Source: **FORTUNE**
Date: 05/01/1995
Document ID: SG19990714090001991
Subject(s): CONSUMER; MANAGEMENT;
Management; Consumer information
Citation Information: (ISSN 0015-8259) VOL.131 NO.8 page 121+ MANAGING: IDEAS & SOLUTIONS
Author(s): JUSTIN MARTIN
Reporter Associate(s): ANNE FAIRCLOTH PHOTOGRAPHS BY GUY AROCH

FORTUNE
Archives

IGNORE YOUR CUSTOMER

AT LEAST THAT'S WHAT SOME SMART COMPANIES LIKE COMPAQ, MOTOROLA, AND STEELCASE ARE DOING. HERE'S WHEN YOU SHOULD DO IT AND WHY.

It started as a management practice, grew into a mantra, and now it's an all-out mania: listening to the customer. These days customers are variously described as "king," "first," "No. 1," "always right"--basically judge, jury, and executioner. So revered is the "c" word that most companies stand paralyzed, afraid to move without first conferring with them.

But maybe this obsessive devotion has gone too far. A growing number of companies and consultants now believe that it's time to start ignoring the customer. That's the only way, these experts argue, to create the kind of breakthrough products and services that can catapult you far ahead of the competition.

Sound heretical? Well, consider that such companies as Chrysler, Compaq, and Motorola have achieved startling successes by ignoring their customers from time to time. Chrysler, for instance, forged ahead with the original minivan despite research showing that people recoiled at such an odd-looking vehicle. Compaq bet millions on PC network servers in the early 1990s even though customers said they would never abandon their mainframes. Last year Compaq sold $1.8 billion worth of these PC servers, many to former mainframe users.

Of course, knowing what the customer thinks is still important, especially when it comes to fine-tuning a product or a service. General Motors now regrets hurrying its slow-selling 1992 Caprice onto the market, even though consumers had indicated in tests that, among other things, the rear wheels looked too small. And there's scant reward in showing willful arrogance. That's Intel all over, with the Pentium chip debacle.

Still, more and more companies are learning that sometimes your customers can actually lead you astray. The danger lies in becoming a feedback fanatic, slavishly devoted to customers, constantly trying to get in even better touch through more focus groups, more surveys. Not only can that distract you from the real work at hand, but it may also cause you to create new offerings that are safe and bland. Says media mogul Barry Diller, who forged ahead with Fox Broadcasting even though surveys said there was no need for another network: "We become slaves to demographics, to market research, to focus groups. We produce what the numbers tell us to produce. And gradually, in this dizzying chase, our senses lose feeling and our instincts dim, corroded with safe action."

Tom Kuczmarski, a Chicago management consultant, agrees with Diller, pointing out that playing it safe isn't necessarily the best way to make a buck. In a recent study, Kuczmarski found that fully 90% of so-called new products are simply line extensions, such as Frito-Lay's Doritos Flamin' Hot Tortilla Chips in snack-size bags. This despite the fact that truly original products--the remaining 10%--possess the real profit potential (see chart). Says Kuczmarski: "Too often the emphasis is on coming up with something that's acceptable to consumers on first glance."

Churning out product dullards isn't the only trouble. Putting customers in charge and then trying to sort through their confusing, often contradictory feedback can also lead to out-and-out duds (see box). The problems with consumer research are legion. Researchers have biases; statistics can be twisted into shapes that make a pretzel look like a straight line.

As for the consumers being tested, they can--God forbid--be wrong. That's what happened in the mid-1980s with New Coke, which beat the original formula in every consumer taste test yet bombed when it hit the market. In other instances, consumers have been known to pick up cues from the person testing them. Either that or they're confused, they're in a hurry, they don't want to be rude, or--a big one here--they aren't making decisions using real money.

This last problem is one encountered by sporting-goods manufacturers Rawlings, Spalding, and Mizuno when they each tried to market pump baseball gloves in the early 1990s. Like pump sneakers, the gloves contained inflatable bladders designed to provide a better, snugger fit. They tested well, but when they appeared in stores, consumers balked. What had been hailed as a useful innovation in focus groups became an expensive gimmick. Says Robert McMath, a marketing consultant in Ithaca, New York: "That's the imperfect story of market research. People will say, 'Oh, I love it. I'll buy it.' Then they won't follow through."

If it's often necessary to ignore customers' assertions of what they want, ignoring feedback about what they don't want can be even more vital. Customers can be wildly unimaginative. The roster of items that met with initial customer naysaying--fax machines, VCRs, Federal Express, and CNN, to name a few-reads more like a hall of fame of business innovation. According to Mil Ovan, a marketing executive with Motorola, everything from cellular phones to personal digital assistants, his company's latest offering, would never have seen the light had Motorola heeded initial customer feedback. Says Ovan: "Our biggest competitor, by the way, isn't IBM or Sony. It's the way in which people currently do things."

Perhaps no company in recent years has had to contend with people's ingrained tastes and habits as decisively as Chrysler. The original minivan was born in 1984 when Chrysler, struggling and desperately in need of a hit product, went forward in spite of tests that showed ambivalence on the part of consumers. The minivan went on to be the auto success story of the Eighties. By the early 1990s, however, competing models like the Toyota Previa and Chevy Lumina were hot on Chrysler's tail. When Chrysler began work on the 1996 model, its designers knew significant changes were called for, such as making the minivan more rounded and aerodynamic in appearance.

But when Chrysler first tested designs for its 1996 model, irony of ironies, the vehicle consumers had doubted was now sacrosanct and couldn't be tinkered with in the slightest. They loved the then-current 1991 model. Two-thirds of focus group participants rated it a nine or a ten, a "home run" in Chrysler's book. But among the same focus groups, only about a third thought the 1996 design was a homer. Comments from participants included: "Too much like a race car for a minivan" and "Lunar--too extreme." Chrysler pushed ahead anyway, figuring the look of the 1991 would be death on the showroom floor in 1996.

What Chrysler faced is a classic design phenomenon. For everything from household appliances to computers to running shoes, savvy manufacturers know it's sometimes necessary to come out with a design that shakes people up a bit. Says Steven Skov Holt, strategic director of the industrial design firm frogdesign: "What appears strange today can become the accepted norm tomorrow."

Cracking customers can be quite a task, though. To be successful, sometimes a company must find ways to overcome prejudice, even downright scorn. Compaq discovered this in 1989 when it introduced Systempro, the first-ever PC server specifically designed to link desktop computers into a network.

In those not-so-distant days, PCs weren't exactly taken seriously in the workplace. But Compaq saw a future in linking up PCs to do work that at the time was the exclusive preserve of mainframe computers. This was sacrilege in the eyes of many mainframe devotees. They tended to view the Systempro as nothing more than a grossly overpriced PC on steroids. Says Gary Stimac, a senior vice president at Compaq, who led the team that developed Systempro: "We encountered basic resistance from the industry. Serious computing was done on a mainframe."

Not surprisingly, mainframers won the first round at a number of companies, particularly banks and insurance firms, which had concerns about the security and reliability of a PC server. By the end of 1990, Systempro's first full year on the market, it had generated only $200 million in revenues, a disappointment as far as Wall Street was concerned.

But Stimac and team didn't relent. They crisscrossed the country, holding seminars touting the benefits of Systempro. They offered benchmarking studies showing that the product could hold its own against a mainframe. Says Stimac: "We kept pushing very strongly. We knew these systems were going to be used even though our customers didn't ever think they were going to be."

Of course, Compaq could have been wrong. So it's necessary to have a realistic time frame for perseverance. Says Stimac: "It typically takes 12 to 18 months to get a good read on whether what you're hearing is surmountable skepticism or a downright lack of market acceptance."

Compaq's doggedness with Systempro eventually paid off. PC servers brought in $1.8 billion for Compaq this past year, 17% of the company's total revenues. Talk about last laughs. Sometimes the company, not the customer, knows best.

Ignoring the customer is never easy. Hordes of bureaucrats, statisticians, and other conformists will often stifle the most creative ideas by flooding them with consumer research. Yet a person who believes fervently can roll back a sea of skeptics. Take George Foerstner, president of Amana, who, back in the 1960s, believed in the value of microwave ovens, even when most consumers thought them bizarre, even dangerous. Or take Clarence "Bob" Birdseye, the father of frozen food. When he started peddling his idea in 1922, he met with acrimony from food retailers who didn't want to install expensive freezer equipment and from consumers who distrusted the quality of his products. At one point he had 1.6 million pounds of unsold frozen fish on his hands. But he ignored his critics, and by the 1940s frozen food had become a staple.

Vic Poirier is another such burning visionary who had the courage to follow his own instincts. Back in 1966, Poirier began work at Thermo Electron, a Waltham, Massachusetts, high-tech company, on a device meant to prop up a patient's diseased heart until a transplant could be performed. The medical community was skeptical from the outset. Surgeons and cardiologists, Poirier's potential customers, believed that assisting the heart might cause it to atrophy, leading to the patient's death. They also worried that a heart-assist pump would increase the chance of a stroke.

After all, the biggest danger in any implanted device is blood clots, which can form in any niche or corner of a mechanism--even a microscopic scratch inside a pump would be enough. Thus, doctors argued, the device had to have an ultra-smooth interior surface. Poirier took an utterly counterintuitive approach, opting to go with a roughly textured surface. Says he: "Most of the people would look at me and laugh. You don't put this kind of surface with blood."

His approach worked: blood clotted evenly inside Poirier's roughly textured device, called the HeartMate, creating a collagen lining much like the one in a person's natural heart. This year Poirier, now president of Thermo Cardiosystems, a publicly traded spinout that Thermo Electron created, expects to sell about 400 of his devices. Sally Yanchus, medical devices analyst at Lehman Brothers, expects that in the year 2000 more than 6,000 Thermo Cardiosystems devices will be implanted, generating as much as $400 million in revenues. So what does it take to be a burning visionary? Michael Gershman, author of Getting It Right the Second Time, sums up the quality that drives a Vic Poirier or Clarence Birdseye in one word: faith. Not marketing savvy, not the ability to listen intently to customers, but faith in their ideas, faith in their products. Says Gershman: "Adversity only made them more determined and stronger." But even the most driven visionaries sometimes need more than fire in the belly. A detailed business plan can improve any idea's chances of getting the go-ahead. Vigorous internal campaigning can help gather up the necessary sponsors. If all else fails, offer to share a portion of the risk. Such a gesture may well be taken as convincing proof of one's dedication. Says Steve Bookbinder, a principal and manager of organizational research at Towers Perrin: "There's a new employee-employer contract today. Tell your boss: 'I want to do this for a year. Give me a shot.' In return, offer to forgo a bonus or take a pay cut."

Steelcase, Urban Outfitters, and others are starting to take a more aloof approach to customer research. Instead of talking to their customers, they like to pull back and get a little distance on them. Why? The best information, some marketers argue, is often gleaned through detached observation, by viewing customers from further remove than is afforded by traditional market research tools. Think of it as an anthropological perspective: ignore what your customers say; pay attention to what they do.

For a good cautionary tale about how you can't trust everything your customers say, look no further than the recent forays of several fast-food restaurants into diet cuisine. McDonald's McLean, KFC's skinless fried chicken, and Pizza Hut's low-cal pizza all have the dubious distinction of being responses to customers and also flops. For all the millions and marketing savvy expended, the companies failed to see that, when it comes to diet, people tend to exaggerate their virtuousness. A 1993 study by the National Restaurant Association found a gross disparity between what people intend to eat (fresh fruit, bran muffins) and what they really eat (whole lotta burgers).

But how do you know how the customer will behave if you don't ask him? Says Larry Keeley, president of Doblin Group, a Chicago consulting firm: "The best way to understand customers is to study them under normal, natural conditions." Steelcase, the Grand Rapids office-furniture manufacturer, used just such a method recently when it designed a new product specifically for work teams. During the crucial early design stage, the company didn't want to muddy its thinking with the usual flurry of vague consumer feedback. Steelcase decided more utility lay in learning firsthand how teams actually operate. It set up video cameras at various companies and exhaustively analyzed the tapes, looking for the patterns of behavior and motion that customers don't even notice themselves. The main observation was that people in teams function best if they can do some work collaboratively and some privately.

The fruit of these labors, modular office units called Personal Harbor, hit the market with a splash in 1993. They're rather like phone booths in shape and size, and can be arranged around a common space where a team works, fostering synergy but also allowing a person to work alone when necessary. Says Jim Hackett, CEO of Steelcase: "Market data wouldn't necessarily have pointed us this way. It was more important to know how people actually work."

Another fan of the anthropological approach is Urban Outfitters, a fast-growing chain of 20 clothing stores headquartered in Philadelphia and catering to the young and hip. Urban Outfitters competes with retailers such as Gap and Eddie Bauer, though it's considerably smaller, with $110 million in sales for the fiscal year that ended in January.

A key to Urban Outfitters' success: it conducts no focus groups and has done only two surveys in its 25-year history. The company puts a premium on observation. Urban Outfitters managers and merchandisers rely on "customer profiles" produced by videotaping and taking snapshots of customers in the stores as well as in their native habitats, places like New York's East Village. The profiles give Urban Outfitters a feel for what people are truly wearing and allow the company to make quick decisions on merchandise. Says Richard Hayne, Urban Outfitters founder, president, and also an anthropology major (Lehigh University, class of '69): "We're not after people's statements, we're after their actions."

At the end of the day, everything a company does--even down to ignoring its customers--must ultimately be met with customer approval. Otherwise, what's the point? Ignore customer, create loser product--it kind of defeats the purpose. A misguided product is still a misguided product, whether or not it's justified by "leadership," "intuition," "anthropology," whatever.

But if a company truly understands its customers' needs, it can in good conscience disregard what they claim to want. This will save you lots of time, not to mention aggravation and some potentially embarrassing moves. Ignore your customers. They'll thank you for it in the end.

OOPS! NEVER MIND .

Consumer research can be downright misleading. Just because

customers say they want something doesn't mean they'll buy it.