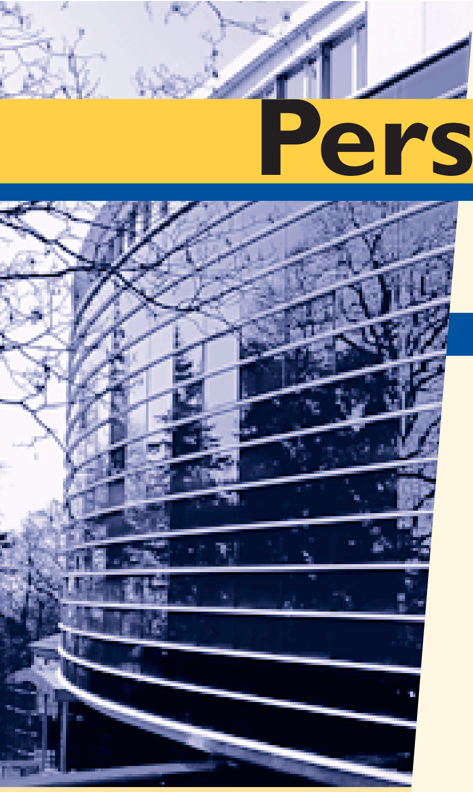

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Simply Better: Winning and Keeping Customers by Delivering What Matters Most

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The Customer is Dead – Long Live the Customer

In 1954, in the seminal work *The Practice of Management,* Peter Drucker provided us with a vision of what it really means to be customer orientated[1]. He encouraged managers to move away from a specialized functional notion of marketing and redefine it as an overall business philosophy. He proposed that marketing is best thought of as the whole enterprise seen from the customer's point of view. In the 50 years since then, executives, consultants and scholars alike have developed training and change programs, frameworks and theories, all designed to move organizations closer to the customer. The outcome for customers, though, is most of the time far from positive. The American Customer Satisfaction Index[2] is the world's most comprehensive indicator in this area. It not only suggests that no meaningful improvements in overall customer satisfaction have been achieved during the past 10 years, but that, at best, about one customer in four is insufficiently satisfied with suppliers for them to be assured of their future business. Frankly, investors should be outraged. There is enough evidence to indicate that customer satisfaction is a key driver of shareholder value. Customers are outraged. How many times a month are you plainly disappointed with the performance of a supplier, a brand, a service experience? In spite of the exaltations of some executives, the customer is not king – not even close.

So, what is wrong? As Geoff Colvin, writing in Fortune, noted, managers are fad surfers, because it is safe as long as the fad is heavily adopted[3]. He acknowledges the folly of 'big ideas' such as the inkblot test, planning and control for profits, conglomeration, hostile takeovers, quality circles, T-groups, and the net bubble. The underlying message lies in his portrait of managers, the adopters of fads, as unthinking and risk averse. Harsh? Perhaps not. It may well be that the reason for such, in some cases reckless, adoption of fads is that fundamentally high-talent executives quickly get the hang of whatever assignment they are given and have a need to be more in the driving seat. They step forward to champion an alliance, launch a product or service, or enter a new market or segment. This is all good stuff and is to be encouraged, provided job #1 has been taken care of: delivering your value proposition to the complete satisfaction of your existing customers. There is room for tremendous improvement on this dimension. And what could be more satisfying than the pride derived from a job well done in the eyes of your customers?

The Right Kind of Differentiation

One of the first steps on the road to recovery must be a reassessment of your value proposition. Customers rarely buy a brand because it offers unique features or benefits. They buy the best overall combination of category benefits (those benefits most customers of all players in the market want most of the time)… and if there are none, then the decision is based on price, or the first brand customers see, or the first that springs to mind. What the customer buys is a brand; what he or she needs is category benefits. Take the

1 The Practice of Management, Peter Drucker 1954

2 For more details of the composition, method and data summary since the inception of the index see www.acsi.org

3 Geoffrey Colvin, "A Concise History of Management Hooey", Fortune June 28, 2004. p.58-65.

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"Differentiation matters when and only when it is relevant... customers want simply better, *not simply different."*

example of gasoline. If suddenly it was not available in the USA, the nation would grind to a halt. But if BP or Exxon gasoline disappeared overnight, no great problem, even with such strong brands. Most management discussions that I am privy to focus very quickly on the unique differentiator, probably a close cousin of the USP. Under the mantle of sustainable competitive advantage, managers are obsessed with having a feature or attribute that no one else has. But business success does not depend on offering something unique, nor do customers make purchases based solely on a unique product characteristic. Differentiation matters when and only when it is relevant. Customers buy the brand they expect will meet their basic needs from the product category better than the competition. Customers want simply *better,* not simply different.

Consider the case of mobile telecommunications service provider Orange. With the advent of digital telecommunications in the United Kingdom, the government awarded two licences: one to Orange, the other to One2One. They would join (analog) incumbents Vodafone and Cellnet. Both Orange and One2One had large, well-capitalized public companies funding their launch activities. Both had the same technological capabilities. Their licences were only for the UK. They were operating under the supervision of a dedicated government regulator. As level a playing field as one is ever likely to see. Both companies were later sold within six months of one another, around 10 years after being created. In management research it is highly unusual to have such conditions – fixed start, fixed finish and a fairly level playing field in between. This case is worth evaluating because of the huge difference in outcome. One2One was sold for £6.9bn, while Orange was sold for £20bn. A closer look at the choices made by the respective management teams is revealing. In simple terms, One2One adopted the standard practices of the incumbents, while Orange asked what mobile phone customers want but are not getting most of the time? Orange quickly established a prominent position in the market by differentiating generic category benefits.

Orange discovered that mobile phone customers felt negatively about quite a number of aspects of their service providers, including cost and poor network reliability. Orange differentiated with a promise to provide reliable service, but also per-second billing, a simpler rate plan, caller ID, a money back guarantee if the service failed and itemized billing, free of charge. Think about it, these ideas are neither hugely inspirational nor technically challenging. All could, and in fact would, be copied within months. But by then Orange had established itself as a company that gave a damn about customers.

It is worth noting that Orange, despite being the last entrant, did not try to position itself for any particular type of customer but for all customers because the category benefits were seen as universally relevant. Cemex, supplier of ready mixed cement, does not try to differentiate through segmentation; customers, whoever they are, want most of all – the right kind of cement, at the right time, in the right place. That is what Cemex delivers. The basics. Like all marketing ideas, segmentation has its place in the strategic repertoire, but only if it is relevant.

Identifying the Generic Category Benefits

If business fortunes lie in delivering generic category benefits better than the competition, then, as business managers, can we identify the right benefits demanded by customers? First and foremost we must spend a lot of time directly with customers. Apart from the obvious benefits of seeing firsthand the realities of your customers' life and how your product or service fits in to it, and giving all employees a morale booster, this activity when done properly has some less obvious benefits.

Consider the example of Hilti, a world leader in developing, manufacturing and marketing high quality power tools and fastening systems for the construction and building maintenance markets. It serves only professionals and sells directly through its field force of technical sales representatives (TSRs). Broadly speaking, this channel structure is most productive when focused on medium and larger enterprises. It is simply too hard and inefficient to locate and serve the vast number of small businesses. When a proposal arose in France whereby Hilti, with precisely smaller contractors in mind, might sell directly but using a 'shop in shop' model, it was met with initial skepticism. Critical in eventually deciding to exploit the opportunity was the recollection of a Hilti executive board member from a visit he had made to France, of how hard it was for the TSRs to reach these customers. Hilti went forward on a pilot basis.

Although this initiative amounted to a very small activity, even within Hilti France, the very thought process of considering the proposal and then evaluating the pilot project led to Hilti's executive board being better able to evaluate a subsequent proposal to sell Hilti products from the huge US retailer Home Depot. Ordinarily Hilti would have rejected this out of hand, but in the light of the French experience the executive board and the US management team entered the negotiations well prepared, struck a good deal, and today Hilti can be found in some 100 Home Depot outlets. It is an activity that would never have happened had an executive board member not spent time directly with customers and observed first hand what they really care about. In this case, for the smaller professional product availability is critical – it is a generic category benefit.

Although many companies have customer contact programs, my studies reveal how and why some are hugely ineffective. In one study I looked at the time allocation of CEOs of around 100 of the best performing companies in the sample - measured by market share, sales and market share growth, profitability and return on assets. I compared this with the 100 worst performing companies. The results showed the high fliers spent 18% of their time with customers. The stragglers spent 15% of their time interacting - hardly a significant difference. What was different was the way these CEOs spent their customer time. The poor performers spent it socializing at cultural or sporting events - not a good context for getting meaningful feedback. The high performers preferred to get down to business and find out whether their companies were living up to the expectations. They were also highly curious about how they could improve their companies' service offerings. Executives who indicate clearly just how open they are for negative feedback and how keen they are to improve bad situations, are the ones who benefit most.

To better understand which are the generic category benefits executives also must, by definition, look at the competition. Understand whether they have found an opportunity before they fully exploit it. Activating the antennae of every employee is also a sound policy - successful companies do this and ensure that they tune into new product launches, territorial invasions etc., so that they can take evasive action before they are left for dust.

Focusing on your company's and your competitors' failings, is another route for getting the category benefits right. Assess how the whole category could improve. Cemex, the Mexican cement giant grew from a regional player to world leader by concentrating on basic category needs, not on nice-to-have extras. Cemex looked at where other ready-mix suppliers were failing. Since 1995, the company has guaranteed its customers same-day delivery within 20 minutes of schedule in designated geographic markets, regardless of weather conditions, including traffic-jammed Mexico City. Cemex can make these deliveries by using satellite and Web-based vehicle dispatch technology. Not only did this system increase truck productivity by 35%, it wedded customers firmly to the brand.

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Thinking "Inside the Box"

Don't misunderstand; this is not an anti-innovation story, quite the contrary. The key is to avoid innovating just for the sake of it. Probably the most exciting form of customer focused innovation taps into unexpressed latent needs. Examples, *"In putting the customer center stage we urge managers to reassess how well they really understand what customers want."*

although comparatively few, are well known: Canon with its small photocopiers, Starbucks with its coffee houses and CNN with news. History shows that the innovator is often not necessarily the one with the greatest success. When competitors enter the market, they can have the advantage of learning from the innovator's mistakes and, by getting to grips with the category benefits, can beat the originator. Neither Pampers nor Costco were innovators in their respective categories.

Thus 'thinking outside the box' is something to be wary of. It got CEO Dirk Jager and Procter & Gamble into a whole heap of trouble in the later 90's. The box exists for a reason: understand it and perfect it before concerning yourself with too much wild strategic thinking. Be realistic. We aren't all great creative and lateral thinkers. Think inside the box first and ensure that the customer's basic expectations are met. This is what Tesco did in coming from behind to become UK market leader in grocery shopping. It continued, like Orange, to push the boundary on delivering on the generic category benefits. From that solid platform, businesses can build emotional value into their brands and plan for more innovative product and service development. Think of Tesco's move into online shopping. It has become the world's biggest online grocery service, leaving the erstwhile Webvan in its wake, by never forgetting that the customer's needs are straightforward and if it takes its proposition online it needs to achieve the same level of performance that it does in its main business.

The only place I can think of where out of the box thinking has genuine merit is in marketing communications. Basically the proposition is a difficult challenge. Think of the generic message: we'll do what we said we would, when we said we would, at the price we said we would and at the performance level we led you to expect. Companies who understand the value of being better rather than being different must make their advertising stand out. For example, USA retailer Target has managed to avoid total domination by rival Walmart with the aid of excellent and innovative marketing communications.

Re-connect with Customers

There is often a wide gap between the intent and the experience. Companies have to re-connect. One way to start the process may be, at the next informal outing with colleagues, to turn the discussion to disasters they have experienced personally as customers of other businesses – we all have them. Now work through one or two of them in more detail – how on earth could they have happened? Could it happen at your company? Of course it could – worse, it already has. But now, with the acceptance that unforeseen errors will happen, tackle what you can do to improve. As Michael Dell observes: *"Everything can be done better. There is nothing that cannot be improved."*[4]

In putting the customer center stage we urge managers to reassess how well they really understand what customers want. Competitive advantage can only come from a solid foundation, knowing your customers and how they choose, and delivering consistently whatever it is that matters most to them. The rest should be seen for what it is: a lottery. So start now, and never stop.

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4 Fiona Harvey, "Warrior wields new weapon from armoury," Financial Times, August 6, 2003.