

Knowledge Management Based on Your Organization's Approach to Life: Customer Intimacy

Focusing on your customers is the most value-added approach you can use! Third in a series.

Melissie Rumizen and Bill Baker

This is the third article on Knowledge Management (KM) that investigates how companies and organizations position themselves based on the framework proposed in *The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market* (Addison-Wesley, 1995) by Michael Treacy and Fred Wiersema. The authors found that market leaders focus on a single, unifying, and compelling value proposition for their customers. Based upon their research, they clustered value propositions in three distinct categories:

1. *Operational excellence* is giving customers the best value. Organizations using this discipline reduce costs and increase efficiency. One example is Wal-mart, whose business model is based upon a superlative grasp of logistics practices enabling them to keep costs low.

2. *Customer intimacy* is providing customers with tailored products and services. While these products and services may not be the cheapest available, they should be the ones which best provide what the customer wants and needs. Ritz-Carlton, which keeps a file containing personal preferences of customers, is an example.

3. *Product leadership* is producing innovative products, trusting that customers will flock to the newest and best. Intel and other chip manufacturers rely on this strategy.

This article will concentrate on the customer intimacy approach, which highlights the need to align yourself very closely with your customer so that you understand their current wants and needs as well or better than they do. This is not to say you tell your customer what they need, but rather that you work with them in a more

In Brief

Authors Melissie Rumizen and Bill Baker concentrate on the customer intimacy approach to Knowledge Management in this article. It highlights the need for organizations to align themselves very closely with customers, understanding their wants and needs. This understanding paves the way for a more collaborative approach to add value and add expertise. "Lessons learned" at Buckman Laboratories, Raytheon, and other companies are provided.

collaborative way to add value and add expertise in a partnering way. Customer Relationship Management (CRM) has become a hot topic and means many things to many people. Specifically, many software vendors have developed solutions that claim to be the solution, but the real solution is understanding your customer and their markets, harnessing technology, and helping customers to develop a roadmap to success ... a very personal approach that is built on trust and value added!

What Do You Want to Be When You Grow Up?

Is there any company that does not have "growth" as part of their Annual Operating Plan (AOP) or in their mission statement or five-year plan? Like the television commercial, "I want to grow up to be a middle manager." We all laugh out loud. No one wants to be mediocre or below market growth. We all have personal and company objectives that say we're winning the race! Unfortunately, a recent survey of U.S. plant managers showed that 75 percent of them felt like their plant was in the upper half in performance.

So, here we have the situation that companies strive to be leaders, be ahead of the pack, and be the benchmark. If a company is focusing on customer intimacy as its primary approach to winning — as Buckman Laboratories, USAA (United States Automobile Association), Neiman Marcus, Ritz-Carlton, or Mary Kay Cosmetics, its knowledge of the customer must be superior. The KM sub-processes are still relevant: capturing knowledge, sharing knowledge, and reusing knowledge about the customers. The company strives to act as one company in the eyes of the customer and must be focused on individual wants and needs as well as organizational wants and needs. The organization then has tentacles that are linked to new technology, new styles, new value propositions, and new markets that all are the fabric defining the customer's needs.

For example, USAA, which is one of the largest financial institutions in the

United States, caters to active duty and retired military personnel as their customer base. They also include children of military personnel. Their approach is pretty pervasive, once you select their company — usually for automobile insurance when new recruits join the military. They log in your birth date and can basically plot which of their services you might need throughout your lifetime. Products and services include house loans, life insurance, college loans for kids, retirement planning, vacation cruises and tours, and even jewelry and retirement villages and condos. Their knowledge management system then captures new life data such as births, deaths, graduations, promotions, locations, retirements, and customizes the services on a personal basis to support customer intimacy on a grand scale.

Excellence Criteria — A Visionary Goal

To pursue a customer intimacy approach, an organization must have a view of what it wants to be. This can be done via use of the published models of excellence that include the Malcolm Baldrige National Quality Award (<http://www.quality.nist.gov/>), the Shingo Prize Criteria (<http://shingoprize.org>), a Lean Six Sigma approach, or a customized version that the organization created. In any event, there must be a visionary goal to energize employees and managers and set benchmark targets on customer intimacy.

In taking a look at the Baldrige Criteria, we see that Category 3 — Customer and Market Focus — is a prime factor.¹ We researched the Baldrige Criteria and found their explanation of Customer and Market Focus and Customer-Driven Excellence. Figure 1 presents an excerpt from the Baldrige Criteria.

The Shingo Prize Model

Likewise, the Shingo Prize Model includes five categories with Customer Satisfaction and Profitability linked in Category 5. The five categories are: 1) Leadership Culture and Infrastructure; 2) Manufacturing Strategies and System Integration; 3) Non-

To pursue a customer intimacy approach, an organization must have a view of what it wants to be.

Baldrige Customer and Market Focus

The Baldrige Customer and Market Focus category examines how your organization determines requirements, expectations, and preferences of customers and markets. Also examined is how your organization builds relationships with customers and determines the key factors that lead to customer acquisition, satisfaction, loyalty and retention, and business expansion.

Baldrige Customer-Driven Excellence

Quality and performance are driven by an organization's customers. Thus, your organization must take into account all product and service features and characteristics, as well as all modes of customer access that contribute value to your customers. Customer-driven excellence means much more than reducing defects and errors, merely meeting specifications, or reducing complaints. Customer-driven organizations address not only the product and service characteristics that meet basic requirements but also those features and characteristics that differentiate products and services from competing offerings.

Source: NIST (National Institute of Standards and Technology) which administers the Malcolm Baldrige National Quality Award.

Figure 1. An Excerpt from the Baldrige Criteria, Category 3.

manufacturing Support Functions; 4) Quality, Cost, and Delivery; and 5) Customer Satisfaction and Profitability. The following excerpt outlines the importance the Shingo Prize puts on knowing your customer and their needs:

"Evidence of customer satisfaction may be presented through any valid approach used by the company. Measures reported must be clearly defined and could include, but are not limited to:

- Market share
- Reorder date
- Customer survey results
- Customer awards
- Customer audits
- Field performance data
- Other appropriate measures."

By understanding your customer and his or her organizational culture, products, services, and markets you enhance your organization's ability to help your customer win and look good. A useful reference is Robin Lawton's book, *Creating a Customer Centered Culture: Leadership in Quality, Innovation and Speed* (ASQC Quality Press, 1993) which outlines the principles of the Johari Window on Consciousness and

Competence along a 2x2 matrix: Know what we know, Know we don't know, Don't know we know, and Don't know we don't know. This describes the four main elements of the KM and business community. Certainly if we do not have the humility or intelligence to realize we do not know everything, we are doomed to lose the knowledge race. An inquisitive mind aggressively searches for new knowledge that will generate value for the customer.

Raytheon's Approach

Raytheon has combined Customer Focused Marketing (CFM) techniques to develop their strategy in a unique environment. Most of Raytheon's business is with the federal government. Many different levels of customers must all be addressed. Government program managers are the visible primary customer since they authorize payment on specific contracts based on specific milestone achievement and authorize changes in the contract scope, but it does not stop there. Other customers include Congressional leaders, Executive Branch leaders, generals, admirals, program office specialists, and local Defense Contract Management personnel who pro-

vide oversight. Being proactive with all these different levels is what drives customer intimacy and "growth."

The company business development representative is responsible to be alert and aware of all company interfaces with these key customer contacts that could come from many various sources within the company. In this environment, the need to act as "one company" is paramount. Customer intimacy drives the development of the KM system to meet this need. An additional challenge is that many of Raytheon's 76,000 employees are empowered to talk to customers.

Raytheon has deployed the Communities of Practice (CoP) process in many aspects of the business to leverage specific knowledge in certain key areas and provide leading-edge tacit knowledge to people who need it. Subject matter experts and others can freely exchange ideas and expertise in a non-threatening environment. The business development community is a key aspect here because the sharing of knowledge among proposal teams and groups that deal with the various customers is a continuing critical process. These CoPs meet on a regular basis and have a specific, pre-set agenda that meets member needs and also serves to transmit fast-breaking news, best practices, and lessons learned. This speeds the cycles of learning so that the learning can be faster and continuous.

With all the different businesses, technologies, and functions in the company, Raytheon Six Sigma Experts (Black Belts +) plot the value stream to the end customer as the products and services have value added through internal shops and factories. This value stream is continually evaluated to identify internal customers' needs and to see how they align and add value for the external customer. This has been a worthwhile challenge and a real benefit to break down silos and increase communication between groups ... not to mention reduced costs and cycle time.

Understanding and Serving Customer Value Perceptions

In the recently-released book, *Leading Organizational Knowledge: Harnessing the Power of Knowledge* (edited by Marshall Goldsmith, Howard Morgan, and Alexander Ogg) there is a story about Wal-mart in Chapter 1 that illustrates customer intimacy in the real-time world of retail sales. Wal-mart had packaged a special that included a desk top personal computer, a monitor, and a printer. The price was very competitive for this bundled deal and expectations were high that the special sale would provide brisk sales. Since Wal-mart point of sale technology would be reporting real-time sales figures, managers were monitoring the sales the first morning very closely. They were appalled when very few sales were taking place. Had they misjudged the market? Did they understand the value perception the customers had? One of the managers noticed after a few hours that sales had picked up at a single store, so they contacted that store's electronics department manager to see what had happened. The manager related that customers were asking if all three items were really in the box, which appeared too small to have all three. So their electronics manager ripped open the box on the display so that customers could see that the PC, the monitor, and the printer really were inside! At that point sales took off.

The KM story gains momentum here. The question became, how do deploy that knowledge to all Wal-mart stores to avoid the sales disaster that was brewing nationwide. The merchandising manager had to create an instant "best practice sharing" event and push out this new-found knowledge quickly. Since they viewed this as a "killer deal," they had developed a model anticipating customers' responses, so when that response did not match the prediction they had to be reactive and have access to the data so they could identify flaws in their plan and/or assumptions. For our purposes here, they had worked on customer intimacy very carefully, but had

Raytheon has deployed the Communities of Practice (CoP) process in many aspects of the business to leverage specific knowledge in certain key areas and provide leading-edge tacit knowledge to people who need it.

After reexamining its business model relying significantly on product leadership about ten years ago, Buckman transformed its approach by the mid-1990s to a customer intimacy approach.

overlooked the simple, obvious customer reaction: that "all three units could not be in that small box — it has to be a coupon."

Ritz-Carlton hotels, winner of the Malcolm Baldrige National Quality Award, is famous for catering to each and every customer's preferences. While they certainly strive to provide a valuable product and work on their processes to reduce cost and achieve operational excellence, what sets them apart is their special attention to customers' preferences. Do you like the *Wall Street Journal* or the *New York Times* in the morning? Do you have a special pillow requirement? Do you like your bed turned down? Any request you make is captured in their KM system for reference and use during your next stay at Ritz-Carlton. In addition, if you make a request of the staff, they are authorized to see that your request is honored. Individually, they can even spend money without authorization — up to a limit, to do special favors for you.

KM Adds Value

Buckman Laboratories, based in Memphis, TN, offers another example of a KM approach for creating and sustaining customer intimacy. Launched by Bob Buckman (chairman and CEO emeritus) in the early 1990s, it developed a KM system, dubbed K'Netix, which helped to enable a 50 percent boost in the percentage of sales from new products.² Buckman's operating profit per employee rose 93 percent, while sales per associate jumped more than 50 percent. Buckman is a leading manufacturer of specialty chemicals for aqueous industrial systems and provides products and services for the pulp and paper, leather, water treatment, formulator chemicals, coatings and plastics, wood treatment, and agricultural industries.

After reexamining its business model relying significantly on product leadership about ten years ago, Buckman transformed its approach by the mid-1990s to a customer intimacy approach. The K'Netix system for knowledge sharing was leveraged to provide customized solutions for customers in global markets. With the geo-

graphically dispersed customer base, it was evident that Buckman representatives needed to quickly deliver local solutions. So the sharing of specific knowledge and solutions from lessons learned halfway across the globe became a driving force and provided a market advantage to their customers. Its customers receive a customized version of their product mix. This personalized list of products and services is tailored to that customer.

Although the new customer intimacy approach was well-received by customers, the company also realized the need to present a single, unified approach globally. They developed a number of standardized business processes based on expert knowledge of customer needs. For example, Buckman created a Transition Workshop process to assist new customers during the transition of having Buckman Laboratories as a supplier. They sought to avoid the confusion or disruption that can accompany the switch to a new supplier as well as the unease and uncertainty involved in any change. This process has proved to be a competitive advantage. Over time, as additional processes were created and refined, the company developed a suite of customer processes such as a planning process for customer meetings. Some are used at certain points in the customer relationship; others are used on an ongoing basis. Most of these processes are visual, which boosts the potential for successful adoption by sales associates as they explain processes and products to customers.

In addition to the processes created at Buckman Laboratories, the company also introduced the After Action Review (AAR) process. Through benchmarking with the U.S. Army, Buckman incorporated the AAR process that seeks to capture lessons learned immediately after an event or action. All participants are asked to give their views of what happened so that the organization can learn and improve their performance in the next similar event. The company modified and adapted the AAR process to the Buckman culture, with more visual representation to increase associate

buy-in. Buckman also benchmarked with Sprint and British Petroleum in this quest for customer intimacy. Added references included the book *Learning to Fly* by Chris Collison and Geoff Parcell, as well as *Common Knowledge* by Nancy Dixon.

Internal marketing proved a key factor in getting the AAR adopted internally. For example, they created zippy graphics to promote greater acceptance and use of the AAR, renamed the Buckman AAR or BAAR. The related form could be used electronically or as a printout. It was translated into several languages, and then launched initially through managers with flyers and a coaching guide that was distributed at corporate headquarters as well as in operating companies around the world. The BAAR process was later incorporated into end-of-project reviews, financial report preparation, and other uses.

Some of Buckman's customers have called on the company for help in setting up their own KM approach. Customer relationships deepen through discussions of business strategies and business drivers, and KM expertise also draws the attention of potential customers.

Among the learnings from this customer-focused KM approach at Buckman are:

- Design simple, repeatable processes that are easily understood and used by associates and customers.
- Continuous improvement is needed; allow for unanticipated benefits and modifications to your approach as customers' needs and your business needs evolve. Understand that you will never have all of the answers.
- Involve and educate all levels in your campaign for customer intimacy.

If you would like to learn more about the effort at Buckman Laboratories, Bob Buckman has written his own book, *Building a Knowledge-Driven Organization*, published by McGraw-Hill in April 2004. His discussion is focused on preparing Buckman Laboratories for the future as an organization driven by knowledge rather than by processes and structures.

Conclusion

A key tenet of the market disciplines approach is that an organization can only excel in one value proposition. As Treacy and Wiersema put it, "... no company can be the best at everything." Nevertheless, it is true that companies must also perform reasonably well in the other disciplines. Consequently, regardless of the value proposition of your company, you need to be aware of the other two and dedicate resources to them. We will cover the Product Innovation KM approach in the next article.

Editor's notes: The 2004 North American Most Admired Knowledge Enterprise (MAKE) awards were recently announced by Teleos, which has been instrumental in recognizing excellence in KM deployment for the past six years. Buckman is a member of the Global MAKE Hall of Fame, along with only 18 others and has been a winner for four out of six years. Raytheon was a MAKE finalist last year and is recognized as a winner in 2004. The 2004 North American winners, in alphabetical order, are: Accenture, American Productivity & Quality Center, Buckman Laboratories, Dell Computer, Hewlett-Packard, IBM, Intel, McKinsey & Company, Microsoft, and Raytheon. Some of the Buckman Laboratories information in this article was covered in, "The Evolution of KM at Buckman Laboratories," by M. Sheldon Ellis and Melissie Rumizen, in the March/April 2002 issue of Knowledge Management Review.

*Melissie Rumizen, Ph.D. is knowledge strategist at Buckman Labs. She created and maintains the Buckman Laboratories knowledge management website, www.knowledge-nurture.com. Her experience includes 20 years as a linguist and benchmarking/KM specialist with the U.S. Army and the National Security Agency. She wrote the book, *The Complete Idiot's Guide to Knowledge Management* (published by Alpha, a Pearson Education*

Company, a CWL Publishing Enterprises Book, Madison, WI, 2002) and she was a featured speaker at the 2002 AME Annual Conference in Chicago.

Bill Baker recently retired as knowledge management and benchmarking champion, Raytheon Company. He is a member of the AME Southwest Regional Board, served as program chairman of the 2002 AME Annual Conference in Chicago, and was a presenter at the 2003 AME Annual Conference in Toronto. He is the conference chairman for the AME 2005 Annual Conference in Boston and is a member of the Target editorial board. His experience includes more than 20 years of manufacturing management in

space systems, missiles, and night vision equipment prior to focusing on benchmarking and knowledge management for the past ten years.

Footnotes:

1. The Baldrige Criteria categories are: 1) Leadership; 2) Strategic Planning; 3) Customer and Market Focus; 4) Measurement, Analysis, and Knowledge Management; 5) Human Resource Focus; 6) Process Management; and 7) Business Results.
2. Steve Buckman succeeded Bob Buckman as CEO in 1996, and Kathy Buckman Davis has been chairman of the board since 2000.

© 2004 AME® For information on reprints, contact:
Association for Manufacturing Excellence
www.ame.org



In Memoriam



Larry Higgason, one of AME's founders, died March 12, 2004. Long before the Association for Manufacturing Excellence was formally chartered in 1985, he was active with our predecessor group. In 1980 he arranged with Ford Motor Company, then his employer, to present

the first full conference on what we now call Lean Manufacturing in Ford World Headquarters Auditorium. The featured presenter was Fujio Cho, now president of Toyota. Shortly afterward, he produced a video about the new direction of manufacturing with explanations by Ken Wantuck and Len Ricard (also deceased); it was widely circulated and influenced auto industry executives to begin moving toward the production systems they have developed over the past two decades.

Larry was an organizer. He did much of the detail work on AME's incorporation, bylaws, selection of an office, and other activities necessary to function as a formal organization. He did the same for the Automotive Industry Action

Group (AIAG), which was founded before AME, and which he served with distinction for many years. And he was instrumental in the start up of another group well-known today, the National Center for the Manufacturing Sciences in Ann Arbor.

After AME's founding, Larry was a member of our first board of directors, and for several years he was the president of the Great Lakes Region. His ambition was to sustain a high level of communication between automobile manufacturers and those in other industries, but that remained always out of reach.

Those of us who worked with Larry will miss his cheerful demeanor, his ability to bridge the gaps between different groups, and his unflagging boosterism for the University of Colorado football program.

Robert W. Hall is editor-in-chief of Target and a founding member of AME.

© 2004 AME® For information on reprints, contact:
Association for Manufacturing Excellence
www.ame.org

