CRM 2003

8 CUSTOMER VALUE CHALLENGES

FOR ALL THE CHANGE IN TODAY'S BUSINESS ENVIRONMENT, PERHAPS THE BIGGEST IS IN THE NATURE OF CUSTOMERS THEMSELVES. Customers are changing fundamentally — and so, therefore, must our relationships with them. Today, we all have a "to do" list that is much too long. Increasingly, the customer evaluates a product, a service, or a relationship with his or her supplier company with the unspoken question:

"Does this offering take something off my 'to do' list — or does it add to it?"

BY JOHN R. BRANDT, CEO, MANUFACTURING PERFORMANCE INSTITUTE

■ INCREASINGLY, CEOS AND OTHER TOP EXECUTIVES ARE HAVING TO ASK THEMSELVES: *"What are we going to do to survive? What are we going to do to thrive?"* To answer these questions, it's imperative to understand that for all the change in today's competitive environment, *the biggest change is in your customers themselves.*

Today, your customers and potential customers increasingly want very different things from what they used to demand. Customers across a wide array of industries — perhaps having been trained by the software industry, where new features are added every year while the price stays the same — now *expect value to increase continuously.* What's more, customer expectations are leaping from one industry to others. *All* customer relationships are changing.

HERE'S HOW, AND WHAT YOU CAN DO ABOUT IT ...

Today, your customer-demand hurdles and hoops are higher than ever.

■ CUSTOMERS ACROSS A WIDE ARRAY OF INDUSTRIES — perhaps having been trained by the software industry, where new features are added every year while the price stays the same — now EXPECT VALUE TO INCREASE CONTINUOUSLY.

■ IN MY WORK WITH CEOS, I FIND AT THE TOP OF EVERYONE'S MIND TWO KEY QUESTIONS: *"What is happening to customer value? How can we avoid commoditization of our product?"* Today, a principal concern of every top executive is: *"What happens when someone comes along and figures out how to do what we do for a few pennies less?"*

In other words, where and how do you find unique and sustainable advantage?

This question is more important than ever. We're in a period of tremendous change. We're trying to run successful businesses in a "stop, start" economy. The geopolitical situation is very uncertain.

What is so different from the way things were when most of us started out in business? For one thing, if you look at companies that have solid market capitalization, one of the most striking things is that up to 80 percent of their market cap can't be explained by traditional measures like cash flow.

So, where is the value? It's found in something else — customer relationships, intellectual property and management and employee knowledge and expertise.

MOST IMPORTANTLY, CUSTOMERS ARE CHANGING — and so, therefore, must our relationships with them.

Today, customer expectations are leaping from one industry to another. *All* relationships are changing.

In CPG, this means both from manufacturer to retailer, and from manufacturer to consumer.

As we all know, the balance of power has shifted. At one time, manufacturers told retailers what they would stock. Today, retailers are often telling manufacturers what they should make. Manufacturers feel themselves under more and more pressure, as they lose more and more control over their supply chain to 80,000-pound retail gorillas.

At the same time, there's been tremendous consolidation in channels across the board. This puts pressure on all retailers — as does competition from Wal-Mart. Indeed, in the last several years, over 1,800 grocery stores and pharmacies have been closed or acquired.

Competition is now global. Forty years ago, competition was local or regional, and sometimes national. Today, it is truly worldwide. Whether you're a manufacturer or a distributor, there are an increasing number of competitors out there, around the world.

AND THE QUESTION OF WHO OWNS THE CUSTOMER has become very important, often quite contentious.

One of the battlegrounds going forward will be over not just who owns the customer, but: *"Who owns the data about that customer?"* Retailers — who own some, but not all, of this data — may be reluctant to share it. Or, they may want to charge for it.

The sharpness of these debates reflects the critical importance of the data itself: Both CPG manufacturers and retailers have to know more about the end customer, the consumer, if they're to create a successful product, a successful store; if they're to build a new, more relevant value proposition.

THESE ARE STRIKING CHANGES. As a consequence, every company in the CPG business is facing a tremendous number of stresses.

Increasingly, CEOs and other top executives are having to ask themselves: *"What are we going to do to survive? What are we going to do to thrive?"*

TO ANSWER THESE QUESTIONS, IT'S IMPERATIVE TO UNDERSTAND THAT FOR ALL THE CHANGE in today's competitive environment, *the biggest change is in your customers themselves.*

Today, your customers and potential customers increasingly want things that are very different from the things they use to demand.

Customers across a wide array of industries — perhaps having been trained by the software industry, where new features are added every year while the price stays the same — now *expect value to increase continuously.*

This is true not just of consumers, but of your business-to-business customers, as well.

In the old days, a long-term contract typically meant that you would limit your price increases going forward.

CPG'S CUSTOMER VALUE CHALLENGES 8

1.

New Reality: **Customers have fundamentally different perceptions of themselves and their role in society. They expect your products to reflect their self-perceptions.**

New Behavior: **Focus all aspects of product development, marketing and customer service on smaller, more fragmented customer demographic and psychographic segments.**

2.

New Reality: **Customers automatically expect the highest level of service they receive from one vendor or brand from ALL vendors and brands.**

New Behavior: **Build relationships with customers — not products.**

3.

*New Reality:***Customers want more than products — they want solutions and value bundles.**

New Behavior: **Re-examine your product and customer value proposition. Bundle it with other products and services.**

4.

New Reality: **Customers value well-managed information about your product and about themselves as highly as they value your product.**

New Behavior: **Put information management at the core of your customer value proposition.**

■ IF YOU HAVE SELECTED A CUSTOMER BASE THAT CAN'T GROW FAST ENOUGH TO PRODUCE THE GROWTH YOU NEED to satisfy your stakeholders — after all, if you don't have a certain revenue rate, you can't afford R&D and new product or service development — then YOU NEED TO FIND DIFFERENT CUSTOMERS.

Today, a long-term contract means the customer limits the number of price *decreases* you'll have to take.

Today, customers don't much care how they get ever-increasing value from you, whether through lower prices or added benefits, as long as you are able to deliver greater and greater value.

Accordingly, then, CEOs in a wide array of industries are asking themselves and their organizations some fundamental questions –- tough questions such as: *"How are we going to create five percent more value this year? And EVERY year after that?"*

TO DO THAT, THE ORGANIZATION NEEDS TO ASK ITSELF FURTHER QUESTIONS: *"What about our customer base? Have we selected the right customers?"*

Clearly, if you have selected a customer base that can't grow fast enough to produce the growth you need to satisfy your stakeholders — whether shareholders, employees, or even your customers (after all, if you don't have a certain revenue rate, you can't afford R&D and new product or service development) — then you need to find different customers.

Other key questions for the organization: *"What is our value proposition? Are we makers of a product or service that can be commoditized? Or, do we have some broader value that we bring to the market?"*

And *"What, precisely, is that value?"*

FOR INCREASINGLY, IN CPG AS IN EVERY INDUSTRY, COMPANIES NEED TO ASK THEMSELVES: *"Are we just going to make this 'thing,' or are we going to figure out some way to add value to that product? How do we become an INFORMATION company?"*

For example, consider Hormel, which is successfully repositioning itself: Hormel is no longer only the maker of Spam, of meat products. It has completely transformed itself, and is now a provider of nutrition information as well as protein for people over 65 via its Hormel Health Labs.

CEOs are also asking themselves: *"How can I reinvent the way I run my company? How can we go to market differently? Work differently with customers?"*

IN SHORT, TODAY THERE ARE EIGHT CUSTOMER VALUE CHALLENGES *(see box at right).*

■ **Value Challenge 1:** *Customers have fundamentally different perceptions of themselves and their role in society. They expect your products to reflect their self-perceptions.*

Today, customers are asking their suppliers to behave differently. Why? Because customers — consumers and retailers alike — now have different perceptions of themselves and different perspectives on how they function in society and in business. And their suppliers are increasingly being asked to reflect those perceptions back to them.

What does this mean? In practice, it means companies must divide their marketing message and even their product development efforts into ever-smaller, more fragmented segments.

This is true of every industry today, but it is a particular challenge in CPG, with its large amounts of data and relatively small per-product profit.

One major CPG company, for example, has been able to find 10,000 *data points* in any zip code. The problem, of course, is: *"What do these mean? Who owns this information? What do we do with it without being intrusive? At what level is it cost-effective?"*

FOR AS WE ALL KNOW, SELLING COOKIES IS VERY DIFFERENT FROM SELLING CARS.

One reason people go into the manufacturing business is that once you achieve economics of scale, it's very profitable. But if you're making cookies, how much customizing can you do, and still make a profit?

So, how *do* you customize in this business? Where *do* you add value?

Traditionally, the way CPG has added value in products like cookies is by producing better quality or building a brand that comes to be seen as superior.

The challenge now: As CPG manufacturers collect more and more data through retailers about *what* people are buying, *when* they're buying and *how* they're buying it, how can marketers start customizing the offer to people — without losing money faster than they're making it — or making their customers feel they've been monitored in some *Big Brother*-ish way; that their privacy has been violated?

OFTEN, THE QUESTION COMES DOWN TO: *"What are we going to offer?"* Increasingly, it has less to do with the product and more to do with something else. For example, manufacturers are doing things like creating custom

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5.

New Reality: **Customers expect your advice and assistance in running their business.**

New Behavior: **Broaden your value proposition for service partners from merely having preferred products to being a preferred partner.**

6.

New Reality: **Customers are mobile, and expect you to deliver product, service and information wherever they are.**

New Behavior: **Begin planning for your customer value proposition to include a location component.**

7.

*New Reality:***Customers insist that your organization be structured around their needs — not yours.**

New Behavior: **Relentlessly invent and implement new concepts in customer value creation.**

8.

New Reality: **Customers expect value to increase continuously, through a combination of declining prices and increased features and benefits.**

New Behavior: **Be as ruthless as your toughest competitor in evaluating your product and your customer value proposition.**

publications for specific market segments –- cooking for busy families, say. And of course these publications feature that manufacturer's products.

Now, this is a "soft" association, rather than a direct marketing connection. But by getting to the right people, they're on the right track. Like Hormel, they're asking the right question: *"How are we going to add value? We have a tremendous amount of knowledge; how do we start getting paid for that by differentiating our marketing?"*

There's a lot the CPG industry can learn from other industries in this area — and enormous opportunity.

A GREAT EXAMPLE FROM THE GAMING INDUSTRY IS HARRAH'S CASINO. Harrah's has become a master at collecting, analyzing and applying customer data.

By collecting customer demographic information via the magnetic strip card provided to members of its "Total Rewards" club and analyzing it, Harrah's has been able to pinpoint its highest-profit customers — and incidentally, they're not the high rollers at the blackjack tables; they're the 25 million players at the slot machines.

By gathering customer demographic information, dividing the customer base into hundreds of segments and applying predictive software, Harrah's has been able not only to pinpoint but to target its most profitable customers very effectively. It is able to figure out very accurately how much a given "customer" is going to be worth to Harrah's over time.

The company now knows that the 30 percent of its customers who spend from $100 to $500 per visit at the slots provide 80 percent of its revenues — and 100 percent of its profits. Acting on this information to sharpen its marketing focus, Harrah's has grown its market share from 36 to 42 percent, and boosted its earnings 11 percent to $3.7 billion.

NOT NEARLY ENOUGH OF SUCH DATA ANALYSIS AND APPLICATION HAS BEEN DONE IN THE CPG ARENA. Of course, Harrah's has an advantage: It has only 25 "stores." Still, much more could be done by CPG manufacturers and retailers. Part of the problem is that, for all the talk of "partnering" and "collaboration" in recent years, there still is not nearly enough joint effort between manufacturers and distributors.

So far, almost all collaborative efforts seem to center on supply chain and replenishment. To date, relatively little has occurred around marketing and product innovation and development.

The CPG industry is blessed with huge quantities of data. But again, too often players do not want to collaborate on it, or share it with each other. This *must* change.

■ **Value Challenge 2:** *Customers automatically expect the highest level of service and value from ALL vendors and brands that they receive from ONE vendor or brand.*

CUSTOMER EXPECTATIONS HAVE LEAPED FROM ONE INDUSTRY TO OTHERS. Partly, this is due to the huge push we have all undertaken to get on the Web, to make our businesses "e-friendly," to work with people over the Internet.

On the *"plus"* side of the ledger is that this has enabled us to become very accessible to our customers.

On the *"minus"* side is that, online, companies all look alike. So, increasingly, when your customers get good service from *one* industry or from *one* vendor, they cannot understand why they can't get equally good service from *you*.

In publishing, for example, when you subscribe to a magazine, you're typically told: *"Thank you for your order — your subscription will start in six to eight weeks."* By contrast, when you go online with some other industries, you can often get an answer from the web engine itself — *instantly*.

Instantly is becoming the new standard in customer service.

INDEED, SERVICE IS BECOMING AS IMPORTANT AS, OR EVEN MORE IMPORTANT THAN, THE PRODUCT ITSELF — certainly so in terms of your trade customers. One reason we're all wrestling with the issue of commoditization is that products become commodities more rapidly than they did in the past. Customers now believe that, beyond a certain point, products are, fundamentally, the same. Your "new" product may be a different flavor, but it's essentially equivalent.

So, the real question becomes: *What is the core value you wrap around your product or service?*

These can be things like reliability of delivery. If you're a retailer, a supplier partner who can deliver on time and make sure that you stay replenished may be more important than almost anything else. Manufacturers, too, working with their own suppliers, find such reliability critically important. After all, we're in a *"just-in-time"* era. Once, in the days of inventory and safety stock, if you missed a shipment, there was always some "out back" that

THE CEO'S CPG CUSTOMER VALUE SELF-ASSESSMENT

- *Have we analyzed the demographics and psychographics of our customer base? How many segments do we target? How?*

- *Are we focused on products or solutions? Have we bundled services with our product?*

- *How have we implemented technology to demonstrate that information is as valuable to our customers as our product?*

- *What value-added services to we offer to customers? What business expertise do we lend — even if unrelated to our core product?*

- *How will we integrate mobility and location-specific commerce into our service model?*

- *When did we last reorganize our organization? Are our departments and job titles focused on our customers — or on our own internal needs?*

- *How will we create five percent more value for our customers this year?*

■ FIGURE OUT HOW YOU CAN CREATE VALUE BUNDLES — even if, sometimes, your product is only a small part of this bundle, YOU'LL BE REWARDED BECAUSE YOU'RE THE ONE WHO PUT THE BUNDLE TOGETHER, SOLVING THE CUSTOMER'S PROBLEM.

you could fall back on. No longer. If you don't deliver, you will shut somebody down — and you will lose that organization's business.

ALSO EVER MORE IMPORTANT WHEN EVALUATING A LONG-TERM PARTNER: CHEMISTRY. Today, on some supplier evaluation forms you'll see a line for "chemistry" –- and they're not talking polymers; they're asking: *"Do we like these people? Are these people we want to work with?"*

In short, today your customers are looking at the *total cost of the supplier relationship* — not just the cost of the product they're buying, but: *"How expensive is it to integrate with this company, in terms of IT, supply chain, and how we go to market together?"*

And of course your customers want to know what sort of value-added information or business expertise you bring to them. You see this reflected in CPG in terms of replenishment, VMI and other expertise.

Today, you see more and more companies in which business units are aligned with and focused on one customer, or who manage the whole logistics challenge for their customers.

CPG IS ONE OF THE MORE COMPLEX INDUSTRIES, so these customer services have not evolved to the degree they have in businesses with fewer retail outlets or products. But just because it is more difficult to roll out these solutions doesn't mean there aren't innovations you can implement now.

■ **Value Challenge 3:** *Customers want more than products –- they want solutions and value bundles.*

TODAY, WE ALL HAVE A *"TO DO"* LIST THAT IS MUCH TOO LONG. Increasingly, the customer evaluates a product, a service, a relationship with a company with the question: *"Does this offering take something off my 'to do' list, or does it add to it?"*

Increasingly, then, companies need to figure out how they can create value bundles — even if, sometimes, your product is only a small part of this bundle; you'll be rewarded because you're the one who put the bundle together and solved the problem.

This approach is common practice today in other industries, particularly computers and software. The idea is to combine the expertise of two or three players to create a value bundle for a customer or the consumer. So far, it has hardly been tried in CPG –- and hence there are huge opportunities for innovative suppliers. But increasingly, you are likely to see retailers growing impatient and knocking manufacturer heads together, saying, *"The two of you need to cooperate on this product, category or service."*

Hormel is, again, a great example — a company that has evolved from meat packer to CPG manufacturer to information provider. Hormel has been very astute about leveraging its manufacturing capability as a private label producer of a number of regional brands –- and in taking all the research and expertise they have and rebundling and repackaging it.

Another great example is Weight Watchers: It's so much more than just lean chicken or vegetables. It started as a service, and now does a great job of bundling product and information.

The advantage: If you get this right, it gives you tremendous brand recognition and ability to go in new directions.

Remember, *you're still going to get paid for the product.* But the more you can wrap information around it, the better your customer acceptance and profitability will be going forward.

■ **Value Challenge 4:** *Customers value well-managed information, not just about your product, but about themselves and what they want, about how they interact with your company, and how they interact with your product.*

Where do you get this information? It's very simple: *Hire smart people and ask them to talk to customers — all the time.* There's nothing high-tech about it. It's unfathomable to me why manufacturers haven't banded together with retailers to figure out how to do this. After all, the shoppers in the store are the people retailers and manufacturers alike depend on for their money! Why not ask them what else they'd like to buy from you — *while they're there, thinking about your product,* rather than calling them at home and harassing them?

■ **Value Challenge 5:** *Customers want you to help them run their business.* The more ways you can figure out to do that, the better you'll do, vis-a-vis your competitors. Supply chain efforts such as VMI are great — but today, those are just the price of entry; they're just for openers. *Truly* smart manufacturers will figure out how they can start partnering with retailer to, say, create great regional and local brands — brands that set a retailer apart, and drive business for the CPG company, too.

■ **Value Challenge 6:** *Customers want you to help them figure out how to use mobile technology to their advantage.* This is mere-

■ A simple test is to look at the titles with a company's business units and ask yourself: *"Would our customers understand what this person does to add value for them?"*

ly an extension of the efforts we've all been making for several years, with the Internet. The next phase is wireless. As customers become more and more mobile, they'll want more and more from us in ways disconnected from their desktop computers.

ARE YOU REALLY AWARE OF HOW FAST THE TECHNOLOGY IS MOVING IN THE MOBILE ARENA? Today, even your PDA and cell phone may have more memory than was needed to run an entire bank in the 1970s. We carry more than that in our pocket now, and get irritated when it doesn't work fast enough.

Today, customers of many industries are able to get great mobile service. Today, you can buy a stock over your PDA. You can get shipment and truck location on your phone.

For much of the world, this is now standard operating procedure. Here in the US, people are still amazed to hear what can be done. In parts of Europe and Japan, by contrast, it's now business as usual.

LOOK FOR NEW THINGS TO TRY. Why wouldn't manufacturers and retailers team up to advertise specials by cell phone? For example, if consumers come within three miles of Wal-Mart, they might learn that such-and-such is on sale — not in an intrusive, cold-call, phone-ringing fashion, but via a service to which they subscribe, with an alert flashing silently on their screen.

How would you get people to sign up? Perhaps a partnership between a retailer, a manufacturer and a cellular service provider could be developed, guaranteeing consumers $20 or $30 worth of coupons or some other inducement — besides alerts to specials in their areas of interest.

IMAGINE THE POWER OF LINKING, VIA WIRELESS TECHNOLOGY, TO "POWER BUYERS" OF YOUR PRODUCT — or, if you're a retailer, offering access to consumers for manufacturers. And by building your information base over time, you'd be better and better able to serve each customer, by tailoring your offerings according to their purchase patterns.

We do not yet see these experiments in CPG — at this point, *it's all opportunity.* And you should know that we are now at the point where *the technology is about to make location- and individual-specific marketing feasible and practical.*

SO, WHAT SHOULD YOU DO? FIRST, GET EXPOSED TO WHAT IS ALREADY HAPPENING IN OTHER COUNTRIES. Whether you go and see it for yourself — the best way — or just read about it, you need to know what can be and is being done. Then, start thinking: *"How are we going to adapt and / or apply this?"*

Above all, assume that mobile will be as big for your business as the Internet has been and will be. *Think about how it will change what you do.*

Why wouldn't you want to be the company to enjoy this advantage?

■ **Value Challenge 7:** *Organize your company to meet your customers' needs.* Increasingly, your competitors, large and small, are working to do just that. Despite what you probably think — that this is basic, that you already do this — most companies in fact do not. Most are still organized around their *own* needs and imperatives — not those of the customer.

Typically, for example, companies with a successful e-strategy don't have *a* web site or *an* interface — they have a number of web sites and interfaces centered on individual large customers or large customer segments. These reflect back on the business itself, where these companies have clearly decided: *"If we're going to be what we say — about the customer — we need to figure out how everybody in this business unit is going to align with customer needs."*

A simple test of this is to look at the titles of a company's employees and managers and ask yourself: *"Would our customers understand what this person does to add value for them?"* American Standard is a good example of this. In its plumbing fixtures unit, it has moved to a "process" model — the company actually analyzed everything it did in terms of how it related to a major customer or customer segment. Then, it reorganized, with all new job titles, developed according to who owns this or that process *as it relates to the customer.* Titles changed from, say, distribution clerk and manufacturing manager to "process owner for chinaware order fulfillment" — very long and involved titles, to be sure — but very descriptive of exactly what each person is expected to do for the customer.

The overriding goal: to ensure that when a customer calls, he or she has a single point of contact — one person to talk to, to solve the problem.

■ **Value Challenge 8:** *How will you create five percent more value every year?* To do this, ask yourself the self-evaluation questions on page 00. If you can answer them well, you won't need to worry about your value to your customer –- your worth is evident.

If you can't answer them, YOU'D BETTER GET STARTED. ■