The history of most successful firms and brands begins with a strategy designed from the outside in. With this approach, the management team steps outside the company and looks first to the market. What do customers need? How and why are customers changing? What can we do to better solve their problems and meet their emerging needs?

This is the story behind the successful rise of Liz Claiborne Inc. in the fashion world. Liz Claiborne was founded in 1976 as a fashion design company that sold professional women’s clothing through high-end department stores. The company identified a new market segment: women who needed clothes to wear to offices as they entered the workforce. As Claiborne herself noted: “The goal was to clothe the working American woman. I was working myself, I wanted to look good and I didn’t think you should have to spend a fortune to do it.”
Seeing every aspect of the company's strategy from the customer's point of view, Liz Claiborne made clothes that actually fit the shape of women's bodies, designed clothes as collections that made for easy mixing and matching, and offered “breakfast clinics” for women to attend before going to the office.

Retailers were required to buy entire collections and display them in prescribed ways, essentially creating a store within a store. Compared with high fashion, the company was also reasonable on price, using low-cost overseas production facilities, so that customers could be confident that they didn’t need to shop around to get a fair price. This strategy allowed Liz Claiborne to build a trusted brand among career women who didn’t have a lot of time to shop. By 1991, sales had reached $2 billion, net income hit $218.8 million and the stock price was at an all-time high.

**Strategy Success Paradox**
Following an early and sometimes long-standing market success, firms may succumb to inside-out thinking. Complacency and arrogance lead to a turning inward that focuses on protecting the status quo and extracting the maximum short-run return from current assets. Instead of seeking new sources of value for current or new customers or compelling growth opportunities, the emphasis during the strategy dialogue shifts to asking, How can we exploit our current brands, reduce costs, gain more share and improve productivity? These are worthy questions; however, in the absence of a set of complementary market-centric questions, they can have the effect of gradually disconnecting the firm from customer changes and emerging competitive threats.

By the end of 1994, Liz Claiborne was in trouble. The early 1990s saw an increased trend toward casual work attire that the company completely underestimated. In addition, retailers were suffering liquidity problems during this time and cut staff to the bone—employees who knew how to display them in prescribed ways, essentially creating a store within a store. Compared with high fashion, the company learned that women were playing more roles throughout the day, so they needed clothes that were more versatile than in the past. It also changed its supply chain to deliver new designs to market faster in order to please its fashion-conscious consumers. The company also revisited its business model to offer retailers, its first customer, services for customers.

In a complete transformation, by the end of 1997, the company had regrown its sales to $2.4 billion and its net income to $184.6 million and many not so successful ones—looking for patterns and commonalities. Our analysis leads us to conclude that generating economic profits over the long term involves strategies that are built and renewed through a customer value lens, and illuminated by deep market insights. These outside-in strategies are achieved through four customer value imperatives:

- Be a customer value leader.
- Innovate new value for customers.
- Capitalize on the customers as an asset.
- Capitalize on the brand as an asset.

Why do companies guided by outside-in strategy thinking deliver better long-run performance? They always know what constitutes value to their customers. As a result, their actions are targeted and precise, rather than wasteful and unfocused. These companies are ready sooner, responding quickly to market shifts and delivering superior growth by pursuing a full spectrum of innovation pathways. They build valuable brand and customer assets that are, in turn, leveraged and protected to maximize returns to the firm's bottom line.

The paradox is that successful firms tend to turn their backs on the customer moves that contributed to their success. Instead, they chase volume, exploit what they can do, and emphasize efficiency and cost cutting. How can the pull of inside-out thinking be averted? Liz Claiborne did it by reclaiming a focus on what working women wanted, and designing clothes that fit those needs. For example, the company learned that women were playing more roles throughout the day, so they needed clothes that were more versatile than in the past. It also changed its supply chain to deliver new designs to market faster in order to please its fashion-conscious consumers. The company also revisited its business model to offer retailers, its first customer, services to install and maintain in-store fixtures that showed end users how products could be coordinated for mixing and matching. In a complete transformation, by the end of 1997, the company had regrown its sales to $2.4 billion and its net income to $184.6 million.

What guidelines can we offer firms trying to create or maintain an outside-in approach? We will answer this question by first showing why marketing should be accountable for the aforementioned imperatives and explaining the imperatives further, and we'll finish by sharing lessons about
how marketing can lead the firm to be outside in.

Who Should Be Accountable?
The four customer value imperatives are the responsibility of the entire C-suite, and require the engagement and understanding of every part of the organization. If senior management is not fully committed, then inside-out thinking will inevitably take hold, customer value will wane and profits will erode. Also, executing on the four imperatives requires every part of the firm’s governance and operations— incentives, hiring decisions, finance, sales and beyond—be properly aligned to the pursuit of superior customer value. Employees must see clearly how their activities contribute to that value. For example, the logistics/information-technology group enhances customer value when it works with a major account to coordinate supply chains. Service operations improve customer value by learning to anticipate and solve service problems—even before they happen.

Yet if everyone in the C-suite is responsible, then no one may be accountable in the sense of being answerable for these actions. The potential cost is a lack of strategic consistency, leading to ambiguous value propositions and reactive decisions. Increasingly, firms are recognizing this reality and holding the CMO accountable for orchestrating all the company’s activities on behalf of the customer. However, the key issue is the role and not the title. In many firms we’ve studied, the person holding the title of CMO or head of the marketing function does not have the authority, the budget or the ability to succeed in this role. The contribution of the marketing function, and especially the role of the CMO, must be earned.

Customer Value Imperatives
1. Be a customer value leader. Customer value leaders outperform their rivals by delivering superior value to a distinct segment of the market with a business model tightly fitted to its purpose. When we look at most markets, we see the formation of three distinct customer segments:
   • performance value buyers, who seek a product that meets their demanding requirements for quality, fashion or functionality;
   • price value buyers, who simply want the best price for an adequate level of performance or service; and
   • relational value buyers, who put a premium on total solutions that meet their needs beyond product attributes,

in the 1980s, Nike married its performance advantages with a fashion sense that swept the world. From this beginning, it has introduced technological innovations such as cross-trainers and Air Jordans. Its newest products have upheld that reputation: Flywire footwear that is super lightweight and uses threads stronger than steel, Pro Players sportswear that wicks and breaths with a second-skin fit and the SUMO2 5900 driver that takes a golfer’s moment of inertia to exceptional levels.

• Zappos is a relational value leader in shoes, apparel, handbags and related products. It sells the same products as many other firms but creates strong brand affinity by going to extremes in customer service: free shipping on all purchases (and both ways, so that customers feel comfortable ordering multiple sizes and returning what doesn’t fit), a 365-day return policy, staffing its call center 24/7 and surprise upgrades like overnight service. Like all relational value leaders, Zappos has intensely loyal customers and gets surprise upgrades like overnight service. Like all relational value leaders, Zappos has intensely loyal customers and gets approximately 75 percent of its sales from repeat customers. A strong customer-focused culture and the best customer-relationship management system in the retail trade underlie these strategies.

• Family Dollar Stores is a price value leader. This “small-box” discounter leads its industry by staying tightly focused on its budget-constrained customer. Family Dollar gained its advantage because it acted on an insight that customers spent about the same amount—$10 per shopping trip in 2004—whether they shopped once a week or once a month. Clearly, the way to boost sales was to increase the frequency of shopping trips. To accomplish this, Family Dollar focused on becoming the place that people would go when they ran out of grocery staples like milk. This was not easy to do; it meant adding refrigerators and redesigning the supply chain, while keeping costs low. Direct competitors were slow to see the same opportunities for creating...
customer value. Because the smaller Family Dollar Stores were more convenient for quick shopping trips, they were able to avoid direct competition with much larger Wal-Mart stores.

2. Innovate new value for customers. While necessary, it is not sufficient for firms to only win the battle for current customers’ needs. Thus, the second customer value imperative is to drive growth by innovating new value for current customers and attracting new customers. If companies want to maximize profits over the long term, they have to be not only a customer value leader today, but a customer value innovator for tomorrow. This incessant push for innovation should be fueled by superior market insights into how customers are changing and what competitors are doing. As a result, customer value innovators are able to anticipate where markets are going and preempt challengers who are trying to match or leapfrog them.

Customer value innovation is not restricted to technology advances. It requires a full-spectrum view of innovation, including new markets, product features, pricing models, business models, supply chains and so on. Customer value innovators see opportunities for growth along every dimension of a competitive strategy. They pursue new geographies and new customer segments, create new and enriched customer experiences, rethink the profile of features in ways that competitors can’t match, and reconfigure the way they create and capture value. Customer value innovators also see that profits are maximized through a good mix of incremental innovations that yield low returns at lower risk, augmented by more ambitious undertakings into adjacent markets.

Netflix is an example of the latter. A dot-com survivor, Netflix transformed the movie rental market with an online, rent-by-mail service for DVDs that has no due dates or late fees. Its value proposition is access to a vast library of DVDs and fast, free delivery. By 2008, Netflix had a strong brand that dominated the online market, a highly satisfied customer base and unmatched expertise in providing personalized movie recommendations. At this point, the company leveraged these valuable resources to make a profitable move into the video-on-demand market. By all accounts, including the demise of Blockbuster, the move has been a success for Netflix.
3. **Capitalize on the customer as an asset.** Companies that master this imperative have found a way to turn customer value into valuable customers. For these customer asset managers, customers produce profits by purchasing more in a category, purchasing across categories, purchasing new products, responding faster to company marketing activities, defecting less to the competition, investing in the relationship and promoting the company more by word of mouth and word of mouse. These behaviors influence the level, speed and volatility of company cash flows. These profit effects are why managing customers should be viewed as managing an important asset of the company, despite the fact that customers are not owned and are not on the balance sheet.

Insurance company United Services Automobile Association (USAA) has a customer retention rate of 96 percent in an industry that averages 80 percent. This relational value leader has built its strategy on excellent service with a deep connection to its customers’ (members of the military and their families) lives. By synthesizing demographic information, purchasing behavior and key life events—such as deployment, the birth of child or a marriage—USAA customizes both the products it offers and when and how the offer is made. This strategy has produced strong relationships with customers, who have given the company permission to enter all aspects of their financial lives—from banking to insurance products to investment services. When a firm has moved a customer from focusing on a single transaction or purchase to a sense of loyalty to the company, profits accelerate. For performance value leaders such as Nike, customers trust that the company will improve the technologies and designs used in its products. For the price value leader Family Dollar Stores, customers give their loyalty in return for low prices and convenience.

4. **Capitalize on the brand as an asset.** Brands can also be valuable assets for companies. However, many companies fail to capitalize on the brand as an asset. A strong brand makes a credible promise to reliably deliver a meaningful benefit. GE’s “bring good things to life,” Apple’s “think different,” and Volvo’s “safety” lay claim to value propositions that attract customers, reduce perceived risk and simplify the choice process. Strong brands don’t automatically follow from strong value propositions, however. Brand asset managers devote sustained attention to three issues: building the brand by adopting a long-run investment perspective, protecting the brand against competitive attacks and then optimizing the brand asset’s value by leveraging it prudently.

Brands can be destroyed by timid execution and confused strategies. An especially unfortunate example of what not to do is General Motor’s offshoot Saturn brand, which emerged in 1991 as a “different kind of car company” and was finally shut down at the end of 2009 as part of GM’s restructuring. It was an early success with its strategy of no-haggle prices, a customer-friendly dealer network and affordable cars. However, sales peaked in 1994 as Saturn lost focus. The slide in the value of the brand asset started when the original car model was not replaced for a decade. Positioning became further confused as Saturn lurched from one brand message to another. In 2001, it became the “forward-thinking company,” and when that didn’t resonate, the new slogan was a meaningless “like always, like never before.” Then the once-affordable brand name was abruptly attached to a large sedan with Lexus-level features. This might have worked had Saturn spent several years reaching out to affluent buyers, but it had not. Saturn was so compromised by erratic decisions over its short life that its brand promises were not believable.

**Our analysis** leads us to conclude that generating economic profits over the long term involves strategies that are built and renewed through a customer value lens, and illuminated by deep market insights.

**Marketing Leader Implications**

Having watched many top marketers, we see a number of key factors at play in their successes and failures. Organizational strategies and individual traits that top marketing leaders use to earn their seats are on display in stories of Andrea Ragnetti and Geert van Kuyck, formerly the consumer lifestyle CEO and CMO of Philips, respectively, and Stephen Quinn, CMO of Wal-Mart.

**Gain credibility and buy-in.** Unless the CEO believes marketing is a priority, and is willing to act on that belief by supporting the CMO with authority and resources, the game is over before it starts. This means making an organizational commitment that will not falter at the first stress point. As Ragnetti said, “Mr. Kleisterlee [the CEO] may not be a marketing expert, but he is someone who believes that Philips, for all its 100,000 technology patents, must become
When a firm has moved a customer from focusing on a single transaction or purchase to a sense of loyalty to the company, profits accelerate.

under pressure to show results after changes to field operations and store upgrades had failed to deliver improvements. Ragnetti was charged by Kleisterlee with turning Philips into the “P&G of its space.”

While the CEO’s support is crucial, broader buy-in from the rest of the C-suite is also essential. Because the work of marketing had to happen through the technologies at Philips and through the stores at Wal-Mart, both leaders knew that successful marketing meant managing cross-functional relationships.

**Be the expert on the market.** Both Quinn and Ragnetti drove strategy with rigorous market insights. At Philips, all new products were to be driven by market insights. This was a big shift for a company that, in the past, had relied on strong science but had a weak understanding of the customer. Ragnetti started with major investments in market insight. He also formed the “Simplicity Advisory Board,” made up of healthcare, fashion, design and architecture specialists from outside Philips. The board was created to help Philips rethink what its customers wanted. Van Kuyck brought market insights and operational customer accountability, in the form of the Net Promoter Score metric, to all divisions and all areas of the company.

At Wal-Mart, Quinn faced a strong merchandising culture that believed that knowing what worked in the store was a good customer insight. Quinn invested in a more programmatic approach to insights as a means of getting the customer to cross into more aisles when visiting Wal-Mart. This involved deep observation and interaction with customers as well as large-scale surveys performed on a regular basis to understand trends.

**Focus on the customer.** Both Quinn and Ragnetti advocated making the customer the essential focus of strategy. Preferences were driven by what was right for the customer, not what was expeditious or easy. Quinn noted, “We lost our way and it was as simple as focusing on our customers to get us back on track.” Ragnetti understood that growth efforts had to be customer-centric. He noted: “In the past, Philips just developed the technology and hoped someone would buy it. Now we are starting from the point of discovering what exactly customers want a product to do.”

Quinn took heat for many things—the new company position, the new logo—and he had an uphill climb to prove the value of marketing at Wal-Mart. However, he never made it about what he wanted, only what was right for the customer and therefore right for the company. Quinn noted, “I didn’t want to make Wal-Mart into Target, just a better Wal-Mart.” Ragnetti, likewise, faced enormous resistance from scientists and engineers who were entrenched in technologies. By keeping his personal needs or any focus other than the customer off the table, he gained credibility for his ability to find successful applications for good science within Philips. Then van Kuyck continued with this same company-first viewpoint. He said, “Earning it [respect for marketing, in this case] has a lot to do with not wanting to own it.”

**Obsess about talent.** Because employees are the agents of a firm’s strategy to compete on customer value, they will be the reason that it succeeds or fails. This means that marketing’s contributions will need to come, in part, from wisely selecting, training and retaining employees and managers who can flourish within this strategy. Marketers need to work with human resource professionals to identify the critical skill sets and develop a spotting, hiring and development process for talent to ensure that the best people are in place. In an organization dominated by merchandising and operations, Quinn had to build a marketing organization for Wal-Mart.

Ragnetti took a different approach but with the same effect. One of Ragnetti’s key hires was van Kuyck as senior vice president of global marketing management. Together, Ragnetti and van Kuyck focused on talent that would adopt a strong customer vantage point.

**Accept accountability and advocate for metrics.** There is no foreseeable future in which marketing won’t be expected to demonstrate acceptable returns on marketing investments. At every turn, marketers will have to combat
short-termism, which focuses on immediate share and revenue possibilities at the expense of long-run enhancements of the customer and brand assets that drive economic profit. Both Quinn and Ragnetti knew that they had been hired to produce profits for their companies. As a result, both men were willing to have their efforts measured and deeply scrutinized.

Quinn believes that many marketing leaders have an aversion to measuring their performance through metrics and that most just do not want to be evaluated. He said that metrics are important for making sure that “getting it right is more important than looking good.” The focus on NPS at Philips helped make an outside-in approach to managing the company a reality. Although other metrics were also used, such as brand value and revenue from new products introduced within the last two years, NPS played a key role in the cultural transformation of the company. Ragnetti was the visionary who brought a customer focus to the Philips brand and van Kuyck, the mastermind, then “bolted” this focus to the rest of the company.

**Partner with sales.** Too often, there is an adversarial relationship between marketing and sales that is rooted in mutual incomprehension of the other’s role, and in divergent goals and incentives. In reality, both win if they work together to craft the value proposition and deliver it to the customer in the selling process. Marketing needs to provide sales with better selling tools, based on a deeper understanding of segments, a robust storehouse of information about the customer relationship and the identification of cross-selling opportunities that make sales look good.

At Philips, ongoing evaluation of NPS gave sales a clear incentive to adopt a customer focus. The sales team was able to see the value of promoters and detractors for its sales levels on a daily basis. Hence, NPS was an easy sell to sales, as the salespeople saw the direct connection between customer focus and their work. At Wal-Mart, marketing was able to give merchandising, including Web sales, a better understanding of the needs and opportunities of customers, including new segment insights.

**Show relevance to the C-suite.** All of these marketing leaders understood that for the outside-in approach to become the basis for day-to-day company operations, the customer had to play a fundamental role in interactions in the C-suite and in the operational plans and ideas of all the top leaders in the firm. At Philips, the customers’ experience and rating scores entered boardroom conversations. The heads of strategy and finance began to use these approaches to drive their decisions and as this happened, van Kuyck found “marketing becoming a true business partner” and “close to the CEO’s hip.”

The same thing has happened at Wal-Mart but through different means. The currency of conversations in the C-suite now focuses on what Wal-Mart is doing for its customers, and how to do better. Metrics on these issues drove the way in which stores are evaluated and merchandising is rewarded. This brought a singular and shared view back to the customer and put marketing in a position where it can contribute to the company’s strategic dialogue.

**Driving An Outside-In Strategy**

Amazon’s Jeff Bezos recently said: “Rather than ask what we are good at and what else we can do with that skill, you ask, who are our customers? What do they need? And then you say you are going to give that to them regardless of whether we have the skills to do so” (“The Customer Is Always Right,” *Newsweek*, January 4, 2010, pp. 85-86). While competitors stick to their knitting and succumb to other temptations of inside-out thinking, marketers can lead their companies to stay focused on the customer. The stories of Ragnetti, van Kuyck, Quinn and countless other marketing leaders show that earning and retaining the right to lead the customer value imperatives means that marketing leaders have to, first and foremost, be the primary advocates, defenders and implementers of outside-in thinking. **MM**