All companies strive for high profits and growth, but to achieve both is challenging. Many theories and approaches have been developed to find the secret formula for turning lead into gold, but none of them has been completely convincing.

The purpose of this article is not to vindicate those approaches. Much rather we would like to prove that there is a path to long-term profitable growth. We have taken a close look at successful companies and found that most share a common quality: they are aligned with their markets, fully satisfying their customers. Starbucks, Zara, Beiersdorf and L’Oréal are examples of companies that have achieved long-term profitable growth, clearly derived from a superior ability to maintain market and product alignment.

The Complexity of Alignment

It might seem obvious that success comes from product alignment as good products usually sell. But if it were so simple, why did so many excellent companies, from IBM in the 1980s to Procter & Gamble in the 1990s, experience difficulties in aligning their product offerings and end up suffering financially?

Why do we as customers all experience poor services or products from huge, well staffed, apparently successful companies, be it the mobile operator miscalculating our bill, the PC maker with an inefficient hotline, the airline overbooking seats or the car company selling an unreliable vehicle? Why do these companies fail to be aligned with the needs of their clients?

The answer is relatively simple: because it is a challenging task to maintain ongoing product and market alignment.

**Product Alignment:**
**The Key Driver of Profit and Growth**

Henri de Bodinat, Mark Dougan and Christian Urdl
1. A complex task: the three dimensions of alignment

Successful companies align their products in three ways: the breadth of the products offered, the relevance of the offering and the quality of the offering.

**Breadth** means that none of the attributes important to the customer are left out or neglected. In air transport, for example, punctuality is a key attribute of the product, and for many customers is at least as important as ticket price or quality of in-flight service. Similarly, warranty is a critical attribute of a new car for many customers, speed of repair an important attribute for truck customers, and clear and honest pricing a key attribute of a mobile phone company's service.

The breadth of the product offering must match the breadth of the attributes perceived as important by customers. This requires companies to take a broader perspective of what they are offering than just the core features of the product or service and its price. They must address all attributes of the overall customer purchase and ownership experience that matter to consumers.

Many companies have difficulties with this dimension, because they fail to realise that consumer attitudes are changing and consumers are expecting different products or services. For example, the French vacation resort operator Club Med never used to consider transport to and from its resorts to be part of its product. However, frequent failures or poor-quality transportation offered by local operators tainted the company's image because clients considered transport to be part of the overall experience that they were buying from Club Med.

In the automotive sector it is noteworthy that, according to the independent research group JD Power, one of the key weaknesses of French car companies in the UK and Germany is not the physical product itself, but broader aspects of the purchase and ownership experience such as the quality of dealers’ service. This is starkly different from Toyota’s launch of Lexus in the US. One of the key elements of that success was that Toyota considered the quality of dealers’ service to be so crucial to the overall
product experience that it set up a new and distinct dealer network purely for Lexus.

An overtly narrow or inaccurate definition of the boundaries of the product offering is enough to break the product/market alignment. Unfortunately, this seems to happen more frequently as consumers’ expectations of the product purchase and ownership experience broaden.

**Relevance** is the second dimension of alignment. Relevance means that the hierarchy of attributes of the product or service matches current consumers’ needs. In food, for example, sweetness and fat in food are less and less relevant, whereas health and taste matter more and more. As a result, companies like Starbucks and Subway sandwiches are becoming increasingly relevant to the needs of consumers, and the traditional fast-food giants less so.

The first step to alignment of products in terms of relevance is identifying the key attributes of a product for the consumer. In hair gel, for example, the key attributes could be: ability to give and hold a shape, health, shine, suppleness, price and practicality of use.

Once identified, the relative importance of each attribute has to be measured, which can be done using the CAMM (Consumer Attribute Management Method) of Arthur D. Little.

The identification and development of the hierarchy of attributes is a key input to market segmentation – dividing the market into groups of customers who place similar importance on similar sets of attributes and offering products or services that meet the needs of these segments more successfully than available alternatives.

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1 CAMM Camm is Arthur D. Little’s method of measuring the relative value of each product attribute using the statistical method of “choice simulation”, which is far more accurate than current techniques such as customer satisfaction studies, key purchasing criteria, conjoint analysis, or large-scale market research. As a result the so-called “product value” curve, which graphically represents the ideal value for the client, and allows comparison with the competition or with the company’s current offerings, can then be developed.
The third dimension of the alignment is the level of quality of the product features. This includes not only perceived short-term quality but also a broader definition of quality over a longer timeframe: long-term reliability and pleasure, ergonomics, lack of defects, bugs or dangers. Quality creates customer peace of mind. The quality of the hotline in terms of speed, precision and relevance of the answers to users’ queries is essential in any industry.

But the expectations of users with regard to quality change over time in terms of relative as well as absolute thresholds. Five years ago, an internet connection up and running 95 percent of the time was acceptable for internet users. Today the threshold figure is 99.5 percent. Software bugs are less and less acceptable, while they tend to become increasingly frequent. In computers simplicity of use (i.e. plug and play) gains in importance as products become more widespread among the population and more marginal users with less technical expertise are brought into the market.

Quality creates customer peace of mind.

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Exhibit 1: Change in Market Structure: Two Examples

**Price/volume in the clothing/fashion industry**

1970: Lozenge Shape

2000: X Shape

Winner: Zara, Prada

Loser: Marks & Spencer, Tati

**Social structures in the automobile industry**

1970: "Social Class" Pyramid Structure

2000: "Product Use" Grid Structure

Winner: Toyota, BMW

Loser: Fiat, Ford Europe

Source: Arthur D Little analysis

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Prism / 1 / 2004
2. Being aligned on changing markets

Products have to be aligned with their markets in terms of breadth, relevance and quality. But the market is a moving target: it changes constantly. Companies have to be very well connected with consumers to know how the market is evolving. It is even trickier to predict where the market is heading, especially in industries with long product-development cycles, such as automobiles. Rémi Deconninck, product VP of Renault, says: “We have to define now the cars which will be driven 10 years from now.”

During the 1980s and 1990s a major shift took place in several industries, for example clothing, which took many companies by surprise. Many markets developed from the “classical” lozenge shape, with a bulge in the middle (the “mass market”) and a rather tiny tip and narrow base,

<table>
<thead>
<tr>
<th>Exhibit 2</th>
<th>Lack of Alignment – Two Cases</th>
</tr>
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<tbody>
<tr>
<td><strong>The Gap case</strong></td>
<td><strong>The Polaroid case</strong></td>
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<tr>
<td><strong>GAP</strong></td>
<td><strong>Polaroid</strong></td>
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<tr>
<td>- Gap was the glorious retailer of the nineties, a fast-growing category-killer and profitable. Suddenly, 3 years ago, Gap hit stormy weather. Decrease in same store sales, losses, drop in share price... Why?</td>
<td>- The founder of Polaroid, Edwin Land, was one of those rare individuals who successfully commercialised not one but two great inventions; light polariser in sheet form (for use in sunglasses, airplane windows, etc) in the 1930’s, and instant photography in the 1940’s.</td>
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<tr>
<td>- Simply because the product had become less aligned for the core Gap franchise, the twentysomethings.</td>
<td>- The launch of instant cameras and film created a new market, and huge profits for Polaroid which was touted as a “can’t miss” investment.</td>
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<td>- The loss of alignment was a result of a short term push for profit increases which translated into strong pressure on manufacturing subcontractors, which passed the decline in an all-out effort to discreetly reduce quality.</td>
<td>- But the market served by Polaroid’s core instant photography business was changing. Stores were opening that could develop film in 1h, a short enough timeframe for many consumers given the higher quality of the product. Then came digital photography, another development that Polaroid had failed to foresee.</td>
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<td>- Irrelevant styling was the result of a desperate and clumsy attempt to cater to the new young generation instead of following the core clients in their aging process. Gap lost its existing clients with a product which was no longer aligned on their needs, but failed to attract the younger people seduced by new “streetwear” brands such as Ecko.</td>
<td>- Within a few years the market for instant cameras and film collapsed, taking Polaroid’s profits with it. Polaroid entered Chapter 11 in October 2001.</td>
</tr>
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<td>- Furthermore, Gap had not resisted the temptation to translate its strong franchise in higher prices and lost its shine as one of the best existing quality/fashion/price ratio.</td>
<td>- Emerging from the bankruptcy Polaroid has been bought by a private equity firm. The new focus is now on digital photography, and particularly on printing of digital photographs. Will it be enough to re-align Polaroid?</td>
</tr>
<tr>
<td>- Results: a drop in sales of over 20% from 2001 to 2002.</td>
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Source: Arthur D Little analysis
into “X-shaped” structures with a thin belly and two bulges - one at the high end and one at the low end of the market (See exhibit 1). In fashion this change helped high-end companies such as Hermès and Prada. It also boosted the development of companies like Zara or Hennes & Mauritz, which served the low-price and low-end segment with good quality and a sense of fashion-orientation. But it weakened companies in the middle, like Marks & Spencer, which suffered significantly reduced profits as a result.

3. Align product costs and product value to clients

We all know that expensive products can sell. Consumers are prepared to pay a very high price for outstanding products, as in the cases of Hermès, BMW and Cohiba. But it is pointless to deliver superb products so costly that either they are priced beyond what clients are prepared to pay, or the margins are too low. Buyers realise that in any purchase decision there is a trade-off between quality and price. The same quality of service is not expected when a consumer buys a ticket on a budget airline for one-third of the cost of a ticket to the same destination on a full-service national flag carrier.

There should always be a match between value and price, and thus between value for the consumer and cost for the company. A thorough analysis, for each product feature, of the value to the consumer compared to the cost for the company is necessary to find the ideal equilibrium. Otherwise the company will “put features in the product the client is not ready to pay for”, as Bill Ford, CEO of Ford, pointed out.

Product-aligned companies save on overheads, staffing, marketing or sales costs, in order to reallocate funds to R&D and to product quality. Dell, for instance, is the most profitable PC company because it combines high investments in R&D and client support with inventory, sales, and marketing costs cut to the bone.

At Wal-Mart, excellence in inventory rotation (23/year vs. 10/year for the average French hypermarket) has reduced inventory costs, and the cost savings have been reinvested.
in competent staff, thus improving service levels. In a typical Wal-Mart “super center”, there are about 400 employees, twice as many as in any equivalent French hypermarket. As a result, the service level at Wal-Mart is very high, so customers spend more and are loyal. On the other hand, K-Mart saved on service costs rather than on other costs, reduced staff in a desperate bid to re-create margins, lost share to Wal-Mart and ultimately filed for Chapter 11 protection.

Benefits of Alignment

To align a company’s product offering to the market is a complex task. Once achieved, product alignment has tremendous benefits.

1. Customer loyalty

A loyal customer is a key asset for any company, even if it isn’t visible on the balance sheet. In the car-rental business, the incredible success of Enterprise car rental, which has been steadily taking market share from competitors, is essentially due to its superior service quality. In consultancy, M&A, cars, yogurts, resorts or computers, customer loyalty comes essentially from constant user satisfaction, which in turn comes from product breadth, relevance and quality. If Toyota has twice the customer loyalty of other similarly priced cars, it is not because a Toyota is a status symbol. Customers who are status-hungry could switch to BMW, Porsche or Audi. It is simply because a Toyota overall offers more value to its customers than rivals in terms of quality, price or after-sales service.

In all industries, loyalty is a key to profitability. There’s no need for expensive recruitment of new clients: repeat business of existing clients creates an incredibly strong sales base.

2. Word-of-mouth

Product alignment also lies at the root of the cheapest form of communication: positive word-of-mouth. Positive word-of-mouth does not cost anything: it attracts new...
clients at no cost. Once created, customer satisfaction is a margin-booster. The founder of Starbucks stated that his best advertising was at zero-cost: satisfied customers were bringing new customers into its cafés. As a result, marketing and promotion costs at Starbucks are only 1 percent of sales vs. 10 percent for the average food franchise in the US.

Well aligned companies don’t need to “buy” clients with expensive sales incentives like rebates, zero-cost financing, promotions or price cuts. The average US automobile brand gives a $3,000 cash rebate to each car buyer, while the average Japanese brand gives only $1,000. Word-of-mouth is an asset for the Japanese, but is often a liability for US companies.

With such a combination of loyal existing clients and zero-cost new clients, growth comes naturally and cheaply. If fixed costs are contained, high sales growth combined with high margins brings huge and growing profits. Starbucks, in the restaurant business, is a prime example of a strategy of product quality and relevance which has paid off handsomely with tremendous and sustainable profit growth. Porsche, BMW and Toyota, in three different market segments of the car industry, also illustrate it.

3. Brand value

Product alignment creates the brand, not vice versa.

Over a long period of time Audi and BMW went from being small, marginal car manufacturers, with an uncertain image, to superb, high-end automobile brands, thanks to the stubborn yearly release of high-quality cars relevant to the upper-middle class segment. Hermès was a boutique producer of leather goods, and has become a premium luxury brand because of steady marketing of superb products sold in its high-end shops all over the world.

If the quality of the product slips, a brand quickly becomes a non-performing asset, negative word-of-mouth spreads, and the company suffers. This is the case with
Perrier, a “premier” brand in mineral water, where a success story brutally ended with a small batch of bottles in which a non-lethal but unhealthy ingredient was found. The company has now recovered but felt this bump. More recently, the brand image of Mercedes was hampered by reliability problems due to the hasty introduction of a series of electronic gimmicks of uncertain value for the consumer.

Brands are not worthless. A brand is a good tool for communicating with consumers, especially about product features that are not immediately obvious, such as durability or health. A strong brand can slow down the effects of failures to maintain alignment. A brand gives time to change. But a brand cannot be used to cover up for lack of alignment. A brand is a result, not a cause, of product alignment. Profitability is not a result of brand “assets” but of permanent product alignment.

Obstacles to Alignment

Alignment is a skill. Some companies, as L’Oréal, seem excellent at it. Others seem to have lost their touch. In some companies, top executives are hiding behind figures and reports. They concentrate on investors, banks, staff, diversification, acquisition, budgets, costs, marketing and advertising, and fail to pay enough attention to their customer proposition and to adapt it to changing times.

Another bug is conservatism. A typical case is a company’s success with a single product and approach. It tends to cling to both, unable to change even when markets are changing. The problem: the company fails to recognise the signals of change in its markets and lacks the will or the power to radically alter its offering. For many years IBM stuck to mainframe computers and only belatedly went into the field of small computers.

Many companies suffer from selectivity in explaining bad results. They refuse to admit failures in alignment, they neglect or bias their consumer satisfaction results, and they turn to external causes to explain their problems.

Many traditional airlines have blamed terrorism, unioni-
sation, global economic weaknesses or a host of other external factors to explain mounting losses, whereas in reality the main cause was a failure to maintain product alignment and to spot the enormous shift in the industry which has created the budget airline.

Another type of company has a kind of silo organisation. Information on consumer satisfaction or loyalty collected by the marketing department or by front-line employees does not reach top management, production or R&D. For most companies active in the service, consumer goods or industrial sectors one of the key explanations of performance is simply the quality and relevance of the information flow within the company. Viscous, biased or incomplete flow of consumer information has a direct impact on the ability of a company to align its product to its markets.

**Secrets of the Aligned Company**

Alignment or the lack of it is rooted in an organisation’s attitudes, culture and processes.

1. **A product-oriented top management**

At aligned companies, the CEO is convinced that the key driver of performance is the attractiveness, relevance and quality of the company’s product and/or service offering. The product then becomes the main priority. He spends at least 50 percent of his time on the product, its evolution and innovation. He is a visionary, able to see beyond the walls of the company, to perceive or even anticipate social change. He is open to contradiction, to suggestion, to innovation - as long as they are backed by facts.

Lindsay Owen-Jones, the CEO of L’Oréal, is the quintessential product-focused manager. He is a real product-manic, spending most of his time on product development, driving R&D teams and division heads to come forward with better, more relevant products. He is always alert to social or demographic trends and their impact on customers’ needs.
The top management of aligned companies has a high degree of intimacy with its clients. Jeffrey Bleustein, CEO of Harley-Davidson, rides to work every day, in rain, snow or sunshine, on his Harley.

The founder of Zara apparel, the founder of Swatch watches, the founder of NRJ radio and the founder of Armani are all examples of product-oriented CEOs, as are the current CEOs of Continental Airlines, Harley-Davidson, Porsche and Dell. In interviews, Italian fashion designer Giorgio Armani only ever speaks of his clothes and of “his love for fabrics and shapes which cling to the body”. Armani then is the ultimate “product person”.

2. A culture of product alignment

Besides the top management’s obsession with product value and customer satisfaction, aligned companies also tend to demonstrate a culture of creativity, openness and initiative which is totally focused on the client. Employees are customer-focused, flexible and eager to deliver quality and to innovate or improve the product for the customer’s benefit. They are low on politics and high on pragmatism. They believe, to quote Michael Dell, that “they do not sell products but customer experience” or, to quote Harley-Davidson CEO Jeffrey Bleustein, that “they do not sell motorcycles but an ownership experience”. The story does not end with the sale. It starts with the sale. They are after a lifetime relationship.

All these companies’ systems - reward systems, promotion, recruitment and organisation - are skewed toward encouraging staff to deliver excellent products or services to consumers. Some consumer durables companies even label their products so that the workers responsible for manufacturing them can be identified, thus personalising the product. Service companies tie the incentive element of their salaries to customer satisfaction measured by independent audits.

In a nutshell, in an aligned company, from bottom to top, from the smallest employee to the CEO, there is an obsession with understanding and satisfying the client and delivering excellent products in terms of both relevance.
and quality. The CEO’s attitude, the culture and the systems are all designed to foster product excellence.

3. Vigilance and agility

Besides the different attitude of top management and their companies’ distinctive culture, these aligned companies have also developed efficient systems to track social change, translate it into products or services, and to manufacture and deliver those products or services.

3.1 Vigilance: understanding social changes

The understanding and anticipation of social changes is not easy to instil in a company. By definition, companies are focused on a narrow field (their current products) and a narrow market (their current clients). They are not naturally equipped to go beyond those clearly defined areas. Furthermore, many bigger companies tend to be rather bureaucratic, and a bureaucratic environment does not exactly spur the quality of foresight. When Bob Lutz arrived at General Motors in August 2003, he was horrified by the cumbersome organisation that had been created to identify market trends relevant to future car design. He expressed his reaction in an interview with the Wall Street Journal: “I don’t understand this system. Neither do the people who are supposed to manage it. It is totally and utterly pointless.”

3.2 Vigilance: seamlessly observing clients

Companies have a golden tool to detect or predict market changes: their clients’ behaviour. For example, Comcast, a US cable operator, closely follows churn, i.e. client defections, and tries to understand which clients are leaving and why. The company then uses this knowledge as an early warning of changes in clients’ attitudes and tries to preempt them.

Similarly the way a company handles client complaints is a key tool. While some companies try to simply sedate clients who complain, others, such as Toyota, try to mine information from complaining clients.
When a market is going through change caused by new entrants with a new business model, as has happened in European air transport with low-cost operators such as easyJet and Ryanair, well aligned companies do not directly react to this. Instead they consider it to be a signal of change in customer attitude and first of all try to understand it.

In aligned companies, such as Dell, all key elements of customer behaviour are monitored, processed, synthesised, and communicated to the relevant people within the organisation. This internal monitoring system is the necessary complement to the external vigilance. When combined they can give a company a significant competitive advantage by providing earlier and more precise detection of market changes.

3.3 Agility: re-inventing the product

Once identified, trends have to be translated into product changes. In most industrial or consumer product companies, the R&D department is a key contributor to this process. The role of R&D is to help improve product alignment. Toyota, for example, has created a bridge between R&D and marketing to ensure that R&D will work on features relevant to tomorrow’s clients, such as the ability of a car to reverse-park automatically. Part of the success of L’Oréal, probably one of the best consumer goods companies in the world, lies in the focus of its R&D on clients’ current and future needs. BMW has also restructured its R&D department around key attributes for the clients, such as comfort, security and driving experience, and in doing so has moved away from the old technical segmentation of power train, interior, body and so on.

In service companies, the task of translating social changes into adaptations or innovations is more subjective but none the less crucial. While avoiding the creation of an additional corporate layer or an additional function, a small “product definition team”, including outside experts and reporting directly to the CEO, could be assigned the task of permanently suggesting service improvements, suppressing useless features and changing the service mix, in order to adapt the core product to
external changes over time. This is what the new CEO of Yahoo, Terry Semel, a veteran of the entertainment industry, did with huge success with Yahoo’s “Product Council”, a small team of top department managers deciding which features should be added to or subtracted from the core Yahoo offering.

Re-inventing a product is especially tricky, since the product often creates the market and not the reverse. The consumer is not always able to articulate what new products he or she wants. It is the task of a company’s management team to go beyond generalities and anticipate consumers’ tastes or needs by offering bold products attuned to changing clients. In France the Renault Espace and Scenic have created the market for vans. From Spain, Zara has invaded Europe, inventing a combination of cheap and fashionable clothes which has been massively endorsed by the market. These companies did not build their product definition with market research but with management’s vision of how society would evolve and the subsequent impact on consumers’ needs.
Alignment is not the result of a miracle, even if chance can play a role. Companies able to remain aligned in the long run, even within a changing society or unstable markets, are companies which create subtle but efficient internal processes to monitor their markets and which have the will and ability to quickly adapt even to seemingly small changes. To rate their own companies, top managers should do some soul-searching and answer three questions:

- Do we have accurate and intimate knowledge of our customers’ needs, values and expectations?
- Are we sure that the product offering of our company is perfectly aligned with those needs?
- Do our company’s culture, systems and processes ensure our long-term alignment on changing markets?

Harley-Davidson, IBM and Gucci are examples of companies successfully engineering their turnaround by realigning their product offering and reshaping their organisation toward product value optimisation. From clumsy...
dinosaurs blind to the evolution of their environment, they mutated into alert and agile mammals. Profit and growth came back immediately.

**Insights for the Executive**

For products to be well aligned with markets and customers they have to be aligned in three ways: firstly, breadth in terms of how far beyond the actual product the customer experience extends; secondly, relevance, meaning ensuring that what a company offers in its products really is of relevance to consumers; and, thirdly, quality in terms of offering an appropriate level of quality for the price position adopted.

At the same time markets are moving targets. What is right and appropriate in terms of alignment today will not necessarily be so tomorrow or a decade from now. Companies have to anticipate these changes and align their products in time. But companies also have to set the right prices and in doing so consider the interdependence between lower prices and lower margins. The point here is to go just as far as the customer’s willingness to pay for the additional value in the purchase.

Companies can reap two main benefits from product alignment. First of all, customers are loyal, thus making for sustainable revenues. Secondly, happy customers bring in new customers by word-of-mouth – the cheapest and most effective marketing any company could hope for.

Companies giving priority to product alignment usually have a management team that puts products at the centre of their attention. They are obsessed with it, always looking for new products and developments and never satisfied with what they have done so far. And in their quest for product alignment they go even further. They don’t only see clients as people to whom they sell something once, but instead they are interested in creating a relationship with the client. These companies work on their products with resilience.
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