

## Interview: Simon Knox and Martin Christopher

### Creating a Company for Customers: How to Build and Lead a Market Driven Organisation



SM	Hello, this is Steve Macaulay and this is a Cranfield School of Management Podcast. To hear that some marketing specialists have written a book proclaiming that companies should be more marketing driven isn't at all unusual. However, the approach that has been taken is unusual – the book is <i>Creating a Company for Customers: How to Build and Lead a Market Driven Organisation</i> . We have got two of the authors here, Simon Knox and Martin Christopher – two eminent professors, people with a lot of experience in this area. So Martin I would like to start with you and to understand a bit more of the context behind the book.
MC	Yes, I think the particular focal point that we have taken here is that today marketing needs to extend beyond its functional boundaries. We don't want to talk about the marketing department, we want to talk about a business which really is market focused. And so when we talk about creating a company for customers, we are really talking about focusing the whole of that organisation actually around the customers that it serves and we talk about pan company marketing – it's almost implying that marketing is too important to be left to the marketing department.
SM	It's an interesting approach. Have you anything to add to that Simon?
SK	Well, I think the development of a pan company approach implies the development of sophisticated internal and external processes within the business. In order to convert from functional management we need to see the development of cross functional, team based, process management and in the book we highlight a number of core processes which we identify as being very important in order to enable this company driven, sorry, market driven approach to companies' business development.
SM	It's interesting you mis-said company driven, because one of the things that I notice in the book, that you heavily criticise, is companies looking very much inward instead of outward.
SK	Yes, I think the development of process management – we highlight five processes ranging from market sensing or market understanding to supply chain management – implies that there is a greater openness in the senior management team to explore the outside world. So, for example, market understanding implies a stronger element of customer relationship development and through customer relationship development for instance, it is often

	<p>easier to innovate more effectively the development of a customer relationship and a customer engagement in innovation process can lead to faster, more efficient innovation. So this ability to open up the business can lead to more effective business development.</p>
MC	<p>I think the other point about processes is that by their very nature they are outward looking, they are customer focused, whereas functions, if you want to think of them, they are vertical, they are inwardly focused and whilst we need functional excellence, always will do, what I think we are coming to recognise here is that it is through our processes that we create and deliver value. In other words, processes are the value delivery mechanism, functions are there to assist them. But that, I think, is a fundamental change in how we here view marketing.</p>
SK	<p>I think also, it is not just the companies that are changing and they need to change, but it's also customers. I think, certainly in business to business markets, customers are much more sophisticated in how they assess and determine what value it is that they want from their suppliers. So we talk about value in exchange, which is the purchasing process, but we also talk about value in use, which is the consumption process and if there is not an alignment between the customers' purchasing and consumption processes and the company's ability to deliver and align against those processes then the value created is diminished. So with open process management within the business both forward to customer and also backward, which I am sure Martin will pick up on on the supply chain, then there is an inability to align and create the value that particularly customers now require.</p>
MC	<p>Yes, we might pick up on that particular example of supply chain as a process because, again traditionally, organisations are tending to look at things like distribution, procurement as totally separate activities within their functional silos. What the leading organisations today have recognised is that they no longer compete as individual businesses, they compete as supply chains. In other words, the power of our ability to leverage upstream and downstream relationships, so relationship management is key to this obviously, how we leverage the knowledge of supply chain partners – these have become the critical ways in which companies today differentiate themselves and it is radically different I think from the view that we have taken in the past.</p>
SK	<p>I think also – and this is my hobby horse – increasing pressure on companies to develop sustainable business practices and in order to build sustainable business practices there has to be a dependency on the company or the business suppliers who also have to conform to sustainable business practices. So if there isn't a clear vision of how the company wants to proceed in terms of its sustainable commitments, then it's very difficult for the company to</p>

	<p>have suppliers that aspire to the same values. So process alignment is critical for this as well. I can give you an example. For instance, Starbucks, in developing its retail format uses sustainable wood, therefore any supplier that feeds into Starbucks to construct their retail outlets have to be able to procure sustainable wood that is appropriate to Starbucks' specification, so there is a kind of a knock on effect as supply chains compete, and sustainability strikes me as a pretty critical new development that also requires process alignment.</p>
SM	<p>You see, I can just see some seasoned business leaders saying yes, yes, but this is going to cause enormous upheaval in my organisation and we have still got the spectre of ten, fifteen years ago of business process re-engineering and what happened there. What are the pay offs, what are the benefits for going through such a process of alignment?</p>
MC	<p>I think I would turn that around actually, Steve, and say: What are the potential penalties if we don't go through this alignment? I think the history books of business are littered with examples of companies who have failed to change as markets have changed and so one of the things that I think distinguishes the process driven business is that effectively it is able to change more rapidly because it is outward looking. We recognise that today's solutions won't necessarily work tomorrow, so process re-engineering, whilst it may well have been dismissed as something of a fad when it first appeared on the horizon a few years back, actually is fundamental to what this is about because it is almost implying continuous change. We know markets change, we know customers change – the business has to change with them. I think our argument is that an outwardly focused, customer driven business which is based around the key value delivery processes is more likely firstly to recognise the need to change, and then secondly to be able to make those changes.</p>
SK	<p>And whilst this isn't of statistical significance, we do a lot of executive teaching and whenever we ask the question in the classroom about which companies are still functionally orientated and which of them have migrated to cross functional team based activities, when we ask those that are cross functional team based companies whether they would revert back to functional companies, the answer is always no because of the benefits that Martin has identified – greater flexibility, greater openness, an ability to change more effectively. So I think the proof of the pudding is in the eating. Companies that are doing it would not consider reverting to the old management structure.</p>
SM	<p>So let's talk about some of these companies then and what makes them the kind of ideal that you have set up here.</p>

<p>MC</p>	<p>I think we could select from a variety of examples, but one in particular that I am impressed with is Proctor and Gamble because if we go back in history, I mean it was Proctor and Gamble, I think I am right, who actually developed the whole idea of brand management. That was their idea way back in the thirties, the 1930s, and yet they have come to recognise that to compete and win in today's markets it is not sufficient to just have brilliant brand management. What they have come to recognise is that it is how we actually get that product on the shelf, it's how we build relationships with our key customers who are actually retailers – it's not just about how we build a franchise in the final market with consumers and so right from the top, literally from the Chief Executive, Alan Lafley, downwards is this recognition in the business that their survival and their success – and they are indeed a successful business – is very much based around how they get this cross functional working, how they liberate ideas – I mean they are very much focused around innovation, they developed this concept they call open innovation which is how we bring ideas in from outside the business be it from consumers, from customers, from suppliers from anywhere, even from competitors if necessary. It's a radically different approach, I think, to the way that P&amp;G used to be and it's a good example, I think, of the sort of change that we are talking about for companies to survive in these vastly different markets.</p>
<p>SK</p>	<p>Another example of a company that I am very familiar with is Tesco, the retail chain. Now some years ago they recognised the need to change from functional management to cross-functional management and in the process of doing so, removed their twenty odd directors of merchandising who were effectively responsible for buying from suppliers on the basis of price and price negotiation and they replaced those functional barons within the business with cross- functional team managers, which they call category captains and they introduced something like twenty plus category captains that were responsible for process flow through the business and these guys are very senior management – they have balance sheet responsibilities and have to coordinate their activities with key suppliers like Proctor and Gamble, Coca Cola and Nestlé, with the net result that because of the balance sheet responsibilities they have, they extend outside of the organisation, so the supply chain efficient response and replenishment is part of the job description and that creates alignment across functions and so Tesco's is now a cross functionally driven business and as Martin has referred to the P&amp;G example, they are open for innovation in a much more alert and efficient manner.</p>
<p>SM</p>	<p>That is interesting. I would like to ask you both to give a message to people who are going along the route that you suggested – this pan company approach and give them in a nutshell, if you like,</p>

	some things to get started on, things to keep them going.
MC	<p>I think the first of these basically is about change management obviously. There is a lot of internal communication required that people actually buy into because what we are proposing is pretty fundamental – we are not talking about dismantling departments and functions, but we are talking about how do we get them to work in a much more open and indeed, cross functional way. I think of this as a horizontal organisation. Conventional organisations we can think of as vertical, they mirror the classic organisation chart. Here we are talking about trying to drive the business in a different way; we are turning it through ninety degrees from the vertical to the horizontal. So it's actually about change management and I am not sure marketing people have necessarily got those sorts of skills, so they are going to need to call upon a significant amount of assistance from elsewhere, but I think the first point really is about communicating the importance of this – why do we need to do it? Then it's very much about how we bring about the organisational change that is necessary to support it.</p>
SK	<p>I think also the CEO needs to think not just about his own business, but also his key customers and his key suppliers in order to effect the change that Martin has talked about. He has to be able to engage with customers and suppliers, to spread the message in that direction as well, so whilst Martin refers to it as a horizontal company, it's also an extended company that goes beyond the boundaries of the business and therefore part of the change and the engagement is about bringing key suppliers and key customers on board as well.</p>
SM	<p>OK, gentlemen, thank you very much – that has given a very clear insight into what is required and how much the, if you like, stereotypical marketing role needs to change in a modern business environment. Thank you.</p>