Changing Strategy Without Losing Your Customers

Three Vital Steps to Refining Your Strategy

By Rick Weaver, MaxImpact

American Eagle Outfitters and Wet Seal Stores have issued statements about company turnarounds needed to cut sales loses. This kind of story occurs far too often: a business disconnects from their customers because the company either wants to sell to a larger customer base or they want to upgrade to a more prestigious look.

The Strategy:

The strategy may seem initially correct. Here are some examples:

Three years ago American Eagle decided to shift from its targeted customer, the high school teen, to the college student body by offering more sophisticated styles. Their intent was to grow up with their customers.

Wet Seal felt they had to react when competitor Forever 21 started to offer more trendy items. Wet Seal decided to distinguish itself by upgrading the quality of the products.

In an attempt to end a downturn in market share, McDonald's decided to upgrade their menu selections. They introduced higher priced specialties, super sizes, and upped prices on their traditional favorites.

Remember when Farmer Jack closed their stores for several days to go to everyday low pricing? It was their attempt to recapture the value-minded customers they had lost to Wal-Mart and Meijer. At the same time, Kroger, which was always positioned on quality and variety, was upscaling to compete with Whole Foods Market and other specialty chains.

Unlike Wal-Mart where Sam Walton and his company leaders understood the low-price business, Kmart executives moved into the posh suburbs of Detroit. While Sam continued to relate to his customers, even driving his own ancient pick-up truck, Kmart's CEO had a driver behind the wheel of his luxury car. It is no wonder he became uncomfortable running a discount store chain and wanted to impress his upper-class friends by upscaling the stores.

The Mistakes:

Each of these five organizations made a fundamental mistake in changing their strategy.

American Eagle overlooked the fact that as youth grow into adulthood, they want to move from the things of youth. Although a favorite among adolescents, the college customer wants to leave behind high school and show they have grown up. American Eagle is one of those things they want to leave behind. American Eagle needed to concentrate on building their high school business.

Wet Seal was disconnected from their customer. When they differentiated from Forever 21 with higher quality and prices, they forgot that their customer base was more disposable. They wanted new swimsuits through the season, not one suit that will last a couple of years, especially because the trend cycle is shorter.

McDonald's decision to upscale ignored their market position as a low-cost fast food retailer. They struggled until they developed the dollar menu, which has brought back their base customer. Keeping the upscale menu items, the chain is able to address the desires of a changing national diet while retaining the customers that made them strong.

Although Farmer Jack's move was probably the right thing to do, the corporate executives at parent A&P did not understand the margin structure for everyday low pricing, raising prices to the previous high-low strategy. By abandoning ELP, Farmer Jack returned to poor results, sealing the death of the chain. However, the Kroger strategy worked because it did not change the customer base.

Kmart's move was a disaster at the check-out. To further kill the company, the executive was replaced by a new CEO. This CEO was from an exclusive suburb of New York City and owned upscale "The Museum Company". Although financially astute, there was no chance he would relate to the Kmart base customer that craved Big Red chewing gum instead of Altoids. The company entered a downward spiral that would end in bankruptcy.

Underlying Principle

Let's shift for a moment to corporate culture. The number one problem with changing a corporate culture is that the current corporate leaders see the culture as a comfort zone. The existing culture is what made them successful; therefore it works (at least in their minds). The idea of changing a corporate culture, even for improved productivity or bottom-line results, takes the executives out of their comfort zone - therefore they do not embrace a changed culture. In fact, most will undermine or be outright hostile to a change in corporate culture.

To prove the point, how many executives do you know that have taken their company to casual attire yet still wear a tie? If you know of even one you know too many. Although they may make great sounding excuses as to why they need to wear the tie, the reality is that they have not bought into the changed culture.

The Core Problem

Back to the idea of knowing your company roots, these same "culture-change-fearing" executives will quickly embrace an upscale strategy that ignores the existing customer base. Why? The new strategy is in some way close to their comfort zone. The customer perspective becomes unimportant as the comfort-zone factor kicks in.

This is what the unsuccessful companies above did. In one form or another, they tried to change their customer base. Executives will make this product or service change because these high-paid executives are attempting to take their customers to a place more in line with their own shopping desires or where their acquaintances will give them the most admiration.

Three Vital Steps to Refining Your Strategy

The answer lies within the world's most successful company: Wal-Mart. They have never left their roots.

Their focus has had some minor shifts; the shifts have only been made as their customer base has made slight shifts. By keeping in alignment with customer desires, the company has been able to provide a connection with their customer that has created an outstanding brand recognition and loyalty. They have made no moves that left their customers as a prize for a better focused competitor.

There are three steps to take to ensure that you keep in tune with your customer so that you are protected with customer loyalty.

1. Conduct customer focus groups.

Whether you seek to make changes internally or externally, the customer is the most important aspect of any new strategy. Focus groups are the key to understanding the customers' wants, needs, and likelihood to accept the new. Focus groups can be done internally or externally, in person or through data.

External customers, the ones that ring the cash register, tell you their preferences every time they buy something. If you have effective data capture you will be able to analyze this data. Of course you should validate your interpretation of the data with a customer focus group - either live or on paper and either individually or in small groups.

The 3 Steps

1. **Conduct customer focus groups.**
2. **Believe in your analysis.**
3. **Realize you need to change more than your customer needs you to change.**

Once I was involved in such a data review that initially revealed that customers liked a particular product line. However did not give us enough specification to really understand what it was about this product they liked. Possibilities included that the product was not as readily available elsewhere, that it was easy to install, or that it was easier to maintain. After further investigation, we found that this home product was particularly appealing to women because of the look it gave to a remodeled kitchen. With this knowledge, it was easy to add to the product line with other items that meet the same customer expectations. The result: this highly profitable product line was expanded and is producing greater sales - and customer satisfaction.

Internally the approach is much the same. Survey the departments or people you work with to determine how well you are doing at meeting their needs. If departments are not working together, they need to develop the protocols to facilitate better and more effective relationships. The results can be staggering. Last year I worked with a mid-sized manufacturing company that had poor internal communications. The process was somewhat detailed as we first had to identify where and why the communication was breaking. Then we defined what the advantage would be to improved communication. Finally, and most importantly, we created a vision of how much better results would be, and happier the employees would be, if we made some changes. Once the employees were connected to the new vision, they overcame their own comfort zones for the greater good of the team. Results were almost immediate. Within three months production rejects were cut in half.

This same process works internally and externally - with success stories at all levels in multiple industries.

2. Believe in your analysis.

After you have spent the time, energy, and resources to analyze your customer's needs, you still have a huge obstacle to overcome. It is not important that you believe in the results - it is CRITICAL you believe in the results.

This was a lesson I learned early in my career. While working at a major retailer we tested a new product in our stores. Our supplier really believed in the product. He had been watching industry trends in our supply channel and felt this product was not just a good match, it was a great match. He knew our customer and proclaimed he knew where the interests were going based on his own analysis. We did not believe in the product as we saw it as too different from what we already had. "You're looking at it wrong", he proclaimed, seeming to see some aspects that were close enough to our existing product mix as to compliment it for the same customer. He harped about it so long we finally gave in with a small test program.

The merchandise was manufactured and shipped to about one-half of one-percent of our stores. We looked at the initial sales results and it verified it was wrong. Murray, the supplier, still believed it was right and demanded the data to prove his case. His fervor was so strong we complied, even though it was uncommon to share such data with a supplier at the time. Murray dug through the data and got personally involved with checking every aspect. He discovered that only ten-percent of the stores had actually put the item on the sales floor, mainly because the stores were not sure where it went. The small group of store that had displayed the item sold out in an average of two weeks - remarkable for a product line that only produced four turns a year. The product line was expanded to the chain and became one of our best selling items - along with similar product offerings.

Had it not been for Murray's believe in his analysis, we both would have missed a great opportunity for extra sales - and profits. It was a change in our belief system, but one we were forced to accept because of Murray's determination. In short, had Murray not strongly believed in what the customer was saying, we all would have given up.

3. Realize you need to change more than your customer needs you to change.

The fact is that you must believe so much in your new strategy that you are willing to change your own comfort zone in order to satisfy your customer. Although these words are easy to say, it is a very difficult process. Quite honestly, if you not willing to do so, you are in the wrong business!

Your character has taken your entire lifetime to develop. It will take almost the same amount of time to change. However this does not mean that change is impossible. To make a change in your comfort zone you must be willing to focus on your strengths. In coaching a Chief Financial Officer (CFO) for a large western cooperative, we realized that she was very much an introvert and not very assertive. In her job it was important that she give the CEO both good and bad financial data and projections and firmly state her positions on how to keep the coop in black ink. It had taken a lifetime for her to develop her personality, so to tell her she had to be more assertive was not the answer to her problem - she needed the tools to actually become more assertive. Looking at other aspects of her personality, such as compliance to rules (she had never even received a speeding ticket) we were able to develop a plan for her to focus on her strengths or to overcome her weaknesses for short periods of time. The result is that she has been able to articulate needs better and to prevail in some of the proposals she felt were necessary for the long-term good of the coop's members.

You can argue that the coop's customers needed this CFO to change. The truth is that the members needed a changed CFO. It could have been her, or she could have been replaced. The third option is that financial problems down the road would have opened the door to the formation of a new cooperative. Regardless, the best path for all was having the current CFO develop herself to the point where she changed. By her changing, all members were able to keep her expertise, escape the cost of turning over an employee, and maintain continuity.

What's Next

To remain successful, an organization must stay within the needs and desires of their customers. This is true of internal and external customers. Change is inevitable. Strategies must evolve as new technology develops, fresh competition appears, innovative ideas come forth, and business requirement adjust. How these shifts in focus are handled by an organization will set the stage for turbulence and mistakes or start it down the path of max impact where a bright a beautiful future awaits.

For more information, contact Rick Weaver of MaxImpact at 248-802-6138 or send an email to rick@getmaximpact.com.

Rick Weaver is President of Max Impact, an international leadership and organization development company based in Rochester Hills, Michigan. Rick is an accomplished business executive with experience in retail, market analysis, supply chain and project management, team building, and process improvement. He has worked with hundreds of companies to improve sales, processes, and bottom-line results. Max Impact offers leadership and organizational development services along with employee assessments and background checks. Contact Rick at 248-802-6138 or via email, rick@getmaximpact.com. Max Impact is on the web at www.getmaximpact.com.