Customer Fulfillment Must Support Digital Business Models With Customer Insight and New Capabilities

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Initiatives: Supply Chain Customer Fulfillment and Collaboration

As companies develop digital business models, supply chain leaders focused on customer fulfillment need to become familiar with the new digitally connected revenue models and new needs of customers. They must quickly assess the gaps in capabilities to deliver great customer experience efficiently.

Overview

Impacts

- Business models are proliferating, and leading businesses are addressing existing customers in new ways and addressing new customers with new digital capabilities.

- The digital shift requires supply chain leaders focused on customer fulfillment to concentrate on the needs of the customers addressed by the new business models.

- Customer proliferation brings with it ever-increasing customer needs that must be addressed in new ways by the customer fulfillment team to support the CX.

Recommendations

Supply chain leaders focused on customer fulfillment and collaboration should:

- Position supply chain leaders focused on customer fulfillment as a critical growth partner for the business by aligning to your CEO’s top business priorities.

- Develop a deep awareness of the needs and expectations of all the different customers you serve by creating personas and customer journey maps.

- Respond to the particular needs of each set of addressed customers from current and developing digital business models by conducting the run, grow and transform exercise.

Analysis
Supply chain leaders must ready themselves and their organizations for digital disruption and focus on upgrading the underpinning foundations of customer fulfillment to support new digital business models.

Digital business leaders understand that, in the digital era, change is a constant and is something they must embrace. Supply chain leaders must ready themselves and their organizations for digital disruption stemming from external customer demands and competitor moves. Digital disruption can come from within too — much is being driven by their own CEOs. The 2019 Gartner CEO and Senior Business Executive Survey results show that CEOs’ unprompted mentions of “diversification” rose substantially in their priorities (see Figure 1, left-hand side). Though only used by 12% of respondents, the 5x change from 2018 leapt out of the data as an important but unanticipated new trend. The number of CEOs who used the word “digital” at least once when stating their top five strategic business priorities rose to almost one-fifth of all respondents, continuing an upward trend we have measured over eight years (see Figure 1, right-hand side).

**Figure 1: Keyword Trends Within CEO Top Five Strategic Business Priorities for 2019 and 2020**

<table>
<thead>
<tr>
<th>Keyword Trends Within CEO Top Five Strategic Business Priorities for 2019 and 2020</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent who used the word “Diversification” regarding their top five business priorities</td>
<td>2.2% (2018) to 11.7% (2019)</td>
</tr>
<tr>
<td>Percent who used the word “Digital” when describing their top five business priorities</td>
<td>2.1% (2012) to 18.6% (2019)</td>
</tr>
</tbody>
</table>

n = 473  
Base: All respondents  
Source: 2019 Gartner CEO and Senior Business Executive Survey  
Q. Please tell us about your organization’s top five strategic business priorities for the next two years (2019/2020).  
ID: 385368
The business diversification CEOs are driving manifests as a proliferation in digital and traditional business models. Different business models demand a range of digital customer fulfillment responses.

In this research, we will share a range of digital business models from connected revenue to platform revenue models. We will look at how persona development and customer journey mapping can support the understanding of new customers being addressed through these new business models. And, finally, we will take you through the run, grow and transform exercise to help you identify the capabilities you will need to develop to support each type of business model.

**Impacts and Recommendations**

**Business Leaders Are Addressing Old Customers in New Ways and New Customers With New Digital Capabilities**

Gartner defines business models as having four elements — value propositions, customers, financial models and capabilities. Customer fulfillment is the function within the supply chain closest to the end customer. Your role as a customer fulfillment leader must be to partner with the business to focus on how the customer base can be better served by new business models. The area of digital business models is fast developing and diverse. The latest Gartner [Digital Business Models Compendium](https://www.gartner.com) details characteristics of 17 different digital business models. But, for the purposes of this research, we will divide those models into three groupings based on revenue as shown in Figure 2: connected revenue, platform revenue and new industry revenue.

**Figure 2: Business Models for New Revenue in Digital Business Transformation**

Our focus in this research will be on connected revenue for two reasons:

- Platform revenue and new industry revenue streams are not spread evenly across our client base, but are focused on the digital giants.
Customer fulfillment leaders have a clearer role to play in supporting digital growth through connected revenue digital business models.

Let's briefly look at the other two areas where digital giants dominate but that are not covered in this research: platform revenue models and new industry revenue models. (These areas are covered in some more detail in Take a Strategic Approach to Supply Chain Capability Design for Emerging Digital Business Models.)

**Platform revenue models** bring together providers and users for a service or product. These platforms are often operated by digital giants such as U.S. firm Uber and Chinese firm Dida Chuxing. These platforms connect private car owners who provide rides to passengers wishing to travel. U.S. firm Facebook and Chinese firm Tencent link content providers and readers to deliver a consumption experience based on shared access through their various social media platforms. Facebook, Instagram and WhatsApp are from Facebook, and QQ, Qzone and WeChat are from Tencent.

**New industry revenue models** are realized when companies leap the bounds of their industry to capture revenue from incumbents in other industry domains. Amazon has done this several times, most recently making a move into the seemingly unconnected area of healthcare. These companies succeed by using digital capabilities to outperform incumbents and leveraging data from the new industry to add value/insight to existing business lines.

Connected revenue digital business models link the physical, which supply chain leaders typically focus on, with the digital. Here is where leadership can make a difference. Supply chain customer fulfillment leaders can act as a critical growth partner for the business by aligning digital investments and future proposals to the CEO’s top business priorities. Customer fulfillment leaders need to understand the different digital business models that are emerging and engage with the business to help shape and support them. Whether your industry has traditionally been focused on creating mass products with high-volume fulfillments and selling them in a common way or on engineer-to-order low-volume industrial products, digital business models are offering new options. Many businesses are developing complementary offerings. In addition to their mainstream offering, they are moving to the extremes of the consumption experience and leveraging the value creation model.

Examples of digital business models from connected revenue include:

- **Selling existing digital assets** — Tesco monetizes existing digital assets by working with brand loyalty marketing company dunnhumby to analyze and sell to its trading partners based on loyalty card and electronic point of sale (EPOS) data.

- **Digitalizing a product or service** — Music provides an example of how a once physical product on vinyl or cassette completed the journey from analog through digital compact disc to a fully digitalized product delivered through downloads or streaming.
Recommendations:

- Determine who is driving your organization’s digital business agenda and align with them on which types of digital business models they are looking to establish.
- Start to consider the business case for supporting digital investments (see Beyond the Business Case: Choose the Best Approach to Secure Customer Fulfillment Investments).

Customer Fulfillment Must Concentrate on the Needs of New Customers Addressed by the New Business Models

The changes triggered by the rise of digital business models have uncovered unconscious assumptions in what must be done within customer fulfillment. If we look at a step like “fulfill orders,” we can find that two organizations look at this very differently:

- A company with an “inside-out mindset” looks at this from its own perspective as a task to be done. It would see fulfill orders as a series of customer fulfillment process steps to take an order and validate it against internal standards such as trade terms compliance and minimum order quantity.

- A company with an “outside-in mindset” looks at the same exercise of “fulfill orders” from its customers’ perspective. It sees customer fulfillment as the process of “interacting with customers to deliver the desired items, to the desired place, at the desired time, in the desired way.”
The two companies described above are at different stages of maturity (see Use Gartner’s Maturity Model to Improve Customer Fulfillment). The outside-in company (which is at a higher maturity level) is much better prepared for the demands of supporting the digital business model transformation, as it is more oriented to delivering a great customer experience as perceived by the customer.

Gartner defines customer experience (CX) as the customer’s perceptions and related feelings caused by the one-off and cumulative effect of interactions with a supplier’s employees, systems, channels or products.

Given that outside-in companies have already based their supply chains on understanding the customer and delivering excellent CX, they are much better positioned to respond more quickly to the shifts caused by digital business in how customer value is delivered. As in digital business models, the very definition of what constitutes an order is changing. It shifts from a request for the delivery of a physical product to the enablement of a solution that might include asynchronous provision of physical assets, data streams, software capabilities and service components.

One of the characteristics of these leading companies that have an outside-in mindset is the use of a variety of tools to develop a deep understanding of customer wants and needs. Two of these tools include customer personas and customer journey maps (CJMs) used to pinpoint the specific persona that a business model is addressing and to map their interactions with your organization (see Supply Chain Customer Centricity Part 2: Leverage Personas and Journey Mapping to Understand and Design the CX).

Before you can build a CJM, it’s good practice to identify a “persona” for whom the CJM will be designed. In this context, a persona is a representation of your most valuable customers, including their wants, needs, goals and mindsets. It’s commonly depicted as a single individual with a picture and a name, and serves as a powerful tool to help teams empathize with their customers. A persona must be rooted in data and facts, which can come from interviews, surveys, analytics tools, ethnographic studies and focus groups, to name a few sources. A persona without a basis in data and facts can result in inaccurate assumptions about customers’ needs, which, in turn, can lead to a CJM designed for customers who don’t exist. For example, if you are supporting each of the six different business models shown in Figure 2, then you should develop six different personas. One to reflect the customer who opts for a subscription service, one for the customer who opts for a device-as-a-service model and so on.

Then, Gartner recommends using the buy, own and advocate model to develop customer journey maps. Companies typically begin by mapping the journeys of their existing customers. They focus actions where the customer has identified dissatisfaction (pain points, waits, questions). In a static business model environment, outside-in-minded companies use customer journey maps, like the one shown in Figure 3, to support continuous improvement. In the case of digital business model transformation, the
customer fulfillment team must work with other functions to gather the evidence to build new buy, own and advocate models to support each new business model. The challenge is often that they do not currently serve the customers that will become their new target market.

There are many voice-of-the-customer techniques you can use to understand the potential customer (see How to Align the Customer Service Function’s Voice of the Customer Initiatives With Business Objectives). Focus groups are one useful approach once you have defined your proposed value proposition in the new connected revenue business model that gives you a clearly defined research question. A focus group consists of a small panel of current or potential customers, and the session is conducted by a moderator. Throughout the session, the moderator prompts the audience with questions, guides conversation and facilitates participation. This can be supported with a focus group of potential customers of the new offering to yield in-depth, qualitative information that could not be answered quantitatively through surveys. Armed with this information, you can then construct your customer journey map as illustrated in Figure 3.

**Figure 3: Customer Journey and Subjourneys**

Understanding the customer journey in each digital business model is a cross-functional exercise and it starts with the definition of the specific customer persona. Customer fulfillment leaders must work with marketing and sales teams to understand what particular persona or personas they are targeting with the new business model. Furthermore, they should work with IT, product design and other supply chain functions such as logistics, planning, quality, packaging and manufacturing to facilitate the delivery of the CX in these new digital business models. Each functional team should take ownership of a part of the customer journey while sharing joint responsibility for delivering the whole customer experience through the operating model.
For each persona and business model, customer fulfillment will need to understand the answers to questions like:

- What is the outcome your customers want to achieve?
- How will customers want to change their interactions with you for an enhanced experience?
- How can you ensure that customers receive a seamless experience?

The key benefit that customer fulfillment can bring is understanding the end customers’ needs in order to correctly pinpoint the solution or outcome that will be most valued. Selling solutions and outcomes will require a fundamental shift in customer fulfillment capabilities compared with selling a product or service separately. It is the combination of a physical product, a service, the use of software and leveraging data often gained through IoT-connected devices that provides the key to delivering a solution or outcome. Solution-centric models require a greater and deeper level of customer intimacy to provide the right customer experience in a more complex and holistic way.

**Recommendations:**

- Respond to the specific digital business models that your company is pursuing by creating a roadmap for customer fulfillment that covers talent, partnerships and technology adoption.
- Ensure that customer fulfillment is not overlooked in CSCO’s and IT leaders’ plans and budgets.
- Prioritize working with human resources leaders to develop tools that measure and assess an outside-in mindset as part of a strategy to attract, develop and retain talent.

**New Customer Needs Require Different Customer Fulfillment Capabilities to Support Delivery of a Good CX**

Customer fulfillment leaders need to embrace both digital transformation and digital optimization concurrently if they are to align with their CEO’s vision, maintain control of operational costs and deliver great CX. Table 1 shows how both digital transformation and digital optimization relate to each of the four business model elements: value propositions, customers, financial models and capabilities.
This requires the ability to run and continuously improve the current business model, while in parallel experimenting with the digital capabilities required for today and tomorrow. Gartner developed the run, grow and transform model to help leaders develop a roadmap for the capabilities needed to meet the priorities of CEOs while keeping focus on "business as usual."

Table 2 provides an example of how you might use the run, grow and transform exercise. In the first two rows, you need to identify the different business models and targeted customers for each mode. Then, below each customer type, you need to identify the relevant details for each category of capabilities. We recommend you color-code them to highlight development needs.
As shown in Table 2, a hypothetical consumer products industry company might be operating four business models to address four different customer groups. These range from “running” a well-established B2B retailer model, while “growing” direct to consumer (D2C), to “transforming” digital business models using connected revenue approaches. These approaches could include product as a service for end consumers and a platform revenue model for their ecosystem partners to use. The capabilities listed are generic and can be extended to include your priorities. Use a simple red/amber/green color code to indicate whether the capability is well-developed or a gap to focus on.

Categorizing the readiness of the individual business model attributes helps companies to focus on where they need to develop. This helps to highlight capability gaps. In the example shown in Table 2, the business model in the “Run” column is mostly coded green as these are well-established capabilities.
The overall focus here could be to continue to serve the needs of these established clients more efficiently. For the customer fulfillment team, the current focus area that needs some more attention is developing bilateral collaboration with key customers to create joint value.

For the business model listed in the “Grow” column, this company has placed its relatively new direct-to-consumer (D2C) business model. Less established than the B2B model, it is growing well as the company successfully focuses on the needs of its new customer base — the end consumer (see Direct-to-Consumer Business Model Risk Mitigation, Part 1 — Value Proposition and End-Consumer Needs). The focus here could be to develop the online store so that consumers can customize their orders effortlessly, and address online product availability, which needs urgent attention (see Manufacturers Must Focus on Retailer and Shopper Responses to Poor Online Availability).

The “Transform” columns represent the two new connected revenue and platform revenue digital business models the company is currently establishing. To transform to supporting a digital business model, the company has set up a small team focused on investigating how customer fulfillment can leverage IoT to enable autoreplenishment — both capabilities are coded red. In the right-hand column, all of the capabilities are coded red as this platform revenue model has yet to be launched, but the focus is on developing software platforms to coordinate the timely delivery of solutions and ecosystem partnerships. The company is developing a range of new capabilities from an even wider range of ecosystem partners for its platform revenue model (see New Dimensions in Collaboration: Scale Shared Value and Develop Supply Chain Ecosystem Partnerships).

One of the ways this exercise helps is that it pinpoints the types of skills and talent needed as business models proliferate. It can be difficult to recruit, develop and retain the right talent without a clear understanding of how digital business will shape capability needs. CSCOs may have grasped the need for superior analytics capabilities in their planning departments or more robotics in their factories. It is imperative that customer fulfillment leaders clearly articulate the needs of the customer fulfillment organization of the future by creating a roadmap of the activities that will be undertaken and the capabilities needed to support them (see Part 2: Best Practices for Creating High-Impact Supply Chain Capability Models).

Without this roadmap, executives may assume that automation will continually reduce the need for a customer fulfillment organization. There is actually a strong case for investment in customer fulfillment talent to support digital business model development through an outside-in mindset.

One question that should be addressed is how to support new teams while the business models they serve are still niche. Particularly in the early stages, digital business models will require versatile, creative and collaborative people who combine business and technology expertise. As the business models mature, the requirements change to people who can build, integrate and scale digital business systems. Supply chain leaders focused on customer fulfillment need to support the establishment of small teams to drive the growth and transformation agenda while others still deliver on the current core operating model.
How do you manage the impact of change on the organization and its individuals? This challenge will have a potentially huge impact on individuals’ roles across the organization. Supply chain leaders should focus on organizational change management in a purposeful way to ready their teams with the skills necessary and manage the impact on individuals that are displaced. As new business models deliver new value, titles like customer fulfillment director may change to customer satisfaction director or ecosystem collaboration director, as the focus switches away from product delivery to outcome provision.

Recommendations:

- Prioritize the creation of the customer fulfillment organization of the future by identifying the talent needed to run, grow and, especially, transform, and nurture all three modes appropriately.
- Take an approach of funding the future by gearing investment to the emerging business models while driving efficiency in the established business models.

Evidence

1. **2019 Gartner CEO and Senior Business Executive Survey.** Gartner conducted this research from 1 September through 31 December 2018, in order to examine CEO and senior business executive views on current business issues, as well as some areas of technology agenda impact. In total, 473 business leaders were qualified and surveyed. The research was conducted via an online survey (355 surveys); an additional 112 surveys were achieved through telephone interviews and six were self-administered paper surveys. All respondents were screened for active employment in organizations with $50 million or more in annual revenue. Sixty percent had $1 billion or more and 15% had $10 billion or more in revenue. The survey was developed collaboratively by a team of Gartner analysts who examine IT’s role in business, and was reviewed, tested and administered by the Gartner Research Data and Analytics (RDA) team. The results of this study are representative of the respondent base and not necessarily business as a whole.

2. **Light as a Service, Signify.**

Recommended by the Author

- New Dimensions in Collaboration: Scale Shared Value and Develop Supply Chain Ecosystem Partnerships
- Beyond the Business Case: Choose the Best Approach to Secure Customer Fulfillment Investments
- Use Gartner’s Maturity Model to Improve Customer Fulfillment
- Supply Chain Customer Centricity Part 1: Leadership Alignment and Capability Development
- Supply Chain Customer Centricity Part 2: Leverage Personas and Journey Mapping to Understand and Design the CX
- Supply Chain Customer Centricity Part 3: Using Customer Journey Analytics to Enhance CX
Direct-to-Consumer Business Model Risk Mitigation, Part 1 — Value Proposition and End-Consumer Needs

Digital Business Requires Organizations to Focus on Customer Centricity

How to Use AI to Create the Customer Experience of the Future

Manufacturers Must Focus on Retailer and Shopper Responses to Poor Online Availability