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George S. Day

Aligning the Organization with the Market

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Companies are being pulled by their strategies and pushed by increasingly assertive customers to restructure their organizations around customer groups rather than functions or products.¹ Responding to competitive pressures and looking to improve operating profit margins, a growing number of corporate managers are dismantling organizations and cultures that were built on selling particular products and replacing them with new structures designed to be more responsive to customer needs. Intel Corp., which in 2005 announced plans to create five new market units, became one of the more high-profile companies to move in this direction. Rather than designing discrete chips and then assuming customers would adopt them, new units were expected to bundle whatever combinations of processes, chips and software made sense for their own customers.²

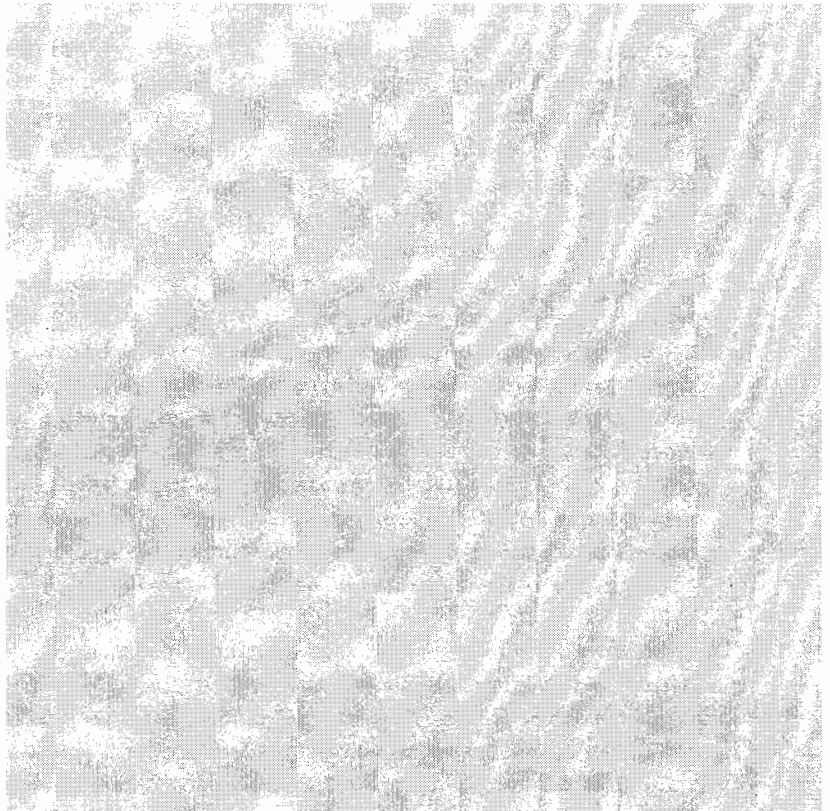
The push to restructure around customers is more than the latest management fad. It is supported by success stories at companies including IBM, Cummins India, Fidelity Investments and Imation, and applauded by organizational specialists who have studied the performance of smaller, market-responsive units.³

Companies transitioning from being product-oriented organizations to ones centered on customers progress along a continuum. The first stage involves informal coordination within the company to overcome the familiar deficiencies of product or functional silos. If that is not sufficient, companies often add integrating functions such as key account managers and customer segment task forces. Companies achieve greater levels of structural alignment by reinforcing the customer dimension of the organization matrix with segment managers or customer-based front-end units.⁴ (See "The Stages of Organizational Alignment," p. 44.)

The market logic for adopting a customer-oriented strategy is often compelling. In my survey of 347 companies, those that embraced this approach found that accountability for customer relationships was greatly improved and information about customers was shared more readily. These companies were also easier to do business with, according to customers, and bet-

As managers revamp their organizations for closer alignment with customers, one of the biggest challenges is determining how far and fast to go.

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ter at dealing with customer problems and queries. Overall, however, the findings from my study were mixed. (See "About the Research.") The challenges of transforming product-centered cultures can be considerable. Each stage can be disruptive in the short run and add coordination costs in the long run. As a result, potential benefits did not necessarily translate into superior performance.

In the course of examining 15 companies that had attempted to reorganize themselves around customers, the reasons for the mixed results became clearer. Four companies had sufficient track records with their reorganizations to be called unqualified successes. Two had achieved regional success with their efforts, but the corporate parent had not yet adopted the customer-focused strategies in other markets. Several companies could best be described as works in progress. And two had recently decided to scale back their efforts to align themselves with customers because of competitive and cost pressures. In fact, one of Mark Hurd's first initiatives as the successor to Hewlett-Packard Co.'s chief executive officer Carly Fiorina was to undo her efforts to create an integrated sales force to sell bundles of products and to return to a more product-oriented focus.⁵ Finally, one company's reorganiza-

tion was an unqualified failure. I classified the companies by their degree of success, using the judgments of those who were familiar with the history of the realignment process. (See "Classification of Companies Interviewed.")

The Limits to Organizational Alignment

The extent to which managers should attempt to transform their organizations toward customers depends on the thrust of the strategy and on the facilitating and countervailing pressures they need to balance. (See "The Pressures Organizations Need to Balance," p. 45.) Many organizations cannot and should not aim for complete organizational alignment with their markets. For one thing, complex change efforts can take many years to execute and require substantial leadership commitment. Moreover, some companies, including Samsung, Toyota and Unilever, are resolutely product focused and not inclined to move beyond modest coordinating mechanisms. Without a strong commitment from the top, any attempts to alter established cultures are bound to fail.

One of the main facilitators toward a more customer-focused organization is the strategic need to have a close relationship

with customers. Strategies that are highly dependent on relational value tend to be best suited for settings where customers have diverse and complex requirements and where some of the most attractive customers see value in buying an integrated bundle of products and services from one source. Companies pursuing this approach — for example, IBM Corp.'s Global Services and General Electric Co.'s Power Systems — need to interact closely with their customers in ways that go well beyond a traditional transactional relationship. Conversely, companies with more homogeneous markets and more standardized offerings, and whose strategies are based on leveraging economies of scale, do not need to be as close to their customers. The most they need to do is adopt informal coordination mechanisms.

Even in organizations where it is desirable to become highly customer focused, major impedi-

About the Research

This article is based on research drawn from both a mail survey and extensive company interviews. In the survey stage, a combination of an initial mailing and follow-up telephone calls yielded a 17% response rate from the most senior person in the company involved with strategy. The resulting sample of 347 was representative of midsize to large companies in the United States with more than 500 employees.

The main survey findings were:

- 1) Although some 32% of companies were organized around customer groups, this figure would increase to 52% in three years.
- 2) Companies organized by customer groups reported much higher accountability for the overall quality of relationships and employees' freedom to take actions to satisfy individual customers, and moderately more openness to sharing information about customers.
- 3) When company demographics and strategic choices were held constant, there was no significant correlation between organization by customer groups and relative performance. The lack of effect is perhaps because many companies were in the midst of their reorganization, their competitors were also reorganizing around customers and blunting any advantage, or the reorganization was poorly implemented.

To understand the differences in companies' abilities to realize better performance, I undertook extensive interviews with senior managers (including senior marketing, sales, management information services managers and executives) of 12 companies that had previously announced major realignments around customers. I asked why they undertook the change, what implementation challenges they encountered and how the change impacted performance. The information from these companies was supplemented with comparable data for three additional companies (Cisco, Sony, and Thermo Electron) drawn from other sources.

ments may stand in the way. For example, companies may not have enough detailed information about their customers or market segments; they may not want to get involved with the complexities of transfer pricing or activity-based costing; or there may be established legacy systems that will be difficult to change. These countervailing pressures are a warning that although moving toward closer alignment with customers may be directionally correct, the appropriate structure needs to be shaped as much by the implementation constraints as by the strategic imperative to get closer to customers.

Getting Closer to Customers Although the potential for gain certainly exists, creating customer-oriented organizations involves significant risks. As Louis Gerstner, Jr., former CEO of IBM, put it: "... (The) integration of "front office" functions that touch the marketplace ... can produce significant benefits, but the integration must be executed superbly or the benefits will be decimated by the parochial interests of individual units."⁶

To identify the main benefits and pitfalls, I asked senior managers of 15 companies that had undertaken such large-scale redesigns to reflect on their experiences. Most respondents hesitated to quantify the role organizational change played in their company's profit or revenue improvements, noting that it could not be separated from the effects of concurrent changes in their strategy, systems and capabilities. In addition, six companies were still in the midst of their realignment and deemed it too early to label it a success or failure. Still, managers at these companies were able to identify promising signs of progress, using metrics about customer satisfaction, customer perceptions of responsiveness and data showing better utilization of marketing resources.

Rationales for Reorganization

Different companies are pushed to reorganize for different reasons. At Motorola Inc., newly appointed CEO Edward J. Zander was eager to dismantle the company's debilitating bureaucracy and to end a culture of rivalry among product divisions, which behaved like "warring tribes."⁷ A new culture was necessary to support the company's strategy of "seamless mobility" and to enable consumers to transport any digital information — music, video, e-mail or phone calls — from the home to the car to the workplace. Zander wanted to abandon the divisional structure based on products (for example, mobile phones or broadband gear) and reorganize the company around customer groups (such as digital products for home users or for large enterprises). To soften resistance within the company, Zander made internal cooperation a key factor in determining pay raises and bonuses.

There was broad agreement among respondents that there needed to be a compelling strategic rationale for a realignment around markets before an organization could summon the energy necessary to carry it out. The path to competitive advantage

Classification of Companies Interviewed

The definition of success in the categorization below is based on management judgment plus objective measures of performance improvement.

Sustained success	<ol style="list-style-type: none"> 1. IBMⁱ 2. (interviews in depth with Systems Group) 3. Fidelity Investments 4. Capital One Servicesⁱⁱ 5. Imation
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Regional success (not companywide)	<ol style="list-style-type: none"> 6. Cummins India 7. Astra Merckⁱⁱⁱ
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Redesign in progress	<ol style="list-style-type: none"> 8. Nokia 9. Intel 10. Qwest Communications 11. Thermo Electron^{iv} 12. Sony^v 13. Philips Semiconductors
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Initial success followed by shifting emphasis back to product dimension	<ol style="list-style-type: none"> 14. Square D 15. Cisco
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Damaging retreat	<ol style="list-style-type: none"> 16. Xerox
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i. LV. Gerstner Jr., "Who Says Elephants Can't Dance? Inside IBM's Historic Turnaround" (New York: Harper Business, 2002), 248. Gerstner was an important source of insight into the strategic logic of aligning the company toward solutions.

ii. This case is described in G.S. Day, "The Market-Driven Organization" (New York: Free Press, 1999), and the findings were confirmed in follow-up interviews two years later.

iii. This case is described in Day, "Market-Driven Organization."

iv. Based on a speech and discussion by Marijn Dekkers, CEO of Thermo Electron Corp., at the CMO Summit at Harvard Business School in October 2004.

v. A description of the Sony organizational redesign can be found in the Marketing Leadership Council, "Driving Customer-Focused Decision Making" (Washington, D.C., 2002), 248.

had to be clear, the reasons (or triggers) had to be obvious and implementers needed to be able to see how and where they could contribute.

Managers cited a number of primary and secondary reasons to explain the strategic rationales for their realignment efforts. (See "Strategic Rationales for Alignment," p. 46.)

Implementing a solutions strategy. The desire to implement a solutions strategy was the most frequently cited strategic rationale. Many managers wanted the opportunity to work closely with

customers to design tailored solutions that integrated both products and services and entailed some degree of risk sharing.⁸

Cummins India Ltd., which manufactures and sells a variety of engines and generators in East Asia, offers a good example. It began as a diverse group of separate joint ventures for making and selling engines, generator sets and related equipment, and had a separate service entity. The motivation to change was driven by two main factors: fear of losing its dominant market share and deteriorating profit margins as the Indian economy opened to foreign competition. Cummins India was lucky to have a service business. The service business taught the company

about ongoing customer needs and showed managers that the margins on custom service bundles were better than those on products.

The new head of Cummins India took the lead in advancing the company's solutions strategy. The strategy was adopted by three subsidiaries that were "product agnostic" (meaning they could offer products from competitors when those were better suited to the solution). Initially, that was highly controversial, but it soon won broad support. After all, power system customers were buying more than engines — they needed uninterrupted power and reliable end-to-end solutions. Since the realignment,

The Stages of Organizational Alignment

Companies move through a series of stages of evolution depending on a variety of strategic and operational considerations.

Stage One: Product or Functional Silos

This structure usually suffices for smaller and/or highly focused companies. The limitations are exposed when markets become more complex and customers' needs become more diverse. Common indicators of problems are growing conflicts within the organization over product and market priorities and a lack of accountability to customers.

Stage Two: Informal Coordination

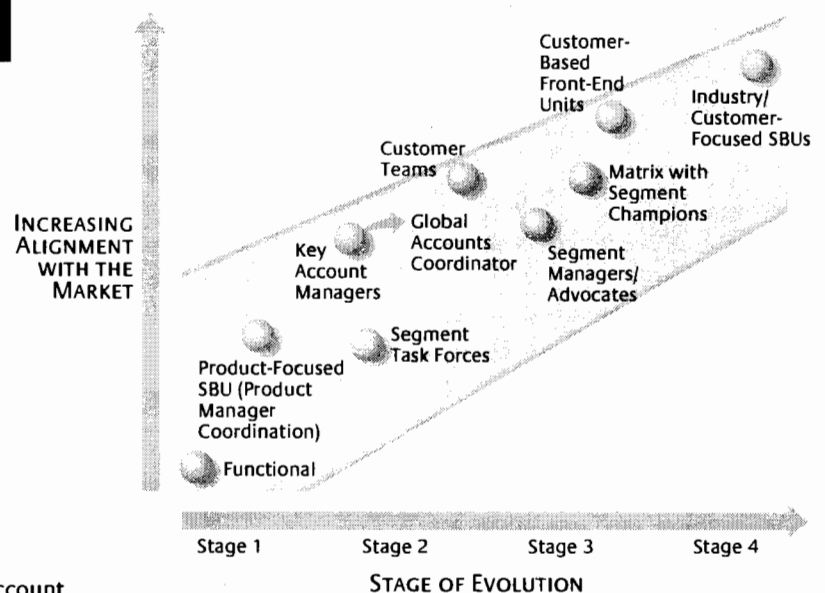
The addition of product managers and a few key account managers improves coordination of customer-connecting activities, since these roles require creating networks and bridging functional silos. A customer relationship management system helps by providing an integrated view of previously balkanized and dispersed customer data.

Stage Three: Formal Coordination via Integrating Functions

This stage involves more alignment with market segment managers, "heavyweight" customer teams and key account managers.ⁱ Their jobs are to use deep understanding of the customers within segments, to identify unmet or emerging needs and to better coordinate assorted customer-connecting activities. Internal customer advocates derive influence from their knowledge and persuasive ability, since they seldom have direct control over resources.

Stage Four: Fuller Structural Alignment

This can be achieved by: (1) strengthening the customer dimension of the organization matrix with empowered segment managers or (2) adopting a hybrid design with



strong customer-focused front-end units that offer integrated solutions supported by back-end business units that supply modular components needed for solutions. Companies use this hybrid design when customers want solutions customized to their individual needs and delivered through a single customer contact point.ⁱⁱ Complete alignment is achieved with a family of autonomous business units, each with full accountability for performance within a distinct market segment. This stand-alone design requires stable segments that overlap minimally and limited sharing of resources among businesses.ⁱⁱⁱ

i. These shifts were identified and documented in C. Homburg, J.P. Workman Jr. and O. Jensen, "Fundamental Changes in Marketing Organization: The Movement Toward a Customer-Focused Organizational Structure," *Journal of the Academy of Marketing Science* 28, no. 4 (fall 2000): 459-478.

ii. This description draws from J.R. Galbraith, "Designing Organizations: An Executive Guide to Strategy, Structure and Process" (San Francisco: Jossey-Bass, 2002), 116-134; and from N.W. Foote, J. Galbraith, Q. Hope and D. Miller, "Making Solutions the Answer," *McKinsey Quarterly* 3 (2001): 84-93. The stream of research described in this chapter also confirms the evolution toward customer-focused organizations.

iii. M. Goold and A. Campbell, "Designing Effective Organizations: How to Create Structured Networks" (San Francisco: Jossey-Bass, 2002).

Cummins India's market share and revenue have risen, even though its sales of engines and generators have declined by 30%.

Solutions strategies are best suited to financial service companies or system manufacturers that can add a valuable service "wrapper" to their products or to companies that are operating in markets that are converging.

Fidelity Investments has adopted customer-based front-end units to meet the competitive challenges of discount brokers on one side and independent financial advisers on the other. Fidelity's organizational transformation from a product-focused company started with a strategy that emphasized credible advice and investment solutions tailored to the individual investor's situation. That involved selecting the customer segments to nurture and creating dedicated groups to serve each segment with personalized guidance and service appropriate to its profit potential. The product groups continued to develop and manage a broadened array of funds and financial services that could be readily bundled. (See "Realignment at Fidelity Investments," p. 47.)

Getting closer to the market. While few managers cited getting closer to the market as the main reason for realigning, the advantages of "getting closer to customers," gaining "deeper insights into segments" and "breaking away from product orientation" were often mentioned as strong supporting reasons. Further impetus sometimes came from customers who said they were tired of having to deal with multiple salespeople from the same company.

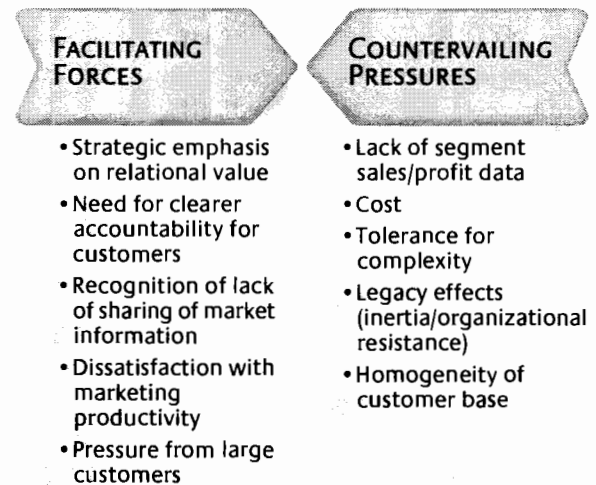
One company that moved closer to its customers was Imation Corp., which had been spun out from 3M Co. in the mid-1990s as a collection of seven product-focused businesses in rapidly commoditizing markets. After divesting five of the businesses, management decided to concentrate on two: data storage media and devices. Even though the company did not sell directly, management realigned the organization around four end-user segments: personal storage, entry level, midrange and enterprise.

Imation created a business team for each end-user segment, led by product managers whose task was to assess customer requirements and design the offering. Key account managers, who were members of the teams, called on large retailers, such as Best Buy Co. Inc., and large original equipment manufacturer accounts. The managers were not selling solutions but deep customer knowledge, which they used to reinforce their ties with distributors and retailers.

Pursuing segment growth opportunities. Both Sony Corp. of America and Nokia Corp. were concerned that their uncoordinated and product-centered organizations were missing growth opportunities and their marketing efforts were being diluted across too many categories. By bundling products to expand their positions within targeted segments, they wanted to follow the maxim, "If you have dominant share in the market, make the sandbox bigger."

The Pressures Organizations Need to Balance

Companies are constrained in how far they can evolve by a variety of factors.



Sony North America had chosen to mirror its parent company's organization of five autonomous product divisions, each with its own product focus and profit-and-loss statement. Because each product line was aimed at its own target customers — for example, the Walkman was primarily aimed at the youth market — other customer segments were underserved or overlooked. The company's product orientation meant that customers had to fend for themselves in bundling or linking Sony products. In an era of convergence, that lack of coordination meant lost opportunities to sell related products.

Managing the Implementation Pitfalls

Managers attempting to reorganize around customers need to understand the potential risks. Some of the problems are built into the contradictions and compromises in the original designs. For example, a company's eagerness to contain overhead costs may conflict with its desire to improve coordination and information sharing across the organization.⁹ Each new job function adds to the bureaucracy and cost and disperses market knowledge more widely.¹⁰ Also, it is difficult to nurture deep functional expertise while subordinating these functions within process teams. People who are fearful of change or who think they have something to lose often will latch on to these concerns. Another common source of delay and frustration is inadequate information systems.

To overcome resistance, managers need to communicate actively and effectively.¹¹ Beyond that, the opportunities for success will be greatly enhanced when there is a clear and compelling strategic rationale for the changes and when managers pay close attention to the following three implementation lessons: Keep

everyone focused on the customer's total experience; adjust the pace of the alignment process to the anticipated obstacles; and keep realigning to stay ahead of market changes.

Lesson One: Keep Everyone Focused on the Customer's Total Experience

The first lesson for creating successful customer-focused organizations is to establish clear accountability for the relationships with the best customers. Functional and product-dominant structures are notably weak at comprehending the total customer experience and solving cross-functional problems. No one looks at the company through the customer's eyes and asks how processes can be improved, how products can be integrated across units or what other requirements might be met with an augmented offering. Without clear accountability, no one is responsible for tracking customer defections or trying to win customers back.

Likewise, systems and controls designed for measuring product profitability cannot measure the profitability of individual customers or segments. Yet the ability to treat different customers differently based on their lifetime value is at the heart of customer relationship management. Improving accountability requires a combination of system changes, customer-focused metrics and employee incentives tied to customer-segment performance.

To implement these changes, companies must have unified customer information that can be filtered through linked customer activity and cost databases. Companies with fragmented information systems have great difficulty coordinating their offerings.¹² Consolidating information at the point of customer contact makes it easier to separate the front-end customer solution units from the back-end product infrastructure.

An important factor in getting people to pay attention to the customer experience is properly selecting performance metrics. The choice of metrics needs to be guided by both strategy and objectives. Most of the companies I talked with held their customer-facing units accountable for segment revenue and profitability. But this information provides little in terms of diagnostic value, and it is not usually part of what individual contributors or teams relate to easily. Team members' general information needs to be augmented by metrics that illuminate the company's specific strategy and have a clear connection to financial performance. In addition to supporting strategy, the best metrics are meaningful to employees and are grounded in a deep understanding of customer needs and priorities. For example, GE Plastics found that on-time delivery was of paramount importance to its customers and that variability — being either late or early — was a major source of dissatisfaction. To fulfill customer needs, the company began to measure and manage the delivery "span" (the time variation from the promised date) by tying incentives to meeting designated dates. By linking incentives to particular metrics, companies can send clear messages about what matters. In an effort to encourage internal collaboration, Thermo Electron Corp., for example, rewards salespeople for sharing customer leads with other market segment groups.

Management needs to keep in mind that employees will be reluctant to get on board unless they can trust the metrics and their ability to affect the results. Unfortunately, many managers violate this principle. Some are forced to use proxies for segment revenue numbers when the real data are not available. Others use accounting methods (for example, to calculate the cost of products) that raise more questions than they answer. Of course, employees have their own methods of introducing distortions (such as auto dealership employees asking customers to give them high scores).¹³ That kind of gaming compromises the potential value of the metric and shifts the focus from the needs of the customer.

Lesson Two: Adjust the Pace of the Alignment Process to Address the Obstacles

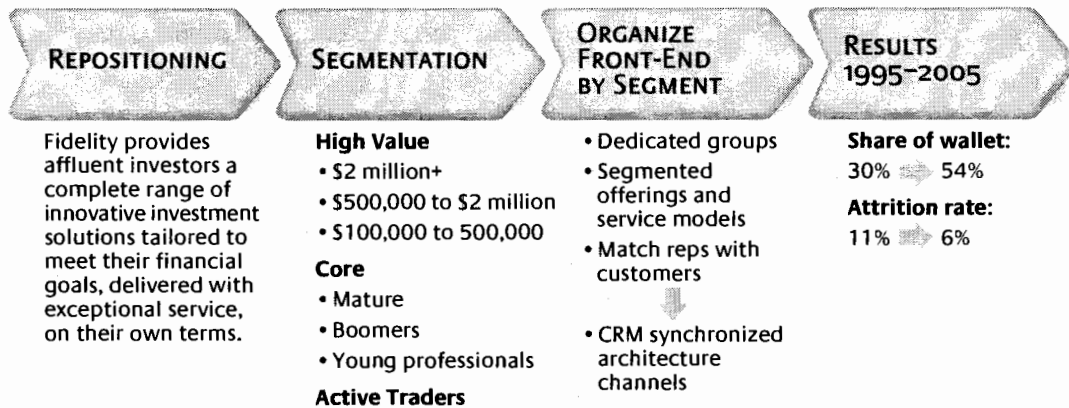
Reorganizations invariably take longer than expected. Sometimes changes in corporate leadership interfere with the sense of urgency. Many people have unrealistic expectations about how quickly plans can be carried out. At Fidelity Investments, for example, managers estimate that it took them at least three years to accomplish 60% of their reorganization goals. The main constraint was the time it took to make information system changes and upgrades.

In general, the biggest impediment to a timely reorganization was an inability to anticipate and overcome obstacles. Few companies have had more difficulty in this area in recent years than Xerox Corp., even though there was a clear strategic rationale for a proposed front-end alignment around customers. Former CEO Paul

Strategic Rationales for Alignment		
	Primary Reason	Supporting Reason
Companies had several different rationales for embarking on their restructuring programs.		
Implement a solutions strategy	8	3
Get closer to the market (improve retention rate)	3	7
Find and exploit segment growth opportunities	3	1
Improve marketing productivity	0	4
Response to competitive pressure	1	2
Number of companies giving reasons (Two companies gave two supporting reasons)	15	17

Realignment at Fidelity Investments

After identifying the customer segments to nurture, Fidelity created dedicated teams to serve each segment with personalized guidance and service levels tied to the profit potential of segment members.



Allaire recognized as early as 1992 that Xerox's new strategic focus on "the document" would have a far-reaching impact on its customer relationships. Xerox wouldn't just sell copiers; it would sell, as Allaire put it, "innovative approaches for performing work and enhancing productivity.... But that means our salespeople need to understand the customer's business, what the customer's real needs are and how the customer is going to use our products."¹⁴

To overcome the rigidity of an extremely function-based organization, Xerox initially moved salespeople and service people into geographic customer teams. That served the company well through the late 1990s. But when Rick Thoman arrived from IBM Corp. in April 1999 as the new CEO, he saw the need for a different configuration. In his view, the sales force needed to be less geographically organized and more oriented toward selling document solutions.

Due to implementation problems, none of the benefits of reorganization were realized. According to my interviews and other accounts, Xerox suffered from a mixture of problems. In some market segments, employees were not committed to selling "document solutions," and not all customers wanted solutions. The company also had unrealistic expectations about the abilities of the sales force, which was not properly trained in their new roles and lost long-standing relationships. Effective as they were at selling boxes to office administrators and purchasing agents with large contracts, their knowledge of networking or specific industries was lacking. Gradually, longer sales cycles, customer defections, sagging morale and finger-pointing crippled the reorganization effort. Within a year, one-third of the sales force left the company.

A company's culture can either make it easier for the organization to realign around markets — or make it harder. Nokia Corp., for example, benefited from a flexible culture that encouraged

informal networking and task forces composed of people from different business units. That made it easier for the company to accept the idea of separate businesses serving distinct markets. Obstacles arise when the culture is mature and absorbs dysfunctional beliefs. Among them: that "the sales force owns the customers" or that "customers don't know what they want."

Many managers are aware of the more obvious obstacles — mismatched capabilities, fragmented information systems and poor execution — and take steps to deal with them. But they frequently overlook two others: customer resistance and internal tension.

Even though one of the strongest arguments in favor of realignment is that it helps managers differentiate product and service levels based on customer value, long-standing customers who are costly to serve usually resent being relegated to a lower status, and they often work hard to circumvent the rules. Companies need to design strategies for dealing with these issues early to avoid jeopardizing the whole program.

Managers should also brace themselves for new flare-ups of long-simmering internal conflicts, particularly between marketing and sales. When many different parts of the company — for example, field sales, inside sales and customer service — all interact on the same account, close coordination between marketing and sales is critical. But too often, there is infighting and duplication. In addition to being costly, it leads to a poor customer experience.

Lesson Three: Keep Realigning to Stay Ahead of Market Changes

Because markets are always changing, organizations continually slip out of alignment. Management's ability to stay abreast of change is by no means certain in light of the inherent drag of system legacies, culture and other obstacles.

**An organization in transition pauses briefly at the top of the pendulum swing, then accelerates through the bottom.
The risk of over-alignment is why savvy managers adjust their course quickly in response to market feedback.**

Organizations that focus on the customer dimension need to think about which customer to serve. Logic dictates that you cannot serve all segments equally well. Do you want a high share of a few accounts, or a smaller share of a large number of accounts? Assuming that the roster of high-value accounts keeps changing, companies must be prepared to form and re-form their account teams as new segment opportunities emerge.

There is also the pendulum phenomenon: An organization in transition pauses briefly at the top of the pendulum swing and then accelerates through the bottom, which was the intended destination. As a result, the risk of overshooting and over-alignment is high, which is why many savvy managers expect to adjust their course quickly in response to market feedback. For example, when Philips Semiconductors Co. established global account teams to handle its biggest accounts, the company encountered a number of problems. Some were the consequence of having to manage teams across multiple time zones; others were related to the cultural complexities of having people located in one country reporting to managers elsewhere. Management also found that some customers didn't really want a closely linked collaborative relationship that functioned like a joint venture. In response to this feedback, Philips is evolving to a more hybrid organization, with global teams involved with the biggest customers. The rest will be served on a more regional basis.

Companies looking to stay aligned with the market need to be responsive to both customer opportunities and competitive cost pressures. In tough economic times, cost considerations may need to take the upper hand. During most of the 1990s, Square D Co., for example, part of Schneider Electric SA and a maker of industrial control and distribution systems, was organized around its main markets, which included industrial, residential and construction, to serve global customers that wanted integrated solutions. The customer-focused structure, supported by centralized manufacturing, worked well for several years, but it ran into trouble when the economy slowed and customers started moving production overseas for lower costs. Square D's reaction was to strengthen the product side of the matrix; product managers were assigned responsibility for profit and loss and made accountable for costs savings. In that way, Square D shifted to a hybrid structure, with the front end of the organization aligned around markets and the rest structured around products.

Market difficulties were the catalyst for organizational changes

at Cisco Systems Inc. as well. Until the technology slump of 2001, Cisco had done well with a highly integrated structure with three separate semiautonomous lines of business.¹⁵ Each line of business developed, manufactured and sold its own customized networking solutions to distinct customer segments: Internet service providers, large companies and small to midsize businesses. But the market slump exposed the fault lines of that approach — in particular, the high costs of redundancy in engineering and innovation.¹⁶ Meanwhile, the previously distinct customer segments were converging with regard to their technological sophistication and requirements, and companies such as Huawei Technologies Co. Ltd. of China were offering competitive products at lower prices.

To reduce costly redundancies, Cisco centralized all related technologies into 11 technology groups. Solutions engineering teams, which were assigned to the central marketing function, mixed and matched from the various technologies. That allowed Cisco to share technology across multiple customer segments. The realignment was implemented within three months without layoffs or physical relocation of most engineers. Within two years, the benefits of the cost efficiencies were visible. Customer satisfaction remained high, and in 2003, net income rose to \$3.6 billion.

ORGANIZATIONAL STRUCTURES WILL CONTINUE to be in flux because they are a means to an end: the realization of a competitive strategy. When companies rethink or redirect their strategies, they are also redesigning their enabling structures and supporting mechanisms to achieve better results. Both Square D and Cisco rode their customer-focused organizations to rapid growth during the 1990s and then found (when market growth slowed and competitors appeared) that they were no longer aligned with the market. In each case, the ability to regroup was enhanced by the fact that the company had existing market-driven cultures. Indeed, many Cisco observers believe that customer advocacy is so much a part of its cultural DNA that it was impervious to changes in the formal structure.

In the end, organizations are made up of more than boxes, arrows and lines, but structure does signal strategic intent. Although the balance of accountability and power of each dimension will shift, some form of alignment with markets will continue to offer value, even in the most cost-constrained and demanding markets.

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12. M. Sawhney presents a similar notion in "Don't Homogenize, Synchronize," Harvard Business Review 79 (July-August 2001): 101-108. He notes the most difficult challenge is getting the back-end product groups to view the internal customer-facing units as their primary customer, rather than the external end-users.
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14. R. Howard, "The CEO as Organizational Architect: An Interview with Xerox's Paul Allaire," Harvard Business Review 70 (September-October 1992): 107-120.
15. This description of the Cisco reorganization is based on R. Gulati and P. Puranam, "Organizational Inconsistencies After Reorganizations: Good for Performance?" working paper, London Business School, London, 2005.
16. Under the burden of high costs relative to new competitive entrants, and a slowing of global demand, net income collapsed from \$2.7 billion in 2000 to a \$1 billion loss in 2001.

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