In the absence of good customer information at the top of the hierarchy, organizations lack departmental integration and are likely to be pursuing incongruent goals.

Good Information – Generals Cannot Do without It:

Why Do CEOs Think They Can?

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In a corps, a large formation of the army, which might consist of three divisions – 40,000 fighting men and women, the group planning the battle would be the corps commander with the three divisional commanders supported by artillery and supplies. In addition – and for us highly significantly – intelligence!

This structure would be replicated up the line. At a meeting of the general staff to plan the Gulf campaign the head of military intelligence would be there. He would be a lieutenant-general – an officer of very high rank. Down the line there would be an intelligence officer to battalion level or 700 men. My thesis is that there is no equivalent of this in large business organizations and there should be.

To illustrate the difference let us look at the organization of a large bank and market research's position within it (see Figure 1).

At the top is head office and the three business divisions. Looking inside retail banking, as there is no market research inside the other two, market research is not one of the six breaks. Delving down a level and, to avoid needing a huge piece of paper, restricting the look to three of the breaks we find a further nine departments but still no market research. We eventually find market research five levels down – tucked in under customer planning.

Many problems arise from having market research buried in the organization like this. One problem is that the organization will find it hard to innovate a whole class of products and services that require the co-ordination of more than one department. This is because if market research reports to one department this department does not have the authority to instruct others what to do. For example, suppose bank customers have a need that can only be satisfied by using IT in a new way in combination with a change in staff behaviour and a change in the bank premises for its delivery. If such a need were to exist it is highly unlikely that it would be recognized and, even if it was, highly unlikely it would be acted on.

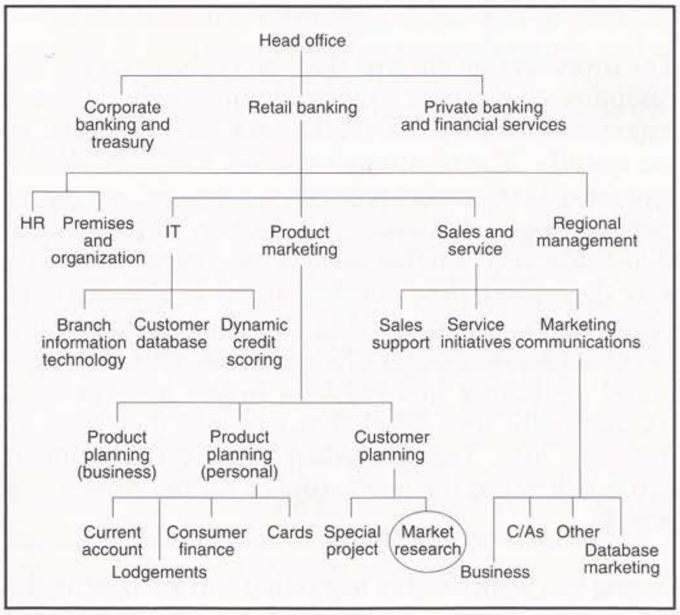
Now this all very odd because there cannot be many chief executives or managing directors who would disagree with the statement that they are trying to be "close to the customer". They have all read *In Search of Excellence* (Peters and Waterman, 1982) (or least summaries of it in the newspapers) and I am sure they would agree with the statement that has generated the maxim:

> All business success rests on something labelled a sale, which at least momentarily weds company and customer. A simple summary of what our research uncovered on the customer attribute is this: the excellent companies really are close to their customers. That's it. Other companies talk about it: the excellent companies do it (p. 156).

How is it that CEOs pay lip-service to this maxim yet show no recognition of it in their organizations?

Maybe part of the answer is that the "close to the customer" statement is all right as far as it goes but it does not go far enough. It is too vague, too many people can justify their position by appealing to it. Marketing can say: "We should be involved in everything because we represent the customer and we have an integrated view of the company" (Shapiro, 1988). Sales can say: "We are close to customers (literally) – we need more salespeople to improve service and get new product ideas back to the company". Operations have an angle too: "We know our customers want quality – we need more automated machinery so we can work to closer tolerances". And R&D: "The fundamental problem is a lack of new products – we are not investing enough in R&D".

Figure 1. *Organizational Position of Market Research in a Large Bank*



The problem is that the departments are not organizationally integrated by this vague nostrum – "be close to the customer". The customer becomes a political football for the warring barons to argue for more power and resource for their departments. In the absence of a way of co-ordinating activities around the customer the departments are likely to be pursuing incongruent goals.

The failure of having an operational and integrated way of being close to customers can prove highly dangerous. In the last few years the business world has witnessed the extraordinary spectacle of the world's largest companies – Sears Roebuck, General Motors and IBM brought to their knees. They have all been brought down for the same reason – profound changes in their markets to which they have failed to adapt.

Now we all know how difficult it is to change corporate behaviour but what seems to have happened in each case is that there was no recognition of the problems and therefore no attempt to change until they had descended into crisis.

In his book *Made in America, My Story*, Walton (1992), summed up what he saw as Sears' greatest error:

> One reason Sears fell so far off the pace is that they wouldn't admit for the longest time that Wal-mart and K-mart were real competition. They ignored both of us and we blew right by them (p. 242).

In a similar vein a General Motors watcher, commenting on the decline of this once great company, the largest manufacturing company in the world, said:

> GM's executives could neither bring themselves to believe that Americans would buy small cars nor convince themselves that "Made in Japan" manufacturers could make saleable cars of any size (*Fortune Magazine*, 1993).

IBM also refused to read their market and recognize that PCs and reduced information set computing (RISC) technology were more attractive to their customers than mainframes.

It could be argued that it is all too easy to see what should have been done in retrospect. I would argue that at the time the signs were all too obvious. Each of these corporations needed to ask and answer a simple question: Why are competitors' sales growing so fast?

In each case the answer was that the competitor product or service was answering customer needs better than they were and the issue was what was to be done.

When a company is in crisis the chief executive is rarely short of advice. There are many contradictory voices. This is why good credible information is needed. The men at the top were probably suffering from what has been termed "the curse of incumbency" (Lorenz, 1993). A deadly combination of massive investment in the traditional ways of doing things and "embedded architecture" of strategy mind-set, structures and cultures. The curse of incumbency is impossible to deal with when there is a lack of good integrated information. To think the unthinkable, which is what GM, IBM and Sears were being asked to do, is impossible when the situation is so unclear especially when there are vested interests and short-sighted subordinates who will say that there is no reason for radical change. No wonder what usually happens in these situations is too little too late.

Jack Welch, General Electric's chairman, is thought by many to be the world's greatest executive. In his recent book (Tichy and Sherman, 1993, pp. 12-13), he attributes his success to the application of a number of rules. He urges us to: "Face reality as it *is*, not as it *was* or as you *wish it were*". And to: "Change before you have to". And the last rule that gave the name to his book: "Control your own destiny, or someone else will". Good information is essential if we are to comprehend the reality of the situation we face: getting the right information to the top is a prerequisite for the application of Jack Welch's important rules.

FMCG

If you are a fast-moving consumer goods (FMCG) manufacturer you might be thinking that good information might be lacking in companies in other industrial sectors but not in yours. Although much too polite to say so, you think that other non-FMCG sectors are country cousins when it comes to marketing and market research. Of course motivating customers is central, but in your case brands are where the company meets its consumers and you do plenty of market research into brands.

In my experience FMCG companies are not immune to the problems that arise from the Cinderella status of market research. In this case, too, there is a tendency for research to fail to make its rightful contribution because it reports too low down the organization – usually reporting to marketing. Very often the servant relationship market research finds itself in leads to two sorts of problems. First it leads to stand-alone use of market research techniques addressing narrow issues which marketing deems to be the role and boundaries of market research use. Second, the brand management structure tends to focus market research on individual brands rather than the sector or on the portfolio of brands as a whole or on the things that the brands have in common, for example the channels of distribution.

The Stand-alone Use of Market Research Techniques within Narrowly Defined Boundaries

Marketing tends to regard market research as a tactical tool to provide information in a narrowly defined framework. The vast bulk of market research money is spent to answer tactical questions. How are market shares moving month by month? How is the advertising tracking? Which of these ads should we progress? Which pack should we use? This sort of information is important but it influences only tactical decisions and makes very limited use of what market research has to offer.

If instead of asking narrow questions broader ones are asked, then the rich potential for market research reveals itself. For instance, asking "how can we sell more?" opens a whole vista for research to address because in the train of this question come subsidiary questions: who is buying, who is not, why? What are the barriers to greater use? What would persuade non-users to use? Which levers of change – product, price, place or promotion – could address the causes of low use? In the ice-cream and cider markets we have seen dramatic examples of what can be done if these issues are addressed.

Research Focused on the Brand Only, Rather Than on the Sector or Portfolio as a Whole or the Channels of Distribution

At a seminar in February I gave an example of a managing director of a major FMCG company who asked the broad question – "why should I advertise at all?" I showed how this led to the use of five different types of research – intensive analysis of AGB superpanel, analysis of TNA food panel, group discussions, questions on an omnibus survey and depth interviews of the retiring members of the TCA panel that was closing down.

The investigation showed that the problem facing the company was primary demand and this had been a major issue for six years, yet the issue had never been on the agenda. The company's market research library contained 1,000 market research reports and not one of them addressed this issue. Investigation into the source of lost sales revealed that users of the company's brands were decreasing their purchasing faster than users of competitors' brands, giving the illusion that brand switching was responsible for sales loss. This illusion of brand switching had led to a brand management fixation with own label that was not the cause of the sales loss. This mistaken view of the problem had misdirected the marketing of all the company's brands.

During this work another marketing barrier to using the results of research revealed itself. It became clear that one way to restart usage of the category was to awaken nostalgic desire among lapsed users of some of the smaller-selling brands that had great appeal for occasional use but could kick-start lapsed category users back into the habit. If this happened there was a strong likelihood that this would lead to volume increases of the bigger brands because repertoire usage to give variety was the norm for this category. This idea was rejected because brand marketing had a fixed mind-set of individual brand profit and loss. The small brands could not be advertised because their extra sales taken alone would be unlikely to recoup the advertising investment. The wider function of stimulating sales of the portfolio and amortizing the cost of advertising across this wider base could not be accommodated by the narrow brand focus.

A third area where research has been under-used is trade channel management. This is the biggest problem facing FMCG manufacturers today, and although trade research does exist market research has not been used to anywhere near its potential to help with this knotty issue. If market research had been directed by strategic thinkers at the top of FMCG companies and with a wide brief it might have played an important role in ameliorating the problem. There are examples of partnerships developing between retailers and FMCG companies in the USA, players normally regarded as adversaries, where understanding of one another's needs has led to win-win. Collaboration between P & G and Walmart is one such example of what might be achieved. However, it is revealing to note that this collaboration came about because Walmart spotted the opportunity for mutual gain (Hammer and Champy, 1992, pp. 60-62).

What Market Research Can Do If Given Half the Chance and Why This Happens So Rarely

At the last session in February, I spoke of an outstanding example of the power of market research insight and of its far-reaching effects in the hands of visionary corporate leaders. It is such an outstanding example that it is worth summarizing.

New management was brought into Taco Bell (Cowan, 1993; Schlesinger and Heskett, 1991) in 1988 when the business was $500 million but its sales were in decline. Market research was conducted by a Swedish market research company that concluded that Taco Bell should strive to offer FACT and nothing but FACT. Which meant Fast, Accurate orders, in a Clean environment and food at the right Temperature. The company was completely re-engineered to deliver FACT. By 1992 the turnover of the company was $12 billion projecting $20 billion. A truly amazing illustration of what can be done when a company takes its customers seriously.

Market research rarely makes such a major contribution to corporate growth – why is this? In my view there are three reasons. First, the ideas of strategic management contain little to do with customers or consumers. Second, although marketers may claim they do this, they rarely do. Third, as we have demonstrated, market research is a long way down the hierarchy. It is viewed as a tactical tool and is used mainly by marketing.

Strategic Management

Hunningher's *Handbook of Management* (p. 46) states that: "In business, strategic management is now accepted as the discipline of managing any organisation's resources to achieve long-term objectives". If one looks through the indexes of most books on strategic management there is usually no listing at all under consumer, customer, and at best only minor references under buyer. Despite lip-service references in the text it is clear that this discipline does not place customers at the centre of managing corporate resources or central to the achievement of long-term growth.

The focus of strategic management is very much on competitors rather than on customers. One of its major orientations is towards predicting future environments – economic, political, legal, demographic and consumer preferences, but the latter are only considered in the most general way. Examination of the tools of strategic management, such as the growth-share matrix, product life cycle, market attractiveness assessments, shows that they have factored out the consumer who could be motivated by changes in the offer or new offers that meet unmet needs. In a way this is not surprising as these are key aspects of business which strategic planners know little about. Taco Bell is not something that could possibly have come out of strategic management – they would probably have labelled it as a "cash cow" to be milked. It is little wonder that corporate leaders with shareholders demanding growth turn to acquisitions once they have squeezed necessary costs out of the system.

Marketing

In most companies marketing is one of many functions; it usually does not have the power to instigate major rearrangements of corporate assets. Marketing is usually concerned with tweaking the offer and with selling and presentation. As we will see later, although marketing people embody the philosophy of orienting the company towards the consumer they are not sufficiently analytical to perform this role at the highest level, nor can this role ever be performed by one function triumphing over the others in the company. If this happens it breeds resentment and weakens the company as a whole. The only person with the authority and integrative knowledge about the whole company is the CEO or managing director. What is needed is someone who can guide him.

The Cinderella Status of Market Research

In his book *Marketing Management: Analysis, Planning and Control* (the bible of marketing) Kotler (1992) tells us what corporate executives think of marketing research. (Note the ownership of information as marketing information.) He reports that "many executives see marketing research as only a fact-finding operation" and that "some executives viewing marketing research as little better than a clerical activity and rewarded as such". He goes on to report that owing to "divergence between the mental styles of line management and marketing research" the reports prepared by marketing research "may seem abstract, complicated and tentative, while the line manager wants concreteness, simplicity and certainty" (pp. 113-14).

To be fair to Kotler he bemoans the fact that "many companies still fail to use it (marketing research) sufficiently or correctly". What he does not seem to realize is that his portrayal of the role of market research (and he is highly influential because his book is a standard text for most business students both in the UK and USA) is contributing to the problem of which he complains. As presented by Kotler, marketing research is a very impoverished, narrow affair. He seems to see it as answering very boxed issues. The whole process is controlled by marketing and the questions they choose to ask and there is a lack of integration into the whole marketing process. There is absolutely no understanding that market research can address major open-ended issues that he seems to regard as the realm of grand armchair theorizing and guesswork.

Two things are needed:

(1) *Managing directors who understand the centrality of the consumer and see this understanding as the fountain-head of competitiveness.* We need to convince corporate leaders that huge opportunities spring out of deep customer understanding. It has been said that in any endeavour the greatest obstacle to progress is not ignorance but the illusion of knowledge; this is a barrier here. All managing directors (MDs) would agree with the proposition that meeting customers' needs is central to business success but often their understanding of what customers really want and how they can be motivated is insufficiently deep to show them how to make substantial volume gains and they have little knowledge of unmet needs. They too readily delegate anything to do with customers to marketing. We must convince them of the huge opportunities which spring from deep understanding of customers and convince them that this is a general management not a marketing department concern where it inevitably degenerates into tweaking and presentation. Motivating customers and meeting their needs should be the key input into corporate and business strategy making and is of central importance because doing this impacts across the whole company.

(2) *Someone to help this customer-oriented CEO or MD.* Our ideal customer-oriented MD needs someone to provide him with the insights around which to manage the company and its resources. Let us look briefly at what qualities this person needs to have.

The basic qualities for someone to advise our MD is someone who has a built-in gyro-compass that orientates to the causes of, and what could change, customer behaviour. He must have one foot in the market and one foot in the technology, by which I mean anything which if mobilized could lead to the customer being motivated. They must continually be asking: what is the role of the product? What is the role of service? The role of packaging? The role of communication in all its many forms? Is there a role for the other resources at the company's disposal including channels of distribution and products or services which could be the fruits arising from strategic alliances or joint ventures?

To give some idea of the scope of work involved I was recently involved in helping a company plan its resources to gain a competitive advantage. Here is a list of the work involved:

- Eight long discussions with client personnel;
- Eight discussions with client suppliers and agents;
- 24 telephone consumer depth interviews;
- Four dealers visited;
- 36 client dealers depth interviewed by phone;
- 17 existing company research reports analysed;
- Eight consumer group discussions;
- 23 clandestine visits to competitive dealers;
- 70 articles about the global, USA and UK automotive industry read including two books; and
- 167 items of competitor sales material analysed.

To do this sort of work one has to be skilled in creating, analysing, interpreting and synthesizing information. It is process of analytical induction, of theory building where there is a moment of insight where all the pieces fall into place. A degree of creativity and a can-do attitude is required. It is also important to be conversant with how to get things done in large organizations and be abreast of what is going on in the arena of business generally.

Conclusions and Implications for Market Researchers

Like generals, CEOs and managing directors do need good information at the top, and they are not getting it. They are not getting the insight about their customers and markets that will enable them to grow their businesses through sector growth and share gains. Realizing the opportunities offered by maximizing motivations or marshalling resources to satisfy customers' unmet needs invariably impacts on the whole company. For this reason insight must be provided at the top and not to marketing who are but one function of the company. Another reason that market research must escape the clutches of marketing is that this function does not make best use of the wonderful set of tools available to spot opportunities in the trading environment. It uses them in a tactical way.

I have outlined the skills needed to do this opportunity spotting and market researchers have many of the aptitudes, although they do need to broaden their interest in and knowledge of the other business functions.

We have identified an important need for customer and market insight at the very top of the business organizations. This need could be answered by research suppliers in a consultancy capacity or by researchers in the company. At present there are image and organizational barriers to doing this as research companies are seen as suppliers of stand-alone products and, as we have seen, company researchers are not very highly regarded by business leaders. I therefore do not minimize the difficulties but the key question is whether market researchers want this aspiration. I am a great believer in the notion that if you really, really want something then there is a very good chance you will find a way to get it.

You will probably remember Bernie Cornfield (a rascal, but a wealthy rascal). You will remember he used to select his salesmen according to how they answered his key question: Do you sincerely want to be rich?

The market research community has to ask itself: Does it sincerely want to have a major corporate role? Because if it sincerely does I am sure we can make this aspiration come true.

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