Eye on the customer: breaking away from the inside-out mindset

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Almost every corporation likes to highlight being customer-oriented, customer-driven or customer-focused, at least in their external stakeholder communications. However, for many companies, customer focus is merely a part of the corporate jargon with no authentic connection to strategy, the business model or everyday practices. Moreover, many executives find it difficult to define who their organization's primary customers are. Research also shows that managers systematically fail in understanding their customers' preferences and drivers of customer satisfaction and loyalty.

Indeed, many companies seem to eventually lessen their emphasis on customer focus and give more priority to internal considerations than to customer preferences in their decision-making. This focus on identifying the company's unique capabilities and focusing on leveraging them is an inside-out approach to strategy (Hooley *et al.*, 2001) and puts the organization's current strengths, resources and capabilities at the starting point for strategy. In contrast to the inside-out approach, an outside-in approach to strategy moves the perspective of decision-making to external realities: it starts from the organization's customers and what is relevant to their needs rather than what the organization is "good at." An outside-in approach is crucial to transform organizational decision-making and activities to be more in line with the marketplace so that the organization is better positioned in relation to customers' actual needs, competitor initiatives and emerging marketplace trends.

The predominance of inside-out decision-making is because of many factors, ranging from corporate culture and individual mind-sets to everyday practices and even the language used to describe and talk about customers (Day and Moorman, 2010). Focusing on cost-cutting and performance enhancement initiatives will deliver direct results in the short term, creating a positive feedback loop for an inside-out orientation. Multiple organizational layers stand between customers and top management, meaning that other stakeholders are given more consideration in decision-making than customers. Indeed, one study found that, on average, Chief Executive Officers (CEOs) spend as little as 3% of their time with customers, although the time spent with customers varied greatly among CEOs (Porter and Nohria, 2018). They often spend more time talking to consultants than customers. Day and Moorman (2010) suggested that contemporary strategy theories and education are partly responsible for managers' focus on internal aspects of the organization rather than external factors. For instance, resource- and competency-based theories imply that organizational success results from acquiring, developing and leveraging distinct and inimitable resources. This essentially means that there is a strong tendency for managers and organizations to think and act in an inside-out way.

But an inside-out focus can be dangerous as the organization may lose sight of what is happening in the marketplace. An overreliance on the internal perspective creates a risk of

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distancing the organization from its market, customers and other external stakeholders. As a result, the organization may be late in spotting its own vulnerabilities, latent customer needs or emerging competitors. Also, heavy investments in developing organizational capabilities are costly and create path dependency and rigidity. Therefore, even if the organization manages to spot an emerging trend in the market, rigidities can hinder its ability to adapt to that change.

While arguably both firm-centric (inside-out) and customer-focused (outside-in) thinking are needed (Yrjölä *et al.*, 2018), there is an imbalance of power between these two decision-making orientations. Building on the above-mentioned notion, the purpose of this article is to plot out pathways for managers and organizations to achieve an outside-in customer focus. We present and discuss, with the help of illustrative examples, a framework consisting of strategic questions and principles for instilling a customer-focused mind-set. The next section expands on the concepts of inside-out and outside-in orientations and explains why changing one orientation to another may be difficult. The organizing framework is then presented and discussed. A brief summary and discussion conclude the manuscript.

Inside-out and outside-in orientations

The categorization of inside-out and outside-in orientations is well established in the management literature. These two orientations have been used to characterize whether strategic decision-making, marketing capabilities and mental models start from internal or external points of references (Day and Moorman, 2010; Hooley *et al.*, 2001; Saeed *et al.*, 2015; Yrjölä *et al.*, 2018). For example, in their meta-analysis, Saeed *et al.* (2015) compared the effects of these two orientations on firm innovation performance and found, among other things, that an outside-in orientation contributes to better innovation results in high-tech industries; however, the same was found to be true of an inside-out orientation in low-tech industries.

As its name implies, inside-out decision-making starts with managers identifying the company's unique, hard-to-imitate resources and capabilities. They expect to find ways to leverage these current assets (e.g. finding new buyers for current products), maximize market share, improve productivity and develop capabilities (Yrjölä *et al.*, 2018). Therefore, inside-out decisions typically involve human resources, cost control, financial management and technology development (Hooley *et al.*, 2001).

Outside-in decision-making, on the other hand, starts from external aspects as managers identify and interpret customer and competitor behaviors, as well as larger trends evident in the business landscape (Saeed *et al.*, 2015). Using these insights, management goes on to develop new capabilities and offerings that anticipate, match and influence shifts in the market (Day and Moorman, 2010).

Moving from an inside-out, product-centric mind-set toward an outside-in, customer-focused one is no easy task. One reason is that the inside-out orientation is rooted in

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organizational mind-sets, practices and language, most of which are taken for granted and are difficult to articulate and therefore difficult to change (Day and Moorman, 2010). Even when management understands the need for a customer focus, they will likely find it difficult to implement. For example, research shows that managers systematically fail in their attempts to step into their customers' shoes; instead of basing their decisions on customer preferences, managers are likely to project their own preferences as consumers (Hattula et al., 2015). Further, analyses by Hult et al. (2017) suggested that managers both overestimate the level of their customers' satisfaction and loyalty and underestimate how much customer perceptions of quality drive satisfaction.

A customer-focused mind-set

Figure 1 illustrates potential pathways toward a customer-focused change by considering four strategic questions related to competition, products, insights and metrics.

While alternative strategic questions exist (such as an emphasis on “make vs buy,” or organic growth vs growth through acquisitions or revenue model considerations), the above-mentioned four were chosen because they best highlight the differences between an inside-out, product-centric mind-set and an outside-in, customer-focused one. Product-centric companies might put too much effort into protecting their best-performing existing products and fending off close competitors at the expense of improving customer value in the long term.

How do we think about competitors?

The first question considers competitors. For large companies, especially market leaders, it may be easy to get stuck in a mind-set where the focus is on securing current revenue sources and market share, as Microsoft CEO Satya Nadella noted (as cited in Williams, 2017). The company may put too much effort into fending off competitors and too little effort in understanding what customers actually value. If “everything is defense,” the organization will miss out on opportunities to create new types of customer value or enter new market segments. Therefore, in creating and maintaining a customer focus, management should encourage the organization to think and act like a challenger. This means always striving to

Figure 1 Primary strategic principle and essential questions related to the contrast between product-centric and customer-focused mind-sets

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introduce something new and unique to the market, something that competitors do not offer.

Other questions related to competitive mind-sets involve concerns about how and when to compete. A customer-focused organization will start with the goal of creating more value for the customer – even if it means partnering with rivals. At Microsoft, Nadella has managed to change the organizational mind-set to allow the company to launch products and services on competing platforms and ecosystems, such as Mac, PlayStation and Linux. Further, in certain product areas Microsoft cooperates closely with key competitors such as Google and Amazon. According to Nadella, these types of initiatives were unthinkable in the company's past, which was characterized by a defensive stance and jealousy toward competing offerings (Williams, 2017).

Overall, competitor monitoring and benchmarking should not be done in an inside-out, defensive way. Instead, efforts must be made to view competing offerings from the customer's perspective. Starting from actual customer perceptions of the competitive landscape will provide important insights. Managers may even be surprised to find out that customers see their offering as a *complement to*, rather than a *substitute for*, a competitor's offering. One example of this is how Amazon Kindle users experienced the launch of iPad; social media insights revealed that consumers were thrilled about the availability of a Kindle app on their new iPads (Berinato, 2010).

How do we think about products?

The second strategic question pertains to the offering itself. Related to the discussion on competition, the defensive mind-set easily extends to decisions about the product portfolio. The typical line of thinking assumes that any new product launches should not cannibalize existing product positioning and/or sales revenue. While such an approach is understandable, it misses an important point. If the managerial decision-making focuses on managing products in the present, it risks not being able to create superior customer value in the future. One of Apple's guiding principles summarizes this lesson nicely: "If we don't cannibalize ourselves, someone else will" (Challagalla *et al.*, 2014, Table 4 Marketing Doctrine of Two Fortune 500 Firms, p. 10). Thus, managers should use customer value as a yardstick for evaluating potential products or services to avoid becoming vulnerable to competitors' innovations.

A larger issue related to product and service offerings is that "companies are set up to market products rather than cultivate customers" (Rust *et al.*, 2010, p. 2). This aspect of the product-centric mind-set is obvious in most companies' org charts and sometimes the mind-set is dominant in entire industries. One food industry CEO lamented (as cited in Yrjölä *et al.*, 2018, p. 544): "We get stuck thinking about the product, about the price and about the assortment, when in fact we should be able to resonate with the customer's emotions." The problem in such a product-centric approach is that a product manager for Brand A might not have the incentives to recommend that a customer switch to using Brand B because that brand is managed by a colleague – even if the switch would benefit both the customer and the company. Further, sometimes maximizing product profitability may not lead to improvements in customer profitability, as explained by Rust *et al.* (2010). Organizations may well benefit from

marketing unprofitable products if they strengthen the customer relationship in the long term.

How do we form insights?

The third strategic question involves the sources and methods for generating customer insights. In the contemporary business landscape, many companies outsource their insights from market research companies. However, there are numerous problems with this practice. For one, market research is usually commissioned to answer a specific question, which means it lacks the ability to offer genuine surprises and insights to managers. Such research will only serve to reinforce existing managerial mental models of customers and markets (Day and Moorman, 2010). This is even more worrying as academic findings already suggest that managers struggle in their attempts to understand customers (Hult *et al.*, 2017). For instance, when asked to imagine how a certain customer demographic would respond to a marketing initiative, managers typically project their own preferences instead of the customers' preferences (Hattula *et al.*, 2015).

Multiple organizational layers stand between customers and top management, distancing managers from customers and the market reality. Direct contact is vital for top managers because customers represent an independent and less biased source of information about the organization's progress, emerging industry trends and competitor actions (Porter and Nohria, 2018). One remedy for this situation is to ensure top management immersion in the market. In the most customer-focused organizations, top managers spend an allocated amount of their time (such as an hour per week or a week per year) working on the frontline and interacting with customers in call centers or retail stores (Rust *et al.*, 2010). In Porter and Nohria's study (2018), one CEO reported his goal of meeting one customer face-to-face per day, whereas another CEO allocated two days a month to customer site visits. At Microsoft, Nadella opened the company's executive retreats to external parties and invited customers and tech startups to participate.

Company information systems, sensors in products and online channels generate a wealth of quantitative data about marketing outcomes and customer behaviors, but managers should resist the temptation to take all this data at face value. Take the case of Lego, the Danish manufacturer, marketer and retailer of construction toys. For years, Lego was failing in their attempts to reach girls as a customer segment. All attempts to launch a product line targeting girls had failed in the past and company data showed that 85% of Lego players were boys (Martin and Golsby-Smith, 2017). This had created an internal mind-set of "we can't win in this customer segment." To break away from this mind-set and to move beyond the numerical data, Lego's then-CEO Jørgen Vig Knudstorp commissioned four years of ethnographic studies into how girls play. The insights from these studies suggested that girls are more interested in collaborative construction than boys. This information led Lego to successfully launch product lines targeting girls. While quantitative analytics are in vogue, Lego's case

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proves that qualitative “thick data” (i.e. contextual and nuanced data that provides answers to observed customer behavior) can be a valuable complement to quantitative “big data.”

What metrics do we use?

Finally, metrics are also critical for establishing and maintaining a customer focus. Too often, companies measure elements from a product-centric perspective in a way that reinforces the status quo rather than encourages the organization to improve the customer value it delivers. This is evident in our discussion of product and customer profitability and we will now discuss two more examples.

First, operational excellence and quality management systems enforce a tendency to understand, manage and measure quality against objective, internal standards. For instance, many organizations use metrics, such as number of process errors, number of defects or ratio of shipments made on time, to measure product or service quality. Nonetheless, though such metrics are simple to measure and communicate, they may not correspond with how customers actually perceive quality. For example, consumers use a wide variety of cues to judge how powerful a car is (e.g. the sound of the engine, the shape and design of the vehicle and even its color) rather than relying solely on objective measures such as acceleration or horsepower. More generally, the behavior of customer service personnel or the brand positioning relative to competitors may be more important indicators of quality to customers than the metrics currently in use. In these situations, inside-out measurement can mislead decision-makers. As noted by [Hult et al. \(2017\)](#), there is a potentially dangerous overemphasis on cost-cutting and efficiency in quality improvement programs and quality is not produced if the customer does not perceive it ([Day and Moorman, 2010](#)). Acknowledging this can extend discussion and decision-making from product features and costs toward more nuanced considerations ([Yrjölä et al., 2018](#)).

Second, many companies use biased metrics of growth, such as market share, to track development. Market share is a dangerous metric, as most definitions of markets are rather artificial and can prevent the managers' attention from spotting emerging competitors ([Day and Moorman, 2010](#)). Moreover, market share is a competitor-focused metric and can encourage short-term thinking that eventually affects firm profits (e.g. it is relatively easy to increase market share by cutting prices). Even simple metrics, such as revenue, can lead decision-makers astray, as a rise in revenue can result from price increases and, in the worst case, hide the fact that the customer base is actually dwindling. The best metrics to use are likely those that depend on the organization's business model, industry and product category. For instance, Microsoft's Nadella changed the growth metric from dollar revenue to growth in the number of users, a metric that better tracks how successful the company is in creating customer value ([Williams, 2017](#)). Another, more outside-in oriented metric is the share-of-wallet survey method, which expresses the ratio of product category spending that the customer allocates to the focal product or brand ([Rust et al., 2010](#)). Regardless of specific metrics, however, the general principle should be the measurement of customer perceptions and behaviors.

Conclusion

This article plots out pathways for managers and organizations to reach an outside-in customer focus. Naturally, being customer-focused is something every corporation tends to highlight, at least in their external communications or published company values. But for many companies, customer focus is merely a part of the corporate jargon without any meaning behind it. For customer focus to actually manifest itself in the organization, it has to connect to the organization's strategy, business model and everyday practices. As one co-CEO of a professional services firm lamented (as cited by [Challagalla *et al.*, 2014](#), p. 12):

The principles "satisfy your customers" or "be customer-centric" are nonsense because they have no alternative. There is no choice. Am I going to dissatisfy my customers? So you have to say something like, "Focus on this aspect of customer satisfaction," or "Try to satisfy customers in a certain way."

Therefore, this article outlines potential pathways to implement a customer focus by presenting a framework of strategic questions and principles. The framework considered four strategic questions related to competition, products, insights and metrics ([Figure 1](#)).

In respect to competition, managers should break away from a defender mind-set and the need to protect existing positions. Instead, they should instill a challenger mind-set focused on improving customer value. This may involve cooperating with competitors, as the case of Microsoft illustrates.

With product offerings, management should be encouraged to abandon the product-centered practices of maximizing product sales and product profitability and instead aim to maximize customer profitability even if it means cannibalizing existing products. This will likely be a sensitive issue in some organizations, especially those structured around product lines and product managers, but this is an issue that needs to be addressed to maximize customer profitability and ensure effective resource allocation accordingly.

Managers should be cautioned not to outsource generating insights to external market research companies. Market research companies usually gather information with established, rigorous measures and seek answers to predefined questions, such as "Which brand is your first choice (top of mind)?," thus eliminating the chance to be genuinely surprised by what the customers say and do. Further, the case of Lego shows how dangerous long-held assumptions about markets, customers and competitors can be. It is the task of management to identify and question these taken-for-granted "truths," but it will usually take some form of external expertise, such as marketing psychologists or consumer anthropologists, to find new ways of looking at customer behavior.

Finally, in terms of metrics, the general guideline supported here is to measure to what extent the organization's customers experience or perceive value and their resulting behavior. Customer perceptions of quality matter more in determining customer purchase behavior than actual, "objective" quality. Metrics do not need to be overly complicated, such as share-of-wallet and can be relatively simple, such as the number of users or

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number of long-term users. Nonetheless, the best metrics to use are likely to depend on the organization's business model, industry and product category.

Ultimately, the final question is this: How customer-focused should a company be? Before answering, managers must carefully consider that both inside-out and outside-in orientations have inherent risks and the optimal strategy may be to find a balance between the two orientations (Yrjölä *et al.*, 2018). The outside-in orientation, with its focus on understanding customers and market trends, is likely to be inefficient if too many resources are devoted to gathering and analyzing market intelligence. Inefficiencies can also emerge if the organization attempts to serve multiple outside stakeholders. This highlights the need to "choose the right customer" (Simons, 2014). Focusing solely on customers, even if they are the "right" ones, can prove dangerous, however. For example, Amazon is known to prioritize its customers so strongly that many of the sellers and content providers on its platforms suffer (Simons, 2014). Further, too much emphasis on an outside-in orientation might endanger the organization's competitive advantage, if the development of unique resources and capabilities is neglected.

The optimal mix of inside-out and outside-in orientations is likely to vary by industry, economic conditions and country (Saeed *et al.*, 2015). Finding this balance can be complicated by that fact that these two orientations are difficult for managers to detect as they are embedded in their own ways of thinking and organizational routines (Day and Moorman, 2010). As inside-out decision-making is dominant in most organizations and industries, we suggest that managers start by asking themselves the four questions related to the framework illustrated in Figure 1:

- Q1. How do we think about competitors? Are we a challenger or a defender?
- Q2. How do we think about our products and services? Are we maximizing product or customer profitability?
- Q3. How do we form insights? Are we outsourcing too much, and as a result, losing touch with the market and customers?
- Q4. What metrics do we use? Are we using internal standards or the customers' standards for success?

By addressing these questions managers can take the first step to break away from the inside-out mind-set and instill a customer focus.

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