THE GROWTH GEARS™

USING A MARKET-BASED FRAMEWORK TO DRIVE BUSINESS SUCCESS

ART SAXBY & PETE HAYES

Advantage®

ENDORSEMENTS

"Saxby and Hayes provide smart, practical advice for anyone leading a company in today's increasingly complex world. Their market-based approach challenges CEOs to venture outside the four walls of their organizations to better understand the values, attitudes, and behaviors of those responsible for growing today's companies—their customers. "

—Sam Reese, chief executive officer,
Vistage International

"Consistent, organic top-line growth has always been the most difficult challenge for business leaders. Art and Pete have done a masterful job of highlighting the challenges of revenue growth (using both empirical research as well as practical examples) while providing thought-provoking solutions. Are you an operationally focused leader or a market-focused leader? Perhaps it's time for an introspective look!"

—Ron Samson, managing partner and global executive
operating partner, *The Riverside Company*

"Saxby and Hayes of Chief Outsiders have taken a complex topic that is at times perceived as an arcane social discipline and made it logical, methodical, and metric oriented. Quite an accomplishment! This book is a great read and beneficial for businesses of all types and sizes. At our company we are used to looking into the future. The process described as The Growth Gears will help you surpass that future!"

—Brian Beaulieu, CEO
ITR Economics
author of *Make Your Move* and *Prosperity in Decline*

"The Growth Gears *takes me back to the book that stirred my heart so many years ago; 'A Passion for Excellence' by Tom Peters. In that now ancient but also timeless tome, Peters summarized the findings that drove the best companies in the study as those who "Take excellent care of their customers and constantly innovate." This book builds on those ideas and provides wheels to run on and with in a much more readable and applicable format. Good work Pete and Art! Many will benefit from your work."*

—Buck Jacobs,

chairman & founder, *The C12 Group, LLC*

"Growth Gears *serves as a great playbook to help you win in today's competitive marketplace. You will be able to quickly leverage research supporting this proven approach to achieving predictable, sustainable, and profitable growth. Be sure to keep this book close-by as you implement this winning approach to drive exceptional results."*

—Larry Hawks, executive vice president,
Vistage International

"Growth Gears *is a MUST-read for leaders that want to move from simply running a company to growing it into a market leader. It lays out how companies can add a market-based perspective to drive significant growth."*

—Cameron Herold, author,
Double Double

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To the Tribe of CMOs at Chief Outsiders who bring the best practices in this book to life every day.

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ABOUT THE AUTHORS

ART SAXBY

I started off my career in finance. I have a bachelor's degree and an MBA in finance and have always been a quantitative person focused on profit. Companies are in business to generate a profit, not just to do fun or cool things. I worked as an entrepreneur out of undergrad and then for an aerospace defense firm. Then I finished up my MBA and went to work at Frito-Lay in its strategic planning group.

While I was the finance guy on the new products team at Frito-Lay, I realized that while finance was great because you're an advisor to the king, it appeared that marketing was the white knight leading the charge. As the finance person, I was called in to evaluate the marketing plan and new products, but it was the marketing person who was leading the company forward. Marketing was the role in the organization that said, "I see an opportunity out there in the marketplace. There's something going on with competitors and customers, so let's try this. Let's get product development involved, let's get sales, let's get finance and operations, and let's try this new product or this expansion or this other new thing and see if we can make it work." Realizing this, I moved from being the finance guy to being one of the junior marketing people on the new products team at Frito-Lay.

After working on the Sun Chips test market and on a couple other products along the way, I moved up to Kellogg's in Battle Creek, Michigan, and worked on new products there. I absolutely loved

the environment of really strong, professional marketers focused on brand building, and I got a great education in advertising and trade relations. It was a fabulous company to work for and a fabulous company to learn from.

The professional environment was great, but I did freeze my tail off up north. That's what moved me back to Houston to work with Minute Maid, a division of The Coca-Cola Company. It was also a fabulous company to work for. I learned tremendous lessons, but in the seven years that I was with Coca-Cola, I wasn't able to double the size of the company. In a company like that, you can make an impact, but you really can't make big things happen. One product I launched got two pages in the *Coca-Cola Annual Report* one year; by the next year, it was just part of the organization. That was simply a result of working in a huge organization. You've got big budgets to deal with and really smart people to work with and learn from, but it's really hard to make big changes happen. The best you can do is make little changes and incremental adjustments.

In late 1999, I was an international marketing strategist for Coca-Cola, launching brands around the world, but I kept reading about these dot-com millionaires, so I jumped ship and false-started with a couple dot-coms. Then I took over marketing for Internet services with Compaq. Unfortunately, April 1, 2000, wasn't the best time to get into the tech world. It was the peak of the tech bubble, and over the next two years the dot-com bubble burst. After the HP merger, I decided that I needed to move on.

In 2000, I thought the tech world had matured to the point where it was ready for real marketing—understanding the customer need and the market opportunity and then developing and marketing products and services based on that information. Unfortunately,

when the economics fell out of the industry, the computer hardware world went back to "make it fast, sell it cheap." Around then I got a call from a friend who had been introduced to the CEO of a sugar company. It was a 180-year-old, one-billion-dollar company that had gone bankrupt. At first I said, "Why would I look at a sleepy sugar company?" My friend said, "There's a huge opportunity here to make things happen because we've got a big enough business base, but we really need to reinvent ourselves." So I took over as vice president of marketing at Imperial Sugar under the new turnaround CEO. I was the second person he brought in.

That's where I realized I could take what I'd learned from the big companies and really make a difference in a midsize company. The most important thing wasn't the cool, creative stuff, like a brand or a promotion; it was the big things, like how you lead a company based on market dynamics.

Imperial had been making sugar for over 180 years. It was based in Sugar Land, Texas, and older than the state of Texas, but it mistakenly believed that it was in the sugar business. When we really started delving into it and understanding the company and the marketplace, we realized that the best chance we had was of positioning ourselves as the best supply chain in the sugar industry because that's what our customers—companies like General Mills, Walmart, and Sysco—really cared about. Once we recognized that we were in the supply chain business, delivering a very high volume commodity to large and sophisticated customers, the company started to change, and business results changed also.

We were able to raise the stock price from $1 to $35 in about five years, which was a tremendous turnaround. A lot of that was because of financial changes the company made, such as selling divisions and

cutting debt, but a lot of it was because we refocused the organization from a company that simply made sugar to one that understood the market needs. Then we made and delivered sugar the way the customer really wanted it.

After my time with Imperial Sugar, I worked as an independent consultant and was then hired by a private-equity-owned company in California that was in financial stress. The company was looking at a bankruptcy. They brought me in as vice president of corporate development, and I later picked up the additional role of vice president of sales and marketing. That was another example of how to change a company that's going in the wrong direction, as a result of lacking key insights from its marketplace.. We developed a story that allowed the company to be sold and new private equity owners to take over. This was in 2008.

At that point, I said, "This is what I really love to do. I love going into companies where there's a real problem and making a big impact." As I talked to people in other private equity firms, they looked at me and said, "You make more than we pay most of our CEOs. We don't put a vice president of marketing into a $20-million company. We don't put a vice president of marketing into most $100-million to $200-million companies."

When I reflected on the highest value I could deliver to a midsize company, I realized that if I stayed focused on key strategic initiatives and didn't get sucked into the day-to-day fire drills, I wouldn't have to be there full-time. If I worked as part of the management team one or two days a week, helping to implement a growth plan, I could do it for two or three companies at once. Therefore, these midsized companies could afford to bring in a seasoned C-level executive like me.

That was the basis of Chief Outsiders. It was about realizing that I could take big-company theories, apply them to a midsize company, and make big things happen. It's tough to make a really big impact in big companies, but in smaller companies, the things we do make a huge difference. Today we have offices and Chief Marketing Officers across the country and we usually work with companies with revenues in the range of $5 million to $300 million in a wide variety of industries. Typically, they already have a base business and are wondering how to scale and where to take the company next.

This drive to use big-company theory to spark growth in midsize companies is what The Growth Gears is all about. Each chapter is filled with tools and action steps to provide you a full set of repeatable behaviors and processes to identify opportunities for growth, ensure ongoing market relevance, and consistently execute successful marketing strategies to fully achieve your market potential.

PETE HAYES

Art and I are perfect complements because he comes from a world of classic marketing and consumer package goods, while my background is in technology, technology marketing, and digital marketing. I earned an engineering degree from University of California, Berkley and started out as a systems engineer for IBM, where I worked on large-scale data processing systems for one of our customers, Bank of America. After a couple years, I got into sales for IBM because I saw that people on that side of the business were making more money and providing more leadership to the customer. I started to see the difference between the technical side and the customer side of the business.

After IBM, I was attracted to a start-up called BusinessLand, a business-focused retail computer chain. It had revenue of about $30 million at the time, and we grew it to $1.3 billion. Starting as a general manager of one of our computer stores, I worked my way up over seven-plus years to run marketing for the company. Then, after a short stint of consulting, I joined a midsized digital audio company eager to expand its market position from being solely a consumer company to include OEM sales into computer audio manufacturers. It wasn't long before our success in our non-traditional markets resulted in our main OEM customer acquiring our entire business. As a result, my family and I started looking for a "best place in the country to live" and chose Austin, Texas, where I rejoined IBM to work on marketing for one of their software groups. Under the leadership of Lou Gerstner, IBM went through a series of appropriate changes, and in two years it was clear that in order to continue my career with the company, I'd be heading to the Northeast.

Not interested in moving my family to New York, I joined a marketing services firm, where I spent eleven years working with clients that ranged from Fortune 500 technology companies to start-ups. We built an interactive agency right at the time when *interactive* was just beginning. For example, our group built the first commercial website for Dell. We were developing breakthrough web tools and interactive capabilities for clients such as IBM, 3M, and Motorola. I observed that technology companies were highly entrepreneurial in how they adopted technology to market themselves. They had to be. Because their landscapes changed so rapidly, they had to invent ways to stay agile.

We eventually folded our interactive services into the traditional side of the agency to provide a more rounded set of integrated services to businesses. Then I focused on the front-end of our client relation-

ships—that is, figuring out what problems clients were facing and how to solve them. Rather than giving away these services, as many advertising agencies do in order to secure creative work and media commissions, we billed big money for our front-end marketing services. This not only added significant value to our services but also increased our agency's margins to about ten points higher than the industry average and our firm was acquired by WPP's Young & Rubicam.

After eleven years of providing a range of strategic marketing services to businesses, I joined one of my clients, a Fortune 500 semiconductor company called AMD. I spent three years there in various marketing VP roles and then realized, once and for all, that I didn't belong in the large corporate world. I wanted to take everything I'd learned and help smaller companies who could move more quickly, so I started a consulting practice. That lasted about six weeks until I met Art and the other founder of Chief Outsiders who were just getting started. The way they were using their big-company experience to quickly and efficiently make struggling small and midsize companies into growth companies resonated with me, so I joined the firm. My objective was to be the number-three guy, but when the other founder left, Art invited me to be the number-two guy and to be his partner as a coprincipal. Now we have dozens of chief marketing officers (CMOs) across the country and a proven model that works for the businesses we serve.

We work as fractional executives for companies that don't have a marketing executive—either a chief marketing officer or a vice president of marketing—because they can't afford to have one full-time. We play that marketing role, join the management team on a part-time basis, and support the CEO. In some cases, we're an affordable, part-time member of the team. In others, we provide

on-demand help as companies launch a new product or enter a new market. We may also coach and mentor companies' director-level marketing people to accelerate their growth and ready them for senior executive roles.

Chief Outsiders is a fantastic opportunity for the world's great marketers. Now they have a firm they can come to when they're "done" with the corporate world but aren't done with practicing their craft, helping businesses grow, and learning from others. It's frankly the best job on earth and the last one any of our CMOs expects to have.

This book is an introduction to what we love to do every day to optimize midsize businesses through stronger, market-focused initiatives. Art and I have shared many of the secrets of our executive marketing success, and provide you the strategies and early action steps you need to identify opportunities for growth, maintain market relevance, and execute marketing initiatives to lead your organization to new levels of growth.

INTRODUCTION

After working on the management teams of over three hundred companies, our firm has recognized an awful lot of similarities among them—even among companies in really different industries or situations. One of the key similarities is that companies often don't fully understand what marketing is or could be. They think of marketing simply as advertising, brochures, or websites and not much beyond that. What we have seen is that there's a great opportunity for business leaders to better understand how approaching business from a market-based perspective can bring value to their organizations. If they think about marketing in the right way—not just as some cool, crazy thing the young people down the hall do but as an integral part of their business strategy and core processes—then it can have a real impact on their success.

We believe that any CEO, even one who came up through engineering or operations, will lead his or her company more effectively if he or she thinks about the business from a market-based perspective. What we hope to communicate in this book is that marketing is more than just all that cool, creative stuff. Our objective is that, by the end of the book, you will see that strategic marketing is a tremendous tool for CEOs and owners of companies to use to lead the strategic elements of your business and to keep taking your company to the next level. We also intend to demonstrate that leaders of companies should approach marketing as a logical, linear set of steps or gears—the Growth Gears, if you will—that drive their business.

RUNNING A COMPANY VERSUS GROWING A COMPANY

Owners and CEOs spend an awful lot of time trying to figure out how to run their companies and to make sure that things are getting done on time and in the right way. But a key thing that we've discovered is that the skills it takes to run a company and the skills it takes to grow a company are two very different things. In fact, *the best-run companies often have the hardest time growing*.

This difference in skill sets became evident in the research we conducted with the McCombs School of Business at The University of Texas at Austin in 2011. We didn't go into the research with the assumption that running and growing a company used different skills. In fact, we started the project by simply asking, "How do midsized company CEOs tackle their growth challenges?" Over two hundred CEOs from twenty-seven different industries participated in the study, and the market research professors at the McCombs School of Business—the mathemagicians, as we called them—were able to identify that there were basically two types of companies: the *operationally focused* company and the *market-focused* company.

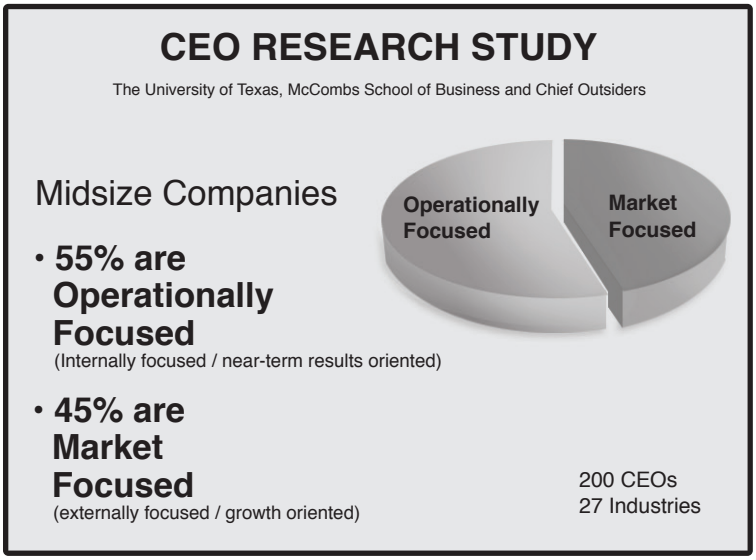
Operationally focused companies account for about 55 percent of companies. A key indicator for an operationally focused company is that the CEO usually comes from an operational field like engineering, manufacturing, logistics, finance, or sales. These CEOs are really focused on running the company—on things like processes, procedures, metrics, and management. Their main focus is inside the four walls of their companies. At first, we were surprised to see sales on the background list of internally focused CEOs. You don't want salespeople focused inside the four walls of the company; you don't

even want them sitting inside the four walls of the building. You want them out in the market, talking to customers and selling. But after looking closely at the job of sales, we realized that it's a role with a very near-term operational focus. The job of the sales team is to sell what's in stock today and to bring in orders this week, this month, and this quarter. While the field of sales is not as internally or near-term focused as the hourly production report, it's still a very short-term, internally focused activity.

Then there are market-focused companies, which are entirely different. The CEOs of these companies typically come from a marketing or IT background. Their focus is mainly on where their companies are going in the future, what is happening in the marketplace, and what new technology or products are being developed. At this point we questioned why an IT background leads to a market-facing perspective. Isn't IT responsible for keeping systems like order processing, accounting, and even phone networks running? This initially struck us as a strong internal focus, but when we were asked to consider real CEOs who came up through IT, it was evident that they spent their entire careers looking out the window, trying to determine what the impact of the next new technology could be. They have been asking themselves questions like: What's coming after the cloud, and how will the next generation of software-as-a-service change our industry? It turns out that the CEO of an IT company probably spends more time looking outside the company than just about any other type of CEO.

What the research boils down to is this: the operationally focused CEO is focused primarily inside the four walls of the company, while the market-focused CEO is focused outside the four walls. The first group runs great companies, while the second group does a better job of growing companies. If CEOs from the operationally focused

group want to grow significantly, they need to adopt some of the behaviors of the market-focused group. They need to start thinking and acting differently if they want substantial growth.



DOGS CAN BECOME CATS

After the research and analysis had been completed, we walked into a meeting at The University of Texas, anxious to hear the results. Professor Leigh McAlister looked up at us and said, "I think we've discovered that dogs can become cats." Naturally, we said, "What?"

McAlister went on to explain the two different types of companies that we just touched on: operationally focused companies and market-focused companies. The research showed that operationally focused companies have some expected attributes: The companies are run well. They are happy with their current situations and current business prospects, but they are uncertain about their futures. An

interesting thing is that these companies tend to grow by acquisition, either by being acquired or by acquiring other companies. In other words, operationally focused CEOs and management teams run really good companies, and they think that the best opportunity to grow is to buy another company and run it.

CEO RESEARCH STUDY

The University of Texas, McCombs School of Business and Chief Outsiders

	Operational	vs. Market-Oriented
CEO	**Operational Background**	**Marketing or IT Background**
Mgmt Team	All Internally or "Present" Focus	Includes External "Future" Focus
Current Results	**Very Satisfied**	**Satisfied/Not Satisfied**
Current Growth	At Industry Rate	Faster than Industry Rate
Future	**Not Satisfied**	**Very Satisfied**
Future Growth	Acquisition	New Product or Market Expansion

Market-focused companies, in contrast, are more optimistic about the future. They tend to grow faster than their industry peers, and they tend to grow by market expansion—by going into new markets and introducing new offerings.

When we heard these descriptions, we said, "Okay, that's interesting. You're telling us that engineers run really good companies and that marketers have great dreams for the future but aren't that great at getting things done. That's an interesting insight, but it's not exactly earth-shattering new learning, and it's not very actionable." That was when we found out how dogs could become cats.

McAlister said, "It looks as though there's a portion of these (well-run, operationally fit) companies that have adopted market-focused behaviors and are growing faster than their industry peers." In other words, operationally focused companies led by operationally focused CEOs (good, strong, loyal, dependable dogs) can become fast-growing, agile cats.

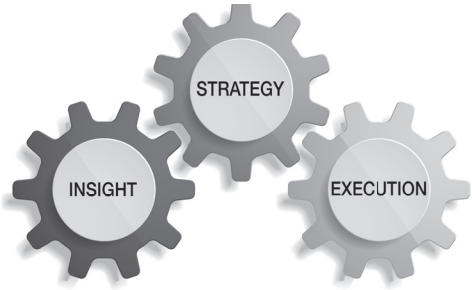
Everybody wants an operationally fit company, and well-managed, operationally focused, logical, linear companies with strong management and measurement systems should not walk away from those strengths. They don't need to become wild, crazy, risky, impulsive companies in order to grow. The good news from the research was that operationally fit companies could remain that way and still grow faster than their industry peers if they adopt the behaviors of market-focused companies. We understood right away that the potential benefits of that information could be huge for a lot of businesses.

THE GROWTH GEARS™

Running an operationally focused company is like riding a bicycle. Every time you put a little more power into the pedal, you go a little further, but you have to keep pushing harder and harder to get there. However, if you add the market-focused perspective, it's like adding gears to the bike. Then every pedal stroke gives you increasing leverage and takes you even farther, faster.

This idea came to us after we saw the research that dogs can become cats: that operationally focused companies, when they exhibit behaviors of market-focused companies, also grow faster than their industry peers.

So, drawing on our experiences over the six-plus years since Chief Outsiders was started, including the research we took part in, we have created a kind of methodology or framework for companies to become market focused. It's not just a list of things they need to do but an interrelated group of key disciplines that companies can adopt step by step. We've broken these disciplines down into three "gears," which make up the three sections of this book. Together, they are like adding gears to your company's bike—they will take you farther, faster.



The three Growth Gears are as follows:

1. *Insight*. Make sure the company gains and leverages insights about the company itself, the customer, and the competition. Those insights add up to a knowledge base from which you can make good decisions.

2. *Strategy*. Using the knowledge gained in the first gear, companies can create and maintain an informed strategy—not only a marketing strategy but a business strategy—around their market, offerings, and positioning.

3. *Execution*. Once you have the right strategy, the final gear is about executing that strategy with the greatest level of efficiency. This means having and keeping the right resources, tactics, and metrics in place.

When we share the Growth Gears with CEOs in the simplest possible way, they see that becoming market focused is a great way to be successful, grow their market share, and grow their company. They understand that marketing is not some flakey, cool, creative thing. Marketing is a process. Most operationally focused CEOs understand processes, procedures, and metrics, and despite what some may think, marketing really can and should be approached in a logical, linear way to make things happen.

Because the Growth Gears methodology is a linear process, order does matter. You can't just skip to gear three because you want to focus on metrics (the subject of chapter nine). The mission of this book is to help business leaders recognize that marketing is a set of processes and that when you approach it as such, you're going to set your business up for growth and repeatable performance. But it has to be done in the right order—step by step, without missing a gear—to make it work.

To help ensure that you're getting the process right, we include a section with *Tools and Actions* at the end of each gear. You can use the tools and exercises in these sections on your own or with your executive team to bring clarity to the points covered in each of the three gears.

WHAT YOU'LL GET OUT OF THIS BOOK

By the end of this book, you will have gained a more complete and valuable perspective on these subjects:

- how to shift from running your company to growing your company

- why a CEO or business owner should think about his or her business from a market-based perspective
- how to understand your relationship to the markets you serve and better capitalize on that relationship
- where to find opportunities for growth
- how to increase your revenues and profitability
- how to extend your customer relationships and maintain relevance, from offering to offering and decade to decade, to ensure the highest level of growth potential
- how marketing should play a role in your company, from the occasional strategic assessment and direction addition/change to the daily focus on activities that drive specific business results
- how to execute more efficiently as you implement promotional programs and sales initiatives
- how to avoid the cursed "random acts of marketing"

EXERCISE: ASSESS YOUR ORIENTATION

Are you operationally oriented or market-oriented?

Write down what your background was before you started the company you're currently running or before

you moved into the role of leading the company. Were you from engineering, logistics, finance, sales, marketing, IT, or elsewhere?

Next, list your top three lieutenants or the top three highest-compensated people in your organization. What are their functional backgrounds?

Glance at the following questions. When you answer these questions to yourself, do you see a pattern? Do you see that you tend to lean towards the running of the business? If you ask your management team, would most of them answer in the same way? If so, you and your management team may be operationally focused.

- What is the first business thing that you do or look at in morning?
- How did you build your company?
- What are your strengths as an organization?

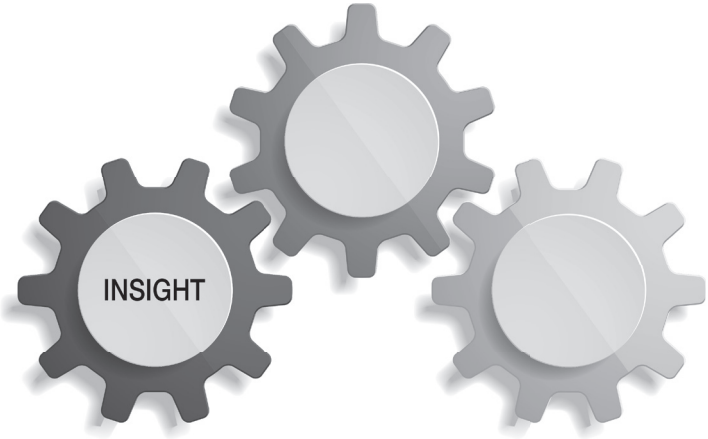
  – Operations, Engineering, Finance and Sales = Operational Focus

  – Marketing and IT = Market Focus

- How did you get to where you are?
- What is working (not working) for you?
- What makes your company great?
- What are you most proud of?

- What is your current situation?
- What are your most recent successes?
- What do you think people need to know about your business?
- Tell me about your best day in business.
- What are the problems that you most like to solve?

Our research with The University of Texas showed us that this is where a person's orientation often becomes obvious. It turns out that your background has a lot to do with the way you run a company, which has a lot to do with the way things in your company work. For example, if you (the CEO) and your top three lieutenants are all engineers, then you're almost surely running an operationally oriented company. You may not realize it until you actually write it down, but if you're an operationally focused CEO (meaning you came from engineering, operations/manufacturing, logistics, finance, or sales), the odds are that all or most of your key people also came from operationally focused roles. If that's the case, is it a surprise that you're all probably looking at the business from the same perspective?



GEAR ONE

INSIGHT

Customers

Competitors

Company

The purpose of the first gear is to help business leaders account for the fact that markets change. Any given market or set of companies is going to change over time, so leaders need to recognize that they're going to need fresh insights periodically (we recommend annually) to understand what's happening. Those insights provide a base for making good decisions so that, as the insights evolve, so will your decision making and strategy.

We will focus on three main areas of insight in this section, which we call the Three Cs. They make up the three chapters in this gear:

- Customers
- Competitors
- Company

Sun Tzu, the Chinese general and author of *The Art of War*, once wrote, "Know your enemy and know yourself. In 100 battles you will never be in peril. When you're ignorant of the enemy but know yourself your chances of winning and losing are equal. If you're ignorant of both your enemy and of yourself you are certain in every battle to be in peril."

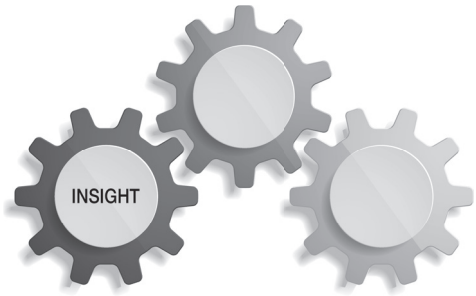
For us, this quote perfectly describes why it's so important to have a good understanding of the Three Cs of your business. The "enemy" here could be the competitor or the customer. Knowing yourself, in our case, is about knowing your company, which is equally important—you have to understand yourself, because if you aren't careful and aware, you can grow a company into bankruptcy.

Art once asked a CEO how much time he and his team spent in their meetings talking about their customers, competitors, and company. The CEO looked at Art kind of funny and responded

by saying the same thing you're probably thinking: "What else is there to discuss?" However, this first gear is not just about thinking and talking about these crucial areas; it's about thinking and talking about them from a different perspective. It's also about being sure that everyone on the leadership team shares and understands this perspective together. The mistake some companies make is to say, "We've been in this business for fifteen years, so we know what our customers are like, and we know what's going on." Or, "We talk about what's going on with our competitors and within our company all the time." Well, things change, and when you're inside the business, it can be easy to make assumptions about what's happening or why something isn't working. It can also be easy to base how you think about your customers on how they fit into your business plans rather than on *their* perspectives of how they run their businesses and how you fit into *their* strategies.

It's not what you think about the marketplace that matters most; it's what the marketplace and the customers think about you. What matters most is not what you think of your competitors; it's what your competitors are actually doing, how they're behaving, how they're perceived by your customers, and how they're changing that matter. What matters most is not what you think about your company and employees; it's what your employees think about the company and what's actually happening inside it that matter. This is about putting aside assumptions and really digging out what's going on and finding the truth, which will provide you with a basis for making the best decisions.

The purpose of this first gear is to provide a methodology for regularly gathering information, analyzing it, and digging out the truth. The result will be knowledge that will help you create a strategy aimed toward growth and ensure that your company stays relevant over time.



CHAPTER 1

CUSTOMERS

Practically all companies spend time talking about their customers and how to convince them to buy what they're selling. You probably already have a lot of knowledge about who your customers are, but this chapter is about getting a different perspective on your customer.

What you really want to do here is to put yourself in the customer's shoes. If you were the CEO of that customer, what would you care about? How does that customer make decisions? What's important to them? What drives their profitability? Other than lowering your price, how can you address the things your customer's CEO cares about? Other than lowering your price, how can you make your customer more efficient, more differentiated, or more profitable?

We have used ideas from the incredibly valuable book *Good to Great*, by Jim Collins, to form some of the focus points for looking at your customers in a new way. Use the following exercise to gain a different perspective by putting yourself in the seat of the customer.

EXERCISE: GAINING INSIGHT—KNOW YOUR CUSTOMERS

Think about a specific customer, either current or potential, and ask yourselves these questions:

- **What drives that company's economic engine?** What are the biggest direct factors that affect its profitability?
- **From that company's perspective, how do you fit into its business?** Why does it need you or want you?
- **How can you affect that specific customer's profitability (other than by lowering your price)?** List the three biggest ways in which you can affect its profitability.

1.

2.

3.

TAKING ON THE CUSTOMER'S PERSPECTIVE

As the leader of your organization, you may have to modify the questions your ask yourself about your customers to fit your company's particular situation, but the main idea is to start thinking from your customer's point of view.

For example... companies have to modify the questions they ask themselves about their customers to fit their particular situations, but the main idea is to think about things from the customer's point of view. For example, we once worked with a data analytics business that served oil- and gas-drilling companies. At the time, that company had developed a new software-as-a-service product, which it wanted to sell to smaller drillers. It wasn't getting the revenue that its executives had hoped for, so they asked us to take a look at what they were doing. We started out by saying, "Let's really understand who your customer is. Who is buying this? Who in the company is making the decision to buy? How do they make their decisions?"

What we found by asking those questions was that the person they expected to use the software would be the drilling supervisor of the prospective customer—the guy out there at the drilling rig. But we talked to a drilling supervisor, who said, "I don't care about whether or not the software is updated. I don't care that it's cheaper. I don't care about the fact that it automatically sends out reports. I don't care about any of this stuff. My guys make holes in the ground and as long as headquarters is fine with the reports I'm sending them, I don't care if I have to print and mail them like we've always done."

So then we went to the headquarters of the company that hired that drilling supervisor and talked to the people there. They said,

"The most important thing is for the driller to be making holes in the ground. Anything that distracts him from drilling, we don't care about, and the fact that we get the reports a little faster or the software is updated or a little cheaper really doesn't matter to us." Both the driller and the drilling company were most concerned about disruptions to the business, which was not good news for our client.

At that point, we recognized that there was a third person in the process. We referred to him as the "money guy." This was the person who got investors together and said to them, "I've got information that says there's oil down there. If you invest your money with me, we can drill these wells, and we'll all be rich."

What mattered most to the money guy was showing potential investors that he had credibility—that he knew what was going on, his data was good, and he wasn't going to waste the investors' money. A byproduct of our client's software service was that the data was available live on the Internet. All the company had to do was quickly make an app, and this money guy could pull up real, live data anytime, anywhere, even while on the golf course with investors. He could then say to them, "Hey, here's what's going on with well number four right now. Trust me, I know exactly what's happening with all my wells at all times. You should invest your money with me."

The well operator and the operating company could have saved a couple thousand dollars a year with this software, but that wasn't a very compelling proposition given the disruption it would have caused them to learn new software. However, the money guy could get millions of dollars more in investments each year if he could show investors that he was on top of things.

In the end, we discovered that the value the company delivered was far higher once its people figured out who they should be targeting. That led to just a small change in the product—adding an app—and a big change in whom they targeted as their primary customer. They were able to significantly raise their price after that because they understood that the value they were delivering was much higher than they originally realized. And that had a significant impact on their growth, all because we looked closely at who their customers were and what really mattered to them.

THE BENEFITS

There are many benefits to this kind of customer insight. One benefit is that really looking at your customer can help align the people within your organization. We like to say that marketing is too important to leave to the marketers. This is something that needs to be discussed at the leadership team level so that the whole organization starts to understand how to look at the business differently. When we work with a new company, the real win for us is when the head of operations can explain his or her role in the marketing strategy and when he or she understands the issues that his or her customers are facing and why they are asking for changes. These are the kinds of things you want everyone in your organization to understand.

Another benefit of customer insight is that it can show you who in your customer's organization would find your product or service valuable and who would be most compelled to buy from you. The drilling analytics company mentioned earlier was an example of that. Sometimes, salespeople only have access to a certain level within an organization, so that's who they sell to. They sell to the purchasing department, for example, even though it may be the engineering

department who is the better target because that's who cares about the specifics of the product, while purchasing people care mostly about price. Or, instead of selling software to the IT department, salespeople might be better off selling to the end user and getting that end user to request their software from the IT department.

Sometimes, there's also a push to sell high in the organization. The assumption is that the higher up in the organization you can sell, the better; but we actually had a client for whom it was better to sell elsewhere in the organization. This client had a product that produced high-quality graphics on the back of cash register receipts. Beyond just printing a coupon for dry cleaning, our client believed that its product could be used for brand-level marketing, but it was having trouble getting anyone to accept that idea. The people responsible for purchasing cash register tape did not see any reason to pay for anything other than the cheapest plain paper.

Our client decided to focus on selling high in the organization, saying, "If we could just get the head of McDonald's to see why this is so important, they'll have this everywhere." Once we started talking to the marketing people at companies like McDonald's and other target customers, however, we found that this wasn't the case. They said to us, "This is really good, but if you're talking about cash register tape, that's something that the stores handle. We don't have anything to do with that, because if there's something wrong with the cash register tape, the stores can't sell hamburgers or whatever else they're selling."

So we started looking further down in the organizations. In this instance, we found that the company's target should depend on the type of company it was selling to. In fast food, it was often best to talk to a regional marketing person who, despite being relatively low

in the organization, could actually impact what was happening in the restaurants. In a large retailer like Home Depot, it was best to talk to the buyers (the people working with the companies making the products sold by Home Depot) because they could use what our client was offering as a way to push products. If someone was the buyer for drill bits and electric drills, for example, he or she could get money from a drill company to promote the drills on the back of the cash register tapes. For this client, the key was to understand the differences between customers in different industries and to figure out who it should be selling its product to in each case.

As with the drilling analytics company, a better understanding of the customers that it was selling to led this company to change its pricing. It had always marked its product by the cost per roll, but the marketing people it wanted to sell to better understood cost per impression. In fact, when we first started talking to those marketing people about the cost per roll, it was like we were speaking in Swahili. They didn't know how to process that concept. Once we better understood the customers, then we could change the pricing structure to speak their language and match what they cared about most.

COLLECTING REAL DATA

Getting real, honest insight from your current or potential customers can be invaluable. You can conduct research in any number of ways, which we'll talk about at the end of this gear—the methods apply to all three areas covered: customers, competitors, and company.

Here, however, we want to talk about some of the common mistakes people make when trying to collect information on their

customers. Some people set out to do customer research by simply calling and saying, "This is XYZ Company, and we'd like to know what you think about us." The answer might be something like, "We love XYZ Company. We've been buying from you for years and will continue to buy from you." This may sound like great news, but it doesn't really tell you what the customer actually thinks.

Another common mistake in customer research is to rely on your salespeople or customer service representatives: they are generally one of the worst sources of information about your customers. Many CEOs will say, "My salespeople are out talking to the customer all of the time. Heck, I don't even want them in the office. I want them out there, so they really get to know the customer." Unfortunately, whenever they're talking to the customer, the customer knows there's an order book in their back pocket or on their iPad. So when salespeople ask questions like, "What do you care about?" and "How do we compare to our competitors?" the customer knows that they're in a sales conversation and won't offer fully honest insight. Often, it's the same with customer service. The customers know who they're talking to, so they're going to filter their answers.

These informal methods are very different from having a research company or third party survey the marketplace (including your competitors). These groups are able to ask general questions about who the market leaders are and discern people's perceptions of those companies without revealing which one is behind the research. That's called *blind research*. *Double-blind research* is when even the researcher doesn't know who the sponsoring company is. These methods give you an unbiased view of the marketplace and how you fit within it.

Blind or double-blind research is, of course, harder and more expensive to do. Bringing in outside eyes to help you with this kind

of research can be invaluable and can help ensure that you're getting the insights you need, but it comes at a cost. How much you invest in research will depend on where your company is and what your objectives are.

There are ways of keeping those costs down. For example, we once worked with a company whose CEO told us how good his people were at gathering information about their customers. When we asked him how they did it, he said, "We've taught all our delivery people to go to the bathroom at every stop."

You might think that this company sold toilet paper or something, but no: they sold manufacturing supplies like tape and glue. So the CEO explained, "At each stop, the driver makes his delivery and then asks to use the bathroom. Afterward, the driver sits in the truck and fills out a report before going to the next stop. On the report it asks, 'What time did you get there? What time did you deliver? Did you go to the bathroom? Did you see any competitive product? If so, how much and what? How many dock doors were at this location? How many dock doors were open and running? How many people were in the loading bay area?'"

By using the bathroom at each stop, the delivery drivers get a chance to walk through the dock areas and look around. They can then use what they saw to fill out their reports. The company might then say, "Three years ago, this customer had two doors open out of five and only three people working in the dock area. Now they've got five doors open and eight people, yet our sales have been flat with them. If their business has expanded, why aren't they buying more from us?"

Meanwhile, the client's sales guy thinks that he's getting all of his customers' business because that is what his customers keep telling

him. But he mostly talks to customers on the golf course or over the phone, so he never gets the kind of view inside the companies that a delivery driver can have. That driver might spot a competitor's products on the dock, which is information the sales guy won't get. That's information the management team can use to make decisions.

Obviously, this method of gathering information won't work for all businesses, but the idea is that, while essential, research doesn't have to be expensive. Depending on the business, it can mean simply having your people ask a few questions or asking them to be observant. It doesn't always have to be the result of formal or expensive market research done by an outside firm. The key thing to keep in mind is that you shouldn't start out believing that you already have the answers. Most companies, when they do this correctly, are surprised by what they don't know about their customers.

QUESTIONS TO ASK OF YOUR CUSTOMER

When we survey customers for our clients, oftentimes what we're doing is trying to better understand where the company sits within its customers' thought processes—specifically, how relevant and attractive the company is perceived to be. We ask questions such as the following that help us get to a better understanding of how our client is perceived:

What is the company known for?

What value does it deliver?

How well does it deliver across specific attributes of the product or service?

How does the value the company delivers compare to the competition's value?

The answers to these types of questions can show a company where it stands with the customer and also how to shape its value propositions and positioning.