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HBR SPOTLIGHT: CUSTOMER FOCUS

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Silo Busting

How to Execute on the Promise of Customer Focus

by Ranjay Gulati

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In 2001, under price pressure from the government and managed health care organizations, GE Medical Systems (now GE Healthcare) created a unit, Performance Solutions, to sell consulting services packaged with imaging equipment as integrated solutions. These solutions, priced at a premium, were intended to enhance productivity by, for instance, reducing patient backlogs. At the time, lots of companies were making the move from selling products to selling solutions in an attempt to differentiate themselves in increasingly commoditized markets.

GE's plan seemed to work well at first. The Performance Solutions unit enjoyed strong initial revenues, in part because most new contracts included additional consulting services valued at $25,000 to $50,000. And the unit had some notable successes. It helped Stanford University Medical Center, for example, make the transition to an all-digital imaging environment at its adult hospital, children's medical center, and an outpatient facility—moves that delivered millions of dollars in new revenues for the medical center and substantial cost savings.

But by 2005, the unit's growth had begun a swift decline. It turned out that equipment salespeople had trouble explaining the value of consulting services, so when they called on customers they couldn't contribute much to the sale of additional services. What's more, these reps were reluctant to allow Performance Solutions salespeople to contact their customers. And by marketing the unit's consulting services with its product portfolio, GE generated solutions that were useful for customers whose problems could clearly be solved using GE's equipment but less compelling for those whose needs were linked only loosely to the imaging products.

In the end, GE refashioned the unit to address customers' needs in a more comprehensive fashion and to better align the sales organization. For instance, the majority of solutions now focus mainly on consulting services and are no longer marketed only with GE equipment. The solutions group secured new contracts valued at more than $500 million in 2006. But in trying to escape the perils of commoditization, the company initially fell into a classic trap: It was seeking to solve customer problems but was viewing those problems through the lens of its own products, rather than from the customer's perspective. It was pulling together what it had on offer in the hope that customers would value the whole more than the sum of its parts.

Over the past five years, I have studied the challenge of top- and bottom-line growth in the face of commoditization, and I have found that many companies make the same mistake. They profess the importance of shifting from products to solutions—in fact, in a survey of senior executives I conducted a few years ago, more than two-thirds of the respondents cited this shift as a strategic priority in the next decade. But their knowledge and expertise are housed within organizational silos, and they have trouble harnessing their resources across those internal boundaries in a way that customers truly value and are willing to pay for.

Some notable exceptions have emerged: companies that, like GE, found ways to transcend those silos in the interest of customer needs. By the late 1990s, for instance, Best Buy had nearly saturated the market with store openings and was facing increased competition not just from other retailers like Wal-Mart but from suppliers such as Dell. It tried to spark growth through various marketing approaches, but the company's efforts didn't take off until it launched a major initiative to restructure around customer solutions. Between 2000 and 2005, Best Buy's stock price grew at an annual rate of almost 30%.

Commercial real estate provider Jones Lang LaSalle (JLL), under serious price competition, made a similar strategic shift in 2001, when its large customers began demanding integrated real estate services. For instance, corporate customers wanted the same people who found or built property for them to manage it. In response, JLL adopted a solutions-oriented structure that helped attract numerous large and highly profitable new accounts.

For GE Healthcare, Best Buy, and JLL, as well as for other companies I have studied, the journey to understand and unite around customer needs was a multiyear endeavor with major challenges and setbacks along the way. The effort required systematic, ongoing change to help organizations transcend existing product-based or geographic silos and, in some cases, replace them with customer-oriented ones. In particular, I found that successful companies engaged in four sets of activities:

Coordination. Establishing structural mechanisms and processes that allow employees to improve their focus on the customer by harmonizing information and activities across units.

Cooperation. Encouraging people in all parts of the company—through cultural means, incentives, and the allocation of power—to work together in the interest of customer needs.

Capability development. Ensuring that enough people in the organization have the skills to deliver customer-focused solutions and defining a clear career path for employees with those skills.

Connection. Developing relationships with external partners to increase the value of solutions cost effectively.

The first three sets of activities mutually reinforce the effort to put customers at the organization's fore; the fourth dramatically increases the power and reach of solutions by focusing attention beyond the firm's boundaries. All of them help companies transcend internal silos in service of higher-value customer solutions.

Coordination for Customer Focus

As GE Healthcare quickly discovered, it's easy to say that you offer solutions; salespeople may readily seize the concept as their newest product. But I've found that few companies are actually structured to deliver products and services in a synchronized way that's attractive from a customer's perspective. Individual units are historically focused on perfecting their products and processes, and give little thought to how their offerings might be even more valuable to the end user when paired with those of another unit. It's not just that the status quo doesn't reward collaborative behavior—although the right incentives are also critical. It's that the connections literally aren't in place.

One way to forge those connections is to do away with traditional silos altogether and create new ones organized by customer segments or needs. Many companies, however, are understandably reluctant to let go of the economies of scale and depth of knowledge and expertise associated with non-customer-focused silos. A company organized around geographies can customize offerings to suit local pref-

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erences, for instance, while a technology-centric firm can be quick to market with technical innovations. In many cases, functional and geographic silos were created precisely to help companies coordinate such activities as designing innovative products or gaining geographic focus. A customer focus requires them to emphasize a different set of activities and coordinate them in a different way.

In their initial attempts to offer customer solutions, companies are likely to create structures and processes that transcend rather than obliterate silos. Such boundary-spanning efforts may be highly informal—even as simple as hoping for or encouraging serendipity and impromptu conversations that lead to unplanned cross-unit solutions. But the casual exchange of information and ideas is generally most effective among senior executives, who have a better understanding than their subordinates of corporate goals and easier access to other leaders in the organization.

One way to achieve more-formal coordination without discarding existing silos is to layer boundary-spanning roles or units over the current structure and charge them with connecting the company's disparate activities to customer needs. JLL, which was created by the 1999 merger of LaSalle Partners and Jones Lang Wootton, had organized the corporate side of its business in the Americas into three units, each offering a particular service: representing tenants who wished to lease or purchase, maintaining buildings and properties, and managing real estate development. Each unit had authority over what services to offer, at what price, and to which clients. The units also had profit-and-loss responsibility for their respective businesses.

In 2001 the firm began to hear complaints from such large corporate clients as Bank of America that buying real estate services piecemeal from numerous companies and interacting with relatively junior salespeople were taking up too much executive time. One client explained, "We like him [the ad hoc account manager], but he is too low on the totem pole." At the time, many *Fortune* 500 companies were starting to outsource all real estate management. In response, JLL created an umbrella group, Corporate Solutions, that comprised the three service units as well as an account management function, which served as a point of contact for large corporate customers. The account management group was staffed with high-ranking officers who had the authority to negotiate the pricing and delivery of real estate solutions, and the experience to help clients with strategic planning. By approaching Bank of America with a dedicated, senior-level account manager, JLL addressed the customer's complaint and was rewarded with one of just two spots (reduced from five) as a provider of outsourced services for the bank's 65 million square feet of U.S. real estate. Thus began a tremendous run that saw JLL's solutions revenue in the Americas grow more than 50% between 2002 and 2005.

Cisco Systems took a similar, layered approach to customer focus, but with a twist. The

The Four Cs of Customer-Focused Solutions

Companies looking to grow in a commoditized marketplace like to say that they offer customer solutions: strategic packages of products and services that are hard to copy and can command premium prices. But most companies aren't set up to deliver solutions that customers truly value. Successful companies make significant changes in four areas to deliver real solutions.

Coordination. In most companies, knowledge and expertise reside in distinct units—organized by product, service, or geography. To deliver customer-focused solutions, companies need mechanisms that allow customer-related information sharing, division of labor, and decision making to occur easily across company boundaries. Sometimes this involves completely obliterating established silos and replacing them with silos organized around the customer, but more often it entails using structures and processes to transcend existing boundaries.

Cooperation. Customer-centric companies use both substance and symbolism to foster a culture of customer-focused cooperation. They develop metrics that measure, for instance, customer satisfaction and incentives that reward customer-focused behavior, even if it sacrifices unit performance. Most also shake up the power structure so that people who are closest to customers have the authority to act on their behalf.

Capability. Delivering customer-focused solutions requires at least some employees to have two kinds of generalist skills. The first is experience with more than one product or service, along with a deep knowledge of customer needs (multidomain skills), and the second is an ability to traverse internal boundaries (boundary-spanning skills). In many companies, especially those organized around products, employees aren't rewarded for being generalists. Organizations that succeed in delivering solutions, however, invest significant time and resources in developing generalists. Furthermore, they establish clear career pathways for those who pursue the generalist route.

Connection. By redefining the boundaries of the company in order to connect more tightly with external partners, companies can not only cut costs by outsourcing all but core activities (and perhaps even by finding ways to outsource them) but also create higher-value solutions by combining their offerings with those of a complementary partner. Working with other companies still means crossing boundaries, but in this instance the boundaries are between a company and its partners.

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company, which had been organized by customer segment from 1997 to 2001, reverted to a technology-focused structure after the Internet bubble burst, forcing the company to address costly redundancies. Under its previous structure, Cisco had been creating the same or similar products for different customer segments, whose needs often overlapped. In fact, in some cases each line of business offered its own technology or solution for the same problem.

However, leaders feared that organizing around technologies, which involved centralizing marketing and R&D, would distance Cisco from customers' requirements. The answer was to retain the company's three sales groups based on customer type but establish a central marketing organization—residing between the technology groups and the customer-facing sales units—responsible for, among other things, facilitating the integration of products and technologies. The marketing group also established a cross-silo solutions-engineering team to bring disparate technologies together in a lab, test them, and create blueprints for end-user solutions. In addition to those structural measures, Cisco implemented several customer-focused processes, such as a customer champion program, which assigned senior executives as advocates for important customers. CEO John Chambers, for instance, was designated Ford's champion in 2002. In 2004 the company supplemented its advocates with cross-functional leadership teams organized by customer type, mimicking the previous structure, at least at the senior management level. Those teams—described by one executive as "the voice of the customer"—oversee six end-to-end processes that cut across functional boundaries such as quote-to-cash (the order cycle) and issue-to-resolution (technical support).

While bridging mechanisms such as cross-silo teams and processes can be very effective, they aren't easy to implement. A history of independence often leads to protectionist behavior. At JLL, for instance, business unit managers were initially reluctant to cede decision-making authority to account managers, particularly ones who lacked experience with that unit's service. Conflicts also arose over pricing and account managers' compensation. What's more, while JLL's Corporate Solutions group had positioned the firm well to meet the increasing demands of corporate real estate customers, single-transaction customers considered the relatively small number of JLL account managers in local markets to be a problem. Those customers wanted professionals who could negotiate the best deal and execute entire transactions. As JLL discovered, the benefits of bundled solutions wear off if customers perceive a weakness in any component. Ultimately, JLL's layered approach to silo busting was still limiting the firm's growth.

To dispense with such tensions, JLL next took the more dramatic and highly formal measure of silo swapping—a wholesale, permanent structural shift to spin internal groups and processes around a customer axis. That is, it swapped its current, service-focused silos for those structured explicitly around the customer to maximize company-customer synergies. As part of that process, it replaced the account management function and the three service silos that had resided within the Corporate Solutions group with two organizations denoted simply Clients and Markets, a restructuring that put more people in the field, closer to clients, and focused all internal groups and processes on customer needs. The Markets organization handled one-off transactions, represented JLL's full range of offerings to those customers, and provided local support for larger clients. As accounts grew, they were assigned an account manager from the Clients organization, which was composed primarily of account teams managing the firm's relationships with large, multiservice customers. These teams were considered profit centers and so had the authority to hire and terminate employees. To preserve its product and service expertise without a product- and service-based structure, JLL embedded service specialists within account teams in both organizations and created a product management team charged with keeping offerings competitive. It's too soon to know how well the customer-focused silos are working, and the firm may face new, unanticipated challenges, but early results look promising: In the past year, revenues have increased by 30% and profits by almost 60%.

Culture of Cooperation

While coordination mechanisms can align tasks and information around customers' needs, they don't necessarily inspire a willingness among members of competing silos to fully cooperate and make sometimes time-consuming and costly adjustments in the interest of customers.

> *Many product-centric companies probably start out with a focus on customers. But after early successes, they institutionalize the notion that markets respond primarily to great products and services.*

Just as important as coordination, then, is a cooperative environment in which people are rewarded for busting through silos to deliver customer solutions. Customer-centric companies live by a set of values that put the customer front and center, and they reinforce those values through cultural elements, power structures, metrics, and incentives that reward customer-focused, solutions-oriented behavior.

Many product-centric companies probably start out with a focus on customers, aiming to design products with broad appeal. But after early successes, they internalize and institutionalize the notion that markets respond primarily to great products and services. Decisions and behaviors, including those related specifically to customers, are then viewed through the lens of the product. Quality, for example, is defined by meeting internal standards rather than customer requirements. Over time, even the sales and marketing departments lose their customer focus, as product successes dominate company lore. In this way, the company develops a pervasive inside-out perspective.

In contrast, customer-focused companies, even those in technology-intensive arenas, build an outside-in perspective into all major elements of their cultures. They hold solving customer problems above all else and celebrate customer-oriented victories. At Cisco, technical innovation is clearly valued. The drive to solve customer problems fuels that innovation no matter where it leads the company, a mind-set that is reflected in the statement on all employee badges, "No Technology Religion." As one manager said, "Being able to listen carefully to create relevancy [for customers] is a more important business value than innovation." In line with this thinking, Cisco puts a relatively large number of employees in direct contact with customers, including groups such as human resources that typically don't interact with customers.

It helped that Cisco had the luxury of an existing culture of customer focus. Cofounder Sandy Lerner, in the company's earliest days, invented a customized multiprotocol router for a customer who initially found no Cisco products that met his needs. From then on, Lerner made it her mission to establish a culture where everybody, even those in units distant from customers, went beyond providing standard customer support to addressing specific problems. Consequently, even when the company reorganized its silos away from the customer in 2001, it was able to maintain enough interaction among units to ensure a customer-centric view.

At least half the battle of promoting cross-silo, customer-focused cooperation lies in the "softer" aspects of culture, including values and the way the company communicates them through images, symbols, and stories. Touting service accomplishments instead of, or at least in addition to, product accomplishments through company lore can begin to shift people's mind-sets. Cisco's employee badges broadcast a focus on customer needs, as does a well-known company legend about how Chambers was 30 minutes late to his first board meeting because he chose to take a call from an irate customer. Linguistic conventions may also be used to signify the value of the customer: Target and Disney refer to customers as "guests."

Another admittedly soft but powerful cultural tool for aligning employees around customer needs is to treat your workers the way you want them to treat customers. The hope is that people will adopt a collaborative orientation and customer focus because they want to, not just because they'll reap a financial reward. Cisco is highly egalitarian, reinforcing the notion that all employees are important, which makes them more likely to cooperate across silos. The company offers equal access to parking spaces, for instance, and designates window-facing cubicles for nonmanagement employees, locating supervisors' offices within the interior of the floor.

Of course, the softer cooperation-promoting measures won't take hold if the harder ones—power structures, metrics, and incentives—don't reinforce them. Power structures are notoriously difficult to change. For example, in a customer-centric environment, people who are close to the customer and adept at building bridges across silos should gain power and prominence; but unit leaders responsible for products or geographies who had clout in the old organization won't hand over their customer relationships and concomitant power bases without a struggle.

That was the case at JLL. Before the company created the Corporate Solutions organization, power resided almost exclusively within the service-based business units. Even after the account manager position was instituted, final pricing authority rested with the units, which made it difficult to compete with multiservice packages. Although solutions ideally carry a premium price, JLL's initial intent was to better serve customers' needs by simplifying the management of real estate and to position the firm as a multiservice provider. However, when JLL created a package of real estate services, the price quickly mounted, resulting in sticker shock among potential customers, many of whom associated buying in bulk with discount pricing. JLL unit heads—who wanted to maximize their own return, not subsidize other units—refused to budge on prices. In some cases, package proposals were delayed, thanks to negotiations that stalled or ended in a stalemate that could be resolved only by those higher in the organization. In other cases, the packages weren't priced competitively, and the firm lost the business.

The issue of autonomy raised concerns as well. JLL's business units were accustomed to a high degree of independence. They protected their client relationships and had always been wary of introducing other services—even before the account management unit was in place—because delivery would be out of their control and they feared damaging the relationships. JLL took several steps to resolve those tensions. For one, it signaled the importance and value of the account manager role by assigning it to only very senior executives, including two who had achieved the title of international director, a distinction earned by less than 2% of employees. The firm also delivered a series of presentations at annual companywide meetings highlighting the significance of the role to the firm's growth.

To ease the pricing standoffs, JLL began in 2003 to allow account managers to provide input into the performance evaluations of business unit employees who touched their clients. At the same time, JLL took steps to retain some power and recognition for the business unit CEOs and, in the process, help them learn more about the services outside their silos and how they might gain personally from cross-unit sales. Unit CEOs, for example, were asked to oversee accounts on which their services were a particularly important component; in this role, unit heads were explicitly responsible for the performance of account managers. Because their bonuses were tied to the account managers' overall performance, the unit heads developed a clearer picture of the value contributed by services outside their silos. They were also required to meet regularly with customers to discuss their needs and the quality of the firm's service.

To support a shifting power landscape, firms must also embrace new metrics and incentives. The product-focused metrics most companies rely on—revenues, growth, and margins—don't reward cross-silo cooperation or customer centricity. Sales commissions in some organizations encourage managers to bring in new customers rather than nurture existing relationships, for example.

Cisco is relentless about measuring and rewarding employees on the basis of customer-related performance indicators. A Web-based survey helps determine the pre- and post-sale satisfaction of customers who buy directly from Cisco or indirectly through resellers. Survey questions focus on a customer's overall experience with and perceptions of Cisco, along with product-specific issues. Follow-up surveys with some customers explore their experiences with certain products more deeply. All bonuses are tied directly to these customer satisfaction data, so employees are encouraged to cooperate across internal boundaries. Moreover, all employees, including interns and part-timers, are eligible for stock options.

Building Capability

Regardless of the incentives and cultural elements in place to enhance customer-focused silo busting, employees will fall back on their old competencies and ways of thinking if they haven't developed new skills. For example, even though one of the companies I studied told product salespeople to include new consulting-based offerings in their pitches to customers, the reps found it easier to give a superficial account of the new offerings or to omit them from their pitches altogether. Old habits die hard.

As a company becomes more adept at inducing coordination and cooperation across units, new skills become valued and desirable. Rather than highly specialized expertise, customer-focused solutions require employees to develop two kinds of skills: multidomain skills (the ability to work with multiple products and services, which requires a deep understanding of customers' needs) and boundary-spanning skills (the ability to forge connections across internal boundaries). Such generalist skills are typically not rewarded or developed in a product-oriented organization, so it's not easy to find customer-facing generalists. The companies that succeed invest significant time and resources in developing generalists. Furthermore, they map clear career paths for those who pursue this route.

At JLL, most of the first account managers had spent the majority of their careers in a single service unit within the firm and remained members of that unit even after becoming account managers. Consequently, they were not always deeply acquainted with the other businesses or able to manage service bundles skillfully. Account managers hired from the outside were generally chosen for their ability to execute real estate transactions, not for the breadth of their service knowledge.

To foster the development of boundary-spanning skills and cultivate a cadre of employees who could grow into the account manager role, JLL began to rotate individuals through the three remaining silos (before swapping the service silos for customer silos), forcing them to acquire greater knowledge of the products, services, and capabilities of each unit, as well as to expand their personal networks across the firm. For those already in account management roles, the company instituted training sessions through regular conference calls and meetings. Early sessions tackled relatively simple tasks, such as the establishment of a common vocabulary. Subsequent sessions focused on improving account managers' knowledge of each unit's offerings and on cross-silo sales skills and new metrics, including the first rudimentary client-based profit-and-loss statements. An unanticipated benefit of the training was that it brought the account managers together regularly, helping them to stop identifying only with their silos and to begin forming a group identity that enhanced their cross-silo networks. As a natural consequence, top management could see that account managers were assuming increased responsibility for a broader range of services.

Best Buy's shift to solutions selling entailed identifying and targeting five large, profitable customer segments: young, tech-savvy adults; busy and affluent professionals; family men; busy, suburban moms; and small-business customers. Each store was designed to suit the needs of its largest customer segment. A "busy mom" store, for instance, features personal shopping assistance and a kid-friendly layout. Stores targeting the tech-savvy offer higher-end consumer electronics and separate showrooms for high-definition home theater systems. When the company rolled out its customer-centric strategy, it conducted extensive training to help employees understand their store's particular customer segment. It also trained sales associates on basic financial metrics to highlight how their efforts on behalf of target customers affect store performance.

At the corporate level, Best Buy created a Customer Centricity University for senior officers who had not been involved with planning the new strategy. For those executives, Best Buy outlined the rationale for the new approach, including detailed financials, and held breakout sessions with the teams responsible for developing and executing the strategy for each customer segment. Over 11 months, all employees and contractors residing at headquarters, as well as many other corporate employees, participated in the program. It was then disbanded, its essential elements incorporated into the company's orientation program for new employees.

Enhancing skill sets is only part of the challenge of capability building. Companies must also develop attractive career paths that give emerging generalist stars a sense of identity and a clear route for advancement. Even specialists whose roles may not change much in the new organization will probably have to develop some generalist skills and learn how these could contribute to their advancement. JLL, for instance, at first had difficulty attracting candidates for account manager positions, largely because the firm had measured success and offered promotions on the basis of achievements within a unit. Job security was a major concern for potential account managers, as one of the first to hold the position explains: "One of the big fears was that these accounts don't last forever. So if a person left his or her specialized area of expertise to run an account and after three years…the firm was no longer providing services for that account, employees feared that that person would be out of a job."

JLL addressed the career path issue in part through its customer-focused reorganization—whereby the Clients group housed account managers in a well-defined unit with a clear career trajectory. Other firms have developed "talent marketplaces" to signal the value they place on generalist, cross-silo skills. Modeled after informal marketplaces used within law firms, academia, and R&D units, these forums match employees on a flexible basis with available positions or assignments, thereby allowing generalist and specialist career tracks to coexist.

Connection with External Partners

The three factors we've discussed—coordination, cooperation, and capability building—are silo-busting tactics that align business units around a customer axis. But by redefining the boundaries of the company itself, firms can further fight commoditization in two ways: cutting costs by outsourcing all but core activities (and, in some cases, by finding creative ways to outsource them) and joining forces with companies that have complementary offerings to create even higher-value solutions, which command a larger price premium. Such approaches still require cross-boundary efforts, but the boundaries are between a company and its partners.

Starbucks continues to charge a premium for coffee, previously a commodity product, and exponentially increase the company's sales through intercompany relationships that keep costs low while expanding the firm's offerings. It chooses suppliers very carefully (quality and service take priority over cost) and then shares an unusual amount of financial information, using a two-way, open-book costing model that allows suppliers to see the company's margins and Starbucks to review the vendors' costs. In return, the company expects suppliers to treat it as a preferred customer in terms of pricing, profit percentage, and the resources committed to the partnership.

As for expanding its offerings, Starbucks seeks to enrich the customer experience through alliances with partners in a variety of industries. Its bottled Frappuccino beverage is manufactured, distributed, and marketed through a 50/50 joint venture with PepsiCo; its ice cream is made and distributed by Dreyer's; its supermarket coffees are marketed and distributed by Kraft, one of the company's main competitors in the at-home coffee consumption market. A more recent alliance with Jim Beam Brands brought Starbucks into a new drink category: spirits. In 2005, the two companies launched Starbucks Cream Liqueur, which is sold in liquor stores, restaurants, and bars, but not in coffeehouses.

Starbucks's boundary-expanding moves have extended to nonconsumable items as well. For several years, customers have been able to buy CDs at the stores, and the company recently began to promote movies as part of its ongoing efforts to become, according to the *New York Times*, a "purveyor of premium-blend culture." It sponsors discussion groups (with free coffee) and is considering selling DVDs, publishing new authors, and producing films. To coordinate these promotions and partnerships, Starbucks has formed an entertainment division with offices in Seattle and Los Angeles.

Finally, Starbucks has expanded internationally by leveraging not other companies' products and services but the capabilities of regional partners. Whereas the company owns most of its domestic retail stores, it allows foreign companies to own and operate Starbucks stores in markets where those players are already established. In 1995 Japanese specialty retailer Sazaby opened a Starbucks in Tokyo. In such cases, Starbucks provides operating expertise and control through licensing, while the foreign partners take on financial risk and advise Starbucks on real estate, regulations, suppliers, labor, and culture in the markets they know best. Sharing responsibilities in this way requires Starbucks to apply the principles of coordination, cooperation, and capability building to its external relationships.

Starbucks's relationship-building capability has enabled the company to grow far faster than it could have on its own. What's more, with just about every fast-food company selling premium coffee, and versatile and affordable new coffee-makers lining the shelves at Target, the company has been able to shore up its position by selling not just coffee but a coffeehouse experience, built largely around a series of partnerships and alliances that provide customers with an array of high-quality offerings.

Such relationships can be mutually reinforcing: As one company shrinks operations to cut costs—seeking partners to take on formerly in-house activities—its suppliers must expand their horizons by increasing the range of their offerings or finding their own partners to help them do this. IBM, even while taking over major back-office operations for large companies, has condensed its own core operations by outsourcing activities like repair and server manufacturing to contractors such as Solectron. Solectron, in turn, has expanded its

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boundaries by acquiring an IBM repair center in the Netherlands, allowing IBM to condense still further.

There are pitfalls to integrating closely with suppliers. Some companies—especially those that are unclear on their core values—give away too much. Others become captive to their key suppliers and lose the motivation to make ongoing investments in new technology. Some also find that they are funding the development expertise and scale that may allow a partner to become a competitor, as when cell phone supplier BenQ moved from making handsets for Motorola to marketing its own brand of handsets in foreign markets where Motorola already had a presence. Integrated partnerships can also be risky if companies put a lot of information into their vendors' hands, as Starbucks does. If trust on either side is eroded, one party could misuse the information.

In managing external relationships to avoid such pitfalls, it makes sense to apply the principles used to manage across internal silos—particularly the principles of coordination and cooperation. The challenges of internal and external execution are not exactly the same, but they share many themes, such as the need to find efficient ways of exchanging information and aligning incentives. So, for instance, Starbucks has a set of formal coordination structures to help information flow between partners. In addition to regular meetings between senior management on both sides, Starbucks has a dedicated training program for employees who will be involved in managing supplier relationships. To ensure that both parties follow clear rules for knowledge sharing, the company has created a handbook for suppliers, which describes the firm's purchasing philosophies and policies, along with the standards vendors must meet on eight criteria.

Cooperation issues may be even more central to external relationships than to internal ones, given the need to apportion value fairly among parties and the omnipresent risk of opportunistic behavior. Cultural fit lays the groundwork for cooperation, and efforts at cultural synchrony may begin even before the partnership does. Starbucks not only conducts a careful assessment of a supplier's brand and operations but also evaluates cultural fit, largely through an event called Discovery Day, when prospective partners come to Seattle to discuss cultural and other commonalities as well as differences between themselves and Starbucks.

In today's ever expanding and shifting business arena, and in light of a growing focus on customer needs, the definitions of what is inside a company and what is outside are no longer clear. But as our sense of firm boundaries evolves, so will our understanding of how best to breach internal and external barriers.

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There are few downsides to developing true solutions. The risk is that in the rush to stand out in the crowd, many companies forget that solving customer problems requires a deep knowledge of who their target customers are and what they need. Some customers are better off purchasing products and services piecemeal. Leaders at GE Healthcare originally targeted solutions at large national accounts—which, it turned out, bought largely on price. These clients almost by definition weren't good candidates for the solutions offering. The company consequently refined its target customer profile to focus on multihospital systems—with at least $500 million in annual revenue—that demonstrated a willingness to provide GE with meaningful access to the most-senior executives. Through this targeting, GE Healthcare narrowed its focus to just 150 of the roughly 400 multihospital systems in the U.S. health care market—giving primary attention to 50 accounts that included customers ready to enter into a contractual relationship with GE and those that exhibited many key characteristics and expressed a willingness to work with GE.

The lesson for GE, as for others, is that it doesn't pay to put the solutions cart before the horse of coordinated customer focus. To stand out in a commoditized market, companies must understand what customers truly value. The only way to do that is to break down the traditional, often entrenched, silos and unite resources to focus directly on customer needs.

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