citibank, chose to take a further step of creating a full-time coordinator to manage all of the customer-team activities.

### 3. NETWORK COORDINATOR

The next step in making the global customer dimension more powerful is to create a coordinator for key accounts. When companies like ABB create 50 or more teams, and customers want still more coordination, it is useful to add the Key Account or Global Account coordinator role to the informal networks and formal customer teams. The coordinator performs two important, new functions.

First, the coordinator becomes the global customer's voice on the management team. These teams usually consist of managers of product lines, geographies and functions. The coordinator gets the leadership to think in terms of a portfolio of customers, customer priorities and customer centricity. Customer teams can also appeal to the coordinator in resolving conflicts.

The second task of the coordinator is to build and manage the infrastructure to support customer teams. The formal communications were mentioned earlier. The coordinator would assume the role of managing customer information systems and communications across customer teams. She usually creates training programs for management and team members on the role and operation of key accounts. Many coordinators create a common planning system for customers. If 50 customer teams are creating plans, they are likely to create 50 planning formats. The coordinator decides on a single, common one.

Another key addition to the infrastructure is a global customer accounting system that leads to customer P&Ls. Customer profitability is a key measure in setting customer priorities. In addition, asymmetries in costs and revenues always occur across geographies. That is, the customer account manager and team in the customer's home country put in extra efforts to make a sale to their customer. Often, the initiative is successful, but the customer's first purchases may be for its subsidiaries in other countries. Thus the costs are incurred in the home country and revenues are booked in other countries. A global accounting system for customers can identify these asymmetries and management can correct for them.

All of these infrastructure additions can be combined in the planning process. The countries and product lines can then set customer-specific goals for key accounts. Then,

customer teams, countries and product lines will pursue an aligned set of goals.

#### 4. MATRIX ORGANIZATION

The next step for enhancing the power base of the global customer dimension is to form customer or customer segment-dedicated units within countries and product lines and then report to the customer coordinator. The assumption is that the customer dimension has attained a strategic importance equal to the countries and/or business units. This importance is expressed by making the customer organization an equal partner in the decision-making process. In countries where the company may not control 100 percent of the equity, joint ventures to serve multinational clients are often created between the parent company and the local subsidiary.

#### 5. SEPARATE CUSTOMER ORGANIZATION

A final step is creating a separate customer-facing structure by gathering all dedicated customer-specific resources from the product lines, countries and functions. Companies serving the automotive customer, like Johnson Controls, have formed Customer Business Units. Companies like IBM formed customer-segment profit centres by gathering all relationship managers into industry groups. These global industry groups call on product profit centres for additional staffing, as the opportunities require. These separate customer-facing units are the most powerful and customer-centric form of organizing around the customer.

In summary, there are five major steps an organizational designer can take to implement a customer-centric orientation. A step-by-step approach is probably best for implementing and building the customer-centric capability. The designer may stop on any of the steps when enough customer centricity has been built to match the strength of the five customer forces described in the first section of this article.

#### 3. THE ORGANIZATION AS COMPETITIVE ADVANTAGE

The third factor needed to deliver the company to the customer is a mindset among leadership that it is competing against its own organization. That is, the company's ability to deliver value to global customers depends on the organization's ability to assemble and implement a customer-

centric dimension across the existing business unit, country and functional organizations. Delivering value to today's customer means managing the four dimensions of the organization.

The creation of a four-dimensional organization runs counter to most current mindsets. Today, the preferred way is to "keep it simple"—create simple, autonomous business units which control their resources and which can be accountable for their performance.

We also believe in keeping it simple, but with the twist that we want to "keep it simple for the customer." Organizations should be designed to do business in the way that the customer wants to do business. And how do customers want to do business? They want solutions that are seamlessly integrated across the products of multiple business units and countries. But achieving this integration is difficult, and keeping it simple for the customer makes it difficult for management. But mastering that difficulty becomes a real source of competitive advantage. Most companies cannot easily integrate their profit centres with servicing a customer. And since many customers see value in this integration, competitive advantage comes from creating this value that others cannot match. Mastering the difficulty of managing four dimensions is just such an advantage.

When most people say, "keep it simple," they mean keep it simple for management. That kind of simplicity, then, means making it difficult for the customer. It is then up to

**“Customers want solutions that are seamlessly integrated across multiple business units and countries”**

the customer or some third party to do the integrating and capture the value of serving the customer. Keeping it simple for management leaves money on the table for more complex organizations to capture.

The management of Degussa Auto Catalysts recognized that their organization was their secret weapon. It partnered with their customers on developing new engines and new catalysts. It formed global customer teams across functions and countries. It created global customer profit-and-loss measurement systems. The members of the Executive ▶

Committee sat on the teams. Issues were quickly dealt with and resolved, since only one level separated the teams and the leadership. It recognized that the link between R&D and manufacturing was critical. It created an Applied Technology Group, organized by customer, to bridge the gap. It exchanged people across the Manufacturing-R&D interface. It co-located the two units and sponsored workshops to improve the process of working together. These workshops were held overnight, allowing people to get to know one another and build interpersonal networks. Management rewarded those people who were effective in this environment, and removed those who fought it. In short, Degussa management knew that it was competing with their organization as well as with their technology.

In summary, it takes a customer-centric capability, a lateral networking capability and a leadership that sees and builds its organization as a source of advantage in order to deliver the company to the global customer. But how does one build these capabilities if the company does not possess them today? In short, the capabilities are built by moving down the list of lateral coordination mechanisms. The next section traces the steps of Citibank's Global Relationship Bank.

#### **BUILDING A CUSTOMER DIMENSION**

In 1984, Citibank's commercial banking business was examining its ability to serve its multinational clients. The informal contacts between relationship managers in different countries were insufficient for servicing these customers. After some debate, Citibank resurrected the World Corporation Group (WCG) to serve a coordinating role, and created global account teams for a few interested customers.

After a couple of years, the teams had expanded from a few to a few hundred. For each team, there was a leader—a Principal Account Manager (PAM) from the customer's home country. In countries where the customer wanted more service, there was a Subsidiary Account Manager (SAM). The WCG trained all of these teams. So in several years, thousands of people were trained in customer relationships. The Nestlé team alone consisted of 60 people.

The WCG also started recruiting and training the PAMs. These account managers usually stayed in the WCG.

The WCG also trained top management to manage a portfolio of customers. It developed a customer-focused planning system, and measures of customer profitability and its own share of the customer's spending. It developed customer P&Ls, and then, in 1995, it led a strategy review. In that review, Citibank articulated its customer-first strategy. Before, the priorities were country first, product second and customer third. After 1995 the priorities were customer first, product second and country third (in the developed world). The strategy recognized that Citibank was a bank (took deposits and made loans in local currencies) in over 100 countries. Its nearest competitor was a bank in only 43 countries. Citibank had the unmatched advantage of global presence from which to serve the global customer. All it had to do was to get 100 country managers to work together.

So in 1995, Citibank created a global-customer, profit-centred organization. It eliminated country P&Ls in the developed world and grouped 1,300 customers into industry segments. It focused on delivering global products, foreign exchange and cash management to the global customer. It stopped serving domestic-only customers.

Today, this Global Relationship Bank serves over 1,700 customers. It is delivering the product-centric capabilities of Salomon, Schroeders, Smith Barney to its global customers through its customer-centric Global Relationship Bank. The *Financial Times* (July 20, 2000) suggested that the synergies between investment banking products and the global customer relationship group have earned a place for Citigroup among the bulge-bracket firms of Goldman Sachs, Morgan Stanley and Merrill Lynch. Citibank's profits are higher than these firms, and it is trading at a higher earnings multiple. So, from a base of informal contacts in 1985, Citibank built a customer-centric, lateral capability to deliver the bank's services to the customer anywhere in the world. ■

JAY GALBRAITH IS A PROFESSOR EMERITUS OF MANAGEMENT AT THE INTERNATIONAL INSTITUTE FOR MANAGEMENT DEVELOPMENT IN LAUSANNE SWITZERLAND, AND THE AUTHOR OF *DESIGNING THE GLOBAL CORPORATION* (JOSSEY-BASS, 2000).

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