



High-Yield Methods
A world leader in Outside-In Process Design.

Outside-In Process: The New Path to Customer-Centricity

By Dick Lee, High-Yield Methods

Peter Drucker famously opined that the greatest risk to organizations was neither doing the right work wrong nor doing the wrong work, but not seeing or reacting to profound change occurring around us. Today, we're in such a period of transformational change, with a powerful confluence of forces driving up the power of customers in buyer-seller relationships—and correspondingly depressing the potential for sellers to stay competitive while putting their own interests ahead of customer interests.

That this change is occurring is almost beyond debate. But how to effectively respond to this sea change is not only a matter for debate, but a source of great frustration for sellers. Fortunately, a growing group of companies is showing the way by proactively treating the rise in customer power as an opportunity rather than a threat—and using an approach becoming known as "Outside-In Process" or just "Outside-In" to build bridges extending out to customers.

Gilead Sciences puts customers first

Since 1996, when it brought its first commercial product to market, Gilead Sciences has been among a group of companies providing pharmaceuticals to treat medical problems resulting from HIV-AIDS. But in 2006, Gilead leapt ahead of the pack by introducing a new drug developed not just for medical efficacy, but to improve quality of life for AIDS sufferers while also increasing patient compliance with following what had been an extraordinarily complex drug regimen.

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Gilead stepped outside of outcomes data and all the standard product development protocols to see medication through patient and physician eyes. And what it saw was patients taking its own "drug cocktail" in 17 different daily doses that required exact sequencing, including some via IV. And what Gilead also saw were patients unable to follow the regimen and falling off their medication as a result. Classic Outside-In vision through customers' eyes. And classic Outside-In customer problem identification that led to both a medical breakthrough and a customer breakthrough.

Adding value to customers in ways that add value back to the company

In 1996, Gilead introduced a "next phase" AIDS medication patients could take in a single daily dose. The new drug, Atripla, vastly improved patient quality of life. It vastly improved compliance. And it has given Gilead an 80% market share of medication prescribed to newly identified AIDS and HIV positive patients, despite introduction of directly competing, single dose products from larger competitors.

Atripla has dramatically grown Gilead's revenue, along with producing near 40% profit margins. Plus, manufacturing one medication is far less expensive than making 17, matching revenue gains with cost reduction. But Gilead was not finished. Since 2006, Gilead has introduced single dosage treatment for hepatitis-B patients, who had to follow a similarly complex medication schedule, and has initiated development of a similar medication for hepatitis-C.

Achieving customer-centricity

Through Outside-In, Gilead has become a customer-centric company specializing in quality of life and compliance as well as quality efficacious treatments. However, a common first reaction might be, "How obvious." And a second might be, "Nothing much to it."

Gilead did experience a blinding flash of the obvious. But untold numbers of "obvious" solutions to major customer problems go unnoticed because companies can't see through customer eyes—or are afraid to. Outside-In forces the issue by starting with the customer—not the product or the company or sales goals or profits.

"Nothing much to it?" Au contraire, there was a whole lot to it. Having helped many a company through this type of transformative change, I can reel off a list of likely barriers Gilead faced: reorganizing R&D to focus on drug delivery, a very different discipline than

traditional pharmaceutical research; changing support staff roles; laying off manufacturing staff and management; repositioning the company; and that's just for starters. What Gilead achieved required transformational change, which stresses organizations and often tests their resiliency? No surprise that so many organizations limit themselves to incremental change.

What's new here?

As you've almost certainly recognized, some organizations have employed Inside-Out thinking since their inception, as has U.S. department store chain Nordstrom's, or at least for many years. But two things have changed.

First, Outside-In today extends far beyond identifying opportunities. While full scale O-I starts by aligning strategy with customers—it continues by next aligning process with strategies and then technology with process—in that order. More specifically, following opportunity identification O-I determines "what" work has to be done by "who" in order to turn opportunity into reality. This strategic step defines organizational change as well as changes to workflow and information flow. Then O-I defines "how" the work should be done and the technology enablement required, the tactical side. Not only does Outside-In expand the scope of customer-centric thinking to include implementation; but it also stretches traditional boundaries of process to include the "what" and the "who" plus technology support—beyond just addressing the "how." And that's why we call it "Outside-In Process."

The second change is the volume of Outside-In occurring, which before long will become a wave (I couldn't bring myself to use the overused, over-dramatic term, "tsunami"). A number of organizations have already completed the migration from "inside-out" (company-centric) to Outside-In. Others are opportunistically starting to migrate. And some laggards within their own industries have moved or are moving defensively, to avoid the fate of Circuit City, CompUSA, WAMU (Washington Mutual Bank), General Motors and Northwest Airlines—all notoriously inside-out companies insensitive to customer needs.

Examples of proactive, Outside-In companies

Rather than just "name names," I also want to touch on the hurdles these companies using O-I as their route to customer-centricity faced or are facing. While achieving

customer-centricity is a noble goal—even a necessity for many companies—it's not easy. It requires transformational change. On the flip side, sticking to incremental change doesn't get you there. Not even close.

Amazon.com may have achieved Jeff Bezos's dream of becoming the world's most customer-centric company. And Amazon had the advantage of starting from scratch with nothing preexisting in the way—except for a pervasive business culture that believed companies went broke by trying to be too nice to customers and became successful by rigorous cost control and a laser-like focus. But Bezos understood before customers did the comfort level customers would feel with Amazon sourcing whatever they need to buy (almost) instead of dealing with scores of online merchants, including some not trustworthy. He also understood that the best way to keep customers is by continually finding new ways to offer them value. These were hardly popular concepts when he started Amazon. And for straying from conventional "wisdom," Bezos and Amazon took a pounding from pundits and analysts before proving them wrong.

Best Buy made if not a 180 degree shift, then a 150 degree turn from a "cash and carry" electronics discounter to a combined product/service provider that supports every facet of customers enjoying high-tech electronics, with some appliances thrown in for good measure. To get there, Best Buy had to re-staff the stores with better trained, higher paid employees; bring in substantial new management expertise, redesign stores from the ground up, go to store plans that flexed with local demographics and take a huge financial risk on a then untested concept of "higher touch" electronics retailing. But Best Buy senior execs banked on their understanding of how customers (including small business customers) really wanted to buy electronics—and customers rewarded them by leaving competitors in droves, until the two primary U.S. competitors collapsed.

Fed-X has been an Outside-In company from the day the first Dassault Falcon flew off from Memphis back in 1971, and it reaped the rewards. But in 1998 Fed-X chose to break its own air courier business model by acquiring the parent of both Roadway trucking and RPS (Roadway Parcel Express, formed to compete against UPS). The customer problem the acquisition solved was visible every day at hundreds of thousands of shipping docks—one pile of small parcels (under 60lbs.) for priority air shipping by Fed-X; a 2nd pile of small parcels for routine ground shipping by UPS; and a 3rd pile of larger shipments, including single packages over 60lbs., to be picked up by various LTL (less-

than-truckload) carriers that serviced varying city pairs. For logistics managers this meant: multiple types of waybills and manifests to complete; multiple tracking systems (or no tracking); angst and errors from trying to price shipments to attach shipping charges to invoices; and three different pick-up vans, often jockeying for space at a single loading dock at the same time. But once Fed-X melded the three services into one, logistics could have just one pile of shipments for ground and air, including packages up to 150lbs. UPS, a totally inside-out company at the time, never saw the opportunity, despite seeing the three piles every day, because they were seeing the piles from their point of view, not the customer's.

All these cases represent achieving customer-centricity through transformational change from inside-out business practices—plus, overcoming inertia and defying yet more conventional "wisdom." In the CRM space, there's a pejorative term, "boiling the ocean," to describe asking companies to change too much. Supposedly, attempting "excessive" change leads to certain failure and death by firing squad. Yet any company striving to achieve customer-centricity has to switch from the inside-out perspective to Outside-In—which takes "boiling the ocean."

Feeling the urgency for change will help some companies clear the hurdles. Not feeling the urgency for change will cause others to take face plants on the track—or wither away at the starting blocks.

Reactive cases

UPS was forced Outside-In (or else it would have gone upside down) by Fed-X's ground transportation acquisition. For an extraordinarily routinized and standardized company, that meant adopting a new business model requiring disruptive process change. More recently, Sprint was on the slippery slope, put there by inside-out thinking, including deplorable customer service. Its new CEO is taking an Outside-In view of the business to try to dig out of the hole. Too late? Maybe, maybe not. Forgiveness doesn't always come easy. Sometimes it doesn't come at all. And speaking of forgiveness, General Motors is struggling for life after bankruptcy—and trying to overcome an almost impermeable inside-out culture. Getting to Outside-In is a prerequisite for winning back customer trust. So far, reports coming out of GM have been mixed. At best.

What are you waiting for?

Sure Outside-In takes work. But don't wait for an industry competitor to go there first. Forced change is so much harder than proactive change. And don't wait until it's too late and suffer the ultimate change. The Outside-In train is leaving the station, likely populated by a competitor or two or four. It's time you hopped onboard for the journey to Outside-In.

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