CONSUMER/CUSTOMER ORIENTATION

Cover Story

KING CUSTOMER

AT COMPANIES THAT LISTEN HARD AND RESPOND FAST, BOTTOM LINES THRIVE

Early one afternoon in late 1988, Premier Industrial Corp. got a call from the manager of a Caterpillar Inc. tractor plant in Decatur, Ill. A $10 electrical relay had broken down, idling an entire assembly line. A sales representative for Premier, a distributor of industrial parts, located a replacement at the company's Los Angeles warehouse and rushed it to a plane headed for St. Louis. By 10:30 that night, a Premier employee had delivered the part, and the line was up and running. "You can't build tractors if you can't move the line," says Vern Jourdan, a Caterpillar purchasing analyst. "They really saved us a whole lot of money."

Such service costs Premier a bundle, but it pays off. Premier can charge up to 50% more than competitors for every one of the 250,000 mundane industrial parts it stocks, and its return on equity was a healthy 27.8% on sales of $596 million in 1989. Says co-founder and Chairman Morton L. Mandel: "To us, customer service is the main event."

Like Mandel, lots of U.S. managers are talking about customer service these days. They figure that companies can score big gains in sales and profits by satisfying customers first. But Mandel and other managers aren't just talking about service with a smile and money-back guarantees. They're talking about organizing entire companies—from research to manufacturing, from information systems to pay incentives—around giving customers what they want. Says Roger A. Enrico, president of PepsiCo Worldwide Beverages: "If you are totally customer-focused and you deliver the services your customers want, everything else will follow."

JUST A FAD? Some zealous executives and management gurus have already labeled the 1990s the Decade of the Customer. Publishers are churning out books with such titles as *The Service Advantage* and *Customer Satisfaction Guaranteed.* Consulting firm McKinsey & Co. reports that its customer-service work has tripled in the past three years,

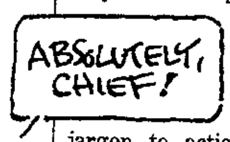
A MAKE SURE THE COMMITMENT TO BEING CUSTOMER-DRIVEN STARTS AT THE TOP—BY EDICT AND EXAMPLE

B GET CUSTOMER PARTICIPATION AT THE DESIGN STAGE TO LIMIT THE NEED FOR ADJUSTMENTS LATER ON

ILLUSTRATIONS BY EDWARD SMITH

and consultant Bain & Co. has developed a model for measuring the dollars-and-cents value of retaining customers through better service.

This sudden flare-up of enthusiasm suggests that "customer focus" could become just another boardroom fad with few long-term results. And many consumers would laugh at the idea that banks, car dealers, and airlines are offering better service. Even the champions of this new approach wonder if companies are really catching on to the idea. "More top managers are recognizing they have to be customer-focused," says James M. Hulbert, a marketing professor at Columbia Business School. "But they don't always recognize the way the organization has to change."



Still, many executives realize that they had better move from jargon to action. For encouragement, they point to American Express, Nordstrom, and American Airlines, which have built profits on a sophisticated appreciation of customer needs.

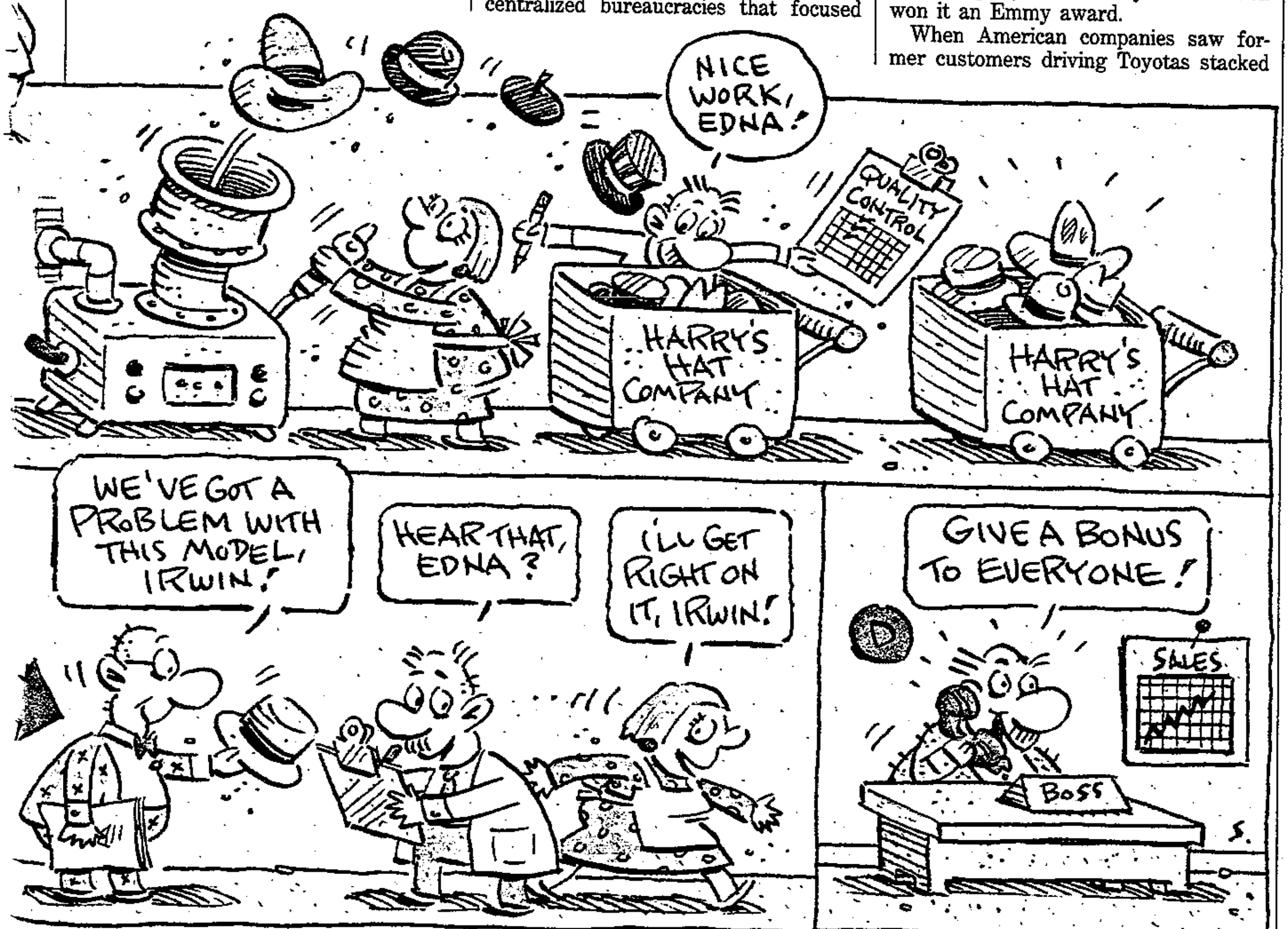
Paying attention to the customer isn't exactly a new concept. Back in the 1950s, General Motors Corp. helped write the book on consumer satisfaction by designing cars for every lifestyle and pocketbook. This was a breakthrough for an industry that had been largely driven by production needs ever since Henry Ford promised any color car as long as it was black. GM rode its insights into customers' needs to a 52% share of the U. S. car market in 1962.

But with a booming economy, a rising population, and virtually no foreign competition, many U. S. companies had it too easy. Through the 1960s and into the 1970s, many could sell just about anything they could produce. With customers seemingly satisfied, management concentrated on cutting production costs and making splashy acquisitions.

To manage these growing behemoths, chief executives turned to strategic planners for help. The MBAs helped create centralized bureaucracies that focused on winning market share—not on getting in touch with remote customers. "Markets came to be defined as aggregations of competitors, not customers," says Frederick E. Webster Jr., a marketing professor at Dartmouth College's Amos Tuck School of Business Administration. Later, the wave of hostile takeovers forced managers to placate Wall Street with short-term results, and customers came to matter even less.

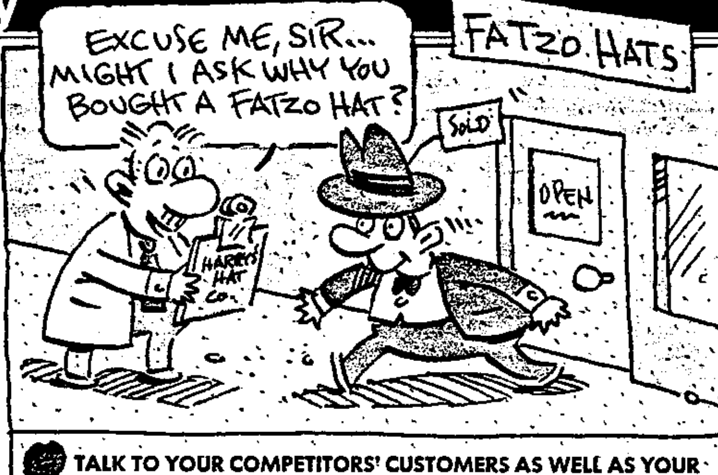
TO THE RESCUE. The Japanese were the first to recognize the problem. In the 1970s, they started to rescue customers from their limbo of so-so merchandise and take-it-or-leave-it service. They built loyalty in the U. S. by assiduously uncovering and accommodating customer needs. In 1973, for example, Toyota Motor Corp. opened a design center in Southern California to fine-tune its cars for American tastes. In Palo Alto, Sony Corp.'s Video Technology Center developed a new approach to editing videotape for CBS that cost much less than competing systems. Sony's innovation won it an Emmy award.

When American companies saw former customers driving Toyotas stacked



C GIVE EMPLOYEES AT THE FRONT LINES AND ON THE FACTORY FLOOR MORE AUTHORITY TO SOLVE PROBLEMS ON THE SPOT

D COLLECT CUSTOMER SATISFACTION RATINGS AND GIVE THEM SUBSTANTIAL WEIGHT IN EMPLOYEE PERFORMANCE REVIEWS AND INCENTIVE PLANS



TALK TO YOUR COMPETITORS' CUSTOMERS AS WELL AS YOUR OWN—AND FIND OUT WHY THEY DO BUSINESS ELSEWHERE

with Panasonic boxes, it dawned on them that it might be time to change their ways. Ford Motor Co. was one of the companies most hurt by Japanese competition. In 1980, its U. S. market share had plummeted to 17.2% from 23.5% in 1978. But Ford has benefited from following Japan's lead. Says Chairman Donald E. Petersen: "If we aren't customer-driven, our cars won't be, either."

With the chairman adamant about the need to listen to customers, other Ford employees had to take it seriously as well. Ray A. Ablondi Jr., Ford's recently retired head of customer research, convened a focus group of car buyers in California in 1980. At that session, he recalls, "the general feeling was we had let them down." Even worse, "people of college age said, 'I don't own a Ford. I don't know anybody who owns a Ford. I have never been in a Ford.' "

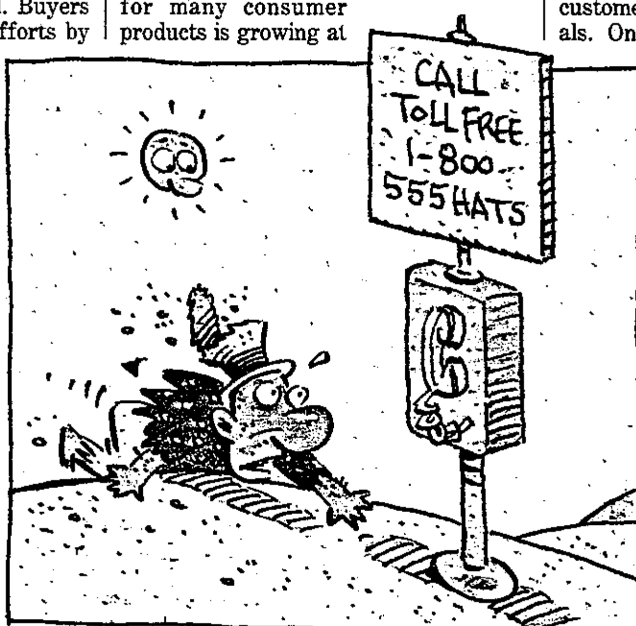
EARLY RESULTS. The news shook Ford into action. To develop the Taurus and Sable models, design engineers invited more consumers than ever before to evaluate prototypes. One result: When consumers complained that they were scuffing their shoes because the rear seats lacked foot room, Ford sloped the floor underneath the front seats, widened the space between the seat-adjustment tracks, and made the tracks out of smooth plastic instead of metal. Buyers have rewarded Ford for such efforts by making it the best-selling nameplate in California for the past five years.

Now, Ford surveys some 2.5 million customers a year and regularly invites owners to meet engineers and dealers to discuss quality problems. It has also designed a software system that makes it easier for executives and engineers to use customer-satisfaction data. One example of Ford's greater responsiveness: Even though Chairman Petersen and Design Vice-President John J. Telnack wanted to ditch the boxy Lincoln Town Car in the mid-1980s, the company kept the sedan after surveys showed that older drivers still loved it. In January, the revamped Town Car won *Motor Trend* magazine's Car of the Year award.

Ford still has a way to go, though. While it takes the Japanese four years to design and launch a new car, the Taurus will have been on the road 10 years before a new model is introduced that incorporates additional consumer input. And Ford's customer follow-through still doesn't match Nissan's. Every customer who buys or services a vehicle at a Nissan Motor Corp. dealership gets a call from an outside research firm to see how they were treated.

Ford's decade-long effort shows how tough it is to transform a company into an operation obsessed with pleasing customers at every stage. Hyatt President Thomas J. Pritzker says there's a fallacy that customer service can just be turned on: "Management has to set a tone and then constantly push, push, push."

A lot of U. S. executives may have no choice about making the effort. Demand for many consumer products is growing at only the same slow rate as the population. And technological advances have resulted in a slew of products of similar quality, which makes it tough for companies to stand out, while price competition has resulted in margin-killing battles for market share.



MAKE IT EASY FOR CUSTOMERS TO REACH YOU WITH COMPLAINTS OR QUESTIONS

Creative changes in service can make the difference. Extra service enables Armstrong World Industries Inc. to charge higher prices for floor tiles and Weyerhaeuser Co.'s wood-products division to command premiums for its commodity two-by-fours. Weyerhaeuser enhanced its service by developing a computer system for retail home centers and lumber yards so buyers can custom-design decks and shelving. "There's hard evidence that perceived-service firms can charge 10% more for their products than competitors," says Michelle A. Yakovac, a manager of quality positioning at GTE Telephone Operations Inc., which markets local phone service in 31 states.

Since the mid-1980s, the top managers of Du Pont Co. have been trying to better adapt the company's technological achievements to customer needs. According to Du Pont Chairman Edgar S. Woolard Jr., the biggest problem has been getting researchers and manufacturing employees to think more about customers as they develop new materials. One of Woolard's policies: having Du Pont technicians spend more time in customers' plants to figure out new applications for Du Pont products. That sounds like a simple idea, but it took Du Pont a long time to get it. As a result, says David M. McAndrews, director of industrial polymers, "we were walking away from a lot of business."

NEW SHOES. Du Pont's efforts paid off at Reebok International Ltd. Until late 1987, Du Pont just sold adhesives to the shoe industry. Then, a Du Pont salesman in Korea asked Reebok officials how Du Pont could help them further. The result: Du Pont polymer technicians incorporated flexible plastic tubes developed for the auto industry into the soles of Reebok's new ERS lines. The tubes give the sneakers more bounce, and the success of the

ERS lines helped Reebok's 1989 net earnings rebound by 27% after a 17% decline in 1988. "[Du Pont] helped us in amazing ways," says Paul Litchfield, Reebok's advanced-technologies manager.

Some smaller companies with fewer management layers are finding that personal relationships between senior executives and customers can help, too. Detroit Diesel Corp., a maker of truck engines, lost money for years as a division of General Motors. Then, in 1987, former race-car driver Roger S. Penske bought a majority stake. Penske, a former Detroit Diesel distributor and a customer through his truck-leasing business, requires all managers and distributors to call or visit four customers a day. He also invited employees from some 40 independent distributorships to visit Detroit Diesel's new warehouse in Canton, Ohio. These customers suggested 250 changes that helped the warehouse cut delivery time for engine parts from five days to three. Emergency orders take less than 24 hours. Now, Detroit Diesel makes money—$21 million in operating profits last year on $971 million in sales. Market share for heavy-duty truck engines has gone from 3% in 1987 to nearly 6% in 1989.

HIRE YOUR CUSTOMERS. WHAT BETTER WAY TO BOOST SERVICE THAN TO EMPLOY SOMEONE FROM THE OTHER SIDE?

NITTY-GRITTY. Smaller companies can also be nimbler at applying technologies that help customers. Everex Systems Inc., a 1983 startup in Fremont, Calif., sells its personal computers to wholesalers and dealers through a system it calls Zero Response Time. Phone orders are reviewed every two hours so the factory can adjust assembly to match demand. "It has worked out well," says Paul D. Zoerb, president of Micro Strategies Inc., a computer dealer in Alameda, Calif. "I can be very responsive to my customers, and I don't have to have cash tied up in inventory." Everex's profits more than doubled in the year ended July, 1989, to $21.25 million, on a 41% sales increase, to $377.3 million.

A successful policy of customer focus has to start with a strong commitment from top executives. But for all the inspirational work by CEOs, the nitty-gritty of satisfying customers often falls to sales clerks and factory workers.

Marriott Corp., for one, knows that workers who deal directly with customers can make or break a marketing program. For years, Marriott's room-service business didn't live up to its potential. But after initiating a 15-minute-delivery guarantee for breakfast in 1985, Marriott's breakfast business—the biggest portion of its room-service revenue—jumped 25%. Marriott got employees to devise better ways to deliver the meals on time, including having deliverers carry walkie-talkies so they can receive instructions more quickly.

To learn more about service, executives are putting in stints at the front lines. At Xerox Corp., executives spend one day a month taking complaints from customers about machines, bills, and service. At Hyatt hotels, senior executives—including President Pritzker—put in time as bellhops.

A more substantive change than dressing executives in uniforms is to give employees power to solve customer problems on the spot. Montgomery Ward Chairman Bernard F. Brennan has authorized 7,700 sales clerks to approve checks and handle merchandise-return problems—functions that once were reserved for store managers. "Customers would get frustrated when the manager wasn't around," says Brennan.

To reward good service, Montgomery Ward and other companies are linking performance reviews and bonuses to customer-satisfaction ratings. Until 1987, GTE Telephone Operations in Irving, Tex., a $12.5 billion unit of GTE Corp., gave customer-satisfaction and quality measurements only a 15% weighting in compensation evaluations for managers. GTE has since boosted the customer-service weighting to 35%.

As the gospel of customer focus spreads, more companies will try to convince employees, investors, and themselves that the customer really does come first. That doesn't mean everything will go smoothly, though. Nordstrom Inc. has a great reputation for service, but it has recently agreed to pay millions to employees who claim they were overworked. And many store owners are talking customer focus without following through. Consultant Carol A. Farmer believes many retailers say to themselves: "Of course we want to give better service—but not if it costs us anything." In Farmer's opinion, "putting a piano player in the atrium because it works for Nordstrom and putting a senior-citizen greeter at the front door because it works for Wal-Mart" is not the answer.

COMPROMISE. Indeed, many retailers still don't seem to have a good grasp of their customers' needs. Sears, Roebuck & Co., which has been struggling to reverse the sagging fortunes of its 850-store merchandising group, doesn't honor any credit cards but its own. Management argues that outside credit cards don't generate enough business. That sounds reasonable, but it's not convenient for Sears customers. In February, recognizing that it might be losing business from holders of Visa, MasterCard, and American Express cards, Sears compromised. As of Mar. 1, those customers can receive on-the-spot approval for a Sears charge card.

Promising customers more than a company can deliver can be disastrous, too. Florida Power & Light Co., which had been selling itself as a master of quality control for the better part of the 1980s, incurred the wrath of consumers last Christmas when it failed to supply enough power during a statewide

GOOD MONEY FROM GOOD SERVICE

Companies known for customer satisfaction often outperform their industry. Some examples:

	Avg. annual sales growth 1987-89	Avg. return on equity* 1987-89**
AMERICAN EXPRESS	14.4%	18.3%
FINANCIAL SERVICES	13.3	15.6
AMR	20.3	12.0
AIRLINES	14.6	-0.5
FORD MOTOR	15.3	23.3
AUTOS	9.2	13.1
3M	11.7	19.8
GENERAL MFG.	14.0	14.7

*Common stockholders' only **1989 data estimated
DATA: COMPUSTAT INC., COMPANY REPORTS

HOW BRITISH AIRWAYS BUTTERS UP THE PASSENGER

It was our first transatlantic trip with our infant daughter, and my wife and I arrived at London's Heathrow Airport laden with luggage and baby gear. To our dismay, a computer failure had left check-in lines 40-deep. We were just about to settle in for an ordeal, when a British Airways staffer pulled us aside. "You don't want to wait in those queues with a baby," he said. Grabbing our cart, he ushered us to a special desk and stood by until we checked in.

Experiences like ours have given British Airways PLC one of the best service reputations in the business. A poll by the International Foundation for Airline Passengers Assns. ranked it up with Singapore Airlines, Cathay Pacific, Swissair, and American Airlines. That's an impressive change for a carrier that in the early '80s was on many people's list of worst airlines. "The attitude was, 'This would be a great place to work if it wasn't for these bloody customers,'" says John J. Bray, chief executive of Forum Europe Ltd., a consulting firm BA hired in 1984.

BA MANAGERS LEARNING WHAT IT'S LIKE TO BE BLIND

The shift started in 1983, when Colin Marshall took over as chief executive. The British-born former CEO of Avis Inc. adopted a novel approach for BA: He asked customers what they wanted. Surveys showed that a friendly staff was twice as important as operational factors such as food service and speed of check-in for generating goodwill. "We decided service excellence, not operations, was going to drive the business," says Liam Strong, BA's marketing director.

NEW GOSPEL. The next task was to convince BA's 35,000 employees that travelers should be treated as individuals, not components to be shunted down an assembly line. Marshall and his team tirelessly preached the gospel of focusing on the customer and launched an extensive training program.

BA also dropped some of its old, military-style hierarchy in favor of more decentralized decision-making. Marketing people helped decide which planes to buy and how to equip them. Money was poured into reservation systems, uniforms, and plane interiors. Employees, at first skeptical and still shaken by massive layoffs prior to Marshall's arrival, grew more responsive to the training. Privatization in 1987 made 74% of BA employees shareholders and provided further motivation.

Marshall has also focused on BA's most important group of customers: business travelers. Since upgrading business class in 1987—with wider seats, footrests, and expanded menus and wine list—revenues have doubled for long hauls and risen 13% in Europe. UBS Phillips & Drew Ltd. expects BA's pretax profits to grow 19%, to $544 million, on about $8.2 billion in sales for the fiscal year ending Mar. 31. Improved service accounts for part of the gain, but so does the Pan Am crash at Lockerbie, Scotland, which fed fears of flying U. S. carriers.

BA's record still isn't perfect: Capacity crowds on transatlantic flights since the Lockerbie disaster have overstretched staff. And complaints about on-board service continue to plague flights within Europe. But BA is trying harder. The airline employs 60 trained problem-solvers, called "hunters," who roam BA's Heathrow terminals. Recently, a hunter spotted two women who had come off a delayed Lufthansa flight and had 20 minutes to catch a BA plane. After radioing ahead to preserve their seats, he snatched their hand luggage and ran with them to the gate. Such service helps passengers forget BA's old nickname: Bloody Awful.

By Mark Maremont in London

freeze. "When I start pumping up people's service expectations and don't deliver, I end up giving worse service than if I had never said anything at all," says venture capitalist William H. Davidow, co-author of *Total Customer Service.*

Leading Edge Products Inc. learned that lesson the hard way. The maker of IBM PC clones, which was plucked out of Chapter 11 last November by Daewoo Telecom Co., was the one to beat several years ago. Besides low price, the company offered a 15-month guarantee—12 months more than the competition. But after an ill-conceived diversification drained cash and management attention, it couldn't fill orders. And when its machines acted up, consumers couldn't get help. Leading Edge "was a victim of their own marketing success," says Robert Orbach, director of business development at 47th Street Photo in New York. "They couldn't live up to the expectations they set."

COSTLY MISTAKES. As the battle for happy customers heats up, even companies renowned for their service will struggle. IBM is desperately trying to stay on top of its customers' needs in an era of global competition. One way it is doing this is through new working partnerships with customers. The company recently teamed up with Shearson Lehman Hutton Inc., for instance, to design software that speeds overnight processing of stock trades. But with the market full of rivals that can design sophisticated systems for clients, IBM has yet to make its new customer focus pay off in renewed profit growth.

Mail-order guru L. L. Bean Inc. is another example of the mistakes even a customer-focused company can make. In 1988, dissatisfied customers returned $82 million worth of goods. That represented 14% of Bean's total sales—and $2 million in return freight charges.

In response, the company scaled back its annual revenue-growth plans to around 5% from 25%. Then, since about 65% of the returns involved wrong sizes, employees recommended updating the size information in catalogs and in order-takers' computers. Bean is also retraining 3,200 employees in techniques that boost customer service and quality.

It seems so simple. Businesses exist to serve customers and should bend over backward to satisfy their needs. But too many companies still don't get it. And in the 1990s, more customers are likely to take the opportunity to reward the ones that do.

By Stephen Phillips in Cleveland and Amy Dunkin in New York, with James B. Treece in Detroit, Keith H. Hammonds in Boston, and bureau reports

ROBIN LAURANCE