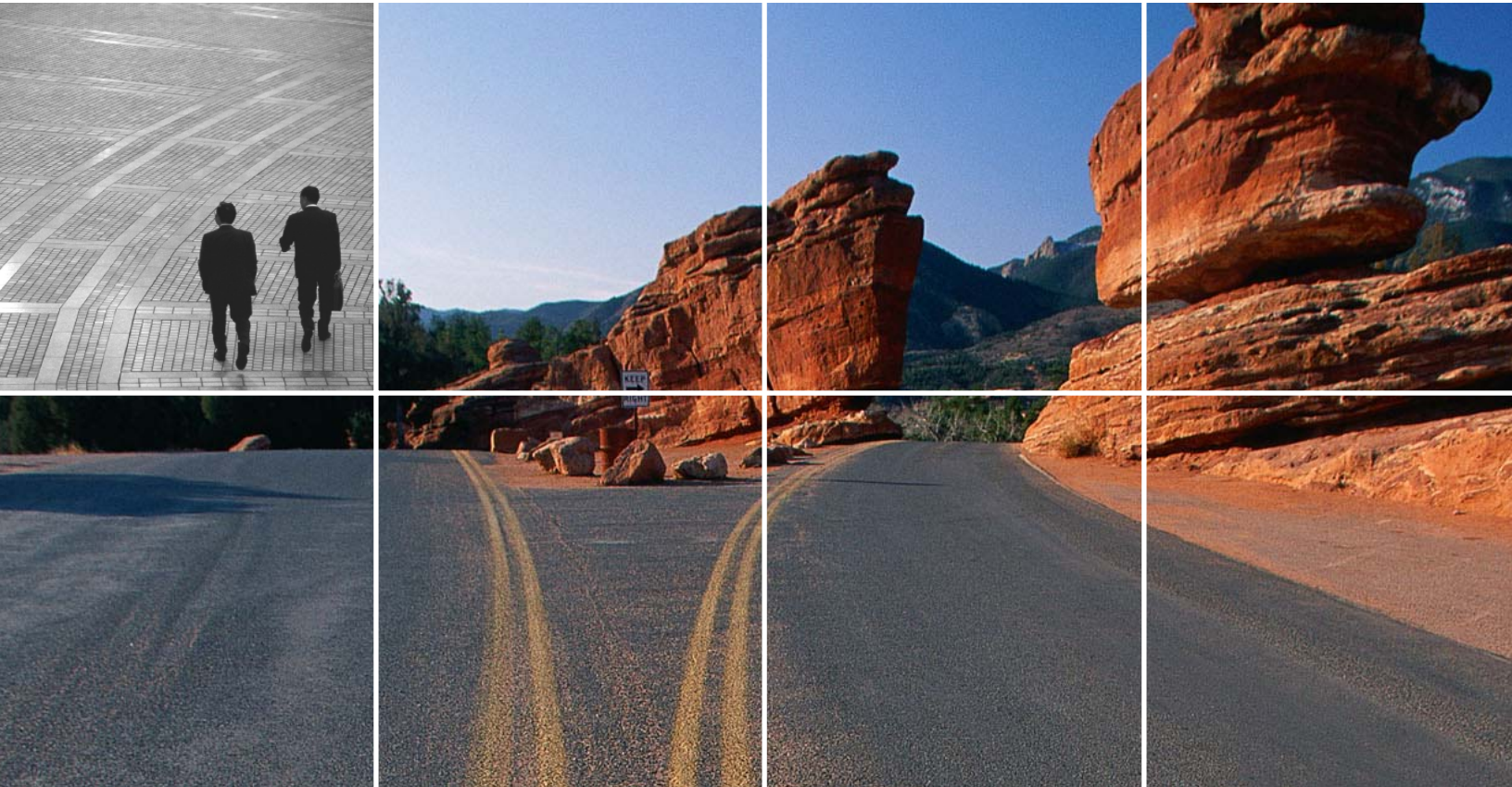


## The strategic agenda for consumer products customer management



*An IBM Institute for Business Value executive brief*

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information.

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## Introduction

Today's trade relationships are tremendously complex. They are characterized by shifting customer needs and growing polarization in the retail market, requiring greater agility and responsiveness on the part of consumer products companies. What new capabilities will retail customers demand of their suppliers? How will the dynamics of customer management need to change? Consumer products companies will need to elevate customer focus to the same level of importance as the consumer-focused dimensions of their organization and integrate the two to drive mutually beneficial trade relationships while maintaining strong brands.

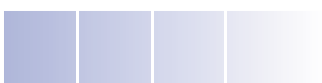
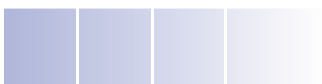
## Executive summary

Today's consumer marketplace is being shaped by increasingly fragmented and knowledgeable consumers and a growing polarization between "mass value" retailers and focused specialists. Consumers are evolving into "super shoppers", using new sources of information to obtain full visibility into the market and demanding that companies enable them to shop wherever, whenever and however they want. For their part, retailers are locked in an intense competitive struggle for market share. As they seek to craft an exceedingly focused, distinctive brand proposition and anticipate the specific desires of their target shoppers, they will require greater insights and innovation from their suppliers.

Consumer products companies face the considerable challenge of balancing the continuously evolving needs of savvy consumers and powerful retail customers. In particular, they must deal with a host of demand-side pressures that are forcing them to take a hard look at their sales and marketing organizations, the roles and skills of their key account managers, and their capacity to develop deeper consumer and shopper insights.

While some consumer products companies have been successful at addressing some of the new marketplace pressures, many continue to struggle to effectively work with their retail customers. Having historically focused on the consumer as their only "customer", consumer products companies must seek to delight their retail trade customers as well.

Going forward, consumer products companies must embrace a fundamentally different approach to demand management, elevating the importance of and focus on customer management and integrating it more effectively with the consumer-focused dimension of their organizations (e.g., marketing and brand management).



Specifically, consumer products companies will need to focus on three key areas to enhance product performance and increase leverage with retailers:

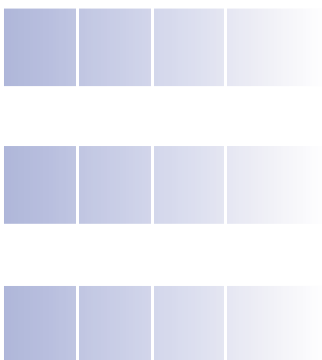
- Build a more agile, responsive organization that efficiently and effectively responds to specific customer needs
- Empower account managers and teams to become more broad-based business managers with a wider array of skills to drive business value for both the retail customer and the consumer products company
- Integrate insight development both internally and with partners to drive more targeted innovation.

This will require a dramatic shift in how consumer products companies build, manage and sustain their customer management organizations. In particular, consumer products companies must pursue far-reaching changes in their culture, people, relationships and processes to elevate the customer to the same importance as the consumer. While the transformation required will be difficult, companies can pave the way by proactively adopting the new tactics shown below (see Figure 1).

**Figure 1. New tactics companies can adopt when working with their customers.**

Area of focus	Tactics
<b>Organization</b>	<ul style="list-style-type: none"> <li>• Create a more balanced customer- and consumer-focused culture by building an organizational intermediary between the sales and marketing organizations</li> <li>• Develop new approaches to customer segmentation based on customer potential or sophistication to better align customer teams around customer needs</li> <li>• Differentiate customer team structures by customer potential</li> <li>• Focus on differentiating and value-adding customer management capabilities</li> </ul>
<b>Customer teams</b>	<ul style="list-style-type: none"> <li>• Build business management skills within customer teams without losing sales and relationship-building expertise</li> <li>• Invest in advanced tools to capture and deliver information to key account managers and customer teams</li> <li>• Automate or outsource non-value-adding customer team tasks</li> </ul>
<b>Insight development</b>	<ul style="list-style-type: none"> <li>• Create an insight-driven culture based on both consumer <i>and</i> shopper insights</li> <li>• Build internally and externally integrated information models to drive consumer and shopper insights</li> </ul>

To maintain relevancy to retail customers and consumers in the coming years, consumer products companies need to begin the strategic transformation required of their demand management organizations and activities today.



## Research overview and methodology

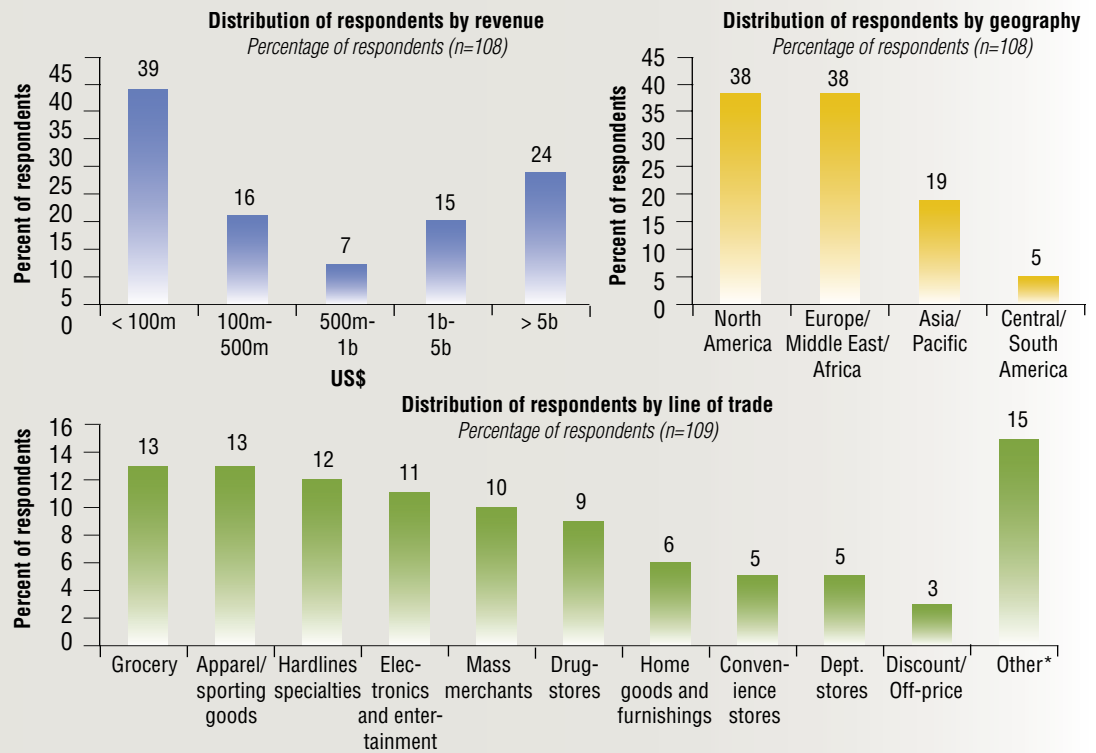
The IBM Institute for Business Value recently conducted a new study to assess the challenges facing consumer products companies in the areas of customer and demand management. Our specific objectives were to:

- Determine what customer management issues consumer products companies are currently focusing on and what capabilities they believe they will need to develop in the future.
- Identify how retailers perceive their trade relationships and supplier sales forces and how they would like to be served by their suppliers in the future.
- Understand the evolving requirements related to consumer and shopper insight development.

We conducted interviews with senior sales or marketing executives at 19 consumer products companies and with executives at several major retailers in the United States and Europe between May and September 2004.<sup>1</sup>

In addition, we engaged the Economist Intelligence Unit to conduct a global survey of 109 retailers across all lines of trade on our behalf (see Figure 2).<sup>2</sup> Respondents were screened to ensure that they were in a role where they managed or helped manage supplier relationships.

**Figure 2. Key demographics of survey respondents.**



\* "Other" constitutes business segments such as gifts, specialty food, luxury goods and pet stores.

Note: sample size may vary slightly due to respondents not answering all questions.

Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

### A challenging environment

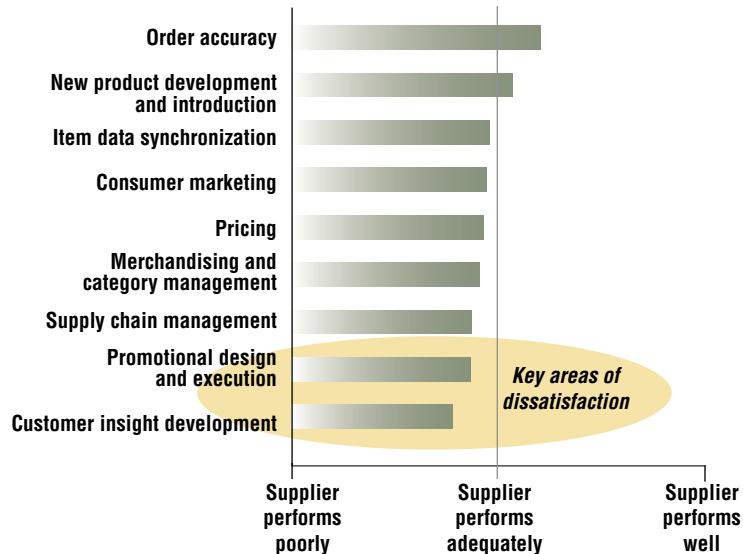
Confronted with a consumer and customer environment that is becoming more polarized and complex, today's consumer products companies are struggling to remain relevant. Significant demand-side pressures, such as the following, are changing the rules of engagement for these companies:

- Increased retailer bargaining power and pressure for improved terms of trade
- Greater retail demands for customization of product and service offerings
- Increased competition from store brands
- Reduced shelf space as a result of SKU rationalization
- Increased complexity in the retail landscape (e.g., channel and geographic diversity, varying levels of retail sophistication and centralization).

In turn, these pressures are forcing consumer products companies to redefine their approaches to sales and marketing. In particular, they need to drive differentiation and innovation into both products and retail services to ensure that they maintain the loyalty of both the retailer and the consumer.

According to our retailer survey, 65 percent of retailers believe trade relationships have improved over the past three years.<sup>3</sup> However, despite these recent improvements, retailers continue to express low satisfaction with suppliers across many key areas of their relationships (see Figure 3). In particular, they are least satisfied in areas that help retailers differentiate themselves, such as consumer insight development and promotional design and execution.

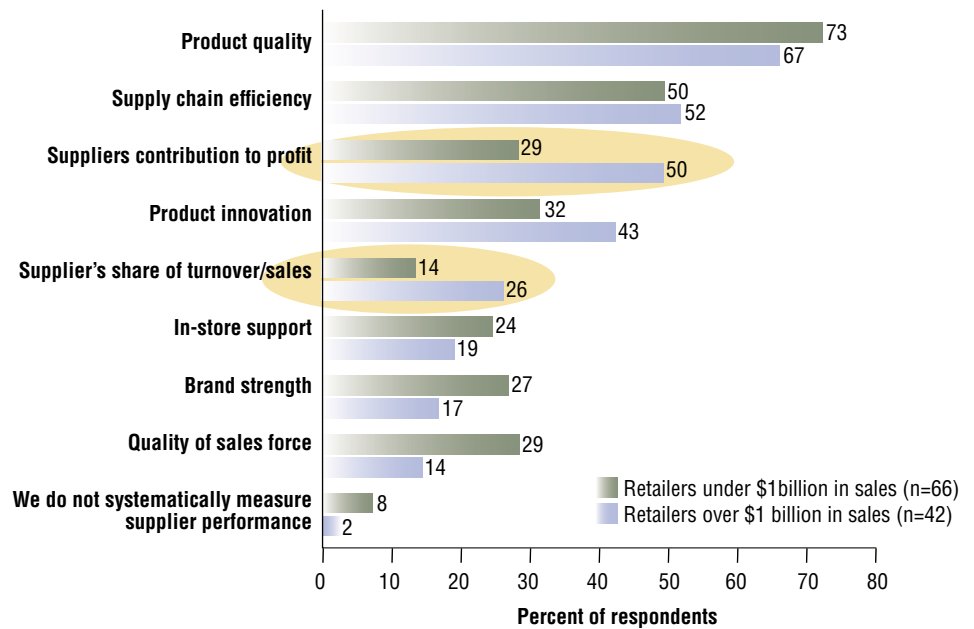
**Figure 3. Retailer satisfaction with supplier performance by functional area.**



Note: n = between 105 and 109 retailers (sample size may vary slightly due to respondents not answering all questions).  
Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

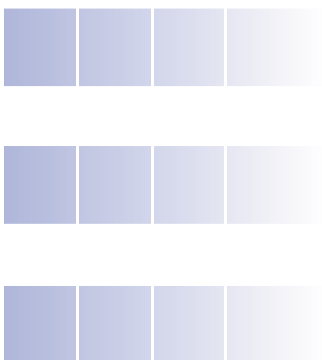
In addition, as retailers use more sophisticated methods of measuring supplier performance, they may become harder to please. For example, retailers with over US\$1 billion in sales are measuring supplier performance on economic metrics such as supplier contribution to profit and supplier share of turnover much more frequently than smaller retailers (see Figure 4). These larger retailers rated supplier performance by functional area 13 percent lower on average than did smaller retailers.<sup>4</sup>

**Figure 4. How supplier performance is measured by retailers.**



Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

Consumer products companies face an enormous challenge in effectively addressing the shifting needs of retailers. Our study found that they recognize the need to build capabilities that drive value to both the customer and themselves, but currently struggle with how best to create the required flexibility in their organizations (see Figure 5). The key will be to undertake a rapid and substantial transformation in the way they manage their customers to deliver greater value throughout the consumer products ecosystem.



**Figure 5. Perspectives on customer management in the consumer products industry.**

Top five customer management capabilities required to improve revenue growth and profitability	Top five obstacles to improving the effectiveness of consumer products customer management organizations
1 Account-team skills development	1 People: skills and competencies
2 Joint planning and goal setting with retailers	2 Culture
3 Account-specific consumer insight development	3 Organizational structure
4 Consumer data management and analytics	4 Information structure and technology
5 Faster new product development	5 Leadership

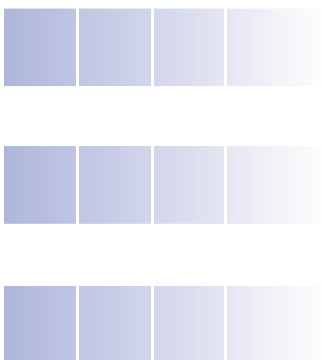
Source: IBM Institute for Business Value Customer Management Interviews, 2004.

***Paradigm shift required: Integrating consumer and customer focus***

Consumer products companies have reached a critical moment in the evolution of their industry. Growing complexity and polarization among consumers and retailers means that consumer products companies cannot continue to do business as usual, or else they will find themselves struggling to sustain growth and profitability. As retailer power grows and consumers become more difficult to reach, it will be paramount for consumer products companies to find new ways of gaining leverage with key customers.

Traditionally, the majority of consumer products companies have emphasized consumer and brand marketing above all. Many of the firms interviewed as part of this study still maintain siloed organizations, with little collaboration between sales and marketing. These firms generally segment their customers by class of trade, working with all customers within a given segment in a similar manner.

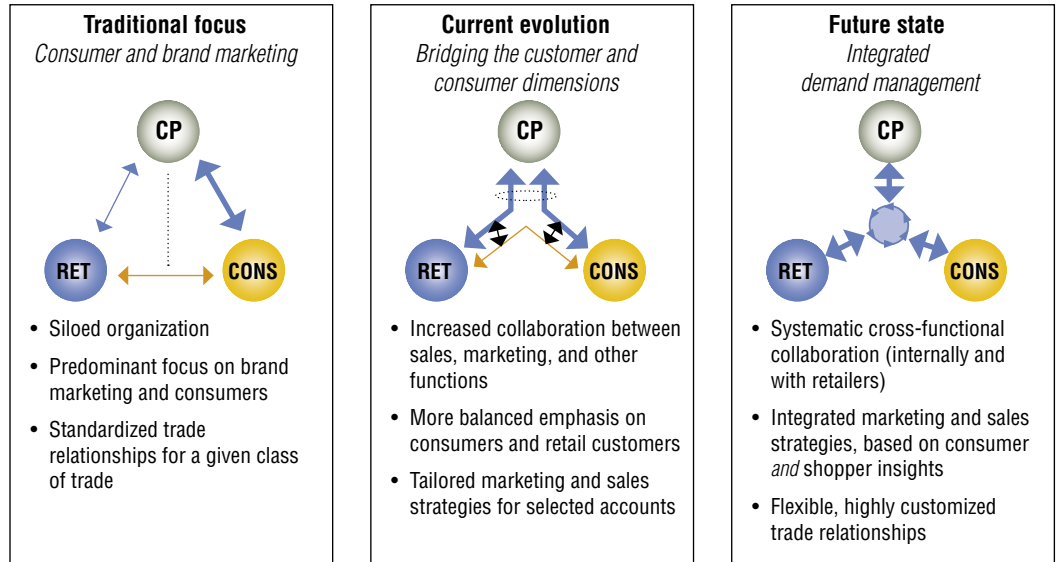
Going forward, they must make a concerted effort to elevate customer management to a position of equal standing and competence as their traditional focus on products and brands. While many consumer products executives recognize this challenge, many continue to meet with internal skepticism and resistance or are paralyzed by the complexity of trying to transform their culture and organization. Thus, the pace of change remains gradual. Companies must continue to push further to complete the evolution to a fully integrated approach to the consumer and retail customer (see Figure 6).



**Figure 6. Evolution of demand management in the consumer products industry.**

“We are trying to make customer management and retailing seem more appealing to our employees. While marketing is an aspiration at [our company], customer management still needs to market itself.”

– Director, Customer Development<sup>5</sup>



Source: IBM Institute for Business Value analysis.

A few industry leaders are bridging the gap between the customer and consumer dimensions of their businesses. These companies are implementing a number of tactics to improve intra-enterprise collaboration and the level of service delivered to key customers, such as:

- Career progression of key professionals from marketing into sales and vice versa
- Appointment of customer team leaders from marketing, finance or supply chain teams in addition to sales
- Creation of separate organizational units between sales and marketing, composed primarily of marketing professionals, to facilitate communication between the two departments
- Integration of marketing and sales planning processes.<sup>6</sup>

However, often these tactics are not being implemented systematically, and even leading companies continue to struggle with necessary changes. This has significant strategic and financial consequences. Siloed organizations create internal confusion and lack of confidence externally. Today’s retailers demand more from their suppliers than simply products. They require strong partners who will help them build their business in the face of savvy consumers and fierce competition.

“The most critical challenges are not necessarily customer-related. They have more to do with changing the mindset of the organization and individuals’ roles.”

– VP, Sales<sup>7</sup>



### **Integrating sales and marketing organizations<sup>8</sup>**

Consumer products companies are taking different approaches to integrating their marketing and sales organizations, but each of the following companies recognize the importance of developing a balanced approach to customer and consumer management.

A major European packaged goods company maintains distinct consumer and customer marketing teams. However, its customer marketing teams act as an intermediary between its consumer marketing and sales organizations, deploying marketing strategies and tactics at an account level. The customer marketing teams exist at both a corporate and country level, where even consumer marketing is much more implementation- and customer-focused. Over time, the company is striving to ensure that professionals from both consumer and customer marketing can be brought together on virtual customer teams, particularly as retailers demand greater consumer insights from their suppliers.

In the United States, a major food company has created a channel strategy and marketing group that sits across both the marketing and sales organizations. This group is organized by channel, charged with managing both trade and consumer promotions and populated by resources with marketing expertise. The intention behind creating this group was to ensure that marketing was integrated into channel and customer strategy. In response to specific customer needs, members from this group are brought together on virtual teams, equipped with shopper insights relevant to their particular customer.

Suppliers must recognize that the marketplace has permanently changed, requiring fundamental shifts in how they go to market with both consumers and customers. They need to integrate marketing and sales strategies, systematize cross-functional collaboration, and develop consumer and shopper insights tailored to individual retail accounts and even stores. And, of course, they need to accomplish all this while also driving their own profitability. These challenges are associated with the most basic elements of their business, yet are some of the most difficult to address. Therefore:

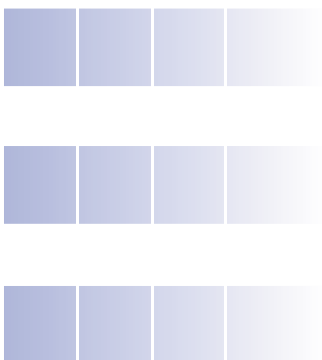
- Customer management organizations must become more *agile* in the face of perpetually shifting retailer needs.
- Key account managers and customer teams must be *empowered* to help build both their customers' businesses as well as their own company.
- Insight development must become an *integrated* intra- and inter-enterprise endeavor to ensure a deep and unique understanding of shoppers on a retailer, or even store, basis.

In the following sections, we examine each of these key areas in turn.



**“Account teams may be aligned with the customer for six months, and then the [retailer’s] strategy is changed. This is a constant problem.”**  
 – VP of Retail Planning and Category Management<sup>9</sup>

**“We are developing a new customer segmentation tool based on customer needs that will result in somewhere between 3 to 15 basic needs types.”**  
 – Head of Global Sales<sup>10</sup>



### Increasing organizational agility

In recent years, the majority of consumer products companies have built increasingly complicated customer management organizations in an effort to respond to diverse customer and market requirements. However, in many cases, this complexity hinders information flow and the speed with which the sales organization can react. Specifically, companies in this industry face three key organizational challenges:

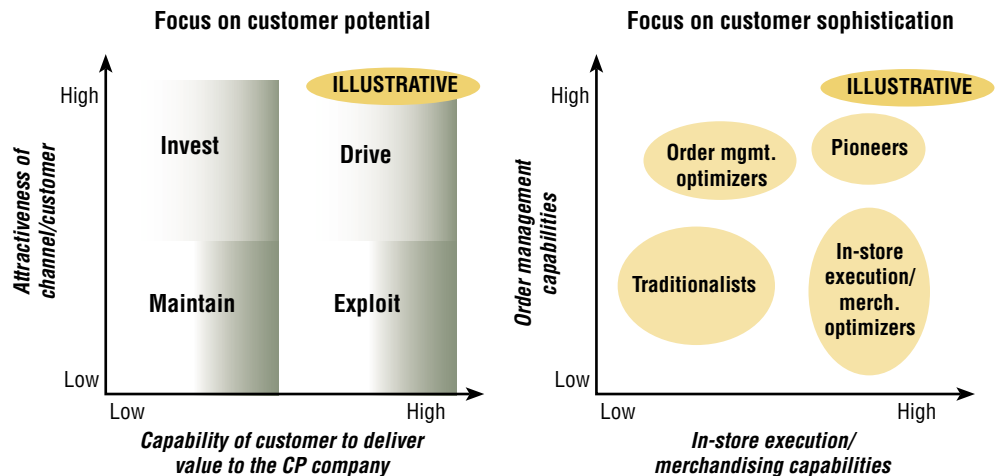
- Diverse and changing customer needs
- Continuous reorganization
- Complex organizational models.

### Diverse and changing customer needs

As retailers revisit their strategies to respond better to consumers, so must consumer products companies reevaluate how they serve their customers. However, given the breadth of customers and channels that many consumer products companies manage, their response to changing needs is often cumbersome at best. Consumer products companies must find a way to more effectively identify, prioritize and adjust to changing customer needs.

Some companies interviewed as part of this study are employing innovative ways of segmenting customers to better clarify what changes to service need to be made, when and for whom (see Figure 7). For example, several companies are segmenting their customers using a combination of strategic fit, growth potential, profitability and collaborative attitude to prioritize the allocation and deployment of services. One company has even developed a model to manage customers by needs group rather than by geography or line of trade.

**Figure 7. New approaches to customer segmentation.**



Source: IBM Institute for Business Value Customer Management Interviews, 2004; IBM Institute for Business Value analysis.

**“We are prepared to reorganize our sales structure every year.”**  
– Chief Customer Officer <sup>12</sup>

Effective customer segmentation is critical to aligning customer teams appropriately against high-value customers to effectively respond to their needs. By having an accurate understanding of a customer’s potential, its level of sophistication and/or its needs, suppliers will be in a better position to deliver differentiated service levels to their key strategic customers.

### **Continuous reorganization**

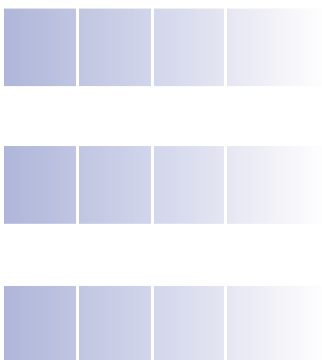
Consumer products companies must serve a wide array of retail customers with limited resources. As they strive to respond to changing market demands, their customer management organizations are being thrown into a continuous state of flux.

According to our interviews, many consumer products companies are changing their sales and marketing organizational models, customer management schemes and customer team structures as frequently as every one to three years.<sup>11</sup> If not effectively managed, this constant state of change can cause instability and weakening of customer relationships, as resources are shifted from one customer to another without adequate knowledge, training or skills.

Leading companies are beginning to seek better ways of organizing their customer management organizations to address these issues. Several of those interviewed are employing “integrated” customer teams to serve their top 5 to 10 global customers and “virtual” teams to serve the next tier down.<sup>13</sup> The key is to find an organizational model that enables the necessary capabilities and resources to be brought together quickly and flexibly to serve individual retailer requests in the most efficient and effective manner.

Consumer products companies can use new segmentation schemes, such as those described above, to clearly differentiate between less important customer segments and those customers that have the greatest potential to drive the company’s growth. In turn, this will enable them to create a tiered sales structure that better aligns customer teams against the needs of each customer set.

For example, integrated customer teams, comprised of cross-functional resources and managed by a senior executive, can serve a company’s top customers on a global level. Such structures will help ensure consistent communications, service delivery and focus on key strategic customers but should only be created where the customer is prepared to be served in a globally integrated manner and where the expected return justifies the necessary investments in people, process and system changes.



**“Our focus is to have a tailored approach per customer; however, increased differentiation leads to increased complexity. This creates a paradox: increasing complexity externally, greater simplification required internally.”**

– SVP, Customer Business Development<sup>14</sup>

For the next tier of customers, where resource constraints prohibit the creation of dedicated, multifunctional teams, companies can make use of virtual teams. These teams are typically led by a dedicated account manager who leverages resources from other functional areas on an as-needed basis. In this way, companies can serve valuable customers with the expertise that they deserve while optimizing leverage across scarce functional resources (such as IT, supply chain, finance, etc.).

Finally, lower-tier customers can be provided with basic services through low-cost channels. In many cases, these customers can be served by wholesalers or brokers, while in other cases they can be served by self-service Web capabilities or call centers.

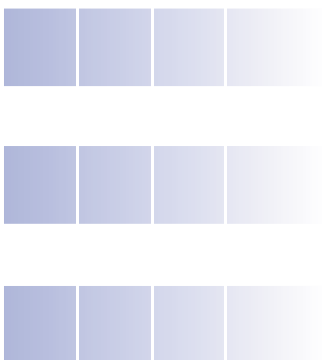
### **Complex organizational models**

Consumer products companies need to effectively manage a diverse customer base without succumbing to excessive complexity in their own organizations. Increasingly, they must reevaluate how best to manage specific customer-facing capabilities, whether internally or externally. The starting point is to determine which ones are differentiating to the business and create the most value.

Differentiating capabilities provide a platform for a company to profitably compete in a given market. These capabilities include not only skills and organizational structure but also the composition of the business portfolio, processes, physical assets and infrastructure, information assets and financial structure. The objective is to pinpoint where the company can and must achieve competitive advantage and to focus resources on enhancing those capabilities to achieve strategically significant benefits. In contrast, non-differentiating capabilities can be offloaded to external partners to enable the reallocation of scarce management attention and resources. Each company will, to some degree, have its own view on which capabilities are differentiating and non-differentiating. That said, the majority of companies interviewed believed activities such as customer and shopper insight development, and customer relationship strategy and planning to be differentiating to their businesses.

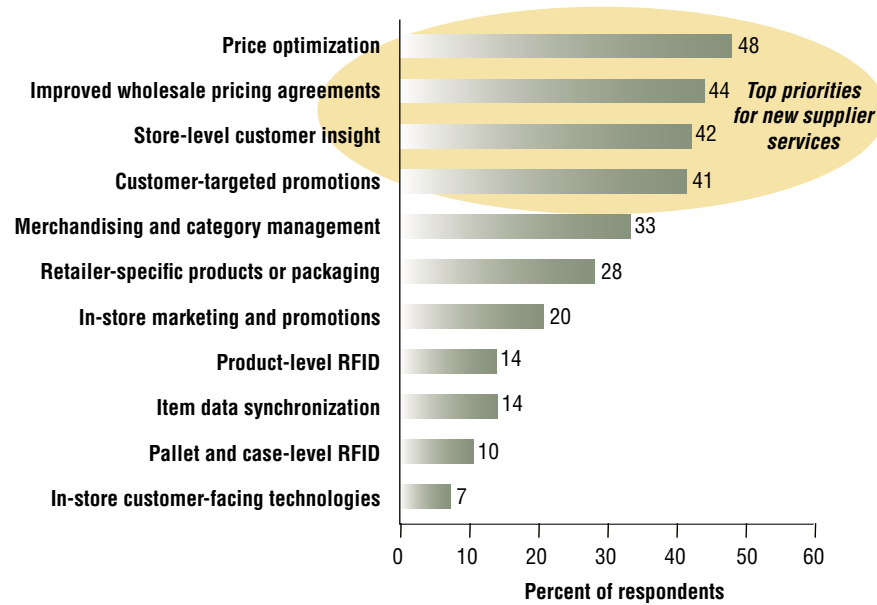
### ***Empowering account managers and teams***

The roles of key account managers and customer teams are changing dramatically. Retailers today do not want their suppliers to simply sell them products. Rather, they want them to become “business builders”, helping to optimize the retailer’s profitability through a deep understanding of the retailer’s specific business needs.



While it is perhaps inevitable that retailers will continue to demand lower wholesale prices from their suppliers, retailers are turning to their suppliers for help in differentiation as well. According to our research, retailers are asking suppliers for insightful shopper viewpoints and merchandising assistance, all with the ultimate goal of helping them build their business (see Figure 8). Interestingly, retailers with over US\$1 billion in sales viewed store-level customer insights and merchandising and category management services as their two top requirements from suppliers over the next five years.<sup>15</sup> Thus, it is critical that key account managers and customer teams are empowered to fulfill these needs.

**Figure 8. New supplier services desired by retailers.**

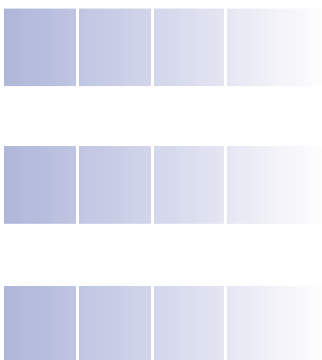


Note: n=108 retailers.

Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

To enable their customer teams to deliver on these new retailer requirements and be viewed as trusted advisors, while also driving their own growth and profitability, consumer products companies need to address several key challenges:

- Broadening key account manager skills and capabilities
- Managing complex customer relationships
- Increased information requirements
- Eliminating non-value-added tasks.



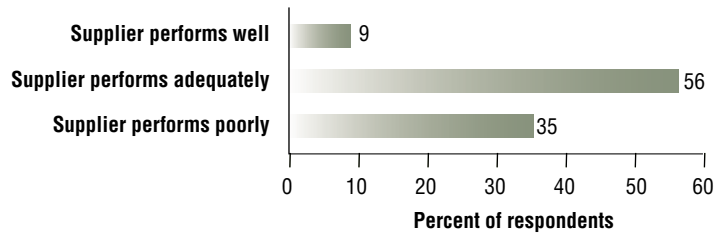
**“Account teams need to develop business consulting capabilities. Being a category leader means you have to have the skills to help grow the retailer’s business and help them make sound business decisions.”**  
 – VP of Retail Planning and Category Management<sup>18</sup>

### Broadening key account manager skills and capabilities

Key account managers need to both drive account profitability and help their customers achieve their own business objectives; however, they often lack the strategic management and analytical skills required to do so. Consumer products companies have clearly recognized this as an issue. Among the companies interviewed as part of this study, account team skills development and joint planning and goal setting with retailers were mentioned most frequently as the customer management capabilities most needed to improve profitability.<sup>16</sup>

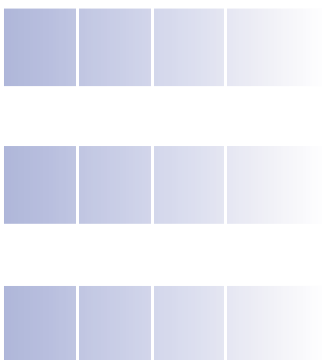
However, many have been unsuccessful at building these capabilities to date. In our retailer survey, only 9 percent of respondents felt that their suppliers had a good understanding of their business objectives (see Figure 9). This becomes even more pronounced when looking at retailers who rate their trade relationships as adequate or poor, with 5 percent of these retailers feeling that their suppliers have a good understanding of their business objectives. Even among retailers who rate their trade relationships as strong, only 15 percent believe their suppliers have a good understanding of their business objectives.<sup>17</sup>

**Figure 9. Retailer satisfaction with suppliers’ understanding of their business objectives.**



Note: n=106 retailers.  
 Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

To improve performance in this area, account managers and teams must shift from a focus on “selling products” to a focus on addressing the customers’ business requirements. They will need to develop new skills which will enable them to address shifting retailer needs with greater agility and impact (see Figure 10). At the same time, however, traditional relationship-building and sales skills will still be important. The key will be to develop business management skills while maintaining strong sales ability to benefit the consumer products company in the long run.

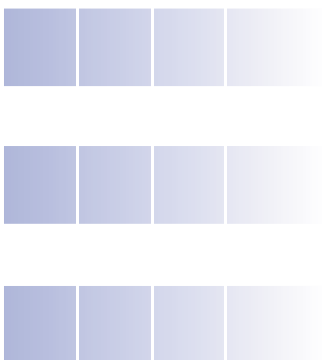


**Figure 10. Customer team skills and qualities.**

Skill	Description	Skill	Description
<b>Business/analytic skills</b>	<ul style="list-style-type: none"> <li>• Application of financial analysis to business decisions</li> <li>• Integration and synthesis of information</li> <li>• Fact-based</li> <li>• Shopper insight-driven</li> </ul>	<b>Commitment</b>	<ul style="list-style-type: none"> <li>• Accountability for the activities of the entire team and enterprise</li> </ul>
<b>Communication skills</b>	<ul style="list-style-type: none"> <li>• Interpersonal, listening and articulation skills</li> <li>• Written skills and competencies</li> </ul>	<b>Directness</b>	<ul style="list-style-type: none"> <li>• Willingness and ability to deal with opportunities, issues, challenges and conflict</li> </ul>
<b>Inventive thinking</b>	<ul style="list-style-type: none"> <li>• Ability to deal with uncertainty and changing circumstances</li> <li>• Curiosity, creativity &amp; risk taking</li> <li>• Higher-order thinking and sound reasoning</li> </ul>	<b>Speed</b>	<ul style="list-style-type: none"> <li>• Compulsion for speed - ability to deliver at warp speed, in an environment where competition is 24/7</li> </ul>
<b>Integrity</b>	<ul style="list-style-type: none"> <li>• Reliability</li> <li>• Trustworthiness</li> </ul>	<b>Customer focus</b>	<ul style="list-style-type: none"> <li>• Business development approach</li> <li>• Relationship focus</li> <li>• Solution oriented</li> </ul>
<b>Cooperation</b>	<ul style="list-style-type: none"> <li>• Information sharing</li> <li>• Mutual assistance</li> </ul>	<b>Resilience</b>	<ul style="list-style-type: none"> <li>• Quick learner</li> <li>• Adaptive</li> </ul>
		<b>Personal focus</b>	<ul style="list-style-type: none"> <li>• Self-discipline to work in a less structured environment without immediate or consistent supervision</li> <li>• Ability to prioritize, plan and manage for results</li> </ul>

Source: IBM Institute for Business Value.

Building these customer-focused skills requires new approaches to hiring, training, career development and compensation. Individuals who are to become key account managers for strategic customers must have strong and proven business management and customer development skills with experience in different functional areas. They should be trained to assess and understand the implications of financial metrics and to apply consumer and shopper insights to help develop their customers' businesses. Companies should seek to develop their employees across cross-functional lines, building customer teams with a balanced customer and consumer perspective. In addition, compensation must be tied to account growth and profitability to ensure that all account resources, whether dedicated or virtual, are focused on driving business growth through the customer.



**“Key account managers need to be more ‘senior’ and professional. They need training in people and relationship management skills. Our interface with our customers is more of a network, not just a one-on-one relationship.”**

*– Head of Channel and Customer Development<sup>19</sup>*

**“We would like to have a digital dashboard per customer.”**

*– SVP, Global Sales<sup>20</sup>*



### **Managing complex customer relationships**

Customer relationships have evolved from “one point-of-contact” through the sales representative to “multiple points-of-contact” coordinated by a key account manager who orchestrates the activities of a multifunctional team. The key account manager often will work with virtual teams across the organizational matrix, including individuals who may only be working with the given customer for a short period of time. To help them perform this role more effectively, the companies interviewed are seeking ways to provide their account managers with a holistic view of all customer activities.

### **Increased information requirements**

Key account managers often lack the tools and information to help them make effective business decisions. At the same time, many customer teams are dealing with an overflow of information regarding their accounts; the key is to determine which information is most useful in decision-making. Many of the companies interviewed cited a desire to provide their account managers and customer teams with tools to capture not only merchandising information, but store and consumer information while at a retail location as well. In addition, some companies are seeking to provide their customer teams with greater visibility into other parts of the organization, enabling them to use cross-enterprise data in their decision-making to bring greater value to customers.

A “customer management workbench” can help consumer products companies address both of the issues described above. It can enhance key account managers’ ability to manage complex customer relationships and provide access to needed information across a range of different sources. Essentially, such a tool is a Web-based dashboard from which the key account manager would have access to all workflows and information pertaining to the customer. Key account managers could use the workbench to update specific strategic initiatives, assign new tasks to resources, or even initiate the formation of a virtual team.

As retailers seek greater value from their suppliers and, in particular, greater shopper and marketing insights relevant to their specific stores, key account managers need visibility into other parts of the organization beyond sales. Ideally, the workbench would not only capture information regarding specific customer team activities but would also provide data and analysis from other functions such as marketing, finance and supply chain. And all information would be updated on a near realtime basis.

In addition, customer teams require new tools for use in the field to capture information, share information with their customers and help the teams make critical merchandising, pricing and promotional decisions. Many leading companies have already introduced handheld devices or digital media capabilities to their customer teams. Tools like these help not only to capture a near-realtime view of the customer but also to build customer confidence in the ability of customer teams to support the retailer's business through informed decision-making.

**Sony: Empowering customer teams with flexible customer management tools**<sup>21</sup>

Sony Computer Entertainment America's PlayStation business unit recently overhauled its field sales system. Originally purchased from a third-party provider and supported internally, the field sales system was a handheld device with a black-and-white screen and limited programming capabilities that field employees used to gather and transmit data. The company experienced continuous problems with the system, particularly in terms of bandwidth limitations.

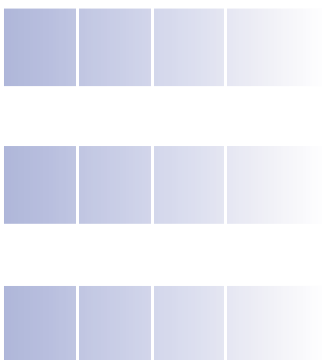
The business unit employs over 150 field merchandisers, district managers, regional directors and headquarters staff who ensure placement of PlayStation products at retail. Half of the field merchandisers are part-time and live in the local communities that they cover, allowing them to build strong relationships with their retail customers. However, many employees were judged to have low technological competence.

To upgrade the system, the business unit brought in a third party specializing in the consumer products industry with the goal of establishing a long-term relationship to support upgrades over time. Based on Sony's past experience, an ongoing relationship was critical to allow for greater flexibility as the company's needs changed after the initial implementation.

For hardware, the business unit selected a mini-PC that uses a combination of keyboard and stylus for input, based on the fact that the old system was used with a stylus. The mini-PC also featured larger color screens for data display. In addition to collecting and transmitting store data from the field to headquarters, field merchandisers can also use the mini-PCs to conduct in-store consumer surveys.

In addition, the new system is Web-based and integrates many other functions including merchandiser time sheet and mileage tracking. All interactions through the system are electronic, eliminating the manual processes that existed under the old field sales system.

Enhancements to the system since launch include a "district manager dashboard" interface that allows managers to access store data on merchandising, stocks, compliance and shelf space. Data are presented in realtime, organized geographically and can track the routes and activities undertaken by field merchandisers. Data can also be compared across customers to provide a view of high-performing and low-performing accounts. According to Dave Fiano, Director of Merchandising for the PlayStation product, "Seeing this data in realtime gives us the ability to react in real time. If you have that ability, you can improve your business. If you find out after the fact, you can't."



**“All mundane tasks which add no value to the relationship should be automated.”**

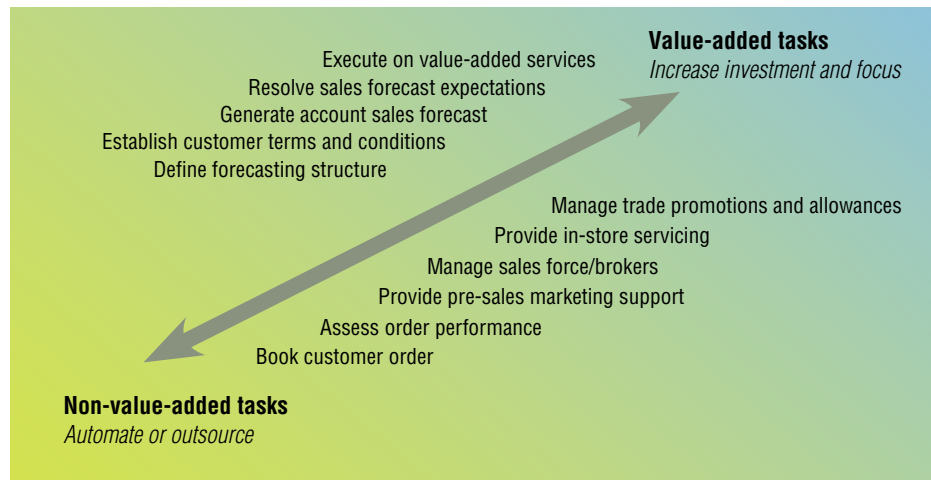
– Chief Customer Officer<sup>22</sup>

### Eliminating non-value-added tasks

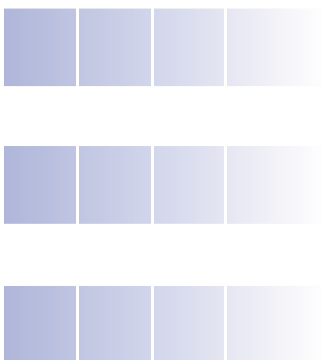
Customer teams strive to better serve their customers by focusing on value-adding tasks. However, today customer teams must juggle a wide range of tasks, often spending an inordinate amount of time on administrative duties or basic order management responsibilities. This inevitably leads to less time spent on relationship building or activities which are perceived valuable by retail customers and eventually to lower levels of retail satisfaction. Increasingly, leading consumer products companies are seeking to automate or outsource non-value-added customer team tasks including order management and reporting.

The key will be to introduce new self-service capabilities or find best-in-class partners to deliver many of the basic services which customers expect, enabling the reallocation of investment dollars and resources for tasks that help the retailer differentiate itself and generate value for the consumer products company. Companies should outline the tasks performed by their customer teams and delineate those that are organization-specific and value-adding from those that could easily be automated or outsourced while maintaining customer satisfaction (see Figure 11).

**Figure 11. Managing customer team tasks – illustrative.**



Source: IBM Institute for Business Value.



“We will require much greater analytical capabilities from suppliers in the future.

Suppliers need to provide much deeper insights to allow us to be more flexible and responsive to [consumers]...to enable greater customization of stores to help us differentiate ourselves.”

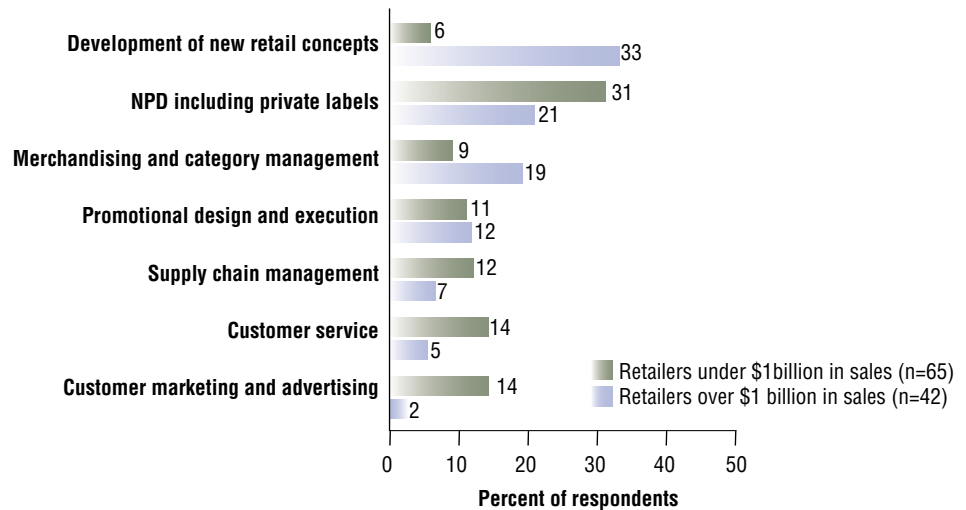
– Director of Merchandising Operations, Retailer<sup>23</sup>

### Integrating market insight development

Above all, retailers are seeking greater help in differentiating themselves from the competition. Insight-driven innovation is a key area where retailers expect value to be realized in the coming years, be it in the form of new concepts products or marketing strategies (see Figure 12). Specifically, they are expecting suppliers to leverage consumer and shopper insights into improved product innovation, shopper-targeted promotions, and recommendations on merchandising and new store formats. However, trading partners face significant obstacles to the development and application of insights that benefit both the retailer and supplier:

- Understanding the shopper
- Ill-defined models for collaboration
- Inadequate technologies.

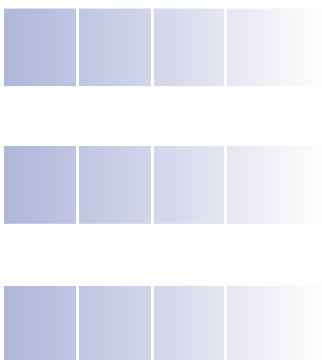
**Figure 12. Retailer opinion on where consumer insights will add the greatest value in the next five years.**



Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

### Understanding the shopper

Consumer products companies need shopper as well as consumer insights to add value to and gain leverage with retailers. However, while consumer products companies have always excelled at consumer research and segmentation, to develop shopper insights, they need greater access to retailer data beyond the syndicated information they receive today. Retailers hold the key to the shopper, although many have only begun to recognize the value that can be gathered from point-of-sale systems, loyalty card programs and other sources of shopper information.



**“What is really important and new is shopper insight. This is not really existing in many companies. Both customers and suppliers have little clue in this field...it’s open ground.”**

– SVP, Customer Business Development<sup>26</sup>

**“Retailers are very reluctant to share their shopper data...A lot of retailers don’t believe the consumer products company has their best interests in mind. Sales teams tend to reinforce this.”**

– VP of Retail Planning and Category Management<sup>27</sup>

According to our research, 95 percent of retailers and a comparable number of consumer products firms believe that it is important to jointly develop consumer and shopper insights.<sup>24, 25</sup> However, given the scarcity of successful models for collaborative insight development, some leading retailers are beginning to develop shopper insights on their own. If consumer products companies cede this capability to retailers, they risk losing even more leverage. At the same time, shopper insights are critical to helping consumer products companies defend their own brands against competitors and private labels.

Thus, in the coming years, consumer products companies must work with strategic trading partners to develop well-defined collaborative models and construct the technical infrastructure necessary to effectively integrate and analyze consumer and shopper information. Each of these important capabilities is discussed below.

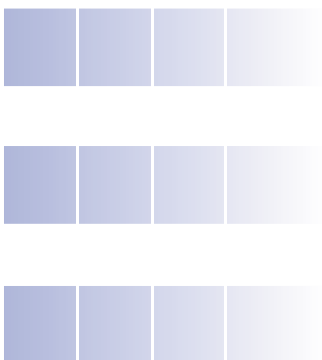
### **Ill-defined models for collaboration**

Despite shared agreement on the need, trading partners are still struggling to create a business model that supports the joint development of insights to the benefit of both parties. But the consumer products ecosystem has reached a point in its evolution where data sharing has become a necessity. Retailers are asking their suppliers to help them differentiate, yet suppliers can do this only if they have access to shopper data from the retailer’s individual stores.

According to our research, 50 percent of retailers claim to work with their suppliers to develop consumer insights.<sup>28</sup> However, in many cases this may simply be retailers requesting shopper and consumer intelligence from their suppliers. In other cases, retailers may be sharing limited amounts of shopper data with their suppliers but in forms that do not lend themselves to be easily integrated or analyzed with the consumer products company’s own data. Even where trading partners are working together to develop consumer or shopper insights, this is rarely done systematically.

### **Developing mutually beneficial models for collaborative insight development**

One consumer packaged goods company that was interviewed has been extremely successful in developing shopper insights with one of its leading international retail customers. The company is provided with open access to all sales data by its retail partner across all categories, not only those in which the company supplies goods. The company analyzes this information and uses it not only to manage its own categories at the retailer but also to provide valuable recommendations on cross-promotions to help improve the customer’s business. According to the interviewed company, they are able to use the sales data to understand the number of people shopping at the retailer, how they shop and their value as shoppers.



To ensure that they are viewed as a strong partner on this front, consumer products firms must first develop the required internal capabilities. C-level executives should commit the organization to becoming insight-driven, fostering business practices and providing incentives to apply insights throughout the business. Companies should invest in the screening, hiring and training of employees who are capable of not only analyzing data but also of developing creative and unique insights from that information. Senior staff, with the experience required to dig deeper for even greater insights, will be invaluable to the business.

Consumer products companies must not only become expert at generating insights but excel at commercializing them as well, whether in the form of new products or innovative services that differentiate the retailer to the consumer. It's essential to remember that the organizational skills and culture that lead to strong insight generation are not the same as those required for excellence in commercialization – both must be developed in distinct ways.

As consumer products companies prepare their own organization and processes to become insight-driven, they should also experiment with new partnerships with selected strategic customers. In each case, the model for joint insight development will likely be unique. New business rules, behavioral changes and technological shifts will be required.

#### **Trust and relationship building for the joint development of shopper insights**

When consumer products companies experiment with new partnerships with selected strategic customers, they should consider the following:

##### ***New business rules***

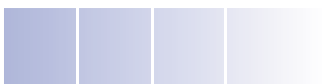
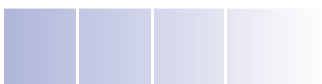
- Contractually binding agreements clearly defining what information will be shared by each trading partner and how that information can be used
- Quarterly or semiannual reviews of the benefits of integrated data and insight management to ensure that both partners are equally committed to the relationship.

##### ***Behavioral changes***

- Solidifying commitment with clear quantitative metrics, ensuring that each trading partner has a vested interest in the success of the activity
- More open communication between trading partners through jointly staffed teams who take responsibility for the success of the partnership.

##### ***Technological shifts***

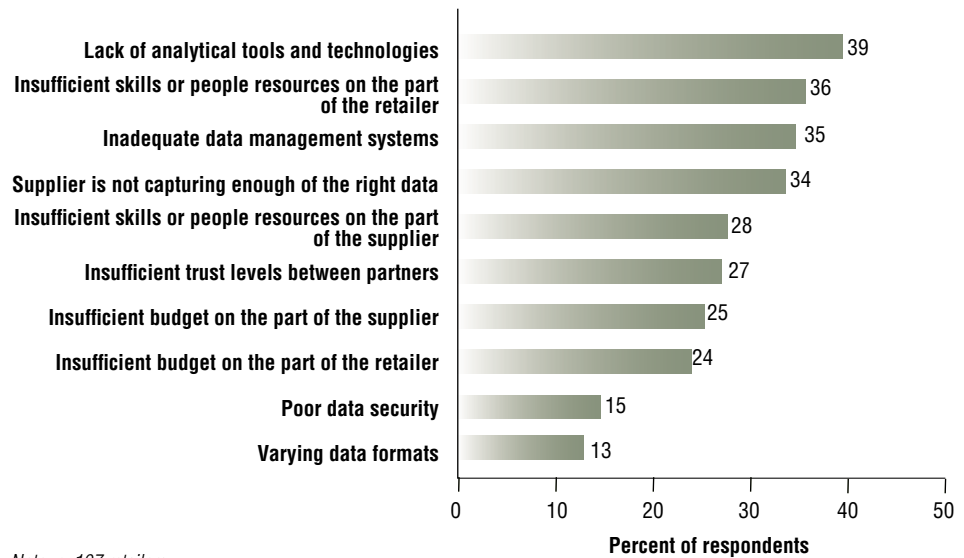
- Improved transmission security to guard against loss of confidentiality when sharing data and analysis
- Implementation of common data standards to ease data sharing and facilitate joint data analysis and insight development.



### Inadequate technologies

The breadth of available consumer and shopper data is exploding, yet consumer products companies and retailers often lack the technological capabilities to effectively manage and analyze that data, either independently or together. In fact, according to our research, the top obstacles to joint development of consumer insights are lack of the required skills, tools and technologies (see Figure 13).

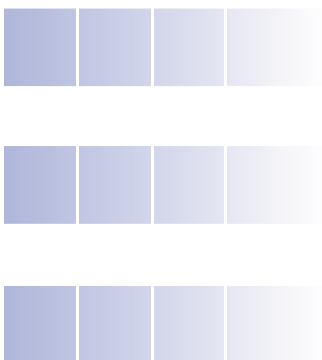
**Figure 13. Top obstacles for retailers in developing consumer insights with suppliers.**



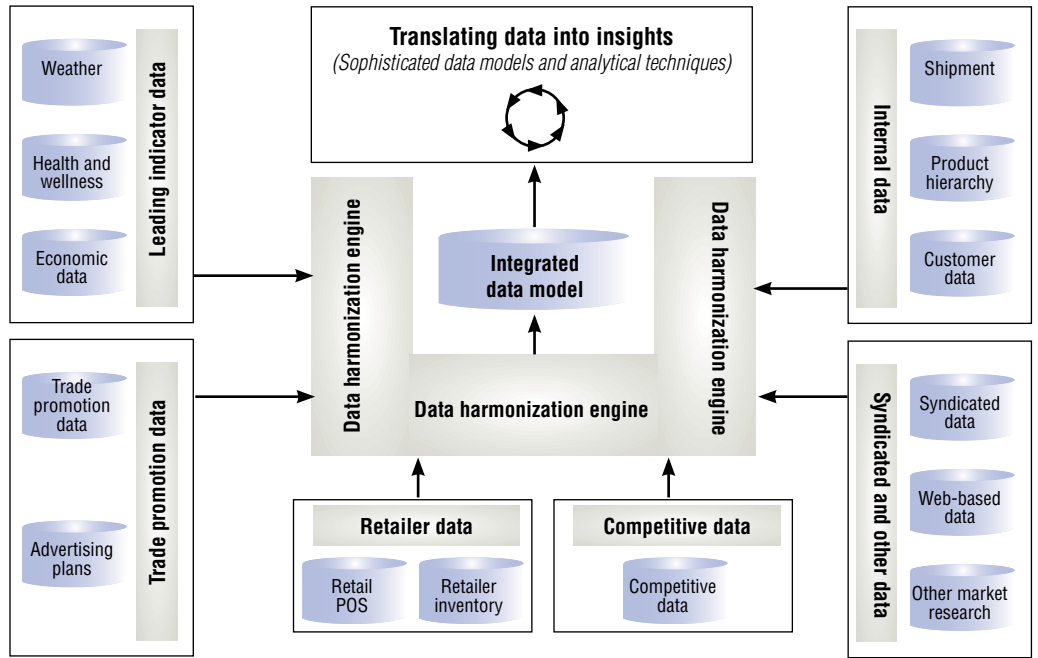
Note: n=107 retailers.

Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

In the future, consumer products companies will need to develop the technical capabilities and infrastructure to help them quickly integrate specific, relevant data to be analyzed in response to particular needs or questions (see Figure 14). Data will be pulled from any number of sources in multiple combinations, whether from internal or external systems or warehouses. Consumer products companies can build an infrastructure that pulls this data and harmonizes the data into common formats to be fed into an integrated data model. The specific data sets contained within an integrated data model can be analyzed to build detailed reports that are scrutinized to drive new insights. While many companies today are analyzing different data sets separately, in the future they will require large-scale data integration, providing the company with a holistic view of an issue or question and enabling it to formulate a more comprehensive and effective response.



**Figure 14. Technical and infrastructure requirements for integrated insight management.**



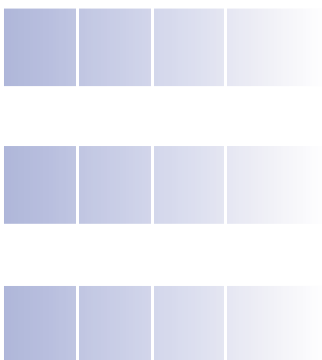
Source: IBM Business Consulting Services.

**Nestlé Waters and 7-Eleven: Using shopper insights to boost the sales of bottled water**<sup>29</sup>

Nestlé Waters, a division of Nestlé SA that sells 77 brands of bottled water around the world, and 7-Eleven, a U.S.-based convenience store chain with approximately 25,000 stores in 18 countries, were seeking ways to boost the sales of the bottled water category in 7-Eleven stores. To achieve this growth, Nestlé brought in a dedicated analyst to continuously monitor and analyze sales data. This information was used to make adjustments to narrow the product mix, redesign packaging and introduce new products to optimize sales potential. Ultimately, these changes improved in-stock levels and tailored the product assortment to meet consumers' buying habits.

The initiative resulted in sales of Nestlé Waters products outpacing the total water category at 7-Eleven. Additionally, a team merchandising effort between the two companies enabled 7-Eleven to enter the multipack water business with competitive prices and products.

According to Robin Michel, VP of Merchandising for 7-Eleven, "Nestlé Waters showed what tremendous sales opportunities exist when you constantly monitor sales and, more importantly, use that data to make changes in strategies and merchandising."

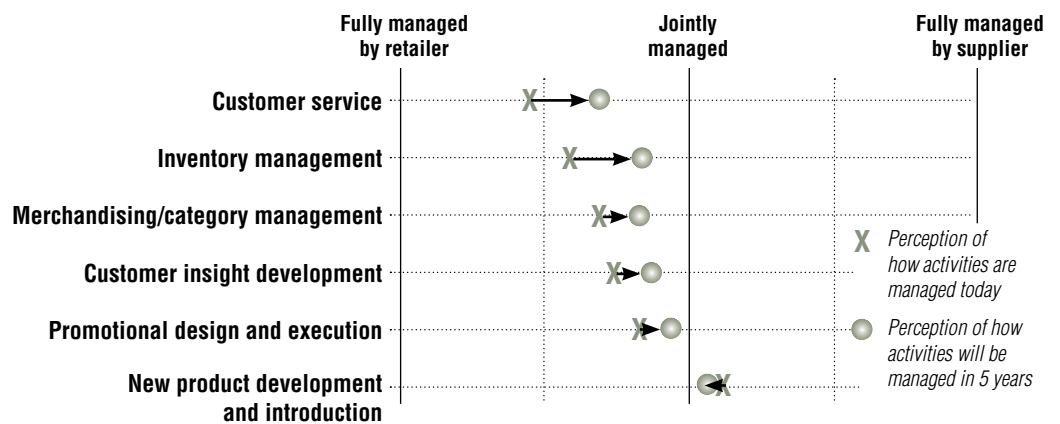


## Preparing for 2010

The consumer products ecosystem is clearly in the midst of a monumental shift. In this new world, many brands are increasingly at the mercy of both retailers and consumers. Consumer products companies will need to fundamentally change their approach to customer management to form stronger relationships with retailers and to strengthen their competitive position in the market.

Retailers will increasingly depend on their suppliers to help them manage a wide range of business activities in the future (see Figure 15). However, suppliers must first prove themselves worthy. They must make proactive and focused efforts to “delight” their retail customers in order to be viewed as preferred suppliers, enjoy improved access to shopper data and have greater influence over their positioning at retail.

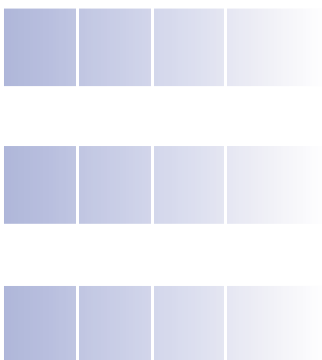
**Figure 15. Management of business activities today versus five years from now.**



Note: n=between 106 and 108 retailers (sample size may vary slightly due to respondents not answering all questions).  
 Source: IBM Retail Merchandising and Supplier Management Survey, 2004.

Specifically, consumer products companies must strengthen their approach to demand management by elevating the customer to the same level of importance as the consumer. In the near term, consumer products companies must take a hard look at the most important aspects of customer management, which are:

- Customer management organization:** Evaluate whether current customer segmentation techniques provide the best view of the customer. Assess the ability of the organization to quickly assemble and disassemble in response to shifting customer needs. Measure the amount of resources expended on each customer and the return that the company is seeing from that investment.



**“A strong trade relationship requires that the supplier has a good understanding of our position, strategy and ambitions in the marketplace.”**

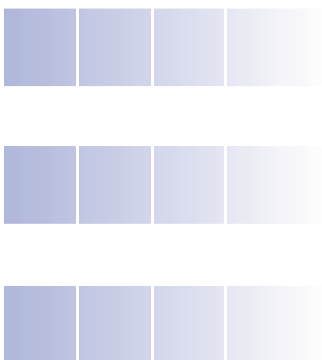
– Commercial Director, Retailer<sup>30</sup>

- *Key account managers and customer teams:* Assess customer-facing resources to determine their capacity to build the company’s business as well as that of the customer. Use a scorecard to measure customer teams’ performance against both the company’s own and retailers’ objectives. Evaluate the company’s ability to capture and deliver relevant customer information to the customer teams.
- *Insight to innovation:* Measure the company’s ability to develop relevant insights to drive valuable innovation into the customers’ businesses. Assess how customers rate the company’s ability to develop shopper insights and apply them effectively. Evaluate how data are shared and insights developed among separate departments within the company.

Consumer products companies must first carefully assess their current situation and then benchmark themselves against industry best practices. A clear strategic plan should be laid out to help the company achieve greater agility in its organization, empower its customer teams and integrate insight development throughout the company and with customers where possible. By focusing on specific near-term successes and longer-term goals, consumer products companies will be well-positioned to start on the road to developing a unified approach to demand management.

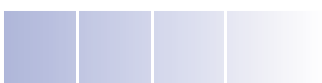
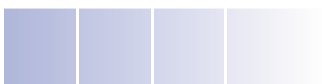
### **Conclusion**

Relationships between retailers and consumers continue to strengthen. How consumer products companies approach their customer relationships in the future will directly impact not only their ability to negotiate with customers and secure a prime position at retail but also their ability to market to the consumer. Only by integrating the customer and consumer dimensions of their sales and marketing operations will consumer products companies be able to achieve sustained, substantive growth. Those companies that rise to the challenge today will benefit not only themselves but their customers and consumers as well.



## Related publications

- “Consumer products 2010: Executing to lead in a world of extremes.” IBM Institute for Business Value. May 2004. <http://www.ibm.com/services/us/index.wss/xs/imc/a1002489?cntxtId=a1000046>
- “The heat is on: Increasing challenges for consumer products companies demand a new approach.” IBM Institute for Business Value. May 2003. <http://www.ibm.com/services/us/index.wss/xs/imc/a1001611?cntxtId=a1000046>
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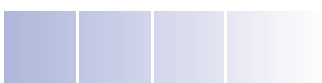
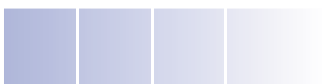
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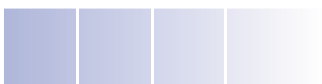
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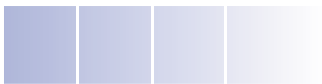
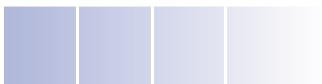
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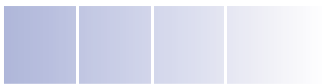
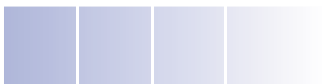


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- <sup>3</sup> Ibid.
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