Listening to Customers

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Our clients are keenly interested in learning how they can find out what their customers really want. They pose this question to us not so much in terms of product line extensions or incremental improvements, but in terms of really exciting new breakthrough products. Like all companies everywhere, they hope to come up with the next blockbuster. But discovering what customers really want is far from simple. We have done considerable work in this area, and from that work we have distilled several observations about how to classify customer needs, how to probe for them, and how to organize internally in order to support these efforts.

Classifying Customer Needs

It's useful, when thinking about what customers want, to understand not what may be on their minds in a general sense but, very specifically, what decisions they make – and then to focus on their likely state of mind at the point of decision. Gillette, for example, thinks about classifying customer needs in terms of understanding a whole series of decisions (Exhibit 1). Gillette's interest, at least in one part of its business, is to get customers to pursue this entire chain of choices, so that they not only buy a Gillette razor, but do so repeatedly.

Understanding this decision process can be very important. For example, in the early 1980s, U.S. automotive manufacturers discovered that they were significantly behind their Japanese competitors in terms of the initial Customer Satisfaction Index (CSI), which measures the frequency of owners' complaints about cars in the first three months after purchase. In fact, that frequency was about six times as high for U.S. cars as for Japanese cars. So the U.S. manufacturers decided to focus on lowering that complaint rate. They discovered that most of the complaints were caused by manufacturing problems. But after they fixed the manufacturing problems and caught up with the Japanese in terms of the initial CSI, they discovered that this improvement didn't make a difference in their market share. Why? Because although the perception of initial quality is important, customers decide what car to buy not three months after buying their last car, but five to five and a half years afterward. Then – and only then – do customers' feelings about the product determine whether they will buy that brand again or choose something else. So it's important to focus your market research on the specific timing and content of these decisions – i.e., not to ask open-ended questions about what customers want but to focus on the hierarchies of choices they actually make and how they go about making those choices.

Another idea that's beginning to spread across many industries is the recognition that all companies have chains of customers, not just end users, and that all these customers influence business to some degree (Exhibit 2). For example, we're working with a company that sells kidney treatment products. It's clear to them that although kidney patients are the ultimate customers for their products, in fact the more important people in terms of the purchase decision are the „influencers": doctors, nurses, insurers, and the government. The insurers and the government are the ones who pay, while the doctors and nurses are the people who choose whether to deal with our client or with someone else. Patients themselves don't actually have much to do with the decision, except to the extent that their reactions might color the reactions of their doctors and nurses.

Exhibit 1

Key Decision Points in Buying a Razor
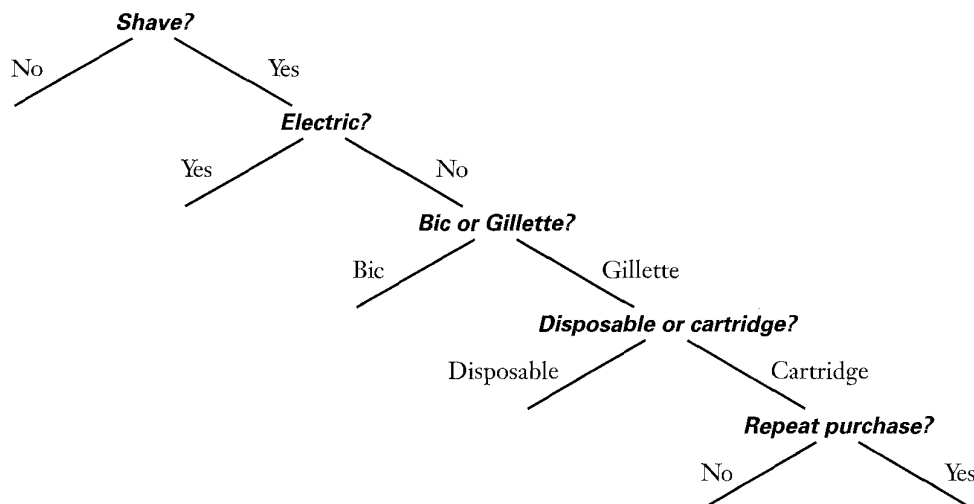
So it's important to understand your whole sequence of customers. For many companies, this is a relatively new realization. For example, Henry Wendt, the chief executive officer of SmithKline Beecham, has pointed out that the image and reputation of the pharmaceutical industry is about the worst of any industry in the world, at least in part because industry members had forgotten who the customer was. The customer is the one who pays; in this case, the government picks up a hefty portion of the tab. And Mr. Wendt concludes that the industry has had an antagonistic, adversarial relationship with the government, and that's hurt the industry badly.

Exhibit 2

Chains of Customers

Kidney Treatment	Cars	Pharmaceuticals
Patient	Owner	Patient
Doctor	Dealer (new)	Doctor
Nurse	Dealer (used)	Insurer
Family	Service garage	Government
Insurer	Insurer	
Government	Government	

Once you have recognized who your various customers are, it's useful to think about their needs in terms of Professor Kano's classification into three categories: threshold, performance, and excitement (Exhibit 3). (For a more detailed discussion of this classification, see *Prism,* first quarter 1992, page 11). Essentially, you must meet threshold needs to stay in business at all. Performance needs are where most companies compete. Meeting excitement needs often generates the biggest return on your investment in terms of customer satisfaction.

For example, Honda realized that one of the irritations of living in certain climates is that on cold mornings you can't see your car's side-view mirror because your side window is fogged up. People find minor irritations of this kind frustrating, but rarely remember them weeks or months later when asked in a focus group what problems they've had with their cars. Honda discovered the problem by actually talking at length to people who drive cars – and solved it by installing a little duct from the instrument panel to the door, to blow hot air up onto the side window and clear it fast. The reaction from customers was highly positive. Because they hadn't expected a solution to their problem, there was a big surprise-and-delight factor.

Exhibit 3

Three Categories of Stakeholder Needs
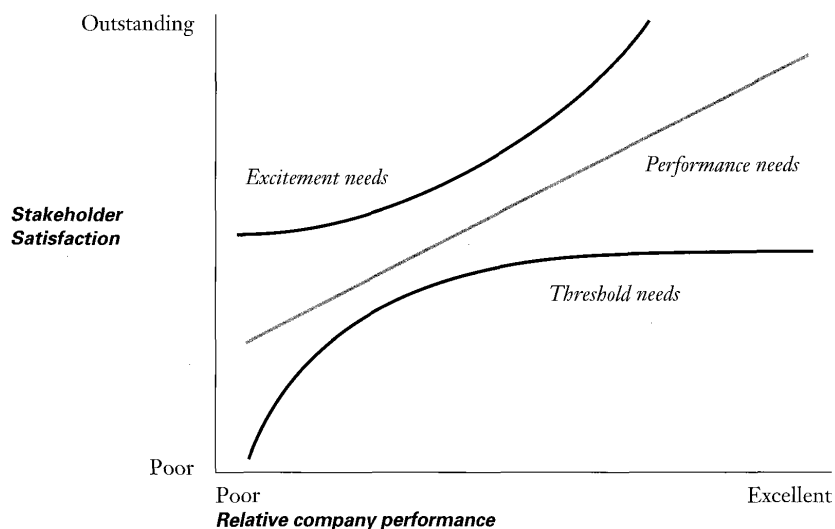
But needs are dynamic. Today's excitement features become threshold features in a relatively short time. Customers begin to expect them and then to insist on them. So a winning competitive strategy is to innovate excitement features constantly, well ahead of your competition, and then – through your operational excellence – drive them down in cost until you can afford to make them standard features of your product. Then they become threshold features, i.e., people expect them (Exhibit 4). If you do this fast enough, you can consistently position your competition way down on threshold curves. For example, when antilock brakes first came out, they cost about $2,000 per car, and therefore it was impossible to introduce them into the mid- and low-end product ranges of cars. Ford worked with one of its German suppliers, Teves, to reduce the cost of antilock brakes from $2,000 per car to $180 – a price at which Ford could begin to deploy antilock brakes throughout its product range. Today, GM offers antilock brakes on its entry-level Cavaliers. In our view, in another two or three years antilock brakes will come to be expected. Manufacturers who don't have them – and there will be many – will find themselves very low on the threshold curve.

Exhibit 4

Creating a Competitive Challenge by Raising Expectations
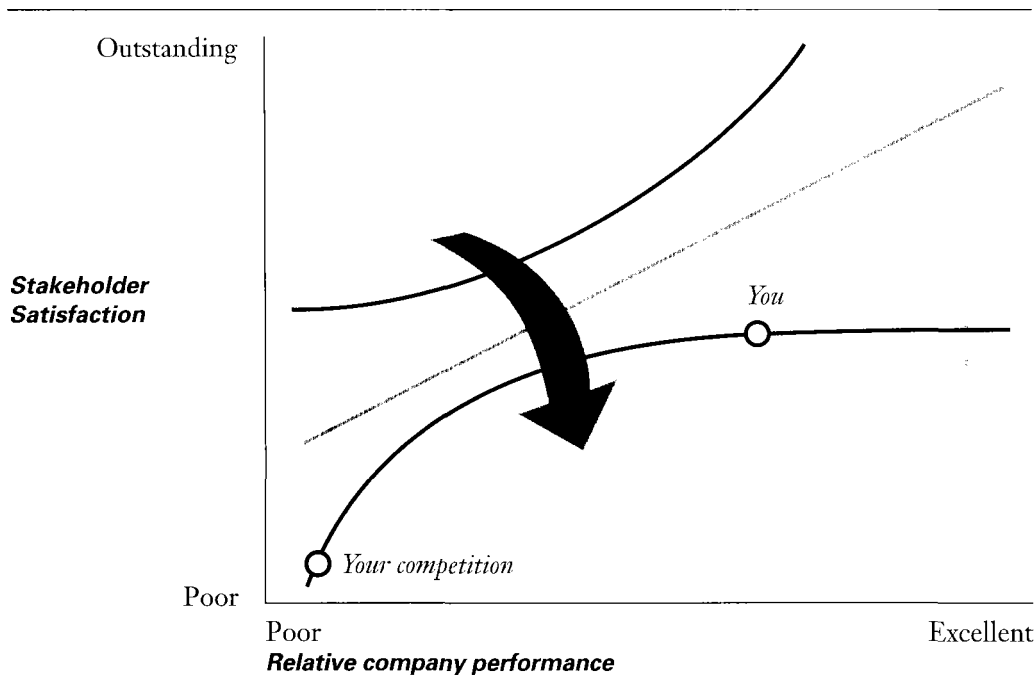
Probing for Customer Needs

Before going out into the market to conduct broad surveys of customers, you should have a set of clear hypotheses about what your customers may want. There are many ways to generate such ideas. The companies we've talked to use all the approaches listed in Exhibit 5. Some of these approaches, such as focus groups, customer clinics, and reverse engineering, have been around for some time; others are quite recent. But leading companies are doing much more. For one thing, they've learned to treat each complaint as a treasure rather than a pain in the neck. And they systematically analyze warranty data, listen to their salesmen, and get feedback on their customer service. Dell Computer, for example, receives something like 25,000 cards per day for customer service and technical support. It's a gigantic source of information, and they're just beginning to be able to analyze it.

Perhaps the newest of these approaches is observing customers in depth, i.e., taking an anthropological view of the commercial world. Anthropologists study a narrow segment of society in great depth until eventually they think they are inside the mind of the group they're studying. Increasingly, marketers are recognizing the need to get inside the heads of their customers so that they can think like them. Only when you think like your customers can you begin to invent excitement features. And the only way to think like your customers is to spend time with them.

One company that does it well is Microsoft. Microsoft has a laboratory in Redmond, Washington, to which they bring customers to try out both existing and new generations of software. Microsoft staff members observe these customers through one-way mirrors and record all their interactions with the software on a computer. This

approach yields valuable insight into areas the customers are having difficulty with and which features and functions they use with what frequency. Microsoft uses these insights to drive its investment in product development. The basic principle is to invest in those things that customers actually use, rather than things you think they might use.

Exhibit 5

Ways to Generate Ideas About What Customers Want

- Listen to complaints
- Analyze warranty data
- Listen to salesmen
- Analyze customer service inquiries
- Analyze technical support requests
- Conduct focus groups
- Conduct customer clinics
- Have one-on-one conversations with customers
- Observe customers in depth
- Work with lead adapters
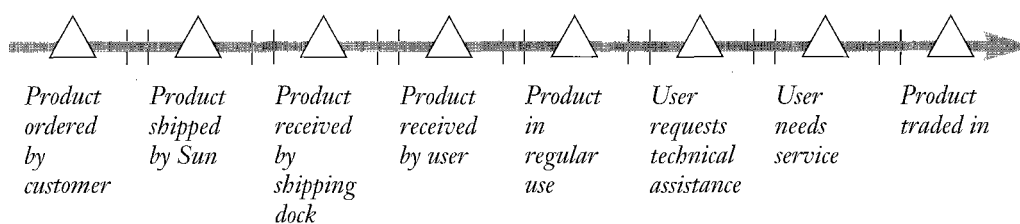- Reverse-engineer competitors' products

Sun Microsystems has a very interesting approach. The company analyzes the product life cycle into some 20 discrete segments, ranging from the time the customer orders the product to the point where the customer trades the product in for another product (Exhibit 6). Sun has task forces studying each of those segments in detail through in-depth observation. One task force, for example, is focused on the piece of the cycle where the product is received in the customer's shipping dock and then distributed within that customer's organization. The task force found, among other things, that in many customers' organizations, the bar code scanners weren't working because the cartons from Sun came in random orientation and had bar code stickers on only one side. This was causing a fair amount of frustration. The solution was relatively simple: put bar codes on all sides of the box.

This is precisely the kind of issue you won't discover if you think of the customer as being only the end-user. But if you think of the customer as being anyone who interacts with the product in the customer's organization and has an influence on the decision to buy, then the people on the shipping dock are customers too.

Another fruitful approach is to work with lead adapters. This is a notion advanced by Julius Herstatt of Arthur D. Little's Wiesbaden office, based on ideas developed jointly with Professor Erich von Hippel at MIT. Lead adapters are people who take your product and modify it – often for their own use – because they've got a better idea. Herstatt and von Hippel have developed a method by which you can discover who among your customers are, in a sense, ahead of the curve. They are already doing what other customers will consider exciting. You can begin to work with these lead adapters to develop your own products and ideas.

Exhibit 6

Sun Microsystems' Approach to Studying the Product Life Cycle

| Product ordered by customer | Product shipped by Sun | Product received by shipping dock | Product received by user | Product in regular use | User requests technical assistance | User needs service | Product traded in |

For example, a Swiss firm that makes pipe hangers for use in building construction discovered some 20 customers who had modified the company's product line to make it easier to install the piping, easier to assemble the fixtures, easier to fix them to the ceiling, etc. Some of them even had their own patents for the improvements they had made to the company's product line. The company invited all 20 of these lead adapters to its corporate headquarters to discuss the product line. The company was willing to pay them an honorarium to do it, but all of them agreed to come for nothing. And so in a three-day session with these 20 lead adapters, the company proceeded to develop its next-generation product.

Once you have generated promising ideas about what your customers may want, you need to test these ideas before you take them to market in a big way. You can do so through surveys; customer clinics; quantitative modeling, in which you actually build utility functions for the customer; Alpha and Beta tests; or regional test marketing. Unfortunately, a lot of market research has tended to focus on this testing process rather than on the idea-generation part of it. That is, people have done surveys without knowing what they were surveying or why.

By using these different techniques, you can probe various levels of the mind of the customer. The deeper you go, the more likely you are to get to the excitement needs that are normally hidden from you and perhaps from the customer himself or herself. The various investigative techniques are depicted in Exhibit 7 as fishing lines. To discover threshold requirements, you explore complaints, warranties, etc. To know more about the performance arena, you listen to your sales force; conduct focus groups, customer clinics, and shopping-mall intercepts; and hold one-on-one interviews with customers. In the excitement category, you work with lead adapters or conduct in-depth observation.

Then, having listened intently, you take time to think through for yourself what customers might want. This idea-generation process usually involves people from Marketing, R&D, and Manufacturing. Once you have generated ideas, you then test them across the whole range of customers (Exhibit 8). The point is that looking deep into an individual customer can be misleading, because customers are all different. It is essential to do the in-depth observation first and then the broad surveying. Otherwise, you risk conducting a survey that asks all the wrong questions. In general, people have done too little in-depth investigation before undertaking the broad kind of investigation.

Exhibit 7

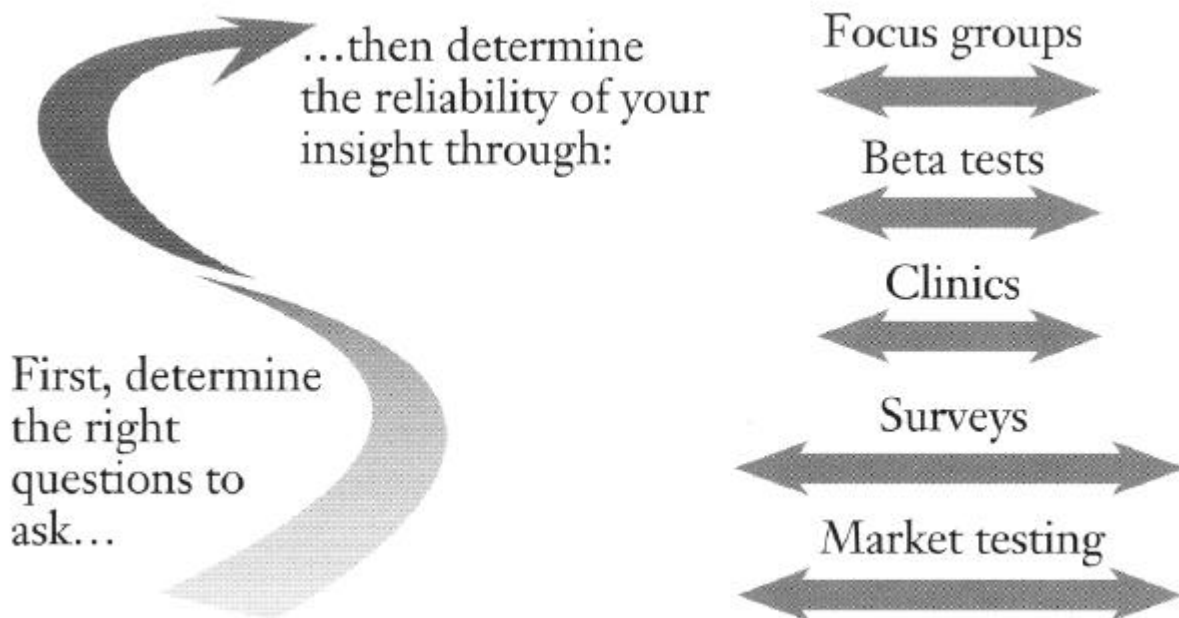**Techniques for Probing Various Levels of Customers' Needs**
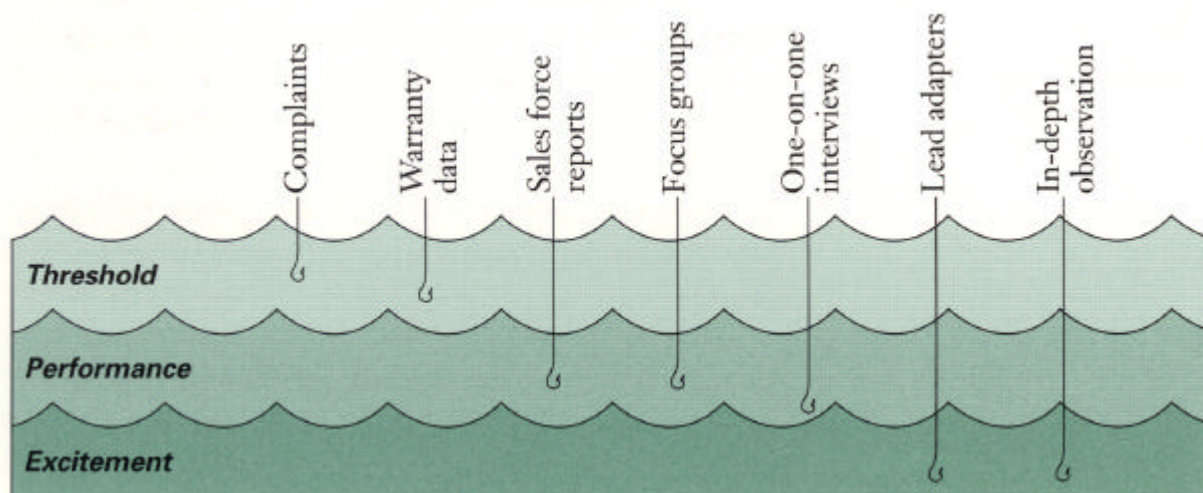
In addition, it's critical to design your broad tests intelligently. Whether you survey customers or employees, the people you're surveying should themselves be involved in the design of the survey.

Of course, discovering what customers need today is only part of the battle. People often ask us, „How do you predict the future? How do you know what customers are going to want four or five years from now?" One answer is by understanding the dynamics expressed in the Kano diagram: features that generate excitement now will be threshold features in the future. Another way to see into the future is by analyzing lead adapters, because what they consider performance requirements now will be considered excitement features by other customers in a few years. A third approach is traditional futures analysis, in which you look at megatrends, lifestyles, and

demographics and use that information as the basis for making projections and developing scenarios about how your customers might change as you go out into the future. Surprisingly, a lot of companies neglect to do this.

Exhibit 8

Mapping the Mind of the Customer: Techniques for

Breadth and Diversity

...then determine the reliability of your insight through:

Focus groups

Beta tests

Clinics

Surveys

Market testing

First, determine the right questions to ask...

What do you do with all this information? Dell Computer has something called a Customer Advocate Meeting, which it takes very seriously. Once a month the company has a two-hour meeting attended by founder and chairman Michael Dell and the other senior managers of the company, as well as some 80 to 100 people from all parts of the company. In a relatively free-form discussion, people offer their insights about what customers want. This discussion is recorded and provides direct input into product planning. By the way, the product planning function is led by Michael Dell himself. Many of these cutting-edge companies, including Microsoft, entrust the job of product planning to the highest level of senior management.

Underlying these activities is the fundamental idea that everyone in the company needs to „own" the customer. Traditionally, many companies have acted as though Marketing (whatever that is) owned the customer. Cutting-edge companies are recognizing that everyone in the company needs to interact with customers and develop a picture of what customers want.

Engineers and scientists, for instance, need a deeper understanding in order to develop responsive products. Typical market research brings back general feedback such as, „The car doesn't handle well," which doesn't tell engineers what to do. They need to hear that comment and follow up with detailed questions, an interactive process that can take place only if they are in direct contact with customers.

This process creates opportunities for the phenomenon called bisociation, in which someone puts together two previously disconnected ideas into a useful new paradigm. The philosopher Arthur Koestler has pointed out how sometimes the things people want aren't apparent unless there's a solution at hand.

In other words, only when there is an intersection between the world of solutions and the world of wants – i.e., the world of technology and the world of customers – can creative new ideas surface. This is why many of the best companies in the world are sending their engineers and scientists out into the marketplace to interact with customers directly.

Even more important is that senior managers go out and meet with customers. Very often, the truly exciting innovations entail a degree of risk. Almost by definition, if a need is in the excitement category, you're not sure whether your response will succeed or not. Most companies won't take that risk unless senior management endorses it. For example, when Tagamet was being developed, people said, „This is a $40 million a year drug at

best." It was the chairman of the company who said, „No, I think it's going to be much bigger and we'll go ahead with it." He committed several hundred million dollars in capital investment to pursue Tagamet, and within a few years it became a billion-dollar drug. No one else in the company could have taken that risk. Even the CEO can take that risk only when he or she has a personal intuition that the idea is going to work; and personal intuition comes about only when there is direct interaction with customers.

Organizing to Meet Customers' Needs

Unless this effort is organized well, it could turn into a free-for-all. It's the job of Marketing to coordinate the campaign and to map the mind of the customer, both in depth and in diversity. Marketing Research, which is a specialized function, needs to manage all this information. Every department needs to be involved in interpreting the data.

Different companies do this in greatly differing depth. Rick Teerlink, CEO of Harley-Davidson, spends 60 percent of his time with customers and dealers. Furthermore, Harley's senior management holds 14 „town hall" meetings each year to give dealers the opportunity to question Harley's management. Harley-Davidson also participates in two national rallies a year, one at Daytona, where there are 100,000 owners, and one at Sturgis, where there are 40,000 owners. These rallies are attended by more than 100 Harley-Davidson employees.

At Toyota, designers perform observational research in all major regions of the world to understand local cultures and customer wants and needs. Engineers, designers, and product planners also attend auto shows to obtain customer feedback and reactions to new models and prototypes. Middle and senior management use frequent personal visits to dealerships to learn the dynamics of the marketplace and gather soft data.

Many other leading companies are now putting enormous efforts into one-on-one interactions between employees and customers and into in-depth observation. This effort is critical to the generation of blockbuster products.

Interestingly, many concepts that enhance product development can also be useful for customer service. In fact, Dell and Sun, among others, are no longer making a distinction between their products and their service. They are selling an integrated package. So their market research is gathering reactions to that integrated package. After all, when you buy a new car your decision is the result of your integrated experience of five and a half years of owning your previous car – an experience based partly on the car itself and partly on the kind of service you got. This is why auto manufacturers have now begun to concentrate on the quality of their dealers. In many businesses, service is a bigger piece of the picture than the product itself.

Conclusion

By first recognizing who all your customers are, then using a variety of techniques to probe deeply into their thoughts and feelings at each stage of their decision processes, you can arrive at an intimate understanding of what will meet their needs and – more importantly – excite them, not only today but tomorrow.

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