Saying "No" to Customers

Outlandish as it may seem, it's bad business practice to do everythirrg the customer wants.

In recent years business has become more sensitive to customers' needs. Total Quality Management, spreading throughout and beyond manufacturing, proclaims that. the customer is king, that the company is in business to serve the customer, and that anything not contributing to this end is a candidate for elimination. The tools of TQM emphasize the "voice of the customer" in creating new products.

How far should we go in following our customers' desires? Consider the approaches of two of our clients that develop new devices. for the medical industry. The first client is a division of a major corporation known for product innovation. This company puts its engineers into direct contact with its customers-surgeons-to design new products, and this preliminary design activity is monitored by a product-planning committee. But the surgeons always want items beyond those approved by this committee, and they have found that the company's soft-hearted president has difficulty saying "No" to a world-renowned orthopedic surgeon who has contributed much to the company's product line. So the surgeons can circumvent the planning process by going to the president.

Our second example comes from Baxter Diagnostics Inc., MicroScan/Bartels. General Manager James H. Godsey suspected that the company already was working on more development projects than it could support adequately, so he asked us to assess its project load. We found that, on average, the company could develop its new products twice as quickly with the same total resources by working on fewer projects at a time but staffing them more intensively. We obtained this information just as Baxter Diagnostics Inc., MicroScan/Bartels entered its 1993 planning process, and it resulted in its trimming 1993 project starts to 21 from 41.

Which of these companies is doing a better job of providing the new products that its customers want? On the surface, the company that takes on all customer requests immediately would seem more customer-focused than one that is cautious about accepting new work. But other factors should be considered.

Keeping Pace with Fickle Customers

As a consultant specializing in the process of developing new products, I often deal with customer-satisfaction issues, encouraging clients to get their engineers, not just their marketers, into direct contact with customers to understand customers' new-product needs intimately at the outset of a development project. All too often, the engineers get involved with customers reactively, being sent into the field to fix problems already designed into products.

However, there is a problem with this laudable objective of listening carefully to customers: Different customers want different features or types of performance. In computer printers, one user may desire speed above all else, the next wants compactness, and the third needs absolute reliability in a hostile environment. Moreover, customers are fickle: The customer who wants speed today may require office-system compatibility tomorrow.

Enter another complication. Customers want manufacturers to supply this product variety quicker than ever before. Being the first to supply a new product has definite strategic
the first product on the market often gains a foothold in establishing standards or getting referrals. Look at the grasp that Lotus l-2-3 has on the spreadsheet market, even though competing products apparently are superior. In addition, there is financial value in being quick to satisfy customers. I have calculated many cases in which a few months of product-introduction delay translated into losing a substantial portion of a product's profitability.

Now, let's get back to our main question: Which of our clients described earlier is doing a better job of serving its customers? Customers demand more product varieties than ever before, and they expect them to appear quickly. The core difficulty here is that in listening to customers and trying to satisfy them, we tend to take on heavier loads than we can handle. Then we fail to deliver service responsively, and, consequently, we fall behind competitively-and thus our profits suffer.

In working with clients to accelerate their new-product development, the most common impediment we encounter is that the client is diluting its staffing by trying to work on too many projects. Typically, the company has in process twice as much work as it can staff effectively. This means that half the work is sitting idle somewhere, and each project takes twice as long as it needs to. For many companies, the first answer to getting new products to market in half the time is simply to work on half as many projects simultaneously. Although this would appear to reduce output, note that it does not mean that only half as many projects will be completed per year; the completion rate is the same either way. However, each project gets twice the resources while it is in the pipeline, and spends

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only half as long in development. To clear its pipeline, Baxter Diagnostics Inc., MicroScan/Bartels began fewer projects in 1993, but this does not mean that it completed fewer projects in 1993.

If the arithmetic is so simple, why isn't this concentrated approach more common? The answer is that managers don't think carefully enough about what happens internally as they attempt to be responsive to customers. When the customer wants something, they start a new project, not adequately considering how much this new project will delay existing projects and upset the customers waiting for these products. As companies downsize and become leaner, the situation becomes even more critical.

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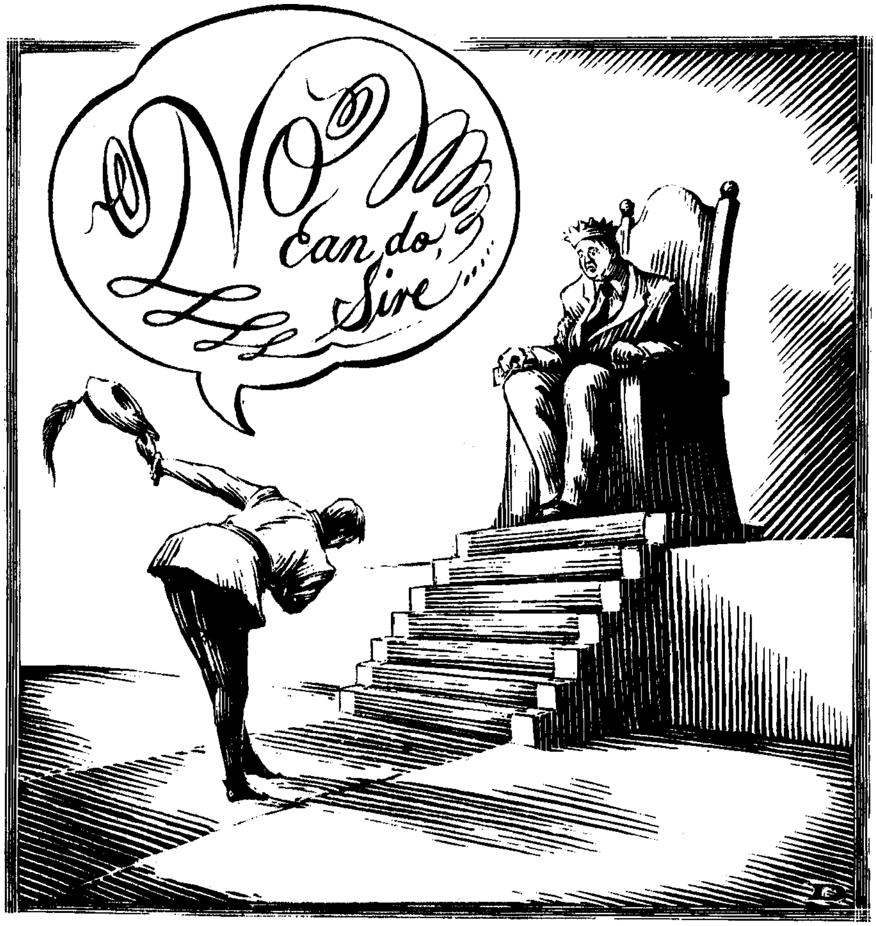
Instilling Discipline

If we want to listen to customers ***and*** be fast in responding to them, we need some new abilities. First, we must know what our capacity is to process projects, and we must know what our current workload is relative to this capacity. Second-and this is the hard part-we must develop discipline in rejecting projects that will overload the pipeline. That is, we must learn how to say "No" to customers. This isn't a permanent "No," but it is a, "Not until we have the resources available to give this project the attention its customer deserves."

There appears to be another, more palatable solution than saying "No." Why not just increase resources to handle. the existing load effectively? Beyond the financial concerns, there is a more fundamental problem with handling the overload in this way: It doesn't instill the discipline required to manage the load. Without discipline, management will add staff continually, trying to satisfy ever-increasing project demands.



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Underlying the discipline issue is a fear that if we say "No" to a customer, it will just turn to a competitor. In many cases the fear is unfounded, either because the customer is unaware of the supplier's internal capacity-management policy, or because the customer has no better alternative. For example, often a customer doesn't know specifically which products a company has under active development.

However, there are cases in which projects are intended for specific customers and the customer ***does*** know you haven't started on it. In this case the customer should be educated regarding the realities of blindly saying "Yes'‘-a situation akin to the physician who accepts all patients but makes them wait hours at each appointment. In the end, this low-quality operation loses its patients to the competition anyway, creating much ill will in the process.

Increasingly, companies are recognizing the pitfalls of always saying "Yes," and they are staffing projects for fast, intensive completion, even at the risk of a customer occasionally turning to a competitor. One client of ours, a division of a major chemical company, trimmed its project list from 47 to six projects. Interestingly, it hasn't missed the 41 killed projects because new, better opportunities have arisen since. Among the 41 aborted projects, the company lost one customer, whom it has since regained.

Another client example comes from an electrical-machinery manufacturer that slashed its active-projects list from 114 to 17. Always running to keep up before, now it finds that it can make commitments and keep them. Furthermore, when this client completed some projects from its shortened list, it soon had an opportunity to choose a new project to start. Surprisingly, it found that the top project on the waiting lists (old number 18) no longer made sense, due to technology changes. Instead, the company chose a new idea that wasn't even on its waiting list.

Delighting customers remains the proper objective. But it can happen only when the manager exercises the internal discipline to balance customer desires with capacity. ■