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YOU DON'T HAVE *ANY* INTERNAL CUSTOMERS:

How The Quality Movement Attacked The Marketing Concept

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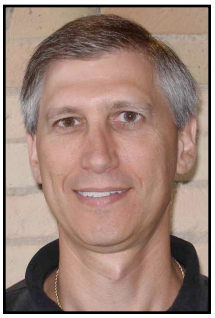
The Marketing Concept holds that the purpose and challenge of every business is to gain and retain customers in a manner that attracts operating cashflow and produces sustainable profits. The TQM philosophy, on the other hand, teaches that everybody affected by a business is a customer, whether or not they buy anything. Because of this, the TQM customer concept has significantly impaired consumer value creation, destroyed immeasurable economic wealth, and continues to leave executives and employees confused about who their customers are and how best to serve them.

Have you or other executives in your company adopted the language of "internal" and "external" customers in an effort to improve quality and become more customer focused? Ironically, such language may be doing your employees, shareholders and customers an immense disservice.

A large percentage of executives and managers we encounter have the following three problems in common:

- they don't know enough about who their customers are and what they value, beyond broad, sweeping, general statements;
- they don't know enough about consumer and customer expectations and perceptions of their products, service quality and overall satisfaction with the company;
- they are confused about who their customers are, and whether *co-workers* are or are not customers, although there are usually strongly polarized opinions and long-standing debates that have been left unresolved for years.



The first two problems can be re-

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solved by straight-forward empirical research and a commitment to marketing discipline. The last, however, isn't resolved as easily because the problem is more conceptual in nature. Yet it has a major impact on the first two, and hence is more insidious in its detriment to business success. It requires considerably more context and effort to convince people to rethink the ideas they hold. This is particularly true when managers take it on revered authority that those ideas have merit, or worse, think that resolution of such issues has no practical effect on the business.

> Executives and managers are confused about who their customers are and whether coworkers are or are not customers.

When asked "who are your customers?," executives and managers provide a multiplicity of answers that they generally divide into two categories: 'internal' and 'external.'

Internal customers refer to individuals or groups of company employees, including other business units, branch offices and sales/distribution channels. *External* customers are independent distribution channels and marketing partners, but are also those whom employees like to refer to as the 'real', 'ultimate' or 'actual' customer.

I find it remarkable that so many business managers are so confused about what seems obvious: the only customer is the 'real' customer, the person that buys and uses the product, and contributes to the company's sales revenues. And yet we find that business managers work themselves into knots to convince themselves and others that this isn't so! It is my contention that this talk of 'internal' and 'external' customers is toxic and needs to be eradicated from the workplace. The confusion it generates comes at a huge cost in terms of diffused strategic focus, wasted effort, squandered profits, and lost opportunities. The virtues it brings to the workplace are non-existent.

> The customer is the user of the product, yet managers work themselves into knots to convince themselves and others that this isn't so.

Examples of "Customer" Confusion

Here are three examples of how confusion about who the customer is negatively impacts business performance.

Call centre managers of a national communications company (US$3.5+ billion annual revenues, 2 million+ subscribers, 18,000 employees) were engaged in a heated discussion about whether the operating companies that paid for the call centre's service were its primary customer or whether it was the service subscribers. The result of treating the operating companies as the customer was an internally-focused adherence to policies, procedures and metrics. This internal focus addressed some of the immediate short-term interests of company executives while falling substantially short of meeting subscriber service expectations. The operating companies certainly behaved as if they were the customers of the call centres and it was the role of the call centres to please *them*. The idea of working together as partners to serve the best interests of the business by creating loyal subscribers did not appear to be a real business priority beyond lip service.

The call centre was caught on the horns of a dilemma and skirted the issue, which was highly politically charged, by conceding that there were two customer groups, one internal and one external. This may have served the psychological needs of the call centre staff, but it didn't help

the reputation of this company for providing terrible customer service. In the end, the call centres, despite their best efforts to be subscriber-focused, were brow-beaten into serving the needs of their "internal" customers, while subscriber defections from the company continued at critically high levels due to overall dissatisfaction with the firm.

> Talk of 'internal' and 'external' customers is toxic and needs to be eradicated from the workplace.

A second example is an insurance company (US$850 million annual sales) that treats its broker distribution channel as its customers rather than its policyholders. The president of one brokerage was disgusted with this practice because to him it meant that the two companies were not working together to serve the needs of his customers, the end consumer. As he put it, "we are not working together to get more. They are satisfying us and that's it."

By focusing on the distribution channel as its customer, the insurance company was able to convince itself that it was customer-focused without understanding the value it was or wasn't providing to potential or existing policyholders. They ascribed to a product-push business model whereby they would provide services and incentives to brokers with the hope that the brokers would push their products over the competition. By doing this, they were ignoring the fact that it is consumers who buy insurance and pay premiums, not brokers.

> When important concepts are abused, they can no longer properly be used because they impede thinking.

The third example is from a retail company with US$1.5 billion in annual revenues that has very clear and deliberate language to describe customers because the human resources executive overseeing this aspect of policy believes strongly and correctly that the language used is very important in communicating the intended message. In addition to ascribing to the notions of internal and external customers, this company identified people who shop in their stores as *guests*. I was told by a keeper of the language torch that the word "customer" was reserved for consumers who have *never purchased from the company*. This is a total inversion of the customer concept. Where it used to be that buying something made you a customer, at this company, *not* buying something made you a customer! This was the customer concept being taught to and reinforced among 20,000 employees.

It is true that the terminology we use is important. Words stand for specific concepts and cannot mean whatever we want them to mean. They stand for something in reality, and reality stands between our desires and our achievements. There are rules that guide the formation of the definitions of concepts. When important concepts are abused, they can no longer properly be used because they impede thinking. In logic, false premises lead to false conclusions. That, combined with sloppy thinking, leads to the acceptance of absurd business practices that cannot but fail to achieve their intended objectives. Failure is assured when one's thinking and actions are misaligned with the natural laws of cause and effect. As Jon Katzenbach wrote, "when we are undisciplined in our language, we become undisciplined in our thinking and actions."

The third example above may be extreme in its blatant irrationality, but the commonly accepted thinking that business success requires the creation of an 'internal' customer service culture as presented in the first example, or a culture fo-

cused on 'external' customers as presented in the second example, is equally harmful. Almost every employee at each of these companies would agree with the statement that anybody that makes a request of them is, at that point in time, a customer, and that they have an obligation to satisfy the expectations of that customer.

How was the customer concept destroyed, and how did our business leaders become so confused about such a clear and simple concept? They probably don't know it but by embracing customer service training rooted in the customer philosophy of the Total Quality Management (TQM) movement, business leaders unleashed a destructive mind virus bent on impairing clear business thinking. Over time, this virus has attacked and impaired or destroyed a more basic and fundamental conceptual business requirement popularized as "the marketing concept."

> By embracing the customer philosophy of the TQM movement, business leaders unleashed a mind virus bent on impairing the marketing concept.

External Focus Inverted, Marketing Concept Subverted

It is ironic that the notion of 'internal' customers was introduced to foster increased cooperation and partnership to achieve improved quality and an appropriate external customer focus, and that instead, it frequently leads to the opposite: an internally oriented, short-term, employee-satisfaction focus. In actual practice, the internal/external customer dichotomy leads to the opposite of its original intent.

Why is this the case? The answer lies in the true nature of what a customer is, the purpose of business, and our inability to alter this reality through the arbitrary redefinition of concepts.

From the first historical instance of voluntary exchange of goods for profit, there were two categories of participants in economic exchange: producers who created goods and services, and consumers who bought them. (Consumers and producers are often the same person assuming different economic roles at different points in time.) Consumers become customers when they exchange money for goods or services and thereby become a source of revenue that is external to the business.

When the nomenclature of 'internal' and 'external' customers is adopted, the notion that customers contribute to revenues and sales volume is lost. And given popular business wisdom holds that the *customer* is always right and the *customer* is king, employees are all too willing to assume the status previously held only by revenue contributing customers.

The notion that employees are customers empowers each to a level of superiority over all others whenever they act in their role as 'customer.' Instead of teamwork focused on the "real" customer, each employee focuses on their own role and the shortcomings of others when those others fail to provide the quality that meets or exceeds the employee's needs or expectations. In general, when employees are considered to be customers, a focus on employee expectations of internal quality delivery supercedes the required external focus on serving "real" customers.

Business Controls Production, But Consumers Rule the Market

As the world has become more interconnected and therefore complex, the basic business principles remain fundamentally unchanged. Businesses that cannot provide consumers with what they want will fail. The imperative of management is to get their organi-

zations intensely focused on understanding and delivering *consumer* value.

Most people intuitively understand that business success requires delivering value to consumers. The fuller explanation is contained in the economic concept of *consumer sovereignty*.

Consumer sovereignty recognizes the fact that the *consumer* is the ultimate decision-maker in determining what goods get produced. The implication for business entrepreneurs is that they must first identify a marketplace opportunity to serve consumers, and then satisfy their desires in a manner deemed to be appropriate and at a price that earns a profit. Business success is only achieved when a win-win solution is created in which both the consumer and the business benefit. Consumer sovereignty is the concept that the expression "the customer is king" tries to capture.

Consumer sovereignty recognizes the fact that the consumer is the ultimate decision-maker in determining what goods get produced.

This perspective reflects the proposition put forth by Adam Smith in 1776 in *The Wealth of Nations* that success in business requires an appeal by businessmen to the self-interest of consumers, and vice versa, in order to create an alignment of interests for mutual self-benefit.

It is also the underlying concept in the metaphor by the great 20th century economist Ludwig von Mises who likened the entrepreneurs who control production to the helmsmen steering a ship: "The captain is the consumer," he wrote. "Neither the entrepreneurs nor the farmers nor the capitalists determine what has to be produced. The consumers do that. If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt, and is thus removed from his eminent position at the helm. Other men who did better in satisfying the demand of the consumers replace him" (Mises, *Human Action: A Treatise on Economics*, 3rd Revised Edition, Fox & Wilkes, 1966; P.p. 269-270).

Mises continues: "The consumers patronize those shops in which they can buy what they want at the cheapest price. Their buying and their abstention from buying decides who should own and run the plants and the farms. They make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. For them nothing counts other than their own satisfaction. They do not care a whit for past merit and vested interests. If something is offered to them that they like better or that is cheaper, they desert their old purveyors. In their capacity as buyers and consumers they are hard-hearted and callous, without consideration for other people" (Mises, *Human Action*, P. 270).

Entrepreneurs and business executives know that they must successfully satisfy consumer needs to be successful in business.

In a competitive free-market, entrepreneurs and business leaders who understand that consumers control the distribution of wealth know that they must successfully serve consumer interests to be successful in business. Those who ignore consumer preferences will in turn be ignored by those same consumers.

Business Requires A Market-Based Management Philosophy

The empirically derived concept of consumer sovereignty in economics forms the basis of the idea of *consumer-centricity* or *market-based management* in business. If one understands how and why consumers are central to business success, then one can understand the critical importance to business of aligning innovation, organization, operations, knowledge, technology, and capital to provide consumers with value-enhancing solutions.

> Consumer sovereignty in economics forms the basis of the need to adopt a marketing approach and a market-based management philosophy in business.

To adopt the perspective that a business must be aligned to the needs of consumers to succeed is to adopt a *marketing* approach to business. Further, to be successful in fulfilling its purpose as a business, owners and managers must adopt a market-based management *philosophy* as their driving motivating force.

In general, a philosophy is an integrated and comprehensive viewpoint that serves as a base or fundamental frame of reference for one's decisions and subsequent actions. A *business philosophy* attempts to combine everything we know about the world and business into one integrated whole, and to identify general principles to guide the achievement of business success. A *market-based business philosophy* or management philosophy is a guiding world-view that attempts to understand the connection between consumer sovereignty and business success, and how to implement the best business practices to maximize consumer satisfaction and shareowner return on investment.

> Marketing is more than a function. It is the whole business as seen from the customer's point of view. Executives that ignore this point of view do so at their own peril.

Perhaps the world's most influential business philosopher was Peter Drucker, whom the Los Angeles Times called the "founding father of the science of management." Drucker, who studied economics and worked in the 1930s as an economist for a global merchant bank, was one of the early management thinkers and educators to apply his knowledge of economics to an understanding of business and management.

Drucker understood that business executives who ignore the critical importance of customers to their business success do so at their own peril. As Drucker put it, "It is the customer who determines what a business is. For it is the customer, and he alone, who through being willing to pay for a good or for a service, converts economic resources into wealth, things into goods. What the business thinks it produces is not of the first importance – especially not to the future of the business and to its success. What the customer thinks he is buying, what he considers 'value,' is decisive – it determines what a business is, what it produces and whether it will prosper" (Drucker, *The Practice of Management*, Perennial Library, 1986, P. 37).

Drucker was perhaps the foremost advocate of market-based management. For Drucker, marketing is more than a function, "it encompasses the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must therefore permeate all areas of the enterprise" (Drucker, *The Practice of Management*, P. 39).

Adopting a market-based management philosophy entails the structuring of an organization around markets rather than products or factories and the creation of an employee culture that is responsive to customers and changing market conditions.

Not only is a market-orientation needed to direct shareholder resources effectively to create value and earn higher profits, but value creation can only occur by satisfying consumers better than available alternatives. Roger J. Best, Emeritus Professor of Marketing at the University of Oregon notes that "Businesses with a strong customer focus not only outperform their competition in delivering higher levels of customer satisfaction, they also deliver higher profits in the short run. A customer-focused business creates greater customer value and manages customer loyalty as a way to create greater shareholder value" (Best, *Market-Based Management*, 4th Ed., Pearson Prentice Hall, 2005, P. 6).

Adopting a market-based management philosophy entails the structuring of an organization around markets rather than products or factories and the creation of an employee culture that is responsive to customers and changing market conditions.

In summary, and in the words of Harvard University marketing professor Theodore Levitt: "The first business of every business is to get and keep customers" (Levitt, *Innovation In Marketing*, McGraw-Hill, p. 243). You do this, as Peter Drucker points out, by satisfying customers: "To satisfy the customer is the mission and purpose of every business...[and] any serious attempt to state 'what our business is' must start with the customer, his realities, his situation, his behavior, his expectations, and his values" (Drucker, *Management*, Harper & Row, 1973, P.p. 79-80).

Companies that lack a market focus and thereby fail to provide a desirable customer offering will quickly find themselves with a diminishing revenue base and a deepening cash-flow crunch that will force either a rapid market readjustment that customers approve of, or exit from the business.

To Be Market-Based Is To Be Marketing-Based

A market-based business philosophy begins with the axiom that the primary function of a business is to provide solutions to consumers in a manner that is profitable. It is the role of entrepreneurs and managers to figure out how to do that successfully.

This entrepreneurial function is essentially a *marketing* function. Marketing provides a unique perspective because it is outward focused towards markets and customers.

What is marketing? I like this definition by Jerry Kirkpatrick, professor of Marketing at California State Polytechnic University at Pomona: "*Marketing is the entrepreneurial function of business that creates need- and want-satisfying services and products, and delivers them to consumers"* (Jerry Kirkpatrick, "Objectivist Epistemology as the Foundation of Marketing Theory" in C. Whan Park and Daniel C. Smith, eds. *Marketing Theory and Applications*, Vol. 5, American Marketing Association, Chicago, 1994, 118-125; also at http://www.csupomona.edu/~jkirkpatrick/Papers/ObjEpistMktgTheory.pdf). Almost every marketing function – sales, pricing, promotion, new product introductions, distribution, service, customer relationship management – requires that close attention be paid to the world that exists beyond the boundaries of the business. In contrast, personnel management, finance, accounting, research and develop-

ment, data processing, procurement, human resources, and most other company functions are primarily inwardly focused on events that occur within the business. (See Steven P. Schnaars, *Marketing Strategy: A Customer Driven Approach*, Free Press, 1991: P.p. 4-5)

Marketing is the link between the world and the business enterprise. Its purpose is to ensure that the business is aligned to its defined purpose. Its accountability at the highest level is to lead the allocation of capital and resources to gain and retain customers while earning a profit. To do this, marketing places the customer at the centre, with all of the firm's resources and actions oriented and aligned towards profitably serving consumer needs.

It is the purpose of marketing to ensure that the business is aligned to its defined purpose. Its accountability at the highest level is to lead the allocation of capital and resources to gain and retain customers.

Steven Schnaars, marketing professor at City University of New York, in his major study of marketing strategy, describes this customer-centric viewpoint: "At the heart of this orientation is the marketing concept, which is the most fundamental precept in the discipline of marketing. It holds that a firm should try to discover what consumers want and make products to satisfy those wants" (Schnaars, *Marketing Strategy*, P. 7)."

It is the marketing concept, states Schnaars, that infuses a business model or strategy with a focus on customers, and "reinforces the idea that customers for the firm's products ultimately determine whether a strategy was brilliantly conceived or blindly concocted. It is based on a simple proposition: a firm without satisfied customers has little chance of long-term success" (Scnaars, *Marketing Strategy,* P. 8).

Identifying the right customers is critical to business success, and misidentifying customers can be a fatal strategic mistake.

"Who Is the Customer?"

To adhere to a market-based approach means to be customer focused. This begs the question: Who is the customer?

How the business answers this question is critical to how it develops its business model, strategizes, organizes, and allocates resources. Identifying the right customers is critical to business success, and misidentifying customers can be a fatal strategic mistake. To do it right requires critical thinking about the values of consumer segments and the best way to reach the most promising consumers and influence their buying decisions in favour of your company.

Some business philosophers, like Peter Drucker, contend that most businesses have at least two customers. This occurs in any situation where the buyer is not the end consumer, or where the distribution channel is independent of the manufacturer. For example, a carpet manufacturer may have both the building contractor and the homeowner as its customers because both have to buy if there is to be a sale. Similarly, a manufacturer of branded consumer goods has both the grocer and the consumer as customers because "it does not do much good to have the housewife eager to buy if the grocer does not stock the brand" (Drucker, *Management*, P. 81).

Whether or not one agrees with Drucker on the specifics of who is the customer, it is clear from the examples he provides that he believes customers are *external* to the business and directly contribute to sales volume. It is also clear that identifying the customer and understanding "his realities,

his situation, his behavior, his expectations, and his values" is critical to business success.

The risk in misidentifying one's most promising customers and failing to be perceived as a source of value to them is that the business will fail to fulfill its mission and purpose. That's why a market-based or customer-driven business philosophy is a requisite component – a fundamental pillar – of business success. The success of a business depends on, and has always depended on, at least an implicit understanding and implementation of the tenets of this philosophy. While the presence of a market-based business philosophy doesn't guarantee business success, the extent and degree to which it is absent does guarantee business failure.

To the extent that business executives fail to adopt a market-based business philosophy, they ensure the facilitation of significant business failure and destruction of shareholder value.

It would therefore be irresponsible for executives and managers to knowingly adopt and promote business concepts and disciplines that work to undercut or destroy the legitimate foundations of business under the auspices of enhancing business effectiveness. It would be equally irresponsible to assume responsibility for leading and managing a business without understanding and taking seriously the basic requirements for business success. This includes the need for a business to adopt and adhere to a market-based business philosophy that recognizes the imperative to acquire and keep customers by being the leading solutions provider to its consumer segments.

To the extent that business executives fail to adopt reality-based business models and strategies that drive sales volume by appealing to consumer values, whether through neglect, willful avoidance or a complete disdain for critical thinking and logical integration, they ensure the facilitation of significant business failure and destruction of shareholder value.

Internal Customer Is An Anti-Concept

One sure-fire way to dilute the proper outward-looking focus of a business and to circumvent a market-based business philosophy is to fail to focus resources around gaining and retaining customers. As Drucker put it, to lack understanding about the customer, his realities, his situation, his behaviour, his expectations, and his values is to betray the mission and purpose of the business. And yet many executives and managers today engage in the harmful practice of misidentifying their customers by promoting and fostering the popular misconception that *co-workers and other non-customer stakeholders are really customers*.

The primary culprit in leading businesses away from a proper focus on customers and the marketing concept is the Total Quality Management (TQM) movement, which rejects the traditional and common sense definition of customer as the buyer of a product or service, and provides its own definition.

According to Lloyd Dabyns and Clare Crawford-Mason in their book *Thinking About Quality: Progress, Wisdom, and the Deming Philosophy* (Times Books, 1994), "the definition of customer expands in most quality programs to include internal and external customers. The external customer is fairly obvious: it's whoever is paying the bill for the product. The internal customer is whoever depends on your work" (p. 14).

It is this expansion of the definition of 'customer' that is problematic because the new definition subverts the interests of the business and substantially reduces the ability of businesses qua business to succeed. Further,

as we shall see, the definition of the "external" customer as provided by the leaders of the major TQM schools is anything but "fairly obvious" and is assuredly not limited to "whoever is paying the bill for the product."

Despite the widespread use of this new customer terminology injected into business by the TQM movement decades ago, we shall see that the concept of 'internal customer' is incoherent as anything more than an ill-conceived metaphor. But note that the TQM advocates don't mean it to be a metaphor. The leaders of the TQM movement assert a different and expanded meaning to the use of 'customer.'

> Many managers engage in the harmful practice of misidentifying their customers by promoting the notion that coworkers and other non-customer stakeholders are really customers.

In their attempt to redefine the concept, they succeed in destroying the concept by removing the essential differentiating element. They take a valid concept and transform it into an anti-concept. To have any meaning at all, the notion of 'internal customer' must depend on the validity of the concept 'customer.' Yet once 'customer' is redefined so that the essential act of purchasing is removed, the original meaning of 'customer' upon which the alleged new concept depends is obliterated. As a result, this redefinition does irreparable harm to the ability of business managers to maintain their proper market-based, customer-focused approach because the link from the concept 'customer' to its distinguishing characteristics (a buyer, purchaser) is severed.

> The primary culprit in leading businesses away from a proper focus on customers and the marketing concept is the TQM movement.

From The Right Idea To The Wrong Execution

The basic underlying *idea* behind the notion of "internal" and "external" customers isn't wrong when put in the proper business context. But as advocated by the TQM movement, it was wrong both in its context and execution. The correct context is that to be more customer-focused or market-driven as an organization, employees need to work better together within defined management systems to create and deliver value to consumers. The proper focus is on the efficiency and effectiveness of the value-chain to enhance the creation of customer and shareholder value. It is proper for business managers to design quality systems that link the processes within an organization to create products and services desired by customers. It is not proper to claim that these systems are developed to serve customers, and then assert that everybody involved in or affected by the system is a customer. This literally makes the quality system self-serving and an end-in-itself, and not an end in pursuit of a valid business objective. It effectively and literally renders the purpose of TQM purposeless.

The basic extension of TQM principles under the guidance of the marketing concept is appropriate for every business organization, but most companies in the 1980s, and perhaps still, were operating under the more popular production concept that espoused *internal* operational efficiency at the expense of *external* market-based operational effectiveness. Executives and their consultant advisors ignored the market-based teachings and warnings of the likes of Peter Drucker, Theodore Levitt, and Philip Kotler, and were instead adopting the production efficiency philosophies of the TQM gurus, such as Philip Crosby, W. Edward Deming, and Joseph M. Juran, who packaged

their products in market-based language but failed to maintain the conceptual links, thereby severing the tie to consumer sovereignty. Ironically, the systems-thinking-based integrated approach advocated by the quality adherents was disintegrated from the more fundamental need for business processes to be connected to customers and markets.

> The TQM definition of 'customer' subverts the interests of the business and substantially reduces its ability to succeed.

As competition from Japan was becoming intense in the late 1970s and throughout the 1980s, too many North American companies were doing business as usual, which meant managing the business and allocating resources with insufficient knowledge about the values of their customers. The message from Drucker and Levitt in the 1950s and 1960s was that the purpose of a business is to create customers, which means delivering products and services that consumers will buy. The message from Crosby, Juran, and Deming was that customers desire quality, and that better internal processes will reduce product defects and operating costs, which will lead to higher levels of customer satisfaction and enhanced business success.

> It is not proper to claim that quality systems are developed to serve customers, and then assert that everybody involved in or affected by the system is a customer. It effectively renders the purpose of TQM purposeless.

As the Japanese and the Pacific Rim countries became more competitive by focusing on marketing basics, North American companies struggled to compete effectively in their home markets. The secret to Japan's competitive success was perceived to be their immense superiority in providing manufactured goods of higher quality and fewer defects than their American competitors. In the struggle to compete, American companies rushed to copy the Japanese by implementing their total quality management techniques and focusing on improving the quality of their existing offerings.

It is almost a certainty that the practitioners implementing the TQM concepts and attending TQM seminars assumed a short-term tactical approach rather than longer-term strategic approach to quality improvement, and failed to understand the unbreachable connection between the marketing concept and the quality concept. It is almost certain that their CEOs and executives were equally uninterested in a philosophically integrated approach to business and to ensuring an unbreached adherence to the marketing concept. What was valued and sought were pragmatic solutions that would achieve quick improvement results.

The message from both the Marketing advocates and the Quality advocates was that businesses could, and should, do better. But the two positions are compatible if, and only if, the focus on quality supports the marketing concept under a market-based business philosophy. Absent of this, an internal focus on process improvement to drive operational efficiencies is deadly poison, as thousands of prominent companies would soon learn through the 1980s and 1990s, and continue to learn today.

Quality improvement did make businesses more competitive and certainly enhanced the customer value equation, but it succeeded *only to the extent that the quality improvements were desired by customers as reflected in their purchasing behaviour*. This is an important point, because businesses were being

told by leading academics, management gurus, politicians, trade organizations and the popular press that the solution to the Western business crisis was to improve product quality. In fact, product quality can only be beneficial when it is congruent with the marketing concept.

Inventing Customers Where None Exist

Throughout the 1980s, North American companies focused heavily on improving manufacturing processes and product quality, and made significant strides by introducing the tools and concepts of TQM. For the most part, the orientation was internal, with a shift over the years from quality being defined internally based on conformity to specifications, to quality being defined by customers.

Product quality can only be beneficial when it is congruent with the marketing concept. But absent of this, an internal focus on process improvement to drive operational efficiency is deadly poison.

By the 1990s, the emphasis on service quality was in high swing. This was a positive shift towards recognition of the veracity of the marketing concept and the importance of focusing on the needs of consumers. Much of this shift was influenced by Tom Peters and Robert Waterman Jr.'s *In Search of Excellence* (1982) and Jan Carlzon's *Moments of Truth (1989)*.

It became generally accepted that managers should strive to move their business models along the continuum from internally focused to customer-focused. Mission statements were being re-written to demonstrate a market focus orientation, organization charts were being drawn with the customer on top to illustrate the intention that the company reports to the customer who is boss, and customer listening mechanisms and metrics were put in place to try to understand customer values and operationalize processes to meet and exceed their expectations – to develop and deliver the "wow factor" that could create customer loyalty and competitive advantage. There was a general recognition that business success requires the delivery of the best value proposition to customers given all available alternatives. Don Peppers and Martha Rogers kicked-off the customer relationship management decade of the 1990s with *The One To One Future: Building Relationships One Customer At A Time* (1993).

Instead of executives driving business decisions from boardrooms, the message was that customers should be driving decisions; that customers acting in their own self-interest define the value of the marketing proposition being offered. Realigning all assets of the business around the creation of perceived customer value in order to generate shareholder value meant a whole new way of thinking about business for most executives – a paradigm shift in thinking. For example, businesses were organized vertically into operational silos, but customers didn't care about that. It was the company's problem to figure out how best to align its assets to create a viable customer value chain. The only thing that consumers had to decide was how to vote with their dollars.

The problem of winning customers and earning revenues in an emerging world of heightened competitiveness and quality improvements meant figuring out how to innovate to provide increased value to customers. The employees who knew the most about what customers liked and disliked about the current offering were those on the front-line who interfaced with customers daily. For them to deliver top quality products and services to customers, they needed the support of management to create appropriate and integrated

processes throughout the company. That was the thinking behind the inverted pyramid organization chart, which illustrates the idea that the role of managers is to support the front-line. Along with this notion came the excellent customer-focused slogan: If you're not serving a customer directly, you had better be serving someone who is.

For years in the late 1980s and throughout the 1990s management consultants and HR departments made themselves busy helping employees understand their place in the value chain and how to best serve their fellow employees. The intended objective was to create memorable customer experiences that would result in satisfied customers who would spread positive "word of mouth" endorsements about the company and thereby create additional business opportunities.

It was from this notion of building what we would now call value-chains, and understanding the service demands and quality requirements of each person in the flow of work and how best to satisfy their needs so that ultimately the customer will be highly satisfied, that the notion of serving 'internal' customers was developed.

Employees were taught that anyone to whom they provided a service or a benefit was a customer, not just buyers. Millions of new customers were defined into existence.

To communicate the basic and important economic concept of creating wealth through production by means of cooperation and the division of labour, which is what goes on within profitable organizations and what the value-chain concept is all about, the "total quality" pedagogues developed methodologies to indoctrinate employees that everybody along the chain both is, and has, a customer.

Those that dealt directly with customers and others not on the company payroll were said to have "external" customers, and those that provided services to people that worked for the company had "internal" customers.

Where employees understood that a customer was someone who purchased goods or services from a company and was a source of revenue, the new concept excluded the fundamental notion of monetary exchange. Employees on mass were taught that anyone to whom they provided a service or a benefit was a customer. Also, any demand made by any person upon any employee was considered to be a customer demand. A customer was now defined by the act of expressing a need with the expectation of it being fulfilled.

Millions of new "customers" were defined into existence.

The Quality Movement Destroys The Marketing Concept

As energy prices soared in the late 1970s and American industry faced a dual crisis of recession and an inability to provide consumers with products they preferred over foreign imports, the wisdom of the sages was that America faced a crisis of quality. This was true, but as I have tried to demonstrate, it represented a narrow perspective that missed the wider context. What America and other free-market economies faced was a management crisis caused by a refusal to acknowledge the purpose of business and the role of business philosophy in the successful creation of wealth. And yet the answer to the problem was there before them, but for the most part was neglected. The antidote existed in the writing of two well respected but unfashionable old-school thinkers: Peter Drucker and Theodore Levitt. Throughout the 1980s North American businesses perceived that they were suffering a narrow crisis in manufacturing, not a wider and more fundamental crisis

brought on by a failure in business philosophy and marketing.

To make things worse, a crisis in confidence in the efficacy of free-markets to create wealth and economic prosperity was in full swing, and it appeared that the Japanese model of economic planning and political statism was proving to be more effective than the American free-market model. So to be pragmatic, when it came to the realm of ideas and intellectual guidance, it was a case of out with tired voices in support of free-minds and free-markets, and in with the fashionable theories more compatible with the central economic planning models of the East.

Crosby, Juran & Deming made exceptional contributions to the creation of wealth and the improvement of human life. But there is also a dark side to the TQM story.

The new came in the form of three leading quality gurus who would save the Western world from its misguided business myths and lead it out of its management and industrial crisis. The big three were Philip B. Crosby, J.M Juran, and W. Edwards Deming. These three had a lot to offer and teach about the philosophy of total quality control and its application to business, and to that extent they assuredly did make exceptional contributions to the creation of wealth on this planet and the improvement of human life and well-being. There is much virtue and management wisdom to be gained from each.

These failings of the TQM philosophy continue to reap untold destruction of shareholder value and lost opportunities to this day.

But there is also a dark side to the TQM story. Many of the shortcomings of the implementation of their ideas rest not in their intentions or scientific techniques of improving quality and reducing product defects to lower costs, add value and increase profits, but rather, in the extent to which important aspects of what they advocated undermined a proper market-based approach to business. These failings of the TQM philosophy continue to reap untold destruction of shareholder value and lost opportunities to this day.

What TQM Teaches Us About Customers: Crosby

The late Philip B. Crosby (1926-2001) was the author of numerous books on quality, including the 1979 best seller *Quality Is Free: The Art of Making Quality Certain*, which his publisher calls "The book that led America's Quality Revolution." In 1979 he formed PCA, Inc., a quality training and consulting company that by 1988 was publicly traded and operating internationally in a dozen languages.

Crosby's books are filled with good management advice based on his extensive business experience, and for the most part he is clear that the customer is external to the organization and central to business success, that management is accountable for figuring out how to get the company focused on the customer and figuring our what customer segments want; and finally for organizing and running the organization so that it is able to flourish and be "eternally successful." The latter, says Crosby, requires management policy to be constructed around the following five characteristics:

- People do things right routinely
- Growth is profitable and steady
- Customer needs are anticipated
- Change is planned and managed, and

• People are proud to work there.

For the most part, Crosby's major writings are consistent with the marketing concept, but for some reason, even the best of the TQM pedagogues perceive the need to expand the concept of *customer* beyond its essential characteristics, and thereby destroy the concept they deem to be so critical. Crosby states that "Customers, traditionally, are the ones who pay money to an organization for its products and services" (Crosby, *Running Things: The Art of Making Things Happen*, New American Library, 1989; P. 153).

Consistent with other leaders of the TQM movement, Crosby is eager to overthrow traditional or conventional thinking about customers by advocating that the concept should also include employees: "Inside any organization, every person has a customer. It may not be the final one who gets the package. It can be the person at the next desk. It can be the person across town or across the nation. All of us need to identify our customers and make certain that we are satisfying them" (Crosby, *Running Things*, p. 183).

For the most part Crosby is consistent with the marketing concept, but for some reason he feels the need to expand the concept 'customer' beyond its essential characteristics.

By removing the essential aspect of customers as buyers or purchasers, Crosby destroys the concept that he holds so central to his own business philosophy and thereby tragically undercuts the stated purpose of his life's work: helping companies to ensure that they prosper by serving customers.

What TQM Teaches Us About Customers: Deming

Another leading philosopher of the Total Quality movement was W. Edwards Deming (1900-1993). Born in Iowa, he studied mathematics and engineering and earned his Ph.D. in physics at Yale. After World War II he helped the Japanese with their recovery plans by training industrialists to build competitive enterprises with a focus on statistical quality control and management techniques, not just increased production.

As with Crosby, the TQM philosophy of Deming begins with a close kinship to the marketing concept. "Deming's philosophy," writes Rafael Aguagyo in *Dr. Deming: The American Who Taught the Japanese About Quality* (Fireside, 1991), "calls for organizations to produce products and services that help people live better. Providing those goods and services is the raison d'etre of an organization. By providing ever-improving services and products, an organization develops loyal customers" (P. 8).

Deming taught that "the consumers are the most important part of a production line" and that "meeting and exceeding the customers' requirements is the task that everyone within an organization needs to accomplish" (see "Deming's Message" at http://www.hkbu.du.hk/~samho/tqm/tqmex/deming.htm).

Also, according to the Ohio Quality and Productivity Forum, a coalition of six company teams from southwestern Ohio dedicated to promoting the teachings of Deming, he emphasized the importance of teamwork and creating a win-win environment in all customer-supplier relationships. They write: "The Deming principles emphasize the importance of the customer and supplier working together to develop operational definitions of product characteristics important to the customer. Deming also emphasizes the need for the supplier to innovate in anticipation of the customer's needs.... In the marketplace, the organization that delivers value, innovates

and provides goods and services that surprise and delight the customer will have the best chance for long-term success (OQPF, "Deming's Point Seven: Adopt and Institute Leadership," at http://oqpf.com/download/demings_point_7.html)

It appears from the OQPF interpretation of Deming that he very much supports and endorses a market-based business philosophy under which his quality philosophy fits. The paragraph above refers to the customer in the traditional manner as the source of revenue contribution, implying that the supplier and its network of suppliers act as supply chain *partners* to create value for the customer. If only it were so.

> From Deming's perspective, every employee is both a supplier and a customer within the firm. This renders his theory of the business unintelligible.

The OQPF notes that Deming "depart[s] from the typical view that a customer is the final purchaser or potential purchaser of the organization's product or service. In the new perspective, each employee also has 'internal' customers, the recipients or users of his or her work. In this context, each person is both a supplier and a customer within the organization. Improving the quality of work delivered by each supplier to each customer reduces waste and allows the delivery of a quality product to the marketplace at a competitive price."

> There is no fundamental disagreement among Juran, Deming and Crosby that the traditional dictionary definition of 'customer' is too confining to serve the needs of the TQM philosophy.

Deming's concept of customer is subject to the same criticism as applies to Crosby. While his intentions appear noble, the reformulation of the customer concept destroys the essentials of the valid concept, and if applied consistently, renders his theory of the business unintelligible. Why? Because when he speaks of serving the customer, by his own definition, he cannot restrict this to consumers who contribute to the company's sales revenues. Every employee is also deemed to be a customer of the firm. Whenever Deming refers to customers, he is referring to the *total* set of customers. If that was not his intention, then there would have been no need to broaden the traditional definition of the concept.

What TQM Teaches Us About Customers: Juran

Based on the literature reviewed, the person that provides the most insight into his thinking about the TQM concept of the customer is J. M. Juran. His view is more explicit than the others simply because he wrote about it more openly. But given that there is no apparent fundamental disagreement among Juran, Deming and Crosby that the traditional dictionary definition of 'customer' is too confining to serve the needs of the TQM philosophy, the criticism addressed towards Juran is equally applicable to Deming and Crosby.

Juran is often recognized as the "father" of quality because of his pioneering work moving quality beyond statistical control into a broader systematic methodology and operating philosophy. He is also credited with having conceptualized the Pareto principle, more commonly known as the 80/20 rule. He has written numerous books providing step-by-step methodologies for breakthrough quality improvement. In 1979 he founded the Juran Institute to disseminate tools and techniques for managing quality.

Like others in the quality movement, Juran appears to position his focus on quality within the context of a market-based purpose of the

business. Achieving quality, he said, "involves finding out what the customers need. And who are the customers? How can we design our goods and services to respond to those needs? How can we produce those goods and services using the proper technology?" (quoted in Lloyd Dobyns & Clare Crawford-Mason, *Quality Or Else*; Houghton Mifflin, 1991, P. 70).

This appearance of quality being focused on the overall business purpose and serving the marketing master is illusory and self-consciously deceptive on Juran's part.

But this appearance of quality being focused on the overall business purpose and serving the marketing master is illusory and self-consciously deceptive on Juran's part. The marketing concept is not inherent to Juran's quality philosophy, and is in fact antithetical to it. *Juran is explicit about this matter*.

Juran teaches that "A customer is anyone who is impacted by the product or process. Customers can be external or internal." He then defines external and internal customers as follows:

"External Customers. These are impacted by the product but are not members of the company that produces the product. External customers include clients who buy the product, government regulatory bodies, and the public (which may be impacted due to unsafe products or damage to the environment)."

"Internal Customers. They are impacted by the product and are also members of the company that produces the product. They are often called "customers" despite the fact that they are not customers in the dictionary sense, that is, they are not clients." (J.M. Juran, *Juran on Quality By Design*, Free Press, 1992: P. 8).

Juran's definition of the customer fails to provide businesses with any guidance at all because almost everybody is considered to be an external customer.

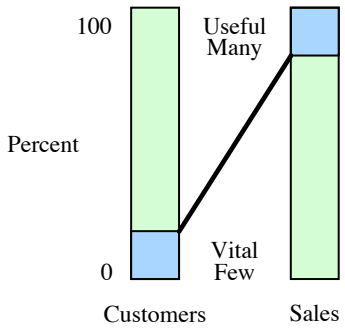
With this in mind, let's return to Juran's important questions. He says that achieving quality involves finding out what the customers need, defining who the customers are, and determining how to design goods and services to respond to those needs.

Juran's definition of the customer fails to provide businesses with any guidance at all. Why? Because almost everybody is considered to be an external customer, including both product users and non-users. The categories of external customers are for all intents and purposes unlimited, and would include those that Juran names and others, including politicians, government bureaucrats, teachers, emergency services personnel, shareholders, journalists, garbage collectors, advertising agency staff, telephone company employees, welfare recipients, etc.

For example, Juran writes, "Any major process affects numerous customers. Often the number is so great that it is necessary to prioritize – to allocate the available resources in accordance with the significance of the impacts" (Juran, *Juran On Leadership For Quality*, P. 90). One might think that Juran is talking about segmenting customers and applying resources based on lifetime customer value or some other modern marketing CRM concept. But this isn't the case.

For Juran and his followers in the TQM movement, the number of customers is "*so great*" that Juran advocates classifying them into two groups: "the vital few" and "the useful many." The vital few are the "relatively few, each of whom is of great importance to us." The useful many are a "relatively large num-

ber of customers, each of whom is only of modest importance to us." Juran presents the chart below showing that the vital few constitute the majority of sales, citing the pareto principle that "in any population which contributes to a common effect, a relative few of the contributors account for the bulk of the effect" (Juran, *Juran On Quality By Design*, p. 508).



Pareto analysis of customers and sales volume as portrayed in *Juran On Leadership Quality*, P. 91.

"The vital few customers are usually easy to recognize," he writes. "Obvious examples include large buyers of a company's products, senior managers, whether internal or external, and those who represent powerful forces with which we must reach an accommodation (e.g., government regulators, labor union officials, and influential members of the media)" (Juran, *Juran on Leadership For Quality,* P. 91).

It is important to note that Juran begins his dissertation on this topic by indicating that the "relative few" are the 20% of customers that contribute to 80% of sales as illustrated in the diagram he provides. In fact, that group of customers includes both "internal" and "external" customers. Are these broad constituent groups (e.g., government regulators, labor union officials, influential members of the media) important to the successful functioning of a business? Under certain circumstances they can be. Are they customers that contribute to 80% of the *sales volume* as Juran proposes? Certainly not. It doesn't follow from the fact that they may be important constituents business leaders must identify and favourably influence that they are thereby customers around which the business must focus value creation.

Juran also fails to provide any explanation or criteria by which to differentiate the vital few from the useful many. Given that constituent groups such as senior managers, government regulators, labor union officials, and influential members of the media do not fit the criterion of contribution to sales volume, no objective method for inclusion can be cited, and none is.

According to Juran, addressing the question "Who are the customers?" also requires identifying "the key interfaces." Why? Because they too are customers. It appears that the "useful many" includes everybody except those included in "the vital few," regardless of whether they actually contribute to sales volume. Here is a sample of others whom Juran classifies as customers. He begins with external organizations.

It doesn't follow from the fact that there are important constituents business leaders must identify and influence that they are thereby customers around which the business must focus value creation.

"When the customer is an organization it is likely that the customer is also a cast of characters. Those who sell supplies to hospitals soon learn that their customers include the hospital administrator, the purchasing director, the quality director, various heads of specialized departments (e.g., pharmacy, X-ray, histology, and cardiology), and various professionals (e.g., physicians, surgeons, and nurses). All have needs, and all have some degree of influence on what is to be bought, and from whom. Obvi-

ously, the 'cast of characters' concept also applies to internal organizations" (Juran, *Juran on Leadership For Quality*, P. 92).

He then moves on to "internal customers" which includes "the managers of the affected departments. Their influence on quality is considerable. Internal customers also include the work force. Individually they are among the useful many. Collectively they are one of the vital few" (Juran, *Juran on Leadership For Quality,* P. 92).

> Employees are considered to be their own customer, in essence, handing off one's work to oneself.

Not to be left out are 'consumers', which "are a vital category of useful-many customers."

Also, employees are considered by Juran to be their *own customer*! For example, when a person does more than one step in a process, in essence handing-off one's work to oneself, "that person becomes his or her own customer, over and over again." As an illustrative example, Juran notes that "craftsmen who make a complete product from basic materials are their own customers, over and over again" (Juran, *Juran On Leadership For Quality*, P. 98).

It is no wonder that for people exposed to the TQM customer concept, identifying the customer is so difficult and confusing! The concept as advocated by TQM appears to be without limits. Everybody can be a customer, and customers can simultaneously be both part of the "vital few" and the "useful many."

> It is no wonder that people exposed to the TQM customer concept are confused. The concept as advocated by TQM appears to be without limits.

With the groundwork now set out for business leaders to identify and define who their customers are – purchasers, consumers, the public, employees (individually and collectively), government regulators, the media, labour unions, and anyone else that may have "needs… and…some degree of influence on what is to be bought, and from whom," – what are the lessons for quality planners? What advice does Juran have for those accountable for establishing quality goals and developing the products and processes to meet those goals? Under the heading "Lessons for Quality Planners," here is his advice:

"Clearly quality planning will be deficient if the knowledge of customers' needs is deficient. The quality planners must accept the reality that in a competitive society the customers have the last word. The customers' needs may be unstated; they may seem 'unreal.' Yet the customer needs must be discovered, and they must be acted on" (Juran, *Juran On Leadership for Quality*, P. 97).

The only reasonable conclusion that any business entrepreneur or executive manager can reach if he or she attempts to take Juran seriously, is that such a task is impossible and should immediately be abandoned. It is beyond human capability to be anything but deficient in discovering and satisfying the needs of customers as conceived and endorsed by Juran. With such a diverse and large set of 'customers', what can it mean to say that "customers have the last word"? Surely they can't all have the last word!

Juran's quality philosophy, as it pertains to customers, is at root inappropriate in a business environment where the ongoing existence of the company and the employment of its workers depends on winning consumer goodwill rather than political goodwill. For executives with the responsibility to lead in such competitive environments, adopting the TQM customer philosophy as a means to enhance customer and

shareholder value is misguided. Unfortunately, it leads managers who pursue the great achievement of ability that profit represents and who value the creation of shareholder and societal wealth, to unsuspectingly act in opposition to those values.

Spreading The Internal Customer Gospel

By the mid-1980s businesses across North America began to adopt the TQM concepts upon which the success of Japanese firms was allegedly based. Customer identification exercises were implemented in which basic business processes were mapped to help employees identify all of their customers and their needs. But in the process of identifying one's customers, the irrationality of the theory and contradictions in the method were exposed.

> With such a diverse and large set of 'customers', what can it mean to say that "customers have the last word"? Surely they can't all have the last word!

It didn't take long before the debates began internally as to who was "really" an internal customer and who wasn't. Was everybody within the company an "internal" customer? Or was it just the next person that one's work was provided to as it progressed along the value-chain to the ultimate moment of truth?

What we hear in most companies is that an "internal" customer is anyone within the company who issues a request to anyone else in the company. The nature of the request appears to be irrelevant in assigning the 'customer' designation; the request doesn't need to have any bearing or connection to enhancing the creation of value for the "real" customer. The employee for whom one fulfills a request or is the recipient of one's work is, at that point in time, one's customer.

> The quality movement didn't create a clear hierarchy of customers in terms of priority or value. In fact, "real" customers have been denied their proper standing and respect within the framework of a valid theory of the business.

The quality movement didn't create a clear hierarchy of customers in terms of priority or value. In fact, explicit in the act of altering the traditional definition of customer to include employees and other non-customer groups is that "real" customers have been denied their proper standing and respect within the framework of a valid theory of the business. Crosby, Deming and Juran are all in agreement that the attention and reverence heretofore reserved for customers and the role they play in the allocation of scarce economic resources should be extended to the multitudes based on their "need," and that doing so is a prerequisite for business success.

Prior to the total quality philosophy being rolled out from the executive suites, employees had been taught what was widely accepted throughout the world of business: that the "customer is king," that "our purpose is to serve the needs of our customers," that "our customers sign our pay cheques," that "the customer is always right," etc. Now employees were being told that to enable the business to compete more effectively and become more successful, the definition of who the customer is needed to be redefined and expanded.

No longer was there just one group of customers, but now there were multiple customers categorized into two broad group: "internal" and "external." In general, the internal customers were to serve the external customers, but very few internal customers had actual external customers. Instead, they had other internal customers, which is where most employees were to focus their efforts. But after all of the

customer identification and process mapping exercises were completed, it was clear that the new answer to the question "who is the customer?" wasn't the paying customer nor the employee that receives one's work: it was "everybody!"

From the employee perspective, the new mandate from the executive suite was that everybody is to be treated with the respect due to customers because anybody making a request upon one's time and resources *is* a customer. To demonstrate the appropriateness of such a philosophy, one just had to read *any* of the TQM gurus, because all were in agreement on this issue. The appeal to authority was difficult to resist. After all, Deming and Juran were invited to Japan by the Japanese after World-War II and were responsible for teaching them the basic principles of quality control that were now responsible for the increasingly uncompetitive state of American industry, so surely they must be right!

> The new mandate was that everybody was to be treated with the respect due to customers because anybody making a request upon one's time and resources *is* a customer.

Along with this new customer philosophy came an important corollary and unintended consequence. If everybody making a request of any kind upon an employee is a customer, then any request made by an employee is the request of a customer, and it deserves a response appropriate to a customer: quick, accurate, and meeting or exceeding expectations. And anyone who fails to live up to those standards is guilty of failing to provide high quality service. Employees and their managers worked hard to create strong internal customer-service cultures, where employees were focused on understanding the needs of, and serving, each other.

> The TQM philosophy talked as if the marketing concept was axiomatic, but in practice guaranteed its failure by destroying the concept "customer" upon which the marketing concept depends.

It is difficult to succeed in business under the best conditions because business success requires the difficult task of aligning resources to deliver something that customer's value and will pay for at a price that generates business profits. Success requires the utmost adherence to business and economic principles discovered and verified empirically over time. The marketing concept is one of those principles. It was widely known and understood prior to the introduction of the TQM philosophy in North America. The TQM philosophy talked as if the marketing concept was axiomatic – as if the creation and delivery of customer value to create and retain customers while earning a profit was fundamental – but in practice guaranteed its failure by destroying the concept "customer" upon which the marketing concept depends.

So if it is difficult to succeed in business under the best conditions because of the difficulty of aligning resources to the realities of the marketplace, imagine how much more difficult it is when the "experts" advocate the abandonment of a fundamental premise of business success, namely customer focus, and replace it with severe customer fragmentation.

Is Marketing Needed in a TQM World?

Under the TQM management philosophy as advocated by the likes of Crosby, Deming, Juran and their legion of followers, a customer is *everyone* who is impacted by the business, the product, or the process. Revenue

and sales volume contribution are not deemed to be essential attributes of the concept 'customer,' nor even of the concept 'external customer.'

With the purpose of quality planning and TQM being the satisfaction of customer needs and wants, what does customer satisfaction mean to adherents of the TQM philosophy? As Juran sees it, "*Customer satisfaction* is a result achieved when product features respond to customer needs. It is generally synonymous with product satisfaction. Product satisfaction is a stimulus to product salability. *The major impact is on share of market, and thereby on sales income*" (Juran, *Juran on Quality by Design*, Free Press, 1992, P. 7; italics in original).

> Juran's perception of business purpose and operations management appears to be devoid of a role for marketing in the operations of the company.

Juran's perception of business purpose and operations management appears to be devoid of a role for marketing in the operation of the company. Quality Planners are assigned accountability for identifying customer needs through market research, and for ensuring that product features are aligned with those needs. The marketing function is given no explicit role in the process of "stimulating sales." Consumers are believed to make their choices based on superior design and benefits. This paradigm reflects the old-fashioned and mythical production model where the best mouse trap wins. Under this paradigm, there would be no role for marketing, which is seen as an unnecessary expense to the business. The business creates a product that it thinks consumers will desire, and when the consumer sees the product and appreciates that it fulfills a need they have, they are "stimulated" to buy it.

> Marketing has very little, if anything, to contribute to the multitudes of 'internal' and 'external' customers that don't generate sales volume. It's role is limited to the "stimulation" of sales.

Another reason I speculate marketing is unimportant within Juran's business framework is that marketing focuses on a very narrow segment of TQM's customers, namely those with intent to purchase, and this segment is only worthy of additional attention because it is one among the many "vital few" customer groups. Marketing has very little, if anything, to contribute to the multitudes of 'internal' and 'external' customers that don't generate sales volume, yet these are customers that the TQM philosophy asserts management must satisfy to positively impact market share and sales income. Marketing is likely limited to the narrow functional role of supporting the "stimulation" of sales by obtaining adequate product/service distribution or availability and creating awareness through advertising.

Clearly this view of business and marketing is antiquated and incompatible with doing business in a modern market economy. Marketing is only a requirement where there exists freedom of competition. Where competition is severely restricted or prohibited by government intervention, there is no need for market-based management and a consumer-orientation for business to succeed because government decree, not consumer sovereignty, directs the allocation of resources and goods production.

The TQM customer philosophy, with its focus on satisfying and serving the needs of myriad groups of customers – "internal," "external," "the vital few," "the useful many," "consum-

ers" – and their sub-group constituents, is only appropriate for businesses where success is dependent on political favoritism and the suppression of consumer sovereignty. In a predominantly free-market society, where businesses are required to innovate and win customers in open competition, boards and executives would be remiss to confuse the TQM concept of customer-centricity as advocated by "the world's premier expert on quality," with the real thing.

Boards and executives would be remiss to confuse the TQM concept of customer-centricity as advocated by "the world's premier expert on quality" with the real thing.

In addition, all kinds of governance, conflict of interest, and moral hazard issues arise when businesses organize and empower individual workers to serve and incent non-consumer segments identified by Juran and to treat them as customers. The reason for this is that serving these 'customers' often conflicts with the needs of the business and the desires of the business owners.

Quality Has No Intrinsic Value

The special status that consumers acquire in the achievement of business success via their role as buyers of goods and services – as customers – does not appear to be appropriately recognized and acknowledged within the TQM framework. The TQM position is that the traditional concept of the customer is too narrow to properly serve the interests of quality improvement through the creation of quality processes and systems. What Juran and others appear not to fully understand, although they claim to, is that quality is only a means to an end, not an end in itself.

In a market economy, delivering customer value and long-term shareholder value is the end goal. Quality as created by quality systems is only a means to an end.

In a market-economy, delivering customer value and long-term shareholder value is the end goal. Quality as created by quality systems is only a means to the end of increasing human well-being and happiness as measured by the creation of wealth through voluntary trade. Customers determine the price they will pay for the goods and services they receive, and profit represents the value in monetary terms of the perceived benefits customers receive relative to the available alternatives. Profits are the mechanism by which entrepreneurs, capitalists and consumers allocate scarce economic resources to where they provide the most value. In this way, profits measure value creation, and direct economic activity towards its optimal utility. Customer satisfaction in a free-market is measured by sales and the price consumers are willing to pay. It is a measure of the ability of management that they are able to create and capture value as measured by added economic value in the form of profits over and above their cost of capital. This is the full context of what it means to say that the purpose of a business is to maximize profits. The value of quality must be measured within the context of the business and consumer desires. Companies can go out of business very fast if they deliver product or service quality beyond what the customer is willing to pay for, and without regard for the creation of profit.

An obsession for quality is neither the purpose nor goal of business. That obsession should be directed more broadly at the creation of profits through satisfied and loyal customers. In this sense, the TQM customer philosophy appears to want to metaphorically cut off its nose to spite its

face, to treat the special status of the sovereign consumer no differently than any other employee interaction.

TQM Is Disconnected From The Business Purpose

The consumer is the lifeblood of every competitive business, and to remain market-focused is a non-negotiable business imperative. Every business must convert consumers into customers if it stands any chance of earning the profits needed to sustain it and satisfy the investment returns demanded by shareowners.

But the TQM philosophy does not equate customers with consumers. It explicitly, willfully, and arbitrarily severs the two concepts, thereby destroying the valid concept of 'customer' without providing any argument or justifying reasons. The logic of the TQM argument allows businesses and their employees to be customer-focused while neglecting the needs of consumers. This logic also entails the severance of the real connection between business profits and customer value-delivery by advocating the treatment of non-revenue producing 'stakeholders' as customers.

The logic of the TQM argument allows businesses and their employees to be customer-focused while neglecting the needs of consumers. This logic also entails the severance of the real connection between business profits and customer value-delivery by advocating the treatment of non-revenue producing 'stakeholders' as customers.

It is because of this that the business philosophy implicit in TQM repudiates the economic concept of consumer sovereignty and the marketing concept. This position appears consistent with a philosophy that holds quality as an obsession and drops the context in which high quality is required in the first place, namely to serve consumers' interests.

There is no alternative for competitive businesses other than to develop corporate strategy and business models within the context of the marketing concept. Yet, as demonstrated, the overarching business philosophy implicit in the teachings of the TQM movement is incompatible with free-market competition. Where it is not incompatible, however, is within organizations where the marketing concept is not required, namely, organizations that are not required to compete to win over sovereign consumers. This would include "businesses" run by government or private businesses operating under political protection from competition. When an organization becomes exempt from the requirement to justly earn its revenues and win consumer favour in open competition, it is released from both its natural obligation to serve the interests of sovereign consumers, and its natural incentives to innovate, increase efficiency and reduce costs. Under such operating conditions, where there is political protection against bankruptcy through guaranteed profits or where the service is provided by government monopoly via tax revenues, customer focus is not required to succeed, and such organizations often generate a net loss of wealth and are a net economic burden to society.

The overarching business philosophy implicit in the teachings of the TQM movement is incompatible with consumer sovereignty and free-market competition.

The consumer is no longer sovereign when a government intervenes to proscribe purchas-

ing decisions and restrict freedom of competition. Under such conditions and within such spheres, the marketing concept is not applicable. The business challenge of how to organize and allocate the factors of production to win customers and earn a profit is removed. It makes little difference under such conditions whether an organization is customer-focused, and therefore it hardly matters how customers are defined. Within these types of organizations, the definition of the customer has no bearing on the organization's ongoing viability. What matters is ongoing political support.

The business philosophy implicit in the TQM movement and its advocacy of the need to focus company resources on identifying and serving the needs of 'internal' and 'external' customer groups to the detriment of the marketing concept, should give pause to every executive working at a company that has adopted this nomenclature.

To hold that the purpose of a business is to organize the factors of production to satisfy any and all needs claims of the myriad customers recognized by the TQM philosophy is to demand the impossible. It is to advocate a burden upon business and management that is impossible to fulfill.

To hold that the purpose of a business is to organize the factors of production to satisfy any and all needs claims of the myriad customers recognized by the TQM philosophy is to demand the impossible. It is to advocate a burden upon business and management that is impossible to fulfill. There is no rational justification or business theory to substantiate such a demand on shareowner resources. A business cannot maximize its potential when only a tiny fraction of its resources are focused on satisfying profitable customers. The entire business must be market-based and profit-focused. To propose otherwise is to intimate a moral burden upon businesses and commerce in general that is destructive to both.

The market-based approach has to be led and managed by the CEO and the executive team. It is the role of everyone in the organization to subscribe to and support the coordination and integration required to deliver long-term value to customers and shareholders.

One group of co-authors uses the label 'the value-driven CEO' to describe the kind of CEO who must drive market-based processes. "The job of the value-driven CEO," they write, "is to rethink the business strategy, processes, organization and culture in order to win customer preference by providing superior customer value. The job is quite distinct from that of marketing, whose job is to understand their changing needs and wants, and to develop plans for the brand and for communicating the business strategy. But none of this marketing activity can be effective without the leadership and support of the value-driven CEO" (Malcolm McDonald, Martin Christopher, Simon Knox, Adrian Payne, *Creating A Company For Customers*, FT Prentice Hall, 2001; P. 19).

Conclusion

The marketing concept as a philosophy holds reverence for the customer as the guiding force for business. Yet it is apparent that as thinkers and educators, those that propagated the destruction of the concept 'customer' have betrayed the institution of business and wealth creation and the "business revolution" that they themselves purported to be leading.

Along with their genius and innovation in developing production engineering processes and techniques that have surely added trillions of dollars of value to consumers, they also brought forward parochial ideas and

value-destroying concepts that remain with us to this day as immense hindrances to the effective organization and application of capital and the creation of wealth and human happiness. What is most unfortunate is that the most pernicious, anti-business and anti-marketing aspects of their programs are not essential to their science and art, and yet those aspects continue to scar the global business landscape and infect the brightest minds within our business boardrooms, executive suites, and office cubicles.

That talk of "internal" and "external" customers remains pervasive also points to the schism and compartmentalization that still exists within our organizations. Executives speak, on the one hand, of the need to deliver increased value to their customers through a better understanding of customer values and the development of customer-centric business processes, and on the other hand, lead the charge in encouraging employees to think of each other, treat each other, and refer to each other as customers.

It will be difficult within the ranks of business organizations to overcome this popular and "intuitive" idea that employees are customers too, as students and employees continue to be exposed to the idea that business success requires a non-traditional, bureaucratic approach to identifying and serving customers. They will read about it in the TQM literature and learn about it in corporate sponsored customer service training programs. And yet it is an approach that is detrimental to customer and shareowner interests because it is so blatantly at odds with the more fundamental, business enhancing, and value creating marketing concept.

Are business executives up to the task of eradicating this pervasive mind-virus, of stamping out all talk of 'internal' customers and using the concept appropriately to refer to those who purchase and use the company's products and services?

Are business executives up to the task of eradicating this pervasive mind-virus, of stamping out all talk of 'internal' customers and using the concept appropriately to refer to those who purchase and use the company's products and services? Some clear thinking is emerging. I recommend that they follow the lead taken by Caterpillar, and use the terminology "process partners" to emphasize the idea that employees are not customers, but rather are responsible for working together within an integrated system to ensure that customers perceive their value offering as being the best from among the available alternatives.

About

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Barry has been a partner with The Strategic Planning Group (www.tspg-consulting.com) since 1994. He works with senior executives and their management teams to develop business strategies and strategic solutions for their unique business problems. He is an advocate of the need for a market focus to drive customer, employee, and shareholder value. Barry holds an M.B.A. from the Rotman School of Management, University of Toronto, and a M.A. in Philosophy and B.A. in Sociology from York University in Toronto. To read his always insightful essays on general business topics, go to http://www.tspg-consulting.com/essays.htm.

About

The Strategic Planning Group

The Strategic Planning Group (T.S.P.G.) is a full service consulting firm that can provide organizations with a wide range of advice, business tools and solutions. At T.S.P.G. our focus is on helping our clients solve their complex issues to realize their ultimate business potential, whether we are helping to set the overall strategy for the organization or assisting in a particular functional area. Our practical-results-oriented approach to solving business problems, combined with our personal commitment and dedication to providing great value for our clients, makes us the consultants of choice to blue-chip executives across North America.

We aspire to be more than just consultants. For us to be successful in helping you we need to understand how you operate and what challenges you are currently facing. We want to help you achieve your goals and your ultimate business potential. To accomplish this we must be trusted and objective advisors by contributing our knowledge, experience and thinking in ways that have a positive impact. We want to be *your* consultants of choice – as we are for other senior executives – for all of your strategic business needs.

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