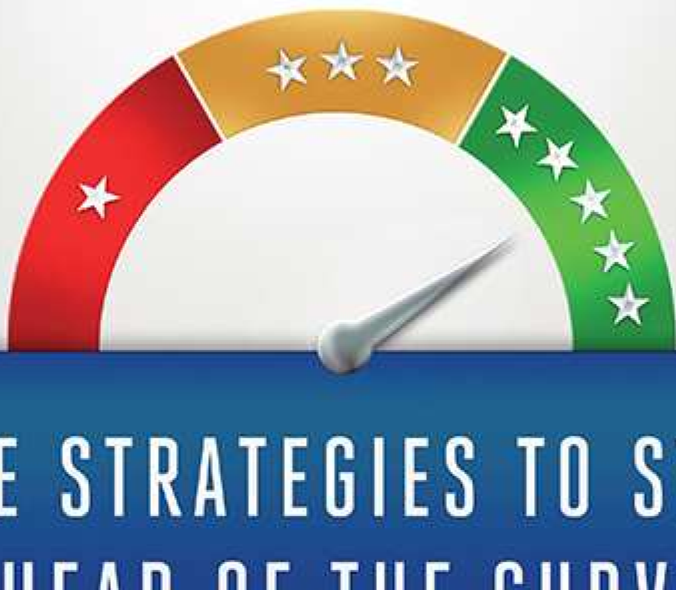
CUSTOMER-DRIVEN DISRUPTION



FIVE STRATEGIES TO STAY AHEAD OF THE CURVE

SUMAN SARKAR

AUTHOR OF *THE SUPPLY CHAIN REVOLUTION*

Praise for *Customer-Driven Disruption*

"Suman Sarkar redirects the focus back to what made your business a business: its customers. With many case studies and concise takeaways, this book is a handy guide to shaking up your innovation strategy."

—Crystal Kadakia, author of *The Millennial Myth*

"Suman Sarkar is a strategist after my own heart—like me, he believes that real change and innovation come from customers' actual needs and wants, not from researchers in lab coats. Customers *will* tell you how to make your business thrive and win the future—if you learn how to listen. This book explains how to open your ears."

—Jeanne Bliss, President, CustomerBliss, and author of *Chief Customer Officer 2.0*

"Sarkar puts forth new, actionable definitions of customer focus, personalization, and quality along with a road map that your team can use to think creatively and be more willing to take intelligent risks."

—John A. Goodman, Vice Chairman, Customer Care Measurement & Consulting

"This is an excellent, thought-provoking book that offers clear strategies enabling you to understand buying patterns and generational expectations. *Customer-Driven Disruption* will inspire you to effectively plan for and stay ahead of your competition by focusing on your customers and what they want."

—Renee Evenson, author of nine books including *Powerful Phrases for Effective Customer Service* and *Powerful Phrases for Dealing with Difficult People*

"In *Customer-Driven Disruption*, Sarkar shows that technology isn't the real driver of disruption, and he unveils many more surprises that will challenge your assumptions and prepare you and your organization to stay ahead."

—Steve Curtin, author of *Delight Your Customers*

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www.bkconnection.com

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Berrett-Koehler Publishers, Inc.
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Tel: (510) 817-2277, Fax: (510) 817-2278
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This book is dedicated to the memory

of my mother, Dipti Sarkar,

and my father, Ranjan Sarkar,

for their love, encouragement, and support.

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CONTENTS

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PREFACE

I'M A BUSINESS CONSULTANT, and my neighbor is the CFO of a Fortune 100 company; we talk about our work a lot. We once spent an entire barbecue talking about supply chains. So of course I told him about this book, and I was taken aback when he said, "Why are you writing about customers? Every business leader knows customers are important. It's a cliché. You're talking motherhood and apple pie."

"If you put it like that, yes. But knowing and doing are two different things."

This book is about the doing. Even executives who claim that customers are important don't always know what their customers' needs are or how to deliver them. Some know but are afraid to try. And some won't even try. Over the years, I've consulted with leaders at more than forty Fortune 500 companies, and meetings like the following are frustratingly common.

The CEO of a leading global delivery services company (let's call them Big D) knew that his retail customers wanted their local stores to provide home delivery; demand for that is increasing. But home delivery often costs more than the products! So Big D had another plan: convince people to pick up packages themselves until Big D had developed a drone or bot delivery system. Spending money on technology was fine with Big D's board, but the CEO knew that getting the drones to work would take so long that a start-up or Amazon would come up with a better solution first. So Big D's CEO was open to ideas, and after a conversation with someone on my team—Fred, an ex-employee of Big D, whom he respected and trusted—he told one of his executives to meet with us.

Fred and I were excited about our idea when we went in to make our pitch to Barry, the head of innovation. We'd sent him the presentation beforehand, so after the niceties were over, I said, "Hey, Barry, how do you want to do this? We've shared the presentation with you already. Do you have questions, or do you want us to start from the beginning?"

"I've read it, but start at the beginning."

So we showed him how Big D could provide same-day local delivery at half their current costs, using rented trucks and reusable packaging (another customer complaint was that people were fed up with the cardboard boxes). Barry let us go through it, but he was obviously bored. His comment was "We're Big D. We have certain standards. You're telling us to do this with chewing gum and toothpicks!"

I wanted to say "Does your customer care? When I'm getting a pizza, I don't care if it comes on a tricycle as long as I get a hot pie!" But I didn't say that; there was no point in antagonizing him. It was clear to me that he was only there because his boss's boss had told him to see us, and, like many people in the middle layer at large corporations, he would rather kill an idea than try anything that risked his position in the organization—especially anything new.

Conversations like this are incredibly frustrating to me. The book was born out of that frustration, coupled with the knowledge that companies whose leaders focus on short-term investor returns, ignore customer needs, and kill new ideas will fail. The book is a plea for change and a guide to making it. Leaders with the courage to do things differently will disrupt their industries and topple the companies whose leaders can't or won't. I hope the book inspires you to become a disrupter and shows you how to address customer needs in new, innovative ways.

Introduction
DISRUPTION MYTH

DISRUPTION—THE BRUTAL ROILING OF markets, caused by customers' ever-changing needs—drives business failure and success. Most people think that technology drives disruption, but technology merely enables disruption; changing customer needs causes it. Some companies try to recover with more innovation, more advertising, rebranding, acquisitions—and discover that these strategies do not work. Others survive disruption and even harness it to their advantage. What drives this difference? The latter group of companies keeps their focus on their customers. They understand, anticipate, and gratify their customers' needs—and thereby not only survive disruption but also thrive on it.

Consider Patanjali, a new company competing with established consumer goods companies in India. For years, Indian customers had been telling multinationals such as Hindustan Unilever, Procter & Gamble (P&G), Nestlé, and Colgate that their products were feeling harsh and not quite right on their bodies. So multinationals added moisturizers and other goodies to hide the side effects of harsher ingredients. None of the multinationals listened to Indian customers' real needs, but an Indian company, Patanjali, did. Patanjali created products from herbs and plant chemicals that are good for people's health and the environment. The products are based on Ayurveda, a traditional Indian medicinal practice. The company became a runaway success that stopped the growth of Hindustan Unilever (HUL), the Indian subsidiary of Unilever, and grabbed its market (see figure 1). By 2019, thirteen years after it started, Patanjali expects its revenue to beat HUL's—even

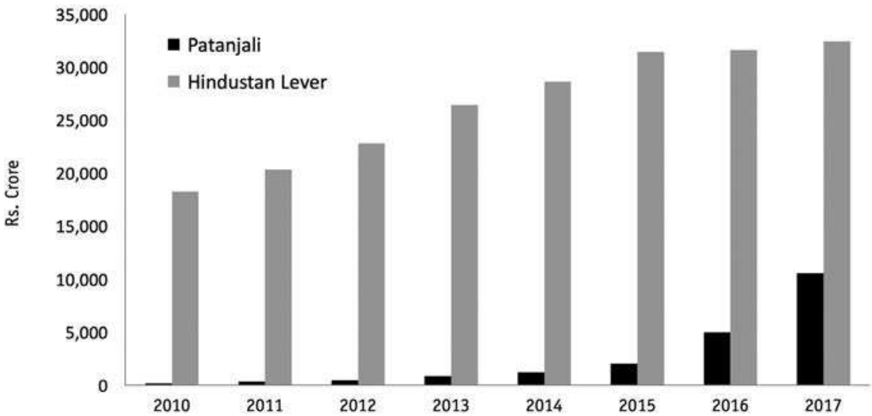

FIGURE 1 Revenue trend for Patanjali and Hindustan Unilever (a Unilever subsidiary in India). At the time of this publication, Indian Rs. 1 crore was equivalent to $150,000. Patanjali's revenue in 2017 is estimated to be $1.5 billion; Hindustan Lever's is $5 billion. Sources: "Patanjali Ayurved," Wikipedia, accessed February 18, 2019; Hindustan Unilever Limited, "Annual Report—Archives," https://goo.gl/L3RXvF.

though Unilever has dominated the Indian consumer goods market for more than eighty years.[1]

Patanjali's founders listen to their customers. They not only make products from natural ingredients but also keep them affordable by working directly with farmers rather than distributors. They keep marketing costs low by relying more on word of mouth than on advertising. In a 2017 speech, Patanjali's CEO succinctly explained the company's strategy: benefit the customers and suppliers, and the company will benefit. But you have to start with the customer. He went on to say that the organization "did not make ads with glamorous men and women but rather focused on making products that were effective. Taking a swipe at [HUL's] Close-up toothpaste, he said that his toothpaste Dant-Kanti did not make people fall in love. 'That's not the role of a toothpaste. We only make a toothpaste that cleans your teeth effectively.'"[2] Patanjali delivers on Indian customers' needs.

HUL, on the other hand, did what most failing companies do: it interpreted customer feedback within the context of its existing products instead of as a stimulus to think outside the box and change. Sanjiv

Mehta, chairman and CEO of HUL, even admitted this. He said that the company made its plans based on what they wanted their portfolio to look like, then "put disproportionate money behind innovation and building the categories of the future." But doubling down on their existing strategies by improving current products, raising prices every year, and spending more money on advertising didn't work. Now, to regain market share, HUL is copying Patanjali's use of herbs and plant chemicals. Other multinationals, such as Colgate-Palmolive, are also launching natural oral care products. But Patanjali remains the most popular with Indians because their products are great, affordable, and based on traditional Indian medicine.[3]

Stories like Patanjali's play out all over the world today. Big companies are failing, creating economic uncertainty and job insecurity, because they aren't focusing on customers. This is as true for business-to-consumer companies as it is for business-to-business companies. Fundamental shifts and changes catch up with *all* businesses and disrupt them, no matter how far they may be removed from their customers or how far downstream in the supply chain they may be. Change happens fast. If it catches your company off guard, your company will suffer—and the longer its impact has been delayed or ignored, the greater the damage will be.

But if you understand your customers and keep up with their ever-changing needs, you will be prepared for disruption and will succeed despite it. When your competitors fail because they haven't dealt with disruption, you may even grow. This book shows you how to develop the strategies to deliver services, personalization, speed, quality, and reinvention to satisfy your changing customers and their changing needs.

NEW STRATEGIES FOR DISRUPTION

Only sixty companies on the Fortune 500 list for 1955 remained on the list in 2017. That's just 12%. In addition, a Washington University study estimates that 40% of today's Fortune 500 companies won't exist in ten years.[4] They will fail because they focus on delivering short-term shareholder returns at the expense of everything else. And the more they focus on investors, the more they disconnect from what's most important to their growth and survival—their customers.

When disruption hits, these companies typically respond by disconnecting even more from their customers. They try strategies that don't work, like incremental innovation, acquisitions, rebranding or new marketing, global expansion, and even lobbying. What they ought to be doing is connecting more closely with their customers, with strategies like the following.

Customer-Focus Strategy 1: Win with Current Customers before Chasing after New Ones

Current customers are a more reliable source of revenue than new customers, but when sales drop, most companies go after new customers. In 2005, Amazon did something different with its customer base: it divided its customers into frequent and infrequent buyers. It then started what became its hugely successful Prime program, which encourages high-volume customers to buy even more.

Any company, in any industry, can increase revenue profitably by tailoring service levels to customer segments. This book teaches you how to identify customers by segments, identify the services valued by segment, create a range of services based on different customer needs, and price the new service so customers will be willing to pay for the increased service.

Customer-Focus Strategy 2: Personalization Is Not a Luxury

Personalization is replacing consumerism. The new generation of shoppers, millennials and Generation Z, love personalized service and dislike waste. You may think personalization is too expensive, but you can make it affordable. Too many companies charge too much for "specializations" or, worse, try to make money from premium services. But affordable personalization options for the many will generate far more revenues for a company than expensive select services for the few.

Using examples from companies like J. Hilburn and MTailor, which are experimenting with tailoring apparel, this book describes the challenges of personalization—such as cost and complexity—and then discusses how to change operations to produce smaller quantities cost-effectively.

To make personalization affordable, companies have to focus on flexibility throughout their operations, which is a complete change from the Industrial Revolution–era thinking of "Bigger is better." Companies can do this by rethinking customer offerings, creating flexible operations, and reducing waste. Whoever masters the art of producing affordable, personalized products will enjoy a significant competitive advantage in the future.

Customer-Focus Strategy 3: Customers Won't Wait

Customer preferences are changing, and if your company doesn't keep up, it will perish. While some apparel retailers are closing their doors, others are getting new catwalk trends into stores quickly and at affordable prices. To do this, they speed up both the design and the supply chain. They rarely do sales promotions or discount their products. Fast fashion is the fastest growing and most profitable part of the retail industry. For example, Zara started in 1988 and now has 2,200 stores in ninety-three countries, with annual revenue of $17.2 billion in 2017, and it is still increasing its market share.

Companies in all industries can learn to respond faster and succeed in the same way. That is, they can quickly develop products or solutions that address customers' changing needs, speed up the supply chain, reduce sales promotion, and produce what their customers really want to buy.

Customer-Focus Strategy 4: Good Enough Is No Longer Good Enough

Now that the public judges products based on reviews and peer recommendations, companies have to develop higher standards. Retailers such as Aldi and Lidl took over the grocery market in Europe with