Is Your Company As Customer-Focused As You Think?

Many managers assume that their products and services will be relevant tomorrow. But employees hide problems and markets change. Unless you actually probe the organization and ask tough questions, you may be deluding yourself.

BY PATRICK BARWISE AND SEÁN MEEHAN

Procter & Gamble's Tide laundry detergent has maintained its core promise to get clothes cleaner than any other product, while averaging one improvement per year over 60 years.

THE LEADING QUESTION

How do managers ensure that their products and services are, and remain, relevant to customers?

FINDINGS

- Make sure everyone in the organization really understands and supports the brand promise.
- Be suspicious of sanitized reports — seek unfiltered information on the customer experience.
- Don't rest on your laurels. Think about incremental innovations and also ones that go "beyond the familiar."

WHEN PETER DRUCKER first proposed his "marketing concept" back in 1954, the notion that meeting customer needs better than your competition is the driver of business success was a radical idea.[1] Today there are numerous variations on what it actually means to "serve the customer," but most managers agree that achieving sustainable organic profit growth requires combining several elements: having a clear, relevant customer promise; reliably delivering on that promise; continuously improving it; periodically innovating beyond the familiar; and supporting all that with an organization that's open to new ideas and market feedback.

Unfortunately, that approach is now so familiar that many managers pay little more than lip service to it. To be sure, implementing what Drucker proposed is difficult. Not only does it require putting customer needs above those of employees and managers, it forces you to face up to your mistakes and focus on what's critical (perhaps even boring) as opposed to what's new and exciting. What's more, it requires a willingness on the part of senior executives to open up communication with people throughout the organization so they can hear what is actually going on as opposed to a sanitized version. Few companies choose to make this leap, even though *not* doing it can seriously hurt long-term business performance.

The challenge for companies is to turn Drucker's marketing concept from a "motherhood statement" into a meaningful commitment that everyone in the organization understands and takes seriously. Based on our interactions with scores of companies, management's assumptions

about the organization's commitment to customers are often based on wishful thinking (see "About the Research"). However, we have found that managers can overcome this tendency and diagnose where the weaknesses lie by posing the following five questions:

1. Can middle managers accurately describe your customer promise?
2. Can all members of your senior executive team name the three things that most undermine trust among your existing customers?
3. Is your brand really the best option for customers? Will it continue to be next month and next year?
4. Have you embraced any novel ideas that have produced significant innovations beyond the familiar during the past year?
5. Have front-line staff posed any uncomfortable questions or suggested any important improvements to your offering during the last three months?

Of course, there are other questions senior executives could ask to assess the relevance and attractiveness of their brand and the quality of what their customers experience. However, we have found that unless senior managers are able to answer yes to all five of them, there is an actionable opportunity for improvement.

No. 1: Can middle managers accurately describe your customer promise? The starting point for any product or service is having a clear, relevant customer promise. CEOs typically assume this is obvious and has been communicated to employees via internal communications, publications, videos and road shows. But the best way to know if the customer promise has really taken hold in the organization is to ask middle managers to describe it.

Everyone in the organization needs to know what the company promises and then make his best efforts to deliver it. If the promise is too vague, not relevant to most customers or not understood internally, sales will be lost. Our first question is designed to uncover the truth. A milder version, such as, "Do you have a clear, relevant customer promise and have you communicated it down the organization as well as to customers?" won't be as effective: The answer will be based on what the top managers think as opposed to the hard facts of whether those further down the hierarchy are aligned around a clear, relevant customer promise that they understand.

Some companies have really nailed delivering on that promise. Throughout its histfjry, the core promise of Procter & Gamble Co.'s Tide has been to get clothes clean. Its launch advertising in 1946 promised that Tide would get your clothes cleaner than any other product. Its offer was unambiguous. Further, it spelled out what it meant by cleanest: snowy, brilliant and fragrant (all defined). Toyota Motor Corp., meanwhile, has promised to deliver autos with superior quality, reliability and durability, which is why the recent safety recalls have been especially harmful to the brand.

The explicit promise should be easy to state, not subject to reinterpretation by the customer. If it is, there is a risk that expectations will be misplaced. For instance, "overnight delivery" implies delivery first thing. To an office worker, that probably means 9 a.m., but to a building site foreman it could mean before 7 a.m. Managers must be disciplined about the specifics of the offering and what is being communicated.

All brands are expected to fulfill their explicit promise. Ryanair Holdings plc, the Dublin-based discount airline, prides itself on offering the cheapest fares. But many customers expect more. No matter what a company specifically promises, at a minimum, customers expect product and service providers to fulfill the basics of their product category. For example, bank customers assume that ATMs will have cash in them; when those expectations are met, customers don't really notice. But when they *aren't* met, customers become annoyed and angry. Many companies—especially service businesses — routinely fail to deliver on the basics. As a result, the most reliable companies often increase their market share year after year.

Another challenge for companies is that employees sometimes recklessly overpromise. Penalize culprits and ensure that incentives do not unwittingly encourage misrepresentation: The promise must always be deliverable at a cost the company can afford.

Despite these complications, the foundation of sustainable organic profit growth is always a clear, simple, customer-relevant brand promise that is understood throughout the organization as well as by customers and prospects. Asking if your middle managers can accurately describe it is a good test. If the answer is no, you need to confront the problem.

No. 2: Can all members of your senior executive team name the three things that most undermine trust among your existing customers? Promising to meet customers' needs is one thing. Actually meeting those needs depends on how well you deliver on the promise. Because bad news tends to get filtered on its way up the hierarchy, there's a danger that top management won't hear about the cases where the organization failed to deliver on its promise. That's why it's important to force the issue.

The world's most valuable brands make significant investments to ensure that they can deliver on their promises day after day. Although the business operations of companies such as Google, IBM, Apple, UPS, Tesco, Gillette and Amazon vary greatly, they all recognize customer satisfaction as one of the pillars of long-term success. It is no surprise that all of these companies are recognized as leading innovators. Customer satisfaction builds trust, a key component of a valuable brand, which in turn supports innovation. In fact, every successful innovation strengthens the brand, while a strong brand encourages customers to try the company's new offerings and even makes them a little more forgiving if these don't immediately deliver as promised. Companies underestimate the links between customer satisfaction, innovation and growth at their peril.

Every valuable brand has two shared attributes: customer awareness (within the relevant market) and trust. Awareness can be achieved through market presence and communications. But trust must be earned over time by delivering on the promise. Great brands are based on great customer experience, and then reinforced with excellent communications—not the other way round. For many years, customer experience was central to the success of Toyota. But it is equally true for Apple Inc. In addition to capturing headlines with its bold product innovations, Apple develops the infrastructure and support required to ensure that its products live up to customer expectations.

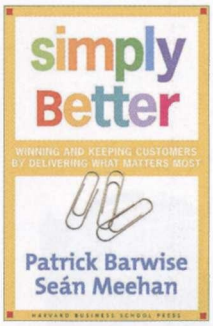
Although many companies make an effort to track customer satisfaction, in most cases the idea is to increase positive satisfaction as opposed to understanding and addressing the sources of customer dissatisfaction. Shining a spotlight on the drivers of dissatisfaction is hard because it often involves pointing fingers or revisiting bad decisions. Nevertheless, it can provide valuable insights into what the company needs to do. If the first question was about whether the customer promise has been communicated *down* to middle management, this one is aimed at discovering whether the main drivers of customer dissatisfaction have been communicated *up* to the top.

Customer dissatisfaction is rarely caused by the actions of a single department; directly or indirectly, many parts of the business play a role. For example, a chief financial officer can't improve invoicing or debt collection without knowing about the problems and the opportunities for improvement. The goal is to break down the functional silos and bring the voice of unhappy customers to the top of the company. That voice can be expressed in many ways, including direct comments to front-line staff, responses to market research questions or brand switching. The challenge is to ensure that the company somehow hears the message and communicates it to those with the power to act — and that those managers then uncover and act on the causes of the problem.

No. 3: Is your brand really the best option for customers? Will it continue to be next month and next year? Assuming you have a clear, customer-relevant brand promise and are delivering it at least as well

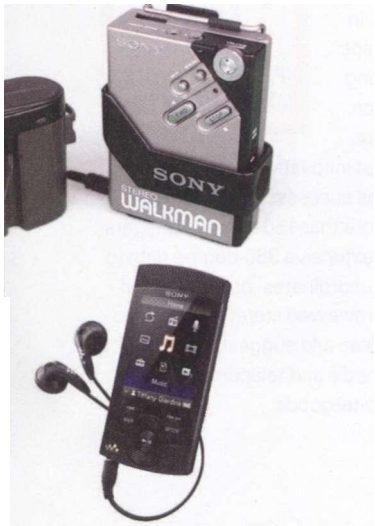
ABOUT THE RESEARCH

In their book *Simply Better: Winning and Keeping Customers by Delivering What Matters Most* (Harvard Business School Press, 2004), the authors argued that, despite marketers' obsession with finding unique features and benefits to differentiate their products and services from those of their competitors, in reality customers rarely buy brands because they offer something unique. Instead, they usually buy the brand they expect will deliver the generic benefits of the overall category (be it home mortgages or strategy consulting) better, more reliably or more conveniently than competitors, or at a lower price.



In developing this article, the authors shifted the focus from customers' brand choices to how organizations adjust to market opportunities and threats. In particular, they set out to investigate reasons for gaps between the way companies espouse the marketing concept — talking about customer focus, innovation, etc. — and their day-to-day behavior. To explore that, they did case research on some of the world's most innovative companies, including Procter & Gamble and Nokia, as well as less successful companies. In addition, they conducted primary research with more than150 senior managers on truth-telling in their organizations and analyzed extensive 360-degree data to explore the differences between managers' and subordinates' perceptions of the managers' openness to ideas. They have also reviewed literature on the issues covered in the article and field-tested the ideas and suggestions with more than 25 companies in consumer products, media and telecommunications, transportation, professional services and capital goods.

as the best competitor, the next challenge is to pull ahead of the competition — and stay ahead — even when the market demands change. The trouble is that when you believe in your marketing story or are in love with some unique feature or benefit that's integral to your brand, it's easy to delude yourself that what you offer trumps the competition. But before you get too carried away, pay attention to what customers say. For that, you will need detailed and unbiased evidence. The intent of our third question is to force managers to confront the ego-bruising possibility that, from the customers' perspective, competitors may be offering something as good as or better than you are. What's more, it's a dynamic market, and competitors' offerings are getting better all the time.



Sony moved "beyond the familiar" and revolutionized personal entertainment when it introduced the Walkman in 1979.

Tide was a real breakthrough product when it was initially launched. The promise was clear and relevant: "Tide washes cleanest." It quickly became market leader, a position it has worked hard to maintain. P&G doesn't rest on its laurels. Over the years, it has introduced a steady stream of product innovations, including Liquid Tide, Tide with Bleach, Tide Ultra Concentrate and Tide 2X Ultra Concentrate. Along with improved cleaning power, the new products allow for reduced packaging, lower manufacturing and distribution costs, improved energy efficiency and so on.

Of course, these innovations create value only if they meet real needs. To ensure relevance, P&G uses a wide range of quantitative consumer research and analysis techniques, but it also acknowledges the hidden risks. In fact, A.G. Lafley, the company's recently retired chairman, president and chief executive, claimed that an overreliance on high-tech consumer research can reduce innovation by preventing P&G's product teams from having direct contact with consumers.

To mitigate that risk, P&G relies on "high-touch" consumer insights to supplement — not supplant — high-tech methods. While taking advantage of the latest qualitative techniques, such as online consumer advisory panels and "metaphor elicitation" in one-on-one interviews, it also asks executives to conduct their own consumer research. About 70% of P&G managers have visited consumers in their homes to learn how P&G's and competitors' products fit into their daily routines. Managers get to see with their own eyes what is good and bad, what is valued and what is taken for granted.

In stressing incremental innovation, we do not mean to underestimate the value of successful radical innovations. But favoring one over the other is counterproductive. Since everyone loves dramatic success stories, successful major innovations can generate huge gains in shareholder value and publicity, but managers are badly mistaken if they ignore opportunities for incremental improvements. Indeed, for Tide, such improvements (an average of one per year for over 60 years) have produced a long record of growth and profitability.

No. 4: Have you embraced any novel ideas that have produced significant innovations beyond the familiar during the past year? The first three questions force top management to face up to difficult issues within the organization. This one requires managers to go further — to look beyond what's familiar to the company, the industry and existing customers. It involves examining new ideas that don't fit what you and your competitors have been offering and then testing whether the market will really value your new solution. Innovating beyond the familiar is inherentiy risky, but the exercise forces you to seek out groundbreaking opportunities and follow them through.

The most successful outcomes occur when companies meet genuine customer needs in radically new ways. When this happens, companies receive lots of recognition. Two examples are Southwest Airlines Co. dramatically reducing the cost of scheduled airline travel and Sony Corp. revolutionizing personal entertainment devices with its iconic Walkman.

When thinking about innovation, it's important for companies to strike a balance: Overemphasis on breakthrough projects can distract them from seeing customers' immediate needs. Evangelists for radical, pioneering innovation rightly argue that customers can't reliably identify their latent needs, nor can they tell you whether they'd buy such a product if they could. But that misses the point. It is better to change the discussion from "completely new to the world" to "beyond the familiar." Such offerings build on what customers already know, but they don't ask customers to gamble on something completely different that the company may or may not be able to deliver profitably.

Apple, for example, is well known for systematically rethinking existing product categories from the user's perspective. It learns from the technology

pioneers and from its own early mistakes, and relentlessly improves functionality and ease of use (building on what is already familiar and intuitive to customers) while still ensuring high reliability and stunningly attractive design. Its brand promise is based on making technology accessible and attractive to the wider market, not on breakthrough functionality that only geeks will find useful.

Though known as an innovator, Apple does not try to be a technology pioneer. The early Mac wasn't the first personal computer with a graphical user interface. Likewise, there were plenty of MP3 players before the iPod, and iTunes wasn't the first online music store. Yet it was Apple that went on to dominate portable music players and, more recently, smart phones with the iPhone. In each case, Apple's customers really don't care whether the technologies are radical or incremental or whether Apple was first. Their main concern is that the products meet real needs and that they are attractive, easy to use, reliable and affordable.

It is too early to judge whether Apple's newest product, the iPad, will be successful. But based on the past, two things seem likely. First, Apple will introduce new models sooner rather than later. And second, other tablet computer manufacturers will have to improve the usability and attractiveness of their products in order to compete.

Google Inc.'s success in the search engine market traces a similar pattern. When it launched in September 1998, the market for search engines was dominated by AltaVista, which was attempting to move beyond search to other services that were seemingly more lucrative. Google seized the opportunity to rethink both the user experience and the business model, with advertising revenue as a central element. Although late to the game, Google gained market share quickly by providing users with fast, effective searches on a simple, uncluttered page that separated search results from paid advertisements. As with Apple, people didn't care whether Google's product was first to market or whether it was different from existing offerings. What mattered was that it was effective and easy to use.

Even if you are a market leader, enjoying success on key metrics, you can't afford to rest on your laurels. Someone out there is seeking to redefine your category. You need to ensure you are challenging from within to see whether there are breakthrough opportunities. Nokia Corp., having been blindsided by the iPhone, is now working hard to regain momentum at the top end of the handset category, which is increasingly oriented around mobile access to applications and content.

No. 5: Have front-line staff posed any uncomfortable questions or suggested any important improvements to your offering during the last three months? Drucker argued that applying the marketing concept successfully requires support from the whole organization. To make it happen, managers need unfiltered and unfettered information about the actual customer experience — both positive and negative — and ideas about how to improve the offering and the company's internal processes. The acid test is to probe whether front-line employees — those with day-to-day contact with customers — are comfortable presenting the CEO and other top managers with candid suggestions for improvements or other "inconvenient truths."

Many managers maintain that they're open to new ideas and suggestions, but based on our experience and research and the research of others, people are much less open with their bosses than the bosses realize.[2] Lack of candor can have an insidious effect on a company. When front-line employees suppress information and distort communication with their bosses, the problem repeats itself up the line. Those with the power to set priorities and allocate resources end up with a significantly distorted view of the customer experience.

Although fear and denial are widespread, they go largely unrecognized. In one study, we asked 180 executives from more than 100 companies in 25 countries how they thought their peers would handle negative market feedback on customer complaints, market research and business development.[3] Depending on the case, 20% to 30% reckoned that their peers would *tell the truth less than half the time.* We also analyzed data from more than 4,000 U.S. managers across multiple industries and functions collected by Personnel Decisions International Corp., a consulting firm specializing in assessment, selection and leadership development. We found that executives are perceived by their colleagues and subordinates as far less open to other people's concerns and contrary opinions than they perceive themselves to be.[4]

The gap between how managers view themselves and how their colleagues see them is easy to explain. In

most manager-subordinate relationships, managers overestimate their openness to unwanted messages and underestimate the extent to which the power difference discourages subordinates from speaking up. Even good managers often signal that they don't want to hear bad news (for instance, by changing the subject or avoiding interaction), and — partly for that reason — subordinates tend to shy away from providing such information. This largely unacknowledged pattern inhibits the flow of bad, albeit useful, news; sometimes it even discourages employees from presenting constructive ideas for improvements for fear that their comments might be construed as criticism.

The best companies work hard to encourage openness. When Sheryl Sandberg (now chief operating officer at Facebook Inc.) worked at Google, she had responsibility for the company's automated advertising system. At the time she made a mistake that cost Google several million dollars. ("Bad decision, moved too quickly, no controls in place, wasted some money," as she reportedly described it.) When she realized the extent of the mistake, she says she informed Google's cofounder, Larry Page, and told him how badly she felt. Page accepted the apology, Sandberg recalls, and went on to tell her the following: "I'm so glad you made this mistake.... I want to run a company where we are moving too quickly and doing too much, not being too cautious and doing too little. If we don't have any of these mistakes, we're just not taking enough risk."[5] Every top management says it wants people to take risks. But when a million-dollar mistake earns a pat on the back from the CEO, people start to believe it.

In contrast, many former employees of General Motors Co. describe an environment where top management was detached from market reality. A vice president from the 1990s, for example, recalls how reports about quality problems were revised so heavily as they went up the hierarchy that top management actually believed they didn't have quality problems. Neither the reports they saw nor their own experience pointed to problems.

AS THE ECONOMY EMERGES from recession, many companies are moving beyond cost cutting and beginning to set ambitious long-term targets for revenue and profit growth. To achieve these goals, they need a clear and relevant customer promise backed by an organization that's committed to implementing Drucker's marketing concept in deeds as well as in words. Of course, for all the reasons we've discussed, putting it all together is easier said than done. The questions are designed to help you discover the truth and make the necessary adjustments.

The key to unlocking sustainable organic profit growth is to bridge the gap between understanding what needs to be done (the relatively easy part) and actually doing it (which is much harder). Quality pioneer W. Edwards Deming is widely credited with the comment, "In God we trust. All others must bring data." For those who are prepared to ask the tough questions and are willing to hear the answers, the potential benefits to the business are significant.

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Reprint 51304. *For ordering information, see page 9.*

Fonte: Mit Sloan Management Review, Cambridge, v. 51, n. 3, p. 63-68, 2010.