

How CEOs can promote a strong market culture

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Some of the world's most admired and successful business leaders believe that corporate culture, if correctly aligned with the external environment, is the key to long-term organizational success.

Former CEO of IBM, Lou Gerstner, who led its spectacular transformation from a products company to a services organization, says: "I came to see, in my time at IBM, that culture isn't just one aspect of the game – it is the game . . ." [1]

Jack Welch, former head of GE, regarded by many as one of the most successful and enduring CEOs of the twentieth century observed: "To be a winner we had to couple the 'hard' central idea of being No. 1 or No. 2 in growth markets with intangible 'soft' values to get the 'feel' that would define our new culture." [2]

Every culture is unique – formed by the industry and its practices, current and past strategies, important events, and the remembered style, personality and behaviors of past leaders. As a case in point, following the example of its founder, Jack Taylor, managers at Enterprise Rent-A-Car strive to attract good people and motivate them to work hard, to remain obsessed with making improvements that will increase customer satisfaction, to dedicate themselves to delivering exceptional value to their customers, and to inspire their employees to behave more like owners and entrepreneurs. [3]

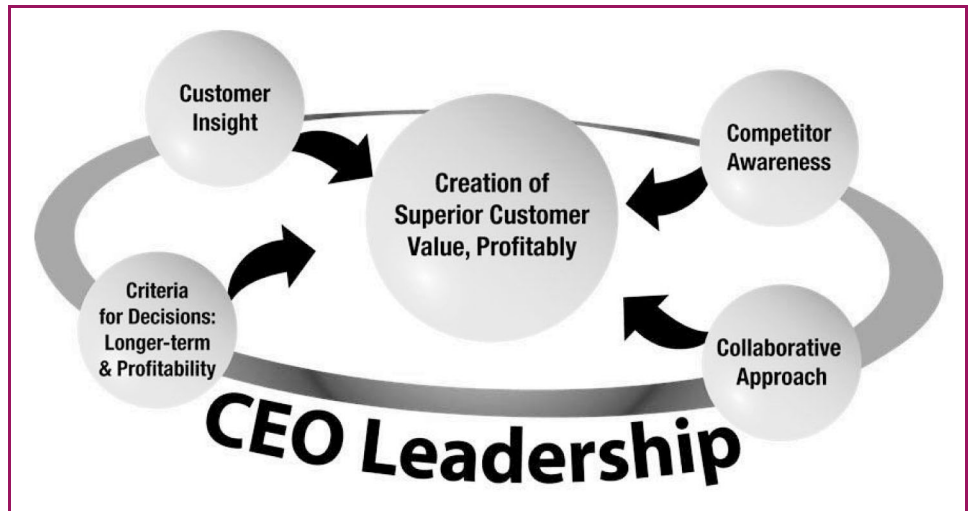
So how can CEOs take an abstract concept like culture, visualize it, and take steps to harness its power to create enduring competitive advantage in the marketplace? To be enduring, a market culture needs to adapt to external turbulence and the creation of growth and profit opportunities in an environment of change. A market culture is defined by:

- How the overarching culture of a business focuses attention on markets.
- The skills a business uses to create value for customers.
- The level of belief that the ultimate purpose of the business is to create superior customer value, profitably.

According to our research, a strong market culture exhibits high ratings on six dimensions of corporate beliefs and behaviors related to: customer insight, competitor awareness, collaborative approach, criteria for decisions, CEO leadership, and a deep organizational commitment and contribution of all functions to creation of superior value for customers, profitably. We call these dimensions the 6 Cs.

Market culture model

What are the elements of a market culture and how can it be modeled? Based on our studies of consistently successful firms and academic research we have created the 6 Cs Market Culture Model shown in Exhibit 1.



1. **Creation of superior customer value, profitably.** The customer is at the center of the model. This indicates that the primary objective is the creation and delivery of superior customer value at a profit. The model is circular because, as the market changes, a firm's value proposition must be improved.

Some of Toyota's successful value creation can be attributed to a culture that also views both the channel (auto dealers) and retail buyers as customers. Group Vice President Irv Miller states that Toyota seeks "to create superior value for customers and dealers, profitably." There is an adage at Toyota that says "First the customer, then the dealer, then Toyota." This is a perfect alignment with a strong market culture model.

How leaders can foster profitable customer value creation

1. Review your mission statement to ensure that it is externally focused with a particular emphasis on creating superior customer value, profitably.
2. Make certain your senior management team understands and believes in a "customer first" culture.
3. Develop an internal strategy for building a strong market culture across the business.

2. **Customer insight.** This involves developing a thorough understanding of the firm's target customers in order to create consistently superior value. Thorough customer insight requires that a seller seek to understand a buyer's entire value chain, not only as it was yesterday or is today but also as it will evolve over time.

Toyota's Scion Division shows how getting to know a target market thoroughly and applying creativity to marketing pays off. Scion's goal is to appeal to Generation Y (born after 1985) consumers, a group that is expected to dwarf the market size of Generation X by 2020. Toyota found that Gen Y wants different things than its traditional customers.

Because Gen Y doesn't like to haggle and prefers the internet and after-market customizing of their cars, Scion uses sales tactics such as a fixed price, cool Internet ads, and basic trim levels with a wide selection of aftermarket accessories.

According to *the Wall Street Journal*, in mid-2006 Scion was on track to beat its 150,000 car sales goal by 25,000 cars. Instead of taking advantage of that trend they held production to limit sales to the 150,000 car target. Why not capture all that short-term profit from an addition 25,000 cars? Management's reasoning was that Gen Y wants the brand to be special, so allowing demand to exceed supply helps achieve that goal. Keeping production down will help ensure long-term profitability in this target market.[4]

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How leaders can cultivate customer insight

1. Gain a clear understanding of the needs of different segments of your market and communicate this to all parts of the business.
2. Facilitate interaction with customers through site visits, store visits, observation of customers in their own environment, listening to what customers have to say.
3. Invite customers to meetings to tell stories about their experiences to staff in all functions of the company.
4. Where possible, have employees act as customers of your products and services and report areas for improvement. In short, ask them to, “Be the customer.”

3. Competitor awareness. A key component of a strong market culture is a company-wide understanding of the short-term strengths and weaknesses and long-term capabilities and strategies of both current and potential competitors. To achieve competitor advantage a company must assemble the entire set of technologies capable of satisfying the current and expected needs of the target buyers.

Consider how Blockbuster, the movie rental company, missed out on a profound shift in its customers' needs and preferences at the turn of the millennium. This shift was instigated by Netflix, a competitor that offered an online movie rental subscription service to an increasingly online consumer. Blockbuster took no substantive actions to address this new competitive offering and technology capability. As a result, Blockbuster's brick and mortar business suffered huge losses, reaching \$1.2 billion in 2004.

That year Blockbuster did finally respond to the market and began to offer online rental services. In 2006, it mobilized its online and in-store capabilities, unveiling its “Total Access” program that allows online subscribers in-store pickup and drop-off. By year's end, Blockbuster had posted its first profit in four years and was boasting 74 percent growth in online subscriptions.[5]

How leaders can promote competitor awareness

Review your competitive intelligence system in terms of relevant outputs, effective communication within the business and actionable decision-making.

1. Study important competitors as truly dynamic rivals capable of plotting offensive and defensive moves and counter moves.
2. Use job rotation between functions as a means of exposing R&D and product/service development functions to competitors' strategies.
4. **The two-part collaborative approach:**

Part 1: Cross-functional team approach. The intelligence gathered in customer insight and competitor awareness activities is distilled to its essence and shared with all functions in the organization, along with the firm's strategic direction. By doing this, strong market culture companies are able to achieve coordinated leverage of all the resources available within the organization to create superior customer value and do so profitably.

In 1999, Nissan was on the verge of total collapse. Consistent losses had led the company into \$22 billion of debt and jeopardized its survival. That March, Carlos Ghosn took over as

Nissan's first non-Japanese COO and proceeded to lead an aggressive program of culture-change that completely turned Nissan around. Within 18 months the company was showing a profit that has lasted to this day.

In Ghosn's first month at Nissan, he established nine cross-functional teams of ten managers each. He empowered these teams with access to all company information, tasked them each with the improvement of a major function (such as manufacturing, marketing, and business development) and had them report directly to the executive committee. The combined cross-functional information, insight, and capabilities of these teams led to the development of the "Nissan Revival Plan" and one of the greatest turnarounds in corporate history.[6]

How leaders can facilitate cross-functional teaming

1. Review the effectiveness of your cross-functional teams and how they are working together to create value for customers and the business.
2. Check on the alignment between functions by ensuring they have common goals around customer value creation.
3. Employ coaching and mentoring strategies to facilitate individual and team effectiveness in a cross-functional context.

Part 2: Collaborative value networks. These are networks created between individuals and teams inside the business and individuals and teams outside the business. Designed to create and enhance value for customers, these networks channel capabilities and competencies, irrespective of firm boundaries. JPMorgan Chase's Card Services, one of the largest issuers of private-label credit cards, has harnessed the collaborative value network to great success. Their collaborators range from AARP and Amazon.com to *The Nation* magazine and Yale University. By partnering with other organizations like AARP and issuing the private-label cards, Chase can create greater value for cardholders who value AARP services, for AARP as an organization, and for Chase's shareholders. Chase Card Services' ROE in 2006 was an attractive 23 percent.

The development of the Apple iPod offers an example of the complete collaborative approach, a combination of cross-functional teams and collaborative value networks. In early 2001, Apple established a cross-functional team charged with developing an improved and high-value portable media player. To speed development the team took as many parts as possible off the shelf. The basic hardware blueprint even came from outside Apple, from a Silicon Valley start-up called PortalPlayer. Jonathan Ive, Apple's vice president of industrial design, told *The New York Times* that the key to the iPod wasn't sudden flashes of genius, but the design process. His design group collaborated closely with manufacturers and engineers, constantly tweaking and refining the design. As a result of this collaborative approach, the iPod was introduced in less than a year and propelled Apple to record success and profits for the next six years. It transformed an industry.

How leaders can foster collaboration

1. Review the extent of external collaboration taking place and its contribution to creation of customer value.
2. Explore the new areas of collaboration such as the various forms of social media – including blogs and private online customer communities – and how they can be harnessed to create value.
3. Make channel partners and end customers part of your product and service innovation team.
5. **Criteria for decision-making.** Companies with a strong market culture have a longer-term perspective on profitability goals and business decisions. For example, Toyota's Scion division could have captured short-term profits in 2006 by producing and selling an additional 25,000 cars. However, a careful analysis of customer preferences and

competitive strategies yielded a decision that will maximize long-term profitability by carefully limiting short-term availability of its product.

How leaders can establish market culture decision criteria

1. Develop decision-making criteria that facilitate longer term value building decisions while satisfying short term requirements.
2. Review your strategic management processes to ensure that there is a requirement for evidence, analysis and strategies related to longer term building of profitability through creation of superior customer value.

6. CEO leadership. This plays the all-important role of developing shared vision and shaping culture from subsequent decisions, actions and behaviors. C-level leaders have a decisive role in the level of market culture achieved by the organization.

However, in strong market culture companies, leadership in creating superior customer value is practiced by many individuals, including frontline employees, not just those with executive titles.

How to develop leadership for a strong market culture

1. Ensure that senior managers act as role models in the stories they tell and their actions in creating value for customers and profit for the business.
2. Implement talent reviews and succession planning aligned with customer value creation competencies and behaviors.
3. Build market culture competencies and behaviors through training programs relevant to different functions and levels in the organization.
4. Incorporate recognition and reward systems into the business that encourage market culture leadership behaviors.

Telstra: a success story in building market culture and superior performance

Telstra, the Australian-based telecommunications and media company, is in the process of transforming itself into highly profitable media communications company, an achievement that can be attributed to its successful implementation of a strong market culture. Already, just half-way through its strategy for transformation, Telstra is achieving both revenue and earnings growth and ranks at or near the top against its Asian, European and US peers on many key financial measures.

Some of the measures Telstra has taken

At the start of its transformation from an internally focused company in 2005, the newly appointed Telstra CEO Sol Trujillo, appointed a new leadership team committed to developing superior value for customers with a five- year commitment to an aligned market culture and infrastructure. Telstra benchmarked its level of market focus and identified strengths and weaknesses. The new Telstra leadership communicated its new vision and developed a strategy around the approach of market-based management as the basis for

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building its market culture and creating superior value for customers. In 2006 Telstra re-organized with a customer facing structure, developed market-based metrics and customer value based processes to support the development of a market culture. It developed learning programs for implementation across the whole organization starting with the marketing and product management functions in all business units. During 2006 and 2007 Telstra implemented its learning and change management programs and embedded its market culture, systems and processes across the customer-facing functions of the organization.

In February 2008 Sol Trujillo reported on the success of its strategy and its business performance at the half-way point. This included unmatched knowledge of customer needs and preferences resulting in improved customer value and satisfaction scores across all businesses, market segments and products. This has assisted Telstra in simultaneously earning a price premium and increasing its market share. As a result it restored market leadership in its main markets in 2007, achieved increased profitability and has raised revenue and profit growth estimates for 2008. Its next step is to assure that market culture behaviors are practiced throughout the back-end functions of its business.[7]

A framework for action

Continually strengthening a firm's market culture is essential for achieving and sustaining a competitive advantage. The 6Cs model is an actionable framework for building a strong market culture. Significant steps can be taken in each of the Cs to strengthen a company's market culture.

Notes

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4. Chon, G. (2006), "A way cool strategy: Toyota's Scion plans to sell fewer cars", *Wall Street Journal*, November 20.
5. Blockbuster Corporate (2005), "Blockbuster reports fourth quarter and full year results – revenues top \$6.1 billion," March 9, see www.b2i.us/profiles/investor/ResLibraryView.asp?ResLibraryID=8684&GoTopage=3&BzID=553&Category=815
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