Changing the paradigm on customer centricity

Moving beyond omnichannel
The task is much broader than just making sure the right channels are in place. Retailers need to ask themselves, ‘How do I run my business to be more customer-centric?’ That involves a total business perspective.

Mark Larson
U.S. Line of Business Leader, Consumer & Retail
U.S. Sector Leader, Retail
KPMG in the US
Many retailers have responded with a largely outdated omnichannel approach, focusing on integrating the physical and digital channels they use to interact with customers, when the problem is actually inside the business. Today’s customers will remain loyal only if a brand offers them transparency and superior quality products while actively engaging with them to build a relationship they value. Meeting those needs has nothing to do with offering yet another physical, digital or mobile channel—and everything to do with running the business in a way that is customer-first and customer-centric.

To succeed in winning the loyalty of 21st-century customers, retailers need a holistic, enterprise-wide, “outside-in” approach connecting the capabilities of the front, middle, and back offices so that customer centricity can become the focus of the entire business. Moving away from the limitations of omnichannel, executives have begun to adopt a KPMG Connected Customer Enterprise or “omni” approach.

KPMG challenges the predominant view of omnichannel and elevates customer centricity above and beyond channel interactions. The KPMG Connected Customer Enterprise approach provides personalized customer experiences, relevant products based on customer needs and preferences, and seamless, connected experiences across all digital and traditional customer interactions.

KPMG commissioned Forrester Consulting to conduct a study to take a deeper look. Our research shows that while a little over three-quarters of retailers cite omni as a top or high priority, at minimum two-thirds of retailers say their omni efforts haven’t generated the returns they need. Customer-focused retailers need specific business capabilities to meet customer expectations and drive growth. The KPMG Connected Customer Enterprise solution focuses on the capabilities retailers require to understand and deliver against changing customer expectations. And it identifies steps leaders can take to build these capabilities and thereby create sustainable value from customer centricity.
Companies that invest in the eight capabilities are achieving demonstrable success. Indeed, using a measure of omni success that factors in three business outcomes—customer experience, business objectives, and self-reported ROI—our research shows that mature retailers (those investing in all eight capabilities) are over twice as likely to achieve omni success compared with their less-mature peers (Figure 2).

Most companies have already begun the journey in some way, so the goal is not necessarily to start anew, however it is important to integrate existing investments in a meaningful way. Our research shows the benefits are worth the investment. Mature organizations outperform less-mature firms by +15 to +28 percentage points across objectives aligned to all eight capabilities. Furthermore, 78 percent of mature retailers reported providing experiences that exceed customer expectations, compared with just 56 percent of less-mature firms. The customer experience can be the difference between gaining a loyal customer and losing a dissatisfied one.
Organizations are now “checking the box” when it comes to omnichannel, deploying a series of multichannel tactics disguised as strategy. For mature organizations, it is much more than a channel harmonization and integration effort. They’re investing in a connected customer enterprise, an architecture of eight fundamental capabilities that aligns people, operations, systems and processes around the customer to capture business value.

Evolving technology and consumer behavior over time have forced brands to change the way they operate to deliver the desired customer experience.

Figure 1
The KPMG Connected Customer Enterprise evolution

Figure 2
The race for growth is on.
Mature retailers across the globe that invest across eight omni capabilities are over two times more likely to see omni success.

Omni success metric: Customer experience exceeds expectations, successful execution of one or more omni objectives, and ROI achieved on one or more metrics.

Base: 73 professionals at retail companies investing in all eight omnichannel capabilities and 227 professionals at retail companies not investing in all eight capabilities

Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, July 2016
The Forrester study reveals that retailers are making significant investments over the next 12 months across each of these fundamental and integrated capabilities, including integrated commerce, product strategy, technology architecture, and customer experience strategies that organizations need to operate with experience centrality.

In this period, the majority (70 percent) of retailers will allocate 15 percent or less of sales to omni; 48 percent will budget a max of 10 percent of sales. While it is important to invest in these foundational areas, it is also critical for retailers to think about all eight capabilities, identifying the biggest gaps between current and desired state, to develop a strategic omni investment plan. The study also reveals that retailers will continue to build out their omni strategies over the next few years, with roughly half predicting they will increase spending for most omni capabilities. Integrated commerce, technology architecture, customer experience, and supply chain will be key areas of investment, while partner ecosystem strategy will remain a lower priority. With partners playing a critical role in the value chain, retailers risk falling short of optimizing their programs without making an investment in this important area of the business. Budgets will also get a lift: While just 29 percent of firms report they would be investing 16 percent or more of sales in their omni strategy over the next 12 months, 44 percent predict they will make that level of investment over the next two to three years—a +15 point change over near-term investments. As omni budgets increase, retailers will need to be strategic and judicious about the level of investment they make in each of the eight capabilities in order to succeed (Figure 3).

Mature retailers will continue to invest in these areas to a greater degree than their less-mature peers. The study found that two-thirds of respondents believe their omni strategy places them among the more- or most-mature organizations in their industry. Yet 30 percent of retailers invest in five or fewer of the eight omni capabilities; 46 percent are investing in six or seven. Just 24 percent of those organizations surveyed actually have a mature, holistic omni strategy, with investment in all eight key areas. Mature organizations are investing in several key regions. US retailers led their peers in other countries, with 46 percent investing in all eight omni capabilities, while just eight percent of German and 14 percent of Australian retailers have a holistic omni strategy. The maturity of US companies compared with other geographies is not surprising given its position as an earlier adopter of online commerce and the high percentage of retail dominated by big-box and chain retailers (Figure 4).
24 percent of organizations surveyed actually have a mature, holistic omni strategy with investment in all eight key areas. 

Figure 3
Investment in a KPMG Connected Customer Enterprise

Investment in the eight capabilities spans the entire organization, from customer-facing interactions through to back-office operations.

Base: 300 professionals involved with omnichannel strategy decisions at retail organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016

Figure 4
Global maturity

Significant or moderate investment in all eight capabilities over the next 12 months.

Base: 300 professionals involved with omnichannel strategy decisions at retail organizations; 50 respondents per region
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG, August 2016
Building a KPMG Connected Customer Enterprise

“...The siloed nature of a lot of retailers means they’re only thinking about a customer-centric focus within their functional areas [and not across]... the broader business. While they’re making changes, it’s not nearly fast enough to keep up with the change occurring with their customers and competitors. It’s tactical change, not transformative.”

Mark Schmeling
U.S. Advisory Industry Leader, Consumer & Retail
KPMG in the US

Five major challenges

To align the front to the middle to the back office around an outside-in view that has the customer at its heart can be an enormous challenge without a properly structured and orchestrated approach. The journey starts with understanding the organization’s best customers and then building the business around those customers, specifically by aligning core operations, supply chain, financial management and other back-office and support functions to create the best experience for those customers.

Our research points to the need for retailers to move from a channel focus to a business focus, but they face considerable challenges in doing so. Five challenges stand out—and they stand in the way of creating a truly connected customer-centric enterprise:

1. **Security and compliance concerns.** Data security and regulations about the stewardship and storage of customer data, as well as issues around sharing data with third parties as part of ecosystem-based solutions, are at the forefront of retailers’ concerns globally. Customer data protection figures high on the retail regulator agendas. In our study, 27 percent of retail leaders identify regulatory compliance and concerns around data security and privacy as road-blocks to successfully executing their omni strategy.

2. **Lack of system and data integration.** Retailers remain hampered by a fragmented portfolio of applications and infrastructure, with little ability to integrate the eCommerce and enterprise stacks. As a result, building and implementing connected customer enterprise capabilities is challenging or impossible. Twenty-six percent of retailers say their customer data resides in multiple databases, and 22 percent note a lack of system integration or legacy systems. In these circumstances, it’s no surprise that the top obstacle to omni success—cited by 32 percent of retailers—is the inability to share customer data and analytics among channels, countries or locations. What’s more, nearly one-quarter have difficulty tracking individual customers across interactions.
Strategy misalignment.
Nearly three out of 10 omni strategy professionals at retail companies say that "insufficient budget" is a top obstacle to omni success, while roughly one out of five cite lack of a companywide customer engagement strategy as well as lack of executive sponsorship. Wider research and in-depth interviews with retail executives show a broader issue at play: Various business units take a case-by-case approach to individual channel initiatives rather than a coordinated, holistic approach to a connected customer enterprise strategy. This is not just an obstacle to success—it also leads to broken or clunky cross-channel experiences for customers.

Misalignment of people, partners, and processes.
It’s not enough to set a channel-focused strategy. If you fail to align internal resources, processes, and partners with this strategy, execution will be a challenge. Roughly one-quarter of retailers cite a lack of transparency and ineffective communication with third-party partners, lack of qualified staff, and lack of incentive to collaborate among the top five obstacles to success; 19 percent struggle with a misalignment between internal processes and their omni strategy.

Siloed organizational structure.
Most retailers still organize by channel, with separate P&Ls, leadership, and incentives for stores and eCommerce. They run separate applications, managing forecasts and inventory independently. This failure of alignment results in lack of inventory visibility across brick-and-mortar and online channels (24 percent) and inconsistencies in products and pricing across channels (22 percent). Retailers struggle to “onboard” items, vendors, and content in their legacy applications at the rate they need for today’s “always available and immediately deliverable” eCommerce customer expectations. The result is supply chain and inventory management systems that cannot meet the commitments made by channels at pre- or point-of-sale instances—an issue cited by 24 percent of retailers—leading to lower customer satisfaction and higher service costs.

Overcoming these challenges will help organizations identify and deliver on customer expectations for a true customer-centric experience. Addressing each of the eight capabilities, from the outside in, will help enable organizations to understand and meet customer expectations holistically and thereby be responsive to them.

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### Top 5 obstacles to success

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<thead>
<tr>
<th>1</th>
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<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security and compliance concerns</td>
<td>Technology and data silos</td>
<td>Strategy misalignment</td>
<td>People/process misalignment</td>
<td>Business silos</td>
</tr>
<tr>
<td>- Concerns around data security and privacy</td>
<td>- Difficulty sharing customer data and analytics among channels, countries or locations</td>
<td>- Insufficient budget</td>
<td>- Lack of transparency and ineffective communication with third-party partners</td>
<td>- Lack of real-time inventory visibility across both brick-and-mortar and online channels</td>
</tr>
<tr>
<td>- Regulatory requirements/compliance</td>
<td>- Lack of integrated communication channels (phone, email, chat, web self-service)</td>
<td>- Lack of a company-wide customer engagement strategy</td>
<td>- Lack of qualified staff</td>
<td>- Supply chain isn’t configured to meet the commitments made by the channels at pre- or point-of-sale</td>
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Base: 300 Global professionals involved with omnichannel strategy decisions at retail organizations
Source: A commissioned study conducted by Forrester Consulting on behalf of KPMG International, August 2016
Getting to success in retail

While we know building a KPMG Connected Customer Enterprise is a key focus for retailers as they strive to improve the customer experience, grow revenue, and gain an advantage in a highly competitive market, too many will waste their investment without addressing factors critical to omni success. In order to compete, retailers need to transform their approach, moving from cross- and multichannel tactics to a holistic and connected customer enterprise strategy—one that extends across brand, products and services, interactions, and people. Evolving to a holistic strategy is an iterative process, not an overnight transformation. In order to succeed, retailers must:

- **Prioritize investments based on KPMG Connected Customer Enterprise capability maturity.** To help avoid the risk of disjointed initiatives and wasted investment, retailers should conduct an objective assessment of their maturity level for each of the eight connected customer enterprise capabilities—identifying where they are doing well, any gaps between current and desired state, and where they need to focus to fill those gaps. They should then prioritize initiatives and investments based on this assessment and develop a roadmap to deliver a compellingly differentiated experience across the customer journey.

- **Transform their organization to create a consolidated P&L.** Retailers need a single organization that spans all aspects of digital and physical interactions and is based on the customer’s journey rather than transaction location. A consolidated P&L generates savings and creates common budgets that can be deployed to fund the investments necessary for a KPMG Connected Customer Enterprise. It also enables clearer visibility into real-time inventory across brick-and-mortar and online channels. A key component to successful consolidation is the creation of incentives and KPIs that will foster collaboration between channels.

- **Leverage technologies.** Retailers must acquire and leverage foundational technologies to support omni strategies. Key technologies include an order management system that provides an enterprise-wide, consolidated record of orders and their status; a product information management system to achieve a single enterprise platform for managing product content and offers; and customer insight and intelligence technologies that create a holistic single view of customer interactions and enable predictive analytic modeling. Retailers should also invest in online and in-store assisted selling technologies both to improve customer experience and increase revenue by automating cross-sell and upsell opportunities.

- **Strengthen the partner ecosystem.** While mature retailers recognize the importance of aligning partners with their omni strategy, it falls low on the priority list for the average firm. Alignment between your own strategy and partner ecosystems, alliances, and vendor relationships is an integral part of a broad ranging connected customer enterprise approach. To help bridge this gap, retailers will need to design partner ecosystems using open platforms and APIs to enable flexible, dynamic engagement with external partners.

### Figure 6
So, what does good look like for your customers... and you?

<table>
<thead>
<tr>
<th>KPMG Connected Customer Enterprise capabilities</th>
<th>What good looks like for customers</th>
<th>What good looks like for organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product, pricing &amp; customer strategy</td>
<td>Connection to the brand, relevance of product and experience</td>
<td>Products/services, pricing and promotions are optimized leveraging real-time data</td>
</tr>
<tr>
<td>Experience centrality</td>
<td>Experience the brand promise across all touch points</td>
<td>Experience decisions made to optimize economic value of priority customers</td>
</tr>
<tr>
<td>Responsive supply chain</td>
<td>Receive products and services when, where and how it is convenient</td>
<td>Leverage innovation-driven demand and inventory management and distribution</td>
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<tr>
<td>Partnerships, alliances &amp; vendor management</td>
<td>Reap the benefit of partnerships without compromising perception</td>
<td>Identify &amp; leverage synergies with third parties to overcome enterprise barriers</td>
</tr>
<tr>
<td>Advanced data &amp; analytics</td>
<td>Personalized interactions with a brand leveraging customer data</td>
<td>Leverage real-time customer data to optimize experience</td>
</tr>
<tr>
<td>Technology architecture &amp; enablement</td>
<td>Frictionless use of technology across the journey and experience</td>
<td>Culture of innovation and agility driving speedy, quality tech implementation</td>
</tr>
<tr>
<td>Seamless commerce</td>
<td>Seamless and secure payments for products/services across channel(s)</td>
<td>Preference driven and integrated payment mechanisms across channels</td>
</tr>
<tr>
<td>Organization alignment &amp; people capability</td>
<td>Seamless and consistent experience across all brand interactions</td>
<td>Culture of inside-out experience centricty</td>
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Investing for the future

To deliver on ever-increasing consumer expectations for a true customer-centric experience and to achieve business and financial goals, organizations must take a holistic approach, addressing each of the eight critical capabilities. But investing in these capabilities is only part of the equation. Organizations also must have a clear understanding of where and how they’re investing to understand the true value of the KPMG Connected Customer Enterprise approach.

The path forward is first to understand where your organization is today, using a broad-ranging maturity assessment that covers all eight capability areas of your enterprise architecture, from front office through middle and back office. This effort can help identify relative competencies versus leading practice. This, in turn, can help to inform the business case and roadmap for investing in relevant capability areas across the enterprise value chain with a keen focus on unlocking ultimate business value.

Organizations can drive profitable growth by making transformation and business decisions based on what their customers value most. A value-centric mindset, capability, methodology, and comprehensive measurement system are required to get the economics of customer experience right and capture financial outcomes. A KPMG Connected Customer Enterprise can help retailers achieve these goals.

Figure 7
KPMG Connected Customer Enterprise maturity assessment

"Most companies have been on some point of this journey. It’s about making it work today and for tomorrow. It’s about integrating the business today that aligns with the customer, to deliver for the customer, and to deliver profitable returns for the shareholders."

Julio Hernandez
Global Center of Excellence
Lead & US Customer Advisory Lead
KPMG in the US
KPMG brings together expertise in strategy and implementation – as well as far-reaching industry and functional knowledge – to create better customer outcomes that produce better business returns.

That means looking beyond the front office to a wholesale transformation of functions such as marketing, sales and service – and often linking them to the middle and back office. The resulting organization is closer to customers and can deliver interactions that are seamless, responsive, relevant and consistent to build greater loyalty and share of wallet.

From ambition to implementation, KPMG partners with organizations on their journey to becoming customer centric, balancing cost against customer satisfaction, and maximizing the opportunities to increase revenue.

2016 Forrester Consulting Global Omni Study
Conducted during the summer of 2016, the research comprised two elements: 1) a quantitative survey of 1,290 business and technology leaders at enterprises in the US, Canada, the UK, Germany, Australia, Mainland China and Hong Kong S.A.R. involved with omnichannel strategy decisions at their organizations and 2) 12 qualitative interviews. Six industries were included in the study: banking, property and casualty (P&C) insurance, healthcare payers and providers, consumer packaged goods, retail and telecommunications.