Customer responsiveness:

Being fast and right through impatience and intolerance

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Preface

Why do organisations find it so hard to act in a way that reflects what their customers want?

At the crux of the issue are three factors, which mean companies are rarely successful at responding to their customers' needs through marketing and innovation:

- The cultures and perspectives of those who engage with customers most closely are very different from those with a more operational, financial or broadly internal emphasis.
- In order to respond, organisations need to join up their capabilities to present a seamless picture to the customer. Yet wide-ranging but connected activities are the most difficult to manage effectively.
- What is lacking is not creativity in the idea-creating sense, but innovation in putting the ideas to work, to paraphrase an observation made by Theodore Levitt nearly 40 years ago.

The Foundation is a management consultancy formed with the sole purpose of addressing these issues by creating a new capability, which combines organisational and customer disciplines that usually resist mixing.

The Foundation exists to help organisations with their strategic thinking and implementation, always with a strong orientation towards the creation of customer value. We aim to increase the customer responsiveness of our clients' organisations.

Given that the nature of our work is pioneering, our ambition is to do more than deliver current best practice. We have also set ourselves the challenge of developing groundbreaking thinking, making a strong contribution to the world in which we work.

This paper is part of our response to this challenge. It is the result of our collaboration with Seán Meehan a Professor at the International Institute for Management Development (IMD), the leading European business school based in Lausanne, Switzerland. Our association with Professor Meehan stretches back to the mid 1990s when, as part of his PhD at London Business School, he wrote a thesis on customer orientation.

The paper is exploratory rather than definitive. It provides a framework for what customer responsiveness means and how it works within an organisation. An article by the same title has already been published in Business Strategy Review, Winter 2002. With this paper we aim to continue to promote the customer responsiveness agenda through deeper research, combining further discussion with practitioners and experience from on-going work with clients. We welcome input from others interested in exploring this topic further with us.

Executive summary

It is customers, not companies, that provide revenue and profits, and customers that create shareholder value, as underlined by the recent over-exuberance of the Internet 'revolution'.

So why are so few companies delivering what customers want in a way that provides real commercial advantage? Studies show a correlation between customer satisfaction and market valuation, a link that is intuitively obvious assuming such satisfaction is economically achieved.

But experience shows that very few companies get it right on a regular basis, let alone achieve excellence. While worldwide market research spending doubled in the 1990s, customer satisfaction surveys in the US showed a quarter of people remained dissatisfied with the service they got – and that figure is growing.

It seems there is a missing link between formally gathering information on what the market wants and turning that information into well-directed action. We call the missing link customer responsiveness. Indeed, customer responsiveness is a way of working, using the same resources as the competition, but getting more from them.

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To understand these issues, we spoke to the senior management of a sample of FTSE 100 companies led by chief executives with strong marketing backgrounds such as Sir Peter Davis, Luc Vandevelde, Sir Peter Burt and Eric Nicoli, among others.

What we learned sheds light on why true customer responsiveness is elusive. It identifies the key elements of customer responsiveness, and how organisations can take steps to put it in place. The responses had some surprising implications for management style and corporate culture.

Convention suggests that in order to enhance customer focus in a fast moving business, hierarchies should be replaced by 'flat' organisations that will in turn encourage creativity, risk taking and cross-fertilisation of ideas and solutions between different functions.

Contrary to our expectations, the managers we interviewed challenged that view with a refreshing insight into how they ensure that their organisations are highly responsive to customers – an approach we call fast and right.

- Fast and right is neither about 'failure is good' ideas of innovation, broad experimentation and risk-tolerance; nor does it involve more 'traditional' slower, empirical, fact-based decision making; and
- It can embrace the creation of a culture of 'empowerment' yet retain aspects of less politically correct 'command and control'.

To be both fast and right requires intolerance of doing the wrong thing and impatience about doing it too slowly.

Customer responsiveness is about being both fast and right. The value of being right is obvious – customers get something that meets their needs. But the value also depends critically upon the speed with which the response is produced. The value of a course of action decays the longer it takes to be implemented.

The research identified three principles underlying customer responsiveness, which balance being fast and right most effectively:

- to use judgment as the basis for swift accurate decision-making
- to feed that judgment through direct stimulation and the insight it brings
- to think as much as to act. Good quality thinking can be swift and economical, and especially effective when followed by sharp, decisive action.

These principles underpin four main activities that we identified as key components of fast and right ways of working:

- direct learning
- hard-work decision-making
- accountable experimentation
- a 'pure air' culture

The four activities work as a system. Together, they provide diverse and accurate stimulation; create high standards and disciplined discussion; make best use of resources and accumulated thinking; and ensure the organisation is intolerant of the wrong behaviour but highly encouraging for the right people trying to do the right things.

The insights provided by our interviewees strongly suggest that we should rethink our understanding of how customer focus leads to superior performance. The need to embrace apparent contradiction is fundamental to our approach. But the research showed us that the scope of the contradiction is wider than we had realised.

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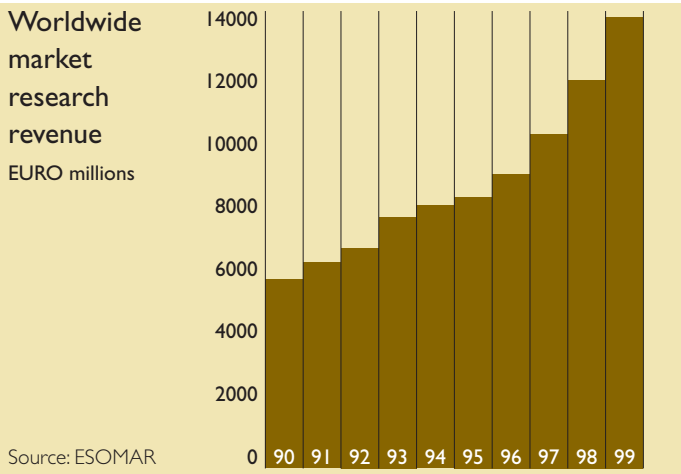
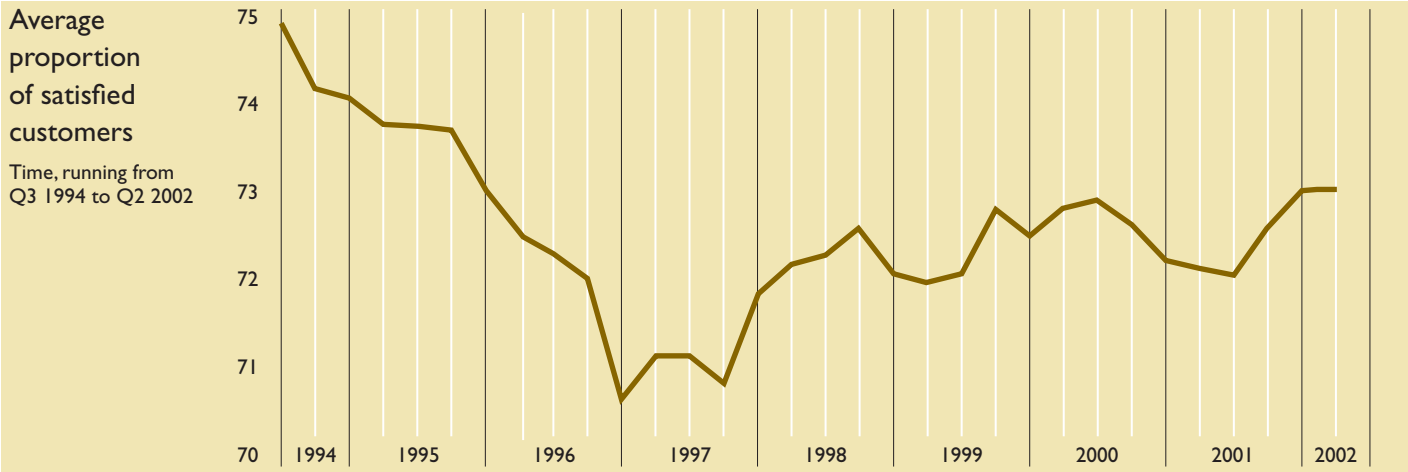
1 Customer responsiveness – the missing link

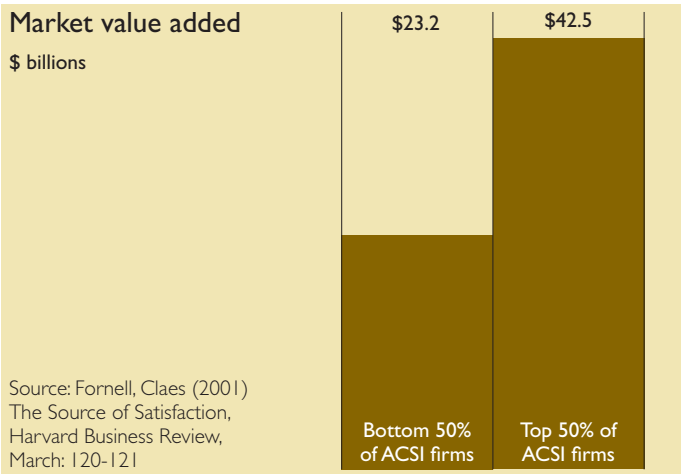
Despite spiraling market research expenditure, organisations are getting worse at satisfying customers. They need to do more than listen. They need to respond.



'Customer value creation' has attracted a lot of attention over the last two decades, with many businesses launching programmes aimed at enhancing customer focus. The European Society of Opinion and Market Research (ESOMAR) reports that global expenditure on market research more than doubled during the 1990s from just under Euro 6,000m to nearly Euro 14,000m in 1999 as executives sought a better understanding of their customers.

Whether, in fact, they achieved this is not apparent. But what is clear is that customers have not become significantly more impressed with companies' response to that research. Since 1994, customer satisfaction, as measured by the American Customer Satisfaction Index (ACSI), has continued to show that more than a quarter of people remain unsatisfied with their experience.





Source: Fornell, Claes (2001) The Source of Satisfaction, Harvard Business Review, March: 120-121

This is important. Claes Fornell, the director of the institute responsible for ACSI, in some additional work showed a correlation between customer satisfaction levels and market value. Although still not proof of a causal link, it would be brave to argue against the hypothesis that creating greater customer value leads to greater customer satisfaction, which leads to better long-run business performance.

From earlier work in this area by Professor Seán Meehan, it was possible to show that conducting more market research created the possibility of better performance. But whilst low spenders rarely outperformed their more enquiring peers in a given sector, it was not enough just to ask a lot of questions. Some companies could turn this into better results and some could not.

Professor Meehan concluded that there was a missing link defined as customer responsiveness i.e. the ability to turn information into effective action. Before undertaking this research, we thought that behaviour associated with customer responsiveness would most likely include the widely accepted modern approaches to management such as flat hierarchies, empowerment, risk-taking, broad experimentation, creativity and so on. In fact, it isn't that simple, as the next section illustrates.

2 Customer responsiveness – fast and right

Customer responsiveness is about accurately and insightfully giving customers what they need, want or don't yet know they want.

And it is about consistently doing so faster than anyone else and rapidly enough to retain the value of the decision or idea for the customer.

By becoming more customer responsive, companies could radically improve their competitive position by simply being better, more often, in the eyes of their customers. And all without necessarily increasing expenditure.

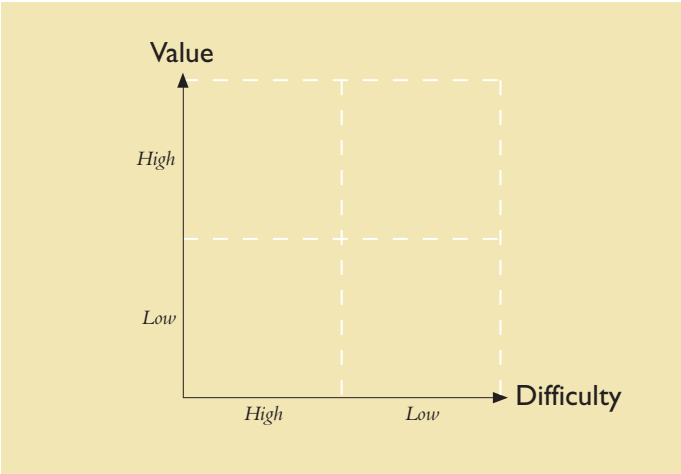
The executives we interviewed surprised us by challenging the fashionable vogue for small, risk-taking, 'failure is good' cultures in which responsibility and control are reduced in order to gain speed of execution. They viewed this as unsatisfactory because the lack of discipline could so easily lead to poor execution. Instead they value being right and being fast equally.

The value of being right is obvious – customers get something that meets their needs. But the value also depends critically upon the speed with which the response is produced. Maximising the combined performance across the two dimensions is what constitutes excellent customer responsiveness.

In other words, they see customer responsiveness as the ability to combine being right for the customer in terms of decisions, ideas and initiatives with being fast in response, or proactive. They are highly intolerant of doing the wrong thing and very impatient about doing it too slowly.

Fast and right – combining the best of contrasting management styles

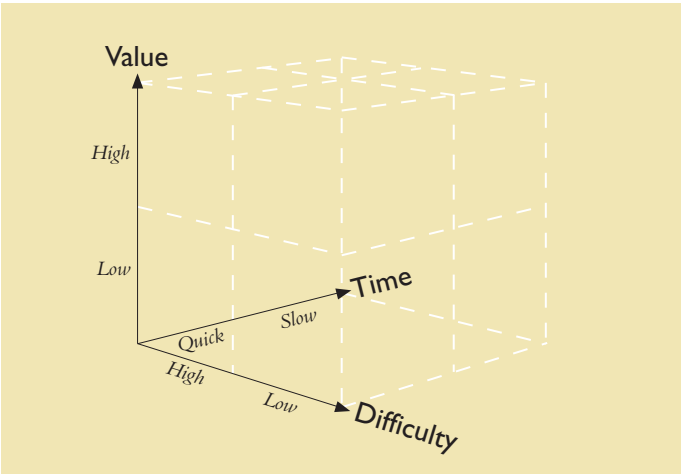
To show what this means, consider the trade-offs involved in decision-making. A common way of expressing the choices faced is to plot a graph, which weighs up the potential value of an action against the degree of difficulty in being successful or the risk inherent in getting it wrong (see left).



This kind of thinking is used to drive decision-making and action. People look for a balance in their activities between some easy-win, small-reward action and some bigger high-stakes, high-return ventures. Circumstance and personality dictate precisely where the balance lies but that, in essence, is the landscape.

What we uncovered was a missing element. The value of a course of action actually decays over time. By this we are not referring to merger and acquisition situations where opportunities come and go in a very black and white manner. We mean that broadly, in looking at drivers of organic growth, the slower an organisation acts, the less it will get in return.

Time constitutes a third dimension as shown in the graph (below left).



This third dimension influences the way an organisation views the options facing it. A highly difficult – but highly valuable – opportunity may become much less valuable if too long is spent procrastinating, perhaps in the form of researching formally to check how precisely one might proceed.

Sir Peter Davis, Chief Executive of retailer Sainsbury's, recalls from his arrival there, speaking to an executive and his team about what seemed to be a very good test that was operating in a store. He had asked when the outcome of the test would be clear. The response surprised him. "We'll probably know within two or three months; but we need to test it properly and we need to let it run for a bit longer to be sure". Davis then asked: "What would we do then?" The executive said: "I expect we'll push it into another store." Davis recalls: "When I said it would take 434 years to make it into the entire network at that rate, they all looked terribly hurt."

"We'll probably know within two or three months; but we need to test it properly and we need to let it run for a bit longer to be sure"… "When I said it would take 434 years to make it into the entire network at that rate, they all looked terribly hurt."

Sir Peter Davis, Chief Executive, J Sainsbury plc

"I think we've gone through a phase of doing too much… When you then take a Group perspective and add up all these myriad of things happening, you reach the point of saying 'Hang on, the Group is suffering from indigestion here'. It is often doubtful whether we would ever have the appetite to follow up many of these initiatives seriously."

Guy Dickson, Managing Director,
Scottish & Newcastle plc

So 'fast' is great, which is how the 'experimental' school goes about things, prioritising being quick over being right by running trials in great volume. The rapid experimentation, it argues, would quickly identify the good ideas and so, in a Darwinian way, progress would be made, beating the dinosaurs that insisted on considering action more rigorously before doing anything.

Of course, by going too hastily without being properly informed, the risk of failure is high, and many ideas fall by the wayside, perhaps wasted by poor execution or half-formed strategy.

As Guy Dickson, Managing Director of brewers and pub owners Scottish & Newcastle (S&N), pointed out: "I think we've gone through a phase of doing too much. Through attempting not to stifle creativity, you can create a rich sea of licence throughout the organisation to engage in trial and error. When you then take a Group perspective and add up all these myriad of things happening, you reach the point of saying 'Hang on, the Group is suffering from indigestion here'. It is often doubtful whether we would ever have the appetite to follow up many of these initiatives seriously."

So 'right' also has a lot in its favour and this is where the traditional 'make-the-numbers' people sit. Assume the answer is 'no' unless a strong argument for 'yes' can be built based upon solid, factual research and a rigorous rollout. By being careful and only backing potential winners, resources can be conserved and focused into a few big hits, leapfrogging more prolific competitors.

We believe that both points are right, up to a point, but that each alone is seriously lacking. This paper is about a middle route that values both points of view and that achieves faster, better results than either.

'Being right' is simply increasing the odds in your favour through a process of rigorous, fact-based but emotive debate.

'Being fast' is about realising that being first with a valuable new initiative carries multiple advantages:

- it gains credit with customers, enhancing the brand
- it forces the competition to respond, making it harder for them to develop unique initiatives of their own, and
- it provides the opportunity to learn as the initiative is developed.

Customer focus is the engine of organic growth

Without exception, the executives we spoke to believe strongly that it is customers who determine success, not the financial markets.

In the words of Mark Souhami, Deputy Chairman and former Managing Director of electrical retailer Dixons: "We haven't got any money, only customers. Our costs are all inside the business. Income and profit lie outside. And of all our stakeholders, the customer is the most transcendentally important." In other words, the customer has very few reasons to stay unless some are created, unlike all of the other stakeholder groups who have less choice.

But customer orientation can come into conflict with the unrelenting short-term pressures of the stock market. This was acknowledged by many of our interviewees who discussed ways of protecting the work of fundamental value creation from the more volatile proxies for measuring it. As Sir Peter Burt, Chief Executive of the Bank of Scotland, said: "Our long-term objective is to increase our dividends in real terms, year after year, from here to eternity. To do that you've got to grow the business over a period of years; you've got to be reinvesting for future growth. You can always increase the profits in the short term but it isn't a sign that you are truly creating value."

"We haven't got any money, only customers… And of all our stakeholders, the customer is the most transcendentally important."

Mark Souhami, Deputy Chairman and
former Managing Director, Dixons Group plc

3 Fast and right in action

The need to balance the two elements informs the most crucial findings from this work – the way organisations successfully respond to the fact that customer responsiveness is about being fast and right, not fast or right.

Before exploring further how this works, let's look at five examples of fast and right decisions.

"First mover advantage has two parts to it; being first and getting it right. There are loads of examples where people forget the second bit."

John Browett, Chief Executive of Tesco.com
Wall Street Journal Europe

The rollout of Tesco.com

In three years, Tesco.com and its home-delivery service grew to cover 95 per cent of the country, receiving 70,000 orders each week. With annual sales of over £300m, it accounted for around 10 per cent of all on-line retail commerce in the UK. Development of the service began in 1996 when six relatively junior managers were put together and asked to develop a model for home delivery via the internet. They were given no money, just told to develop it from first principles. Deliveries were tested from a single store in west London the same year, and the service was tweaked until December 1999 when it started a progressive national rollout.

Tesco believes that compared to other Internet businesses it took its time, although this is a relative term. It still had first-mover advantage. But Tesco is clear that this was not about speed. John Browett, Chief Executive of Tesco.com, told the Wall Street Journal Europe: "First mover advantage has two parts to it; being first and getting it right. There are loads of examples where people forget the second bit."

www.tesco.com

"One of the adjustments from being in a big company is that before you could say 'do me a paper on that'. Now, you realise that you'd have to do it yourself. So you have to think, and you have to trust your instincts."

Richard de Souza, Director of International Business, Shire Pharmaceuticals Group plc

Shire Pharmaceuticals' approach to mergers & acquisitions

The nature of Shire Pharmaceuticals' business needs a different type of 'external responsiveness' compared to many of the companies we examined. For it, competitive advantage relies less on understanding its end-users and more on applying knowledge of the sector to spot emerging opportunities to buy companies with the right kind of intellectual property. Speed really matters at Shire.

Despite being an FTSE 100 company, Shire has a small management team. Its strategy is to recruit people with big-company, global experience because ultimately that increases speed without sacrificing the quality of decision-making. People are able to use their judgement in place of extensive research.

In the words of Richard de Souza, director of international business: "One of the adjustments from being in a big company is that before you could say 'do me a paper on that'. Now, you realise that you'd have to do it yourself. So you have to think, and you have to trust your instincts."

When assessing investment opportunities Shire claims it can give a yes/no investment decision in 30 days to its potential licensors and a final answer in 90, having completed due diligence. Some of its global competitors are struggling to get down to 180 days for the same process. Effectively, Shire's competitiveness is enhanced by its ability to be faster without increasing risk.

Marks & Spencer 'Simply Food'

This initiative was created by the new management team at M&S. They saw more potential in their food offer than had been realised to date, and felt that they should be getting the brand out to more people. That meant breaking away from the idea of having 50,000 sq ft units within which the food offer would sit alongside clothing, and trying something stand-alone. One of the key elements of the idea was also a big challenge – they would change the product range in the stores three times a day to fit with the changing needs of the customers.

The decision to go ahead with the idea in two stores was reached after just one meeting. The team needed no data to support their initiative. Maybe that seems obvious. But the idea had been mooted 10 years earlier, but not acted upon. In the end, in M&S Chairman Luc Vandevelde's words: "It was pretty obvious to me that if we didn't make our products available to the kinds of people who wanted them where they spent their lives, we were missing a big opportunity. We didn't need any statistical or market research."

On the other hand, the work that went on around the pilot stores helped them understand a lot more about the behaviour of customers in that environment: what products worked, what the service should seek to add, whether newspapers should be part of the offer and so on. It was valuable to just get on with the pilots, but it was also crucial that they didn't immediately open 50 stores. "Gut feeling and conviction powered the process, but then extremely good data told us how people behaved and how to make the most of the product changes across the day", Vandevelde explains.

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Luc Vandevelde, Chairman, Marks & Spencer Group plc

Scottish & Newcastle city centre pubs

In the late 1980s, Guy Dickson, S&N Managing Director was based in Newcastle running 700 pubs. His predecessor had decided to get out of the city centre because it had become dominated by what he had described as "serious entrepreneurs, the chest wig, the gold chain and so on". But Dickson felt that S&N could not afford to ignore this part of the market and had to find a way of getting back.

Dickson diverged from the traditional corporate approach. He hired the best internal manager in the company, told him he couldn't have an office at headquarters and said that he didn't care what he wore (a bit more of an issue back then). He also told the manager to set up a shell company so that corporate backing was one step removed from running the programme.

The initiative worked – to a degree. With a small team to support him, the manager developed some 'cracking' outlets, which are still alive and well today.

The problem was that the big company culture was just too strong in this case. The manager was concerned that he was going to lose out, rather than gain, from the unusual experience. Consequently, he wanted to return to the conventional fold – where he has since done very well. The moral of the story is that a more entrepreneurial way of working was lost to S&N.

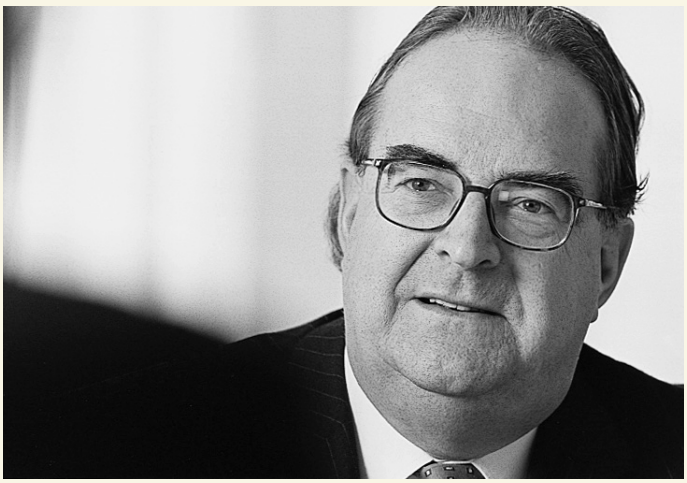
Scottish & Newcastle

Sainsbury's clothing range

Sainsbury Chief Executive Sir Peter Davis described the challenges of joining up two working styles – the considered thinkers and the action-orientated doers. He spoke of "having to operate on a lot of 70 or 80 per cent stuff, especially in his early days at Sainsbury, because the need to change is so clear. We can't wait until everything is thoroughly thought through, analysed and researched. We've just got to get on with it. I'd sooner people made 10 decisions and got seven right, than only tried to make three decisions and get all of them right."

The development of the clothing range is a great example. Sainsbury had already decided to get into partnership with another company which would take over responsibility for design, production, stock control and distribution, giving Sainsbury a fixed margin. It wanted someone to front the range, and the supplier proposed Jeff Banks. Research was swiftly put in place to check his image among customers against a host of alternatives. After a lot of additional homework, a board meeting was allocated to see a presentation from Banks.

To make the decision-making work quickly, the board members were set up for the presentation in advance. They were told that they would see the research and all of the work around it and that they would be asked to agree that, if they liked what they saw, they would go ahead. And that's what they did, while Banks waited outside, and gave him the go-ahead on the same day. The choreography had been deliberate to show that you could do things quickly. Since then, all involved have been promoted – a further signal that 'you get rewarded if you do things fast and well'.



"I'd sooner people made 10 decisions and got seven right, than only tried to make three decisions and get all of them right."

Sir Peter Davis, Chief Executive, J Sainsbury plc

4 Three underlying principles

The importance that the executives we interviewed placed on being focused primarily on customers had an immediate impact both on the way they spend their time and the responsibility they take for the customer-facing activities within the organisation.

That responsibility meant that they tended to be highly involved in decision-making on customer-related issues. This involvement is a key element of the fast and right approach.

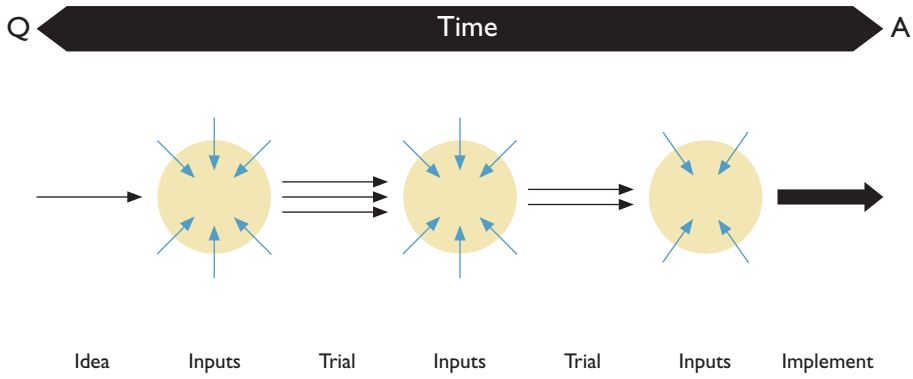
The examples of customer responsiveness in action in the previous section demonstrate that, in order to unlock the ability to be both fast and right, companies must have excellent shared knowledge across as much of the organisation as possible before the need for a decision ever arises. Then, senior executives must to be able to use this knowledge in productive debate. That way a great deal of progress can be made before (or instead of) commissioning additional information gathering and before starting trials or experiments. By front-loading the thought process in this way, much of the compromise inherent in acting quickly can be avoided.

To illustrate the distinctive principles underlying fast and right decision-making, the three diagrams opposite show the alternative conventional approaches and the way the interviewees idealised the more customer responsive method. The Q to A distance represents the time between a question being asked of the organisation and the answer being fully implemented. T is the time taken.

Get it right

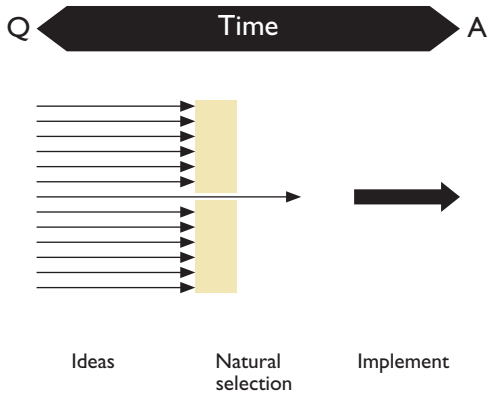
In organisations that place a high value on getting things right (or that prize avoiding getting them wrong), the process is characterised by considerable data gathering and investment in the politics of the situation – ie 'protecting your back'. This doesn't necessarily produce good results.

Consider, for instance, the launch of BSB, the satellite broadcaster, against Sky in the UK. BSB took longer to develop a superior product. Part of the reason for this was its more bureaucratic internal culture. It considered its actions carefully, produced something that appeared to answer the market needs more fully, yet – by being second to Sky – lost the initiative.



Do it fast

In organisations valuing speed and experimentation above all else, there is little honing of an idea before it is trailed in a live situation. This allows the market to decide what will succeed. Yet, as the dot-com boom showed, the lack of customer awareness behind the idea can lead to a horrendous failure rate. We would hypothesise that, in a better-informed environment, a far greater proportion of the initiatives launched would have made it into profit and created value.

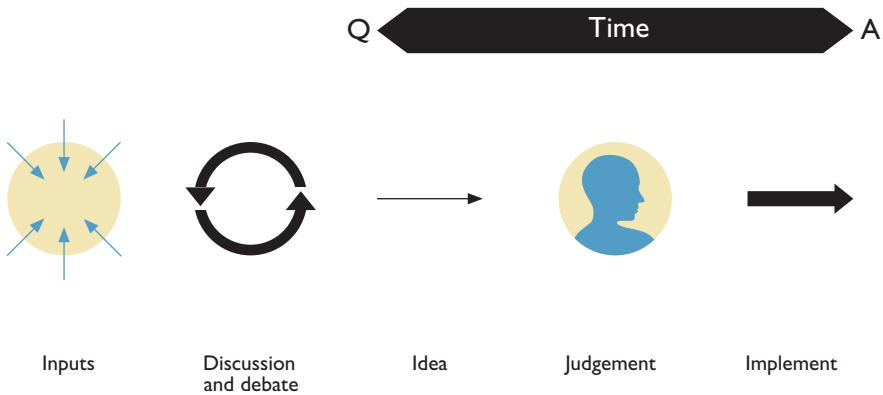


Fast and right

The fast and right model combines the best elements of these conventional methods. It is based upon three key principles:

- use judgement as the basis for swift accurate decision-making
- feed that judgement through direct stimulation and the insight it brings
- think as much as act. Good quality thinking can be swift and economical, and especially effective when followed by sharp, decisive action

To operate in a way that is fast and right requires adherence to these three simple principles.



5 The four elements of customer responsive behaviour

The three principles, which underpin fast and right ways of working, translate into four key activities, or types of behaviour, which create effective customer responsiveness in an organisation.

They are:

Direct learning

Increasing the team's ability to make the right decisions using their judgement. This involves encouraging direct involvement with the marketplace, stimulating ideas and making the best use of intuition and reliable, highly targeted research. This approach avoids undertaking unnecessary research, or just 'taking a flyer'.

The hard-work decision-making process

Replacing frantic activity with objective debate among the (now better-informed) team while imposing high standards to limit the dissipation of effort. It means cascading the positive, decision-making process to all key members of an organisation by ensuring everyone shares the same standards of thinking and marketing knowledge.

Accountable experimentation

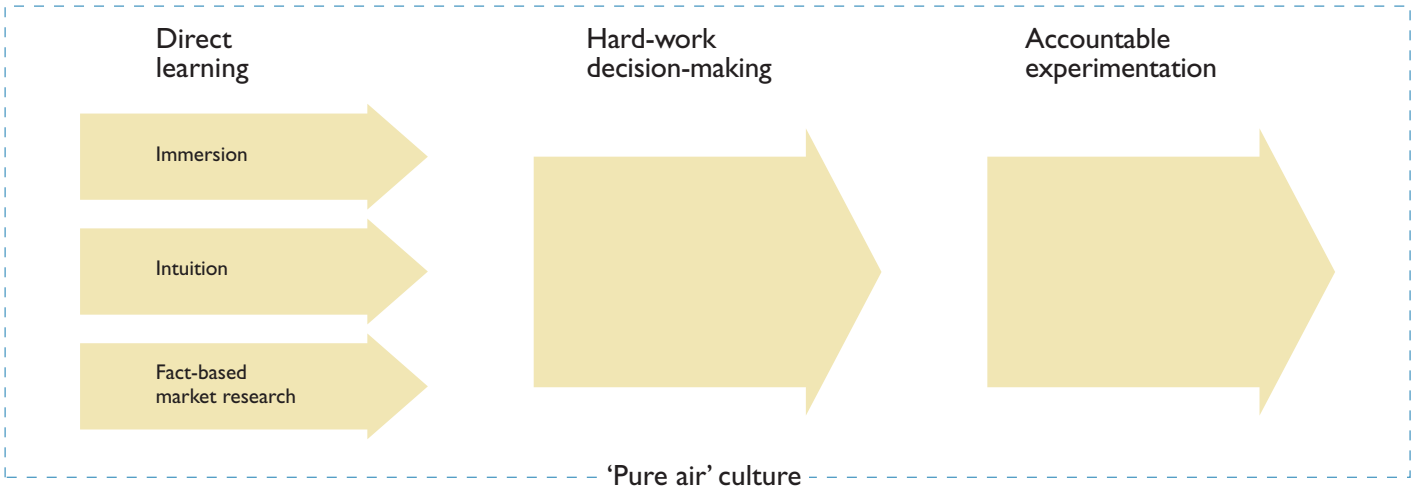
Approaching trial activity as a precious resource, devising selective experimentation based on a bedrock of accumulated information to minimise failure and maximise learning from the failures that are bound to happen.

A 'pure air' culture

Being intolerant of anyone becoming out of touch with customers, prizing rigorous debate and unyielding standards while remaining supportive of those working through obstacles to get things right.

The relationship between these elements can be seen in the diagram below.

The four work together as a system to create successful customer responsiveness. How they inter-relate is crucial to the effective functioning of the system as a whole.



5.1 Direct learning

Direct learning focuses on the different ways companies gather information and how these translate into management style and impinge on corporate culture.

Their personal styles often differed, but many of the executives we interviewed identified the same three aspects of direct learning, which we call: immersion, intuition and fact-based market research.

Immersion

Immersion is often a senior executive's primary source of knowledge about customers. It was common practice among the executives we interviewed for them to spend considerable time in direct contact with their customers. In some cases, this meant at least one day a week out of the office and on the 'shop floor' speaking, not just to their staff and managers, but to customers about their complaints or how they were getting on.

Another manifestation of immersion involves studying media relevant to a company's customers. Bank of Scotland board members, for example, read the *Big Issue*, a magazine written and sold by homeless people in Edinburgh and other large UK cities. They believe the welfare of homeless people and the issue of homelessness has a big impact on the local economy.

Whatever form it takes, this immersion-based approach to learning affords potent, wide-ranging benefits:

- It provides 'truth' – unarguable evidence which has real power in subsequent debates. Practised regularly, immersion also largely overcomes the problem of small or skewed samples.

- It provides a filter through which to view data provided by more conventional market research. It helps the management team process the additional information, question it and challenge interpretations that don't fit their own observations in the field.
- It provides an excellent source of anecdotes. These are crucially important in large organisations where the ability to persuade people to act appropriately can hinge on engaging them emotionally with personal illustrations of what is required of them.
- It cascades – not just learning – but the act of learning – throughout the organisation. If the boss sees customers for a day a week then so must the rest of the team in order to keep abreast. If they fail to do so, they will lose arguments and won't get on.

Our interviewees used 'immersion' to help counter the effects of being cocooned from real life and get back into the world inhabited by customers.

Immersion in action

Tesco board members visit stores every Friday, Saturday and Sunday. Those reporting to them need to do something similar or risk always knowing less than their boss does. Each store also runs 'forums' twice a year, some with staff alone and others with a mix of customers and staff. An executive from head office always attends these sessions in order to share the learning.

Sainsbury's Sir Peter Davis spends most Fridays in stores, wearing a big badge visible to customers. And he brings relevant customer letters to follow up while he's there. That means phoning the customer and talking through the issue, not just asking a few questions. Sir Peter was bemused when asked how he could find the time to do all this 'non-productive' work. He wondered how anyone at a senior level in a company could do their job properly without it.

Sir Peter was bemused when asked how he could find the time to do all this 'non-productive' work. He wondered how anyone at a senior level in a company could do their job properly without it.

Marks & Spencer's board level managers all visit stores twice a week or more. Chief Executive Roger Holmes arranges to go shopping with 10 customers on a regular basis so he can get their direct feedback. M&S also has a small department that does nothing but answer the 350,000 customer e-mails and letters the business receives each year. Luc Vandevelde personally receives between 35,000 and 50,000 per year, all of which are answered individually by the team who provide the Chairman with regular feedback.

The advisory board of five doctors at Shire Pharmaceuticals has regular discussions with management. The managing directors of each country business regularly have dinner with three professors of surgery and then spend the following morning watching them operate. This isn't just to help them understand how to sell more – it helps ensure they keep abreast of what might go wrong with a drug, where the risks lie and what they may have to do 'to curb the excesses of exuberant 21-year-old product managers'.

Intuition

While regular immersion helps keep managers on the same wavelength as their customers, our interviewees also recognised intuition as a key tool in optimising fast and right decision-making. Customers are people, just like the management team. So thinking like people, using intuition and gut instinct, is likely to be a good predictor of wider responses.

In situations where 'rightness' is valued above speed, the skill of intuition can get lost in the need for certainty. Given enough 'facts', people will override their instincts. That is not always a bad thing; but *in extremis*, squanders a very powerful tool for competitive advantage.

As Dixons' Mark Souhami observed, people's attitudes and habits alter slowly over time and a major shift, such as the changes in eating habits over the last two decades, is unlikely to be predicted by research. Instead, stimulated by being in contact with what's happening, intuition may suggest that things are moving on.

Eric Nicoli at EMI commented that, in his company, concerns arose that it relied too much on gut feel and not enough on more disciplined learning and analysis. On the other hand, it was clear that the re-invention of pop singer Robbie Williams or the discovery of the bands Coldplay and Radiohead only happened because certain executives fought for their instinctive decisions. And those decisions succeeded because the management culture respected intuition.

Fact-based market research

The starting point of our entire work lay in questioning the value of market research. But it would be far too simplistic to doubt every aspect of something so broad. Indeed, the executives we interviewed valued market research highly with two caveats:

- it has to be used in the right context, rarely as the primary source of market knowledge, and
- it has to be used wisely, for the right applications, and by asking the right questions.

What immersion and intuition lack is breadth. Gathering information across large numbers of people, (without which decision-making looks more like educated guesswork), requires reliable sources of data – the emphasis being on reliable.

Some data depicts and reports real customer behaviour. Other types attempt to forecast behaviour. Our interviewees strongly preferred the former. Sales data is unarguable. Product returns and complaints are robust. Studies asking what customers have done are more likely to be accurate than those asking what customers think they might do in the future. Mark Souhami of Dixons pointed out that the question "What did you do?" is useful while asking "What do you think you might do?" is not.

But while the past can be studied in great detail, how do companies look forwards?

Marks & Spencers mails a preview catalogue to a representative selection of its storecard holders to test which products are likely to be in demand. This isn't asking people to predict their own behaviour; it is studying what they do in a live situation.

Tesco gained great competitive advantage by creating a site location department in 1984 to determine where to build new stores, applying scientific analysis to something that had previously relied purely on gut feel. It was expensive to set up, and instinct still had a role to play, but the returns were huge in terms of the mistakes avoided.

A fact-based view of the past provides a sound base upon which to argue the more complicated opinions of the future, underpinned by informed judgement derived from immersion and intuition.

5.2 The hard-work decision-making process

All the people we spoke to believed that, ultimately, a successful organisation would have many empowered individuals all capable of making the right decisions swiftly and effectively.

But it takes a long time to reach the point where all key managers and staff share the same standards of thinking and market knowledge required to make fast and right decisions.

Getting there is not achieved in an egalitarian spirit. Our research revealed that the dominant way of working is far more likely to be ruthless, top-down guidance of thought and action. In mitigation, this approach is driven by what is right for the customer.

The process of cascading the decision-making down from the small top team ensures that others gradually adopt the same standards and the unyielding process. The debate throughout is objective. It is based on what is right for customers and sustainable for the business to deliver. If direct learning is working, then the discussion will be rich and well informed.

Our research embraced companies in different phases of change (from early turnaround to long-run success). Reflecting those phases, it appears there is a two-stage process in the route to making all key people within an organisation customer responsive.

How organisations transform

The change process is characterised by prioritising being fast and right. Initially, the over-riding need is to get a core team which is able to start making fast and right decisions with a reasonably high degree of certainty. Then a company needs to build on these foundations.

"At Shire, if the person dealing with universities hears something, he speaks straight to the managing director. He walks across to speak to the head of research. If they both like it, they do it."

Richard de Souza, Director of International Business, Shire Pharmaceuticals Group plc

Stage 1: Shrinking the decision-making team

In early turnaround, the management team pulls in power to itself to create a small unit of people making the key decisions. They have little time to consider each decision but, because they have excellent shared judgement based on their direct learning and on experience, they will get plenty right.

This is an imperfect course of action and mistakes will occur. The confidence to take these steps comes from a conviction that what existed before was likely to be both slow and wrong. To change that culture on a grand scale, it must be changed on a small scale first. A small team operating flexibly and relying heavily on their shared experience, updated by immersion, can achieve a surprising amount.

The success of Zomba Records provides one of the most striking examples. An independent company, Zomba recently sold out to Bertelsmann for $3bn. The business was just 12 years old and effectively run by one man, Clive Calder. He put together a small, but very successful, stable of artists including Britney Spears, R Kelly, Backstreet Boys, Steps and N Synch – five of the most successful acts of recent years. EMI's Eric Nicoli explains that this focused approach made Zomba one of the most profitable record companies globally.

Richard de Souza says Shire Pharmaceuticals reaches investment decisions very differently than its bigger rivals. At its competitors, "there is a team of 25 people who deal with the universities and produce reports recommending action. These are filtered and a smaller number go to the head of research. He reviews them with his team and passes them on to the accountants. If they approve, it goes before a committee. At Shire, if the person dealing with universities hears something, he speaks straight to the managing director. He walks across to speak to the head of research. If they both like it, they do it."

Sir Peter Davis made it clear that the first step in the Sainsbury turnaround was to take all major decisions back to the board which operated as a highly experienced, coherent team of nine or 10 people. They re-established control, reasserted direction and focus and actually got on with doing things.

Stage 2: Rolling out decision making from the top

To sustain a company's success over the long term, the small groups from stage 1 have to be expanded. This occurs as the new ethos is understood, and can be shown to be understood, by people throughout the company. It extends beyond management to customer-facing staff who are in a position to demonstrate customer responsiveness directly.

The rollout itself is less of a planned and orchestrated change programme and more of a gradual filtering, through the hard-work decision-making process. This spreads awareness through the next rank of managers about 'the way things are going to be done around here'.

As other people within the organisation interact with the top team, they learn the degree of market intimacy that must underpin all key initiatives.

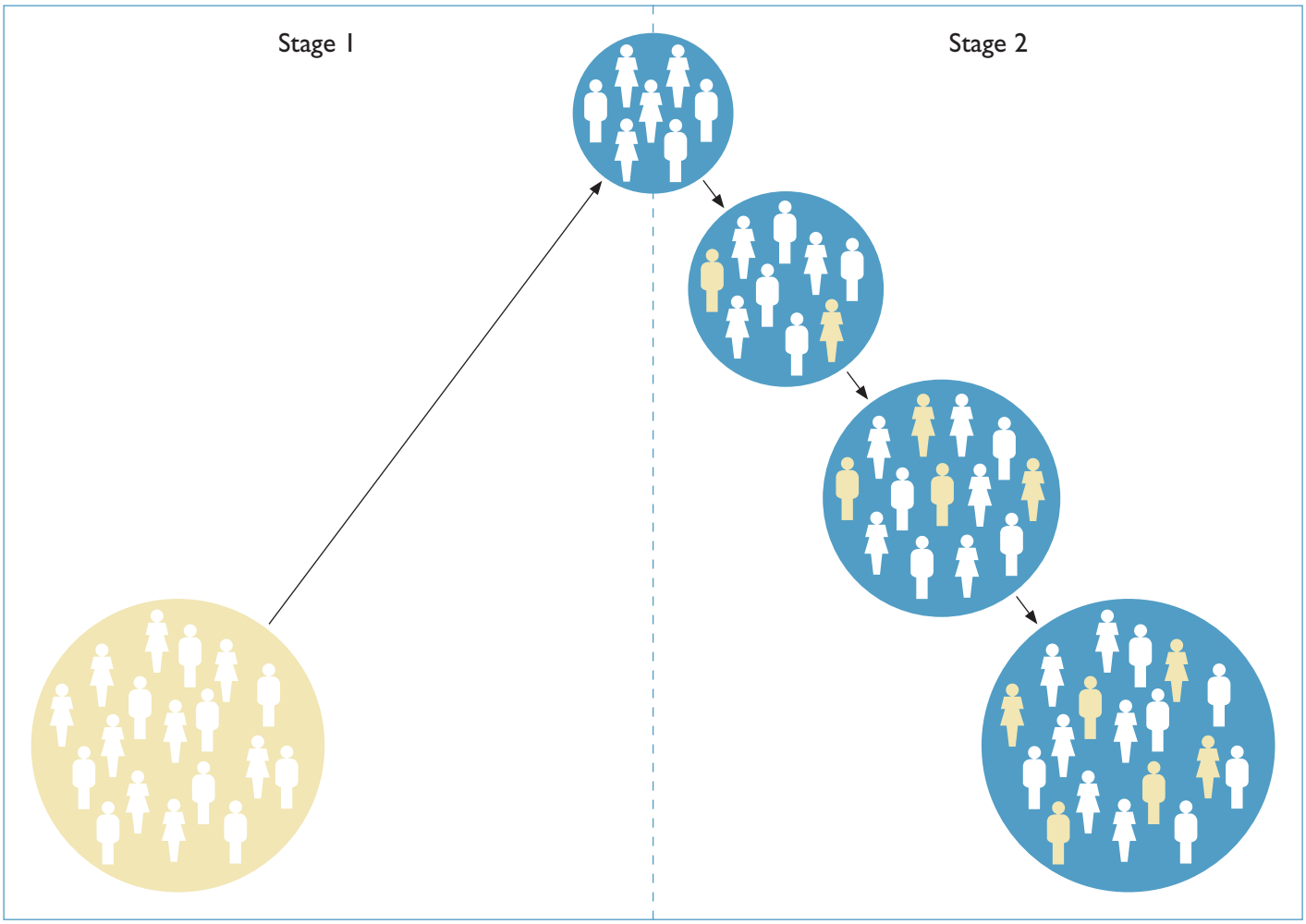
Our research provided some excellent examples of what can happen when there is widely shared judgement informed by direct learning.

Marks & Spencer had a debate about whether it should open 'factory outlet' stores. Luc Vandevelde was doubtful but was won over by the conviction of the team and the reassurance that they were closely connected to their customers. It has proved a very successful experiment.

Tesco's vision for the business was clear and well understood which enabled the top team to push responsibility a long way down the management chain. Tesco buyers had a six monthly meeting where they set out their plans to hit their numbers. They were given the responsibility to dictate launches, promotions and pricing. Whilst the details were discussed and clear direction given, the onus was on the buyer to make it work. If it didn't work, then no more job.

The people within organisations who are prepared to absorb the hard-work decision-making process will thrive on its exacting consequences and enjoy more autonomy as a reward for 'getting' the approach.

From our conversations, it was clear that Sainsbury's and Marks & Spencer were part way through the two-stage journey. EMI is in early stage 1. Shire started at stage 1 and is now undergoing the strains of growth, pushing towards stage 2, while Dixons and Tesco are firmly established in stage 2.



5.3 Accountable experimentation

Establishing a foundation of widespread, good-quality learning and high hurdles for decision-making ensures that, when trials eventually are carried out, they are building on a bedrock of considerable reflection and thought.

This approach to experimentation has benefits in terms of both speed and quality:

- A set of well-informed people thinking works a lot faster than multiple trials and is likely to produce some excellent results. The interviewees noted that frenzied activity too often replaces more considered thought. Once some ill-considered trial is underway, it can take a huge financial and emotional effort to rein it in again.
- By having fewer experiments, managers can plan and set them up more carefully. They can also evaluate each with more energy, more focus and sharper judgement than possible with an incubator-style environment. As a result, each stands a better chance of success.

The approach also tolerates failure. Indeed, making no mistakes suggested an organisation hadn't been trying hard enough. Several interviewees said they looked for a hit rate of about 'seven out of 10' – high and exacting, but not perfection. This tolerance of failure also manifested itself as an acceptance, even enthusiasm, for u-turns. And it meant valuing a person's ability to spot a failure when working on it, then moving on.

At EMI, Eric Nicoli is making things a little more systematic though not unduly scientific. "I'd be asking you to think clearly about the consequences of your actions," he said. "If you release 10 albums, 100 albums or 1,000 albums, think about the impact on the EMI system in terms of distribution and selling. Consider, too, the impact on the relationship with HMV or Woolworth's, who will be showered with new releases, many of which fail to sell at a significant level."

Marks & Spencer's two pilot 'Simply Food' stores mentioned earlier on page 10 were launched quickly because Luc Vandevelde acknowledged that the proposal was instinctively right. But part of the concept required careful study, such as what products worked and what services should be added.

By focusing the trial on what really had to be better understood, progress could be made more quickly without undue risk.

With accountable experimentation, trials come later in the development process than usual, and are well framed as a result. Thought and debate replace more diversionary experimentation and speed up the overall process.

5.4 A 'pure air' culture

The underlying culture in the organisations we studied was one of rigor and unyielding standards, even though they also highly valued intuition and immersion – traditionally softer aspects of management.

One aspect of this 'pure air' culture is that challenge and debate are seen as forces for good. Because the process of discussing conflicting ideas and views is based on facts and objective observation, it helps share learning and build judgement.

A second aspect is that no one expects an easy 'yes'. By requiring a lot from people before they get the go-ahead, an organisation toughens up and fully values opportunities when they do arise.

As a result, poor argument and lack of rigour are purged. The best aspects of being fast and right are balanced, but not compromised. It is not that fewer ideas are discussed and progressed – just fewer bad ones. Like purer air, this is a richer environment within which strong people and strong thinking thrive.

How it works

Intolerance for an idea not firmly rooted in the reality of the marketplace is seen as a positive force for change, purifying the organisation's thought process.

Say Joe has an idea. Joe knows he has a small group of people to persuade in order to get the idea off the ground. They all have many reference points through shared direct learning. But his colleagues will be hard to persuade. They will tend to say 'no' very easily and present a high hurdle which Joe must overcome to get his idea accepted.

However, they won't just say no. They will encourage Joe to go back and develop his ideas and come back with another attempt. However many attempts Joe makes, the group will continue encouraging him to get the right answer. Eventually Joe gets there or gives up. His idea is put into action with a high likelihood of success or it never even makes it to a trial.

'Pure air' in action

Sir Peter Burt illustrated the 'pure air' culture with Bank of Scotland's zero percent mortgage. It was targeted at elderly people with a common problem – a very low income but a house worth upwards of £500,000.

The problem was that the obvious solution, in which the interest was repaid by the bank taking a progressively greater share of the house, could leave someone who lived for 25 years with very little capital. The relatives would take it badly, whether or not the original transaction had taken place fairly and openly.

It took one banker – working in his own time – 18 months and four or five fully worked iterations to find a solution which satisfied the board that the reputational risk was acceptable.

The solution was that the bank would get a fixed proportion of the value of the house when it was eventually sold, over and above the value when the deal was done. If the homeowner lives for 25 years, both parties receive a lot of money. If he lives for just a week, then the bank makes nothing, the homeowner's family has lost very little and the costs are low.

The experimentation in this case was a 'thought-experiment,' and when the product was launched, it was a huge success.

David Robey, Tesco's former Corporate Marketing Director, described the culture in the mid-1980s and early 1990s as being like the 'Wild West'. It was aggressive, highly disciplined and very 'can do' but also fair with no hidden agendas. People were allowed to challenge and take chances. If they succeeded, they were highly valued. Conversely, fail too often and they were out.

Mark Souhami at Dixons describes the company as a very bad loser corporately. But failure at an employee level in most cases would be met with "oh dear, what shall we do about it?" He spoke about being careful not to shoot the messenger when things get difficult. He added, however, that there are unforgivable transgressions, such as making the same mistake twice or not addressing a problem once it had become apparent.

Shire's Richard de Souza provided another illustration. "After a take-over, one of the new middle managers had a habit of sending 20 emails a day to keep everyone informed – he seemed a bit insecure about making a decision without all the input. After a month I said that I've got 20 people reporting to me and, if they all send me 20 emails, I'll be buried. He asked what happens if it all goes wrong? I said if it goes wrong and you don't lose more than 10 per cent of your business then fine but make sure you don't do it twice. If you're losing over 20 per cent of your business and you haven't informed me… In other words, don't lie. He's now at the point where he can make a judgement."

6 Conclusion

Customer responsiveness is a critical factor in the way a company competes to win customers and hence for its overall success. It is about a way of working, using the same resources which are available to competitors, but getting more out of them.

Contrary to expectations, it is possible to set up an organisation capable of making both fast and right decisions, and do both well. It also means going against much of what is commonly accepted as 'best practice'.

There are three principles underlying effective customer responsiveness:

- Judgement-based decision making – for speed
- Direct stimulus to feed judgement – for accuracy
- Thinking hard before doing – to optimise the effects of the first two

Our research indicates that, for an organisation to achieve this in practice, they need to practice four key categories of activity. These are direct learning, hard work decision-making, accountable experimentation and a 'pure air' culture.

The four work as a system, each element combining with the others. The direct learning provides diverse and 'true' inputs which stimulate those involved. The hard-work decision-making process brings high standards and discipline to discussions which are already underpinned by shared learning. Accountable experimentation ensures that when action is taken it is focused and makes good use of the previous thinking and the available resources. All of this is supported by the 'pure air' culture which ensures the organisation is very unsupportive of the wrong behaviour, but very encouraging for the right people prepared to do the right things.

At the outset we described this problem as having an elusive answer. Indeed, the solution doesn't sit at an extreme of either views or behaviour – be it 'take a flyer' or 'by-the-book'. It is about combining the best elements of each – but in a combination with little room for compromise.

It is about being simultaneously intolerant of anything not in a customer's best interest and impatient about how long it takes to get it out there. That is, about hating getting it wrong, and having to be first. About being fast and being right.

The research brief

Our research focused exclusively on gaining a preliminary understanding of 'what is customer responsiveness?' We did not attempt to explain business performance nor seek insights on any other dimension of corporate behaviour.

We restricted our interviews to a small group of companies which were likely to be familiar with this concept and which were, *prima facie*, more likely to have relevant operational experience.

We focused on UK public companies led, at the time, by chief executives who could broadly be defined as having marketing backgrounds. In each case, we interviewed the chief executive or another member of the senior management team with a similar background. We also drew insights from press and analysts reports.

At the time, there were only 13 such companies in the FTSE 100 – Bank of Scotland (now merged into HBOS), Cadbury-Schweppes, Carlton, Dixons, EMI, Hilton, Reed Elsevier, Rentokil, J Sainsbury, Marks & Spencer, Scottish & Newcastle, Shire Pharmaceuticals Group and Tesco.

They are in quite different phases of performance. Some are enjoying long-running success; some are in the early stages of turnaround; while others are further along the rebuilding process.

Our interviews addressed three broad questions:

- How does a company learn what is going on in the market?
- What does it do in response to what it has learned?
- How does the company culture support that responsiveness?

The research was undertaken between October 2001 and February 2002. The interviewees were:

Sir Peter Burt, Chief Executive, Bank of Scotland

Mark Souhami, Deputy Chairman, Dixons Group plc

Eric Nicoli, Chairman, EMI Group plc

Mike Ashton, Senior Vice President, Marketing, Hilton Group plc

Sir Peter Davis, Chief Executive, J Sainsbury plc

Luc Vandevelde, Chairman, Marks & Spencer Group plc

Alan McWalter, Marketing Director, Marks & Spencer Group plc

Guy Dixon, Managing Director, Scottish & Newcastle plc

Richard de Souza, Director, International, Shire Pharmaceuticals Group plc

David Robey, formerly Corporate Marketing Director, Tesco plc (currently Commercial Director, Dolland & Aitcheson Ltd)

Lesley James, formerly Human Resources Director, Tesco plc

The Foundation

The Foundation was set up in October 1999 to take up an issue that we perceived had not been adequately addressed: Why do organisations find it so hard to act in a way that reflects what their customers want?

In an ideal world, you'd know what your customers want. You'd promise to provide it. And you'd be organised to deliver unfailingly against what you claimed.

In the real world, things all too easily get out of sync. Companies get their promise right, then find they can't quite deliver. Or by the time they're geared-up to deliver, they find customers are looking for something new.

Why? Often because companies see things inside out. The company's view of the world is dominated by the endless organisational detail that keeps it functioning, while its customers may barely notice the company in the crowded landscape of their own lives. Often that perception gap is mirrored *inside the company.* Managers focused on the organisation pay too little heed to the needs and opportunities 'out there'; while those focused on the customer lose sight of the organisation's capabilities and constraints. What's needed is a more integrated approach.

That's why we formed The Foundation. To take a rounded view of challenges and opportunities, we brought together specialists in customer insight, branding and communications with like-minded people who have business strategy, organisational development and hands-on business management expertise. As a team, we can help companies be more *astute,* because we fully exploit intelligence about the customer; more *powerful* because we engage all the relevant parts of the organisation; and more *effective* because we have the implementation skills to make a practical and sustainable difference.

That means we can help clients act more incisively on their customer understanding, to connect what they say with what they do. And because we give them a new way of looking at things, we've found we can help solve problems they thought they couldn't fix, or seize opportunities they didn't even know they had.

"Marketing is not a specialised business activity… It is the whole enterprise seen from the customer's point of view. Concern for marketing must therefore permeate all areas of the enterprise."

Peter Drucker, 1954

"A powerful new idea can kick around unused in a company for years… because nobody has assumed responsibility for converting it into action. What is often lacking is not creativity… but innovation – ie putting the ideas to work."

Theodore Levitt, 1963

How do we do it?

The thinking behind our approach is not new; it's what we do with it that makes the difference. Consider these two observations, which ring as true today as they did in the '50s and '60s:

Management theorists like Peter Drucker and Theodore Levitt have been saying for decades that companies need to be more aware of customer perspectives and better at putting ideas into action. Management practitioners are still saying the same today – what chief executive doesn't constantly urge his organisation to be yet more customer focused, yet more innovative?

Why is it so hard for companies to do what they so badly *want* to do?

In our experience, it's because they're simply not set up to address the challenge holistically. The people who engage most closely with customers, who come nearest to the customer's-eye view, aren't joined-up with their operational or financial colleagues who could help them act on their insights. They have different reporting lines, loyalties and incentives. They may never even meet. It's as if they speak different languages. And when a bright idea emerges in one part of the organisation, the people with the inspiration may not have their hands on all the levers that make change happen: organisations often have an inbuilt resistance to new ideas, which can seem to threaten the discipline that makes large structures run smoothly.

With the best of intentions, companies create gaps. Between their customer skills and their organisational skills. Between themselves and their customers.

To make matters worse, outside consultants mimic their clients. They tend to specialise – in branding, say, or organisational development. So they address the problem with the kind of silo thinking that may in fact be its cause.

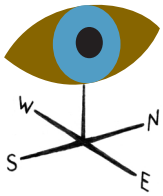
The rationale behind our approach may not be new, but the approach itself is. By bringing a broader range of skills to bear, we work with our clients to create a more joined-up process: a virtuous circle that can deliver a one-off benefit, solve individual problems or produce sustained improvement. These are its key elements…

Insight

We use analysis and experience to develop insight – properly understanding why your customers do things – and make it digestible for all parts of the organisation…

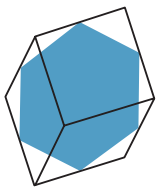
Motivation

Modifiying assets and capabilities isn't an end in itself. We'll use the insights into your customers and business to package them in a way that's motivating to customers and employees alike…



Direction

It's what you do with your insight that counts. We combine it with understanding of your business and simplify it all to provide clear direction…



Change

We'll reappraise your capabilities and your assets, which may be undervalued, and work with you to turn direction into action – adapting your capabilities or assets to create new opportunities and new ways of responding to customers…

Because this is a circular process, you can tap into it at whatever point is appropriate. You might begin with a drive to understand your customers better. Or you could start inside the organisation, to seek out untapped potential for making your offer more attractive to customers. As our case studies show, we're usually called in when a specific issue requires a perspective that includes customer and company.

Our goal is to change things for the better, for client and customer alike. We work with teams from our clients, bringing intelligence and our own techniques that make the most of our client's know-how. By providing guidance, we keep the process on track. By providing stimulation, we ensure stretching, lateral thinking and rigorous implementation.

The authors

Charlie Dawson has led The Foundation since its formation in 1999, to address problems across the customer/organisation divide by harnessing rigorous analytical approaches and behavioural expertise, bringing together the skills of strategic management consultancy with those of the creative industries.

After gaining a first class manufacturing engineering degree from Downing College, Cambridge, Charlie initially worked in advertising with Saatchi & Saatchi. He was subsequently managing director of independent UK advertising agency, Duckworth Finn Grubb Waters (DFGW). Among other clients, Charlie was responsible for Daewoo Cars, which he and his team managed for five years from its launch. His team received wide acclaim for successfully helping Daewoo to break all previous growth records for new car entrants in the UK.

Seán Meehan is the Martin Hilti Professor of Marketing and Change Management at the Institute for Management Development (IMD), in Lausanne, Switzerland. Prior to joining the IMD Faculty in 1997, he earned his PhD at London Business School and was a director of marketing with Deloitte & Touche in the USA.

His research and teaching is dedicated to helping executives better understand, and overcome, the challenges inherent in becoming customer focused. At IMD, he has designed and led strategy and marketing programmes for Swiss Re, Toyota, Hilti and MasterCard.

Seán's research has won the Marketing Science Institute's Alden Clayton award, the Academy of Marketing's Houghton Mifflin award, as well as a scholarship from the Economic & Social Research Council. He has presented his work to the Professional Marketing Forum, the Marketing Council, the Marketing Science Institute, the European Society for Opinion and Market Research, the European Foundation For Quality Management and the Global Marketing Forum.