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**Creating a Market-Driven Organization**

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# Creating a Market-Driven Organization

George S. Day



*Why a company can lose touch with its market and how to reorient it through a successful change program.*

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As companies aspire to become market-driven, they exhort employees to get closer to customers, stay ahead of competitors, and make decisions based on their markets. Yet, even the best-intentioned senior managers find it difficult to translate those aspirations into action. Failed or flawed change programs have many symptoms, most of which are traceable to a lack of commitment to the deep-seated changes needed. The organization hasn't fully grasped what it means to be market-driven — or why it matters — and lacks a clear path to that end.<sup>1</sup> Further problems occur if the change program is unsuited to the task of orienting the business to its present and prospective markets.

While the underlying principles and prescription of generic change programs offer valuable guidance, the organization must sensitively tailor the design of a change program to become market-driven to the particular challenges of understanding, attracting, and keeping valuable customers. My purpose in this article is to establish the six conditions that ensure change process success. I use the experiences of four different change programs — Fidelity Investments, Sears Roebuck, Eurotunnel, and Owens Corning — and post-audits of some failed change initiatives to validate the change model and explain the necessary conditions for a durable shift to a market orientation.

## What Triggers the Change Process?

A firm's orientation to its present and prospective markets is subject to two pressures. On one side are the centripetal influences that induce the company to look inward for guidance on decisions and become remote from customers and unresponsive to competitive challenges. This influence is accentuated by a "liability of success" where good financial performance leads to arrogance, overconfidence, and a technology orientation that condones the belief that "we know better than the market." Compounding the problems are the centrifugal effects of market, technology, and competitive change that continually pull the business out of alignment with its markets and erode its advantages. The interplay of these forces leads to one or more of the following triggers for change:

- Market disruptions that threaten the business model.
- Continuing erosion of alignment with the market that puts the firm at a disadvantage with market-driven competitors.
- Strategic necessity.
- Intolerable opportunity costs.

Each of these triggers started at least one of the four change programs described in this article.

### Market Disruptions

When managers at Fidelity Investments scanned the retail investment landscape in 1993, they saw a host of new or energized competitors, including discount brokers, banks, and insurance companies, the emergence of independent financial advisers offering unbiased, comprehensive advice, and customers who were concentrating their investments with fewer firms.<sup>2</sup> Fidelity was not a full-range provider of investment vehicles, nor did it have the low-cost advantage of Schwab or Vanguard with a stable of index funds, lean organization, and frugal culture.

Fidelity's pressing need was to cement and extend its relationships with the most valuable prospects in its large customer base by offering a value proposition that product-focused competitors couldn't match. It could accomplish this by providing credible advice tailored to the situation. The theory was compelling but the reality was that the organization was geared to providing standard service to everyone, and the systems couldn't identify which accounts were profitable and worth pursuing. The prevailing culture, structure, rewards, and measurements were all at odds with the strategy aspirations.

The change program proceeded on four fronts at the same time. This meant simultaneously picking the customer segments to nurture while building the systems infrastructure so Fidelity could identify and serve these attractive segments, and redesigning core processes for customer acquisition, retention, and optimization. The most difficult part was persuading the prevailing culture to accept a market-driven strategy of differentiated service. The inevitable resistance was overcome with organizational changes that moved accountability to segment managers, and measurements and rewards based on profitability, retention, and share of wallet.

### Erosion of Market Alignment

Sears Roebuck is a classic case of what happens when a firm loses touch with its markets.<sup>3</sup> Until 1986, Sears was the dominant retailer in the United States, with a strategy fully in harmony with the changing requirements of suburban homeowners. By 1992, it was struggling to absorb a \$3.9 billion loss and overcome a declining market share, bloated costs, and some of the worst customer satisfaction ratings in the retail industry. Customers were being rapidly siphoned off by trendy specialty retailers such as The Limited, category killers like Home Depot, or discounters like Wal-Mart and Target.

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**The real challenge was to turn a short-term survival program into a long-term transformation that fully engaged employees.**

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Arthur Martinez, who had been vice chairman of Saks Fifth Avenue and was the first outsider to head the retail group, led the turnaround. Within 100 days of his arrival, he and his team began to plan for the closing of 113 unprofitable stores, the termination of the 100-year-old Sears catalogue, and the divestment of the financial-services business. The quick-fix worked, but the real challenge was to turn a short-term survival program into a long-term transformation that fully engaged employees who were dispirited and anxious for improved performance. They needed to be motivated to support a new merchandising focus. Although the prevailing assumption was that Sears was a men's store, women made a majority of the buying decisions. Martinez, who refocused on

“the softer side of Sears” and introduced new private-label lines of apparel and cosmetics, summed up the challenge: “A turnaround is a financial recovery. A transformation is much more. It’s all about changing the structure and the approach to the business and reeducating our people to feel comfortable outside a command-and-control environment.”<sup>4</sup>

### Strategic Necessity

Eurotunnel began with the single objective of building a tunnel under the English Channel. When it completed construction, it had to transform itself from a project organization to an operating company with its own rolling stock for transporting trucks and cars through the tunnel. A change in culture wouldn’t suffice; it needed a complete reversal. The entire company had to transform from spending whatever it took to finish the tunnel to controlling costs and earning money. It had to become efficient to attract, serve, and retain customers that could compete against the established ferries and airline services. A sense of urgency developed as Eurotunnel projected huge and unacceptable losses if it didn’t make big cuts to its bloated cost structure. However, the change process focused on growing revenues, as the company judged this to be an energizing goal that would overcome early suspicions that the process was merely a cost-cutting exercise.

The first step was to organize around customers and processes and jettison the old functional structure. The company devised separate teams and strategies for the truck, rail, and tourist travel segments. A team with strong support at the top guided the overall change and in turn created a complex change architecture that involved more than 1,000 people in eighty-five different cross-functional teams. Priorities for teams dealing with everything from timetable planning to introducing a club-class service were guided by customer inputs.<sup>5</sup>

### Intolerable Opportunity Costs

When Glen Hiner left General Electric in 1991 to join Owens Corning, manufacturer of fiberglass insulation, glass composites, and roofing materials, the company was mired in debt, besieged by asbestos litigation, and suffering from a bunker mentality.<sup>6</sup> Owens Corning managers had a product orientation that made sense, given the realities of a business with cyclical sales and a capital-intensive process for making fiberglass that was cost effective only when it ran continuously at high speed.

While the company focused on its materials, its customers were thinking about their projects. Home improvers had problems with unreliable contractors, scant information, and unforeseen problems. The materials were secondary, and the customers couldn’t distinguish among brands anyway. Builders and contractors, frustrated when materials they needed were late, also thought in project terms. Meanwhile, the greatest needs of retailers like Home Depot were sophisticated logistics and help in training salespeople.

Owens Corning recognized that the compelling value proposition of offering one-stop shopping and solutions to problems posed by projects was well beyond its capabilities. There were big gaps in its product line, and the balkanized sales and service organization couldn’t offer a simple way for customers to buy a complete portfolio of products. The company had to overcome serious information bottlenecks and rethink how information flowed through it and to and from its customers.

### Designing the Change Program

What do the experiences of Fidelity Investments, Sears Roebuck, Eurotunnel, and Owens Corning have in common? Each had to change to get closer to its market and satisfy and retain customers or face dire consequences. None used an off-the-shelf package; each tailored a change program to fit its heritage, market strategy, and leadership personality. Yet each change program had some features in common with other successful initiatives.

First, the entire organization from top to bottom was involved. This multifunctional boundary-spanning effort could not be left to a part-time task force or given to the human resources or marketing departments. Their roles are supportive, not dominant.

Second, the focus was on the conditions enabling people to produce good results — not on the characteristics of the change leaders. Thus Fidelity initially emphasized the clarity of its strategy in terms of segments and value propositions and the adequacy of the customer database and front-end systems as necessary conditions to process and organizational redesign.

Third, top management created a sense of urgency to energize the program, most likely achieved with a real or manufactured crisis that exposed flaws in the

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## An ongoing series of experiments and early successes creates opportunities for learning and helps maintain momentum.

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firm's approach to customers. Managers can manufacture a crisis by painting a scenario in which the firm is defunct in ten years or by having teams adopt the role of a predatory competitor.

Fourth, cultural change followed from behavioral change. Although culture is always a major impediment to change, there is no evidence that efforts to change it first will succeed. Change happens by altering behavior patterns and helping people understand how new behavior relates to performance improvement. Eventually, these changes will be absorbed into the underlying norms, beliefs, and mind-sets.

Finally, the change programs generated useful diagnostics on progress through the process, which were used to encourage learning about success and identify barriers.

### Stages of Change

Successful change programs have six overlapping stages:<sup>7</sup>

1. Demonstrating leadership commitment. A leader owns and champions the change, invests time and resources, and creates a sense of urgency.
2. Understanding the need for change. Key implementers understand market responsiveness, know the changes needed, and see the benefits of the change initiative.
3. Shaping the vision. All employees know what they are trying to accomplish, understand how to create superior value, and see what to do differently.
4. Mobilizing commitment at all levels. Those responsible have experience and credibility and know how to form a coalition of supporters to overcome resistance.
5. Aligning structures, systems, and incentives. Key implementers have the resources they need to create a credible plan for alignment.
6. Reinforcing the change. Those responsible know how to start the program, keep attention focused on the change and benchmark measures, and ensure an early win.

These steps are not sequential. Instead, many stages initiated early in the program occur simultaneously (see Figure 1). Each stage interacts with and reinforces other stages throughout the process. There is early emphasis on *doing* rather than simply studying what to do.<sup>8</sup> An ongoing series of experiments and early successes creates opportunities for learning and helps maintain momentum. Frequently, investments in infrastructure are necessary to carry out the strategy. Fidelity began the development of a data warehouse at the start of its change program because it understood that integrating customer information across the organization was necessary to its strategy of attracting high-potential customers.

### Demonstrating Leadership Commitment

Does the company have a leader who . . .

- Sees the need to change the company's orientation?
- Is committed to the change process?
- Makes market issues a priority?
- Is willing to invest time and resources?
- Sets aggressive goals for improvement?
- Has established a sense of urgency?

How can top managers signal their commitment and successfully persuade the entire company that its performance hinges on satisfying target customers better than competitors do? The answer depends on the CEO's style, the magnitude of the change in values and beliefs, and the past history of change efforts. The following actions convey the message throughout the company:

- Enthusiastic emphasis on superior quality of service and customer relations, with occasional direct interventions to solve a customer's problems.
- Visits to customers to listen aggressively to their viewpoints; an insistence that all senior managers spend time with customers.
- Emphasis on customer and market issues — trends, needs, requirements, and opportunities for advantage — during strategy reviews, supported by a willingness to invest resources in deeply understanding customers and competitors.
- Insistence on comparing the company's performance in serving its target customers to that of its best competitors and then understanding why those competitors excel.

All these moves signal senior management commitment. But how can a real sense of urgency be

infused deep into the organization? One could argue that the performance problems of Sears Roebuck and Eurotunnel would have been enough to galvanize their organizations. There was no need to invent a crisis — they were living with one. Unfortunately, as John Kotter observes, this is not enough:

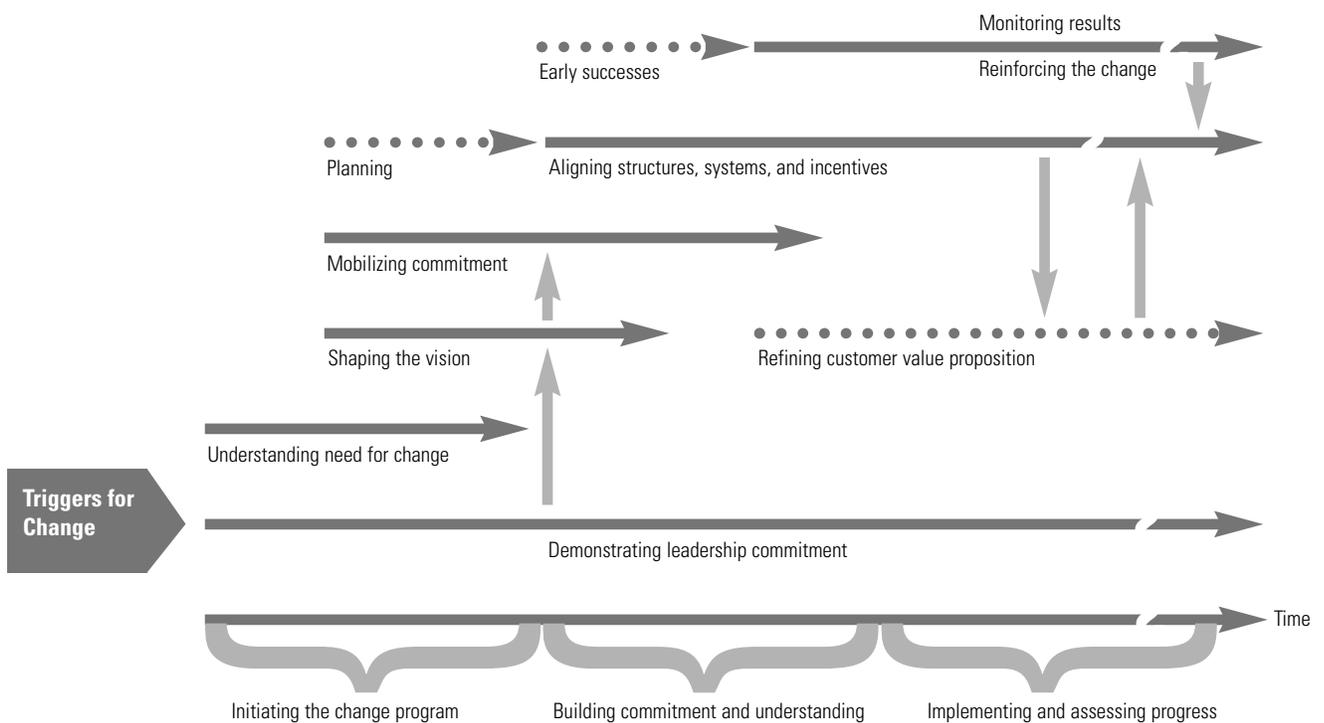
“In most organizations today, the sense of urgency is much too low. Ironically, this can happen even in an organization where anxiety and anger are high. It is amazing how people can maintain a relatively high degree of complacency while they are either furious about the way things are going or they’re scared to death. They think the problems are ‘out there,’ not within the organization or themselves. Angry or scared employees aren’t going to try to figure out how to make major improvements.”<sup>9</sup>

The CEO at each of the four firms tackled this problem and created a sense of urgency by setting aggressive targets for improvement. Sears’ Martinez posed five new strategic priorities — core business growth, customer focus, cost reduction, responsiveness to local markets, and organizational and cultural renewal. He also set difficult goals: within two years, Sears

would quadruple its margins to achieve industry parity, reverse the share decline, and improve customer satisfaction by 15 percent. At Owens Corning, Glen Hiner explicitly signaled that raising cash to cut the debt was no longer the priority: it was time to grow. In 1993, he wanted the company to grow revenues from \$2.8 billion to \$5 billion by 2000 by supplying everything needed for the “envelope” of the house. And he vowed that sales outside the United States would grow from 21 percent to 40 percent, with productivity increasing at 6 percent a year and profits growing twice as fast as sales. Similarly, Eurotunnel management set ambitious targets for revenue growth by making the tunnel the preferred choice for all segments, while also committing to aggressively cutting costs to address the big operating loss. For Fidelity, the urgency came from the looming threat of competitive inroads. To continue to prosper, the company had to earn a much larger share of its customers’ wallets.

It is more difficult to infuse urgency when a business has been doing well. In 1996, Allied Signal’s Larry Bossiday explained that the \$15 billion defense and auto parts conglomerate would have to be changed

Figure 1  
**Overlapping Stages of the Change Program**



as much in the next five years as in the previous five years (a period when the stock quadrupled):

“We have a long way to go in terms of understanding our customer. I’m asked all the time, ‘What worries you the most?’ And the predominant worry is, ‘Are we going to be able to satisfy ever more demanding customers?’ I was talking to somebody in the food business the other day. They deliver in ten-minute windows. In the aerospace industry, you used to deliver in thirty-day windows. Now it’s overnight. Do we have the processes — the overnight processes — to deliver in ten-minute windows? Some of our competitors will have them someday, so we’d better be prepared. To meet these challenges, a company’s people have to feel urgency and commitment.”<sup>10</sup>

### Understanding the Need for Change

Do the key implementers . . .

- Understand what it is to be market-driven and what changes are needed?
- Recognize the barriers to change?
- See how the change program will benefit them and the business?

Companies have used two approaches to inculcate a deep understanding of the need for change, always starting with the customer. Then managers can see where to reorient the organization and identify priorities.

**1. Feedback from Customers.** Regardless of how the customers’ views become part of the process, a company must observe two rules: First, all members of the management team — R&D, manufacturing, and field service — should have first-hand contact with customers. Until everyone has heard complaints and frustrations, a sense of urgency will not be pervasive. Second, to avoid collective delusion, a third party who is not identified with the sponsoring client should collect objective information. Managers who believe their firm excels may refuse to acknowledge the need for change; customers may abet this belief by holding back negative information.

Sears’ customer task force reviewed past survey data and conducted eighty focus groups for direct feedback. The task force asked participants why they shopped at Sears, what they wanted, what they expected, and what they disliked. The findings were at odds with the avowed values, “Satisfaction guaranteed or your money back” and “Take care of the customer,” which seemed to have lost their meaning.

Instead the task force heard endless stories about shoppers’ disappointment with out-of-stock merchandise, nonexistent sales help, bad service, and time-consuming returns.

It is not enough to interview current customers; many of the best insights come from defectors or attractive prospects in the target market who have never shopped or bought anything. Defectors pinpoint shortcomings and reveal what competitors are doing to capture customers.

A company should also involve lower-level employees during this stage. Many sponsor employee workshops to define customer expectations, reasons for defection, and opportunities for change. The most energizing part of the workshops is having multifunctional teams visit the competitors’ stores, outlets, branches, or sales points to analyze how they deliver value to customers and create a different experience. The teams return with a vivid appreciation of the need for improvement. These workshops are concrete and understandable and confront employees with competitive reality.

**2. Managers’ Assessment.** After confronting reality — as defined by target customers’ expectations and competitors’ abilities — the management team candidly assesses the company’s progress in creating the culture, capabilities, structure, and strategy of a market-driven organization. Team members normally disagree on how well their organization is performing, reflecting different frames of reference, recent experiences with customers, functional backgrounds, and organizational level. Too much disparity in their judgment may dissipate the sense of urgency in a battle over details. Strong leadership must encourage an acceptable consensus.

In 1994, Dow Chemical had abundant reasons for adopting a stronger market orientation: investors complained about the cyclical performance in commodity chemicals, new competitors with lean business models challenged, and customers indicated that they had new requirements that Dow wasn’t meeting. The company gave a standard survey to all managers,<sup>11</sup> which had benchmark results for peer companies. While 65 percent of senior management was positive about the company’s market orientation, middle managers gave the firm much lower marks (32 percent), and salaried employees, 24 percent. According to its own managers, Dow was in the bottom third of peer

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companies, with an overall rating in the thirty-second percentile for all companies in the benchmark survey. Given the spread in judgments across the levels, it was clear that some people were out of touch, most probably the senior managers. The reactions followed a familiar pattern: confusion at first, then resistance and denial, including objections to the premise of the survey, followed by gradual acceptance of the findings and the need for deep-rooted change. The president, who brought customers to board meetings and established multifunctional task forces to lead the change process, drove the change program.

### **Shaping the Vision**

Do all employees . . .

- Understand how to create superior customer value?
- See what they have to do differently?
- Get excited about the promised results?

In November 1993, Sears' Martinez asked his change team how the five strategic priorities announced in March were progressing. One forthright senior manager stood up and said, "To be perfectly honest, I don't know what I'm supposed to be doing differently." It became clear that top management's strategic priorities weren't meaningful to the rest of the organization. The problem was that the five priorities lacked broad ownership and employee engagement. An organization's members do best when there is a clear connection between the strategy for delivering superior customer value and the members' individual contributions. Each of the four companies worked hard to convey the larger picture to their employees and enable them to develop a vision and strategy that supported the overall effort.

A coalescing vision for Owens Corning was "system thinking," which pushed the notion that roofing, exteriors, insulation, and sound absorption are all systems that work together to solve customers' prob-

lems. If buyers knew how shingles, vents, insulation, and soffits worked together to make a better roof, if they could pick a reliable contractor, if contractors could provide financing, and if Owens Corning provided all the information, it could sell more Owens Corning products. Under this type of umbrella, product developers have clear priorities, merchandising and advertising are easier to target, relationships with contractors are closer, and systems provide the integrating information.

Early in the change process, Sears managers articulated a vision of a "compelling place to work, to shop, to invest," which was then combined with three slogans: "passion for the customer," "our people add value," and "performance leadership." As a guiding vision, it was simple and to the point. It also fell on deaf ears, for the line employees had completely different mind-sets. When a large sample of employees was asked what they were paid to do every day, the answer was most likely, "I get paid to protect the assets of the company." In short, they completely misunderstood their role. But how could managers shift the mind-sets toward making Sears a compelling place to shop?

To help employees understand their proper role in the bigger picture, Sears managers prepared learning maps, which teams of employees discussed at "town hall meetings."<sup>12</sup> (A learning map is a large picture of a town, store, or river that leads participants through a business or historical process.) One map portrayed the shifts in the retail environment and the proliferation of competitors between 1950 and 1990. Another map analyzed the sources and uses of funds as they flowed from the cash register to the bottom line. Sears managers then asked the teams to apply what they had learned and recommend actions they could take immediately at their store, warehouse, or office to improve customer service or simplify their activities. The strong signal was that front-line employees would have more autonomy to do right by the customer — and help Sears win in an increasingly competitive retail market.

Eurotunnel management also used a team approach to overcome their employees' suspicions that the change program was mainly concerned with cutting costs and get them to focus on their contributions to improving operations and satisfying customers. At the peak of the change activity, almost one-third of the 3,000 employees were participating in one of eighty-

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seven multifunctional teams. Many of the teams that addressed the needs of a customer segment included a particular type of customer, such as a truck owner. The teams had latitude in their activities but were held accountable for delivering a set of benefits. The mobilizing vision was to make Eurotunnel the natural choice for crossing the channel. Each team had a defined role in supporting the vision. The vision and all the connecting elements of processes, systems, and roles were communicated in dozens of meetings, newsletters, and a large wall chart that showed each team's position.

### Mobilizing Commitment

Do the sponsors of the change . . .

- Have experience and credibility?
- Recognize who else needs to be committed to making the change happen?
- Know how to rally a coalition of supporters and overcome expected resistance?
- Have needed resources?

Companies need an effective management team to mobilize commitment for change efforts. This team can be drawn together from mavericks inside the firm or — often more effective in a crisis situation — from outsiders with fresh perspectives. Wherever the members come from, the organization needs to establish a team with the experience and credibility to mobilize the entire organization.

A popular but generally ineffectual method for instilling a market orientation is to create a council or steering group. Firms that think they should do something but aren't quite ready for deep-seated change often resort to these. Commonly, their charter is to elevate skills, share best practices, or understand what it means to be market-driven. As they are implemented in many organizations, these groups have little chance of success. With as many as thirty or forty people and shifting membership, they are too large for real work and have little continuity. Meetings are carefully orchestrated set-pieces with outside speakers but no mandate for serious follow-up action.

Resources are usually limited — perhaps a staff person and a modest budget — and members' time commitment is very limited.

Some companies succeed in overcoming these obstacles. When Monsanto created a council to drive the company toward a “best of class” market orientation, it established a small leadership team of ten vice presidents and general managers that had a mandate to change basic behaviors, build market-driven capabilities, and transfer best practices. The team was expected to spend at least 30 percent of its time on this effort and agreed to partially tie compensation to the results. The council had all the resources it needed, including a full-time “director of marketing core capability.” It met at least two times a week and focused on only a few big issues — such as relationship management — that would have the greatest leverage in changing a culture that was very technology-driven.

A company in as deep a hole as Sears or Owens Corning needs more drastic measures. No amount of councils, consultants, and conferences will yield fundamental, durable change. For a serious effort, a new management team is needed, because the old one is likely short of credibility, energy, and imagination. Sometimes the right people are in the organization but difficult to identify. Often they have the right instincts and probably agitate for change but are frustrated in their crusade. They have the advantage of knowing the prevailing culture. But can they escape its deeply embedded values and assumptions to envision a more open, externally oriented culture, and then orchestrate a change effort? Sometimes the agitators for change lack credibility and respect because they have been operating at the periphery of the organization; they should act as consultants but not lead the change initiative.

Martinez was able to change Sears because most new appointees on the senior executive team had no experience in retailing. The executive vice president in charge of logistics was a three-star general who masterminded the Gulf War supply chain. The head of marketing had extensive experience in brand management with Pepsi and Procter & Gamble and saw that Sears' strong brands had much more potential for building loyalty than the company appreciated.

Unfortunately, organizations often treat outsiders like foreign antibodies and reject them. This is a particu-

larly common fate of successful marketing people who have been brought in from powerhouse marketing companies like Procter & Gamble, American Express, or Coke to lead the change effort in an established firm in a very different industry — perhaps one that is deregulating like banking or telecommunications. They face two problems at the outset; they don't understand the technology, customer requirements, or key success factors in the new business, and they are separated from most of the support systems and cultural reinforcement that had made them successful. When disenchantment sets in, these victims lose even the top-level support they once had.

By this stage in the change program, enthusiasm should be high and the commitment of the top officers unquestioned. Ideally, early success has quieted the skeptics and clarified the intent and benefits of a market orientation. But what if results don't come as quickly as expected, murmurs of doubt are heard, and pockets of passive resistance are uncovered? This fragile stage has many potential obstacles to overcome.<sup>13</sup> The most common obstacles, identified in surveys of managers and post-audits of failed efforts, are listed in the *sidebar*.

### Aligning Structures, Systems, and Incentives

Is there a credible plan for . . .

- Modifying the organization structure and systems?
- Recruiting, developing, and deploying people in

the new structure?

- Developing capabilities to sense markets and relate to them?
- Changing the systems?
- Encouraging and rewarding market-driven behavior?

Once the change initiative is under way, a company turns its attention to institutionalizing it so the company doesn't revert to its old ways. How can the company encourage and reward sustained market-driven behavior? The three most effective levers are organizational and process redesign, systems support, and incentives and rewards.

**Organizational and Process Redesign.** Many firms have adopted hybrid organizational structures, with teams focused on managing distinct customer and consumer segment groups, for achieving closer alignment.<sup>14</sup> Each group that deals with customers must create a credible superior value proposition for its segment. Eurotunnel used this lever to uncover the distinct needs of tourist travelers and business travelers as well as truck drivers and international trains. Fidelity shifted responsibility for profits and customer retention from product managers to market segment managers. Then product managers worked on new product and system developments that required deep technical expertise.

Crucial to an organizational redesign is reengineering the core value development and delivery processes

<p><b>Persistent Obstacles to Change Program Success</b></p> <ul style="list-style-type: none"> <li>• <b>Absence of leadership.</b> If the presumptive leaders lack credibility or credentials, demand politically acceptable solutions, or can't bring the rest of the management team to consensus, the whole effort is likely to be futile.</li> <li>• <b>Initiative burnout.</b> Weariness settles on organizations that have been forced to change more or less continuously as strategic priorities change. Some managers may have experienced five or six widely heralded change initiatives during their time with the company, each promising salvation and each soon supplemented by yet another initiative. This bewildering mix of approaches with distinct methods, vocabularies, deliverables, and teams of outside consultants</li> </ul>	<p>competes for a shrinking share of the organizational mind.</p> <ul style="list-style-type: none"> <li>• <b>Stifling cultures.</b> Cultures in which managers and employees are suspicious of new ideas can quickly derail a change process. Often the rules of conduct and practice behind a firm's earlier success are codified into rigid operating standards and styles. More subtle resistance arises when employees or middle managers think they are doing well and regard the new program as an implicit criticism of their efforts.</li> <li>• <b>Management turmoil.</b> Many initiatives have stalled or failed during turmoil in managerial ranks. The champion is gone, and the new team has not accepted the initiative or wants to do something different. If there is a lot of turnover at the top, no one can remember why various initiatives were</li> </ul>	<p>started, and the company becomes progressively more confused and disenchanting.</p> <ul style="list-style-type: none"> <li>• <b>Lack of urgency.</b> If managers and employees don't feel change is urgently needed, other more pressing concerns (such as immediate sales results) will push it aside. Some people may feel that they're too busy and can't possibly spare the time. Others may protest that they're already doing it or that it's a waste of money. If the company is already successful, people may feel that they know the customers and competitors well enough.</li> <li>• <b>Poor implementation.</b> Implementation problems range from lack of resources or time to employees not clearly understanding the benefits and goals. It is also hard to sustain enthusiasm without early success or success that isn't celebrated properly.</li> </ul>
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## The best intentions of a market-driven change program will be thwarted if the compensation plan comes from another era.

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and realigning them with supporting processes such as human resources. This is reengineering in the proper sense of optimizing a sequence of activities.<sup>15</sup> In 1994 and 1995, IBM revamped its customer relationship management (CRM) processes. It began with a clear set of customer requirements, i.e., “understand me and my business. . . keep your promises . . . do business on my terms,” that were translated into objectives for each of the ten supporting processes such as opportunity management, customer satisfaction management, and market management.<sup>16</sup> The pivotal process was market management based on the familiar sequence of analyzing markets, identifying and selecting segments, and devising strategies for each segment. The output of this tidy process fed all the other processes — and that’s where the trouble started. For example, if IBM identified a new target segment, it had difficulty getting the human resources and training departments to pay attention, but, without their contribution, the right skills weren’t available. The sales force was particularly resistant to changing its day-to-day activities. Its mind-set was that all business is good, that all sales opportunities are good, and that all revenue is good. This clashed directly with the emphasis on attractive opportunities in a market-relating capability rather than diffusing energies across high and low priorities.

**Incentives and Rewards.** The best intentions of a market-driven change program will be thwarted if the compensation plan comes from another era. IBM people thought all revenue was good revenue; that was how IBM compensated them. The research here is unequivocal.<sup>17</sup> If the change effort is to be taken seriously, the rewards and incentives have to be aligned. Sears bases long-term executive compensation on nonfinancial as well as financial performance — one-third on employee measures, one-third on customer satisfaction and retention measures, and one-third on traditional investor measures. Since this is such a powerful signal and motivator, it has been extended to nearly all field managers, whose annual incentive is now based on targeted improvements in

customer satisfaction. Even hourly associates can earn variable incentive pay based on improved customer satisfaction.

**Systems.** It is impractical to focus an organization on the customers with the greatest life-time value or the most profitable segments or presume to offer seamless service with a hodgepodge of mismatched legacy systems. This is why some of the biggest breakthroughs come from systems projects, and also why they are among the last steps in the process.

A centerpiece of the change process at Owens Corning was the realignment of systems to support its new strategy. Customers would enter the Owens Corning system to find available inventory, determine their order-shipping date, and pay electronically, so that the multiplicity of products became a coherent bundle. Owens Corning replaced all systems with SAP, the powerful, notoriously difficult enterprise software. But old systems and procedures couldn’t simply be replicated on the new systems; they all had to be completely redesigned to mesh with the new processes that flowed information rather than leaving it in separate silos. After paying \$110 million to install SAP and train people, the company expects to save as much as \$80 million annually by 2000. More important, it has aligned and integrated external information flows and internal processes and information.

Systems changes are closely associated with process redesign. Fidelity changed its approach to customer development and retention with a new process that enabled it to evolve from multiple service platforms (that couldn’t share customer data) to a single platform. It changed its standard service for all customers to segmented service (for example, calls routed to representatives depending on the attractiveness of the caller). And it changed from product cross-selling to relationship development by targeting high potential customers.

### Reinforcing the Change

Do those responsible for change . . .

- Know how to get started and ensure early success?
- Have benchmarks for measuring progress?
- Have a plan to focus attention on the change program?

Companies beset with day-to-day internal concerns often backslide after their initial success at becoming more market-driven. Managers need to sustain the

change process and drive the organization to higher levels of market orientation in a process called “painting the bridge” (as the painters of large bridges who finish their job at one end immediately start over). They need to continuously disseminate best practices, measure and assess progress (and assess the metrics used for measuring), and focus attention on the process.<sup>18</sup>

Companies need to turn episodic efforts at improvement into a discipline embedded in the culture. Most successful change initiatives begin with an early, visible win that the company can celebrate and use as an example.<sup>19</sup> Eurotunnel pushed hard in the early stages of the change program to launch a club class for business travelers, which showed the benefits of working in multifunctional teams. Pilot programs can also be used to fine-tune the change program and build enthusiasm.

The development of these wins, and the dissemination of the best practices created by them, needs to be ongoing. Wal-Mart has mastered the rapid diffusion of best practices and winning programs to all stores. During its regular Saturday morning merchandising meetings, the company celebrates managers’ outstanding achievements. A department manager in one store with a very effective approach might communicate her strategy to managers throughout the organization via satellite. The managers can then immediately implement this best practice in their own stores.

A sustained effort requires ongoing monitoring of performance against objectives for improvement in important market metrics. When Xerox launched its customer satisfaction program in 1990, it set a target of 90 percent ratings of “somewhat satisfied” or “very satisfied” by

1992.<sup>20</sup> As it got closer to that goal, it raised the bar. Then it changed the target measure to customer retention, which reenergized the program. Whatever measure is used, it should be closely linked to financial performance, easily understood, and reliably measured so people have confidence in the results.

Overall, managers need to focus attention on the change process to sustain it. In addition to disseminating best practices and using measures, companies use continuous benchmarking against competition, frequent inputs from customers, and constant questioning of all processes to reinforce the effort to become market-driven.

## Conclusion

The stories of Fidelity Investments, Sears, Eurotunnel, and Owens Corning describe the unique path every organization follows to becoming more market-driven, shaped by its own past and competitive position. While some companies are able to successfully design change programs, many others remain aspirants. They believe that marginal changes, a few management workshops, and proclamations of good intentions suffice when they should be mounting a fundamental change in their culture, capabilities, organization, and systems.

The program to create a market-driven organization must begin quickly but be sustained over many years. Fidelity Investments’ program took five years to approach 60 percent completion. Fidelity’s patience was rewarded with a large increase in customer-retention rates and a doubling in “share of wallet” within the first five years. Results like this both justify the effort and sustain the change program.

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