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BUILDING MARKET-FOCUSED ORGANIZATIONS

By Michael J. Lanning & Dr. Lynn W. Phillips

In early 1990, Hewlett-Packard's Colorado Telecomm Division (CTD) was in trouble. CTD had experienced great success in the 80's with its line of "protocol analyzers" (PA's), products that help computer network maintenance personnel analyze and fix network problems. CTD's PA's had given customers much more data about their network, allowing them to quickly diagnose trouble. By 90, however, the Division had gone six years without a significant new product introduction. CTD still held the largest market share but competitors were steadily eroding it by attacking niches with new products. In three years CTD had slipped from being the highest profit, fastest growing division in its group within HP to being the lowest profit, fastest shrinking. Enormous pressure grew on the Division to bring out new products quickly.

CTD had launched numerous product development projects, always based on their traditional strength: developing technology that produces superior quantities of data for users to analyze. However, a frustrating start-and-stop pattern had plagued these projects as too often the Division would discover, s

The new management team in early 90, however, wanted to avoid the start and stop pattern of product development that had plagued the Division in recent years. Too often R&D projects had been launched and then six months later they would realize that they missed some customer needs or certain price points and the project would grind to a halt or lose so much time backtracking as to become obsolete. Attempts in planning exercises to avoid this problem led to documents committing to make products that would deliver all things to all people.

A key largely unchallenged assumption in CTD was that any new product should be focused on producing more data about the network than competitors' technology. This had been the basis for past success and was CTD's most well developed capability.

A business reexamination was launched, starting with exploring a "day in the life" of customers to see problems through their eyes. This produced an integrating and simplifying insight on which the entire organization was rigorously focused. CTD discovered that end-users, the actual maintenance personnel, were increasingly overwhelmed by the growing complexity of network problems and the pressure to maintain uptime. Rather than "designing, making and selling protocol analyzers," CTD would redefine its business as "Providing and Communicating, to network-managers, maximum network availability via superior problem isolation, at similar Price, versus competitors." This "Value Proposition," a decision and commitment to a specific end-result Benefit and Price for target customers, greatly clarified debate over such issues as product features and advertising and led to one of the market's most impressive recent successes, the "Network Advisor," producing a profit turnaround for CTD.

In 1989 Mervyn's Department Stores had committed to offer "high quality" clothing. A concerted effort by management to "become" this customer, to "walk a mile in their shoes," revealed specific end-result Benefits desired from clothing, including "Durability," "Ease of Care," and "Comfort," with Comfort surprisingly most important. Yet "Quality" efforts had clearly overemphasized Durability with no focus on Comfort. Programs to Provide superior Comfort, in "tactile feel" and "fit," and to Communicate Mervyn's Comfort emphasis, have produced strong market share gains.

In 1991 Kodak approached telecomm-provider MCI to sell optical disk libraries. A Kodak multifunctional team worked with MCI's Information Technology group to learn: who MCI's customers are, the Benefits they really desire and how MCI might better Deliver them. The two discovered that many large MCI customers desired more easy, flexible access to their MCI billing data, implying a new method of billing distribution; and, though Kodak's disk libraries did not address this problem, Kodak's new Photo CD technology, developed for consumers, fit the bill. Now MCI sends bills by Compact Disk with this system and the Kodak-MCI partnership is thriving.

In a world of increasingly frequent and severe change, a business organization must reassess and possibly reshape its basic assumptions about how to profitably compete, including its business strategies and the evolution of its culture and leadership. It must decide what sort of organizational "city" it wants to build. We believe that there are three fundamental types of "city" and that the most competitively successful ot the three will be what we call "Market-Focused." However, despite apparently similar philosophies with We believe most will adopt some combination of the characteristics of either what we call the "Internally-Driven" or "Customer Compelled" cities, with many shuttling back and forth between the two, crossing and recrossing the "Confusion Bridge" between the two.to guide their strategies, the evolution of their cultures and the role of leadershipwill take the strategic, cultural and leadership decisions that will determine their long term fate. will use a set of philosophical assumptions to guide their strategic, cultural and leadership decisionsselect among the paths to three very different kinds of organization. All the decision regarding their strategy, culture and leadership will be guided by the philosophy and basic assumptions of these contrasting select among three very different philosphical paths to competitive success. The most common route will be to stay fifollow a path to one of three very different philosophies for competing and generating wealth.one of three fundamentally different paths. We believe the most successful yet least travelled path will be the one towards a kind of organization we define as "Market-Focused." Most organizations think they are headed in this direction, if not arrived already. Almost every organization today talks about becoming "market" or "customer" or "marketing" "driven" or "focused." But the truly Market-Focused organization as we will define it here is in fact a rarity and profoundly different from the assumptions and theory that guide most organizations.most of the assumptions and theory that organizations are using to approach to business that we call Market-Focused is in fact rarely we espouse a theory of business we think best described as Market-Focused that only a handful of businesses will .The few organizations who make the whole journey to this state truly Market-Focused unusual businesses that become as we define this term will be those that integrate all actions around one deceptively simple objective: Delivery of superior Value to target customers at a cost allowing acceptable profit.

When revenues exceed total costs, a business generates profit. Revenues are produced only by winning customers' preference which is determined by the relative "Value" customers perceive among options. Value is defined precisely as the net effect of end-result Benefits obtained and Price paid (i.e., Value equals Benefits minus Price). An "end-result Benefit" is a state of affairs desirable to a customer. Frequently confused with product/service features, "Benefit" defines how a customer's life would be better. Price is what the customer must pay to obtain the Benefit(s).

Any business actually Delivers some "Value Proposition": i.e., it Provides and Communicates some Benefit(s) and some Price, to some group of customers, at some total cost to the business. If these customers find the Value Proposition preferable to all their alternatives, it is "superior." If the resulting revenues exceed the total cost of Delivery, then the business Delivers a "profitable superior Value Proposition," which is not new or very uncommon, since that is what happens every time a business succeeds. Of course few organizations do it consistently over time and most Value Propositions Delivered are either inferior and/or unprofitable. What impels us to write this article is that so few organizations actually focus on trying.

The "Market-Focused" organization deliberately and systematically manages businesses with explicit intent to profitably Deliver superior Value. In a market, it carefully defines and evaluates Value Delivery options and then for each business explicitly Chooses a specific Value Proposition it believes both superior to competition and possible to profitably Deliver. This includes identifying customers not to pursue and Benefits not to Deliver. It then integrates all functions to in fact Deliver the Proposition, ensuring that all functional activity, assets, organization-structure and business plans are exclusively focused on Providing and Communicating this specific Proposition. It thoroughly Monitors this Delivery versus competition and resulting market-share, revenue, cost and profit. Concurrently it charges Leadership with molding and transforming the Culture's Capabilities to execute the above activities.

So, the Market-Focused organization is simply one that defines competitive advantage as the ability to profitably Deliver superior Value, pursued in all aspects of Strategy, Culture and Leadership. Yet this deceptively simple principle contrasts sharply with the two most often traveled paths. See Exhibit One.

On the "Internally-Driven" path, managers focus on designing, making and selling a product (or service) rather than on Choosing, Providing and Communicating a superior Value Proposition. Competitive advantage is sought in the way products or services are made and sold, in assets, technologies, costs or functional skills that competition lacks. These managers often think from the inside-out, deciding what product to make, then how to make it and then how to make customers buy it. Functions (R&D, Operations, Marketing, Regulatory, etc.), not integrated around any specific chosen Value Proposition, pursue their own inconsistent agendas (sometimes feuding and blaming each other), undermining the chances of profitable Value Delivery.

Wanting to get beyond this Internally-Driven myopia, many are led down a path often described as the only alternative: commit to anything and everything customers suggest, the "Customer Compelled" path. Just "be close" to the customer, promise "total satisfaction," "do what they say" beckons this siren song. The Marketing and, more recently, the Total Quality movements are widely interpreted in these terms. Despite listening enthusiastically, the Customer-Compelled organization still fails to understand end-result Benefits customers really want. It asks the same wrong questions (how to make and sell what product?) but now wants customers to answer.

Moreover, this path tries to use customer input alone to solve the whole business puzzle, giving inadequate attention to the relative abilities of the organization and to necessary tradeoffs. While customers often make many good suggestions, they also suggest much that is neither actionable nor profitable. And the diversity of requests is limited only by the diversity of customers one encounters. Most organizations, trying to follow the Customer-Compelled path, find it impractical and are driven back toward the traditions of Internally-Driven, disillusioned and discouraged.

Because managers usually only perceive two paths, many organizations find themselves shuttling across "Confusion Bridge," a frustrating effort to blend the two flawed approaches. On this popular bridge, managers try to do whatever the customer says unless it violates an Internally-Driven mandate; or, follow Internally-Driven agendas unless a customer complains. This approach lulls some managers into thinking they have found some kind of "balance," but no less than Internally-Driven or Customer-Compelled it fundamentally misses the key characteristics of Market-Focus - making a disciplined choice of customers to serve and of specific end-result Benefits and Price to Deliver to them (and which to deny them), followed by rigorously integrating all functional activities around this Value Proposition. Exhibit Two shows superior Value Propositions from recent clients of ours.

Whether Internally-Driven, Customer-Compelled or on Confusion Bridge, the great majority of organizations (even though they may drag themselves through vast arrays of official planning processes) simply do not consciously Choose and commit to consistently Deliver any specific Value Proposition for each of their businesses. Many know much about customers' desires and about competition but still fail to make this choice and commitment. Most organizations' energies are diffused, with no particular Value Proposition focus, often resulting in endless cross-functional conflicts. Profitable Delivery of superior Value is a matter of luck in such an environment. Market-Focus is a belief in improving the odds.

This article will discuss some of the implications of taking the Market-Focused path: for development of business Strategy; for evolution and transformation of Culture; and for defining the role of Leadership. We close with a more detailed contrast of Market-Focus with the alternate, conventional paths.

I. Defining a Winning Business: Market-Focused Strategy

-Sine qua non of Market-Focus: understanding "end-result Benefit"

-Deliberately manage a Business as a Value Delivery System

-When customers have customers: understanding and designing Value Delivery Chains

-Identifying Business Options: Value Delivery based Segmentation

-Superior to what? Competition - in the picture and in perspective

II. The "4-Cs of Culture Change": Building Market-Focused Capabilities

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- Build specific capabilities required by a Value Propostion

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III Leadership: the Will to Climb the Five Steps to Market Focus

IV Contrast to the more conventional, alternative paths

I. DEFINING A WINNING BUSINESS: MARKET-FOCUSED STRATEGY

SINE QUA NON: UNDERSTANDING "END-RESULT BENEFIT"

End-results for the customer, NOT product/service attributes - The most important concept that a Market-Focused organization pursues is that of end-result Benefit. A common and well established confusion in managers' minds is between the attributes and features of a product or service and the real end-result Benefits desired by customers who may use that product/service. The reality that counts in a business success, the issue on which to focus, is about how the customer's life can be improved, not in what goes on within the walls of the business.

For example, one client (in the medical diagnostic instrument market) not long ago issued a description to field sales reps of "the benefits to your customers" of the company's pre-natal cardiac monitoring system, as follows: "higher capacity Winchester disk (now 84Mb); ... can store more patient records; ... faster throughput of patient data; ... faster printing; ... LaserJet III printing via PCL5 ... for full disclosure printing; ... 8MB RAM on-board in the QS20 ..."

Of course, all these features and attributes may (or may not) lead to valuable end-result Benefits. The great tendency in many organizations, however, is to assume that these end-result Benefits and their connection back to features and attributes are well understood, both within the organization and among customers, a convenient but dangerous and usually dubious assumption. "Our customers aren't stupid, you see," we are sometimes assured. No doubt true, but that doesn't mean that a lot of obstetricians make the right connection (if any) between "8MB RAM on-board," a "higher capacity disk" or "PCL5" and what goes on when trying to diagnose a pre-natal heartbeat. And it doesn't mean that any three people within the manufacturer assume exactly the same connection. Thus, the Benefits and their connection to what the business is offering go unstated, unverified and unchallenged.

"Video tapes" of a day-in-the-life of a customer - A tool we have found very useful for thinking about end-result Benefits is to imagine making two contrasting video tapes of a day in the life of the customer. The first tape would capture a typical scenario today for obstetricians trying to monitor a baby's cardiac condition in the womb. It might show them trying to analyze data, struggling to accurately and quickly enough diagnose a possible problem, then trying to monitor the effects of therapy. What are they trying to accomplish, what obstacles do they encounter and how do they cope with those obstacles?

The second video tape would show what this scenario would be like if the obstetricians could wave a magic wand and improve the monitoring process dramatically. Through much faster access to and better-resolution printing of more accurate and detailed data, perhaps we would see the physicians able to more quickly and more accurately diagnose a cardiac condition and thus provide more effective therapy. Carefully and explicitly articulating these desirable end-results is critical to achieving clarity of direction, within the business and with customers.

Become the customer - Yet, uncovering and fully understanding these end-result Benefits desirable to potential or current users is not nearly as simple as one would like. Directly asking customers what they want often does not reveal the end-result Benefits they would most value but rather only elicits their description of the attributes, features and Price they think should be offered by our product or service. We find it far more powerful

to "become the customer," that is, to take an anthropological approach of studying intensively how the customer lives, asking: "What would it be like to 'be' this customer and what would I want, as an end-result scenario, if I were that customer? What does this imply our business ideally should do to improve the lot of this customer? Could we do that profitably and better than competition?

For example, when Weyerhaeuser Sales Reps from their Adele, Georgia particle board plant in the late '80s asked a large furniture maker what they wanted from particle board, the maker's materials-buyer made it clear: low price with adequate quality. Weyerhaeuser's arguments that it had higher quality fell on deaf ears ("we compete on price") and Weyerhaeuser couldn't make an adequate return with lower Price.

However, when a Weyerhaeuser multi-functional team established a close enough relationship with this maker to visit their furniture plant, they gained a picture of how the maker used particle board to make table legs. Like many manufacturers this maker was laminating together narrow pieces of board to make a thicker piece, since the particle board industry could not efficiently produce thick board. But by learning to make thick board, although more expensively, Weyerhaeuser was able to save the maker the cost of their laminating process. In net, thus, doing business with Weyerhaeuser allowed the maker to produce table legs at a lower total cost even though paying enough for the thick particle board to cover Weyerhaeuser's higher costs.

After experimenting at length with this thicker board, the maker also learned that the smoother surface translated to real additional savings in tool wear and even produced a slightly better final appearance. Despite the efforts of competitor Georgia Pacific to later imitate the thicker board, Weyerhaeuser was able to hold onto this business at significant and profitable premium and later to expand into a leading and profitable position in the Southeast for thick dimension particle board that saves customers laminating and tool-wear costs and enhances their final product's appearance.

Weyerhaeuser would not have likely ever discovered this major opportunity simply by asking the customer. The materials buyer and the manufacturing manager were not staying up nights worrying about their laminating line and would have likely never asked Weyerhaeuser to help them eliminate it. By becoming the customer and asking how the customer could better succeed, however, Weyerhaeuser did discover an opportunity to profitably deliver a combination of highly valuable end-result Benefits and Price.

For actionable Benefits, Peel the Onion - For an end-result Benefit to be strategically actionable for a business, it must be understood at a specific and precisely measurable enough level of detail to allow integration around it by all elements of the organization. People disagree as to priorities in a business; an effective Value Proposition must allow resolution of these disagreements and to do so the end-result Benefits in it must be highly specific, measurable and as unambiguous as possible. If a Benefit is understood at too vague and amorphous a level, widely varying interpretations of the Benefit are inevitable, within the organization and among customers.

Common attempts at Benefit description that we see at many clients and other businesses are frequently well meaning but so vague as to give no real direction and lead to no meaningful integration, such as: "great quality;" "superior service;" "performance;" "reliable supplier;" "a partnership;" or even emptier fluff such as "excellence" or "total satisfaction." A Benefit is like an onion, with an outside layer of vague meaning which must be "peeled back" until a deep and specific enough understanding to integrate all business activities has been achieved. What exactly does this Benefit mean for the customer, what is the second video tape and have we expressed the Benefit clearly and specifically enough that it allows us to measure whether or not we are delivering it to the customer?

Thus, when Mervyn's defined one of its end-result Benefits as "Quality Merchandise," this was a start but too vague. Existing technical testing based on industry "Quality" standards really measured, in great depth, how tough a garment was, without measuring Comfort in any respect. Yet peeling the Quality onion revealed customers' great interest in how comfortable a garment is. Further "peeling" showed that Comfort consists of how well the item Feels to the skin and how well it Fits. The recent great success of Mervyn's "Cheetah" (private label brand) line of fleece ("sweat clothes") was largely due to its greater Comfort: Feel (softer, plusher); and Fit (consistent and loose enough but not baggy) compared to competitors.

The most Comfortable Tactile Feel and Fit can be defined and measured by type of garment. Thus Mervyn's is learning now to Provide a truly more Comfortable Tactile Feel and Fit across all merchandise, a dramatically different approach to a key Benefit, due to peeling the onion.

Often managers at first assume that they have a meaningful Value Proposition because they are committed to one of the typically vague Benefit concepts such as "Quality," "Service," "Performance," etc. Until the organization peels the onion on these generalities and platitudes, Value Delivery cannot be discussed in strategically powerful, actionable terms.

DELIBERATELY MANAGE YOUR BUSINESS AS A VALUE DELIVERY SYSTEM

If Delivering a superior Value at a total cost below revenues, allowing an acceptable return, is the obvious objective of a business, then a business can be described and should be managed deliberately in terms of the activities needed to accomplish this objective. Delivering a Value Proposition consists of Providing and Communicating it. But to increase the probability of Delivering one that is both superior and profitable, a Market-Focused organization explicitly Chooses one it believes will work, then sees to it that the organization's singleminded agenda is to in fact Deliver that very Proposition better than competition and at a low enough Cost to allow an adequate return. The organization also Monitors with great discipline the actual Delivery and its consequences. Thus, any business is a "System" Delivering some Value, but a Market-Focused business is integrated around Delivery of a specific Value Proposition: a "Value Delivery System" that Chooses, Provides, Communicates and Monitors a specific Value Proposition. See Exhibit Three.

Choosing vs. Hoping for the Best - We believe that a business organization should first Choose a Value Proposition (the target customers and the combination of end-result Benefits and Price it intends to offer that target). If the organization sees the need and/or opportunity to profitably Deliver several superior Value Propositions, then the organization is deciding to compete in several businesses. For each business, Choosing the Value Proposition (VP) means explicitly, formally deciding, articulating and adopting it in writing as the driver of every aspect of the business.

A Value Proposition is a combination of end-result Benefit(s) and Price that a business offers to some group of customers. To be useful the description of a Value Proposition must be specific and precise. This description must allow comparison of the Proposition to the competing alternatives this customer may have. It must allow the business to make meaningful tradeoffs and set priorities throughout the functions. And the organization has not genuinely Chosen the Proposition until it has become the explicit, unambiguous and exclusive basis for setting priorities and making tradeoffs throughout all the business' functions.

When people first start working with the concepts of Market-Focus, a very common misunderstanding is to assume, sincerely and in good faith, that they know what the organization's Value Proposition is, when in fact this "Value Proposition" is incomplete and/or not specific enough. Target customer is often not clearly described. Price is often unspecified. Benefits are often actually product or service features, not end-result Benefits. Or, Benefits are much too vague (e.g., "Great Quality" or "Superior Service" or "Best Solution," etc.; what would any of these ideas exclude? "Bad quality and service?"). Or, while at least some of the Benefits may be specific, they are a long unprioritized laundry-list, another, perhaps more tiresome, way to make no real decision.

An additional common misunderstanding is to assume that, since a "Value Proposition" can be stated by, typically, the Marketing or Sales function, therefore the organization has Chosen a Value Proposition. Usually, however, if numerous managers in other functions are asked to describe the Value Proposition(s) of their business, they come up either with quite different Propositions or with no opinion at all. We urge managers to accept the more demanding definition of Choosing a Value Proposition which insists that the whole organization adopts the same specific one to guide all decision making and resolve all tradeoffs.

It should be recognized that it is politically less disruptive in most organizations to either have a Value Proposition that is so innocuous as to offend and disturb noone (anything from "give customers a nice day" to "excellence" to "superior quality/service") or to have a specific one but not to share it, let alone enforce it, outside a small functional corner of the business. Politically easy but also useless.

Of course "Choosing" as defined here is only advisable if you want to increase the probability of making money. An alternative is to trust to luck and hope for the best. A small lucky minority of businesses do profitably enjoy customer preference, at least for a while, despite never deciding deliberately to pursue any particular customer or to focus on offering any particular reason for the customer to prefer them over competing alternatives. Most organizations do not see themselves as randomly throwing the dice and praying. They usually employ some combination of Internally-Driven and/or Customer-Compelled assumptions to decide what products/services to offer and how. This only obscures the fact, however, that they are still not Choosing a specific Value Proposition. This makes it understandable but nonetheless amazing to observe the outright enthusiasm with which many managers and pundits come up with creative or elaborate explanations as to why no Value Proposition can or should be Chosen.

Most organizations, at any rate, do not in fact Choose a meaningful Value Proposition. If your organization has Chosen one then:

☐ you have a clear specific statement of it (not just a feeling)

☐ it represents a disciplined decision to pursue one of numerous options (not a vague global set of promises to be good and nice)

☐ every function, department and virtually every person (not merely Marketing, Planning or top Management) knows what it is, understands it and uses it to guide their everyday operational decision making and to resolve operational issues and tradeoffsProviding the Value Proposition - After Choosing it, the business must, obviously, see to it that the target customer actually experiences this Value Proposition, that is, see to it that the business actually Provides the chosen Benefits and Price to the chosen target customer. This cannot usually be expected to occur simply by issuing copies of the Proposition to all departments ("attention! please make this happen"). Rather, a business must explicitly decide and articulate how it is going to Provide each of the chosen Benefits to target customers at a cost allowing acceptable returns.

Work with Valley Care, a large Northern California hospital group, articulated a Proposition that focuses on obstetrics and includes among end-result Benefits the notion that the consumer should receive "superior emotional well-being" which means in part that she and her family: "understand what's happening, what she and they can and should do to help the pregnancy; and, are included in medical decisions." Providing this specific Benefit and these dimensions of it is not accomplished simply by writing-down this Benefit nor even simply by telling consumers this hospital will give them superior emotional well-being. The Benefit can only be Provided by actions such as, for example:

☐ Education proactively integrated into the pregnancy from the outset (versus simply making a few courses available and passing out some literature)

☐ Highlighting and discussing the key actions mother can take to help pregnancy so she really understands her options and consequences (e.g., in diet, exercise, work habits, stress, etc.)

☐ Education for mother includes understanding the range of likely responses by her family and how she can best manage these (e.g., how to minimize the first child's jealousy)

In our work with Apple Computer, an articulation of a viable Apple Value Proposition that emerged focused on the end-result Benefit that "knowledge-workers" would experience (due to using an Apple): "greater access to what a computer can help them do, thus better improving their intellectual output, making it more creative, more persuasively communicated and more efficiently produced."

How might Apple actually Provide this Benefit better than competition? The original success in the late '70s, Apple II, did it by giving knowledge workers their first practical opportunity to improve their access to computing since the invention of computers. Apple II let the customer put some kind of computing power at their finger tips for the first time. Of course Apple and the computer industry assumed that the only real market for such small computers was among the pre-existing customers: the handful of hobbyist computer hacks willing to put their own computers together by hand.

When it turned out that the Benefits Delivered by a personal computer were in fact valuable to millions of knowledge workers, Apple flourished. But then, Microsoft, Intel and IBM and its clones offered an alternative to Apple that let the user: process larger amounts of data faster and, with new software developed for the IBM environment, more easily (e.g., Lotus spreadsheets); seemed a safer bet because of the association with the dominant IBM computing environment; and had a lower Price. Apple's first response was "Lisa," an impressive box of technology but no answer to the IBM world's challenge.

Apple survived because it then offered Macintosh which again Provided superior access to computing, this time by utilizing an architecture and operating system inherently more user-friendly that enabled the introduction of a graphical user interface. This use of symbols on the computer screen (icons) and a mouse to point and click at the icons, in conjunction with other design elements of the system, made it much easier for people to learn and use applications on the Mac.

In turn, this ease of use led to people using the Mac much more (typical research indicates that the average IBM/DOS user actually uses about 1.2 or so applications, versus about 3.5 for Mac users). Mac made it easier, not to do the same limited tasks that the IBM user performed, but to do far more, getting much greater access to what a computer can really help them do.

Unfortunately, Apple made two fundamental mistakes after introducing Macintosh. First, the Company in the '80s seems to have not defined their competitive advantage in terms of end-result Benefit. Apple assumed that its technology and especially the architecture that enabled the graphical user interface, was its competitive advantage, rather than seeing "the ability to Deliver superior access to computing" as their actual advantage. The Company did not accomplish much in the way of improving how well Apple Provides this Benefit in the decade since introducing the Macintosh.

With a focus on better Providing this Benefit, the Company might have put higher priority earlier on the portable/lap-top computer rather than making marginal improvements in the interface. Being first, rather than last, into the market with a portable and then lap top would have enhanced the Providing of greater access to computing. Apple insisted on developing its own "superior technology" portable, introducing a great lemon called the Portable Macintosh that was so heavy and large as to be barely moveable. But it had superior battery life. Meanwhile, as inevitably had to happen, competition narrowed Apple's advantage in the ease-of-use of the interface. Now that Apple let Sony build a fine Mac lap-top, Microsoft has convinced most users that the Windows interface is about as good as the Mac.

The graphical user interface was a great tool that made it possible for Apple to Deliver superior access to computing. Instead, Apple thought of the user interface as enabling them to sell their hardware. In fact, as pointed out in the 8/91 Harvard Business Review article "The Computerless Computer Company" by A. Rappaport and S. Halevi, Apple might have been far more successful starting in the late '80s if it had allowed the Mac operating system to be used widely on other personal computers including IBM compatibles. Apple would have derived its income from the operating system rather than primarily its proprietary hardware, possibly preempting Microsoft in dominating how users get Benefit from personal computers.

The Macintosh in fact Provided a superior Value Proposition in the mid '80s but Apple the organization was largely technology-driven, never Chose this Proposition and so never came to grips with how to better Provide it.

<u>Should we actually TELL anybody about this</u>? - In addition to Providing a Benefit, a business must ensure that target customers realize and fully appreciate the fact that doing business with them will allow them to experience these chosen Benefits. And the business must ensure that the customer appreciates the full economic value for them of those Benefits. No matter how well a business can Provide a superior Value Proposition, it must also succeed in Communicating that Proposition to actually win customer preference.

This does not necessarily mean that a business must try hard to tell its story, that it even needs either a Sales Force or Advertising efforts of any kind. After all, if you discover a cure to cancer and obtain regulatory approval to sell it as such, one press conference will suffice for Communicating your Value Proposition. One way or another, however, a business clearly does not Deliver a Value Proposition unless it both Provides and Communicates that Proposition.

Thus, the second major failing of Apple was inadequate Communication of its end-result Benefit. A Macintosh does speak for itself; people who learned to use a Mac usually came to understand the Benefit quite well and so word-of-mouth helped to spread Mac's popularity enough to make it a modest success. However, most people remained unaware of the real Benefit advantage to Apple and market share is only 8-12%, despite the fact that Mac Provides what would have been a superior Value for a much larger portion of the market in the '80s.

Apple's Communication efforts after the introduction of Mac spent most of their energy on relatively minor, irrelevant or even unproductive issues. For example, Apple advertising presented messages such as: 1) IBM is like Big Brother in Orwell's 1984, so be like this woman who throws a hammer at Big Brother and switch to Apple; 2) you who use IBM are lemmings, marching blindly off a cliff, so switch to Apple; 3) Apple can let you produce formal elaborate graphics presentations instead of having a printer do it; and 4) even you, who are so afraid of computers that you would wander for days in semi-panic at the very thought of being asked to learn to use one, even you can use an Apple.

During the '80s, the majority of desk-top computer users resisted Apple partly because of the beliefs that it was: some sort of California counter-culture product inconsistent with a professional business operation; a specialized computer for elaborate desk-top publishing; and/or a computer so simple that even the computer-phobic could learn on it, but therefore a computer without the power and capability needed for everyday intellectual output such as from spread-sheets, data-bases or word-processors. The messages Apple Communicated most likely reinforced rather than challenged these common misperceptions. Finally today, Apple's advertising has started to tell the story that Apple users actually do more with their computer, but it may be too little too late.

Apple since the early '80s could have focused on making new breakthroughs in giving users the Benefit of greater access to computing which results in more creative, persuasive and efficient intellectual output. And Apple meanwhile could have aggressively Communicated this Benefit, showing how it was Provided by Mac's being so much easier to use. Perhaps Apple today would not, sadly, have been reduced to unprofitable Price slashing and an unholy (if "strategic") alliance with lifelong enemy IBM.

Value Propositions are often TRADEOFFS - Often clients at first assume that by "Market-Focused" we are simply talking of the same ideas popularized in the '80s by Tom Peters, the Total Quality movement and others who urged management to simply "listen to the customer and do what they say." This simplistic advice sounds glib and appealing but is fundamentally flawed by two problems: customers may tell a business what to do without giving any insight into the end-result Benefits they would most value; and even if a business learns the Benefits desired it still must make tradeoffs that it must identify and which the customer is not likely to suggest or request.

For example, one of the most popular video-tape business cases taught in the US comes from "In Search of Excellence," based on the Peters and Waterman book. This case is Stew Leonard's, a fabulously successful grocery store that with only 750 items does vastly more volume than its competitors who typically carry 16-20,000 items. Customers rave about shopping at Stew Leonard's where, they conclude, the food is really fresher, the shopping experience is actually fun instead of a drudgery, where the relationship with the store seems much more personalized and where the Price is about 6-8% lower. The store does over US$120 Million annual volume and the profit margin is very healthy, even with the lower Price.

In this case, one sees managers and employees constantly talking with and intently listening to customers. A giant customer suggestion box is filled to capacity every day and copies are distributed throughout the store. Regularly, random groups of customers are convened to talk informally with managers and employees. The success of the business is explained in the video as simply that at Leonard's they "listen to the customer and do what they say."

However, closer examination reveals that in fact Stew Leonard's has made a disciplined choice of which Benefits to Deliver and which not to Deliver. The decision not to Choose some Benefits for their Value Proposition results from a deep understanding that the requirements to truly Deliver the Benefits they did Choose preclude Delivering the other Benefits, even though desirable to the customer.

In order to Provide truly fresher food, they buy everything direct from the producers, reducing transit time and ensuring that they, not a distributor, select the merchandise. They never carry anything frozen. They pursue with obsessive zeal an understanding of what their customers want and expect fresh to mean. They will at least experiment with even the most minor input from customers by which the food could be made fresher. Rather than have corn in stock when the store opens but corn that is a day old, they decide to not to have any in stock every morning until 10:30 AM. They let customers pick their own strawberries rather than sell them in the little green baskets because that way the customer takes home the freshest strawberries. To Provide a more personal relationship, the store constantly tries to respond positively to the smallest input from the customer. By

buying all items in bulk direct from suppliers and selling very high volumes, the store keeps product costs low, allowing good margins even with low Price in a very low margin, supposedly "commodity" industry.

Virtually every item in the store has been selected, bought, shipped, unloaded, shelved, presented, packaged, checked-out at the register and bagged in such a way as to maximize the customer's net long-term conclusion that shopping at Stew Leonard's results in having fresher food when one gets home and in a more personal relationship, where the store really listens to the customer.

However, to Provide and Communicate these Benefits prevents Stew Leonard's from Delivering the key Benefit that competitors offer: one-stop-shopping convenience. To use Leonard's is to shop at least twice given their limited selection. But to Deliver one-stop-shopping would require carrying thousands of items that the store could neither make more fresh nor in any other way respond to customer input. The net effect on customers would be greatly diluted by carrying 20,000 items (and thus Delivering one-stop-shopping), only 5-10% of which can help Deliver the "Fresher Food" and "More Personal Relationship" Benefits. And most of those items could not be bought at a lower cost by trying to buy direct and so their Price would not be 6-8% lower. Only by being willing to deny the one-stop-shopping Benefit can Leonard's truly Deliver their Value Proposition.

Perhaps there is a trivializing explanation: maybe Stew's customers don't really care much about one-stop-shopping. But this is not the situation. Research would reveal that most customers would rank one-stop very high as a Benefit desired. However, it turns out that there is a large segment of customers who would rather get Fresher Food, a More Fun and More Personalized Relationship in shopping and 6-8% lower Price, but have to shop twice. There is still another segment of customers would rather have one-stop-shopping with not as fresh food, a not as fun or personal shopping experience and higher Price. The success of Leonard's results from the understanding that these two scenarios require two mutually exclusive Value Delivery Systems and that the first scenario would in fact be preferred by a large enough segment of customers to make a great business.

In similar fashion, Southwest Airlines has been a great success story as a no-frills lower priced airline in the US despite a long list of failures by other airlines using supposedly similar strategies. The difference is that Southwest did not simply slash the Delivery of all Benefits indiscriminately to contain costs. Rather, as co-founder Rollin King tells the story when occasionally helping us teach the principles of Market-Focus, Southwest first understood a set of end-result Benefits that a large enough segment of travellers wanted, including: loving, friendly personal treatment by all employees; less total time spent travelling; and comfortable, convenient conditions while flying. Rollin and company then realized that a subset of those Benefits, the first two, could be Delivered better than competition, at a lower Price, Delivering in net a superior Value despite not Delivering all the important, desired Benefits, but that this could only be done if they truly denied significant aspects of the third Benefit.

In order to profitably Deliver less total time travelling, yet be lower Priced, Southwest in part turns its planes around much faster, allowing a frequent reliable schedule with fewer planes. To get this fast turnaround, Southwest offers minimal food service and no assigned seating. This saves an average of 20 minutes turnaround time which translates to needing some 25 fewer jet aircraft to maintain their schedule, an amazing savings of several hundred million dollars. Southwest understood that an attractive group of customers exists that is willing to sacrifice the comfort and convenience of better meals and assigned seating in return for the Value Proposition Southwest Delivers.

But were there customers knocking on Stew Leonard's door asking for a store that doesn't have one-stop-shopping? Did travellers write to Rollin King and suggest, "give us more frequent reliable schedules at lower Prices but hold the good meals and assigned seating?" The Market-Focused strategic thinker must identify these tradeoffs and use the understanding of the customer's desires to determine which tradeoff the customer would most value.

<u>Monitoring Value Delivery</u> - A Value Delivery System should be proactively managed not simply designed, launched and then watched serenely from the shore as it sails off. Deliberate, systematic management of a business requires thoroughly Monitoring how well the Value Delivery System has in fact been executed. Reactively collecting anecdotal indications of what really happened is not enough, though you could never tell from the cursory way many organizations measure the impact of their business plans in the market place. The Market-Focused organization carefully measures and determines the how well the

Chosen Value Proposition was Delivered, during and after implementation of a business plan. Some of the typical issues to be Monitored would include the following:

- ☐ Did the relevant functions take the specific actions planned to Provide and Communicate the Chosen Value Proposition? Why was there any variance and what corrective action is appropriate?

- ☐ How well in net were each Benefit actually Delivered? For customers who did business with us, did they in fact experience the specific end-results described in the Benefits we Chose to Deliver? What was their perception of Benefits experienced? What did customers who did not do business with us perceive we offered? What Price was actually charged and perceived?

- ☐ How well did the Value Proposition we Delivered compare to the Propositions actually Delivered by competition?

- ☐ What was the net effect of this Value Delivery on customer preference and usage of our offering, on our market share and our sales volume (as relevant)?

- ☐ What was our cost to Deliver the Value Proposition and thus what profit resulted?

WHEN CUSTOMERS HAVE CUSTOMERS: UNDERSTANDING THE VALUE DELIVERY CHAIN

Of course some businesses are simpler than others. A retailer Delivers Value directly to the end-user, but many industrial businesses are Delivering Value to users who are themselves businesses. Often there are intermediaries between the business and the users and these intermediaries are also businesses. Thus, as in Exhibit Four, there exists a chain of interlocked Value Delivery Systems, from a business' suppliers through the intermediaries and users and lastly to a final customer, the end-user's customer.

Up to this final customer, all these links in the Value Delivery Chain can be understood as Value Delivery Systems. That is, they are each Providing and Communicating some Value Proposition to the next link in the Chain. Frequently the individual businesses in the Chain take a near-sighted view of the rest of the Chain, only concentrating on the immediate customer-link and supplier-link instead of looking at users further down the Chain. Yet often the most important customer link in a Chain, for a business, is the customer several links away, often an "end-user" of the cumulative Value Delivered by the business, its suppliers and the intermediary links in between it and this end-user.

Commodity markets, which is to say markets managed as if they were commodities, frequently are populated by businesses not looking far enough out on the Chain. Chevron, a large natural gas supplier, recently reexamined whether this business can be more profitable than a typical commodity. The immediate customer is a pipeline which may feed a local distribution company which may in turn supply residential, commercial and industrial customers. Chevron's strategy effort focused on working directly with a large number of end-users of natural gas, trying to understand their business.

For example, looking at a paper company, who are the paper company's customers, what Value Proposition does the paper company Deliver to them, how do they use energy (including gas if it is used now) to Deliver it and what could be improved about this paper company's Value Delivery System, especially involving the use of energy? By pursuing this perspective Chevron found a range of promising opportunities to help gas users, several links down the Chain, make smarter use of energy, including gas. These opportunities cal on Chevron to refashion its manner of doing business in some ways that will require non-trivial Cultural changes. But they point the way to a potentially much more business than continuing to emphasize the commodity supply of gas to the first link in the Chain.

Every business organization needs to understand the current and potential structures of the Value Delivery Chain in which they could compete for business within a market. More important than knowing what the immediate next link in the Chain would desire is to understand how the end-users further down the Chain think of end-result Benefit. Then a business can ask what the appropriate Value Delivery actions are for the entire Chain to that end-user. The business must determine what its own role would be in working with the Chain to Deliver the appropriate Value Proposition to the end-user.

Then, however, the business must consider how to motivate the intermediary links and its supplier links to play the role needed by them for the whole Chain to Deliver the right Proposition. To motivate these other links, the business may need to Choose and Deliver supporting Value Propositions to these links. Any manufacturer who distributes through retailers, for example, needs to Choose the right Value Proposition to the actual user of their product. For this Proposition to be Delivered, the manufacturer must play a role (e.g., designing, making, perhaps advertising the product) but so must the retailer (e.g., making the product easily available). To motivate that retailer, the manufacturer must show the retailer the Benefits they will receive for playing this role.

The whole task of managing a business thus must encompass understanding, sometimes redesigning and then Delivering Value across an often complex Value Delivery Chain.

IDENTIFYING OPTIONS: VALUE-DELIVERY-BASED SEGMENTATION

The first step in developing a strategy for an organization interested in competing in a market is to identify the business options for the organization in that market. This means identifying what the organization would have to do in order to profitably win the business of customers in this market. To this end, we believe a market should be divided into customer groups each of which would require a distinct Value Delivery System to profitably win their preference.

A group of customers represents a segment if a business would need to Deliver one particular Value Propositin to all these customers. Thus, customers who would prefer Southwest's Proposition represent a segment. Those preferring to pay a bit more and spend somewhat longer flying but to have the convenience of reserved seating and airline meals, are in a different segment. Customers preferring Stew Leonard's Proposition are his target segment, while in other segments are found customers who more highly value one-stop-shopping.

In addition, customers are in a distinct sub-segment if a business must do something unique to Provide and/or Communicate the Proposition to them. Stew Leonard's found a sub-segment of customers who, like other Leonard's customers, desire fresher fish but who would not believe the fish was really fresh unless presented on ice instead of wrapped in plastic.

Value Delivery based segmentation is the basis for defining the organization's fundamental business options in a market (see Exhibit Five). After segmenting a market, an organization must decide in which segments (if any) it can profitably execute the required VDS better than competition. It must determine, for each segment, what key capabilities would be required by the VDS, what capability gaps the organization therefore has and how they would close those gaps if competing in that business. Based on this evaluation, the organization selects the businesses (in effect, the VDSs) in which it will compete, thus determining the organization's strategy.

This approach to identifying options through market segmentation differs from the Internally-Driven methods of segmentation commonly employed. The more conventional approaches frequently treat segmentation as a "Marketing" technique, useful mainly to find ways to better sell what it has already been decided to make. Instead, segmentation in the Market-Focused approach divides the market into the strategic possibilities for the organization, each possibility representing a business - the Value Delivery System (VDS) the organization would need to win in that segment.

Moreover, in the typical Internally-Driven methods, customers are segmented based on variables such as demographics, or product use that may or may not have anything to do with the requirements of Value Delivery to those customers. The Market-Focused perspective first divides customers according to the Value Delivery System that would be most appropriate to winning their business, regardless of their demographics or other variables that may describe them. It then determines what demographic or other variables do describe those segments, as this information may help understand or facilitate Communication with the segments. But the fact that a group of customers would respond well to a certain VDS is what makes them a segment, in the Market-Focused view.

In a market where more than two links (supplier and customer) characterize the Value Delivery Chains, it is the whole Chain that represents the complete description of a market segment. Canadian National Rail, in the process of resegmenting the Canadian freight market to identify better its Value Delivery options, worked closely with a food manufacturer in Eastern Canada. The Transportation Department of the manufacturer was complaining that CN was not getting shipments to the Western Provinces fast enough or on schedule. This would require consistent 7-day service to Vancouver. CN was ever increasing management pressure through Total Quality and other efforts to increase the consistency of such rapid service, yet for this customer the service varied from 7 to well over 12 days. CN and the customer's Transportation Department assumed that eventually, if consistent 7-day service wasn't achieved, then CN would have to change the mode of transportation use, from all rail ("car-load") to intermodal, a mix of rail and truck. Intermodal is much more expensive in this case but more consistently fast. It also opens CN more fully to competition from truckers for the whole shipment since it would require the manufacturer to make changes that would facilitate later complete changeover to truck.

Examination of the manufacturer's business from the general management perspective of the food-company to its retailer and on to the consumer revealed a surprising and better solution. What mattered most was that product arrive on grocer's shelves before the shelves run empty. this in-stock performance was the real end-result issue, not the speed or consistency of transit. Of course, if the grocer orders and product does not show up on time, the product is out-of-stock in the store.

However, with the focus on this end-result issue in the customer's customer, CN learned that they could more efficiently help the customer keep product in stock by staying with car-load, even if transit time did not improve in speed or consistency, but change the shipping and inventory patterns at the retailer. By shipping ahead of orders and often holding some product in inventory (even in CN freight cars if needed) in Vancouver, CN and the manufacturer could incur much less cost than by going intermodal yet achieve the in-stock performance they really needed. By understanding the whole Value Delivery Chain, CN identified the profitable solution for an important market segment.

SUPERIOR TO WHAT? PUTTING COMPETITION IN THE PICTURE - AND IN PERSPECTIVE

Competitors have not been the focal point of our discussion of the Market-Focused approach to business strategy. That is because they are only relevant in the context of an understanding of the Value Propositions that would appeal most to customers. Despite the popularity of war and sports analogies in business, the comparison is basically flawed. In business, copmpetitors are not simply trying to attack and weaken each other, alone on some battlefield; rather they are vying with each other for the preference of a certain third party - the customer, who plays no such role in war or sports.

A business' Value Proposition is "superior" in the perception of the customer if it is preferable to all competing alternatives. These alternatives may include competitors who try to Deliver a competing Value Proposition using a similar Value Delivery System. Thus, another business selling a similar product is such a competitor. However, a business offering to Deliver a competing Value Proposition using a very different VDS is no less a competitor. By focusing on end-result Benefits and Price, rather than products/services, in defining a business, the Market-Focused perspective makes it easier to see this fundamental point. For Chevron in natural gas, coal is a competitor for the paper company's business as much as Exxon's natural gas unit is a competitor, since both are possible ways for the paper mill to generate the steam needed to dry paper.

A great many organizations become overly distracted by competitors in the effort to "win." They frequently measure what competitors do and worry greatly that if they don't match or exceed these competitors' actions they may lost. This game is easy to play without any reference, however, to the Value desired by customers. Market-Focused competitive analysis, therefore, must start with defining the end-result Benefits customers would desire and their Value to those customers, then asking: who is most capable among the possible competitors to Deliver these Benefits best and at the most attractive Price? It is the best possible competing Value Proposition that a business needs to beat in order to maximize its chances of winning.

This view is no license to ignore competition. Just as the Market-Focused manager must learn to "become" the customer, including customer links far down the Chain, so must this manager learn to become the possible competition, across the Chain. A Value Proposition is only useful if it can be Delivered better than the best that competitors can muster.

II. THE 4-Cs OF CULTURE CHANGE:BUILDING MARKET-FOCUSED CAPABILITIES

An organization has the best chance to succeed if it develops the capabilities needed to formulate winning business Strategy. It then must build the specific capabilities needed to execute that Strategy. However, building these capabilities presents the Culture and Leadership of any organization with major challenges.

To transform an organization's approach to Strategy, from an Internally-Driven and/or Customer-Compelled approach to a genuinely Market-Focused one, requires major changes in the Culture. Business philosophies have to change. New approaches must be implemented to gather Market-Focused fact bases, to systematically articulate Market-Focused business plans and then to rigorously Monitor execution. Top Leadership must take responsibility to guide the organization through these Culture changes.

In addition, a Market-Focused organization in a changing competitive market usually must build specific skills to effectively Deliver new Benefits or perhaps to Deliver old Benefits much better than before. Leadership systematically scans all the opportunities to support and reinforce strategically important capability-building efforts. Leaders ensure that they effectively Communicate the need for learning new capabilities and thus a "new role;" Coach the organization to competently perform the required role; Compensate them for performing it well; and Catalyze the whole capability building effort.

Communicating Strategically Required Capabilities to the Organization

In a Market-Focused organization, Leadership realizes that the first step in building strategically required capabilities is to effectively Communicate the rationale for and the game plan by which various parts of the organization must learn new roles. For example, when trying to develop the ability of an organization to formulate Market-Focused Strategy, Leadership might recognize that the organization does not collect enough of the needed fact base to identify and evaluate Strategic options. Leadership must, in this case, take steps to ensure that managers throughout the organization understand clearly the kind of fact base that must be developed, how it will be used and why it is needed to formulate Strategy.

Leadership should clarify that the business is committed to developing this specific capability to gather a Market-Focused fact-base. What facts and analysis are to be in that fact base should be explicitly identified. Then Leadership must identify those individuals who should most directly participate in gathering such a fact base, and those who should most directly use these facts in evaluating Strategic options. These individuals can be seen as holding "Pivotal Jobs" in that these jobs are "pivotal" to building the capability to gather the needed fact base. In most cases, these Pivotal Job Holders should participate in defining their new role.

Once a Market-Focused Strategy is formulated, specific capabilities will be required to execute it. Suppose a key Benefit Chosen in a business is "longer engine life" for customers, and the organization is not yet able to Provide or Communicate this Benefit. Perhaps the labs must learn to design the product with far greater emphasis on engine-life while Sales or Advertising learn to much better demonstrate this Benefit credibly and to better convince the customer of its economic value. Market-Focused Leadership ensures these capabilities are articulated clearly and prioritized.

Coaching the Individuals Who Must Learn Key Capabilities

In a Market-Focused organization, Leadership realizes that once the nature of and rationale for the Culture's Strategic capabilities has been effectively Communicated, the process of building and/or strengthening those capabilities has only just begun. The capabilities a Market-Focused business organization will need usually require complex behaviors by many individuals, those in "Pivotal Jobs," whose roles are most critical to change. These are not usually the sort of changes in role which can simply be described and then people act accordingly. They usually involve difficult, perhaps initially confusing and possibly risky actions. These behaviors are often a function in part of gaining a whole new set of knowledge and the ability to make a new kind of judgement, sometimes under considerable pressure. The role may involve various technical skills in context of pursuing very different goals than in the past.

To learn complex new roles almost always requires semi-continuous help, demonstration, reinforcement, constructive feedback, guidance, training - in a word: Coaching. Market-Focused Leaders understand that this Coaching is not a trivial or minor consideration.

While formal training away from the job is usually useful, the Market-Focused Leader realizes that if the role is at all difficult and complex its learning must be integrated into the actual job and into the day-to-day life of the Pivotal Job Holder. This means that the Coach, the PJ Holder's manager, must be prepared to really Coach. The manager must understand the role, its rationale and the obstacles the PJ Holder will face in learning it and in getting constantly better at it. The Coach must also be ready, willing and able to work hard at Coaching. This means spending a lot of time working directly with the PJ Holder, observing them, demonstrating for them, reinforcing, correcting, drilling, supporting and discussing with them. In contrast, this cannot mean the more typical emphasis on inspecting and evaluating the PJ Holder, confining most feedback to criticism for variances in behavior. It also means Leadership above the Coach must expect the Coach to be spending a large portion of her/his time Coaching.

Compensating the Organization for Learning Key Capabilities

Market-Focused Leadership also realizes that Market-Focused performance must be explicitly rewarded and that the reward (and punishment) systems cannot be allowed to also reinforce behavior that is not Market-Focused. "Compensation" here is meant to include all aspects of the reward and punishment system that members of the business perceive, including literal monetary compensation as well as career advancement incentives, peer group recognition, contests, etc.

Leadership may have very well Communicated the importance and the specific requirements of building the capabilities of Market-Focused Strategic formulation; and Leadership may have equally well put resources in place to Coach the Pivotal Job Holders (PJH's) who are most involved in building these capabilities. However, if the reward system actually continues to reward Internally-Driven or Customer-Compelled approaches to Strategic planning and formulation it is hardly realistic to expect a Market-Focused Strategy to emerge.

Similarly, once a Value Delivery System has been designed and formally documented it will require certain key capabilities to be developed or strengthened to ensure its success. To Provide and Communicate the Chosen Benefits to the Chosen target customer requires that PJH's fully understand and buy into the role they must perform and it requires usually that they be given an intensive level of Coaching. But if the PJH's perceive that the real criteria by which they are really going to be judged relate to a different role than that required to Deliver the Value Proposition, then the Market-Focused capability building effort is doomed.

Genuine Market-Focused Leadership not only understands this self-evident fact; they confront the contrast between existing Compensation and the realities of the Value Delivery System that Leadership is trying to execute. Too often, Leadership in less Market-Focused organizations will tolerate the existing Compensation approach, with its traditional rewards for Internally-Driven (and sometimes Customer-Compelled) thinking.

The Market-Focused Leadership understands that old Compensation systems have to be eliminated or thoroughly neutralized. Otherwise, an organization can expect the chaos and disillusionment of adopting a Market-Focused Strategy and launching a well designed capability-building effort of Communicating and Coaching the PJH's, only to confront an Internally-Driven or Customer-Compelled set of rewards and punishments.

Beyond removing contradictory, counterproductive Compensation

systems, however, Market-Focused Leadership realizes the need to implement very specific systems that explicitly recognize the biggest challenges in the Market-Focused capability-building efforts and reward overcoming them. Once a role has been identified for a PJH, Compensation is used in the Market-Focused organization to explicitly reward the performance of that role.

Compensation cannot be tied only to the abstractions of the performance of the whole business. Each PJH can only affect the business by performing their role, which may well include helping others in the business, but it is that role and how well it is performed for which the Market-Focused Leader Compensates the PJH, not (primarily) the net effect of the entire organization's efforts. Of course, the Leadership team themselves do affect the performance of the whole organization and thus should be Compensated accordingly; those lower in the organization are rewarded primarily for their own actual contribution.

Catalyzing the Capability Building Effort

Finally Leadership must realize that there are variables somewhat outside the direct capability building effort which can influence its success. Leadership must Communicate, Coach and Compensate the organization and the Pivotal Job Holders for each key capability. Beyond these always critical elements of the effort, however, some additional factors may importantly affect the effort, including the Culture's approach to organization structure, the kind of information and decision-making systems and the general atmosphere of attitudes and shared values in the Culture. Market-Focused Leadership will diagnose these variables in the context of the key capability building efforts and then try to shape them to support that effort.

By segmenting the Market from the perspective of customers, a business may often identify a potentially winning strategy that includes elements from more than one existing business organization in the corporation. For example, several organizations may be making various products, each organization treating their product as a business. Yet these products may all contribute to a single larger "business" that exists conceptually but not on the organization chart. In the absence of being able to restructure existing businesses, Leadership will redesign the VDS to reflect this limitation but still attempt to profitably deliver superior Value to the segment in question. If this is not possible, Leadership will help the corporation understand the futility of pursuing this segment with an ineffective VDS.

More modestly, however, without totally revising the organization

chart, it may be possible to make structural changes which Catalyze the capability building effort. For instance within an existing organization, it may be very feasible to reassign responsibility for some key capabilities from one function to another; or, an organization's Leadership could change reporting relationships so that PJH's are reporting to the most appropriate Coaches, regardless of conventional structures.

Some of the most important system issues include the fact base and the business planning and monitoring systems. In addition, numerous other systems can support (or undermine) a capability building effort. If someone is trying to decrease damage to a product when shipped, it would obviously be helpful for that PJH to have fast detailed info feedback on the exact nature of all damaged shipments, etc..

In addition to these hard variables of structure and systems, some more intangible issues can Catalyze as well. Simply the visible effort of the Leadership to demonstrate their personal commitment to a capability building program can affect the credibility of that program. Asking questions visibly about the progress of the effort, visiting activities involved in it, helping temporarily in the Coaching, inventing "hoopla" to reward progress, etc., can have a powerful, if intangible, Catalyzing impact.

III. THE FIVE STEPS TO A MARKET-FOCUSED ORGANIZATION

As shown in Exhibit , we think of the key steps an organization must climb to become Market-Focused as follows:. At foundation, the organization must first come to grips with the principles and concepts of Market-Focus. Only by first accepting this philosophy intellectually and emotionally can an organization prepare to climb these steps, which are: first, to segment the market by Value Delivery System, then select the VDSs to execute, then formalize that decision in Business Plans each structured by the VDS, then to execute and monitor these VDSs and finally to build the capabilities needed for future improvements in the VDSs.

IV. CONTRAST WITH OTHER PATHS

Many executives find the basic notion of Market-Focused, as summarized above, self-evident. Organizations like Southwest Airlines and Stew Leonard's operate by this basic philosophy even though the terms presented here are alien to them. However, we find that the two very different paths, to Internally-Driven or Customer-Compelled Land, are in

fact much more commonly followed. Some archetypal organizational forms that populate both these landscapes and their underlying management philosophy are described in Exhibits Six and Seven.

Of course, most businesses are characterized by no single dominant management orientation. Our work with over 3,000 employees in more than

30 divisions of a large U.S. computer and instruments manufacturer revealed that most managers described their organizations as Technology Driven and Sales-Obsessed. A recent reorganization of this company's sales force and computer systems business is aimed at enabling operating divisions to achieve greater market focus and manage each business as a truly integrated Value Delivery System.

Some businesses possess the fundamental characteristics of both Internally Driven and Customer Compelled organizations and are best described as being located on Confusion Bridge between the two destinations. Recent work we completed with executives of a worldwide manufacturer of copier equipment revealed that they believed the underlying management operating philosophy was predominantly Budget Bound & Financially Frustrated and Suggestion Boxed.

Why businesses are not Market-Focused

Organizations stray from the path of market focus not by default,luck, or historic accident. Indeed, many if not most, historically successful organizations begin life with a Market-Focused entrepreneurial idea as the foundation of business success. General Motors' recognition that people wanted different colors of cars other than Ford's basic black, and ultimately, cars with other variations appealing to other customers is a classic example. As successive generations of leadership focus on better executing the formula that stimulated wealth generation in the first place, evolutionary pressures are brought to bear on the business. Customers end-result benefit desires and their priorities change, new segments emerge, technology for serving new and existing segments evolves and other discontinuities in the form of regulatory change, environmental trends and new competition exert pressure for change in either the business' original Value Proposition itself or how it is to be profitably Provided or Communicated. These shocks, if not detected and responded to by appropriate changes in the Value Delivery System, are capable of transforming a once Market-Focused operating philosophy into one more reminiscent of the Internally-Driven organization.

Leadership often recognizes this problem, only to respond by adopting one or more of the operating philosophies characteristic of the Customer Compelled organization. This second path seems appealing but is ultimately simplistic, undisciplined, and unfocused. Few who follow this chaotic yellow brick road emerge successful. Only those organizations who have the courage and leadership to leave the city of Internally-Driven and take the path to Market-Focus will achieve business regeneration and reap the largest longest-lasting competitive advantages. Whether or not this transformation occurs ultimately depends on the business' leadership and their underlying assumptions and philosophical beliefs about the determinants of competitive advantage.

<u>Realistic vs. unrealistic views of competitive advantage</u>

Of course, executives do not wake up every morning and reject Market Focus as a business operating philosophy. Rather they act upon a set of beliefs they hold about business success that leads their organization to become Internally-Driven or Customer-Compelled. It is these underlying assumptions of leadership, not the ebb and flow of historical forces that ultimately drive an organization down one path or another.

<u>Making and selling a product, not delivering value</u>

The Internally-Driven and Customer-Compelled executive thinks of a business as a set of activities, functions and assets all oriented around Making and Selling a Product or Service. The product is thus the starting point around which every issue revolves, the business generates wealth and thus achieves competitive advantage by Making and/or Selling the Product better than competition.

Thus, the Internally-Driven organization sees the pursuit of competitive advantage as residing in achieving lower cost manufacturing, superior technology, a more persuasive Sales Force, an award winning advertising campaign, and so on. A prime fallacy in this logic is as clear as the fact that the Emperor's new clothes, in the famous fairy tale, left him stark naked. Yet, like the Emperor and his followers, many managers avoid seeing the plain truth. While a business may achieve the lowest cost position or state of the art technology or a more consultative sales force, none of these leads necessarily to giving customers a reason to prefer that business. For the Internally-Driven manager, the reality of business success appears to lie in being functionally excellent at making and selling the product. Ironically, reality lies in what they cannot see, how all these functional activities impact a day-in-the-life of the customer for the better. Failing to recognize this reality, the Internally Driven organization becomes ever more functionally excellent, but ever more functionally disintegrating at the point of attack---the customer. The functional empires pursue their own different objectives and agendas often unintentionally undermining the profitable Delivery of superior Value to customers. Depending on which functional empire is most dominant, we see organizations best characterized as driven by some aspect of making or selling, as shown in Exhibits Six and Seven. All these organizational life forms are overly distracted by the content of the work they perform, missing the forest for the trees where the trees are the functional tasks and the forest is the betterment of a day in the life of target customers.

In Search of Chaos

The Customer Compelled organization rightly seeks to change the objectives and agendas of the functions to be about the customer, but does so in a chaotic fashion by asking customers directly what to do, an approach guaranteed to block functional integration around a winning Value Proposition. Like the Internally-Driven organization, the Customer-Compelled executive seeks an answer to the question of "How Should we Make or Sell our Product or Service Better?" Unlike the Internally-Driven organization, the answer is sought by bringing in outsiders--the customers--and asking them what to do, a step viewed as futile by the Internally-Driven organization. Yet listening to all customers from all possible segments and trying to respond to all or even just some of their requests is fundamentally different from making a disciplined choice about which segments to serve and not serve and which Benefits to offer to customers and which to deny to them. The Internally-Driven organization fails by starting on the inside in its search for advantage (its functional strengths and core competencies) and imposing itself on the outside (the market and customers) regardless of what customers actually want. The Customer-Compelled organization fails by starting on the outside and trying to impose the customer's requests on the inside regardless of what the organization can actually profitably do.

CONCLUSION

The underlying beliefs of the Internally-Driven and Customer-Compelled manager are different, but both are fundamentally flawed and increasingly unrealistic and ineffective. Yet for now they continue to dominate the business landscape both in management practice and in the reinforcing theory offered by the academic and consulting worlds. Inevitably, they will be discarded as a model of business in favor, we believe, of the dramatically different principles of Market Focus.