

“Unless we change our direction we are likely to end up where we are headed.”

— Ancient Chinese Wisdom

WHY AREN'T CUSTOMERS LOYAL?

Customer-Driven Business Models Reveal How Companies Can Satisfy Customer Needs

by Jim Budzynski

Why are customers more demanding and less loyal than ever before?

Many in the industry ask similar questions about customers these days. If only customers could appreciate all we do for them, goes the common refrain, they would be more loyal and pay us what we're really worth.

Of course, loyalty and predictability are a two-way street, and feedback from customers reveals a sizable number who don't feel agri-food marketers have ever been very customer-focused. It doesn't take much prodding for these customers to open up in personal conversations regarding their perceptions about suppliers who are not oriented to meeting their needs or unwilling to provide the level of service they desire. In their view, the tough economic times in the industry have simply laid bare a long-term problem that was "below the surface" when profits were higher.

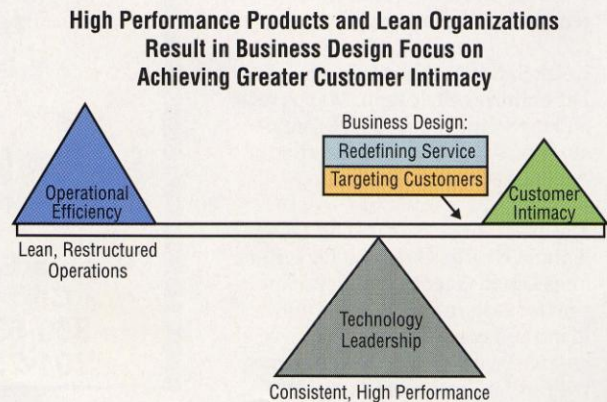
It is important for marketers to examine the fundamental shifts that will make customer service even more important in the future and determine the specific actions that companies should take to enhance their customer focus.

Why is customer focus increasing in importance?

A previous article (beginning on page 20 of the November / December issue) discussed three traditional value disciplines that represent the ways companies add value for their customers. The disciplines are Technology Leadership, Customer Focus and Operational Efficiency. The article also introduced a fourth discipline, Business Design, which involves rapidly reconfiguring the other three disciplines based on customer needs. Future business success demands that companies excel in all four disciplines.

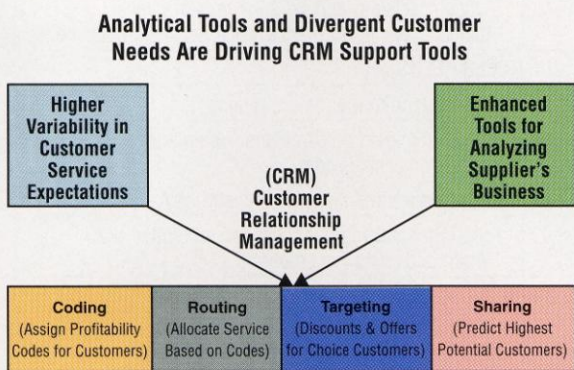
Historically, however, two disciplines have received much greater attention in the agricultural industry (see figure below). The strategic leverage of Technology Leadership has declined precisely because companies have been so successful delivering greater performance. (When we achieve 99.9 percent weed control, how much open room is there for "better weed control"?) In addition, 10 years of restructuring and portfolio rationalization have resulted in high Operational Efficiency for most companies, particularly manufacturers.

In essence, we have an industry of lean, mean companies that have great products but don't understand their customers. In most agri-food markets the key Business Design imperative is therefore to enhance Customer Focus. Companies must target individual customers and redefine service in their terms to extract any pricing premium.



This “price/service balancing act” is not unique to the agri-food industry. A *BusinessWeek* article (Oct. 23, 2000) noted the recent declining service levels in industries as diverse as airlines, banks, stores, hotels and phone service providers. These industries have some trends in common with the agri-food industry — declining pools of quality employees, wider spans of responsibility, and pricing pressures that have driven down profit margins by 5 percent to 10 percent during the past decade.

Two other dynamics are converging to define how industry deals with this challenge (see figure below). First, customers continue to demonstrate greater variability in service needs. For example, 15 years ago it was relatively uncommon for a grower to demand a stripped-down cash-and-carry offer — most growers required a similar service bundle. In contrast, today’s agri-food marketer has to deal with a very diverse set of expectations.



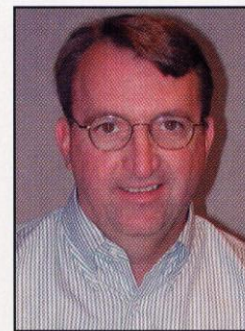
Second, technology (particularly the installation of enterprise systems) has dramatically enhanced marketers’ toolbox for analyzing customer profitability. This analysis (and the growing concentration of the industry) has resulted in the “70/30” rule (70 percent of profits from 30 percent of customers), then the “80/20” rule and, in some markets, the “90/10” rule. Technology allows marketers to determine precisely which customers are key to their profitability and focus limited customer service resources directly on those customers.

New technology tools like Customer Relationship Management are being developed to help companies focus their service efforts. Some examples are coding (assigning customers a profitability code), routing (managing service inquiries differently depending on profit codes), targeting (extra discounts and offers for choice customers) and sharing (advance data sharing to identify highest potential customers). Agri-food marketers will have to do what many marketers in other industries already are doing — focus their service on those customers who are most important to business success.

What must the industry do to target and understand customers?

Much has been written during the past several years about being customer focused and market driven. (Two good books on this topic are *Market Driven Strategy* by George S. Day, and *The Customer Driven Company* by Richard C. Whitely.) Despite much rhetoric about being “market driven” and “customer focused,” most companies are simply too internally focused to be responsive to

customers. The few companies that have been successful in achieving customer or market focus, however, attain superior financial performance by simply satisfying customer needs better than their competitors. To accomplish this, these companies seem to share four key characteristics:



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Clearly Defined Customers and Customer-centric Culture. These companies know exactly who they are targeting as customers and have a deep commitment to a core set of customer-focused beliefs and values that permeate all of the organization’s activities.

Deep Understanding of Customer Needs. These organizations are guided by a deep and shared understanding of their customers’ needs and intentions. They use superior listening skills to understand what customers want and what impresses them. They know what real benefits drive customers and which benefits are valued by enough of the target customer segment to be delivered cost effectively.

Strong Competitive Orientation. These companies are good at creating meaningful differences between themselves and their competitors. They understand that competitive advantage is based on exploiting gaps in pricing, coverage, portfolio or service. Their understanding of competitors’ capabilities and skills allows them to know how they perform compared to their competitors. As a result, they can focus on delivering benefits that customers value, are willing to pay for and cannot readily get elsewhere.

Structured to Support Customer Orientation. These companies build organizational structures that are market based, systems that reinforce team focus, and incentive programs and communications patterns that support their customer focus.

How market driven is my company?

Agri-food companies must realistically assess whether they are customer and market focused or internally oriented. Most managers find this easiest to do by examining whether their behaviors are consistent with market-focused companies (see table on page 50).

How did you do? Is your company market focused or internally focused?

What can I do to build greater customer focus?

There are several specific steps you can take to enhance your company’s customer focus:

1. Create a real customer mission — getting, keeping and understanding customers.
2. Saturate your company with the voice of the customer. Make sure customer feedback makes its way into every aspect of your operations. Get really serious about formally asking your customers how you are doing.

(more on page 50)

HOW MARKET DRIVEN IS YOUR COMPANY?		
	Internally Oriented Business	Market Driven Business
CUSTOMER-CENTRIC CULTURE		
Organizational Direction	• begins and ends with management	• begins and ends with customers
Customer Problem Solving Orientation	• an attitude that says "it's their problem"	• company ownership of every problem that affects the customer
View of Marketing and Segmentation	• marketing is cost center to be reviewed annually • segment by product	• marketing is source of strategic advantage reviewed continuously • segment by customer applications and economic benefits
Sales Drivers	• assume that price and product performance/technology are the key to most sales	• know what factors influence customer buying decisions and sell a package of values that includes: performance, price, service, applications
DEEP UNDERSTANDING OF CUSTOMER NEEDS		
Decision Making	• based on assumptions and judgment calls	• based on customer data and facts
Market Intelligence	• relies on anecdotes • difficult to get useful sales reports	• invest in market research and systematic collection of sales data • track environment and modify strategy
Internal Business Conversations	• pricing trends, volumes, order backlogs	• customer and segment needs, competitive share, integrated customer solutions
STRONG COMPETITIVE ORIENTATION		
Competitive Knowledge	• know competitive product features	• know strategy, assumptions, cost structure, business objectives of major competitors
View of Channels (Manufacturers)	• conduits (or barriers) to customers	• extension of sales force and partners in serving customers
STRUCTURED TO SUPPORT CUSTOMER ORIENTATION		
Structure and Cooperation	• functional "stovepipe" organizations driven by how things affect them	• cross functional cooperation driven by how we support the customer
Operational Mindset	• good at crisis management and recovery; dependent on heroics	• good at doing it right the first time; focus on driving variability out of the process
Communication	• mass market	• segment specific
Performance Metrics & Accountability	• volume, product margins • no accountability due to "uncontrollable" markets and cost allocations	• track product, customer, and segment P&Ls • hold managers accountable for performance in their markets

3. Go to school on the winners. Study those companies in the industry that seem to do the best job of serving customers. Go to school on your competition, too.
4. Use technology to drive customer focus. Learn how to use technology tools to understand which customers are most important to your business and define cost-effective ways to serve non-core customers.
5. Smash the barriers to effective customer support. Root out and eliminate those internal systems that create barriers to effectively serving customers.
6. Measure, measure, measure. Customer satisfaction is measurable and can provide a basis for continuous improvement, if you take the time to measure performance and act on the findings.
7. Walk the talk. Management must be committed to understanding customers, meeting with customers, soliciting

ideas from customers, and acting on feedback from customers if your customer focus efforts are to succeed.

One final thought in case you are wondering whether it is worthwhile to make the investment in building the responsiveness and marketing strength required to be truly customer focused and market driven: *"The race isn't always to the swift, nor the battle to the strong, but that's the way to bet."* — Damon Runyon

In the next issue we will examine how alternative business strategies, particularly e-commerce, are likely to affect the options for agri-food marketers in the future.

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