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# THREE STATES CLOSER TO THE CUSTOMER

Strategist and organizational change consultant John Kuypers argues that companies actually resist getting closer to the customer, and for good reason – it's more profitable! He argues that it is only changes in competition that **force** organizations to grow closer to the customer. He describes companies as moving through one of three “lifestates” of resistance, which he calls *Cruisin'*, *Schmoozin'* and *Oozin'*...

The customer is king, right? The customer is always right, right? Not if a company wants to maximize its profitability! It is *always* in a company's best interests to resist getting closer to the customer – until it absolutely must do so in order to survive.

I once met the elderly wife of the late founder of Cutty Sark scotch whisky. His secret to success? He was one of the few who owned aged whisky in bulk after World War II – an enviable position to be in. Like selling the cure for cancer, he didn't need much of a sales force. His challenge was to take orders, build capacity and meet demand. He was *Cruisin'*!

In the *Cruisin'* lifestate of an industry, supply is less than demand. This means that the way to make the most profit is to have enough capacity to meet the demand, while keeping prices as high as possible. The focus of the firm is *internal and operational*. And why not? Customers just keep wanting more!

This situation is not limited to 1946 however. Until recently, banks were an excellent example of this, where the demand for credit usually exceeded the supply. Other examples include software companies like Microsoft, cable TV companies, investment banks, franchisors, and some professional services firms like lawyers and accountants. Any organization that has a strong, indefensible product, service or marketing advantage is in the *Cruisin'* lifestate. This advantage naturally supports the view that getting to know the customer is really quite unnecessary. Market growth is typically strong and expected to be so for the foreseeable future. It's “our way or the highway.” Just ask Microsoft.

This is the most desirable lifestate to be in from a company's point of view. Companies invest long efforts to remain in this state, researching & developing new products, new services, seeking low cost producer status or building distribution ‘walls; to keep other competitors out. A competitive edge in any of these areas means companies have *leverage* with the customer. They enjoy the luxury of being the *least*

customer-driven of the three lifestates - and often the most profitable!

Eventually, the enormous profitability of the industry attracts new capacity & competitors, eventually creating overcapacity. Downward pressure on pricing appears, and the products & services take on a commodity-like appearance. Supply begins to exceed demand. This can take decades (or centuries, as in banking) or just a few short years. The only way to maximize profits is to go for market share, *pushing* sales at all cost in order to cover overheads and achieve low-cost producer status. This overcapacity requires the firm to start *Schmoozin'* the customer, selling them anything and everything they can shove at them. Such companies must enter a second lifestate.

IBM found itself in this position in the late eighties and early nineties. It could no longer simply charge premium prices, spend millions on R&D and expect customers to remain loyal. The computer hardware industry was flooded with new competitors eager to take market share away from Big Blue. So IBM changed. The company began to cut prices and offer a full product line of everything that a customer could want, regardless of its profitability to the company. IBM's focus became maintaining its customer relationships and its market share, sacrificing margins where necessary. Profitability declined accordingly. However, this level of profitability maximized what could have been achieved under those market conditions. The company evolved from being a *Cruisin'* operations-driven organization to a *Schmoozin'* sales-driven organization.

Market share is the war cry of *Schmoozin'* organizations. One way quick way to do this is through mergers and acquisitions as companies try to quickly gain market share, while achieving low-cost economic scale & cost efficiencies. Cost-cutting becomes the name of the game internally. Market growth itself is often low or in decline. Great efforts may be made to regain competitive advantage via new

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products or services - in other words to return to the *Cruisin'* lifestate where corporate life was considerably more comfortable.

However, despite all the efforts to schmooze its customers, these companies typically experience limited customer loyalty and continued price sensitivity. Of course! Customers are smart. In a commodity market, their own corporate governance and desire for profitability cry out for them to 'shop around!' Industries where some companies are fully into the second lifestate include food manufacturing, department store retailing, financial services, and computer hardware manufacturers.

Eventually, years or decades later, an industry experiences extended periods of low or flat profitability. The industry has essentially become commoditized. Pressure to improve returns on investment force companies to enter the third lifestate. Costs have already been cut to the bone, processes re-engineered, mergers explored and organizations re-structured. While inventing a new, superior widget still feeds management's fantasy to return to the *Cruisin'* stage, management finally hits the wall. The only way left to grow is to stop *Schmoozin'* the customer and start *Oozin'* passion for a few high-value customers!

To do this, organizations get even *closer* to the customer! This is a way to bring supply into equilibrium with demand. Management realizes that they must do more than just "know" the customer as people. They have to actually *adapt* their entire organizations to the customer, an often gut-wrenching, culture-crushing undertaking. Outsourcing and private label manufacturing are two examples of *Oozin'* companies.

Management recognizes that the only way to maximize profits is by narrowing the company's focus on fewer customers and adding value in a differentiated and sustainable way. They can only do this by customizing their entire operation to meet the needs of a few high-value customers. This reduces competitive price pressure, while improving the competitiveness of its customers.

Uniquely servicing the needs of its customers becomes the new focal point of the companies in the *Oozin'* lifestate. The culture of the company may feel almost missionary, not only for its own growth but for the wider role it plays in its industry. Strategically, the firm now becomes more and more a part of an industry-wide *vertical alliance*, from suppliers to manufacturers to retailers, collectively competing against other vertical alliances.

Pepsico made a massive effort to start *Oozin'* with passion for the customer in the early '90's. Pepsi

responded to soft drink market conditions of over-capacity and low profitability by becoming "The Right Side Up" company. It undertook a massive cultural overhaul by putting the customer first and front-line employees right next to them. It put senior management at the bottom of the upside down pyramid to visibly re-align the culture of the company.

Pepsi focused on how to change itself and its cost infrastructure in order to meet its retail customers' full beverage needs, not just its soft drink needs. This included analyzing retailer profitability per square foot of shelf space and re-aligning shelf line-ups to optimize *retailer* profits even at the expense of Pepsi's profits. On-going monitoring of promotional and on-shelf product sales and profits turned Pepsi's sales organization into "beverage consultants" rather than soft drink "sales guys". The company aligned itself more tightly with targeted retailers, accepting that others would align with Coca-Cola.

Few of us like to change, and companies are no different. Like human beings, companies prefer to have things their own way – and who doesn't! It is only under severe competitive pressure and low profitability conditions that companies stop resisting the customer, and actively seek to get closer to them.

Executives leading change in this order of magnitude, face enormous people challenges. They must find ways to change deeply held beliefs about 'how things work around here'. Core values are turned upside down about what skills and departments of the firm will have the power and influence that lead to career and business success. Executives must downsize and re-size the organization to fit the customer where they are now.

Success usually comes to those who *accept* that market conditions have changed forever. This is no easy feat, as hope springs eternal that a new product breakthrough will return the company to the glory days of *Cruisin*, or the free-wheeling days of *Schmoozin'*. Only when a company is finally *Oozin'* with a passion for their chosen customers, do a company's executives and employees truly understand what it means to be *closer to the customer*.

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