



The Next Frontier for Manufacturing Growth: Outcome-Centric Organizations

Profitable growth does not come easily. Manufacturers face headwinds from weakness in emerging markets and global oversupply in commodity industries. Industrial customers increasingly expect customization to meet their specific needs. With underwhelming market growth, pressure increases to find unique ways to drive market share gains.

To face this challenge, some companies have discovered that meeting unique needs of customer segments requires rebuilding their organizations. These companies realize that offering great products and services is just table stakes. They seek now to tailor solutions to varying customer needs. Accomplishing this often requires manufacturers to redesign each major function in their organizations, which can amount to a wholesale transformation of the entire company.

Over recent years, many companies have been on this journey to better support customer segment needs. However, there is yet another journey that some companies are beginning to contemplate. We believe that this next stage in the evolution of industrial strategy is to organize and support customer outcomes rather than product/service needs. When Rolls-Royce or GE sells

an aircraft engine to an airline, they are meeting a customer product need. When they provide a “power by the hour” engine leasing solution, they are delivering an outcome and potentially more value to the customer. Technology advancements are making this outcome orientation more feasible every day. The Industrial Internet of Things and connected products threaten to disrupt established market relationships, introduce new competitive dimensions and challenge existing business models. Within this change is enormous potential opportunity. While likely still far on the horizon for most industrial companies, this new frontier for growth represents a potential end state for many.

Although the destination is becoming clearer, the journey to commercial transformation is proving to be challenging for many industrial companies. Adaptation will require fundamental changes in how industrial manufacturers are organized, how they develop new capabilities and how they create new approaches to partnering. Above all, such transformation will require a great deal of leadership and change management.

In this *Executive Insights*, the first in a series on how manufacturing companies can improve their commercial capabilities to drive growth, we outline our views on the capabilities required for customer- and outcome-centricity, and then we discuss steps industrial manufacturers can take to reach these end states successfully.

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Product-centric, customer-centric, outcome-centric: What do they mean?

Our years of experience working with industrial manufacturers have led us to define three stages of maturity with respect to commercial capabilities:

1. **Product-centric** companies focus on developing and selling great products, often touting engineering skills as a key advantage.
2. **Customer-centric** companies identify specific customer segments' needs and focus on offering the *right* solutions and services to meet those needs.
3. **Outcome-centric** companies deliver specific business outcomes to their customers. Essentially, they are more advanced versions of customer-centric companies.

Successfully making the journey from a product-centric to an outcome-centric organization requires development of a number of capabilities in a company's commercial organization (see Figure 1).

What steps should industrial companies take?

We have identified the following four steps to help manufacturers successfully navigate the journey to becoming either customer- or outcome-centric:

1. **Clearly define which customers to target and problems to address.** Industrial customers increasingly expect more from their suppliers. As a result, these customers are shifting their procurement approaches from buying products to buying value-added services and, ultimately, to buying business outcomes with clear economic value.

So how should manufacturing companies respond? Marketing teams can focus on deep segmentation and how customers use their products and services. These use cases of common customer situations and business outcomes will help marketers understand the broader scope of customers' needs and challenges. Deep segmentation and use cases will help manufacturers identify and prioritize attractive opportunities, with the biggest rewards going to those that can best solve customer problems.

2. **Assess your abilities and what is required to win.** Once manufacturing companies have identified priority customers and use cases, the critical next steps are to define the required capabilities to deliver a strong value proposition and to identify gaps that need to be closed. Oftentimes, the case is that manufacturers' commercial capabilities are poorly designed and not strong enough,

meaning manufacturers are ill-equipped to execute in a more customer- or outcome-centric way. This can impact a variety of functions across the commercial organization, such as marketing, sales, customer service and after-sales support (and even IT, supply chain and operations). Conducting a realistic, objective assessment of what commercial capabilities it will take to deliver the right value proposition is a necessary step.

Many companies find this step difficult because it requires objective pressure-testing to estimate current capabilities accurately. The stakes are too high to let bias creep in, which can lead to overestimated capabilities. Industrial manufacturers' defining of required capabilities should be informed by customer insights into what it takes to deliver on their needs and outcomes. Along with this input, a current and required capability assessment provides manufacturers a clear understanding of their game and what is required to win.

3. **(Re)Design the commercial organization.** It can be useful to work backward from targeted customers and capability requirements to identify commercial functions that need to be organized differently in order for companies to meet their goals. It is helpful to ask two critical customer questions to guide the commercial design.

First, what is a customer's ideal experience when dealing with your company? Surprisingly, many industrial manufacturers don't have a clear answer. They take a reactive approach to improving their customers' experiences, using ex post facto customer feedback and anecdotes to guide their improvements. Transformative industrial companies, however, proactively redesign their customers' experiences, leveraging best practices from leading B2C companies such as Amazon and Apple.

The second critical question can be even more difficult to answer: What is the value to your business of delivering a customer's ideal experience? Industrial manufacturers need to understand where they can profit most by offering differentiated products, service levels and customer experiences. With limited resources, these manufacturers face difficult choices in allocating commercial resources and prioritizing efforts. Organizational design options — such as basic and premium service levels, direct and indirect selling, and customer service and after-market support — need to be informed not just by customer preferences and their willingness to pay but also by the cost to serve.

4. **Lead the change.** The journey for many companies to become customer- and outcome-centric can lead to a significant transformation over time. While every

Figure 1
Commercial Capabilities by Commercial Organization Type

	Product-centric	Customer-centric	Outcome-centric
Marketing	<ul style="list-style-type: none"> Market segmentation primarily around product usage Customer value proposition focused on product features Marketing of individual products and services 	<ul style="list-style-type: none"> Customer segments sharply defined across multiple dimensions Differentiated value propositions marketed to each customer segment Marketing of solutions that bundle products and services to meet customer needs 	<ul style="list-style-type: none"> Segmentation down to individual customers to target each customer uniquely Tailored value propositions to meet specific customer needs Marketing of customer outcomes
Sales	<ul style="list-style-type: none"> Transactional relationship with customer Incentives based on product sales and individual performance 	<ul style="list-style-type: none"> Advisory relationship with customer and team selling Incentives based on customer account growth and team performance 	<ul style="list-style-type: none"> Integrated partnership with customer — working as part of its organization Incentives based on customer outcomes and service level agreements
Product and service development	<ul style="list-style-type: none"> Develop next-generation products with new features and applications Focus on product road map and life cycle management 	<ul style="list-style-type: none"> Focus on broader customer needs throughout life cycle (rather than just at point of sale) 	<ul style="list-style-type: none"> Designing product as a service to generate customer outcomes Automated real-time feedback on performance to inform future product/service improvements
Pricing	<ul style="list-style-type: none"> Price to market or cost 	<ul style="list-style-type: none"> Price to value 	<ul style="list-style-type: none"> Price per outcome Price per usage
Customer service	<ul style="list-style-type: none"> Receive and resolve customer inquiries 	<ul style="list-style-type: none"> Analytics used to identify product and service improvements 	<ul style="list-style-type: none"> Anticipating customer issues and proactively reaching out with solutions (e.g., automatic rerouting of a misplaced delivery)
After-sales service	<ul style="list-style-type: none"> After-sales product support (e.g., product repairs) 	<ul style="list-style-type: none"> Proactive ongoing solution support (e.g., preventive maintenance tied to service agreement) 	<ul style="list-style-type: none"> Predictive interventions driven by analytics and anticipated outcomes (e.g., automated service scheduling, parts replacement)
Sales operations	<ul style="list-style-type: none"> Focus on historical purchase data Disparate sources of customer and product information 	<ul style="list-style-type: none"> Integrated CRM to inform overall view of customer (typically static or point-in-time data) New sales opportunities suggested through analysis of customer data 	<ul style="list-style-type: none"> Predictive analytics based on real-time customer data Gathering and analyzing multiple data streams to identify and recommend changes that result in improved outcomes (e.g., reduced fuel consumption)
Culture	<ul style="list-style-type: none"> Transactional relationship with customer Incremental product or service improvements 	<ul style="list-style-type: none"> Customer advocacy Relationship management culture — identifying customer needs to be satisfied 	<ul style="list-style-type: none"> Results- and partnership-focused culture — delivering the best outcomes and customer experiences
Leadership and governance	<ul style="list-style-type: none"> Decision-making led from the top Functionally led 	<ul style="list-style-type: none"> Frontline workers empowered and given autonomy to make decisions with regard to customers' needs Collaborative, cross-functional governance (e.g., a matrix) 	<ul style="list-style-type: none"> Algorithms used to automate decision-making, with minimal interventions from people Broad-based, faster decision-making

company's journey is unique, it usually takes 12-24 months for a product-centric organization to become a more customer-centric one. The good news, however, is that quick wins can usually be generated in much less time, which has the dual benefit of validating the direction in which a company wants to go and contributing sales and margins to keep the momentum going.

Practically speaking, numerous factors distinguish the transition from product-centricity to customer- and outcome-centricity from other transformation efforts:

- It's about growth, not cost reduction or "right sizing."** Knowing this simple fact can reduce stress and anxiety among leaders, managers and staff, and it can pave the way for transparent internal dialogue to change the commercial organization.
- It's risky.** Changing commercial functions, roles and responsibilities and customer experiences is risky business, as such changes can negatively impact customers at a time when you are trying to improve how you sell to and serve them.

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- **It requires a lot of heavy lifting and attention to detail.**

Designing the details of a commercial organization, placing the right people in the right jobs, upgrading talent, adjusting P&Ls, modifying sales incentive plans, designing and implementing training, and ensuring clear communication are just some of the activities required when making widespread changes in commercial organizations. Adding to these stressors is the never-ending need to hit growth goals, which limits the amount of time and focus organizations can dedicate to the effort.

- **It takes teamwork — and time.** People often need to learn new ways to work together internally, so they adjust how they sell to and serve customers in order to deliver the right experiences and value. Teamwork often needs to improve, and it doesn't happen overnight.

Industrial manufacturers should focus their change management efforts in several areas:

- **Sell the vision and get buy-in.** As with any significant organizational change, leaders need to share the vision and direction to move their companies forward. But in commercial transformations, leaders need to go the extra mile to ensure that frontline, customer-facing managers and staff really understand what can stay the same and what needs to change. If these managers and staff are confused or do not buy in to the changes, then your customers will also be confused and unable to buy in.
- **Develop the integrated plan and mitigate the risks.** Commercial transformations comprise many moving parts that companies need to address. Defining the projects and deliverables, mobilizing the right people, setting milestones and managing dependencies are all part of making organizational changes, and the risk of upsetting customers along the way can be high. Conducting a realistic assessment of which customers might be unhappy with the changes — and developing practical mitigation plans to address those

customers' concerns — is a must.

- **Place the right people in the right positions.** It can be difficult to transition from selling products to selling and servicing solutions and delivering well-conceived customer experiences. Many industrial manufacturers realize that they might not have enough of the right people in the right positions to make such a transition. It is imperative that companies conduct an objective talent assessment before rolling out commercial organizational changes, because they likely will need to make difficult human resources decisions.
- **Embed with customers.** All the efforts above are for nothing if customers don't buy in to the intended benefits the strengthened value proposition will provide them. A well-thought-out engagement plan that aligns with customers' end goals is key. An effective plan paves the way for your sales and service staffs to increase their collaboration with customers, which is essential to product-centric organizations' success as they transition to customer- and outcome-centric organizations.

Becoming a customer-centric and an outcome-centric organization is arguably one of the most important strategic decisions your company will make and will involve a foundational shift in your company's organization and culture. Embracing this major undertaking and maintaining the discipline to follow through will likely mean the difference between future success or stagnant survival.

Case study: How a global industrial manufacturer achieved customer-centricity

We worked closely with a product-centric, engineering-focused global industrial manufacturer to transform its commercial organization. The company, known for its high-quality products, was experiencing slower growth than it should have been, given its position in the marketplace. It had grown in part through acquisitions over the years, which made it more difficult for the organization as a single entity to adapt.

Our collaboration focused initially on prioritizing customer segments, and then we moved to the organizational design phase. The first step in this phase was to address the people and power issues — who should decide what, who is accountable and how important commercial decisions should be made. Many product-centric companies find the design phase hardest because it generally pushes them into a matrix organizational design, which can create more complexity during a difficult transition. Although this step may be hard, our experience shows that getting decision-making processes right and then making the right decisions are more important than are boxes and lines in an organizational chart.

With decisions and accountabilities adjusted, we moved on to the next steps in the commercial design phase: aligning incentives, placing the right people in the right roles and improving cross-functional processes to sell and deliver.

Improving our client's teamwork across the commercial organization and in other key functions was critical to the company's success in acquiring and serving customers. We find that sales and service activities typically require some adjustments because these cross-functional processes can involve people from various departments across a company, such as marketing, engineering, sales, customer service, after-sales support and operations. As such, much of our detailed design work focused on developing shared goals and team-based incentives to minimize internal conflicts and promote better collaboration, especially across the sales-service continuum of activity, where customers are most impacted.

The critical final step in the commercial design phase was ensuring that commercial enablers, such as sales, operations, technology, data and tools, were aligned with the new organization. Like many industrial manufacturers, our client experienced challenges leveraging data to uncover critical customer insights and ensure that its people had the right information at the right time to serve its customers.

Our process has enabled our client to achieve much greater alignment between its commercial organization and its target customers. As the company has continued to mature its commercial capabilities, it has experienced significant incremental revenue growth and received more positive customer feedback.

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