Transforming Strategy
One Customer at a Time

by Richard J. Harrington and Anthony K. Tjan

How B2B giant Thomson Corporation reinvented itself by embracing a P&G mind-set.

HOW DOES A business-to-business company find out exactly what end users do with its products? That was the question we wrestled with at the Thomson Corporation, because the people who buy from us are not the same people who actually use our products in their daily work. For Thomson, the answer has been to combine multiple methods of deep customer inquiry, from market surveys to observing users directly in their workplace. Those efforts have been part of a front-end customer strategy that has become the cornerstone of the company's transformation. This strategy has included

asking lawyers, accountants, financial analysts, investment managers, scientific researchers, and other professionals who use our products and services what they do on a minute-by-minute basis. Then we've systematically sought to deliver solutions that meet their needs during each of those hours. By doing so, we've learned how to help end users with their work in ways that might otherwise never have occurred to us.

Such scrutiny of the end user wouldn't be unusual if we were a consumer products company. P&G is known for following consumers around stores and observing them in their kitchens. But like most other B2B companies, Thomson historically had a much better understanding of its buyers than of its end users. We knew a fair amount about, say, financial services information managers, who were responsible for making purchasing decisions for an entire department, but little about the individual brokers or investment bankers who used our data, research, and other resources daily to make investment decisions for their clients.

The transformation of Thomson began a little over a decade ago. At the time, Thomson was a nearly 70-year-old holding company with $8.7 billion in revenue. We published more than 200 newspapers, along with textbooks, law books, and professional journals, and operated the largest leisure travel business in the United Kingdom. Thomson was a prosperous leader in its markets, but we were concerned about the long-term viability of our business portfolio. First, our markets were not equal in terms of growth potential Leisure travel, for example, was becoming increasingly competitive and turning into a commodity. To realize Thomson's full potential, we needed to become less diversified and more focused on the business model with the best prospects for the future.

Second, as we looked around the corner we could see the beginnings of a radical change in market dynamics. In particular, it appeared that the rise of the internet would change the newspaper and publishing markets forever. The worth of our considerable paper assets was in jeopardy.

Today Thomson is squarely focused as a global information services company, selling to businesses and professionals in the financial, legal, tax and accounting, scientific, and health care sectors. When its proposed acquisition of Reuters obtains regulatory approval and closes, Thomson will become the largest information company in the world. While the company has had approximately the same amount of revenue as it did 10 years ago (before accounting for the sale of its learning division, which closed in the summer of 2007), the makeup and productivity of that revenue are very different A dollar of revenue now yields approximately twice the operating profit it did back then. Thomson today has an operating profit level of approximately 20%, and free cash flow is approximately four times what it was in 1997. The company's revenue is also more stable. Eighty-three percent of it is subscription based, and renewal rates often exceed 90%. In a market that is changing by the day, this revenue is unusually repeatable, predictable, and profitable.

Over the past decade, the company has seen its market capitalization triple. The sources of Thomson's revenue have shifted dramatically as well - from print to digital. The company's electronic information products, software, and services now account for 80% of its revenue, completely the reverse of its model a decade ago.

The transformation began with the divestiture of businesses that didn't fit our strategic focus on information publishing services - and with the acquisition of professional information publishing assets that did, along with investments in the technology needed to build and deliver products and services online. The real breakthroughs, however, came a few years into the transformation process, in 2001, when we realized we needed to focus more closely on customers than ever before. These advances were driven by the changing needs of our end users and, by extension, our buyers. In this article, we'll describe Thomson's customer strategy, which combined traditional and nontraditional research methods to produce a more intimate understanding of the front-end user. Shifting gears in this way was not as premeditated or as neat as the framework we'll describe suggests. We had to learn along the way. But in the end, seeing the world through the eyes of the ultimate user led Thomson - initially at Thomson Financial and later throughout the organization - to change market definitions, evolve product development strategy, significantly modify pricing models, and even redefine who was considered the real customer.

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STEP I Map Out Your Real Market

Our first step in devising a front-end customer strategy was getting a clear picture of the real, addressable market for a given business - not the entire universe of potential customers but those whose needs we could realistically serve, given the capabilities and products we had on hand.

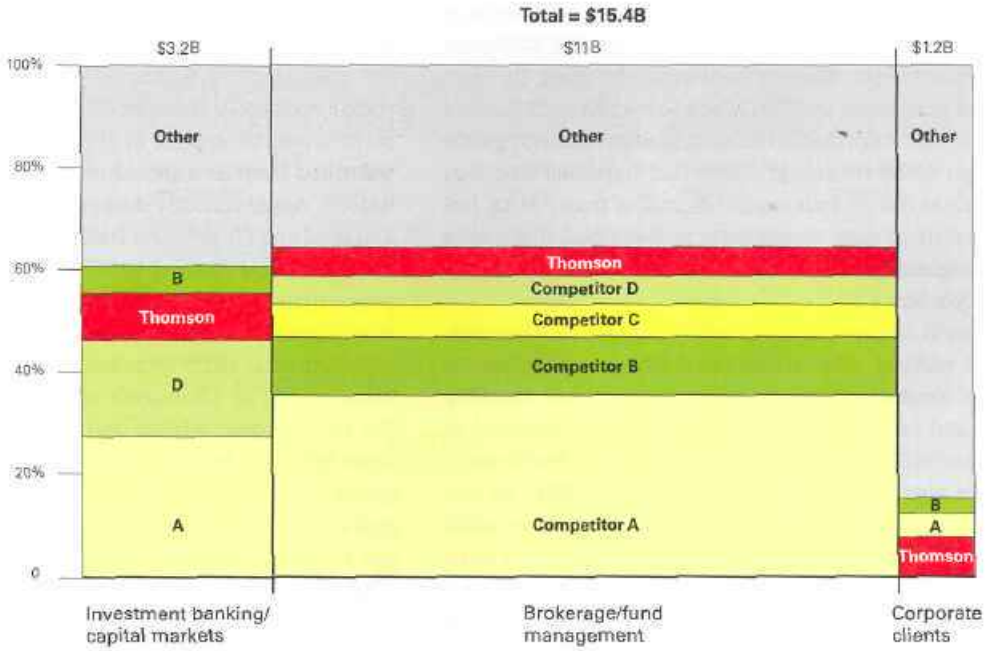
When we began the analysis at Thomson Financial, in 2001, we used third-party reports to build estimates of our market size, as most firms do. The traditional, or at least readily available, data split an approximately $15 billion financial-information market into three broad categories: firms on the buy side (those investing in company stock}, firms on the sell side (those selling company stock), and corporate clients (those issuing stock). Those market segments were so general that they were not all that useful.

A Better Way to Map the Market

When Thomson Financial reframed its market, breaking it down by end users rather than purchasers, it saw segments where it had market penetration and opportunities for growth.

Before

Market Using Typical Segmentation



Note: Estimated market size in 2001
Source: Thomson Financial

After

Market Segmented by End Users

Note: Estimated market size in 2002
Source: Thomson Financial

They didn't help us understand where we were strongest or where we had the most opportunity to grow.

To get a clearer view, Thomson Financial recast the market by breaking it down into new segments we believed more closely reflected the ultimate users of our financial products - groups such as institutional equity advisers, fixed-income advisers, and investment bankers. We began by hypothesizing which people used our products and services most frequently. While that sounds a little basic, customer segmentations were frequently categorized more by sales channel or geography and much less so by end user. Further, where end-user information existed, it often was not granular enough to be meaningful. We had hypothesized that there were as few as four segments and as many as 12, but we felt that there were consistently well-defined differences between eight segments. (See the exhibit "A Better Way to Map the Market")

Once we'd identified these eight segments, Thomson Financial worked with an external firm, the Parthenon Group, to conduct interviews with users, consult industry analysts, and probe public reports to develop estimates of our relative market share and growth potential with each group. We also tried to estimate what percentage of our individual competitors' revenue came from each segment. Eventually, we vetted these market share estimates with several industry sources. Though this exercise was time-consuming, it helped us see more practically where we had strengths and where we needed to reassess activities and resource allocations.

The figures surprised us: The near-term addressable market for our existing products and services was slightly smaller than we had previously imagined - about $13.7 billion. But when we went further and mapped our share in each segment relative to our competitors', along with the currently unaddressed opportunity, we discovered just where the untapped potential lay. Once we understood segment-specific needs, we uncovered opportunities in fast-growing areas where we had high market penetration and strong capabilities, and areas where our competition was somewhat fragmented. We also saw that in the long term, the addressable market could actually be bigger than anyone had anticipated. If we leveraged our skills and assets the right way, we could be a player in a much larger market and enjoy significant growth.

We realized we could completely redefine our target market-in much the same way that Apple Computer reframed its market. Apple originally saw itself as a computer company serving primarily users in the designer, educational, and media segments. But once Apple understood just how strong its appeal in the media segment could be, it redefined itself as a consumer- and media-centric company. Indeed, Apple recently dropped "Computer" from its name, and iPod and iTunes have had staggering success. Refraining its addressable market to a broader media definition not only expanded Apple's long-term potential but also helped strengthen its traditional computer business (estimates are its U.S. market share increased from about 6% to more than 8% in 2007). In Thomson's case, we confirmed that while the fixed-income adviser and investment manager market segments were approximately the same size, we had a far greater presence in the latter. We also discovered that we had a relatively healthy share in the corporate user segment, but we could dramatically increase our leadership position with the purchase of investor communications provider CCBN, a business with complementary strengths within this market segment.

STEP 2 Understand the Customers' Objectives and Work Flow

After estimating the size of market segments from the bottom up, we explored the needs of each segment using quantitative survey methods combined with "day in the life" ethnographic research on how end users did their jobs. In this phase, we focused on acquiring a detailed

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We combine observation with detailed interviews to learn what end users are doing three minutes before they use a product and three minutes after.

Studying the Customers' Work Flow

By tracking the activities of users in its investment manager segment, Thomson Financial was able to develop a clear picture of their work flow and their information needs at each stage. Thomson then examined how well it met those needs, relative to competitors.

Investment managers' activities	Research and analysis	Pre-trade	Trading	Operations	Portfolio analysis	Client servicing
	News Filings Estimates Company financials General research	Macro data and research Alpha and risk analytics Asset allocation Connectivity with other traders/managers	Real-time news Market impact analysis Trade management tools Connectivity with other traders/managers	Attribution tools Asset allocation Sector analysis Currency analysis	Portfolio modeling tools Compliance tools Benchmark performance	Performance reporting tools Relationship management tools
Thomson*	◕	◕	◔	◕	◑	◑
Competitor A	◕	◑	○	●	◕	◔
Competitor B	◕	●	●	○	○	○
Competitor C	◑	○	●	○	○	○

● strong
○ weak

*As of 2001.

understanding of the activities of the people who relied on Thomson's products every day. For instance, our Westlaw online database is purchased by law firms' central research departments, but the users are associates at those firms. What do they do with it? To find out, Thomson interviewed the associates in depth and followed them around at their jobs. In some instances, we went as far as hiring film crews to tape associates going about their work. On occasion we even visited with the users' own customers, law firm clients, because they were the ultimate beneficiaries of the Westlaw data.

When tracing end users' activities, we follow an approach called "three minutes." We combine on-the-job observation with 25 to 50 detailed interviews to learn what end users are doing three minutes before they use a product or service and three minutes after. (In areas where we have less ability to drill down deep, we might go with an hour or a longer time interval.) We then look at what they do during the next three minutes out in both directions, determining the share of mind and the share of time that Thomson has within those intervals and gradually coming to understand the entire work flow. A small but not insignificant finding: We learned that highly paid analysts were spending valuable time manually inputting Thomson Financial data into spreadsheets. So we built in a capability that allowed them to seamlessly export information to Excel. Such a change seems obvious, but 'if we hadn't been watching users, we wouldn't have discovered that straightforward way to add value.

The exhibit "Studying the Customers' Work Flow" shows an example of delving deeper into the daily activities of one of the segments - in this case investment managers. We developed a high-level map to describe the activities of a typical investment manager, or buy-side analyst, who would be an end user of Thomson Financial information products. (The circles at the bottom show how well Thomson and its competitors could meet the investment managers' needs at any point in the cycle.) Thomson could then identify new opportunities for these users to interact with the company over the course of their jobs.

STEP 3 Develop Products That Provide What Users Value Most

Once we had taken the company through the first two steps, we saw that the market was not as simple as we had thought. The next item on our agenda was to create products to fill gaps. We needed to reexamine the company's development priorities based on what people would be willing to pay for, which is not always what people say they want.

At this stage, it was critical to determine where there were pain points in the work flow that customers would pay to ease. This step required us to employ statistical techniques like cluster and conjoint analysis and hone our ability to interpret the results.

We set out to identify and test new product attributes that might be of value to each division's end users. Thomson Financial, for instance, needed to deeply examine the work flow of buy-side investment managers and researchers to hypothesize which critical product attributes were missing or could be improved. We asked cross-functional teams-representing product development, customer service, sales, and strategy -to come up with seven to 10 attributes to test, based on the findings from steps one and two and their own experience. The list of attributes that evolved included real-time data, exporting data to spreadsheets, and portfolio analytics.

Because the team members interacted with customers in different ways, they had complementary perspectives that gave the group a fully rounded view of which attributes were the most promising. For example, customer service personnel had heard time and time again of customers' wish for seamless integration with Excel, while some of the product development team felt that portfolio analytics were more important. We assessed the relative importance of the attributes through a quantitative survey of investment managers and another set of qualitative interviews.

The aggregate response from more than 1,200 surveys is represented in disguised form in the exhibit "Two Views of Product Development Priorities"under the heading"Overall Preferences for Product Features." Most would stop their analysis here, assuming that the attributes in green represent the most critical elements to build and sell. However, there is rarely such a thing as the aggregate average customer. Think about it: Say you are surveying people about what

Two Views of Product Development Priorities

When Thomson Financial surveyed its investment manager customers about the product features that mattered most to them, eight attributes - including real-time prices, Excel integration, and portfolio analytics - scored relatively high. Then Thomson Financial looked more closely to see what was driving each attribute's score and discovered three patterns of behavior among the investment managers. There were three distinct clusters: basic users, advanced users, and users who required real-time information. Each group had different needs and valued a different set of attributes (circled at right).

*Relative importance of the attribute to the end user
Source: Partherion Investment Management Survey

Overall Preferences for Product Features

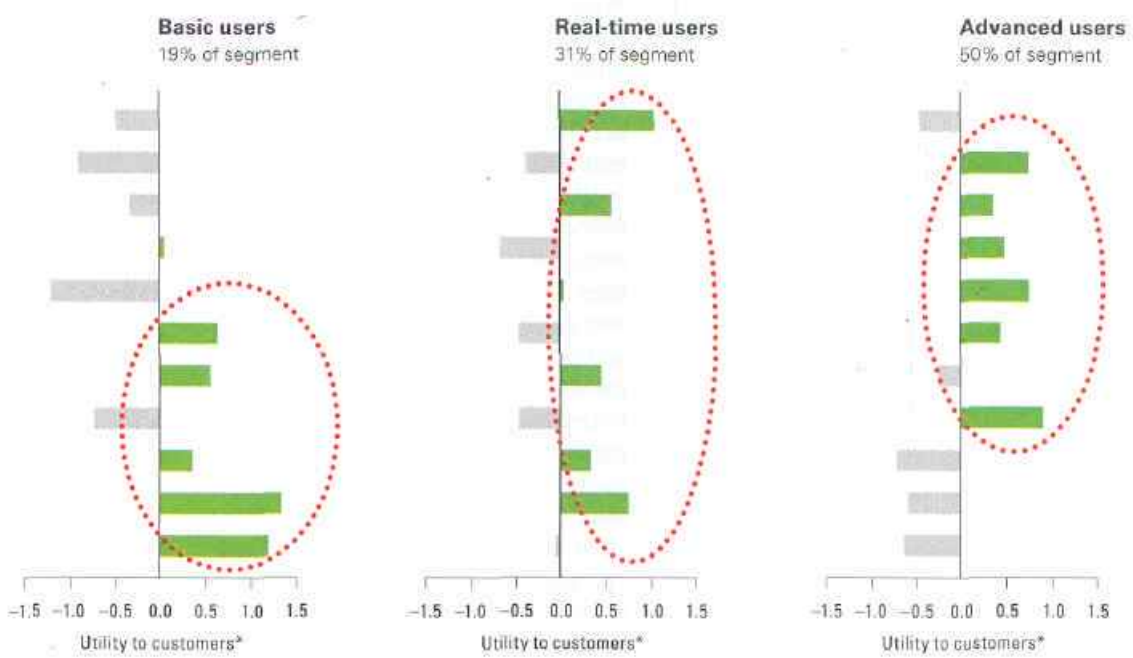
temperature they like their tea served at, and half prefer it served hot, and half iced. The average result would be lukewarm tea, which you wouldn't be able to sell to anybody.

So our goal was to understand how preferences for attributes varied among different types of users within the investment manager segment. To get a true picture of the demand and which kinds of users had the largest impact on the survey results, we conducted a conjoint analysis. In it we asked the survey participants which potential product enhancements they'd be willing to trade off for others, in order to get a clear sense of which attributes they ranked the highest. The results varied among the different types of users, who valued some but not all of the same things. For instance, the ability to export data to spreadsheets was an important attribute for all users in the segment, but the ability to get real-time data really mattered to only about a third of that group.

Within the investment management group, we identified three clusters of customers - users who had only basic needs, users who wanted advanced functionality, and high-end users who needed the best real-time information. In the exhibit below you can see how the survey results varied among these clusters. The implication was that there should be three versions of the offering that Thomson Financial was trying to develop for investment managers: one for each cluster. That insight into how preferences differed was absolutely critical to us when we reset our product development priorities. It also led us to do differential pricing - to charge more for additional highly valued features. And it made clear to us that we needed to move faster in the real-time data cluster; previously, Thomson had mostly prioritized serving the basic and advanced clusters. Ultimately, we developed value propositions for each of the three clusters.

Once we had defined our priorities, we instituted an eight-quarter plan to create and roll out thejnew offerings. Their development took place in parallel, but they were launched in three phases. In the first phase we went after the low-hanging fruit, a basic product that efficiently met the needs of the low-end user. In phase two we added more features and created a product bundle for the advanced user, which was priced accordingly. In the third phase, we rolled out a new real-time product, which built upon some of the elements of the other two offerings. The overall result was a modular solution, much like Microsoft Office in the compatibility of its components, that flexibly addressed the majority of the market.

Preferences for Product Features by Cluster



When Front-End Customer Strategy Makes Sense

If your market is experiencing discontinuity. Regulatory changes, new technology, or extraordinary events all can transform industries and are clear signals to reevaluate the addressable market, customer needs, and company offerings. Ask whether any macroeconomic or special events might change the way customers interact with your product.

If you lack clear value propositions. In its earlier days of developing front-end customer strategy, Thomson asked the employees of a key division to articulate its value proposition, and the results came back even more disparate and varied than anticipated. Ask a sample of 10 key employees or even 10 sales executives to write down your core value proposition, and look for inconsistencies.

If you rely too heavily on channel segmentation. There is no single right way to segment a company's revenue base, but too often companies confuse sales channel segmentation with end-user segmentation. Segmenting sales by channels like corporate and government buyers won't uncover similarities and differences in the behavior of users in companies or government agencies – telling you, say, which are basic reference users and which do heavy analytics. Ask if you have a segmentation scheme that helps you better understand users' behavior with your products.

If you sense that you face new customer demands and competition. Whether fact-based or gut-based, any sense that customer demand patterns are significantly changing should be a call to action. Look especially for shifts in the makeup of your total sales and in growth segments, which can often be related to new and nontraditional competition. Ask not if your growth rate is the same but if the causes of growth are the same. Ask not just if new competition is better but whether it offers a "good enough" alternative.

Ongoing Implementation

Front-end customer strategies must be continually reevaluated and refined, because markets and competition can change so quickly. To execute an evolving strategy, we needed to have a flexible go-to-market plan and a well-considered approach for rolling the strategy out across segments and businesses. Most important, we needed to have customer feedback loops that were exceptionally effective. They played a critical role in helping us adjust course as the market has shifted.

Sales and go-to-market plans. Inviting sales and product development people to participate in the research turned out to be the key to a successful rollout at Thomson. We were able to develop go-to-market plans that were practical to implement as well as strategically sound. For example, Thomson Financial's pricing strategy entailed a shift from selling products to selling tailored solutions of information products and services. Putting sales leaders on the planning teams from day one allowed us to accelerate the sales training process and ensure early buy-in from the people who would eventually represent Thomson on the street. Another core tenet of our go-to-market plans has been trial first and then rollout. The offering of each new product is staged and used as an opportunity to gather yet another level of end-user feedback, which informs subsequent rounds of product refinements.

Feedback mechanisms. Perhaps the most important purpose of gaining feedback is to see if there are any gaps between your theory about what customers want and reality. Collecting data in real time and acting upon user feedback at each stage of trial are also vital. When Thomson Financial was launching an investment management offering called Thomson One Analytics as part of the pricing structure it implemented in 2002, it began with a trial of the product that involved 30 purchasers at investment houses, to ensure that it didn't lose touch with the gatekeepers who would eventually buy the offering. As Thomson One was officially rolled out to the market at large, the division monitored user feedback closely for the first six months. A year later Thomson Financial again collected detailed information on whether customers understood the pricing strategy, and how it affected their use of the product. The feedback gathered throughout the process confirmed that customers indeed wanted more tailored offerings and differential pricing based on the features provided, and helped the division migrate its customers to Thomson One's more customized solution.

Or consider another example: When Thomson Financial wanted to refine its newly acquired TradeWeb fixed-income trading platform, it solicited feedback not only from traders but also from the people in their back offices who supported them. The ability to integrate TradeWeb easily with back-office systems proved to be a key sales point.

Getting to Know Users

Creating a front-end customer strategy at Thomson has been an ongoing process. Here's what it looked like at our Thomson Financial division:

STEP 1 Map out your real market. As recently as 2001, we were using third-party reports to estimate market size, as most firms do. The conventional wisdom split an approximately $15 billion financial-information market into three categories: firms on the buy side, firms on the sell side, and corporate clients. This framing was far too vague, so we decided to break the market down into segments of users. Identifying eight segments, we dug deeply into competitor reports, interviewed customers, and consulted analysts, and then mapped out our share in each relative to our competitors, along with the currently unaddressed opportunity, to get a clear picture of just where untapped potential lay.

STEP 2 Understand the customers' objectives and work flow. The next step was to find out exactly how our products were being used-which meant gathering information not on the activities of the bank's head of research, who bought the product, but on the behavior of analysts doing research for their clients. We used a combination of traditional survey methods and less traditional methods such as "day in the life" observations of customers to chart users' activities. Key to this research was an approach called "three minutes." What were end users of a product or service doing three minutes before they used it and three minutes after? What were they doing for the next three minutes? We kept asking that until we got a view of the full day. We wanted Thomson products to be a part of as much of that day as possible.

STEP 3 Develop products that provide what users value most. Once we had a picture of users' needs, we could start to add new features that would address those we didn't already meet. But first we had to discover the biggest pain points for end users - which aspects of their jobs were so problematic that customers would pay to make them better? When we surveyed more than 1,200 investment managers, for instance, we saw the features those users valued most in the aggregate. Then we went a step further, doing a conjoint analysis in which we asked investment managers to make trade-offs among attributes that might enhance the product. This gave us a truer picture of their preferences. We saw that within the investment manager group there were three distinct clusters of needs: basic users, advanced users, and real-time-focused users. The three clusters valued some but not all of the same things. We then concentrated our development efforts on creating three versions of our solution, each aimed at meeting the needs of one cluster.

Keep the focus on users. At Thomson we are continually evaluating and refining our customer strategy. Implementing it requires a flexible go-to-rnarket plan, which we enable by including sales and product development people right up front in the research; by employing effective customer feedback loops that are built into a periodic review process; and by gradually scaling up the strategy across segments and businesses.

The company ensures that it gets continual input into product development by giving customers incentives to fill out annual surveys and making frequent use of customer advisory groups. One side benefit of these tactics is that when customers are invited to offer feedback, their loyalty goes up - especially when they see their suggestions incorporated into product improvements,

Scaling **up the** process. Every front-end initiative begins with a targeted group of customers and is closely monitored until it's ready to be rolled out to a large customer group or across product lines and business units. Transforming a front-end customer approach from a corporate initiative into an integral part of the company culture required more than that, however. At Thomson, it involved evangelism from the top down and bottom up. A key success factor was strong personal support from the CEO, which included spending time with frontline teams to develop and implement the process. It was a learning experience for all of us.

Equally important were peer testimonials from internal advocates. When the pioneers at Thomson Financial began reporting improved performance after implementing our new front-end strategy, other Thomson businesses took note. The cross-functions! nature of the implementation teams helped ensure that the word s'pread quickly along and across functional lines as well. As the front-end strategy started to be seen as a competitive advantage, people within the company began to compete to adopt it first and benefit from its advantage most.

Once a critical mass of staff members had been involved in the front-end initiatives, these employees became the faculty for formal training courses. Led by successful practitioners, sessions on front-end customer strategy became a core component of Thomson's executive training and other learning programs. Within 18 months, the top 200 leaders had been exposed to front-end customer strategy. By year three, the top 500 had been trained in the methodology.

We have said that our process was initially not as thought-out as our framework here suggests. Indeed, our front-end customer strategy essentially developed organically. Thomson identified a pattern of successes in individual units that were focusing intensely on customers' work flow and segmentation by end user. Once we recognized the pattern, we began refining our research approaches and tied them together into a framework that we then replicated. We implemented the end-user strategy on a systematic basis, updating it regularly as the market and Thomson's own capabilities evolved.

Since our first front-end customer strategy exercise, in 2001, we've put every part of the organization that has any interaction with a customer through Thomson's internal university to learn the process. That includes employees in product development, sales and marketing, strategy and business development, customer service, and content and data acquisition, and the list continues to expand to other areas of the company. The goal is to have as many people as possible intimately understand the needs of Thomson's end users. Today a majority of Thomson's 32,ooo-plus employees have been taught the principles of front-end customer strategy. We estimate that nearly 70% of the products and services Thomson's businesses now offer are "nonlegacy" and have been developed through front-end strategies. In 2007 such offerings had the highest growth rates (in the double digits) and were powering the organic growth of the company.

Currently, the front-end customer framework is in ijts second or arguably even third iteration at Thomson. Markets keep changing; the maps and segments we illustrate in this article, which are from 2002, have evolved significantly through the years. Just as important, the more we learn about customer segments, the more gaps we uncover in our knowledge. We continually add new tools. Our early front-end strategies focused on incremental innovation, but we're now looking at opportunities for big, game-changing innovation. As Thomson embarks on another new phase with the acquisition of Reuters, we will inevitably find other lenses through which to view strategy and growth. Yet the need for Thomson - for any organization, especially a B2B one - to get as close as possible to customers and end users will always be essential to realizing our full growth potential.

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To order, see page 135.

"Could you play badminton elsewhere? I'm trying to run a meeting here..."

Fonte: Harvard Business Review, n. 3, p. 62-72, Mar. 2008.