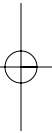


Chapter 1

Your Company Is Not Sufficiently Market Focused and Customer Driven



Here we single out two sides of the most handicapping deficiency in most companies. We find either that your company has not gained insight into your market opportunities, or that your company is not well-organized to serve and deliver what your target customers want and expect.

INSUFFICIENT MARKET FOCUS

What indicates that your marketers have not sufficiently analyzed your market?

Signs:

- Poor identification of market segments.
- Insufficient prioritization of market segments.
- No market segment managers.

Poor Identification of Market Segments

We ask this question: “Who are you trying to sell to?” Please don’t answer “Everyone.” It’s not acceptable.

I remember hearing this when I asked this question to top executives of the giant Sears chain store. “We sell to

everyone. Everyone buys something at our store . . . clothing, hammers, appliances. . . .” Then I asked: “Do you get a lot of teenagers shopping for their clothes at Sears?” “No, not as many as we would like. But we do get their mothers shopping at Sears.” “So not every group is a strong shopper at Sears.” “Yes, we admit that.” “Then why don’t you focus on the groups that really like your merchandise and service, instead of trying to get everyone into your store?” He didn’t have an answer.

Fortunately, most companies don’t answer “Everyone.” But this doesn’t mean they are correctly focused. A women’s dress shop might say: “We sell clothing to women between ages 20 and 50.” I say, that’s a pretty large group whose needs are quite varied. Younger women are more likely to dress for the social scene while the 35+ group is probably more interested in utility in clothes for work and home.

There’s a story told about how Les Wexner started his successful Limited chain of women’s stores. Les’s father ran a women’s store that carried all kinds of dresses for different ages. Les went to Ohio State where his marketing instructor spoke about segmentation. He asked his dad: “Why do we carry so many dresses for so many women?” His dad answered: “The answer is obvious: How would I know what woman will walk into the store? Les, I feel that I am wasting

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my money sending you to college.” When Les took over the business, it was his turn to limit the merchandise, in this case to young women in their twenties and to the kind of clothes they like. And he did everything to focus on this group, including hiring young sales clerks of the same age, playing music in the store that young women liked, and using colors that appealed to this group. And he renamed the store the Limited.

Insufficient Prioritization of Market Segments

Many companies do identify different market segments and prepare offerings for each chosen segment. Thus an aluminum manufacturer may sell aluminum on different terms to airplane manufacturers, car manufacturers, construction contractors, and kitchen appliance manufacturers. My question is whether that company has really measured the relative attractiveness of each segment. Obviously the aluminum company is investing resources to serve each segment, but has it estimated the likely rates of return on its investment (ROI) in the different segments? Has it prioritized the segments and reallocated its resources to the more profitable segments?

No Market Segment Managers

The more important segments should have managers who are empowered to ask for budgets that they believe

will produce the company's target rate of return. And they should be rewarded accordingly. But not that many companies have appointed clear leaders to manage the more important segments.

Solutions:

- Adopt more advanced techniques in segmentation, such as benefit segmentation, value segmentation, and loyalty segmentation.
- Prioritize the most important segments.
- Specialize the sales force.

Needed: Better Market Segmentation Techniques

Most companies can do a better job of segmenting their market than they are currently doing. Too many are stopping their segmentation at the demographic or descriptive level. A given demographic group, (say) 30- to 50-year-old men, usually contains quite different individuals with varying needs, preferences, and values. Ford found this out when it launched its new Mustang automobile to appeal to young sports-minded drivers, only to find that many young people were not so interested and many older people rushed to buy the car.

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In business-to-business marketing, companies tend to segment buyers into large customers, medium-size customers, and small customers. But if I want to sell business software to small companies, I had better start distinguishing between the needs of small law firms, accounting firms, and medical firms, and probably focus on only one of these and become the supplier of choice.

In general, first try to segment the members of a market by different needs or sought benefits. Then try to find demographic descriptors that might correlate with these needs and benefits to make the search for these prospects easier.

Prioritize the Segments!

Suppose your company has identified more than one segment. For example, IBM sells mainframe computers to companies in numerous industries. That didn't stop IBM from recognizing that certain segments were much more important than others. IBM listed 12 industries in particular where they would focus their effort, industries such as banking, insurance, hotels, telecommunications, and transportation. By focusing their research on these industries they were able to design more compelling offerings than unfocused competitors could present.

“Verticalize” Your Sales Force

If the customer segments are quite different, then you should develop specialized sales forces. IBM learned long ago that sending an IBM salesperson in the morning to sell a computer system to a bank and in the afternoon to sell a computer system to a hotel chain didn't result in much business. The salesperson knew too little about the needs of banks or hotels. IBM found out that it is better to hire ex-bankers to sell to banks and ex-hoteliere to sell to hotels. They have deep experience in these respective industries, and probably a network of relationships, all of which puts them in a much better position to sell effectively.

DuPont also learned how important it is to organize by customer segments. In their fiber division, they used to have salespersons specialized by nylon, orlon, and dacron. A nylon salesperson was expected to know all the different industries that buy nylon, such as women's clothing manufacturers, furniture manufacturers, boat sales manufacturers, auto tire manufacturers, and so on. Finally DuPont reorganized and assigned salespeople to cover a particular customer market such as women's clothing, furniture, floor covering, boating, and so on. And they were to represent all the fibers, not just one, giving the customers what they want.

The message: Define your segments carefully, priori-

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tize them, and assign customer segment managers to the most important segments.

INSUFFICIENT CUSTOMER ORIENTATION

What indicates that your company is not sufficiently organized to do an especially good job of serving and satisfying your customers? Here are the signs:

Signs:

- Most employees think that it is the job of marketing and sales to serve the customers.
- There is no training program to create a customer culture.
- There are no incentives to treat the customer especially well.

It's the Job of Marketing and Sales to Get, Serve, and Satisfy Customers!

Companies have found it convenient to organize their employees into departments designed to carry out specific responsibilities. A scientist will spend her time in the laboratory, not with customers; a production

engineer will spend his time in the factory, not with customers; a purchasing person will spend her time with salespeople, not with customers; and accountants and finance people will spend their time enjoying numbers, not customers.

The result is that people working in these departments naturally assume that another department—sales and marketing—will handle customers. Yet we know that every department can damage customer relations. Customers get angry when the product is poorly made, when it is delivered late, and when the invoice is wrong, and the company loses its customers through no fault of marketing.

No Need to Train Others to Serve Customers

Training people in other departments to “think customers” is expensive. Courses have to be designed, teachers hired, and people have to take time away from their other, more pressing activities to hear about customers.

No Metrics, Incentives, or Sanctions Are in Place for Improving Customer Service

People know how they are measured by their departments and that’s what counts. They will behave accordingly. In the absence of clear measures of the impact of

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their actions on customers, they will not pay much attention to customers on a day-to-day basis.

Solutions:

- Develop a clear hierarchy of company values with customers at the top.
- Engage in activities that will produce more “customer consciousness” in employees and the company’s agents.
- Make it easy for customers to reach the company by phone, fax, or e-mail with inquiries, suggestions, and complaints and respond quickly.

Develop a Clear Hierarchy of Company Values with Customers at the Top

Ask senior management the following question: “What is the main group that you are working so hard to satisfy?” Many senior managers will quickly answer: “The stockholders. They own the company. They judge our performance. They affect our cost of capital. They take the risk. Their opinion of us shows up daily in the movement of our stock price. Our first obligation is to the stockholders and that’s why we look at everything in terms of shareholder value.”

I would challenge this on the grounds that making the stockholders paramount is the least helpful way to serve them. I would rather endorse Johnson & Johnson's ordering of groups: J&J declares that "Customers come first, employees come second, and this will give the investors the best results."

The Marriott Hotel chain puts the ordering slightly differently. "We first hire and train the best employees. If the employees are happy, they will serve the customers enthusiastically and competently. Then the customers will come back to our hotels. This will produce the most profits for the investors." Not surprisingly, Hal Rosenbluth, who heads one of the largest travel agencies, picks up the same theme in his book bearing the provocative title, *The Customer Comes Second*.¹

The main point is clear: Companies must obsess about their customers and their employees because if they are not satisfied, the firm might as well close down.

Undertake Activities That Will Produce a Stronger "Customer Consciousness"

Shifting a company from one orientation to another is a formidable task. Companies develop deep cultures involving valuing certain things and not others. Thus an engineering-oriented company will focus on designing state-of-the-art products and on designing the best production systems as the key to winning the competitive

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battle. Engineers assume that most customers will be drawn to the best products and lowest costs. But this is a naïve view of customers, because customers will vary greatly in what they interpret as best products and appropriate prices and costs.

To change an ingrained culture to put customers at the center of the company universe would take strong and determined new leadership. Here we can only suggest some key steps to take:

- *Develop a clear hierarchy of groups and values.* We have already stressed the importance of establishing and disseminating a clear hierarchy of customer groups and values to company personnel.
- *Show how each employee's behavior can affect customers.* Show the employees in each department how their specific actions can positively or negatively affect the attraction or retention of customers. Spotlight specific cases of how customers have been either won or lost by departmental behavior. Show how each employee needs to be serving customers or serving someone in the company who is serving the customers.
- *Regularly feature findings on customer satisfaction.* Measure customer satisfaction overall, and by customer groups and by specific items (product, service, price, etc.). Report the scores to the various

departments, with a view to inspiring everyone to seek to improve customer satisfaction each period. One action is to include a bonus if customer satisfaction rises or reaches a certain point. Include in every employee's paycheck envelope the statement that their check is being paid by the customers.

- *Sponsor a companywide training program in customer service and satisfaction.* The company can sponsor short classes designed for different departments to train the department's personnel in better customer service. The aim is to define the company's brand and values and to get the employees to "live the brand." Thus Wal-Mart's people are determined to provide goods at the lowest possible cost. Ritz-Carlton employees are determined to provide the best hospitality service. Volvo's people are determined to design the safest automobiles. In fact, Volvo resisted adding a global positioning system (GPS) in its new models because the screen poses a danger when the driver takes his eyes off the road. To live the brand, Volvo engineers resisted adding GPS, but finally designed a screen that was the easiest and safest to use.
- *Make sure that all the distributors and dealers also are customer obsessed.* It doesn't help a company if its people are customer-obsessed but its agents are not. The company must move its partners into the same mindset if a customer orientation is to bear fruit.

Make It Easy for Customers to Reach the Company

I am continually frustrated when phoning a leading electronics retailer and listening to a two-minute message and finding it next to impossible to reach a live person. And when I reach a live person and ask if the store is carrying a certain product, she says that she will check and then I hold the phone for another three minutes, only to learn that they are out of stock. And this store runs ads on how friendly they are!

Your company needs to make it super-easy for customers to reach you by phone, fax, mail, or e-mail. Furthermore, you should set a high standard for answering quickly. Amazon says that mail and e-mail must be answered within two days and telephone calls within four rings. The cost of this level of service is small in comparison with the cost of losing customers.

Note

1. Hal Rosenbluth and Diane McFerrin Peters, *The Customer Comes Second: Put Your People First and Watch 'Em Kick Butt* (New York: HarperBusiness, 2002).

