





The Soap-Holder Effect

Acting on Behalf of Your Customers

If you make soap, should you add a soap holder in the package so that it lasts longer? Absolutely. In today's market, as consumers reevaluate their most basic purchase decisions, every advantage counts. Be innovative, be creative and put your customers first. What you lose in revenues, you more than recover in customer loyalty—and that is everything.

UNTIL ABOUT SIX MONTHS AGO, George seemed to go through bars of soap very quickly. Then he bought a simple \$1.95 plastic soap holder that prevented the soap from slipping off a shower-stall shelf. He also moved the soap from under the shower head, where he had a hanging rack for shampoo and conditioner, to the other end of the tub. Since then his soap bars last forever. They don't reach that gooey end-of-soap life cycle that can happen in a soap dish or when too much water sprays on them.

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So why is this apparently trivial example important for a marketer or business strategist? The answer is simple: *Most companies that market soap would never sell a soap holder or suggest a "best practice" in soap location to a customer.* It's just not in their short-term interest. If a vendor prolongs the usable life of its product, sales drop. And who is rewarded for that?

It's hard to imagine a product manager proposing to his or her boss a solution that will reduce consumption, reduce revenues, reduce

market share and perhaps reduce negotiating power with retailers. Yet the greatest companies do just that. Procter & Gamble put small collars inside Tide laundry-detergent bottles so the remaining product in the measuring cap goes back into the container, instead of dribbling down the label. The president of Mennen was so infuriated when the last half-inch of deodorant popped off the screw-post that he vowed it would never happen to his products again. These companies' leaders know that what you lose in revenues you more than recover in customer delight and loyalty.

Why is this idea even more important today? Because, unlike the "old days" (two years ago), we are in a different market. Consumers are reevaluating their most basic purchase decisions. Established product positioning and market share can be dramatically altered by the non-product-specific elements of the offer.

Putting the Customer First

Most companies claim to put the customer first. It's a bit like claiming to be ethical for doing things that are in your own interest. The truth is that putting the customer first and being ethical are strong claims only if your decision costs you money (at least in the short term). Any decision that requires trading up-front results for longer-term competitive advantage is almost always a strategic decision that requires leadership. It will not happen naturally in most organizations without culture and measurement systems that look quite different from more sales-driven organizations.

Consider the case of Google versus Yahoo!. Google dominates the market for online search advertising. Yet if too many of Google's search results are driven by paid advertising and commercial links, Google runs the risk of being perceived as "owned" by its advertisers. Yahoo! chooses to differentiate from Google by placing *in primacy* the needs of its users and acting on their behalf first. As is commonplace in today's online marketplace, those sites with loyal subscribers eventually attract advertisers willing to pay a premium, but it may take longer to build the initial loyalty. Yahoo! is an example where putting the user first might be a source of long-term advantage and shareholder value. Time will tell if this strategy pays off. The same opportunity for putting the customer first exists for Nokia in North America. Nokia is the largest and arguably the most successful cell-phone vendor in the world. In North America, it has not yet reproduced its success in Europe and the rest of the world. Part of the reason is the divide between two competing network technologies—CDMA and GSM.¹ Another is that it does not have significant relationships (as of early 2009) with the four major U.S. wireless networks. Nokia, like Yahoo!, has the opportunity to put the individual customer first.

Some of the features customers would like to see on their cell phones are not appreciated—indeed are restricted—by telephone carriers. Free calling on Skype over WiFi, for example, appeals to consumers but not to networks. A second SIM card for international travelers would be similarly regarded.² Without divided loyalties to the North American carriers and the end user, Nokia can offer features that are normally disabled when phones are distributed by carriers. By putting the end user first, Nokia in the long run differentiates its products in ways that are difficult to imple-

ment for those in bed with the carriers. Nokia will likely be able to create pull through the carriers in the same way Apple did in its introduction of the iPhone.

What Happens When You Put the Customer First?

A few years ago, we did some work with a highly successful credit union. In its regional market, the credit union outperformed all the local banks. It had become successful by being more aggressive both in attracting new members and in selling to them. It had, however, reached a decision point in its operations. Its transactional information technology was reaching the end of its useful life. The credit union's management needed to decide where and how to invest its limited capital budget.

Our strategic and IT planning retreat enabled the credit union to return to its roots, reclaiming its traditional cooperative mission of creating services on behalf of their customers, for example, offering discounts on products and services based on the buying power of aggregating member purchases. With that value firmly in place, the credit union changed its information collection strategy and decided to develop a more sophisticated capability for tracking and profiling customers. This rediscovery of "putting members first" gave a new basis for growth that was consistent with the values and aspirations of employees: Acting on behalf of members was more appealing than aggressively selling to customers.

For a leader of a cooperative movement, acting on behalf of customers must be a core value. For other organizations, particularly those with less-than-compelling value propositions, working on behalf of the customer, or customer primacy, can be a powerful tool for invigorating

¹ The two main competing cell-phone technologies are GSM, or Global System for Mobile communications, and CDMA, or Code Division Multiple Access.

² SIM is subscriber identity module.

the organization—but one that will work only with supporting changes in place.

Putting the Customer First Does Not Mean Offering the Lowest Prices

Putting the customer first does not mean selling the lowest-cost product or reducing profit margins. Rather, companies that put customers first create excellent products—and are rewarded for it. Anyone who has bought a non-Apple mp3 player has likely been disappointed by competitors' inability to match the simplicity, ergonomics and integration provided by the Apple device. In some markets, a company should not sell to a price point. Rather, it can—like Apple—sell a solution that meets the customer need, even when the customer does not fully understand the choices implied by the purchase. Selling to the lowest price point may win sales in the short term, but it will not win “word-of-mouth” reputations and repeat purchases.

Apple has been better at innovating in hardware than in some services. It has been slow to match the pricing and offerings of other music resellers, including amazon.com, Napster, Rhapsody and eMusic, that did not copy protect their software (Apple stopped copy protection in January 2009.) The launch of its MobileMe email service was, by its own characterization, premature. To the traditional marketer, being “premium-priced” is just the advantage of a strong brand. Premium pricing makes more sense when there is inherent value in the product that, when discovered or experienced, transforms the customer's perception of that value.

For Apple, the long-term protection of its franchise is likely to be customers' emotional involvement with the experience of doing business with Apple rather than traditional branding of Apple iPod or iTunes stores as a premium

solution. (To Apple's credit, few people actually think of an iPod as a commodity mp3 player. To date, no one has matched the ease and elegance of the iPod, iTouch or iPhone.) Owning the relationship and the emotion is more important for Apple than for other companies, because its future growth will come from customers trusting Apple in the digital living room.

A similar example is Richard Branson's Virgin brand, which is used to certify new experiences in areas that customers don't typically trust or like. Its slightly controversial brand name has the side benefit that the brand is easily extended to multiple product categories, an advantage few brand names offer. Virgin reduces the entry cost for new initiatives because of the goodwill associated with its brand. With a customer primacy strategy, Apple may be able to do the same in the emerging connected digital living room if it can resist the temptation to hold a price umbrella over competitors. Apple's pricing strategy shows it understands this risk.

Competitive Positions and Customer Primacy

Part of the difficulty of thinking about putting the customer first is that it represents a continuum of possibilities. At one end of the continuum lies the traditional approach: building the best possible product for a customer segment or individual. At the other extreme are businesses that are cannibalizing traditional offerings or reducing profitability by informing customers about their best possible decisions. Few would argue against the idea of building better products. Rare are the organizations that encourage cannibalizing their own sales. There are, however, circumstances under which customer primacy strategies are clearly compelling even to less-than-visionary leaders. These situations tend to be more typical of later entrants, or of

companies selling the first generation of a “gateway” product—one that leads to additional sales of subsequent generations of products or related products and services. Let’s look at three case examples.

Case 1: Stealing market share with lower total price. Companies that act on behalf of customers can use a customer primacy strategy to take market share from high-margin competitors. Video rental company Netflix does not charge late fees, a major revenue source for traditional movie-rental operations and a source of annoyance for customers.

Netflix also allows unlimited movie rentals for a monthly fee, which sounds like a home-video extravaganza. As in many mature markets, though, fixed-fee pricing is a clever solution to saturated usage. It does not actually cause loss of revenues because most customers have limited time to watch movies. Cell-phone vendors are moving in this direction, particularly as they switch to in-home and in-office voice and data service using femtocells and unlicensed wireless (WiFi) spectrum at home.² Both of these solutions are less expensive to deliver and connect to their backhaul networks, reducing demand on cell towers. The critical variables here are that the customer values no-surprise pricing, and the supplier is confident that “all-you-can-eat” pricing has a natural upper limit. In AT&T’s case, most surprised customers are equally surprised that AT&T will routinely arrange for the lower-priced data plan you signed up for this month to apply to last month, when usage overage and the “surprise” took place. Fixing a problem well is 80 percent as effective as avoiding the problem in the first place.

² A femtocell is a small cellular base station that connects to the service provider’s network via broadband and can support two to four active mobile phones in a residential or small business setting.

Case 2: Retaining customers and building loyalty. In the early days of a new service, active contact with customers to identify where they can save money not only reduces churn but also creates customer loyalty, particularly in commoditized markets. Long-distance telephone companies and financial institutions used to call customers to recommend more attractive plans or investments. By doing so, they sent a signal to their customers that they were putting the customer first and, just as importantly, that there might be less reason to shop around.

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Expanding service offerings beyond one’s brand, however, requires more planning as potential customers may be wary of ulterior motives. The attempted transformation of insurance agents to financial planners or IBM’s move to support multiple vendors, for example, is a type of primacy strategy that requires attention to incentive systems. Internal separation of profit centers is necessary to retain credibility with customers that the services will not be biased toward the self-produced products and services.

Case 3: Owning the gateway product or relationship. In many customer relationships, there exists a gateway or “wedge” product that

opens up future sales. Acting on behalf of the customer to obtain, retain or grow the gateway product generally guarantees future sales of adjacent, related or next-generation products. Once you have learned Windows, for example, switching to Linux is difficult to justify because of the potential pain of migration.

The risk for gateway-product providers is that of hubris. When you distribute a gateway product, the value you place on acting on behalf of the customer often drops. Closely managing life-cycle profitability as you become successful or dominant will ensure that generally high gateway margins are managed to lower levels in later stages of product maturity; this ensures that overall relationship margins meet customers' expectations. Sony is a master of this on the pricing side, while LVMH is an expert on the supply-management side. In a more dramatic example, fast-fashion players such as Zara manage life cycle profitability as all-or-nothing: The shopper is either delighted and Zara makes its margin on short inventories—or misses the item and dreams of the next one and leaves without buying anything.

How to Finance Customer Strategies

There are five types of strategies for working on behalf of the customer (*see figure*). Each type is likely to have different financing issues.

Self-interest. Putting the customer first has strong financial benefits and leads to higher valuations of the company in the short and medium term. Companies are able to gain market share

for an offering, increase revenues across a family of products, or gain additional revenues from purchases of iterative generations of products within a short time period. Adobe, for example, gives away Acrobat Reader to encourage the eventual purchase of the software required for serving up or creating Acrobat documents. In high-end sales, key account managers must represent the interests of the customer because “trust” is essential to obtaining business.

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Pure self-interest in sectors with regulated or non-economic profits can also result in a more savage variety of customer primacy—where a new entrant provides interesting value propositions to shoppers. Amazon.com eviscerated established players in the book sector when it used discounted book prices as an investment in building its customer base for a broader A-to-Z distribution strategy.

Long-term vision. The benefits of customer primacy require a long-term market perspective and visionary leadership. Management, investors and boards need to agree on the advantages of building the franchise. In the early days of Google, funding was provided without the firm

having a business, all in a vague belief that a useful search engine would eventually have some commercial value as the Internet grew. Amazon.com’s early days were characterized by the belief that building relationships with customers and reaching a minimum scale were more important than short-term profits.

Cooperative membership. Sometimes consumers finance a product or service offering. In financial services, credit unions represent one example; in retail, REI is a cooperative that attempts to buy the highest-quality sports goods on behalf of its members. In most co-op markets, the profits of the organization are reinvested to provide more capabilities or services with the surplus distributed to customers based on their purchases. Investments in infrastructure such as water and waste treatment can fall into this cooperative category. Such services can be funded privately or by government. In the future, cult niche TV series may seek funding from their highly involved viewers, an example of co-creation of value with customers.

Societal benefit. In some markets, putting the customer first does not create a long-term business that can be financed through tradi-

tional capital markets. In these situations, public-private communities may be required to provide the funding and resources required. The Bill and Melinda Gates Foundation has chosen to invest in research and programs for disease prevention. Here the value of the offering is externalized in the form of societal benefit. It’s possible that more project-oriented investment might emerge as a new type of business, or as a way of government spinning out a social objective with an organization that has a defined exit.

Environmental focus. For some issues, global cooperation and government intervention work on behalf of the customer. Sustainability, which might be dually considered a societal issue, is a prime example as many businesses go “green” or become more sustainable. A wide range of issues go beyond narrow marketing claims. Examples include reducing impact on the environment, increasing use of recycled or sustainable materials, using renewable energy in production, assisting users to avoid creating waste or consuming energy, and purchasing credits to compensate for production of greenhouse gases.

FIGURE

Five strategies for working on behalf of the customer

Self-interest	Long-term vision	Cooperative membership	Societal benefit	Environmental focus
<p>Give away a product or service to encourage an eventual purchase.</p> <p>EXAMPLE: Adobe gives away Acrobat Reader in hopes of selling the software to create Acrobat documents.</p>	<p>Relinquish short-term profits to focus on longer-term goals.</p> <p>EXAMPLE: Amazon.com was in business for years building a strong customer base long before making money.</p>	<p>Develop a cooperative where members participate in the design and value creation process.</p> <p>EXAMPLE: Credit unions</p>	<p>Invest in research and programs that benefit society.</p> <p>EXAMPLE: The Bill and Melinda Gates Foundation invests in disease prevention, among other things.</p>	<p>Focus on sustainability, which might be dually considered a societal issue.</p> <p>EXAMPLE: More businesses are going “green” to improve the environment.</p>

Source: A.T. Kearney analysis

Utilities probably have the most complex set of problems, as public utility commissions require them to reduce consumption, which alters traditional incentives that encourage usage. The utility's mandates are, in an organizational sense, more difficult to address than cap and trade systems that provide economic signals for investing in less polluting technologies.

Organizational Implications

The organizational implications of customer primacy strategies are often difficult, because such strategies might cannibalize traditional businesses and challenge the values of the organization. Strategic schizophrenia is likely for many firms. The following discusses potential hurdles:

Managing divergent strategies. It is difficult to manage core and cannibalizing strategic business units (SBU) at the same time. As a general rule, the cannibalizing SBU should be separated, given autonomy, funded and measured differently. Cisco acquired the retail-oriented Linksys and kept it separate. For many years, General Electric drove a culture of dynamic self-destruction that powered the company almost, but not quite, through the recent recession.

Integrating overlapping customer bases. The biggest challenge occurs when the overlaps or potential synergies with the cannibalized business become important, or the customer primacy strategy has to replace the traditional marketing approach. Such a requirement may

require difficult combinations of culture and business models.

Cisco is now attempting to achieve further integration with its Connected Life at Home strategy. This requires bringing together products that exist in three different parts of the business: the high-margin core business (with high R&D and enterprise orientation), the retail Linksys business (with low R&D and retail orientation) and Scientific Atlanta (with industry-specific orientation in cable companies and telcos). The negotiating power, needs and economic requirements of enterprises, consumers and large telephone and cable companies are very different and generally create specialized organizations that are difficult to combine or integrate.

Dealing with fierce competition. In consolidating markets or markets where user spending patterns are likely to drop to a new, lower level, it may make sense to use a customer primacy strategy to kill off weak competitors. Such aggressive actions will require changing incentives for management teams to focus as much on competitive objectives as on revenue and profit objectives.

Managing short-term expectations. In markets where putting the customer first has a long-term economic payoff, leadership and patience are required. Jeff Bezos played this role at amazon.com. Metrics that reframe investors' expectations are critical to maintaining the strategy and may require revealing more metrics than before.




Creating customer-focused incentives. In organizations making the transition from selling to a customer primacy relationship—training, remuneration, scorecards and measurement of customer outcomes must all be made highly visible to reinforce behaviors. Selling that puts the customer first must be rewarded, and selling that is short-term and counter to customer interests has to be caught quickly.

Easy for You to Say

“Putting the customer first” is easy to say but difficult to implement. If you believe that spending patterns in the recovered economy

will look different from those before, it is more likely that you should consider a strategy based on putting the customer first in a discontinuous way. A customer strategy needs leadership, ongoing encouragement and rewards. The education of investors and customers will be crucial to surviving the implementation of the customer primacy strategy. Most importantly, understanding where on the continuum of customer primacy your strategy lies will help ensure the success of your execution.

From out of the shower spray, or to the other end of the tub, one thing is for sure: You can't leave things the way they are now. You have to be creative and put your customers first. 

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