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Customer Centricity

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Table of Contents

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1 INTRODUCTION

Without customers, businesses could not succeed. That is why the term *customer centric* (along with *customer focused, market oriented,* and *market driven*) has become synonymous worldwide with proactive business strategy.

The first commonly cited mention of customer-focused marketing was in the latter half of the 1800s when Cyrus McCormick became the first recognized U.S. businessman to successfully execute a marketing and advertising strategy focused on customers. McCormick was the first to receive a patent for a horse-drawn mechanical reaper to replace the hand-held scythe that had been used in farming for thousands of years. But McCormick was not just an inventor; he truly pioneered customer-focused business practices. For example, he moved his mass-production lines from New York State to Chicago not only to be closer to his predominantly Midwestern-based customers, but also to have ready access to waterways and the growing U.S. railroad infrastructure that allowed for cheaper transportation costs, savings that he could pass along to farmers. He understood the importance of quality and constant process improvement in his factory, and the need for building customer satisfaction and long-term brand loyalty.

In a biography of McCormick, his grandson noted that his grandfather often stated: "I don't want to make my entire profit from a single sale—I want to make the machines so good that the farmer and his sons will come back again and again to buy more McCormick machines."[1] A farmer himself, McCormick both understood his customers' needs for reliability and durability and made service a top priority, establishing a national network of local agents to "maintain a sample machine, canvass the wheat districts in their territory, deliver reapers and instruct buyers on their operation, stock spare parts, be prepared to do repair work and render field service, make reports, collect money due on notes, and distribute advertising."[2]

Much of his landmark advertising (see **Exhibit 1**) included testimonials from satisfied customers. McCormick also established an early form of social networking, encouraging product demonstrations after church on Sundays when whole families would gather in towns. He was also one of the first U.S. businessmen to offer standard pricing, term payments, and money-back guarantees.[3] Despite McCormick's early successes, Peter Drucker is often credited with being the first to recognize marketing not as a specialized functional activity, but as "the whole business seen from the point of view of its final result, that is, from the customer's point of view." In his iconic 1954 work *The Practice of Management,* he asserted that "there is only one valid definition

of business purpose: to create a customer." This idea of driving the marketing concept throughout organizational planning was novel at the time. Drucker also maintained that "it is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or service, converts economic resources into wealth, things into goods."[4]

EXHIBIT 1 McCormick Harvesting Machine Advertisement, c. 1875

Source: McCormick Reaper, c. 1875. McCormick Harvesting Machine Company advertisement, from an American agricultural magazine. The Granger Collection, New York.

Theodore Levitt advanced this concept further with his now-famous 1960 article "Marketing Myopia" in the *Harvard Business Review.* In this piece, Levitt urged organizations to ask the question, "What business are [we] really in?" and introduced the most influential marketing idea of the past half century: that businesses will do better in the end if they concentrate on meeting customers' needs rather than on selling products. He cites the railroad industry as a prime example of a sector that failed to ask that question. Why did the railroads stop growing? Not because people no longer needed transportation. And not because other innovations (cars, airplanes) filled transportation needs. Levitt maintains that the railroads stopped growing because they didn't change and grow to fill customer needs. Executives incorrectly thought that they were in the railroad business, not the transportation business. They viewed themselves as providing a product instead of serving customers.[5]

What does it mean, then, for an organization to be truly oriented toward the customer? Decades after the ground-breaking works of Drucker and Levitt, customer orientation was formally defined as "the set of beliefs that puts the customer's interest first, ahead of those of all other stakeholders such as owners, managers, and employees."[6] Indeed, customer orientation came to be known as part of a set of deeply rooted values that consistently reinforces a customer focus throughout organizations. Soon the term "customer centricity"—which

encapsulated these concepts—became part of the marketing lexicon, coined by the author of this reading at a meeting of the American Marketing Association in 1999.

In **Video 1**, Harvard Business School Professor Ranjay Gulati provides yet another perspective on customer centricity, asserting that humility and curiosity are the means to fully understanding a marketplace and its customers.

VIDEO 1 Customer Centricity

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2pNYfcm

So what makes customer centricity so valuable to organizations? Massive, multiyear, global research studies have been conducted focusing on how organizational culture, market orientation, and innovativeness affect the performance of firms competing in *business-to-business* (B2B) markets.[7] These studies confirm that market orientation and innovativeness have a pattern of consistent positive impact on performance, where performance and success are defined by profits, size, growth, and market share.

The studies also found that organizations sharing this "success profile" exhibit a number of key common characteristics, as follows:

- They are customer-centric rather than product- or technology-centric.
- They out-compete other firms in terms of deep customer insights.
- They integrate branding with customer centricity.
- They reward their employees for customer-focused innovation, creating
  - entrepreneurial, open organizations, and
  - environments where employee participation is encouraged, with special emphasis on "delighting" customers.

Interestingly, the studies found that among these companies, corporate culture even appears to trump national culture. No differences were found in the success profile by country, industry, or other demographic. The studies also revealed that the most successful U.S. firms have the same success profile as the most successful companies in emerging markets such as those of Brazil, China, and India.

Since the late 1990s, market dynamics have continued to evolve. The Internet has, naturally, played a large role in this evolution. Now, with the emergence of what has come to be known as Web 2.0 (the interactive and social media dimension of the Internet) in the twenty-first century, we are experiencing a fundamental shift in marketing—from a previous focus on companies to a spotlight on consumers, from individuals to communities, from nodes to networks, and from push advertising to consumer participation.[8] Technology

has, in essence, shifted power from companies to consumers, giving them a much stronger voice in both the B2B and the *business-to-consumer* (B2C) sectors.

To fully understand customer centricity, one must recognize that there is a strong knowledge component to the concept. This requires organizations not only to effectively manage their research and intelligence systems, but also to translate that market knowledge into strategic capabilities (competences) that become disseminated organizationally. In addition, customer centricity provides the basis for a corporate strategy that focuses on serving actual and potential customers. Thus, customer centricity fits three ways into an organization: as part of a knowledge management system (understanding the customer), as part of the development of strategic competence as a learning organization (building a customer-centric culture), and as a foundation for corporate strategy development and execution (serving the customer).[9] The Essential Reading that follows is organized into three main sections covering these topics. Subsequently, the Supplemental Reading examines the dynamic between customer centricity and innovation and also provides a contrarian view to the topic.

2 ESSENTIAL READING

2.1 Understanding the Customer

> "People don't want to buy a quarter-inch drill. They want a quarter-inch hole!"
>
> –Harvard Business School Professor Theodore Levitt, quoting businessman Leo McGinneva[10]

Building on the legendary quote popularized by Levitt, Russell S. Winer asserted: "Customers do not inherently want to buy products. Products cost money and, for corporate buyers, reduce profits. Customers buy products for the *benefits* that the product features provide."[11] So while companies sell automobiles, customers buy transportation, image, and freedom. And while companies sell laundry detergent, customers buy clean clothes. The key to successful marketing, then, is to be able to understand what benefits customers are seeking, to translate those benefits into products, and then to communicate effectively the product offering back to the customer.

In order to identify these benefits, an understanding of what consumers value is critical. As a rule, consumers attempt to maximize what is called *customer-*

perceived value (CPV), that is, they want the greatest benefit (economic, functional, psychological) from the lowest possible cost (evaluating, obtaining, using, disposing) of the product or service (see **Exhibit 2**).

This concept can also be captured by the equation:

$$\text{Value} = \text{Benefit} - \text{Cost}$$

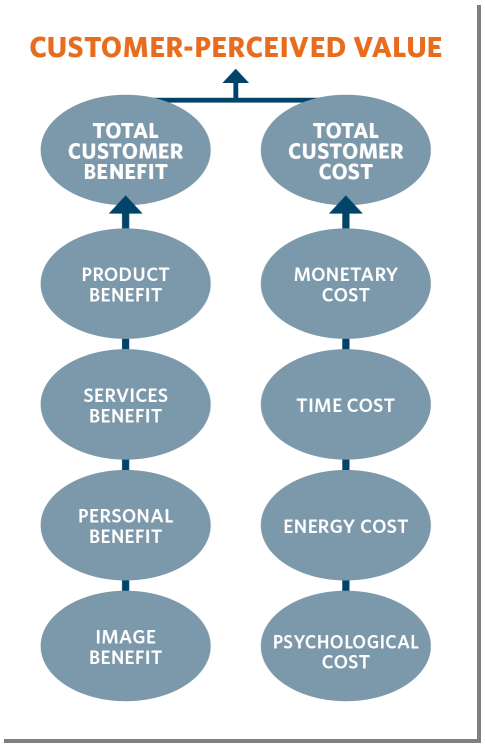
and the simple explanation that a consumer will prefer a product or service offering *a* over offering *b* when:

$$(\text{Benefit}_a - \text{Cost}_a) > (\text{Benefit}_b - \text{Cost}_b)$$

or equivalently,

$$\text{Value}_a > \text{Value}_b$$

EXHIBIT 2 Customer-Perceived Value



Source: Kotler, Philip; Keller, Kevin; Marketing Management, 14th, © 2012. Printed and Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

Marketers can increase CPV by raising benefit offerings, lowering costs, or both. But it's important to remember that the overall benefit-to-cost ratio is what remains of value to customers, and that lowering costs at the expense of benefits could harm an organization's competitive advantage. Computer company Dell learned this lesson the hard way when it outsourced its customer-

service call center to India and the Philippines. In both instances, outsourcing resulted in understaffing, insufficient sales training, and long call wait times, causing damage to both customer service and satisfaction. Additional competition from manufacturers increasingly able to provide low-cost computers and high-quality customer service, once Dell's unique competitive advantage, caused significant declines in Dell's market share and stock price.[12]

2.1.1 Assessing Customer Needs and Values

In the B2B setting, forging compelling customer-value propositions can be particularly difficult because pressure to control costs often makes premium pricing seem unattainable. Similarly, in global B2C markets, which are increasingly cost-conscious, there is a need to persuade customers to focus on total costs rather than simply on acquisition costs. (See the sidebar "What Exactly *Is* a Customer?") To do this, a supplier/seller must have an accurate understanding of what it is that its customers value.

All too often, however, marketers use an "all benefits" approach, where they list all the benefits they believe their offering might deliver to target customers. This approach requires the least amount of knowledge about customers and

What Exactly *Is* a Customer?

With all this talk of customers, it should be noted that the definition of a customer can vary greatly. In some industries, wholesalers, retailers, and other parts of the distribution chain have a profound influence on the choices customers make. So it's important to understand "the trade." In other markets, non-buying influencers specify the product, although they neither purchase it nor use it. These include architects, consulting engineers, and doctors. In still other markets, one person may buy the product and another may use it; family situations are an obvious example. In commercial and industrial marketplaces, a professional procurement organization may actually purchase a product, while a manufacturing or operational function uses it.

Source: Benson P. Shapiro, "What the Hell Is 'Market Oriented?' " *Harvard Business Review* 66 (November–December 1988): 119–126.

competitors, and, thus, the least amount of work to construct. However, the relative simplicity of this approach has several major potential drawbacks. *Benefit assertion*, or making assumptions about features that may actually provide no benefit to target customers (particularly in the absence of any

thorough competitive analysis) can create a long list of benefits that might be so similar to those of competitors that true points of differentiation might be lost. Recognizing that customers most often have alternatives to consider, organizations often turn to a "favorable points of difference" approach, particularly in a B2B environment. This process requires detailed competitive knowledge, but often does not convey the value of any highlighted differences. Worse, a product or service might have several points of difference, and, without a detailed understanding of the customer's requirements and preferences and what it's worth to fulfill them, sellers might stress points of differentiation that deliver relatively little value to the customer. This *value presumption* again assumes what must be valuable to the customer.

Instead, marketers do best when they adopt a "resonance focus" model, which involves demonstrating a deep understanding of customers' needs and differentiating or highlighting offerings on the few elements that matter most to target customers. Companies have an increasingly large number of research methodologies available to them; most are viable and can be used effectively in different types of companies and across industries using data-gathering methods drawn from ethnographic research used in the fields of anthropology, psychology, and sociology.[13] The sidebar "Resonance Model in Action" describes one successful application of the concept.

Resonance Model in Action

Helping customers cut costs while increasing your own profits can be the payoff for carefully mapping and understanding customer values. One company that manufactured resins used in exterior paints discovered this firsthand. By researching the needs of commercial painting contractors—a key customer segment—the company learned that labor constituted the lion's share of contractors' costs, while paint made up just 15% of costs. Armed with this insight, the resin maker emphasized that its product dried so fast that contractors could apply two coats in one day, substantially lowering labor costs. Customers snapped up the product, happily shelling out a 40% price premium for it.

Source: James C. Anderson, James A. Narus, and Wouter van Rossum, "Customer Value Propositions in Business Markets," *Harvard Business Review* 84 (March 2006): 90–99.

Erich Joachimsthaler recommends a detailed methodology that he calls "Creating the Demand Landscape." Through this methodology, it is not unusual for a company to track several hundred or even thousands of consumer

behaviors through observation, diaries, journals, and interviews, and to group them into distinct categories of goals, activities, and priorities. To this is added as much information as possible about customer needs, wants, pleasures, and pains—in short, all the contextual elements that make up the dynamic and complex ecosystem of customer demand. This results in a comprehensive consumer demand landscape. This landscape should display in rich schematic detail an ecosystem that illustrates how consumers go about living their lives. It should also reveal how products, services, or brands intersect in time and space with consumers' occasions to live, play, and work, as defined by the matrix of goals, activities, and priorities that constitute the leading features of the landscape.[14] Each of these intersections is called a **touch point**. At a car rental company, for example, its touch points include the reservation process (either online or by phone), check-in, car pickup, multiple car uses, car return, any loyalty program interactions/materials, and so on. Joachimsthaler cites the Frito-Lay division of PepsiCo as an example of an organization that benefited greatly from the creation of a demand landscape. See the sidebar "Frito-Lay Creates a Demand Landscape" for details of this program.

Frito-Lay Creates a Demand Landscape

Realizing that its marketing strategies relied on decades-old assumptions about consumer behavior in the snack food market, in the mid-2000s, a new head of marketing embarked on a mission to better understand how and why customers consumed Frito-Lay snacks.

At that time, in every store, Frito-Lay products were exclusively displayed on a specially designed wire rack known as a front-end merchandiser (FEM), which served as a unique point-of-sale for Frito-Lay purchasers. However, while the FEMs were intended to differentiate the products and grab customers' attention, observation found that the majority of consumers headed straight for a point in the shelves they appeared to know from prior visits. As far as most consumers were concerned, the FEM, a solemn shrine to a beloved brand, didn't exist. This observation flew in the face of deeply entrenched, but largely untested, beliefs that, nine times out of ten, the purchasing of salty snacks was an impulse buy. In fact, most customers appeared to go into the store already knowing exactly what they wanted.

This revelation forced the team to focus on seeing the marketing problem from an outside-in, as opposed to an inside-out, perspective. Choosing to employ the diary method, individuals were handed cameras and daily diaries and asked to record their activities, episodes, moments, thoughts, and feelings around food consumption over a thirty-day period. Through a mapping process, the company learned that observed and reported behavior tends to be a far more reliable barometer and indicator of consumer behavior than a more direct inquiry about needs, values, and desires, particularly if the questions are posed in relation to a specific product, service, or brand. The company found that from observed behavior, it is possible to infer what consumers truly want and desire.

The company also learned that while the Lay's brand was positioned historically and deliberately on delivering *functional benefits* (the taste of the chip itself), summarized by the notion of irresistibility ("Bet You Can't Eat Just One"), in fact, customers associated Lay's with specific use contexts, activities, and goal achievement that had more to do with the emotions surrounding these contexts than with feelings about the potato chips themselves—predominantly, moments of simple joy that often invoked inner-directed feelings of comfort and reassurance.

These explorations led the company to develop a strategic blueprint for action that involved not only refocusing its strategy, but also rethinking its new product development, prioritizing innovations, reassessing its overall brand portfolio, and revamping the entire activation of its marketing efforts. Just months after rolling out its new strategy, sales of its products within the hotly contested, immediate consumption channel increased by 10% and in grocery stores by 15%. Without changing size or price, Lay's $3 billion business, accounting for close to a third of PepsiCo's revenues, jumped by 10–15% in a quarter.

Source: Adapted and reprinted from *Hidden in Plain Sight: How to Find and Execute Your Company's Next Big Growth Strategy* by Erich Joachimsthaler. Harvard Business Review Press, Boston, MA: 2007, pp. 59–84. Copyright © 2007 by the Harvard Business School Publishing Corporation; all rights reserved.

The process of collecting and using the detailed information about individual customers at all of these touch points is referred to as **customer relationship management (CRM)**. A comprehensive CRM system can provide an organization with aggregate and individual information about its consumers that guides the development of product offerings, services, programs, and messages, and that also enables personalized customer service. Maximizing the value of all of this information can greatly enhance the profitability of a firm, but this often requires a large investment in computer hardware, database software, and skilled staff to analyze, interpret, and utilize the data correctly. To be of greatest use, customer data and information must move beyond the market research, sales, and marketing functions to become the knowledge and wisdom that permeates every corporate function.

For example, in the late 1990s, the Royal Bank of Canada (RBC) began collecting and analyzing data on every customer transaction. When the company also surveyed more than 2,000 customers to assess their needs, it discovered that customers wanted much more than just the access and convenience that had been assumed. Rather, customers wanted their bank to value them as individuals, regardless of when and where they did business. In response, RBC began shifting resources from building new branches to managing 10 million customer relationships. The data also revealed that 60% of the company's product packages that combined a checking account, credit card, and ATM-based bill paying were unprofitable. Instead of discontinuing these products or raising the fees, RBC pinpointed the problem's source: Bank employees had to enter ATM bill-paying transactions manually. Using recommendations from the marketing, analytics, product management, and finance groups, RBC added low-cost telephone and online bill paying to the packages. These were features that addressed not only the internal operations issues made clear from the data, but also issues that responded to customers' personal needs. Customers snapped up these options, making 90% of the packages profitable. As a result of this and other customer-focused initiatives, from 1996 to 2003, RBC was able to grow its dividends from $0.68 per share to $1.75 per share, and RBC achieved 20% customer growth and a 13% increase in average customer profitability.[15]

With today's increasing ability to collect data on customer values, needs, and behaviors also comes the ability to create deeper, more personalized, and more lasting relationships with existing and potential buyers. This information also enables companies to examine their customer bases in greater detail, perform profitability analyses, and engage in a process called *selective relationship management* to target fewer, but more lucrative, customers. Some companies have even gone so far as to "fire" unprofitable customers if they can't be made profitable.

For example, consumer electronics company Best Buy found great success after rolling out a new customer-centric strategy in the early 2000s that categorized its best customers as "angels" (those who make up most of the company's profits by buying most merchandise at full price) and its least profitable as "devils" (those known for buying only at a discount and even reselling goods online for a profit). Further segmentation was done, indicating five sub-groups within the angels: "Barrys," high-income men; "Jills," suburban wives/mothers; "Buzzes," early technology adopters; "Rays," young family men on a budget; and small business owners. To cater to its best customers, Best Buy began to carry more stock merchandise, created digital photo centers, completed the acquisition of its "Geek Squad" subsidiary, which offered one-on-one in-store or at-home service to high-value customers, and started training its employees to identify potential Barrys and Jills in the store and steer them toward higher-end goods. As for the devils, Best Buy removed them from its marketing lists, decreased the sales and coupons that attracted them, and established a 15% restocking fee to prevent people from benefiting from "open box" discounts.[16] (For more on selectively managing customers, as well as a general overview on the topic, see *Core Reading: Customer Management* [HBP No. 8162].)

2.1.2 Measuring Customer Satisfaction and Gathering Feedback

Given the corporate value of retaining customers, an organization's goals need to focus largely on satisfying its clientele. After all, it's hard to grow a business if your customers don't recommend your products or decide not to return at all. Moreover, it's difficult to fix problems you don't know you have. That is why measuring satisfaction and capturing meaningful feedback is so important. But how should organizations best go about that?

Although most companies devote a lot of energy to creating solid CRM systems and listening to the "voice of the customer," few are very happy with the outcome of their efforts. Elaborate satisfaction surveys, for instance, involve proprietary research models that can be expensive to conduct and slow to yield findings. Once delivered, their findings can be difficult to convert into practical actions. The results may also be imprecise; research shows that most customers who end up defecting to another business have declared themselves "satisfied" or "very satisfied" in such surveys just before jumping ship. Another technique—sending executives to spend time in the field—can generate fresh insights, but few management teams sustain such efforts. (And even when they do, they often struggle to convert those insights into prescriptions that frontline employees can follow.) Another method is bringing in "power customers"—heavy spenders who tend to be deeply committed to the company—to talk about their

experiences. While they can shine a spotlight on critical issues, frontline employees can't easily learn about their own behaviors from those customers or develop remedies for the problems they raise.

Fortunately, a growing number of companies have developed effective customer feedback programs that head off these challenges from the start. Instead of building elaborate, centralized customer research mechanisms, these firms begin their feedback loop at the front line. Employees working there receive evaluations of their performance from the people best able to render an appraisal—the customers they have just served. The employees can then follow up with willing customers in one-on-one conversations to understand in detail what those customers value and what the front line can do to better deliver what they want. Over time, companies can compile the data into a baseline of the customer experience to draw upon when making process and policy refinements.

Charles Schwab credits its turnaround to just such a system. Every day, at each of Schwab's 306 branch offices and five call centers, managers review the previous day's feedback generated from brief, automatic survey e-mails that are sent out following every customer interaction. Managers can use these for individual feedback on consultants, to look for common complaints and issues, and then raise concerns at weekly or monthly local or regional meetings. This customer feedback system has helped restore Schwab's connection to its customers. In 2008, the company's revenues increased by 11%, positive scores from customers jumped 25%, new accounts rose 10%, and, while the financial services industry was hit hard by economic turbulence, Schwab clients entrusted $113 billion in net new assets to the firm.[17]

The strongest feedback loops, however, do more than just connect customers, the front line, and a few decision makers in management; rather, they keep the customer front and center across the entire organization. One popular approach that is used across industries involves the Net Promoter Score (NPS), created by Frederick Reichheld of Bain & Company. NPS categorizes customers into one of three groups—promoters, passives, and detractors—that allows employees throughout a company to see right away whether a customer experience was a success or a failure, and why. NPS is generated by asking the question: "How likely are you to recommend us to a friend or colleague?" On a zero-to-ten scale, respondents giving a 9 or 10 are designated promoters, 7 or 8 are passives, and 0 to 6 are detractors. NPS is the percentage of promoters minus the percentage of detractors. (See the sidebar "Why Use a Zero-to-Ten Scale?" for a discussion of why this type of scale is often used in NPS.)

Moreover, Reichheld recommends including at least one follow-up question in even the shortest of surveys: "What is the primary reason for the score you just

gave us?" The answer provides an initial diagnosis of the root cause and helps ensure that, if appropriate, the right manager can reach out to the customer for further diagnosis and response. Another recommended question is: "What is the most important improvement that would make you more likely to recommend us?" For simplicity and clarity, Reichheld suggests keeping these types of surveys short. To further engage customers and find out more about scoring, managers can follow up with customers in person, by phone, or by e-mail. Forums that enable group discussions can be effective as well.

As with any type of corporate audit, meaning can also be gleaned through examination of data over time, such as looking for macro changes in ratings. This can provide an early sign of issues that need to be addressed. Constancy is also an important component in the NPS or any other satisfaction/feedback system. Reichheld maintains, "If you measure and discuss [NPS] only once a year or once a quarter, nobody will pay attention except when the results come out; the rest of the time, they will focus on profit. Indeed, if you don't develop an NPS measurement process that is just as timely as your financial measurements, employees will dismiss it as one more here-today, gone-tomorrow corporate initiative."[18] That is why Reichheld suggests taking measurements continuously, if feasible, to ensure the maximum number of chances to try out new approaches and tactics to see if changes improve outcomes. (If continuous measurements are not feasible, then they should be conducted on a weekly or monthly basis.)

Why Use a Zero-to-Ten Scale?

1. Customers find that a zero-to-ten scale makes intuitive sense, often relating the scale to academic grading, equating a 9 or 10 rating to an A- or A grade, and anything below a 6 to a failing grade.
2. Most of the world uses the metric system, so most people already think in units of 10.
3. Customers who believe there is always room for improvement may refuse to give anyone a perfect score; a 9 response offers an alternative that avoids pushing them into the passive category.
4. No matter how carefully a survey is constructed, customers will transpose the top and bottom; including zero in the scale typically avoids this issue, as zero almost always represents the lowest score.
5. The zero-to-ten standard is being adopted by many of the world's leading companies; others adopting this standard would find it easier to perform competitive comparisons.

Source: Adapted from Fred Reichheld and Rob Markey, "The Rules of Measurement: Understanding the Fundamentals of the Net Promoter Score (NPS)," in *The Ultimate Question 2.0: How Net Promoter Companies Thrive in a Customer-Driven World* (Boston: Harvard Business Review Press, 2011), pp. 101–124.

2.2 Building a Customer-Centric Culture

Marketing is not something you do *to* the customer; rather, it is *how* the customer influences your organization. To fully realize the organization's value, a company must build and sustain a customer-centric set of shared values. Much more than purchasing CRM software, creating a truly customer-centric culture is about developing a deep understanding of, and effecting true organizational change to focus on, the customer. Gathering, standardizing, organizing, and translating customer information that comes from all across an organization requires companies to establish some type of infrastructure that will serve to coordinate it all.

Some companies have done and continue to do this very well. In November 2008, armed terrorists attacked a dozen locations in Mumbai, India, including the high-end hotel, the Taj Mumbai. During the attack, 31 people died and 28 were injured, but the hotel received only praise the following day because its guests had been overwhelmed by employees' dedication to duty, their desire to protect guests without regard for their own personal safety, and their quick "off-manual" thinking. As many as 11 Taj employees—a third of the hotel's casualties—laid down their lives while helping between 1,200 and 1,500 guests escape.[19] What created that extreme customer-centric culture? And what can other organizations do to emulate that level of service?

At the Taj Mumbai, creating a customer-centric culture included unusual hiring, training, and incentive systems that created an organizational culture in which employees were willing to do almost anything for guests. Management sought fresh recruits rather than lateral hires, and hired from small towns and semiurban areas where they felt traditional Indian values (respect for elders and teachers, humility, consideration of others, discipline, and honesty) still held sway. Rather than hiring for skills or talent, the Taj Mumbai inducted managers who sought a single-company career and who exhibited integrity and devotion to duty. The hotel trained its workers for 18 months, six months longer than the industry standard, and taught employees to improvise rather than to do things "by the book." Management insisted that employees place guests' interests over those of the organization and it made sure that employees knew how to deal with guests without consulting a supervisor. The Taj also used timely recognition, not money, as reward, and ensured that this recognition came from immediate supervisors, not just top management.[20] (For another example of a model of a customer-centric culture at a small company, see the sidebar "Success at Sixthman.")

Singapore Airlines (SIA) provides a similar level of customer service to the Taj by concentrating on customer needs through exceptional in-flight service. At the time of its founding in 1972, SIA felt that such service was the only element of

competition in which an airline could carve out a distinct identity, and it was a market niche that SIA viewed as especially ripe for exploitation. The company therefore established a rigorous recruiting system for service personnel, requiring three interviews and attendance at a tea party with management, where applicants were observed and judged on their poise, confidence, communication skills, and positive attitude toward work and service. Cabin crews went through a rigorous four-month training program described as a cross between a finishing school and military boot camp. To reinforce the service culture, crew members continued to attend regularly scheduled retraining sessions.

As a result of this strategy, SIA became known for the outstanding quality of its service. Management believed it had "changed the rules of the game so that the other players didn't know how to play the game." To measure and continuously improve its service, SIA relied on various methods to learn what customers thought about the company's performance and where it needed to make improvements. The company not only tracked its compliment/complaint ratio and published a sampling of good and bad comments in its monthly employee newsletter, but it also surveyed 25,000 randomly selected passengers each quarter to complete a questionnaire on 78 key performance indicators. SIA also participated in an industry-wide customer satisfaction and benchmarking process, consistently ranking at the top of nearly every survey. The company later launched an expanded service program to include pre- and post-flight experience, as well as a database to enable flight crews to access profiles of individual premium passengers and cater to their every need.[21] In 2012, SIA was ranked third in customer satisfaction by the World Airline Awards, the world's largest passenger satisfaction survey.[22]

Rather than focus on customer service, Trader Joe's focuses on maximizing the customer experience. Former president Doug Rauch explains why in **Video 2**.

VIDEO 2 Customers, Not Consumers

Scan this QR code, click the icon, or use this link to access the video: bit.ly/hbsp2umVowx

Naturally, establishing a customer-centric culture when starting a new company is relatively straightforward. Unfortunately, while most companies think of themselves as customer centric, over time even the most successful organizations can find themselves creating geographic or product-based silos, where knowledge and expertise become housed within separate units. This makes it difficult to harness resources across internal boundaries to provide products in a way that customers truly value and are willing to pay for.[23] In addition, there have been significant changes in the marketplace as companies become increasingly global in structure, products become more complex, and customers more demanding.

Success at Sixthman

Since 2001, the Atlanta, Georgia–based travel company Sixthman has pioneered the creation of themed cruise experiences for brands, bands, and their fans. Originally a music management company, Sixthman is led by "Chief Experience Officer" Andy Levine, who, when managing the band Sister Hazel, saw an opportunity to blur the lines between fan and musician. Sixthman has since hosted more than 50 full cruise-ship charters with world-class artist and brand partners such as KISS, Kid Rock, Zac Brown Band, Turner Classic Movies, John Mayer, VH1, and Jillian Michaels, and floating festivals that include its flagship cruise, the Rock Boat, along with Cayamo, Rombello, and the Elvis Cruise.

To provide guests with "the vacation of a lifetime," Sixthman's organizational culture is built exclusively on the customer experience and "creating gravity around the fan community." To support this corporate commitment to customer centricity, Levine requires employees to constantly focus on how they can best serve the customer at each touch point. Above all, he wants them to:

Go above and beyond whenever they come in contact with a guest,

Hold the line, providing consistent service that upholds the values of the communities, and

Make it right when any mistakes are made.

Sixthman management and employees strive to ensure guests feel seven emotions throughout their cruise experience:

- *Invited*. The company routinely develops creative videos, direct mail, and e-mail communications to entice returning and new guests to attend an event.
- *Informed*. Pre- and post-booking, the company goes out of its way to keep guests and potential guests informed via e-mail, the event website, and Facebook.
- *Excited*. Approximately 40 to 60 days prior to the departure of a cruise, Sixthman refocuses booked guests on their upcoming vacation, providing additional details about the cruise, special events, and any last-minute additions to the lineup or itinerary.
- *Welcomed*. On most cruises, guests are greeted by either the host band or, in the case of the Rock Boat, they are personally greeted by Levine himself, who "high fives" each guest boarding the ship.
- *Looked after*. While on board, Sixthman staff must uphold the three service mandates (already listed) to ensure guests feel pampered.
- *Amazed*. Sixthman develops each event to create a moment for each guest that he or she will remember forever. These "amaze moments" contribute to the company's 60% customer retention rate.
- *Appreciated*. On the cruise's last day, Sixthman often e-mails guests a compilation "thank you" video from many of the artists for spending time with them on the ship.

In 2011, INC Magazine recognized the company as "America's Fastest Growing Travel Company" and the 87th fastest growing company across all segments on the INC 500 List. Acquired by Norwegian Cruise Lines in 2012, Sixthman continues to operate as a wholly owned, yet independent, subsidiary.

Following each event, the company surveys its guests via e-mail, soliciting feedback on their experience and asking very specific questions about "amaze moments," staff who exceeded expectations, and so on. Sixthman typically achieves a 60% response rate and uses the survey results extensively in its planning; for example, Sixthman creates an infographic highlighting respondents' top four complaints and suggestions. Employees then commit to an internal promise to improve upon those issues the following year; these commitments are sometimes communicated to past guests as well.

In 2011, INC Magazine recognized the company as "America's Fastest Growing Travel Company" and the 87th fastest growing company across all segments on the INC 500 List. Acquired by Norwegian Cruise Lines in 2012, Sixthman continues to operate as a wholly owned, yet independent, subsidiary.

Sources: Sixthman company, http://www.sixthman.net/about/who-we-are/, accessed July 24, 2013; Andy Levine, telephone interview by writer Jennifer LaVin, July 23, 2013; Catherine Happe, "MAC Announces Winners of 2012 Business Person of the Year Awards," Metro Atlanta Chamber, June 7, 2012, http://www.metroatlantachamber.com/news/2012/06/07/mac-announces-winners-of-2012-business-person-of-the-year-awards, accessed July 24, 2013.

Jeff Bezos, founder and CEO of Amazon.com, believes that "the world is getting increasingly transparent—that information perfection is on the rise. If you believe that," he says, "it becomes strategically smart to align yourself with the customer. You think about marketing differently. In the old world, you devoted 30% of your attention to building a great service and 70% of your attention to shouting about it. In the new world, that inverts."[24] Bezos also believes that competitor-focused organizations with high ratings in customer service often make the mistake of decreasing their vigilance because their benchmarks say they are the best. He adds:

> But, if your focus is on customers, you keep improving. . . . I constantly talk about things like information perfection and customer obsession. We also do a bunch of things to keep [employees] directly in touch with customer needs. Every new employee, no matter how senior or junior, has to go spend time in our fulfillment centers within the first year of employment. Every two years, they do two days of customer service. Everyone has to be able to work in a call center.[25]

Amazon's corporate mission aligns with Bezos's words: "We seek to be Earth's most customer-centric company for four primary customer sets: consumers, sellers, enterprises, and content creators."[26]

So how can established companies emulate companies like the Taj Mumbai, Singapore Airlines, and Amazon.com? Through his research, Ranjay Gulati has found that successful companies tend to engage in four sets of activities to

achieve a truly customer-centric culture: coordination, cooperation, capability, and connection.

Coordination entails establishing structural mechanisms and processes that allow employees to improve their focus on the customer by harmonizing information and activities across units. In doing so, individual businesses or functional units are forced to share information, and companies begin to see a shift in mind-set. Employees in one business unit learn to recognize that "their" customers are shared assets, valuable to other units as well. This limited amount of coordination lays the groundwork for much higher levels of coordination to come.

Cooperation means encouraging people in all parts of the company—through cultural means, incentives, and the allocation of power—to work together in the interest of customer needs. Customer-centric companies use both substance and symbolism to foster a culture of customer-focused cooperation, developing metrics that measure customer satisfaction and rewards for customer-focused behavior. Most also shake up the power structure so that people who are closest to the customers have the authority to act on their behalf.

Capability means ensuring that enough people in the organization have the skills to deliver customer-focused solutions, as well as defining a clear career path for employees with those skills. Organizations that succeed in delivering solutions invest significant time and resources in developing generalists with skills across more than one product or service and who have a deep knowledge of customer needs and possess an ability to traverse internal boundaries.

Finally, *connection* involves developing relationships with external partners to make increasing the value of solutions more cost effective. By redefining boundaries, not only can organizations cut costs by outsourcing all but core activities, but they can also create higher-value solutions by combining offerings with those of complementary partners.[27]

Electronics company Hewlett-Packard (HP) successfully executed these types of activities, making it a good example of a company that reinvented itself by creating a more customer-centric culture in the early 2000s. In 1999, HP had failed to meet financial targets and experienced several quarters of sluggish growth. As a result, the board of directors brought in a new CEO and tasked her with a mandate to make the company more relevant and market-savvy. Following its 2002 merger with Compaq, the company embarked on a new path focusing on customer orientation. Previously, HP considered itself a "company of engineers . . . that sold to engineers," and had succeeded by developing high-quality products under the assumption that "if you build it, they will come." By 2004, HP was implementing a new, long-term initiative that involved not only

remaking the marketing department but also transforming all processes and thinking across the company. A key component of this transition, HP's Total Customer Experience and Quality program, implemented changes in the following areas: employee training, listening to the customer, metrics, and rewards.

First, HP mandated "Putting Customers First" training for employees and managers, instructing them to listen to customers at every stage of the life cycle. They also learned how to integrate customer experience with HP values and strategy, developed action plans for their particular business group to improve customer experience, and set team-based goals.

Second, the organization implemented a number of measures to gain feedback from customers that included traditional methods such as competitive intelligence, focus groups, and surveys, as well as a new system called "Voice of the Customer," which is a web-based database that allows employees to log in customer concerns and compliments. HP also developed a quarterly complaint management report for senior leaders; a "Carly Hotline" that enabled customers to contact HP's CEO (at that time, Carly Fiorina) directly with comments and concerns; Customer Councils, during which customers were brought in to share their experiences directly with senior HP executives; and innovative opportunities for customers to collaborate directly with HP in designing new products and solutions.

Third, HP directly measured customer experience from end to end by life-cycle phase and event/transaction. In addition, the company regularly tracked several indirect measures of customer loyalty, including customer satisfaction, intent to repurchase, and intent to recommend. From these, the company compiled a Net Customer Loyalty Index (CLI) from which it was able to quantify the links between loyalty and financial performance. In fact, one executive noted that a one-point increase in CLI resulted in a 1.2% increase in gross margin and a 1.7% increase in market share.

Finally, for managers, performance on the CLI helped determine rewards such as annual bonuses. On a companywide scale, HP created eAwards, rewarding instances of superior customer service by allowing employees to accumulate points that they could redeem for gifts or cash. Employees used the system to publicly acknowledge the performance of other employees in providing superior customer experience.

As a result of these efforts, in 2004 HP was ranked first in customer satisfaction for Intel servers and IT services in studies compiled by Technology Business Research, ahead of both Dell and IBM. In addition, the company was ranked first by *Computerworld* in customer satisfaction, and also won an award

for best online support. HP ranked seventh on *Fortune*'s 2004 list of most admired companies.[28] As of March 2013, HP continued to be recognized for its customer service, sharing the top spot with Apple in a broad survey of U.S. consumers assessing functionality, accessibility, and the emotional reaction to the use of their products.[29]

2.3 Serving the Customer

Customers traditionally made decisions on whether to buy a product or service based on some combination of perceived quality and price. Companies, for their part, attempted to make a profit by maximizing volume sales and reducing marginal costs per unit. That conventional strategy, however, has proved problematic because a company's cost advantages can be realized only to a point before quality is sacrificed. Even customer loyalty, research indicates, produces only short-term gains when companies rely on the old conventional strategy.

That is why a focus on serving the customer has become so important. As Jeff Bezos of Amazon.com put it, "We don't make money when we sell things; we make money when we help customers make purchase decisions."[30] To do that, companies need to develop a value proposition and competitive positioning based on customer needs.

2.3.1 Developing a Customer-Centric Strategy

Writing in the *MIT Sloan Management Review*, Sandra Vandermerwe argued that "enterprises that understand and embody the vital components of customer focus can move ahead in a way that makes it difficult for others to catch up." She added that a company improves its revenues not by selling more products or services but rather by increasing how much money customers spend with the company.[31] Companies embracing a true customer-focus strategy may end up selling fewer items, Vandermerwe wrote, but in the long run they can expect to strengthen revenues and decrease costs by increasing the longevity, depth, breadth, and diversity of spending from loyal customers.

Customer loyalty and retention, in fact, appear to be major factors consistently contributing to corporate profitability and growth. In studies conducted at Bain & Company, Frederick Reichheld observed this effect across dozens of industries, determining that customer loyalty is inextricably linked to employee and investor loyalty and that companies can use loyalty to shine a new light on their value-creation process and reexamine and improve the fundamentals of their core strategies. He observed that "few businesspeople think of customers as annuities. . . . When managers begin to understand the long-term economic consequences of loyalty, they will begin managing their

businesses with the goal of zero defections."[32] (See the sidebar "What Is a Customer Worth?" for a discussion of one quantitative methodology for measuring the value of customers.)

Of course, companies do not operate in a vacuum, and being completely focused on the customer without regard for competition can create problems. Thomas Jones and W. Earl Sasser, Jr., have studied customer defection and uncovered several interesting and common assumptions. The first is that it is sufficient to merely satisfy a customer as long as the customer has rated the company a four or higher (on a five-point scale) and there is a strong company/customer relationship. The second is that the investment required to change customers from satisfied to completely satisfied will not provide an attractive financial return and therefore is probably not a wise use of resources. Jones and Sasser's research into dozens of manufacturing and service companies shows that these assumptions are deeply flawed.

In fact, they found that, except in a few rare instances, complete customer satisfaction is the key to securing customer loyalty and generating superior, long-term financial performance. They admit that most managers probably realize that the more competitive a market, the more important the level of customer satisfaction. However, they believe most managers don't realize just how important the level of customer satisfaction is in markets where competition is intense, such as hard and soft durables, business equipment, financial services, and retailing. In these markets, there is a tremendous difference between the loyalty of *merely* satisfied and *completely* satisfied customers. Whether in highly competitive markets (e.g., cars), virtual monopolies (e.g., cable companies), or industries with strong loyalty-promotion programs (e.g., airlines), customers will stray the instant they are no longer completely satisfied and they have an alternate choice. Jones and Sasser argue, therefore, that completely satisfying customers should be an integral part of any corporate strategy.[33]

As previously discussed, companies should strive to clearly define their customers, measure customer satisfaction systematically using a variety of measurement methods, and translate customer-satisfaction information into loyalty measurements, differentiating true loyalty (based on delivery of superior value) from false loyalty (often a result of loyalty-promotions, high switching costs, or proprietary technology). Above all, companies should provide top-notch support services and a highly responsive recovery process when something goes wrong.

What Is a Customer Worth?

Conceptually, the value of a firm's customer base is the sum of the lifetime values of its current and future customers. Sunil Gupta, Donald Lehmann, and Jennifer Ames Stuart have constructed quantitative models to calculate the customer lifetime value (CLV) for each customer. In its simplest terms, the CLV is the present value of the future income stream from a customer, where the customer generates a margin m_t for each period t. The formula uses a discount rate of i and assumes a retention rate of 100%:

$$\mathrm{CLV}_{r=100\%} = \sum_t \frac{m_t}{(1+i)^t}$$

Taking into account customer retention rate (r_t is the probability of retaining a customer until period t), the formula can be modified as follows:

$$\mathrm{CLV} = \sum_t \frac{m_t r_t}{(1+i)^t}$$

In a detailed study of five firms, Gupta et al. attempted to show that calculating customer value is not only important for tactical decisions, but can also provide a useful metric to assess the overall value of a firm. They argued that customers are important intangible assets of a firm, and their value should be measured and managed like any other asset. In the study, they found that an improvement of 1 percentage point in customer retention, margin, or acquisition cost improves firm value by 5%, 1%, and 0.1%, respectively. They also found that a 1% point improvement in retention had almost five times greater impact on firm value than a 1% point change in discount rate or **cost of capital.**

They concluded that "it is perhaps more important not only for marketing managers but also for senior managers and financial analysts to pay close attention to a firm's customer retention rate," and that "customer retention is one of the most critical variables that affect companies' lifetime profits."

Source: Reproduced with permission of the American Marketing Association from "Valuing Customers," by Sunil Gupta, Donald R. Lehmann, and Jennifer Ames Stuart, *Journal of Marketing Research* 41 (February 2004); permission conveyed by Copyright Clearance Center, Inc.

2.3.2 Customer-Centric Marketing Tactics

As we saw with the Frito-Lay example, whether or not a product succeeds has become a matter that is less about the product's actual attributes and capabilities and more about what it represents to customers and how it builds or maintains their self-image or personal identity. This is particularly true in lifestyle categories such as food, clothing, alcohol, and automobiles. So, while many of the traditional approaches to brand management still apply, marketers who fail to incorporate the new market dynamics of customer centricity into strategic planning and across the entire **marketing mix** can fatally damage a product or service.

Consider General Motors' Oldsmobile brand. As Olds buyers aged, GM created ad campaigns ("It's not your father's Oldsmobile," for example) intended to lure younger buyers to the existing brand, instead of focusing young buyers' attention on a different GM car or launching a new brand geared to their tastes. Despite GM's costly efforts to refurbish the brand, market share crashed in the late 1990s, forcing GM to discontinue the brand completely in April 2004.

Brands come and go, but customers remain. While managers appear to buy into the concept of long-term customer focus, most have not bought into its logical implications. Brand management still commands much more attention from management than does customer management in most large companies, and, as previously discussed, that focus has become increasingly incompatible with growth.

When companies begin to focus on growing a customer base and not necessarily a brand, corporate thinking begins to shift as well. Honda's development and marketing of the Acura Legend in the United States serves as a good example. Although the same car was introduced in most other countries, including Japan, as the Honda Legend, the company had good reason to think it would not succeed using that name in the United States. In the 1980s, American buyers, much more than their counterparts elsewhere, associated the Honda brand with economy cars; they expected and trusted the company to provide inexpensive, dependable cars. Rather than work to change that image (which served the company well with its other models), management decided to launch a new brand. "Acura" had no positive equity established with upscale buyers, but neither did it have baggage to overcome.

Honda's successful branding and positioning strategy stands in direct contrast to Volkswagen's more recent disappointment with the Phaeton in the U.S. market (see **Exhibit 3**). Volkswagen is one of the world's most recognizable brands and has excellent brand equity among buyers of low- to medium-priced cars. The Phaeton, however, is a high-priced luxury car, positioned to compete with such icons as BMW and Mercedes. To Volkswagen, the car is simply an extension of the engineering prowess Volkswagen already prided itself on and it believed the objective attributes of the Phaeton (fit and finish, comfort, and power) to be competitive with those of other luxury brands. Unfortunately, a company brand is ultimately defined by its customers and Volkswagen has virtually no brand equity among luxury buyers in the United States.[34] As a result, in December 2005, after just two years on the market, Volkswagen announced the withdrawal of the Phaeton from the U.S. market, having sold just 3,715 of the cars since November 2003.[35]

EXHIBIT 3 The 2004 Volkswagen Phaeton

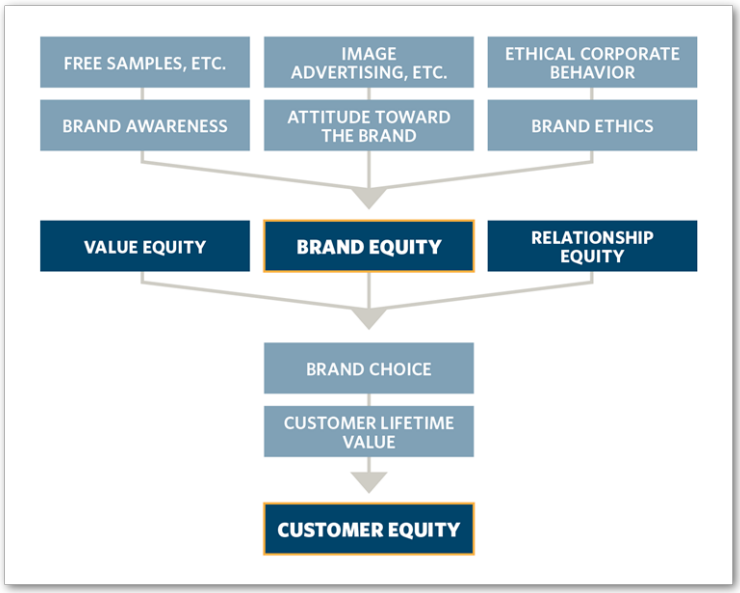
Source: © Transtock/Corbis

Although the two concepts often move in concert, acting in the best interests of **brand equity** isn't necessarily the same as acting in the best interests of customer equity. In their work with leading companies in crafting customer-centric branding strategies, Roland Rust, Valarie Zeithaml, and Katherine Lemon suggest seven directives that often go against the grain of common practice:

- *Make brand decisions subservient to decisions about customer relationships*. Brand management becomes a team-oriented task by organizing around customers or customer segments, creating or strengthening the role of the customer segment manager, and allocating resources to that function rather than to traditional brand managers.
- *Build brands around customer segments, not the other way around.* At Liz Claiborne, each of its customer segments has its own named brand and personality; the lines are so well differentiated by brand, fit, and style that few customers know they are made by the same company.
- *Make brands as narrow as possible.* If the customer is central, then the purpose of a brand should be to satisfy as small a customer segment as is economically possible. The key, of course, is identifying the point at which creating a narrower, clearer brand yields customer benefits insufficient to pay back the company's cost of supporting it.
- *Plan brand extensions based on customer needs, not component similarities*. Many companies are guilty of brand overextension, evaluating extensions according to how similar the new product is to the old one, rather than judging whether the two products' customers are similar. Volkswagen made this mistake with the Phaeton and IBM made this mistake with the PC, when IBM assumed that business customers of its mainframe computers were similar to individual retail customers. On the other hand, Virgin has expanded into a wide variety of unrelated products that attract a specific customer segment united by offerings in value pricing, high quality, and a fun, hip image.

- *Develop the capability and the mind-set to hand off customers to other brands in the company.* There is no sense in spending disproportionately to hold on to a brand's customer relationship if the customer is a more natural fit with another brand in the company's portfolio. Brand managers need to know their customers well enough to tell when it's time to hand off customers to another brand.
- *Take no heroic measures.* Sometimes a brand becomes very unattractive to a customer segment, as GM finally accepted with Oldsmobile and as Nabisco acknowledged when it phased out its Mr. Salty brand following increased public concern about the ill effects of too much sodium. While brands should never be scrapped frivolously, companies should retain only those that have avid customers, not just sentimental owners or overly aggressive brand managers.
- *Change how you measure brand equity.* Rust et al. have developed a model for calculating customer equity that takes into consideration *value equity*, or the objectively considered quality, price, and convenience of an offering; *brand equity*, or the customer's subjective assessment of a branded offering's worth above and beyond its objectively perceived value; and *relationship equity*, or the switching costs. Once the extent to which brand equity affects customers' buying decisions has been determined, the model involves an analysis of the drivers of brand equity (see **Exhibit 4**). Finding the relative weight of these drivers ultimately allows the determination of how much customer equity will increase as a result of a given improvement in any one of the drivers of brand equity, providing management with a tool: financial accountability for marketing decisions, both before and after an investment is made, by determination of **return on investment (ROI).**

EXHIBIT 4 Customer Equity Model



Source: Reprinted from "Customer-Centered Brand Management" by Roland T. Rust, Valarie A. Zeithaml, and Katherine N. Lemon, *Harvard Business Review*, September 2004. Copyright © 2004 by the Harvard Business School Publishing Corporation; all rights reserved.

In conjunction with the internal, customer-centric corporate initiatives discussed earlier, HP embarked on an external, customer-centric mission as well. Following the 2002 merger with Compaq, HP had a hundred discrete brands. As a result, HP's unifying characteristics, value proposition, and brand identity remained unclear to customers. To remedy this, the company launched "Operation One Voice," a sustained effort to optimize marketing and to develop the brand as a strategic and financial asset. HP created branding teams that were sent across the company to renegotiate prices and to establish metrics of success such as customer loyalty, brand awareness, and changes in market share. It reexamined its total advertising mix and diverted funds away from traditional television advertising, toward the Internet. The company consolidated its ad spending with a lead agency, eliminating 600 vendors and saving more than $100 million annually from an ad budget of approximately $1 billion.

Under the themes of "HP delivers more" and "+ hp = everything is possible," messaging was refined across HP's three primary customer segments, as follows:

- *Enterprise:* "Demand more"; "HP delivers more of what enterprise customers demand—more accountability, more agility, and a better return on IT."
- *Small Business:* "Get more"; "HP allows business owners to get more by delivering—more reliability, more service and support, more local expertise—all at a competitive price."
- *Consumer:* "Enjoy more"; "HP allows you to enjoy more of life by delivering simple and rewarding technology experiences that are uniquely innovative, intuitive, and empowering."

Within just a few years, this customer-focused messaging demonstrated concrete results. Customer surveys showed movement in the attributes associated with HP's brand, with meaningful improvements in "adaptable," "straightforward," "trustworthy," and "human." HP's brand value increased by 18% between 2002 and 2003, compared to Dell's brand value, which improved by only 12%.[36]

Similarly, as Erich Joachimsthaler described, Frito-Lay applied its lessons from its newly minted demand landscape and implemented marketing tactics that reflected this new demand opportunity; it focused on the moments in everyday life when consumers take the time to think about what really matters, and not simply the occasion of food consumption at lunch or dinner. Lay's positioning shifted away from an emphasis on product quality—as in the "best" potato chip made in the United States, irresistibility, and the feature set—and focused more on how the all-American, classic Lay's brand and its inherent qualities of goodness, wholesomeness, authenticity, and the values of the home intersected in those moments that matter to consumers.

In order to drive activation, Frito-Lay clearly defined the Lay's moment—a typical moment in customers' everyday lives—as the "smile break" and applied this theme across the entire marketing mix. From this, Lay's launched the smile break moments theme to re-create the brand across media (from TV, print, radio, and the Internet to sports and special events), across channels of distribution, across trademarks (Lay's Classic, Lay's Stax, Baked Lay's, or Lay's Kettle Cooked), across visibility platforms (sandwich, retail events, smile promotion, and holidays like the Fourth of July), across customer demographics, and across multiple-customer touch points (on packaging, in stores, on the Web, and at merchandising destinations). For Frito-Lay, the smile break replaced the existing marketing efforts with a behavioral proposal to, in effect, sit up and smell and taste the chips, savoring the special and magical moments in your life. As a result, and in addition to the financial successes discussed earlier, brand equity for Lay's increased across all segments; within just a few years of thinking differently about customers, Frito-Lay had fundamentally altered its strategy to stress the enhancement of consumption moments over simple maximization of volume sales.[37]

2.4 Conclusion

In this reading we have seen how thoughtfully gathered market intelligence can lead organizations to take concrete actions toward customer centricity. These actions include, for example, targeting select market segments, designing new products and programs, and modifying existing ones to meet customer needs. As we've seen, it is important that customer centricity not just be the exclusive responsibility of marketing departments, but rather be an organization-wide mode of operation. In implementing a customer-centric strategy, management should first assess the extent to which that strategy is important for the organization; naturally, the impetus for change must come from strong leadership that should demonstrate commitment to customer focus through both words and action.[38] Only then can organizations fully benefit from the value of an integrated customer-centric corporate strategy.

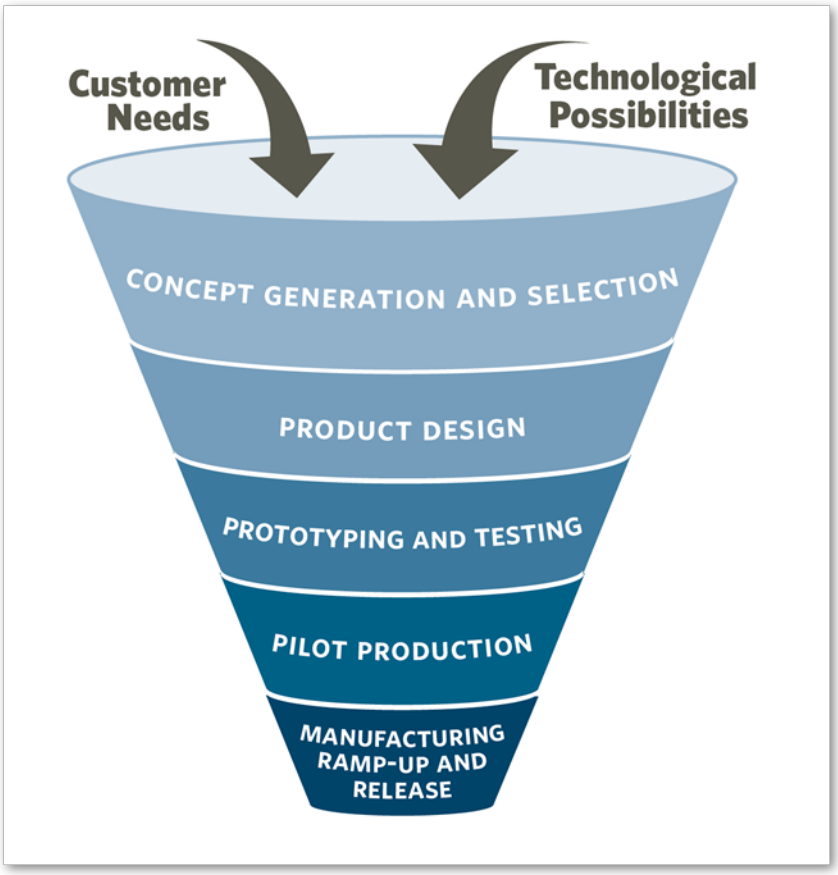
In the Supplemental Readings that follow, we will examine how organizations can take customer centricity one step further, using market-driving strategies to cultivate ground-breaking innovation. A contrarian view to customer centricity is also presented.

3 SUPPLEMENTAL READING

3.1 Customer Centricity and Innovation

Traditionally, the process for developing new products was viewed as a sequence of phases from idea generation through product commercialization. In that model, brainstorming for new product ideas comes from many sources, such as customer complaints about existing products, improvements on competitors' technology, or internal R&D laboratories. **Exhibit 5** illustrates what is called an "Innovation Funnel"—one representation of the process by which ideas are turned into products.

EXHIBIT 5 The Innovation Funnel



Source: Adapted from Marco Iansiti, Thomas J. Kosnik, and Ellen Stein, "Innovation: A Customer-Driven Approach," 695-016, Boston, MA: Harvard Business School, 1994. Copyright © 1994 by the President and Fellows of Harvard College. Reprinted by permission.

But that model doesn't explain the success of new products and innovative services that some organizations have fostered in the last few decades. For example: How was Dell Computer able to launch out of nowhere and outmaneuver Compaq and other leaders in the personal computer industry? Why did Home Depot dominate the do-it-yourself (DIY) segment during its early growth phase? And how did Palm create an entirely new segment with its first PDA (personal digital assistant)? All of these companies took three crucial actions:

- They redefined value for customers in their respective markets.
- They built powerful, cohesive business systems that could deliver more of that value than competitors.
- They raised customers' expectations beyond the competition's reach.

When creating their ground-breaking products and concepts, these companies employed what are referred to as *market-driving* strategies. Such strategies cannot rely on traditional new-product development because the ideas are considered breakthroughs that require educating customers on how or where to buy the product and helping customers to feel competent using it. The role of companies here is to *create* customers in order to build an entirely new product category rather than simply to satisfy current customers.

But market-driving successes like Home Depot, Palm, and Dell are uncommon. Most companies focus on maintaining a continuous stream of state-of-the-art products or services in established categories, or they use a *market-driven* strategy to satisfy customers' unmet needs. Companies employing this strategy challenge themselves to maintain product leadership, relentlessly pursuing new solutions to the problems that their own latest product or service has just solved. If anyone is going to render their technology obsolete, these companies want to do it themselves. Such market-driven companies need to be continuously creative above all else, which often means embracing ideas originating *outside* the company—frequently from customers. "Not invented here" cannot enter their vocabulary or mindset. In fact, by focusing on customers, they can discover not only glaring errors in customer service, but also efficiencies that reduce costs and even generate new opportunities for a company.[39,40]

Consider the Danish toy company Lego. In the 1990s, Lego was facing increasingly challenging market conditions because children were spending more of their leisure time with computers, video games, and television than with traditional toys. So, while Lego had been gaining market share in its category, toys in general had been losing their share of children's time. Lego management then began making a concerted effort to focus on improving its relationship with its customers. One initiative, Mindstorms, created a team of engineers and

software developers from both Lego and the Massachusetts Institute of Technology (MIT). Through the program, Lego created programmable bricks equipped with sensors that allowed customers to create moveable Lego designs and robots. Within weeks of launch, more than a thousand users had hacked into the software that came with the Lego sets to make modifications and create new uses, many of which were improvements on the original product. While initially wary of the hacking, management eventually embraced the input and opened up its software for legal modification, boosting sales with adult users, a previously untapped market segment that now accounts for more than a third of Lego's revenue. [41]

Since that time, Lego has continued to improve its customer focus. In fact, it consistently studies customer behavior and recently launched a successful line of girl-focused products, following behavioral research that pinpointed certain gender differences. (Boys tend to build things in a linear fashion, whereas girls create their own environments and develop personal stories to accompany their structures.) Once near bankruptcy, Lego now occupies a market space at the convergence of toys, education, interactive technology, software, computers, consumer electronics, and games.[42,43]

Of course, companies can also succeed using a hybrid approach; Japan's Kikkoman is a good example of a company that used a combination of market-driven and market-driving strategies. In 1950, the company began noticing an increase in demand for its soy sauce in the U.S. market. It turned out that many returning military veterans, U.S. government civilian advisors, and businessmen who had worked in Japan after World War II had acquired a taste for Japanese food, particularly soy sauce. Because overall demand was light, given the general population's lack of familiarity with Japanese food, Kikkoman went about creating demand, and found that the best way to reach American consumers was through direct personal contact. It hired home economists to create recipes incorporating soy sauce into the mainstream American diet, from casseroles to party dips, and ran print ads with recipe suggestions. The classic dispenser bottle introduced in 1961 was created to fill the needs of consumers and restaurants in the United States; Kikkoman traditionally sold soy sauce in half-gallon cans in Asian markets.

About the same time, Kikkoman observed that the American diet greatly emphasized the consumption of meat, which was typically much more expensive in Japan and therefore not consumed as much there. In response, Kikkoman developed and introduced a teriyaki sauce specifically for the U.S. market that became an immediate success. In fact, many consumers first discovered the taste of soy sauce from teriyaki—and then went on to become regular soy sauce users.[44]

3.2 Retro-Marketing: The Opposite of Customer Centricity

Stephen Brown writes that marketing managers have "fallen for their own line. They actually believe that if you love the customer enough, the customer will love you back." He believes that is "complete nonsense," and shudders even "to write the term 'customer centricity.' "[45] Brown argues that customers neither know what they want, nor do they know what they *don't* want, as the success of countless rejected-by-focus-groups products, from the Chrysler minivan to the Sony Walkman, readily attests. Instead, he proposes the concept of retro-marketing, that is, using tactics from the days when marketers "ruled the world" with "creativity and style," believing that marketers get more by playing hard to get. His examples include:

- *Exclusivity:* Hold back supply and delay customers' gratification to avoid excess inventory and make buyers feel lucky. By coupling capricious production runs with ruthless "retirements," Ty Warner fanned desire for soft-toy Beanie Babies. Priced at just $5 to $6 each, retired Beanies have fetched more than $3,000 at auction and triggered fistfights among frenzied customers.
- *Selective Secrecy:* Get customers asking, "What could it be?" and "Why all the hush hush?" as Scholastic did when it withheld the title, price, plot, review copies, and author interviews before launching the fourth *Harry Potter* book.
- *Amplification:* Never keep the existence of a secret concealed, and generate buzz wherever possible, as inventor Dean Kamen did prior to the release of "IT," also code named "Project Ginger," which turned out to be the Segway personal, two-wheeled vehicle. Initially it did not generate the instant, hoped-for success in the consumer market, but at the time was considered "so revolutionary that entire cities will be retrofitted to accommodate it."
- *Entertainment:* A sense of fun powers the best retro-marketing; make pitches engaging, amusing, or flirtatious, as the promoters of Spielberg's movie *A.I.* did prior to its release, designing a campaign that inserted a fake name into the trailer credits, encouraging fans to scour the Internet for clues about the movie, and successfully creating buzz prior to the premiere.

Naturally, Brown recognizes that retro-marketing is not appropriate on every occasion, nor is it applicable to every product, service, or market segment. But, he argues, people don't want the whole truth and they want to dislike marketers, preferring old-fashioned, lovable, "rogue" marketing to the "neutered, defanged, Disneyfied version that's peddled today."[46]

4 KEY TERMS

brand equity The set of assets linked to a brand's name that adds to or subtracts from the value of that product or service. Assets can include brand awareness, perceived quality, brand associations, brand loyalty, and intellectual property.

cost of capital The cost of funds used to finance a business, typically the cost of equity or the cost of debt (interest rate).

customer relationship management (CRM) A model for managing a company's interactions with its current and future customers; the use of technology to organize, automate, and synchronize sales, marketing, customer service, and technical support.

marketing mix The components of an effective marketing strategy, typically involving product, price, placement, and promotion (the 4 Ps). The term was first coined by Neil Borden, the president of the American Marketing Association, in 1953.

return on investment (ROI) A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of investments; typically expressed as a percentage or ratio, ROI is calculated as the profit (gain from investment minus cost of investment) divided by the cost of investment.

touch point Any point of contact between a buyer and a seller.

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