Who Moved My . . . Customer?

The Simple Concept behind Dell's Success in the PC Market

POWER TOOL: INFLUENCER MAP

> *I don't skate to where the puck is; I skate to where the puck is going to be.*
>
> —Wayne Gretzky, aka "The Great One," one
> of the greatest hockey players of all time

A TOOL TO DETECT SHIFTS IN DECISION-MAKING POWER BEFORE YOUR COMPETITORS DO

"Are you sure you want to start the book with a story about Dell?" one of our advisors asked with a raised eyebrow. A very successful business author himself, our coach was voicing a legitimate concern about the overexposed nature of some case histories, especially stories about companies whose star has somewhat faded.

But we convinced him that the Dell story is a great way to start off the book. And we'll use the same argument to persuade you to pay close attention to this chapter.

With regard to the faded star nature of Dell's current business, wouldn't any business like to have a 20-year run like Dell did from 1984 to 2004, when the company grew from a founder's dorm room to the number one position in the massive personal computers industry? Any lessons gleaned from Dell's meteoric rise are worth learning if they can deliver even a fraction of this kind of growth.

Although many business professionals, including Accidental Marketers, have heard Dell's story, only a few have made any significant changes to their own business strategy *based on it*. We can confidently say, after conducting hundreds of workshops, that virtually *every* client we work with *improves* their strategy based on the Dell case as we present it.

We know this because we *translate* Dell's strategies (and a few other mini-cases in the chapter) into a tool—one that helps you immediately apply Dell's lessons in your industry. We'll provide important, interesting background facts about Dell's marketing approach, but the tool—called an Influencer Map—will allow you to make a key *decision* that will drive the rest of your customer-focused marketing strategy.

Influencer Maps show Accidental Marketers how to detect shifts in customer and stakeholder decision-making power in a market before their competitors do. Of the 10 tools that make up our base set, Influencer Maps are one of the most popular with our clients. Once you see how simple yet powerful they can be, you will share their enthusiasm!

THE ROOTS OF AN INDUSTRY REVOLUTION

At the very beginnings of the personal computer era back in 1984, Michael Dell realized he had some seemingly unrelated skills. He'd already had several successful direct mail ventures in junior high school and high school. Selling stamps and trading cards had netted him $2,000 in profits at the ripe old age of 12. A few years later, he utilized a mailing list of newly married couples to sell newspaper subscriptions. He made enough money to buy himself a BMW while still in high school.

As a freshman at the University of Texas, Dell had figured out how to take apart and put back together an IBM personal computer (PC).

He started a successful computer upgrade business that he ran out of his dorm room, which allowed him to deeply understand the economics of computer selling.

The combination of Michael Dell's computer prowess and direct mail experiences was about to create an opportunity that would revolutionize the industry. And the simple concept behind that opportunity hadn't even occurred to the big PC manufacturers of the time.

THE BIG GUYS GET BLINDED BY THE CUSTOMER STATUS QUO

As Michael Dell contemplated a new type of PC business, strategic planners for the leading manufacturers of the time, such as IBM, Compaq, and Tandy, were likely preoccupied with product-oriented issues. Because computer use grew by more than 750 percent from 1980 to 1985, merely being able to predict and supply this exploding demand was a constant, focus-sapping concern for the market leaders.

Another element that distracted PC strategists was the implications of Moore's Law. This amazingly accurate theory, postulated by Gordon Moore, the founder of computer chip giant, Intel, predicted that computing power would double every 18 months. This geometric progression of chip technology led to a dizzying pace of new PC features and functions, which all competitors were struggling to keep up with.

At least one element of the industry that *seemed* stable was the method for distributing and selling PCs. Computers reached consumers via distributors, value-added resellers and retailer networks that each big manufacturer had painstakingly built. The process worked this way because computers were considered a highly technical item requiring expert hand-holding and assistance during the decision-making process.

A simple diagram shows how the era's leading manufacturers likely viewed decision-making power in the PC market at the time. Each circle in Figure 1.1 represents a stakeholder. The size of the circle indicates decision-making power, with the arrows indicating how each stakeholder influences the others in the chain.
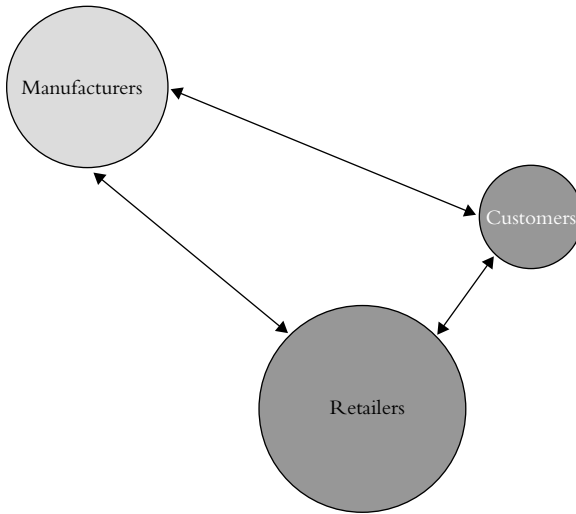
Figure 1.1   Decision-Making Power in the 1980s Personal Computer Market: Likely View of the Leading Manufacturers

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Although Figure 1.1 may have been technically correct, it doesn't account for how the decision-making power of each of these stakeholders was *changing* in a very dynamic market. Judging by their actions, Dell's competitors likely assumed that the power structure in the market would remain relatively consistent. In fact, they acted as if they believed that only computer nerds and scientists would be comfortable making decisions about which PC to buy without expert assistance. This would prove to be a dangerous—and eventually fatal—competitive assumption that Dell Inc. took full advantage of.

YOU CAN ASSESS CHANGING INFLUENCE NOW—OR RISK LOSING TO A COMPETITOR WHO DOES

It's at precisely this time in a market—things are going well, sales are growing, the industry is in an early life cycle phase—when companies tend to focus extremely closely on product. Even suggesting that a company reassess its customer/stakeholder chain is often considered a throwaway strategic step.

Organizations see this as a box to be checked on the way to out-product-featuring the competition, focusing solely on its traditional customers.

But time and again, we find companies that are doing one of two very different things: they're either capitalizing on stakeholder power shifts or finding themselves locked *out* of strong relationships with customer groups that faster-thinking competitors already own. Some examples of the latter are:

- The marketers of a former blockbuster drug, now off-patent, who put all of their resources toward selling to general practitioners and specialists—and now find themselves late to the game in figuring out how to ensure pharmacists don't switch customers to a generic version of the drug
- The makers of baby formulas in emerging markets who don't have any relationships with their country's governmental policy-makers—until the government pulls the product from all retail shelves based on a perceived health issue that turns out to be unwarranted
- The manufacturers of a technically superior hip implant who have forgotten to call on managers of a key administrative hospital function—the operating room scheduler, who then promoted a competitor's inferior product because they didn't understand the more advanced device's benefits and because they thought the implanting operation took too long

On the positive side, we see companies achieving tremendous growth by anticipating stakeholder shifts. Network management software company SolarWinds has developed a product positioned as a low-priced solution sold directly to information technology (IT) managers rather than chief information officers (CIOs).

SolarWinds correctly anticipated a corporate trend that is pushing certain IT decisions downward in organizations. The industry moved from an environment in which CIOs made virtually all software decisions to one in which companies trust IT managers to make certain decisions within defined budgetary guidelines.

SolarWinds capitalized on this trend by focusing its marketing resources to understand and serve company network managers' particular and specific needs. The resulting customized value proposition—a software subscription price that fits a typical IT manager's budget, a direct selling model that efficiently replaces face-to-face sales, immediate download of the product upon

purchase, a thriving business-to-business social network of IT manager peers dedicated to helping each other with network management issues—has led to tremendous growth. SolarWinds is averaging 25 percent quarterly earnings and sales growth over the past year.

Remember these ideas—recognizing shifts in stakeholder power and tailoring value propositions to these unique stakeholders' needs—as we return to our Dell story.

DELL CAPITALIZES ON A POWER SHIFT

If you spoke to him in 1984, Michael Dell might tell you that he would have been happy to dominate the early adopter PC market. Or maybe, he would say that he'd planned to dominate the entire PC industry from the outset.

In either event, he made the decision to sell PCs via mail order *directly to consumers,* an approach that was successful immediately. When gross monthly revenues reached $80,000, Michael dropped out of college and focused on his venture full-time. The growth of this direct marketing–focused strategy was undeniable—$6 million in its first full year of business, $40 million the next, with continued rapid leaps forward in sales for the foreseeable future.

Could *all* of this business be coming from nerds and scientists? Or was it possible that Dell had recognized a fundamental shift in decision-making power, one that was rendering more mainstream consumers confident in their ability to buy a computer directly from a manufacturer?

DELL TESTS THE RETAIL CHANNEL
BUT PULLS BACK

As the 1980s rolled along, the dominant PC manufacturers continued to invest heavily in retail spiffs, commissions, and a bloated structure that added cost. And Dell also hedged its channel bets in the early days.

Some new executives who had come over from competitor Tandy convinced Michael to build a Dell version of a traditional retail organization in 1987. This group would expand Dell's distribution by selling the company's PCs via stores.

However, Michael soon grew impatient with the experiment, which was proved to deliver drastically reduced margins for his organization. Although

the (soon-to-be-fired-or-quit) former Tandy executives would probably argue that the distribution initiative didn't have enough time to deliver acceptable returns, Michael felt he had enough evidence that direct marketing was the way to go. And he did: the company had sales of $157 million in 1987, mostly via direct channels, at very healthy margins.

DELL'S PREPARATION MEETS A HUGE OPPORTUNITY: BEYOND NERDS AND SCIENTISTS

Dell's sales in 1987 were all the evidence the company needed that a profound power shift in PC industry influence was indeed occurring. It was clear that it was not just nerds and scientists who were comfortable buying computers directly.

The Moore's Law–driven industry was quickly making PCs that were easier and easier to use. Therefore, the typical consumer was becoming increasingly confident in making this technical purchase directly. The value-add of the traditional distribution channel was becoming less significant—very quickly.

This was the time for Dell to move even more boldly. Dell's direct contact with its customers was a distinct advantage over the big manufacturers, whose only diluted access to customers was through their distribution channel. Because the channel believed they *owned* the customer relationships, they didn't allow much direct contact: they were afraid of being cut out of a lucrative distribution loop.

Dell took advantage of its direct customer access to better understand—and more important, *predict*—exactly what those customers wanted. This contributed strongly to its now-famous model of building computers only *after* the customer's order was in hand. Compare this with competitors that manufactured PCs sold by independent retail distributors. They had to predict retail demand from an arms-length standpoint and guess how many computers to make.

As Dell continued to build its direct marketing infrastructure and revolutionary operational strategy, it began to realize some significant competitive advantages. And then, something fortuitous happened.

There's a famous saying that luck is the intersection of preparation and opportunity. The growth of the Internet in the 1990s was the opportunity

that perfectly intersected with Dell's preparation in creating a world-class direct-selling infrastructure. The company that had a dominant PC-direct computer-selling model was a perfect match for the world's newest, best-ever direct-selling channel: the World Wide Web.

DELL.COM COMPLETES THE DAVID VERSUS GOLIATH STORY

When it debuted in 1996, Dell.com enabled a whole new level of direct marketing efficiencies. It integrated its customer order system with its suppliers, enabling further value chain efficiencies. Customers could browse, configure, and track computer orders online, without help (unless they wanted it), adding further margins to the business in reduced customer service costs. Website "click" data further enhanced Dell's ability to keep its finger on the pulse of customer needs.

With Dell.com providing a huge platform, Dell claimed the top spot in PC sales in 2001. This completed a less-than-20-year journey that began in a college dorm room and culminated in the company rising to the top of a huge, growing industry. In 2004, Michael Dell announced that he was stepping down as CEO, a move that he has reversed and rereversed several times over the past 9 years. There is little doubt that this back-and-forth is at least partially responsible for some of the tough times the company has faced since then.

THE SIMPLE SECRET TO DELL'S MARKETING SUCCESS

To really understand Dell's success, we need to look beyond Dell's innovative supply chain model and its good fortune to be a direct-selling expert at the advent of the Internet. That's where we find a fundamental secret essential to revolutionizing many industries—or less dramatically (but still important) unlocking success in an underperforming product or portfolio.

Dell first had to define its customer priorities by understanding not just where stakeholder power rests today but how that power is shifting and changing.

Redrawing Figure 1.1 by making one small change shows how Dell likely viewed the market. Adding a dotted circle to show how each stakeholder's influence in the market is *changing* is a most important piece of information in a dynamic market (Figure 1.2). And today, almost all markets are dynamic!

While other manufacturers focused on product issues, Dell capitalized on a huge power shift in the market. Specifically, it placed a bet on the growing confidence of consumers in purchasing PCs directly from Dell. Other manufacturers missed this shift and kept focusing on selling almost exclusively through retailers. Like the quote from the great Gretzky at the opening of this chapter, Dell skated to where the puck was going.

Without this fundamental analysis and decision, Dell would have probably ended up as a commodity-like, price-based, apples-to-apples competitor of IBM and the like. Deciding who *a company's priority stakeholders are*—essentially, defining a company's most important customer—is an early step to a world-class strategy. That's why this topic of stakeholder influence is the first chapter of this book.
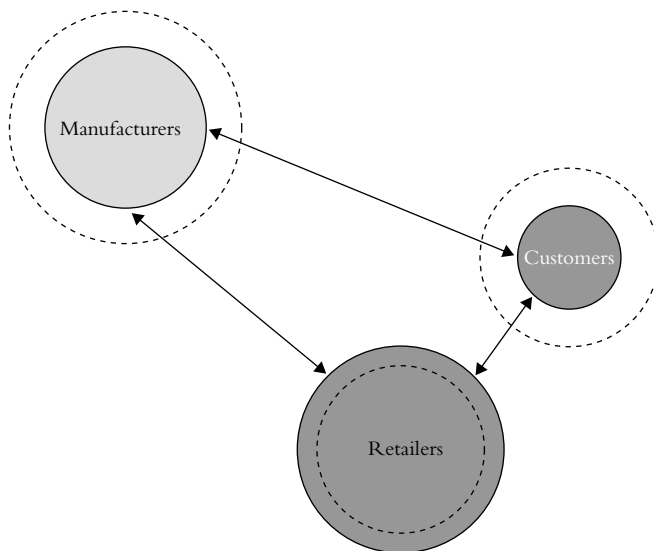

Figure 1.2   Decision-Making Power in the 1980s Personal Computer Market: Likely View of Dell

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This type of analysis lets companies make decisions on how to spend their marketing resources on various stakeholders in order to understand them, create offerings for them, and sell to them. But how can companies do this effectively, especially when it comes to determining how stakeholder power is shifting?

DUPLICATING DELL'S STAKEHOLDER INSIGHTS UNIQUELY IN YOUR INDUSTRY: INFLUENCER MAPPING

Figure 1.2, which shows how Dell viewed the market, is an example of an Influencer Map, a framework we've developed over the past 35 years. It's a resource allocation tool that you can use to create an early decision point in a world-class marketing strategy. It diagrams current and changing influences in an industry. It is an important tool for a marketing plan. The following describes how you can create an Influencer Map for your organization.

Step 1: The first step in building an Influencer Map is to make an exhaustive list of *everyone* in an industry who can influence the choice of purchasing your type of product or service. This is not easy, mainly because this list should include even nonbuyers who nonetheless affect decisions, such as industry consultants, academics, and influential Web bloggers.

This first step's unbreakable rule is, "Don't miss anybody." The aforementioned hip implant company suffered needlessly for years with a poor performing, technically superior product when they violated this rule and missed an important stakeholder: the operating room scheduler.

Step 2: The next step is to then assign small, medium, or large solid-line circles to indicate each stakeholder's current level of decision-making power. Then, draw dotted-line circles to show *how influence is changing* for each stakeholder. If the dotted circle is inside the solid circle, then that stakeholder's decision-making influence is *shrinking.* Dotted circles outside the solid line

indicate *growing* influence. And no dotted circle means no change is occurring.

Step 3: Next, add arrows to indicate how each stakeholder *influences other* stakeholders; sometimes this influence is light (dotted arrows). The influence often works bidirectionally, with each stakeholder influencing the other; this is indicated by double-tipped arrows. Sometimes, the influence goes in only one direction (single-tipped arrows).

Step 4: Once the map is drawn, the real work begins: determining resource decisions based on the map. You do this by asking two analysis questions: Who were the top three stakeholders, in terms of allocating marketing and sales time and effort *prior to this analysis?* Then, how should our priorities change, *based on the Influencer Map?*

HOW INFLUENCER MAPS CAN HELP YOU MAKE STRATEGY-CHANGING DECISIONS—LIKE THIS INFANT FORMULA COMPANY DID

The results of this strategic process can be as profound as uncovering industry-changing approaches like Dell's. But less dramatic discoveries are frequently unearthed as well. Influencer Maps always shape strategies in a significant way, as the explanation of the map that follows will illustrate. This particular example shows industry power in a retail and health care environment. The product is infant formula, the powder substance that becomes milk-like, an alternative to breast milk, when water is added.

We worked with this global client several years ago when it was trying to reach a $1 billion revenue goal. Margins were getting *squeezed* by the retailer customers who didn't see the incremental value in the high-quality ingredients, processing, and support that our client provided.

We guided the company through the key questions of "Who influences the market now?" and "Who will be driving the decisions in the future?" They created the Influencer Map shown in Figure 1.3.

Prior to drawing the map, our client's priorities had been to spend the vast majority of its resources calling on retailers, medical professionals,
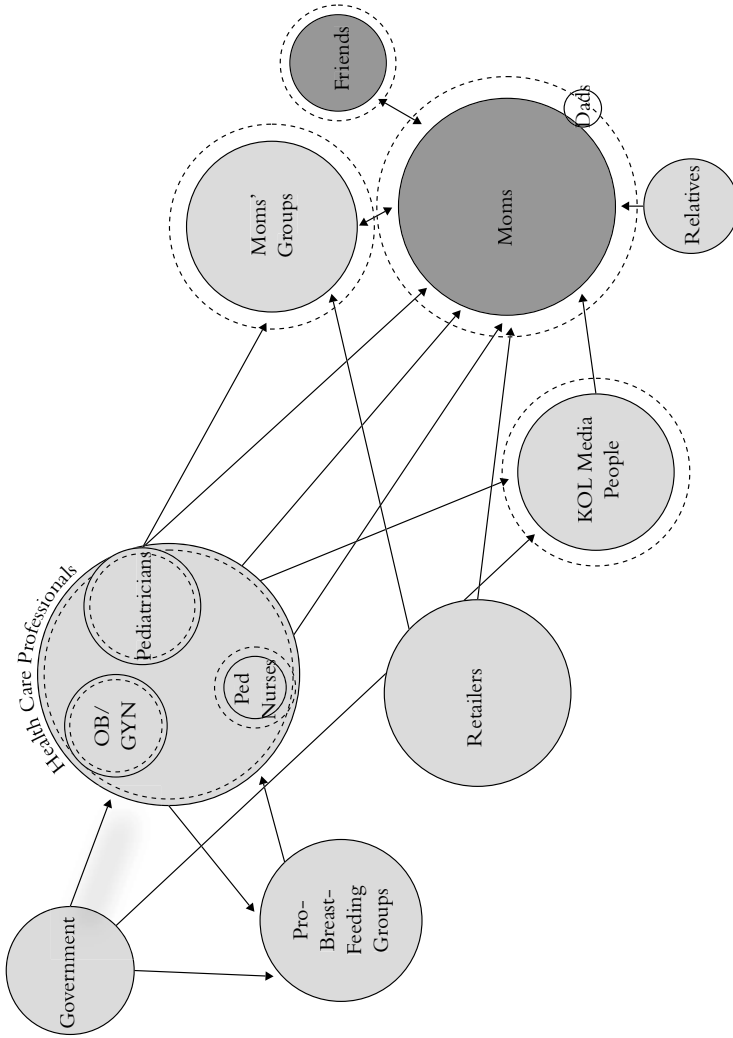
(continued)

Friends

Moms' Groups

Dads

Moms

Relatives

KOL Media People

Health Care Professionals

Pediatricians

OB/ GYN

Ped Nurses

Retailers

Government

Pro- Breast- Feeding Groups

Figure 1.3 Influencer Map: Infant Formula Example

and hospital staff. In the future, management realized that they would still need to focus on the medical professionals and hospital staff; however, they could clearly see that they needed to shift some resources from retailers to developing loyalty by communicating directly to moms (where and when statutes allowed).

Their dilemma was that they had very little consumer expertise. Making matters more difficult, breast-feeding statutes kept them from embarking on many types of typical direct-to-consumer strategies.

It took them several years to develop the appropriate expertise and strategies. But as they shifted their priorities and resources, their company grew past the $1 billion mark . . . to $2 billion.

The Influencer Map allows you to have the kind of strategy discussions that can change the fortune of products, portfolios, and entire companies. When you gather cross-functional industry experts from inside—and, if possible, *outside*—your company for this discussion, you enhance your chances of drawing an accurate map of your industry.

Influencer Maps are technically correct when they represent your industry expert team's best judgment. Typically, a few reasonably short sessions with your team will provide enough information to develop confidence that the map approximates the actual market situation. If you need to quickly verify the map, ask some of your stakeholders, "What were the last three things that you purchased?" and "What was your role in those decisions?" This should give you a better indication of their actual decision-making or influencing power. You can also show your customers the map and ask them to help you refine it.

We'd led hundreds of Influencer Map discussions—and we can confidently say that if your priorities after building the map are the same as your priorities before you built the map, your map is wrong! Industries are changing too fast, and inertia in companies is too strong, for us to accept that a company has its current marketing and sales resources exactly aligned. Our typical response to this status quo finding is to dig deeper.

(*continued*)

BUILDING ON INFLUENCER MAPS TO UNDERSTAND STAKEHOLDER NEEDS

Influencer Maps help you identify "Who moved my customer?" . . . and how you might move your customer. Although these maps are a key, early step to a brilliant, customer-centric marketing strategy, there are other important things to do as well. Once you've uncovered a priority stakeholder group, it is essential to understand—better than any other competitor in the stakeholder's consideration set—what the customer's needs are. That is the subject of our next chapter.