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Aligning the Organization with the Market: Focusing on 'The Customer's Total Experience'

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When Lou Gerstner became chief executive of IBM in the early 1990s, Big Blue was on a course to be broken up into smaller companies, each responsible for separate IBM business units such as PCs, software and the like. But Gerstner concluded the strategy was "wrong-headed" because it was contrary to the wishes of customers, according to Wharton marketing professor George Day. Rather than assemble their computer systems from a variety of vendors -- or even separate business units within IBM -- customers wanted help putting everything together.

So IBM embarked on a multi-year journey to align its organization with the marketplace, trying to create a company that was so responsive to the needs of customers that it would be hard for purchasers to go elsewhere. The bet was that movement away from a product-focused organization to one centered on customers would boost profits.

For IBM, the journey was successful. But in a forthcoming paper entitled, "Aligning the Organization with the Market," Day reports on a survey that found only mixed results among 347 medium- to large-size firms that attempted customer-focused reorganizations.

The companies reported significant improvements in everything from accountability for customer relationships to information sharing. Reorganized companies were easier for customers to do business with and better at responding to customer problems. But reorganizations often didn't translate into superior financial performance.

To better understand why, Day looked closely at 15 high-profile reorganizations around customers. Only IBM and three others -- Fidelity Investments, Capital One and Imation -- were unqualified sustained successes, he says, while two others, including Cummins India and Astra-Merck, were deemed regional successes. "There were a number of companies that had mixed successes and others where it was too early to tell -- because it takes years to put this in place properly," Day notes. "A couple of companies said, 'Being really customer focused is all well and good, but that was for a different time and place. Now we're much more cost focused.'"

Shaking Things Up at Motorola and Intel

Aligning with the market works when firms keep a tight focus on the customer's total experience, Day says. Firms must adjust the pace of reorganization to match anticipated obstacles, and they must continue realigning as the market changes -- even if that means moving the organizational structure somewhat away from a complete customer focus. The guidance is timely since Day's research indicates that a growing number of companies are either in the process of, or soon will be, attempting customer-focused reorganizations.

Motorola, for example, decided in late 2004 that it would scrap an existing bureaucracy based on distinct product lines so that the company could instead be organized around customer markets such as the digital home, Day says. The hope is that the new Motorola will be better able to sell products that let consumers transport digital information from the house to the car to the workplace. In January 2005, Intel announced a similar reorganization. Departing from the old strategy of designing discrete chips and expecting customers to adopt them, Intel decided it would bundle processes, chips and software into platforms tailored to customer segments, such as mobile computing. It's too early to say whether either reorganization will be successful, Day says.

For IBM's Gerstner, success came when the company reorganized into a front/back hybrid design, featuring a strong customer-focused "front end" that marketed not just products but all-encompassing "solutions." IBM's original business units for personal computers, servers, software and technical service became "back end" suppliers to the solution sellers, who helped customers assemble complete computing systems.

Selling solutions, rather than just products, can be a nice business, Day notes, since it strengthens strong relationships between suppliers and customers and is less susceptible to price competition. "This design flourishes when customers want solutions that are customized to their individualized needs and delivered through a single customer contact point," writes Day in his paper. "The other requisites for success are a strong corporate center to mediate the conflicting demands of the two units, and a strategy with solutions as the central thrust."

Cummins India is a case in point.

Initially a set of joint ventures for making and selling engines, generator sets and related equipment, the firm was threatened by diminishing margins and a loss of dominant market share as the Indian economy opened to competition. So Cummins consolidated control over the joint ventures and used an existing service business to learn about the on-going needs of customers.

In time, Cummins essentially adopted a front/back hybrid much like that at IBM, creating three front end subsidiaries, each of which focused on providing customers with a particular solution. It was key that the subsidiaries were "product agnostic," Day says, because customers who needed uninterrupted power were better served with diesel engines -- products that had to be procured outside the company. "Overall, the realignment is viewed as a success, with market share and revenue slightly increased," Day writes. "Meanwhile, sales of the core product business of engines and generators dropped by 30%."

Four Types of Customers

While reorganizations at IBM and Cummins helped the firms implement a solutions strategy, other firms were motivated by a desire to "get closer to their market," Day writes. An example is Imation, a spin-off from 3M that makes floppy disks, video tapes and other media and devices to store data.

Imation reorganized around four distinct types of customers. For each segment, the company created a business team that assessed customer requirements and designed the Imation offering in response. The reorganization helped Imation cut overhead costs by 2%. Perhaps more importantly, the company gained a deeper customer knowledge that strengthened its ties with distributors and retailers.

Considering the success stories, why aren't all firms reorganizing around their markets?

For starters, companies that are aligned more closely with the market need a high degree of coordination and information sharing across the organization. Doing so adds overhead costs, and those costs can be used as an argument against change by those invested in the status quo. Also, some companies, such as Toyota and Unilever, don't need to reorganize around customers, Day says, because their products already nicely align with market segments. Finally, reorganizations often take longer than expected, and the energy to complete the job can be sapped by leadership changes.

Xerox exemplifies how companies can fall into the trap of not being able to anticipate and overcome obstacles en route to reorganization, according to Day. Long a leading purveyor of copiers, Xerox began shifting in the early 1990s toward a strategy built around "the document." The change was meant to make the firm more focused on the complete document needs of customers, with Xerox selling innovative approaches to enhance productivity. To implement the strategy, the sales force was reassigned away from their geographic responsibilities to industry groups with common document requirements.

But the company's sales force, while good at selling machines to office administrators, didn't receive adequate training and wasn't up to the task of selling to IT people, who often were the target of Xerox pitches for "document solutions." Sales people complained about time spent in meetings, rather than calling on customers, and they worried that changes were damaging long-standing account relationships. Customers weren't prepared for the changes either, and some didn't really want a solution to begin with. The implementation was botched, the company was damaged and a CEO lost his job.

The obstacles that companies must anticipate often are of a cultural nature, Day suggests. "A firm's culture can either give or deny permission to proceed with a realignment around markets," he writes. "Obstacles arise when this culture is mature and has absorbed dysfunctional beliefs such as: The sales force 'owns' the customers, or 'We will sell to whoever will buy,' or 'Customers don't know what they want.'"

Successful reorganizations happen when employees are focused on the customer's total experience, Day notes. That means having good information systems that allow customers to obtain complete information from a single contact. It also means selecting performance measures that reflect customer satisfaction, and tying incentives to them. Furthermore, successful reorganizations never really stop, since the market is always changing. Managers must assess if a close alignment with customers adds costs that make their companies less competitive.

Until August 2001, Cisco Systems had a corporate structure that was highly focused on the marketplace. The company operated three semi-autonomous lines of business directed at distinct customers: Internet service providers, enterprises and small- to medium-sized businesses. But the 2001 technology slump exposed expensive redundancies in the structure just as Cisco faced low-cost competition from abroad. The company responded by centralizing 11 technology groups under a chief development officer, and creating a central marketing organization. Net income jumped from $1 billion in 2001 to $3.6 billion in 2003.

Square D, a maker of industrial control and electronic distribution systems, followed a path much like that of Cisco Systems. Both firms had very customer-focused organizations during the 1990s and used those structures to grow rapidly during the decade. But when the economy cooled, both companies concluded they needed to become somewhat more product-focused in order to be more cost competitive. These transitions are success stories, nonetheless, Day writes, since organization structures are "destined to stay in flux."

Organizations are "about more than boxes, arrows, and lines, but structure does signal strategic intent," he writes. "Although the balance of accountability and power of each dimension will stay in flux, there is no doubt that some form of alignment with markets has value even in the most cost constrained and demanding markets."