

WomenCorporateDirectors Foundation Board Strategy Briefing

What Directors Need to Know About Customer Loyalty and Shared Value

2016



WomenCorporateDirectors is grateful
to KPMG for the governance insights
and co-authorship of the
Board Strategy Briefing

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From capturing data to incentivizing customer engagement, what does it take to make your company customer-centric?

In a recent CEO survey, eighty-six percent of CEOs were concerned about the loyalty of their customers. At the same time, technology is driving change in the way organizations analyze customer data and interact with their clients. With changes wrought by everything from geopolitical changes to generational leaps in technology, boards of directors are seeking to make sure that they ask the right questions and focus on customer-centricity as a strategic priority.

How boards can best support corporate strategies around customers was the topic of a panel at the 2016 WomenCorporateDirectors Foundation Global Institute, held in New York. The Institute convened 250 directors, board chairs, lead directors, CEOs, and other governance experts to share their experiences and lessons from a broad range of large public and privately-held companies, all being transformed in the digital age.

The customer loyalty panel featured governance leaders who are propelling their companies successfully into this new era, including:



Kapila Anand, (United States) Moderator; Director, Extended Stay America, Lead Director, WCD Foundation and Retired Partner, KPMG LLP; WCD Chapter Chair



Dr. Cheemin Bo-Linn (United States), President and CEO, Peritus Partners, Inc.; Former Vice President, IBM Corp.; Director, Violin Memory Inc. and Evena Medical Inc.; 2015 “Hall of Fame for Women in Technology” Inductee; WCD Member



Jannice Koors (United States), Managing Director, Pearl Meyer; WCD Member



Jyoti Narang (India) Director, Au Financiers Ltd. and Calderys India Refractories Ltd; former Chief Operating Officer, Taj Hotels, Resorts & Palaces India; WCD Chapter Chair



Tim Theriault (United States), Director, Wellmark, Falcon Insurance Company and Vitamin Shoppe; former Executive Vice President and Global Chief Information Officer at Walgreens Boots Alliance; former President of Corporate and Institutional Services, Northern Trust Corporation



Anka Wittenberg (Germany), Chief Diversity & Inclusion Officer, SAP SE; Supervisory Board Member, Westfalen AG; CEO, World Childhood Foundation, Germany; WCD Member

In this **WCD Board Strategy Briefing**, presented in conjunction with KPMG’s Board Leadership Center, we highlight the key takeaways from the discussion. From the questions directors should ask management about their customer engagement programs to a *caveat emptor* around how data is collected and used, this report is an invaluable primer for boards and their leadership teams.

¹ KPMG CEO survey <https://home.kpmg.com/us/en/home/insights/2016/06/us-ceo-outlook-2016.html>

Be Smart about Collecting and Analyzing Data

“Analyzing and monetizing data has become a strategic weapon.”

Collecting and analyzing customer data has become a strategic priority at many companies, said KPMG’s Kapila Anand. “A director who can bring customer experience into the boardroom is invaluable in focusing the organization on the strategic importance of data analytics and of customer-centricity overall.”

“Analyzing and monetizing data has become a strategic weapon that provides *insight* about the customer’s ‘DNA,’ *foresight* about consumer needs, and risk *oversight* for investments and consumer engagement action,” said Dr. Cheemin Bo-Linn.

Former global CIO at Walgreens Boots Alliance and a director at Wellmark and Vitamin Shoppe, Tim Theriault advises boards and leadership teams to embrace data capture and analysis. He recommended, “Ask management how well they know their best customers and what data they have to support their answer. Secondly, once you know your customer, ask how well you know their digital fingerprints and determine what you will do with this knowledge.” He continued, “Getting to know your customers is a journey that never ends.”

“A lot of people view their businesses as ‘we have an e-commerce business’ or ‘we have a brick-and-mortar business,’ but customers don’t view you that way,” Theriault said.

Theriault continued, “They view you as one company. Every time you have a touchpoint within your brand, that experience has to be consistent and reliable, and you have to show customers that you know who they are.”

Jyoti Narang, former Chief Operating Officer of Taj Hotels, Resorts & Palaces India, advised directors to proceed carefully when considering investing in the technology around data capture. “At a board level, you need to do a cost-benefit analysis of how you’re collecting the data,” Narang said. “Consider the technology investment, the manpower investment, and whether everything needs to be customized. “You need to understand that technology is only a facilitator in customer-centricity and that rapid change in technology may make the investment obsolete quickly. The question to ask yourself is: do you want to or need to be a first mover?”

Anand echoed this caution: “It’s actually not that simple to understand what the ROI is on some of these initiatives because there is so much that is intangible in the process of customer data capture and analysis and the results may be realized over a period of time.”

After You Know Your Customers, Then What?

***“Boards should ask their marketing teams:
how do you take the customer loyalty
information and incorporate it into operations?”***

Once you know your customers, what are you going to do about it? With the enormous collections of data that companies are amassing, there may be questions in the organization about what to do with that data, or a real strategy for putting it to use. This is where the board can have an important role – in pulling back the lens to take a broader view of the process and its goals.

A longtime executive and director in the tech industry with a focus on cloud computing and big data analytics, Bo-Linn underlined the value in getting on the boardroom agenda to spotlight customer acquisition and loyalty. “Whoever is leading this customer effort has to talk to the lead director, who sets the agenda, so that when the C-suite presents, it triggers a board discussion about the importance of customer engagement on the front end – i.e., customer DNA and customers’ needs – and also about risks and costs associated with various initiatives across the enterprise-a strategic business perspective.”

At this board level, management teams need to be able to articulate not only who their best customers are, said Theriault, but also how to apply this knowledge in operations. “Boards should ask their marketing teams: how do you take the information and put it back into the company? And are you being agile? This may translate to a situation in which, every 90 days, you could take the learnings of customers and you could apply a new campaign and engage them differently.”

An important way companies are engaging with customers is communicating their shared values, remarked SAP’s Anka Wittenberg. “And with the millennial generation in particular, both employees and customers, shared values are a critical connection point.”

***“How well does management know its best customers
and their digital fingerprints? Getting to know your
customers is a journey that never ends.”***

Incentivizing Customer-Centricity

“It’s still the human being that is in direct contact with our customer. Each percentage point we raise in employee engagement has a positive bottom-line effect of 45 million euros – a big number.”

With all the discussion around customer loyalty, how can boards ensure that compensation is aligned with this purported objective?

Compensation expert Jannice Koors of Pearl Meyer observed that companies are under-leveraging the opportunity to reward customer care, likely to the detriment of longer term company performance: “Compensation can be an amazing tool to telegraph the priorities of an organization. If you think about a consumer-facing organization, the engagement of your customers should be one of the most important things for the long-term health of the organization. But if you look at the way incentive plans are structured, those very specific overt customer metrics tend to be at the lowest level. These incentive plans tend to not go up the organization and are generally limited to the people who actually touch the customer.”

Incentive plans for the top-of-the-house at companies are usually all about financials, Koors said. “There is an implicit alignment, because presumably if we’re treating our customers well and getting repeat customers and increasing our share of market and share of wallet, it means we’re doing the right things. And this should appear in the financial metrics.” But short-termism might cause executives to do things such as cut costs or eliminate service centers or other functions important to the customer experience.

“Incentivizing customer care can turn into a short-term/long-term problem for the board. In the long-term, yes, executive incentives and customer health are absolutely aligned: taking care of customers is good for the long-term financial health and value of the company. In the short-term, however, those two things can be in huge conflict if customer experience costs run high.”

Wittenberg argued for the value of employee satisfaction as a path to long-term customer and financial success. “It’s still the human being that is in direct contact with our customer.” With high employee and customer engagement numbers measured each year, SAP sees the impact. “Each percentage point we raise in employee engagement has a positive bottom-line effect of 45 million euros – a big number.”

For directors, Wittenberg said, “Boards need to ask: How does your strategic workforce planning look in the future? What are the talents that you need? How are the talents that you already have in the organization doing?”

Data Privacy – Going Beyond What’s Legal to What’s Right

“How can we operate in a global fashion yet comply with local regulations and multi-generational expectations?”

Along with customer data come the thorny issues of data privacy and the responsibilities of the company around data. For the board, this raises questions around regulatory requirements, which can vary dramatically from country to country.

“As a board member, you need to look at not only the different governments’ governance on data, but also the risk,” warned Bo-Linn. “There is certain customer data you can’t move outside of a country, and you have to be cognizant of privacy rights that are particular to certain European countries as well as in Asia-Pacific. You have to be aware of those nuances as well as you deliver shareholder value.”

But regulations are only the starting point for the privacy discussions. “For many boards, the discussion is focused less on what’s legal within certain borders than on what’s the right thing to do,” said Jyoti Narang.

Jannice Koors explained that what’s “right” may be very different depending on the customer. “At the board level, directors need to understand whether or not the company has an appropriate generational approach to the issue of customer data,” said Koors.

Koors continued, “Let’s say that when a customer walks by their store, the company can send a text to the customer that says ‘we’ve got a sale going on.’ Some customers will perceive that kind of outreach negatively. And yet other customers would look at that and say ‘thanks for letting me know.’ So, as a board member, how are you thinking about the way you manage customer segmentation – not the global divide, but the generational divide?”

On her boards, Narang says that this consideration is very intentional. “We make a concerted effort when we discuss strategy to have a multigenerational approach. We make sure that we understand how the customer wants the information delivered and what kind of services and support he or she needs. We have our larger strategy, but can tailor the execution to different segments.”

While the opportunity to monetize data is significant, said Bo-Linn, “What we have to do at a board level is have discussions around how we operate in a global fashion yet, at the same time, fulfill local needs and local expectations.”

“Companies may be underleveraging the opportunity to reward customer care.”

Questions boards should be asking about customer engagement and loyalty

In a wrap-up to the session, the panelists summarized the most important questions boards should be asking of their teams.

1 Does the company have a 360-degree approach to customer engagement?

Getting to know your customer is a journey that never ends, and operationalizing customer engagement initiatives should be data driven.

- Have we captured and analyzed the outside-in data necessary to identify our key customers and their digital fingerprints? How often is it updated?
- Do we know what drives the loyalty of our key customers?
- Have we operationalized the lessons learned? Do we have the skills in-house to execute these priorities?
- Are we consistent across multiple touch points?

2 Are talent incentives and organizational structure aligned with company priorities?

Understand the role that employee satisfaction, organizational structure, incentives and compensation can have in driving customer-centricity. This is not just about what the customer needs right now, but also about the solutions for tomorrow - we cannot find them without engaged employees.

- Do we incentivize customer-centricity throughout the organization and with both a short-term and long-term lens?
- Do we take our employee satisfaction scores into account when evaluating customer engagement initiatives? How does our strategic workforce planning look in the future?
- Are our processes and organizational structure aligned to deliver value to the customer? Traditional organizations tend to maximize efficiency rather than customer-centricity. Are we willing to change our structure and the heart of our organization to be closer to our customers?

3 Have the costs, ROI and the regulatory and privacy risks of customer-centricity been considered?

A key function of the board is in guiding management to look at the potential long-term risks and trade-offs of company initiatives. Help the team step back and view the full picture.

- Have we considered the regulatory and privacy risks around customer engagement initiatives?
- Have we considered the multi-generational sensitivities of customer engagement?
- Do the advantages outweigh the risk to being a first mover with new customer initiatives?

Upcoming WCD Foundation Institutes

- **November 3-4, 2016: 2016 Americas Institute – Miami, FL**
- **November 9-10, 2016: EMEA Chair and Lead Directors Seminar: The Role of Cognitive Technologies in the Boardroom – how will its use become the key enabler for visionary boards? – London, UK**
- **March 22-23, 2017: Latin America Conference – Santiago, Chile**
- **May 9, 2017: Family Business Governance Institute – New York, NY**
- **May 10-11, 2017: 2017 Global Institute – New York, NY**







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The WomenCorporateDirectors Education and Development Foundation, Inc. (WCD Foundation) is the only global membership organization and community of women corporate directors. A 501(c)(3) not-for-profit organization, the WCD Foundation has 74 chapters around the world, with several more to launch over the next year. WCD Foundation members serve on numerous boards of large private and family-run companies globally. For more information visit www.womencorporatedirectors.com or follow us on Twitter @WomenCorpDir, #WCDboards.

About KPMG’s Board Leadership Center

The KPMG Board Leadership Center champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programs and perspectives—including KPMG’s Audit Committee Institute and Private Markets Group the Center engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Learn more at KPMG.com/BLC.

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