

Interactions and the Customer

Part 2: Collaboration and knowledge share will increase productivity

By the Economist Intelligence Unit for Cisco

Differentiation Takes Center Stage

Over the past 15 years, increased business process outsourcing and the global sourcing of manufactures and services have forced many companies to focus tightly on strategies to reduce costs. But selling at “the China price” – the lowest globally available level – has become a basic requirement for staying in business. Over the coming 15 years, while firms will remain very conscious of costs, managers will shift their focus toward strategies that enable companies to get closer to the customer.

Information technology has enabled companies in all sectors to offer more personalized products and services, and consumers are refusing to return to the old one-size-fits-all solution. The internet has accelerated this differentiation by offering consumers the ability to filter, select, view, and manipulate data the way they want to, when they want to do it. Jim Sheriff, Segment Vice President for U.S. Enterprise at Cisco Systems, describes what he calls “atomization:” “In the 1980s we were in what I called the ‘three dot model.’ In complexity, we had a few dots that we were trying to connect and coordinate. Today we’re in a ten to a hundred dot model, where the coordination is just absolutely tremendous.” Companies in a wide variety of industries will be competing for a direct and intimate relationship with the end-user.

Industries that had traditionally focused on reducing costs will shrink as their prices fall to “the China price,” and they harvest the low-hanging fruit from traditional cost-reduction tools such as process re-engineering and supply-chain management. In addition, the perceived benefit of incremental cost savings will become less important to consumers whose discretionary income is rising faster than population growth. New-economy industries will expand to fill the void. And their customers will demand more personalization, customization, and flexibility.

Foresight 2020

Shaping the Future of Global Business

The Economist Intelligence Unit (EIU), in association with Cisco, conducted Foresight 2020, an online global survey to understand the long-term forecasts and scenarios that are critical to understanding economic issues shaping the future of global business.

More than 1600 executives, analysts, and policy makers provided their views on how their companies, and the environment in which they operate, would change over the next 15 years.

Top-level Results

- Increasing competitive pressures will lead companies to improve efficiencies and costs using technology to automate processes and transactions as well as employ outsourcing.
- Companies will look to create high-value interactions and customer experiences through customized products and quality customer services as points of differentiation and competitive advantage.
- As production processes and transactions become more commoditized and automated, value will lie in personal interactions made possible through technology that enables collaboration, high-value services, and knowledge workers

For more information, visit www.cisco.com/go/foresight2020

Collaboration as the Enabler

New-economy companies will need to enhance collaboration, when people work together for a common goal, and to share knowledge in order to become closer to their customers. Eighty-six percent of respondents to an Economist Intelligence Unit survey published in April 2006 expect a significant increase in complex knowledge-based roles that are primarily outward-facing and require developed communication and judgment skills. These companies also know that the information that they need to create a bond of loyalty resides across multiple organizations and across multiple departments within each organization, and they will need to collaborate to put the pieces together. Sixty-seven percent of respondents expect a corresponding increase in complex knowledge-based roles that are primarily inward-facing.

The human element in customer-facing activities will be essential in establishing a close connection with the customer. David Noe, Vice President of Marketing and Sales for APL Logistics, an American shipping company, adds that “all of us will be better at differentiating our customers and approaching them in different ways.” Respondents to the survey agreed – 40% of respondents said that Interpersonal Skills will be the most important form of know-how needed to achieve success for their organization over the next 15 years, a response second only to Management Skills, at 55%.

Extending this customization backward in the supply chain will be critical if firms are going to be able to reach out to customers. According to Joe Yacura, Chief Procurement Officer for Intercontinental Hotels, “customization will be much more important than before,” and suppliers will have to understand that and respond to it in order for companies to get the customer what he or she wants. Again, respondents from the 2020 survey agree: 76% of respondents said that high-quality relationships with customers, suppliers and third parties are a critical source of competitive advantage for their companies.

One-on-one interpersonal skills will not be enough. Much of the work will need to be done in teams. Consider the problem-solving that will be required to make sense of the millions of data points collected by radio-frequency identification (RFID) tags on such items as clothing and electronics. That’s why 90% of the study’s respondents expect over the next 15 years an increase in cooperation among internal teams to solve complex problems. As cooperative, often cross-functional, work supersedes mindless, low-value-added work, most respondents (62%) say that people will spend less time processing simple tasks that can be automated.

Productivity and Profitability Take Off

The results of such changes within companies are promising. In the aggregate, traditional productivity improvements average about two percent a year¹, but collaboration and knowledge-sharing is likely to increase the speed of productivity growth, by stimulating faster rates of innovation and higher returns from each customer interaction. And innovation is likely to lead to increased sales and profitability. Three quarters of respondents felt that improved collaboration and communication inside and outside the organization will be important or very important in enabling their companies to substantially increase their growth rates between now and 2020.”

¹ Siegel, Jeremy. The Future for Investors.

How much can collaboration and knowledge sharing help? By sharing sales information with its suppliers and lead times with its customers, Dell is able to hold only three to four days of inventory, while its peers have 30 days or more. With the cost of holding inventory equivalent to 2-3% of sales for many companies, Dell can offer lower prices than its competitors, which is essential to growth in the highly-competitive computer business. In healthcare, consider the way in which collaborative online patient monitoring can treat more patients per hour of physician time than dedicated in-house physicians. In financial services, customized internet solutions can handle more transactions per hour compared to in-house tellers. And in retailing, imagine the increased margin per transaction that could be achieved by sharing customer relationship information among retail stores, credit card companies, and mass marketers. One company, Fair Isaac, specializes in enriching customer data and analyzing buying patterns.

Productivity improvements should also result in quality improvements, creating a virtuous circle of improvement. Higher quality diagnoses by doctors will avoid wrong prescriptions, and in financial markets tailored portfolio management tools will deliver a better asset portfolio for an investor. And retailers will redeploy workers away from non-value added transactions and put them to work on the sales floor, in order to increase revenue and margins.

Leading companies are seizing the opportunity to generate sales and marketing productivity through collaborative teamwork. Jeffrey Immelt, CEO of General Electric, is championing a process called CENCOR (Calibrate, Explore, Create, Organize, and Realize) that structures and improves the creative process. A.G., Lafley, Procter & Gamble's CEO, is putting together teams to gain a better sense of how the customer feels about the product and its benefits, rather than just its features and attributes.

Recommended Actions

Companies must act today in order to avoid losing the race to others that more effectively stimulate collaboration and knowledge sharing. If they do move quickly, they are likely to reap the rewards in the form of better productivity, innovation, and profitability. To lead the way, innovative companies should take three steps:

- Exploit collaboration and share knowledge in order to design and introduce services that have unique value to each end-consumer. Understand what creates unique value for customers and design a product or service that they can configure to their personal lifestyle or habits.
- Develop the personal skills and IT architecture that will be needed to deliver those services. Ensure training and alignment in customer-facing functions so that the message is present at the "moment of truth." Communicate to internal and supplier-facing functions so that systems are in place to deliver the customized product from the supplier to the customer.
- Embed knowledge sharing and collaborative processes. Build information systems that can manage repetitive information flows and that can house frequently accessed data. Instill the culture of a learning organization.

The extent of the changes required is great, but the rewards are even greater. Companies now have the ability to interact with hundreds of millions of individual customers in a way that never before existed. The potential gains are too good an opportunity to pass up.

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