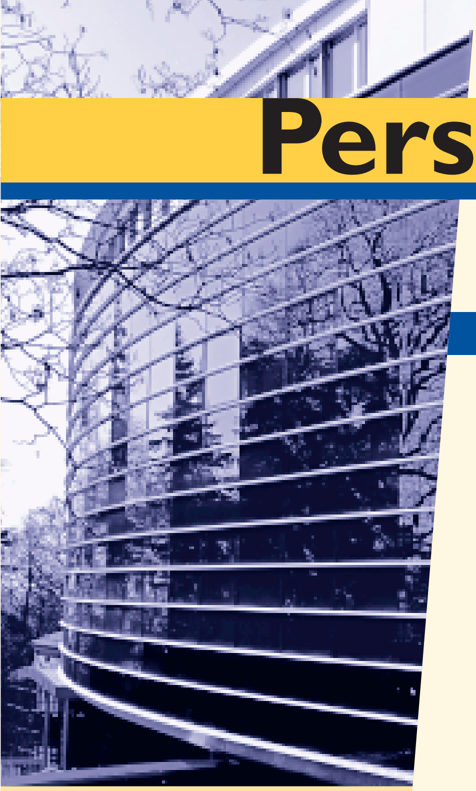

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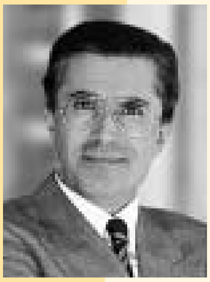
Break With the Past: Get Intimate With Your Customers



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A good crisis can be a blessing in disguise: it focuses the mind.

When the old strategy is failing to attract and retain the deep-pocket industrial buyers it once did, when the products are no longer differentiated, when the competition is pressing down on prices and margins, and when the bottom line is turning from pink to red – in other words, when everything seems to be heading in the wrong direction – it's time to break with the past. It's time to rethink the old and tired customer value proposition, the one that pays no dividends any longer.

Breaking with the past could well mean finding another angle to attract and keep customers. That implies refocusing the enterprise in ways that align the internal priorities with those of the industrial customers it aims to serve. It means getting intimate with customers.

ABB has broken with its past. Following its recent severe financial crisis, the company has decided to come to terms with legacies of its past including a fragmented organization that prevented any coherent group-wide customer strategy. To attract and retain its prized accounts, ABB management has concluded that it must adopt a "customer centric" strategy, one that refocuses the company on serving the broad interests of its global customers with a coherent value offer. The company is realigning its internal processes to do just that. Having listened closely to what these customers demand, the top management is driving major changes inside their organization to deliver a superior value offer – including tailored products and services, reduced waste, better delivery, supply chain alignment, etc. ABB's new customer-intimate offer promises more overall value for the customers at a lower total cost. For ABB, it means growth in the volume of business with its major accounts, improved margins, and greater customer retention. Because both parties benefit, the management is betting ABB's turnaround on its customer centric strategy.

Similarly at IBM, the huge losses of the early 1990's were clear signs that the old hardware-centered strategy was no longer valid in a changing market for computing. The new management had to break with the company's past; a new customer-centered spirit had to be injected into the organization. The *"Operation Bear Hug"* was one powerful tool used to prepare the top echelons for a strategy that was to be far more aligned with the company's customers and their priorities. Accordingly, each of the company's top 50 executives was made to visit a minimum of 5 clients to figure out what issues they faced in their businesses and how IBM could help solve them. These visits were not meant to sell more hardware; instead they were meant to set the company on a different strategic trajectory. The old IBM attitude of *"do it my way"* was to be replaced by *"do it the customer way"*. The company's successful turnaround is directly attributable to the painful, but necessary break with its past and the growth of its increasingly customer-focused solutions business.

As these examples show, intimacy is not a new-age sales pitch; it's a different way of

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doing business. And it requires major changes in what a company does. When SKF, the world's largest supplier of roller bearings, decided to better align itself with the company's customers in the replacement market, the management undertook a major overhaul of its structure, management processes and product offerings. It launched an ambitious strategy to make SKF a *"Trouble Free Operation"* company, a mission that went beyond selling good products. The new customer value proposition was about enhancing plant and repair shop productivity, not about bearings. It meant an expanded portfolio of value-added products and services. It was a clean break with SKF's past.

In tough markets characterized by eroded product differentiation and concentration of business among a few but large customers – a typical picture in many industrial sectors – failing to get intimate with key customers can lead to serious consequences: declining prices and margins, inferior returns on investment, and the risk of falling into a "commodity trap" where the pressure on profitability leads to reduced investment in new value-added products and services which in turn leads to further loss of differentiation and even greater pressure on prices and margins. More than a few companies have fallen victim to this vicious cycle.

"Customer intimacy is about mobilizing the many internal processes of the company to serve the business interests of the customer."

To avoid the commodity trap, a growing number of industrial companies are redirecting their strategy and business system for a better alignment with their customers and their business priorities. They are investing in customer-inspired changes across a wide array of activities inside their organizations. But not all such well intended efforts have succeeded. They have succumbed to problems, some of them legacies of a successful past. Consider the following short list of hurdles.

Products: A company's focus on its successful products can obscure changes in customer needs. Ironically, a track record of winning product breakthroughs, or innovative technologies, often gets in the way of serving customers who have since moved on. IBM's decades-long success with its System/360 mainframe platform, a breakthrough for its time, proved a major barrier in lifting the company out of its near-disaster situation in late 1980's. For Tetra Pak, the world's largest carton packaging company, its long success with Tetra Brik Aseptic (TBA), a runaway winner in liquid food packaging, obscured the growing customer and consumer preferences for differentiated shapes and openings, sizes and types of packaging including plastic containers.

Organization: A structure that represents the management priorities of an earlier era can stand in the way of intimacy with customers. When M-real Corporation, a medium-sized European paper and board company, revised its business strategy towards "customer focus and innovative service solutions that enhance customer competitiveness", it soon discovered a major hurdle in its mill-based structure, a relic of a past when mill productivity was the main management preoccupation. To put the organization on the same footing as its customer-focused strategy M-real has experimented with other structures more closely representing the interests of its major end-user segments: carton packaging, graphic arts, and offices. The new structure promises an unobstructed view of the key customers M-real intends to get close to.

Discord: Customer intimacy is about mobilizing the many internal processes of the company to serve the business interests of the customer. That means streamlining the front- and back-end of the organization including product development, supply chain, logistics, service operations, and marketing and sales activities. A divergence of priorities between the customer facing front-end and the rest of the organization can only lead to unfulfilled promises. Precisely to avoid such discord, M-real's recent reorganization has aimed to give end-user units a voice equal to that of the traditionally powerful mills, and thereby to closely align the supply chain with frontline priorities.

Wrong Targets: As customer intimacy often requires buyer-seller alignment, it cannot deliver on its promises if the management in the buying organization fails to see the benefits. This happens when the narrow view from the purchasing office prevails in the upper echelons of the organization. As such, the buyer prefers a less intimate arms-length exchange that extracts the best deal at every occasion, and permits switching among suppliers at short notice. For example, when the top management of a Swiss-based engineering company approached one of its large chemical accounts and made a pitch on the rewards of a closer relationship, it put forward the total volume of business done by the customer's independent subsidiaries around the world to show how a centrally coordinated global sourcing could lead to tangible benefits – like less duplication, more reliable delivery, and lower total administration cost. It was the right message to send. But the customer's conclusion from the presentation was different. Once made aware of the significant size of its consolidated orders, the HQ management quickly demanded a general price cut on total future purchases even before coordinated sourcing could be discussed. This was not the sort of shared gains the seller had in mind. Clearly the chemical customer's agenda was different from the supplier's. It was a wrong target for intimacy.

Getting There

A study of success stories in becoming customer-intimate identifies a number of imperatives for management action that are highlighted below:

Grasp the Moment: A break with the past is never easy, but it's a lot easier when standing on a burning platform. In many customer-focused turnarounds, the management began the journey facing an impending crisis, one that forced the organization to search for novel ways of serving its customers. IBM's combined $13 billion loss in 1992-93, the largest in its long history, was a compelling signal that a clean break from its insular ways was overdue. The new management exploited this organization-wide realization to push through a new vision that tied the success of the company to ways of making customers successful in their businesses. But managers need not wait until the entire house is on fire before raising the alarm. Anticipating a future crisis, they are well advised to grasp the opportunity that comes with increments of bad news to raise the sense of urgency and to prod and prepare their organization for the unavoidable change.

Organize Around Segments: The right structure can be an immense help in implementing a customer-intimate strategy. At IBM, to facilitate the acquisition of sector knowledge needed for its newly adopted solutions strategy, the management re-drew the organization chart thereby creating 12 divisions, each looking after an end-user cluster (banking; government; insurance; distribution; etc.). The new structure replaced a product-based organization that was no longer relevant or even comprehensible to its customers. The power of organizing around customer segments lies in assembling under one roof the often internally scattered customer expertise, and in crafting strategies that exploit deep insights into each segment's business.

"A break with the past is never easy, but it's a lot easier when standing on a burning platform."

Choose Your Customers: Getting intimate with customers is a selective process: not all potential accounts deserve or qualify for it. Put differently, the high cost to align and serve the chosen accounts must be more than compensated by the additional profit streams directly attributed to such undertaking. That criterion alone suggests that the current volumes of business are probably less important in targeting customers than their future profitability. Other factors to consider include a fit between the company's strategic ambitions and those of the customer, a readiness to invest in joint programs for shared benefits, and more than a minimum level of mutual trust between the two management teams.

"Getting intimate with customers is a selective process: not all potential accounts deserve or qualify for it."

Follow Through: If a single variable could explain the difference between success and failure in customer intimacy, that variable would be the qualities of top management's leadership in follow through. It's the top management that defines the logic and sets the agenda for a customer-focused strategy. It's also those at the helm who have to shape and steer the organization in the unchartered waters as gaps between ambitions and reality become evermore apparent. In deciding to refocus the strategic

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agenda, they have embarked on a major change program that would continue to require their active involvement with the entire process over a good stretch of time.

At SKF, the success of *"Trouble Free Operation"* was to a large degree due to the enthusiastic involvement of top managers, including the division President, with the strategy's implementation. The President saw it as his job to internally sell the logic behind the strategy and win over the skeptics. In addition to personal appearances at every meeting, he used video and brochures to promote the benefits of a more customer intimate SKF[1].

Follow through, as a top management task, implies keeping the internal change process on track, and energizing it with frequent interventions, to overcome the inevitable internal hurdles or to communicate encouraging news about early wins. It also implies occasional top-level interventions with important customers to promote the concept of alignment before sending in the relationship management team. These are precisely the tasks that cannot be delegated down the organization. They belong to where the whole alignment process must start, at the very top.

1 For information about the launch of "Trouble Free Operation", see IMD case studies M383 and M384 prepared by Sandra Vandermerwe and Marika Taishoff.

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