Moving towards Customer-Centricity

For many industries, the global outbreak has accelerated pre-existing trends in the B2B and B2C go-to-market with respect to having, as a common denominator, a customer-centricity focus. Even though this term has been used since the late 1960s, it has never been as relevant as today given the current context where customers seek more than ever trust and dependability in the brands they choose to purchase from. More specifically, companies realize that the key to surviving this disruption depends on setting a strong customer loyalty program, having as a primary objective the re-adaptation of the offering depending on the new needs and expectations of customers, thus viewing customers as the start and end point of doing business.

As a response to the Covid-19 pandemic, during the lockdown companies started to understand the urge to move more towards an omni-channel strategy, that is the ability to reach a seamless end-to-end customer journey by setting up both the physical and digital sales channels, hence employing a “phygital” approach. More precisely, the concept of phygital has been referred to as a digital marketing strategy linked to intimacy, immediacy and interaction with the customer (Phygital, 2020), which can be achieved by digitalising the top-line performance, that is, by implementing the following building blocks.

Reinventing Business Models

Such business attitude is being increasingly adopted with the intention of remaining as close as possible to “distant customers” given the social distancing restrictions. On a practical level, on the one side, we saw businesses investing heavily in e-commerce platforms for example in the supermarket industry where, as a consequence, supply chains have been moved even closer to customers. On the other side, businesses started to employ new commercial and product strategies, for example with live streaming fashion shows in the fashion industry.

The response of companies to meet the new customer needs, capture new demand and generate growth while keeping competitive in the marketplace, can be viewed as an “immediate response phase” where businesses’ primary objective was to respond quickly to the disruption caused by the global pandemic. It subsequently becomes crucial for businesses to start thinking about how to put in place the “rebound phase”, that is in a context in which restrictions become normalized and, in general, where the new reality (“new normal”) starts to set in. The first step is to put in place a comprehensive redefinition of the ante-Covid-19 go-to-market strategies.
RETHINKING GO-TO-MARKET STRATEGIES

Contrarily, from a typical economic crisis that mainly challenges companies from a demand point of view, the resurgent Covid-19 crisis is not only impacting the economic model or demand but also the go-to-market model. On the one side, the economic model is currently under stress as it is experiencing shifts in the customer preferences and needs, attitudes toward risk, and product and channel choices. On the other side, unprecedented lockdowns and other restrictions are influencing the way in which companies sell and deliver their product and services and, ultimately, the way they can engage with their customers.

The map below depicts where on the four quadrants distinct industries are positioned during this crisis.

This scenario, characterized by a high volatility in both the economic and the go-to-market model, is expected to endure for at least six months until a vaccine becomes widely available to the general public. From a practical point of view, this crisis is making customers realize what they actually need and what they can avoid in terms of products and services. Therefore companies are challenged with the reflection of the shifts in the customers’ choices, and will understand the necessity to act promptly.

Source: Simon Kucher (2020q)
Bad companies are destroyed by crises, good companies survive them, great companies are improved by them.

By Andy Grove - Intel Founder

In order for companies to favourably survive the crisis and to fit in the description of Andy Grove regarding great companies, their first concern today is to make a resilient and rapid offer of design, sales and pricing choices repeatedly until the market restores some kind of equilibrium that is essentially the capability to put in place a plan for achieving top-line agility:

1. **AGILE DESIGN.** This is about conducting specific improvements or minimum viable outcomes that will deliver immediate value to the products and services of a company. Agile design could include the reassessment of the customers’ willingness to pay, the readjustment of the customer experience to a socially-distanced market and the transformation of products and services to digital forms. Essentially, companies will be confronted with the challenge of redesigning their offering with one that will meet the new customers’ expectations, and deliver high levels of customer experience, safety and economic profitability.

2. **AGILE SALES.** Given the go-to-market sales developments that have been developed in this period, companies must become experts at mastering the omni-channel by quickly integrating digital selling with the traditional sales channels by putting in place e-commerce platforms. For both the B2B and B2C businesses, a key aspect will be to focus internal resources in aligning the sales teams to the “new normal” by promoting remote-selling and digital interactions with clients through the adoption of video-conferencing tools, artificial intelligence enabled bots, augmented reality and gamification.

3. **AGILE PRICING.** An important aspect of agility in pricing is to create efficient and responsive pricing strategies. One the one hand, in order to monetize value, agility can be achieved by employing the differentiation tool by setting various types of offerings to target different customer segments. On the other hand, another tool for achieving agility is dynamic pricing that can be used to balance supply and demand; this technique is used by Uber to increase the supply in supply-scarce circumstances by imposing higher prices while reducing demand from those customers that are not willing to pay a premium, hence keeping waiting times to a minimum.

**REALIGNING THE COSTS OF DOING BUSINESS**

For companies, what comes immediately after the redefinition of the top-line strategies to meet the new go-to-market needs and preferences is the realignment of the cost models. Adjusting to a new flexibility comes at a cost and this is where companies will have to incur structural cost changes. In view of this, from a practical viewpoint, many companies have implemented the following measures by reducing internal costs in order to respond quickly to the pandemic: provisional freezes on new hires, renegotiation of contracts (for example, regarding physical stores for large retail multinationals), and postponement of capital expenditure (CAPEX) investments to a later and more favourable period.

More importantly, what should be assessed is the reflection of the changes in the market or demand side on the supply chains of companies at a global scale as these are already, or will have shortly, enormous consequences on the management and resilience of the bottom-line of companies. Specifically, changes in public policy and consumer behaviour have formed unpredictable demand streams which in turn have led to the formation of uncertainty within companies with regards to their suppliers; this includes the unpredictability of the sourcing of raw materials, the financial viability of suppliers, and disruptions in the daily activities of suppliers and the delivery of their work. Such aspects of the demand and supply side of business have also impacted the core operations of companies where production facilities have experienced discontinuous operations, low capacity and shortages in capital, labour and materials.

In this context, what becomes exceedingly valuable to companies is to adapt the control model to the market repositioning either internally, by dedicating some people in the firm for this task, or externally, by seeking support from professionals. To give some practical examples, the following are the activities that companies are advised to perform:

1. **ADJUSTMENT OF CONTROL MODELS.**
   - A structural cost transformation requires an analysis of the impact of the market repositioning on the decision making and management control models and, consequently, adjusting the management control model. In essence, due to a change in the go-to-market strategies, the company may want to adjust the model behind the measurement of their performance levels and, as a consequence, reallocate the roles and responsibilities of the employees in the control functions.

2. **REDEFINITION OF PROCESS CONTROL.**
   - It is then necessary to ensure that the re-defined processes are measured and communicated within the company; for example defining the changes to be made to KPIs, the planning and forecasting models, the analysis and reporting models, as well as revisiting the management-by-objectives (Drucker, 1955) or “MBO” policies to control the performance, for example, of each sales channel and customer segment.

3. **COSTING REALIGNMENT.**
   - Finally, due to a change in strategies and priorities, companies must assess the impact of the go-to-market changes on current cost allocation criteria in the value chain, with regards to products, services, channels, markets, and supply chain, and revisit the costing model and strategies to increase their usefulness for control.

The value of such realignment is to improve the ability to control key commercial variables, in particular the informative quality of costs for the purpose of marginality assessments by channel, market, product and service, and customer. Moreover, this allows the creation of a more reliable foundation for the transfer pricing system which will be covered in the following section.

**REDEFINING THE CORPORATE AND TRANSFER PRICING STRATEGIES**

As a final step in the alignment of the bottom-line to the top-line changes, should come the redefinition of the corporate structures and transfer pricing models for the purposes of reducing fiscal and legal risks. Inevitably, Covid-19 has triggered disruptions on supply chains and consequently on the liquidity and cost management models. In particular, companies have faced closure or limited operations, therefore they have found alternative ways of doing business by looking for alternative suppliers and service providers and expanding to new markets in order to continue to meet new demand patterns or to cut costs. This requires contractual adjustments with business partners and, essentially, an adjustment of the corporate and operating models to manage fiscal and legal exposure emphasised by those structural changes.

If we refer to multinational corporations instead of single companies, the redefinition of the business structures for fiscal and legal purposes is more complex due to the transfer pricing problem. This arises where subsidiary companies sell goods or render services to other subsidiary companies of the holding company, hence the challenge in determining suitable prices for these intra-group transactions. The transfer prices representing such transactions must be at “arm’s length” or comparable to those of other independent companies present in the market. The tax authorities will run regular assessments on multinational corporations as it is common for them to try to minimise their tax liabilities by shifting profits from companies operating in higher tax countries to companies in lower tax regimes.

Especially during economic downturns, the existing transfer pricing models should be adjusted. On the one hand, companies will have to justify to tax authorities that the low operating profits or losses come from the unfavourable economic conditions and not due to the unlawful method of reallocating profits between multinational corporations.
Case study: Proposed approach to a player in the apparel (fashion) industry with global annual revenue of €200m annually

### Trends

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<tr>
<td><strong>Strengthening of the “omni-channel”</strong></td>
<td>The omni-channel approach challenges the traditional areas of responsibility:</td>
<td>Review of the production process to ensure the availability of individual products at the PoS in a timely manner:</td>
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<td>• “Phygital” approach by transferring the physical traffic to the online channel and vice versa, ensuring online and in-store customer journeys</td>
<td>• Dual responsibility of the point of sale (PoS) - in-store sales, before and after sales services</td>
<td>• Corporate positioning of the online channel (i.e. the legal entity, that is who has the rights and obligations):</td>
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<td>• Requalifying the role of the physical stores towards:</td>
<td>• The performance of the physical and online channels are interdependent</td>
<td>• Allocation models of marginality and product losses differentiated by channel:</td>
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<td>• Places to collect and return purchases made from other channels</td>
<td>• The planning and control model must be extended to the planning of the service capacity of the PoS and online channel (and necessity to review KPIs):</td>
<td>• Forecasting sales flows and transfer of products between PoS and remuneration planning:</td>
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<td>• Points of a decentralized logistics network with “unlimited” assortment</td>
<td>• Adapting the PoS’ MBO system</td>
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<td><strong>“Customer centric” and experiential approach</strong></td>
<td>• Correct cost reporting by sales channel</td>
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<td>• Selling in-store by appointment and increasing the offer for tailored garments</td>
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<td>• Positioning the property of behavioural data and algorithms of analysis (i.e. where is the technology based, who are the responsible entities that derive value from their use):</td>
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<td><strong>Applicable trends:</strong></td>
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<td>• Remuneration model for analytical information services made available to foreign PoS:</td>
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<td>• Customized in-store experience with technological tools (e.g. virtual reality shopping)</td>
<td>• Adoption of KPIs that are proxies for the client’s ability to interact and understand the client:</td>
<td>• Integration between data collected for online and offline channels:</td>
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<td>• Fashion at home” with fashion streaming</td>
<td>• Combinations of online and in-store CRM databases for complete customer or cluster profiling:</td>
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<td><strong>“Purpose first” orientation</strong></td>
<td>• Strengthening of the online presence control model: conversion rate, returns, online tracking and in-store customer journeys:</td>
<td>• Customer profiling models capable of interpreting customer lifestyles:</td>
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<td>• Segmentation of the offering depending on the lifestyles needs:</td>
<td>• Analytical instruments for measuring the effects of communication for different channels</td>
<td>• Allocation of &quot;socio-environmental&quot; responsibilities to the different units:</td>
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<td>• Fabrics and materials with low environmental impact</td>
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<td>• Development and public disclosure of environmental impact measures by product and channel:</td>
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<td><strong>Applicable trends:</strong></td>
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<td>• Models for the detection of the management costs of social and environmental variables:</td>
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<td>• Transparency on the production chain with circular collections</td>
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<td>• Positioning new trademarks, patents and know-how:</td>
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<td>• Corporate social responsibility</td>
<td></td>
<td>• Allocation model for R&amp;D costs, institutional marketing and socio-environmental cost allocation:</td>
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As a final step to this alignment, it is necessary to adapt the governance, organizational structures and responsibilities to the revised transfer pricing model and value chain.

To conclude, the value that arises by redefining the corporate and transfer pricing policies consists of strengthening the representativeness, objectivity and defensibility of the corporate and transfer pricing models by considering and managing the opportunities and gaps opened by the changes in the top-line or go-to-market policies. This also allows a more reasoned allocation of marginality among the different operating units, strengthening the management-by-objectives systems. Further, the evidence produced with these analyses allows an easy and correct drafting of the transfer pricing documentation for tax purposes.
CONCLUSION
Given the period of disruption caused by the Covid-19 pandemic on the global markets, and the subsequent shifts in the way that customers buy due to a change in their needs and requirements, it is crucial to stress the importance for companies to change the way they do business. More practically, we view the resurgent crisis as a catalytic agent that has accelerated the pre-existing trend for companies in both the B2B and B2C go-to-market scene regarding customer-centricity along with the adoption of an omni-channel strategy, through which they are truly trying to stay close to distant customers.

This article proposes an agile and systemic integrated approach to performance optimization to be able to navigate successfully and attempt to outperform the competition in the current context of discontinuity where, subsequently to the redefinition of the go-to-market or “top-line” strategies, companies are highly encouraged to realign accordingly the “bottom-line”, namely the cost and control structures, and the corporate and transfer pricing models. The value of such integrated approach consists in ensuring the overall consistency of the strategies impacting the value chain as a response to the changes in the demand.

Throughout the paper we also exhibit a case study analysis of the proposed approach using a €200m organisation from the apparel sector following the Covid-19 pandemic.

The implications for theory and practice are that it provides an empirical case study for theory building as well as an example of the possibilities of configuring a business strategy that encompasses an overarching approach to the marketing, pricing, and cost and control structures of organisations.

ABOUT SIMON-KUCHER & PARTNERS
Simon Kucher & Partners is one of the world’s leading consulting firm specialising in creating top-line growth strategies that deliver measurable results for companies through the optimisation their strategy, marketing and pricing models by adopting a strong application- and results-oriented approach.

ABOUT CROWE VALENTE
Crowe Valente is among the leaders in Italy in transfer pricing and more generally on international tax issues and associated tax risks. The participation of the firm in international technical bodies allows a vision on the predictable evolution of regulatory systems, essential to design robust transfer pricing policies.

REFERENCES


